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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Manila, Philippines

IMPACT EVALUATION OF THE RURAL FINANCIAL SERVICES PROJECT

January 1991

VOLUME I
MAIN REPORT

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CONSULTING
SYCIP,GORRES,VELAYO & CO.

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January 14, 1991

Mr. Bruno Cornelio, Jr.
Chief, Private Enterprise Support Office
U. S. Agency for International Development
18th Fl., Ramon Magsaysay Center
1680 Roxas Blvd., Manila

Subject: Rural Financial Services Project
USAID Contract No.: 492-0394-C-00-1006-00

Dear Mr. Cornelio:

We are pleased to submit our Draft Report on the Impact Evaluation of the Rural Financial Services Project. The report includes a discussion of the following:

- o purpose and study questions of the evaluation
- o the economic, political, and social context of the project
- o team composition and study methods
- o findings of the study concerning the evaluation questions
- o conclusions drawn from the findings
- o recommendations and lessons learned from the study.

We will be happy to discuss with you the various aspects of this report. We hope to receive your reactions and comments on this report and thereafter, we will prepare and submit the final report.

Thank you for this opportunity to be of service to USAID.

Very truly yours,

Emmanuel T. Velasco
Principal

in association with

Cesar E. A. Virata
C. Virata & Associates

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Rural Financial Services Project
Project No. 492-0394

Prepared by

SGV
CONSULTING
SYCIP, GORRES, VELAYO & CO.

in association with

C. VIRATA & ASSOCIATES
MANAGEMENT CONSULTANTS

under Contract No. 492-0394-c-00-1006-00
with USAID/Manila

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IMPACT EVALUATION OF THE RURAL FINANCIAL SERVICES PROJECT

EXECUTIVE SUMMARY

The Rural Financial Services Project (RFSP) is a reasonable success with respect to its project objectives and purpose. Success vis-a-vis the goal of increasing the rate of economic growth in the rural sector is not evident. In addition, there is hardly any impact on rural poverty. (Over expectation!!)

BACKGROUND OF THE ENGAGEMENT

The US Agency for International Development (USAID) Philippines has commissioned SGV Consulting and C. Virata & Associates to conduct an impact evaluation of RFSP. The duration of the engagement runs from November 1990 to January 1991.

PROJECT GOAL, PURPOSE, AND OBJECTIVES

The RFSP (Project No. 492-034) is a parallel co-financing effort of the USAID with the Agricultural Credit Project of the World Bank (WB) which sets up the Agricultural Loan Fund (ALF). The RFSP goal is "to assist the GOP in increasing the rate of economic growth in the rural sector." This underscores USAID's views that a market-oriented rural sector plays a vital role in economic development and that the rural economy must be back-stopped by a strong rural financial system.

The RFSP project purpose is "to strengthen the policy and institutional framework necessary for sustaining a viable rural credit system." The project objectives are to: (a) improve the financial intermediation capability of the rural credit system; (b) strengthen the policy framework for rural credit markets; and (c) build up the institutional capacity of rural financial intermediaries.

PURPOSE OF THE EVALUATION AND METHODOLOGY

The impact evaluation (a) assesses the success of RFSP in relation to achievement of its goal, purpose, and objectives; and (b) identifies lessons for similar initiatives in rural finance.

The project methodology includes: (a) review of documentary evidence; (b) gathering and analysis of secondary data; and (c) interviews of key informants and field surveys of participating financial institutions (PFIs) and end-users.

SUMMARY FINDINGS AND CONCLUSIONS

1. Sustaining a Viable Rural Credit System

The ALF has a funding of US$100 million and US$20 million from the WB and USAID, respectively. Over the 1985 to November 1990 period, the ALF has disbursed some six billion pesos for over 2,000 projects. As of November 1990, there are 84 accredited PFIs with credit lines from the Land Bank of the Philippines (LBP) which took over as Fund implementor from the Central Bank of the Philippines (CBP).

Analysis of empirical data and survey findings indicate that ALF funding serves to prop up agricultural lending by the private sector. The impetus towards market-oriented lending, the stress on commercial viability, the expansion of the floating rate system, the inclusion of commercial banks in an expanded credit delivery system, and the devolution of lending decisions to private banks all serve to reinforce the moves towards greater private sector participation in rural credit markets. To the extent that it promotes financial liberalization, the RFSP helps enhance financial intermediation in the rural areas.

On the other hand, the need for corrective measures arises from the existence of implicit intere subsidies, the foreign exchange related costs, the weak link to resource mobilization, the limited impact on term lending, and the neglect of the small farm sector. The last-mentioned finding is perhaps the most damaging argument against it since a viable institutional rural credit system is not possible in an economy where majority live below the poverty line.

2. Strengthening the Policy Framework

The RFSP has led to policy reforms either directly as part of the loan covenants or indirectly as recommendations of the RFSP-assisted policy studies.

The policy studies and policy papers give rise to recommendations which reinforce policy initiatives towards rural market deregulation and establish research directions for more effective government intervention in rural finance. However, the lack of a coherent implementation plan has blunted the value of most recommendations.

3. Building up the Institutional Capacity

The ALF expanded the capability of the Central Bank Institute (CBI) to conduct training programs. For example, more than 1,700 persons have been trained in ten ALF-assisted courses involving more than 25 offerings.

However, there are deficiencies in the training process that detract from the quality of training. Moreover, training has been infrequent, with no follow-ups, and of short duration to be of lasting impact on institution-building.

4. Success Vis-a-vis Project Purpose and Goal

Given the foregoing, the RFSP is a reasonable success with respect to its project objectives and purpose. Success vis-a-vis the goal of increasing the rate of economic growth in the rural sector is not evident. In addition, there is hardly any impact on rural poverty.

LESSONS LEARNED

The RFSP gives first hand experience of a market-oriented agricultural loan program as well as its positive and negative effects. There are lessons to be learned. Firstly, strict reliance on market orientation can serve to limit the access of small farmers to credit. Secondly, credit by itself cannot break the poverty cycle in rural areas. Thirdly, project design and implementation as well as policy formulation and implementation must have a balanced focus. Lastly, the goal of foreign assistance should be the alleviation of rural poverty itself.

RECOMMENDATIONS AND CORRECTIVE MEASURES

The following program design features are proposed: (a) continuation of market-oriented features particularly commercial viability as lending criterion and unsubsidized lending rates; (b) appropriate use of the interest rate determination mechanism to reveal all costs; (c) ensuring additionality through increase of bank counterpart funds and subloan limits on large loans; (d) ensuring term expansion through subloan limits on short-term loans; (e) expansion of rural credit delivery system to include viable, strong rural banks and mature rural grassroots organizations; (f) addition of guarantee, securitization and leasing subsystems; (g) continued streamlining of operations; (h) continued support to institution-building through improved training; and (i) continued impetus towards policy reforms.

As part of the broad action efforts, there should be: (a) greater rural-oriented resource allocation; (b) enhancement of liberalized policy environment; and (c) support of rural financial innovations. Lastly, policy recommendations from the previous policy studies should be selectively implemented.

The USAID should continue the Government of the Philippines (GOP) initiatives towards rural and agricultural development. However, it must address the root causes of rural poverty. Otherwise, the impact of a similar initiative in rural finance might just be peripheral.

OUTLINE OF BASIC PROJECT IDENTIFICATION DATA

1. Country : PHILIPPINES

2. Project Title : RURAL FINANCIAL SERVICES PROJECT

3. Project Number : 492 - 0394

4. Project Dates :

   a. First Project Agreement : September 25, 1985

   b. Final Obligation Date FY--(planned/actual?) : FY 1990

   c. Most recent Project Assistance Completion Date (PACD) : December 31, 1990

5. Project Funding: (amounts obligated to date in dollars or dollar equivalents from the following sources)

a.	A.I.D. Bilateral Funding (grant and/or loan)	US$ 20.0 M (Pesos)
b.	Other Major Donors (World Bank)	US$ 100.0 M (Pesos)
c.	Host Country Counterpart Funds (CBP, $35 N; Participating Financial Insitutions, $24.3 M; Subborrowers, $23.7 M)	US$ 83.0 M (Pesos)
	TOTAL	US$ 203.0 M (Pesos)

6. Mode of Implementation (Host Country/AID Direct Contact)

o	Credit Assistance	CBP-DLC (1985 to 1988) LBP (1990 to present)
o	Policy Studies	Citibank (General Contractor) Inter-agency Task Force for CBP, NEDA, PCIC, TBAC SGV & Co./ Cesar Virata & Associates Estanislao, Lavin & Associates Abt Associates Ohio State University
o	Institution-Building	Central Bank Institute

7. Project Designers : The Government of the Philippines, USAID/Philippines and the World Bank.

8. Responsible Mission Officials : (for the full life of the project)

   a. Mission Director(s) : Malcolm Butler

   b. Project Officer(s) : Bruno Cornelio/ Manuel Villanueva

9. Previous Evaluation(s) : Audit, April 1989

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IMPACT EVALUATION OF THE RURAL FINANCIAL SERVICES PROJECT

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PURPOSE AND ISSUES OF THE IMPACT EVALUATION

The US Agency for International Development (USAID) Philippines has commissioned SGV Consulting and C. Virata & Associates (hereinafter referred to as SGVC/CVA) to conduct an end-of-project impact evaluation of the Rural Financial Services Project (RFSP).

The impact evaluation aims:

- o to assess the success of RFSP in relation to achievement of its goal, purpose, and objectives, and
- o to identify lessons for similar projects in rural finance.

Basically, the engagement seeks to determine the project's impacts on rural financial institutions and on rural end-users, and to evaluate whether the project-related policy reforms and institutional development efforts led to strengthening of the rural financial system (See Annex A for Scope of Work).

PROJECT DESCRIPTION

1. Development Rationale

The RFSP (Project No. 492-034) represents a parallel co-financing effort of the USAID with the the Agricultural Credit Project (ACP) of the World Bank (WB). The latter itself is a response to recommendations the Bank made in its review of the Philippines' agricultural credit sector (WB, 1983).

The WB agricultural credit sector review points to the need for policy and institutional reforms to strengthen the rural credit system. Limited supply of medium- and long-term agricultural credit, institutional weaknesses, and inappropriate rural credit policies have vitiated the effectiveness of the rural credit system. In this regard, the Bank has recommended the implementation of policy and institutional measures, including establishment of a credit facility for rural lending.

In line with this, the Government of the Philippines (GOP) has set up the Agricultural Loan Fund (ALF) which was made operational through the ACP. USAID supports this GOP initiative through the RFSP by pooling its resources with those of the WB. USAID money augments WB funding for the ALF. USAID-funded training, technical assistance, and studies complement WB efforts along this line.

2. Project Goal, Purpose, and Objectives

The RFSP goal is "to assist the GOP in increasing the rate of economic growth in the rural sector." This is in line with USAID's views that a market-oriented rural sector plays a vital role in the country's economic development and that the rural economy must be backstopped by a strong rural financial system.

The RFSP seeks to remove the restrictions on the rural financial system to allow it to support the increasing demand for rural credit. In this regard, the project purpose of the RFSP is "to strengthen the policy and institutional framework necessary for sustaining a viable rural credit system."

The project objectives are:

- o to improve the financial intermediation capability of the rural credit system;
- o to strengthen the policy framework for rural credit markets; and
- o to build up the institutional capacity of rural financial intermediaries.

3. RFSP Package of Credit and Technical Assistance

The RFSP package of credit and technical assistance is designed to accomplish the above goal, purpose and objectives. There are two components: (a) US$17.4 million credit facility for relending to conduit banks at market rates; and (b) US$2.6 million for technical assistance, studies, and training.

The credit component provides funds for agricultural producers and enterprises engaged in processing, storage, and marketing of agricultural commodities.

The credit facility is tied to policy reforms that are to be undertaken by the GOP. These include, among others, lending at market rates, deregulation of bank spreads, and elimination of interest or capital subsidies on agricultural credit.

The technical assistance component is meant to assist the GOP identify and implement additional policy changes. Policy studies are required to be done in order to resolve policy issues identified by both WB and USAID. On the other hand, training and institutional development are intended to help remedy institutional and managerial weaknesses in the rural financial system.

4. Project Beneficiaries

According to the USAID project paper (USAID, 1985) the main beneficiaries of the RFSP are the participating financial institutions (PFIs). The availability of funds for rural lending would allow them to satisfy credit demand of rural borrowers. Moreover, training and technical assistance would expand the PFIs' capacity to provide financial services. On the other hand, access to credit would promote new and expansion projects in the countryside and enhance contribution to rural sector growth. Policy reforms would serve to strengthen the rural credit system.

STUDY TEAM ORGANIZATION AND METHODOLOGY

To carry out the impact evaluation, SGVC/CVA has organized a study team consisting of a panel of project advisors, a project director/evaluation specialist, a financial and credit specialist, a training specialist, and a field survey specialist. The team is assisted by research assistants in the conduct of desk research and interviews/surveys.

The engagement methodology includes: a review of documentary evidence, gathering and analysis of secondary data, and interviews/surveys. The SGVC/CVA team has undertaken limited field surveys to validate findings of documentary investigations. Key informants include: policymakers, policy analysts, and implementors; PFIs; and end-users.

Impact evaluation is based on the research findings and interview responses. The assessment focuses (a) on the impact of the RFSP on the rural credit system, the conduit banks and the end-users; and (b) on the appropriateness of training, technical assistance and studies. Conclusions on the success of the RFSP vis-a-vis project goal, purpose and objectives are then made. Finally, lessons and recommendations on the RFSP project design and related broad action measures are identified.

BROAD CONTEXT OF THE RURAL FINANCIAL SERVICES PROJECT

MACRO CONTEXT OF THE RFSP (1985-1990)

1. Economic Recovery and Policy Reforms

The RFSP became operational in late 1985 when the Philippine economy was still in a crisis. In early 1986, however, the political climate brightened up considerably even as the business sector regained confidence. Recovery quickly came under way, as reflected in the surge of economic growth from a negative 4.1% in 1985 to 1.9% in 1986 (See Table 1). The momentum continued through the next three years, with the real GNP growth rate further climbing to 5.9% in 1987, peaking at 6.7% in 1988 before tapering to 5.6% in 1989.

Recovery started to falter in 1990. Political uncertainties dimmed the investment climate even as macro imbalances such as high budget deficits and foreign exchange scarcity began to reemerge. Growth fundamentals were crippled by the severe power shortages in April and May, and by calamities such as the July killer earthquake and the destructive Ruping typhoon in November. The Gulf crisis exacerbated the situation by triggering successive oil price hikes. Estimated growth for 1990 was placed at 3.1%. Given the vicious cycle of high interest rates and budget deficits amidst the uncertainties stemming from the Gulf crisis, the economic slowdown is seen to continue through 1991.

The turnaround from 1986 to 1989 allowed policymakers to focus on longer-term structural concerns. The GOP continued to commit itself to a structural adjustment program under the International Monetary Fund (IMF), leading to significant reforms in different policy areas.

For the agricultural sector, policy reforms being undertaken to reduce market distortions were hastened. These included, among others, the elimination of the coconut monopsony and privatization of wheat trading (1985) the break-up of the fertilizer and meat import cartels (1985 onwards); the elimination of the sugar monopsony and the lifting of the copra export ban (1986); the privatization of flour and soybean trading and the removal of all export taxes (1986 onwards).

Moreover, the GOP reiterated its rural focus with its Countryside Agro-Industrial Development Strategy (CAIDS) which seeks to minimize urban and rural income disparities. This calls for the establishment of Regional Industrial Centers (RICs) to serve as focal points for agro-processing and manufacturing.

Most significantly, the GOP reinforced the moves towards liberalization of the rural financial system (Llanto, September 1990; December 1990). The single rediscount rate system that was being set up in 1985 was finalized, followed by the consolidation of twenty government loan programs under a single Comprehensive Agricultural Loan Fund (CALF). The Agricultural Credit Policy Council (ACPC) replaced the Technical Board for Agricultural Credit (TBAC) to serve as the government's overall coordinator of rural financing.

Explicit credit and interest rate subsidies were phased out to a large extent. The restructuring of the rural banking system, including the strengthening and rehabilitation of some 500 rural banks, proceeded at a fairly satisfactory pace.

2. Rural Sector Performance

Against this backdrop, the agricultural sector posted an annual 2.5% growth from 1986-1989 (See Table 2). This fell short of the government medium-term target of 3.5% and compared unfavorably with the 4.9% growth of the late seventies.

The year 1989 was a good year for agriculture as it recorded a Gross Value Added (GVA) growth rate of 4.6%, the highest achieved by the sector since 1982. The prolonged drought in early 1990, however, held down agricultural sector growth at only 2.2% for that year.

Despite the shortfall in sectoral growth vis-a-vis the government medium-term target, there have been steady performers within the sector. These include the livestock and poultry subsectors which led sectoral growth in 1989 (See Tables 2 and 3) and propped up the sector in 1990. Department of Agriculture (DA) figures show an impressive increase in corn output to 4.5 million tons in 1989 from only 3.9 million tons in 1985 (See Table 3).

The increase in real income of farm households is also worth noting. From an average of only ₱1,823 per month in 1985, farm households' real income increased to ₱2,041 per month by 1988. However, about 72.5% of rural families earn incomes still below the poverty line, down slightly from 75.0% in 1985 (Dominguez, 1989; see also Balicasan, 1990).

For the sector to achieve the 3.5% medium-term growth target, substantial improvements in the fundamentals, together with continued enhancement of the policy environment, would be required (WB, 1989).

Among the more important fundamentals are the future trends in international prices and the growth of domestic demand. In the medium term, demand for meat, poultry, fish, fruit, sugar, and yellow corn is expected to strengthen.

On the other hand, restrictions on agriculture sector growth identified by DA must be removed (DA, 1989). These include: (a) trade protection policies favoring the industrial sector at the expense of agriculture; (b) the value added tax (VAT) scheme which burdens the agricultural processors; (c) overvalued peso which makes agricultural exports less competitive; (d) restrictive shipping and port management policies; (e) inadequate government expenditures in agriculture; and (f) underpricing of natural resources which encourages indiscriminate exploitation of the agricultural resource base.

FINANCIAL MARKET CONTEXT OF THE RFSP (1985-1990)

1. The Rural Credit System

The ALF is an additional fund source to agricultural credit markets, serving to augment the supply of formal credit for the rural sector. The ALF and other similar lending or guarantee programs, private financial institutions with rural lending activities, and some government banks comprise the formal sector which, according to WB estimates (WB, 1985), supplies only 10%-15% of rural credit.

The informal credit sources account for the balance. These include the landlords, relatives, friends, and traders. They are popular in the rural areas mainly because of flexibility (Ghate, 1986). Informal credit sources are flexible because they operate outside the purview of regulations imposed on the formal sector. On the other hand, easy access accounts for the high incidence of informal borrowings among rural borrowers (Agabin, Lamberte, and Mangahas, 1989).

The formal and informal credit markets are complementary since they cater to different segments of the financial markets Both mobilize resources to meet the credit demands of a large part of the rural economy and thereby help in reducing the fragmentation in the financial system.

2. Agricultural Credit Performance

The ACPC uses several indicators to determine the performance of formal rural credit -- bank credit to agricultural production; the ratio of agricultural loans to total loans; and the ratio of agricultural loans to GVA.

<u>Agricultural Production Loans.</u> Bank credit to agricultural production totalled P31.2 billion in 1989 (See Table 4). On the other hand, agricultural production loans outstanding stood at P22.4 billion as of 1989-end (See Table 5), growing at an annual rate of 3.1% from 1985-end level.

Private commercial banks provide the bulk of the total agricultural production loans, although its share considerably decreased from 81.7% in 1985 to 59.5% in 1989. Private banks as a whole accounted for 81.3% of the total, with the balance coming from government banks. The latter showed a much improved performance seemingly because of the dramatic jump in Land Bank of the Philippines (LBP) farm lending. (Closer scrutiny reveals that this is qualified by the fact that changes in account classifications could have shifted certain loans previously booked as commercial or industrial loans into agricultural loans.)

In terms of outstanding levels, agricultural loans of government banks significantly declined from a 33.2% share in 1985 to only 19.5% in 1989. This can be accounted for by the decrease in the Philippine National Bank's (PNB) level of agricultural loan portfolio.

For the period 1985 to 1989, formal credit releases largely went to food commodities such as livestock and poultry, rice, fruits, vegetables and rootcrops, and fisheries (See Table 6). For 1985, however, the bulk of the credit releases went to export and commercial crops. The outstanding loans level on a per commodity basis traced similar patterns (See Table 7).

<u>Ratio of Agricultural Loans to Total Loans.</u> The share of agricultural loans to total loans extended by the banking system dipped to 6.6% in 1989 from 9.9% in 1985 (See Table 8). This can be attributed to bank reaction against the Comprehensive Agrarian Reform Law (CARL) which removed the collateral value of land. Rural banks, however, remain the strongest supporter of agricultural lending while stock savings and loans associations and private development banks set aside a considerable amount for agricultural lending.

<u>Agricultural Loans to Output Ratio.</u> The agricultural loans to output ratio decreased from 18.6% in 1988 to 13.8% in 1989 (See Table 9). This compares unfavorably with the ratios for 1985 to 1987. Sugar remains the "most financed" commodity, although its loan to output ratio significantly declined from 150.5% in 1985 to 105.6% in 1989. Among the other crops, coconut registered the biggest dip in its loan to output ratio from 39.2% in 1988 to only 13.4% in 1989.

The above magnitudes indicate reduced formal rural lending or, to put it the other way around, substantial nonformal rural lending. Projected credit requirements remain huge. The ACPC estimates fund requirements for agricultural production from 1991 to 1995 at P214.6 billion as against a projected formal sector supply of P148.3 billion for a credit gap of P66.3 billion (See Table 10).

* * * * *

This then is the development context of the RFSP. Agriculture remains an important sector in the economy, and continued growth of the sector requires substantial financing. Given this, the RFSP underlying development rationale -- the establishment of a strong rural credit system to support a market-oriented rural economy -- remains valid.

The economy has shifted from a crisis to turnaround and now to apparent slowdown. Nonetheless, the assumptions of the RFSP for achieving goal targets and purpose have materialized for most part (See Annex B for Logical Framework).

The deregulation of pricing for agricultural inputs, interest rate subsidy phaseout, the rural bank rehabilitation program, and structural adjustment program have been implemented, although the last-mentioned program has suffered reverses owing to reemerging macro imbalances. The GOP is also continuing with the balanced agro-industrial development strategy with the newly minted CAIDS, although the biases in terms of trade and exchange rate policies in favor of industrial development remain. Only political stability as an assumption appears in question, threatened by repeated coup attempts during the project duration.

While macroeconomic imbalances appear to have led to reversal of certain reforms relating to market-oriented rural economy (e.g. price controls on rice, corn and other basic commodities), this has not been generally the case with agricultural lending. On the whole, the government policies have been consistent in moving towards a deregulated rural credit system.

THE RFSP AND THE AGRICULTURAL LOAN FUND

ALF PROGRAM IMPLEMENTATION

The ALF started operations on August 16, 1985, while the RFSP became operational on September 23, 1985. Actual lending operations, however, began around November 1985. The Central Bank of the Philippines (CBP), through the Department of Loans and Credit (DLC), administered the ALF until January 12, 1990 when it was turned over to the LBP. From January to June, 1990, there was a transition period as the CBP gradually handed over operational control to LBP.

As ALF implementor, LBP acts as a wholesale conduit bank and no longer goes into retail ALF lending. It also assumes the role of collection agent for all loans to PFIs granted by the CBP. The Product Management Department within the LBP has specific implementation responsibility for ALF.

The WB and USAID provided US$100 million and US$20 million, respectively, for ALF operations. In addition, the ALF financial plan calls for counterpart funding of US$13.7 million and US$36.5 million from CBP and PFIs, respectively. End-users are to put in US$32.8 million for a total fund pool of US$203 million. When LBP took over as ALF implementor, however, the CBP counterpart funding was discontinued. Given its already heavy involvement in agricultural lending, LBP feels it should not be compelled to put up any counterpart funds for the ALF.

DISTINCTIVE FEATURES OF THE ALF

1. Loan Allocation

Unlike previous special credit programs (See Abiad and Llanto, 1989 for lessons of past rural credit strategies), the ALF does not have any fixed allocation, i.e., loans are not targeted to specific agricultural production activities, commodities or stages. USAID restricts lending to sugar, palm oil and citrus industries as well as any project that would require any form of trade with Communist countries. However, the WB imposes no such restriction.

There is no preference towards small- and medium-scale enterprises or, to put it another way, no restriction on large-scale enterprises. All agricultural projects are eligible so long as these are considered technically feasible, financially viable and economically justified by the conduit banks.

In this regard, the ALF program stresses the "financial market approach" (Llanto, Villegas, and Octavio, 1988), whereby market forces are the primary determinants of loan allocation. This contrasts with the "program approach" which targets specific clients or institutions and usually provides subsidies to the end-borrower or fund conduit (Abiad and Llanto, 1989). It also differs from risk-reducing guarantee programs such as the CALF.

The LBP is continuing with this free market orientation, although it plans through moral suasion to skew the loan allocation towards small- and medium-scale agricultural enterprises on the basis of equity considerations.

3. Onlending Process

The ALF onlending process avoids the direct lending approach of previous government credit schemes. Under the ALF, it is the conduit institutions that screen, process, approve and deliver loans to the end-users. Credit analysis and approval of subloans are the primary responsibility of the PFIs.

Another feature which enhances ALF is the flexibility given to program implementors to relend collections. Although the loan funds from the donor institutions had been fully drawn, the LBP can continue to accommodate loan applications of PFIs through collections. In effect, this flexibility will allow LBP to utilize USAID-WB money and lend up to year 2005.

When the CBP was ALF implementor, PFIs could approve subloans up to the ₱10 million free limit. Subloans of more than ₱10 million to ₱20 million would require CBP approval while subloans over ₱20 milion would need WB approval. Under the LBP, approval of the CBP and the WB is no longer needed. The operative constraint in this regard is LBP's single borrowers limit, although banks can go into loan syndications to accommodate requirements of big borrowers.

Since the banks assume the credit risks, they act as a filter to eliminate the non-viable loan applicants. Consequently, the risks of the ALF implementor are limited to those stemming from the PFIs themselves. Nonetheless, the CBP and likewise the LBP, through documentary requirements and other impositions, can retain credit judgement over end-users.

4. PFI Accreditation

The ALF implementors have set rigid eligibility criteria for banks seeking participation, basically focusing on financial soundness and loan appraisal capability of the PFIs. There are no entry barriers on any specific type of financial institution, since those which meet the criteria, whether commercial banks, rural banks, non-bank quasi-banks or any other bank types, qualify as a matter of course.

There is virtually no difference between the CBP and LBP accreditation criteria, although the latter is moving towards the relaxation of the arrearages criterion to accomodate more rural banks and widen the network of participating institutions.

The LBP requires PFIs previously accredited by CBP to be reevaluated and reaccredited. Accredited banks are granted credit lines against which they draw the funds for subloans.

5. Interest Rate Determination

ALF has led to a wider use of the floating rate system. Bank lending experience under the so-called Manila Reference Rate (MRR) system has been very limited.

Despite initial resistance from a market used to fixed rates, the floating ALF interest rate has been ultimately accepted by the conduit banks and end-borrowers. Lending of ALF money is supposed to be set at market rates. Three levels are involved: (a) CBP passed-on rate, (b) LBP spread, and (c) PFI spread.

Firstly, the CBP sets the costs on ALF funds. Under the loan agreement with the WB and USAID, this is determined on the basis of either:

- o the cost of borrowings to the ALF, related administrative costs, and an element of foreign exchange risk (Break-Even Cost or BEC); or
- o the weighted average cost of the banking system's demand, savings and time deposits, including the cost of mobilizing such deposits (Weighted Average Interest Rate on Savings, Demand and Time Deposit Rates or WSDTR), whichever is higher.

The CBP reviews this rate periodically to adjust for any market changes. The adjusted rate is announced by the CBP at the end of each quarter and is applicable to outstanding ALF loans. The CBP, as the obligor of the foreign loans from WB and USAID, continues to be responsible for setting the basic rate on ALF money.

Secondly, the LBP adds a spread of two percentage points to the CBP passed-on rate -- to cover its own administrative and operating costs. In effect therefore, the LBP takeover has increased the ALF fund costs for the PFIs.

The PFIs in turn blend their own money with the ALF and onlend these to the end-borrowers. They are given the free hand in pricing their loans to end-users, although there is a provision for the ALF implementor to monitor the PFI spreads to ensure congruence with prevailing market rates and conduciveness to private sector investments.

STATUS AND PATTERNS OF ALF LENDING (1985-1990)

1. Program Performance

Table 11 gives the summary indicators for ALF lending. From 1985 to 1987, ALF subloan releases amounted to less than ₱500 million a year. With economic recovery, this surged to ₱1,058.6 million in 1988 and then more than doubled in 1989. Subloan releases to 2,013 projects totalled ₱5,338.2 million over the 1985 to 1989 period, representing the disbursements of CBP as Fund implementor.

In 1990, LBP took over as Fund implementor, although the CBP continued to approve ALF loans during the transition period. These totalled P863.3 million for the period. From July to November 1990, when turnover to LBP was completed, there were additional releases of ₱531.3 million. For January-November 1990, releases amounted to ₱1,394.5 million for 339 projects.

Since the LBP depends mainly on collections for funding, a slowdown in loan releases has been perceived. Pending PFI loan applications have ballooned to ₱347.6 million as of November-end 1990. Against an average monthly collection of ₱60 million, it would take LBP roughly six months to satisfy the backlog.

Clearly, the ALF has augmented the supply of funds for agricultural lending. The deeper issue, however, is whether the ALF contributes to additionality in rural lending. This is discussed in a later section.

2. ALF Loan Disbursements: Profile

Tables 12 to 20 show the pattern of ALF loan disbursements by CBP. Following the laissez faire, market-determined approach, the CBP has lent ALF funds without any preference in terms of duration (long-term vs. short-term), loan amount (small vs. large loans), enterprise size (small-scale vs. large-scale), institutions (rural banks vs. commercial banks), and so on. The overriding criterion is viability as determined by the ALF conduit banks. However, the dominance of commercial banks among the conduit banks apparently has skewed lending towards short-term maturities, large loans, and large-scale enterprises.

Maturity and Loan Size. At the start of the program, ALF loan availments were entirely short-term (12 months or less) in nature. Only small enterprises (defined as those with asset size of ₱5 million and below) were then availing from the ALF. The loans were all in the ₱5 million and below category and were purely for production inputs in projects that were mostly for plantation and seasonal crops.

By 1986, given the changes in the political and economic environment, banks began accommodating medium-term loans. Total subloan releases of CBP during the 1985-1989 period were almost evenly distributed between short-term and medium-term loans. Long-term loans accounted for less than 1% in number and amount. This reflects commercial bank PFIs' aversion for loans more than five years old.

Meanwhile, average loan sizes were below the ₱3-million category from 1985 to 1988 but surpassed the ₱4-million mark in 1989. Some 147 or roughly 7% of the 2,013 projects had loans of over ₱20 million, accounting for 39% of total ALF borrowings from 1985 to 1989.

Enterprise Size. Beginning 1986, medium- and large-scale enterprises started to avail of the fund. In fact, large-scale enterprises dominated borrowings that year. By 1989-end, almost half of total subloan releases went to large enterprises, although these accounted for only 8% of the total number of projects. However, small- and medium-scale enterprises were able to gain access in sufficient numbers (1,853) and in substantial amounts (₱2,970.9 million).

Nature of Project. New projects which were non-existent in 1985 finally took shape in succeeding years. Nonetheless, expansion projects still got the bulk (95.1%) of ALF loans. By purpose, loans for working capital got 40.9% and production credit, another 29.4%. Again, this appears to reflect commercial banks' lending behavior.

Sectoral Allocation. Poultry, livestock, and seasonal crops, largely sugar, got the lion share in total number of ALF projects, with investments in farm mechanization remaining almost zero for the 1985-1989 duration. In terms of amounts, the biggest availments were for agro-processing and post-harvest facilities projects which include rice-, corn- and feed mills, storage and transport facilities, and others. Among the crop projects, sugar got the biggest releases. Palay and corn projects have minimal borrowings.

Regional Distribution. The biggest three borrowers (see Table 19) were Central Luzon (Region III) , Western Visayas (Region VI), and Southern Tagalog (Region IV) in that order. This appears to reflect the geographic distribution of viable markets. Hence, it is not surprising that there is minimal lending to relatively poor regions such as Eastern Visayas (Region VIII) and Bicol (Region V).

Western Visayas was earlier heavily affected by the crash of world sugar prices. Subsequently, when sugar prices recovered, new loans were availed of to pump in needed capital and resuscitate the ailing sugar industry. Simultaneous with this was the boom in demand for prawns and other seafoods. Most of the country's fishponds and prawn farms are in the region.

The ALF projects in both Central Luzon and Southern Tagalog were primarily geared towards satisfying the growing demands for food of the National Capital Region (NCR). Enterprises saw the need for expansion on sites near the NCR and with good road accessibility. The provinces of the two regions offered good alternative sites.

Type of Institution. Way back in 1985, most of the active PFIs were commercial banks. Gradually, thrift banks became more active. Although the participation of thrift banks grew over time, the bulk of loan releases remained in the hands of commercial banks. This is expected, considering that they have wider branch networks and higher asset base and capitalization. ALF lending by rural banks which accounted for almost half of releases in 1985 markedly dropped off in succeeding years. CBP officials attribute this to the stiffer accreditation criteria which disqualified a number of rural banks.

The above lending pattern is reflective of commercial bank preferences for short-term maturities, large-scale enterprises, and large loans. Survey findings indicate that thrift banks and rural banks tend to concentrate on small- and medium-sized enterprises, and lend out on medium- and long-term tenors.

The LBP aims to take on a more "activist" role in influencing ALF lending towards medium- and long-term maturities, small- and medium-scale enterprises and smaller loan sizes. Some shifts in lending patterns seem to be emerging as seen in Table 21 comparing the CBP and LBP lending patterns. However, it is premature to say whether such shifts will be permanent.

3. Loan Repayment and Collection Efficiency

Under CBP, the PFI repayment rate to the former is 100%. The automatic deduction of PFI amortizations from their accounts with the CBP (Due from CBP) is the main reason for the 100% collection, although tough accreditation criteria also effectively bar financially weak institutions from participation in the program. LBP does not enjoy such automatic deduction scheme, but loan agreements with PFIs allow them to have recourse to such action as a last resort. This arrangement guarantees a 100% repayment by PFIs.

Arrears of end-users to the PFIs are also negligible. CBP data based on the reports of 63 PFIs show total principal and interest arrearages of ₱42 million as of December 31, 1989. This amount is equivalent to about 1.42% of the total outstanding subloans as of the same date (See Table 22).

The high collection rates are confirmed by the limited field survey. Only three of the PFI respondents mentioned collection rates of less than 90%. The bank with the worst record (only 10%) was found to have actively gone into ramie lending. When ramie prices dropped, borrowers could not repay their loans, leading to a high level of arrearages.

4. Interest Rates and Spreads

The CBP sets the rates for ALF funds. The interest rates charged by the WB/USAID to the CBP and consequently from the CBP/LBP to the PFIs are on a floating basis. Table 23 gives the time series for relevant interest rate series.

> <u>CBP Passed-on Costs</u>. The passed-on costs are based on WSDTR or BEC, whichever is higher. From the start of the program up to the third quarter of 1987, according to CBP, WSDTR was higher than BEC. Since then, BEC has been higher and has been used as the basis for passed-on rate changes.
>
> The highest passed-on rate of the program was at 16.7% during the first few months of the program when the Philippines was still under economic crisis.

With improvements in the political and economic fronts starting in early 1986, a rapid decline in ALF costs was manifested. This went down from 13.2% effective December 9, 1985 and continued to decline to 11% by first quarter of 1987 before stabilizing at 10% from the last quarter of 1987 through the third quarter of 1988.

In late 1988, with soaring yields on treasury bills and rising intermediation costs, ALF costs started to rise. The increased demand for funds by both the private and public secctors and efforts of the monetary authorities to mop up liquidity contributed to the continued increase of interest rates.

LBP Spread. Starting 1990, the LBP added two percentage points to CBP passed-on cost. Coupled with the rising CBP passed-on costs, this hiked the ALF cost to PFIs to 15% for the second and third quarters of 1990 to 16% for the last quarter of 1990.

PFI Charges and Spreads. Neither the interest charges of PFIs to end-users are regulated, nor are the spreads. Charges to end-users tend to follow the trend in ALF costs to PFIs, with any marked reduction passed on to borrowers.

Table 23 shows that most types of PFIs charged ALF fund users about 16%-16.5% on the average during the 1985-1989 period. Rural banks tend to have higher rates at more than 18%. Rural banks enjoy spreads of 7-8 percentage points versus the 5-6 percentage points of other types. With the recent tightening of financial markets, end-user rates have soared to over 20% by late 1990. Nonetheless, ALF end-users are still better off, given the prevailing 23%-27% rates for commercial loans.

IMPACT ON THE RURAL CREDIT SYSTEM

1. Additionality in Rural Lending

It is clear that the ALF augments the supply of funds for agricultural lending. The deeper issue related to the impact of the ALF on the rural credit system is "additionality." This is taken here to mean either incremental lending stemming from the ALF or expansion in the number of borrowers. In settling this issue, the SGVC/CVA team relies on key informant interviews (See Annex C) as macro data appear inconclusive.

Rural finance policymakers, Fund implementors and key observers believe that the ALF has led to incremental lending, although the extent of its contribution can only be ascertained by an extensive survey[1]. The ALF's contribution comes primarily from providing additional liquidity to banks and, in this regard, expanding the volume of loanable funds to agriculture. This impact is perceived to be felt more among rural and thrift banks which have relatively limited funds for lending. Commercial banks are seen to benefit greatly from the supplemental funds provided by the ALF. However, it is believed there is some degree of fund substitution since many ALF borrowers of these commercial banks are valued, longtime clients.

Interviewed PFIs generally say they have been encouraged to go actively into rural lending because of the ALF. Twelve out of fifteen banks surveyed state that the ALF has enabled them to increase their loans to the agricultural sector. Again, fund substitution is apparent as two commercial banks specifically mention they grant ALF loans only to prime clients for big projects. In terms of broadening the clientele, the ALF seems to have had limited success.

The SGVC/CVA study team agrees that only an extensive survey can confirm additionality. Given the foregoing, however, the team agrees that the ALF provides additional funds for the rural sector and thereby encourages many banks to support rural lending. By and large, the ALF assures banks of a fund source for rural lending, in the same way as the Industrial Guarantee and Loan Fund (IGLF) props up lending to small and medium-scale enterprises.

1 The survey is to obviate the reliance on macro data. Magno and Meyer (1988), examining the additionality issue with respect to guarantee programs, conclude there is no net addition to agricultural loans. They cite the declining share of agricultural loans to total bank loans vis-a-vis the increase of guaranteed loans to suggest there has been merely a substitution of funds. Following this line of thinking, the same conclusion could be applied to the ALF since ALF loans have increased from 1985 to 1989 even as the ratio of agricultural loans to total bank loans has declined. It should be said, however, that the fungibility of money will often give rise to possibility of substitution in management of bank funds. Secondly, citing macro data to link financial system developments with developments in specific programs often give rise to <u>post hoc, ergo propter</u> fallacies.

2. Market-Determined Lending Rates

With respect to market orientation of ALF lending, two evaluation issues need to be settled: (a) Is the mechanism used to establish the market rates meeting the program objective of lending at market? (b) Did market loan rates allow a profitable return on lending and reflect appropriate risks?

Table 23 brings to fore two significant findings. Firstly, CBP passed-on rates are lower than time deposit rates which banks consider their incremental funding rates. Under normal liquidity conditions, the differential is generally two to three percentage points but, under tight conditions, this has ballooned to five to six percentage points. Secondly, ALF loan rates are generally at par with rates for secured loans, although in recent months, they are two or three percentage points lower than those of commercial loan rates.

If "lending at market" is taken to mean that ALF rates should be at par with commercial loan rates, then ALF lending is not market-oriented since the differential between the ALF rates and commercial loan rates indicate "opportunity costs."

In resolving this, it is useful to hold the proposition that the loan market is not a single market but should be seen as a set of heterogenous loan markets with varying borrower criteria, fund sourcing, collateral cover, and other terms that distinguish one apart from the other. The market for ALF loans differs from that for commercial loans.

With respect to the ALF, the main pricing consideration of PFIs appear to be the CBP passed-on cost, which has been generally lower than their incremental costs. This gives the banks a cheaper source than time deposits, a fact validated by key informants, and allows them to charge ALF end-users interest rates that are equal to or lower than those for secured loans.

It must be noted that there is no cap on the spreads that banks can charge and therefore PFIs in theory can push ALF rates to or even higher than commercial loan levels. However, banks which do this will in the long run price themselves out of the ALF loan market. ALF rates seek their equilibrium levels, since PFIs cannot allow pricing to diverge greatly from those of their competitors. The equilibrium ALF loan rates can be at variance with commercial loan rates.

Given this situation, ALF lending can be deemed as market-determined. It can also be concluded that bank spreads must have been enough to cover perceived ALF risks, since banks could have otherwise driven up the ALF rates to higher levels.

A related issue is whether the CBP passed-on rates reflect true market costs. Here the mechanism for interest rate determination should be examined.

CBP officials say passed-on rates have reportedly been based on break-even costs, which have been higher than the weighted deposit rates. (See Annex D on Interest Rate Determination), Every time passed-on costs are adjusted, there is firstly a canvass of sourcing rates of commercial banks and thrift banks. The weighted rates are used as reference point against which break-even costs are compared. The higher rate between the two is the basis for passed-on cost adjustments.

In this regard, the CBP appears to have based ALF passed-on costs on market. While this might be the general situation, the interest rate mechanism appears not to reflect all costs related to the ALF. This will be discussed in a later section.

3. Term Lending and Term Structure

Table 12 shows there is virtually no long-term loans (over five years) from 1985-1989 -- a phenomenon of "reverse term transformation" with the use of long-term funds for short-term loans. In 1990, however, long-term loans accounted for 18% of loan releases.

According to key informants, the ALF cannot lead to long-term lending largely because of banks' natural reluctance. The uniform passed-on rate regardless of tenor also does not encourage term lending. Survey findings indicate that some smaller banks are able to utilize ALF funds for long-term lending. This is not significant in larger banks.

Table 24 gives indications of the term structure. Short-term loans had a weighted average rate of 15.95% as of December 1989-end, medium-term loans a rate of 16.48% and long-term loans, 20.21%. This suggests a normal sloping yield curve, although there had been wild fluctuations reflecting changes in liquidity conditions. Short-term PFI interest rates, for instance, range from 11.5% to 30%.

4. Rural Resource Mobilization

The program will supposedly lead to (a) greater mobilization of savings and (b) lessened dependence on CBP rediscounts. The rationale runs thus -- since ALF funds will be available for lending at market rates, banks will have to source deposits at market to put up counterpart funds. In time, with greater deposits, banks will no longer depend on the rediscounting window for rural lending.

Whether any increase in rural deposits actually stems from ALF lending cannot be ascertained precisely. Likewise, linking the decline of CBP rediscounts for agriculture during this period with ALF lending (See Table 25) in order to conclude that this meant reduced dependence on rediscounts and that this is attributable to ALF would be fallacious.

The proportion of bank counterpart funds to total subloans offers evidence that banks use their own funds for agricultural lending. Table 26 shows that the PFIs' share accounted for between 22% and 27% of total subloans, as against the projected 18% share for banks in the overall ALF financial plan. This evidence is weak since, according to one key informant, banks can circumvent the counterpart fund obligation. The ALF allows the splitting of promissory notes (PNs), and the PN corresponding to the PFI share can be kept as compensating balances.

From the field surveys, only five banks have stated that the ALF enables them to increase their deposit levels primarily because their borrowers have opened accounts with them. With respect to rediscounting, on the other hand, conduit bank informants say the ALF has taken up the slack when the rediscount window has become restricted to loans for export industries. Banks apparently treat both the ALF and the rediscount facility as fund sources which would be accessed if possible.

Overall, therefore, the link between the ALF and resource mobilization seems weak and, accordingly, the impact on rural depositors appears very slight.

5. Financial Viability of the ALF

The impact evaluation should also consider whether the ALF has itself been viable. Tables 27 and 28 provide the financial statements of the ALF under the CBP and the LBP, respectively. The ALF program has shown losses from 1985 to 1987. Profits in 1988, 1989, and in January-September 1990, however, have enabled the CBP to post a net gain of ₱184 million.

Net interest income (interest income from ALF loans less interest expenses on loans payable) has been negative for the first four years. This stems from the fact that in the initial years of the program, CBP kept on drawing on the foreign loan and grant but cannot invest the idle funds promptly. CBP officials explained that they consciously favored additional drawdowns over relending of collections to support the balance of payments.

Substantial income from investments in government securities boosted the program's earnings. In the first months of the fund, the ALF implementors were not allowed to invest idle funds. When this concession was given in 1986, income from government securities help improved income performance. This allowed CBP as well as to cash in on the high yields of treasury bills.

For the three months ended September 30, 1990, the LBP as Fund implementor recorded losses amounting to ₱2 million. As in the case of CBP, these arose from net interest payments which in turn resulted from high levels of "temporarily idle ALF" funds. If income on these funds (estimated on the basis of average daily balance and on average yield rate on treasury bills) was imputed, then a ₱9.6 million earnings could result and would have given the LBP a net income of ₱5.1 million from the ALF.

The above findings seemingly indicate the viability of ALF as a financing program. A closer look reveals that hidden costs might have been involved.

6. Hidden Costs of the Program

Under the program, the CBP is the obligor of the foreign loan with the WB and assumes any foreign exchange losses arising from revaluations. Since 1985, these losses had accumulated to P563 million owing to the continued depreciation of the peso against the US dollar. In compliance with the Central Bank charter, no losses or profits are recognized on these revaluations. The CBP books these in a special frozen account as Revaluation of International Reserves (RIR).

Given the ₱563 million foreign exchange "loss" less the ₱184 million net gain, the hidden costs for some ₱2,500 million funds coming from the ALF would amount to P374 million. Ultimately, this needs to be written off and would inevitably be assumed by taxpayers. In short, there is a potential fiscal burden.

The BEC, supposed to reflect forex risks, has not totally captured the forex adjustments. For instance, upon closer examination of interest rate computation for the period October 1 to December 31, 1990 (See Annex D), the assumed depreciation rate appears to be only 5.3% which was much lower than the 15% depreciation rate during the January to October 1990 period.

This therefore casts doubts on the efficiency of the interest rate mechanism to reflect the true costs of the ALF money and to pass these on to the supposed beneficiaries. An implicit subsidy therefore exists representing the differential between the CBP passed-on costs and the "true all-in" costs of the ALF inclusive of the foreign exchange losses.

7. Joint-Financing Mode

One evaluation issue is whether the joint financing mode with the WB has been an advantage in the design and implementation of the project.

In one aspect, this has been an advantage. In contrast to the WB loan, the US$20 million contribution of the USAID is a grant. The CBP books this as donated surplus which goes to the National Treasury at the end of the project life. To the extent that it alleviates the potential foreign exchange losses, the joint-financing mode has been advantageous.

On the other hand, the joint mode gives rise to difficulties in implementation owing to differences in thrusts and operating policies of the two institutions. For instance, since the WB treats ALF loans primarily as business transactions, reliance on market forces and on viability of the borrowers loom large in the design and implementation of the ALF. That this somewhat led to benign neglect of other sectors of the rural economy is apparent in the lending patterns.

IMPACT ON PARTICIPATING FINANCIAL INSTITUTIONS

1. Profile of PFIs

The main target beneficiaries of the ALF are the conduit banks. The ALF network include commercial banks, thrift banks, and rural banks as well as selected non-bank quasi-banks (NBQB). As of November 1990, there are 84 accredited PFIs with credit lines from LBP (See Table 29).

The commercial bank participation in the ALF is a significant development since their financial resources, technical expertise and geographic reach put them in far better position than other bank types to engage in rural lending. Since commercial bank branches in major regional centers are oftentimes given credit authority, this likewise decentralizes credit decisions. Expectedly, commercial banks have accounted for some 73% of total subloans.

The biggest lender among the ALF conduit banks is the BPI Agricultural Development Bank, the thrift bank subsidiary of the Bank of the Philippine Islands (BPI). It accounted for almost ₱800 million in ALF subloans. Among the commercial banks, the leaders with at least ₱300 million releases are the Philippine Commercial International Bank (PCIB), CityTrust Banking Corporation, United Coconut Planters Bank (UCPB), BPI, Prudential Bank, and Far East Bank and Trust Company (FEBTC), four of the five biggest private domestic commercial banks.

2. Benefits to PFIs: Survey Findings

Indications of the impact of the ALF on PFIs are based on a limited survey of 13 conduit banks. Major findings are discussed in Annex C.

<u>Additional Funding Source for Rural Lending</u>. The ALF provides PFIs with a source of funds for rural lending. This allows them to satisfy credit demand even under adverse liquidity conditions. For some banks, the ALF has been the factor that lead them to venture into agricultural lending, traditionally viewed as inherently risky. For other banks, this allows them to expand agricultural lending volume.

<u>Relatively Cheap Source</u>. The ALF offers relatively cheaper funds which are attractive to agricultural borrowers. This enables banks to maintain relationships with longtime clients. We noted, however, the implicit interest subsidies given to the PFIs although this might have been passed on to the end-users.

<u>Positive Contribution to Bank Profitability</u>. PFIs are allowed to set their own lending rates and are thus given the leeway to realize profitable spreads. Adequate spreads allow for reasonable profits ranging from ₱5 to ₱6 per hundred pesos of ALF loan.

Emphasis on Borrower Viability The absence of any explicit allocations with regard to sector, region, borrower size or loan amount allows PFIs to set their own lending policies and define their own target markets. Hence, the viability of a specific bank's ALF lending has been primarily dependent on the bank itself.

As discussed above, the objective of expanding agricultural lending has been attained to some extent. However, term transformation and savings mobilization are less evident. With regard to the market orientation of the interest rates, it is quite apparent that the ALF veers away from the explicit subsidies. On the whole, PFIs believe that the ALF should be continued, primarily because it provides a ready, relatively cheap source of funds for agricultural lending and gives them the incentive to lend to the agricultural sector.

IMPACT ON RURAL END-USERS

1. Profile of ALF End-Users

The ALF program has funded 2,352 projects since 1985, with the bulk of the projects located outside the National Capital Region (NCR). In terms of borrower size, small and medium enterprises account for the greater number of ALF loans. Large borrowers also benefit tremendously from the program, reflective of the lending preferences of conduit banks. PFIs, particularly commercial banks, tend to focus on their longtime clients with which they have collateral relationships.

Among the largest borrowers are the country's biggest food conglomerates like Purefoods Corporation, San Miguel Corporation, and Universal Robina Corporation. Other significant borrowers are Central Azucarera de Tarlac, Central Azucarera Don Pedro, Victorias Milling Co., and Tarlac Development Corp. Table 30 lists the big borrowers and their availments.

Some of the borrowing needs of big corporations far exceeded individual banks' single borrowers limit, leading to loan syndications. Table 31 lists the loan syndications that occurred during the program duration.

What is worth noting in this context is the limited **or rather virtually nil access of small farmers to ALF.** This is borne out by empirical data as well as observations of policymakers who perceive that banks generally do not regard small farmers as clients for ALF lending. Small farmers are left to their own resources or to informal credit sources[2]. Given this, the displacement of informal lenders can only be negligible.

In other words, the stress on market-oriented credit policies and the emphasis on commercial viability as the main criterion for lending supports the deregulation of the rural finance system but has the unfortunate consequence of excluding important farm sectors such as small farmers[3].

2 Llanto observes that there is "no certainty that small farmers will gain access to bank credit in the liberalized financial sector" (December 1990). "The financial reforms," he continues, "insofar as they address efficiency problems will bring about permanent and long-term benefits but structural and institutional realities surrounding the small farmer, like ownership of land issues, non-bankability and even his outright ignorance of banks and the banking culture, will be major stumbling blocks to effective access to bank credit and financial services."

3 The USAID project paper seems to have anticipated this (USAID, 1985). "During the initial year(s) of the project, " it says, "those likely to benefit the most from the credit component includes the larger borrowers, medium to large-scale agricultural producers, processors and traders of agricultural commodities. This will happen on account of more stringent criteria for the provision of subloans." . . . "Small farmholders, tenants, and the 'land poor' are expected to benefit relatively less." Considering that a great majority of the poor in the rural areas are small farmers, this "neglect" is a serious weakness of the program.

2. Benefits to Users: Survey Findings

Indications of the ALF's benefits to end-users and to the economy as a whole have been gleaned from a survey of selected ALF borrowers from various industry sectors (See Annex C) Survey findings indicate the following benefits to end-users.

Access to Credit. The availability of ALF money supplements the flow of credit to eligible rural enterprises. This benefit is highly appreciated in the current tight money conditions.

Relatively Low Rates. ALF is a preferred fund source owing to relatively low rates.

ALF borrowers benefit primarily from gaining access to a relatively low cost fund source. It must be qualified, however, that most of survey respondents say they would have pursued their projects even if the ALF had not been available.

3. Economic Benefits

Time and budget constraints only allow for a very limited, indicative survey of ALF-funded project benefits. Survey findings indicate that benefits are mainly in terms of additional jobs; around 75% of the respondents are able to hire more people as a result of their projects. ALF funding also benefit suppliers of goods and services for the various projects, particularly farm inputs such as fertilizers.

Benefits in terms of foreign exchange earnings are not evident since the products of the surveyed projects are primarily for the local market. This survey finding is qualified by empirical data that show export earners such as sugar and prawn are among the biggest borrowers of ALF.

As far as the respondents' projects are concerned, there appears to be/little incremental economic benefits if the "with" or "without" scenario is used. Almost all of the respondents would reportedly have pushed with their projects using other sources such as commercial loans and equity. Admittedly, this finding can only be indicative given the small respondent base.

RECAPITULATION: OVERALL IMPACT

What then is the overall impact of the ALF? On one hand, the ALF positive impact stems from:

Availability. The ALF augments the supply of funds for the rural sector and encourages many banks to support rural lending. Additionality is perceived to be more markedly felt by rural and thrift banks which have limited resources.

Market-Determined Lending. The program allows PFIs to charge what the market will bear and at spreads adequate enough to cover ALF risks. This differentiates the ALF from the subsidized credit programs of the past.

Stress on Commercial Viability. The program promotes credit to all types of rural enterprises, unlike the targeted approach of previous credit programs. The single criterion to participation is commercial viability, effectively excluding nonviable rural operators.

Floating Rate System. The ALF popularized the use of the floating rate system in an industry which has limited experience with the MRR.

Expanded Delivery System. Commercial bank participation in rural lending is significant in that it greatly expands the credit delivery system as well as regional coverage.

Devolution of Lending Decisions to Banks. ALF lending adheres to basic banking principles, confining credit decisions to the banking system.

On the other hand, the ALF has unwarranted consequences or fails to make any headway in some instances.

Hidden Costs. There are hidden costs stemming from the foreign exchange revaluation adjustments. While benefits arising from market-oriented reforms, improved credit delivery system, and the like could outweigh the costs, the beneficiaries should perhaps assume most of the costs.

Implicit Interest Subsidy. There is an "implicit" interest subsidy on ALF funds, representing the differential between the CB passed-on cost and the true cost of funds, if the foreign exchange losses are imputed.

Alternative to Rediscounts. Banks might have tended to use the program as an alternative to the rediscount window which has been reducing support to agricultural lending. Indications are strong that banks would have accessed both facilities if both were open, to the extent allowable.

Savings Mobilization. The impossibility of determining the link between rural resource mobilization and ALF lending has been noted.

Term Lending. Mainly because of bank reluctance to term lending, the ALF has not had a significant effect on encouraging long-term lending. Indeed, reverse term transformation has arisen with the use of long-term money for short-term lending.

Limited Impact on Small Farmers. The program has little impact on small farmers, precisely because of reliance on the banking system as the channel for credit.

To reiterate, the emphasis on market-oriented credit policies and on commercial viability as the main lending criterion supports the liberalization of the rural finance system and in this sense serves to strengthen it. In the long run, the increased efficiency and effectiveness in delivering rural credit should bring about permanent benefits to the rural economy.

In many instances, the ALF fails to bring about expected changes, although given the limited funding these expectations may have been unrealistic in the first place. These include: additionality, savings mobilization, and so on. Moreover, the "hidden" costs stemming the foreign exchange adjustments appear to reduce any benefits arising from ALF-funded projects. For the GOP or the CBP or the country as a whole, ALF lending is not viable lending, if the potential fiscal burden is considered.

Finally, given the strict reliance on market forces, the ALF has become a fund source biased against small farmers, unintended this may be. In this regard, it has little impact on rural poverty which actually looms large as the biggest problem of the rural economy.

THE RFSP AND RURAL POLICY REFORMS

RATIONALE OF POLICY STUDIES: Link between Credit and Reforms

The USAID and WB view the ALF as a mechanism to introduce policy reforms to strengthen the rural credit system. As part of the loan covenant with the two donor institutions, the CBP agreed not to provide new agricultural credit involving interest or capital subsidies and to completely phase out subsidies on agricultural credit by 1986-end.

Also in this regard and as part of loan agreement schedule 2, part 2 (1), the CBP committed to undertake several studies to identify institutional constraints, investigate their effects, and recommend reforms to be adopted and implemented by the GOP.

The studies are to: (a) evolve strategies to expand banking services in rural areas; (b) define government policies toward assisting poverty groups; (c) review CBP policies on subloan rediscounting and on bank arrearages and rehabilitation; (d) explore ways to expand insurance cover of crops; and (e) prepare technical guidelines for project lending and update the CBP's term lending policy manual.

In addition, a General Contractor commissioned by USAID is to provide technical assistance in the design or conduct of additional policy studies that deal with the structure of conduct and performance of the rural financial system and on various aspects of agricultural lending.

By and large, these have been complied with. The CBP completed elimination of rural credit subsidies to a large extent. Circular 1086 (November 29, 1985) withdrew subsidies relating to credit funded from its own resources. The creation of the CALF effectively removed control of the loan funds from the CBP as well as eliminated the subsidy aspect.

The identified studies have been carried out, with the exception of the preparation of technical guidelines and the updating of the policy manual for term lending. Citibank N.A. (New York, U.S.A.) as General Contractor subcontracted the conduct of various studies to Abt Associates, Inc. These are referred to collectively as Citibank Rural Finance Studies.

As part of the impact evaluation, the SGVC/CVA team has assessed the contribution of the policy studies to policy formulation in the country. In this regard, the purpose-level and output-level questions of the Logical Framework are used as a guide for the evaluation.

METHODOLOGY

The SGVC/CVA team encountered some difficulties in assessing the extent to which the policy recommendations have been adopted. Firstly, there is no documentary basis to determine which among the recommendations the GOP or government agencies had committed to adopt. Secondly, some of the recommendations have been addressed to a number of government agencies without identifying which among them should take the lead. And lastly, some of the agencies concerned are not even aware of the existence of the studies, particularly if the top officials have just assumed their positions.

Given this, the team has correlated the recommendations of the policy studies with information/data gathered through key informant interviews or from published and unpublished materials and thereby determine those that have been implemented. A recommendation is deemed adopted or complied with, if substantial correspondence with implementation is found to exist.

Some recommendations require several actions/measures on the part of the government. Other major recommendations contain specific recommendations that require separate actions/measures. Thus, the team resorted to the use of the following grading system:

(a) **Fully Adopted** -- if the GOP and/or concerned government agencies have done all or most of the required actions/measures or have substantially complied with or responded to all or most of the specific recommendations contained in a major recommendation;

(b) **Partially Adopted** -- if the GOP and/or government agencies concerned have done only a few of the required actions/measures or have complied with or responded to only a few of the specific recommendations contained in a major recommendation;

(c) **Not Adopted** -- if the GOP and/or concerned government agencies have not acted upon a recommendation or all the specific recommendations of a major recommendation.

It is highly possible that the adoption by the GOP and/or government agencies of certain recommendations advanced by those studies is purely coincidental. That is, the recommendations have been adopted despite the fact that the agencies are unaware of the existence of these studies. It is in this light that impact evaluation of the policy studies should be viewed.

Annexes E to I present the detailed assessment of the recommendations of the policy studies. It must be stressed that the annexes are actually the more substantive part of the team's evaluation of the policy studies. Only the findings and responses to the evaluation issues can be presented below.

EXTENT OF ADOPTION OF POLICY STUDIES

1. Expansion of Banking Services to Rural Areas

The study (See Annex E) seeks to develop appropriate and responsive strategies in the monetary, regulatory and banking policies with the end in view of expanding and strengthening banking services in rural areas. There are 26 major recommendations grouped according to three headings: (1) improvement of farm viability and bankability; (2) strengthening of the rural financial system; and (3) development of macroeconomic policies supportive of the rural community and the rural system.

The first set of recommendations aims at removing or minimizing production, processing and marketing constraints confronting economic agents in rural areas.

Of the nine major recommendations, four have been fully adopted by the GOP. These are: (a) encouragement of participation of the rural sector in the development of government programs; (b) adoption of technological practices which will result in lower costs to farmers and fishers; (c) development of appropriate special assistance programs for farmers likely to remain unviable despite other measures; and (d) encouragement of farmers to undertake processing and storage activities.

Five recommendations have been partially adopted by the GOP. These are: (a) budgetary support for essential rural infrastructure; (b) proper pricing policies for agricultural products; (c) encouragement of farmers to undertake secondary agricultural activities and non-farm enterprises; (d) expansion of the coverage of crop insurance; and (e) encouragement of farmers to form groups.

The second set of recommendations seeks to provide supportive policies and regulations that will encourage the growth, profitability and stability of the rural financial system.

Of the 14 major recommendations, five have been partially adopted by the GOP/CBP. These are: (a) the liberalization of policies and procedures for the establishment of bank branches; (b) encouragement of capital build-up; (c) amendment of regional investment-to-deposit ratio rule; (d) removal of remaining specialization among banks; and (f) training programs for rural and thrift bank personnel.

Nine major recommendations have not been adopted. These are: (a) encouragement of investments in allied undertakings by rural financial institutions; (b) creation of an Apex Bank system; (c) tying-up access of CBP rediscounting with savings mobilization; (d) alternative compliance scheme for the agri-agra loan quota under P.D. 717; (e) reduction of reserve requirements on interbank deposits of banks in rural areas; (f) replacement of the gross receipts tax with an alternative taxation scheme; (g) strengthening of the quedan financing system; (h) consolidation of all agricultural credit programs and guarantee schemes under one institution; and (i) conduct of more frequent and timely examination of banks.

The third set of recommendations aims at developing a conducive environment for the rural sector without sacrificing the interests of other sectors. It includes: (a) the maintenance of competitive foreign exchange rates; (b) instituting export and import tariff policies beneficial to agri-activities; and (c) continuation of a market-determined interest and rediscount rate policies.

The first two recommendations are not fully possible owing to countervailing economic forces while the last one has been only partially adopted. In particular, the lending and deposit rates are deemed to be market determined, while the rediscount rate has been set at below market rate.

2. Government Assistance to Low Income Groups

The objective of the study (See Annex F) is to ensure government assistance to low income groups that lack access to institutional credit. There are 15 policy and program recommendations grouped into five major topics: (a) allocation of physical, financial and manpower resources; (b) credit policies and programs; (c) fiscal policy and infrastructure program; (d) agricultural policies and programs; and (e) institutional and implementation reforms.

Only one has been fully adopted by the GOP. This pertains to the abolition of all export taxes except logs.

Seven recommendations have been partially adopted. These are: (a) consolidation of agricultural credit programs; (b) expanded coverage of the crop insurance program; (c) speedy conversion of farmers into full-pledged landowners under the agrarian reform program; (d) adoption of the "critical massing" of resources principle; (e) expansion of the coverage of the price support program; (f) development of cooperatives; and (g) increased participation of upland farmers in the planning and management of the social forestry program.

On the other hand, seven recommendations have not been acted upon by the GOP. These include: (a) direct focusing of credit programs on specific target groups; (b) expansion of the procurement scheme to include crops other than palay and corn; (c) formulation of a program/policy to minimize overfishing and water pollution in municipal fishing grounds; (d) establishment of an effective mechanism for credit delivery, such as use of Non-Government Organizations (NGOs) for lending and collection; (e) giving higher priority in the overall allocation of the budget to small-scale infrastructure facilities in rural areas; (f) solving problems confronting IAD projects; and (e) expansion of the BISA coverage to other provinces.

3. Review of Agricultural Credit Financing of the Central Bank

The study (See Annex G) reviews the CBP policies on agricultural credit focusing on rediscounting policy and special financing programs of the government, and examines the arrearages problems of the rural banks.

Three of the study recommendations have been fully adopted by GOP/CBP. These are: (a) the consolidation of various government funds, except those with foreign financing, which are supporting activities in agriculture; (b) formulation and implementation of a rehabilitation program for rural banks; and (c) the re-examination of P.D. No. 717.

One recommendation has been partially adopted by the CBP. This pertains to the rediscounting policy.

Four more have not been adopted. These are: (a) encouragement of commercial banks to invest in some rural banks; (b) development of a more permanent source for medium and long-term credit financing in agriculture; (c) securing of a WB loan for the gradual liquidation of rediscounting arrearages of rural banks with the CBP; and (d) educational campaign to impart greater consciousness and to change attitudes with respect to government lending activities.

4. Studies on Crop Insurance

Two studies (See Annex H) on crop insurance have been reviewed. The first, done by an inter-agency task force, seeks to identify ways and means of reducing lender and borrower risks in agricultural production. The other is specific to PCIC restructuring, by Gudger (1990). The studies seek to provide recommendations for improving crop insurance programs.

The two studies made 17 major recommendations altogether. Only two have been fully adopted by the GOP -- one was proposed expansion of the guarantee coverage to include ALF seasonal production credits, and the other, the proposed increase in premium rates.

Two have been partially adopted. One pertains to the extension of insurance protection to livestock raisers. Currently, only large animals, such as cattle and carabao, are included in the insurance coverage. The other is the rationalization and computerization of the operations of PCIC. The operations of PCIC are computerized except in two regions where electricity supply is not reliable.

Other proposed measures not adopted by the GOP/PCIC include: (a) extension of insurance coverage to cotton; (b) extension of interim insurance cover to top priority products even without adequate actuarial data; (c) extension of commercial cover on a per farm basis to corporate farms and big farmholdings; (d) establishment of the special insurance fund; (e) increase in insurance premium; (f) use of correlation analysis results by PCIC for crop insurance coverage expansion, the MAF/NFAC for crop diversification, and by the ALF for lending purposes.

Pertaining to PCIC, recommendations unacted upon include: (a) implementation of the centralized information systems initially for five top priority crops and two aquaculture products; (b) arrangement with existing private non-life insurers for possible coverage of ALF medium and long-term subloans; (c) increase of PCIC premiums; (d) shift from exclusively small farmer to medium sized and commercial farmers.

Other recommendations not adopted are: (a) utilization of existing infrastructure as a marketing and service channel for non-crop insurance products; (b) acquiring of new and specialized staff for new classes of business; (d) negotiation for a quota share reinsurance program; (c) greater autonomy in the management and investment of the reserves; and (d) changing of the PCIC charter and its legal structure.

EXTENT OF ADOPTION OF THE CITIBANK RURAL FINANCE STUDIES

The role of the Citibank as General Contractor is to identify various ways in which rural financial markets and institutions can be strengthened. Abt Associates, a subcontractor to Citibank, made five studies and reviewed four policy studies carried out by other consultants (See Annex I).

1. Rural Bank Performance: Rehabilitation, Rediscounting and Liquidity Management

The study reviews the recent rural bank rehabilitation program of the government, examined the rediscounting programs and the proposed transfer of the ALF to the LBP, and explored some liquidity management mechanisms for rural banks. It made the following major recommendations: (a) application of incremental cost formula for determining the CBP rediscount rate; (b) retention of ALF rediscounting unit with the CBP; and (c) liquidity management mechanisms for rural banks.

The first two recommendations have not been adopted while the last one has been partially adopted.

2. Agricultural Finance and the Rediscount Window of the Philippine Central Bank

The study analyzes the impact of CBP procedures and policies with respect to agricultural rediscounts on financial institutions operating in rural areas. The study has two major recommendations: (a) marginal costing of deposits in pricing rediscounting funds; and (b) strengthening rural banks through a recapitalization program, incentives to promote collection of overdue loans, and improved management for rural banks.

The first recommendation has not been adopted by the CBP while the second one has been partially adopted.

3. Marketing and Credit Linkages: The Case of Corn Traders in the Southern Philippines

The study describes and analyzes the marketing and credit links for private sector corn intermediaries in Southern Philippines. The study's two recommendations have been partially adopted, namely: (a) promotion of market interest rate policies and encouragement of branch banking and other financial and market services in selected rural areas; and (b) review of import policy for corn and other feed grains, support price policy, and port and transport policy for shipping corn from Mindanao to Manila.

4. Informal Rural Finance in the Philippines

The study examines the viability of informal financial arrangements in providing financial services in four rural locations near Los Banos. It did not present any specific policy recommendation.

5. The Philippine Deposit Insurance System

The study analyzes the current situation of the Philippine Deposit Insurance Corporation (PDIC) and evaluates proposals that have recently been made to expand and strengthen it. The following are the major recommendations:

- PDIC should be given adequate resources so that it can effectively carry out the functions of bank examination and receivership or liquidation and deal with failed banks more expeditiously and at lower cost; and

- PDIC should be given the power to issue cease and desist orders, to terminate insurance, to participate more fully with the CBP in all aspects of bank inspections, and to be appointed receiver or liquidator for all failed banks.

Both major recommendations have been partially adopted by the GOP.

RESPONSES TO EVALUATION ISSUES

1. Appropriateness of Policy Recommendations

The evaluation issue here is the appropriateness of the policy recommendations. The policy studies cover a wide range of financial and non-financial topics. The financial topics dealt with problems that constrained the growth of rural financial institutions (RFIs), thereby preventing them from providing financial services to various clients in rural areas. On the other hand, the non-financial topics dealt with issues that made agricultural activities unprofitable, thereby making farmers unbankable.

The recommendations of the policy studies appropriately deal with reforms necessary to strengthen and improve the viability of RFIs and to increase the profitability of agricultural activities. One recommendation in particular points out the importance of allowing RFIs to invest in allied rural undertakings and thereby improving their income performance.

2. Resolution of Unresolved Issues

The issue at hand is whether the policy studies have dealt with various unresolved issues such as credit unions, linkages between agri-marketing and credit. The policy studies recognize the role of cooperatives and associations in delivering financial and non-financial services to farmers, and the recommendation put forward is to tap them as credit conduits.

The policy studies, however, have not adequately dealt with the role of credit unions and cooperative rural banks in the rural financial studies. The Vogel study (1987) tangentially covers this in the evaluation of the proposed Apex Cooperative Financial Intermediary system. The Adams study (1989) examines the viability of informal financial practices, including the so-called "paluwagan" arrangements which is the informal equivalent of credit unions. Despite this lacuna, it is the team's view that the policy studies substantially deal with the unresolved issues.

3. Reaching More Clients to Rural Areas

The team believes that the policy studies have identified ways by which formal lenders can reach more clients in rural areas with appropriate financial services, including marginal borrowers and cooperatives. For instance, the proposal to liberalize the portfolio restrictions on rural banks will allow them to mimic the behavior of informal lenders who have been providing financial services to marginal borrowers. Another example is the proposal to strengthen the guarantee and insurance schemes so that formal lenders will be encouraged to lend to marginal borrowers.

4. Evaluation of Citibank Studies

The Citibank studies dealt with some issues that have not been addressed by the policy studies. Examples of such issues are the appropriate pricing of rediscounting funds and the role of informal finance in the rural financial markets. They have also focused on some potential problems that may arise if certain policy or institutional change is adopted. An example of such problem is the conflicting roles of the LBP as a wholesaler and retailer of agricultural credit, given the transfer of ALF. Another example is the possible weakening of rural banks with the establishment of the Apex bank because it essentially follows the same top-down approach that undermined the rural banking system in the past.

Although the Citibank studies have addressed important issues in rural finance, they seem to be lacking in focus, and this is manifested in the absence of a unifying theme in the completed studies and in the repetition of certain recommendations that were already advanced by the policy studies. The main reason is that the contractor has not been able to formulate a research framework that indicates the relevant issues according to priorities and their relationship to each other -- despite the availability of the policy studies.

Moreover, Citibank appears not to have used its comparative advantage in the selection and conduct of its studies. For instance, a study on cost-reducing measures or new techniques of bank management including asset-liability management is now getting increasingly needed to make RFIs more competitive under a more liberal policy regime.

5. Submission to the Monetary Board and CBP

The results and recommendations of all studies, except the Citibank Rural Finance studies, have been presented to top government officials of various government agencies concerned including the Monetary Board immediately after their completion.

There is no document, however, that can tell which among the policy recommendations the GOP and/or government agencies had committed to adopt. Understandably, the GOP does not have a general action plan for the implementation of the recommendations.

This is not to say that the GOP was completely unmindful of the needed policy reforms, many of which have been cited in the recommendations of the policy studies. In fact, the Medium Term Philippine Development Plan, 1987-1992, although not necessarily benefiting from those studies, contains many of the proposed recommendations. The master plans of individual government agencies also reflect some of the recommendations. For instance, the policy framework developed by the DA contained many measures which resemble the policy recommendations of the studies.

6. Implementation of an Action Plan

There is no document that shows that the CBP has developed an action plan based on the findings of the policy studies. What the CBP appears to have done in some cases is to pick up some of the recommendations, particularly those proposed by its own Ad Hoc Committees, to revise or modify them, and to institute measures, such as issuing circulars or proposing some bills to the Legislature. In other cases, it has simply referred them to other government agencies for action. In still other cases, it has created a task force or committee to discuss the proposals and study which should be implemented.

The ALFPAG is supposed to coordinate implementation of the reforms but the fact that the ACPC is not a formal member of the group somewhat weakens policy implementation. Likewise, it should have been given the responsibility to disseminate and solicit comments on the results of the policy studies in order to arrive at a consensus.

Admittedly, many recommendations of the policy studies were addressed not to the CBP but to other government agencies, such as the Department of Agriculture (DA), the Department of Public Works and Highways (DPWH), etc. The study on crop insurance, for instance, was addressed to the GOP and PCIC. Again, the ALFPAG could have put together all the recommendations and relate them to one another under one framework, thereby setting priorities and appropriate sequencing in implementation.

7. Status of Implementation

From Annexes E to I, the implementation record of the policy recommendations has been spotty. There occurred a series of reforms between 1987 and 1990. Nonetheless, there have been serious omissions such as the failure to implement the findings of the poverty study and provide for safety nets for low-income groups in rural areas.

As seen in Table 32, many of the proposed reforms still await legislative action. Interestingly, a significant number of reforms already implemented or proposed for implementation can be associated more with the WB's Economic Recovery Loan Program and Financial Sector Adjustment Program launched in the second half of the 1980s rather than with the ALF or, for that matter, with RFSP.

THE RFSP AND INSTITUTION-BUILDING

RATIONALE FOR TRAINING PROGRAMS: Bridge to Institution-Building

The RSFP has an institution-building component intended to address certain weaknesses identified by WB (1983; 1985) and by the TBAC. These institutional weaknesses include: lack of in-house technical capabilities in loan preparation, appraisal, supervision and collection; weak management information and reporting systems; and cumbersome loan procedures. Many banks rely excessively on government technical extension service for subloan appraisal and collection.

Other identified skill gaps of the PFIs relate to farm and agribusiness lending, term lending, project formulation and management skills. Lastly, there is a felt need to strengthen the skills of CBP personnel in institutional and project appraisal.

The USAID contributed US$2.6 million for the institutional strengthening of the rural financial system. Efforts towards this end include training, technical assistance and policy studies. Under the RFSP, the Central Bank Institute (CBI) is the implementor of the training programs that will address the human resource development needs of the RFSP. The CBI was created by the Monetary Board on September 11, 1981. It represents the CBP's commitment to the training and career development of technical personnel in the field of money and banking. It has primary responsibility for administering the total training requirements of the CBP as well as the conduct of specific and specialized courses and seminars according to the needs of certain segments of the financial system. Their yearly training calendar consists of more than 50 courses involving about 150 sessions or an average of about 800 training days.

Further, Citibank as General Contractor has been commissioned by USAID to assist in developing training materials and in monitoring the impact of training on institutional performance.

In line with the RFSP impact evaluation, the SGVC/CVA team assesses the training activities done in relation to RFSP or specifically to the ALF and to gauge impact on the rural credit system.

METHODOLOGY

The SGVC/CVA team relied on documentary analysis and key informant interviews to gather data relating to the institution development aspects of RFSP. It must be noted that, in certain areas, documentation is spotty and files are lost, misplaced or incomplete. It took time, for instance, to locate the Citibank Training Needs Analysis Report. Other materials needed for the evaluation, e.g. training plans, were acquired piecemeal.

Despite the constraints, the team is confident that it has covered most of the essential activities to answer the evaluation issues. It is in this light that impact evaluation of the training component should be seen.

FINDINGS

Annex J provides in detail the team's findings on CBI activities relating to the RFSP and ALF. Only the highlights are cited below:

- Prior to the conduct of training programs, the CBI undertook a training needs analysis (TNA) of the rural financial system. The information was used to develop the 1985-86 training plan for the ALF, which served as the pattern for the 1987-88 and 1989-90 training plans.

- The Citibank contractor completed a TNA in 1987, reviewed the CBI Training Plan for 1987-88, and formulated an expanded program for ALF. Key informant interviews reveal that the results of the Citibank studies were not utilized in general. Except for the Management Development Course, the Citibank studies have had no significant bearing on training programs designed and eventually conducted by CBI.

- The Citibank contractor began development work on a Funds Management Seminar and a Credit Analysis Course for teaching professionals but these were not completed. To its credit, however, the Citibank assisted in the development of the following courses and materials: (a) Financial Analysis Workshop; (b) Management Development Course; (c) Philippine Rural Credit Handbook; (d) Management Handbook for Rural Bankers; and (e) Rural bank Computerization Administrative Manual.

- The CBI formulated training plans for 1985-86, 1987-88, and 1989-90. The last two are only slight modifications of the first training plan.

- An inventory of instructional materials show that most of these are in loose leaf forms. There are few manuals, assorted reference materials, case materials, and books. Some course development went only as far as the development of the syllabus contents. According to a CBI key informant, lack of funds constrained CBI efforts to develop instructional materials for the ALF courses and to procure the needed training equipment.

- Over the five-year period, the CBI developed, modified, and expanded the training curricula for ALF. In general, the ALF curricula consist of the following courses: (a) Rural Lending Course; (b) Management Development Seminar; (c) Trainors' Training Course; (d) Institutional Appraisal Course; (e) Project Monitoring and Evaluation Course; (f) Familiarization Seminar on Agricultural Loan Availments; (g) One-day Case Writing Course and (h) Basic Computer Course.

- It must be noted that there is no course on project loan appraisal and supervision offered, although this has been identified in the USAID project paper. Another omission is the Workshop on Rural Savings Mobilization which has been included in CBI training plans.

- Training courses were conducted in 1985 through 1988. There was no training offered in 1989 because of the delay in the approval of the 1989-90 Training Plan. It was resumed only in August 1990.

- Based on ALF Annual Reports and CBI training files, there were 1,726 participants to ten types of ALF training courses offered between 1985 and 1990. While this exceeded the 1,000 participants targeted by the USAID, there is no indication to gauge whether the appropriate personnel have been trained.

- Only 958 participants were accounted for in the list of participants found in CBI training files. Of these, 17% came from commercial banks; 17% from rural banks; 14% from CBP staff and 20% from other private organizations. Thrift banks (10%) and specialized government banks (1%) accounted for the balance.

- The above number included some 53 graduates of the Trainors' Training Course and Case Writing Course. This fell short of the 100 trainors targeted for the program. It must be noted that CBI assigned four of its staff specifically for ALF training and used a pool of about 60 resource persons from CBP, accredited banks and other agri-related government and private agencies as instructors.

- Under the ALF, technical assistance focused mainly on rural banks which have been the traditional clientele of the CBI. One significant program is the Rural Bank Computerization Project which seeks to implement the MicroBanker computer software system. Forty-seven (47) rural banks in ten provinces have already subscribed to the project and will be operational by 1990-end.

EVALUATION OF CBI TRAINING PROCESS

The SGVC/CVA team notes certain deficiencies in the CBI training process.

Identification of Training Needs and Deficiencies. The TNA done by CBI and, subsequently, by Citibank were not thorough and systematic. CBI conducted a brainstorming session only with representatives from rural banks while Citibank simply made an evaluation of the CBI's training program.

Further, the formal TNA was done only once by CBI. Results of a subsequent evaluation by the Citibank was not used at all by CBI. It is not the team's responsibility to pass judgment of CBI's move but we stress that, to address the institutional weaknesses of the rural credit system, the TNA should have been done thoroughly, systematically and regularly. This is not only to identify efficiently the actual training needs but to reveal such matters as frequency of training needs, scope and duration of training.

Consequently, the training plans appear to be based on the TNA done at the start of the program. This shows that any subsequent curriculum or course modifications could have only been done superficially.

Basically because of this, the formulated training plans did not provide for courses catering to different levels of bank personnel (senior, midlevel, and operating). The standard offering appears to concentrate on familiarization courses. There should also have been a hierarchy of courses made available to participants to allow them to build their knowledge and skills base.

Determination of Curriculum Content. The curriculum plan designed for the RFSP indicate some gaps, e.g. project appraisal, so that courses offered might not address the overall training requirements needed to strengthen the rural financial system. We note also that curriculum content developed for some courses in rural financing was not ever completed and conducted as training programs, e.g. Funds Management Seminar and Credit Analysis Course.

Instructional Materials Development. This component has been grossly neglected. In many instances, preparation of materials were left with the resource persons assigned to the topic. Almost all transparencies, still projections, slides and flipcharts were prepared by the lecturers themselves and remain in their possession.

Training Conduct. Again because responsibility of the conduct is left to the individual resource persons, the CBI has little control on conduct and delivery. Based on evaluation of the training programs, effectiveness has been blunted by instructors who were ineffective presentors or were too technical and academic in their approach.

Training Program Evaluation. There has not been a continuing formal monitoring and evaluation scheme for the ALF training program. Key informants from CBI also believe that impact evaluation of training is not their responsibility, saying that their role ends with the conduct of training. In consequence, it becomes difficult to gauge the actual impact of ALF training courses except through "perceptions."

Training should be evaluated at two different stages. The first stage involves an assessment of trainee reactions towards training while the second stage considers the impact of training on job behavior. An example would be a post-training evaluation of graduates of a loan appraisal course to find out whether the in-house capability of banks in appraisal and supervising loan projects has been upgraded. The former task has been done intermittently while the second task has not been done at all.

Probing the responses of CBI key informants, the team concludes that most of the lapses can be attributed to lack of funds or delayed releases in funds which prevented the institution from getting or developing the required experts, materials and equipment.

IMPACT EVALUATION ON INSTITUTION-BUILDING

To its credit, the CBI easily exceeded the quantitative targets set for the training component, despite financial constraints and deficiencies of the training process. More than 1,700 persons have been trained in ten training courses involving more than 25 offerings. Training curricula for the ALF have also been developed, although some gaps have been noted.

Responses from PFIs surveyed are mixed, however, on the overall impact of the training programs. Some respondents feel that their banks realized tremendous benefits particularly in terms of laying the groundwork for ALF participation. Training is said to have improved in-house technical capacity and led them to put up rural lending units to handle ALF loans.

Other bank respondents, on the other hand, feel the impact is limited since very few bank staff have been able to attend or since their personnel have not been able to avail of the training programs. Likewise, there has not been any follow-up sessions particularly after the familiarization courses. One respondent points out that, when it comes to training, thrift banks have been neglected in view of the CBI focus on rural banks. Commercial banks have resources to conduct their own training programs.

Key informant policymakers concur that ALF familiarization campaigns and training courses did enhance awareness of the program and improve PFI efficiency in ALF operations. To this extent, the ALF training did contribute to institution-building.

CBI key informants point also to reduced loan processing time as a positive impact of the training programs. As an offshoot of training, it takes the CBP's DLC only 48 hours to process ALF applications, with full manpower complement and documentation. Likewise, they believe that the training improved the capability of CBP staff to conduct institutional appraisals.

The ALF impact on the capacity of bankers' association to assume a greater role in training of their own members is evident in the Rural Bank Computerization Project. The objective of this project is to implement the MicroBanker computer software of the UNFAO in rural banks to improve their processing and reporting capability and efficiency. MicroBanker handles loan, savings, and time deposit transactions. CBI provided administrative support, programmers, and training. Citibank also assisted in this project through training development of an Administrative Manual and providing recommendations for improving project implementation. Gauging from the enthusiasm generated by the project, there seems to be a favorable impact.

Overall, the impact of the ALF training programs on institution-building can be regarded positive, although limited as it is in terms of coverage.

CONCLUSION: IMPACT OF THE RFSP

SUCCESS VIS-A-VIS PROJECT OBJECTIVES

1. Sustaining a Viable Rural Credit System

To the extent that it reinforces the move towards greater private sector participation in agricultural credit, the policy impact of the RFSP has helped to enhance financial intermediation in the rural areas and to strengthen the rural credit system.

The availability of ALF funds serves to prop up agricultural lending by the private sector. The impetus towards market-oriented lending, the stress on commercial viability, the expansion of floating rate system, the enlarged credit delivery system, and the devolution of lending decisions to private banks all serve to further reinforce the move towards minimum government participation and to promote financial liberalization in rural credit markets. The benefits brought about by a more efficient and effective rural credit system should redound to the economy in the long run.

ALF lending adheres to basic banking principles, keeping credit decisions within the discretion of financial institutions and focusing on viability as the major criterion.

On the other hand, the need for corrective measures arises from the existence of implicit interest subsidies, the foreign exchange-related costs, the weak link to resource mobilization, the limited impact on term lending, and the neglect of small farm sector.

The last-mentioned finding -- the exclusion of small farmers from the ALF credit -- is perhaps the most damaging argument against it. In truth, a viable institutional rural credit system" is not possible in an economy where about 70% of the rural population live below the poverty line. Rural financial intermediation should be on a sustainable and continuing basis. That is, deposits are mobilized, lent out, collected, relent in a self-sustaining and growing basis, This can only happen in a viable and developed rural economy.

2. Strengthening the Policy Framework

The RFSP has also led to policy reforms either directly as part of the loan covenants or indirectly as recommendations of the RFSP-related policy studies. As respondent policymakers point out, this is perhaps the most useful component of the RFSP, rather than the credit or training components.

As part of the loan covenants, the GOP has phased out credit and interest subsidies to a large extent and has reduced or consolidated a number of special credit programs.

The four major policy studies as well as the occasional policy papers serve to reinforce government policy initiatives towards rural market deregulation and to establish research directions for more effective government intervention in rural credit. The findings definitely have added to greater knowledge on rural financial markets.

However, the lack of a coherent plan for implementation has blunted the value and utility of the policy recommendation of most studies. This has undermined the link between the credit assistance and the suggested reforms. One serious omission is the failure to implement the findings of the poverty study and thereby provide for safety nets for small farmers.

3. Building up the Institutional Capacity

The RFSP appears to have a positive impact, albeit limited, on institution-building. The CBI was able to expand its capability to conduct training programs. As Training Implementor for RFSP, the CBI has achieved some success. For instance, more than 1,700 persons have been trained in ten ALF-assisted training courses involving 25 offerings. This exceeded the quantitative targets set for the training component of RFSP.

Training appears to have enhanced the capability of CBP staff to conduct institutional appraisals and supervision of PFIs as well as the skills of trainers within the CBP, other GOP agencies and private organizations in ALF lending.

Training of bank staff also improved PFI capacity to deliver rural financial services. For instance, many banks have been encouraged to put up their rural lending units to handle the ALF program. Finally, the MicroBanker computerization project reflects the increased capacity of the Rural Bankers' Association of the Philippines (RBAP) to assume a greater role in providing technical assistance to member-banks.

However, there are deficiencies in the training process that detract from the quality of training. These include: (a) curriculum planning; (b) design and development of the training courses; (c) conduct of training; and (d) evaluation of training. Moreover, training has been infrequent, with no follow-ups, and of short duration to be of lasting impact on institution-building.

SUCCESS VIS-A-VIS PROJECT PURPOSE AND GOAL

Given the foregoing, the RFSP can be deemed a reasonable success with respect to its project purpose of strengthening the policy and institutional framework necessary for sustaining a viable rural credit system.

The RFSP design has led to the linking up of credit assistance with policy reforms and institutional development efforts to strengthen the rural credit system. In implementation, however, there have been lapses and omissions. In the final analysis, there seems to be an overriding emphasis on credit, although this is not the main thrust of the project but is meant only as the mechanism to transmit policy reforms and institutional development efforts. And as shown from the potential fiscal burden, the costs might have been excessive.

Consequently, success with respect to the goal of increasing the rate of economic growth in the rural sector is not evident. In addition, there is hardly any impact on rural poverty (See again Annex F).

Too much to expect and hard to attribute to credit alone

This may be so because the goal is not appropriate in the first place. To reiterate, a viable institutional rural credit system is hardly possible in an economy where majority of the rural population live below the poverty line. The goal should therefore have been self-sustaining and viable rural economy. To bring about a viable rural economy should be the top and central priority, since it will at the same time alleviate or eradicate rural poverty (Refer to Lessons and Recommendations). Foreign assistance should help the country move towards that goal, not simply to enable PFIs to lend to viable and bankable rural borrowers.

but growth alone is not enough!

LESSONS AND RECOMMENDATIONS

LESSONS LEARNED

In summary, therefore, the RFSP gives the USAID officials and Filipino policymakers first hand experience of a lending program that pushes market orientation of the rural financial sector. In the long run, the financial system should benefit from this.

On the other hand, the lessons learned are as follows:

- Strict reliance on market orientation can serve to limit the access of small farmers to credit. There should therefore be specific forms of intervention that ensure the flow of formal credit to small farmers so long as they do not undermine savings mobilizations.

- Credit by itself cannot break the poverty cycle in rural areas. This has to be undertaken in conjunction with the prerequisite reforms and institutional development. There is a sequential order to the bunching of services that will make the farmer viable and sustainable.

- Project design and implementation must have this balanced focus. Relatedly, there is need to improve the process of policy formulation and implementation.

- The goal of foreign assistance should not be sectoral growth but alleviation of rural poverty itself.

In formulation of similar programs for rural finance, the lessons learned should be taken into consideration. The recommendations and corrective measures presented below basically incorporate these lessons.

RECOMMENDATIONS AND CORRECTIVE MEASURES

According to key informants, the WB aims to continue support of the ALF through the proposed Rural Finance Project. The US$150 million project will: (a) support further development of the ALF facility as the primary mechanism for resource mobilization to finance increased private investments in the rural sector; and (b) provide for the institutional and financial strengthening of the rural banking system and key government rural institutions to facilitate better access to formal credit and banking services in rural areas.

The recommendations need not refer solely to this WB initiative but can apply to similar initiatives in rural finance that the USAID undertake may in the future.

1. Program Design

Market-Oriented Features. A similar lending program should continue to incorporate market-oriented features such as the stress on commercial viability and unsubsidized, market determined lending rates.

Interest Rate Determination. This means hidden costs, including any forex related costs, must be made explicit and passed on to the beneficiaries which are the PFIs and the end-users. This should be done through the interest ate mechanism which must (a) take into consideration all costs related to ALF operations and (b) ensure congruence of passed-on costs with market rates. The use of the weighted average time deposit rate as the basis for costing is a step in this direction.

Additionality. Additionality, given a finite amount of money that can be made available, should be ensured by: (a) increasing the share of bank counterpart funding to the subloans and (b) providing for subloan limits on large loans. The first provision should lead banks to generate their own resources for rural lending, with the ALF as seed money. The second aims to expand the ALF clientele base by ensuring credit flows to small and medium enterprises.

Term Lending. To encourage the use of long-term money for long-term lending, there should be subloan limits on short-term loans. The use of long-term funds, such as ALF money, for short-term lending is an example of "reverse term transformation."

Expansion of Rural Credit Delivery System. Efforts should be made to widen the rural credit delivery network. This can be done through: (a) the continued rehabilitation and strengthening of rural banks, particularly in areas where adequate infrastructure has been put in place, and (b) the involvement of mature rural organizations such as cooperatives, self-help groups, credit unions and non-government organizations.

The use of rural banks and grassroots organization as channels for credit delivery will enhance the links between the marginal sectors and the formal credit markets. The use of grassroots organizations in particular can even strengthen the link between credit and rural savings mobilization because of their inherent reliance on member-savings.

Improvements in Program Design. To improve the program design, the following subsystems could be added to the credit assistance subsystem.

- Guarantee Subsystem. This means that straight guarantees be given either in combination with financing or by itself. The guarantee scheme seeks to reduce the bank costs of absorbing defaults. We consider guarantees as the more appropriate mechanism to encourage greater term lending by banks.

  (Alternatively, guarantee and insurance programs such as the GFSME, the PCIC and the QGFB can be strengthened through additional funding).

- Securitization Subsystem. This is a mechanism whereby banks can securitize ALF loan assets to enable them to sell these to other investors. This is to give banks an additional liquidity feature while allowing them to tap other sources of funds.

- Leasing Subsystem. Leasing as an alternative to straight financing must be allowed in appropriate cases. This means that leasing firms should also be accredited under the program.

Streamlining of Operations. Fund implementors should strive to streamline operations of a similar lending program. Annex C indicates the perceived weaknesses of the present ALF, e.g. heavy documentary requirements. There should be continued efforts to reduce transactions costs of both conduit banks and end-users.

Training Component. The need for training and technical assistance as a mechanism for institution building remains valid. The Fund implementor should support the efforts of the CBI which already has the training infrastructure and expertise in place to a large extent. However, the perceived deficiencies of the training process should be corrected, particularly in: (a) curriculum planning; (b) design and development of the training courses; (c) conduct of training; and (d) evaluation of training (See Annex J).

It follows that the funding for this be made available expeditiously. The need for resource persons, equipment, training materials, stationery and supplies are necessary logistics for any training plan/program.

Policy Reforms and Studies. Any identified policy reform consistent with the deregulation of rural credit markets (See below) should already be included in the loan conditionality so that responsibility for implementation is clearly defined. To ensure implementation rather than leaving it to chance, one single government body should be identified and held responsible for the implementation process, including dissemination, getting a consensus, proper sequencing of the policy recommendations, and submission for executive action or legislation.

Technical assistance should support follow-up studies on rural poverty in order to come out with manageable, doable programs and proper sequencing of services (e.g. population planning) that will lead to viability of the rural economy.

BROAD ACTION

The government policy of minimum government intervention and increased participation of the private sector in rural financial market undertaking should be continued.

Government must focus on creating a rural environment conducive to productivity and enhanced income in terms of adequate infrastructure and irrigation; realistic farmgate and farm input prices; realistic foreign exchange and interest rates, reasonably priced financing, health, education, institutional development, and so on.

The following broad action measures are proposed:

Rural-Oriented Resource Allocation. The government should put more resources into rural infrastructure, transportation, irrigation or integrated area development projects that will bring in marginalized rural sectors into the mainstream of the economy. This more than anything else will help alleviate rural poverty.

Enhancement of Liberalized Policy Environment. The government must prevent the emerging tendency to return to subsidized credit, concessional rediscount lending, and interest rate ceilings. Instead, it should further proceed towards the liberalization of the credit markets, e.g. bank branching and lifting of loan portfolio quotas.

Support of Rural Financial Innovations. As the liberalized environment does not guarantee access by small farmers to rural credit (Llanto, September 1990; December 1990), there should be safety nets fo small farmers. The government should support such institutions as CALF and the Development Assistance Program for Cooperatives and People's Organizations (DAPCOPO) that promote the rural sector's access to formal credit. Initiatives such as the Grameen Bank replicatio mini-universal banking for RFIs and Apex bank-type of institution to accommodate developmental concerns should be seriously explored and encouraged.

In connection with the above and with the policy studies, the following policy reforms are proposed to strengthen further the rural financial system.

Adopted from the Policy Studies

- promotion of export and import tariff polices that are beneficial to agri-activities;
- encouragement of investments in allied undertaking by rural financial intermediaries (RFIs);
- setting the rediscount ceiling of a rural bank at 100% of its average deposits during the preceding two calendar years to encourage deposit mobilization;
- replacement of the gross receipts tax with an alternative taxation system;
- conduct of more frequent and more timely examination of banks;

- adoption of credit programs focusing on low-income groups.

Modified Recommendations from the Policy Studies

- selective consolidation of agricultural credit programs to institute uniform credit terms (but not to achieve a high degree of uniformity);

- return of export taxes to the tariff book, with the provision that the duty can be reduced to zero at appropriate cases;

- limit of the procurement scheme to other crops;

- consolidation of agricultural credit programs and guarantee programs under two separate institutions to distinguish credit from guarantee activities.

Additional Policy Recommendations

- transfer of the CALF funds to the existing guarantee programs or to the proposed institution that will manage the consolidated guarantee programs for the agricultural sector.

- retrieval of the collateral value of land under the CARP by making their title transferable; and

- use of a certain portion of the government outlays and reserves for calamities to augment the capital for PCIC, and allocation by PAGCOR of a certain amount of its income to PCIC.

The USAID should continue to support GOP initiatives towards rural and agricultural development. The challenge posed by rural poverty is awesome. If USAID decides to undertake another initiative in rural finance, it must seek to address the root causes of this problem. Otherwise, it might not make any dent at all on poverty.

Table 1
SELECTED ECONOMIC INDICATORS
1985-1990

	1985	1986	1987	1988	1989	1990
GROWTH AND PRICES						
Gross National Product (Real Growth, %)	-4.1	1.9	5.9	6.7	5.6	3.1
Gross Domestic Product (Real Growth, %)	-4.3	1.5	4.7	6.4	6.0	3.0
Inflation (%)	23.1	0.8	3.8	8.8	10.6	14.2
Per Capita GNP (US$)	588	530	575	665	725	731
EXTERNAL TRADE						
Balance of Trade (US$ Million)	-486	-202	-1,017	-1,054	-2,598	-3,341 a/
Current Account (US$ Million)	-77	996	-444	-600	-1,550	-1,886 b/
Balance of Payments (US$ Million)	2,389	1,242	264	516	348	-245 a/
P/US$ Exchange Rate						
End-of-Period	19.03	20.53	20.80	21.34	22.45	28.00
Average for Period	18.59	20.50	20.57	21.09	21.74	24.31
INTERNATIONAL FINANCE						
International Reserves (US$ Million)	1,061	2,459	1,959	2,059	2,324	2,100
External Debt (US$ Million)	25,420	28,260	28,650	27,920	27,616	28,410 C/

a/ As of October.
b/ As of September.
c/ As of August.

Sources: National Statistics Office;
Central Bank - International Economic Research

Table 2
SELECTED AGRICULTURAL SECTOR STATISTICS
1985-1990

	1985	1986	1987	1988	1989	1990
GVA IN AGRICULTURE a/ (P Million)	25,518	26,579	26,186	27,082	28,354	29,027
GROWTH RATE (%)	3.5	4.0	-1.5	3.4	4.6	2.2
Crops	5.4	4.6	-4.8	1.1	3.0	-1.1
Livestock	-2.2	8.0	6.5	8.8	10.4	8.1
Poultry	-0.5	·1.1	7.7	11.4	9.6	9.4
Fishery	2.1	2.9	1.9	4.2	4.4	6.2
POPULATION (in million persons)	54.67	56.00	57.36	58.72	59.99	61.48
Urban	21.82	22.67	23.53	24.42	25.32	26.25
Rural	32.85	33.34	33.83	34.31	34.67	35.23
EMPLOYMENT IN AGRICULTURE (in million persons)	10.09	10.42	10.01	9.80	9.80 b/	n.a.
WAGE RATE INDICES c/ (without meal)						
Nominal	100.00	108.80	115.99	131.91	n.a.	n.a.
Real	100.00	108.00	110.93	117.24	n.a.	n.a.

a/ At constant 1972 prices.
b/ October 1989.
c/ At constant 1985 prices.

Sources: National Statistical Coordination Board;
Bureau of Agricultural Statistics.

Table 3
AGRICULTURAL PRODUCTION
1985-1989

	1985	1986	1987	1988	1989
CROPS ('000 MT)	58,831.6	59,010.1	56,685.3	58,146.9	60,373.1
A. CEREALS	12,668.4	13,337.5	12,818.0	13,399.0	13,981.0
Rice	8,805.6	9,246.8	8,539.9	8,971.0	9,458.8
Corn	3,862.8	4,090.7	4,278.1	4,428.0	4,522.2
B. MAJOR CROPS	38,300.3	37,528.4	35,964.3	36,473.9	37,814.1
Coconut	12,827.8	14,334.9	13,730.5	12,481.8	11,810.4
Sugarcane	17,542.1	14,831.1	13,797.0	15,721.5	17,590.8
Banana	3,127.1	3,192.6	3,157.4	3,067.3	3,190.3
Pineapple	1,030.0	1,273.2	1,303.4	1,181.2	1,178.8
Coffee	137.3	145.3	140.1	141.9	155.9
Mango	355.7	372.9	367.1	361.1	370.1
Tobacco	74.3	74.2	82.8	76.4	79.9
Abaca	81.3	83.6	82.0	84.1	88.4
Rubber	145.9	146.0	147.2	156.4	171.9
Cacao	7.0	8.0	8.8	9.1	9.4
Cassava	1,686.7	1,724.1	1,784.3	1,865.9	1,846.9
Camote	701.7	726.2	716.9	695.0	660.3
Peanut	41.3	42.2	43.0	39.9	37.6
Mongo	25.3	25.9	25.3	26.6	25.1
Onion	53.1	54.2	60.9	45.9	65.3
Garlic	15.0	15.5	15.4	14.1	17.2
Tomato	150.4	165.7	166.9	167.9	178.7
Eggplant	102.7	104.5	107.7	109.8	111.6
Cabbage	66.1	69.0	71.3	70.3	75.9
Citrus a/	129.5	139.3	156.3	157.7	149.6
C. OTHER CROPS	7,862.9	8,144.2	7,903.0	8,274.0	8,578.0
Other fibercrops	204.8	195.1	68.0	76.0	64.6
Other Rootcrops	121.1	126.4	126.8	127.5	121.3
Tubers	146.8	162.0	159.6	198.0	214.0
Spices	25.6	26.1	24.9	25.5	26.3
Fruit Bearing Vegetables	2,633.3	2,740.8	2,691.4	2,680.6	2,887.6
Leafy/Stem Vegetables	1,122.4	1,141.7	910.5	1,058.0	1,097.2
Other Legumes	30.1	31.8	31.3	32.0	34.0
Other Fruits	3,104.7	3,239.6	3,451.0	3,595.2	3,639.3
Others	474.1	480.7	439.5	481.2	493.7

Table 3
AGRICULTURAL PRODUCTION
1985-1989

	1985	1986	1987	1988	1989
LIVESTOCK					
TOTAL PRODUCTION (liveweight, '000 MT)	859.8	976.3	1,077.9	1,183.4	1,305.1
Carabao	71.7	88.7	98.5	112.1	120.6
Cattle	139.5	151.3	161.4	160.4	165.0
Hog	605.9	692.0	768.4	857.8	962.1
Goat	42.7	44.3	49.6	53.1	57.4
DAIRY ('000 liters) b/	808.2	401.7	531.7	10,062.0 c/	10,101.6 d/
POULTRY					
TOTAL PRODUCTION ('000 MT)	409.6	429.0	435.2	487.4	533.0
Chicken	375.2	399.8	404.1	455.1	498.9
Duck	34.4	29.2	31.1	32.4	34.1
EGG PRODUCTION	140.7	140.5	151.4	167.1	184.2
Chicken	104.4	112.3	125.3	140.0	155.4
Duck e/	36.3	28.2	26.1	27.1	28.8
FISHERY					
TOTAL PRODUCTION ('000 MT)	2,052.1	2,089.5	2,213.0	2,269.7	2,366.6
Commercial	512.0	546.2	591.2	600.0	624.7
Municipal	1,045.4	1,072.4	1,060.9	1,070.2	1,104.6
Aquaculture	494.7	470.9	560.9	599.5	637.3

a/ Includes calamansi, pomelo, mandarin, and orange.
b/ No data available in commercial farms from 1985 to 1987.
c/ 1988 production includes 12 commercial farms.
d/ 1989 production for 11 commercial farms were imputed based on the farm's daily production of 6 liters/head/day.
e/ Revised based on the assumption of 15 eggs per kilogram.

Sources: National Statistical Coordination Board;
Bureau of Agricultural Statistics.

Table 4
AGRICULTURAL PRODUCTION LOANS GRANTED,
BY INSTITUTION
1985-1989
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Government Banks	1,377.8	5.0	579.0	2.3	1,485.8	5.4	3,492.5	9.9	5,838.9	18.7
PNB	1,315.7	4.8	574.8	2.3	702.4	2.6	2,631.4	7.5	3,394.6	10.9
DBP	62.1	0.2	4.2 a/	0.0	131.2	0.5	458.7	1.3	210.6	0.7
LBP	n.a.		n.a.		652.2 c/	2.4	402.4 c/	1.1	2,233.7 d/	7.2
Private Banks	26,122.9	95.0	24,535.4	97.7	25,974.2	94.6	31,797.5	90.1	25,367.0	81.3
PKBs	22,479.7	81.7	20,008.8	79.7	21,007.1	76.5	23,777.0	67.4	18,558.5	59.5
SMBs	12.9	nil	97.1 b/	0.4	90.2	0.3	201.6	0.6	355.9	1.1
PDBs	352.3	1.3	858.1 b/	3.4	1,013.4	3.7	1,190.3	3.4	1,481.1	4.7
RBs	2,778.9	10.1	2,948.1	11.7	3,456.4	12.6	3,854.8	10.9	4,402.7	14.1
SSLAs	499.1	1.8	623.3	2.5	407.1	1.5	2,773.8	7.9	568.8	1.8
GRAND TOTAL	27,500.7	100.0	25,114.4	100.0	27,460.0	100.0	35,290.0	100.0	31,205.9	100.0

PNB - Philippine National Bank
DBP - Development Bank of the Philippines
LBP - Land Bank of the Philippines
PKBs - Private Commercial Banks
SMBs - Savings and Mortgage Banks
PDBs - Private Development Banks
RBs - Rural Banks
SSLAs - Stock Savings and Loan Associations

a/ Estimated based on first semester data.
b/ Estimated based on actual data of preceding eleven months.
c/ Includes PAB loans which can not as yet be aggregated.
d/ Source of data from LBP.

Sources: PNB, DBP, CB-DER, and CB-SRCAD, and compiled by ACPC.

Table 5
AGRICULTURAL PRODUCTION LOANS OUTSTANDING,
BY INSTITUTION
1985-1989 a/
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Government Banks	6,564.4	33.2	5,518.7	28.7	5,880.6	29.9	6,807.3	32.3	4,366.6	19.5
PNB	4,271.2	21.6	3,335.5	17.4	5,057.9	25.7	6,110.6	29.0	3,177.9	14.2
DBP	2,293.2	11.6	2,183.2 c/	11.4	-	-	-	-	-	-
LBP b/	n.a.	-	n.a.	-	822.7	4.2	696.7	3.3	1,188.7	5.3
Private Banks	13,230.0	66.8	13,701.4	71.3	13,762.9	70.1	14,274.5	67.7	18,034.4	80.5
PKBs	6,760.2	34.2	7,056.3 d/	36.7	6,555.6	33.4	6,764.4	32.1	9,558.7	42.7
SMBs	98.9	0.5	134.5 d/	0.7	322.1	1.6	324.2	1.5	571.2	2.5
PDBs	519.5	2.6	711.9	3.7	1,025.8	5.2	1,036.3	4.9	1,470.8	6.6
RBs	5,556.0	28.1	5,471.7	28.5	5,503.9	28.0	5,769.6	27.4	6,086.6	27.2
SSLAs	295.4	1.5	327.0	1.7	355.5	1.8	380.0	1.8	347.1	1.5
GRAND TOTAL	19,794.4	100.0	19,220.1	100.0	19,643.5	100.0	21,081.8	100.0	22,401.0	100.0

a/ As of year-end.
b/ Includes PAB loans which can not as yet be aggregated.
c/ As of June 30.
d/ As of September 30.

Sources: PNB, DBP, CB-DER, and CB-SRCAD, and compiled by ACPC.

Table 6
AGRICULTURAL PRODUCTION LOANS GRANTED,
BY COMMODITY
1985-1989
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
FOOD COMMODITIES	11,082.0	40.3	12,000.8	47.8	12,378.1	45.1	15,448.2	43.8	16,238.3	52.0
Cereals	1,422.3	5.2	1,625.5	6.5	2,717.9	9.9	3,666.8	10.4	4,412.3	14.1
Rice	1,223.5	4.4	1,393.1	5.5	2,128.5	7.8	3,084.4	8.7	3,679.0	11.8
Corn	182.1	0.7	226.7	0.9	546.3	2.0	471.9	1.3	655.2	2.1
Sorghum	11.8	nil	4.3	nil	20.4	0.1	59.8	0.2	17.5	0.1
Soybean & Feed-grains	4.9	nil	1.4	nil	23.1	0.1	50.7	0.1	60.6	0.2
Fruits, Vegetables, Rootcrops	5,937.4	21.6	5,483.0	21.8	4,538.5	16.5	3,645.5	10.3	2,983.4	9.6
Livestock & Poultry	2,403.3	8.7	2,359.0	9.4	2,423.9	8.8	3,559.4	10.1	4,619.9	14.8
Fisheries	1,319.2	4.8	2,533.3	10.1	2,698.4	9.8	4,576.5	13.0	4,222.7	13.5
EXPORT & COMMERCIAL CROPS	12,632.6	45.9	9,635.4	38.4	10,982.2	40.0	11,690.7	33.1	9,931.2	31.8
Abaca & Other Fibers	1,245.8	4.5	897.4	3.6	1,512.0	5.5	1,099.8	3.1	1,091.5	3.5
Coconut	5,107.6	18.6	3,007.2	12.0	3,055.6	11.1	3,633.0	10.3	1,527.5	4.9
Coffee & Cacao	1,014.5	3.7	1,333.7	5.3	446.0	1.6	454.5	1.3	266.6	0.9
Cotton	8.3	0.0	36.4	0.1	120.0	0.4	239.5	0.7	160.1	0.5
Rubber	30.6	0.1	79.8	0.3	58.7	0.2	91.8	0.3	112.9	0.4
Sugarcane	5,048.5	18.4	4,142.8	16.5	5,512.9	20.1	5,963.3	16.9	6,536.6	20.9
Tobacco	177.3	0.6	138.1	0.5	275.3	1.0	208.7	0.6	236.0	0.8

Table 6
AGRICULTURAL PRODUCTION LOANS GRANTED,
BY COMMODITY
1985-1989
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
FORESTRY	1,733.3	6.3	1,667.2	6.6	1,200.2	4.4	1,681.0	4.8	1,512.8	4.8
OTHERS	1,553.5	5.6	1,187.7	4.7	2,492.6	9.1	3,696.3	10.5	2,954.8	9.5
Sub-total	27,001.6	98.2	24,491.1	97.5	27,052.9	98.5	32,516.2	92.1	30,637.1	98.2
SSLA Loans	499.1	1.8	623.3	2.5	407.1	1.5	2,773.8	7.9	568.8	1.8
GRAND TOTAL	27,500.7	100.0	25,114.4	100.0	27,460.0	100.0	35,290.0	100.0	31,205.9	100.0

Sources: PNB, DBP, CB-DER, and CB-SRCAD, and compiled by ACPC.

Table 7
AGRICULTURAL PRODUCTION LOANS OUTSTANDING,
BY COMMODITY
1985-1989 a/
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
FOOD COMMODITIES	8.266.1	41.8	9.704.0	50.5	8,529.1	43.4	8.813.6	41.8	9.884.5	44.1
Cereals	3.602.9	18.2	3,844.3	20.0	4,007.5	20.4	3,305.6	15.7	3.591.8	16.0
Rice	3.117.0	15.7	3.553.8	18.5	3.681.4	18.7	3.008.3	14.3	3,231.4	14.4
Corn	468.1	2.4	275.3	1.4	293.9	1.5	277.7	1.3	351.7	1.6
Sorghum	6.5	nil	3.6	nil	21.5	0.1	7.3	nil	2.2	nil
Soybean & Feed-grains	11.3	0.1	11.6	0.1	10.6	0.1	12.3	0.1	6.5	nil
Fruits, Vegetables, Rootcrops	1.068.7	5.4	1,297.0	6.7	573.1	2.9	730.9	3.5	600.0	2.7
Livestock & Poultry	2.441.7	12.3	2.988.1	15.5	2.499.5	12.7	2.793.1	13.2	3.633.5	16.2
Fisheries	1.152.8	5.8	1,574.6	8.2	1.449.0	7.4	1.984.0	9.4	2,059.2	9.2
EXPORT & COMMERCIAL CROPS	8.181.9	41.3	7,773.2	40.4	8,026.3	40.9	7,785.9	36.9	9.183.4	41.0
Abaca & Other Fibers	276.3	1.4	326.8	1.7	134.9	0.7	98.0	0.5	87.6	0.4
Coconut	3,234.0	16.3	2,980.9	15.5	2,892.7	14.7	1,481.1	7.0	2,312.2	10.3
Coffee & Cacao	399.9	2.0	362.7	1.9	329.4	1.7	347.4	1.6	346.0	1.5
Cotton	35.8	0.2	30.6	0.2	78.7	0.4	103.9	0.5	25.8	0.1
Rubber	105.4	0.5	153.4	0.8	14.7	0.1	10.9	0.1	23.6	0.1
Sugarcane	3.992.4	20.2	3.835.4	20.0	4.468.5	22.7	5.606.5	26.6	6.267.2	28.0
Tobacco	138.1	0.7	83.4	0.4	107.4	0.5	138.1	0.7	121.0	0.5

Table 7
AGRICULTURAL PRODUCTION LOANS OUTSTANDING,
BY COMMODITY
1985-1989 a/
(Amount in Million Pesos)

	1985		1986		1987		1988		1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
FORESTRY	488.0	2.5	455.5	2.4	391.0	2.0	467.2	2.2	435.7	1.9
OTHERS	2,563.0	12.9	960.4	5.0	2,341.7	11.9	3,635.0	17.2	2,550.3	11.4
Sub-total	19,499.0	98.5	18,893.1	98.3	19,288.1	98.2	20,701.7	98.2	22,053.9	98.5
SSLA Loans	295.4	1.5	327.0	1.7	355.5	1.8	380.1	1.8	347.1	1.5
GRAND TOTAL	19,794.4	100.0	19,220.1	100.0	19,643.5	100.0	21,081.8	100.0	22,401.0	100.0

a/ As of year-end.

Sources: PNB, DBP, CB-DER, and CB-SRCAD, and compiled by ACPC.

Table 8
RATIO OF AGRICULTURAL PRODUCTION LOANS
TO TOTAL LOANS GRANTED,
BY INSTITUTION
1985-1989
(In Percent)

	1985	1986	1987	1988	1989
Government Banks	6.4	2.3	6.7	5.1	11.4
PNB	6.2	2.3	5.8	15.2	13.9
DBP	36.7	10.3	65.0	16.6	4.6
LBP	n.a.	n.a.	6.6 a/	0.8 a/	10.1
Private Banks	10.2	7.9	7.2	7.7	7.5
PKBs	9.2	6.9	6.4	6.6	5.4
SMBs	0.5	1.3	0.7	0.7	0.6
PDBs	12.0	13.8	13.5	14.7	14.4
RBs	71.4	66.0	61.2	59.2	55.2
SSLAs	19.3	13.1	17.7	28.1	24.0
TOTAL	9.9	7.5	7.2	7.4	6.6

a/ Includes PAB loans which can not as yet be disaggregated.

Sources: PNB, DBP, CB-DER, and CB-SRCAC, and compiled by ACPC.

Table 9
LOAN TO OUTPUT RATIO, BY COMMODITY
1985-1989
(In Percent)

	1985	1986	1987	1988	1989
% OF AGRICULTURAL PRODUCTION LOANS TO GVA IN AGRICULTURE	16.9	15.4	16.1	18.6	13.8
AGRICULTURAL CROPS					
Palay	4.2	4.9	8.9	10.6	10.3
Corn	1.7	2.1	4.7	4.0	4.1
Coconut	57.8	48.0	36.4	39.2	13.4
Sugar	150.5	124.0	136.8	106.4	105.6
LIVESTOCK & POULTRY	9.7	9.1	8.6	10.9	11.6
FISHERIES	4.7	7.7	7.4	12.3	9.5
FORESTRY	16.0	16.9	11.0	12.8	12.2

Sources: PNB, DBP, CB-DER, and CB-SRCAD, and compiled by ACPC.

Table 10
AGRICULTURAL CREDIT DEMAND AND SUPPLY
1991-1995
(In Million Pesos)

	1991	1992	1993	1994	1995	Total 1991-95
Credit Demand						
Crops	31,286.6	33,983.0	36,876.2	40,013.7	37,181.9	179,341.4
Rice	2,234.5	2,420.0	2,609.6	2,820.4	3,048.8	13,133.3
Corn	458.7	505.5	557.3	614.7	680.1	2,816.3
Coconut	4,309.8	4,531.1	4,763.9	5,011.7	5,276.1	23,892.6
Sugarcane	7,055.9	8,084.8	9,270.8	10,621.2	12,109.5	47,142.2
Other Crops	17,227.7	18,441.6	19,674.6	20,945.7	16,067.4	92,357.0
Livestock and Poultry	2,852.3	3,212.7	3,684.3	4,182.0	4,827.4	18,758.7
Fisheries	5,178.1	5,639.1	6,190.0	6,794.9	7,447.6	31,249.7
Forestry						
Total	39,317.0	42,834.8	46,750.5	50,990.6	49,456.9	229,349.8
Credit Supply	26,021.0	29,972.4	30,382.7	30,682.4	31,247.1	148,305.6
Credit Gap	(13,296.0)	(12,862.4)	(16,367.8)	(20,308.2)	(18,209.8)	(81,044.2)

Sources: Agricultural Credit Policy Council;
Central Bank of the Philippines;
Department of Agriculture - Project Monitoring Staff;

Table 11
SELECTED ALF INDICATORS
1985 - 1990 a/
(Amount in Million Pesos unless otherwise indicated.)

	1985	1986	1987	1988	1989	1990 a/	Total/ Average
Subloan Releases	401.4	457.1	480.4	1,058.6	2,940.7	1,394.5	6,732.7
Subsidiary Loan Releases	374.7	353.5	375.1	798.0	2,242.7	1,051.0	5,195.0
Subsidiary Loan Repayments	265.8	171.4	294.1	288.8	812.1	965.5	2,797.6
Outstanding Subsidiary Loans	108.9	291.1	372.1	881.3	2,311.8	2,397.4	1,272.5
% of Outstanding ALF Subsidiary Loans to Total Agricultural Loans Outstanding	0.55	1.51	1.89	4.18	10.32	n.a.	1.25
% of ALF Subloan Releases to Total Agricultural Loans Granted	1.46	1.82	1.75	3.00	9.42	n.a.	4.59
Total Number of Projects Financed	347	167	218	549	732	339	2,352.0
Average Subloan Size	1.2	2.7	2.2	1.9	4.0	4.1	3.2
Total Administrative Cost	1.0	2.5	6.7	3.1	1.2	2.5	17.0
Administrative Cost per Project (P000s)	2.761	14.928	30.959	5.645	1.593	7.478	7.228
% of Administrative Cost to Subloan Releases	0.24	0.55	1.40	0.29	0.04	0.18	0.25

a/ Up to November 21, 1990

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 12
ALF LOAN DISBURSEMENTS, BY LOAN TERM
1985 - 1990
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Short Term a/	346	99.71	400.6	99.79	82	49.10	382.0	83.57	53	24.31	173.2	36.07	256	46.63	689.6	65.14	377	51.50	1,093.7	37.19	184	54.28	563.2	40.39
Medium Term b/	1	0.29	0.9	0.21	84	50.30	73.9	16.16	164	75.23	305.7	63.64	292	53.19	368.4	34.80	351	47.95	1,845.4	62.75	130	38.35	575.3	41.26
Long Term c/	0	0.00	0.0	0.00	1	0.60	1.2	0.26	1	0.46	1.4	0.30	1	0.18	0.6	0.06	4	0.55	1.6	0.06	25	7.37	256.0	18.36
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1,058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

a/ Maturities of 1 year and below.
b/ Maturities of more than 1 year up to 5 years.
c/ Maturities of more than 5 years.

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 13
ALF LOAN DISBURSEMENTS, BY SUBLOAN SIZE
1985 - 1990
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
1.000 & Below	292	84.15	285.0	71.00	76	45.51	38.1	8.33	142	65.14	64.2	13.37	228	41.53	95.6	9.03	308	42.08	140.0	4.76	93	27.43	48.3	3.46
1.001 to 5.000	55	15.85	116.4	29.00	80	47.90	194.0	42.44	58	26.61	118.5	24.66	193	35.15	315.3	29.79	175	23.91	455.4	15.49	170	50.15	292.1	20.95
5.001 to 10.000	0	0.00	0.0	0.00	6	3.59	59.9	13.10	10	4.59	80.5	16.76	57	10.38	158.1	14.94	37	5.05	329.9	11.22	46	13.57	233.9	16.78
10.001 to 20.000	0	0.00	0.0	0.00	2	1.20	49.0	10.72	3	1.38	45.4	9.44	41	7.47	149.3	14.10	103	14.07	578.4	19.67	20	5.90	371.6	26.65
Over 20.000	0	0.00	0.0	0.00	3	1.80	116.1	25.41	5	2.29	171.8	35.77	30	5.46	340.3	32.14	109	14.89	1.436.9	48.86	10	2.95	448.6	32.17
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1.058.6	100.00	732	100.00	2.940.7	100.00	339	100.00	1.394.5	100.00

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 14
ALF LOAN DISBURSEMENTS, BY LOAN PURPOSE
1985 - 1989
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Fixed Assets (FA)	0	0.00	0.0	0.00	6	3.59	4.6	1.00	34	15.60	67.3	14.00	74	13.48	232.9	22.00	90	12.30	794.0	27.00	n.a.	n.a.	n.a.	n.a.
Working Capital (WC)	1	0.29	0.9	0.21	51	30.54	91.4	20.00	70	32.11	211.4	44.00	183	33.33	349.3	33.00	310	42.35	1.529.2	52.00	n.a.	n.a.	n.a.	n.a.
Combined FA & WC	0	0.00	0.0	0.00	38	22.75	128.0	28.00	70	32.11	72.1	15.00	88	16.03	52.9	5.00	94	12.84	235.3	8.00	n.a.	n.a.	n.a.	n.a.
Production Credit	346	99.71	400.6	99.79	72	43.11	233.1	51.00	44	20.18	129.7	27.00	204	37.16	423.4	40.00	238	32.51	382.3	13.00	n.a.	n.a.	n.a.	n.a.
																					n.a.	n.a.	n.a.	n.a.
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1.058.6	100.00	732	100.00	2.940.7	100.00	339	100.00	1.394.5	100.00

Note: Data for 1990 are not available.

Sources: Central Bank of the Philippines:
Land Bank of the Philippines.

Table 15
ALF LOAN DISBURSEMENTS, BY ENTERPRISE SIZE
1985 - 1989
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Small a/	347	100.00	401.4	100.00	118	70.66	132.6	29.00	161	73.85	293.0	61.00	434	79.05	539.9	51.00	464	63.39	794.0	27.00	n.a.	n.a.	n.a.	n.a.
Medium b/	0	0.00	0.0	0.00	33	19.76	68.6	15.00	41	18.81	72.1	15.00	85	15.48	169.4	16.00	170	23.22	499.9	17.00	n.a.	n.a.	n.a.	n.a.
Large c/	0	0.00	0.0	0.00	16	9.58	256.0	56.00	16	7.34	115.3	24.00	30	5.46	349.3	33.00	98	13.39	1,646.8	56.00	n.a.	n.a.	n.a.	n.a.
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1,058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

a/ Projects with total assets of up to P5 million before ALF financing.
b/ Projects with total assets of more than P5 million up to P20 million before ALF financing.
c/ Projects with total assets of more than P20 million before ALF financing.

Note: Data for 1990 are not available.

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 16
ALF LOAN DISBURSEMENTS, BY NATURE OF PROJECT
1985 - 1989
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
New	0	0.00	0.0	0.00	38	22.75	22.9	5.00	57	26.15	48.0	10.00	91	16.58	42.3	4.00	81	11.07	147.0	5.00	n.a.	n.a.	n.a.	n.a.
Expansion	347	100.00	401.4	100.00	129	77.25	434.2	95.00	161	73.85	432.3	90.00	458	83.42	1.016.2	96.00	651	88.93	2.793.7	95.00	n.a.	n.a.	n.a.	n.a.
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1.058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

Note: Data for 1990 are not available.

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 17
ALF LOAN DISBURSEMENTS, BY SECTORAL ALLOCATION
1985 - 1990
(Amount in Million Pesos)

	1985				1986				1987			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Fisheries Development	34	9.80	69.9	17.42	21	12.57	23.0	5.03	60	27.52	75.3	15.68
Poultry and Livestock Development	75	21.61	0.5	0.11	16	9.58	59.1	12.92	48	22.02	100.7	20.97
Plantation Crops	18	5.19	144.7	36.05	29	17.37	16.0	3.50	33	15.14	4.9	1.02
Agro-Processing and Post-Harvest Facilities	64	18.44	52.3	13.03	30	17.96	37.2	8.13	33	15.14	50.4	10.49
Seasonal Crops	156	44.96	134.0	33.38	70	41.92	321.8	70.40	44	20.18	249.0	51.84
Farm Mechanization	0	0.00	0.0	0.00	1	0.60	0.0	0.01	0	0.00	0.0	0.00
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00

	1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Fisheries Development	144	26.23	229.7	21.69	121	16.53	380.4	12.94	36	10.62	205.8	14.76
Poultry and Livestock Development	134	24.41	320.5	30.28	226	30.87	705.7	24.00	98	28.91	279.5	20.04
Plantation Crops	20	3.64	84.6	7.99	20	2.73	134.5	4.57	19	5.60	13.0	0.93
Agro-Processing and Post-Harvest Facilities	80	14.57	163.9	15.48	140	19.13	1,418.8	48.25	29	8.55	830.0	59.52
Seasonal Crops	171	31.15	259.9	24.56	224	30.60	301.0	10.24	157	46.31	66.2	4.75
Farm Mechanization	0	0.00	0.0	0.00	1	0.14	0.3	0.01	0	0.00	0.0	0.00
Total	549	100.00	1,058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 18
ALF LOAN DISBURSEMENTS, BY SPECIFIC TYPE OF PROJECT
1985 - 1989
(Amount in Million Pesos)

	Number of Projects		Amount of Subloan	
	No.	%	Amount	%
Sugar	659	28.93	1,297.7	20.93
Agro-Processing	30	1.32	1,266.3	20.42
Fishery and Prawn	403	17.69	901.0	14.53
Piggery	292	12.82	804.1	12.97
Poultry	257	11.28	515.1	8.31
Ricemill and Cornmill	233	10.23	438.2	7.07
Banana	29	1.27	316.8	5.11
Food Processing	39	1.71	242.1	3.90
Feedmill	20	0.88	221.1	3.57
Storage Facilities	10	0.44	40.1	0.65
Mango	2	0.09	31.5	0.51
Coffee	14	0.61	22.0	0.35
Corn	7	0.31	17.9	0.29
Post-Harvest Facilities	3	0.13	13.5	0.22
Others	44	1.93	13.4	0.22
Transport Facilities	25	1.10	12.1	0.19
Marketing Facilities	9	0.40	12.0	0.19
Cattle	10	0.44	10.1	0.16
Copra-Processing	3	0.13	8.6	0.14
Ramie	54	2.37	8.2	0.13
Palay	106	4.65	2.7	0.04
Black Pepper	11	0.48	2.6	0.04
Cacao	4	0.18	2.1	0.03
Citrus	5	0.22	1.2	0.02
Papaya	1	0.04	0.4	0.01
Farm Mechanization	2	0.09	0.3	0.01
Vegetables	1	0.04	0.2	b/
Garlic	1	0.04	0.2	b/
Cassava	4	0.18	a/	b/
Total	2,278	100.00	6,201.5	100.00

a/ Less than P0.01 million.
b/ Less than .01%.

Source: Central Bank of the Philippines.

Table 19
ALF LOAN DISBURSEMENTS, BY GEOGRAPHIC LOCATION
1985 - 1990
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Region I	38	10.95	0.3	0.06	0	0.00	0.0	0.00	4	1.83	7.8	1.62	10	1.82	10.9	1.03	21	2.87	35.1	1.19	3	0.88	21.5	1.54
Region II	14	4.03	0.1	0.02	2	1.20	4.0	0.86	5	2.29	12.4	2.58	8	1.46	18.7	1.76	14	1.91	90.0	3.06	4	1.18	50.7	3.64
Region III	69	19.88	1.7	0.41	47	28.14	300.5	65.74	70	32.11	308.2	64.16	95	17.30	314.7	29.73	157	21.45	806.0	27.41	72	21.24	431.5	30.94
Region IV	57	16.43	7.1	1.76	7	4.19	5.2	1.14	22	10.09	36.0	7.50	120	21.86	175.1	16.54	167	22.81	823.7	28.01	83	24.48	342.2	24.54
Region V	29	8.36	2.6	0.66	3	1.80	2.8	0.62	2	0.92	2.6	0.55	4	0.73	6.6	0.63	4	0.55	10.8	0.37	0	0.00	0.0	0.00
Region VI	72	20.75	147.4	36.71	66	39.52	109.0	23.84	58	26.61	67.2	14.00	234	42.62	354.4	33.48	253	34.56	349.4	11.88	131	38.64	131.7	9.44
Region VII	3	0.86	12.4	3.10	4	2.40	10.2	2.24	16	7.34	10.3	2.15	19	3.46	25.3	2.39	31	4.23	229.5	7.80	9	2.65	23.7	1.70
Region VIII	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	3	0.41	11.3	0.38	5	1.47	11.0	0.79
Region IX	13	3.75	4.4	1.09	0	0.00	0.0	0.00	2	0.92	0.8	0.16	4	0.73	6.9	0.65	1	0.14	30.8	1.05	1	0.29	4.7	0.34
Region X	2	0.58	3.7	0.93	4	2.40	5.3	1.16	4	1.83	6.9	1.44	26	4.74	23.3	2.20	23	3.14	26.0	0.89	9	2.65	16.1	1.16
Region XI	17	4.90	132.3	32.97	30	17.96	15.5	3.40	31	14.22	12.7	2.65	20	3.64	111.4	10.52	37	5.05	247.0	8.40	10	2.95	253.3	18.16
Region XII	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	6	1.09	7.1	0.67	0	0.00	0.0	0.00	3	0.88	13.5	0.97
NCR	33	9.51	89.5	22.28	4	2.40	4.6	1.01	4	1.83	15.3	3.19	3	0.55	4.3	0.41	21	2.87	281.1	9.56	9	2.65	94.6	6.78
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1,058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 20
ALF LOAN DISBURSEMENTS, BY TYPE OF PFI
1985 - 1990
(Amount in Million Pesos)

	1985				1986				1987				1988				1989				1990			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%
Commercial Banks	127	36.60	397.3	98.98	90	53.89	361.8	79.15	70	32.11	318.9	66.39	232	42.26	615.0	58.10	299	40.85	2,143.9	72.90	199	58.70	1,016.4	72.88
Thrift Banks	2	0.58	2.9	0.73	42	25.15	88.7	19.41	110	50.46	155.9	32.46	216	39.34	401.4	37.92	297	40.57	685.6	23.31	102	30.09	348.4	24.98
Rural Banks	218	62.82	1.2	0.29	35	20.96	6.6	1.45	38	17.43	5.5	1.15	90	16.39	20.9	1.97	105	14.34	27.7	0.94	37	10.91	10.4	0.74
SGBs	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	31	4.23	83.6	2.84	1	0.29	19.4	1.39
NBQBs	0	0.00	0.0	0.00	0	0.00	0.0	0.00	0	0.00	0.0	0.00	11	2.00	21.3	2.01	0	0.00	0.0	0.00	0	0.00	0.0	0.00
Total	347	100.00	401.4	100.00	167	100.00	457.1	100.00	218	100.00	480.4	100.00	549	100.00	1,058.6	100.00	732	100.00	2,940.7	100.00	339	100.00	1,394.5	100.00

PFI - Participating Financial Institution
SGBs - Specialized Government Banks
NBQBs - Non-Banks with Quasi-Banking Functions

Sources: Central Bank of the Philippines;
Land Bank of the Phi[illegible]

Table 21
COMPARISON OF ALF LENDING PATTERNS
OF THE CBP AND THE LBP

	CBP a/				LBP b/			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%
By Loan Term								
Short Term	1,268	55.66	3,128.6	50.45	30	40.54	173.692	32.69
Medium Term	990	43.46	3,052.0	49.21	32	43.24	117.515	22.12
Long Term	20	0.88	20.8	0.34	12	16.22	240.047	45.18
Total	2,278	100.00	6,201.5	100.00	74	100.00	531.254	100.00
By Subloan Size								
1.000 & Below	1,128	49.52	662.7	10.69	11	14.86	8.474	1.60
1.001 to 5.000	687	30.16	1,368.2	22.06	44	59.46	123.538	23.25
5.001 to 10.000	149	6.54	813.4	13.12	7	9.46	48.908	9.21
10.001 to 20.000	160	7.02	1,057.0	17.04	9	12.16	136.667	25.73
Over 20.000	154	6.76	2,300.2	37.09	3	4.05	213.667	40.22
Total	2,278	100.00	6,201.5	100.00	74	100.00	531.254	100.00
By Geographic Location								
Region I	76	3.34	75.5	1.22	0	0.00	0.000	0.00
Region II	45	1.98	128.8	2.08	2	2.70	47.000	8.85
Region III	481	21.12	2,053.9	33.12	29	39.19	108.636	20.45
Region IV	432	18.96	1,288.0	20.77	24	32.43	101.283	19.06
Region V	42	1.84	25.5	0.41	0	0.00	0.000	0.00
Region VI	805	35.34	1,130.7	18.23	9	12.16	28.300	5.33
Region VII	81	3.56	302.1	4.87	1	1.35	9.333	1.76
Region VIII	8	0.35	22.3	0.36	0	0.00	0.000	0.00
Region IX	20	0.88	42.9	0.69	1	1.35	4.688	0.88
Region X	67	2.94	74.4	1.20	1	1.35	7.000	1.32
Region XI	142	6.23	584.8	9.43	3	4.05	187.500	35.29
Region XII	9	0.40	20.6	0.33	0	0.00	0.000	0.00
NCR	70	3.07	451.9	7.29	4	5.41	37.514	7.06
Total	2,278	100.00	6,201.5	100.00	74	100.00	531.254	100.00

Table 21
COMPARISON OF ALF LENDING PATTERNS
OF THE CBP AND THE LBP

	CBP a/				LBP b/			
	Number of Projects		Amount of Subloan		Number of Projects		Amount of Subloan	
	No.	%	Amount	%	No.	%	Amount	%
By Type of PFI								
Commercial Banks	985	43.24	4,491.5	72.43	32	43.24	361.760	68.10
Thrift Banks	727	31.91	1,513.4	24.40	42	56.76	169.494	31.90
Rural Banks	523	22.96	72.2	1.16	0	0.00	0.000	0.00
SGBs	32	1.40	103.0	1.66	0	0.00	0.000	0.00
NBQBs	11	0.48	21.3	0.34	0	0.00	0.000	0.00
Total	2,278	100.00	6,201.5	100.00	74	100.00	531.254	100.00
By Nature of Project								
Fisheries Development	403	17.69	901.0	14.53	13	17.57	83.121	15.65
Poultry and Livestock Development	559	24.54	1,329.3	21.44	38	51.35	136.611	25.71
Plantation Crops	120	5.27	384.7	6.20	19	25.68	13.000	2.45
Agro-Processing and Post-Harvest Facilities	372	16.33	2,254.0	36.35	4	5.41	298.522	56.19
Seasonal Crops	822	36.08	1,332.0	21.48	0	0.00	0.000	0.00
Farm Mechanization	2	0.09	0.3	0.01	0	0.00	0.000	0.00
Total	2,278	100.00	6,201.5	100.00	74	100.00	531.254	100.00
By Loan Purpose								
Fixed Assets (FA)	204	10.13	1,098.7	20.58	19	25.68	239.435	45.07
Working Capital (WC)	615	30.55	2,182.1	40.88	48	64.86	260.469	49.03
Combined FA & WC	290	14.41	488.2	9.15	7	9.46	31.350	5.90
Production Credit	904	44.91	1,569.1	29.39	0	0.00	0.000	0.00
Total	2,013	100.00	5,338.2	100.00	74	100.00	531.254	100.00

Table 21
COMPARISON OF ALF LENDING PATTERNS
OF THE CBP AND THE LBP

a/ From 1985 up to June 30, 1990 except for data by loan purpose, for which data for 1990 are not available.

b/ From July 1, 1990 to November 21, 1990

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 22
PAST DUE ALF LOANS
December 31, 1989
(Amount in Million Pesos)

LENGTH OF PERIOD PAST DUE	PRINCIPAL	INTEREST	TOTAL
Less than 3 months	11.6	7.5	19.1
4 to 6 months	7.8	4.4	12.2
Over 6 months	5.9	5.1	11.0
Total	25.2	17.0	42.3
% to Total Outstanding Subloans as of December 31, 1989 of P 2,985.3 million	0.85	0.57	1.42

Note: Arrearages data are based on reports submitted by 63 participating financial institutions.

Source: Central Bank of the Philippines.

Table 23
ALF INTEREST RATES
1985 - 1990
(In Percentages)

Year	Quarter	ALF Base Cost	CBP Passed-on Cost	End-users Cost b/	Lending Rate (Secured Loans) e/	Time Deposit Rate e/
1985	3rd	8.82	16.70	n.a.	25.307	17.041
1985	4th	8.82	16.70 a/	22.01	17.825	15.456
1986	1st	8.50	13.20	20.21	24.487	20.223
1986	2nd	8.50	13.20	19.95	17.074	15.473
1986	3rd	8.23	12.80	17.94	16.238	12.442
1986	4th	8.23	11.31	18.67	13.923	9.486
1987	1st	7.92	11.00	17.95	12.335	8.639
1987	2nd	7.92	10.20	16.04	13.140	10.285
1987	3rd	7.76	10.20	17.04	13.031	9.926
1987	4th	7.76	10.00	15.19	16.310	11.148
1988	1st	7.72	10.00	n.a.	15.230	12.137
1988	2nd	7.72	10.00	17.00	16.532	13.893
1988	3rd	7.59	10.00	16.48	16.401	14.104
1988	4th	7.59	10.70	16.62	16.566	13.747
1989	1st	7.65	10.70	16.50	16.639	14.626
1989	2nd	7.65	10.70	16.30	18.309	14.109
1989	3rd	7.73	11.80	16.28	20.312	18.020
1989	4th	7.73	12.50	16.28	23.768	18.591
1990	1st	7.75	12.50 d/	n.a.	22.163	18.196
1990	2nd	7.75	13.00 d/	n.a.	22.824	21.192
1990	3rd	7.70	13.00 d/	n.a.	25.307	21.669
1990	4th	7.70	14.00 d/	n.a.	27.226	23.258

Notes :

a/ Until December 8.
b/ Figures from 1985 to 1987 are weighted averages of rates in a quarter. Figures from 1988 to 1989 are cumulative weighted averages of rates from 1985.
c/ SGV computation: CB rate to PFI + CB-computed weighted average spread of PFIs.
d/ The LBP adds 2 percentage points to this rate.
e/ Weighted average of all maturities.

Source: Central Bank of the Philippines.

Table 24
ALF INTEREST RATES AND SPREADS,
BY LOAN TERMS AND BY TYPE OF PFIs
As of December 31, 1989
(In Percentages)

	CB Interest Rate to PFIs			Range of Spread of PFIs			PFI Lending Rate to End-Users		
	Min.	Max.	Weighted Average	Min.	Max.	Weighted Aver	Min.	Max.	Weighted Average
Loan Term									
Short Term				1.50	19.30	5.08	11.50	30.00	15.95
Medium Term				1.90	12.69	5.52	12.03	24.70	16.48
Long Term				6.00	12.20	8.19	15.50	24.00	20.21
Cumulative	10.00	16.70	n.a.	1.50	19.30	5.29	11.50	30.00	16.28
P F I s a/									
Commercial Banks				1.50	11.80	5.17	11.50	24.00	16.25
Thrift Banks				2.02	19.30	5.40	12.03	30.00	16.07
Rural Banks				5.20	12.00	7.86	16.00	25.00	18.76
N B Q B s b/				5.50	7.50	6.00	15.50	17.50	16.00
S G B s c/				4.30	12.30	5.84	15.00	23.00	16.63
Cumulative	10.00	16.70	n.a.	1.50	19.30	5.29	11.50	30.00	16.28

a/ Participating Financial Institutions
b/ Non-Banks with Quasi-Banking Functions
c/ Specialized Government Banks

Source: Central Bank of the Philippines.

Table 25
EXTENT OF CENTRAL BANK SUPPORT TO AGRICULTURE
(Amount in Million Pesos)

	1985	1986	1987	1988	1989	1990
Rediscounts to Agriculture a/	3,946	3,497	3,502	3,465	3,493	3,290 b/
Total Rediscounts	12,293	7,563	7,706	7,191	7,060	7,775 b/
Agricultural Production Loans Outstanding	19,794.4	19,220.1	19,643.5	21,081.8	22,401.0	n.a.
ALF Subsidiary Loans Outstanding	108.9	291.1	372.1	881.3	2,311.8	2,397.4 c/
% of Rediscounts to Agriculture to Total Rediscounts	32.10	46.24	45.45	48.19	49.48	42.32
% of Rediscounts to Agriculture to Agricultural Loans Outstanding	19.93	18.19	17.83	16.44	15.59	n.a.

a/ Commercial and rural banks only.
b/ As of September 30, 1990.
c/ As of November 21, 1990.

Sources: Central Bank, Philippine Financial Statistics (1985-1989);
Central Bank, Statistical Bulletin (1988);
Department of Loans and Credit, Central Bank of the Philippines;
Land Bank of the Philippines.

Table 26
Percentage of PFI Loan Participation
Over Total ALF Loan Releases
1985 - 1990
(Amount in Million Pesos)

	1985			1986			1987			1988			1989			1990		
	Subloan (A)	PFI Share (B)	(B)/(A) %	Subloan (A)	PFI Share (B)	(B)/(A) %	Subloan (A)	PFI Share (B)	(B)/(A) %	Subloan (A)	PFI Share (B)	(B)/(A) %	Subloan (A)	PFI Share (B)	(B)/(A) %	Subloan (A)	PFI Share (B)	(B)/(A) %
Commercial Banks	397.3	26.6	6.69	361.8	84.5	23.36	318.9	75.1	23.54	615.0	169.2	27.52	2.143.9	523.3	24.41	1016.392	249.08	24.51
Thrift Banks	2.9	0.1	2.94	88.7	18.4	20.70	155.9	29.6	18.95	401.4	84.9	21.15	685.6	152.6	22.26	348.391	88.434	25.38
Rural Banks	1.2	0.0	0.00	6.6	0.7	10.80	5.5	0.7	12.42	20.9	2.1	10.16	27.7	2.9	10.30	10.363	1.073	10.35
SGBs	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	83.6	19.3	23.11	19.395	4.939	25.47
NBQBs	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	21.3	4.3	20.19	0.0	0.0	-	0	0	
Total	401.4	26.7	6.64	457.1	103.6	22.66	480.4	105.3	21.92	1.058.6	260.5	24.61	2.940.7	698.0	23.74	1.394.5	343.5	24.63

PFI - Participating Financial Institution
SGBs - Specialized Government Banks
NBQBs - Non-Banks with Quasi-Banking Functions

Sources: Central Bank of the Philippines;
Land Bank of the Philippines.

Table 27
AGRICULTURAL LOAN FUND
CENTRAL BANK OF THE PHILIPPINES
COMPARATIVE BALANCE SHEETS
1985 - 1990
(Amount in Thousand Pesos)

	1985 a/	1986 a/	1987 a/	1988 a/	1989 a/	1990 b/
ASSETS						
Current Assets						
Cash	436,060	372,710	50,558	141,067	302,647	
Due from Central Bank						644
Due from Foreign Banks(ALF Special Working Fund in U.S. Dollars)	158,091	216,103	230,855	250,029	51,068	67,015
Accrued Interest Receivable						
STD-ALF Loans	885	5,024	7,614	22,680	67,363	90,247
LBP						5,352
Interests in Government Securities	-	-	18,690	17,096	4,102	7,764
Accounts Receivable - LBP						32,169
Investments in Government Securities	-	-	568,029	465,433	105,163	295,498
Current Maturities of STD-ALF Loans	107,694	242,787	137,123	477,506	712,796	
Unused Supplies & Materials	-	-	49	56	37	30
Total Current Assets	702,730	836,624	1,012,918	1,373,867	1,243,176	
Revaluation of International Reserve	5,110	27,283	54,847	89,378	202,372	563,324
Long-Term Assets						
Due from Local Banks						
STD-ALF Loans	108,314	291,066	372,068	881,254	2,311,825	2,166,927
LBP						234,733
Less: Current Maturities	107,694	242,787	137,122	477,506	712,796	
Total Long-Term Assets	620	48,279	234,946	403,748	1,599,029	
Other Assets						
Advances to NEDA	822	822	447	20	258	197
TOTAL ASSETS	709,282	913,008	1,303,158	1,877,013	3,044,835	3,463,900

a/ As of December 31.
b/ As of September 30.

Source: Central Bank of the Philippines.

Table 27
AGRICULTURAL LOAN FUND
CENTRAL BANK OF THE PHILIPPINES
COMPARATIVE BALANCE SHEETS
1985 - 1990
(Amount in Thousand Pesos)

	1985 a/	1986 a/	1987 a/	1988 a/	1989 a/	1990 b/
LIABILITIES AND NETWORTH						
LIABILITIES						
Current Liabilities						
Accrued Interest Payable (FLP-IBRD)	4,314	22,997	31,569	39,923	76,132	42,031
Accrued Commitment Fees Payable (FLP-IBRD)	5,046	5,752	4,213	3,487	118	
Taxes Payable	-	-	674	1,860	4,836	7,524
Total Current Liabilities	9,360	28,749	36,456	45,270	81,086	49,555
Long-Term Liabilities						
Foreign Loans Payable (FLP-IBRD)	435,492	644,871	1,031,374	1,197,320	2,241,000	2,587,500
Other Liabilities						
Advances from CBP	957	3,450	9,355	302	2,179	3,810
TOTAL LIABILITIES	445,809	677,070	1,077,185	1,242,892	2,324,265	2,640,865
NETWORTH						
Central Bank Counterpart	266,433	266,433	266,433	266,433	266,433	266,433
Donated Surplus	-	-	-	364,760	367,961	454,149
Earned Surplus (Deficit)	(2,960)	(30,495)	(40,460)	2,928	86,176	102,453
TOTAL NETWORTH	263,473	235,938	225,973	634,121	720,570	823,035
TOTAL LIABILITIES & NETWORTH	709,282	913,008	1,303,158	1,877,013	3,044,835	3,463,900

a/ As of December 31.
b/ As of September 30.

Source: Central Bank of the Philippines.

Table 27
AGRICULTURAL LOAN FUND
CENTRAL BANK OF THE PHILIPPINES
COMPARATIVE STATEMENTS OF INCOME AND EXPENSES
1985 - 1990
(Amount in Thousand Pesos)

	1985 a/	1986	1987	1988	1989 b/	1990 d/
INCOME						
Interest in Foreign Demand Deposits	1,555	10,457	10,457	13,058	11,365	2,680
Interest from SDTD-ALF Loans	5,726 c/	25,593 c/	27,644	66,166	174,393	218,742
Discount Earned on Investment in Govt. Securities	-	-	-	54,395	-	5,352
Interest from Investment in Government Securities	-	-	27,793	21,711	48,819	28,672
Miscellaneous	-	5	-	-	3	18
TOTAL	7,281	36,055	65,894	155,330	234,580	255,464
EXPENSES						
Interest in Loans Payable	4,287	48,756	60,463	83,504	135,253	135,869
Commitment Fees on Loan No. 2750-PH	4,996	12,341	9,809	7,797	2,851	
Administrative Expenses	958	2,493	6,749	3,089	1,660	1,712
Taxes on Interest on STD-ALF	-	-	5,559	16,217	5,665	11,919
Taxes and Licenses	-	-	678	1,186	2,975	2,687
Administration Fee (LBP)						824
	10,241	63,590	83,258	111,803	148,404	153,011
NET INCOME (LOSS) BEFORE TAX	(2,960)	(27,535)	(17,364)	43,527	86,176	102,453

a/ Commenced operations on July 1, 1985
b/ Unaudited
c/ Includes interest income from retroactive financing aggregating P5,554T and P34T for 1985 and 1986, respectively.
d/ For the period ended September 30, 1990

Source: Central Bank of the Philippines.

Table 28
AGRICULTURAL LOAN FUND
LAND BANK OF THE PHILIPPINES
BALANCE SHEET
September 30, 1990

ASSETS	
ALF Fund Available for Relending	3,692,423
ALF Fund For Remittance to CB	51,095,913
CB-Approved ALF Loans Released by LBP	113,500,000
Time Loan - ALF	116,931,234
Accrued Interest Receivable	1,251,621
Other Assets	42,973,889
Total Assets	329,445,080
LIABILITIES AND DEFICIT	
Bills Payable - CB	234,732,755
Accounts Payable - CB	
Interest Collections	51,095,913
Principal Collections	40,174,402
Accrued Interest Payable	6,208,891
Total Liabilities	332,211,961
Net Deficit	(2,766,881)
Total Liabilities and Deficit	329,445,080
CONTINGENT ACCOUNT	
(Outstanding CB-Approved ALF Loans as of September 30, 1990)	2,240,252,106

Source: Land Bank of the Philippines.

Table 28
AGRICULTURAL LOAN FUND
LAND BANK OF THE PHILIPPINES
STATEMENT OF INCOME AND EXPENSES
For the three months ended September 30, 1990

INCOME	
Interest Income on Taxable Investment	1,970,355
Interest on ALF-Time Loans	3,280,427
Service Fees	1,669,072
Total	6,919,855
EXPENSES	
Interest on Bills Payable - CB	8,999,960
NET INCOME (LOSS)	(2,080,106)
Imputed Income on Average Daily Fund Balance Based On Average Yield Rate on Short Term Government Securities	9,633,227
INCOME AFTER IMPUTATION	7,553,122

Source: Land Bank of the Philippines.

Table 29
LIST OF LBP-APPROVED ALF CREDIT LINES
As of December 7, 1990
(Amount in Million Pesos)

Name of Participating Financial Institution	Amount
Commercial Banks	
Allied Banking Corporation	100.000
Bank of America NT & SA	100.000
Bank of the Philippine Islands	240.000
China Banking Corporation	75.000
Citibank N.A.	100.000
CityTrust Banking Corporation	200.000
Equitable Banking Corporation	25.000
Far East Bank and Trust Company	300.000
International Corporate Bank	100.000
Metropolitan Bank and Trust Company	200.000
Philippine Commercial International Bank	300.000
Prudential Bank	50.000
Rizal Commercial Banking Corporation	150.000
Solid Banking Corporation	50.000
Union Bank of the Philippines	50.000
United Coconut Planters Bank	300.000
Thrift Banks	
Asiatrust Development Bank	20.000
BPI-Agricultural Development Bank	240.000
Dumaguete City Development Bank	2.000
Lipa Public Savings Bank (Batangas), Inc.	10.000
Northern Mindanao Development Bank	20.000
Planters Development Bank	150.000
Premiere Development Bank	5.000
Southern Negros Development Bank	5.000
Town Savings and Loan Association (Bulacan), Inc.	9.500
United Savings Bank	5.000
Unity Savings and Loan Association (Pampanga), Inc.	3.000

Table 29
LIST OF LBP-APPROVED ALF CREDIT LINES
As of December 7, 1990
(Amount in Million Pesos)

Name of Participating Financial Institution	Amount
Rural Banks	
Rural Bank of Abucay, Inc.	0.500
Rural Bank of Baclod City, Inc.	1.500
Rural Bank of Bambang (Nueva Vizcaya), Inc.	0.500
Rural Bank of Banga (Aklan), Inc.	1.000
Rural Bank of Bantayan (Cebu), Inc.	1.000
Rural Bank of Batangas (Batangas), Inc.	1.000
Rural Bank of Binmaley (Pangasinan), Inc.	2.000
Rural Bank of Bogo (Cebu), Inc.	0.500
Rural Bank of Borongan (Samar), Inc.	2.000
Rural Bank of Buug (Zamboanga del Sur), Inc.	0.350
Rural Bank of Cabadbaran (Agusan del Norte), Inc.	0.350
Rural Bank of Cabagan (Isabela), Inc.	0.300
Cabanatuan City Rural Bank (Nueva Ecija), Inc.	1.500
Rural Bank of Calape (Bohol), Inc.	5.000
Rural Bank of Canlubang Planters (Laguna), Inc.	2.000
Rural Bank of Catmon (Cebu), Inc.	0.500
Rural Bank of Cuenca (Batangas), Inc.	2.000
Rural Bank of Dulag (Leyte), Inc.	1.000
Rural Bank of Gingoog (Gingoog City), Inc.	0.500
Rural Bank of Guagua (Pampanga), Inc.	5.000
Rural Bank of Guigulngan (Negros Oriental), Inc.	0.500
Commercial Rural Bank of Guimba, (Nueva Ecija), Inc.	1.000
Rural Bank of Ibaan (Batangas), Inc.	4.900
Rural Bank of Jaen (Nueva Ecija), Inc.	0.500
Rural Bank of La Carlota City (Negros Occidental), Inc.	5.000
Rural Bank of Larena (Siquijor), Inc.	1.000
Rural Bank of Laurel (Batangas), Inc.	1.000
Rural Bank of Madridejos (Cebu), Inc.	0.500
Marikina Valey Rural Bank (Marikina, Metro Manila), Inc.	2.500
Rural Bank of Meycauayan (Bulacan), Inc.	1.750
Rural Bank of Midsayap (North Cotobato), Inc.	2.500
Rural Bank of Nabua (Camarines Sur), Inc.	2.000
Rural Bank of Naval (Leyte), Inc.	2.000
Northern Philippines Rural Bank	1.000
Rural Bank of Oslob (Cebu), Inc.	0.500

Table 29
LIST OF LBP-APPROVED ALF CREDIT LINES
As of December 7, 1990
(Amount in Million Pesos)

Name of Participating Financial Institution	Amount
Rural Bank of Pagsanjan (Laguna(, inc.	10.000
Rural Bank of Panabo (Davao del Norte), Inc.	3.000
Rural Bank of Pandi (Bulacan), Inc.	4.000
Rural Bank of Plaridel (Bulacan), Inc.	0.500
Rural Bank of Pulilan (Bulacan), Inc.	1.900
Rural Bank of Rang-ay (La Union), Inc.	2.500
Rural Bank of Rizal (Laguna), Inc.	1.000
Rural Bank of Sampaloc (Quezon), Inc.	1.000
Rural Bank of San Antonio (Quezon), Inc.	1.000
Commercial Rural Bank of San Isidro (Nueva Ecija), Inc.	3.000
Rural Bank of San Miguel, inc.	2.000
Rural Bank of Sibonga (Cebu), Inc.	0.500
Rural Bank of Sta. Barbara (Pangasinan), Inc.	1.000
Rural Bank of Sta. Catalina (Negros Oriental), Inc.	2.000
Rural Bank of Sta. Maria (Bulacan), Inc.	4.750
Rural Bank of Sta. Maria (Pangasinan), Inc.	0.500
Rural Bank of Sta. Rita, (Pampanga), Inc.	2.850
Rural Bank of Sto. Domingo (Albay), Inc.	2.000
Rural Bank of Subangdaku (Cebu), Inc.	3.000
Rural Bank of Sugbunaun (Cebu), Inc.	4.000
Rural Bank of Tanauan (Batangas), Inc.	1.000
Rural Bank of Valencia (Negros Oriental), Inc.	0.500

Source: Land Bank of the Philippines.

Table 30
LIST OF SIGNIFICANT ALF LOANS BORROWERS
1985 - 1990 a/
(Amount in Million Pesos)

BORROWER	AMOUNT OF SUBSIDIARY LOAN
37	
--	
ıtral Azucarera de Tarlac	171.480
ɨeral Agricultural Corporation	37.706
·lac Development Corporation	40.500
38	
--	
; Farming Corporation	20.000
ɜrfeeds, Inc.	16.583
ɨeral Agricultural Corporation	103.573
·st Farmers Milling & Mktg. Coop. Assoc.	46.996
›anday Agricultural & Development Corporation	20.000
.l-American Poultry Breeders, Inc.	24.000
›chi Fisheries Enterprises, Inc.	20.000
·iano Fruits Corporation	20.000
›erior Agro-Development Corporation	16.000
?. Farms, Inc.	72.224
:torias Milling Company, Inc.	100.000
,arich Corporation	29.964
.. Lorenzo Farms, Inc.	20.000
9	
-	
o Resources, Inc.	24.000
go Agro-Industrrial Development Corporation	15.000
Farming Corporation	30.000
as Fertilizer Corporation	100.000
la Agricultural Develpment Corporation	15.000
estial Farms, Inc.	30.000
tral Azucarera de Tarlac	207.500
tral Azucarera Don Pedro	170.000
o Vegetable Oil Manuacturing Company, Inc.	15.000
rfeeds, Inc.	15.513
rgreen Farms, Inc.	20.000
eral Agricultural Corporation	112.000
eral Milling Corp./Uytengsu, Wilfredo	190.000
zalo Puyat & Sons, Inc./Philippine Flour Mills	25.000
h Ponds Aquaculture, Inc	16.000
erworld Farms, Inc.	15.000

Table 30
LIST OF SIGNIFICANT ALF LOANS BORROWERS
1985 - 1990 a/
(Amount in Million Pesos)

BORROWER	AMOUNT OF SUBSIDIARY LOAN
Lapanday Agricultural & Development Corporation	20.000
Lucky Grains Ricemill/Uy, William/Ester	20.000
Luz Farms, Inc.	20.000
New Lucena Oil Products, Inc.	30.000
Purefoods Corporation	327.000
R Jorgensons Swine Multiplier Corporation	20.000
R & R Ricemill	15.000
RFM Corporation	64.000
RS Agricultural Development Corporation	17.500
San Miguel Corporation	140.000
Sancanco Canning Corporation	28.000
Sarangani Agricultural Company, Inc.	20.000
Seatech, Inc.	15.000
Soriano Fruits Corporation	20.000
Sta. Cruz Ricemill/Tanjutco, Ysaac/Bernardita	17.270
S.R. Farms, Inc.	17.000
Tantuco Enterprises, Inc.	20.000
Tarlac Development Corporation	34.000
Tony & Flora Ko Enterprises, Inc.	16.000
Uptrade Resource Corporation	24.000
Valiant Ricemill Corporation	30.000
1990	
Central Azucarera de Tarlac	187.500
Central Azucarera Don Pedro	50.000
Gonzalo Puyat & Sons, Inc./Philippine Flour Mills	20.001
Interworld Farms, Inc.	15.000
Purefoods Corporation	60.000
Salazar, Ernesto/Maylia	20.000
San Andres Fishing Industries, Inc.	16.850
Siochi Fisheries Enterprises, Inc.	20.000
Tantuco Enterprises, Inc.	20.000
Uptrade Resource Corporation	16.000
V.A. Lorenzo Farms, Inc.	25.000

a/ Up to June 30, 1990.

Source: Central Bank of the Philippines.

Table 31
ALF LOAN SYNDICATIONS
1985 - 1990
(Amount in Million Pesos)

BORROWER	DATE RELEASED	PFI a/	AMOUNT OF SUBSIDIARY LOAN
Atlas Fertilizer Corporation	May 22, 1989	*BPI	18.600
		BPI-Agri	4.650
			23.250
Central Azucarera de Tarlac	August 29, 1986	Citibank	34.725
		*Citytrust	17.715
		PCIB	30.000
		RCBC	12.495
			94.935
Central Azucarera de Tarlac	July 6, 1987	Citibank	34.725
		*Citytrust	17.715
		PCIB	30.000
		RCBC	12.495
			94.935
Central Azucarera de Tarlac	January 9, 1989	PCIB	60.000
		RCBC	37.500
		*UCPB	43.125
			140.625
Central Azucarera de Tarlac	January 1, 1990	PCIB	15.000
		RCBC	15.000
		*UCPB	13.125
			43.125
Gonzalo Puyat & Sons/Philippine Flour Mills			
First release	March 6, 1990	BPI	5.000
		FEBTC	5.000
		Metro	5.000
			15.000

Table 31
ALF LOAN SYNDICATIONS
1985 - 1990
(Amount in Million Pesos)

BORROWER	DATE RELEASED	PFI	AMOUNT OF SUBSIDIARY LOAN
Second release	June 8, 1990	FEBTC	3.333
		Metro	3.333
			6.666
Purefoods Corporation			
First release	July 26, 1989	*BPI	49.050
		BA	39.240
		FEBTC	39.240
		PCIB	39.240
		Solid	39.240
		UCPB	39.240
			245.250
Second release	March 19, 1990	BPI	9.000
		BA	7.200
		FEBTC	7.200
		PCIB	7.200
		Solid	7.200
		UCPB	7.200
			45.000
Universal Robina Corporation	May 25, 1990	Citibank	5.000
		*Citytrust	5.000
			10.000

Table 31
ALF LOAN SYNDICATIONS
1985 - 1990
(Amount in Million Pesos)

Notes:

PFI - Participating Financial Institution

BA - Bank of America NT & SA
BPI - Bank of the Philippine Islands
BPI-Agri - BPI Agricultural Bank
Citibank - Citibank NA
CityTrust - CityTrust Banking Corporation
FEBTC - Far East Bank and Trust Company
Metro - Metropolitan Bank and Trust Company
PCIB - Philippine Commercial International Bank
RCBC - Rizal Commercial Banking Corporation
UCPB - United Coconut Planters Bank

a/ Lead banks are marked "*"

Source: Central Bank of the Philippines.

Table 32

FINANCIAL SECTOR REFORMS
Status As Of May 25, 1990

Measure/Objective	Status	Agencies Concerned	Timetable
A. Amend the Central Bank and PDIC Acts			
1. Amend the Central Bank Act to:			
(a) Introduce cease and desist orders to add to CBPs available enforcement instruments;	These proposed amendments are included in a bill pending before Congress to amend the CB Charter.	Congress	Congressional committee hearings are going on. Expected passage by June-July 1990. Passage in 1990 would largely depend on Congressional action
(b) Add appropriate new criteria for appointment of receivers for distressed banks to provide MB more flexibility in dealing with insolvent banks;			
(c) Curb insider abuse by eliminating secrecy accorded to deposits of DOSRI;			
(d) Empower CBP to institute civil suits against bank directors and officials accused of wrongdoing; and			
(e) Protect the regulatory staff against personal losses resulting from suits brought against them for action taken in performance of their duty.			
2. Strengthen Arrangements for Depositor Protection			
(a) Appoint PDIC, by law, as receiver in all cases of bank failures. The objectives are to: (a) give a substantial role to PDIC in dealing with failed banks, (b) avoid allegations of conflict of interest when CBP	Included in proposed amendments to the Central Bank charter as well as to the PDIC law pending before Congress.	Congress	Congressional committee hearings on-going. Expected passage by June-July 1990.

Measure/Objective	Status	Agencies Concerned	Timetable
acts as conservator, receiver and ator of failed banks, and (c) empower PDIC to institute civil suits against bank directors and officials accused of wrongdoing.			
(b) Increase PDIC's capitalization and strengthen its management and staff to prepare it for a substantially enlarged role.	In the meantime, PDIC's paid-in capital had been raised to P1.3 billion. This is projected to be raised to P3 billion by 1990 upon the amendment of the PDIC Charter which provides for a maximum capitalization of P2 billion only. The Corporation had also been authorized to recruit additional personnel.	PDIC, Congress	Part of the institutional strengthening plans approved by the Board of directors of the Corporation will be fully implemented after the bills pending before Congress amending PDIC's capital had been increased.

B. Strengthen Bank Supervision and Regulation

A. Study and Improve:

Measure/Objective	Status	Agencies Concerned	Timetable
(a) commercial banks reporting requirements;	Issued as Circular 1216 dated December 20, 1989. Related issuance: Circular 1218 dated December 26, 1989 (for NSSLAs and BLAs).	Central Bank	Implemented.
(b) guidelines for asset valuation and loan loss provisions to tighten, standardize and apply criteria uniformly to all banks;	Issued as Circular 1222 (general policy on risk management and review system), 1223 (restructured loans) and 1224 (past due loans), all dated January 19, 1990.	Central Bank	Implemented.
(c) guidelines for treatment of trust accounts by commercial banks to prevent abuses;	Final report of the Committee concerned submitted to the Governor. Related issuance: Circular 1221 dated January 15, 1990 (limitations on holdings of government funds	Central Bank	On-going.

Measure/Objective	Status	Agencies Concerned	Timetable
	under trust agreements); and Circular 1234 dated April 6, 1990 (limitations on without recourse commercial paper transactions of banks). Further review of trust accounts operations on-going.		
(d) accounting principles governing preparation and reporting of banks financial condition and operating results; and	Final report of the Committee submitted to the Governor. Related issuance: Circular 1166.dated January 16, 1987 (adoption of SFAs standards in reports).	Central Bank	
(e) guidelines governing emergency loans to banks to ensure consistency and predictability in their application.	Guidelines approved under MB Res. No. 245 dated March 27, 1989. However, circularization will wait until action on the bills filed in Congress pertaining to the same matter had been made. In the meantime, should a bank need emergency loans, approved guidelines will be applied	Central Bank/ Congress	Hearings on-going

C. <u>Reduce Intermediation Costs</u>

1. By Fostering Competition in Banking Industry:

(a) Liberalization of rules on the establishment of new banks. Establish objective qualifying criteria for new bank applicants;	Policy already approved by the MB per its Res. No. 244 dated March 27, 1989 and issued as Circular 1200 dated May 16, 1989. Asian Savings Bank's application was approved by MB in its Res. No. 83 dated February 2, 1990. Related issuances: Circular 1214 dated Nov. 8, 1989 (increase in capitalization of commercial banks.	Central Bank	Being implemented

Measure/Objective	Status	Agencies Concerned	Timetable
(b) Review and improve the policy governing weak banks. The objectives would be not to sustain the weak banks for unduly long periods.	Policy already approved by MB per its Res. No. 244 dated March 27, 1989 and issued as Circular 1200 dated May 16, 1989.	Central Bank	Being implemented
(c) Review and improve conditions governing opening of new branches.	Policy already approved by MB per its Res. No. 244 dated March 27, 1989 and issued as Circular 1200 dated May 16, 1989. From May to December 31, 1989, eighteen (18) new branches of commercial banks were approved. Related issuance: Circular 1188 dated December 28, 1988 (eliminating prerequisite investments to open branches). Additional rules such as service area definitions are being formulated.	Central Bank	Partly implemented
D. <u>Transfer of Apex and IGLF Programs to DBP and ALF to LBP from CBP.</u>	(1) Memorandum of Agreement for the Transfer of APEX to DBP completed on April 10, 1990.		
	(2) The terms and conditions for the transfer of IGLF to DBP are being worked out between NEDA and DBP. Draft Memorandum of Agreement transmitted to DBP on May 15, 1990. Terms of agreement under negotiation.		On-going - Expected date of completion: June 1990.
	(3) Memorandum of Agreement for the Transfer of ALF to LBP signed on April 27, 1990. Actual fund transfer depends upon collateral delivery by LBP.	Central Bank/ LBP	On or before June 1990

Measure/Objective	Status	Agencies Concerned	Timetable
E. Improve Debt Collection and Insolvency Laws:			
1. Amend laws and procedures governing debt recovery and real estate mortgages by (a) reducing redemption period to six months, (b) eliminating distinction between bank and non-bank creditors in the case of judicial foreclosures, and (c) tighteningthe access to courts after an extrajudicial forclosure.	Report of the Committee to Review Existing Laws and Procedures Governing Recovery and Insolvency submitted to MB on March 29, 1990. Approved by MB on April 4, 1990, endorsing to Congress three proposed bills: (1) amending RA 3135 (Real Estate Mortgage Law); (2) RA 1508 (Chattel Mortgage Law), and (3) rehabilitation of distressed corporation.	Central Bank/ Congress	On-going
2. Amend bankruptcy laws to (a) protect the reorganization process from subversion by seizure of assets by creditors, (b) give courts explicit authority to enable the debtor enterprises to continue operation while reorganization proceeds, and (c) give SEC or another agency unambiguous power to appoint a trustee.			
F. Reduce Taxation on Financial Intermediation:			
1. Phase out Gross Receipts Tax (GRT).			
2. Eliminate 20% Final Withholding Tax on Inter-bank deposits.	The Bureau of the Treasury reported on January 9, 1990 that tentatively the Tax Revenue to GNP Ratio as of December 22, 1989 is 12.43%. This ratio is being validated and if found to be correct, appropriate steps will be taken to phase out these taxes.	BTR/BIR	On-going

Measure/Objective	Status	Agencies Concerned	Timetable
3. Phase out implicit tax arising out of current reserve requirements.	Liquidity conditions have permitted the lowering or reserve requirement nor the raising of interest paid on reserve balances of banks with the Central Bank.	Central Bank	Indefinite
3. Eliminate preferential reserve requirements on long-term deposits.	Approved under MB Res. No. 760 dated Sept. 1, 1989 and circularized under CB Circular No. 1209 dated September 1, 1989, 1211 dated September 22, 1989, 1233 dated March 21, 1990 and MB Res. 499 dated May 25, 1990.	Central Bank	Being implemented
6. Improve Fund Mobilization and Delivery of Term Funds			
1. Phase out Agri-Agra requirements to eliminate redundant (Agri) and unrealistic (Agra) lending targets and free banking sector from mandated credit program.	A bill had been filed in Congress to eliminate the requirement for banks to allocate part of their loanable funds to Agri-Agra requirements. The CB had endorsed this bill. The MB, in the meantime, had suspensed sanctions for non-compliance with the requirements.	Central Bank/ Congress	Indefinite
2. Phase out CBP role in credit allocation programs.	Actual transfer of all loan programs administered by CB are being implemented.	Central Bank/ DBP/LBP	On-going
3. Adopt a general policy of market-oriented interest rates on all government-sponsored loan programs and those funded by official borrowings, to eliminate subsidies and market distortions.	Already incorporated in the Government's Statement of Policy and being implemented.	Central Bank	Being implemented
4. Reorient DBP into a wholesale bank with private sector orientation and substantially reduce present retail banking operations. The objective is for DBP to mobilize long-term	1. Funds to be used by DBP for wholesale banking only partially transferred to DBP (such as AJDP, IGLF and APEX).	DBP/CBP/ COA	On-going

Measure/Objective	Status	Agencies Concerned	Timetable
funds both domestically and internationally and act as a market in long-term paper.	2. Institutional strengthening affected to support this conversion to wholesale banking are as follows: a. Capital Markets Department (CMD) created. b. Vice-President to head CMD appointed. c. Financial Institutions Department (FID) created. d. Vice President to head FID appointed. 3. Privatization through an offering of at least 25 percent of the total voting stock of the 5 regional development banks deferred due to questions raised by COA Auditor.		

Sources: (1) Status Report of the Monitoring Group on Financial Sector Loan Agreement as of December 31, 1989.
(2) Financial Sector Adjustment Loan: Review of Progress (March 2, 1990), World Bank Manila Mission report.
(3) Interview with DLC and Legal Department Officials of the Central Bank.