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The Role of Government–Owned or Controlled Corporations in Development

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*The article examines the role of government-owned or controlled corporations (GOCCs) in Philippine history. Special attention is devoted to the Martial Law period and the Marcos administration. The role of GOCCs is actually shaped by four determinants: legal and policy framework, development impetus, political economy of the country and political change, and rationale and motives for establishing a GOCC. Distinction is made between overt and covert motives. The dominance of the latter subverted the "development" objectives of GOCCs and converted them into instruments for the transfer of public resources to private hands. The present financial status of GOCCs is extensively discussed, with caselettes on three GOCCs: Development Bank of the Philippines, Government Service Insurance System and Philippine National Bank. Problems and issues of definition, accountability, differential treatment, and privatization which currently confront GOCCs are also analyzed. In particular, the issue of privatization of GOCCs brings to the fore the intermeshing interests of public and private sector groups, transnational corporations and the World Bank-International Monetary Fund group. The challenge, therefore, is to make the GOCCs a **truly public sector.***

Introduction

If a poll was conducted in the Philippines on the significant public issues in 1985, public corporations had probably emerged as among the most crucial. During the year, the public corporate sector has been drawing attention from nearly all quarters — international lending institutions, policymakers, legislature, the press, and most important, the general public. Their proliferation for the past ten years, continued dependency on the national government for subsidies and equity, and massive deficit and share of the foreign public debt have been widely discussed. Speculations have arisen on the levels of compensation, particularly allowances earned by officials enjoying multiple memberships in boards of directors in the public corporate sector. Likewise, increasing pressure has been exerted on our policymakers, urging them to rationalize and privatize the corporate sector. With the esca-

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lating public clamour that government officials must be held responsible for their actions, the issue of accountability of public corporations has become increasingly urgent.

Working Concepts of Public Enterprises

In the Philippine setting, public corporations have been called many names: government corporation, public corporation, public enterprise, state-owned enterprise, parastatal corporation. The official nomenclature is "Government Owned or Controlled Corporations" (GOCCs) as stated in the 1973 Constitution. This is the term used in the study. The international term is "public enterprise."

Likewise, the definitions differ. An effort was made by the Expert Group Meeting convened by the International Center for Public Enterprise (ICPE) in Tangiers in 1981 to come up with internationally accepted definition of "public enterprise." The final definition described public enterprise as an organization which

- is owned by public authorities including central, state or local authorities, to the extent of 50 per cent or more;
- is under the top managerial control of the owning public authorities, such public control including, *inter alia*, the right to appoint top management and to formulate critical policy decisions;
- is established for the achievement of a defined set of public purposes, which may be multidimensional in character and is consequently placed under a system of public accountability;
- engages in activities of a business character;
- involves the basic idea of investment and returns; and
- markets its outputs in the shape of goods and services.

The various government monitoring agencies have their own definitions, lists and statistics on the GOCCs. In 1984, another exercise at definition was initiated by an *ad hoc* committee created by the Cabinet which was composed of the Minister of Justice, the Chairman of the Commission on Audit, and the Chairman of the Presidential Commission on Reorganization. The Committee's definition which is used in this paper is:

> A government-owned or controlled corporation is a stock or a non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or, if organized under the

general corporation law, is owned or controlled by the government directly, or indirectly through a parent corporation or subsidiary corporation, to the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock.

There is general agreement and acceptance of this definition to date. On the other hand, concepts of development are just as many and varied. Ideas of development have evolved from the original focus on *economic* development to what Todaro describes as a "multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality and of absolute poverty. Development represents the entire gamut of change by which an entire *social system*, tuned to the diverse basic needs and desires of individuals and social groups within that system, moves away from a condition of life perceived as unsatisfactory towards a situation or condition of life regarded as materially and spiritually "better." Todaro continues with three objectives of development:

- To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection;
- To raise levels of living including, in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem; and
- To expand the range of economic and social choice to individuals and nations by freeing them from servitude and dependence, not only in relation to other people and nation-states, but also to the forces of ignorance and human misery.[1]

The above concepts are echoed in the Philippines' major national development goals which are contained in the Philippine Development Plan, namely, sustained economic growth, more equitable distribution of the fruits of development, and total human development.[2] The principal targets of the plan are the common *tao*, the farmers, the fixed-income earners and other low-income groups most vulnerable to economic and social difficulties.

Given these concepts, the role of the GOCCs should be examined in relation to their contributions toward sustainable economic growth, equitable distribution of wealth and total human development especially of the common *tao*. This role can be examined from three different levels. The first is at the theoretical level which discusses the ideal type of public corporation and the basic ideas governing public corporate activity under different economic and social conditions. The second level is at the normative level which analyzes the set of norms with respect to the role and position of public enterprise. The third level focuses on what is the *actually achieved* role, position and impact of public corporations.[3] This study examines the role of public corporations using the normative approach. The problems and issues which affect the actual performance of the role of public corporations are likewise examined.

The Changing Roles of GOCCs in the Philippines

Determinants of the Role of GOCCs

The extent of the role that GOCCs play in national development is influenced by many factors, the most important of which are the legal and policy framework, the "development" impetus, the political economy of the country and political change, and the motives and rationale for establishing a GOCC.

The legal and policy framework. The legal basis for the creation of GOCCs is set forth in no less than the 1973 Constitution itself:

> The state may, in the interest of national welfare or defense, establish and operate industries and means of transportation and communication, and, upon payment of just compensation, transfer to public ownership utilities and other private enterprises to be operated by the government.[4]

The immediate impression that one gets from the provision is that the Constitution intended a limited role for GOCCs, in consonance with the avowed private enterprise orientation of the country. Nevertheless, this legal provision has at various times in Philippine history been interpreted either literally or liberally, depending on "the exigencies of the times" and "in the interest of national welfare." General policy declarations of various Presidents have been fairly consistent with the Constitution. However, these have not gone beyond generalities and rhetorics, thus giving the government wide lattitude, or even license in the actual creation of GOCCs.

The development impetus. The dramatic proliferation of GOCCs coincided with the aggressive push towards development.[5] GOCCs were utilized as a major tool for the attainment of development goals, as indicated by the huge magnitude of government investment in the sector. This phenomenon is not exclusive to the Philippines. A survey conducted by the Asian Organization of Supreme Audit Institutions (ASOSAI) among 13 member-countries indicated that the dominant official *raison d'etre* for public enterprise is development (see Matrix A).

Matrix A. Comparative Review of the Role of Public Corporations in Selected Countries

Country	Role/Objectives/Reasons for Public Corporations	
	Social/Political Role	Financial/Economic Role
Developing Countries:		
Cyprus	— undertake large investment which the private sector is unwilling to undertake;	— specialization of specific activities for efficiency and effectiveness;
	— Participation in fields of general public interest entailing monopolistic conditions where the general public should not be left to be exploited by the private sector whose basic aim is to make profits.	— management reasons, e.g., prompt decision
India	— provision of infrastructure facilities for promoting a balanced and diversified economic structure;	— promotion of self-reliance in strategic sectors of the economy;
	— reduction in regional imbalance;	
	— increase employment;	
	— enforcement of social control on trade and industry by ensuring equitable distribution of goods and services	
Indonesia	— participation in the fields of business that are vital and firmly connected to the needs of the people	
Kuwait	— attainment of economic and social integration	— scientific advancement
Malaysia	— fulfillment of objectives of government policy	— growth and expansion
Papua New Guinea	— provision of goods and services	
Sri Lanka	— investments in trading, commercial and industrial undertakings where there are no significant private sector	— bridge imbalance in investment patterns

Bangladesh	— promotion of social equity	— optimal speed, flexibility in undertakings with minimal constraints from government
Jordan	— provision of public services to be directly run by the government	— profit
Pakistan	———	— promotion of self-reliance to deal with strategic sectors of the national economy
Developed Countries:		
Australia	— government control	— specialization of specific activities for economy and effectiveness
	— prestige	— management reasons that are not practicable in departmental situations
Japan	— strengthen nation's power	— build-up of modern industry
Korea	— promotion of public services	— generation of state revenues

Source of basic data: *Raison d' Etre* of Public Enterprises, Comparative Review Paper on Subtheme 3: Accountability of Public Enterprises, Third General Assembly and Second International Seminar, Asian Organization of Supreme Audit Institutions (ASOSAI), Tokyo, Japan, May 15-21, 1985.

Political economy, political change and the nature of the state. Undoubtedly, the aggressive development thrust of the country significantly contributed to the expansion of the government corporate sector. However, scholars studying the public enterprise phenomenon in many less developed countries (LDCs) have repeatedly underscored the need to examine the political economy of and the distribution of power in a country. There have been pronounced shifts in the role and importance of public corporations following an important change in a country's political condition, as in the case of Algeria, Tanzania, Bangladesh, Somalia and Peru.[6] A similar pattern is observed in the Philippine GOCCs. The Martial Law period which facilitated the consolidation of legislative, executive and judicial powers in the hands of the President resulted to the increase of GOCCs. A full two-thirds or 61 of 93 enterprises listed by the Cabinet Working Group were created by presidential action, either by presidential decree, executive order, letter of instruction, or letter of implementation.

Muzzafer Ahmad points out that

> Contrary to the economists' assumptions, public enterprises come into being not only because of market failure but also because of socio-political exigency and interest group activity. It makes more sense to think of interactive systems in which social forces, political power and economic policy are related. State policies reflect the efforts of contending social forces, to promote use of resources in a manner that benefits the controlling social class. In developing countries, authority is represented very strongly in the state and the government because other institutions of modernization and mobilization are weak. Hence, the dominant social force is also dominant in government, and this allows the utilization of public enterprise for consolidation of its power.[7]

Local scholars have likewise observed that "those entities have only become a venue to enhance local and foreign monopolistic interests. Public enterprises have contributed to the entrenchment of private capitalistic interest by the formulation of policies to protect them and by the privatization of resources that were drawn from the people's pocket."[8] In other words, in countries where effective political and economic power is consolidated in a small group, excessive state power can be wielded to transfer public resources to the "ruling elite" through public corporations.

Motives and rationale for establishing a GOCC. Leroy Jones classified the motives for establishing public enterprises into ideological and pragmatic motives. Ideological motives include ideological predilection and acquisition or consolidation of economic and political power. Pragmatic motives include historical heritage and inertia, institutional responses to economic problems, developmental objectives and others.[9] Pavle Sicherle writes about general motives and specific motives. Motives of a *general* nature are those which cut across economic sectors or economic characteristics of enterprises, e.g,, the political goal of a socialist society, sovereignty over national resources (partial or complete nationalization of foreign enterprises), more equitable distribution (among regions, ethnic, social and economic groups), defense (defense industry, strategic location). *Specific* motives are related to specific sectors, characteristics or cases like filling the gaps left by the private sector, breaking monopoly situations in certain branches, taking direct control over individual strategic sectors, or developing infrastructure and research activities.[10]

Offhand, the Philippine experience tends to indicate that the government was impelled by pragmatic considerations rather than ideological motives in creating GOCCs. These would include sovereignty over national resources, equitable distribution, defense, national interest and the catch-all phrase, "development." However, such glorious and lofty motives present only part of the picture. Rather, these could be viewed in terms of *overt* and *covert* motives. Overt motives would refer to the legal justification and the official objectives of the GOCCs. These are similar to the official rationale adopted by countries all over the world. *Covert* motives would be unstated objectives which nevertheless are just as compelling.

A covert objective would be the desire to get away from government regulation. GOCCs have the relative advantage of flexibility and autonomy and a certain degree of "differential treatment" with regards to rules and regulations. This is exemplified by the level of compensation which is the most attractive feature of the GOCC. It is a long-standing joke that the elevator boys of financial institutions earn much higher salaries than the public school teachers. Thus, even agencies performing regular functions endlessly exert efforts to have themselves converted into GOCCs. If this is not legally feasible even with political support, these agencies happily go ahead and create their own GOCCs or subsidiaries. These corporations perform "laundry services" wherein contracts and additional compensation packages are processed beyond the pale of close scrutiny that ministries are normally subjected to. This is illustrated by the following cases. The largest government ministry had its own development bank chaired by no less than its top official. Fortunately, this bank went bankcrupt and had to be reorganized. A ministry overseeing a strategic industry is administered, under a management contract, by the subsidiary of the very GOCC it is supervising. This ministry has only one employee: the minister. All others are considered "employees" of this subsidiary corporation which pays them higher rates of salaries. Another very large ministry incorporated its own printing press services. Still another converted its Electronic Data Processing (EDP) unit into a corporation. A leading and highly respected office in the government regularly gives research grants to a GOCC in order to launder additional compensation for its staff. If a brave soul will make a survey of the leading ministries, he might discover that most of them have their very own "laundry units" disguised as GOCCs with a noble-sounding objective of development.

Another covert and even more alarming motive which emerges is the use of GOCCs to transfer public resources to a private few. One scholar describes it succinctly:

> There is a narrow line here between the legitimate and the illegitimate. A major function of government is to transfer income from one group to another. The difficulty with public enterprises is that the transfers can be so readily hidden from those who pay the freight in terms of increased taxes, higher inflation, or lower government expenditures on health, education, or welfare.[11]

This phenomenon is discussed in the case of the coconut industry, the sugar industry and the National Development Corporation (NDC).[12] These cases showed that one painless approach to transfer resources is for financial institutions to lend huge loans to especially favored private sector individuals. Thus, criteria for the granting of loans may not necessarily be on the basis of financial viability but of political access. Another is for government officials who sit in the boards of directors of GOCCs to set up private corporations which either have contracts with the GOCC or borrow massive amounts from the latter. Lamberte, for example, considers the issue of "political consideration" as weighing more heavily than viability in deciding which projects to initiate. Still another is for private sector tycoons to control GOCCs by sitting in the boards of directors and using their positions as leverage to transfer resources. Other scholars have gone even farther by pointing out not only the intimate intermeshing of interests between GOCCs and powerful private groups, but also the tie-ups of the latter with transnational corporations (TNCs).[13]

Corollary to the matter of overt or covert motives is the issue of which of these two types of motives is dominant. If covert motives, particularly the transfer of resources to private groups, are considered as more dominant, then the original roles of GOCCs are subverted. A situation arises where GOCCs would serve private purposes and not public purposes. The powerful few would benefit from the combined resources of the many — an aberration of the goals of development. At worse, foreign domination of key sectors of the economy would be encouraged, resulting in a horrible mutation of one of the fundamental motives for setting up GOCCs which is Filipino control of national resources.

The Growth of GOCCs

The growth of the GOCC sector is traced through the various periods of Philippine history. As will be noted, the role of GOCCs has changed in response to the factors identified in the preceding section.

The GOCCs before political independence. Available documents indicate that the pre-war governments scrupulously limited the role of GOCCs to a few sectors, e.g., financing, public utilities and agricultural development. GOCCs created during the American colonial period were engaged in public transportation and financing, e.g., the Manila Railroad Company (MRC) and the Philippine National Bank (PNB). The report of the last American Governor-General noted profitable returns from the GOCCs then existing, with the exception of MRC which suffered losses in the tradition of all railway companies.[14]

The Commonwealth period saw the expansion of the role of GOCCs to agricultural development. The PNB played an important role in the mobilization of capital for agricultural activities, particularly sugar. Since agriculture dominated economic activity during this period, the GOCCs created were specifically for agriculture and trading, e.g., National Rice and Corn Corporation (1936), National Abaca and Other Fibers Corporation (1938), National Coconut Corporation (1940), and the National Trading Corporation (1940).[15] At this point, a single financial institution was found inadequate, especially since PNB catered almost exclusively to the sugar industry. The Agricultural and Industrial Bank which was absorbed later by the Rehabilitation Finance Corporation (RFC), now Development Bank of the Philippines (DBP), was thus established in 1938.

With the outbreak of World War II, a GOCC was created with duties unique to the crisis at that time. The Emergency Control Administration was created in December 1941 to execute all government welfare policies and programs as a consequence of the war effort.

The Post-War Period. The period immediately following the war years has been described as the reconstruction period. "Relief and rehabilitation" was the by-word of that era. During this period, there was a significant spurt in the growth of the GOCC sector. There were about thirty GOCCs created from 1945 to 1950. The RFC replaced the Agricultural and Industrial Bank to provide financial assistance to destroyed business establishments. GOCC expansion notwithstanding, the activities of the sector still adhered to the "traditional" areas for GOCCs. Thus, a number of them were in public utility/infrastructure, e.g., Manila Railroad Company (MRC), Metropolitan Water District (MWD), National Power Corporation (NPC). A few were in agricultural production and trading, e.g., National Tobacco Corporation and National Food Products Corporation. The rest were in financing, e.g., PNB, RFC, Agricultural Credit and Cooperative Administration (ACCA) and the Government Service Insurance System (GSIS). At this time, regulatory GOCCs were set up, e.g., the National Land Settlement Corporation and the Rural Progress Administration.

While the number of GOCCs expanded during the post-war period, their role did not change substantially. Nonetheless, their impact and participation in the economy increased because of the significant increase in their actual number, size and resources. Consequently, alarm was expressed over their proliferation and duplication of activities, e.g., two GOCCs for tobacco, several in agricultural credit and a growing group of GOCCs in housing. When the Government was reorganized in 1950, a reorganization committee was created specifically for GOCCs. The Committee recommended reduction of the GOCC sector to 13.[16] Nevertheless, the push towards expansion was irresistible because of the obvious advantages of the corporation structure for carrying out governmental functions. GOCCs became a major arena for the consolidation of economic and political power by various political leaderships. As of 1956, total assets of all government corporations amounted to more than 1 billion pesos. By 1967, when the rounds of government reorganization activities were initiated, the number had again gone up to 44.[17]

The Martial Law Period and the 1980s. The Martial Law period ushered in dramatic political changes for the Philippines which impacted heavily on the GOCC sector. The consolidation of effective political and economic power, combined with the tremendous push toward development, and the interplay of overt and covert motives resulted in the unprecedented growth of GOCCs. Massive flows of loans and other forms of financing from private banks and the international financing institutions further encouraged the expansion of GOCCs. Given this momentum, GOCCs proliferated rapidly. From a total of 65, consisting of 47 parent corporations and 18 subsidiaries in 1970, their number rose to an unprecedented 303 corporations composed of 93 parent corporations, 153 subsidiaries and 57 acquired assets (see Table 1).

Table 1. Number of Government-Owned or Controlled Corporations as of December 31, 1984

Year	Parents	Subsidiaries	Acquired Assets	Total
1970	47	18	n.a.*	65
1975	71	49	n.a.	120
1981	92	120	n.a.	212
1984	93	153	57	303

Source: Presidential Commission on Reorganization
*Not available

During the Martial Law period and the early 1980s, the GOCCs grew not only in number, size and resources but also in political clout. A high-ranking government official has raised this query: "Are government-owned and controlled corporations still controlled by the government or is the government controlled by government-owned and controlled corporations?"[18] Another way of expressing this query is: Have the government-owned and controlled corporations gone out of control?

If the roles of the GOCCs were assessed during this period, the government corporate sector practically took over the government system. As vanguards of the development crusade, they entered nearly all fields of government activity, and sometimes, even beyond. Aside from expanding to unparallelled levels in traditional activities like financing, agricultural production, public utilities/infrastructure, manufacturing and industry, GOCCs were preoccupied with raising cocks, breeding horses, managing gambling casinos, canning sardines, producing tomatoes, making handicrafts, selling plants and performing the ubiquitous laundry services mentioned earlier. To balance their activities, they also dabbled in culture, cinema, hospitals and convention centers. One corporation was even created by the leading financial institutions to look into the meaning of life! (At present, it is known to be sponsoring basketball tournaments, circuses, vocational courses, pop shows and the like.)

The role of the corporate sector in development was so all-encompassing that when the economic crisis hit the country, they were the hardest hit. No less than Prime Minister Cesar Virata admitted that "the government corporate sector had laid claim in recent years to up to one-fifth of the annual government budget, about a third of the outstanding domestic public debt, and about three-fourths of the outstanding external public debt."[19]

To summarize, the role of GOCCs in the Philippines has changed throughout various periods, concomitant with changes in size and activity. Before the independence period, the sector was relatively small and was engaged in activities traditionally identified with public enterprises in mixed economies. The grant of Philippine independence, the rehabilitation efforts and the thrust towards economic development rapidly expanded the corporate sector during the post-war period. However, the Martial Law period and the acceleration of developmental activity resulted in an unparalleled increase in number and size as well as in the unprecedented expansion of the role of the corporate sector.

The Present Status of GOCCs

The unbridled expansion of GOCCs is evident in their enormous growth and their disproportionately substantial claims on dwindling government resources. Their present status could be determined by the following indicators:

Size

The collective share of the GOCCs in Gross National Product (GNP) rose from 2.5 percent in 1972 to 10.5 percent in 1983 emphasizing the sector's accelerating growth. Their share in the country's investment activities increased from only 0.5 percent in 1972 to 2.5 percent in 1984.[20] In 1983, receipts of audited GOCCs amounted to ₱78.5 billion or 1.7 times that of the National Government and 19 times of the Local Government. In the same year, audited GOCCs reported expenditures of ₱75.6 billion which is 1.4 times that of the national Government and 17.5 times that of the local government sector.

As clearly indicated by recent data, the size of the government corporate sector is huge compared with the National Government. As of December 31, 1984, assets of audited GOCCs amounted to ₱653.45 billion, which was almost three times that of the National Government. Liabilities of these corporations registered at ₱518.93 billion by end-1984, or equivalent to 3.7 times that of the National Government. A marked disparity was also exhibited in terms of outstanding public debt (foreign and domestic). GOCCs accounted for ₱344.82 billion of the oustanding public debt or more than 3 times that of the National Government. Investments of GOCCs for 1984 increased to ₱88.4 billion from the 1983 level of ₱77.6 billion, or 1.15 times National Government investments (see Table 2).

Table 2. **Consolidated Data on National Government and Audited Government Corporations as of December 31, 1984 (in million Pesos)**

	National Government	*Public Corporations*
Assets	219,953.93	653,450.19
Liabilities	140,287.74	518,934.85
Outstanding Public Debt	105,094.00	344,824.90
Investments	76,703.09	88,386.99

Sources: For National Government figures — Unpublished Consolidated Balance Sheet of the National Government, Accountancy Office, Commission on Audit.

For Government Corporations figures — 1984 Annual Financial Report on Government-Owned or Controlled Corporations, Vol. II, Corporate Audit Office, Commission on Audit

Dependency on the National Government

Nothwithstanding its size, the financial dependence of government corporations on the National Government has become increasingly felt through the years. From 1975-1984, the National Government extended a total of P50.4 billion in direct budgetary contributions to the GOCCs. On the average, about ₱5.0 billion per year of these current and capital transfers were extended, representing 13 percent of total government expenditures and 16 percent of total National Government collections for the period. About half of the current transfers went to a few corporations which included the Philippine National Oil Company (PNOC), National Food Authority (NFA), National Irrigation Administration (NIA) and Philippine Coconut Authority (PCA). About 70 percent of the ₱40.6 billion equity/capital transfers were received by only six corporations: NPC, DBP, NDC, NIA, National Electrification Administration (NEA), and PNB.[21]

The economic crisis and the consequent policy to streamline government expenditures did not dampen National Government doleouts to public corporations. The GOCCs were among the hardest hit in the public sector. The economic crisis, therefore, had the effect of increasing the rate of equity infusion and subsidies to GOCCs. The Commission on Audit (COA) data reveal that in 1984 alone, National Government fund releases to audited corporations amounted to ₱10.4 billion in equity contributions and ₱2.03 billion in subsidies,[22] or collectively about 24.6 percent of the total ₱50.4 billion in National Government transfers for the 10 years covered. Interestingly, regression analysis of subsidies and equity contributions generated for 1975-1984 shows that the National Government did not allocate transfers on the basis of profitability nor on the investment requirements of these firms.[23]

The foregoing conditions have contributed significantly to the widening of the nation's budget deficit. From about three percent of GNP in 1978, the total budget deficit rose to almost six percent in 1982. A major factor for this increase has been the low level of self-financing undertaken by the GOCCs which contributes only about 14 percent of the resources required to finance their own investment programs.[24] Foreign borrowings which financed 60 percent of the consolidated budget deficit made up fifty percent of the sector's investment financing for 1978-1982. For the period covering 1980-1983, the investment-savings gap of the government corporate sector exceeded four percent of GNP.

Undoubtedly, GOCCs constitute a heavy drain on scarce resources. With the magnitude of capital and financial resources channelled to GOCCs, the economic crisis has brought to the surface the bald fact that government corporations have not been performing as expected. Massive liquidity problems and projects of doubtful viability have threatened the operational capacity of government corporations. Financial institutions, especially the DBP, are plagued with loan portfolios of poor quality[25] and high-frequency loan defaults. Public utility/infrastructure corporations like NPC, NIA and PNR incur uncalled-for losses while not necessarily providing efficient or reasonably-priced services to the public.[26] As a whole, GOCCs suffer from chronically low rates of return, excluding, or even including, National Government contributions in the computations. As seen in Table 3, their rates of return from 1975-83 (especially before National Government contributions) fell consistently below the 15 percent opportunity cost of capital set by the NEDA for all projects and below the 13.7 percent average lending rate of commercial banks for that period. The rates of return exhibited by financial corporations before and after National Government contributions were all below five percent from 1975-1983 and the rate of return for non-financial corporations even after National Government contributions plunged to a level below 15 percent in 1983.

A similar direction could be discerned from the recent data on net loss. As of December 31, 1984, the net loss before National Government subsidy as reported by audited GOCCs amounted to ₱2.64 billion, with the financial sector incurring a net loss of ₱3.19 billion (see Table 4). Despite the inclusion of National Government subsidy as income, the government corporate sector still retained a net loss of ₱608 million.

Table 3. **Financial Rate of Return of Government-Owned or Controlled Corporations, 1975, 1983 (in percent)**

	Rate of Return on Fixed Capital		*Rate of Return on Investment*[1]	
	Non-Financial Corporations		*Financial Corporations*	
Year	*Before Contributions*	*After Contributions*	*Before Contributions*	*After Contributions*
1975	(25.3)[2]	53.5	1.6	2.0
1976	(1.3)	41.8	2.3	4.1
1977	(22.9)	27.3	2.4	2.8
1978	(1.8)	51.6	1.3	4.0
1979	(12.6)	41.8	2.9	3.3
1980	5.0	49.5	2.5	2.6
1981	0.7	51.1	2.2	3.0
1982	1.1	45.2	1.6	2.5
1983	0.1	12.3	1.4	1.7
Total	(6.3)	41.6	2.0	2.9

[1] Investment includes fixed capital investment, lendings, and investment in securities.

Estimates were based on the following data and assumptions:

a. National Government Contributions and other financial flows based on COA Audit Report;

b. Olive Gray's formula to compute capital stock as determinant of annualized opportunity cost of capital;

c. Financial flows converted to constant pesos using the GNP price deflator (NEDA); and

d. Normal depreciation allowances and capital requirements based on Gannt and Dutto's article, "Financial Performance of Government-Owned Corporations in Less Developed Countries."

[2] Figure in parenthesis indicates negative rate of return.

Three Caselettes

The extent and gravity of the problem of the GOCCs can be better appreciated by analyzing the financial status of three huge financial institutions, the Development Bank of the Philippines, the Government Service Insurance System and the Philippine National Bank.

Table 4. Net Income/Loss of Government-Owned or Controlled Corporations as of December 31, 1985 (in million pesos)

	Total	*Financial Corporations*	*Public Utility/ Infrastructure Corporations*	*Industrial and Area Development Corporations*	*Agricultural, Trading and Promotional Corporations*	*Educational, Scientific Social and Civic Corporations*
Net Income/Loss Before Subsidy (after Income Tax)	(2,640.78)	(3,190.78)	(147.96)	1,108.94	(254.89)	(156.09)
ADD: Subsidy from National Government	2,032.58		1,600.12	24.79	131.49	276.18
Net Income/Loss after subsidy	(608.20)	(3,190.78)	1,452.16	1,133.73	(123.40)	120.09

Source: Commission on Audit 1984. *Annual Financial Report on Government-Owned or Controlled Corporations*, Vol. II, p. 50.
*Figures in parenthesis represent loss.

Development Bank of the Philippines (DBP)

An object of rehabilitation efforts of the government is DBP. Under DBP's rehabilitation program, funding responsibility for its distressed accounts as of January 1, 1984 was assumed by the National Government by way of equity contributions to DBP. For the year 1984, DBP's net loss was reported at ₱6.64 billion. Not included in this report were accounts totalling ₱25.91 billion (see Table 5), which when added to ₱6.64 billion would give a total of ₱32.5 billion. As part of the Rehabilitation Program, DBP is authorized to charge these losses to the National Government up to an amount equal to the National Government's equity infusion. Thus, the survival of DBP is highly dependent on National Government bail-outs.

Table 5. Development Bank of the Philippines Loss Accounts as of December 31, 1984 (in Million Pesos)

Reported Loss		P 6,641.00
Not Included in the Computation of Loss		25,911.45
a. Estimated Provision for possible losses on accounts covered by the Rehabilitation Program	P23,241.36	
b. Deffered and unbooked Losses on sale of Assets	2,537.56	
c. Reversal of Accrued Dividends, Interests Income on Loans and Equity Investment	132.53	
Total		P32,552.45

DBP's shaky financial position is seen in its working capital position. The projected 1985 cash deficit of ₱9.8 billion was expected to be financed by National Government budgetary support of ₱7.5 billion. The remaining ₱2.3 billion would be met through internal cash generation which, however, remains bleak. With the suspension of lending operations and the sharp drop in collection rate from 76 percent in 1982 to 46 percent in 1983 and further down to 34 percent in 1984, DBP is faced with more serious financial trouble.

The alarming deterioration of DBP's loan and investment portfolio has reached crisis proportion. As of December 31, 1984, of the total ₱40.80 billion in loans and credits, only nine percent or ₱3.67 billion which were originally approved for ₱500,000 and above remained in good standing, i.e., operating profitability or in pre-operating stage. While 91 percent or ₱37.13 billion were investment projects operating at a loss, in financial or technical difficulty or set for liquidation. Despite the rehabilitation scheme of refinancing, arearages posted an 82 percent increase from ₱6.67 billion in 1983 to ₱12.12 billion in 1984.

In line with its privatization thrusts and divestment of acquired assets, DBP accelerated the disposal of its acquired and foreclosed assets. Inspite of this, the rapid rise in foreclosed mortgaged properties of non-performing accounts increased the amount of acquired assets for sale from ₱2.06 billion in 1983 to ₱4.08 billion in 1984. Furthermore, in 1984, DBP suffered a loss of ₱3.06 billion in the sale of acquired assets, of which ₱2.13 billion was deferred. This did not include the cost of money and administrative expenses normally charged to the borrowers estimated at ₱113 million, and expenses in maintaining the assets after foreclosure amounting to ₱89 million. The deferred loss is on the sale of a shipping company. Total loss on this sale alone was estimated at ₱2.54 billion excluding income loss of ₱791.11 million.

Government Service Insurance System (GSIS)

While the government corporate sector, especially DBP, was authorized to dispose of and divest acquired assets and subsidiaries, GSIS invested heavily in non-earning subsidiaries and acquired assets. As of December 31, 1984, total investment in subsidiaries totalled ₱2.882 billion or 88 percent of its total stock investment (see Table 6). Per 1984 audit report on GSIS, only two subsidiaries remitted cash dividends. As of 1983, subsidiary 1 re-

Table 6. Total Investment of the Government Service Insurance System (GSIS) on Subsidiaries as of December 31, 1984

Subsidiary	*Amount*
Subsidiary 1 (Airline)	₱1,679,364,493.52
Subsidiary 2 (Bank)	563,670,625.21
Subsidiary 3 (hotels)	79,335,618.68
Subsidiary 4	65,417,846.10
Subsidiary 5	45,000,000.00
Subsidiary 6	253,272,661.26
Subsidiary 7	196,634,671.46
Total	₱2,882,695,916.41

ported a capital deficiency of ₱1.426 billion, while subsidiary 2 and 3 incurred deficits of ₱68.1 million and ₱54.3 million, respectively. Sufficient returns from subsidiaries 4 to 7 are hardly expected for a good number of years. Subsidiary 7 is an acquired foreign corporation in San Francisco, California whose purpose is to gain ownership and control over its properties being utilized by subsidiary 1.

As of December 31, 1984, the *booked-up* investment of subsidiary 7 amounted to ₱196,63 million, broken down into:

10— year foreign loan with Bank of America National Trust and Savings Association used to finance the acquisition of the corporation	$10.65 million	₱149.0 million
Interest on loans capitalized		40.4 million
Guarantee fees and other expenses		7.2 million
Total		₱196.6 million

Meanwhile, the investment account continues to increase with payments of an average quarterly interest of $320,000 and other charges as due on the foreign loan.

Philippine National Bank (PNB)

The PNB, the oldest government corporation, extends agricultural and industrial loans and, at the same time, engages in unibanking and the usual banking activities. Like most major banking institutions, PNB has been crippled by the virtual stoppage of its loan operations and its income ploughback. This is demonstrated by its ₱1.1 billion net loss for 1984. PNB also exhibits a low turnover in loan portfolio where its realized earnings is only 12.9 percent of its reported earning assets. This is caused primarily by the slump in its loan operations and its ballooning delinquent loan accounts. These accounts consisting of past due loans amounted to ₱21.9 billion (₱14.6 billion reported by management and ₱7.3 billion more found in audit), which exceeded 52 percent of its gross loan portfolio of ₱42.09 billion. In terms of number, past due loan accounts amounted to ₱264.182 million, almost half of which were 5-10 years overdue and 20.2 percent were 2-5 years overdue. The collection rate of PNB has been greatly impaired by difficulties plaguing the financial sector.

PNB's solvency and liquidity positions have likewise become very precarious. As of December 31, 1984, total liquid assets of PNB amounted to ₱15.66 billion. However, this amount has been beefed up by liquidity-related borrowings of ₱2.65 billion or an average of ₱257.4 million daily. Overdraw on its clearing account with the Central Bank (CB) has also piled up for which penalty charges have reached a total of ₱211.6 million. Despite these measures, liquidity ratio — liquid assets in proportion to deposits plus deposit substitutes — is still low at 57.63 percent which means withdrawals on deposits could only be met half-way. With the inclusion of maturing obligations/bills payable, the liquidity ratio further plunges to 23.1 percent.

The solvency of PNB is being threatened by the magnitude of its risk assets. As of end-1984, the combined balance of PNB's risk assets is more than ₱57.43 billion. Included in this is a substantial portion of its loan portfolio, real and other properties owned or acquired and accounts receivable. Furthermore, PNB requires ₱13.721 billion in valuation reserves for its doubtful, uncollectible and bad accounts. However, its provision for probable loan losses only amounted to ₱640.9 million, or a deficiency of ₱13.08 billion, of which ₱4.826 billion is recognized but not yet taken up by management.

Another factor contributing to its precarious solvency position is the fact that PNB grants some loans and advances to clients of its subsidiaries through mere guarantees from its subsidiaries. This practice has resulted in an aggregate of ₱4.4 billion in loans guaranteed by one subsidiary which are past due and under litigation for non-payment. In one case, this has resulted in PNB's exposure to a subsidiary's client of 342 percent of the appraised value of the client's collaterals.

Some Issues and Problems

Consistent with the government's developmental thrusts and for the "interest of national welfare," GOCCs continued to proliferate during the 1980s. After the 1983 crisis, the government publicly admitted that the GOCCs contributed already to the crisis; hence a deeper and more extensive probe of the sector was undertaken. In pursuance of the recommendations of the World Bank-International Monetary Fund (WB-IMF) Mission, a rationalization scheme of the government corporate sector was embarked upon. Integral to this scheme is the adoption and enunciation of a basic policy framework which defines the role of GOCCs, as well as the areas of operation and the criteria for the use of government corporate form.

Clearly, the move seeks to control the growth of the government corporate sector and limit its areas of operation without depriving GOCCs of their role in economic and social development. Considering the premise of the primacy of the private sector in recovery and development efforts, government will thus attempt to undertake the corporate activities that are necessary or desirable and where private sector initiative and participation are absent or lacking. Furthermore, the use of the corporate form in undertaking regulatory activities (e.g., quasi-judicial and quasi-legislative functions involving the grant of rights and privileges, the issuance of licenses, setting and regulation of rates, quotas, imports and business) will be discouraged due to the permanency of these activities and the relative expensiveness of funding government corporations as against regular government agencies.

More explicitly, the following functional areas for the government corporate form have been strongly advocated by various sectors:

1. natural monopolies such as public utilities (e.g., power generation, railroad, telephone services, water supply and irrigation) and large-scale infrastructure activities involving massive capital requirements;

2. large-scale income-redistributive undertakings beneficial to low income earners (e.g., rice and corn distribution, low-cost housing); and

3. activities highly strategic in character with wide-ranging economic implications which are usually undertaken to provide countervailing market competition to correct gross market imbalances.

In addition, the decisive criteria within the bounds of public policy and prevailing economic conditions would conceivably be financial viability and the imperative for flexibility in operations such that the good or service produced cannot be provided by a regular line agency or by the private sector.

Nevertheless, it is important at this point to take a closer look at issues and problems which must be considered even as the comprehensive policy on GOCCs is awaited. Studies have identified many a wide range of problems confronting the GOCCs. A discussion of the major problems considered as directly impinging on the role of GOCCs and the current issues of privatization is in order.

The Problem of Definition

What is a GOCC? This problem of definition has continually bugged policy-makers and academicians. Like the proverbial elephant described by the blind men, various definitions have touched on different characteristics of the GOCC. Thus, different lists have been compiled depending on whose definition is being used. While this issue is concerned with developing a concept of what a GOCC is or ought to be, an equally important definitional issue is how to fit in an acceptable concept of a GOCC with existing laws, particularly the Constitution. In other words, a definition must not only be conceptually sound; it must also be legally defensible.

The definition of GOCC mentioned earlier is acceptable to the Cabinet and to the oversight bodies. But while there is complete agreement over the generalities, there is much debate over the specifics. The issue is whether two types of corporations can be considered as GOCCs. One type includes private corporations which were acquired by a GOCC in satisfaction of debts incurred with a government financial institution; or a subsidiary corporation of a government corporation organized exclusively to own and manage, or lease, or operate specific physical assets and disposed of the same to private ownership within a specific period of time. The other type includes corporations established by special law but which are still required under that law to register with the Securities and Exchange Commission (SEC).

There are two schools of thought on the typology of GOCCs. One contends that the aforementioned two types of corporations should *not* be considered as GOCCs because their objectives and activities are essentially private in nature. The other claims that based on the test of ownership, these indeed *are* GOCCs. They belong to the government and were acquired with the use of government resources. Similar reservation has been expressed regarding the SEC registration as a requirement for classifying corporations. This requirement might foster abuse as corporations wanting to escape control and supervision will merely register themselves with the SEC.

Whether one is a GOCC or not *does* matter a lot. A corporation classified as GOCC is entitled to government resources. But being classified as non-GOCC is even better. This entitles a corporation to financial assistance and is freed from regulations and ceilings particularly on compensation, levels of expenditures, and business practices. It relieves a corporation from supervision and control of the oversight authorities. Finally, it reduces, if not completely eliminates, public accountability since by definition it is not a public entity. The latter benefit is considered as the most serious implication.

The matter of definition is not only a question of concept and of law. It is also a matter of flexibility, territory and power on the part of the Ministries and a fundamental issue of jurisdiction on the part of the oversight bodies. Final resolution of this sensitive issue is difficult because it involves not only harmonization of concepts and legal ideas; it ultimately involves allocation of power among various instrumentalities of the government.

Accountability and Differential Treatment

The issue of accountability of GOCCs is a popular public concern particularly at a time when there are escalating demands for fundamental reforms in government and in the society. The financial debacle of the GOCCs is a public knowledge although details are not generally available. The question has been repeatedly asked: *Who* must be held accountable for the financial catastrophe that has swept the corporate sector? Is it the corporate officials, the ministries overseeing them, the policymakers, or the politicians? In other words, who must answer to the people and who must be penalized?

Accountability is defined as the "obligations of persons/authorities entrusted with public resources to report on the management of such resources and be answerable for the fiscal, managerial and program responsibilities that are conferred."[27] The Constitution specifically states that a public office is a public trust. An expert contends that accountability is indivisible. Public resources, whether in the hands of a national government agency, a public enterprise or a local government unit must be accounted for, though the methods used and the standards employed may vary. These views affirm the fact that there are no exceptions to accountability. Corollary to this issue is the problem of defining GOCCs since the matter of definition determines the degree of accountability of a corporation.

A current concern on the issue of accountability is the enforcement of sanctions. Observations have been made that while responsibility for disastrous decisions and illegal actions can be pinpointed, sanctions have not been enforced. There is no lack of accountability processes and the accountability mechanism in the government is very extensive and detailed. What is needed is consistent and fair implementation, especially in the corporate sector.

Moves to explicitly grant differential treatment to GOCCs constitute another controversial area although this manner of treatment has been accorded to GOCCs in the past. What is proposed to be done is rationalization and *open* grant of differential treatment instead of the usual informal arrangements, lunchtime instructions, marginal notes and telephone calls. This issue has also generated much debate, both pro and con. Those who favor it insist that differential treatment is indispensable in order to allow flexibility of operations to the GOCCs. The concept recognizes the business dimensions of GOCCs. On the other hand, those who are against it point out that the Constitution does not provide for differential treatment among various agencies of government. They claim that this would smack of class legislation. The oversight agencies especially the Constitutional bodies likewise opine that this might result in a dimunition of their audit jurisdiction which is guaranteed by no less than the Constitution itself. They assert that the concepts on definitions of GOCCs, differential treatment and the resultant accountability can be assailed on the grounds of constitutionality and the tenet that public resources wherever they are must be accounted for without exception. Likewise, fears have been expressed that considering earlier practices of GOCCs, *differential* treatment might result in *deferential* treatment.

Privatization

The privatization movement which started in the industrialized countries is spreading fast to the LDCs. One of the mechanisms for spreading the "gospel of privatization" is to include it as part of conditionalities of loans from Asian Development Bank (ADB), World Bank and IMF. In the Philippines, the pressure to privatize is almost irresistible. The disarray in the corporate sector, the debt crisis, rapid expansion of the public sector and loss of credibility of the government leadership make privatization a most attractive option. It is claimed that the "public" sector has become too large.

The policymakers appear to be committed to the idea of privatization. While the concept is sound from the perspective of the free enterprise ideology, there is a need to examine it in the light of realities in the corporate sector. Some of the arguments raised on the issue are as follows:

Is the GOCC sector a truly public sector? The assumption is that GOCCs must be privatized because they are "public" institutions. But is the GOCC sector a truly public sector? Accusations have been made, and with good reason, that a number of GOCCs are already in the effective control of the private sector. As pointed out in earlier sections, scholars have called attention to the fact that some GOCCs have become mechanisms for the transfer of public wealth to a private few. What has happened in some spectacular cases is the systematic raid of public corporations by some private sector groups. One can even cynically say that privatization in its most perverse form is already happening.

Bautista documents this phenomenon in the case of sugar and coconut. She identifies the corporations which are closely linked to a tycoon who is both an extremely affluent businessman and a distinguished government official. As government official, he sits in the boards of several public corporations in the coconut industry. As businessman, he controls corporations which have financing relationships with these very same GOCCs.[28] In the case of sugar industry, Bautista describes the predominance of the "monopoly capital tie-ups" phenomenon. Transfer of resources is facilitated since government officials sitting in the boards of sugar GOCCs are the very same tycoons who control the sugar industry.[29]

In other words, key corporations in the GOCC sector are already privatized. What is needed is not to privatize them further, but to **public-cize** them and return them to the public!

Who is the private sector? Privatization involves the selling of GOCCs to the private sector. But *who* is the private sector? It seems that the leading lights in the public sector are also the leading lights in the private sector. Who is selling to whom? A very interesting phenomenon has developed in the Philippines during the last decade. There appears to be a merger of interests and identities between what is known as the public and private sectors. Privatization might only result in getting something from the left pocket and transferring it to the right pocket.

The magnitude of cost involved in the purchase of GOCCs further limits ownership of GOCCs to a few Filipino industrialists. It seems that the only ones who can really purchase GOCCs are the very businessmen who are already controlling the key corporations. Is this the intended effect of privatization?

Another observation is that with very few exceptions, the Philippine private sector is actually controlled by transnational corporations (TNCs). Privatization might involve selling to TNCs. If this happens, then the avowed objective of assuring Filipino control over national resources and patrimony might be greatly endangered. Some sectors already see the sinister hand of international capital in the privatization movement, since TNCs are in the best position to buy GOCCs.

Is privatization primarily compliance with WB-IMF conditionalities? It is public knowledge that privatization is part of the package of conditionalities for the World Bank restructuring loan of $250 million. Certain sectors are already bringing up the issue of sovereignty. It is pointed out that the WB-IMF are facilitating the delivery of GOCCs to TNCs, a development which will further ensure foreign control of the economy.

The human costs of privatization. When GOCCs are privatized, they are in a sense, penalized. And yet the ones who might be penalized most might be perhaps the less guilty and the least able to bear the costs of privatization. These are the thousands of employees who might be laid off as a consequence of privatization. Middle-level officials will probably receive handsome retirement benefits which can cushion the consequences of lay-offs.

The challenge for GOCCs

At present, there is a concerted effort on the part of policy makers to rationalize the corporate sector and delineate its role in development. But the challenge is not only to restructure the sector. *The real challenge is to make it a truly public sector.* Such efforts must go beyond merging, selling and breaking down of GOCCs, and rearranging the boxes in organization charts. If privatization must be resorted to, mechanisms must be installed to ensure protection of the innocent and discourage perversion and subversion of good intentions.

If the goal is to make the corporate sector a truly public sector, then it must be open to the public. Restructuring must be a joint undertaking of the bureaucracy and of the public. This can be done by making information on the activities of these GOCCs open to the real stockholders of these corporations — the Filipino people.

The GOCC phenomenon is only a symptom of major ills in Philippine society which cannot be completely cured with definitions, restructuring and rationalization alone. More sweeping reforms are called for.

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