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Issues and Challenges with the Philippines' Public Corporate Sector

Government-owned-and-controlled corporations were initially created as solutions to market imperfections. It is ironic therefore, that in recent years, they have come to be seen as problems that need to be fixed. With the tight fiscal situation of the government, reforming the country's public corporate sector becomes all the more necessary .

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Introduction

While there were privatization and restructuring programs undertaken during the last two decades, many enterprises are still owned and controlled by the state. Many of these enterprises operate inefficiently and, consequently, become a huge drain on the state's finances. There remains much room for improving these public enterprises but undertaking reforms require not only a considerable amount of time and finances, but also strong institutional capabilities and political will. This is particularly true when the objects for reform are public enterprises that are supposed to address market failures and enhance social welfare. Also, the manners by which reform programs are executed change over time and thus, there is a constant need to communicate alternatives to policymakers.

This briefer intends to: (1) present basic information on the Philippines' government-owned and controlled corporations (GOCCs); (2) identify the problems that undergird their poor performance; and (3) provide the context for deciding among the options that are available to address these problems.

What are GOCCs and why are they created?

Presidential Decree No. 2029 defines a Government-owned and-controlled corporation (GOCC) as "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, the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock." Executive Order No. 64 of 1993 expanded the definition of GOCC as follows: "... a corporation created by special law or incorporated and organized under the Corporation Code and in which government, directly or indirect, has ownership of the majority of the capital stock."

The rationale for the creation of GOCCs is grounded on the idea that market failures do exist and government needs to intervene to protect public interest.[1] The most intrusive intervention by even well meaning states in the market takes the form of state ownership of enterprises or GOCCs. No less than the 1987 Constitution provides that GOCCs "…may be created or established by special charters in the interest of the common good and subject to the test of economic viability" (Art.XII, Sec. 16).

In its 2006 study on GOCCs, the Senate Economic Planning Office (SEPO) laid out the conditions under which public corporations are expected to operate, to wit:

1. In cases where private sector is unwilling or unable to provide goods and services vital to society such as the construction of large infrastructure, i.e., roads and ports;
2. When there is a need to create bias in favor of disadvantaged sector of the society in a free market operation such as distribution of staples like rice and sugar;
3. To spur the development of strategic activities with wide-ranging economic impact; and
4. When there exist natural monopolies which government wants to control to protect the consuming public.

According to the Commission on Audit (COA), as of August 2010, there are 604 GOCCs in the Philippines, 446 of which are operational water districts. COA groups them into three clusters depending on their nature and functions. Cluster A is composed of mostly financial institutions. Under Cluster B are public utilities, and those whose nature are industrial, area development, agricultural, trading, and promotional, while those which are social, cultural, and scientific fall under Cluster C.

How do GOCCs' performance impact on government finances?

GOCCs are important sources of income for the national government (NG). Under Section 3 of Republic Act 7656, all GOCCS are required to declare and remit *at least* 50 percent of their annual net earnings as cash, stock or property dividends to the national government. Exempted from this rule are GOCCs, which administer real or personal properties or funds held in trust for the use and the benefit of its members. This includes the Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF), Employees Compensation Commission (ECC), the Overseas Workers Welfare Administration (OWWA), and the Philippine Medical Care Commission.

Table 1. Collections from GOCCs (in PhP million)

	2005	2006	2007	2008	2009	Jan-June 2010[a]
Dividends	5,658	16,251	9,159	6,788	13,803	4,228
Guarantee fee	2,218	2,103	10,355	3,464	6,698	842
Interest on Advances	724	917	3,455	381	510	20
Foreign Exchange Risk Cover	1,963	1,515	1,177	1,057	2,209	539
NG Share - Airport Terminal Fee	46	590	394	318	425	222
NG Shares on Income Received (PAGCOR & MIAA)	9,763	10,003	11,788	11,510	12,082	5,227
Total Collection from GOCCs	**20,372**	**31,379**	**36,328**	**23,518**	**35,727**	**11,078**
GOCC income/non-tax revenue(%)	*18.4*	*26.2*	*17.9*	*15.3*	*25.3*	*21.6*
GOCC income/total revenue(%)	*2.5*	*3.2*	*3.2*	*2.0*	*3.2*	*1.9*

[a] *preliminary*
Source: Bureau of Treasury

Aside from dividends, GOCCs remit to the national treasury collections from guarantee fees, foreign exchange risk cover and interest on NG advances to GOCC loans. The national government also receives considerable funds from its share in the income of the Philippine Amusement and Gaming Corporation (PAGCOR) and the Manila International Airport Authority (MIAA) as well as from its share in the airport terminal fees[2]. In 2009, the national government collected a total of PhP35.7 billion from GOCCs, accounting for more than a quarter (25.3%) of total non-tax revenues.

Government financial institutions (GFIs) such as the Bangko Sentral ng Pilipinas (BSP) and the Landbank of the Philippines (LBP) are the top remitters of dividends in 2009 with PhP6.0 billion and PhP2 billion respectively[3]. They are followed by the Philippine National Oil Corporation - Exploration Corporation (PNOC-EC), PNOC, and the Development Bank of the Philippines (DBP).

[1] At the close of World War II, the identification of an industry network or project as *basic* or *arterial* was sufficient reason for state ownership (i.e., state provision and management). Industries so identified were given the designation "commanding heights" (power generation and distribution, railways, road network, telecommunications, water service, urban transport, steel, chemicals, ship building, banks, oil refining, etc.) and were promptly nationalized (Yergin and Stanislaus, 2001).

[2] Section 11 of the MIAA Charter mandates MIAA to remit 20 percent of its annual gross operating income to the National Treasury whereas the Charter of PAGCOR requires PAGCOR to distribute its earnings as follows: 5 percent of net winnings goes to the BIR as franchise tax; 50 percent of the 95 percent balance goes to the National Treasury as the national government's mandated income share; 5 percent of the balance after the franchise tax and the national government's mandated income share goes to the Philippine Sports Commission for the financing of the country's sports development programs; 1 percent of the net cash income goes to the Board of Claims, an agency under the Department of Justice. In addition, cities hosting PAGCOR casinos are given a fixed amount for their respective community development projects. The remaining balance is then remitted to the President's Social Fund to help fund the priority projects of the government.

[3] Unlike other state-run enterprises that are required to remit 50 percent of their total income, the BSP is mandated to remit 75 percent of its earnings to the national government.

Table 2. Top 10 GOCCs with Highest Dividend Remittance (in PhP million)

GOCC/GFI	2005	2006	2007	2008	2009
BSP	1,612	2,716	2,763	-	6,000
LBP	400	1,500	1,000	442	2,000
PNOC-EC	-	10	50	100	1,500
PNOC	664	306	2,195	2,098	1,417
DBP	1,135	6,296	-	1,000	1,000
PDIC	51	306	373	264	484
PEA	15	10	-	-	436
BCDA	-	6	-	41	217
PPA	992	1,639	1,366	1,182	200
PEZA	188	394	408	346	139

Source: Bureau of the Treasury

Note: LBP- Landbank of the PhilippinesPDIC- Philippine Deposit Insurance Corporaton, PEA- Philippine Estate Authority, BCDA-Bases Conversion Development Authority, PPA- Philippine Ports Authority, and PEZA-Philippine Economic Zone Authority

While GOCCs contribute to expand government income, their operation also constitutes expenditures for the government. Since these firms are created to protect public welfare, they are deemed to be entitled to government financial support in the form of subsidies, equity infusion, and lending. In 2009, the national government extended financial aid to GOCCs amounting to PhP23.8 billion or 1.7 percent of the NG budget.

Table 3. Expenditures for GOCCs (in PhP million)

	2005	2006	2007	2008	2009	Jan-Jun 2010[a]
Subsidy	12,237	13,810	27,336	21,109	17,439	7,466
Equity	190	3,561	3,729	1,691	1,359	826
Net Lending	1,707	131	9,750	14,393	5,064	4,558
Total Expenditure for GOCCs	**14,134**	**17,502**	**40,815**	**37,193**	**23,862**	**12,850**
Total Expenditure	942,487	1,044,429	1,149,001	1,271,022	1,421,743	788,833
Total GOCC Exp/Total Exp (%)	1.5	1.7	3.6	2.9	1.7	1.6

[a] *preliminary*

Source: Bureau of Treasury

During the said year, the National Food Authority (NFA) received the biggest government subsidy while the Cagayan Economic Zone Authority (CEZA) benefited the most from the national government's equity infusion of PhP 566 million. Subsidy to the NFA has significantly grown from just PhP 910 million in 2006 to PhP 4 billion pesos in 2009.

Loan contracts entered into by GOCCs are automatically backed by government guarantees. In 2009, the government's net lending (or advances for the servicing of NG- guaranteed GOCC debt net of repayments) amounted to PhP5.0 billion[4]. The biggest advances net of repayments went to NIA and National Power Corporation (NPC) for the Casecnan Irrigation Project.

Table 4. Top 10 GOCCs with the highest subsidy from the NG 2007-2009 (in million PhP)

	2005	2006	2007	2008	2009
National Food Authority (NFA)	1,183	910	2,212	2,000	4,000
National Housing Authority (NHA)	2,300	1,468	4,744	5,144	3,858
Local Water Utilities Administration(LWUA)	-	-	300	-	1,950
Philippine National Railways(PNR)	185	220	1,109	570	1,168
National Home Mortgage Finance Corp. (NHMFC)	500	1,000	501	500	900
National Irrigation Administration(NIA)	-	-	172	754	892
National Livelihood Development Corp				183	885
Philippine Coconut Authority (PCA)	213	225	278	421	586
National Electrification Administration (NEA)	542	1,588	2,726	955	524
Philippine Rice Research Institute (PRRI)	239	243	252	258	

Source: Bureau of the Treasury

Table 5. Top 10 GOCC with the biggest net lending from the NG, 2007-2009 (in million PhP)

GOCC	2005	2006	2007	2008	2009
NIA-CASECNAN	3,424	3,920	2,608	2,975	4,061
NPC-CASECNAN	3,458	1,303	2,779	3,377	3,549
Light Rail Transit Authority(LRTA)	713	1,188	1,849	2,228	2,597
PNR	755	668	580	644	688
National Labor Relations Commission (NLRC)	189	199	188	263	405
Philippine National bank (PNB)	-	-	-	-	249
Energy Development Corporation (EDC)	194	5	178	-	195
Technology & Livelihood Resource Center (TLRC)	211	183	150	152	190
Partido Development Administration (PDA)		73	34	-	69
LWUA	341	125	(107)	(52)	40

Source: Bureau of the Treasury

Because GOCCs require significant amount of transfers from the state, they constitute a heavy drain on the public sector's finances. In 2009, the combined deficit of the 14 monitored non-financial government corporations alone comprised more than 10 percent of the consolidated public sector deficit. From 1998 to 2008,

[4] This includes loan outlays or proceeds from program loans relent to GOCCs

they have accounted for an average of 30 percent of the outstanding public sector debt.

What are the arguments that underlie the problems pertaining to GOCCs?[5]

According to the World Bank (1995), state owned enterprises or public corporations generally tend to perform poorly relative to their private counterparts because:

1) *There is lack of clarity in the government's role as owner.* "Government" can mean the ministries, or parliament, or the general public. That is, no one has a clear stake in generating positive returns because there is no single identifiable owner and thus, GOCCs are made to feel like they are answerable to no one.
2) *Many state-owned enterprises (SOEs) have multiple or conflicting objectives.* Government creates a corporation to address social objectives such as lowering the price of a socially-sensitive good, yet the corporation is expected to maximize returns.
3) Access *to subsidies, transfers, and guaranteed loans create a moral hazard problem* such that there is no incentive to be efficient since there is no threat of bankruptcy.

The abovementioned factors are true for public corporations in the Philippines. There is no single entity that exercises the ownership functions of the state on GOCCs. The right and functions of the state as owner are largely exercised through the department to which they are attached to. The monitoring of the overall performance of GOCCs is also dispersed among the various departments in which they are attached. While the Department of Finance Corporate Affairs Group monitors the financial performance of GOCCs, its role is limited to determining the fiscal implications of GOCCs corporate operations such as monitoring cash flows and debt, as well as providing technical support (SEPO, 2006).

The poor financial condition of the GOCCs mostly arises from operational factors and inconsistent policy objectives of government. GOCCs are often mandated to provide services with social objectives, which result in losses and necessitates considerable subsidies from the government or results in heavy reliance on debt. The NFA for example, is mandated to stabilize domestic price of basic food commodities, particularly rice, and at the same time ensure food security. The conflict arises when the NFA tries to protect the profit margins of rice

Table 6. Consolidated Public Sector Financial Position (in billion PhP)

	2005	2006	2007	2008	2009
TOTAL SURPLUS+/DEFICIT-	(100.7)	11.0	21.4	30.2	(256.4)
as percent of GDP	-1.8%	0.2%	0.3%	0.4%	-3.3%
TOTAL Public Sector Borrowing Requirement	(187.0)	(79.1)	47.9	(90.2)	(336.4)
as percent of GDP	-3.4%	-1.3%	0.7%	-1.2%	-4.4%
National Government	(146.8)	(64.8)	(12.4)	(68.1)	(298.5)
CB restructuring	(16.3)	(13.2)	(8.2)	(8.8)	(8.8)
14 Monitored GOCCs	(25.4)	(1.1)	57.9	(27.2)	(25.9)
Adjustment of net lending and Equity to GOCCs	1.5	(0.0)	10.6	13.8	(3.3)
Other adjustments	0.0	0.0	0.0	0.1	0.0
OTHER PUBLIC SECTOR					
SSS/GSIS	86.2	90.1	(26.6)	120.4	80.0
BSP	48.9	59.4	34.2	66.7	39.0
GFIs	3.6	0.6	(89.2)	9.4	(0.2)
LGUs	6.6	8.0	5.9	7.5	10.0
Timing adjustment of interest payment to BSP	23.8	26.7	21.8	34.6	31.3
Other adjustments	3.4	(0.7)	0.1	2.2	(0.3)

Source: DOF

farmers (by setting floor prices) while trying to protect consumer interests (e.g., lower prices by ensuring sufficient supply). The NFA thus loses its profitability and incurs huge losses (*See Annex 1).* However, to support its social role, the government continues to provide it with subsidies. In addition, the NFA is allowed to borrow commercially to finance its operations with national government guarantees. While the cap on foreign loans was set at US$500 million, there is no ceiling on domestic loans.[6] Moreover, the NFA is exempt from the payment from all forms of taxes, duties, fees, imposts as well as import restrictions. Its off-budget spending is automatically appropriated.

Another issue is the moral hazard problem in the operations of GOCCs and their conduits/end-users (e.g. electric cooperatives for NEA, water districts for LWUA, farmers-beneficiaries for NIA). Because the national government wants to provide service to a larger populace, it tends to be less stringent on loan

[5] This section is drawn largely from the 2006 study of the Senate Economic Planning Office on GOCCs

[6] The NFA Charter has identified six sources of funding: (1) official development assistance to the Philippine government such as food aid; (2) payments made by the NG on loans drawn by or for the NFA and National Green Authority (NGA); (3) subsidy from the NG out of funds appropriated in the annual budget; (4) funding and organizational provisions intended for the national food programs including those provided as special financing program seed fund, cooperative loans, and livelihood projects; (5) loans from the government and domestic private lending institutions; and (6) Central Bank of the Philippines (CBP) now the Bangko Sentral ng Pilipinas (BSP).

repayments for service-oriented cooperatives (such as electric cooperatives) and does not impose stiff fines on delinquent and erring end-users (such as NIA farmer beneficiaries). As a result, service providers and end-users often have no incentive to shape up and improve efficiency. This is manifested in the poor collection efficiency of many GOCCs. In addition, they have less incentive to perform efficiently because the government guarantees their debt. They are thus, in effect, "unfree to fail"[7].

Aside from causing a moral hazard problem, the absolute and unconditional guarantees provided by the national government to GOCCS represents a huge fiscal risk as they effectively expose the national government to contingent liabilities. In 2009, the outstanding contingent debt of the national government has already reached PhP614.13 billion.

Another issue is on the board composition of the GOCCs. The Organisations for Economic Co-operation and Developement (2005) identifies quality, experience and competency and objectivity of the GOCC's board of directors. However, in the Philippines, the selection of board membership in GOCCs remains highly politicized, resulting in lack of consistent and active monitoring. "Board membership changes with a change in administration. Even if the law provides for a fixed term of office for non ex-officio members, they are encouraged to tender a letter of resignation to allow the new incumbent to appoint new members. The appointment of independent directors, a practice common in private corporations, is on the whole absent in GOCCs" (SEPO,2006). In addition, some GOCCs are perceived to be practicing little restraint in spending by awarding their board members with perks and other privileges that may be considered as excessive.

Moreover, a weak oversight system and or the absence of a standard regulatory framework applicable for all GOCCs make the task of supervising and monitoring them difficult. For instance, there are no clear guidelines on how managers are held accountable. While GOCCs are required to prepare an annual accomplishment report, they do not follow a uniform format due to the absence of a coordinating entity which could impose a standard. In addition, there is no strict monitoring whether GOCCs meet the deadline, around 60 days after the end of the fiscal year, in submitting the report to concerned government offices. This situation is when a corporation is registered with the Securities and Exchange Commission (SEC) or the Philippine Stock Exchange (PSE). The COA also suffers from backlog in auditing GOCCs. This leads to poorer accountability on past performances of GOCC officials and weaker oversight of the executive and legislative branches of government (SEPO, 2006).

What has been done to help improve corporate governance among GOCCs?

Over the years, the Philippine government has made significant progress in dealing with GOCCs, including privatizing a large number of GOCCs and consolidating/ closing many others. In 1984, the Government Corporate Monitoring Committee (GCMC) was created through EO No. 936 and was tasked to develop the appropriate guidelines on the monitoring of the operations of GOCCs including their utilization of General Appropriations funds from the national government and the contracting and utilization of borrowed domestic and external funds. GMCC was eventually reconstituted under Memorandum Order No. 10 (1986) as the Government Corporate Monitoring and Coordinating Committee (GCMCC).

Proclamation No. 50, signed by former President Aquino in 1986, launched a program for the disposition and privatization of government corporations and/or assets and created the Committee on Privatization (COP) and Asset Privatization Trust (APT).

In 1992, EO No. 37 was signed by former President Ramos which restated the privatization policy of the government and enumerated in its annexes public corporations which have been approved for divestment and those which have been approved for retention[8].

President Macapagal-Arroyo presented during her term a so-called Roadmap to Fiscal Strength. In line with the President's fiscal austerity program, Administrative Order 103 was signed in 2003 with a salient feature of suspending expenditure subsidies to GOCCs except those approved by the Fiscal Incentives Review Board (FIRB).

At present, the DOF Corporate Affairs Bureau has taken over the function of the GCMC. The DOF is mandated to monitor and evaluate the financial performance and operations of GOCCs and GFIs.[9] To broaden support for this mandate and strengthen the advocacy for corporate governance reforms, the DOF, together with the Institute of Corporate Directors (ICD), formulated a Corporate Governance Scorecard Guidelines for GOCCs/GFIs.

[7] Privately-owned firms, by contrast, can and do go bankrupt; are therefore "free to fail," which makes their executives work as efficient as possible and, in the case of South Korea and Japan, commit *hara-kiri* when the firm fails.

[8] http://www.abernales.com/eo37.htm

[9] Under Executive Order 127, 127-A and 292.

In July 2009, the DOF and ICD conducted a survey using the Corporate Governance Scorecard Self- Assessment Questionnaire. The questionnaire had the following 5 categories with their corresponding weights:[10]

Categories	Percentage
Ensuring an Effective Regulatory Framework	5%
The Government as Owner	5%
Relations with Stakeholders	15%
Disclosure and Transparency	35%
Board Responsibilities	40%

The DOF distributed the questionnaires to 15 government institutions, four of which are GFIs and 11 are GOCCs. It is interesting to note that the average score for the four GFIs was 82 percent, whereas that for the 11 GOCCs was only 47 percent. The poor performance of the GOCCs pulled down the total average score of the 15 institutions to 57 percent. The disparity between the scores of GFIs and GOCCs can be explained by the nature of the business operated by GFIs, which require them to strictly adhere to many of the proper corporate governance practices.

The DOF has introduced the Corporate Governance Scorecard described earlier. However, the exercise was limited to only 15 GOCCs. It is high time to consider institutionalizing this practice of self assessment in all GOCCs and determine the action to be taken to GOCCs scoring low in the governance scorecard.

What are the things that one must take note of when embarking on reforming the public corporate sector?

Reforming the public corporate sector has become more critical in light of the tight fiscal position of the government. GOCCs were initially created as solutions to market imperfections, it is ironic therefore that they have come to be seen as problems that need to be fixed. Given that the achievement of non-economic goals underlies the existence of GOCCs, their poor performance does not come much as a surprise (Grout and Martin, 2003).

Kennedy and Jones (2003) provide of a list of actions that can address the problem of GOCCs, these include:[11]

1 *Privatization.* GOCCs can be sold to private owners.
2 *Privatization of management.* This implies that some aspects of privatization can be introduced without changing GOCC ownership.
3 *Restructuring.* Changes can be introduced to the GOCCs' structure, organization or operations.
4 *Corporate governance reforms.* This refers to improvements in the supervisorial role of the state over GOCCs.
5 *Liquidation*. GOCC can also be dissolved with their assets sold or transferred to other uses.
6 *Reforms external* to GOCCs. The external environment can be changed to provide stronger incentives for the SOEs to be efficient.

In the case of the Philippines, there was a suggestion to rationalize the GOCC portfolio. In a technical assistance report in 2008, the Asian Development Bank recommended to dispose public corporations which "do not have a clear rationale on the basis of its social/public good role." The ADB cited Proclamation 50 as the basis for such recommendation. The ADB, in particular, recommended rationalized Metro Manila Rail sector, which is comprised of the PNR, LRTA, and the Department of Transportation and Communication as operator of the MRT3. The report also recommended the privatization of the National Development Corporation (NDC) and the Home Guarantee Corporation (HGC). Likewise, Clarete (2010) strongly recommended the abolition of the NFA by separating of its regulatory and proprietary functions.

Measures are also being proposed to enhance the regulatory and legislative frameworks of public corporations. These include (1) the removal of the automatic guarantee provision in certain GOCCs to ensure that GOCCs engaged in borrowing will have the capacity to pay and will set a limit on rampant GOCC borrowings; (2) the proposed Omnibus Re-engineering Law which seeks authority for the President to re organize the Executive Branch, including GOCCs, and offer appropriate incentives.; (3) the proposed creation of the Government Corporate Council that will revive the now-defunct GCMCC as the oversight body for GOCCs.

Moreover, the literature provides for a number of regulatory tools that can be used when dealing with government-owned utility providers. Some of these tools provide "carrots" to reward performance beyond hitting targets, while some rely on "sticks" by setting tough targets or to punish non-performance. Such tools have been used in different countries with varying degrees of effectiveness. These tools include:

1. *Performance targets*. In the absence of quality and service standards, firms would tend to seek profit by sacrificing quality. Thus, it comes as common sense to regulators to set benchmark indicators or targets which may be based on operations, finances and customer service.

[10] The categories used were in line with the Organisation for Economic Co-operation and Development (OECD) Guidelines for SOE Governance.
[11] These options are not mutually exclusive. That is, they can be used in combination.

Mugishi, et.al. (2006) offerred useful insights on establishing performance targets, to wit:

a. Set performance targets that will enhance financial viability and operating efficiency. Targets should be easy to measure without creating conflict between the regulator/monitor and the operators.
b. Set targets so that the operator's efforts toward achieving them can be verified via customer perception surveys.
c. Report on process performance indicators that can act as proxies for output indicators. Such monitoring also helps pre-empt inadequate performance.
d. Strike a balance between highly effort intensive targets and those requiring less effort.
e. Incorporate performance incentives, for example after discussion with staff to determine what motivates them the most.

2. In addition, the use of an *independent "reporter"* could be vital in ensuring the integrity of the monitored targets. Also, the publication of targets vis-à-vis actual performance could strengthen the mechanism for setting a good or bad reputation.

3. *Hard budget constraints*. This is another regulatory tool that requires a detailed study of the enterprises' actual output and the limit imposed on the resources made available to produce that level of output.[12] In the special case of GOCCs, the setting of a hard budget constraint coincides with the possibility of the state withholding subsidies or refusing to bail-out poorly performing or loss-generating enterprises. Or for instance, if a GOCC fails to produce the required level of output, then it should not be allowed to increase its borrowing to make up for the shortfall. As such, this tool puts pressure on the enterprise to double up efforts of collecting receivables. By strengthening the link between making investments and earning profits, this shifts the objective of the enterprise from simply hitting targets to making profits as well. (Byatt, 2007).

4. *Performance-related Pay.* This Performance-related pay (PRP) regulatory tool ensures that the required performance targets are aligned with the interest of management. This means that corporate profitability is linked to managerial pay. In private firms, stock options tie remuneration to corporate performance. Companies with profit-sharing schemes are found to be more productive than companies without (Cable and Wilson. 1989). PRP schemes provide managers with an incentive to improve the efficiency and profitability of firms. There are two critical factors that make PRP schemes successful: (1) a high level of transparency, which means that the details of such scheme are made known not only internally but also to the firm's clients; and (2) incentives of management aligned with the interest of the firm's clients. The rationale for introducing PRP schemes are multiple, but essentially focuses on improving motivation and accountability of public servants.[13] Proponents of this regulatory tool believe that PRP presents opportunities for management and organizational changes which include effective appraisal and goal setting processes, clarification of mandate/tasks, acquisition of skills, creation of improved employee-manager dialogue, and increased flexibility in work performance.

[12] In managerial economics, setting a hard budget constraint implies that firms must cover their cost of production using revenues generated either from the sales of their product or from other financial resources.
[13] The introduction of performance pay policies occurred in the context of the economic and budgetary difficulties faced by OECD member countries from the mid-1970s.

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Table 1. NFA's Net Worth in Recent Years (in billion pesos)

	2000	2005	2006	2007	2008
Assets	19.8	28.4	27.9	26.4	58.2
Current	14.7	13.1	14.6	11.8	42.4
Cash and Investment	2.2	1.5	1.6	1.2	2.0
Rest of current assets	12.4	11.6	13.0	10.6	40.4
Fixed	1.5	1.5	1.5	1.7	1.7
Equipment, land and related	1.5	1.5	1.5	1.7	1.7
Rest of assets	3.6	13.8	11.9	12.9	14.1
Liabilities	20.9	56.8	70.6	68.6	133.3
Current	17.3	34.8	52.7	50.9	104.3
Long-Term	2.0	17.9	16.5	16.5	25.1
Rest of liabilities	1.5	4.1	1.4	1.2	3.9
Net worth	-1.1	-28.4	-42.7	-42.2	-75.1

Source: PIDS. Monitoring Expenditure and Agricultural Policies (MEAP) Project as cited in Dr. R. Clarete's presentation "Should the Government Abolish the National Food Authority?" in SEPO's Legislative Agenda Setting for the 15th Congress: Briefing and Consultation Forum.

Table 2. Income Statement of the National Food Authority (in billion pesos)

	2000	2005	2006	2007	2008
Gross revenue	22.2	28.6	28.7	36.0	41.5
Operating revenue	21.7	27.4	26.6	33.0	39.1
Non-operating revenue	0.5	1.2	2.1	2.8	2.4
Expenses	27.7	46.6	44.5	53.1	78.4
Net Profit (Loss) (Before Tax)	-5.5	-18.0	-15.8	-17.3	-36.8
Subsidies	1.2	12.9	4.8	16.1	39.2
Subsidies from NG	1.2	0.9	0.9	16.1	2.0
Rest of subsidies	-	12.0	3.9	-	37.2
Net profit and subsidies	-4.3	-5.1	-11.0	-1.3	2.3

Source: PIDS. Monitoring Expenditure and Agricultural Policies (MEAP) Project as cited in Dr. R. Clarete's presentation "Should the Government Abolish the National Food Authority?" in SEPO's Legislative Agenda Setting for the 15th Congress: Briefing and Consultation Forum.