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## Economic principles for rightsizing government

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DISCUSSION PAPER SERIES NO. 2018-46

# Economic Principles for Rightsizing Government

*Charlotte Justine Diokno-Sicat*



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# Economic Principles for Rightsizing Government

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## **Abstract**

One of the priority areas of the Legislative-Executive Development Advisory Council (LEDAC) and the Duterte administration is to implement a rightsizing of the bureaucracy through House Bill No. 5707 (HB 5707), and Senate Bill No. 1395 (SB 1395). This reform aims to create a leaner, efficient and effective government by reducing or, if possible, eliminating redundancies, overlaps and duplications in existing agencies, rules and regulations, systems and processes.

The main objective of this study is to present economic principles that might aid in rightsizing the government bureaucracy. Most of the literature on civil service or public administration reforms, focus on the importance of defining the role of government to be able to assess how best to carry out their role. Looking at how basic public sector economic theory define the role of government would bring one perspective to current efforts to rightsize the government.

In addition to economic principles, the proposed framework also considers the legal mandates such as the Constitution and other laws; planning frameworks such as the Philippine Development Plan (PDP) for 2017 to 2022; the Ambisyon 2040 vision; and international commitments like the United Nations Agenda 2030's Sustainable Development Goals and trade agreements.

One of the outcomes of this research is a diagnostic framework that could be used as a guide in reviewing and evaluating the roles and relevance of departments, national government agencies (NGAs) and programs. Applying this framework to NGAs in the same sector would allow the identification of overlaps and redundancies.

**Keywords:** Market failures, expenditure programs, efficiency-equity trade-off, equity, income redistribution, publicly provided private goods

## Table of Contents

1. Introduction .....	1
2. Literature on Rightsizing Government.....	2
2.1 Current Efforts to Rightsize the Philippine Government .....	2
2.2 Historical efforts in Philippine Public Service Reform.....	4
2.3 Relevant International Experience in Public Service Reform.....	7
3. Methodology, Scope and Limitations .....	9
4. Conceptual Framework for Rightsizing Government.....	11
4.1 Economic Principles for Rightsizing Government .....	11
4.1.1 Market Failure.....	11
4.1.2. Equity or Income Redistribution .....	15
4.1.3. Property Rights and Merit Goods .....	15
4.2 Framework for Evaluating Departments, National Government Agencies and Programs.....	16
4.3 Diagnostic Framework for Evaluating National Government Agencies and programs .....	20
5. Summary and Next Steps .....	25
6. Appendix .....	27
7. Bibliography .....	34

### List of Tables

Table 1 Reorganization/Streamlining efforts in Philippine Bureaucracy.....	5
Table 2. Public service reform problems and approaches.....	8
Table 3. Alternative Forms of Government Intervention .....	17
Table 4. Economic Principles for Rightsizing Government .....	21

### List of Figures

Figure 1. Why Rightsize the National Government?.....	3
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# Economic principles for rightsizing government

*Charlotte Justine Diokno-Sicat<sup>1</sup>*

## 1. Introduction

One of the priority areas of the Legislative-Executive Development Advisory Council (LEDAC) and the Duterte administration is to implement a rightsizing of the bureaucracy through House Bill No. 5707 (HB 5707), and Senate Bill No. 1395 (SB 1395). This reform aims to create a leaner, efficient and effective government by reducing or, if possible, eliminating redundancies, overlaps and duplications in existing agencies, rules and regulations, systems and processes.

Similar efforts such as rationalization and streamlining reforms were implemented aimed at improving public service delivery and financial management. In addition, planning links were strengthened by aligning/strengthening mandates, key results areas and major final outcomes with the Philippine Development Plan and social agenda. Though huge strides were made, and despite the intent of the reforms to eliminate overlaps and redundancies across agencies, the reforms were done in departmental silos.

This current Rightsizing effort aims to streamline roles, core functions, mandates and programs and cut across agencies with the intention of eliminating redundancies and duplications not only within agencies but across them as well. The success of this exercise lies largely in the framework that will be the basis of the review.

The main objective of this study is to present economic principles that might aid in rightsizing the government bureaucracy. Most of the literature on civil service or public administration reforms, focus on the importance of defining the role of government to be able to assess how best to carry out their role. Looking at how basic public sector economic theory define the role of government would bring one perspective to current efforts to rightsize the government.

This study will focus on the first principle/guideline of Rightsizing (determine the role and activities of government in accordance with the Constitutional mandate, objectives of government and available resources) by using economic principles to help determine the role and activities of government. This will be done within the confines of the Constitution, the objective of government such as but not limited to the Philippine Development Plan and the President's 0+10 Point Socio-Economic Agenda, existing laws and available resources.

One of the outcomes of this research is a diagnostic framework that could be used as a guide in reviewing and evaluating the roles and relevance of national government agencies (NGAs). Applying this framework to NGAs in the same sector would allow the identification of overlaps and redundancies. However, in addition to economic principles, the proposed framework also considers the legal mandates such as the Constitution and other laws; planning frameworks such as the Philippine Development Plan (PDP) for 2017 to 2022; the Ambisyon 2040 vision;

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and international commitments like the United Nations Agenda 2030's Sustainable Development Goals and trade agreements.

The evaluation of mandates, budgetary allocation and performance will also provide crucial information to policymakers especially when examining how to rightsize other aspects of the bureaucracy like rules and regulations, systems and processes that are included in HB 5707 but covered in the current study.

The next section briefly discusses the current efforts in rightsizing the Philippine government, surveys previous public service reforms in the Philippines and looks also at international experience and motivations in public service reforms. Section 3 presents economic principles in defining the role of government and justification for government intervention. The framework for evaluating and analyzing the purpose, scope and identifying overlapping and redundant functions is discussed in Section 4. Section 5 gives general observations/remarks.

## **2. Literature on Rightsizing Government**

### ***2.1 Current Efforts to Rightsize the Philippine Government***

On March 15, 2017, Senate Bill (SB) No. 1395<sup>2</sup> was filed with the title “An Act Rightsizing the National Government to Improve Public Service Delivery and for Other Purposes.” Sec. 2 of this bill reads:

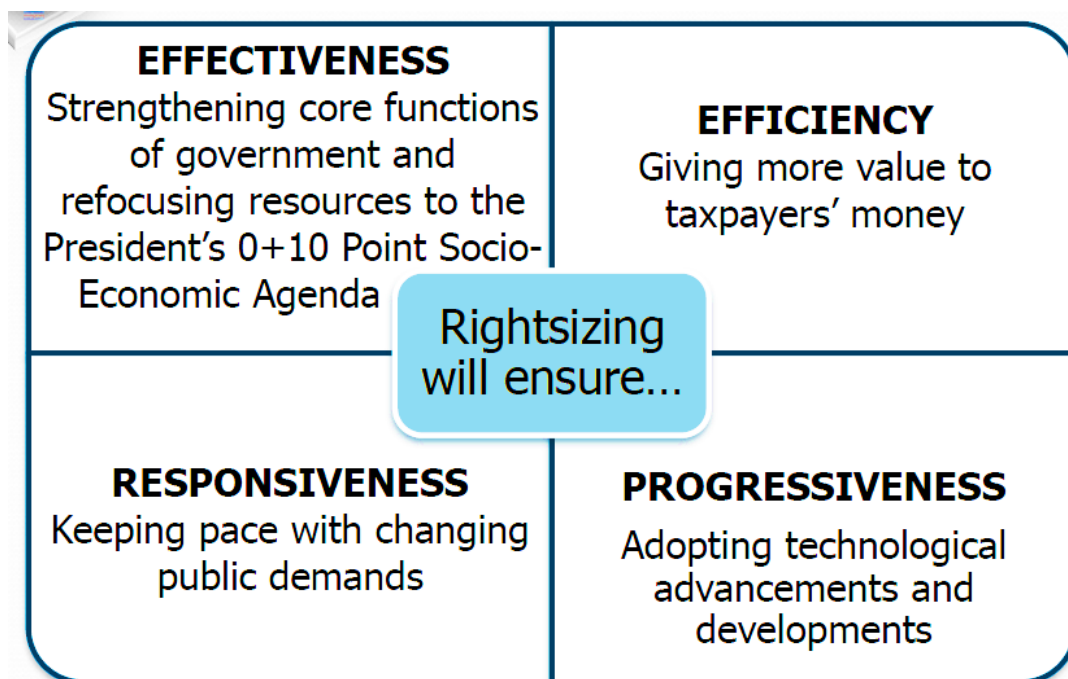
It is hereby declared the policy of the State to promote and maintain effectiveness, efficiency and economy in the government, and enhance institutional capacity to improve public service delivery, and to ensure the attainment of the country's societal and economic development goals and objectives. Consistent with this, the government shall focus its functions and resources on the essential role, scope, and level of governance, and minimize, if not eliminate, redundancies, overlaps and duplications in its operations and simplify its rules and regulations, and systems and processes (p. 1)

The aim is to address government dysfunctions such as: (1) agencies with redundant, duplicating or overlapping functions; (2) agencies that have outlived their purposes; and, (3) agency functions that could be better undertaken by the private sector or devolved to LGUs (DBM 2017). This would be done by minimizing and eliminating overlaps and duplication, and rationalizing delivery and support systems, organizational structures and staffing within department/agency to focus government efforts on its vital functions and channel resources to these core public services. Doing this will ensure the effectiveness, efficiency, responsiveness and progressiveness in the delivery of government goods and services (Figure 1) (DBM 2017).

#### **Figure 1. Why Rightsize the National Government?**

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<sup>2</sup> As of October 18, 2018, the Senate Bill was in the Period of Interpellation at the Senate of the Philippines.



Source: DBM Powerpoint presentation on the Rightsizing Program <sup>3</sup>

The principles and guidelines of the Rightsizing Program are (DBM 2017):

1. Determine the role and activities of government in accordance with the Constitutional mandate, objectives of government and available resources.
2. Establish a conducive policy environment to encourage private sector engagement.
3. Delineate responsibilities between NG and LGUs in the production and delivery of goods and services.
4. Adopt a whole-of-government approach for seamless government operations.
5. Simplify government operations, systems and processes to facilitate the delivery of quality services.
6. Rationalize rules and operations to reduce regulatory burden on citizens, businesses and other stakeholders.

The Rightsizing Act proposedly applies to all departments and agencies of the Executive Branch. Those excluded in the Rightsizing Program are: (1) teaching and teaching-related positions in schools; (2) medical and allied-medical in hospitals and medical facilities; (3) military and uniformed personnel; and, (4) positions in government-owned and controlled corporations (GOCC)/ government financial institutions (GFI) covered by the Government Commission on GOCCs (GCG) (pursuant to Republic Act No. 10149, s. 2010, Appendices 1 and 2). For the Congress of the Philippines, Judiciary, Constitutional Offices, Office of the Ombudsman, Local Government Units (LGUs) the Rightsizing Program is optional.

The Rightsizing bill proposes the basis of the review of the role and activities of government and be Constitutional mandates, political and socio-economic objectives of government, and

<sup>3</sup> DBM, "Rightsizing Bill: Making the Philippine Bureaucracy Competitive", Powerpoint presentation to Association of Government Accountants of the Philippines (AGAP) Convention, Waterfront Cebu City Hotel and Casino, October 19, 2017, Cebu City.



available resources. However, policymakers must also consider economic justifications of each department, national government agency (NGA) or program. Even if the socio-economic objectives of government, as embodied in the socio-economic agenda and development plans, are anchored on economic principles, a clear attribution of roles and objectives to principles at the granular level makes planning and programming have more direction.

A unique aspect of the Rightsizing program is that the review of the role, functions, programs and projects of agencies will cut across various NGAs. Though there have been efforts in the past three decades such as Executive Orders No. 292 and 366 that suggested reviewing duplicative/overlapping functions across NGAs and departments, there is continuing need to review these. Furthermore, E.O. 366 or the Rationalization Program, resulted in strategic review of NGAs within a department while the Rightsizing Program plans to implement transformational initiatives such as merger, consolidation, splitting, transfer and abolition of offices across departments (Ferrer 2018).

The reason that the GCG is not covered by the Rightsizing is because it is mandated, among others, to rationalize the sector through streamlining, reorganization, merger, as well as recommending to the President of the Philippines the abolition or privatization of a GOCC (GCG 2018). If it were to be included in the Rightsizing Program, there would be duplicative efforts and inefficient use of resources.

Because of the whole-of-government approach being adopted in the Rightsizing Program, it is proposed that a Committee on Rightsizing the Executive Branch be created to conduct studies on: the functions, programs, projects, operations, and structure of agencies; and, prepare the rightsized organizational structure of agencies and the corresponding executive issuances (Ferrer 2018).

However, in the process of streamlining and identifying overlaps or redundancies of functions and program across NGAs, the civil service workforce will be affected which is why the Rightsizing Program offers separation incentives or the option to be reassigned if qualified/outplaced.

## ***2.2 Historical efforts in Philippine Public Service Reform***

Streamlining, reorganization or reengineering the bureaucracy has been a consistent program of past administrations and each president put his stamp on the bureaucracy through personnel and organizational changes (Cariño 1992). The reform measures vary depending on the priority of the current leadership, which may be in the form of reengineering, reorganization and rationalization anchored on the principles of economy, efficiency and effectiveness, transparency, social growth, innovation and good governance (Calina 2015). All Philippine presidents created offices directly under their supervision to identify their main thrust. Likewise, they tried to get congressional authority for a general reorganization as soon as they took office (Table 1).

**Table 1 Reorganization/Streamlining efforts in Philippine Bureaucracy**

<b>Period/Administration</b>	<b>Legal Basis</b>	<b>Title</b>
1968 Marcos	Republic Act (RA) 5435	An Act Authorizing the President of the Philippines, with the help of the Commission on

Period/Administration	Legal Basis	Title
	RA 6076  RA 6172  RA 6175	Reorganization, to Reorganize the Different Executive Departments, Bureaus, Offices, Agencies and Instrumentalities of the government, including banking and financial institutions and corporations owned or controlled by it, subject to certain conditions and limitations <i>Amending section 2</i> – the management service of the Budget Commission as the technical staff of the Commission on Reorganization <i>Amending Section 4</i> – deadline for submission of an Integrated Reorganization Plan to Dec 31, 1970, instead of Dec 31, 1969 <i>Amending further the submission of the President</i> to Congress of the Integrated Reorganization Plan to forty calendar days, instead of one hundred calendar days
1986 Aquino, Corazon	Executive Order (EO) No 5, s. 1986	Converting the Presidential Commission on Reorganization into a Presidential Commission on Government Reorganization, reconstituting its membership, and for other purposes
1992 Ramos	Memorandum Order No. 27, s. 1992  E.O. 149, s. 1993	Mandating all heads of Departments, agencies and instrumentalities of the National Government to streamline and improve their operations and organizations Streamlining of the Office of the President
1999 Estrada	E.O. 165, s. 1999	Directing the formulation of an institutional strengthening and streamlining program for the executive branch
2004 Arroyo	E.O. 366 s. 2004	Directing a Strategic review of operations and Organizations of the Executive Branch and providing options and incentives for government employees who may be affected by the Rationalization of functions and agencies of the executive branch
2010 Aquino, Benigno III (Noynoy)	E. O. 18	Rationalizing the Organization and Supervision of certain agencies, offices and other similar entities attached to or under the Office of the President
2016 Duterte	E. O. 1, s. 2016	Reengineering the Office of the President towards greater responsiveness to the attainment of development goals

Source: (Calina 2015)

In 1965, Pres. Marcos submitted a reorganization bill to Congress with the rationale of a more economical and efficient civil service organized for development. It took three years to pass the bill in September 1968 into Republic Act (RA) No. 5435, ‘Reorganization Law,’ after which the Commission on Reorganization was created as a joint executive and legislative body in 1969. The Reorganization Law provided that the plans would be submitted as a single document, called the Integrated Reorganization Plan (IRP), which must be accepted or rejected in its entirety (Table 1). The deadline for the submission of the IRP was moved twice because of pressures within the bureaucracy and the congressmen to be cautious on the overhaul. The

IRP was eventually submitted to the President in December 1970 and to Congress in March 1972 yet did not make it to the Committee level because it lacked sponsors (Ferrer 2018).

Under Martial Law that was declared in 1972, Congress was abolished and was replaced by a unicameral *Batasang Pambansa*. The first Presidential Decree (P.D.) No. 1 promulgated the IRP and was hailed as ‘organizing for development’ and was focused merely on economy and efficiency. The IRP revitalized the NEDA and the NEC and other bodies involved with long-term development planning.

Another study noted that civil service reform figured prominently on the agenda of many Philippine governments from the administration of President Corazon Aquino to as far back as 40 years prior (Steedman and Howes 1996). The report posits the following policy recommendations for the success of civil service reform in the Philippines:

1. **Strong political commitment** from the highest level of leadership is required, and the Office of the President needs to take a direct lead in this process. The existing Presidential Committee responsible for the exercise and its Technical Secretariat should be reinforced by the addition of representatives from the Civil Service Commission (CSC) and advised by outside experts as necessary;
2. **A reform of the incentive system**, based on a survey of private-sector salaries and a detailed costing of the various options, is an urgent priority. It would help achieve and maintain the desired skills mix, which will probably include a higher proportion of professional staff. Such a reform would allow higher-level civil servants to be remunerated at rates compatible with their private sector counterparts. A move away from the concept of Salary Standardization Law 2 (SSL2), i.e., concentrating wage increases at lower levels is necessary;
3. **The introduction of targeted voluntary retirement** would complement the reform of the incentive system in achieving the desired skills mix. This approach would be far superior to reliance only on natural attrition; and
4. **Personnel management reform**, based on a review of the current allocation of management tasks among central agencies, would significantly contribute to the improved functioning of the civil service. Management would also benefit from an improved common human resources database.

A total of 101 Executive Orders pertaining to Reorganization were issued under the Cory Aquino administration which covered 18 Departments, three (3) constitutional bodies and four (4) public enterprises and 17 other offices (Ferrer 2018).

Reorganization efforts paved the way for devolution, which was implemented in 1991 with the enactment of the Local Government Code, as well as privatization of GOCCs. Consequently, the manpower complements of agencies expanded by 8.1% between 1986 to 1989, mostly due to the increase of region-office based personnel (Ferrer 2018).

During the Ramos administration, the focus of reorganization was on how the bureaucracy’s mission and programs and projects serve the government’s development goals. Pres. Ramos sought the full support of the legislature however, the proposed reorganization bill did not

materialize into a law. Under his governance, he was able to implement only incremental reforms such as the attrition law, privatization and decentralization (Ferrer 2018).

In 2004, the Philippine government undertook an effort to rationalize the agencies under the Office of the President. Pres. Gloria Macapagal Arroyo issued Executive Order No. 366 which directed a strategic review of the operations and organizations of the Executive branch to improve public service delivery and provided options and incentives for government employees who may be affected by the rationalization of the functions and agencies of the same. The reform aimed to transform the bureaucracy into an efficient and results-oriented structure.

EO 366 applied a different design from past reorganization efforts – The Voluntary Retirement Scheme. Under this scheme, agencies with redundant functions or those incurring revenue losses for the government are first identified. The employees of these agencies were offered severance or retirement packages, which they could avail of if they opted to leave the government.

Though EO 366 was signed in 2004, the implementation and approval (2005-2014) spilled over to the administration of Pres. Benigno Aquino III. The Civil Service Commission, though optional coverage, was the first to have its rationalization plan approved in September 2005, while the BIR's Revenue Regional Offices and Revenue District Offices (RDOs) were the last in 2014. Rationalization efforts resulted to the abolition of 20,937 regular positions in 162 entities. Total of close to 12,000 contractual/casual items were likewise abolished. In achieving the objective in reducing the number of authorized regular positions, around 20.8% or 44,771 positions of the 215,233 authorized regular positions in the 162 entities (Ferrer 2018).

In monetary terms, the government generated Personal Service (PS) savings of Philippine Pesos (PhP) 4.247Billion while PhP5.066Billion in incentives and Terminal Leave Benefits was paid to personnel who opted to retire or to be separated from the Service. There were, however, some 974 affected employees that the CSC transferred to recipient agencies which needed additional personnel (Ferrer 2018).

### *2.3 Relevant International Experience in Public Service Reform*

The global economic recessions of the 1970s and 1980s brought about changes in socioeconomic conditions, prompting governments to undertake administrative reforms in both developed and developing countries (Caiden 1991). Implications for public services included demands for a smaller but more efficient and effective public service (Ayee 2008), leading to the adoption of management techniques from the private sector such as programme, planning and budgeting systems, performance-related pay, management by objectives, and contract-based appointments (Batley 1994).

Models of public administration in developing countries have generally drawn on experience in advanced countries and public sector reforms have often mirrored reform initiatives originating in OECD countries (United Nations Development Programme 2015). Many developing countries have followed a similar trajectory of approaches and reforms to those in more advanced countries through broader governance agendas supported by aid donors. Other approaches to public sector reform have also featured in these countries, notably decentralization, pay and employment reforms, integrity and anti-corruption reforms and

“bottom-up” reforms, designed to improve the development effectiveness of government agencies (Table 2).

**Table 2. Public service reform problems and approaches**

Problem	Approach	Main action period
How can we put government on an orderly and efficient footing?	“Weberian” public administration and capacity-building	Post-independence
How can we get government closer to the grassroots?	Decentralization	1970s to present
How can we make government more affordable?	Pay and employment reform	1980s and 1990s
How can we make government perform better and deliver on our key objectives?	New Public Management	1990s to present
How can we make government more honest?	Integrity and anti-corruption reforms	1990s to present
How can we make government more responsive to citizens?	“Bottom-up” reforms	Late 1990s to present

Source: McCourt (2013)

There is a need to update studies on global civil service employment. The most recent (Schiavo-Campo 1997) finds that total government civilian employment averages, on an unweighted basis, about 4.7% of population. It is relatively largest in the developed market economies of the OECD (7.7 percent of population), second largest in Eastern Europe and the former Soviet Union, at 6.9 percent of population; and relatively smallest in Africa and Asia (respectively, 2.0 percent and 2.6 percent of population). Latin America and the Caribbean (LAC), and the Middle East and North Africa (MENA) are in between, with government employment accounting for about 3.0% and 3.9% of population respectively.

Schiavo-Campo, de Tommaso, and Mukherjee (1997) conducted a survey of international, national, and primary sources on government pay and employment for about 100 countries in the early 1990s and outlined the general nature of civil service problems in different regions. They find that the key measures for civil service reform are largely concerned with: i) rightsizing, ii) incentives, and iii) accountability. In terms of rightsizing, the same report cautions that the “right size of the workforce depends on the roles assigned to government.” It further notes that when retrenchment within the public sector is warranted, it must be “carried out with great care to avoid skill reduction, demoralization, and lower-quality service.” Further, they find that globally, government employment is negatively associated with wages and positively with the fiscal deficit and with per capita income. That is, increases in government employment are associated with lower wages and higher fiscal deficits and per capita incomes. However, they provide a caveat that the global results “stem almost entirely from strong results for Africa and Latin America.”

Gonzalez and Magdalena (2002) find that, when measured in terms of government consumption, Southeast Asian governments are small in comparison with OECD governments and those of developing countries as a whole.<sup>4</sup> Hence, with relatively small governments, the

<sup>4</sup> This is explained in part because “...unlike the industrial states, the region’s governments did not have to wrestle with the stubborn difficulties of the welfare state, which has seen decades of uncontrollable expansion in the West. Unlike the rest of the developing world, Southeast Asia (along with East Asia) had come a long way from years of post-colonial nation-building, with its undue emphasis on expansive state-dominated development strategies (WDR, 1997).

fiscal pressure exerted by the wage bill is considerably low.<sup>5</sup> Further, the authors examine whether a leaner state results in increased growth and welfare. They find that, while Southeast Asian governments are generally small, there is a more varied pattern of growth within the region, implying that governments tend to expand first before settling to a slimmer size as both incomes and human development improve. Hong Kong and Singapore were clearly the benchmarks in size and scope of government, having generated the highest growth rates in per capita incomes and human development. For Thailand, Malaysia and the Philippines, government spending was adequate to reach relatively high human development but need to catch up with the leaders on the income side. Meanwhile, Indonesia, Vietnam, Laos, and Cambodia struggled to balance size with growth and human welfare, and their governments would probably have to expand a little in order to provide more public goods.

However, this does not imply that there is no need for Southeast Asian governments to downsize. Globally, the tendency is to match high wages with a lean workforce, i.e., government employment is negatively associated with wages, yet this has not been the case in Southeast Asia. When the government wage to per capita GDP ratio is plotted against government employment, Malaysia and Thailand have a huge number of high-salaried public employees (Gonzalez 2002). On the other hand, Vietnam, Laos, Cambodia, and Myanmar have slim civil service structures, but public sector workers are lowly paid. Only the Philippines combines high average pay with a relatively trim civil service. The report thus calls for “intelligent ways to reduce the number of public employees,” stating as a cautionary note that “the right size of the workforce depends on the roles assigned to government, while wage adequacy depends on private compensation levels.”

This section shows that, for some countries, the size of government, number of employees and public wage bills are large concerns but less so for trimmer Southeast Asian governments. The notable case of the Philippines, however, is that it has high average pay with a relatively trim civil service. Despite this, there should be continuing efforts to rightsizing government grounded on the role of government. Reviewing and defining the core functions of departments and agencies is critical to removing inefficiencies across agencies (such as duplicative roles/function/programs). More importantly, defining the mandate/role of government, departments, NGAs and programs should consider economic principles as one of the bases.

### **3. Methodology, Scope and Limitations**

What is evident from both Philippine and international experience is the importance of defining and identifying the role of government. This study will not cover the assignment of roles between national and private sector/local governments nor the identification of the rightsized organizational structure but will focus on providing guidelines in defining the role of government to ascertain the need for NGAs and programs. In identifying a framework that could be used in Rightsizing, this study will proceed by discussing the basic public sector economic principles on the role of government. Before that, however, redefining and strategically reviewing the role of government under the Rightsizing Program should be consistent and delimited by Philippine laws and mandates regarding the reorganization of government that have precedence over the Rightsizing Program.

In general, these are the overall guiding principles on Philippine government reorganization:

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<sup>5</sup> Between 1996 to 2000, the average annual central government wage bill within East Asia and the Pacific was only 9.4 percent of GDP, and was far lower in Southeast Asian economies, ranging from 1.9 percent in Myanmar to about 7.7 percent in Malaysia.

- Presidential Decree 1416 (Granting Continuing Authority to the President of the Philippines to Reorganize the National Government amended by PD 1772), provided that the President of the Philippines shall have the continuing authority to reorganize the administrative structure of the National Government and may, at this discretion, create, abolish, group, consolidate, merge or integrate entities, agencies, instrumentalities and units of the National Government as well as expand, amend, change or otherwise modify their powers, functions and authorities;
- Sec. 17 of the 1987 Constitution provides that the President shall have control of all the executive departments, bureaus, and offices, and shall ensure faithful execution of the laws;
- Section 31, Chapter 10, Title III, Book III of Executive Order (EO) 292, otherwise known as the Administrative Code of 1987, provides authority to the President to reorganize the administrative structure of the Office of the President; and
- General provisions of the annual General Appropriations Act authorize the President of the Philippines to direct changes in the organizational units of key positions in any Department or agency.

EO 292 or the Administrative Code of 1987 defines a department as an executive department created by law (Sec. 2(7)). NGAs under the Office of the President (OP) will “operate and function in accordance with their respective charters or laws creating them, except as otherwise provided in this Code or by law” (Title III. Ch. 10 Sec. 30). The President was also given continuing authority to reorganize his office to achieve simplicity, economy and efficiency and transfer any function or agency under the OP to any other departments or agencies and transfer functions to the OP from other departments and agencies (Secs.31(2) and 31(3)).

Book IV of EO 292 also states that the “Executive Branch shall have such Departments as are necessary for the functional distribution of the work of the President and for the performance of their functions” (Ch.1, Sec.2(1)). Furthermore, departments will be organized and maintained to insure their capacity to plan and implement programs in accordance with established national policies while bureaus and offices shall be grouped based on major functions to achieve simplicity, economy and efficiency in government operations and minimize duplication and overlapping (Secs. 2(1) and 2(2)). The Code also prescribes the standards, guidelines and practices within the executive branch and grants the President residual powers to reorganize the Executive Branch.

Though there is no provision in the Constitution that only Congress can reorganize the government including the merging or abolition of agencies and offices, it is implied that anything that requires funding necessitates an enactment of a law. Congress, however, can delegate the reorganization to the executive branch through reorganization acts (The Manila Times 2017).

In addition to the mandates and powers of reorganization of government, the Rightsizing Program must also consider specific sectoral laws, planning frameworks and international commitments. The Philippine Development Plan (PDP) 2017-2022 is anchored on Pres. Duterte’s 0-10point Socioeconomic Agenda and aligned with the first Filipino collective vision, the *Ambisyon Natin 2040*, which articulates the aspiration of *Matatag, maginhawa at panatag na buhay para sa lahat* (life that is strongly rooted, comfortable and secured for all). The PDP also considers the country’s international commitments such as the 2030 Sustainable

Development Goals (NEDA 2018). Other international commitments include the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Community (APEC).

## **4. Conceptual Framework for Rightsizing Government**

### ***4.1 Economic Principles for Rightsizing Government***

There are three general justifications for government intervention, namely: (1) to address a market failure; (2) for equity or income redistribution; and, (3) to clearly delineate and enforce property rights and contracts and define merit goods (Stiglitz and Rosengard 2015). These three general reasons could be used to justify government intervention but do not necessarily imply that government should intervene.

#### **4.1.1 Market Failure**

What is market failure? Market failure is when an economy is prevented from maximizing the output it can produce given the resources it has (e.g. land, labor and capital) (Pindyck and Rubinfeld 2009, Stiglitz and Rosengard 2015). Theory suggests that what causes market failure are certain characteristics of the market, the industry, nature of the good, unintended effects resulting from the production of goods and incomplete and asymmetric information to name a few (Samuelson and Nordhaus 2009). Alternatively, there is market failure resulting in unemployed resources, there is still potential to increase national output (i.e. gross domestic product, GDP) by policy addressing the causes of the failure and to be able to employ these idle resources. The literature identifies six kinds of market failures that may justify government intervention and are enumerated below (Stiglitz and Rosengard 2015).

##### **1. Imperfect competition**

Economic theory states that an efficient market is a perfectly competitive market that is characterized with many buyers and sellers and no barriers to entry (i.e. it is easy to enter and exit the market) (Pindyck and Rubinfeld 2009, Samuelson and Nordhaus 2009). This is the most efficient market since all resources or inputs or factors of production are employed therefore producing maximum output. In reality, most markets are not perfectly competitive.

Imperfect competition is when few sellers or buyers have market power to control the supply of goods and services, dictate prices, or both. The extreme case is a monopoly, when there is only one seller or supplier of the good in the market. A monopolist can limit the amount supplied to the market, charge a higher price and earn monopoly profits. This is inefficient because limiting output implies limiting the employment of resources in the economy (the argument is that to produce more you would need to employ more to be able to produce more while the converse is that producing less requires less inputs). The unemployed resources represent an inefficiency and government intervention could address this.

Policies to address imperfect competition would be to enact antitrust laws that would encourage competition, regulate and prescribe guidance in the conduct of and operations of business (Viscusi, Harrington and Vernon 2005). The Philippine Competition Commission (PCC), a newly legislated quasi-judicial body, is mandated to promote and regulate market competition through the providing consumers wider choice over goods and services at lower prices while



promoting competitive businesses that encourage market players to be more efficient and innovative (PCC 2018).

Furthermore, there is a special kind of imperfect competition that results from the structure of the industry called a natural monopoly. It is characterized as an industry that has large sunk costs that private businesses need to charge high prices to find it profitable (Pindyck and Rubinfeld 2009, Viscusi, Harrington and Vernon 2005). Examples, are water and power, which, in the middle of the last century, were supplied by state-owned monopolies to ensure both the supply of these goods and their affordability (Viscusi, Harrington and Vernon 2005). For the Philippines, examples of state-owned monopolies were the Metropolitan Waterworks and Sewerage System (MWSS) and the Manila Electric Co. (Meralco) for water and electricity, respectively.

For most of the past century, the MWSS (formerly the National Waterworks and Sewerage Authority) was the government agency responsible for the provision of water in Metro Manila and neighboring areas (MWSS RO n.d.). However, the challenges faced in the 1990s such as poor water and sewerage coverage, intermittent supply of and wasted water led to the privatization of the water system (Metropolitan Waterworks and Sewerage System n.d., Republic of the Philippines 1995). The MWSS and the Local Water Utilities Administration (LWUA) (GOCC responsible for potable local water) were reorganized to accommodate the shift to private sector participation in the operation of facilities of MWSS (EO 286 1995, EO 311 1996). An MWSS-Regulatory Office (RO) was established to enforce contractual obligations of the private sector concessionaires and regulate water and sewerage service rates to ensure sustainable supply of potable water and sewerage system (MWSS RO n.d.). For this natural monopoly, policy evolved from a state-owned monopoly that was privatized and regulated.

## 2. Externalities

An externality is when the action of one economic agent unintentionally affects another economic agent, either positively or negatively. The failure is that the externality is not captured by the market, i.e. there is a cost or benefit imposed/that accrues unintentionally to others depending on whether the externality is negative or positive, respectively. The classic example is a steel-producing firm located along a river that dumps its' untreated wastes (that are by-products of producing steel) into the water. This negatively affects downstream communities and businesses (either through increased costs of cleaning the water or causing illnesses of which medical costs are not included in the cost of the firm).

Government intervention could be to: (1) create a market for the externalities; (2) regulate factors of production and production technologies; or, (3) a combination of both all with the objective of making the steel-producing firm realize or internalize the cost unintentionally imposed on others. Market solutions to correct for the negative externality include imposing fines; penalties; and marketable permits. A marketable permit gives a firm the right to pollute, but, in the chance that the firm pollutes less than what is allowed, the firm can sell the excess rights to pollute (Rosen and Gayer 2010, Stiglitz and Rosengard 2015).

An example for the Philippines is 'The Clean Air Act of 1999', otherwise known as RA 8749, that provides the policy framework for the country's air quality management program. The

law adheres to the Constitutional right of people to a balanced and healthful ecology and believes that “polluters must pay”. The Environment Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR) monitors air quality and the level of major air pollutants in the country as well as enforces emission standards for motor vehicles and implementation of pre-registration requirements. In 2016, DENR required cleaner fuel and began issuing Certificates of Conformity (COCs) only to Euro 4/IV engine and compliant with Euro 4 emission standards (EMB 2018). Complementary policy to enforce this regulation is the Land Transportation Office’s (LTO) mandate to inspect and apprehend motor vehicles that are smoke belchers.

An example of a positive externality is engaging in research and development (R&D) that leads to developing new information. Government could encourage this kind of behavior by investing themselves in R&D or giving incentives or patents to firms that engage in R&D. Agencies that provides research grants in the field of research and development are the following agencies under the Department of Science and Technology (DOST)<sup>6</sup>.

Another government policy that encourages R&D is the patent system. A patent is temporary monopoly power given to those who were able to develop new and worthy technologies (Stiglitz and Rosengard 2015). In the Philippines, patents are granted through government Intellectual Property Rights Office of the Philippines. A patent is “an exclusive right granted for a product, process or an improvement of a product or process which is new, inventive and useful,” (Intellectual Property Office of the Philippines n.d.)

### 3. Public good

Public good is a term commonly used to refer to goods and services provided by government. However, in economic terms, a *public good* has two characteristics that makes it difficult for the market, i.e. pricing mechanism, work for private businesses to recover costs/find it profitable. *Public goods* are characterized as non-rival and non-excludable. Non-rivalry means that once this good is provided in the economy, all consumers can use this simultaneously without reducing or crowding out others consumption of the same good. Non-excludability implies that it is difficult to exclude people, by making them pay for the good or using the pricing mechanism, once the good is provided. Government intervention can correct the public good market failure by providing the public good that might not be provided if it were left to private markets because of the lack of profitability.

Examples of *public goods* provided by the Philippine government are national defense (through the Department of National Defense); major infrastructure and national roads (under the Department of Public Works and Highways); and, foreign affairs policy (through multi- or bi-lateral trade agreements by the Department of Foreign Affairs). Once any of these are provided in the economy, all Filipinos benefit from it and it is difficult to charge a price for those who benefit from it. It would best be government to provide these using budgetary allocations/common pool resources.

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<sup>6</sup> Examples of NGAs that encourage R & D are the National Research Council of the Philippines (NCRP), Philippine Council for Agriculture, Aquatic and Natural Resources Research and Development (PCAARD), Philippine Council for Health Research and Development (PHRD), Philippine Council for Industry, Energy and Emerging Technology Research and Development (PCIEERD), Philippine Institute of Volcanology and Seismology (PHIVOLCS), and Philippine Atmospheric, Geophysical and Astronomical Services Administration.

To better understand the concept, the opposite of a public good is a purely private good which is rival in consumption and excludable. An example of such a good is a pair of eyeglasses that optical shops can exclude people from using it through the pricing/market mechanism. That is, if the consumer cannot pay for it, he/she will not be able to use it, excluded from its consumption. However, if the consumer buys the pair of eyeglasses (not excluded from consumption) and uses it, no one else can use the pair of eyeglasses at the same time, that is, it is rival in consumption.

Government provides more than purely public goods, it also provides purely private goods and goods that are in between called as impure public goods (Stiglitz and Rosengard 2015). These *publicly provided private goods* are either non-rival but excludable such as a congested highway or rival but non-excludable like fire protection.

Equity or income redistribution is the primary reason government provides these goods that are available in the market, but which is not affordable or deemed necessary by all citizens. Most social services such as health and education; and social protection and social safety net programs of government deliver private goods (such as food, transfers, education, housing) to all in society or the targeted individuals and households.

#### 4. Imperfect information

When there is imperfect information the government may step in to mandate or require sharing of information such as Section 12 of Article XIII of the 1987 Constitution that provides for a food and drugs regulation system. The Food and Drug Administration (FDA) is mandated among others, to monitor, and ensure compliance of food manufacturers, distributors, advertisers and retailers to Good Manufacturing Practices by enforcing the nutrition labels be shown on the front-of-packages. Likewise, finance institutions are required to disclose the finance charges to creditors by virtue of the Truth in lending Act (RA 3765 1963).

Similar to the discussion of positive externalities associated with R&D, the new knowledge acquired through research and development could also be used ‘complete information’ (Rosen and Gayer 2010, Stiglitz and Rosengard 2015). Therefore, there could be two economic justifications for encouraging R&D through the granting of intellectual property rights and patents, positive externalities and incomplete information.

#### 5. Incomplete markets

When there are incomplete markets such as insurance, the government may step in to complete the market. In the Philippine banking industry, the Philippine Deposit Insurance Corporation (PDIC), which is a GOCC, insures bank deposits primarily to ensure financial market stability (RA 3591 1963). There is also the Philippine Crop Insurance Corporation (PCIC) which provides insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of their palay and corn crops as well as other crops (RA 8175 1995).

In the health industry, to ensure that quality health care services for far-flung or hard to reach areas the Department of Health deploys competent and community-oriented doctors to the barrios to address the lack of medical professional in the area.

## 6. Unemployment, inflation and disequilibrium

With an open and global economy, fluctuations and volatility from both within and outside of an economy might require government to step in to stabilize the economy and engage in pro- or counter-cyclical policies. The most recent global shock was the 2008 Global Financial Crisis that, to avoid a deep global recession, governments worldwide agreed to engage in their own fiscal stimulus packages and central banks agreed to keep interest rates low through loose monetary policy and quantitative easing (when a central bank buys debt to increase money supply to keep interest rates low) (Mankiw 2010).

More than a decade before that, this region experienced 1997 Asian Financial Crisis. To respond to the crippling effects, the Estrada Administration, in 1999, introduced a stimulus package to boost infrastructure spending and job creation (Estrada 1998).

### 4.1.2. Equity or Income Redistribution

Apart from addressing market failures to enhance efficiency, government also tries to address equity concerns by redistributing income, i.e. taxing to finance government spending and provide goods and services especially those directed towards the poor. In a developing country such as the Philippines, with 21% poverty incidence, it is straightforward to justify government intervention on equity grounds.

Social protection and safety nets are examples of programs explicitly for income redistribution to the poor and vulnerable in society. Other programs that are provided for all Filipinos, but which lower income households or the poor benefit more from, are basic education and health services. These goods were discussed in the previous section and classified as publicly provided private goods.

In the case of education, it is provided in the 1987 Philippine Constitution and the Philippine Development Plan 2017-2022 that education should be provided by government to invest in human capital for highly productive Filipinos. At the same time, private education is available in the market. Therefore, apart from investing in human capital as a positive externality, another possible justification for education to be provided by government is to redistribute income to those in society who cannot afford private education (Rosen and Gayer 2010). This, in order to make them productive in society, be able to earn decent income and get out of poverty.

One important consideration in the argument for and design of redistributive policy is the recognition of a trade-off between efficiency (correcting market failures) and addressing equity (redistributing income to the poor). It is easy, and politically popular, to justify programs based on the equity argument, however, to be able allocate more resources to such programs, government will either reduce spending on other programs or increase taxes. Taxes, though necessary, create inefficiencies in markets by changing the consumption or production behavior of economic agents. With this, policymakers should try to balance the inefficiency associated with increased taxation to redistribute income (Stiglitz and Rosengard 2015).

### 4.1.3. Property Rights and Merit Goods

Even if there was no market failure, there would still be a need for government. This would be to clearly delineate and enforce property rights and laws to enable a properly functioning

economy. In addition, government could also intervene with a paternalistic perspective because of concerns that individuals may not act in their own best interest (Stiglitz and Rosengard 2015, Rosen and Gayer 2010). These are called merit goods and requiring the use of safety-belt in motorized vehicles or a helmet while using a bicycle or motorcycle are some examples (RA 10054 2010, RA 8750 1999). Education, which as discussed above, could be justified as a positive externality and for redistributive purposes, could also be considered as a merit good because not everyone sees it as a necessity which is possibly why basic education is in the 1987 Philippine Constitution and the United Nation's Sustainable Development Goals.

## ***4.2 Framework for Evaluating Departments, National Government Agencies and Programs***

Stiglitz and Rosengard (2015) offer guidelines in systematically reviewing and analyzing expenditure programs which focus on the need for government intervention, deciding on the form and design of the intervention and examining the efficiency and distributional effects as well as the political process the intervention must undergo. This framework for expenditure programs could be used to review and analyze existing departments, NGAs and programs to determine relevance, zero in on a more current role for the NGA and reduce overlaps with other NGAs. The discussion in this section draws heavily from Stiglitz and Rosengard (2015).

### **1. Need for the program**

At the beginning of any policy it is important to establish its need, role and objective. Similarly, determining the need for, role and functions of a department, NGA or program is critical to be able to ascertain its importance, strategy and design. Are there Constitutional or other legal mandates requiring the presence of such agency or program? It is important to understand that just because there is a public clamor for such, it does not mean the such good or service should be provided by government. Or perhaps, because there was a need for the program before, there is no need for it now.

### **2. Market Failure**

Does the department, NGA or program address any market failures, income redistribution or is it a merit good? The economic justifications discussed in Sec. 4.1 above provide a possible role for government intervention, however, the literature is also clear in stating that there is also government failure. Justifying a role for government does not necessarily mean that government should intervene (Stiglitz and Rosengard 2015). If there are other, better market-based options, then these should be explored. At this stage, it is crucial to be as specific as possible in identifying the market failures that government might be able to address.

### **3. Alternative Forms of Government Intervention**

Once the need and the objective of a department, NGA or program has been decided, it is important to ascertain the best manner by which the good or service will be provided.

**Table 3. Alternative Forms of Government Intervention**

<b>Form of Government Intervention</b>	<b>Possible Options</b>
Public Production	<ul style="list-style-type: none"> <li>Free distribution</li> </ul>

	<ul style="list-style-type: none"> <li>• Distribution at below cost of production</li> <li>• Distribution at cost</li> </ul>
Private production	<ul style="list-style-type: none"> <li>• Government subsidies to (taxes on) producers</li> <li>• Government subsidies to (taxes on) consumers</li> <li>• Direct government distribution</li> <li>• Government regulation</li> </ul>
Public-private partnerships	<ul style="list-style-type: none"> <li>• Outsourcing procurement of goods and services</li> <li>• Service, lease and management contracts for operations and maintenance</li> <li>• Concessions such as BOTs for capital investment</li> <li>• Joint ventures (financial and in-kind)</li> </ul>

Source: Adapted from Stiglitz and Rosengard (2015)

Will the government produce the good or service such as the case for basic public education in the Philippines? If it is to be publicly produced, will the government provide the good or service for free or charge for it? Again, the example of basic education is produced by government, e.g. government hires teachers and builds school buildings, buys textbooks and chairs etc., and is provided for free. In the case of government hospitals such as the National Kidney and Transplant Institute, the government produces the service but is also permitted to charge user fees to recover costs.

For private production, such as in the case of national roads constructed through the Department of Public Works and Highways (DWPH), government uses the national budget to finance the construction of the good which is produced by the private sector. In this case, the road is produced privately subject to requirements and processes specified by government.

When government decides to use market-based solutions such as taxes and subsidies, these must be clearly defined. Criteria for who pays the tax or who benefits from the subsidy must be transparent at the beginning.

It is also under this section that overlaps and redundancies across NGAs could be identified. Including questions on the knowledge of overlaps or distinctions with other similar NGA mandates or programs in the same sector or addressing the same market failure would reveal such.

#### 4. Design Features

It is crucial that the definition of the role of a department or design of a program must have precise statements concerning eligibility standards to determine the efficiency and equity consequences of the program. An important consideration is to find the easiest way to identify the target groups/individuals (Stiglitz and Rosengard 2015). Policymakers must choose between tight restrictions versus loose restrictions for beneficiaries. This impacts on the occurrence of two possible errors: (1) denying aid to those who are deserving (Type I error) or (2) granting aid to those who are deserving (Type II errors).

Another consideration is the extent or duration of effectivity of a department, NGA or program. There must be specifics regarding how long the NGA will provide that program or service and what the sunset conditions are. An example of this consideration is the conditional cash transfer program called the Pantawid Pamilyang Pilipino Program (4Ps) for education, a household identified by the Listahanan (National Household Targeting System of the Department of

Social Welfare and Development) can have up to three children eligible to receive monthly transfers for ten months in a year conditional on attendance (Official Gazette 2018, DSWD Pantawid Pamilya 2018).

## 5. Private Sector Responses to Government Programs

Policymakers must also try to anticipate responses to policy, goods and services provided by departments, NGAs and programs. It could be possible that public support may crowd out or crowd in private spending. In the case of public pension plans, private savings for retirement by the beneficiary and support by the children of the beneficiary might decrease (crowd out) (Stiglitz and Rosengard 2015). It is possible as well for there to be crowding in such as in the case when government basic research encourages private sector applied research.

Related to design features above, eligibility standards may create perverse incentives/disincentives that may alter behavior to gain eligibility or to receive larger benefits. For example, various critics of the 4Ps program claim that: (1) the cash grant given to the poor would just increase household spending on vices; (2) benefits are granted to beneficiaries above the poverty line as justification for its abolition. However, a study conducted by PIDS found that that poor parents spend their resources responsibly. In addition, it was found that 82% of the beneficiaries belong to bottom 40 income class while 53% are from the bottom 20 income class (Orbeta and Paqueo 2016).

## 6. Efficiency consequences

Policymakers must identify the efficiency and distributional consequences of each alternative program and assessing the extent to which alternative programs can meet the objectives of public policy (Stiglitz and Rosengard 2015, 277).

For many programs there is a need to distinguish between the substitution and the income effect of a government program. The substitution effect is associated with inefficiency because it causes the individual to change his/her behavior and substitute the good or service of which the price was affected by the government program (Stiglitz and Rosengard 2015). The income effect makes the person feel richer or poorer and change overall consumption behavior, not just for the good or service being provided by government.

For example, if government reduces college tuition fees or in the Philippine case makes these free then:

- Substitution effect: the individual substitutes the government provided cheaper good for other goods
- Income effect: the individual feels richer and changes consumption patterns.

If government wants to correct market distortions such as monopoly power or to encourage/discourage an economic activity, it may want a program that creates a large substitution effect.

For example, it could be that the poor cannot or do not have enough to invest in housing, government could subsidize a fraction of the housing cost (substitution effect) or give a flat-out housing grant (income effect). The same would apply to the concern that parents might not give strong enough emphasis on the health or education of their children. In the case of the

4Ps, the objective is to send the children to school and transfer is discretionary on the parent recipient.

If the government, however, is concerned how well off some individuals are and there are no market failures, then programs that do not alter marginal incentives are preferable. In the case of the US' Supplemental Assistance Program (SNAP; formerly Food Stamp Program), the original design was that government would allow an individual to purchase 'food stamp' at 70% cost of food causing a substitution effect of consuming more food than other goods (rotating the budget constraint) versus the current redesigned policy of giving a fixed amount of income grant (shifting the budget constraint) (Stiglitz and Rosengard 2015).

## 7. Distributional consequences

The objective is to be able to identify the incidence of a program, who benefits from a program and who bears the cost. For example, the case of a mass railway transit system would benefit the commuters yes, at the same time, however, it also benefits the property owners in areas near the MRT as the value of their property increases and they could charge higher rents. The benefits of government programs are often 'capitalized' in the value of scarce assets associated with obtaining those benefits (land near the subway). In this case, the incidence is shifted (to property owners) from the intended beneficiaries (commuters) wherein some extreme cases might offset the benefits (Stiglitz and Rosengard 2015).

In reviewing the role of a department/NGA or objective and design of a programs, policymakers must consider the following (Stiglitz and Rosengard 2015):

- How are program beneficiaries affected differentially? Program benefits may differ even within an income group. For example, heating rebates in the US for poor households benefit those who live in colder areas.
- In the case of social pension plans, there are inter-temporal distribution effects. Young (wage-earners) could be paying for the financing of the old (retired) group.
- Must identify if a program's benefits are progressive, i.e. accrue disproportionately to the poor (they receive more than their contribution to the costs of the program through the tax system). Or if benefits are regressive, i.e. accrue disproportionately to the rich (they receive more than their contribution to the costs of the program through the tax system).

One's view of the distributional impact of government program depends not only on what group one focuses on but also on the available alternatives to a given program. The choice is seldom one program versus no program, it is one type of program versus another.

## 8. Equity and Efficiency Trade-off

In line with the distributional effects (equity) discussed above, the trade-off between efficiency and equity must also be considered. Progressive income taxation in the Philippines charges higher tax rates to those in higher income brackets. Some of the tax revenues are used to provide transfers to target beneficiaries or provide overall services such as basic education to redistribute income. The challenge, however, is that if there is demand for increased income redistribution, government would either cut spending or charge higher taxes. This would therefore distort the behavior of the taxpayer causing him to try to evade or entirely avoid his taxes. Ascertaining distributional affects warrants cost-benefit and impact assessment studies.



## 9. Public Policy Objective

In case some agencies/programs have noneconomic goals such as gender, ethnic minority, women and children, persons with disabilities and senior citizens, these must also be identified at the onset to be able to evaluate the overall impact.

## 10. Political Process

Stiglitz and Rosengard (2015) argue the design and adoption of any public expenditure program involves many individuals and groups with various objectives and beliefs how the economy works. The program that is adopted is a compromise among these views, will probably not conform to the views of any one individual and may not seem to be consistent with any single set of objectives.

According to them, studying the political process by which a expenditure program was adopted may be insightful because policymakers can:

- Understand why the program looks as it does and, depending on the objective of the department/NGA/program, policymakers can learn how to design and the process necessary to get the best version of the desired program through the political process.
- Anticipate and draft particular provisions of public programs mindful of distributional consequences for particular groups in the population.
- Promote or engage in information campaigns to educate voters and special interest groups as well as avoid misconceptions.
- Predict and prepare for the extent to which proposed departments/NGAs/policies subjected to political pressures or corruption.

### *4.3 Diagnostic Framework for Evaluating National Government Agencies and programs*

Table 4 summarizes the principles discussed above that are relevant to the identification of the need or role of a department, government agency and program. It presents possible questions, classified by the general economic guidelines offered in the previous section. Answers to these questions would be used as inputs to the more detailed case studies proposed in the Rightsizing program. As was the discussion above, this diagnostic framework draws heavily from the discussion of Stiglitz and Rosengard (2015) as applied to the Philippines.

**Table 4. Economic Principles for Rightsizing Government**

<b>General Principle</b>	<b>Questions</b>	<b>Possible answers</b>
1. Need for the department or the agency	<p>What is the perceived need for the Department/agency?</p> <p>1.1 Is the establishment of the NGA/program in the Constitution?</p> <p>1.2 Is the establishment of the NGA/program mandated in a specific law or Executive Order?</p> <p>1.3 Is the establishment of the NGA/program in the country's medium-term development plan?</p> <p>1.4 Is the establishment of the NGA/program part of a global agreement?</p> <p>1.5 What was the initial justification for the creation of the program/NGA?</p>	<ul style="list-style-type: none"> <li>• By Constitution</li> <li>• By Law</li> <li>• By Philippine Development Plan</li> <li>• By international global agreements (e.g. SDGs)</li> </ul>
2. Need for the program	<p>What is the perceived need for the program?</p> <p>2.1 Is the establishment of the NGA/program in the Constitution?</p> <p>2.2 Is the establishment of the NGA/program mandated in a specific law or Executive Order?</p> <p>2.3 Is the establishment of the NGA/program in the country's medium-term development plan?</p> <p>2.4 Is the establishment of the NGA/program part of a global agreement?</p> <p>2.5 What was the initial justification for the creation of the program/NGA?</p>	<ul style="list-style-type: none"> <li>• By Constitution</li> <li>• By Law</li> <li>• By Philippine Development Plan</li> <li>• By international global agreements (e.g. SDGs)</li> </ul>
<b>Economic Justification</b>		
3. Market failure	3.1 Does the mandate of the NGA/justification of the program address a market failure? What kind of market failure does it address?	Yes/No Answer questions below
	3.2 Imperfect Competition	

General Principle	Questions	Possible answers
	3.2.1 Is there a monopoly/ duopoly/ oligopoly? 3.2.2 What is the nature of imperfect competition (e.g. natural monopoly, barriers to entry)?	<ul style="list-style-type: none"> <li>• Either of the market structures under imperfect competition</li> <li>• Natural monopoly – such as for energy and water</li> </ul>
	3.3 Externalities 3.3.1 Is it a negative externality? 3.3.2 What kind of a negative externality is this? 3.3.3 Is it a positive externality? 3.3.4 What kind of a positive externality?	Yes/no <ul style="list-style-type: none"> <li>• Pollution</li> <li>• Research and Development</li> </ul>
	3.3 Public Good 3.4.1 Is it a pure public good that is non-rival in consumption and non-excludable such that private businesses would not find these profitable? <sup>7</sup> 3.4.2 Is it a publicly provided private good? Are there similar goods and services offered in the market such as education, health services?	<ul style="list-style-type: none"> <li>• National defense, foreign affairs</li> <li>• Education and health services</li> </ul>
	3.5 Imperfect Information 3.5.1 Is there a need for government to require information be shared by producers?	<ul style="list-style-type: none"> <li>• Yes, in the case of nutritional content of the Food and Drug Administration</li> <li>• Yes, R.A. 3765, “Truth-in-lending Act” requiring disclosure of finance charges in connection with the extension of credit.</li> </ul>
	3.5.2 Is it to research and develop new information?	Examples would be government resources devoted to producing new knowledge.
	3.6 Incomplete Markets 3.6.1 Is the incomplete market because of asymmetric information (insurance and capital markets)?	<ul style="list-style-type: none"> <li>• Example of insurance is the PDIC that ensures bank deposits of contributor banks</li> <li>• Capital markets government might provide credit to SMEs/Microfinancing/student loans.</li> </ul>
	3.7 If it does not address a market failure, does it deal with/address equity/income redistribution?	

<sup>7</sup> A positive answer to this would suggest that government be the one to provide the good or service.

General Principle	Questions	Possible answers
	3.7.1 Is it a merit good?	
4. Alternative forms of government intervention	Of the three major categories of government intervention: how does government currently provide the good or service?	This would be answered by national government agency/by program. How they deliver their goods and services
	4.1 Does the government produce the good?  4.1.1 Free distribution 4.1.2 Distribution at below cost of production 4.1.3 Distribution at cost	<ul style="list-style-type: none"> <li>• Yes/No</li> <li>• Basic and SUC education is free</li> <li>• Some government hospitals provide services below cost-recovery.</li> </ul>
	4.2 Does the government tap the private sector for the provision of the good/service? 4.2.1 Government subsidies to (taxes on) producers 4.2.2 Government subsidies to (taxes on) consumers 4.2.3 Direct government distribution 4.2.4 Government regulation	<ul style="list-style-type: none"> <li>• Construction of national roads and other infrastructure through national government agencies such as the DPWH, DOTr, DICT</li> </ul>
	4.3 Does the government engage in Public-Private Partnership for this good/service? 4.3.1 Outsourcing procurement of goods and services 4.3.2 Service, lease and management contracts for operations and maintenance (hybrid PPP) 4.3.3 Concessions such as Build-Operate-Transfer for Capital investment 4.3.4 Joint ventures (financial and in-kind)	<ul style="list-style-type: none"> <li>• Construction of airports, water systems</li> </ul>
	4.4 Overlapping functions/ roles/ programs  4.4.1. Are there other National Government Agencies that provide a similar good/service? 4.4.2. If yes, which agency? What is the program? How is your program/function/mandate different from them?	Yes/No  Enumeration of NGAs or programs
	4.5 Are there any newer, more efficient ways to provide public goods and services?	Privatization, income transfer rather than subsidy.

General Principle	Questions	Possible answers
5. Importance of design features	5.1 Who are the intended clientele/beneficiaries of the NGA/program?	Poor, Senior citizens, women, children
	5.2 What is the criteria for eligibility?	Listahanan, age groups
	5.3 How is the program designed to minimize both the exclusion of intended beneficiaries (Type I error) and the inclusion of unintended beneficiaries (Type II Error)?	Targeting scheme
6. Private sector responses to government agencies/programs	6.1 Will the public program crowd out parallel private sector efforts to address the identified problem?	Example would be social pension plans and crowding out/crowding in of private market responses
	6.2 What are the possible short-term and long-term effects of government intervention on private sector?	How long should public program be provided (i.e. sunset clause)
	6.3 Will this cause beneficiaries to change their behavior?	
7. Efficiency consequences	7.1 What are the possible substitution and income effects of the NGA service/program? (Efficiency losses are associated only with SE)	For example, a food subsidy could either skew consumption of the beneficiary toward increased food consumption (versus other goods) causing a substitution effect. While an income grant, increase the overall welfare of the recipient food, and consumption of all other goods would happen.
	7.2 Can it be demonstrated that any level of welfare achieved through a price subsidy could have been achieved less expensively through an income grant.	
8. Distributional consequences	8.1 What is the benefit incidence of the NGA service/program?	
	8.2 What is the tax incidence or burden of providing the NGA service or program?	
9. Equity-efficiency trade-off	9.1 What are the efficiency-equity tradeoffs associated with the NGA/program?	Example, a more progressive tax system reduces marginal incentives to work.
	9.2 Is there a better way to design the program/deliver the	

General Principle	Questions	Possible answers
	service to minimize the efficiency-equity trade-off?	
10. Public policy objective	10.1 Are there any noneconomic goals of a program 10.2 Would these goals have economic consequences as well?	<ul style="list-style-type: none"> <li>Ethnic, racial, gender or racial backgrounds</li> </ul>
11. Political process	11.1 Are there any perceived political challenge in the provision of services/program in the current design of policy? 11.2 How will the creation of a new department/NGA/policy occur?	<ul style="list-style-type: none"> <li>Lack of support of the administration or Congress</li> <li>Requires a new law/executive order</li> </ul>

## 5. Summary and Next Steps

- The current Rightsizing program intends to cut across departments and NGAs to enhance efficiency

There have been consistent efforts of past presidential administrations to reengineer, rationalize and streamline government. The current Rightsizing bill tries to distinguish itself by highlighting the intention to minimize duplications and overlapping functions across the Philippine bureaucracy and not just within departments. If successful, this would result in more focused roles, functions and programs for government roles.

However, the preconceived notion of the rightsizing program's main objective being to reduce the size of the government bureaucracy has created apprehension towards this reform. What must be underscored is that though redefining core functions and strategies might result in the dissolution of some NGAs and discontinuation of some programs that are no longer relevant or effective, this will allow government to deliver services more efficiently. To address outplaced workers from this reform, the Rightsizing bill provides either retirement packages or offers transfer to other government agencies for eligible employees.

- Need for Rightsizing efforts to be grounded in economic principles

The role and core functions of departments, NGAs and programs, apart from legal and economic planning frameworks and international commitments, should be grounded on economic principles. By clearly identifying the market failure or equity concern being addressed by the department/NGA or program, designing the necessary strategic interventions; action, implementation and monitoring plans will be better crafted. In addition, departments/agencies must also know their contribution to societal goals and economic development.

- Operationalization of rightsizing should capitalize on recent public financial management reforms (PFM)

Recent efforts of government to rationalize their departments and NGAs combined with the PFM requirement of ISO accreditation in the granting of Performance-Based Bonus will make it easier to Rightsize (Memorandum Circular No. 2018-1 2018). The strategic planning undergone in the review of the role and core function of departments/organizations undergone either through rationalization (EO 366) or the ISO process already redefined core functions, mandate and strategy of the department or NGA which makes it an easy reference in rightsizing.

- Operationalization of rightsizing should consider changing needs of client citizens and the need for monitoring and evaluation.

If the Rightsizing bill is passed, operationalizing the reform should require regular reviews of the roles/functions/programs of departments/NGAs to be able to anticipate and incorporate the changing needs of the citizen clientele. This review could be incorporated in a monitoring and evaluation plan. However, the success of the review of the role/core functions and programs, however, depends on the defined indicators. Such outcome indicators should be identified and reviewed regularly as well.

- The importance of political will and gathering support from policymakers and stakeholders alike.

The experience of previous attempts to streamline or reorganize the government showed the importance of political support. Specifically, legislative efforts to reorganize or streamline government under Pres. Marcos and Pres. Ramos were delayed and eventually abandoned after there being no progress in the Congress of the Philippines. There are ways to work around this either through Presidential directives such as the issuance of an Executive Order or passing laws to the same effect but in smaller scale.

Gathering stakeholder support is also crucial to the success of the Rightsizing reform. This could be done through information campaigns to educate fellow Filipinos and provide them with the correct information.

Whatever the outcome of the Rightsizing bill may be, lessons from previous efforts and the recent PFM reforms

## 6. Appendix

### CLASSIFICATION OF GOCCs BY SECTORS

#### I. GOVERNMENT FINANCIAL INSTITUTIONS SECTOR

##### *Banking Institutions*

1. Al-Amanah Islamic Investment Bank of the Philippines AIIBP
2. Development Bank of the Philippines DBP
3. \*\*\*DBP Data Center, Inc. DCI
4. Land Bank of the Philippines LANDBANK
5. \*\*\*Land Bank Countryside Dev't Foundation, Inc. LCDFI
6. \*\*\*LBP Resources and Development Corporation LBRDC
7. Philippine Postal Savings Bank, Inc. POSTBANK
8. United Coconut Planters Bank (PCGG) UCPB

##### *Non-Banking Institutions*

9. Credit Information Corporation CIC
10. DBP Leasing Corporation DBP-LC
11. Home Guaranty Corporation HGC
12. LBP Insurance Brokerage, Inc. LIBI
13. LBP Leasing and Finance Corporation LBP-LFC
14. Masaganang Sakahan, Inc. MSI
15. National Development Company NDC
16. National Home Mortgage Finance Corporation NHMFC
17. Philippine Crop Insurance Corporation PCIC
18. Philippine Deposit Insurance Corporation PDIC
19. Quedan & Rural Credit Guarantee Corporation QUEDANCOR
20. Small Business Corporation SBC
21. Social Housing Finance Corporation SHFC
22. Trade and Investment Development Corporation (also known as TIDCORP) PHILEXIM

##### *Social Security Institutions*

23. Employees Compensation Commission ECC
24. Government Service Insurance System GSIS
25. Home Development Mutual Fund Pag-IBIG
26. Philippine Health Insurance Corporation PHILHEALTH
27. Social Security System SSS
28. Veterans Federation of the Philippines VFP

#### II. TRADE, AREA DEVELOPMENT AND TOURISM SECTOR

##### *Trade*

29. Center for International Trade Expositions and Missions CITEM
30. Duty Free Philippines Corporation DFPC
31. Philippine International Trading Corporation PITC
32. Philippine Pharma Procurement Inc. PPPI



#### *Area Development*

- 33. Bases Conversion Development Authority BCDA
- 34. Clark Development Corporation CDC
- 35. John Hay Management Corporation JHMC
- 36. Laguna Lake Development Authority LLDA
- 37. National Housing Authority NHA
- 38. Palacio Del Gobernador Condominium Corporation PDGCC
- 39. Partido Development Administration PDA
- 40. Philippine Reclamation Authority PRA
- 41. Poro Point Management Corporation PPMC
- 42. Quezon City Development Authority QCDA
- 43. Southern Philippines Development Authority SPDA
- 44. Tourism Infrastructure & Enterprise Zone Authority TIEZA

#### *Tourism*

- 45. Corregidor Foundation, Inc. CFI
- 46. Marawi Resort Hotel, Inc. MRHI
- 47. Philippine Retirement Authority PRetA
- 48. Tourism Promotions Board TPB

### III. EDUCATIONAL AND CULTURAL SECTOR

#### *Educational*

- 49. Boy Scouts of the Philippines BSP
- 50. Development Academy of the Philippines DAP
- 51. Girl Scouts of the Philippines GSP

#### *Cultural*

- 52. Cultural Center of the Philippines CCP
- 53. Nayong Pilipino Foundation, Inc. NPF

### IV. GAMING SECTOR

- 54. Philippine Amusement and Gaming Corporation PAGCOR
- 55. Philippine Charity Sweepstakes Office PCSO

### V. ENERGY AND MATERIALS SECTOR

#### *Energy*

- 56. National Electrification Administration NEA
- 57. National Power Corporation NPC
- 58. National Transmission Corporation TRANSCO
- 59. Philippine National Oil Company PNOC
- 60. Power Sector Assets and Liabilities Management Corporation PSALM
- 61. PNOC Exploration Corporation PNOC-EC
- 62. PNOC Renewables Corporation PNOC-RC
- 63. Philippine Electricity Market Corporation PEMC

#### *Materials*

- 64. Batong Buhay Gold Mines, Inc. BBGMI

- 65. Bukidnon Forest, Inc. BFI
- 66. Natural Resources Development Corporation NRDC
- 67. North Davao Mining Corporation NDMC
- 68. Philippine Mining Development Corporation (formerly NRMDC) PMDC

## VI. AGRICULTURE, FISHERIES AND FOOD SECTOR

### *Agriculture and Fisheries*

- 69. National Dairy Authority NDA
- 70. National Food Authority NFA
- 71. National Tobacco Administration NTA
- 72. Philippine Coconut Authority PCA
- 73. Philippine Fisheries Development Authority PFDA
- 74. Philippine Sugar Corporation (PMO) PHILSUCOR
- 75. Phividec Panay Agro-Industrial Corp. (PMO) PPAC
- 76. Sugar Regulatory Administration SRA

### *Food*

- 77. Food Terminal, Inc. (PMO) FTI
- 78. National Sugar Development Company (PMO) NASUDECO
- 79. Northern Foods Corporation (PMO) NFC

## VII. UTILITIES AND COMMUNICATIONS SECTOR

### *Utilities*

- 80. Cebu Port Authority CPA
- 81. Civil Aviation Authority of the Philippines CAAP
- 82. Clark International Airport Corporation CIAC
- 83. Light Rail Transit Authority LRTA
- 84. Local Water Utilities Administration LWUA
- 85. Mactan-Cebu International Airport Authority MCIAA
- 86. Manila International Airport Authority MIAA
- 87. Metropolitan Waterworks and Sewerage System-Corporate Office MWSS-CO  
Metropolitan Waterworks and Sewerage System-Regulatory Office MWSS-RO
- 88. National Irrigation Administration NIA
- 89. North Luzon Railway Corporation NORTHRAIL
- 90. PEA Tollway Corporation PEA-TC
- 91. Philippine Aerospace Development Corporation PADC
- 92. Philippine National Construction Corporation (PMO) PNCC
- 93. Philippine National Railways PNR
- 94. Philippine Ports Authority PPA

### *Communications*

- 95. APO Production Unit, Inc. APO-PUI
- 96. People's Television Network, Inc. PTNI
- 97. Philippine Postal Corporation PHLPOST

VII. HEALTHCARE SERVICES SECTOR

98. La Union Medical Center LUMC

IX. GOCCs SUPERVISED BY PCGG

99. UCPB Savings Bank (PCGG) UCPB-SB

100. Performance Investment Corporation (PCGG) PIC

101. UCPB CIIF Finance and Development Corp (PCGG) COCOFINANCE

102. UCPB Leasing (PCGG) UCPB Leasing

103. Independent Realty Corporation (PCGG) IRC

104. Mid-Pasig Land Development Corporation (PCGG) MLDC

105. Piedras Petroleum Company, Inc. (PCGG) PIEDRAS

106. Chemfields, Inc. (PCGG) CI

107. Bataan Shipyard and Engineering Company (PCGG) BASECO

108. Banahaw Broadcasting Corporation (PCGG) BBC

109. United Coconut Planters Life Assurance Corporation (PCGG) COCOLIFE.

110. United Coconut Planters Bank General Insurance, Inc. (PCGG) COCOGEN

111. United Coconut Chemicals, Inc. (PCGG) COCOCHEM

112. UCPB CIIF Foundation, Inc. (PCGG) UCPB CIIF Foundation, Inc.

X. COCONUT INDUSTRY INVESTMENT FUND OIL MILLS GROUP (CIIF-OMG)

113. Legaspi Oil Company, Inc.

114. Granexport Manufacturing Corporation

115. San Pablo Manufacturing Corporation

116. Cagayan De Oro Oil Company, Inc.

117. Southern Luzon Coconut Oil Mill, Inc.

118. Iligan Coconut Industries, Inc.

XI. CIIF HOLDING COMPANIES

119. ASC Investors, Inc.

120. ARC Investors, Inc.

121. AP Holdings, Inc.

122. Anglo Ventures, Corp.

123. Fernandez Holdings, Inc.

124. First Meridian Development, Inc.

125. Randy Allied Ventures, Inc.

126. Rock Steel Resources, Inc.

127. Roxas Shares, Inc.

128. San Miguel Officers Corp. Inc.

129. Te Deum Resources, Inc.

130. Toda Holdings, Inc.

131. Soriano Shares, Inc.

132. Valhalla Properties, Inc.

XII. REALITY HOLDING COMPANIES

- 133. Batangas Land Company, Inc. BLCI
- 134. First Cavite Industrial Estate, Inc. FCIEI
- 135. G.Y. Real Estate, Inc. GYREI
- 136. Kamayan Realty Corporation KRC
- 137. Pinagkaisa Realty Corporation PiRC

XIII. UNDER PRIVATIZATION

- 138. GSIS Family Bank GSIS-FB
- 139. Intercontinental Broadcasting Corporation IBC
- 140. Southern Utility Management and Services, Inc. SUMSI

XIV. NON-OPERATIONAL/INACTIVE

- 141. Anchor Estate, Inc. AEI
- 142. Aviation Services and Training Institute ASTI
- 143. \*\*\*BCDA Management and Holdings, Inc. BMHI
- 144. Calauag Quezon Province Integrated Coconut Processing Plant, Inc. CQPICPPI
- 145. Clark Polytechnic Development Foundation CPDF
- 146. \*\*\*DBP Management Corporation DBPMC
- 147. First Centennial Clark Corporation FCCC
- 148. GSIS Mutual Fund, Inc. GSIS-MFI
- 149. GSIS Properties, Inc. GSIS-PI
- 150. Integrated Feedmills Manufacturing Corporation IFMC
- 151. Inter-Island Gas Service, Inc. IIGSI
- 152. LBP Financial Services SpA (Rome, Italy) LBP-FSS
- 153. LBP Remittance Company (USA) LBP-RC
- 154. LBP Singapore Representative Office LBP-SRO
- 155. LBP Taiwan Representative Office LBP-TRO
- 156. Manila Gas Corporation MGC
- 157. Meat Packing Corporation of the Philippines MPCP
- 158. NDC-Philippine Infrastructure Corporation NPIC
- 159. Paskuhan Development, Inc. PDI
- 160. Phil. Centennial Expo '98 Corp. EXPO FILIPINO
- 161. Philpost Leasing and Financing Corporation PLFC
- 162. Metro Transit Organization, Inc. MTOI
- 163. \*\*\*LWUA Consult, Inc. LWUA-CI

XV. UNDER ABOLITION

- 164. Alabang-Sto. Tomas Development, Inc. ASDI
- 165. CDCP Farms Corporation CDCP-FC
- 166. Disc Contractors, Builders and General Services, Inc. DISC
- 167. HGC Subic Corporation HGC-SC
- 168. Human Settlements Development Corporation HSDC
- 169. National Agri-Business Corporation NABCOR
- 170. NIA Consult, Inc. NIACI
- 171. Philippine Fruits and Vegetables Industries, Inc. PFVII
- 172. Philippine Agricultural Development and Commercial Corporation PADCC

- 173. Philippine Forest Corporation PFC
- 174. PNOC Alternative Fuel Corp. PNOC-AFC
- 175. PNOC Development and Management Corporation PNOC-DMC
- 176. PNOC Shipping and Transport Corporation PNOC-STC
- 177. San Carlos Fruits Corporation SCFC
- 178. Technology Resources Center TRC
- 179. Tierra Factors Corporation TFC
- 180. Traffic Control Products Corporation TCPC
- 181. Zamboanga National Agricultural College - Rubber Estate Corp. ZREC
- 182. People's Credit and Finance Corporation PCFC
- 183. National Livelihood Development Corp. (Merged Livecor and NLSF) NLDC
- 184. Philippine Veterans Assistance Commission PVAC
- 185. Philippine Veterans Investment Development Corporation PHIVIDECA
- 186. Panay Railways Inc. (PMO) PRI
- 187. AFP-Retirement and Separation Benefits System AFP-RSBS

#### XVI. DISSOLVED/ABOLISHED

- 188. Bataan Technology Park, Inc. BTPI
- 189. Cottage Industry Technology Center CITC

#### XVII. GOCCs DISPOSED BY PMO

- 190. Menzi Development Corporation (PMO) MDC

#### XVIII. GOCCs EXCLUDED FROM THE COVERAGE OF RA NO. 10149

- 191. Bangko Sentral ng Pilipinas
- 192. Central Bank - Board of Liquidators CB-COL
- 193. Philippine International Convention Center, Inc. PICC

#### Research Institutions\*

- 194. Lung Center of the Philippines LCP
- 195. National Kidney and Transplant Institute NKTi
- 196. Philippine Center for Economic Development PCED
- 197. Philippine Children's Medical Center PCMC
- 198. Philippine Heart Center PHC
- 199. Philippine Institute for Development Studies PIDS
- 200. Philippine Institute of Traditional and Alternative Health Care PITAHCA
- 201. Philippine Rice Research Institute PRRI

#### Economic Zone Authorities\*

- 202. Aurora Pacific Economic Zone and Freeport Authority APECO
- 203. Authority of Freeport Area of Bataan AFAB
- 204. Cagayan Economic Zone Authority CEZA
- 205. Freeport Services Corporation FSC GCG MO No. 2012-13
- 206. Northeastern Luzon Pacific Coastal Services, Inc. NLPCS

- 207. Philippine Economic Zone Authority PEZA
- 208. Phividec Industrial Authority PIA
- 209. Subic Bay Metropolitan Authority SBMA
- 210. Zamboanga City Special Economic Zone Authority ZCSEZA

By Supreme Court Decision

- 211. Radio Philippines Network RPN G.R. No. 148076, 153161

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- 212. Millenium Challenge Account Philippines MCAP

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