

A SURVEY OF INTERNAL COORDINATION  
AND CONTROL SYSTEMS IN SELECTED  
PUBLIC ENTERPRISES

BY

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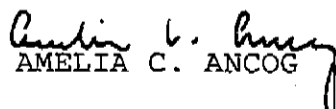
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Preface

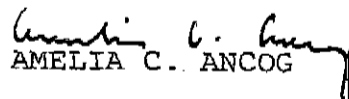
Public enterprises are fascinating entities. They are characterized by a considerable degree of autonomy, social and economic orientation and relative flexibility in coping with the dynamic environment. Their role in development has been discussed in many forums; their participation in bringing about economic improvement and social well-being has been analyzed in classroom discussions and international conferences.

For a country with limited resources and competing priorities, the Philippines has 167 public enterprises. The extent of their contributions to national growth has yet to be assessed fully and exhaustively. To provide directions in research on public enterprises, Chairman Francisco S. Tantuico, Jr. of the Commission on Audit organized a small group of academicians, public administrators and researchers to form the Public Enterprise Team (PET) which can devote its energies to researches, forums and other related activities on public enterprises. This survey is a response to his active encouragement to PET - to look into public enterprises with a detached and objective perspective, and to ascertain ways and means by which they can be assisted and mobilized to serve their clients most effectively.

This study has six parts. The first part contains the introduction, review of literature, conceptual framework, methodology and limitations. The second, third, fourth and fifth parts pertain to the Local Water Utilities Administration, the Home Financing Corporation, the Farm Systems Development Corporation and the Philippine Virginia Tobacco Administration, respectively. The period covered by the study is from 1980 to 1983.

Each corporate study has four subparts. The first refers to the corporate overview and organizational changes over the four-year period under review; the second covers the aspects of internal coordination and control; the third pertains to the financial highlights; and the fourth to the operational highlights or accomplishments. A brief summary follows after each corporate study. The sixth part contains the conclusion and recommendations.

It is our hope that our modest study will somehow contribute to the understanding of the operations, problems and concerns of the public enterprises.

  
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A Survey of Internal Coordination  
and Control Systems in Selected  
Public Enterprises

Introduction

A unique development in Philippine public administration is the proliferation of public enterprises or government-owned or controlled corporations. As of December 1983, the Commission on Audit (COA) listed 117 of these government-owned or controlled corporations composed of 18 in the field of finance, 17 in infrastructure and public utilities, 21 in industrial and area development, and 61 in agricultural, trading and promotional operations.<sup>1</sup>

The seed money that these entities needed to start their operations was provided by the government from taxes and other sources. Subsequently, however, some of these institutions were able to generate funds from internal sources thru their operations, while others were able to source their funds from international lending institutions or through the issuance of debt instruments, if allowed by their charter. But a majority of them depend, and continue to depend, on the government for their operational funds, particularly those whose functions are service-oriented. The massive amount of funds poured into these public enterprises poses a number of important policy and management issues, such as the extent of review and supervision that external agencies may exercise over them, and the degree of accountability of corporate officers over the funds and property of these public enterprises.

Proper and effective use of resources is crucial in public enterprises because of the scarcity of these resources and the competing priorities that demand support. As a means of assuring effective use and management of resources, internal coordination and adequate control systems become imperative. Effective coordination can be achieved in many ways. One of these is the integration of the policy formulation role with execution and administration at the highest organizational level; another is the installation of a control mechanism such as internal audit and monitoring systems. Since public enterprises are governed by their respective charters and operate within an autonomous framework, the approaches to the implementation of a system of controls are as diverse as the functions of these firms.

This study intends to present a perspective of internal coordination and controls practised by 4 selected public enterprises. Specifically, it seeks (1) to assess the effectiveness of the dual role of a policy-maker concurrently performing the function of a supervising official, and (2) to assess the scope and effectiveness of the control systems in these 4 public enterprises.

### Significance of the Study

Under the Philippine Constitution, as supplemented by implementing Presidential Decrees, the Commission on Audit has been mandated with basic control responsibilities pertaining to government funds and property. The COA's powers include, among others, authority to examine, audit and settle, in accordance with law and regulations, all accounts pertaining to revenues, receipts, expenditures and uses of funds and property of the government, its agencies and instrumentalities. The traditional control responsibility of the COA has been exercised in the nature of pre-audit of transactions by COA auditors assigned to these institutions. However, as will be taken up in more detail in a later section of this study, COA has introduced control policy reforms making its function post-audit in character and gradually withdrawing resident auditors from institutions that have installed adequate internal control systems within their organizations.<sup>2</sup>

In the light of the reforms adopted by the COA and their implications on management autonomy, a survey of existing systems for internal control and coordination will be most timely and appropriate. The results of the study can be used by policy-makers of public enterprises in formulating policies and guidelines consistent with the fiduciary nature or service-orientation of functions of these public enterprises and the positions of its officers and employees. The insights from the study can also be used in evolving structural arrangements so that linkages between policy-makers and implementors can be forged to achieve better resource management.

### Review of Literature

#### Accountability

Inherent in the fiduciary trust given to a public officer managing or handling public funds is the concept of accountability. In public enterprises, this concept takes on three dimensions. First, accountability is viewed from a legal or penal standpoint which emphasizes strict fidelity in the management and use of public property and funds. The Revised Penal Code of the Philippines has a whole chapter dealing on instances that an accountable officer may be held criminally liable and suffer the penalty of fine or imprisonment for acts either of commission or omission in the discharge of his duties, not only in those instances where he could benefit pecuniarily, but also in those instances where, though no benefit personally accrues to him, public funds or property are lost through his consent, abandonment or negligence.<sup>3</sup> The second dimension is managerial accountability intrinsic to the nature of accountability itself, which includes, among others, such considerations

as check and balance, proper definition and separation of duties, authority and responsibility, and the availability and appropriate use of monitoring and reporting tools. This is amplified by the Auditing Code which vests full fiscal responsibility in management.<sup>4</sup> The third dimension is the service orientation of accountability, or service-delivery to clients, as commonly applied to social services. The emphasis of this dimension is on quantity, quality, and timeliness in rendering services to the right clients or beneficiaries.

Part of the accountability component of public enterprises is a review of the budget which, historically and traditionally, is part of the control system. Within this context, the Ministry of the Budget holds the view that as long as public enterprises receive funds from the national government, the Ministry has the right to review the corporate budget. This view is based on the rationale that all funds of government-owned and controlled corporations, whether from the national government or from external sources, are essentially part of the national funds or the entire government resources which, when utilized by these corporations, contribute to the gross national product. It is further contended that the funding from the national government partakes of the nature of subsidies or equity contribution; consequently, the national government has the right, through the instrument of budgeting, to review and inquire into how these subsidies or equity contributions were utilized by these corporations.<sup>5</sup> This study, however, does not focus on accountability derived from external budgeting, but rather on the aspect of budgeting that is internal to the organization.

Tandon, in a well-written analysis of control systems, integrates control systems with accountability. He believes that as public enterprises grow and mature, control systems likewise develop into a "self-reliant and self-directing system" within a framework of accountability and as an independent part of the total public enterprise system. He also believes that "accountability is an indivisible system that should serve equally the internal needs of the enterprise and the requirements of public authority."<sup>6</sup>

Similarly, Heath views accountability within the context of control systems. He asserts that accountability has three features: first, the possession of authority by a person to exercise discretion over the use of resources to carry out his assigned duties; second, the obligation to render a report or statement of decisions and of the measured result; and third, the means of exercising discipline or control in the event that the tasks assigned have not been conducted satisfactorily.<sup>7</sup>

Walsh has a wider perspective of controls. She observes:

"We must go beyond a financial balance sheet and beyond statutory statements of corporate mission to devise a framework within which to evaluate the performance of public authorities and to judge the organizational alternatives available to government."

"The decisions and purposes of public enterprises should be judged on the basis of several costs and benefits that go well beyond the legislative mission and financial record of a single agency. The conduct of a public enterprise has political costs and benefits. Its decision making process must include consideration of commitments and constituencies of elected officials, the perceived needs of local communities; the source of political support for the corporation itself; the maintenance of integrity that sustains public trust." 8

Her observations tie in quite neatly with the three dimensions of accountability and go beyond the corporate mission of the public enterprise as expressed in its charter. Accountability, as far as Walsh sees it, includes popular support, mandate of the public, and commitment to public service.

#### Coordination and Control Systems

This study focuses on coordination and control systems, which include planning, budgeting, auditing, monitoring, and coordinating. Consequently, the whole range of managerial and evaluative activities may be conceptually segregated into the aforementioned aspects for analytical purposes.

Coordination may be devised internally or externally. Internally, organizations are coordinated thru a hierarchy of positions as defined in the organizational chart. The details of duties and responsibilities are spelled out in a functional chart. The chief operating officer bears the ultimate responsibility of coordinating the operations of an organization.

The classic comparison often used to illustrate coordination in an organization is that of an orchestra composed of members playing different instruments. Individually, a member would hardly make musical sense playing his part of the score by himself alone; nor is there any assurance that beautiful music would ensue if all the members were to play at their own leisure. Tone, rhythm and harmony are

obviously needed to blend the otherwise disparate notes and instruments into a coherent and delightful amalgam of sounds we call music. This is the task of the orchestra's conductor, as it is also the task of the chief executive of an organization to coordinate, and sometimes discipline, the various members of his "orchestra" to agree on a common philosophy of service designed to direct their energies toward the mission of the enterprise.

In quite a number of cases, coordination is most effectively done through committees. However, the success of committee work depends on a positive synergy among the members -- a situation that can be attained only if the behavioural qualities of the members individually, and the committee as a whole, interface harmoniously.

External coordination, on the other hand, exists when agencies oversee or coordinate the public enterprise for certain reasons, such as for policy or budgetary purposes. In the Philippines, coordination by supervising ministries over public enterprises is well defined in Presidential Decree No. 1 which is more commonly known as the Reorganization Act.

#### Planning

Planning consists of such activities as developing objectives and goals for the company; projecting economic conditions that will affect its future; formulating alternative courses of action to reach the goals; analyzing consequences of the alternatives; deciding which programs are most feasible in the light of limited resources; and devising methods for measuring progress toward planned goals when a program has been chosen.<sup>9</sup>

The key members of the organization fulfill a crucial role in the planning exercise. Their skills at persuasion and negotiation, their grasp of facts and figures, their commitment to philosophy of service - all these influence the planning exercise. Thus, negotiations, mutual give and take, reciprocal understanding of the requirements of other groups or sectors, make target-setting and planning an exciting endeavor.

Planning can either be a top-to-bottom or bottom-to-top process. Approaches vary, depending on many factors present in the organization. However, the bottom-to-top approach appears to enjoy the advantage of enhancing the commitment of the members of the organization to the successful implementation of the plan.

In this regard, it is often said that during times of crisis and when resources are very scarce, long range or even short range planning may no longer be relevant. However, the flexibility and responsiveness of management to the dynamic circumstances and events through the formulation of contingency plans will enable the organization to attain some degree of stability and security during the crisis.



budgeting

A compelling reason for establishing a budgeting system in government is the scarcity of resources. It is often a component of a plan. It is often a document for control. It is often linked with performance evaluation. The development of the budgeting and performance systems depends on the company's complexity and its product lines or services and the nature of the funds. Hence, these systems will vary depending on public enterprises.

Public enterprises which rely on the state funds are subject to the national priorities. Hence, they should at all times be in line with national priorities so that they can be used for such priorities. On the other hand, the funds are also subject to general guidelines of funds, as defined by laws and regulations.

Public enterprises should also have social objectives. They should be able to perform their social responsibilities. The most important social objective of a public enterprise is based on the administrative performance plan. The plan should be aimed at achieving development objectives. Because the social objectives of the state are clear, precise, measurable, they will be put into maximum utilization. They should be done by the public sector of a budget.

It will be a challenge to the public sector to perform its social responsibilities. The former believes in the social responsibilities of the public enterprises. The budget is a financial instrument to achieve these objectives.

He clearly states that for as long as public enterprises ask money from the government, the Ministry of the Budget will continue to look at corporate operations. He adds :

"Fiscal autonomy is rare in practice. While there are some enterprises which have announced that they have gained some measure of fiscal autonomy, this is mere fiction if we consider the extent of government resources which are forthcoming to support their operations..." 12

While this study will not look into the scope of review of the Ministry of the Budget over the budgets of public enterprises, we incorporated the relevant observations of its Minister for they are inputs to the internal budget system of the organization. As a tool for control, budgets can be the basis for measuring extent of use or application of resources and economy in the spending practices of the corporation.

#### Auditing

The innovations the COA formulated and implemented have far reaching implications on the structure and evaluation work of the government corporations. Before the implementation of the policy of withdrawal of external auditors, management could always rely on the audit undertaken by the COA's representative. Advice on accounting and auditing matters could readily be availed of within the corporation because the COA's representative was in residence. In certain degree, the COA's auditor "participates" in financial management.

With the implementation of the twin reforms - withdrawal of pre-audit of transactions and the withdrawal of resident auditors - initiated by Chairman Francisco S. Tantuico, internal self-audit activities have to be undertaken by management itself. In pursuit of these reforms, he suggests that internal control systems be improved, accounting systems be manualized, and competent staff be hired for accounting units. 13

The importance of internal control units as an organic part of the public enterprises was acknowledged by the International Congress of Supreme Audit Institutions in its 1974 Congress in Madrid, Spain. 14 It also defined the relationships that should exist between the Supreme Audit Institution and the internal control institution and proposed the following recommendations :

- "1. That the Supreme Audit Institutions promote systematically and continuously the establishment and improvement of internal audit systems and audit units in the institutions subject to their control and attach special importance to the necessity that these units must be subordinated directly to the Director of the Institution;
2. That the Supreme Audit Institutions formulate principles, elaborate general rules and regulations and impose or propose these to the institutions subject to their control, in order to guarantee an efficient operation of the internal control system and institutions;
3. That the internal control institutions include in their auditing activities the control of economic management and its results;
4. That the Supreme Audit Institutions in their respective report to Parliament submit their evaluations as regard the volume and efficiency of internal control and its results, provided that this is compatible with national legislation." 15

The Auditing Code of the Philippines embodied some concepts contained in the above recommendations. Thus, sections 123 and 124 define very clearly internal control systems and the requirement that these be installed in all agencies, offices and units of government. 16

A strong and adequate internal control system is one of the pre-requisites for the withdrawal of resident auditing. The other conditions are an operations manual or a set of written instructions containing the operating and accounting systems and procedures of the agency or corporation; and the establishment of an internal control unit or the designation of a responsible official to monitor and continually appraise the existing systems and procedures. 17

There are two phases in the withdrawal of a resident auditor. The first is the initial evaluation phase, where a team of COA auditors assess the internal control system of the agency or corporation. Weaknesses and strengths are identified and recommendations are made to improve the control systems. The recommendations are transmitted to the corporate head so that he can monitor the changes and suggest improvements in the system. A post evaluation phase follows after six months or more from the date of initial evaluation to ascertain the readiness of management to undertake its own fiscal management without the presence of the auditor.<sup>18</sup>

To date there are about 23 public enterprises which no longer have resident auditors. The first to enjoy this privilege is the National Home Mortgage Finance Corporation whose auditor was withdrawn in 1981. The COA's plan of withdrawing resident auditing is continuously being implemented.

Parallel with the above discussed reform is the withdrawal of pre-audit. In the past, transactions were reviewed by the auditor before any disbursement was made. This practice was criticized because transactions were delayed and also because it was perceived to be an intervention in what critics called a purely management decision of an enterprise in settling its own affairs. As the new leadership in COA envisioned changes, management was encouraged to develop its capability to handle its own transactions. A series of circulars were issued by COA, gradually reducing the pre-audit functions of the auditor. In Circular No. 82-195 dated September 15, 1982, only five activities are subject to pre-audit but are not pre-requisites to payment of claims. These include review of contracts for infrastructure, consultancy, documents relative to the acquisition of real property by the government for public use, evaluation of on-going infrastructure and other construction projects, and inspection of deliveries of inventories such as food stuffs, medicines, supplies, materials and the like.

#### Location of the Internal Audit Unit

The internal audit unit must be custom-made to fit the needs of the corporation or agency. However, the most essential criteria for locating it are access to the highest executive official and independence in the exercise of its functions. Sawyer succinctly comments on this requirement in this manner :

"Independence is more than a slogan. It is a climate in which the auditing organization needs to live and breath and function. Internal auditing is a professional activity. Its task is to make professional judgements. It therefore demands the highest type of detachment, integrity and objectivity."

"These attributes atrophy in the absence of practical independence. Thus an independent reporting status that permits the maintenance of the objectivity removes the internal auditors from effective dependence upon the people whose activities they audit is utterly essential. This desired result is coming to pass."<sup>19</sup>

"The ideal reporting relation," he further elaborates, "should be a solid line to a top executive to assure consideration of audit recommendations and access to all operations in the enterprise; and the dotted line to the board to protect internal displeasure on the part of the Chief Executive Officer."<sup>20</sup>

Holmes and Overmyer likewise emphasize the duty of the internal auditor to freely review and appraise policies, plans and procedures, but his review and appraisal does not in any way relieve other persons in the organization of the primary responsibilities assigned to them.<sup>21</sup>

In public enterprises in the Philippines, there is no specific practice or requirement regarding the location of the internal audit unit. Neither is there any particular structural or administrative uniformity of the internal audit office. This may be due to the evolving nature of this unit.

#### Monitoring

Monitoring refers to a feedback system which makes use of information to enable top management to ascertain whether performance conforms with expected results or whether targets are met. As part of managerial control, its value lies in the timeliness and relevance of the information that are sent for corrective action to the appropriate members of the organization and thru viable channels. Briggs emphasizes the need for standards by which deviations may be identified when the monitoring system is used.<sup>22</sup>

Houck specifies certain elements of monitoring, which he calls control of functional operations. These elements are : (1) an information system that records the progress of an activity or group of activities for a specific length of time. The information system must include a description of activity steps or phases and quantitative or qualitative measure for tracking the progress of achievement level of the activity; (2) a structural organizational element to which the activity is assigned; (3) a formal reporting document for generating feedback of achievement level to the supervisor or manager of the operating unit; (4) a planned or predetermined activity measure against which actual achievement measures can be compared; and (5) a decision-making capability that exists within the

organization unit that will take action to bring the achievement level in line with planned level. <sup>23</sup>

The desirability of having documents and reports for monitoring was emphasized by M'Bowe who asserts that for "the system to operate effectively, it is essential that management of enterprises prepare special reporting manuals or worksheets with a few selected vital performance indicators to provide itself with immediate signal areas requiring special attention. Variances in the execution of plans are red lights for management action." <sup>24</sup>

He further elaborates that predetermined information elements are several but the most important ones include highlighting of essential key indicators, focusing on crucial problems and major opportunities, pointing out anticipation of a reaction to expected problems, representative quantitative data on trends in key ratios of performance that may be used for strategic decision, resource allocation and corrective decision. <sup>25</sup>

The monitoring functions may be lodged in a corporate planning, financial services or internal audit unit. But the exercise of the monitoring function, may, from a wider perspective, be done from the first line of supervision to the succeeding levels. The more active the first line levels of supervision are in fulfilling monitoring, the lesser will be the burden of monitoring at the top level of management.

#### Methodology

This research hopes to test the relationships of certain variables which may influence or enhance internal coordination and control and the effective use of resources. A rather unique organizational aspect in public enterprises in the Philippines is the role of the chief executive officer as a policy-maker since Republic Act #2254 specifically provides that the CEO should likewise be the Vice Chairman of the Board. <sup>26</sup> Hence, this study will also examine the consequences of his dual roles.

The following hypotheses will be tested:

First, internal coordination is effective when the policy-maker concurrently performs supervisory function over specific departments or group of departments;

Second, internal coordination is facilitated by the presence of internal control systems;

Third, effective use of resources is enhanced by the existence and operation of control systems.

To attain this objective, a review and analysis of the structural and functional relationships of departments and units will be undertaken in the following areas: first, functional relationships between the director and supervising officer with the supervised departments; second, the functional relationships between the control units with line departments; and third, the functional relationships between the control units and the Chief Executive Officer and the Board.

Four public enterprises were chosen to represent the major sectoral groupings. These are: Local Water Utilities Administration (LWUA) and Farm Systems Development Corporation (FSDC) to represent the public utilities and infrastructure sector; Home Financing Corporation (HFC) to represent the financial sector; and Philippine Virginia Tobacco Administration (PVTA) to represent the agricultural, trading and promotional sector.

For purposes of analysis, we simplified the hypotheses in this manner: the dual roles of the chief executive officer as administrator and policy-maker facilitates internal coordination; and the presence and operation of internal control systems (units) facilitates supervision and coordination and the effective use of resources. Since the research is principally exploratory, rigid methods of establishing causal relations will not be attempted.

Control units/systems will include planning, budgeting, auditing and monitoring. For this study, these are treated as structures. On the other hand, participation such as committee activities, conferences, communication and leadership style are considered processes. Results are outputs ensuing from the effective use of resources. The diagram of the relationships of the variables is shown below.

<u>Independent Variable</u>	<u>Intervening Variable</u>	<u>Dependent Variable</u>
Dual role of policy-making and administration	--- processes	--- internal coordination
Presence and operation of control systems (units)	--- processes	--- internal coordination & supervision and effective use of resources

Effective use of resources are measured in terms of meeting of targets, reduction of operational expenses, profitability, and overall performance of the enterprise.

Committee type of activities, involvement in decision-making of the various levels of supervision, and leadership style are treated as intervening variables called processes which influence the results or outputs.

#### Sources of Data

Data were obtained from annual reports, official documents and from interviews of key officers based on an interview guide. Similarly, data inferred from observations were taken into account in analyzing the information gathered through formal methods. The reports for the years 1980 to 1983 of the public enterprises were used extensively and were supplemented by Commission on Audit reports.

#### Analytical Tools

Comparison of changes in functions and structures from 1980 to 1983 were undertaken to ascertain improvements in the public enterprise. Analysis of the income statements and balance sheets as well as operational data were made to assess the overall performance of the public enterprises. Thus, a comparative, historical, and descriptive approach is used in evaluating the data.

#### Limitations

This study is essentially an exploratory research. Empirical experiences in selected public enterprises were sought and documents were reviewed so that relationships between coordination and control systems and effective use of resources can be ascertained. However, since the survey covers only four years of the operations of the corporations chosen, analysis of relationships between independent and dependent variables were made generally through inferential analysis. Nevertheless, financial data were reviewed to assess financial performance and consequently, use of resources.

The rather abnormal economic factors which began in the early eighties, and which continue to prevail, were often mentioned by the administrators or chief executive officers as crucial constraints to high performance. These were taken into consideration in assessing corporate operations. Examples of these constraints are the reduction of subsidy or equity contributions by the national government to the public enterprises and other restrictive policies on the use of resources. Similarly, the high financial charges on foreign and local borrowings also affected the available resources for operations. These circumstances were considered in the analysis of the data obtained in the survey.

The data-gathering efforts were hampered by the confidentiality of some reports, by the unavailability of some key respondents, and by the reticence of a few to provide extensive information. Some high officials were unavailable for interviews because of their busy schedules. Hence, some information obtained from lower officials were, to the extent possible, corroborated by documentary analysis.

While insights were drawn from the internal control evaluation reports of the Commission on Audit details from them were not incorporated in the study to preserve their confidentiality. However, related or complementary data on the results of internal control evaluation were obtained from interviews with management officials and documents provided by the public enterprises.



FOOTNOTES

- <sup>1</sup> 1983 Summary Annual Audit Report on Government-Owned and Controlled Corporations, Self-Governing Boards and Commissions, Corporate Audit Office, Commission on Audit, Quezon City, Philippines.
- <sup>2</sup> Thirty Years of Intosai, COA Research and Development Foundation, Inc., Commission on Audit, Quezon City, Philippines, 1983.
- <sup>3</sup> Article 217, Revised Penal Code, Philippines.
- <sup>4</sup> Section 4. Presidential Decree No. 898 as amended by PD No. 1445.  
"It is the declared policy of the state that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned." (underscoring supplied)
- <sup>5</sup> Alba, Manuel, "State Review of Public Enterprise Budgets," State Control Over Public Enterprises, COA Research and Development Foundation, Inc., Quezon City, Philippines, 1983, pp. 65-82.
- <sup>6</sup> "Control Systems and Accountability on Public Enterprises," Control Systems for Public Enterprises in Developing Countries, International Center for Public Enterprises in Developing Countries, Ljubljana, Yugoslavia, 1979, p. 140.
- <sup>7</sup> "Control Systems for Public Enterprises in Developing Countries: A Framework for Control Systems," Control Systems for Public Enterprises in Developing Countries, International Center for Public Enterprises in Developing Countries, Ljubljana, Yugoslavia, 1979, p. 78.
- <sup>8</sup> The Public's Business, the Politics and Practices of Government Corporations, Twentieth Century Fund, MIT, Cambridge, Mass., U.S.A., 1978, p. 341.
- <sup>9</sup> Erwin David, "Corporate Planning at a Crossroad," Harvard Business Review, Ernest Frawlie, Mass., U.S.A, July-August, 1967, pp. 97-104.
- <sup>10</sup> Houck, Lewis Daniel, A Practical Guide to Budgetary and Management Control Systems, D. D. Heath & Co., 1979, p. 217.
- <sup>11</sup> "Performance Evaluation of Public Enterprises," State Control Over Public Enterprises, COA Research and Development Foundation, Inc., Quezon City, Philippines, 1983, p. 101.
- <sup>12</sup> Op. cit., p. 66.
- <sup>13</sup> 1982 Summary Annual Audit Report on Government-Owned and Controlled Corporations, Self-Governing Boards and Commissions, State Universities and Colleges, Corporate Audit Office, Commission on Audit, Quezon City, Philippines, p. IX.
- <sup>14</sup> 8th Intosai Congress, Thirty Years of Intosai, COA Research and Development Foundation, Inc., Quezon City, Philippines, 1983, p. 79.

- 15 Ibid., pp. 79-80.
- 16 Presidential Decree No. 898 as amended by Presidential Decree No. 1445.
- 17 Bulletin No. 4, Corporate Audit Office, COA, Philippines.
- 18 COA Memorandum No. 84-372 dated January 12, 1984, Philippines.
- 19 The Practice of Modern Internal Auditing, Institute of Internal Auditing, Florida, U.S.A., 1981, pp. 540-541.
- 20 Ibid.
- 21 Auditing Principles and Procedures, Richard Irwin, Inc., U.S.A., 1971, p. 83.
- 22 The Theory and Practice of Management Control, AICPA, American Management Extension Institute, U.S.A., 1976, p. 11.
- 23 Ibid., p. 3.
- 24 "A System of Information and Control in Developing Countries with Particular Reference to Tanzania," Control Systems in Public Enterprises in Developing Countries, ICPE, Yugoslavia, 1979, p. 196.
- 25 Ibid.
- 26 Republic Act No. 2254.

LOCAL WATER UTILITIES ADMINISTRATION

Corporate Overview

On May 4, 1971, the Presidential Economic Staff, entered into an agreement with Wilson-Montgomery to undertake engineering and management services and to conduct provincial/research studies. Its output was entitled "Report on Proposed Institutional Development in Support of Improved Urban Water Systems." The major finding in this report dated March 1973 was that most water utilities in the provinces were antiquated and badly in need of repairs and maintenance and that without exception, they have not kept pace with subsequent community growth.

Consequently, the report proposed a nationwide plan for long-range development of water and waste water systems in provincial urban areas. The plan was "designed to encourage the future development of water utility systems that are efficient, strongly managed and locally controlled."

In response to this recommendation, the Provincial Water Utilities Act of 1973, also known as Presidential Decree No. 198 was approved which declared as national policy the formation, maintenance and expansion of viable water supply and waste water disposal system in urban areas and in the provinces. Subsequent amendments are contained in Presidential Decree Nos. 768 and 1479, enacted on August 15, 1975 and on June 11, 1978, respectively. The decree created the Local Water Utilities Administration and authorized the formation, at the option of residents, of self-reliant and locally-managed water districts to serve as conduits for the construction of modern and efficient water sinks and sewerage system.

Briefly, the functions of LWUA are as follows:

1. serve as a lending unit to water districts on concessionary terms to expedite the improvement of capital facilities;
2. train water districts as well as LWUA personnel at all levels;
3. assist water districts on technical matters specifically on feasibility studies, designs, construction, utility operation, maintenance, management advisory services in institutional development; and,
4. review rates, provide standards concerning performance materials and equipment as well as operating guidelines, and monitor performance against these standards and ensure compliance with the same.

#### Organization Structure

Acting as the governing and policy-making body of LWUA is a Board of Trustees, composed of five members. The General Manager who is also ex-officio member of the Board exercises general supervision over three operating departments of LWUA. Under the 1980-1981 organizational structure of LWUA, the General Manager exercises supervision over: (1) Engineering Services; (2) Regulatory Services; (3) Loans and Programming Services and the staff offices attached to it, specifically (1) Public Affairs Office; (2) Office of Corporate Finance Officer; (3) Office of Corporate Legal Counsel; (4) Water Supply Training Center; (5) Management Staff; (6) Project Procurement Office and the major support department, the Administrative Service Department.

#### The Staff Services of the Office of the General Manager (OGM): Project Procurement Office (PPO)

The PPO's major function is the procurement of equipment and other supplies for LWUA. It maintains and updates records of all purchases to assure compliance with LWUA's technical specification, and performs liaison work between LWUA, the Water Districts suppliers and other government agencies. This office did not undergo any organizational changes from 1980-1983. It has two divisions, namely: the Procurement Division, and Monitoring and Inspection Division.

#### Transfer of PPO

In 1979, PPO was attached to the Administrative Services. However, such a set-up did not prove to be effective due to the following reasons:

1. Since all documents pertaining to PPO go through OGM, delays were incurred due to the long line of communication from the Assistant General Manager to the Administration.
2. Procurement in LWUA involves highly technical and complicated specifications. These details call for a superior who is an engineer.
3. The nature of the function is a highly sensitive one because the purchases involve substantial sums of money and annexing PPO to OGM will deter any connivance at the operating levels.

Public Affairs Office (PAO)

PAO performs the marketing function of LWUA. It undertakes information and educational programs as well as other projects and campaigns and serves as the communication channel between LWUA and the Water Districts. It also serves as a conduit for disseminating information on government programs and water system development. The divisions under PAO are the Public Relations Division and Production Division. The PAO has not undergone any change in its set-up for the years 1980-83.

Office of Corporate Legal Counsel (OCLC)

The OCLC handles legal matters and counselling, renders opinions on legal matters, handles civil, criminal and administrative cases, prepares contract documents and other agreements. During the preliminary phases of water district development, it conducts investigations, and formulates recommendations regarding water district loan acquisition, rights of way and appropriation.

Change in name of OCLC divisions

In 1980, there were two divisions under OCLC which were the a) Contract Admin. Division and b) Investigation & Research Division. With the 1982 revamp, however, a minor renaming of divisions occurred. The Contract Administration Division became the Contract Administration & Research, and the Investigation and Research became Litigation & Investigation. This structure continues to exist.

Water Supply Training Center (WSTC)

In line with the need for adequate and continuous training for Water District personnel at all levels of operations, the WSTC was created. Seminars, conferences and forums are conducted to achieve this goal. A separate building houses the WSTC and it is well-equipped with a complete but small-scale water sinks system to provide hands-on training. There are also Regional Training Centers outside of Metro Manila. It also develops, designs and implements water supply engineering courses, cadetship training program, operator's certification program and other technical development courses for LWUA, Water Districts and other government entities. Local scholarship involving technical programs are also made available to the Water District's personnel. For the whole duration of the period under study 1980-1983, Water Supply Training Center was restructured.

Office of Corporate Finance Officers (OCFO)

The OCFO provides the agency with accounting and controller-ship services like bookkeeping, financial reporting, budgeting and cash management.

It keeps the books of accounts in order and with the corresponding inputs, draw up financial reports to management and other offices. Requests and requisition for payment are processed by this office upon assurance that the supporting documents have been completed in accordance with the accounting and auditing procedures as well as management policies. Before this, however, OCFO obligates and commits funds and certifies to its availability. It is also entrusted with the task of consolidating the draft budget and reviewing budget estimates submitted by all departments. Based on this budget, final estimates for LWUA's projects are proposed and justified.

In 1980, a new department was created, namely: the Project Accounting Department (PAD). The PAD inherited the functions formerly performed in 1979 by the Accounting Department and Budget Operation Department. This department specializes in transactions involving the Water Districts including the following: 1) billing and collection; 2) project costing; 3) foreign loan accounting and payment of all project related claims. Transactions other than those pertaining to the Water Districts are under the General Accounting Division which takes care of financial reporting, disbursement of funds for in-house operations, payroll preparation, payment of office supplies and equipment and processing of travel claims. The Budget Operations Department remained under the responsibility of the Office of the Corporate Finance Officer in 1983.<sup>3</sup>

Transfer to Finance Services Department (FSD)

In the reorganization in 1982, the Office of the Corporate Finance Officer was merged with the Loans and Programming resulting in the Financial Services Department. The corporate finance officer was retained and the two divisions, General and Project Accounting were combined under the Accounting Department with the two renamed as divisions. No further changes were made in 1983.

Management Staff

The Management Staff studies the systems and procedures, conducts operations audit, and recommend improvement in areas found deficient

or needing changes. Upon approval of the recommendations, it monitors the performance of the units concerned. It also prepares manuals. This department was originally formed in 1979 and remained as such until 1981.

#### Creation of the Internal Control Office

When LWUA was reorganized in 1982, the Management Staff expanded its structure to include the Internal Control and Systems & Computer Services Divisions. This was renamed as Management Office. The creation of the Internal Control Division is a response to the policy of COA, withdrawing resident auditors in public enterprises. While the Management Staff was virtually performing the internal control functions before 1982, the creation of a division specifically tasked with the function of reviewing the operations of LWUA was perceived to be necessary. Getting the right people to do the job proved to be a problem. Moreover, the Management Staff personnel were too few, to assume a broader area of responsibility. Thus, a merger of Management Staff with another department which was capable of performing the internal control function was proposed. Before 1982, the Water District audit function was undertaken by the Advisory Services (Water District management audit was one of its divisions), and Analysis & Review Services (Fiscal monitoring one of its divisions). The Officers of Regulatory Services argued that the audit of Water District should really be their responsibility since its foremost function is to make the Water Districts viable. The Analysis and Review Services, on the other hand, insisted that the sanctions that would enhance the effectivity of control systems were in their hands. The Regulatory Services' argument proved more convincing and was granted full jurisdiction over Water District audit. However, this led to the transfer of internal control functions to the Management Staff. In 1982, the Computer Services Division was created, although plans for computerization have been underway in earlier years. No changes occurred in 1983.<sup>4</sup>

#### Corplan

It was only in 1982 that Corplan became a formal unit. However since 1977, LWUA had corporate planning sessions among representatives from each department. A trial Corplan was held in 1980. Each department submitted its plan for the year, with the corresponding estimates of expenses, resources, cash flow, and manpower requirements.

#### Responsibility of Corplan

Inasmuch as the emphasis of the Corplan sessions up to 1981 was on finance, specifically on the formulation of the budget, the responsibility for the Corplan sessions was vested upon the Office of the Corporate Finance Officer with the budget division playing the most active part. The result of these Corplan sessions were not always realistic and not unified because each department was concerned only with its own goals, although the group also worked out a corporate master plan. In addition to this, the CFO, as head of the Corplan Committee, was fulfilling two important functions on a concurrent capacity.<sup>5</sup> With the implementation of 1982 reorganization, Corplan became a separate unit reporting directly to the General Manager.

#### Operating Departments

##### Engineering Department

The Engineering Department provides technical assistance to Water Districts from the planning, design and construction. First studies are undertaken on the feasibility of setting up Water District in cities and municipalities. Upon identification of prospective areas, the state of water supply facilities is assessed. With these outputs, the structural, architectural, and mechanical design of the proposed Water District is made. Based on these plans, the construction of water facilities is initiated.<sup>6</sup>

##### Abolition of sewerage and transfer of field operations

In 1980, 6 departments were under the Engineering Services, namely: 1) Water Resources; 2) Planning; 3) Design; 4) Construction Management; 5) Field Operations; 6) Sewerage. With the 1982 reorganization, some changes were made and most prominent of these were the abolition of the Sewerage Department and the transfer of the Field Operations Department to the Regulatory Services.

The Sewerage Department specialized in the disposal of waste water. However, this department did not generate a favorable response from the market, primarily because of the nature of its activities. Consequently, the department was scrapped.<sup>7</sup>



On the other hand, the Field Operations Department was eventually transferred to the Regulatory Services. The transition was a most natural one because even before this move came about, field operations had been closely coordinating with the Regulatory Services since it was concerned with the development of facilities, an activity that starts with a completed Water District. In this respect, the department rightfully belonged to the Regulatory Services, which was also responsible for the post-construction phase of Water District formation.<sup>8</sup> In 1982, the Water Supply Design Department was renamed the Design Department, Water Resources became Water Resources Development Department, and a new division was created under the planning department, the Special Projects Division. In 1983, no changes were made.

#### Regulatory Services

The Regulatory Services works closely with the Water District organization by enhancing its capability. The Water District is turned over to the Regulatory Services upon physical completion of the facilities by the Engineering Services. In effect, the Regulatory Services supplies management assistance as differentiated from the technical assistance. Furthermore, it takes charge of formulating measures on Water District operations and monitoring and evaluation of Water District's performance. A more crucial function of the Regulatory Services is the recommendation for approval or revision of the program of work, a requirement for the granting of mini-loans. As early as 1980, three departments were under the Regulatory Services and the department had two divisions each. It is interesting to note that in the previous years, there were no divisions in the Department. Despite this arrangement, there was no backlog since only few Water Districts were formed during that time and the functions of the two divisions could be performed by a single division (departments were called divisions then). However, with the increase of Water Districts proper delineation of functions became imperative to ensure efficiency of performance. Thus in 1980, the structure was as follows: a) District Formation Department with Water District Formation Division and Monitoring and Evaluation Division; b) Advisory Services Department with Water District Institutional Development Division and Water District Management Audit Division; c) Commercial Systems Department with CPS Installation Division and Water Rate Review Division. On the whole, not many structural changes were effected in the Regulatory Services from 1980 to 1983 except the transfer to it

of field operations from Engineering. As a result, its two divisions were renamed from Pumps and Machinery & Water Quality Control to Facilities Development & Water Safety Division, the Commercial Systems Department simply became Water District Systems. All these changes occurred in 1982.

#### Loans and Programming Services (LPS)

The Loans and Programming Services is primarily LWUA's financial assistance arm to Water Districts. It acts on loan applications for Water Districts and monitors Water Districts' compliance with loan agreements as well as its own compliance with covenants with foreign lending institutions. Before a loan is granted to a Water District, the Loans and Programming Services also performs its own audit of the Water District to assess its financial standing and capacity to repay the loan. While the Regulatory Services performs a similar function, LPS concentrates on the financial aspect.

The Regulatory Services focuses on the management aspects. LPS formulates activities, evaluates the loan proposals of LWUA and sets the pace of lending.

#### Changes in Loans and Programming Services Structure: Result of a merge

Among all the services, the LPS has undergone the greatest changes because of a merger of two units effected during the 1982 reorganization. In 1980, three departments were under the LPS, namely: 1) loans operations; 2) analysis and review; and 3) programs. With the reorganization, the Analysis and Review Department was absorbed by the Management Staff, the Financial Studies Division was transferred to the Loans Operations Department and the responsibility for fiscal monitoring was turned over to the Water District Management Audit of the Regulatory Services. Taking the place of Analysis and Review in the LPS, is the Office of Corporate Finance Officer, which was also merged with LPS. Upon transfer of OCFO to LPS, the General Accounting and Project Accounting Departments were relegated to division levels under the Accounting Department. The Budget Operations Department was maintained and renamed Budgeting & Cost Control Department. These two departments remained under the supervision of the intermediary officer, the Corporate Finance Officer. Programs Department was renamed Programs and Research and the LPS was renamed Financial Services. This was undertaken to streamline the functions of Corporate Finance Officer which in the first place performed functions closely related to those of the LPS.

#### Administrative Department

The Administrative Department is considered LWUA's major support department. It provides basic services like recruitment, payroll administration, benefit plans, performance evaluation, transport services, and typing and stenographic work. Records keeping and property management are centralized in this Services. The Medical and Dental Clinic is handled by this Services.

#### Structural Changes

From 1980 to 1982, the departments under Administrative Services were 1) Personnel and Records Services; 2) Property Management; 3) General Services; 4) Travel Services; and 5) Medical and Dental Clinic. The Personnel and Records Services constitutes a new department as of 1980. This set-up was implemented to centralize the task of records keeping since in the former structure, central records was handled by one department and personnel records by another. Clerical services under General Services Department is a merger of the reproduction division which was formerly under property management and typing and secretarial services under the General Services, now forming the clerical services.<sup>9</sup> In 1982, this set-up was altered even further. The Personnel & Records Department was split into the Personnel Department and Records was transferred to the General Services resulting in the Records and Office Services Departments. The divisions under Personnel Department are : 1) personnel; 2) medical/dental divisions under the Personnel Services Department. Those under the Records and Office Services Department are: 1) secretarial and typing pool; 2) reproduction; and 3) cashiering. Since then, no other changes were made in the structure.

#### Area Supervisors : Decentralization Scheme

Some projects sustain losses after they become operational. While there are several possible causes of failure, the degree of supervision is sometimes thought of as one cause. A reliable respondent opined that the failure could stem from deficiencies on the organizational structure. He felt that ideally, one officer should oversee the project from the pre-development stage to post development. Each phase in the formation of a Water District is handled by a group of departments, and transferred to another group of departments, upon completion of the activities pertaining to each phase.<sup>10</sup>

He also perceived that supervision is somewhat fragmented resulting in the buckpassing of responsibilities among departments. He suggested that a more responsive structure should be organized on a geographical or functional basis.

An organizational arrangement using geographical factor as basis for supervision presently exist on an experimental stage. Thus, under Office Order No. 271-83, positions of six area supervisors had been created. They are accountable for the attainment of performance targets of Water Districts on his area. The duties of the Area Supervisor are :

- a. Coordinate all LWUA activities in his area, and, in this connection :
  1. Participate in feasibility study, design and project review meetings, and
  2. Draw up an annual consolidated area plan detailing :
    - a. capital fund requirement
    - b. schedule of facilities improvement
    - c. yearly targets
    - d. assistance needed from other LWUA units
- b. Supervise the management advisors under his command
- c. Regularly submit accomplishment report to the Advisory Services Department Manager.<sup>11</sup>

It is premature to assess the effectiveness of the new structure for field supervision because the experiment is relatively recent.

#### The Effect of the Reorganization of Loans and Programming Services

The Financial Services, created in 1982 through the reorganization of the Loans & Programming Services and the Office of the Corporate Finance Office was intended to streamline the functions within one group. However, this has also resulted in the abolition of the Analysis and Review Department which was formerly under the IPS. The functions of the Department are extremely crucial. Simultaneous with the management audit performed by the Advisory Service Department of the Regulatory Services, the Analysis and Review Department also performs financial operations audit and monitors Water District compliance with loan covenants. A team report is completed based on the findings of both departments and appropriate courses of action are subsequently plotted. With

the 1982 reorganization, the operations audit function was transferred to the Advisory Services Department of the Regulatory Services, thus eliminating the counterchecking device provided by the Analysis and Review Department.<sup>12</sup>

#### Developments in 1983

No changes in the organizational structure occurred in 1983. Hiring was at a standstill because of an impending reorganization. The Ministry of Budget after its review of the structure and the staffing pattern, recommended the reduction of the number of departments, thereby leaving only two, namely: the Operations Department and the Finance Department.<sup>13</sup> A compromise was reached and the most important changes were made in the Office of the General Manager with the reduction of the officers reporting to him, from four to two. The Public Affairs Office and the Water Training Center were transferred from the Office of the General Manager to the Administrative Services Department. The other changes were the transfer of the Programs and Research Department from the Financial Services to Corplan. The Project Procurement Office was transferred from the Office of the General Manager to Financial Services as a division under Treasury. This structure is effective in April 1984.<sup>14</sup>

#### ASPECTS OF COORDINATION & CONTROLS

The following is a discussion of certain aspects of control systems, the roles of the various units in controls and the participation of the chief executive officer in coordination and control.

#### Committees:

##### Price Escalation and Pre-Qualification Bidding and Awards Committees

Two important committees which form part of LWUA's regular operations are the Price Escalation Committee and the Pre-Qualification Bidding and Awards Committee (PREBAC). The Price Escalation Committee was created in 1977 to evaluate the prices presented by contractors. It acts as a recommendatory body to the General Manager and the Board of Trustees. The members of the committee are the following : Manager of Construction Department, Manager of Design Department, Manager of the Project Procurement Office, Manager of the Management Services Office (MO), and a lawyer. The PREBAC has always been part of LWUA's organization since the start. It is part of the General Manager's staff. Its main function is to evaluate bids of contractors.

##### Executive Committee (EXECCOM)

The Executive Committee (EXECCOM) is composed of the four Assistant General Managers with a representative from the Management Services Office (MO) acting as secretariat. It was created in early 1983 by the General Manager to "assist the General Manager in decision-making and act as a quality circle." It is basically "Recommendatory in nature" and should concern itself with "issues that affect the whole corporation." It was intended to act as a "premier body within LWUA next to the Board of Trustees." The regularity of their meetings depend on the availability of the members and the scope of the matter to be discussed. Some issues that the EXECCOM was concerned with were the following: the 1984 organization structure, takeover of a water district, and the overseas training program.

##### Management Advisory Council (MAC)

The Management Advisory Council (MAC) is a "union-like" group composed of the rank and file. It conducts periodic dialogues with the General Manager and the usual agenda are those pertaining to employee benefits and its interests. The officers of the MAC are selected among themselves.

#### Staff Meetings

Staff meetings are held after Board meetings, usually every other Thursday. All Assistant General Managers and heads of officers under the General Manager meet as a committee with the General Manager. They discuss with him the status of their operations. These sessions also facilitate the sharing of information in the organization because any developments in Board meetings can easily be transmitted to the officers.<sup>22</sup>

#### Planning and Monitoring:

##### Corplan Staff Planning

Corplan's contribution to LWUA is very significant in that it has given direction to the corporation's efforts. Whereas before 1982 when a Corplan staff was not yet established, the Corplan sessions resulted in departmental plans, the Corplan staff produces an integrated plan.<sup>23</sup> This contains key result areas, or criteria by which their projects will be monitored. This achievement is evidenced by the Corporate Plan 1982-1990.<sup>24</sup>

In formulating goals, Corplan has adopted a systematic technique. Through a decision tree process, a set of alternatives is developed using as bases an assumed amount which it may receive as government infusion. From this flow another set of alternatives such as either strengthening an existing water district or forming a new one. Integrated in its system of formulating goals is their practice of scanning the environment and its implications to LWUA's targets.<sup>25</sup>

##### Monitoring

Corplan monitors LWUA's operations on a macro level, using as basis the reports of each operating service. It submits a quarterly report to the General Manager and makes recommendations on problem areas.<sup>26</sup>

#### Monitoring by the Regulatory Services

##### Purpose of the Management Audit

One of the major contributions of the Regulatory Services in the attainment of LWUA's goals is its monitoring of Water District performance. The Regulatory Services performs management audit of Water Districts in order to provide feedback on the "effectiveness and efficiency" of operations.<sup>27</sup>

Management audit is conducted for a number of specific reasons. In some instances, such a move must be made to help solve a problem of that Water District, or it may be done as a preventive measure for these potential problems. These are usually financial in nature like decrease in revenue or a drop in "development points" manifested through the Development Indicators. Equally important are other factors like morale and the rate of decision-making. Through these field inspections, information from financial and annual reports transmitted to LWUA are verified as to its reliability. In addition, conducting a yearly management audit of all Water Districts is an integral part of LWUA's operations as a regulatory agency. The following aspects are the focus of the yearly audit: "1) previous year's managerial performance; 2) compliance with Water District rules and regulations as well as institutional development guidelines and standards of LWUA; 3) feasibility of Water District's long range plans and strategies; and 4) institutional development and financial status." Lastly, this audit program is done in accordance with loan agreements with foreign organizations like the Asian Development Bank in order to ascertain that the funds are being used as per the conditions upon which the two parties agreed.<sup>28</sup>

#### The Management Audit Team

The audit is conducted by a team composed of representatives from the Regulatory Services and a few from the Financial Services. The group may take a week in accomplishing this task but the schedule may vary depending on the size of the district and the magnitude of work to be done.<sup>29</sup>

#### Institutional Development Indicators

The Institutional Development Indicators work as a guide for the growth of the District. Enumerating particular organizational operation conditions serves to focus the district's performance on the higher priority items and achieve more in terms of positive results.<sup>30</sup>

Phase I indicators pertain to new Water Districts while Phase II indicators are adopted 6 months before actual intensive reformation of the system. For each phase, a maximum 168 points can be attained. The rating system is divided into 4 stages representing the degree to which an indicator is being followed.<sup>31</sup>

Phase I indicators are measured in the following manner. Regarding job description, a Water District should at least be able to formulate job description according to its organization chart as well as state the minimum qualification for each position. A more developed Water



District would be one where at least 90% of the staff meet the minimum qualifications and are carrying out their specific duties. Another indicator measures a Water District's capability to prepare a schedule for budget formulation and approval, and comply with this. Other measures include: 1) the number of customer accounts in arrears is not more than 10%; 2) the amount of bills paid in time is not less than 85% and 3) by the 10th working day of each month, the district manager should have received all financial statements and reports to be submitted to LWUA.<sup>32</sup>

The succeeding statements pertain to Phase II indicators. A Water District should have concrete basis for searching out and eliminating illegal connections through policies and programs and consequently implement these. A Water District should have at least the basic tools and equipment needed to keep the system in good operating condition and keep these maintained and closely controlled. Training in Water District can be measured through the training programs conducted and the incentive established and implemented. Another indicator is whether the water source complies with the "Philippine National Standard for Drinking Water." An indicator regarding records and data is the "accurate determination and record of: 1) billing costs, 2) specific costs, 3) Meter maintenance costs, 4) production cost, 5) user consumption patterns, 6) water quality patterns, 7) personnel performance."<sup>33</sup>

#### Budgeting

The Budget and Cost Control Department (BCCD) has very strong ties with Corplan because the Corplan staff starts the budgetary processes by identifying the goals for the year as well as projects based on the amount of funds available to the corporation. The BCCD, together with the other departments, abides with specific guidelines that Corplan has formulated. A variance analysis of each department's budget is prepared on a monthly basis. In this manner, the need for additional funds may be identified and a realignment of the budget can be arranged.<sup>34</sup> First, the department concerned will have to write a memo to the General Manager requesting for realignment and stating the reasons for such an appeal. Depending on the reasons presented and the availability of funds from other departments, the General Manager approves or rejects the proposal.<sup>35</sup> The BCCD should be credited with the significant achievement of exerting control over the budget, thereby assuring that the actual expenditures do not exceed the approved amount.

The Commission on Audit (COA)

The Commission on Audit's policy of withdrawing resident auditors is implemented in agencies and corporations which have strong internal control systems. Thus, a pre-condition to the withdrawal of the auditor is COA's pre-evaluation and post-evaluation of the internal control system (ICS) of the public enterprise.

In 1981, a team from COA assessed LWUA's internal control system. The team recommended some improvements in the organizational structure to eliminate overlapping of functions, strengthen check and balance and the accounting controls including the fixed asset and property and supplies management. Also mentioned in the evaluation report was the need for continuous updating of manuals.<sup>36</sup> The General Manager assigned to the Management Office the responsibility of reviewing existing systems and formulating proposals with a view to implementing COA's recommendatic

The Management Office (MO), later renamed as Management Services Office, reports regularly to top management, as well as COA, the progress of the implementation of the recommendations. The following are samples of the responses to COA's recommendations:<sup>37</sup>

"The MO has started documenting, updating and improving the present office manual. Our initial study substantially covered the areas of collection, billing, disbursements and payroll procurement of fixed assets and materials and supplies systems, which were mentioned in your 1981 report. We expect to complete this by the end of the year. Starting 1983, we shall be going into systems studies of LWUA's operations to come up with operating manuals".

"The overall systems for both fixed assets and materials and supplies were re-aligned, and appropriate assignment for segregation of responsibilities and functions between PMD and CAD were delineated to achieve the system's objectives including the integration of appropriate internal control".

In 1982 a second evaluation was undertaken by COA, and a considerable number of its recommendations were found already implemented. There were, of course, areas where continuing improvements were needed such as strengthening of accounting controls, proper documentation and monitoring of consumption of supplies and fixed assets inventory taking.<sup>3</sup>

LWUA's response to the measures prepared by COA brought about a reorganization, a thorough system's review and the strengthening of the Management Services Office. Computerization of systems was hastened. To a large extent, the willingness of LWUA to make itself grow as a vibrant organization was a significant factor in the healthy relationship between itself and COA.

Management Services Office (MSO)

Among the Management Services Office's first accomplishments was the Office Manual. This task required meticulous compilation of Board resolutions, office orders, memoranda and other office communication. Careful study of some systems produced flowcharts. In 1982, when LWUA was reorganized, the new MSO increased its activities and was active in the study and design of LWUA's systems as a basis for installing stronger control mechanisms. Accounting and financial systems like the general accounting, billing and collections and fixed assets systems were installed but are still undergoing improvement. An MSO Briefing Manual was made by the department staff as guide in performing these activities. Also since 1982, the MSO has been performing the pre-audit function in view of the planned withdrawal of the resident auditor of the Commission on Audit. The responsibility for the dissemination of office orders and manuals is vested in this department.<sup>39</sup>

The EDP division is also under the Management Services Office. In 1982, MSO became active in the computerization program. A computerization of the data bank was initiated in 1982. A computerized billing and collections program was also started in the same year. Plans for the future include the computerization of the general accounting, payroll and fixed assets systems.<sup>40</sup>

Monitoring and Information System

All departments submit monthly accomplishment reports to the Corplan staff and to the Management Services Office.<sup>41</sup> Reports concerning Water District operations and financial aspects are important in the monitoring process and are fed into the data bank.

The LWUA Office Manual is a comprehensive compilation of policies on the following subjects: 1) for Engineering, those regarding feasibility studies, tendering, construction, and special projects; 2) for Regulatory, Water District Formation, Mini-loan administration, Advisory Services, Water Rates Formulation and Monitoring, and Water District Training and financial performance; 3) for Financial, loans operations, statistical research, budget formulation and cost control, accounting; and 4) for Administrative, general organization policies, personnel administration, office administration, and travel services. The Corporate Plan 1982-1990 is just as comprehensive and intensive, but a more unified than the Corporate Master Plan of 1980. Each year, a document entitled "Operating Budget" compiles all budgets of the departments in a single reference material. Human resources, aside from financial resources, are also budgeted.<sup>42</sup> Being the source document for the implementation of policies, office orders are also vital in disseminating information because they can be speedily distributed.<sup>43</sup> On the other hand, manuals take a longer time to compile. These office orders are ultimately integrated into the Office Manual.

These manuals and office orders serve as a vital component of a communication system to the more than 800 personnel of LWUA who must be properly informed about the developments in the organization.

The General Manager : Chief Executive Officer and Policy-Maker

The General Manager undoubtedly exerts considerable influence in the corporation since he supervises directly two of the three units directly involved in monitoring corporate performance, namely : the Corplan Staff and the Management Services Office, and the most sensitive one in terms of cost control, the Project Procurement Office.<sup>44</sup> In addition, all purchase requests are coursed to him for approval, regardless of the amount. He prescribed the Action Weekly Journal through the Office Order Number 217-81, dated July 23, 1981, and the Travel Report.<sup>45</sup> The Action Weekly Journal is similar to an accomplishment report to be submitted by Assistant General Managers and heads of offices. The Travel Report contains data obtained from field inspection trips. Under his watchful eye, no department would even dare perform below the high standards that LWUA is known for.

The General Manager has provided well for his personnel judging by the benefits available to the personnel. Facilities are well maintained which create a good working atmosphere. Seminars and scholarships are available to continuously upgrade the knowledge and skills of the personnel. His personal touch is reflected in the reading materials on management which he distributes to the officers.

The leadership of the General Manager may be characterized as strong and fair. Steeped in the tradition of military discipline, he has in more ways than one, imparted the work ethic to a large number of personnel.

He uses quite effectively the information system through the Action Weekly Journal and other methods of communication to disseminate the policies of the organization. His accessibility to his officers contributes in no small measure to his grasp of the issues and problems requiring immediate attention.

It is expected that the reorganization of 1984, while unsettling to some, will enhance LWUA's capacity to fulfill its objectives. The future will undoubtedly be better for the corporation because of its ability to adapt to constraints and changes.

OPERATIONAL HIGHLIGHTS

Measure of Performance

Management believes that the true measure of performance is in terms of the number of viable water districts formed. This is in line with their statement of corporate mission: "to provide its domain with improved water service through the establishment of independent, self-reliant and financially viable water districts".<sup>46</sup> LWUA therefore exerts effort to be of service to far-flung places. Thus, the addition of even a single Filipino household to the growing population being benefited by the sources of water districts is their big concern.

Goals/Targets

Prior to the Creation of Corplan

In 1980, prior to the creation of a Corporate Planning Unit, the managers prepared a Corporate Master Plan. This master plan is a consolidation of the goals and targets of the various operating departments. The following is a discussion of the specific plan of each department.

The Regulatory Services forms water districts and institutionalize them by extending advisory and other management/technical services. It also formulates control measures and standards to improve the management and operation of local water systems. Executive Order No. 577, approved in early 1980 mandated the Regulatory Services to form Rural Water Associations in barangays of various municipalities with population of 20,000 or more as a prerequisite to the implementation of Rural Water Supply Projects of the President.

Table No. 1 shows the 4-year plans and programs of this Service.<sup>47</sup>

TABLE NO. 1  
4-YEAR PLANS AND PROGRAMS OF  
THE REGULATORY SERVICE

	: 1980	: 1981	: 1982	: 1983
Water Districts Formed	: 30	: 30	: 30	: 30
CCC To Water Districts	: 30	: 30	: 30	: 30
Barangay Water Association Formed	: 8,460	: 21,158	: 0	: 0
Poblacion Water Association Formed	: 0	: 0	: 204	: 408

As a technical arm of the Administration, the Engineering Services identifies project sites, prepares feasibility studies and detailed engineering designs and executes these projects.

The 1980s is considered a "water decade". This resulted in a shift from the capital intensive comprehensive projects which have capital cost of ₱30 million to less capital intensive, interim development program with a capital cost of ₱5 million.

Lastly, the Loans and Programs Services is in charge of loan programming, analysis and review, and loan operations. It undertakes research projects to prequalify contractors, conducts financial analysis of projects and processes loans.

Table No. 2 presents the four-year plans and programs of this Service.<sup>48</sup>

TABLE NO. 2  
4-YEAR PLANS AND PROGRAMS OF  
THE LOANS AND PROGRAMS SERVICE

	1980	1981	1982	1983
I. LOAN PROGRAMMING				
A. Research Projects	2	3	3	3
B. Preparation of Industry Average	1	1	1	1
C. Preparation of Capital Program	2	2	2	2
D. Special Studies	2	3	3	3
II. LOAN ANALYSIS AND REVIEW				
A. Prequalifications	30	30	30	30
B. Financial Analysis	104	134	292	352
C. Operations Audit	22	36	36	36
D. Loans Monitoring	14	116	146	176
III. LOAN OPERATIONS				
A. Project Preparation Analysis and Review				
1. Preparation				
1.1 Interim	25	25	0	0
1.2 Comprehensive	12	6	30	30
2. Review	5	25	5	0
B. Loan Processing	27	27	30	30
C. Loan Servicing	117	137	157	177

It will be noted that financial analysis, loans monitoring, and loan servicing are projected to increase substantially during the years 1980, 1981, 1982 and 1983.

In the case of Capital Outlays, it is assumed that there will be a gradual decrease in requirements for miscellaneous capital acquisition over the years. These requirements include building maintenance expense and other additional office equipment.

The forecasted decrease in the equity contribution of the National Government and a low working capital drastically affected the execution of several projects and meeting the obligations of the Administration. These projects are presented in Table No. 3.<sup>49</sup>

TABLE NO. 3  
SHORTFALL DISTRIBUTION  
(P000)

	1980	1981	1982	1983
Building Construction	30,000	--	--	--
RWS Projects	12,835	--	--	--
Mini-Loan Projects	3,000	5,000	8,000	12,000
Debt-Service	253	5,282	34,020	45,150
Operating Expenses	--	14,454	18,151	9,993

Lastly, the collection efficiency was computed from a low 58% up to 62% of accrued interest receivable net of capitalized interest. Table No. 4 shows the forecasted efficiency.<sup>50</sup>

TABLE NO. 4  
COLLECTION EFFICIENCY

	1980	1981	1982	1983
Accrued Interest Receivable	32,543	43,182	52,997	60,339
Actual/Projected Collections	19,851	25,909	30,738	49,810
% Collection Efficiency	61	60	58	82.5

Although the Corporate Master Plan is an extensive presentation of LWUA's goals and targets, it has one basic shortcoming. As stated by a reliable informant, management did not present an overall Corporate goal, to which the targets of the different Services would be aligned. Secondly, the different Services did not coordinate with each other before formulating their own targets. This methodological deficiency could have been caused by the absence of a unit which could facilitate the planning activities of each department. Realizing the need for coordination, LWUA created the Corporate Planning Unit in 1982.

Corplan

In 1982, the Corporate Planning Unit prepared a Corplan Manual. Although a reliable respondent admitted that the manual was made hastily, it nevertheless discusses the accomplishments of LWUA in 1981 and the corporation's plans and targets for the coming years. Moreover, the present state of affairs was assessed.

In line with LWUA's corporate objectives, the Corplan presented the goals of the corporation based on assumptions of a set of activities. These are activities which would be maintained, accelerated, or decelerated. Table No. 5 presents the broad objectives of LWUA.

TABLE NO. 5  
BROAD ACTIVITIES

ACTIVITIES	: MAINTAIN PRESENT PACE :	ACCELERATE
1. Projects completed yearly	: 30 - 40	: 60 - 80
2. Completion of 1st-round improvement for all areas	: 18 yrs. after	: 10 yrs.
3. Resource Requirement	:	:
- yearly capital investment	: ₱100-200M	: ₱200-300M
- manpower	: - manpower is 650 at present productivity	: - peak level is 700-800 at increased productivity
- facilities	: - present	: - little addition

However, the choice of maintaining the present pace or accelerating it are open to constraints. Both of these alternatives should consider: (1) the viability of small water districts; (2) receptiveness of local officials; (3) complacency and lack of sense of urgency



of the staff; and, (4) optimizing productivity of staff. The difference lies in the fact that the latter alternative's constraints may occur in greater degree. But further analysis and evaluation of these alternatives showed that the first alternative does not keep pace with the national goal of accelerating socio-economic growth in provinces while the second one keeps pace with the government priority on economic programs for the provinces. 52

Finally, the Corporate Planning Unit also prepared with a Project Implementation Plan for the years 1982 to 1990. However, for purposes of this study, only the plans for the years 1982 to 1983 are presented in Table No. 6.

TABLE NO. 6  
PROJECT IMPLEMENTATION PLAN

<u>ACTIVITY</u>	<u>: 1982</u>	<u>: 1983</u>
Water District Formation	: 64	: 80
Feasibility Studies	: 61	: 60
Design	: 52	: 68
Construction	: 19	: 60
Interim Improvement	: 4	: 4
Early Action Works	: 44	: 44
Pre-feasibility Studies	: 110	: 78

With regard to LWUA's financial plans, Corplan submitted an investment plan and projected cash flow. The former includes project funds for formed-up projects and the remaining water districts. These funds refer to the total loans committed by LWUA to the water districts. On the other hand, a cash flow statement determines the basis for corporate strategy formulation. Table No. 7 shows the projected cash flow for 1982 and 1983 only.

TABLE NO. 7  
CASH FLOW

	<u>: 1982</u>	<u>: 1983</u>
Ending Cash Balance (M)	: P27	: P13
Collection Efficiency	: 85%	: 85%
LWUA Debt-Service Coverage	: 2.35	: 1.50

In view of the uncertainties regarding the financial resources anticipated for 1983, the Corplan came up with a Corporate Plan for the years 1983 and 1984. For this study, only the Corporate Plan for 1983 will be presented.

Inasmuch as there were constraints in the resources, management decided to focus its concern on the short-term plan which were limited to two to three years. In addition, the corporate objectives were prioritized depending on the amount available. In this connection, the corporation's priorities were identified as: (1) liquidity; and, (2) implementation of projects on the basis of available equity.

To realize the corporate objectives, Corplan developed three strategies, namely: (1) all activities will be implemented according to priority; (2) no promotion, no hiring; and (3) cutting costs to minimum.

With regard to target-setting, Corplan developed four scenarios. Scenario A assumes that there will be no equity infusion and the payment of foreign loan obligations of ₱50 million will be made. Scenario B, on the other hand, assumes an equity infusion of ₱30 million and that the corporation will not be forced to pay foreign obligations. Scenario C assumes an equity infusion of ₱60 million and the payment of ₱58 million foreign obligations. Finally, Scenario D assumes that the equity infusion will be ₱80 million and the ₱58 million obligation on foreign loans will be paid.

Table No. 8 presents the targets for 1983 based on the four different scenarios.

TABLE NO. 8				
TARGETS FOR 1983				
	Scenario A	Scenario B	Scenario C	Scenario D
A. Water District Inst'l Dev't				
1. Pre-Feasibility Studies	50	50	50	none
2. Water District Formation	30	30	30	30
3. CPS Installation	60	60	60	60
4. PR Assistance	100	100	100	100
5. Mini Loans	20	20	20	20
6. Advisory Services	-----intensified-----			
B. WD Facilities Improvement				
1. Feasibility Studies				
a. New	none	5	0	57
b. On-going	none	52	50	52
2. Design				
a. New	none	25 (Cebu)	25	25
b. On-going	none	48	48	48
3. Construction				
a. New	8	19	19	19
b. On-going	63	63	63	63
4. Well-drilling				
a. New	none	38	38	38
b. On-going	none	25	25	25
C. Financial Viability				
1. Collection	₱50M	₱50M	₱50M	₱50M
2. 1983 Ending Balance	0	0	0	₱11M
3. Payment of foreign oblig.	0	0	₱58M	₱58M
a. New - to be started '83				
b. On-going - as of Dec. 82				

#### Major Accomplishments

Before discussing the corporation's major accomplishments, the development cycle being followed will be discussed briefly.

The first phase of the development cycle is the conduct of the pre-feasibility study prior to the formation of a water district. The results of the pre-feasibility studies serve as a starting point for a more detailed and extensive studies called the feasibility study. This is undertaken to determine the amount of capital needed to finance the project, the size of the project to be constructed, and to ascertain how the project may be carried out with at the least possible cost.

The next phase involves the designing of the project. This does not merely involve plotting a pipeline from a specific source to the distribution system but assures that the design will be efficient, practical, and economical. The third phase before the actual construction of the project is the project presentation. This involves consultation with the people regarding the over-all implication of the project. This is done by gathering cross-sectional representatives from the locality. LWUA officers present the complexities and financial requirements of the project. When the representatives of the locality agree on the project proposal including the monetary requirements, the contractors are pre-qualified. A bidding is held to choose the contractors who will build the facilities. Competent engineers see to it that the materials and execution of the engineering plans conform with the specified standards set by LWUA.

Prior to the loan avallment, LWUA sets requirements to establish the water districts, one of which is the adoption of a uniform accounting system patterned after the Commercial Practice System. A Conditional Certificate of Conformance is granted to water districts which signify compliance with to minimum requirements set by the corporation. After which, assistance in the form of technical, financial, and managerial is given to a water district. Even after the construction of the water districts, the people are still consulted if and when the water districts decide to adjust its present water rate to meet its operation and maintenance costs. Such adjustment should not exceed 60% of the previous rate and is passed to LWUA for approval.

The major accomplishments of the corporation will be discussed by comparing the targets against the actual performance. Note that there are some changes in the goals of the corporation in some years due to the reassessment and re-evaluation made by the Corplan. This is especially true in 1981 and 1983.

Table No. 9 presents the accomplishments of the corporation vis-a-vis its goals for the years 1980 to 1983.

Table No. 9 indicates that the corporation was able to form more than the targeted number of water districts for the years 1980 to 1982. However, in 1983, uncertainties regarding the equity contribution from the National Government and the over-all economic condition of the country made it difficult for the corporation to meet its target.

A closer look at Table No. 9 shows that the corporation's performance in 1980 was above par. It is possible that the management had an optimistic estimate of the number of viable water districts to be formed during that year. Furthermore, there was no Corporate Planning Unit which could have defined the guidelines for target-setting. Nevertheless, the corporation was able to meet 150% of the target in 1980. Based on this performance, the targets for 1981 was re-evaluated and increased to 40 water districts to be formed. Of this target, the corporation was able to meet 107.50%. In 1982, a Corporate Planning Unit was organized. The Corplan re-evaluated the performance for the past years, analyzed the present scenario and made new goals and targets. During this year, LWJA attained 101.56% of the targeted number of water districts. However, the economic crisis in 1983 prompted the Corplan staff to review and reduce the target for 1983 to only 30 water districts principally because of limited funds.

Another activity of the corporation is the early action work program. This is an immediate rehabilitation which a water district usually undertakes upon its operation. This involves primarily the examination of the quality and quantity of existing water supply to determine and insure the potability and adequacy of the resource. Table No. 9 indicates an improving trend within the four-year period for the early action work on the water districts. This is primarily due to the increase in the number of water districts formed.

The various phases of the operations of the corporation include: (1) pre-feasibility study; (2) feasibility study; (3) design; and, (4) construction. Of these phases, the pre-feasibility study is the

least complex activity because it serves as a starting point for a more thorough study. This explains why the corporation was able to conduct pre-feasibility studies more than the number targeted for the years 1980 to 1985.

The complexities of preparing feasibility studies, design and construction works contributed to rather low accomplishments in comparison to the targets. However, in 1982, LWUA met the targeted number of construction projects.

The total amount of funds which was expected from the National Government and foreign loans did not materialize. On the other hand, the projected accomplishments were optimistically based on the amounts which were thought to be forthcoming. Consequently, some targets were not met.

Regarding the loans granted and availed to the water districts, the trend was below target for 1981 and 1982. The main reason for this is the shortfall of the equity infusion of the National Government.

The shortfall in the collection efforts of the corporation in 1980 was due to the inability of six projects to meet the 10% equity contribution due them in lieu of the interest. It was in 1981 when there was an increased collection effort on the part of management which resulted in the efficiency of 87% which was above its target and acceptable norm of 85%. However, in 1982 and 1983, the collection efficiency was below the target and the efficiency attained in 1981. There were several causes for the shortfall. The first reason was the difficulty in collecting from the water districts specifically from smaller cities and municipalities. In addition, LWUA granted risk loans to the water districts. These loans were expected to be paid when these water districts were able to pay. The second reason for a low collection efficiency was the fact that increase in rates was resisted by water districts. Finally, some water districts had not been fully developed to make them financially viable. Consequently, collecting amortizations became difficult.

The billings are based on the amount of loan availments to the water districts. Since the loan availments that year were relatively small, billings were correspondingly low.

TABLE NO. 9  
MAJOR ACCOMPLISHMENTS

	1980 GOALS	1980 ACCOM- PLISH- MENTS	1980 VARIANCE (%)	1981 GOALS	1981 ACCOM- PLISH- MENTS	1981 VARIANCE (%)	1982 GOALS	1982 ACCOM- PLISH- MENTS	1982 VARIANCE (%)
I. PHYSICAL									
A. WD Formation, No.	30	45	150.00%	40	43	107.50%	64	65	101.56%
B. No. of WDs given CCC	30	30	100.00%	--	36	--	14	51	115.91%
C. WD Formation in Municipalities without existing Water System (No. of Municipalities)	--	6	--	--	--	--	--	--	--
D. No. of RWAs Organized/Registered									
Level I	--	--	--	--	3,169	--	--	860	--
Level II	--	--	--	--	66	--	--	165	--
Level III	--	--	--	--	--	--	--	5	--
E. WD under Early Action Program									
On-going/Undertaken	--	47	--	--	36	--	--	44	--
Completed	36	15	41.67%	42	42	100.00%	44	48	109.09%
F. Pre-feasibility Study	--	--	--	75	92	122.67%	110	146	132.73%
G. Feasibility Study									
On-going/Undertaken	--	35	--	52	88	169.23%	63	38	40.86%
Completed	57	--	--	74	50	67.57%	61	28	45.90%
H. Design Works									
On-going/Undertaken	--	24	--	57	27	47.37%	8	--	--
Completed	28	9	32.14%	57	31	54.39%	52	32	61.54%
I. Construction									
On-going/Undertaken	--	19	--	24	43	179.17%	75	--	--
Completed	--	9	--	39	20	51.28%	19	19	100.00%
J. Well-Drilling									
On-going/Undertaken	--	14	--	24	27	112.50%	59	35	59.32%
Completed	33	11	33.33%	57	43	75.44%	46	32	65.31%

NO. 9  
ACCOMPLISHMENTS

1983 A GOALS	1983 A ACCOM- PLISH- MENTS	1983 A VARIANCE (%)	1983 B GOALS	1983 B ACCOM- PLISH- MENTS	1983 B VARIANCE (%)	1983 C GOALS	1983 C ACCOM- PLISH- MENTS	1983 C VARIANCE (%)	1983 D GOALS	1983 D ACCOM- PLISH- MENTS	1983 D VARIANCE (%)
30	14	46.67%	30	14	46.67%	30	14	46.67%	30	14	46.67%
--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--
30	41	136.67%	30	41	136.67%	30	41	136.67%	30	41	136.67%
50	44	88.00%	50	44	88.00%	50	44	88.00%	0	44	--
--	--	--	52	--	--	50	--	--	52	--	--
--	26	--	5	26	520.00%	0	26	--	57	26	45.61%
--	--	--	48	--	--	48	--	--	48	--	--
--	23	--	25	23	--	25	23	92.00%	25	23	92.00%
63	--	--	63	--	--	63	--	--	63	--	--
8	31	387.50%	19	31	163.16%	19	31	163.16%	19	31	163.16%
--	--	--	25	--	--	25	--	--	25	--	--
--	57	--	38	--	--	38	57	--	38	--	--

	1980 GOALS	1980 ACCOM- PLISH- MENTS	1980 VARIANCE (%)	1981 GOALS	1981 ACCOM- PLISH- MENTS	1981 VARIANCE (%)	1982 GOALS	1982 ACCOM- PLISH- MENTS	1982 VARI- ANCE (%)
K. Pre-Feasibility Studies of Sewerage and Sanitation Systems									
On-going/Undertaken	--	3	--	--	--	--	--	--	--
Completed	--	3	--	--	--	--	--	--	--
L. Water Resources Evaluation	--	--	--	--	8	--	--	10	--
M. Geophysical Surveys undertaken for Water Districts	--	--	--	--	25	--	--	--	--
N. Well Rehabilitation Projects	--	--	--	--	2	--	--	--	--
I. INSTITUTIONAL DEVELOPMENT									
A. Advisory Services, WDs	115	32	27.83%	170	43	107.50%	202	212	104.95%
B. Performance Audit, WDs	--	19	--	--	--	--	--	--	--
C. Management Audit, WDs	--	--	--	--	--	--	48	85	177.08%
D. CPS Installation									
CPS I	--	37	--	--	--	--	--	37	--
CPS II	--	11	--	70	55	78.57%	88	15	--
CPS Follow-up	--	--	--	--	--	--	--	40	--
II. FINANCIAL (in millions)									
A. Capitalization									
1. Govt. Subscription	--	115	--	120	145	120.83%	100	70	70.00%
2. Availments from Foreign Loans	--	116	--	172	163.1	94.82%	28.7	8.37	29.16%
B. Loans Granted to Water Districts	--	168	--	256	131.6	51.41%	278	165	59.38%
C. Loan Availments to WDs	339	154.29	45.51%	328	198.6	60.55%	361	148.19	41.06%
D. Collections									
1. Interest	22.9	--	--	27	30.3	112.22%	50	44.4	88.80%
2. Principal	4.5	3.97	88.22%	5.8	3.3	56.90%	3.4	4.6	135.29%
E. Collection Efficiency									
1. Interest	--	--	--	--	88%	--	--	79%	--
2. Principal	--	70%	--	--	75%	--	--	67%	--
3. Interest and Principal	61%	76%	124.59%	80%	87%	108.75%	85%	78%	91.76%
F. Billings									
1. Gross Interest	--	40.69	--	61.12	63.8	104.38%	86	74.1	86.16%
2. Capitalized Interest	--	22.37	--	27.50	28.1	102.18%	27	18.1	67.04%
3. Net Interest	--	--	--	33.70	35.1	104.15%	59	56	94.92%
4. Principal Billings	--	5.28	--	7.2	4.4	61.11%	4.3	6.8	158.14%



1983 A GOALS	1983 A ACCOM- PLISH- MENTS	1983 A VARIANCE (%)	1983 B GOALS	1983 B ACCOM- PLISH- MENTS	1983 B VARIANCE (%)	1983 C GOALS	1983 C ACCOM- PLISH- MENTS	1983 C VARIANCE (%)	1983 D GOALS	1983 D ACCOM- PLISH- MENTS	1983 D VARIANCE (%)
--	--	--	--	--	--	--	--	--	--	--	--
--	8	--	--	8	--	--	8	--	--	8	--
--	--	--	--	--	--	--	--	--	--	--	--
0	241	--	0	241	--	0	241	--	0	241	--
--	31	--	--	31	--	--	31	--	--	31	--
60	24 13 31	--	60	24 13 31	--	60	24 13 31	--	60	24 13 31	--
0	48	--	30	48	160.00%	60	48	80.00%	80	48	60.00%
0	20.29	--	0	20.29	--	0	20.29	--	0	20.29	--
--	11.7	--	--	11.7	--	--	11.7	--	--	11.7	--
--	189.50	--	--	189.50	--	--	189.50	--	--	189.50	--
50	50.17 5.94	--	50	50.17 5.94	--	50	50.17 5.94	--	50	50.17 5.94	--
--	82%	--	--	82%	--	--	82%	--	--	82%	--
--	72%	--	--	72%	--	--	72%	--	--	72%	--
85%	81%	95.29%	85%	81%	95.29%	85%	81%	95.29%	85%	81%	95.29%
--	87.44	--	--	87.44	--	--	87.44	--	--	87.44	--
--	18.74	--	--	18.74	--	--	18.74	--	--	18.74	--
--	60.91	--	--	60.91	--	--	60.91	--	--	60.91	--
--	8.21	--	--	8.21	--	--	8.21	--	--	8.21	--

Table No. 10

Financial Highlights  
1980 - 1983

(amount in millions)

	1980	1981	1982	1983
Resources	P 829.4	P1,072.3	P1,275.0	P1,525.2
Gross Revenue	49.8	63.9	78.5	97.3
Operating Expenses	20.5	37.1	44.1	44.8
Other Income/Charges (	14.1) (	20.6) (	21.6) (	30.8)
Net Income before Tax	15.2	6.2	12.8	21.7
Net Income after Tax	8.9	1.4	5.8	11.7
Current Assets	101.2	105.5	97.6	151.8
Current Liabilities	39.4	72.0	76.4	122.3
Total Liabilities	353.7	471.1	652.0	1,179.5
Total Equity	475.7	601.3	623.0	345.7

Financial Review

Results of Operations

Operating income in 1983 amounted to P52.5 million, from P29.3 million in 1980, P26.8 million in 1981, and P34.4 million in 1982. The net income, however, after deducting other income/charges and provision for income tax amounted to P11.7 million in 1983, from P8.9 million in 1980, P1.4 million in 1981, and P5.8 million in 1982.

Gross revenue rose from P49.8 million in 1980, P63.9 million in 1981, and P78.5 million in 1982 to P97.3 million in 1983. Operating income - interest and interest on Treasury Notes/Bills remained the most important items of revenue. Interest on Savings Deposits, however, rose substantially in 1983, except Service Income - Miscellaneous.

Total operating expenses expanded to P44.8 million in 1983, from P20.5 million in 1980, P37.1 million in 1981, and P44.1 million in 1982. Personal Services rose to P16.9 million in 1983,

from P10.5 million in 1980, P15.4 million in 1981, and P15.9 million in 1982.

#### Financial Condition

Total resources amounted to P1,525.2 million in 1983, from P829.4 million in 1980, P1,072.3 million in 1981, and P1,275.0 million in 1982. Long-term receivables continued to account for the highest percentage of total resources of LWUA from 71.15% in 1980, 74.38% in 1981, 76.31% in 1982 to 69.53% in 1983.

Total liabilities rose to P1,179.5 million, from P353.7 million in 1980, P471.1 million in 1981, and P652.0 million in 1982. Liabilities include Payables, Miscellaneous Trust Liabilities, Accrued Interest Payables, National Government Agencies--BIR, long-term liabilities, and Miscellaneous Payable.

Total equity decreased to P345.7 million in 1983, from P475.7 million in 1980, P601.3 million in 1981, and P623.0 million in 1982. The decrease was due to the foreign currency valuation difference in the amount of P4.6 million in 1980, P24.1 million in 1981, P75.8 million in 1982, and to P417.9 million in 1983.

#### Tools Used To Measure The Over-All Performance Of LWUA

Financial ratios and percentages, Common Size Analysis, Index Analysis of Financial Statements, and Budget Variance Analysis were the tools used in the study and analysis of the performance of LWUA from 1980 to 1983. To supplement these tools used to measure the over-all performance of LWUA, monitoring indicators, as set by the World Bank and the variance analysis of pro-forma income statement against the actual were likewise utilized.

#### Financial Ratios and Percentages

Tests of profitability and tests of liquidity were used in analyzing the financial performance of LWUA from 1980 to 1983. Profit Ratio after Tax, Profit Ratio before Tax, and Return on Stockholders' Investment were computed to determine the profitability of LWUA. Liquidity of LWUA was determined by computing the Current Ratio, Acid-Test Ratio, Average Collection Period, Receivable to Income, Equity Ratio, and Debt-to-Net Worth Ratio.

#### Results of Operations

##### Profit Ratio after Tax

Table No. 11 shows the Profit Ratio after Tax of LWUA from 1980 to 1983.

Table No. 11

Profit Ratio after Tax  
1980 - 1983

Calendar Year	Net Income After Tax	Gross Income	Profitability Ratio (%)
1980	P 8,946,665.00	P49,757,287.00	17.98%
1981	1,409,155.00	63,898,840.00	2.20%
1982	5,792,832.00	78,464,439.78	7.38%
1983	11,716,702.01	97,303,795.80	12.04%

Analysis of the figures in Table No. 11 indicates the profitability of the operations of LWUA from 1980 to 1983. The corporation has operated profitably during the period considering the ratio of 17.98% in 1980, 2.20% in 1981, 7.38% in 1982, and finally 12.04% in 1983. The Profit Ratio before Tax, however was very much higher in terms of profitability as shown in Table No. 12, hereunder:

Table No. 12

Profit Ratio before Tax  
1980 - 1983

Calendar Year	Net Income Before Tax	Gross Income	Profitability Ratio (%)
1980	P15,143,838.00	P49,757,287.00	30.44%
1981	6,189,331.00	63,898,840.00	9.69%
1982	12,787,634.12	78,464,439.78	16.30%
1983	21,719,233.86	97,303,795.80	22.32%

Return on Stockholders' Investment

Table No. 13 shows the return on Stockholders' investment using net income after tax figures in relation to average stockholders' equity from 1980 to 1983.

Table No. 13

Return on Stockholders' Investment  
1980 - 1983

Calendar Year	Net Income After Tax	Average Stockholders' Equity	Ratio (%)
1980	P 8,946,665.00	P511,425,267.50	1.75%
1981	1,409,155.00	511,425,267.50	0.28%
1982	5,792,832.94	511,425,267.50	1.13%
1983	11,716,702.01	511,425,267.50	2.29%

The return on stockholders' equity of LWUA rose from 1.75% in 1980, 0.28% in 1981, and 1.13% in 1982 to 2.29% in 1983. The highest return of the funds and relationship of net income after tax to the average stockholders' equity was in 1983. Table No. 14 shows the return on stockholders' investment using net income before tax against average stockholders' figures as the basis in arriving at the ratio from 1980 to 1983.

Table No. 14  
Return on Stockholders' Investment  
1980 - 1983

Calendar Year	Net Income Before Tax	Average Stockholders' Equity	Ratio (%)
1980	P15,143,838.00	511,425,267.50	2.96%
1981	6,189,331.00	511,425,267.50	1.21%
1982	12,787,634.12	511,425,267.50	2.50%
1983	21,719,233.86	511,425,267.50	4.25%

The above table indicates an increase in return on stockholders' equity from 2.96% in 1980, 1.21% in 1981, 2.50% in 1982 to 4.25% in 1983. The increase was an indication of a favorable return on stockholders' investment which was brought by the steady increase of the net earnings of LWUA from 1980 to 1983.

Financial Condition

Current Ratio

Table No. 15 shows the current ratio from 1980 to 1983 of LWUA. Although the ratio decreased from 2.57:1 in 1980, 1.46:1 in 1981, 1.28:1 in 1982 to 1.24:1, the corporation was still liquid.

Table No. 15  
Current Ratio  
1980 - 1983

(in millions)

Calendar Year	Current Assets	Current Liabilities	Liquidity (%)
1980	P101.2	39.4	2.57:1
1981	105.5	72.0	1.46:1
1982	97.6	76.4	1.28:1
1983	151.8	122.3	1.24:1

Table No. 15 indicates that the corporation is still liquid and can pay its obligation, should its liabilities as shown above be paid. The remaining balance will still be .24 worth of assets.

Acid-Test Ratio

As shown in Table No. 16 hereunder, the LWUA quick assets such as Cash, Receivables, and short term investments in relation to current liabilities indicates liquidity of the corporation from 1980 to 1983. The acid-test ratio decreased from 2.51:1 in 1980, 1.28:1, 1.17:1 in 1982 to 1.07:1 in 1983. However, should payments of current liabilities be immediately made at yearend 1983, the corporation will still have remaining assets balance of .07.

Table No. 16

Acid-Test Ratio  
1980 - 1983

(in millions)

Calendar Year	Quick Assets	Current Liabilities	Ratio (%)
1980	P 98.9	P 39.4	2.51:1
1981	92.5	72.0	1.28:1
1982	89.6	76.4	1.17:1
1983	130.9	122.3	1.07:1

Average Collection Period

Table No. 17 shows an average collection period of 59 days in 1980, 90 days in 1981, 104 days in 1982, and 132 days in 1983.

Table No. 17

Average Collection Period  
1980 - 1983

Calendar Year	Gross Income	No. of Working Days	Average Daily Income
1980	P49,757,287.00	250	P199,029.15
1981	63,898,840.00	250	255,595.36
1982	78,464,439.78	250	313,857.76
1983	97,303,795.00	250	389,215.18

	Accounts Re- ceivables	Average Daily Income	Days
1980	P11,765,415.00	199,029.15	59
1981	23,103,991.00	255,595.36	90
1982	32,560,220.19	313,857.76	104
1983	51,236,340.06	389,215.18	132

As shown in Table No. 17, the average collection period of LWUA gradually increased from 59 days in 1980 to 132 days in 1983. These figures can be related to the credit terms being offered by the corporation. It shows the days income on the books in relation to the accounts receivable which can be used in any credit policy or changes in collection of receivables.

Receivable to Income

Table No. 18 shows another way of expressing the same relationship as expressed by the average collection period of LWUA from 1980 to 1983.

Table No. 18

Receivable to Income  
1980 - 1983

Calendar Year	Accounts Receivable	Gross Income	Ratio (%)
1980	P11,765,415.00	P49,757,287.00	23.64%
1981	23,103,991.00	63,898,840.00	36.16%
1982	32,560,220.19	78,464,439.78	41.50%
1983	51,236,340.06	97,303,795.80	52.66%

In the same manner with the average collection period, the receivable to income gradually increased from 23.64% in 1980 to 52.66% in 1983.

Equity Ratio

Table No. 19 shows the equity ratio from 1980 to 1983 of LWUA. The table indicates the proportion of total investment that is derived from stockholders (either directly, or indirectly as retained earnings).

Table No. 19

Equity Ratio  
1980 - 1983

Calendar Year	Capital	Capital plus Non-Current Liabilities	Ratio (%)
1980	P475,665,356.00	P 790,034,370.00	60.21%
1981	601,309,407.00	1,000,273,450.00	60.11%
1982	623,023,637.56	1,195,316,087.56	52.12%
1983	345,703,432.62	1,398,584,599.36	24.72%

The equity ratio decreased from 60.21% in 1980 to 24.72% in 1983. This reduction was brought about by the abrupt adverse effect of the Foreign Currency Valuation difference of P417.9 million in 1983, from P4.8 million in 1980, P24.1 million in 1981 and P75.8 million in 1982. While there was an apparent reduction in Equity during the four-year period, there was also a corresponding additions/increase in Foreign Loans Payable to P1,019.2 million in 1983 from P280.1 million in 1980, P365.7 million in 1981 and P537.5 million in 1982.

Debt-to-Net Worth Ratio

Table No. 20 shows the relationship of total debt of LWUA in relation to Net Worth from 1980 to 1983. The debt-to-net worth ratio rose to 3.41:1 in 1983, from .74:1 in 1980, .78:1 in 1981 and 1.05:1 in 1982.

Table No. 20

Debt-to-Net Worth Ratio  
1980 - 1983

Calendar Year	Total Debt	Net Worth	Ratio (%)
1980	P 353,723,979.00	P475,665,356.00	0.74:1
1981	470,983,394.00	601,309,407.00	0.78:1
1982	651,986,521.46	623,023,637.56	1.05:1
1983	1,179,514,673.56	345,703,432.62	3.41:1

The increase of the debt-to-net worth ratio was due to the increase in total debt and decrease in net worth. As stated earlier in previous analysis, foreign currency difference in valuation abruptly increased in 1983 to P417.9 million from P4.8 million in 1980. Loans Payable--Foreign, however, correspondingly increased from P280.1 million to P1,019.2 million in 1983.



Common Size Analysis

The common size analysis of the Income Statement is shown hereunder, as follows:

Results of Operation

Table No. 21 presents the percentages of the different components of the gross revenue to its total.

Table No. 21

Common Size Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
Operating Revenue-interest	83.62%	90.02%	92.45%	93.76%
Interest on Treasury Bills	14.99%	9.06%	5.55%	2.89%
Interest on Savings Deposit	1.18%	0.62%	1.34%	3.33%
Service Income-Miscellaneous	0.21%	0.30%	0.36%	0.02%

The figures in Table No. 21 indicate that a large percentage of the corporation's total gross revenue resulted from the interest income--operating. This was followed by the interest on treasury bills, interest on savings deposits, and service income-miscellaneous, in that order.

As to the corporation's expenses, Table No. 22 presents the various components of the expenses as a percentage of the gross revenue.

Table No. 22

Common Size Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	21.11%	24.03%	20.30%	17.34%
Fringe Benefits	4.46%	13.66%	15.47%	11.64%
Travel	7.03%	7.27%	6.76%	3.10%
Supplies	0.53%	0.92%	0.63%	0.57%
Gasoline and Oil	0.10%	0.16%	0.11%	0.08%
Repairs and Maintenance	0.18%	0.57%	0.52%	0.48%
Other Operating Expenses	7.75%	11.40%	12.43%	12.84%
TOTAL OPERATING EXPENSES	41.16%	58.01%	56.22%	46.04%

The figures in Table No. 22 show that the total operating expenses of the corporation were, on the average, 50% of the total gross revenue. A look at these figures show that the total operating expenses exclude interest expense on foreign loans, withholding tax on interest revenue, provision for bad debts and extraordinary losses, among others. Further analysis of these figures show that a large percentage of the gross revenue goes to the personal services.

Adding/extracting the other income/expenses of the corporation would result to the net income before and after tax, as presented in Table No. 23.

Table No. 23

Common Size Analysis of Net Income  
1980 - 1983

	1980	1981	1982	1983
Net Income before tax	30.43%	9.68%	16.30%	22.82%
Net Income after tax	17.98%	2.20%	7.39%	12.04%

Net income decreased in 1981 due to the tremendous increase in the operating expenses. But in 1982, the net income started to increase. Despite the increase, net income after tax, as of 1983, was still a small percentage of the total gross revenue. The slight improvement in the net income in 1982 and 1983 resulted from the combined efforts of the different control units in improving the whole LWJA system.

Financial Condition

Regarding the common size analysis of the balance sheet for the years 1980 to 1983, Table No. 24 presents the percentage of the different components of the assets to its total.

Table No. 24

Common Size Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Cash	3.34%	4.00%	2.26%	4.86%
Disbursing Officer	0.01%	0.01%	0.02%	0.00%
Other Officers	0.23%	0.20%	0.15%	0.14%
Short-term Investments	7.20%	3.45%	2.63%	1.57%
Receivables-Trades/ Business	1.27%	1.23%	1.75%	2.24%

Table No. 24 (cont.)

<u>Common Size Analysis of Assets</u>				
1980 - 1983				
	1980	1981	1982	1983
Materials and Supplies				
Inventory	0.00%	0.03%	0.03%	0.02%
Prepayments	0.00%	0.00%	0.00%	-
Deposits on Letters of Credit	0.04%	-	-	-
Miscellaneous Receivables	0.15%	0.92%	0.81%	1.11%
CURRENT ASSETS	12.20%	9.84%	7.66%	9.95%
Special Fund	1.56%	0.95%	1.48%	1.02%
Long-term Receivables	71.15%	74.38%	76.31%	69.53%
Permanent Investment	0.02%	0.01%	0.01%	0.01%
Fixed Assets (Net)	4.80%	5.27%	5.83%	4.53%
Deferred Charges and Other Assets	10.27%	9.54%	8.70%	12.07%

Analysis of the figures in Table No. 24 shows that a large portion of the assets of the corporation comprises the long-term receivables. These include loans receivables from the water districts, receivables from officers and employees, and unbilled loans and account receivables from the water districts. The loans receivables from the water districts are the 9% interest on the loans extended to the water districts. These loans have a fifty-year repayment period. The next highest component of the total assets is the current assets. One of the components of the current assets, the advances to the water districts were classified under the other assets in 1980 and 1981, but were classified under the current assets in the succeeding years. The next highest component of the total assets is the deferred charges. This was followed by the fixed assets. The fixed assets account includes the new LWUA office building and training center, located in Balara, Quezon City.

The common size analysis of the total liabilities is shown in Table No. 25.

Table No. 25

<u>Common Size Analysis of Liabilities</u>				
1980 - 1983				
	1980	1981	1982	1983
Payables	0.08%	0.23%	0.28%	2.43%
Miscellaneous Trust Liabilities	2.05%	2.43%	1.91%	1.04%

Table No. 25 (cont.)

Common Size Analysis of Liabilities  
1980 - 1983

Creditors Unclaimed Balance	0.49%	1.00%	1.33%	1.91%
National Government Agencies	2.12%	2.10%	2.38%	2.52%
Miscellaneous Payable	0.00%	0.96%	0.09%	0.12%
CURRENT LIABILITIES	4.74%	6.72%	5.99%	8.02%
Liability for Special Fund	3.86%	2.89%	2.56%	2.04%
Long-term Liabilities	34.04%	34.31%	42.33%	66.97%
Deferred Credits/Income	-	-	0.26%	0.30%
TOTAL LIABILITIES	42.64%	43.92%	51.14%	77.33%

The figures in Table No. 25 shows that among the liabilities of the corporation, long-term liabilities account is the largest component. This figure is expressed as a percentage of the total assets. Comprising this account are loans from foreign and local sources. A closer look at this account shows that a substantial proportion of the long-term liabilities are those from the foreign sources. Included in these sources are USAID, DANIDA, AID and IERD, among others. This is followed by the current liabilities account and the liability for special funds, respectively.

Table No. 26 shows the percentage of Equity to the total assets.

Table No. 26

Common Size Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock Paid Up	51.75%	53.55%	50.53%	45.39%
Contingent Surplus	0.04%	0.03%	0.02%	0.02%
Retained Earnings	4.40%	3.39%	3.13%	3.38%
Donated Surplus	1.74%	1.35%	1.13%	1.28%
Foreign Currency Valuation Difference	( 0.57%)	( 2.24%)	( 5.95%)	(27.40%)
TOTAL EQUITY	57.36%	56.08%	48.86%	22.67%

The figures in Table No. 26 show that, in 1982 and 1983, there was a decrease in the capital stock infused by the National Government due to the distressed economic climate in the country. As a result of this, the corporation tightened its budget in order to continue its operations. The surplus account, showing a fluctuating trend, includes contingent surplus, retained earnings

and donated surplus. Regarding the foreign currency valuation difference, the amount is just a small percentage of the total assets for the years 1980 to 1982, but became a significant figure in 1983. This reflected the distressed economic situation which is beyond the control of the corporation.

Index Analysis

As to the magnitude of change of the different components of the Income Statement, the index analysis gives insights on this.

Results of Operations

Table No. 27 presents some selected components of the gross revenue as a percentage related to a base year, in this case, 1980.

Table No. 27

Index Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
Loans Receivables-				
Water Districts	100%	138.24%	174.90%	219.28%
Savings Deposit	100%	67.32%	179.10%	553.08%
Treasury Bills/ Govt. Securities	100%	77.61%	58.37%	37.67%
Gain from Training and Seminar fees	100%	188.22%	-	47.54%
Miscellaneous Income	100%	819.50%	717.09%	1312.22%
Dividend Income	100%	763.33%	658.67%	2669.39%
TOTAL GROSS REVENUE	100%	129.36%	158.44%	199.32%

Using 1980 as a point of reference, the total gross revenue increased to 199.32% of the 1980 figure in 1983. The figures in Table No. 27 show that the increase in interest income from loans receivables-water districts are higher than the increase in total gross revenue. At first glance, there seems to be an increase in the number of viable water districts formed by the corporation. However, these figures are quite misleading in the sense that the increase in the number of water districts formed was actually less than the increase in the loans receivables, percentage-wise. Therefore, it may be advisable for LWUA to look into the credit terms of the loan as well as the collection efforts to improve its liquidity. As indicated in the figures in Table No. 27, the increase in the loans receivables in 1983 was tremendously high. But further analysis shows that the number of water dis-

tricts formed during that year was way below the number of water districts formed in 1980. Furthermore, the interest income from savings deposit decreased in 1981 but increased in 1982 and 1983. However, the interest income from treasury bills/government securities continued to decrease as a result of a decrease in investments in these securities. Such a decrease was the result of the policy of the corporation to augment LWUA's lending operations since the releases of capital funds were not enough to meet the obligations incurred by the corporation. The miscellaneous income and the dividend income, on the other hand, continued to increase.

Regarding the expenses of the corporation, Table No. 28 shows the magnitude of change of the different components of the expenses.

Table No. 28  
Index Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	100%	191.31%	225.39%	225.03%
Administrative and General Expenses	100%	209.09%	402.50%	518.32%
Supplies, Materials and Communication	100%	236.52%	211.19%	245.00%
Light, Fuel, and Water	100%	736.76%	1124.52%	1192.69%
Travelling Expenses	100%	132.86%	151.59%	86.20%
Discretionary and Entertainment	100%	77.15%	14.85%	25.29%
Other Expenses	100%	250.74%	152.76%	282.68%
Interest Expense-Loans	100%	121.30%	157.84%	214.09%
TOTAL EXPENSES	100%	168.00%	190.73%	223.72%

Analysis of the figures in Table No. 28 indicates that the total expenses zoomed up in 1981. There are several factors attributed to this increase. First of all, there was an increase in manpower in 1981 by 15%. As a result of this, personal services increased by 191.31%. Furthermore, expenses such as light, fuel, and water; general and administrative expenses; supplies, materials and communication expenses; and, other expenses increased due to the increase in manpower coupled with the expenses related to the transfer of LWUA to a new building in Balara, Quezon City. Moreover, there was an increase in interest expense-loans due to the increase in loan availments. Such increase resulted to the need of the corporation for additional funding for its operations since the equity contribution of the National

Government was slashed. Further analysis of the above figures indicate that almost all of the expenses continued to rise except for discretionary and entertainment expenses which continued to decline due to the policy of cost reduction related to this expense. One significant expense, the personal services, increased in 1983 relative to the figure in 1980. However, a closer look at this account shows that the increase is lower than the increase in 1982, indicating that there was actually a decrease in the personal services in 1983. This is due to the fact that LWUA implemented a "freeze-hiring" policy coupled with the fact that there were a number of employees who left the corporation, as evidenced by a decrease in manpower.

Financial Condition

Regarding the index analysis of the Balance Sheet of the corporation for the years 1980 to 1983, with 1980 as the base year, Table No. 29 shows the magnitude of change of the different components of the assets.

Table No. 29

Index Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Current Assets	100%	104.23%	96.45%	150.00%
Special Funds	100%	79.08%	145.60%	120.51%
Long-term Receivables	100%	135.17%	164.88%	179.71%
Permanent Investment	100%	102.56%	102.56%	102.56%
Fixed Assets	100%	142.06%	186.85%	173.59%
Deferred Charges and Other Assets	100%	120.05%	130.30%	216.25%
TOTAL ASSETS	100%	129.29%	153.73%	183.90%

There was a slight increase in the total assets of the corporation in 1981 in spite of the decrease in net income of the corporation, which presumably affects the balance sheet accounts. The current assets and special funds account showed a fluctuating trend, as compared to the base year figure while the other accounts showed an increase from the 1980 figure. The permanent investment account showed a slight increase in 1981 and remained constant thereafter. Included in this account are investments in PLDT, Meralco, and in the Metropolitan Theater Foundation. The latter investment represented the membership fee of the LWUA General Manager as art patron of Manila. The long-term receivables account displayed an upward trend, indicating the corporation's reliance to foreign loans to finance its operations.

Presented in Table No. 30 is the index analysis of the Liabilities account of the corporation.

Table No. 30

Index Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Current Liabilities	100%	183.00%	194.17%	310.87%
Liability for Special Funds	100%	96.79%	101.76%	97.35%
Long-term Liabilities	100%	130.33%	191.16%	361.77%

The current liabilities continued to increase at a faster rate than that of the current assets. This explains why the corporation became less liquid as years went by. Liability for special funds fluctuated. From the figures in Table No. 30, it is evident that the long-term liabilities increased at an increasing rate. Comprising this account are the loans payable from both the foreign and local sources. Further analysis showed that the corporation's loans payable from local sources remained constant while those from the foreign loans increased. Such borrowings are needed by the corporation to finance its relending operations.

Finally, Table No. 31 shows the magnitude of change in the Stockholders' Equity.

Table No. 31

Index Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock Paid Up	100%	133.78%	150.09%	161.28%
Surplus	100%	99.91%	106.66%	139.40%
Foreign Currency Valuation Difference	100%	505.63%	1592.40%	8777.63%
TOTAL CAPITAL	100%	130.17%	145.46%	158.94%

The figures in Table No. 31 show that the capital stock paid up continued to increase at a decreasing rate. As mentioned earlier, this resulted from the decline in the capital contributed by the National Government. The surplus account, on the



other hand, declined in 1981 as a result of a decrease in the net income. However, this increased in 1982 and 1983. Such increases resulted from the measures implemented by the different control units. Such measures include the cost reduction policy initiated by the Management Office, the working knowledge of the different operating units on the over-all corporate goals, and the strict supervision of the General Manager, among others. The tremendous increase in the foreign currency valuation difference at an increasing trend reflects the distressed economic climate of the country where the peso was devaluated. Such situation is beyond the control of the corporation and does not reflect the effectiveness of the different control units.

Variance Analysis of Projected Income Statement against Actual

The pro-forma income statements are projections of the financial condition and performance of the corporation. Shown in Table No. 32 is the projected revenue for the years 1980 to 1982. Note that there is no projected income statement for 1983 due to the unavailability of information.

Table No. 32

Projected Gross Revenue  
1980 - 1982

	1980	1981	1982
(in thousands)			
Interest Revenues			
Loans Receivables-WDs	P52,694	P65,100	P85,899
Savings Deposit	-	-	500
Government Securities	6,503	9,000	4,530
Revenue from Seminar and Training	2,243	60	100
Miscellaneous Income	120	968	-
<b>TOTAL GROSS REVENUE</b>	<b>P61,560</b>	<b>P75,128</b>	<b>P91,029</b>

From the figures above, common size analysis shows that a large percentage of gross revenue comes from the interest revenues from loans receivables from the water districts. This is followed by interest revenues from government securities, revenue from seminar and training, miscellaneous income and interest earnings from savings deposit, in that order. Table No. 33 presents a summary of the percentage of the individual components of projected gross revenue to its total.

Table No. 33

Common Size Analysis of Projected Gross Revenue  
1980 - 1982

	1980	1981	1982
Interest Revenues			
Loans Receivables-WDs	85.60%	86.65%	94.36%
Savings Deposit	-	-	0.55%
Government Securities	10.56%	11.98%	4.98%
Revenue from Seminar and Training	3.64%	0.08%	0.11%
Miscellaneous Income	0.20%	1.29%	-

A comparison of the projected revenues against the actual shows that the corporation did not meet its projected revenues. Table No. 34 shows the variance of actual revenues from the projected.

Table No. 34

Variance Analysis of Gross Revenue  
1980 - 1982

	1980	1981	1982
(in thousands)			
Interest Revenue			
Loans Receivables-WDs	(P11,086)	(P 7,580)	(P44,291)
Savings Deposit	585	395	550
Government Securities	957	3,210	( 175)
Revenue from Seminar and Training	( 2,140)	( 134)	( 100)
Miscellaneous Income	( 55)	( 431)	286
Other Income	26	8	485

Over-all, LWUA met only 80.98% of the projected revenue in 1980, 85.42% in 1981, and a low 52.49% in 1983. Of the total gross revenues, the interest revenue from the loans receivables -- water districts is the most significant. Analysis shows that the corporation met only 78.96% of the projected revenue in 1980, 88.36% in 1981, and 84.72% in 1983.

Regarding the expenses of the corporation, Table No. 35 presents the various components of the expenses based on the projected income statements.

Table No. 35

Projected Expenses  
1980 - 1982

	1980	1980*	1980**	1981	1982
(in thousands)					
Operating Expenses					
Personal Expenses	9,172	9,172	10,707	13,463	15,948
Fringe Benefits	3,088	4,585	4,651	11,291	13,552
Supplies and Materials	688	688	528	1,073	1,600
Repairs, Maintenance and Improvements	96	96	96	736	1,040
Other Services	4,356	4,366	3,418	4,242	5,819
COA Expenses	300	300	255	472	500
Travel	6,275	6,275	5,065	10,466	11,001
Other Expenses	-	-	-	-	2,944
Fixed Charges	220	220	202	185	980
TOTAL OPERATING EXPENSES	24,195	25,702	24,922	41,928	53,386
Financial and Non-Budgetary Expenses	24,782	24,782	24,766	21,289	23,779
TOTAL EXPENSES	84,977	50,484	49,688	63,217	80,109

Note that there are three sets of expenses of the corporation for 1980. The first column was extracted from the original projected income statement of the corporation. The second column was actually from the revised projected income statement, which was submitted together with the Supplemental Budget No. 1. Supplemental Budget No. 1 was submitted in connection with the additional appropriation of P1,507,000 which would cover the funding of the following activities: (1) Co-sponsorship of workshop entitled "Appropriate Methods of Treating Water and Wastewater in Developing Countries"<sup>52</sup>; (2) For the establishment of "LWUA Hospitalization" in partial implementation of LOI 97 per Corporate Compensation Circular #2<sup>53</sup>; and, (3) For implementation of amelioration and meal subsidy allowances in partial implementation of LOI 97.<sup>54</sup> The third column, on the other hand, was from another revision of the projected income statement, which was submitted with Supplemental Budget #2 in connection with the additional appropriations of the following purposes: (1) implementation of full adjustments in basic salaries of LWUA employees effective May 1, 1980 in furtherance of LOI 97, Corporate Compensation Circular #2 and LOI 976; and, (2) adjustments in Cost of Living Allowances of the General Manager and Assistant General Managers at the rate of P1,400 and P1,100 monthly, respectively, effective May 1, 1980.

Table No. 36 presents the common size analysis of the projected expenses of the corporation.

Table No. 36

Common Size Analysis of Projected Expenses  
1980 - 1982

	1980	1980*	1980**	1981	1982
Operating Expenses					
Personal Expenses	14.90%	14.90%	17.39%	17.92%	17.52%
Fringe Benefits	5.02%	7.45%	7.56%	15.03%	14.89%
Supplies & Materials	1.12%	1.12%	0.86%	1.43%	1.76%
Repairs, Maintenance & Improvement	0.15%	0.15%	0.15%	0.98%	1.14%
Other Services	7.07%	7.09%	5.55%	5.64%	6.39%
COA Expenses	0.49%	0.49%	0.41%	0.63%	0.55%
Travel	10.19%	10.19%	8.23%	13.93%	12.09%
Fixed Charges	0.36%	0.36%	0.33%	0.25%	1.08%
Other Expenses	-	-	-	-	3.23%
TOTAL OPERATING EXPENSES	39.30%	41.75%	40.48%	55.81%	58.65%
Financial and Non-budgetary Expenses	40.26%	40.23%	40.23%	28.34%	26.12%
TOTAL EXPENSES	79.56%	81.98%	80.71%	84.15%	84.77%

The total expenses comprise a substantial percentage of the total gross revenue. If the total operating expenses were the only expenses considered, then only approximately half of the total gross revenues goes to these expenses, thus, realizing a net income of 50% of gross revenue. However, the financial and non-budgetary expenses add significantly to the corporation's total expenses. These expenses include depreciation, amortization of deferred charges, interest expense on foreign loans payable, and provision for bad debt.

A comparison of the above expenses against the actual expenses is shown in Table No. 37.

Table No. 37

Variance Analysis of Expenses  
1980 - 1982

(in thousands)	1980	1981	1982
Operating Expenses			
Personal Expenses	( 202)	1,890	( 21)
Fringe Benefits	( 2,433)	( 2,562)	( 1,414)
Supplies and Materials	( 212)	( 381)	( 1,019)
Repairs, Maintenance and Improvement	( 9)	( 373)	( 628)
Other Services	( 884)	1,233	4,828
COA Expenses	44	1	( 2,816)
Travel	( 1,567)	( 5,818)	( 5,698)
Fixed Charges	( 20)	( 10)	( 571)
Other Expenses	20	1	( 2,816)
TOTAL OPERATING EXPENSES	( 5,263)	(6,029)	( 7,424)
Financial and Non-bud- getary Expenses	( 9,740)	1,087	2,242
TOTAL EXPENSES	(15,003)	( 4,942)	( 5,182)

The projected Income Statement of the Supplementary Budget No. 2 is used for variance analysis purposes.

The figures in Table No. 37 indicate that the corporation's actual expenses are less than the projected expenses. In 1980, the actual expenses were 30.19% lower than the projected total expenses. The 1981 and 1982 actual expenses were 7.82% and 6.47% lower than the projected expenses, respectively.

The projected net income of the corporation for the years 1980 to 1982 are shown in Table No. 38.

Table No. 38

Projected Net Income  
1980 - 1982

	1980	1981	1982
Net Income before tax	P11,872	P11,911	P13,964
Net Income after tax	7,727	not available	9,022

Common size analysis of the figures presented in Table No. 38 is shown in Table No. 39.

Table No. 39

Common Size Analysis of Projected Net Income  
1980 - 1982

	1980	1981	1982
Net Income before tax	19.28%	15.85%	15.23%
Net Income after tax	12.55%	-	9.91%

Table No. 39 shows that the corporation's net income is just a small percentage of the total gross revenue. Comparing the figures in Table No. 38 with the actual net income shows that the net income before and after tax in 1980 is higher than the projected net income as contrasted to that of 1981 and 1982 where the actual net income is lower. Table No. 40 shows the summary of this variance.

Table No. 40

Variance Analysis of Net Income  
1980 - 1982

	1980	1981	1982
(in thousands)			
Net Income before tax	3,272	(5,722)	(1,076)
Net Income after tax	1,220	-	(3,229)

In spite of the fact that the actual expenses of the corporation for the years 1980 to 1983 were lower than the projected expenses, the actual net income is lower than the projected net income. Analysis shows that it was only in 1980 when the corporation realized 115.79% of the projected net income after tax, whereas in 1982, the corporation realized only 64.21% of the projected net income after tax. The 1981 net income before tax only 51.96% of the projection, indicating the corporation's net income after tax for that year was way below the projection.

Budget Variance Analysis

The control of expenses is seen on the variance analysis of the budget. The Budget Division makes sure that each department would operate within the approved spending budget, and not the approved budget. Although the latter was already approved by the Board, once submitted to the Ministry of Budget, the approved budget would be slashed again.

In 1980, the budget submitted by the Board to the Ministry was slashed by 0.27%, affecting the following accounts: (1) budget for fringe benefits and travel were slashed by 1.92% and 1.29%, respectively; and (2) budget for sundry expenses was increased by 2.09%. In controlling the expenditures of the corporation, the budget is constantly being realigned wherein the budget for certain accounts are transferred to another, depending on the need and urgency of such expenditure. As a result of the realignment, the total expenses of the corporation for this year was 17.05% lower than the approved spending budget. Analysis shows that LWUA overspent in the following areas: (1) personal services; (2) special projects; and (3) COA expenses. However, the actual expenses of the other components were way below the approved spending budget. Table No. 41 presents the budget variance analysis for 1980.

The budget for 1981, which was approved by the Board was cut-off by the Ministry of Budget by 13.16%, affecting all operating expenses. In spite of overspending in some areas, the overall expenditures of the corporation for this year was 1.41% below the approved spending budget. Analysis of the actual expenses vis-a-vis the approved spending budget shows that the corporation was able to save from the following areas: (1) fringe benefits by 11.62%; (2) supplies and materials by 10.42%; (3) repairs and maintenance by 43.07%; and, (4) travel by 38.51%. Part of the savings from these areas were realigned to cover the expenses for personal services, sundry expenses and COA expense. Table No. 42 summarizes the budget variance analysis for 1981.

In 1982, the Ministry of Budget slashed the budget of the corporation by 12%. Again, all the areas of the operating expenses were affected. During this year, the corporation was able to spend only 89.37% of the approved spending budget, cutting-off their expenditures in the following areas: (1) fringe benefits by 1.82%; (2) supplies and materials by 45.23%; (3) repairs and maintenance by 31.84%; (4) sundry expenses by 19.36%; (5) travel by 37.24%; and, (6) Special Projects by 16.96%. However, the corporation overspent in the areas of personal services and COA expenses. Table No. 43 presents the budget variance analysis for this year.

As in the past years, the Ministry of Budget slashed the corporation's budget, this time by 6.47%. The total expenses of the corporation in 1983 was 93.57% of this budget. In realigning the budget, part of the corporation's savings from fringe benefits, repairs and maintenance, travel and COA expenses were transferred to the personal services, supplies and materials, and sundry expenses to cover the increases. Table No. 44 presents the budget variance analysis for 1983.

The budget variance analyses for the period of four years indicate management's ability and strict compliance with their cost control measures.

Table No. 41

1980 Budget Variance Analysis

	APPROVED BUDGET	APPROVED SPENDING BUDGET	ACTUAL EXPEN- DITURES	%	%
	A	B	C	(B/A)	(C/B)
Personal Services	P 9,669,882	P 9,669,882	P10,505,214	-	8.64%
Fringe Benefits	4,309,892	4,226,892	2,117,553	( 1.92%)	(49.90%)
Supplies and Materials	527,622	527,622	316,286	-	(40.05%)
Repairs and Main- tenance	120,000	120,000	86,559	-	(27.87%)
Sundry Expenses	3,961,181	4,044,181	2,817,810	2.09%	(30.32%)
Travel	4,922,964	4,859,520	3,498,401	( 1.29%)	(28.01%)
Special Projects	-	-	20,002	-	-
COA Expenses	255,000	255,000	298,927	-	17.23%
TOTAL	P23,766,541	P23,703,097	P19,660,752	( 0.27%)	(17.05%)



Table No. 42

1981 Budget Variance Analysis

	APPROVED BUDGET	APPROVED SPENDING BUDGET	ACTUAL EXPEN- DITURES	%	%
	A	B	C	(B/A)	(C/B)
Personal Services	P13,462,800	P12,693,374	P15,352,717	( 7.92%)	20.95%
Fringe Benefits	11,163,500	10,525,064	9,301,435	( 5.72%)	(11.62%)
Supplies and Materials	1,072,500	772,500	692,001	(27.97%)	(10.42%)
Repairs and Main- tenance	736,000	638,500	363,490	(13.25%)	(43.07%)
Sundry Expenses	4,555,000	3,820,452	5,077,426	(16.13%)	32.90%
Travel	10,466,000	7,559,229	4,647,998	(27.77%)	(38.51%)
Special Projects	-	-	782	-	-
COA Expense	472,000	401,200	461,271	(15.00%)	14.97%
TOTAL	P41,927,300	P36,410,319	P35,897,120	(13.16%)	( 1.41%)

Table No. 43

1982 Budget Variance Analysis

	APPROVED BUDGET	APPROVED SPENDING BUDGET	ACTUAL EXPEN- DITURES	%	%
	A	B	C	(B/A)	(C/B)
Personal Services	P15,948,160	P15,218,098	P15,927,231	( 4.58%)	4.66%
Fringe Benefits	13,545,901	12,367,240	12,142,654	( 8.70%)	( 1.82%)
Supplies and Materials	1,200,000	900,200	492,996	(24.98%)	(45.23%)
Repairs and Main- tenance	1,040,000	605,000	412,384	(41.83%)	(31.84%)
Sundry Expenses	7,399,800	6,645,918	5,359,281	(10.19%)	(19.36%)
Travel	11,001,639	8,450,284	5,303,307	(23.19%)	(37.24%)
Special Projects	-	-	825	-	-
COA Expense	500,000	500,000	415,178	-	(16.96%)
TOTAL	P51,041,750	P44,916,740	P40,142,220	(12.00%)	(10.63%)

Table No. 44

1983 Budget Variance Analysis

	APPROVED BUDGET	APPROVED SPENDING BUDGET	ACTUAL EXPEN- DITURES	%	%
	A	B	C	(B/A)	(C/B)
Personal Services	P14,875,000	P16,057,000	P16,884,130	7.95%	5.15%
Fringe Benefits	12,158,747	12,070,000	11,176,361	( 0.73%)	( 7.40%)
Supplies and Materials	620,000	597,000	609,363	( 3.71%)	( 2.07%)
Repairs and Main- tenance	600,000	687,000	465,354	0.14%	(32.26%)
Sundry Expenses	6,577,890	4,116,000	4,549,379	(37.43%)	(10.53%)
Travel	4,947,110	3,634,000	3,010,102	(26.54%)	(17.17%)
COA Expenses	653,000	653,000	577,682	-	(11.53%)
TOTAL	P40,431,747	P37,814,000	P37,272,371	( 6.47%)	( 1.43%)

Monitoring Indicators

The monitoring indicators were set by the World Bank, one of the foreign creditors of the corporation. These indicators give insight on the efficiency of operations vis-a-vis utilization of resources.

These monitoring indicators were computed by LWUA for the years 1980 to 1981 only. However, these were not fully utilized as a measure of performance. Nevertheless, Table No. 45 shows the monitoring indicators.

Table No. 45

Monitoring Indicators  
1980 - 1981

	1980	1981
I. As a Percentage of Average Total Assets		
Total Income	6.7%	6.6%
Financial Expenses	1.6%	1.5%
Gross Profit	5.1%	5.1%
Administrative Expenses	2.6%	3.7%
Net Income before Provisions	2.5%	1.4%
Provisions	0.4%	0.8%
Net Income before Income Tax	2.0%	0.6%
Income Tax	0.2%	0.5%
Net Income after Income Tax	1.2%	0.1%
II. Net Income as a % of Average Equity	2.1%	0.2%
III. Interest on Loan as a % of Average Loan Portfolio	8.7%	8.7%
IV. Financial Expense as a % of Average Borrowings	4.8%	4.5%
V. Gross Spread (III - IV)	3.9%	4.2%
VI. Provision for Bad Debts as a % of Year-End Portfolio	1.5%	2.0%
VII. Long-term Debt to Equity	.59:1	.61:1
VIII. Current Ratio	2.60:1	1.50:1
IX. Percentage Increase in Total Assets	28.0%	29.3%

However, the analysis of the above figures could not be made since the the standards supposedly set by the World Bank were not available.

FOOTNOTES

- <sup>1</sup>LWUA Office Manual,
- <sup>2</sup>"Justification for 1980 Organizational Changes," LWUA Operating Budget 1980.
- <sup>3</sup>Ibid.
- <sup>4</sup>Interview with Edna Balucan, Division Manager, Management Services Division, June 1984.
- <sup>5</sup>Ibid.
- <sup>6</sup>"Implementation of CY 1984 OBM-Modified LWUA Reorganization Structure," Office Order No. 75-84, April 2, 1984.
- <sup>7</sup>Interview with Manny Yoingco, Assistant Department Manager Loans Operations Department, June 1984.
- <sup>8</sup>Interview with Mario Quitarano, Department Manager, Field Operations Department, June, 1984.
- <sup>9</sup>"Organizational Changes," op. cit.
- <sup>10</sup>Interview with Celso Razal, Officer-in-Charge, Monitoring Division, June, 1984.
- <sup>11</sup>Ibid.
- <sup>12</sup>"Area Supervisors," Office Order No. 271-83, September 12, 1983.
- <sup>13</sup>Interview with Manny Yoingco.
- <sup>14</sup>Interview with Celso Razal.
- <sup>15</sup>"Reorganization," op. cit.
- <sup>16</sup>Interview with Cynthia Esquerro, Department Manager, Management Services Office, September, 1984.
- <sup>17</sup>Minutes of EXECCOM meetings, 1983.
- <sup>18</sup>Ibid.
- <sup>19</sup>Ibid.
- <sup>20</sup>Ibid.
- <sup>21</sup>Ibid.
- <sup>22</sup>Interview with Cynthia Esquerro.
- <sup>23</sup>Ibid.
- <sup>24</sup>Interview with Edna Balucan.
- <sup>25</sup>Corporate Plan 1982-1990, 1982.
- <sup>26</sup>Interview with Celso Razal.
- <sup>27</sup>Ibid.
- <sup>28</sup>Institutional Development of Water Utilities in the Philippines, 1982.

- 29 Ibid.
- 30 Ibid.
- 31 Ibid.
- 32 Ibid.
- 33 Ibid.
- 34 Ibid.
- 35 Interview with Guillermo Bantugan, Department Manager, Budget and Cost Control Department, June, 1984.
- 36 Interview with Cynthia Esguerra.
- 37 Internal Control Evaluation Report, 1982.
- 38 Ibid.
- 39 Ibid.
- 40 Interview with Edna Balucan.
- 41 Ibid.
- 42 Ibid.
- 43 LWUA Operating Budget, 1981.
- 44 Interview with Cynthia Esguerra.
- 45 "Action Weekly Journal and Travel Reports," Office Order No. 217-81, July 23, 1981.
- 46 Corplan Manual, 1982, op. cit.
- 47 Corporate Master Plan, 1980
- 48 Ibid.
- 49 Ibid.
- 50 Ibid.
- 51 Ibid.
- 52 Corplan Manual, 1982, op. cit.
- 53 Board Resolution No. 12, January 18, 1980.
- 54 Board Resolution No. 35, February 20, 1980
- 55 Board Resolution No. 45, March 12, 1980.

HOME FINANCING CORPORATION

Corporate Overview

The Home Financing Corporation was initially known as the Home Financing Commission tasked with the functions of operating a mortgage insurance program, encouraging, aiding and initiating the organization and incorporation of building and loan associations and promoting the home building and land ownership of individuals. Capitalized at ten million pesos, of which 6.5 million was paid up, the HFC undertook the guarantee of housing loans extended to GSIS, SSS and some private banks to home borrowers.

The clamor for more housing units by the low income and middle income families and the mushrooming of squatter colonies in Metro Manila, are but two of the factors that stimulated the policy makers to review the incentives for housing development. To spur more investments in real estate projects, including low-cost mass housing, the HFC charter was reviewed, and gaps were identified. The analysis of the old charter revealed that low capitalization, limited ceilings for loan guarantee and payment in the form of bonds for cases of defaults, were not conducive to the active participation of the commercial banks and other financial institutions in the low-cost mass housing programs.

It was also realized that there was no central body which coordinated the various offices directly or indirectly involved in housing; such gap resulted in some overlapping of functions and seeming disparate and disjointed approach to housing development.

Executive Order Number 535 was issued on May 3, 1979 which renamed the Home Financing Commission to the Home Financing Corporation. It also broadened its powers considerably to enable it to mobilize resources from the private sector. Among the salient features of the law are: (1) increase in capitalization from 10 million to 1 billion pesos;<sup>4</sup> (2) inclusion of private development banks, savings banks, rural banks and savings and loan associations in the guarantee program;<sup>5</sup> (3) increase in the ceiling for loan guarantee; (4) transfer of the supervision and registration of the building and loan association from the Securities and Exchange Commission to HFC;<sup>6</sup> (5) empowering the Board to create and manage affiliates and subsidiaries; (6) making the Ministry of Human Settlements ex-officio Chairman of the Board; (7) designating the Vice-Chairman/President of the Corporation; (8) designating the General Manager/Executive Vice President of the Corporation.<sup>8</sup>

Significantly, HFC was mandated by the Executive Order to "coordinate its policies, places, projects and regulations with those of the Ministry of Human Settlements and all other agencies of the government involved in housebuilding and development and

mortgage financing."<sup>9</sup>

In line with its new charter, the HFC has expanded its operations to include funds generation, project supervision and controllership, project development through ventures and other related financing arrangements to facilitate participation of the private sector in housing development.

#### Structure

In 1980 HFC focused its attention on two product lines which were: (1) mortgage insurance and credit management; and, (2) investment services and project management. The Credit Insurance Department handles the first mentioned functions. The clients of the department were well-established real estate developers who needed mortgage insurance coverage and fund controllership.

On the other hand, the Investments Department took care of investment services and project management. Its target clients were new real estate developers with little or no experience in sourcing funds or marketing the housing units that had been constructed. In addition, it offered these services: (1) land development and housing design; (2) project planning development; (3) funds sourcing and underwriting; (4) works engineering and project management; and, (5) marketing and take-out facilities.

#### Credit Insurance Department

The two major functions of the Credit Insurance Department were: (1) inspection, appraisal and loan evaluation; and, (2) marketing of HFC's guarantees. An evaluation process is undertaken to ascertain project compliance with technical requirements and financial viability. These were handled by the Inspection, Appraisal and Loan Evaluation Service, and Insurance Marketing and Financial Relations Service. This department was abolished in 1981.

#### Investment Department

The Investment Department was tasked with the responsibility of providing know-how in production, marketing, distribution and housing management to clients of the corporation. Specifically, it fulfilled the following function: (1) develop a realistic product package on home development; (2) prepare the necessary structural and architectural designs of shelter and home package; (3) identify, evaluate and recommend potential sources of home development funds.

The Project Planning Service undertakes the planning function for the construction activity. The Project Implementation Services directs, manages and controls the housing construction,



development and distribution of housing units, after completion. Simultaneous with the implementation of the housing development and distribution is the adoption of control measures by the Project Control Service. This division ascertains the allocation of funds for the project; releases the funds and undertakes periodic review. This Department was abolished in 1981.

#### Credit Supervision and Business Development Group

The thrust in the late seventies was "marketing of insurance services of the corporation." However, with the acceptance by private banks of the role of HFC in guaranteeing real estate loans, reorganization was initiated to enable the corporation to meet the resource requirements needed to service its clients. The Investment Department was converted in 1981 to the Credit Supervision and Business Development Group with three departments specifically: Counselling and Assistance, Architectural and Engineering and the Project Control and Monitoring Department. A fourth department was created in 1983 to take responsibility for the acquired assets; thus it was named the Acquired Assets Department.

#### Project and Financial Evaluation Group

With the reorientation of the HFC from marketing to evaluation and funds generation, the Investment Department was reorganized into the Project and Financial Evaluation Group (PFEG). Essentially, the PFEG provides top management with a thorough analysis of the viability of the project proposal prior to the approval of guarantee facility to applicant firms/institutions. Thus, PFEG determines the competence and reliability of the proponent to undertake projects.

The Appraisal Department of PFEG assesses the technical and credit aspects of proposals, while the Funds Generation Department is responsible for the issuance of bonds, debentures, securities collateral and other debt instruments, in foreign currencies; and for the administration, management and investment in equity or shares in public or private establishments.

#### Relationship of the Two Departments

Conceptually, the Credit Supervision and Business Development Group (CSBDG) was the implementing arm of the PFEG. However, an apparent overlap existed because both groups have an appraisal unit doing appraisal work. This resulted in a conflict of jurisdiction. Nevertheless, a knowledgeable respondent revealed that there is an imaginary cut-off between the boundaries of responsibilities of the two groups. Before approval of a project by the Board, PFEG has jurisdiction through the Appraisal Department; after appro-

val, CSBDG through the Architecture and Engineering Department has responsibility.

In practice, CSBDG assumes initial responsibility for the re-evaluation of a project but Project and Financial Evaluation Group may be asked for an opinion. Should there be a difference in decision, both positions shall be presented to the Management Committee. To resolve this overlap, delineation guidelines were formulated which are as follows:<sup>10</sup>

1. CSBDG shall undertake re-evaluation and processing of all requests for extension of guarantee of not more than a year;
2. PFEG shall undertake the re-evaluation and processing of requests for increase in the amount of guarantee not exceeding 20% of the original loan. The 20% ceiling is cumulative and therefore not a ceiling for each and every request for increase in guarantee amount;
3. PFEG shall undertake the re-evaluation and processing of requests for extensions requiring terms beyond one year; and finally,
4. Beyond 20% limit, PFEG shall evaluate with CSBDG providing the technical support.

#### Estate Management Group

The Estate Management Group which was created in 1980 is responsible for managing the different programs of the homeowners and community associations and building and loan associations. This is staffed by personnel from the Human Settlements Regulatory Commission, who fulfills additional tasks for HFC. The group is headed by a Vice President.

#### Special Projects Group

The Special Projects Group was created in 1981 to develop and implement new projects. It is responsible for the Housing Program of the Ministry of Human Settlements and provides administrative support to the Maunlad Savings and Loan Association (MSLA). This Association was acquired by HFC for P11,020,000 in August 1982. MSLA is situated in Angono, Rizal.<sup>11</sup>

#### Land Investment Trust (LIT) Program

The LIT is a program which is synonymous with the Special Projects Group and is often called a "corporation within a corporation". It has its own personnel, project management evaluation and finance units which operate autonomously.

#### Internal Audit and Information Systems (IAIS)

The Internal Audit and Information Systems (IAIS) was created by the Board pursuant to the recommendation of the Commission on Audit (COA) in the evaluation report dated November 23, 1981. The COA identified the weaknesses in the internal control system of the corporation and advised management to strengthen the organization and institute appropriate systems and controls. In 1982, a division chief was appointed on a contractual basis to the Internal Audit Office as the sole staff member. The contract was renewed for six months from January 1 to June 30, 1983. A manager was appointed in May 1983 to head the IAIS. Presently, it has a complement of 8 personnel, seven of whom are certified public accountants and headed by a manager.

There are two divisions in IAIS, which are the Financial Compliance Division and the Performance Appraisal Division. As defined in its functional chart, IAIS is responsible for determining the adequacy and soundness of the accounting, financial and operating systems, policies, procedures and control; ascertaining compliance with the policies, plans and control measures; reviewing and assessing the efficiency and effectiveness of the operating activities as well as personnel performance. It ensures the proper accounting and safeguarding of all monies, properties and physical resources of the corporation. It ascertains the reliability of accounting records and other important documents. It reviews financial statements and submits recommendation for operations improvement. It also coordinates with COA on audit matters. As an additional function, it develops the management information system for the corporation.

#### Corporate Planning Office (Corplan)

In 1983, a Corporate Planning Office was approved by the Board but no staffing was undertaken. However, in November of the same year, a consultant was hired to provide advice on corporate planning. He also serves as policy adviser on budget formulation and target-setting. For practical purposes, the Corplan is a one-man unit which the consultant heads.

As "head" of the unit, the consultant prepares two regular reports to the President: the annual performance and the updated corporate plan. Other special reports are submitted by him to the President as circumstances warrant. The thrust for 1983 is in policy and operations research.

Corplan Unit has not prepared a formal planning document because of the rather peculiar arrangement in the organization. In a sense, a corporate planning system has yet to be installed and implemented in the corporation.

## Aspects of Coordination and Control

### Committee

#### Management Committee

Like other public enterprises, HFC has a committee composed of senior officers which evaluates and recommends policy proposals to the Board. This is the Management Committee or Mancom chaired by the Vice-Chairman/President and composed of the Executive Vice-President/General Manager and heads of groups. The Mancom serves as a forum for discussing budget proposals, projects which need guarantee support, and innovations in policy approach or changes in the organizational system.<sup>12</sup>

### Planning

In the absence of a corporate planning body, the group heads, managers with the senior officers comprise the "planning body". Each year, a 3-day planning seminar is held to assess the past year's performance and prepare the programs for the ensuing year. A consultant who reports directly to the President and who undertakes policy review for the President, provides technical assistance in the planning sessions.

Unlike FEDC, LWUA, or PVTA which have formal units for planning, HFC's planning functions are diffused among the group heads. A planning unit has been proposed in the previous year's reorganization and a structure duly approved by the Board but implementation has been deferred because of budgetary reasons. Moreover, some key officers are of the view that the present arrangement is satisfactory.<sup>13</sup>

In the annual planning sessions, status reports are presented and discussed, problems and issues are analyzed, and specific recommendations arrived at. These forums serve as useful venues for problem solving. A substantial number of policy changes are discussed and proposals to the Board, initially developed.<sup>14</sup>

### Monitoring

There are three approaches in the monitoring of HFC guaranteed accounts. The first is the monitoring of accounts called bank warranties. This is undertaken by the Project and Financial Evaluation Group which monitors on a post-audit basis the compliance by banks availing of guarantees with the policies and regulations of HFC. The second is the monitoring through the supervision of Works Engineers of projects which need special attention such as those requiring supervision on technical specifications or those projects which are for low income families and

therefore have to be constructed at the most economical price without sacrificing minimum standards for livability. The third is the monitoring by controllership which is essentially a pre-audit function and accounting performed by the Credit Supervision and Business Development Group.<sup>15</sup>

An approach which supplements the above discussed monitoring approaches is the "account managers" concept by which officers of HFC starting with the rank of division chiefs up to the senior levels are assigned a number of projects for their supervision. The account managers prepare a monthly status report on the technical, financial, and marketing developments of the projects based either on actual visit or ocular inspection of the sites, or if this is not feasible, based on the reports sent by the project proponent/banks to HFC. Attached as Appendix A is the form which is presently used by the Account Manager.<sup>16</sup>

A review of the reports in the previous year indicate the findings on: deviation from approved plans, non-completion of required housing units or underdevelopment of the project, slip-page or delay in construction, inadequate water or sewerage facilities, low sales or delay in turnover of units to purchasers. The reports are intended to provide control points which serve as signals to HFC's guarantee operations.

#### Budgeting

In the absence of an integrated corporate plan, budgets are based on the projects of each department. These are consolidated at the division level and submitted to the AVP-Finance for evaluation. The consolidated budget is forwarded to the Management Committee for an internal budget hearing and final review before being passed on to the Board for approval. Variance analysis is done on a monthly basis by comparing the actual departmental expenses with the budgeted expenses. All disbursements pass through the Budget Division, thus expenses are monitored and controlled. Reprogramming of the budget is allowed after approval by the Vice-Chairman/President. The requisitioning department is required to submit a formal letter to the Executive Vice-President/General Manager who refers the issue to the Finance Department through the General Counsel and Administrative Group for review and recommendation.<sup>18</sup>

#### Internal Audit

The function of internal monitoring is the responsibility of the Internal Audit and Information Systems (IAIS). One of the first accomplishments of the unit is the completion of the operations and financial procedures manuals with the technical assistance from COA. These are used by the IAIS to monitor and evaluate the compliance by the departments with the prescribed

systems and procedures. They are also continuously updated.<sup>19</sup>

The operating departments are expected to submit monthly reports to the IAIS as inputs to the management information system. The IAIS generates the monthly and quarterly operations report which are submitted to the Vice-Chairman/President. This unit is privileged with a direct reporting relationship with the Vice-Chairman/President who refers their recommendations to the Executive Vice-President/ General Manager for implementation.<sup>20</sup>

#### Commission on Audit

As earlier discussed, the Internal Audit and Information Systems is a relatively new unit, having been fully staffed only in 1983. Its creation was recommended by COA which fielded a team in 1982 to evaluate the internal control system of the corporation. Among its other important recommendations in addition to the establishment of an internal audit unit were codification of a manual for the Credit Insurance Department, strengthening of controls over cash, proper recording of receivables, improvements in the fixed assets accounting and correction of the deficiencies noted in the control system.<sup>21</sup>

The post-evaluation in 1983 by COA revealed that HFC complied with a substantial number of recommendations and that the few weaknesses still existing were not material to hinder the withdrawal of the resident auditor. The COA withdrew its auditor in 1983.

Very significant reforms were undertaken in HFC because of the recommendations of COA. This HFC experience attests that autonomy in fiscal management is attainable for as long as the internal control systems is viable and top management responds positively to COA's recommendations.

#### The President as Policy-Maker (Vice-Chairman of the Board) and Administrator

There are two points of view regarding the dual role of the Chief Executive as policy-maker and administrator. One view maintains that execution and implementation should be divorced from policy making so that full attention can be given to the tremendous task of implementation. Policy making is regarded as a function solely exercisable by a group of men who are concerned with fashioning general rules and criteria for broad decision making, akin to the powers of a mini-legislative body.

On the other hand, the other view upholds the right of the policy-maker to implement his policies, so that deviations from intent can be averted. One advantage believed to spring from this arrangement is the presumed awareness and full knowledge of

the policy-maker/administrator of the real spirit of the policy as well as the implications which will result from its implementation, thereby minimizing, if not completely avoiding unwarranted departure of intent from action.

The HFC charter adopts the latter view, a conclusive proof that the merger of the roles of policy-maker and administrator is conducive to effective management.

The President who is both Vice-Chairman of the Board and Chief Executive Officer is not only responsible for the overall administration of the organization but also directly supervises the Corporate Planning Office, the Internal Audit Department and the Special Projects Department. He chairs the Management Committee which is composed of senior officers specifically the Executive Vice President/General Manager, Senior Vice President and Vice Presidents. This Committee acts as a review group of executive and vital matters, requiring board action. It is also a very active group which formulates proposals to the Board, prior to actual policy approval.

The relationships between the President and the offices which he directly oversee had been characterized by a number of knowledgeable respondents, as formal but close. There is also an increasing perception that he has delegated and reasonably substantial powers to the General Manager in the general supervision of the other departments of the organization.

### Operational Highlights

#### Measure of Performance

The measure of performance of HFC, according to management, is the number of participating banks and the amount invested. However, due to the unavailability of data, the discussion on the corporation's operational highlights will be limited to the amount of mortgage insurance coverage, investments, franchising and community associations and Land Investment Trust (LIT) projects.

#### Major Programs

Basically, HFC is a mortgage insurance firm. However, with the tremendous housing demands and requirements for massive capital for housing developments, it blossomed into a project-oriented public enterprises. In addition to its insurance programs, it has at the present time, five types of investment programs, such as: (1) joint-venture programs where the landowner provides the land and HFC takes care of design and finance; (2) trusteeship where HFC functions as attorney-in-fact empowered to develop the land into a viable project; (3) project management where it manages a housing project; and, (4) pass thru arrangement where it acts as a conduit between fund user and fund source while earning a spread in the process.

HFC is also actively involved in fund generation activities. It taps pension and trust funds, individual endowment funds, foundations, credit unions, and industrial and sectoral funds.

#### Major Accomplishments

##### Mortgage Guarantee

In 1980, HFC approved applications for guarantee mortgage loans amounted to P215,775,934.00. Of this total amount, P46,075,934.00 represented individual loans while P169,700,000.00 represented developmental loans. Only 80% of the approved applications for guaranteed mortgage loans were availed of. The individual loans amounted to P40,199,234.00 while developmental loans amounted to P127,379,000.00. On the other hand, it was observed that there was a growing awareness and demand for mortgage insurance coverage as a vital tool towards land and housing development. It was also during this year when HFC adopted two policy changes to encourage the participation of financial institutions in its mortgage guarantee program. The first major policy change implemented was the shift from bond guarantees to cash guarantees on its credit insurance program. This move encouraged more financial institutions to lend for real estate activities since the bond guarantee



was considered one reason for the reluctance of some financial institutions to lend. The second major policy change involved the emphasis on cash flow analysis instead of the availability of collaterals to determine the viability of a project. This made the package more acceptable and attractive.

In 1981, insurance coverage amounted to P562 million, registering an increase of 160% over the 1980 figure of P216 million. Of the total amount, 75% represented developmental loans, which amounted to P419 million while the balance of P143 million represented individual loans. On the other hand, the major policy changes implemented by HFC was met with immediate acceptance. This was evidenced by the fact that by yearend 1981, 33 financial institutions availed of the HFC guarantee compared to the 14 financial institutions recorded prior to the incorporation of HFC with the Ministry.

Insurance coverage for 1982 amounted to P3,019 million, representing an increase of 437% over the 1981 figure of P562 million. Of the total amount, 54% represented developmental loans, showing an increase of 292% over the 1981 figure of P419 million. The balance of P1,251 million represented individual loans which registered an increase of 775% over the 1981 figure of P143 million and P125 million for bond flotation. It was also during this year when the number of financial institutions that availed the HFC guarantee increased to 64 compared to the 1981 figure of 33.

In 1983, the mortgage insurance coverage amounted to P5,041 million. Of this amount, P2,309 represented developmental loans, showing an increase by P667 million. Individual loans for this year amounted to P1,766 million, showing an increase by P515 million. The balance of P966 million represented the NMFHC accounts. By yearend 1983, 80 financial institutions availed the HFC guarantee.

#### Various Housing Projects

As of yearend 1980, one on-going project of HFC was the Ipil-Ipil Heights situated at Alabang, Muntinglupa, Rizal. Without equity from HFC, this project falls within HFC's project management and controllership program. This housing project has 1,124 housing units and involves a total project cost of P132 million. There were four other projects in progress, as of yearend. These were: (1) Victory Heights Subdivision; (2) Pasig Properties; (3) PAG-IBIG sa BLISS; and, (4) Modern Village Subdivision. All these projects had an aggregate project cost of P213 million.

The targeted number of housing projects that would be made

available to the public once the projects undertaken in 1980 and 1981 were completed will be more or less 5,000 units.

As of yearend 1982, the number of housing projects that will be made available to the public once these projects were completed was down to 3,865 units. Moreover, one of the principal innovations adopted by HFC in relation to its role in the National Shelter Program was the accreditations of several prestigious lending institutions. Under this program, these lending institutions were given automatic insurance coverage up to P500 million per entity for housing loans granted by them. Total commitment for housing finance both from private financiers and HFC reached P11 billion, thus, insuring the commitment of NHS to build 100,000 housing units every year.

Under the developmental projects, there were 92 projects with 40,237 units. As of yearend 1983, there were 5,472 completed units. Under the individual project, there were 14,045 units completed at the end of 1983.

#### Franchising and Community Association

The total number of registered homeowners' association in 1980 was 125. From February 2, 1980 to June 30, 1981, HFC franchised and registered 164 homeowners' association situated in the 12 regions of the country. The Community Association, as a corporation, once registered and franchised by HFC enjoys the credit insurance, technical services, tax shelter, and many more. Review of operations showed that the corporation contributed in the government's efforts to promote and provide homeownership through the various activities undertaken.

In 1982, HFC franchised and registered 653 homeowners' association situated in the 12 regions of the country.

The information on the number of franchised and registered homeowners' association for 1983 was not yet available as of the date of data-gathering.

#### Investments

Investments of HFC represented those made by the corporation of its idle funds not otherwise needed in its day-to-day operations.

In 1980, total investments amounted to P6,206,173.71, excluding those in savings account. Of this amount, P4,200.00 were invested in PLDT preferred shares; P100,000.00 in Manila Building and Loan Association; P3,727,980.00 in trust

deposits in Philippine Veterans Bank; and, P2,373,933.71 in a housing project in Cebu City. The savings account of HFC, which also earn interest, amounted to P856,956.66.

As of yearend 1981, total investments amounted to P94,635,744.38. The trust deposits which amounted to P73,556,109.38 includes re-invested and accrued interest but net of the 20% tax imposed by the law on withholding tax. The time deposits of HFC for that year amounted to P18,000,000.00. Another investment during this year was the housing project in Cebu City, representing Phase 1. This project was actually a joint project with the Cebu Caritas under Cardinal Rosales. The proceeds from this project will be re-invested in yet another project also with the Cebu Caritas, called Phase 2.

In 1982, total idle funds amounted to P143,640,788.43. This amount was invested on high yielding investments scheme such as: PNB time deposits--P18,000,000.00; PNB trust deposits--P93,416,242.60; Development Bank of the Philippines trust deposits--P16,113,030.80; Philippine Veterans Bank trust deposits--P3,095,485.43; Maunlad Savings and Loan Association, whose entire stock was bought by HFC--P11,020,000.00; Philippine Long Distance Telephone shares--P4,200.00; Bahayan Certificates issued by NMMFC--P1,911,829.60; and, Manila Building and Loan Association--P100,000.00. The interest earnings of these investments can be determined monthly or yearly based on the rates stated in the contract and/or certificates with the exception of the Maunlad Savings and Loan Association wherein the entire holdings of the former owners were acquired by HFC.

#### Acquisition of a Subsidiary Bank

In 1982, HFC acquired the entire ownership of the Maunlad Savings and Loan Association, Inc. thru purchase in the amount of P11.02 million. The bank's main office is located in Angono, Rizal, with branches at Binangonan, Cainta and Antipolo.

#### Land Investment Trust (LIT) Projects

At the end of December 1983, LIT had 9 on-going projects, with total projects funding of P342,691,000.00. The total housing units amounted to 2,094. Of this amount, 940 units were townhouse type; 522 units were social houses; 459 units were single detached; and, 173 units were duplex-type.

#### Land Investment Trust (LIT) Certificate

In September 9, 1983, an agreement between the Manila and

Makati Stock Exchanges and the Ministry of Human Settlements to trade LIT certificates was signed at Malacanang Palace. Table No. 1 presents the issues which had been listed and consequently traded at these two stock exchanges:

Table No. 1

	No. of Shares	Value
BF Balikbaha	32,674,000	P32,674,000.00
Pasig Kapitolyo	2,304,000	2,304,000.00
Mintoor Southrow	2,400,000	2,400,000.00
TOTAL	37,378,000	P37,378,000.00

The HFC, through its change in marketing strategy by granting cash guarantee instead of bond guarantee to insured lending institutions, widened the client-coverage. Thru this scheme, resources for housing were mobilized, swelling the housing units available to low and middle income families.

Table No. 2

Financial Highlights  
1980 - 1983

(amount in millions)

	1980	1981	1982	1983
Resources	P 70.4	P100.3	P171.0	P243.3
Gross Revenue	5.9	14.4	30.6	50.6
Expenses	5.89	7.5	11.0	17.2
Net Income (Loss)	0.01	6.9	19.6	33.4
Current Assets	62.8	4.4	19.8	51.0
Current Liabilities	0.6	5.0	1.6	40.7
Total Liabilities	3.4	9.0	10.0	52.4
Total Equity	66.9	91.4	161.0	191.0

Financial Review

Results of Operations

Operating income in 1983 amounted to P33.4 million, from P0.01 million in 1980, P6.9 million in 1981, and P19.6 million in 1982.

Gross revenue rose from P50.6 million in 1983, from P5.9 million in 1980, P14.4 million in 1981, and P30.6 million in 1982.

Total operating expenses expanded to P17.2 million in 1983, from P5.9 million in 1980, P7.5 million in 1981, and P11.0 million in 1982.

Financial Condition

Total resources amounted to P242.3 million in 1983, from P70.4 million in 1980, P100.3 million in 1981, and P171.0 million in 1982.

Total liabilities rose to P52.4 million in 1983, from P3.4 million in 1980, P9.0 million in 1981, and P10.0 million in 1982.

Total equity rose to P191.0 million in 1983, from P66.9 million in 1980, P91.4 million in 1981, and P161.0 million in 1982. Table No. 2 above shows the Financial Highlights of HFC from 1980 to 1983.

Tools Used To Measure The Over-All Financial Performance Of HFC

For the study of this corporation, only three tools will be used in analyzing its financial performance from 1980 to 1983. These are: (1) financial ratios; (2) common size analysis of financial statements; and, (3) index analysis of financial statements.

Financial Ratios

Test of profitability and test of liquidity were utilized in analyzing the financial performance of HFC from 1980 to 1983. The ratios and percentages are shown in Table Nos. 3 to 11 representing results of operations and financial condition.

Results of Operations

Profit Ratio

Table No. 3 shows the Profit Ratio from 1980 to 1983 of HFC as a measure of the over-all profitability of the operations of the corporation.

Table No. 3

Profit Ratio  
1980 - 1983

Calendar Year	Net Income	Gross Income	Profitability Ratio (%)
1980	P 11,152.70	P 5,881,815.98	0.19%
1981	6,933,050.34	14,447,477.84	47.99%
1982	19,630,041.57	30,582,169.06	64.19%
1983	33,399,527.11	50,633,210.24	65.96%

As shown in Table No. 3, the profitability of the corporation rose to 65.96% from 0.19% in 1980, 47.99% in 1981, and 64.19% in 1982. These ratios indicate profitable operations from 1980 to 1983.

Return on Stockholders' Investment

Table No. 4 shows the return on stockholders' equity from

0.01% in 1980, 5.43% in 1981 and 15.39% in 1982 to 26.18% in 1983.

Table No. 4

Return on Stockholders' Investment  
1980 - 1983

Calendar Year	Net Income	Average Stockholders' Equity	Ratio (%)
1980	P 11,152.70	P127,572,396.50	0.01%
1981	6,933,050.34	127,572,396.50	5.43%
1982	19,630,041.57	127,572,396.50	15.39%
1983	33,399,527.11	127,572,396.50	26.18%

As shown in Table No. 4, the return on stockholders' equity from 1980 to 1983 indicates an increasing trend. The return of the funds gradually increased due to the corresponding increase of net income during the four-year operations.

Return on Total Investment

Table No. 5 shows the return on total investment of the corporation from 1980 to 1983 with an increasing trend of the return of funds invested. From 1980, the ratio rose to 16.48% in 1983, from 0.02%. This increase was brought by the corresponding and yearly increase of pre-tax income plus bond interest of the corporation from 1980 to 1983.

Table No. 5

Return on Total Investment  
1980 - 1983

Calendar Year	Pre-Tax Income Plus Bond Interest	Capital Plus Fixed Liabilities	Ratio (%)
1980	P 11,152.70	P 69,634,756.95	0.02%
1981	6,933,050.34	95,351,747.71	7.27%
1982	19,630,041.57	169,399,787.20	11.34%
1983	33,399,527.11	202,700,455.40	16.48%

Financial Condition

Current Ratio

As shown in Table No. 6, the corporation was very liquid in

1980 with a ratio of 106.42:1. This was to a very high current assets against the current liabilities which was quite low. This ratio decreased in 1981 to 0.89:1 and increased to 12.10:1 in 1982. In 1983, however, the corporation's liquidity reduced again to 1.26:1 in view of the abrupt increase of current liabilities from P1.6 million in 1982 to P40.7 million in 1983.

Table No. 6

Current Ratio  
1980 - 1983

Calendar Year	Current Assets	Current Liabilities	Liquidity (%)
1980	P 62,852,202.83	P 590,594.16	106.42:1
1981	4,455,263.75	4,978,557.96	0.89:1
1982	19,819,163.22	1,638,130.60	12.10:1
1983	51,029,772.64	40,655,615.65	1.26:1

With the exception of the year 1981, the corporation was very liquid in 1980 and quite liquid in 1982 and 1983.

Acid-Test Ratio

Table No. 7 shows the acid-test ratio of 106.34:1 in 1980, 0.88:1 in 1981, 12.05:1 in 1982, and 1.25:1 in 1983.

Table No. 7

Acid-Test Ratio  
1980 - 1983

Calendar Year	Quick Assets	Current Liabilities	Ratio (%)
1980	P52,304,034.24	P 590,594.16	106.34:1
1981	4,407,861.97	4,978,557.96	0.88:1
1982	19,741,486.96	1,638,130.60	12.05:1
1983	50,852,409.96	40,655,615.65	1.25:1

With the exception of the calendar year 1981, the corporation was very liquid in 1980 and 1982. In 1983, however, its liquidity dropped to 1.25:1 from 12.05:1 in 1982. In 1983, therefore, should the creditors demand for immediate payment, the corporation will still be liquid by 0.25 worth of immediately convertible to cash assets or P1.02 million remaining quick assets.



Average Collection Period

Table No. 8 shows the average collection period of the corporation from 1980 to 1983 from 2,622 days to 223 days in 1983.

Table No. 8

Average Collection Period  
1980 - 1983

Calendar Year	Gross Income	No. of Working Days	Average Daily Income
1980	P 5,881,815.98	250	P 23,527.26
1981	14,447,477.34	250	57,789.91
1982	30,582,169.06	250	122,328.68
1983	50,633,210.24	250	202,532.84

	Accounts Receivables	Average Daily Income	Days
1980	P61,699,135.78	P 23,527.26	2,622
1981	3,358,833.54	57,789.91	58
1982	18,006,565.83	122,328.68	147
1983	45,189,821.21	202,532.84	223

The average collection period from 1980 to 1983 as shown above, can be related to the credit terms offered by the corporation. It shows the day's income on the books in relation to the accounts receivables which can be used in any credit policy or changes in collection of receivables. Calendar year 1980 as presented in Table No. 8 shows a very high average collection period due to a very high accounts receivable of P61.7 million in relation to the average daily income of only P23,527.26. In 1981, however, there was an abrupt reduction of the average collection period from 2,622 days to 58 days due to the improvement in collection by P58.3 million. In 1982 and 1983, the receivable of the corporation increased to P18.0 million and P45.2 million with that of 1981. However, the average daily income of the corporation correspondingly increased.

Receivable to Income

Table No. 9 shows another way of expressing the same relationship as expressed by the average collection period.

Table No. 9

Receivable to Income  
1980 - 1983

Calendar Year	Accounts Receivable	Gross Income	Ratio (%)
1980	P61,699,135.78	P 5,881,815.98	1,048.98%
1981	3,358,833.54	14,477,477.34	23.25%
1982	18,006,565.83	30,582,169.06	58.88%
1983	45,189,821.21	50,633,210.24	89.25%

As shown in Table No. 9, the best ratio of receivable to income was in the year 1981, with 23.25%. This can be related to 58 days average collection period as shown in Table No. 8. The receivable to income ratio decreased to 89.25% in 1983, from 1,048.98% in 1980, 23.25% in 1981 and 58.88% in 1982.

Equity Ratio

Table No. 10 shows the equity ratio of the corporation of 96.14% in 1980, 95.80% in 1981, 95.06% in 1982, and 94.20% in 1983.

Table No. 10

Equity Ratio  
1980 - 1983

Calendar Year	Capital	Capital plus Non-Current Liabilities	Ratio (%)
1980	P 66,949,423.21	P 69,634,756.95	96.14%
1981	91,352,515.15	95,351,747.71	95.80%
1982	161,032,768.14	169,399,787.20	95.06%
1983	190,954,879.27	202,700,455.40	94.20%

Table No. 10 indicates the proportion of total investment that is derived from stockholders (either directly, or indirectly as retained earnings). The equity ratio decreased by 1.94% in 1983 with that of 1980. This minimal reduction was brought about by the corresponding increases of Capital from 1980 to 1983 with that of the capital plus non-current liabilities.

Debt-to-Net Worth Ratio

Table No. 11 shows the relationship of total debt of HFC in relation to Net Worth from 1980 to 1983. The debt-to-net worth

ratio of the corporation rose to 0.27:1 in 1983, from 0.05:1 in 1980, 0.10:1 in 1981, and 0.06:1 in 1982.

Table No. 11

Debt-to-Net Worth Ratio  
1980 - 1983

Calendar Year	Total Debt	Net Worth	Ratio (%)
1980	P 3,427,048.24	P 66,949,423.21	0.05:1
1981	8,977,790.52	91,352,515.15	0.10:1
1982	10,005,149.66	161,032,768.14	0.06:1
1983	52,401,191.76	190,954,879.27	0.27:1

The increase of the ratio was brought about by the increase of net worth from P66.9 million in 1980 to P190.9 million in 1983, in relation to the increase of total debt from P3.4 million in 1980 to P52.4 million in 1983.

Common Size Analysis

The common size analysis, also known as percentage analysis, of HFC from 1980 to 1983 will be discussed in accordance with the Corporation's results of operations, such as Gross Revenue, Expenses and Net Income (Loss) and Financial Condition, such as Resources, Current Assets, Fixed Assets, Current Liabilities, Long-term Liabilities and Equity.

Results of Operation

Percentage Analysis of Income and Expense Statement of the corporation from 1980 to 1983 are as follows:

Table No. 12 presents the percentages of the different sources of revenue to the total gross revenue.

Table No. 12

Common Size Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
Insurance Premium	77.51%	41.16%	41.45%	45.09%
Application/Inspection Fees	7.49%	7.63%	10.03%	16.28%
Interest on Trust/Time Deposits	12.84%	50.54%	48.27%	33.38%

Table No. 12 (cont.)

Common Size Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
Project Management Fees	--	0.55%	--	--
Others	2.46%	0.16%	0.25%	0.25%
Gain/Loss on Sale of Acquired Assets	( 0.30%)	( 0.04%)	--	--

Throughout the four-year period under study, income from insurance premium remained to be a substantial portion of the total gross revenue. In 1980, 77.51% of the corporation's total income came from insurance premium. This was due to the implementation of two major policy changes which encouraged the participation of financial institutions in the mortgage guarantee program. These policy changes were: (1) shift from bond guarantees to cash guarantees since the former was considered an important reason for the reluctance of financial institutions in lending for real estate activities; and, (2) emphasis was placed on the cash flow analysis rather than the availability of collaterals to determine the viability of the project. Although HFC's income generated from insurance coverage in 1981 was lower than that of 1980, interest income from investments more than tripled that of 1980, from 12.24% to 50.54%. In 1982, on the other hand, there was a boom in the construction industry. Insurance premiums amounted to 41.45% of the total gross revenue, showing a slight increase from 41.16% of the previous year. Although there was an increase in the peso value of interest on trust and time deposits, as a percentage of gross revenue, there was a decrease from 50.54% to 48.27%. HFC's performance in 1983 showed an upward trend. Income from insurance premium increased from 41.45% to 45.09% and application and inspection fees increased from 10.03% to 16.28% of the total gross revenue. Although there was a decrease on the interest earnings on trust and time deposits as a percentage of the total income, the corporation's overall performance was improving.

Regarding the expenses of the corporation, Table No. 13 presents the percentages of the different components of the expenses to its total

Table No. 13

Common Size Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	58.27%	32.10%	23.62%	21.39%
Discretionary Expenses	5.51%	2.05%	1.12%	1.92%
Representation Expenses	3.67%	2.38%	0.34%	0.24%
Travelling Expenses	4.69%	2.54%	1.53%	1.32%
Office Rental	8.33%	3.45%	1.93%	1.38%
Extraordinary Expense	4.10%	1.06%	--	--
Business Promotions	0.25%	2.16%	1.22%	1.04%
Supplies/Materials	1.35%	0.68%	0.40%	0.52%
Auditing Services	3.93%	1.50%	1.00%	0.60%
Depreciation Expenses	5.18%	1.61%	0.78%	0.60%
Interest Expense	--	--	2.26%	3.87%
Others	4.53%	2.48%	1.61%	1.16%
TOTAL EXPENSES	99.81%	52.01%	35.81%	34.04%

Throughout the four-year period under study, the personal services remained the largest expense. However, there was a decreasing trend in the personal services account, as a percentage of total gross revenue. Generally, the total expenses of the corporation from 1980 to 1983 were substantial portion of the total gross revenue. In fact, in 1980, total expenses amounted to 99.81% of the total gross revenue. Nevertheless, there was a decreasing trend in the total expenses, as a percentage of total gross revenue.

Inasmuch as the expenses of the corporation were great, MFC made an almost break-even operations in 1980, generating 0.19% of the total gross revenue. From the years 1981 to 1983, however, there was a great improvement in the corporation's net income. Table No. 14 presents the net income from 1980 to 1983 as a percentage of total gross revenue.

Table No. 14

Common Size Analysis of Net Income  
1980 - 1983

	1980	1981	1982	1983
Net Income	0.19%	47.99%	64.19%	65.96%

Financial Condition

Regarding the common size analysis of the balance sheet, Table No. 15 contains the components of the total assets as percentage of its total.

Table No. 15

Common Size Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Cash	1.57%	1.04%	1.01%	2.33%
Receivables	87.67%	3.35%	10.53%	18.57%
Supplies and Materials	0.07%	0.05%	0.05%	0.07%
CURRENT ASSETS	89.31%	4.44%	11.59%	20.97%
Prepayments/Deposits	0.18%	0.12%	0.09%	0.10%
Investments/Securities	8.82%	94.32%	83.98%	61.35%
Acquired Assets	0.47%	0.16%	3.76%	16.90%
Fixed Assets (Net)	0.82%	0.69%	0.43%	0.58%
Leasehold Improvements	0.40%	0.26%	0.15%	0.10%
OTHER ASSETS	10.69%	95.56%	88.41%	79.03%

Generally, a substantial portion of the corporation's total assets for the years 1980 to 1983 were non-current, except in 1980 when current assets amounted to 89.31% of the total assets. Further analysis of the composition of the total assets in 1980 shows that 87.67% of the total assets comprised the receivables. Such a large percentage was attributed to the P60 million equity contribution of the National Government. From 1981 to 1983, however, the investments and securities comprised a substantial portion of the total assets.

Regarding the liabilities of the corporation, Table No. 16 contains the percentages of the different components of the liabilities to its total.

Table No. 16

Common Size Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Payables	0.34%	4.62%	0.34%	2.96%
Trust Liabilities	0.21%	0.35%	0.62%	13.75%
CURRENT LIABILITIES	1.05%	4.97%	0.96%	16.71%

Table No. 16 (cont.)

Common Size Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Deferred Liabilities	3.82%	3.99%	4.89%	4.83%
TOTAL LIABILITIES	4.87%	8.96%	5.85%	21.54%

There was a fluctuating trend in the corporation's liabilities, as a percentage of total assets. Nevertheless, total liabilities remained to be a small percentage of total assets, except in 1983 when this amounted to 21.54%.

Table No. 17 contains the specific components of the equity as percentages of the total assets.

Table No. 17

Common Size Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock	94.14%	83.97%	78.49%	55.16%
Surplus	0.99%	7.07%	15.66%	23.30%
TOTAL EQUITY	95.13%	91.04%	94.15%	78.46%

Of the total equity, the capital stock, which includes the equity infusion of the National Government remained to be a large percentage of the total assets. The surplus account, on the other hand, was just a small percentage of the total assets. However, further analysis of the figures in Table No. 17 shows that the capital stock, as a percentage of the total assets, was decreasing throughout the four-year period while the surplus account was increasing.

Index Analysis

Results of Operation

Table No. 18 presents the magnitude of change of the different components of the gross revenue from the base year, 1980.

Table No. 18

Index Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
Insurance Premium	100%	130.45%	278.04%	500.69%
Application/Inspection Fees	100%	250.28%	696.26%	1872.14%
Interest on Trust/Time Deposits	100%	966.70%	1954.32%	2572.59%
Project Management Fees	--	--	--	--
Gain/Loss on Sale of Acquired Assets	100%	15.97%	53.51%	89.16%
GROSS REVENUE	100%	245.63%	519.94%	860.84%

Analysis of the figures in Table No. 18 indicates that the total gross revenue during the four-year period under study were increasing each year. In fact, the total gross revenue from 1981 to 1983 increased as compared to the 1980 figure. Further analysis of the figures in Table No. 18 shows that the different sources of income, except the gain/loss on sale of acquired assets, increased each year.

Regarding the expenses of the corporation, Table No. 19 shows the magnitude of change of the specific accounts.

Table No. 19

Index Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	100%	135.33%	210.76%	315.96%
Discretionary Expenses	100%	91.30%	106.02%	299.96%
Representation Expenses	100%	159.21%	47.62%	56.30%
Travelling Expenses	100%	133.08%	168.89%	241.77%
Office Rental	100%	101.90%	120.57%	142.97%
Extraordinary Expense	100%	63.52%	--	--
Business Promotions	100%	2123.70%	2539.30%	3568.35%
Supplies/Materials	100%	123.02%	154.06%	327.50%
Auditing Services	100%	93.68%	132.62%	131.79%
Interest Expenses	--	--	--	--
Depreciation Expense	100%	76.15%	78.55%	99.91%
Others	100%	134.53%	184.88%	220.19%
TOTAL EXPENSES	100%	126.00%	165.56%	293.56%



The total expenses of the corporation from 1980 to 1983 increased at an increasing trend. In 1981, total expenses increased to 128% as compared to the 1980 figure due to the additional personnel. In 1982, the total expenses also increased but at a lesser magnitude than the increases in the total income. Finally, the total expenses in 1983 increased to 293.56% as compared to the 1980 figure.

The magnitude of change in the gross revenue and total expenses resulted to a higher net income as compared with the 1980 figure. Table No. 20 contains the percentage increase in the net income from 1980.

Table No. 20

Index Analysis of Net Income  
1980 - 1983

	1980	1981	1982	1983
Net Income	100%	62614.77%	176011.56%	299474.81%

Table No. 20 indicates that the net income from 1981 to 1983 increased tremendously as compared to the 1980 figure. This could primarily be attributed to the greater increase in gross revenue than the increase in total expenses.

Financial Condition

Regarding the index analysis of the accounts in the balance sheet, Table No. 21 presents the magnitude of change of the specific assets from the base year, 1980.

Table No. 21

Index Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Cash	100%	94.86%	156.88%	512.06%
Receivables	100%	5.44%	29.18%	73.24%
Supplies and Materials	100%	100.39%	164.50%	375.62%
CURRENT ASSETS	100%	7.09%	31.53%	81.19%
Prepayment/Deposits	100%	100.00%	130.15%	192.56%
Investments/Securities	100%	1524.86%	2314.48%	2405.76%
Acquired Assets	100%	47.12%	1954.50%	12508.74%
Fixed Assets (Net)	100%	120.62%	126.70%	243.21%
Leasehold Improvements	100%	91.66%	89.19%	82.64%
OTHER ASSETS	100%	1274.21%	2009.75%	2556.08%
TOTAL ASSETS	100%	142.56%	243.03%	345.79%

Table No. 21 indicates that the total assets increased each year. A close look at these figures shows that the current assets for the years 1981 to 1983 decreased as compared to the 1980 figure. This could be attributed to the decrease in the accounts receivables of the corporation since the 1980 figure included the P60 million equity contribution of the National Government. Further analysis shows that the investments increased tremendously. Likewise, the acquired assets increased substantially as compared to the 1980 figure, except in 1981 when there was a decrease by 52.88%.

Table No. 22 shows the magnitude of change of the various components of the liabilities.

Table No. 22

Index Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Payables	100%	784.02%	98.49%	1218.40%
Trust Liabilities	100%	100.00%	303.42%	9610.00%
CURRENT LIABILITIES	100%	671.22%	220.86%	5461.30%
Deferred Liabilities	100%	148.93%	311.58%	437.40%
TOTAL LIABILITIES	100%	261.97%	291.95%	1529.05%

Total liabilities for the years 1981 to 1983 increased as compared to the 1980 figure. A close look at the figures in Table No. 22 shows that the accounts payable in 1981 increased to 784.02% while the deferred liabilities increased to just 148.93%. In 1982, the accounts payable was only 98.49% of the 1980 figure but the trust account increased to 303.42% and the deferred liabilities increased to 311.58%. The accounts payable in 1983 increased to the tune of 1,218.40% of the 1980 figure while the trust account increased further to 9,610%. Deferred liabilities, likewise, increased to 437.40%.

Table No. 23 shows the magnitude of change of the various components of the Government Equity.

Table No. 23

Index Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock	100%	127.17%	202.64%	202.64%
Surplus	100%	1015.43%	3329.26%	8107.39%
TOTAL EQUITY	100%	136.45%	240.53%	285.22%

Analysis of the figures in Table No. 23 indicates that the total equity increased at a fluctuating trend. A close look at these figures shows that the paid-in capital in 1981, reflecting the National Government's equity contribution increased to 127.14% of the 1980 figure while the surplus account registered an increase of 1,015.48%. In 1982, paid-in capital increased to 202.64% of the 1980 figure while the surplus account increased to 3,829.26%. As in the previous years, paid-in capital in 1983 amounted to 202.64% of the 1980 figure. The surplus account increased to 8,107.38%.

Summary

The financial operations of Home Financing Corporation for the four-year period under review were generally sound in spite the abrupt decrease of the current ratio and acid-test ratio in 1981 by 105.53% and 105.46% respectively. 1981 showed a below par performance due to the increase of current liabilities in relation to the current assets.

Over-all performance of the corporation, however, for four years was favorable. Shown in Table No. 24 is the Summary of the Financial Performance of HFC from 1980 to 1983.

Table No. 24

Summary of Financial Performance  
1980 - 1983

	1980	1981	1982	1983
<u>Results of Operations</u>				
Profit Ratio	0.19%	47.99%	64.19%	65.96%
Return on Stockholders' Equity	0.01%	5.43%	15.39%	26.10%
Return on Total Investment	0.02%	7.27%	11.53%	16.48%
<u>Financial Condition</u>				
Current Ratio	106.42:1	0.89:1	12.10:1	1.26:1
Acid-test Ratio	106.34:1	0.88:1	12.05:1	1.25:1
Average Collection Period (days)	2,622	53	147	223
Receivable to Income	1,048.98%	23.25%	58.80%	89.25%
Equity Ratio	96.14%	95.80%	95.06%	94.20%
Debt-to-Net Worth Ratio	0.05:1	10.00:1	0.06:1	0.27:1

FOOTNOTES

- <sup>1</sup>COA Audit Report, 1982.
- <sup>2</sup>Ibid.
- <sup>3</sup>Republic Act 580.
- <sup>4</sup>IWC Charter.
- <sup>5</sup>Ibid.
- <sup>6</sup>Ibid.
- <sup>7</sup>Ibid.
- <sup>8</sup>Ibid.
- <sup>9</sup>Ibid.
- <sup>10</sup>Minutes of Mancom Meetings.
- <sup>11</sup>COA Audit Report, 1983.
- <sup>12</sup>Interview with Corazon Corpuz, Assistant Division Chief, Performance Appraisal Division, October, 1984.
- <sup>13</sup>Interview with Albert Euenviaje, Senior Vice-President, Special Projects Group, May, 1984.
- <sup>14</sup>Minutes of Annual Planning Session, 1983.
- <sup>15</sup>Interview with Feliciano Gacis, Corplanner/Consultant, October, 1984.
- <sup>16</sup>Interview with Juan Reñoble, Assistant Vice-President, Finance Department, October, 1984.
- <sup>17</sup>Project Status Analysis, 1983.
- <sup>18</sup>Interview with Corazon Corpuz.
- <sup>19</sup>Ibid.
- <sup>20</sup>Ibid.
- <sup>21</sup>Internal Control Evaluation, 1982.

FARM SYSTEMS DEVELOPMENT CORPORATION

Corporate Overview

The goal of the National Government to increase food production can not be achieved without the cooperation of the farmers.<sup>1</sup> To attain this objective, the Farm Systems Development Corporation (FSDC) was created under Presidential Decree No. 681. Its main purpose is to promote the organization of and assist all irrigation associations and farm-based related activities.<sup>2</sup> Initially attached to the Office of the President, FSDC is presently attached to the Ministry of Public Works, Transportation and Communication, a change effected by Presidential Decree No. 1595. The same amendatory decree expanded its functions and encompasses activities designed to improve methods and develop entrepreneurial capabilities in the areas of resource management, farming, fishing, forestry, agro-industrial production, processing, marketing, drainage, rural waterworks, and land reclamation for agricultural production.<sup>3</sup>

The policy-making body of FSDC is the Board of Administrators. As of 1980, it was composed of the Minister of Public Works, Transportation and Communication, the President of the Development Academy of the Philippines, the Executive Director of the National Food and Agricultural Commission, the Administrators of the National Irrigation Authority, the National Grains Authority, the National Electrification Authority, and the Administrator of FSDC as ex-officio member.<sup>4</sup> This same set up exists up to the present.

In 1980, the Office of the Administrator had the following departments under his supervision: 1) Office of the Deputy Administrator; 2) Corporate Legal Office; 3) Internal Audit Services; 4) Security Affairs Service; 5) Management Services Department; 6) Research and Development Department; 7) Supply Management Office; 8) Programs Development Department; 9) Special Projects Department; 10) Engineering Department; 12) Finance Department; and, 13) Area Offices.

Characteristics of the Organization

Organizations may either be centralized or decentralized in structure. Nevertheless, the formal structure may be "altered" by the leadership style of the head of the organization. Thus, lines of command may be defined in the organizational chart, specifying the flow of authority, but practices may differ in real situations in the corporation. Such is the case in FSDC.

All departments, including all Area Offices, are directly

supervised by the Administrator. At first glance, it would seem that authority is centralized. However, in practice, operations are decentralized. The Deputy Administrator supervises financial matters rather than the programs. Consequently, he has a distinct set of functions compared with his counterparts in similar organizations.

#### Changes in Organization

The 1980 structure, approved by the Ministry of Budget, was the same structure in 1981.<sup>5</sup> That same year marked a transition period for FSDC. Under Presidential Decree No. 1595, it was granted expanded powers to include activities aside from rice farming.<sup>6</sup> Change did not come abruptly, however. Task forces, which were an acceptable mechanism in the corporation, were created to facilitate smooth transition. Despite the major changes, it is possible to trace the evolution of the 1983 structure from 1980. The following is a discussion of the various departments in 1980.

#### Corporate Legal Office (CLO)

The Corporate Legal Office provides legal services not only to the Central Office but also to the Integrated Services Associations (ISAs) and the Kalipunan ng mga ISAs (KAISA). This department ascertains the legality of documents and proceedings both in the Central Office and ISAs and KAISAs. It also hears as well as files cases involving the corporation. Foreign loan contracts including procurement of equipment from foreign source are reviewed by it.

#### Security Affairs Service (SAS)

The SAS was created in compliance with Presidential Decree No. 51 which requires all government corporations to have a security unit that will take charge of the security of the employees, "installations, classified documents, and materials."<sup>7</sup>

#### Internal Audit Service (IAS)

The Internal Audit Service has been part of FSDC ever since the corporation was created in 1975. This unit pre-audits all disbursements. As per the 1980 organization manual, the following transactions are not being pre-audited by the Commission on Audit:

- "1. payment for consumable items below P10,000
2. payment for non-consumable items and services below P20,000

3. partial payments for development projects (construction, irrigation systems, etc.) except the first and last payment
4. payment to government agencies."8

Initially, the IAS pre-audited the above-mentioned transactions as well as the disbursements of the Area Offices. However, under the present COA policies, most transactions are post-audited.<sup>9</sup> This is performed by the Field Service Division. Loan releases to ISAs and KAISAs are also audited by the IAS. It is also involved in performance appraisal of departments to ensure efficiency and effectiveness. It is likewise assessing areas requiring improvement, which are brought out during Regular Management Committee meetings. This department did not undergo any change during the four-year period covered by the survey.

#### Supply Management Office (SMO)

The Supply Management Office provides the equipment and supplies requirements of the Central Office, Area Offices, and projects. Likewise, it is responsible for transporting and warehousing equipment.

This department has always functioned as an independent unit except during the year 1982 when it was transferred as a division of the Management Services Department.<sup>10</sup> This change was not made because of similarity of functions, but due to the fact that the Director of the Management Services Department was also concurrent Head of the Supply Management Office. An assistant director was thus created so that an officer can closely supervise the office. In 1983, the Supply Management Office regained its position as a separate unit.

#### Management Services Department (MSD)

The Management Services Department is a very important coordinating arm of the corporation because it serves as a link between management and other units, FSDC and Area Offices, and even FSDC with the external environment, especially foreign-lending institutions. The MSD formulates planning guidelines which are the basis for the preparation of work programs and budgets of all departments and Area Offices. By using the work programs, the MSD is able to monitor the corporation's performance. Systems evaluation and improvement is continually being undertaken by the MSD in coordination with other units.

#### Change in Structure

The Management Services Department has undergone some internal changes over the years although its basic functions have remained the same. In 1980, the divisions under it were the following: 1) Corplan; 2) Communication Services; 3) Corporate Information Systems; 4) Operations Control. MSD was designated as a task force on the Modified Barangay Irrigators' Services Association (BISA) Program in 1981 while retaining the same set-up. In 1982, a substantial reorganization of departments was undertaken. The Supply Management Office was put under MSD while the corporate planning function was transferred to the newly created Plans and Research Department. The other division under the MSD was the Management Information and Systems. Finally, in 1983, the Plans and Research Department was abolished and merged with the Management Services Department. The new divisions under it are the following: 1) Corplan; 2) Systems Development Division; 3) Project Monitoring and Evaluation Division; 4) Research and Development; and, 5) Communication and Training Services.

#### Administrative Department (AD)

This department was vested with the responsibility of providing administrative support services to the different corporate units. From 1980 up to 1981, this task was carried out through its two divisions, namely: 1) Human Resources Division; and, 2) General Services.

#### Finance Department (FD)

The Finance Department handled the sourcing, obtaining, disbursing, and protecting corporate resources. Its activities did not only revolve around in-house financial needs, but also project financing. It functioned as project team for loans in 1981. Its function was to study FSDC's loan management system with the aim of formulating a new one.

#### Finance and Administrative Department (F&A)

From 1980 to 1981, Finance and Administrative operated as two different units. In 1982, the two were merged since both performed support functions. The divisions under the department are the following: 1) Human Resources Division; 2) General Services; 3) Cash Management; 4) Finance and Loan Management; and, 5) Corporate Accounting Division. This set-up existed until 1983.



Special Projects Department (SPD)

The Special Projects Department was one of the four operating departments in 1980 and 1981. As the name implies, the SPD controlled the projects which were not part of the regular program of the corporation. As of 1980, the SPD was in charge of the Small Water Impounding Projects (SWIP) and the Samar Integrated Rural Development Project (SIRDP). The SPD was abolished in 1982. Its tasks were transferred into the Lowland Area Directorate in 1982 and to the ISA Development Department in 1983.

Research and Development Department (R and D)

In the years 1980 and 1981, the Research and Development Department was considered as an operating department. It was responsible for preparing new technologies needed for the development of farm systems. Not only did it "package" the technology, but it also disseminated any new findings to the departments. R and D, Engineering Department, Special Projects Department, and Programs Development Department were closely related but delineation of functions were defined in the manual in the following manner:

1. The Special Projects Department concentrated on external while the Research and Development Department handled internal projects.
2. The Engineering Department dealt with technical aspects of FSDC's operations, while the Research and Development Department provided inputs on new technologies to be integrated into the program of FSDC.
3. Research and Development Department was clearly technology-oriented while the Programs Development Department was in charge of institutional development.

Programs Development Department (PDD)

The primary concern of the Programs Development Department was institutional development with the farmers and fishermen as beneficiaries through the Integrated Services Associations (ISAs) and Kalipunan ng mga ISAs (KAISAS). In 1981, the PDD was assigned as the task force on the KAISAS. This was abolished in the 1982 reorganization.

Engineering Department (ED)

The Engineering Department provided technical support and assistance to FSDC's Area Offices. It was actively involved in the review of designs and feasibility studies to ensure that

before the project merits final approval by the Board of Administrators, it should conform to FSDC's standards and requirements. Inspection and testing of equipment were also the responsibilities of this department. In 1981, it was assigned to conduct research on adaptive farm technology and development. In 1982, it suffered the same fate as the rest of the operating departments of the 1980-1981 structures.

#### Change in Thrust

The year 1982 was a turning point for FSDC because it launched its new programs in line with Presidential Decree No. 1595, dated June 11, 1978, which expanded FSDC's coverage into more diversified areas other than rice farming.<sup>14</sup> The 1981 organization was then deemed inadequate to fully respond to the corporation's thrusts. Some of the departments in 1981 were retained because those were mainly support departments and the change in thrusts would only require additional effort from the personnel and some changes in systems. On the other hand, those directly involved in the projects were restructured to accommodate the widened scope of the corporation's programs. Taking the place of Research and Development, Programs Development, and Engineering Departments were new departments which perform most of the original functions of the abolished departments including new functions in line with Presidential Decree No. 1595.

#### Planning and Research Department (PRD)

The Planning and Research Department performed research and corporate planning functions which was handled by one division. The other division was the Market Development Division which assisted Kalipunan ng mga ISAs (KAISAs) on finding markets for products of KAISA's enterprises. This department was abolished in 1983.

#### Institutional Development Department (IDD)

The Institutional Development Department was originally the Programs Development Department. It was tasked with training and development of leaders of the KAISA. It existed only in 1982.

#### Area Directorates

A major change in the 1982 structure was the establishment of the three Area Directorates which concentrated on project coordination. These operating units were restructured with the 1983 reorganization.

#### Lowland Area Development Directorate

The Lowland Area Development Directorate concerned itself with irrigation and other types of assistance to rice farmers, but also with the development of other enterprises like agro-livestock and cottage industries.

#### Upland Area Development Directorate

The Upland Area Development Directorate focused on the Tree Resources for Energy and Enterprise (TREE) project which harnessed the potentials of tree farmers to achieve the same degree of success as the corporation did with its lowland projects.

#### Coastal Area Development Directorate

The Coastal Area Development Directorate also aimed to penetrate the fishing villages and organize the fishermen into Integrated Services Associations (ISAs) and Kalipunan ng mga ISAs (KAISAs) as FSDC did in its other projects. Financial Assistance for fishing gear provided the entry point for their projects.<sup>12</sup>

#### Changes in 1983

The year 1983 brought with it more changes in structure. The three area directorates were restructured into two departments which were classified not according to area (i.e., lowland, upland, coastal) but according to the two major classification of associations which served as channels for their programs. These are the Integrated Services Associations (ISAs) and the Kalipunan ng mga ISAs (KAISAs). This structure evolved because of the need to centralize functions and avoid the duplication among the three directorates which all performed similar tasks in a different manner.<sup>13</sup>

#### KAISA Development Department (KDD)

The KAISA Development Department is active in after "harvest" operations for the lowland, upland, and coastal projects. Through the KAISA, farmers can find suitable markets for their goods while also engaging in other related enterprises. The KDD is primarily involved in Institutional Development. Actually, the KDD is a new name for the former Institutional Development Department.

#### ISA Development Department (IDD)

It is the ISA Development Department through which the bene-

ficiaries obtains the specialized services pertaining to planning and evaluation, technical, equipment and other forms of project assistance. The Lowland, Coastal, and Upland Enterprises Development Divisions are centralized under this department.

Area Offices

The Area Office is a miniature FSDC located in the provincial regions nationwide. Actual implementation of projects is handled by the Area Offices coordinating with all ISAs and KAISAs falling within the authorized boundaries. Area Offices are structured in the same manner as the Central Office. Each Area Office has the following units: 1) Internal Audit Service; 2) Management Services Division; 3) Enterprise Development Division; 4) Finance and Administrative Division; 5) Engineering Services Division; and 6) COA (only for the bigger Area Offices). There are six Area Offices, one for every two regions.

### Aspects of Control and Coordination

The following is a discussion of certain aspects of control systems, the roles of various units in controls and the participation of the chief executive officer in coordination and control.

### Task Forces and Committees

#### Procurement Committee

PSDC is a relatively young organization; the median age of its personnel is thirty. The Administrator is also comparatively young and a strong believer in participative management. In the past four years, the corporation underwent organizational changes; however, a vital mechanism for its dynamism is the task forces and committees which fulfill functions requiring speedy implementation.

In 1981, five task forces were formed to facilitate the corporate transition with the expanded functions embodied in the amendatory decree. These are the following: Task Force on Modified Barangay Integrated Services Association (BISA) Program Approach (Farm Family Approach), Task Force on Tree Resources for Energy and Enterprise (TREE), and the Task Force on Training and Communication. The membership of the task forces cut across departmental lines and brings together expertise necessary to complete specific tasks.

In addition to task forces, committees were likewise created to carry out essential functions. One example is the Procurement Committee which handles the acquisition of equipment, materials and supplies involving amounts greater than P5,000. This is chaired by the Head of the Corporate Legal Office, and the members are representatives from the Finance and Administrative Department, Supply Management Office, Internal Audit Service, and the Engineering Department. The member from the Engineering Department stayed on with the Committee even after the abolition of the department. This Committee existed as early as 1975 when PSDC was created.

#### Management Committee

The Management Committee is composed of all heads of offices and departments. It handles matters affecting the operations of the corporation, such as analyzing and evolving solutions for problems, ascertaining resource requirements which field offices may need for the various projects which are undertaken in the provinces. In a sense, it functions as an informal control, monitoring and evaluation group.

During the presentation of the progress of programs and problems attendant to their implementation, its members elicit feedback which serve as inputs to the Corporate plan. Consequently, it is an aid to the formulation of the planning and budgeting guidelines, thereby assuring a realistic perception of the projects.

Likewise during the meetings, the needs for systems improvement surface thereby alerting the director of the Management Services Department to areas which must be looked into. The Deputy Administrator is the Chairman of the Committee; however, it is temporarily headed by the Director of the Management Services Department because the chairman is out of the country.<sup>16</sup>

Another important role of the Management Committee is to serve as a conduit for information. Its meetings which are held every Monday, occasionally coincide with the Board meetings. Update on new policies or revisions of existing ones are discussed during these meetings. This practice is consistent with one of the Twelve General Directives in the corporation which states that all employees should know the developments in the corporation.<sup>17</sup>

#### Executive Council

The Executive Council is composed of senior directors as well as other officers who are full time members. It contributes to idea generation and consultancy services.<sup>18</sup>

While the Management Committee concerns itself with policy issues and existing projects, the Executive Council involves itself in conceptualizing projects which are germane to FSDC's objectives. As a Think Tank, it conceptualized the Hyacinth Products Enterprise Resource Development Corporation (HYPER). One of its members considers the Administrator as a major source of new ideas and innovations, which the Council is tasked to flesh out as projects. It has 11 members, 2 are directors, 5 are division heads, 2 area managers, and 2 senior program officers.<sup>19</sup>

#### Area Managers' Workshop

Every quarter, all area managers and directors meet in the Central Office of FSDC. As a matter of practice, a three-day workshop is held where performance on projects, as well as problems are discussed and resolved. Targets are reassessed and compared with accomplishments. Reasons for shortfalls are identified. Programs are prioritized for the succeeding quarter. An assessment of the environment is

also made. For instance, in one workshop, the participants discussed whether FSDC projects were still within the 3-point program of the Government.<sup>20</sup>

To a large extent, the Area Managers' Workshop is a forum which fulfills the functions of planning, evaluation and monitoring during the discussions and deliberations on projects, accomplishments, targets, shortfalls and revisions of targets. However, elevation of problems is not delayed by reason of the quarterly schedule of the workshop. Since a voice-to-voice radio system is available in the corporation, immediate consultation and advice can be elicited by area managers and field officers.<sup>21</sup>

#### Planning and Monitoring: Management Services Department

##### Planning and Research

On the third quarter of the year, the Management Services Department formulates planning guidelines which are distributed to all departments. This task is undertaken by the Corplan division which also prepares the Environmental Assessment Report. This contains a scan of developments in the country and other sectors of the government. It also identifies opportunities to which FSDC can respond with innovations. In one instance, it reviewed and assessed the changes within and expansion of the Ministry of Agriculture and its implications to the operations of the corporation.<sup>22</sup>

The Corplan division is also responsible for gathering data and studies on local sources for financing. One of those identified applies to FSDC's rice trading activities through its KAISAs. These are: ventures capital, commercial banks and the queans of the National Food Authority.

It is interesting to note that critical research outputs are initiated by this division. The comprehensiveness of environmental scan and specific studies applicable to FSDC's needs enhances its capability to innovate and respond to changes.<sup>23</sup>

##### Monitoring and Information System

The departments submit monthly and quarterly accomplishment reports to the Project Monitoring and Evaluation Division (PMEED) which compiles them and analyzes the accomplishments vis-a-vis their targets. The information is compiled and updated in the central data bases of the corporation. Summaries of the accomplishments with analysis are periodically given to the Board and to the Administrator through quarter-

ly Board of Administrators Report and the monthly Integrated Corporate Performance Assessment Report.

In addition to these activities, the Project Management and Information System (PMIS) was jointly developed by PIED and the Systems Development Division (SDD); the former providing the data base. On the other hand, the SDD develops the systems and procedures for the organization. In keeping with the participative management style pervading in PIED, other departments are encouraged to initiate changes in the systems, where such modifications are warranted by the requirements of each department. The two major on-going programs of the SDD are the computerization of the data bases and the general ledger system.

Some of the manuals which are used by the corporation are: Auditing and Accounting Manual, the Coastal Area Enterprise (CAE), Mountainside Development Program (MODEL) and the Barangay Integrated Services Association (BISA) Program. Both the PIED Policies and Procedures Manual and the Project Management Information Systems Manual are being updated. These manuals were developed by the Systems Development Division (SDD) in coordination with the operating units.

To recapitulate, planning and monitoring in PIED are a continuing and joint undertaking of the Administrator and the management team. This may be described as a "team effort of the Management and the implementers". The processes which brought about a concerted and participative system of planning and monitoring can be attributed to the style of leadership of the Administrator and the interactions among the management team.

#### Budgeting

The budgeting activity, like all activities in PIED, involve all departments resulting in a financial plan that is accepted by key officers.

An aid to the formulation of departmental budgets is the budgeting guidelines which are prepared by the Finance and Loan Management Division (FLMD) of the Finance and Administrative Department (FAD).

Since all disbursements are reviewed by FLMD, monitoring of expenses becomes easy. On the basis of this, variance analysis is done. Monthly and quarterly management reports are submitted to the Administrator. Any department requiring additional funds may request for reprogramming of the budget, provided that justifications are presented and found acceptable, and for as long as savings from other departments are available. As soon as the



need for reprogramming of the budget arises, a memorandum request with justifications is prepared by the department. This is evaluated by the FLD and presented to the Administrator for his consideration and decision.<sup>27</sup>

#### Internal Audit

The Internal Audit Service (IAS) has been a part of FSDC's organizational structure ever since the establishment of the corporation in 1975. To guide its staff in audit work, three manuals are used; these are: the Field Examiner's Manual, Auditing Manual on Disbursements and the Cash Examination Manual. These manuals were all made by the Internal Audit Staff. Its emphasis is on financial audit.<sup>28</sup>

In coordination with the representatives of the Commission on Audit, the Finance and Administrative Department and the Supply Management Office, it conducts an annual inventory of property. Cash examination and pre-audit of disbursements are also performed, a function which had earlier been undertaken by the COA personnel. As a contribution to systems development, IAS participates in formulating recommendations with the Systems Development Division.<sup>29</sup>

#### Commission on Audit (COA)

In 1982, COA evaluated the internal control system of FSDC. Some of the recommendations made by COA include strengthening of the aspects of controls on collection, disbursements, supplies and materials, and records inventory of fixed assets. A salient recommendation refers to the functions of the Internal Audit Service which, according to COA, should not be limited to the audit of disbursements, invoice, and loan releases, and review of accounting records and inspection of deliveries. It emphasized that the audit program must also be centered on the review appraisal on a continuing basis of the functions provided in the 1982 Organizational Plan.

The 1983 post-evaluation of COA of the internal control system of FSDC revealed that a substantial number of the recommendations of COA were implemented as in the reduction of the operational fund from P70,000 to P35,000 with more frequent replenishment and timely recording of transactions. The scope of audit of the Internal Control Service was found to extend to the review and evaluation of the internal control system of this corporation, audit of FSDC's loan beneficiaries such as KAISAS and ISAs, cash examination of Special Disbursing Officers, inspection of deliveries and some duties assigned by the Administrator.

A significant development in 1983 was the decision of the COA to withdraw the resident auditor from FSDC, which is a reflection of the capability of the corporation to itself.

The Administrator: Chief Executive Officer and Policy-Maker

One of the most interesting and significant insight which one can derive from a study of FSDC is the benefits of a participative style of leadership. The present Administrator is energetic, dynamic and innovative. His strong commitment to the institution and its clients, as well as deep concern for the growth of professionalism in the corporation have in more ways than one produced a corps of officers whose morale is high and whose service orientation is enviable.

Manifesting a strong faith and confidence in his officers, he hardly presides formally in meetings. He merely sets the tone, allows his officers free discussions and encourages the exchange of ideas. He makes decisions after all ideas have been sifted, analyzed and tested.<sup>30</sup>

The institutionalization of the value of commitment to service by FSDC personnel begins during recruitment. Newly-hired employees are required to attend orientation sessions on the goals, objectives, policies and programs of FSDC and examinations are given to ensure that these were clearly understood.<sup>31</sup>

The process does not end with the examination. Through field visits, the employees meet the client-farmer and fishermen. Initially, the Administrator planned to bring all personnel on scheduled visits to the farms and projects, so that they can have direct experience with the conditions in the areas which the corporation serves. However, because of budgetary constraints, this plan was deferred.<sup>32</sup>

In the main office, the presence of the Administrator is felt, even if he is on field visit or physically elsewhere. Every floor of the building which houses FSDC has a poster which lists the 12 General Directives stating the following:

1. All FSDC personnel must completely understand the FSDC program.
2. All personnel especially those in the area of provincial offices must gain an understanding of local situations and develop an appreciation of the values of the local population.
3. Discussion and criticism should be encouraged in the organization but should be confined within the organization.

4. Decisions should be based not only on what the majority feels but on what is essentially correct and proper.
5. Decisions made at the level of organization must be carried out without delay and hesitation.
6. Directives from higher levels of authority must be immediately communicated to lower levels in the organization.
7. Where decisions or directions are to be carried out, sufficient time should be provided for implementors to determine the best way to carry out the decision.
8. Competence of everyone should be continuously developed.
9. A positive attitude is necessary for effective performance of our work.
10. All efforts and resources must be concentrated on FSDC's objective to accelerate rural development.
11. Self-reliance must be developed.
12. Abuse of authority is obnoxious to the principles to which FSDC adheres."

To enhance and encourage commitment to these directives, a representative from a pre-designated division chooses one from the 12 General Directives and speaks on what it means to him. This is done before the flag ceremony and retreat held on Mondays and Fridays, respectively. This unique exercise has produced a strong sense of unity and commitment among the corporate personnel.<sup>33</sup>

OPERATIONAL HIGHLIGHTS

Measure of Performance

For FSDC, the ultimate indicator of the achievement of the corporate program objective is the self-reliance of the farmers. This encompasses the farmers farm productivity, ability to manage the ISAs and the capacity to meet financial obligation. This can be achieved thru the ISAs where the farmers are involved in various activities such as construction and maintenance of irrigation system and the adoption of new farm technologies and innovations in the management of farm enterprises, among others. Eventually, FSDC hopes that the farmers will be able to provide for their own needs specifically that relating to farming requirements and credit facilities. However, it is very difficult to attain self-reliance since there are external factors affecting the self-reliance of the farmers and the effectiveness of the corporation.

Goals and Targets

The Corplan Division, under the Management Services Department, issues planning guidelines which are based on directions and thrusts for the coming years. But the specific goals and targets of the various operating units are the result of the combined efforts of the Area Offices and the Central Office units. The Finance and Loan Management Division (FLMD) determines the financial requirements of the work program and compares these to the financial resources of the corporation. Then, it coordinates with the Corplan Division which finalizes the entire corporate's work program.

Table No. 1 presents the goals and targets of the corporation from 1980 to 1983.

TABLE NO. 1

Targets

	1980	1981	1982	1983
I. INSTITUTIONAL DEVELOPMENT				
A. No. of ISAs Organized	547	385	230	--
B. No. of KAISAs Organized	63	--	--	--
II. LOWLAND AREA DEVELOPMENT				
A. Irrigation Development				
1. Construction of Pump and Communal Irrigation Systems				
a. No. of Projects	260	167	94	45
b. Area Coverage	13,000	10,000	10,000	5,200

TABLE NO. 1 (cont.)

		Targets			
		1980	1981	1982	1983
2. Rehabilitation and Upgrading of Pump and Communal Irrigation Systems					
a. No. of Projects		222	228	201	130
b. Area Coverage		14,334	17,389	16,000	12,992
3. Gasifier Conversion					
a. No. of Projects		--	--	210	290
b. No. of Units		--	--	242	300
B. Adaptive Farm Technology					
1. Farm Mechanization					
a. No. of Projects		--	100	120	60
b. No. of Units		--	--	371	168
2. Farm Animal					
a. No. of Projects		--	415	49	37
b. No. of Heads		--	--	265	164
3. Innovation Packages					
4. IWUD (No. of Packages)		--	857	--	--
C. Special Projects					
1. SWIP					
a. No. of Projects		3	7	--	--
b. Area Coverage		429	700	--	--
2. PRIP					
a. No. of Projects		--	12	--	--
b. Area Coverage		--	1,505	--	--
3. SIRDP					
a. No. of Projects		--	--	--	--
b. Area Coverage		--	--	--	--
4. KABSANA					
a. No. of Projects		--	6	--	--
b. Area Coverage		--	230	--	--
III. UPLAND AREA DEVELOPMENT					
A. TREE Component					
No. of Projects (Area Planted)		--	--	10,768	13,410
B. Charcoal Development Component (No. of Kilos)					
		--	--	--	--
IV. COASTAL AREA DEVELOPMENT					
A. ICE Plant Component					
No. of Projects		--	--	--	7
B. FISH Capture Component					
		--	--	--	14
V. OTHER PROJECTS					
A. LLCDP (No. of Cooperatives)					
		--	--	--	--

TABLE NO. 1 (cont.)

Targets

	1980	1981	1982	1983
VI. ENTERPRISE DEVELOPMENT				
A. Establishment of KAISA				
Enterprise				
1. Feedmill	--	6	6	--
2. Tending	--	--	--	--
3. Fabrication Shop	--	--	6	--
4. RICE	--	16	5	4
5. Livestock Center	--	--	6	3
6. Integrated Rice/Feedmill	--	--	6	3
7. Charcoal Production	--	--	12	--

Major Thrusts and Programs

The following is a discussion of the thrusts and programs of the corporation from 1980 to 1983.

Ever since FSDC was created, the farm systems concept is used wherein the utilization of farm resources is optimized. This was achieved through the Barangay Irrigators' Service Association (BISA) Program. Under this program, the farmer is involved in various phases of activities--institution building, construction and maintenance of irrigation systems, adoption of new farm technologies and innovations and in the management of farm enterprises. All these were channeled through the organization of farmers called the Irrigators' Service Associations (ISAs). The provincial federations of ISAs or Kalipunan ng mga ISAs (KAISAs) are organized to prepare each ISA for a higher level through self-management and economic integration. In 1980, FSDC concentrated its efforts on lowland area development which consisted of three areas, namely: (1) irrigation development; (2) adaptive farm technology; and, (3) special projects. The irrigation development opens the door to the BISA Program in lowland agricultural areas. It is the key to the transformation of farmlands into productive farm systems and implements viable enterprises by farm families, ISAs and KAISAs. The adaptive farm technology, on the other hand, are farming schemes introduced to ISAs to maximize farm productivity. These inputs include farm machinery and equipment, farm work animals, and innovation packages. Finally, the special projects are multi-agency projects of the National Government wherein FSDC has been tapped to do institutional development activities. These include Philippine Rural Infrastructure Project (PRIP), Samar Integrated Rural Development Project (SIRDP), and Small Water Impounding Projects (SWIP).

In 1981, the farming system was developed. The farm enterprise development, one step of developing farm system, was introduced. FSDC, likewise, emphasized the enterprises as the lifeblood of the farm systems. Moreover, the corporation aimed to develop and enhance the entrepreneurial skills of the farmer-member and his family that they may transcend traditional roles to become entrepreneurs as well. The farm families of the ISAs, now the Integrated Services Association, are engaged in active production of famlot and homelot enterprises such as livestock raising, vegetable farming, azolla culture and fish production. The BISA Program, on the other hand, was redefined as the Barangay Integrated Services Association Program to expand the areas of responsibility which include management, fishing, forestry, agro-industrial production, processing, marketing, drainage, rural waterworks, and land reclamation for agricultural production, aside from farming and irrigation. These programs are part of the lowland area development program which encompasses irrigation development, adaptive farm technology, and special projects. Another special project, aside from those implemented the previous year, is the Rainfed Agriculture Development Project or KABSACA. It was also during this year when the Tree Resources for Energy and Enterprise (TREE) project was introduced. This involves energy development, reforestation, and gasifier conversion.

In 1982, the thrusts of the corporation were divided into three major rural sectors, namely: (1) lowland agricultural areas; (2) upland regions; and, (3) coastal and marshland areas. FSDC organizes lowland farmers, upland tillers and subsistence fishermen with their families into the ISA. And as an exercise in higher level of self-management, the KAISAs are engaged in income-generating enterprises such as ricemilling, feedmilling, trading and transport, livestock centers, vegetable dealership, and fabrication shops. These projects are undertaken aside from the other various projects in the areas of lowland area development and upland area development.

Due to the economic crisis in 1983, the BISA Program had to limit its field operations and thereby affecting the various programs of the ISAs, KAISAs, and the farm families. The operations in the lowland areas are geared towards the improvement of existing infrastructures and technical services. On the contrary, upland activities expanded in terms of areas covered. Meanwhile, coastal activities were just piloted this year. Thus, FSDC continued to reach out to upland farmers and kaingeros with its Tree Resources for Energy and Enterprise (TREE) Program. One component of the TREE program is the charcoal development component. This was converted from the ipil-ipil trees which were planted about three years ago and harvested only this year.

These charcoals are used to power gasifier units which holds a great potential in fuelling motorized bancas, jeepneys, ice plants and ricemills, among others. With regards to small fishermen in coastal villages, the corporation operationalized pilot fishing projects through its Coastal Area Resources and Development (CARE) Program. One unexpected event in 1983 which altered the general mood of restraint in program operations is the appointment of Administrator Teodoro Rey, Jr. to head the Laguna Lake Development Authority (LLDA). Through this, FSDC drew up a money-earning venture called Program UNLAD promoting polyculture or the raising of high-value species in Laguna Lake. This program, which targets the foreign market for its fish production, will be started early 1984. Finally, another special project of FSDC is the Laguna Lake Cooperative Development Program (LLCDP) which seeks to promote the livelihood of small farmers.

#### Major Accomplishments

Table No. 2 presents the accomplishments of the corporation vis-a-vis its targets for the years 1980 to 1983.

Table No. 2 indicates that the number of ISAs organized from 1980 to 1983 were decreasing and below the targets. This was primarily due to the fact that the organization of ISAs depended basically on the feasibility and viability of the irrigation system to be developed in an area. However, there were cases when the irrigation project was found to be technically feasible but not financially and economically viable. In this event, in spite of expenses already incurred in pre-development costs, FSDC looked for substitute projects to be undertaken. Viability, in this case, is measured in terms of the benefit-cost ratio<sup>34</sup> and supported by the cost per hectare<sup>35</sup> (for irrigation projects only). In cases when the cost per hectare of the project is still below the standard costs, the Board of Administrators normally approves this for implementation. However, in cases when the cost per hectare exceeded the price ceiling for the project, the Board of Administrators asks for additional data which may prove the project's viability. Such is the case when the benefit-cost ratio is above the allowable ratio. Sometimes, though, the ISAs had already been organized when FSDC finds out that a certain project is not financially and economically viable. In this event, the project is not pushed through in spite of the organization of the ISAs. As a result, there were more ISAs than the number of irrigation projects. However, there were also cases when ISAs were organized even without undertaking an irrigation project in that area. This happens when the farmers want to avail of the services extended by the KAISAs to farm associates.<sup>36</sup>



Regarding the number of KAISAs organized since 1980, Table No. 2 shows that FSDC met its target of 63 in 1980, organized another KAISA in 1981, and no KAISAs were organized in 1982 and 1983. This was due to the fact that FSDC was able to organize all KAISAs.<sup>37</sup>

There were three projects under the lowland area development. These are: (1) construction of pump and communal irrigation system; (2) rehabilitation/upgrading of pump and communal irrigation systems; and, (3) gasifier conversion. Table No. 2 indicates that the projects under the construction of pump and communal irrigation systems, and the gasifier conversion were below the targets while the rehabilitation and upgrading of pump and communal irrigation systems were above the targets. This was primarily due to the reprogramming and prioritizing of the work program which was necessary due to the budgetary constraints and delays in budgetary releases.<sup>38</sup> It is also worth mentioning that since its initiation in 1981, the number of gasifier conversion projects increased, thus increasing the number of ISAs enjoying substantial savings in their fuel costs.

Under the adaptive farm technology development are four projects, namely: (1) farm mechanization; (2) farm animal; (3) innovation packages; and, (4) Integrated Water Use Development (IWUD) project. Generally, there was a fluctuating trend in terms of the accomplishments in these projects. This was due to the budgetary constraints and delays in budgetary releases.<sup>39</sup> Nevertheless, FSDC continued to address itself to maximizing ISA farm productivity.

Usually no targets were made for the special projects since these are in cooperation with the other agencies of the government. Table No. 2 indicates a fluctuating trend in the completion of these projects. Nevertheless, all these efforts complement the regular activities of the BISA Program.

The TREE project, which was initiated in 1981, involves energy development, reforestation, and gasifier conversion, among others. Table No. 2 indicates a fluctuating trend in the number of TREE projects implemented. Yet, FSDC continued to strengthen its institutional development activities with the addition of more upland-based ISAs under the TREE project. On the other hand, FSDC had just piloted a charcoal production project, a component of the TREE project, in 1982.

The Coastal Area Resources and Enterprise (CARE) development program was initially launched in 1982. It was in 1983 when FSDC activated pilot projects in fishing communities. To date, five ice plants were completed and fourteen coastal ISAs benefited from the packaged assistance under the CARE program.

FSDC implemented the Laguna Lake Cooperative Development Program (LLCDP) in May 1983 following the instructions from the President. A total of sixteen cooperatives were already organized.

Finally, under the enterprise development are seven projects, namely: (1) feedmill; (2) tending; (3) fabrication shop; (4) RICE; (5) livestock center; (6) integrated rice/feedmill; and, (7) charcoal production. Most of these projects were implemented only in 1982. Although there was no general trend in the accomplishments of these projects due to budgetary constraints and delays in budgetary releases, FSDC continues to develop agriculture-based and agriculture-related enterprises.<sup>40</sup>

TABLE NO. 2

## MAJOR ACCOMPLISHMENTS

	1980	1980	1980	1981	1981	1981	1982	1982	1982	1983	1983	1983
	GOALS	ACCOM- PLISH- MENTS	VARIANCE (%)	GOALS	ACCOM- PLISH- MENTS	VARIANCE (%)	GOALS	ACCOM- PLISH- MENTS	VARIANCE (%)	GOALS	ACCOM- PLISH- MENTS	VARIANCE (%)
INSTITUTIONAL DEVELOPMENT												
A. No. of ISAs Organized	547	439	80.26%	385	363	94.28%	230	173	75.22%	--	2	--
B. No. of KAISAs Organized	63	63	100.00%	--	1	--	--	--	--	--	--	--
LOWLAND AREA DEVELOPMENT												
A. Irrigation Development												
1. Construction of Pump and Communal Irrigation Systems												
a. No. of Projects	260	165	63.46%	167	91	54.49%	94	47	50.00%	45	32	71.11%
b. Area Coverage	13,000	14,156	108.89%	10,000	6,360	63.60%	10,000	4,363	43.63%	5,200	4,836	93.00%
2. Rehabilitation and Upgrading of Pump and Communal Irrigation Systems												
a. No. of Projects	222	151	68.02%	228	252	110.53%	201	240	119.40%	130	196	150.77%
b. Area Coverage	14,334	16,191	112.96%	17,389	25,237	145.13%	16,000	22,425	140.16%	12,992	20,570	158.33%
3. Gasifier Conversion												
a. No. of Projects	--	--	--	--	23	--	210	87	41.43%	290	158	54.48%
b. No. of Units	--	--	--	--	23	--	242	105	43.80%	300	180	60.00%

TABLE NO. 2 (cont.)

## MAJOR ACCOMPLISHMENTS

	1980	1980	1980	1981	1981	1981	1982	1982	1982	1983	1983	1983
	GOALS	ACCOMPLISHMENTS	VARIANCE (%)	GOALS	ACCOMPLISHMENTS	VARIANCE (%)	GOALS	ACCOMPLISHMENTS	VARIANCE (%)	GOALS	ACCOMPLISHMENTS	VARIANCE (%)
III. UPLAND AREA DEVELOPMENT												
A. TREE Component												
Area Planted	--	--	--	--	809.4	--	10,768	4,499.7	41.79%	13,410	2,249.8	16.78%
B. Charcoal Development Component (No. of Kilos)	--	--	--	--	--	--	--	--	--	--	5	--
IV. COASTAL AREA DEVELOPMENT												
A. ICE Plant Component												
No. of Projects	--	--	--	--	--	--	--	--	--	7	5	--
B. FISH Capture Component	--	--	--	--	--	--	--	--	--	14	14	100.00%
V. OTHER PROJECTS												
A. LCOP (No. of Cooperatives)	--	--	--	--	--	--	--	--	--	--	16	--
VI. ENTERPRISE DEVELOPMENT												
A. Establishment of KAISA Enterprise												
1. Feedmill	--	--	--	6	--	--	6	9	150.00%	--	--	--
2. Tending	--	--	--	--	--	--	--	2	--	--	--	--
3. Fabrication Shop	--	--	--	--	--	--	6	1	16.67%	--	--	--
4. RICE	--	--	--	16	--	--	5	10	200.00%	4	5	125.00%
5. Livestock Center	--	--	--	--	--	--	6	2	33.33%	3	--	--
6. Integrated Rice/Feedmill	--	--	--	--	--	--	--	--	--	--	1	--
7. Charcoal Production	--	--	--	--	--	--	12	2	16.67%	--	1	--

TABLE NO. 2 (cont.)

## MAJOR ACCOMPLISHMENTS

	1980 GOALS	1980 ACCOM- PLISH- MENTS	1980 VARIANCE (%)	1981 GOALS	1981 ACCOM- PLISH- MENTS	1981 VARIANCE (%)	1982 GOALS	1982 ACCOM- PLISH- MENTS	1982 VARIANCE (%)	1983 GOALS	1983 ACCOM- PLISH- MENTS	1983 VARIANCE (%)
<b>B. Adaptive Farm Technology</b>												
1. Farm Mechanization												
a. No. of Projects	--	33	--	100	50	50.00%	120	20	16.67%	60	21	35.00%
b. No. of Units	--	445	--	--	322	--	371	151	40.70%	168	54	32.14%
2. Farm Animal												
a. No. of Projects	--	7	--	415	34	8.19%	49	87	177.55%	37	12	32.43%
b. No. of Heads	--	--	--	--	248	--	265	326	123.02%	164	74	45.12%
3. Innovation Packages	--	206	--	784	786	100.26%	--	533	--	--	298	--
4. IWUD (No. of Packages)	--	203	--	857	897	104.67%	--	207	--	--	--	--
<b>C. Special Projects</b>												
1. SWIP												
a. No. of Projects	3	2	66.67%	7	1	14.28%	--	--	--	--	4	--
b. Area Coverage	429	240	55.94%	700	107.5	15.36%	--	--	--	--	365	--
2. PRIP												
a. No. of Projects	--	13	--	12	11	91.67%	--	--	--	--	9	--
b. Area Coverage	--	2,597	--	1,505	1,435	95.35%	--	1,250	--	--	1,558	--
3. SIRDP												
a. No. of Projects	--	17	--	--	5	--	--	--	--	--	38	--
b. Area Coverage	--	1,451	--	--	1,481	--	--	--	--	--	--	--
4. KABSAKA												
a. No. of Projects	--	--	--	6	15	250.00%	--	14	--	--	2	--
b. Area Coverage	--	--	--	230	750	326.09%	--	448	--	--	195	--

Table No. 3

Financial Highlights  
1980 - 1983

(amount in millions)

	1980	1981	1982	1983
Resources	P266.7	P381.8	P478.6	P582.0
Gross Revenue	28.7	85.0	28.9	30.4
Expenses	40.1	38.9	27.3	29.6
Net Income (Loss)	( 11.4)	46.1	1.6	0.8
Current Assets	141.5	182.7	178.3	94.4
Current Liabilities	58.1	49.4	75.1	98.2
Total Liabilities	155.3	177.2	233.4	306.8
Total Equity	111.4	204.5	245.1	274.7

Financial Review

Results of Operation

During the calendar years 1980 to 1983, FSDC realized a net income of P46.1 million in 1981, P1.6 million in 1982 and P.8 million in 1983. The corporation, however, incurred a loss in 1980 in the amount of P11.4 million.

Total income rose by P30.4 million, from P28.7 million in 1980. Analysis of the figures indicates that the gross revenue in 1981 was almost three times higher than the revenue in 1980. This was attributed to the change in treatment of account from expenses related to KAISA development to the income-generating institutional development loans. However, in 1982 and 1983, the gross revenue slightly increased to P28.9 million and P30.4 million respectively. This can be partly attributed to the operationalization of the set of agricultural enterprises management by the provincial-wide federation of ISAs, the Kalipunan ng mga ISAs or KAISA as several KAISA run enterprises were established.

Total expenses decreased to P29.6 million in 1983, from P40.1 million in 1980 or by 26%. The total expenses of the corporation for the years 1981 to 1983 were lower than the total expenses in 1980.

Financial Condition

Total assets at year-end 1983 amounted to P582.0 million, an increase of 12% over the 1980 level. Investments representing interest and non-interest loans granted to various ISAs and KAISAs and investment in shares of stock of GEMCOR, a subsidiary corporation engaged in the manufacture of gasifier equipment continued to account for an average of 46% of total assets. As shown in Table No. 4, the percentage to total assets in 1980 was 40%, 45% in 1981, 51% in 1982 and 49% in 1983.

Table No. 4

Calendar Year	Percent to Total Assets (%)
1980	40%
1981	45%
1982	51%
1983	49%
Total	185%
Average	46%

Total liabilities increased by P306.7 million in 1983, from P155.3 million in 1980, or by 97%. Liabilities include long-term indebtedness to domestic or foreign creditors, such as loans with USAID, Danish, German and National Irrigation Administration.

Total equity rose from P111.4 million to P274.7 million or by 147%. The increase was brought about by the corresponding increases in Capital Stock, Donated Surplus, Contingent Surplus and Retained Earnings.

Tools Used To Measure The Over-All Performance Of FSDC

For the study of this corporation, only four tools will be used in analyzing its financial performance from 1980 to 1983. These are: (1) financial ratios; (2) common size analysis of financial statements; (3) index analysis of financial statements; and, (4) budget variance analysis. These tools are limited to the availability of information.

The first three tools are commonly used in analyzing most corporations. For this purpose, however, an additional tool is used to measure the cost control systems of the FSDC. The budget variance analysis is based on the approved budget against the actual disbursement.

Financial Ratios

The analysis of the financial ratios of FSDC was grouped in three categories, such as: tests of liquidity; test of profitability; and, market tests, that, is tests used primarily by stockholders and bondholders. The results of operation was analyzed by the use of profit ratio, return on Stockholders' investment and return on total investment while the financial condition was analyzed by the use of current ratio, acid-test ratio, average collection period, receivable to income, debt-to-net worth ratio, and public debt to total liabilities. Under market tests category, only equity ratio was utilized, considering that other ratios were not applicable under the study.

Results of Operations

Profit Ratio

The ratio of net income to gross income is used as a measure of the over-all profitability of the operations of FSDC from 1980 to 1983. The profit ratio of the corporation are presented in Table No. 5.

Table No. 5

Profit Ratio  
1980 - 1983

Calendar Year	Net Income	Gross Income	Profitability Ratio (%)
1980	(P11,361,826)	P28,749,279	(39.00%)
1981	46,038,532	85,004,832	54.00%
1982	1,524,737	28,856,848	5.28%
1983	740,378	30,356,524	2.40%

Analysis of the figures in Table No. 5 indicates that the profit ratio in 1981 abruptly increased to 54% from a negative ratio of 39%. This could be attributed to the expansion of the operational activities of the corporation, such as additional areas of responsibility that cover resource management, fishing, forestry, agro-industrial production, processing, marketing, drainage, rural waterworks, and land reclamation for agricultural production, aside from farming and irrigation. It was also during the year 1981 that the change in treatment of account from expenses related to the KAISA development to the income-generating institutional development loans was implemented. With the exception of the year 1980, the corporation has been operating profitably during the years 1981 to 1983.



Return on Stockholders' Investment

Stockholders' investment is taken to mean stockholders' equity (i.e. Capital) as shown by the balance sheet, or total assets less liabilities. As shown in Table No. 6, the return on Stockholders' investment from 1980 to 1983 was used in order to determine the highest possible return of the funds and the relationship of net income to the funds invested. Table No. 6 indicates the ratio from 1980 to 1983 of the Investment by considering the net income in relation to the average stockholders' equity for four years.

Table No. 6

Return on Stockholders' Investment  
1980 - 1983

Calendar Year	Net Income	Average Stockholders' Equity	Ratio (%)
1980	(P11,361,326)	P208,937,746	( 5.44%)
1981	46,038,532	208,937,746	22.03%
1982	1,524,737	208,937,746	0.73%
1983	740,378	208,937,746	0.35%

Return on Total Investment

This ratio was used to measure the income earned by the total permanent funds invested in FSDC. Considered were the permanent funds consisting of stockholders' equity plus noncurrent liabilities in relation to pre-tax income. Table No. 7 hereunder shows how well funds supplied by the stockholders' have been utilized from 1980 to 1983. It indicates also how well management of FSDC has used all the permanent funds entrusted to the corporation.

Table No. 7

Return on Total Investment  
1980 - 1983

Calendar Year	Pre-Tax Income Plus Bond Interest	Capital Plus Fixed Liabilities	Ratio (%)
1980	(P11,361,826)	P208,596,024	( 5.45%)
1981	46,038,532	332,400,733	13.85%
1982	1,524,737	403,498,240	0.38%
1983	740,378	483,238,591	0.15%

Financial Condition

Current Ratio

The current ratio was used in order to measure the margin of safety that FSDC management maintains to allow for the inevitable unevenness in the flow of funds through the current asset and liability accounts. The current ratio of FSDC from 1980 to 1983 are presented in Table No. 8

Table No. 8

Current Ratio  
1980 - 1983

Calendar Year	Current Assets	Current Liabilities	Liquidity (%)
1980	P141,533,026	P58,086,516	2.44:1
1981	182,708,977	49,368,923	3.70:1
1982	178,317,216	75,053,908	2.38:1
1983	94,444,748	98,195,876	0.96:1

Although the current ratios during the four-year period under study were fluctuating, the corporation in general remained liquid, except in 1983. As shown in Table No. 8, the current assets and current liabilities during the four-year period were fluctuating. It is evident that the current assets in 1983 decreased tremendously. This was due to the change in the classification of one account, Miscellaneous Assets and Deferred Charges. From 1980 to 1982, this account has been the largest component of the current assets. However, in 1983, this account was re-classified under another account title, Other Assets.

Acid-Test Ratio

The quick assets, such as Cash and Receivables of FSDC was used in measuring the extent to which liquid resources are immediately available to meet current obligations. Table No. 9 indicates the ratio of FSDC quick assets in relation to current liabilities.

Table No. 9

Acid-Test Ratio  
1980 - 1983

Calendar Year	Quick Assets	Current Liabilities	Ratio (%)
1980	P72,672,732	P58,036,516	1.25:1
1981	63,719,165	49,368,923	1.29:1
1982	64,406,944	75,053,908	0.86:1
1983	77,301,198	98,195,876	0.78:1

Average Collection Period

Average Collection period was used in analyzing the receivable of FSDC in order to relate roughly the collection period to the credit terms offered by the corporation. Table No. 10 contains the average daily income of the corporation in relation with Income and the number of working days. It also shows the days' sales/income on the books by considering the average daily income in relation to the accounts receivable.

Table No. 10

Average Collection Period  
1980 - 1983

Calendar Year	Gross Income	No. of Working Days	Average Daily Income
1980	P26,749,279	250	P114,997.11
1981	85,004,332	250	340,019.32
1982	28,856,848	250	115,427.39
1983	30,356,524	250	121,426.09

	Accounts Receivables	Average Daily Income	Days
1980	P35,552,313	P114,997.11	309
1981	25,338,854	340,019.32	75
1982	37,251,449	115,427.39	323
1983	49,212,556	121,426.09	405

Table No. 10 shows a fluctuating collection period of the Accounts Receivable of FSDC from 1980 to 1983. The ratio for prior years may indicate either significant shifts in credit policy or changes in FSDC's ability to collect its receivable.

Receivable to Income

Table No. 11 shows another way of expressing the same relationship as expressed by the average collection period of FSDC. From 1980 to 1983, the ratios for FSDC are as follows:

Table No. 11  
Receivable to Income  
1980 - 1983

Calendar Year	Accounts Receivable	Gross Income	Ratio (%)
1980	P35,552,313	P28,749,279	123.66%
1981	25,338,854	85,004,832	29.81%
1982	37,251,449	28,856,848	129.09%
1983	49,212,550	30,356,524	162.12%

Equity Ratio

Table No. 12 shows FSDC stockholders' equity expressed as a percentage of stockholders' equity plus non-current liabilities.

Table No. 11  
Equity Ratio  
1980 - 1983

Calendar Year	Capital	Capital plus Non-Current Liabilities	Ratio (%)
1980	P111,358,724	P208,596,024	53.38%
1981	204,533,554	332,400,733	61.53%
1982	245,136,872	403,498,240	60.75%
1983	274,721,832	483,238,591	56.85%

Table No. 12 shows the proportion of total investment that is derived from stockholders (either directly, or indirectly as retained earnings).

Debt-to-Net Worth Ratio

The debt-to-net worth ratio from 1980 to 1983 is contained in Table No. 13

Table No. 13

Debt-to-Net Worth Ratio  
1980 - 1983

Calendar Year	Total Debt	Net Worth	Ratio (%)
1980	P155,323,816	P111,358,724	1.39:1
1981	177,236,102	204,533,554	0.89:1
1982	233,415,276	245,136,872	0.95:1
1983	307,284,390	274,721,832	1.12:1

The debt-to-net worth ratio from 1980 to 1983 was fluctuating. Although no hard and fast rules exist, the debt-to-net worth ratio measures the relative risk exposure of the corporation.

Analysis of the major components of the debt-to-net worth ratio shows that the increase in total debt was greater than the increase in the corporation's net worth, except in 1981 when there was an increase in the National Government appropriation and retained earnings. Further analysis shows that FSDC relied on equity and public debt to finance its credit program. Public debt consists of long-term indebtedness to domestic and foreign creditors. Table No. 14 shows the percentage of the public debt to the total liabilities.

Table No. 14

Public Debt to Total Liabilities  
1980 - 1983

Calendar Year	Public Debt	Total Liabilities	Ratio (%)
1980	P 97,237,300	P155,323,816	62.60%
1981	127,863,235	177,236,102	72.14%
1982	158,357,936	233,415,276	67.84%
1983	208,475,022	307,284,310	67.84%

Of the total debt, a substantial percentage comprised the foreign loans such as USAID, Danish, and German Loans. These loans carry an interest rates ranging from 2% to 3%, except for German Loan which is interest free.

The debt-to-net worth ratio of the corporation from 1980 to 1983 indicates a problem of future viability since the amount of the appropriations from the National Government is uncertain.

Common Size Analysis

The common size analysis, also known as percentage analysis, of FSDC from 1980 to 1983 will be discussed in accordance with the Corporation's results of operations, such as Gross Revenue, Expenses and Net Income (Loss) and Financial Condition, such as Resources, Current Assets, Fixed Assets, Current Liabilities, Long-term Liabilities and Equity.

Results of Operation

Percentage Analysis of Income and Expense Statement of the corporation from 1980 to 1983 are as follows:

Table No. 15 presents the percentages of the different components of the total expenses to the gross revenue.

Table No. 15

Common Size Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	79.98%	24.67%	50.06%	34.57%
Travelling Expenses	14.94%	4.29%	1.49%	2.12%
Repairs and Maintenance	8.73%	3.40%	3.53%	2.40%
Freight and Shipping Costs	0.91%	0.56%	0.17%	0.13%
Supplies and Materials	4.44%	1.45%	2.06%	1.64%
Rentals and Utilities	8.10%	2.74%	6.95%	8.62%
Other Services	13.96%	6.27%	16.60%	27.95%
Depreciation/Amortization of Deferred Charges	0.46%	2.45%	13.85%	20.03%
TOTAL EXPENSES	139.52%	45.83%	94.71%	97.56%

Throughout the four-year period under study, the personal services remained the largest expense. However, in 1981, it is evident that there was a tremendous decrease in the personal services as a percentage of gross revenue. This was attributed to the fact that there was a great increase in gross revenue coupled with a slight decrease in the personal services. Generally, the total expenses of the corporation, as a percentage of gross revenue, throughout the four-year period were a substantial portion of the gross revenue, except in 1981 when there was a significant increase in gross revenue and a slight decrease in expenses.

Inasmuch as the expenses of the corporation were great, the corporation experienced a loss in 1980. But due to the increase in the gross revenue in 1981, the net income resulted to 54.17% of the gross revenue. However, this decreased in 1982 and 1983 to 5.89% and 1.07% respectively in spite of the cost reduction measures as evident in the actual decrease in total expenses.

Financial Condition

Regarding the common size analysis of the balance sheet, Table No. 16 contains the components of the total assets as percentage of its total.

Table No. 16

Common Size Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Cash	13.92%	10.05%	5.67%	4.83%
Receivables	13.33%	6.64%	7.78%	0.46%
Inventories	7.17%	5.10%	3.53%	2.94%
Miscellaneous Assets and De- ferred Charges	18.65%	26.07%	20.27%	22.94%
CURRENT ASSETS	53.07%	47.86%	37.25%	16.23%
Contingent Assets	0.04%	0.02%	0.04%	0.07%
Investments	40.44%	44.84%	51.06%	49.10%
Fixed Assets	6.45%	7.28%	11.64%	11.66%
OTHER ASSETS	46.93%	52.14%	62.74%	83.71%

Table No. 15 shows that the investments remained to be a substantial portion of the total assets. This account includes interest and non-interest bearing loans granted to various ISAs and KRISAs and investments in shares of stock of CIMCOR, a subsidiary corporation engaged in the manufacture of gasifier equipment. On the other hand, the current assets, as a percentage of total assets, decreased throughout the four-year period. This was attributed to the decrease in cash, receivables, and miscellaneous accounts, as percentages of total assets. Although the miscellaneous assets and deferred charges fluctuated, this remained to be the largest component of the current assets and the second largest component of the total assets.

Regarding the specific components of the total liabilities, Table No. 17 presents the percentages of specific liabilities to its total.

Table No. 17

Common Size Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Payables	10.68%	6.55%	11.69%	11.47%
Trust Liabilities	9.77%	6.10%	3.86%	5.38%
Depository Liabilities	0.07%	0.03%	0.02%	0.02%
Miscellaneous Liabilities and Deferred Credit	1.26%	0.25%	0.11%	0.10%
CURRENT LIABILITIES	21.78%	12.93%	15.68%	16.87%
Public Debt	36.46%	33.49%	33.09%	35.82%
Contingent Liabilities	--	0.00%	0.00%	0.01%
OTHER LIABILITIES	36.46%	33.49%	33.09%	35.83%
TOTAL LIABILITIES	58.24%	46.42%	48.77%	52.70%

Generally, the total liabilities from 1980 to 1983 were approximately 50% of the total assets. Of the total liabilities, the public debt comprised the largest. This account includes domestic and foreign loans used to finance the operations of the corporation. On the other hand, the current liabilities, as a percentage of total assets, fluctuated. This was attributed to the fluctuations in the payables and trust liabilities.

Table No. 18 contains the specific components of the equity as percentages of the total assets.

Table No. 18

Common Size Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock	50.62%	47.64%	47.14%	43.91%
Donated Surplus	0.23%	0.16%	0.13%	0.12%
Contingent Surplus	0.03%	0.02%	0.02%	0.01%
Retained Earnings	( 9.12%)	5.76%	3.94%	3.16%
TOTAL EQUITY	41.76%	53.58%	51.23%	47.30%

Of the total equity, the capital stock, which includes the equity infusion of the National Government remained to be a large percentage of the total assets. The retained earnings, on the other hand, was just a small percentage of the total assets.



Index Analysis

Results of Operation

Due to the limited financial data available, only the index analysis of the total gross revenue can be computed instead of the specific sources of income. Table No. 19 presents the magnitude of change of the gross revenue from the base year, 1980.

Table No. 19

Index Analysis of Gross Revenue  
1980 - 1983

	1980	1981	1982	1983
GROSS REVENUE	100%	295.68%	100.37%	105.59%

Analysis of the figures in Table No. 19 indicates that the gross revenue in 1981 almost tripled the amount in 1980. This was attributed to the change in treatment of account from expenses related to the KAISA development to the income-generating institutional development loans. However, in 1982 and 1983, the gross revenue slightly increased by 100.37% and 105.59%, respectively. This was due to the adjustments on interest rates and repayment period.

Regarding the expenses of the corporation, Table No. 20 shows the magnitude of change of the specific accounts.

Table No. 20

Index Analysis of Expenses  
1980 - 1983

	1980	1981	1982	1983
Personal Services	100%	91.19%	62.82%	45.64%
Travelling Expenses	100%	84.98%	10.03%	15.01%
Repairs and Maintenance	100%	115.17%	40.57%	28.99%
Depreciation/Amortization of				
Deferred Charges	100%	85.71%	164.23%	250.44%
Freight and Shipping Costs	100%	182.79%	19.22%	20.73%
Supplies and Materials	100%	96.60%	46.58%	39.14%
Rentals and Utilities	100%	100.21%	86.12%	112.38%
Other Services	100%	132.75%	119.40%	211.45%
TOTAL EXPENSES	100%	97.14%	63.14%	73.83%

Over-all, the total expenses of the corporation for the years 1981 to 1983 were lower than the total expenses in 1980. This is due to a change in the treatment of account from expenses to institutional development loans. Likewise, the strict cost control measures adopted contributed to an over-all decrease in the total expenses. Another factor which contributed to the decrease in expenses was the decrease in the total manpower of the corporation. In spite of the increases in some expenses as compared with the 1980 figure, the total expenses were lower due to the reprogramming of the budget.

The magnitude of change in the gross revenue and total expenses resulted to a higher net income as compared with the 1980 figure. Table No. 21 contains the percentage increase in the net income from 1980.

Table No. 21

Index Analysis of Net Income  
1980 - 1983

	1980	1981	1982	1983
Net Income	100%	605.20%	213.42%	206.52%

Table No. 21 indicates that the net income from 1981 to 1983 was greater than the 1980 figure. A close look at these figures shows that the net income in 1981 was six times the net income of the previous year. This was due to a substantial increase in gross revenue coupled with a slight decrease in total expenses. Although the net income in 1982 and 1983 was actually higher than that in 1980, the net income actually showed a decreasing trend since 1981. This was primarily due to the decrease in the total gross revenue.

Financial Condition

Regarding the index analysis of the accounts in the balance sheet, Table No. 22 presents the magnitude of change of the specific assets from the base year, 1980.

Table No. 22

Index Analysis of Assets  
1980 - 1983

	1980	1981	1982	1983
Cash	100%	103.39%	73.16%	75.67%
Receivables	100%	71.27%	104.78%	138.42%
Inventories	100%	101.89%	88.31%	89.62%
Miscellaneous Assets and Deferred Charges	100%	200.07%	195.08%	268.42%
CURRENT ASSETS	100%	129.09%	125.05%	66.73%
Contingent Assets	100%	100.00%	183.20%	426.12%
Investments	100%	158.74%	226.57%	265.00%
Fixed Assets	100%	161.36%	323.73%	394.38%
OTHER ASSETS	100%	159.06%	239.90%	106.98%
TOTAL ASSETS	100%	143.15%	179.45%	218.24%

Table No. 22 indicates that the total assets increased each year. A close look at these figures shows that the current assets and the other assets fluctuated. Further analysis shows that the increase in the other assets was greater than the increase in the current assets. This was attributed to the substantial increase in all the assets classified under the other assets account. On the other hand, there were decreases in the cash and inventories accounts in 1982 and 1983 as compared with the 1980 figure. Furthermore, in spite of the substantial increase in the miscellaneous assets and deferred charges in 1983, the re-classification of this account under the other assets account contributed to the decrease in the current assets for 1983.

Table No. 23 shows the magnitude of change of the various components of the liabilities.

Table No. 23

Index Analysis of Liabilities  
1980 - 1983

	1980	1981	1982	1983
Payables	100%	87.74%	196.30%	234.31%
Trust Liabilities	100%	89.44%	70.90%	120.20%
Depository Liabilities	100%	66.77%	58.46%	59.20%
Miscellaneous Liabilities and Deferred Charges	100%	28.08%	15.98%	17.05%
CURRENT LIABILITIES	100%	84.99%	129.21%	169.05%

Table No. 23 (cont.)

Index Analysis of Liabilities  
1980 - 1983

Public Debt	100%	131.50%	162.86%	214.40%
Contingent Liabilities	--	--	--	--
OTHER LIABILITIES	100%	131.50%	162.86%	214.44%
TOTAL LIABILITIES	100%	114.11%	150.28%	197.83%

Analysis of the figures in Table No. 23 shows that the total liabilities for the years 1981 to 1983 were greater than the 1980 figure. Furthermore, the total liabilities increased at an increasing rate. Although the current liabilities fluctuated, the corporation remained liquid, except in 1983 when the increase in the current liabilities was coupled with a decrease in the current assets. The public debt, on the other hand, increased. This was primarily due to the increase in the foreign loans at an increasing rate. The domestic loans, on the other hand, were just a small percentage of the public debt. This was created by virtue of the Memoranda of Agreement with the National Irrigation Administration and Ministry of Human Settlements to finance the various projects of the corporation.

Table No. 24 shows the magnitude of change of the various components of the Government Equity.

Table No. 24

Index Analysis of Equity  
1980 - 1983

	1980	1981	1982	1983
Capital Stock	100%	134.71%	167.08%	189.31%
Donated Surplus	100%	100.00%	100.14%	112.55%
Contingent Surplus	100%	100.00%	100.00%	100.00%
Retained Earnings	100%	190.21%	177.46%	175.44%
TOTAL EQUITY	100%	133.67%	220.13%	246.70%

Analysis of the figures in Table No. 24 indicates that the total equity increased at a decreasing rate. A close look at these figures shows that the various components of the government equity, except the contingent surplus, increased as compared with the 1980 figure. Further analysis shows that the retained earnings increased at a decreasing rate. This was due to the decrease in the total gross revenue for the years 1982 and 1983. Moreover, it was in 1981 when the corporation reached its peak in

terms of net income and the equity contribution of the National Government.

Budget Variance Analysis

Due to the limited financial information available, the budget variance analysis is confined to the total amount of the regular budget, special appropriations, and capital outlay. The approved budget in these components will be compared against the actual disbursement.

Table No. 25 contains the budget variance analysis for 1980.

Table No. 25

	Approved Budget	Actual Disbursement	Variance
Total Regular Budget	50,091,530	44,945,443	(10.27%)
Special Appropriation	24,329,317	16,061,687	(33.98%)
Capital Outlay	1,500,000	1,497,363	( 0.18%)
TOTAL	75,920,847	62,504,493	(17.67%)

Table No. 25 indicates that the actual disbursements was actually lower than the approved budget. This reflects the strength of the control measures of the corporation especially those pertaining to the expenses.

The budget variance for 1981 is contained in Table No. 26.

Table No. 26

	Approved Budget	Actual Disbursement	Variance
Total Regular Budget	40,400,000	39,355,871	( 2.58%)
Special Appropriation	22,861,078	19,489,505	(14.75%)
Capital Outlay	1,500,000	1,341,524	(10.56%)
TOTAL	64,761,078	60,186,900	( 7.06%)

The actual disbursements for 1981 were lower than the approved budget although the balance was lower than the 1980 figure. Nevertheless, the corporation was able to save more on special appropriation and capital outlay than on the regular budget.

Table No. 27 presents the budget variance for 1982.

Table No. 27

	Approved Budget	Actual Disbursement	Variance
Total Regular Budget	45,000,000	37,826,296	(15.94%)
Special Appropriation	8,525,229	5,132,912	(39.79%)
Total	53,525,229	42,959,208	(19.74%)

In 1982, no budget was appropriated for capital outlay. The total expenses for this year were lower than the approved budget and the actual expenses in 1980 and 1981. This resulted to a savings of 19.74%.

Table No. 28 contains the budget variance for 1983.

Table No. 28

	Approved Budget	Actual Disbursement	Variance
Total Regular Budget	47,000,000	37,411,606	(20.40%)

In 1983, no budget was appropriated for special projects and capital outlay. The actual disbursements for this year were only 79.50% of the approved budget. This reflected the strict measures exercised by the corporation in controlling the expenses in view of the uncertainties in the equity contribution of the National Government.

The over-all performance is not measured in terms of the net income generated since the corporation is more service-oriented than profit-oriented. Nevertheless, there is a move to be an income-generating corporation to continue its operations. The first step was to grant institutional development loans to the KAISAs instead of carrying these as an expense of the corporation. The second step was to operate within a limited budget and adhere to strict measures in controlling the operating expenses of the corporation.

FOOTNOTES

- <sup>1</sup>P.D. 681.
- <sup>2</sup>P.D. 1595.
- <sup>3</sup>Ibid.
- <sup>4</sup>Ibid.
- <sup>5</sup>Interview with Venido Atienza, Director, Management Services Department, July, 1984.
- <sup>6</sup>P.D. 1595.
- <sup>7</sup>1980 Organization Manual.
- <sup>8</sup>Ibid.
- <sup>9</sup>P.D. 1445.
- <sup>10</sup>Interview with Edna Yambao, Director, Supply Management Office, July, 1984.
- <sup>11</sup>P.D. 1595.
- <sup>12</sup>Interview with Venido Atienza.
- <sup>13</sup>Interview with Florida Marco, Division Chief, Human Resources Division, July, 1984.
- <sup>14</sup>Ibid.
- <sup>15</sup>Interview with Margarita Uyao, Division Chief, Internal Audit Service, July, 1984.
- <sup>16</sup>Ibid.
- <sup>17</sup>Interview with Gwendolyn Torres, Director, Finance and Administrative Department, August, 1984.
- <sup>18</sup>Interview with Valentin Guanilo, Member, Executive Council, August, 1984.
- <sup>19</sup>Ibid.
- <sup>20</sup>Interview with Gwendolyn Torres.
- <sup>21</sup>Interview with Valentin Guanilo.
- <sup>22</sup>Interview with Venido Atienza.

23. Ibid.
24. Interview with Raul Flores, Division Chief, Systems Development Division, October, 1984.
25. Interview with Venido Atienza.
26. Annual Planning Manual.
27. Interview with Cecil Jose, Division Chief, Finance and Loan Management Division, August, 1984.
28. Interview with Domingo Cunanan, Division Chief, Field Service Division, September, 1984.
29. Interview with Margarita Uyao.
30. Interview with Manuel Gaspay, Area Manager, July, 1984.
31. Interview with Florida Marco.
32. Interview with Gwendolyn Torres.
33. Interview with Venido Atienza.
34. The allowable benefit-cost ratio is 1.4:1.
35. The price ceiling for the cost per hectare is P5,000.
36. Interview with Venido Atienza.
37. Interview with Jaime Millan, Director, ISA Development Department, July, 1984.
38. Interview with Venido Atienza.
39. Ibid.
40. Ibid.



PHILIPPINE VIRGINIA TOBACCO ADMINISTRATION

Corporate Overview

One of the major foreign exchange earners of the Philippines is Virginia tobacco. For the years 1980 to 1984, the country's exports reached to about ₱713 million. This substantial earnings may be attributed to the active role of the Philippine Virginia Tobacco Administration in enhancing the production and trading of Virginia tobacco. It is estimated that around 12.2 million people owe their livelihood to the Virginia and aromatic tobacco industry. Likewise, tobacco contributes billions of pesos to the government in the form of specific taxes, corporate taxes, duties and license fees and other charges.<sup>1</sup>

Created by Republic Act No. 2265 which was enacted on June 19, 1979, PVTA is tasked with the functions of promoting, developing, and sustaining Virginia tobacco as an industry.<sup>2</sup> Specifically, it is entrusted with the functions of promoting the effective merchandising of Virginia tobacco, establishing a balanced production and consumption of tobacco to ensure stable prices so that reasonable profit may be earned by domestic and foreign markets; creating, establishing, maintaining and operating, processing, warehousing and marketing facilities in suitable centers; supervising the selling and buying of tobacco to assure the farmers reasonable profits; and prescribing the rules and regulations governing grading, classifying, and inspecting Virginia tobacco.

PVTA has, since its creation, embarked upon a number of projects, including financing, training, research, scholarships, and demonstration farms to fulfill its mission. To ascertain the problems of the tobacco industry and to develop appropriate solutions to identified problems, it initiated regular dialogues with tobacco farmers, cigarette producers and manufacturers and traders. Presidential Decree No. 1143 expanded its jurisdiction to Turkish and Burley tobacco.<sup>3</sup>

#### Organization 1980-1983

The Board of Directors is the policy-making body of PVTA which is composed of a Chairman and six directors. Each tobacco producing region is represented in the Board. Secretarial, administrative services, and technical assistance are provided by the Office of the Corporate Secretary.

Directly under the Board of Directors is the General Manager who oversees the operations of the corporation. The organization also provides for the position of an Assistant General Manager.

From 1980 to 1983, the staff units under the General Manager are as follows : (1) Research and Development Coordinator (2) Security and Intelligence Unit; and, (3) Public Relations Staff. The Research and Development Coordinator supervises the activities of the Research and Extension and Technical Services Departments.

In compliance with Presidential Decree No. 51, the Security and Intelligence Unit is tasked with safeguarding the assets and personnel of the corporation. The Public Relations Staff formulates and executes public relations programs in order to disseminate information about PVTA's policies, goals, objectives and operations.

The following is a discussion of the departments in PVTA.

#### Administrative Department

The Administrative Department formulates and implements personnel policies and programs pertaining to recruitment, payroll administration, promotions and transfers. It is also responsible for procurement of supplies, materials and equipment; acts as custodian of corporate property; maintains records for easy and orderly retrieval and provides transportation, janitorial, medical and dental services to the corporate personnel. For the years 1980-1983, no structural changes in the department were made.

#### Finance Department

The Finance Department's structure from 1980 to 1983 was not modified. It processes payrolls, vouchers and other disbursements; acts as treasurer of corporate funds; prepares the budget, disbursement and collection reports.

Legal Department

Legal services to the Board and to management is provided by the Legal Department. It also handles legal cases and legal problems such as those arising from the application and interpretation of trading rules. No changes were effected in the structure of this department from 1980 to 1983.

Plans and Programs Department

The Plans and Programs Department prepares short and long range plans for FVTA. The environment, corporate resources such as manpower and financial resources are considered in the formation of the plans. PPD monitors the progress of projects and programs implemented in the field offices to ascertain the technical and economic viability of the plans.

The Management Audit Division undertakes management audits. It is also tasked with the responsibility of evaluating the corporate internal control system. No restructuring was made in PPD from 1980 to 1983.

Research Department

The Research Department conducts extensive studies in the production and processing of Virginia, Burley and Turkish tobacco through its research stations. It is also involved in research projects on "varietal improvement, culture management, crop protection, crop processing, leaf classification and grading chemistry and by-product utilization." RD had joint research projects on tobacco with the College of Agriculture of the University of the Philippines and other research agencies. No changes were made in its structure from 1980 to 1983.

Extension and Technical Services Department

The Extension and Technical Services Department is concerned with the development of an over-all extension program. Such a program entails various activities such as dissemination of information on new techniques on production and classification of aromatic tobacco, through its radio program, publication of scientific papers and brochures, field seminars, and training classes for farmers. The ETSD's structure was not amended for the years 1980 to 1983.

Market Development and Regulation Department

The Market Development and Regulation Department undertakes researches and studies on the trends in the demand and supply of tobacco, prices, standards and concepts for the formulation of rules and regulations that will apply to trading of tobacco. Its activities are focused on factors in the external environment such as international patterns of supply and demand and prices for tobacco. Like the other departments, no changes in the structure has been made for the years 1980 to 1983.

Provincial Offices

The Provincial or Field Offices implement the plans and programs conceptualized and approved in the central office. They supervise the trading centers and apply the rules and regulations pertaining to trading. Each provincial office has four divisions: namely: (1) Personnel (2) Field Extension (3) Trading Regulation and (4) Finance.

## Aspects of Coordination and Control

### Committees

Committees are useful for coordinating, planning and the execution of programs. They are venues where consensus can be reached and involvement of individuals representing different departments is enhanced. Such involvement will often result in a higher degree of commitment towards the accomplishment of corporate objectives.

In PVTA, there are three major committees which function as coordinating, planning, problem solving and review groups. These are the: Management Coordinating Staff (Macostaff), the Departmental Review Committee and the Inter-Departmental Planning and Review Committee.

#### Management Coordinating Committee (Macostaff)

The Management Coordinating Committee evolved from the staff meetings that have always been a part of PVTA's activities. It was only around 1980 when the term Macostaff was coined. In the past, it held its meetings every Monday. However, in 1983, meetings are called when there are issues and problems needing special attention. The Manager of the Legal Department presides over its meetings in his capacity as Over-all Operations Coordinator. This designation was made by the Officer-in-Charge to enable the Legal Counsel to act as the second managing head of the corporation. Managers, assistant managers and division chiefs comprise this Committee.<sup>4</sup>

#### Departmental Review Committee (DRC)

The Departmental Review Committee acts as the first level screening group of concept papers and projects proposals. Composed of representatives of the various departments, the DRC also reviews proposals which will later on be elevated to the Inter-Departmental Planning and Review Committee.<sup>5</sup>

#### Inter-Departmental Planning and Review Committee (IPRC)

The Inter-Departmental Planning and Review Committee evaluates the project proposals which will be integrated into departmental programs. After the IPRC's review of the proposals, the same is submitted to the Over-all Operations Coordinator. The Plans and Programs Department acts as secretariat of the IPRC.<sup>6</sup>

### Planning

The development plans are prepared by the Plans and Programs Department, which was revitalized in 1981, with the appointment of key officers who had extensive experience in development planning. PPD prepared the corporate five-year plan. In 1983 it has five major concerns: Strategic Planning, Monitoring and Evaluation, Systems Development, Support Services and External Relations.

It spearheaded the Industry Assessment Conference and the Conference on Support Systems for Tobacco Development in 1982.

Since one of the major clients of the corporation are the manufacturers, exporters of tobacco, a conference was held in 1982 among these sectors and PVTA. The output of this conference was an Industry Assessment Report which discusses the state of development of the aromatic tobacco industry, the problems faced by it, the specification of the quantity and quality demanded and the potentials of the tobacco industry.

The conference was significant because it strengthened the linkage between the private sector-clients and the PVTA. This was followed by a second conference which continued the assessment of the conditions, programs and support systems for tobacco development. Identified as major areas of concern were: technology development, dissemination, extension services, farmers organization, research and development and development planning, coordination and energy development.

One unique function of PPD is its assistance to other departments in the preparation of their respective plans. Its intervention and involvement is determined by the specific needs of each department. To enhance the field units' capability to undertake activities related to planning, support services are also extended to the Extension and Technical Services Department so that planning skills can be transferred to all levels in the organization.<sup>7</sup>

### Budgeting

The budget process is closely linked to planning. The Budget Management Division formulates guidelines mainly in the form of standard costs. The estimates submitted by the departments are evaluated against these guidelines.

As the projects are being implemented, departments are informed of their financial status every quarter by the Finance Department. The departments' individual worksheet on the status or level of funds which are maintained in the Finance Department are open and accessible to the departments at any time. Should a department be low in funds, the Budget Management Division informs the manager concerned of the critical status of his appropriation. In this case, such department may request for a reprogramming of funds. This will be granted only after due deliberation by the Inter-Departmental Planning and Review Committee. The committee submits the final recommendation to the Over-all Operations Coordinator who forwards them to the Officer-in-Charge.<sup>8</sup>

#### Monitoring

Monitoring in the corporation has two aspects: the monitoring of internal operations and the monitoring of external operations. The monitoring functions are performed by PPD. The Management Audit Division which is temporarily supervised by PPD is currently undertaking review of systems and procedures. On the other hand, PPD prepared a manual containing the following topics: orientation, mandate, programs and projects and organization.

Monitoring of external operations was systematized in 1983 thru the Modified System for the Over-all Management of Trading Operations. Its major components are as follows: reclassification of trading centers, mobilization of the Trading Regulations Unit and Mobilization of the Provincial Advisory Committee.

To effectively deploy and supervise PVTA personnel at trading centers and to effectively monitor trading operations, trading centers are classified according to volume of acceptances totalling 1,500,000 kilograms, or more as Category A. Those with acceptances of 500,000 kilograms or more but less than 1,500,000 kilograms, belong to Category B. Category C are the trading centers with acceptances of 200,000 while Category D are those with less than 200,000 kilograms.

The Trading Regulation Units were organized in the provinces. The provincial branch managers supervise the TRUs and are responsible for the compliance with all the requirements prescribed by the central office. TRUs are also responsible for monitoring trading operations, recording collation and submission of reports to the main office.

The Provincial Advisory Committee is a link between PVTA and other agencies directly or indirectly involved in tobacco trading. It is composed of the PVTA Branch Manager who serves as its Chairman, and the PC Provincial Commander, Provincial Fiscal and President of the Federation of Virginia Tobacco Growers' Associations as members. The

PAC performs the following functions: (1) apprehend and prosecute erring parties in trading activities; (2) field PVTA personnel at establishments of wholesale tobacco dealers and redrying plants; and (3) conducts training/orientation seminars on trading operations.

#### Auditing

Since pre-audit functions had been withdrawn by COA, transactions are presently pre-audited by the Finance Department. The Management Audit Division does not perform this function inasmuch as it is involved in systems, review and evaluation.

In 1983, COA evaluated the corporation's internal control system. The team which undertook the evaluation recognized the existence of manuals on operations, finance and accounting, property management and administrative and personnel management. It, however, recommended that the manuals be submitted to COA for review and approval, to comply with existing policy.

COA favorably commented on the creation of the Management Audit Division, and encouraged it to conduct a continuous evaluation of the internal control system. It identified several areas such as those pertaining to budgetary controls, collection system and supplies and property management system which needed improvements. It identified specific measures so that its internal control system can be strengthened.

PVTA is presently pursuing steps to comply with the recommendation of COA.

#### Coordination and Management Style

The Officer-in-Charge of PVTA is also the Chairman and Corporate Secretary of the Board. This unique arrangement gives the Officer-in-Charge ample opportunities to immediately implement policies as soon as they are approved by the policy-making body and at the same time give immediate feedback to the Board on operational matters requiring policy decision.<sup>10</sup>

The present leadership believes in strengthening the ties between the corporation and its various clients: the farmers, the tobacco producers, manufacturers and the traders. The conference held last year between the private sector groups and the PVTA, as earlier stated, resulted in an Industry Assessment Report, a document which was used as basis for planning and decision-making.



He is open to new ideas and innovations. Thus, in 1931, he recruited young technocrats from the Development Academy of the Philippines to energize the corporation and to spur reforms in management. The changes in the planning approach, the manualization of operations, policies and procedures and the infusion of participative system in many decision - making situations would not have been possible, without the strong support of the Officer-in-Charge. The resistance to change shown by those who had been in the organization for more than two decades, was gradually replaced by acceptance and trust in new systems, because of the visible support and assistance shown by the leadership and the innovations which were initiated by the technocrats.<sup>11</sup>

Characterized as kind, open-minded and facilitative, the Officer-in-Charge has succeeded in balancing the diverse expectations and requirements of PVTA's clients. Thus, to the farmers, the PVTA makes available scholarships for their children; to the farmers, themselves, scientific experiments with new farm inputs will result in better yields of tobacco; and to the manufacturers, the corporation set a viable system for continuous supply of needed inputs for their factories.

#### OPERATIONAL HIGHLIGHTS

The over-all performance of PVTA may be assessed in terms of its contribution to the economy of the country through the development of the Virginia and Aromatic Tobacco Industry. On the other hand, the development of the tobacco industry can be measured by the extent to which it contributes to the tobacco growing communities, farmers and private sectors. There are two ways of measuring its contribution. The first is through the use of economic indices such as sales, profits, and revenues among others. The second is in social terms such as :

- (1) equitable distribution of costs and benefits of its development;
- (2) increase of access to government assistance and service;
- (3) increase income opportunities; and, (4) increase of leadership and participation in problem-solving and decision-making on matters affecting their welfare.

#### Programs and Projects

Before discussing the major accomplishments, the nature of operations will be taken up first. The discussion will be limited to the major programs and projects.

#### Trading

One of the distinct activities of PVTA is the trading operations. Throughout the four-year period under study, the corporation implemented the trading center concept. This involves the establishment of trading centers at strategic places in the Virginia and Burley tobacco provinces. These trading centers are licensed by PVTA to accept the farmers' produce and pay them in accordance with floor prices set by the government for each grade of leaf tobacco. It is intended to spare the farmers from dealing with unscrupulous middlemen. In 1982, however, innovations on trading activities, particularly in the policies and procedures, were adopted and for implementation during the 1983 tobacco trading operations. The first innovation was the modified system for the over-all management of trading operations. This was implemented to upgrade the manpower and institutional capabilities in order to bring about a more efficient, effective, and economical system of supervision and monitoring of trading activities. As earlier discussed, the modifications in the trading operations were the following: (1) reclassification of trading centers depending on the volume of tobacco acceptance; (2) creation of trading regulation units under the supervision of the Provincial Branch Manager; and, (3) organization of provincial advisory committee which serves as the link between PVTA and other concerned agencies.

The second innovation was the supplemental rules and regulations on trading of locally grown Virginia leaf tobacco. This provided the licensing of trading centers and issuance of Permit to Purchase to End-buyers and Wholesale Tobacco Dealers and Permit to Redry to Redriers. The third innovation was the revised rules and regulations governing the registration of farmers and trading of locally grown burley tobacco. This provided the issuance of Permit to Purchase or Permit to Redry to Wholesale Tobacco Dealers and End-buyers, and to Redriers, respectively.

In relation to the trading operations, PVTA determines the floor prices of the flue-cured and air-cured leaf tobacco for approval of the President. However, one of its problems in setting the floor prices was the lack of reliable data on cost and return of production. To solve this, PVTA with the involvement of the Virginia Tobacco Growers' Association (VIGA), Burley Tobacco Growers' Association (BTGA) and Philippine Aromatic Tobacco Development Association (PATDA), started in 1981 to conduct studies on the actual cost and return of production for both types of tobacco. This was a two-year project conducted in the Virginia and Burley tobacco provinces to: (1) provide accurate data on cost and return of production that are acceptable to both the sellers' and buyers' groups represented by the VIGA and BTGA, and PATDA respectively; and, (2) determine on farm trials the profitability of raising these types of tobacco using the PVTA-packaged technology. The result of this study served as the bases for determining the floor prices of the tobacco crops.

#### Demonstration Farms

Another activity was the establishment of demonstration farms. In 1980, the corporation undertook the PVTA-PPI Demonstration Project. This project demonstrated the effects of using varying amounts of fertilizer. It was actually in 1981, however, when PVTA initiated the establishment of demonstration farm project in both the Virginia and Burley tobacco-growing provinces. This project, popularly known as the "PVTA-Assisted Farmer Demonstration Farm" project, intended to speed up the dissemination of the new packages of tobacco technology to the farmer level thru the active participation of PVTA farm management technicians. These technicians saw to it that the needed assistance were extended to the farmer-cooperators. Such assistance covers the period from the production to the marketing the farmers' produce. Other objectives of this project include the creation of awareness among tobacco farmers of the wise utilization of credit and the

development of a harmonious working relationship between the farmers and the farm management technicians. The project was continued in 1982 because of its initial success. The results of the first two years of implementation proved the profitability and adaptability of the recommended technologies. In 1983, in addition to this project, variable demo-farm sizes were used to determine the most effective size for technology demonstration and dissemination.

#### Virginia and Burley Tobacco Growers of the Year Contest

During the four-year period covered by this study, the Virginia Tobacco Growers of the Year contest was held annually. This is a joint project of PVTA, Philippine Jaycees and Philippine Virginia Tobacco Board to encourage the active participation of Virginia tobacco farmers in the development of the industry, strengthen the politico-socio-economic ties between the farmers, government and the private sector, and give due recognition to the contribution of these farmers to nation-building. In 1981, a Burley Tobacco Grower of the Year contest was initiated. This contest had the same contest objectives as that of the Virginia Tobacco Growers of the Year contest. This was likewise held annually.

#### Scholarships

Since the children of farmers also participate actively in farm operations, a pilot project linking the program of burley tobacco technology transfer to educational institutions was initiated in 1982. This project was conducted in high schools to teach the children of Burley tobacco farmers the tobacco technology which included basics of the tobacco culture and research-oriented package of technology from seed-bedding to post-harvest operations. These are taught by PVTA farm management technicians during the Practical Arts class held twice a week.

#### Research and Information Services

To promote academic and institutional interests in tobacco among students and faculty members of agricultural schools, PVTA implemented the research and management development program. This was implemented through scholarships, grants-in-aids, or student assistanceships, preferably for children of tobacco farmers. This is actually a long-range plan which aims to attract qualified and deserving Ilocanos into the folds of PVTA.

Another continuing activity of PVTA is the dissemination of vital information to acquaint the public of its policies, programs and activities. This was achieved through the print and broadcast media. A regular feature of the information drive is the School-On-The Air radio program dubbed "Oras Ni Manggalon Iti Tabako" (Hour of the Tobacco Farmer). This was aired for an hour per week,

in cooperation with the Philippine Tobacco Research and Training Center (PTRTC).

Another important activity of PVTA was the conduct of researches in various field of crop production. These studies, conducted at the different research stations, were about crop improvement, soil and plant nutrition, crop protection, post-harvest and processing technology on Virginia and Burley tobacco, among others.

#### Lending Program

A lending program known as the Integrated Agricultural Financing (IAF) Program was adopted and implemented to uplift the living conditions of tobacco farmers and their families and accelerate countryside development. Under this program, liberal credit facilities were extended to leaf farmers for operational expenses and for the purchase of farm inputs which are expected to improve leaf yield and quality, thereby increasing income from production.

Complementary to the IAF Program was the Aromatic Tobacco Trading Loan Fund (ATTLF) Program which provides sufficient and cheap funds for tobacco trading in an effort to stabilize the trading of Virginia fire-cured and burley air-cured leaf tobacco. This program ensures profitable trading for farmers, exporters, manufacturers, trading centers and redrying plant operators and ensures a continuous flow of funds for tobacco trading even during the peak of the buying season. This program is for the benefit of the tobacco farmers.

Major Accomplishments

Although PVTA is engaged in various programs and projects, Table 1 presents the accomplishments in the trading operations of the Virginia Tobacco which resulted from the combined achievements of the projects discussed earlier.

Table 1				
<u>Trading Operations of Virginia Tobacco</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total no. of kilos purchased at trading centers	39,604,752.65	37,962,079.85	47,421,069.40	49,484,276.8
Purchase value, ₱	₱310,203,969.035	₱332,572,458.805	₱493,155,785.67	₱461,182,365.4
Distribution, by grade				
A	30.25%	33.21%	34.19%	25.00%
B	14.56%	14.17%	15.47%	16.52%
C	12.77%	12.53%	15.08%	14.57%
D	10.39%	10.52%	11.22%	12.73%
E	10.13%	9.73%	9.36%	11.64%
GR	10.91%	11.00%	8.64%	10.55%
PR	10.99%	8.84%	6.06%	8.99%
TOTAL	100.00%	100.00%	100.00%	100.00%

Table 1 shows that the quantity of the Virginia tobacco purchased at trading centers increased throughout the four-year period under study, except in 1981 when there was a slight decrease. However, the various projects of PVTA are geared towards the improvement of the quality of tobacco, regardless of the quantity produced.

A clear indicator of the improvement in the leaf quality is the ratio of high-grade tobacco purchases in relation to the total production. High-grade tobaccos are those which are classified under grades A,B, and C. The higher the ratio, the better the leaf quality of tobacco produced.

In 1980, the high-grade tobacco constituted 57.58% of the total purchases. It was also during this year when the floor prices for aromatic tobacco were increased so the farmers can be assured of a reasonable profit for their investment. However, the Virginia tobacco were bought at trading centers at prices higher than these floor prices. As a result, the total purchase value of the Virginia tobacco in 1980 was ₱310,203,969.035.

There was a slight decrease by 4.15% in the quantity of Virginia tobacco purchased in 1981 as compared with the 1980 figure. However, in spite of the fact that the floor prices for Virginia tobacco was the same as those in 1980, the total value of the Virginia tobacco purchased at trading centers increased by 7.21%. This can be attributed to the increase in the production of better quality of leaf tobacco or the exportable grades. As seen in Table 1, the high-grade tobacco constituted 59.91% of the total production compared to only 57.58% in 1980.

In 1982, the total number of kilos of Virginia tobacco purchased at trading centers increased by 24.92% as compared with the 1981 figure. Moreover, the total value of the tobacco increased by 48.28%. This can be attributed primarily to the improvement in the quality and leaf yield of the Virginia tobacco. Table 1 shows that 64.74% of the total production constituted the high-grade tobacco compared to only 59.91% in 1981. However, there were several other factors which contributed to the increase in the purchase value of the Virginia tobacco. The first factor was the increase in the floor prices of the tobacco to provide the farmers a fair return. Moreover, the actual buying prices of the Virginia tobacco were even higher than the floor prices set by the government. The second factor which contributed to the increase in the total purchase value of Virginia tobacco was the commitment of the end-users to purchase the Virginia tobacco at the trading centers. This purchase commitment was signed by PVTA and the buyers' group which was represented by the Philippine Aromatic Tobacco Development Association (PATDA) before the 1982 trading season started. The third factor was the modifications on the over-all management of the tobacco trading operations and the implementation of rules and regulations governing tobacco trading. The fourth factor which contributed to the significant increase in the purchase value of the Virginia tobacco was the slump in the production of tobacco of China, one of the largest tobacco trading suppliers of the world. Finally, the release of more than P13 million loan from the Aromatic Tobacco Trading Loan Fund (ATTLF) to the operators of the trading centers and the end-users contributed to the increase in the quantity and quality of leaf purchases in 1982.

In spite of the increase in the volume of Virginia tobacco purchased at trading centers in 1983, the total purchase value decreased by 6.48% as compared with the 1982 figure. Moreover, the ratio of high-grade Virginia tobacco to the total production was only 56.09%, which registered a decrease from the ratios attained from 1980 to 1982. This can be attributed to the decrease in the actual buying prices of the Virginia tobacco. A purchase commitment was signed again by PATDA to ensure a ready market for the farmers' produce. In 1983, the purchase commitment amounted to 40 million kilos of flue-cured Virginia tobacco.

Regarding the Burley tobacco, Table 2 presents the summary of its trading operations from 1980 to 1983.

Table 2  
Trading Operations of Burley Tobacco

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total no. of kilos purchased at trading centers	6,687,415.5	12,767,521.1	12,783,772.5	13,148,210
Purchase value	₱ 41,768,669.5	₱ 72,922,767.85	₱ 77,308,390.8	₱ 87,370,301
Distribution, by grade				
			Air-cured	Semi Air-cured
A	52.06%	42.31%	30.89%	35.30%
B	12.88%	11.31%	18.85%	19.58%
C	9.55%	11.38%	14.68%	13.88%
D	6.85%	9.46%	17.64%	17.41%
E	6.76%	8.86%	17.94%	13.83%
F	8.02%	14.11%	-	-
R	3.88%	2.57%	-	-
TOTAL	100.00%	100.00%	100.00%	100.00%
			Sun-cured and Rejects	
F			31.27%	52.00%
R			78.73%	48.00%
TOTAL			100.00%	100.00%

Table 2 shows a fluctuating trend in terms of the volume of Burley tobacco purchased at trading centers. It was actually in 1982 when the total number of kilos of Burley tobacco was the greatest. As in the Virginia tobacco, the quality of tobacco is more important than the quantity produced.

In 1980, the high-grade Burley tobacco constituted 74.49% of the total production. The floor prices of these tobacco were likewise increased so the farmers can enjoy a reasonable margin of profit. As in the case of the Virginia tobacco, the Burley tobacco were bought at trading centers at prices higher than the floor prices, resulting to a total purchase value of ₱41,768,669.50.

There was a substantial increase by 90.92% in the volume of Burley tobacco purchased in 1981 as compared with the 1980 figure. The floor prices however, were the same as those set in 1980. As a result, the increase in the total purchase value was lower than the increase in the quantity purchase at trading centers. Table 2 shows that there was a decrease to 65% in the ratio of high-grade tobacco to the total production, resulting to a total purchase value of ₱72,922,767.85.



The total volume of Burley tobacco in 1982 registered a slight increase from 12,767,521.1 kilos in 1981 to 12,783,772.5 kilos in 1982. Of this total, 87.90% comprised the semi-air-cured tobacco, 11.37% sun-cured and rejects, and a mere 0.73% air-cured tobacco. It is also worth mentioning that a little over 90,500 kilos were produced in areas not under the burley tobacco zone. The increase in the quantity purchased resulted from the improved tobacco technology and fair weather conditions during the entire tobacco season.

In 1983, the total volume of Burley tobacco produced was 13,148,210 or 2.85% higher than the 1982 figure. Of this amount, 86.28% constituted the semi-air-cured, 3.83% air-cured, 5.14% sun-cured, and 4.75% rejects. The floor prices for the air-cured Burley were increased while the floor prices for the semi-air-cured were not. Nevertheless, the buying prices for the Burley tobacco were actually higher than the floor prices set by the government. Thus, the total purchase value of the Burley tobacco in 1983 showed a significant increase to P87,370,301.34 from P77,308,390.8 in 1982. This can be attributed to the increase in the production of high grade tobacco leaves. Likewise, a purchase agreement was also signed by PATDA involving 10 million kilograms.

Another type of tobacco produced is the Oriental or Turkish tobacco. Table 3 presents the trading operations of Oriental tobacco.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total no. of kilos purchased at trading centers	199,556	197,286	233,271	175,391
Purchase value, ₱	₱1,223,992.15	₱1,219,502.55	₱1,574,853.00	₱1,350,403.55
Distribution, by grade				
A	8.83%	12.07%	11.54%	27.47%
B	31.64%	31.62%	32.16%	32.20%
C	28.47%	25.73%	30.53%	23.15%
D	17.60%	20.18%	16.83%	13.10%
E	5.08%	0.86%	0.83%	0.10%
F	0.47%	0.02%	0.28%	0.54%
R	<u>7.91%</u>	<u>9.52%</u>	<u>8.53%</u>	<u>3.49%</u>
TOTAL	100.00%	100.00%	100.00%	100.00%

Table 3 shows a fluctuating trend in both the quantity and quality of Oriental tobacco purchased at trading centers. It is also worthwhile to mention that no floor prices were set for Oriental tobacco.

In 1980, a total of 199,556 kilos of Oriental tobacco with a purchase value of P1,223,992.15 was purchased at trading centers. Of the total volume produced, 68.94% constituted the high-grade tobacco leaves. As stated earlier, high-grade tobacco consists of grades A, B and C. Table 3 shows that most high-grade Oriental tobacco leaves were those classified under grades B and C.

The total volume of Oriental tobacco purchased in 1981 decreased by 1.14% as compared to the 1980 figure. But there was a slight increase in the ratio of high-grade tobacco leaves to the total production. In 1981, 69.42% of the total production constitute the high-grade tobacco leaves compared with the 68.94% in 1980. Moreover, the actual buying prices of Oriental tobacco slightly increased as compared to the buying prices in 1980. However, the total purchase value of the tobacco was only P1,219,502.55 compared with P1,223,992.15 in 1980.

The accomplishments in the trading operations of Oriental tobacco were noteworthy. To begin with, the total volume of Oriental tobacco purchased at trading centers increased from 197,286 kilos in 1981 to 233,271 kilos in 1982 or registering an increase of 18.24%. Furthermore, a very clear indicator of the improvement in the quality of the tobacco leaves was the ratio of high-grade quality to the total production. In 1982, 74.23% constituted high-grade Oriental tobacco. The buying prices likewise increased resulting to a total purchase of Oriental tobacco of P1,574,853.00 or an increase of 29.14% as compared with the 1981 figure.

In 1983, the total volume of Oriental tobacco purchased at trading centers decreased from 233,271 kilos in 1982 to only 175,391 kilos. In spite of this, the ratio of high-grade tobacco leaf increased significantly to 82.82%. Moreover, the buying prices of Oriental tobacco increased, resulting to a total purchase value of P1,350,403.55.

All these developments in the tobacco industry resulted to positive contributions to the over-all economy of the country. It is worthwhile to note that the tobacco industry contributed to the export earnings of the country. Table 4 summarizes the tobacco exports from 1980 to 1983.

Table 4  
Tobacco Exports

A. Virginia Tobacco Calendar Year (CY)	Quantity (Kilos)	Value (Pesos)
1980	9,197,250	₱129,746,492.93
1981	12,376,282	188,558,656.96
1982	14,400,444	251,441,671.20
1983	9,541,735	143,715,368.16

B. Burley Tobacco Calendar Year (CY)	Quantity (Kilos)	Value (Pesos)
1980	1,226,600.00	₱13,428,331.27
1981	1,705,688.23	25,044,674.09
1982	1,354,500.00	26,589,897.97
1983	1,050,113.62	25,050,266.27

Table 4 shows that the volume of Virginia and Burley tobacco exports increased throughout the four-year period under study, except for the tobacco exports in 1983 which showed a decrease in the total number of kilos.

In 1980, the exports of Virginia tobacco totalled \$17,098,967.98 consisting of export shipments to 14 traditional export markets with a total volume of 9,197,250 kilos. Regarding the Burley tobacco, 1,226,600 kilos amounting to P13,428,331.27 were exported to the United States of America, the only export market in 1980. Note that the local market requirements should be satisfied first before entering the export markets.

The total volume of both the Virginia and Burley tobacco exports increased in 1981. Moreover, there was an increase in the number of foreign markets for both the Virginia and Burley tobacco. In 1981, 12,376,282 kilos of Virginia tobacco, amounting to P188,558,656.96 found its way to 19 foreign markets while 1,705,688.23 kilos of Burley tobacco, amounting to P25,044,674.09 were exported to 7 countries.

In 1982, there was an increase in the exports of Virginia tobacco while a decrease in the volume of Burley tobacco exports was evident, as presented in Table 4. In spite of the decrease in the quantity exported, the total purchase value of Burley tobacco exports actually increased. In 1982, 14,400,444 kilos of Virginia tobacco, amounting to P251,441,671.20 found its way to 16 foreign markets while 1,354,500 kilos of Burley tobacco were exported to 5 foreign markets. The total volume of exports in Virginia and Burley tobacco comprised approximately 26.16% of the total production for the year.

In 1983, only 9,541,735 kilos of Virginia tobacco with a value of P143,715,368.16 were shipped to 18 foreign markets while the Burley tobacco exports amounting to 1,050,113.62 kilos with a value of P25,050,266.27 was exported to 5 countries. The decrease in the total volume of exports was primarily due to the decrease in the total production of tobacco.

All these accomplishments would not be fully realized without the implementation of various programs and projects of PVTA which are geared towards the improvement of the leaf yield and quality of the tobacco leaves.

#### Demonstration Farms

One of the significant projects of PVTA was the establishment of demonstration farms. In 1980, 20 demonstration farms were established to demonstrate the effects of using different amounts of fertilizers. In 1981, to facilitate the transfer of new technology to the farmer level, PVTA initiated the establishment of 233 demonstration farm projects in both the Virginia and Burley tobacco-growing provinces. Financial assistance, amounting to P3,727.83 per hectare for Virginia tobacco and P2,617.90 per hectare for Burley tobacco were extended to farmers to encourage them to join the project. The financial assistance was given for the purchase of farm inputs such as insecticides, fertilizers, gasoline, oil and firewood. The project was continued in 1982 with the participation of some 233 farmer-cooperators. The project was a success as evidenced by the increase in the yield per hectare amounting to as high as 3,200 kilograms as compared with only 929 kilograms during the previous years. A total of 412 demonstration farms of three various sizes were established in 1983. Furthermore, financial assistance which were extended to the farmers amounted to P6,000 per hectare for Virginia tobacco and P4,000 per hectare for Burley tobacco.

#### Integrated Agricultural Financing Program

Another program of PVTA was the Integrated Agricultural Financing (IAF) program with the aim of providing operating funds for the exporter cigarette manufacturers and trading center operators so as to have a profitable trading for all. In 1980, a total of P8,914,577.65 was extended as direct loans to the farmers. The total amount of loan released in 1981 decreased to P4,560,656.00 or a decrease by almost 50%. Moreover, the total number of borrowers for both the Virginia and Burley tobacco farmers showed a sharp decline from 5,543 in 1980 to only 2,042 in 1981. The revised guidelines of the IAF program stated that Virginia farmers using the new PVTA technology can avail of a maximum of P6,000 production loan provided that the average production per hectare is 1,450 kilos of good quality tobacco, while those whose expected output is only 1,000 kilos of good quality tobacco can borrow as much as P4,000. On the other hand, Burley farmers can borrow up to P3,250 per hectare. In 1982, the total loan granted amounted to P12,543,429 with 43 banks participating in the IAF program. The program was able to generate total earnings of P3,612,141.72 during this year. In 1983, the IAF program generated an income of P4,953,706.11 or an increase of 37.14% as compared to the 1982 figure. About 37 rural banks participated in the program.

Another important accomplishment of PVTA revolved around the implementation of another financing program, the Aromatic Tobacco Trading Loan Fund (ATTLF) program, which complemented the IAF program. This program aimed to stabilize the purchase of tobacco by providing wholesale buyers with sufficient funds. However, this program was limited to certified Virginia and Burley tobacco trading centers while only the leaf exporters and

cigarette manufacturers who have commitments to FVTA to purchase specified amounts of flue-cured or Burley tobacco are eligible to borrow under this financing program. In 1980, a total of P12,319,000 was extended as loans to various trading centers. Approximately P28,800,000 was extended in 1981, or an increase of 133.78%. In 1982, the total releases from the ATTLEF amounted to more than P13 million, or approximately 54.86% less than the amount released in 1981 although there were more beneficiaries during this year. Finally, Central Bank reported that the ATTLEF program was able to generate an income of P5,139,722.71 in 1983. Likewise, there was a substantial increase in the release of fund which amounted to P35,240,000 compared to only P13,056,000 in 1982, or an increase of 146.94%.

Lastly, all the other programs contributed in a way to the major accomplishments of the tobacco trading operations. Among these are the scholarship program which aimed to promote interests among students and faculty members; the Virginia-Burley Tobacco Grower of the Year Contests which aimed to encourage the farmers to participate in the development of the tobacco industry; the various research which aimed to test the effects of various farm inputs; and the education and information program which aimed to acquaint the public of the policies and programs of FVTA.

FINANCIAL REVIEW

Table 5  
Financial Highlights  
1980-1983

(Amount in Million ₱)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Resources	₱ 291.3	₱ 293.1	₱ 283.4	₱ 296.1
Gross Revenue	23.8	28.6	22.1	41.5
Expenses	22.5	28.5	31.7	32.6
Net Income (Loss)	1.3	0.1	( 9.6)	8.9
Current Assets	156.4	155.9	145.1	165.8
Current Liabilities	3.7	3.6	3.4	4.2
Total Liabilities	3.7	3.6	3.4	4.2
Total Equity	287.6	289.5	280.0	291.9

Financial Highlights

Results of Operations

Net earnings in 1983 amounted to ₱8.9 million, from ₱1.3 million and ₱0.1 million in 1980 and 1981. The corporation, however, incurred a loss in 1982 in the amount of ₱9.6 million.

Gross revenue rose from ₱23.8 million in 1980, ₱28.6 million in 1981 and ₱22.1 million in 1982 to ₱41.5 million in 1983. Operating and Service Income and Income from Public Enterprises/Investment remained the most important items of revenue. Other sources of income rose substantially, due primarily to the sale of an asset in 1981 in the amount of ₱4.5 million and in 1983, the extraordinary receipts - Subsidies from National Government in the amount of ₱25.8 million.

Total operating expenses expanded to ₱32.6 million in 1983, from ₱22.5 million in 1980, ₱28.5 million in 1981 and ₱31.7 million in 1982. Personal services rose to ₱24.3 million from ₱14.2 million in 1980, ₱17.8 million in 1981 and ₱21.6 million in 1982.

Financial Condition

Total assets amounted to ₱296.1 million, from ₱291.3 million in 1980, ₱293.1 million in 1981 and ₱283.4 million in 1982. Receivable and Investments continued to account for the highest percentage of total assets.

Total liabilities rose to ₱4.2 million in 1983, from ₱3.7 million in 1980, ₱3.6 million in 1981 and ₱3.4 million in 1982. Liabilities includes Payables, Trust Liabilities and Depository Liabilities.

Total equity rose to ₱291.9 million, from ₱287.6 million in 1980, ₱289.5 million in 1981 and ₱280.0 million in 1982. The increase was due to the corresponding increase in Excess of Income over Expenses, Contingent Surplus Account and Capital Equity Account. Table 1 shows the Financial Highlights from 1980 to 1983 of the Philippine Virginia Tobacco Administration.

Tools Used to Measure the Over-all Performance of the Philippine Virginia Tobacco Administration (PVTA)

Financial ratios; common size analysis, index analysis of financial statements and budget variance analysis were the tools utilized in the study and analysis of the performance of the PVTA from 1980 to 1983.

Of these four tools used in analyzing the financial performance of the corporation, three tools have been commonly used while the other one is used in this study for purposes of measuring the cost control system of the PVTA. This refers to the Budget Variance Analysis which is based on the approved budget against the actual disbursement.

Financial Ratios

Tests of profitability and tests of liquidity were utilized in analyzing the financial performance of the Philippine Virginia Tobacco Administration from 1980 to 1983. The ratios and percentages are shown in Table 6 to 12 representing results of operations and financial conditions ratios.

Profit Ratio

Table 6 shows the Profit Ratio from 1980 to 1983 of the Philippine Virginia Tobacco Administration as a measure of the over-all profitability of the operations of the corporation.

<u>Calendar Year</u>	<u>Net Income</u>	<u>Gross Income</u>	<u>Profitability Ratio (%)</u>
1980	₱1,263,339.03	₱23,756,352.91	5.32%
1981	57,828.34	28,570,286.57	0.20%
1982	( 9,617,634.96)	22,055,167.67	(43.61%)
1983	8,906,184.12	41,475,120.44	21.47%

With the exception of the year 1982, the corporation has operated profitably from 1980 to 1983 as the profitability ratio rose from 5.32 per cent to 21.47 per cent.

Return on Stockholders' Equity

As shown in Table 7, the return on stockholders' equity of the corporation rose from 0.44 per cent in 1980 to 3.10 per cent in 1983, except the year 1982 with a negative ratio of 3.35 per cent.

Table 7  
Return On Stockholders' Equity  
1980-1983

<u>Calendar Year</u>	<u>Net Income</u>	<u>Average Stockholders' Equity</u>	<u>Ratio (%)</u>
1980	₱1,263,339.03	₱287,256,402.30	0.44%
1981	57,828.34	287,256,402.30	0.02%
1982	( 9,617,634.96)	287,256,402.30	( 3.35%)
1983	8,906,184.12	287,256,402.30	3.10%

The highest return of the funds and the relationship of net income to the average stockholders' equity was in 1983, and the lowest was in 1982 with a negative ratio of 3.35 per cent.

Current Ratio

The corporation has been very liquid considering the average Current Ratio of 41.77:1. Although PVTA's current ratio decreased in 1983 by 3.09 with that of 1980, the corporation was still very solvent and liquid at year-end 1983. In 1983, should the creditors demand for immediate liquidation or payment from the corporation, the remaining assets will still be 38.12.

Table 8  
Current Ratio  
1980-1983

<u>Calendar Year</u>	<u>Current Assets</u>	<u>Current Liabilities</u>	<u>Liquidity (%)</u>
1980	₱156,396,630.51	₱3,705,277.56	42.21:1
1981	155,902,887.08	3,599,075.86	43.32:1
1982	145,120,444.29	3,419,385.21	42.44:1
1983	165,806,599.10	4,238,235.14	29.12:1



Acid-Test Ratio

As shown in Table 9, the corporation has been very liquid despite consideration of quick assets and current liabilities from 1980 to 1983 in arriving at the ratio. The table shows the acid-test ratios of 41.77:1 in 1980, 42.88:1 in 1981, 41.96:1 in 1982 and finally 38.74 in 1983.

Table 9  
Acid-Test Ratio  
1980-1983

<u>Calendar Year</u>	<u>Quick Assets</u>	<u>Current Liabilities</u>	<u>Ratio (%)</u>
1980	₱154,775,063.90	₱5,705,277.56	41.77:1
1981	154,345,933.57	3,599,075.86	42.88:1
1982	143,475,443.30	3,419,385.21	41.96:1
1983	164,169,042.32	4,238,235.14	38.74:1

Average Collection Period

Table 10 shows the average collection period of the Philippine Virginia Tobacco Administration from 1980 to 1983, from 222 days to 330 days.

Table 10  
Average Collection Period  
1980-1983

<u>Calendar Year</u>	<u>Gross Income</u>	<u>No. of Working Days</u>	<u>Average Daily Income</u>
1980	₱23,756,352.91	250	₱ 95,025.41
1981	28,570,286.57	250	114,281.15
1982	22,055,167.67	250	88,220.67
1983	41,475,120.44	250	165,900.48
	<u>Accts. Receivable</u>	<u>Average Daily Income</u>	<u>Days</u>
1980	₱21,075,550.88	₱ 95,025.41	222
1981	36,040,925.03	114,281.15	315
1982	37,627,928.31	88,220.67	427
1983	54,692,659.96	165,900.48	330

The average collection period from 1980 to 1983 as shown above can be related to the credit terms offered by the corporation. It shows the days income on the books in relation to the accounts receivable which can be used in any possible shifting of credit policy or changes in the procedures of collecting receivables.

Receivable to Income

Table 11 shows another way of expressing the same relationship as expressed by the average collection period of the FVTA from 1980 to 1983.

Table 11  
Receivable To Income  
1980-1983

<u>Calendar Year</u>	<u>Accounts Receivable</u>	<u>Gross Income</u>	<u>Ratio (%)</u>
1980	₱21,075,550.88	₱23,756,352.91	0.89
1981	36,040,925.03	28,570,286.57	1.26
1982	37,627,928.31	22,055,167.67	1.71
1983	54,692,659.96	41,475,120.44	1.32

Debt to Net Worth

Table 12 shows the Debt to Net Worth ratio from 1980 to 1983 of the FVTA from .013:1 to .014:1, an increase of only .001.

Table 12  
Debt To Net Worth  
1980-1983

<u>Calendar Year</u>	<u>Total Debt</u>	<u>Net Worth</u>	<u>Ratio</u>
1980	₱3,705,277.56	₱287,630,271.08	.013:1
1981	3,599,075.86	289,480,002.74	.012:1
1982	3,419,385.21	280,014,258.10	.012:1
1983	4,238,235.14	291,901,076.70	.014:1

The above debt to net worth ratio indicates favorable exposure of the corporation in terms of relative risk exposure.

Common Size Analysis

The common size analysis of financial statements will be discussed in accordance with the corporation's results of operations and financial condition.

Results of Operations

The common size analysis of the gross revenue will be discussed first. Table 13 presents the percentages of the various aspects of income to the gross revenue.

Table 13  
Common Size Analysis of Gross Revenue  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Operating and Service Income	21.08%	19.08%	30.29%	13.54%
Income from Public Enterprises/ Investments	78.90%	80.87%	69.69%	24.12%
Miscellaneous Income	0.02%	0.04%	0.02%	0.02%
Extraordinary Receipts- Subsidies from the National Government	-	-	-	62.32%
Capital Revenue	-	0.01%	-	-

Generally, PVTA relied on income from public enterprises and investments, except in 1983 when income generated from these sources was only 24.12% of the total gross revenue. On the other hand, the operating and service income throughout the four-year period under study was just a small percentage of the total gross revenue. It was only in 1983 when PVTA received subsidies from the National Government. Such subsidy was a substantial part of the total gross revenue, without which the corporation could have suffered a great loss.

Table 14 presents the percentages of the different components of the expenses to the total gross revenue. However, since these expenses were so detailed, only a number of significant expenses will be presented.

Table 14  
Common Size Analysis of Expenses  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Personal Services	59.64%	62.38%	97.84%	58.95%
Other Services	3.15%	3.16%	0.97%	0.78%
Rent	2.40%	1.99%	3.84%	2.32%
Grants	3.87%	2.20%	1.92%	0.45%
Losses/Depreciation	2.91%	2.42%	2.76%	0.88%
Maintenance of Motor Vehicles used for Official Business	1.41%	2.29%	2.57%	0.29%
Auditing Services	2.52%	3.12%	4.21%	2.39%
Discretionary Expenses	2.50%	2.98%	4.90%	3.27%
Trading/Production Expenses	8.56%	13.05%	13.20%	0.42%
Other Expenses-Miscellaneous	2.59%	0.21%	1.87%	0.88%
TOTAL EXPENSES	94.68%	99.80%	143.61%	78.53%

Throughout the four-year period under study, the personal services account remained to be the largest expense. This was attributed to the fact that PVTA engages in labor-intensive operations. All the other expenses were just small percentages of the total gross revenue. Nevertheless, Table 14 indicates that the total expenses of the corporation, as a percentage of the gross revenue throughout the four-year period were a substantial portion of the gross revenue. In fact, the total expenses amounted to more than the gross revenue generated by the corporation.

Table 15 contains the percentage of the net income to the total gross revenue.

Table 15  
Common Size Analysis of Net Income  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Net Income	5.32%	0.20%	(43.61%)	21.47%

Generally, the net income, as a percentage of gross revenue, was small. In fact, PVTA suffered a great loss in 1982 when the total expenses amounted to 43.61% more than the total gross revenue. However due to the increase in gross revenue, specifically from the subsidies from the National Government, in 1983, PVTA experienced a net income of 21.47% of the gross revenue.

Financial Condition

Regarding the common size analysis of the balance sheet, Table 16 contains the components of the total assets as percentages of its total.

Table 16  
Common Size Analysis of Assets  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Cash	45.89%	40.37%	37.34%	36.97%
Receivables	7.23%	12.30%	13.28%	18.47%
Inventories	0.56%	0.52%	0.58%	0.55%
CURRENT ASSETS	53.68%	53.19%	51.20%	55.99%
Other Assets	15.54%	15.66%	16.24%	15.56%
Investments and				
Fixed Assets	30.78%	31.15%	32.56%	28.45%
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%

Table 16 shows that the current assets remained to be a substantial portion of the total assets. This account can be subdivided into three, namely: (1) cash; (2) receivables; and, (3) inventories. The cash account remained to be the largest component of the current assets. The receivables account, on the other hand, increased throughout the

four-year period under study. Meanwhile, the inventories account remain to be only a minute portion of the total assets. The second largest component of the total assets was the investments and fixed assets account. The investments account includes interest and non-interest bearing loans. On the other hand, the fixed assets account includes acquired assets, land and land improvement, building and structures, various equipment, and other fixed assets. Finally, the other assets account remained to be a small portion of the total assets. This includes deferred charges and deposits, among others.

Regarding the specific components of the total liabilities, Table 17 presents the percentages of specific liabilities to its total.

Table 17  
Common Size Analysis of Liabilities  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Payables	1.10%	0.97%	0.96%	1.22%
Trust Liabilities	0.07%	0.17%	0.17%	0.15%
Depository Liabilities - Guaranties				
Deposits	0.02%	0.01%	0.01%	0.01%
Deferred Credits - Miscellaneous	0.03%	0.07%	0.07%	0.05%
TOTAL LIABILITIES	1.27%	1.22%	1.21%	1.43%

Throughout the four-year period under study, the total liabilities are classified as current liabilities. Nevertheless, this account remained to be a minute portion of the total assets. This supports the unbelievably high current ratios of PVTIA from 1980 to 1983.

Table 18 contains the specific components of equity as percentages of the total assets.

Table 18  
Common Size Analysis of Equity  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Retained Earnings	(213.02%)	(210.88%)	(221.57%)	(211.95%)
Capital Equity Account	311.51%	309.66%	320.36%	306.62%
TOTAL EQUITY	98.73%	98.78%	98.79%	98.57%

Of the total equity, the capital equity account remained to be the largest component, as a percentage of the total assets. However, because of the negative figure of the retained earnings account, the total equity resulted to a lower percentage of the total assets. But further analysis shows that the total equity consistently remained a substantial percentage of the total assets.

Index Analysis

The index analysis of PVTA from 1980 to 1983 will likewise be discussed in accordance with the corporation's results of operations and financial condition.

Results of Operations

Table 19 contains the percentage increase in the specific components of the gross revenue from the base year, 1980.

Table 19  
Index Analysis of Gross Revenue  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Operating and Service Income	100%	108.83%	133.39%	112.16%
Income from Public Enterprises/Investments	100%	123.26%	82.00%	53.36%
Miscellaneous Income	100%	292.40%	120.36%	195.62%
Extraordinary Receipts -				
Subsidies from the National Gov't	-	-	-	-
Capital Revenue -				
Sale of Assets	-	-	-	-
TOTAL GROSS REVENUE	100%	120.26%	92.84%	174.58%

Generally, the total gross revenue increased as compared to the 1980 figure, except in 1982 when there was a slight decrease. Further analysis shows that the decrease in the total gross revenue in 1982 was attribute to the subsidies from the National Government which was not present in the previous years.

Regarding the expenses of the corporation, Table 20 contains some significant expenses of the corporation, as percentages of the base year figure.

Table 20  
Index Analysis of Expenses  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Personal Services	100%	125.79%	152.31%	171.70%
Other Services	100%	120.71%	28.48%	43.26%
Rent	100%	99.65%	149.01%	169.10%
Grants	100%	68.41%	46.11%	20.48%
Losses/Depreciation	100%	100.02%	87.90%	52.86%
Auditing Services	100%	148.70%	154.95%	165.20%
Maintenance of Motor Vehicles Used for Official Business	100%	194.92%	168.65%	35.95%
Discretionary Expenses	100%	144.66%	182.30%	228.60%
Trading/Production Expenses	100%	183.45%	143.21%	8.64%
Miscellaneous Expenses	100%	9.96%	66.92%	59.03%
TOTAL EXPENSES	100%	126.76%	140.81%	144.80%

Over-all, the total expenses of the corporation for the years 1981 to 1983 were greater compared to the base year figure. In fact, the total expenses continued to increase each year. Further analysis of Table 20 indicates that the personal services continued to increase throughout the four-year period under study. This could be attributed to the increase in the number of regular work force. Although Table 20 shows a decrease in some expenses, the increase in other expenses was not offset as evidenced by the continuous increase in total expenses.

The magnitude of change in the gross revenue and total expenses resulted to a lower net income as compared to the 1980 figure, except in 1983 when it registered a substantial increase. Table 21 contains the percentage increase in the net income from the base year, 1980.

Table 21  
Index Analysis of Net Income  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Income	100%	4.58%	(761.29%)	704.97%

The figures in Table 21 indicates that the net income from 1981 to 1982 was lower than the 1980 figure. In fact, in 1982, PVTA suffered a great loss. It was actually only in 1983 when the net income was about seven times of the 1980 figure in spite of the increase in total expenses. This could be attributed to the substantial increase in gross revenue which resulted from the subsidies from the National Government.

Financial Condition

Regarding the index analysis of the balance sheet from 1980 to 1983, Table 22 contains the magnitude of change of the specific components of the total assets from the base year, 1980.

Table 22  
Index Analysis of Assets  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Cash	100%	88.48%	79.17%	81.88%
Receivables	100%	171.01%	178.54%	259.51%
Inventories	100%	96.02%	101.44%	100.99%
CURRENT ASSETS	100%	99.68%	92.79%	106.02%
Other Assets (Deferred Charges and Deposits)	100%	101.41%	101.68%	101.81%
Investments and Fixed Assets	100%	101.78%	102.91%	93.95%
OTHER ASSETS	100%	101.66%	102.50%	96.59%
TOTAL ASSETS	100%	100.60%	97.29%	101.65%

Table 22 indicates that the total assets slightly increased each year, except in 1982 when the total assets decreased. A close look at these figures showed that the current assets continued to decrease although in a slight degree only, except in 1983 when this account increased by 6.02% as compared to the 1980 figure. Further analysis of the current assets account showed that the cash account in 1981 to 1983 decreased as compared to the 1980 figure while the inventories account in 1982 and 1983 slightly increased. It was only the receivables account which showed a substantial increase throughout the four-year period under study. The other assets account which includes deferred charges and deposits showed a very slight increase as compared to the 1980 figure. Similarly, the investments and fixed assets accounts showed a slight increase in 1981 and 1982 but decreased in 1983.

Regarding the magnitude of change of the liabilities, Table 23 contains the percentage increase or decrease of the specific components of the liabilities.



Table 23  
Index Analysis of Liabilities  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Payables	100%	88.53%	85.30%	112.88%
Trust Liabilities	100%	237.69%	224.78%	209.29%
Depository Liabilities - Guaranty Deposits	100%	58.19%	36.47%	36.47%
Deferred Credits - Miscellaneous	100%	95.92%	80.61%	67.32%
TOTAL LIABILITIES	100%	97.13%	92.28%	114.38%

All the liabilities of PVTA were classified under the current liabilities. Table 23 shows that the total liabilities, as compared to the base year, decreased except in 1983 when it registered an increase. A close look at Table 23 shows that the depository liabilities decreased tremendously from 1981 to 1983. The deferred credits, on the other hand, decreased each year. Similarly, the payables account decreased as compared to the 1980 figure, except in 1983 when there was an increase. It was only the trust liabilities account of PVTA which showed a tremendous increase throughout the four-year period under study.

Regarding the magnitude of change in the equity account of PVTA, Table 24 shows the percentage increase of the different components of the total equity.

Table 24  
Index Analysis of Equity  
1980-1983

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Retained Earnings	100%	99.70%	98.21%	99.39%
Capital Equity Account	100%	100.00%	100.05%	100.05%
TOTAL EQUITY	100%	100.64%	97.35%	101.48%

Table 24 shows that the total equity for the years 1981 to 1983 was slightly greater than the 1980 figure, except in 1982 when there was a decrease by 2.65%. Furthermore, the retained earnings account, as compared to the 1980 figure, decreased. It was only the capital equity account which registered a slight increase for the years 1982 and 1983 while the amount in 1981 did not change.

Budget Variance Analysis

Because of the detailed list of expenditures available, the discussion of the budget variance analysis will be limited to the aggregate amount of the personal services, maintenance and other operating expenses, and the capital outlay.

Table 25 contains the budget variance analysis for 1980.

Table 25  
1980 Budget Variance Analysis

	<u>Proposed Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Personal Services	₱22,794,500.00	₱14,377,660.91	(36.92%)
Maintenance and Other Operating Expenses	6,775,144.00	7,423,951.06	9.58%
Capital Outlay	4,600,000.00	561,531.71	(87.79%)
TOTAL BUDGET	34,169,644.00	22,363,143.68	(34.55%)

Table 25 indicates that the actual expenses of PVTA were 34.55% lower than the proposed budget. Further analysis shows that the actual expenditures on the personal services were lower than the proposed budget but the expenditures on the maintenance and other operating expenses were slightly higher by 9.58%. The actual expenditures on capital outlay, on the other hand, registered a substantial decrease from the proposed budget.

Table 26 shows the budget variance for 1981.

Table 26  
1981 Budget Variance Analysis

	<u>Proposed Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Personal Services	₱21,021,000.00	₱18,137,465.96	(13.72%)
Maintenance and Other Operating Expenses	8,625,000.00	9,683,419.66	12.27%
Capital Outlay	1,140,000.00	560,086.18	(50.87%)
TOTAL BUDGET	30,786,000.00	28,380,971.80	( 7.81%)

Table 26 indicates that the actual expenditures of PVTA was slightly lower than the proposed budget. A close look at the figures in Table 26 shows that the actual expenditures on personal services were lower than the proposed budget by 13.72% while the actual expenditures on maintenance and other operating expenses were higher than the proposed budget by 12.27%. It was on capital outlay where PVTA was able to save 50.87% of the proposed budget.

The budget variance for 1982 is contained in Table 27

Table 27  
1982 Budget Variance Analysis

	<u>Proposed Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Personal Services	₱25,071,102.87	₱21,579,717.91	(13.92%)
Maintenance and Other Operating Expenses	9,700,435.75	9,435,304.68	( 2.73%)
Capital Outlay	1,378,322.00	842,501.20	(38.87%)
TOTAL BUDGET	36,149,860.62	31,907,523.79	(11.74%)

Table 27 shows that the total expenditures for 1982 were lower than the proposed budget by 11.74%. Actually, all the other aggregate amount of the expenditures were lower than the proposed budget with only varying degrees.

Finally, Table 28 contains the budget variance for 1983.

Table 28  
1983 Budget Variance Analysis

	<u>Proposed Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Personal Services	₱30,016,344.34	₱24,326,265.06	(18.96%)
Maintenance and Other Operating Expenses	11,239,391.98	7,877,176.66	(29.91%)
Capital Outlay	2,597,417.35	196,926.81	(92.42%)
TOTAL BUDGET	43,853,153.67	32,400,368.53	(26.12%)

The figures in Table 28 shows that the total expenditures for 1983 were lower than the proposed budget by 26.12%. A close look at these figures show that the aggregate amounts of the different accounts were actually lower than the proposed budget. It was the capital outlay which registered the greatest savings of 92.42% of the proposed budget.

FOOTNOTES

- 1 PVTA Organization Manual 1983.
- 2 Ibid.
- 3 Ibid.
- 4 Jaime Senga, Manager, Plans & Programs Department, August, 1984.
- 5 Ibid.
- 6 Ibid.
- 7 Ibid.
- 8 Mario Sison, Manager, Finance Department, August, 1984.
- 9 Organization Manual, op. cit.
- 10 Federico Moreno, Officer-in-Charge, PVTA, August, 1984.
- 11 Ibid.