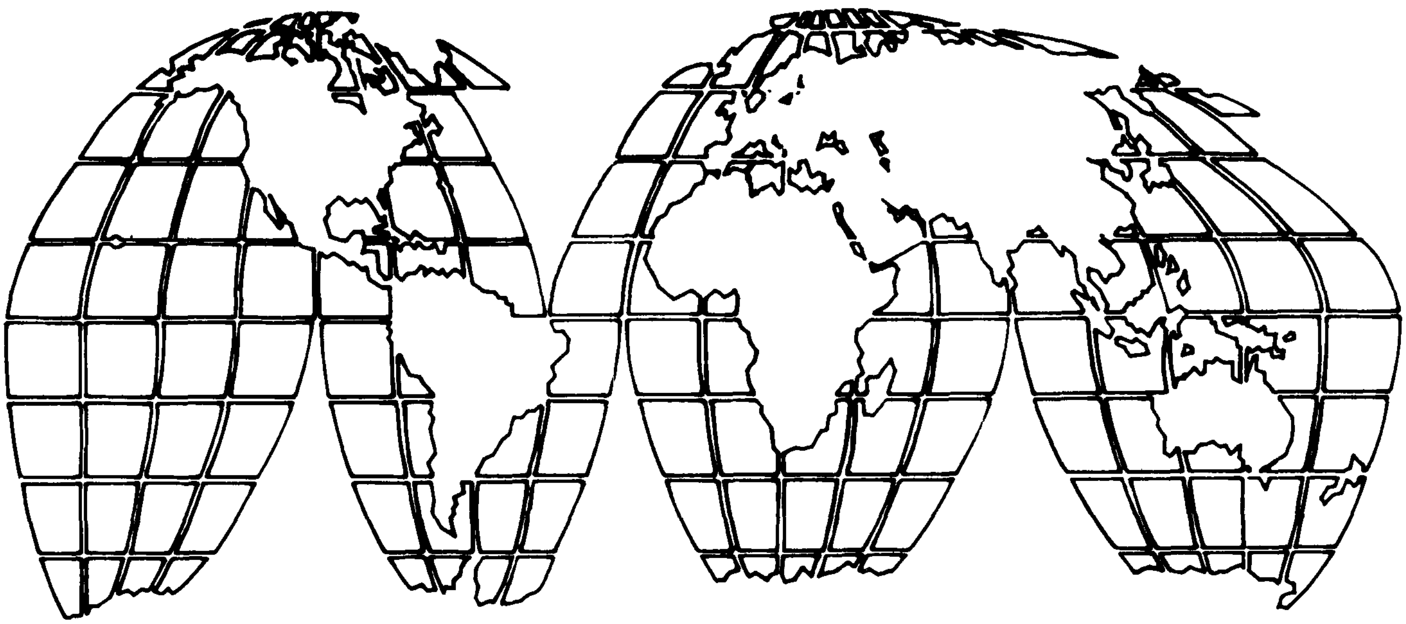
Evaluation Special Study No. 46

The Private Development Corporation of the Philippines



October 1986

Agency for International Development (A.I.D.)

Washington, D.C. 20523

PN-AAL-085

THE PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

A.I.D. EVALUATION SPECIAL STUDY NO. 46

by

Ray Love, Team Leader
(Africa Bureau, A.I.D.)

Peter A. Theil
(Legislative Affairs, A.I.D.)

Philip W. Ruppert
(Industrial and Management Consultant
Springdale, Arkansas)

U.S. Agency for International Development

October 1986

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FOREWORD

This study of the Private Development Corporation of the Philippines was undertaken in late 1983. It is one in a series undertaken by the Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, to examine Agency for International Development (A.I.D.) experience with the implementation of the Private Sector Development Initiative since 1981.

The other related papers are as follows:

A Review of A.I.D.'s Experience in Private Sector Development, A.I.D. Program Evaluation Report No. 14, April 1985 (PN-AAL-049).

Private Sector Development in the Thai Seed Industry, A.I.D. Evaluation Special Study No. 23, June 1985 (PN-AAL-047).

Management Education in Modern Tunisia: L'Institut Supérieur de Gestion, Tunis, A.I.D. Evaluation Special Study No. 24, April 1985 (PN-AAL-050).

Ecuador Industrial Development Finance, A.I.D. Evaluation Special Study No. 25, June 1985 (PN-AAL-051).

Promoting the Manufacture and Use of Small-Scale Agricultural Machinery in Indonesia, A.I.D. Evaluation Special Study No. 26, June 1985 (PN-AAL-052).

We are indebted to the authors of these papers for their contributions to A.I.D.'s understanding of the role of the private sector in development and the Agency's role in that development.

W. Haven North
Associate Assistant Administrator
Center for Development Information and Evaluation
Bureau for Program and Policy Coordination
Agency for International Development
October 1986

PREFACE

A.I.D. and its predecessor agencies have been active in financing private sector activities since the initiation of comprehensive bilateral economic assistance programs following World War II. With the shift in development assistance strategies in the 1970s to give greater attention to equity objectives and basic human needs, A.I.D. participation in private sector programs diminished substantially. Revision of A.I.D.'s strategy under the current administration has focused on restoring a balance between productivity and equity in A.I.D.'s development efforts. Increased attention to private sector intervention, including renewed attention to market forces, has been a major component of A.I.D.'s revised strategy.

Despite its activity and historical role in assisting private sector activities, little comprehensive evaluation has been done on A.I.D.'s role in private sector assistance or its successes and failures. By the beginning of the 1980s, many A.I.D.-initiated private sector activities had been in place and operating for 30 years or more. The opportunity to reflect on and learn from these development programs is critical to the successful formulation of a new private sector strategy for A.I.D.

The evaluation of the Private Development Corporation of the Philippines (PDCP) is one part of this appraisal process. PDCP is 20 years old this year. It has achieved a position of prominence and respect in the Philippine financial community fully consistent with the objectives and expectations of the original incorporators. (See Appendix A for a description of the goals and development strategy of PDCP.)

PDCP provides several important lessons--both dos and don'ts--for aid donors' consideration in formulating new development bank programs. In different ways, these lessons are applicable to both the more sophisticated developing economies of Asia and Latin America and the less-developed economies of Sub-Saharan Africa.

The evaluation of PDCP also allowed the team an opportunity to review the current status and success of the Industrial Guarantee and Loan Fund (IGLF). IGLF was established in 1952 as a joint intermediate credit program by the U.S. and Philippine Governments. It is now over 30 years old and operating successfully as a channel of funds to small- and medium-scale industry. IGLF is PDCP's primary source of peso funding and PDCP is IGLF's largest participating bank. Both IGLF and PDCP provide useful lessons for A.I.D. in developing approaches to intermediate credit financing.

The team arrived in Manila on October 4, 1983 and spent 3 weeks conducting its evaluation. During the first 2 days, the team spoke to Mission staff and refined the draft scope of work. In addition to Mission support, the team received help from the Management Group section of SyCIP, Gorres and Velayo & Co., a certified public accounting firm, which provided the financial analysis of PDCP and the overview of the Philippine economy for the period under review.

The team conducted in-depth interviews with PDCP management staff and officials from the Asian Development Bank, the IGLF in the Ministry of Budget, and the Central Bank. During a period of 5 days, the team visited a representative sample of nine businesses that had received loans from PDCP over the past 20 years. Selection criteria to provide a balanced mix of firms included size (small to medium), location (metropolitan Manila and outside of the city), and financial success (those having financial difficulty and those that had prospered and grown). The team also visited a PDCP subsidiary in Cagayan de Oro. Discussions with bank staff and time limitations also guided the selection of businesses to visit.

PDCP arranged for the owner or manager to meet with the team members at each site. A representative of the bank escorted the team to answer any questions concerning the financial position of the business being reviewed. At least two members of the team visited each site so that they could compare their impressions.

Although the team did not have a structured set of questions for each visit, all interviews shared a common set of questions, including the following: why did the business go to PDCP, what other institutions were approached, how did PDCP handle any restructuring of loans if that was needed, why were requests for additional loans made and when, what is the current volume of business compared to initial years, what is the projected growth, what are the employment patterns, are products exported or sold domestically, what are the overall costs of production, how does PDCP oversee the loan(s)?

Supporting quantitative data, many of which are presented in Appendixes B and C, were gathered from a wide variety of sources.

SUMMARY

The Private Development Corporation of the Philippines (PDCP) was established in 1963, based in part on an A.I.D. loan of P27.5 million in quasi-equity. The objective of the Government of the Philippines was to establish a privately owned and controlled development finance institute that would operate more efficiently and under less political pressure than would a government institution and that would be more successful in attracting both foreign and domestic long-term capital. These expectations were largely met.

The economic volatility of the 1960s and 1970s adversely affected PDCP operations. Especially important were inflation, adverse balance of payments and hence growing external debt, and the declining value of the peso (all associated with the two oil shocks). These problems were compounded by the limitations of the import-substitution policies pursued by the Philippine Government, including interest rate controls which denied to interest its credit-allocating role. Nevertheless, by the end of 1982, assistance had been provided to over one thousand projects, with a peso value of over P5 billion. By any measure, the relatively small sum provided by A.I.D. was associated with a multiple expansion of various aspects of the Philippine economy. Further, PDCP's portfolio remained relatively problem free. PDPC's institutional strength has benefited from continuity of management and very good in-house staff training.

There were problems, however. Relatively too many loans (by value) are still made in the central regions. Early lending was concentrated in electric utilities, the cement industry, and relatively larger scale industry, but by 1983 lending was more diverse, with small-and medium-scale industry receiving more attention. PDCP has continuing problems obtaining local currency. This problem was somewhat alleviated by PDCP's ability to tap the peso resources of the Industrial Guarantee and Loan Fund, a separate institution also established in part with A.I.D. funding. Pesos from the Fund are especially important for the expansion of loans to small- and medium-scale enterprises. Also, the establishment of a Central Bank credit line in 1981 increased the supply of pesos from foreign currency loans for local expenditures.

Important lessons can be learned from the PDCP experience. For example, A.I.D. must pay greater attention to the evaluation of its past experiences in providing assistance to the private sector and to the use of local currency generation as a resource for supporting private sector development. The foreign exchange

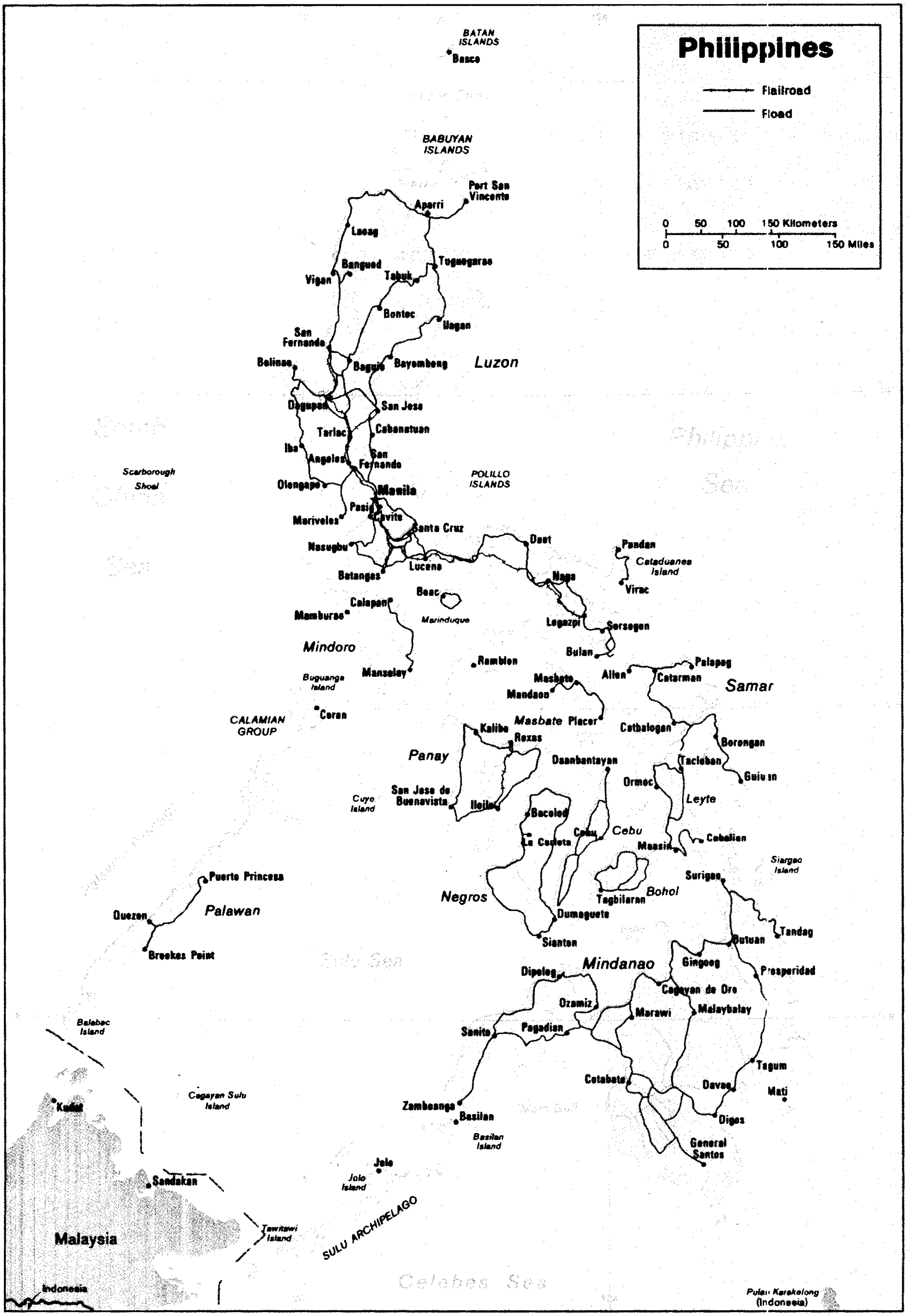
risk is a major impediment to private sector investment. Greater attention must be devoted to analysis of the financial sector in recipient countries as a prerequisite to A.I.D. investment in that sector. Priority should be given to wholesaling rather than retailing financial assistance to private sector entities and to developing related institutions. Finally, training and technical assistance should be part of each A.I.D. attempt to establish or strengthen development finance institutions.

GLOSSARY

ADB	-	Asian Development Bank
APEX	-	an experimental financing program of the Central Bank to channel resources through the Central Bank to participating financial institutions
AFC/ASEAN	-	ASEAN Finance Corporation, established by the Association of South East Asian Nations to promote investment in that region
CB	-	Central Bank of the Philippines
CDC	-	Commonwealth Development Corporation
DBP	-	Development Bank of the Philippines
DFI	-	Development Finance Institute, training arm of PDCP
DLF	-	Development Loan Fund
EDI	-	Economic Development Institute of IBRD
FEBTC	-	Far East Bank and Trust Company
GDP	-	gross domestic product (total value of final goods and services produced domestically, valued at market prices)
GNP	-	gross national product (total value of final goods and services produced, valued at market prices)
IBRD	-	International Bank for Reconstruction and Development (World Bank)
IGLF	-	Industrial Guarantee and Loan Fund
IMF	-	International Monetary Fund
LIBOR	-	London interbank offer rate
NEDA	-	National Economic Development Authority
P	-	peso (Philippine currency)

GLOSSARY (cont.)

PDB	-	private development bank
PDCP	-	Private Development Corporation of the Philippines
universal banking	-	a term describing a system in which banks are full service banks (along European and Japanese lines) rather than one in which banks specialize in a single kind of activity (e.g., commercial or investment banking)
unibank	-	a bank performing many different services



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1. THE ECONOMIC SETTING

This section provides an overview of the Philippine economy by presenting data on overall trends, the changing macroeconomic policy context, and financial markets.

1.1 Economic Trends in the Philippines

GDP accounts. The Philippine economy has undergone significant expansion and structural change since the early 1960s. From 1963 to 1982, industry expanded in real terms at an annual average rate of 7 percent, whereas agricultural and services sectors grew by only 4 and 5 percent, respectively (Table B-1). Industry as a percentage share of gross domestic product increased by 9 percent over the same period, whereas the percentage shares of agricultural and services sectors decreased by 6 and 3 percent, respectively (Table B-2).

Financial assets. Total assets of the Philippine financial system grew from P54 billion in 1974 to P121 billion in 1978 (current prices). Commercial banks accounted for slightly more than one-half of these assets and nonbank financial institutions for about one-fourth (Table B-3).

Prices. Inflation, a recurrent problem, became especially severe in the 1970s (Table B-4). The periods 1970-1971, 1973-1974, and 1979-1981 were marked by double-digit inflation rates, most of them associated with the global oil crises. Inflation peaked in 1974 at over 30 percent.

Trade and debt. The oil crises also greatly affected the Philippine trade structure. Although foreign deficits have been a periodic problem since the early 1960s, they became especially severe beginning in the mid-1970s. As of 1982, the Philippines' outstanding external debt totaled US$17.3 billion.

Exchange rates. The trade deficit and the debt burden are reflected in the precarious position of the peso, which underwent a series of devaluations from 1963-1982 (Table B-14). In late 1983 when this report was written, the peso-dollar rate stood at P14:US$1.

Sources of instability. The behavior of import and export prices in particular was highly unstable. Domestic factors such as money supply, credit, and interest rates displayed lower variability.

1.2 Overall Economic Policies

To review the effects of national economic policies on the operations of the Private Development Corporation of the Philippines (PDCP), it is instructive to briefly chronicle the development experience of the Philippines since the 1950s.

The postwar reconstruction program in the Philippines resulted in rapid rehabilitation of the economy. Between 1950 and 1957, import-substitution policies were pursued. Manufacturing concentrated on assembly, finishing stages, and light processing. The failure of import-substituting, capital-intensive manufacturing to reduce dependence on imports placed the burden of providing foreign exchange on the agricultural sector, which was itself becoming less able to provide sufficient exports and food supplies. Increasing import payments plus decreasing export receipts resulted in balance of payments deficits. Thus, the Government opted for decontrol and devaluation via a series of steps completed in 1962.

The decontrol, however, was unable to redirect the economy from import substitution toward exports or from agricultural dependence to manufacturing. The continuation of import controls and the strain in the primary sector resulted in balance of payments difficulties again in the late 1960s. In an attempt to expedite industrialization and improve export performance, the Government enacted the Investment Incentives Act in 1967 and the Export Incentives Act in 1970.

There have been several studies on the effects of these incentive laws on allocative efficiency. In general, these studies show that (1) utilization of these incentives, and thus their effects on industrial production, was minimal; (2) the incentives could not have significantly changed the economic structure because there has been no basic departure from import substitution; and (3) the distortional effect on relative factor use drove a wedge between the profitability and social desirability of such investments.

Further, the oil crises and the recession in most developed countries caused low growth and high inflation for the Philippines in most of the 1970s.

In brief, three decades of import substitution resulted in a badly distorted industrial structure in terms of output mix, lagging growth rate, and an increasingly capital-intensive set of technology choices.

1.3 The Financial Market

1.3.1 Financial Institutions

The financial system in the Philippines is relatively well developed (Table B-3). The system, however, has its shortcomings: (1) the underdeveloped state of the long-term capital market, (2) the skewed sectoral allocation of credit, and (3) the difficulty of obtaining pesos for long-term credit.

1.3.2 Interest Rates

Nominal deposit interest rates are governed by law. Although interest rates on savings and time deposits have been periodically adjusted to raise the overall level of financial savings, because of inflation the real return on financial savings has often been negative (Table B-4).

There has been a marked disequilibrium in interest rates, and the structure of the financial sector and the nature of its loans have shifted in a manner consistent with this. Before the 1970s, the Philippine financial system consisted largely of commercial banks, but there were rapidly growing nonbank financial intermediaries. Lending rates of commercial banks were limited by the Usury Law of 1916, whereas those of nonbank financial intermediaries (before they were regulated) were not. By the 1970s, nonbank intermediaries were a large segment of the financial system.

1.3.3 Loan Maturity

The loan market is dominated by short-term credit. This is particularly true of bank credit, more than 90 percent of which is short term (Table B-5). The nonbank financial intermediaries have a better maturity balance (Table B-6). Because commercial banks dominate the Philippine financial system and because specialized financial institutions (other than the Development Bank of the Philippines, DBP) play only a limited role in providing long-term domestic resources to productive sectors, the major problem is how to reorient the operations of commercial banks so that they are more supportive of long-term development plans.

The major long-term lending institution is DBP, which provided almost half of total outstanding long-term credits in 1977 (Table B-7). PDCP, although licensed as an investment house, is a development finance institution. Data on commercial banks' credit allocation by maturity (Table B-8) show that practically all bank credit is short term, with a maturity of less than 1 year.

1.3.4 Sectoral Allocation of Credit

Because the interest rate has been denied its credit-allocating function, other criteria for rationing credit have been required. The Central Bank uses various allocative devices such as special rediscounting facilities and minimum required proportion of credits in certain sectors such as agriculture. Despite Government efforts and Central Bank regulations, the share of credit to agriculture has declined during the last decade (Table B-9). The declining share of the total of manufacturing and trade since 1974 also is significant. In general, credit allocation has systematically discriminated against the small-scale, labor-intensive enterprise.

Sectoral allocation has changed markedly over the years, with a substantial shift away from agriculture (Table B-10). The most striking development in the pattern of credit allocation is the rapid growth in the credit granted to financial institutions.

1.3.5 Sources of Financing

Table B-11 shows the long-term institutional sources of finance going to industry (manufacturing, mining, and construction); Table B-12 shows the local and foreign components of total long-term financing. The proportion of foreign current financing increased sharply from 42 percent in 1974 to 72 percent in 1978. Foreign financing can present an exchange risk, and there are indications that some nonexporting firms would prefer to borrow in pesos to avoid this risk. To alleviate the problem, the Government recently has been borrowing abroad on behalf of the private sector via such arrangements as the APEX loan program (see Section 3.8.2).

1.3.6 Flow of Domestic Resources to Industry

Insurance companies commonly are a major source of long-term finance for industry, but their role in the Philippines is minimal. The growth of DBP as a prime supplier of long-term peso credit must be traced to the privileged terms accorded to its instruments. Privately owned development banks, such as PDCP, were established to raise resources for on-lending to both agriculture and industry. At present, these institutions are not allowed to accept deposits. Consequently, they can raise resources for on-lending only by borrowing from other institutions or by issuing their own bonds.

1.3.7 Current Policies

The thin capitalization of banking institutions, and the associated emphasis on short-term financing, made it impossible for them to engage in long-term financing. A policy of bank mergers and consolidations was implemented by the late 1970s. Another corrective step was the legal adoption by 1980 of the concept of universal banking. It permitted equity investment in all fields of up to 50 percent of a bank's net worth, although its investment in any single undertaking was not to exceed 15 percent of its net worth. As part of the effort to rationalize the financial system and to encourage competition and greater interplay of market forces, the Central Bank began a gradual program of interest rate deregulation in 1981 (Table B-13).

2. BACKGROUND OF PDCP

2.1 Origin of PDCP

In early 1961, the Government of the Philippines requested assistance from the International Bank for Reconstruction and Development (IBRD) in establishing a private development bank in the Philippines. The Government anticipated that a private sector bank would be more efficiently managed, less subject to noncommercial considerations, and more successful in attracting foreign and domestic capital for long-term financing of development projects. The IBRD proposed that initial capitalization be constituted as follows: 75 percent hard loans, 15 percent quasi-equity, and 10 percent equity capital. Consistent with the pattern established elsewhere (e.g., the Pakistan Industrial Credit and Investment Corporation), quasi-equity was proposed as a peso-denominated soft loan, with a low interest rate of 0 to 1 percent, a 30-year maturity, and a 15-year grace period.

The Philippine Government approached the Agency for International Development (A.I.D.) requesting that the United States provide the quasi-equity from peso counterpart funds generated under Section 402 of the Mutual Security Act of 1954, as amended

(P27.5 million proposed) and from peso currency generated under PL 480 sales available under section 104(g) for loans for development purposes (P10 million proposed). The Government wished to ensure the private character of the proposed Philippine development bank and so did not wish to have a direct role as financier of the bank. The Government therefore requested that A.I.D. make the loan and agreed to reprogram P27.5 million of Section 402 funds that had originally been programmed for military construction.

The formal package finally agreed on is shown in Table 1.

Table 1. Initial Capitalization of PDCP

	Type	Amount (millions)
IBRD	Foreign Currency Loan	$15.0 (P58.5)
A.I.D.	Quasi-Equity	P27.5 ($6.3)
Equity Subscription	Class A, Filipino (70%)	P25.0 (US$7.16)
	Class B, Foreign (30%)	
Total		US$15 (P58.5) P52.5 (US$13.46)

PDCP was formally incorporated under the Corporation Law of the Philippines on February 2, 1963, and a successful stock offering was completed on February 6, 1963. In August 1963, PDCP commenced operations, and given PDCP's compliance with conditions precedent under the IBRD and A.I.D. loan agreements, A.I.D. disbursed the full P27.5 million quasi-equity as part of the initial capitalization.

While the IBRD and A.I.D. required that PDCP hire J. Kirks Paulding as Executive Vice President as a condition of their respective loans, no financing for his services was provided. In a sense, therefore, A.I.D.'s subsidy terms helped finance Paulding and took the place of grant financing of technical assistance.

2.2 Objectives of the A.I.D. Loan

The general objectives of the A.I.D. loan were to establish a privately owned and controlled development finance institution that would facilitate the mobilization of foreign and domestic capital and increase long-term financial assistance to private industrial and other productive enterprises. Although little conflict on objectives existed among A.I.D., IBRD, the Philippine Government, and the private sector, several problems attendant to the Bank's creation resulted in protracted negotiations and some legal difficulties. The following points of contention are considered by the evaluation team to be important in an appraisal of PDCP's 20-year history:

-- The need and justification for the quasi-equity, both in terms of the necessity for subordination in the event of liquidation of PDCP and the justification for the very soft terms of the quasi-equity

-- The possibility of excess profits accruing to the corporation's shareholders because of the soft terms of the quasi-equity (resolved initially by inclusion of an excess-profits clause)

-- Concern over control of the corporation by a limited group of private investors, possibly resulting in preferential attention to interlocking corporations

-- Handling of the foreign exchange risk on external loans (eventually resolved by passing the risk on to end-users despite initial legal concerns)

-- Determination of the appropriate corporate structure for PDCP. (Provisions of the Philippine banking laws and the Philippine Investment Company Act would have precluded PDCP's operation as a full-service development bank. It was eventually established under the Corporation Law, a solution that permitted establishment and commencement of operations but that left PDCP free of the supervision by the monetary authorities to which banks and investment companies were subject.)

2.2.1 Resolution of Issues on A.I.D. Loan

The major issues concerning the soft loan terms of the quasi-equity and the potential for concentrated control of PDCP were resolved through conditions and convenants in the A.I.D.

and IBRD agreements. These agreements were designed to (1) minimize the concentration of financial assistance to major stockholders and directors of PDCP, (2) provide for accelerated prepayment of the A.I.D. loan in the event of "excess profits," (3) provide A.I.D. with the option to accelerate prepayment of the A.I.D. loan in the event of impairment of PDCP's capital, and (4) establish reserve requirements for payment of the A.I.D. loan.

2.2.2 Observations on A.I.D.'s Initial Concerns

With a 20-year perspective on PDCP's operations, it is useful to review A.I.D.'s concerns at the time of PDCP's incorporation in 1963.

-- The soft terms of the A.I.D. loan do not appear to have resulted in excessive profits to PDCP shareholders. Return to equity ranged from 4 percent to 18 percent over the 20-year period, less than the average return to PDCP's own borrowers.

-- The foreign exchange risk issue has become a major concern of PDCP, lenders, the Government, and borrowers, particularly in times of periodic peso devaluations (see Section 3.8.2).

-- Concentration of PDCP assistance on selected segments of the private sector represented by interlocking directorates has not been a major problem.

-- The conflicts between provisions of the Philippine banking laws, the Investment Company Act, and PDCP objectives presaged a need for eventual major reforms in Philippine banking laws. Only recently approved, these reforms introduced into the Philippines the concept of universal banking--but nearly 20 years after PDCP's establishment (discussed in Section 3.8.1).

-- PDCP's lack of access to peso resources has been a major problem and constraint to its growth and expanded operations. Preoccupation with foreign exchange and failure to address the domestic currency resource issue were major flaws in PDCP's design (see Section 3.8).

3. OVERVIEW OF PDCP OPERATIONS

3.1 Operational Highlights

As of the end of 1982, PDCP had approved financial assistance to 1,183 projects with an aggregate peso-equivalent value of P5.304 billion (Table C-1). Direct financial assistance (e.g., loans, equity investments, and guarantees) totaled P2.9 billion or 54 percent of the assistance provided (Table C-2). Indirect assistance through syndications, underwriting, and fund management constituted the remaining P2.4 billion or 46 percent (Table C-3). Table C-4 presents a comparison of cumulative direct and indirect lending by year.

Three hundred twenty-nine projects received a total of P2.1 billion in direct "regular" (large) loans (Table C-2). Ninety percent of this amount was in foreign currency loans--principally funded by IBRD and the Asian Development Bank (ADB). Peso currency loans totaled P198 million and came from resources provided by equity investments in PDCP, A.I.D.'s initial P27.5 million loan, private placements by PDCP, and (in the last 10 years) from the Industrial Guarantee and Loan Fund (IGLF). PDCP's appraisal of resource availabilities versus investment opportunities indicates that the unavailability of peso currency has been a major constraint to investment not fully appreciated by PDCP's initial incorporators or its major lenders.

PDCP launched an active smaller loan program that approved 328 small loans and 308 medium loans over the period 1963-1982, or 55 percent of all projects, most of them since 1977 (Table C-8). PDCP's investments in equity shares have been cautious, comprising P116.7 million for 75 projects (Table C-2).

3.2 Economic Impact

The economic impact of PDCP's operations over the 20 years since its inception is impressive, as shown below (see also Table C-5).

- -- Sales from PDCP-assisted projects: P14.5 billion
- -- Contribution to Philippines net domestic product: P5.5 billion
- -- Foreign exchange savings: US$506.5 million
- -- Employment generation: 61,211 jobs
- -- Annual payroll: P480.6 million

Geographic and sectoral distribution (Tables C-6 and C-7) of PDCP's assistance from 1963 to 1982 has been good despite periodic criticism. The distribution among small-, medium-, and large-scale loans (Table C-8) also is satisfactory, given the peso constraints on PDCP, which are relatively more important for smaller loans, and the higher risk and unit cost of small-scale projects.

3.3 Financial Performance

The overall financial health of PDCP is revealed in its income statements and balance sheets (Tables C-9 and C-10). PDCP's revenue record over the 20-year period predictably paralleled the growth pattern in project approvals and peso volume of loans. Revenue growth during the 1960s was gradual in absolute terms, growing from zero to P19 million over its first 6 years (Table C-11). Beginning in 1970, revenue growth accelerated sharply, peaking at nearly P200 million in 1982.

The growth in income before and after taxes closely paralleled the growth rate in total revenue during the first 19 years (Table C-11), indicating that the portfolio was relatively problem free. In the 1980-1982 period, PDCP's earnings, both total and on a per-share basis, showed a marked decline (Table C-12). This decline in earnings, despite steady gross income levels, resulted from a deterioration in PDCP's portfolio, PDCP's first major write-offs on investments (P18.3 million in 1981 and 1982), and revised accounting practices dictated by the Central Bank. Another factor contributing to the decline in earnings was the foreign exchange write-off of P10.1 million resulting from IBRD modifications to foreign exchange-denominated amortization schedules (see Section 3.8.2).

Aside from the exchange loss, which was beyond PDCP's control, it appears that most of the difficulties with the portfolio reflected the general world economic recession, which severely affected many of PDCP's borrowers. Actual capital losses should not result in major impairment of PDCP's capital structure; however, growth in retained earnings and cumulative equity has been slowed as a result.

The 20-year history of shareholder earnings is an important aspect of PDCP's operations from A.I.D.'s viewpoint because of concern over the soft terms of the quasi-equity loan. Earnings per share rose from a low of P0.30 in 1963 to a high of P4.06 in 1979 (Table C-12). However, the return on equity never exceeded 18 percent when the combined subscriptions and retained earnings figures are taken into account to determine shareholders' return on common equity (Table C-13). Annual return on equity ranged from 12 to 15 percent. For foreign (Class B) shareholders who made the original investments in foreign exchange, the devaluation of the peso versus the U.S. dollar from P3.9 in 1963 to P14.0 in 1983 acted as a substantial deflator to their investment.

The record of dividends paid out is also a key indicator. PDCP paid out dividends annually ranging from 10 to 16 percent of the original share subscription price of P10.0. Stock dividends were also issued in 1970, 1971, 1976, and 1981, for a total of P41.5 million, or 166 percent of original subscriptions (Table C-13). Performance of PDCP's shares on the Manila Stock Exchange was weak over the 20 years, with traded values ranging from P8.70 to P25.25 per share. The asking price at the time of this study was P15.0 per share.

Our conclusion is that small Philippine shareholders received a good return on their original investment--a fair cash dividend--but little real appreciation of traded stock value. Foreign shareholders did not receive as reasonable a return when exchange losses are taken into account. Most important, the soft A.I.D. loan did not result in excess profits as was feared at the time of A.I.D.'s original loan.

Finally, as the performance record shows, loan approvals were few in the early years. The initial full disbursement of A.I.D.'s loan plus pay-in of equity subscriptions allowed PDCP to make short-term loans immediately. The earnings from these placements allowed PDCP to cover operating expenses during the startup years and show a profit to the shareholders. Thus PDCP was financially self-sustaining from the outset. Over time, as more loans were made, the peso resources provided by A.I.D. were progressively moved from short- to long-term placements.

3.4 Distribution of PDCP Loans

3.4.1 Regional and Size Distribution

During PDCP's first decade, there were numerous criticisms of the apparent preponderance of loans made in the Manila area (Table C-6). There has since been a significant drop in the number of loans made in the capital area, but their peso-equivalent value has in fact increased. The PDCP set up seven branches to facilitate lending outside of Manila and invested in three regional development banks.

The Philippine Government, IBRD, and ADB have emphasized that the PDCP should enter the small- and medium-size loan area. In 1982, PDCP made 24 regular loans for a total of

US$202.3 million, an average of P8.4 million per loan. PDCP also made 48 small- and medium-size loans for a total of P51 million, an average of P1.06 million per loan. Thus, PDCP made twice as many loans in this category, but the value was only 20 percent of the combined value of both categories of loans.

3.4.2 Sectoral Distribution

In the past, there have been criticisms that PDCP neglected some sectors of the economy. Although early lending was concentrated in electric utilities and the cement industry, this concentration was later corrected. Over the period of 1963-1982 the manufacturing sector received 65 percent of all loans made (Table C-7).

3.5 Institutional Development

PDCP began operations in 1963 with a small staff. In 1976, Mr. Vicente Jayne was elected by the Board to the Presidency of PDCP, a position he still held at the time of this study. The Board of Directors has maintained continuity since incorporation, with 4 of the 11 directors having served since startup. PDCP, therefore, has had a unique continuity of senior management over its 20-year history. ADB notes in its appraisal in 1982 that "PDCP is a well-established and well-managed development financing institution making a significant contribution to the development and financing of private enterprises in the Philippines. Its management and staff continue to be competent and efficient." Development of professional staff at PDCP below the very senior level has also been excellent, due partially to PDCP's excellent in-house training programs (discussed below). Organizationally, PDCP has grown in size and complexity. The most recent organizational change has been a restructuring to handle increased project monitoring, particularly of projects in difficulty during the 1983 economic recession. IBRD's 1983 appraisal was also favorable.

In summary, the evaluation team views PDCP as a strong, well-managed institution that has evolved and continues to change to meet market and operating conditions for development lending in the Philippines. Credit for PDCP's successful growth belongs to the Filipinos themselves.

3.6 Training and Technical Assistance Operations

An important factor contributing to PDCP's success that must be considered in the establishment of any development bank in which A.I.D. is involved is the creation of its internal training division, the Development Finance Institute (DFI). It was established as a separate unit in 1971 and has a staff of six full-time employees (five professional, one support). Currently, DFI conducts training in four areas.

-- In-house training programs. Each year, DFI holds a series of 10-week "core" training programs that are designed to upgrade the expertise of PDCP staff. To supplement the in-house programs, DFI also sponsors professional and nonprofessional staff members to attend specialized courses, seminars, and conferences held by other training institutions both within the Philippines and abroad. One of the qualifications for in-house training is that participants sign a contract committing them to stay with the bank for 2 years after training is completed.

-- Foreign trainees/visitors program. In addition to training PDCP's own staff, the DFI receives representatives from private and government institutions and from foreign countries for training and/or observation of PDCP's operations. The cost for foreign participants is surprisingly low (until 1978 the bank did not charge any fee).

-- Regional programs. DFI also collaborates with other regional training and technical assistance programs that involve the staff of commercial and development banks in the Asia and Pacific areas. Faculty also come from several other member institutions, and funding is received from such international sponsors as United Nations agencies, the World Bank Economic Development Institute, the German Foundation for International Development, and the Federal Business Development Bank of Canada.

-- Young professional training program. This is a long-term manpower training program intended to create an internal pool of trained personnel, which can be drawn on when new bank officers are needed.

DFI is exploring the possibility of implementing some of its training programs overseas. One of the major benefits of this move would be a reduction in overall training costs to the participating institution/country by allowing for day-to-day training within the host institutions.

One problem that PDCP has encountered over the years is the loss of its management personnel to other institutions within the Philippines. Although PDCP is competitive in its salaries, recruiting of PDCP personnel by other financial institutions is fairly intense.

PDCP's experience in the development of an internal training division and its reputation in the region provide an important lesson for A.I.D. PDCP believes that the major limitation to DFI's growth is budget constraints, because the external demand for DFI's services now exceeds its capabilities. An internal training component should be carefully considered whenever A.I.D. is involved in financing a development bank. A.I.D. should look to PDCP/DFI not only as a model but also as an important resource to provide technical assistance and training at a modest cost for both new and ongoing development finance institutions.

3.7 The Relationship Between the Industrial Guarantee and Loan Fund and PDCP

The role of the Industrial Guarantee and Loan Fund (IGLF) in PDCP operations has been significant in recent years. As noted earlier, PDCP has had problems obtaining local currency for relending. PDCP's marked increase in small- and medium-size loans, a practice encouraged by both the Philippine Government and IBRD, has required increased access to pesos because all of these loans are denominated in pesos. Although this might have compounded PDCP's problems with local currency generation, IGLF's presence has mitigated this problem by becoming an important source of pesos for relending.

IGLF was set up originally by A.I.D., the Central Bank, and the National Economic Council (the predecessor to the current National Economic Development Agency). IGLF's funds were replenished several times from counterpart accounts and were supplemented by a substantial peso loan from the World Bank. IGLF's net worth is now more than P100 million. IGLF was established to make loans to small industrial projects and to guarantee (for a fee) industrial loans made by a selected group of Philippine lending institutions that were unwilling or unable to accept the full economic risk of such loans.

In 1973, the fund was put under the control of the Central Bank, and a larger and more representative review committee was formed. Lending institutions continued to be promptly reimbursed for the amount of peso loans they had made and that were approved by the newly constituted review committee. The PDCP quickly took advantage of this source of pesos; all of their small- and medium-size loans have been peso-funded by IGLF. Thus, PDCP increased its portfolio and reduced the necessity for concomitant peso generation.

Because the spread between IGLF's interest rate and that charged to small borrowers is small, these loans are not as profitable to PDCP as is large project lending. Also, smaller loans require more management time per value involved than larger loans. Nevertheless, because IGLF is a dependable, prompt, and uncomplicated source of pesos, and because there is no other readily available source, the PDCP will continue to tap it for the foreseeable future.

The evaluation team was not only impressed by its "discovery" of IGLF as another successful A.I.D. intervention to help establish a development finance mechanism, but also by the interface and mutual reinforcement of the PDCP and the Central Bank as a conduit for wholesaling credit. PDCP's development as an effective private sector institution with a charter objective to provide long-term lending opened up a major conduit for IGLF in 1976 when PDCP received accreditation as a participant in IGLF's small-scale industry program. PDCP continues to use about one-third of IGLF's resources.

One attractive feature of the IGLF program (as well as of the IBRD and Central Bank lines of credit) was the peso denomination of the loans and the absence of any exchange risks to PDCP or the end-borrowers. The relationship was mutually beneficial. Over the last 10 years, IGLF met PDCP's critical need for peso capital and PDCP partially met IGLF's need for a retailer of credit for small development projects.

Because of higher risk and overhead costs, small loans are not as profitable as larger loans. However, because the Government of the Philippines and IBRD wanted to pursue this type of lending, PDCP initiated a small loan program, set up seven branch offices, and eventually made investments in three local development banks in Davao City, Southern Negros, and Cagayan de Oro to handle and monitor those loans. The extra expense of these operations is not fully compensated for by the small premium on the interest on small- and medium-size loans compared with the interest rate available on large loans. However, these loans are in effect individually discounted by IGLF, so that PDCP recovers the peso outlay very promptly. The economic risk is shared with IGLF in varying percentages.

The convergence of two separate A.I.D.-initiated development finance projects (PDCP, a 1963 project and IGLF, a 1952 project) was fortuitous and has resulted in accelerated assistance to Philippine small- and medium-scale industries.

PDCP in effect provides the institutional capacity to make loans, and IGLF provides the peso resource needed by PDCP for small- and medium-size loans.

3.8 Mobilization of Resources

A review of PDCP's 20-year history indicates that PDCP has been successful in mobilizing foreign exchange funds, primarily from IBRD and ADB, but much less successful in mobilizing peso resources.

3.8.1 Mobilization of Pesos

Mobilization of peso resources by PDCP was less successful than foreign exchange mobilization. The placement of long-term commercial paper was closed off in 1981 because of the unsettled financial situation, which made long-term lending in the market difficult. This, plus IGLF's restricted use for small-scale projects, left PDCP with only limited peso funds for lending to large-scale operations. To offset this shortage, PDCP relied on its guarantee authority and underwriting facilities to assist in mobilizing peso resources from other segments of the Philippine financial sector. However, the evaluation team believes that lack of access to peso resources has been a continuing problem for PDCP throughout its history.

In 1979, an International Monetary Fund (IMF)/IBRD-sponsored study on Philippine financial markets recommended a basic change in the structure of the financial sector. The main thrust of the change, now being implemented, is the consolidation of selected specialized institutions into full service units. This shift moves the Philippines away from the U.S. model of specialized institutions and toward the European and Japanese system of merchant banks. The concept is officially referred to by the Central Bank as "expanded commercial banking," but is popularly referred to as "universal banking" or "unibanking."

The implications of this development for PDCP are substantial. With the commercial banks' ability now to raise capital and engage in development banking, the gap between resource generation and investment in more truly "development" projects is theoretically bridged. In response to this shift, PDCP and the Far East Bank and Trust Company (FEBTC) carried out a stock swap in 1982, but their association stopped short of a full merger. A full merger may eventually take place, but this is as yet undecided. The combination of FEBTC and PDCP should provide PDCP with access to FEBTC's large peso resources and, in turn, provide FEBTC with access to PDCP's experienced staff in development lending, an area in which FEBTC is relatively inexperienced.

PDCP management expressed its concern that it had lost many opportunities to assist worthwhile development projects because of lack of peso resources. Similarly, the reluctance of many potential applicants to contract for financial assistance in foreign exchange denominated currencies also limited PDCP's activities. These two problems are separate but related constraints on PDCP's operations.

3.8.2 Foreign Exchange Mobilization and Risk

Combined foreign exchange loans from IBRD were US$130 (equivalent) million spread over five separate credits, plus an APEX credit of US$36 million (Table C-14).

An IBRD structural adjustment loan to the Philippines in 1980 focused on reform in the financial sector. One recommendation was for the establishment of an experimental program to channel resources through the Central Bank to participating financial institutions. The program, called the APEX Financing Program, was targeted to reach medium- and large-scale industrial enterprises undertaking investments in new productive facilities. Funding of the US$230 million loan was 60 percent from IBRD and 40 percent from commercial sources. Interest rates are fixed on the IBRD portion and floating against the Londer interbank offer rate (LIBOR) for the commercial portion.

Initially the foreign exchange risk was passed on through the Central Bank and the financial institutions to the end borrowers. Given investors' aversion to assuming a foreign exchange risk, the APEX line did not move rapidly. Recently, relending terms were modified at the request of the Philippine Government to eliminate the foreign exchange risk in certain cases.

It is expected that these liberalized rules will result in greater draws on the APEX line. However, the restriction of peso-denominated loans to export-oriented and import-substitution firms helped these firms obtain the greatest degree of market adjustment in the event of devaluation. Firms that do not qualify are those most likely to be adversely affected by a devaluation (e.g., utilities such as power and telephones).

Recently, IBRD has elected to channel foreign exchange through the Philippine Central Bank APEX program, thus terminating its direct loans to PDCP. However, PDCP, as a participating financial institution, will be able to draw on the APEX line of credit, along with other financial institutions.

ADB, however, continues to prefer to extend direct loans to selected financial institutions rather than to wholesale foreign exchange through the Central Bank. PDCP is regarded by ADB as one of the premier development finance institutions in Asia and will likely continue to receive ADB loans as demand warrants. A summary of PDCP's use of foreign exchange credits is presented in Table C-14.

The evaluation team also reviewed the issue of foreign exchange risk associated with PDCP's operations. From 1963 to 1983, the peso decreased in value from P3.9 = US$1.0 to P14.0 = US$1.0. Until recently, IBRD policy has demanded that the end-user bear the exchange risk irrespective of the company's ability to absorb the devaluation losses. Although some companies benefit from devaluation, many do not, and Philippine companies, some PDCP-assisted, are severely impaired by exchange losses. Some are at the point of insolvency at least partially because of this impact.

Related to the foreign exchange risk to end-users is the foreign exchange risk to PDCP itself. Theoretically, PDCP's amortization schedules to IBRD are the mirror image of the composite of its loans to its end-borrowers denominated in various currencies expended by IBRD. However, IBRD modified its master schedules to take advantage of exchange rate fluctuations in its member currencies, a practice that left PDCP with a differential risk. With discovery of IBRD's actions, PDCP adjusted its financial statements to reflect these exchange losses. PDCP has decided to write off P10.0 million from its retained earnings over the next 5 years to reflect these losses. The evaluation team believes that PDCP and even IBRD loan officers were unaware of this legal loophole used by IBRD to minimize its own exchange losses. It was certainly not disclosed to A.I.D., which would have objected to this additional risk to PDCP's operations. The evaluation team seriously questions IBRD's practice and believes IBRD should assume these losses rather than passing them on to developing country institutions, which already face great operating risks.

3.8.3 Overview of Peso and Foreign Exchange Lending

PDCP's use of the Central Bank-APEX credit line in August 1981 made available for the first time foreign currency for loans to fund certain domestic expenditures, thus creating more opportunities for lending. In 1983, some features of the APEX line were changed, providing temporary, partial relief from foreign exchange risk. Up to US$75 million is now available (through the Central Bank's participating financial institutions) in peso-denominated loans to export-oriented and import-substituting projects up to P560 million per year for 1983 and 1984 and in forward cover facility on a swap basis for certain domestic expenditures. Net approvals in September and October 1983, which incorporated the new features for the first time, have exceeded by almost 60 percent net approvals for the first 8 months of the year.

The availability of peso funds for lending will broaden the number of large-scale clients PDCP can seek and should boost significantly its approval rate.

3.9 Public Versus Private Development Banks

The original incorporators of PDCP, including the Philippine Government, envisaged PDCP as a viable private sector alternative to government-owned and -controlled development finance institutions. IBRD in 1963 and for a period thereafter concentrated on the private sector model as the development finance institution model. In 1963, when PDPC was established, the Development Bank of the Philippines (DBP) already existed as a public sector alternative.

As a public sector institution with deposit authority, DBP had much greater access to resources than did PDCP. DBP moved from 3 percent of long-term lending to a commanding 43 percent by 1979 (Table B-11). It also was subject to greater Government influence regarding scope and direction of its portfolio activities. Today, DBP faces a major financial restructuring, prompted by heavy defaults and necessary takeovers of large borrowers who have become insolvent. The evaluation team did not do an analysis of DBP, but it is clear that there is a strong difference between the portfolios of DBP and PDCP. Despite PDCP's own difficulties in recent years, it continues to enjoy a high reputation with its creditors. DBP, in contrast, is considered a serious problem case and, by some, not credit-worthy at this time.

The evaluation team believes that A.I.D. must, in its future interventions in development finance institutions, seriously and carefully examine public versus private sector operations. When feasible, it should be A.I.D. policy to give preference to private sector participation. The Philippine example, although not unique, highlights the difficulties and risks inherent in too great a reliance on the public sector model.

The evaluation team considers PDCP to be a well-run institution (a fact agreed to by many observers, including the IBRD and the ADB) that has made a significant contribution to the Philippine economy. The PDCP could well be used as a model for setting up investment banking institutions for private enterprise in many other parts of the world. Most of the problems faced by a newly constituted investment banking institution were anticipated and provided for in the original concept. As other problems developed, PDCP adapted itself to the situation, no easy task given the constantly changing Philippine political philosophy and a growing economy.

PDCP has planned for and coped with the problems that have arisen with a competence that cannot be questioned. For instance, the training program, which ordinarily might receive little attention, is excellent. It is profitable and skillfully run, has a good reputation, and should be used in other areas where the best conventional training resource is assumed to be (erroneously, the team thinks) a U.S. or European facility. At the same time, the program ensures PDCP of a future supply of well-trained employees.

PDCP has recognized its principal problem--insufficient access to local currency--and has taken some basic steps to solve this problem through its affiliation with FEBTC and its association with IGLF. Even though these sources do not fully meet its needs, PDCP has finessed the problem of peso funds in many cases by syndication and underwriting, although some investment opportunities were lost.

For the future, although PDCP may face vigorous competition from the newly constituted unibanks, PDCP has an investment banking know-how that is currently lacking in most of the new unibanks. Given its new affiliation with FEBTC, the evaluation team expects that PDCP will continue to play a primary role in investment banking in the Philippines.

4. CONCLUSIONS, LESSONS LEARNED, AND RECOMMENDATIONS

4.1 Lessons Learned Suggested by PDCP

The evaluation team has reviewed and concurs in PDCP's own assessment of lessons learned.

1. The profit motive gives private development finance institutions an edge over public institutions. The best way to ensure the viability of a private financial institution is to permit operation of the profit motive. Government financial

institutions are usually influenced by the political will of public authorities, thereby lessening their effectiveness as instruments of economic development.

2. Government policies and priorities must be given due consideration without sacrificing standard criteria for project evaluation. Flexibility and effective liaison is required to keep pace with the changing policies and priorities of government as the needs and concerns of national development change. Thus it is important that Government priorities be considered and that regular reviews be conducted of priority areas and industries receiving financial assistance through development finance institutions. At the same time, new projects or business ventures being considered for assistance must be judged against standard criteria for financial and economic/social viability; a private development finance institution is a business enterprise that must survive and develop based on its own operational viability and profitability, not government support.

3. Projects to be financed should be financially and economically viable. The financial and economic viability of projects to be assisted is the most important determinant of their ability to repay their loans. Personal and political influences must be set aside in project financing so that the development finance institution can maintain a reasonably healthly portfolio.

4. Portfolios should be diversified to distribute risk. One way of maintaining a healthy portfolio is to diversify. With a diversified portfolio, a loss in one area may be offset by gains in other areas, enabling the financial institution to continue operating even when economic forces are not favorable.

5. A thorough and accurate management appraisal is necessary for evaluating a project's likelihood of success. Although it is not always possible to fully assess management capability and responsiveness for seeing a project through good and difficult periods, a thorough management appraisal will provide an important measure of a project's likelihood of success. Management is the most critical element in project success or failure.

6. Strategic and operational planning is important for development finance institutions. Unexpected changes in a country's social or political system produce temporary disturbances, which influence investor confidence and foreign creditor appraisals of country risk. Major changes in the economic environment, such as the oil crises of the 1970s and the recession of the 1980s, also tend to impart uncertainty and doubt. The best way to ensure long-term survival is to closely monitor current developments in the sociopolitical and economic environment, evaluate alternative scenarios, and prepare corresponding strategies and operations suitable to each scenario.

7. Efficient collection techniques and adequate staff support should be established. Efficient collection techniques enable a development finance institution to maintain sufficient funds to continue operations and to develop a financial base to pursue appropriate strategic plans. Such techniques require a skilled staff.

8. A development finance institution must have competitive credit lines. A competitive credit line means that the cost of funds to the institution does not exceed the cost to its competitors and that the terms are as flexible as those in the market. Without this feature, an institution's credit lines would lose out to competitors, eventually weakening the institution's position.

9. Restrictive covenants in credit lines weaken an institution's competitive position. PDCP has found that strict collateral requirements for credit lines discourage many potential clients from using the line when alternative financing terms offered by competitors have more liberal collateral requirements. Such requirements as liens on specialized machinery and equipment as well as inventory may not be as valuable as a real estate mortgage, but alternatives to the mortgage can be explored.

10. The greater risk associated with smaller loans must be recognized, and planning of the loan portfolio must account for the greater associated unit cost of a small loan. Small firms have less staying power. They are characterized by their small capital base, limited access to credit, and minimal market share. They are usually family-owned and thus suffer from lack of professional management. Thus, project appraisal for small firms requires as much meticulous analysis as does that for larger projects.

11. Strict adherence to disbursement requirements and procedures is necessary. Disbursements should not be made until all important criteria for project viability have been met.

4.2 Evaluation Team Recommendations to A.I.D.

PDCP's long history of successful operations provides a unique opportunity to view A.I.D.'s investment in a private development finance institution over a long period characterized by changing economic conditions and rapid growth. This long perspective highlights several findings that the team believes are highly relevant to A.I.D. in formulating its strategy for renewed participation in development finance institutions and other financial intermediary facilities.

1. A.I.D. needs to evaluate more comprehensively its past experience in providing assistance to the private sector. The team believes that A.I.D. has a responsibility to more systematically and comprehensively evaluate its past investments in private sector activities. PDCP illustrates that there are in operation today mature institutions with a wealth of experience and proven track records that can provide valuable lessons to A.I.D. and to third world countries at early stages of development. IGLF, established in 1952 with A.I.D. assistance, is today a successful financial mechanism and a major contributor to small- and medium-scale enterprises. This is a program area of continuing priority to USAID/Philippines today, yet this A.I.D. success story is little known within the Agency.

2. A.I.D. should make greater use of local currency generations as a resource for assisting private sector development. A.I.D.'s contribution to PDCP's establishment consisted wholely of pesos. Evaluation team discussions with members of the private sector and the current Minister of Industry elicited the uniform comment that A.I.D.'s initial contribution of quasi-equity was essential to PDCP's establishment. The peso contribution met a PDCP need not otherwise satisfied by the International Finance Corporation or IBRD and highlighted a market niche for A.I.D. participation that we believe has wide application in countries where substantial local currency resources are generated through commodity import programs or PL 480 generations. Although quasi-equity is not in itself always the most appropriate mode of assistance, its use in PDCP highlights the great flexibility inherent in local currency use. In countries where shortage of equity capital is an issue, local currency can be used imaginatively to partially fill the void. In addition, as the PDCP example indicates, shortage of domestic resources may be as great a constraint to private entities as is the foreign exchange shortage.

The desirability of a redirection of local currency by A.I.D. from public sector investments to private sector opportunities deserves an early in-depth review by A.I.D. In this context, the PL 480 legislation should be carefully reviewed for changes needed to facilitate the use of PL 480 local currency generations in the private sector. To put the magnitude of this resource in perspective, the team notes that A.I.D.'s Economic Support Fund and PL 480 programs generate nearly US$400 million in local currency resources annually. In comparison, the Bureau for Private Enterprise has a budget in Africa of less than US$30 million.

3. Foreign exchange risk is a major potential impediment to private sector investment. We see no easy guidelines for A.I.D. on how to handle the foreign exchange risk issue. In many cases, the risk will have to be borne by end-recipients. However, adding foreign exchange exposure to development finance

institutions such as PDCP, and to end-borrowers, adds a particularly serious risk given the volatile exchange fluctuations currently experienced in the third world. Overcoming the business risks of a new enterprise is difficult enough; adding foreign exchange exposure can be fatal in some cases.

The team believes that some rethinking of methods for reducing or eliminating this risk is necessary. The IGLF and APEX concept (wholesale credit through the Central Bank) is one option worth close examination when loan financing is used. Another option is grant funds, which, by their nature, allow for elimination of any risk.

The team believes, however, that local currency-denominated credit must bear a realistic interest rate. We conclude from the PDCP experience and the Philippine APEX experience that borrowers are prepared to pay a higher interest rate to avoid the foreign exchange risk. Higher rates are more expensive nominally, but they are more predictable and can be built into the investment analysis. Devaluations, coupled with exchange losses, are not easily predictable in today's international economy. They are beyond the control of individual investors and can result in unsupportable costs to an individual enterprise.

4. <u>More thorough analysis of the financial sector in recipient countries should be a prerequisite to A.I.D. investment in the sector</u>. The impacts of related institutions, shifting government policies, and modifications to basic governing laws are critical to the success of development finance institutions and their impact on the economy. The team recommends that A.I.D. apply to its potential involvement in the financial sector the same principles adhered to in other sectors; that is, there should be greater reliance on a comprehensive overall sector assessment as a precondition to project development. It may be that IMF or IBRD or both could take the lead in this area. If not, A.I.D. should be prepared to do so. The implications of such a shift in focus are greater donor coordination in a sector, better policy dialogue, greater opportunity for reform, and greater prospects for project success.

5. <u>Priority should be given to wholesaling rather than retailing of A.I.D. assistance to private sector entities, along with related institutional development</u>. PDCP illustrates well the large return A.I.D. achieved through its initial investment in PDCP. PDCP managed to place A.I.D. funds far better than would have been possible for A.I.D. to do directly. As viable private sector financial institutions evolve, the potential for moving credit first through the Central Bank (possibly in larger amounts) and then through financial markets becomes an attractive option.

6. <u>Training and technical assistance should be part of each A.I.D. attempt to establish or strengthen a development finance institution</u>. A.I.D. should consider providing grant financing to development banks for establishing a training operation similar to that provided through PDCP's Development Finance Institute. Grant funding would provide the needed incentive for many of these institutions to concentrate their efforts on training and technical assistance. A.I.D. should look to institutions such as PDCP/DFI and other qualified development finance institutions as a source of low-cost qualified technical assistance for new and ongoing development banks and institutions in other parts of the world, particularly Africa. A.I.D. should become more familiar with the training and technical assistance divisions of development banks and should consider sending observers to such meetings as the World Federation of Development Financing Institutions held in Lima, Peru in 1983.

APPENDIX A

GENERAL BUSINESS POLICIES AND STRATEGY FOR THE 1980s OF THE PRIVATE DEVELOPMENT CORPORATION OF THE PHILLIPINES

1. GENERAL BUSINESS POLICIES

(As amended by PDPR Board Resolutions No. 264-66 on July 15, 1966; No. 333-68 on January 16, 1968; No. 456-70 on June 19, 1970; No. 1865-81 on February 15, 1981; No. 1893-81 on April 21, 1981; and No. 2035-82 on September 21, 1982.)

1. Economic Role of PDCP. The Corporation shall assist in the economic development of the Philippines. To this end it will assist in the development of private productive enterprises by providing medium-, long-term, and equity financing to such enterprises, assisting in the development of a wider market for [illegible]rities, and encouraging a wider distribution of [illegible]uch enterprises.

2. Privately Controlled Industrial and Other Productive Enterprises. The term "privately controlled" as used in the Articles of Incorporation will be taken to mean all enterprises which are privately operated and managed, and where private ownership is of controlling interest (at least two-thirds of the voting stock). The mere fact that such firms have secured loans from government financial institutions or that the government holds a minority equity position (up to one-third of the voting stock) will not exclude such firms from receiving assistance from the Corporation.

3. Noncontrol of Enterprises Financed. The Corporation will not seek to control any of the enterprises that it finances and will not participate in the management of such firms.

4. Diversification of Investments. In managing its portfolio, the Corporation will endeavor to diversify its investments--in terms of the type of industries being financed, the location of such industries, and as to whether funds are used for medium- or long-term loans, or for equity investments. Having regard to its developmental objectives, the Corporation will give priority to increasing the number of enterprises it finances, to assisting medium and small firms as well as large, and to diversifying the ownership of client-enterprises. In this latter connection, the Corporation will seek to broaden the entrepreneurial base in the country by making special efforts to assist qualified enterprises that, by virtue of their size, age, or ownership, do not have as ready access to other financial institutions as the larger, better established industrial enterprises in the country.

5. Maximum Investment. The Corporation shall not normally make an investment in any one investment enterprise if at the time or as a result thereof the total investment (as hereunder defined) of the Corporation in such investment enterprise shall exceed an amount equivalent to 25 percent[1] of the sum of paid-in unimpaired capital, surplus, and reserves of the Corporation and the amount of the A.I.D. loan not due and payable.

For the purposes of this policy, the term "investment" shall refer to loans, equity participation, and guarantees.

6. Retirement of Equity Investments. The Corporation looks upon its equity investments more as an assistance to productive enterprises and will seek to retire and dispose of its shares as soon as this becomes feasible and a fair market price can be obtained for its shares.

7. Reserve and Dividend Policy. The Corporation will pursue a prudent dividend policy that will enable it to provide shareholders with a fair return on their investment, while at the same time ensuring that its surplus reserves grow at a reasonable rate. The Corporation will from time to time appropriate a portion of its retained earnings to surplus reserves. The Corporation will also provide by charges against income valuation reserves consistent with the size and quality of the Corporation's loan and equity portfolio.

8. Exchange Risk. The Corporation will protect itself adequately against foreign exchange risks arising out of its operations.

9. Criteria in Processing Loan Applications. Loan applications filed with the Corporation will be processed on the basis of their economic and business merits. The projects will be analyzed as to their economic desirability, technical feasibility, financial soundness, management competence, etc., to ensure that only sound productive ventures are financed.

10. Technical Assistance to New Enterprises. The Corporation will endeavour to provide the necessary technical services to the enterprises being financed, whenever necessary.

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[1]IBRD approval, to which Board Resolution No. 456-70 had been made subject, was only for 20 percent.

2. STRATEGY STATEMENT FOR THE 1980s

The Private Development Corporation of the Philippines (PDCP) presents its strategy statements and plans for the 1980s in consonance with its role as a development finance company and with national development goals. In line with the restructuring of the Philippine financial system in early 1981, PDCP formalized an affiliation with the Far East Bank and Trust Company, one of the major Philippine commercial banks. With this affiliation PDCP is expected to have a broader and more dominant presence in the financial markets by offering more varied and diversified financial packages to clients, indicative of greater versatility on the part of PDCP. Nonetheless, PDCP will maintain its corporate objectives and commitments and pursue corporate strategies in line with its development banking and investment banking activities.

2.1 Corporate Commitments

The company has committed itself since its inception in 1963 to help accelerate the development of the country and to help Filipinos enjoy a fuller and higher level of living. This it can do by actively encouraging the emergence and growth of private productive Filipino enterprises through the extension of various financial as well as managerial and technical assistance.

As a development finance institution, PDCP assumes the important entrepreneurial function of promoting development projects and bringing them to fruition by acting as a channel for the flow of external and domestic capital resources, with the resultant transfer of know-how and expertise to the domestic economy.

2.2 Corporate Strategies

2.2.1 On Capital Formation in the Economy and the Industrial Policy Thrusts for the 1980s

Realizing that capital formation is the principal process through which the country can bring about higher levels of industrialization, PDCP will step up its contribution to domestic capital formation in the form of higher targets of financial assistance to productive projects.

For the decade of the 1980s the industrial policy thrusts which will be pursued by government are aimed at attaining four major objectives:

1. Accelerate employment generation to scale down the present unemployment rate and provide jobs to an estimated 750,000 annual entrants to the labor force

2. Increase foreign exchange earnings in the face of the growing import bill and eventually support the country's overall development program

3. Obtain a dynamic industrial structure that is both efficient and world competitive

4. Achieve an even distribution of the benefits of industrialization among the Filipino people

Considering these four major objectives, the government has established an aggressive industrial strategy for the 1980s which consists of these basic components:

-- Accelerated implementation of the major industrial projects

-- Rationalization and restructuring of existing key industry sectors

-- A more focused export promotion program

-- Accelerated dispersal of industries

-- Emphasis on cottage, small-, and medium-scale industries

-- Continued encouragement of foreign investments in selected areas

-- Government and private sector cooperation in industrial policy as well as program planning and implementation

Along this line, PDCP will closely ally its priorities with those set by the Government and will pursue the following three strategies:

1. Strategy. PDCP financial assistance will continue to be directed to projects which have potential for stimulating and sustaining economic development, more particularly:

-- Industries which produce intermediate and capital goods, particularly those with potential for backward and forward linkages. These industries bring about faster industrialization and thereby strengthen and provide depth to the country's industrial structure.

Cognizant of the need to establish linkages necessary for achieving economic development and sustaining industrialization, PDCP has provided support particularly to industries engaged in the manufacture of intermediate and capital goods. As such, PDCP assistance to these industries has amounted to P1.6 billion, or about 5.8 percent of total financial assistance.

PDCP assistance to intermediate and capital goods industries has resulted in greater utilization of indigenous raw materials. Since 1963, 483 out of 703 projects in the agricultural, mining, quarrying, and manufacturing sectors relied on local sources of materials for more than 85 percent of their raw material requirements.

-- Industries which utilize and favor the relatively abundant manpower resource of the country. These industries will help promote and create employment opportunities, which is an important component of the national industrialization objective.

PDCP has made significant contribution to employment generation through its assistance to labor-intensive and skills development-assisted projects. The total number of jobs generated by PDCP directly assisted projects has reached 58,609, with an annual payroll of about P438.4 million as of the end of 1981.

-- Industries which are widely-dispersed. From 1963-1981, PDCP financial assistance has covered a wide range of industries. The bulk of 62 percent of PDCP direct financial assistance has been channeled to the manufacturing sector. The second largest share of 10 percent was absorbed by the transport sector, followed by the mining industry, which accounted for 6 percent. The remaining 22 percent was distributed among the agricultural, construction, communications, electric utilities, and miscellaneous industries.

-- Industries which promote the development of all regions in the country as well as outside of the country. To avoid concentration of industrial activity in urban areas and to bring the benefits of industrialization to the different regions of the country, the government has embarked on a conscious effort to encourage the regional dispersal of industries. Since its establishment, PDCP has been working in support of the government's program of dispersing industrial activity throughout the country. PDCP has sought to broaden the geographic base of its financial assistance and has spread its financial support over the main geographical areas: Luzon (excluding Metro Manila)--30 percent; Metro Manila--34 percent; Visayas--13 percent; Mindanao--16 percent; and nationwide--4 percent.

To further expand its assistance geographically, PDCP has already started to assist projects with international operations. About P72.2 million, representing 3 percent of PDCP's cumulative assistance from 1963-1981, has been directed to shipping companies plying the ASEAN and other Asian routes.

-- <u>Industries which are export-oriented</u>. Emphasis will continue to be directed to export industries which increase the country's foreign exchange earnings, more specifically the nontraditional manufactured export industries where greater value added can be obtained. This strategy is pursued to support the country's balance of payment position in view of the growing import bill and the country's requirements for foreign exchange needed to support development.

Over the last 18 years, the total net foreign exchange earnings of directly assisted projects by PDCP was estimated to have reached $432.4 million.

-- <u>Industries which are small- and medium-scale</u>. Part of the government's industrial strategy involves the encouragement and promotion of small- and medium-scale industries. This thrust actually goes hand-in-hand with the thrust toward accelerated regional development. Taking its cue from this recognition by government of this sector's role in the country's overall growth and development, PDCP formally launched its Small Business Term Lending Program in 1972. PDCP will, however, step up its activities along this direction by sustaining its accreditation in the Industrial Guarantee and Loan Fund (IGLF) with the end in view of making the Small Business Term Lending program viable so that in the process PDCP can continue expanding its assistance to small- and medium-size industries. With PDCP's accreditation in the Central Bank's IBRD Fourth Rural Credit Program, PDCP will be able to accelerate its lending to small- and medium-scale agro-based enterprises. As of 1981, PDCP has provided financial assistance to 524 small- and medium-scale industries amounting to P360.4 million. This has been done by the Head Office as well as the seven branches located in Bacolod, Davao, Cagayan de Oro, Iloilo, Legazpi, Dagupan, and Cebu.

-- Priority industries which promise much potential for growth in the 1980s. In particular, PDCP will put greater emphasis and direct its financial assistance to priority sectors which promise much potential for growth in the 1980s. A study recently completed by the Economic and Corporate Research Office of PDCP indicated the top priority industries for the 1980s.

Based on the past performance of industries in terms of gross value-added growth, forward and backward linkages, together with the availability of government support through rationalization and export development, the priority industries for the 1980s are the following:

Agriculture, Forestry, and Fishing

- Agricultural crops, vegetables, and fruits
- Livestock
- Poultry
- Fisheries

Mining and Quarrying

- Copper mining
- Nonmetallic mining and quarrying

Manufacturing

- Food manufacturing
- Textiles
- Garments
- Leather and leather products
- Wood and wood products
- Furniture and fixtures
- Paper and paper products
- Chemicals and chemical products
- Products of petroleum and coal
- Nonmetallic mineral products
- Basic metals/metal products
- Electronics and other electrical machinery, apparatus, and appliances
- Transport equipment manufactures

Construction of Basic Infrastructure

- Power and electricity
- Irrigation
- Transport
- Telecommunications

2. Strategy. For the past 18 years, PDCP has granted a total of P4.9 billion in financial assistance to 1,089 projects. Direct financial assistance extended through loans, guarantees, and equity investments amounted to P2.7 billion, representing 56 percent of total assistance. Meanwhile, indirect financial assistance in the form of loan syndications and related financial advisory services, underwriting, and external fund management amounted to P2.2 billion. As a specific contribution to domestic capital formation, PDCP sets the following targets for financial assistance for 1982-1987:

	1982	1983	1984	1985	1986	1987
Direct Financial Assistance	(millions of dollars and pesos)					
Regular Loans						
Foreign Currency (US$)	40.2	50.3	57.8	66.5	76.4	87.9
Local Currency (P)	28.5	65.0	75.0	86.0	99.0	114.0
Small and Medium Projects (P)	59.0	67.8	78.1	90.0	102.7	118.3
Guarantees (P)	50.0	57.5	66.1	76.1	87.4	100.6
Equity Investments (P)	5.0	5.0	5.0	5.0	5.0	5.0
Indirect Financial Assistance						
Funds Mobilization (P)	400.0	460.0	529.0	608.0	699.6	804.5
External Funds Management (P)	144.3	165.9	190.8	219.4	252.3	290.1

3. Strategy. PDCP and its officers will maintain close contact with the Office of the President, the Central Bank (especially the Central Bank-APEX), the National Economic and Development Authority, the Philippine National Bank, the Industrial Guarantee Loan Fund (IGLF), the Board of Investments, and other regulatory government agencies. Furthermore, PDCP, through its president, will continue to actively participate in the activities of the Philippine Chamber of Commerce and Industry, which is considered as the sole representative of the private sector and which assists government in the planning and implementation of industry policies.

2.2.2 On Resource Mobilization and Capital Market Development

The sophistication of the Philippine financial system has become more apparent and the requirements of private business for financial services have rapidly grown in the recent past. PDCP must therefore gear its financial expertise to fund mobilization activities to meet the more complex and diversified funding requirements of large industrial ventures. Along this line, the following strategies will be pursued.

1. Strategy. PDCP will maintain adequate sources of foreign currency funds to be able to contribute to capital formation and help bring about greater industrialization in the country. This will be achieved through closer relationships with the Central Bank-Apex lending institutions for the International Bank for Reconstruction and Development, the Asian Development Bank, and the International Finance Corporation.

Although the above institutions will remain the principal sources of funds, PDCP will also endeavor to diversify its sources of funds from Europe, the United States, and Japan to give PDCP maximum exposure to lending institutions in these areas. Currently, sources of foreign currncy funds are from the World Bank-APEX Development Finance Unit of the Central Bank, Asian Development Bank, International Finance Corporation, Commonwealth Development Corporation, DEG of Germany, Lloyds Bank, and the Bank of Tokyo.

2. Strategy. In line with the need for local currency resources to meet our clients' requirements for working capital, peso funds from the Industrial Guarantee Loan Fund (IGLF) will continue to be used by PDCP. On July 15, 1982, the IGLF increased the maximum loan amounts from P2.5 million to P5 million for medium-size firms, and also increased the total allowable assets of the eligible medium-scale enterprises from P4 million to P10 million. Recently, PDCP has been accredited to the Central Bank's IBRD Rural Credit Fund and will start to use peso funds for agribusiness projects with a maximum loan amount of P1 million. In addition to this, syndications and/or cofinancing arrangements, especially with the Far East Bank and Trust Company (FEBTC) but also with other institutions such as the Philam Life Insurance Company and offshore banks like the Mitsui Bank and the Chembank, will continue to be actively pursued. Present arrangements with Baring Bros. & Co., Ltd. for U.K. export credits shall also be actively pursued.

On external funds management, a significant breakthrough was realized starting in 1980 when a number of new accounts, the majority of which are prestigous accounts, were managed by PDCP. Currently, total funds managed by PDCP amount to about P103 million.

To maintain our debt-equity ratios, an estimated P20.0 million in new equity issues will be raised yearly by our institution starting in early 1983.

3. Strategy. Aware of the need to expand the types of financial services which can be offered, PDCP has embarked on several diversification moves by acquiring or investing in the equity of companies with bright earnings potential and in line with PDCP's development objectives.

The affiliates and subsidiaries of PDCP include:

-- Asia Business Consultants--a management consulting firm acquired in 1976 to assist in client needs for consultancy.

-- Jalandoni, Jayme, Adams & Co.--a stock brokerage firm acquired in 1976 to enable PDCP to expand its investment banking capability. Currently, it is one of the top brokerage firms in the country.

-- Makati Insurance Co.--a non-life insurance company acquired in 1980 to take advantage of the growing market for underwriting.

-- ASEAN Finance Corporation--a financial institution jointly set up by member countries of the ASEAN to promote investment in the region. PDCP subscribed to its capital stock in 1981.

-- Private development banks--to provide modes for mobilizing savings for development projects and to augment sources of financial credit in selected regions, PDCP has invested in the following private development banks: Southern Negros Development Bank (1977), Davao City Development Bank (1978), and Northern Mindanao Development Bank (1982).

2.2.3 On Universal Banking and the Affiliation With Far East Bank and Trust Company

In 1981, a restructuring of the financial system was introduced with the adoption of the universal banking concepts whereby the government allowed certain financial institutions to operate as multipurpose banks with an expanded commercial bank license, undertaking not only banking functions but also investment banking operations.

In line with this restructuring of the financial system and the introduction of universal banking, PDCP formalized an association with the Far East Bank and Trust Company (FEBTC), one of the major Philippine commercial banks. With the affiliation, our two institutions will be able to maximize the full range of financial services that can be extended to the public. PDCP will maintain its corporate objectives and continue to be active in both development banking and investment banking activities.

The main point of benefit to PDCP of the affiliation is the greater access to domestic currency resources by way of syndication of joint financing, which will enable PDCP to afford much more diversified financial packages to clients, indicative of greater versatility on the part of PDCP.

The main benefit to FEBTC of the affiliation is the fact that FEBTC has become a full-blown Unibank with an investment house (PDCP) as its subsidiary. PDCP's expertise in long-term projects provides a built-in advantage to FEBTC in its objective of becoming a premier Unibank.

This affiliation will enable both PDCP and FEBTC to strengthen operations in the domestic market and to explore ways of establishing greater presence in the ASEAN financial markets.

A Joint Implementation Committee consisting of senior officers from FEBTC and PDCP has been established to identify various areas for coordination/integration in these two institutions.

2.2.4 On Manpower Training and Entrepreneurial Development

A country's manpower is its most important resource for development. What is true for the country is also true for the corporation: the company's staff members constitute one of its most important assets for growth. PDCP's Development Finance Institute (DFI) was established to put into practice this principle. In implementing this for the rest of the decade, PDCP will adopt the following strategies.

-- Continued pursuit of DFI's two-pronged objectives of training PDCP staff members and disseminating PDCP's expertise to the private and government sectors on a national and international level has been realized in the past in a number of training and development activities. The present programs designed to fulfill these objectives will be sustained with renewed vigor. Hence, the DFI will continue to conduct and improve the content of the Industrial Projects Course for its staff members and for select groups of foreign trainees. The holding of other in-house training programs to upgrade staff skills will be maintained. Qualified staff members will also be sent to external seminars and courses conducted by outside training institutions, locally and abroad. PDCP will also maintain its scholarship program for those who wish to pursue higher studies in management.

-- As part of its developmental orientation to upgrade the technical and managerial skills of bank officers in the Asia-Pacific region, the DFI will continue to administer regional programs. In 1981 and 1982, DFI was one of the two centers to administer the Executive Development Program of the Association of Development Finance Institutions in Asia and the Pacific with the assistance of the Economic Development Institute of the World Bank.

-- In line with the objective of recruiting high-quality graduates with honors, the DFI initiated the Young Professionals Training Program. Such a program will expose the graduates to all facets of corporate operations and will enable the corporation to have a pool of highly qualified and well-trained manpower that can immediately be utilized in case of vacancies in any aspect of corporate operations.

-- DFI also acts as liaison with other institutions, both local and foreign, in the exchange of information regarding on-the-job training activities and training programs.

-- Still part of its manpower program is DFI's development and implementation of a program on career development, management training, performance appraisal, and test development for selection purposes.

2.2.5 On Economic Research and Corporate Planning Activities

To increase the sensitivity of PDCP to changes in the environment and to help define the course for future growth of PDCP, the Economic and Corporate Research Office monitors developments in key sectors of the economy. Such developments are articulated in the various economic publications and reports prepared by the office called the Packaged Data for Corporate Planning. Included in the package are the following:

-- Monthly Economic Letter (monthly)

-- Philippine Business Review (quarterly)

-- Industry Digest (bimonthly)

-- Economic Statistical Series (bimonthly)

-- Policy Milieu (monthly)

-- Financial Markets Review (monthly)

-- Performance and Prospects for the International Economy (quarterly)

-- Performance and Prospects for the Domestic Economy (quarterly)

-- Performance and Prospects for Industries (quarterly)

-- Survey of Business Performance (yearly)

Such publications serve to effectively project and enhance the competitive image of PDCP as the leading private development finance institution in the country. But more importantly, these serve to increase the awareness of PDCP staff and officers to development in the economic environment.

Aside from these publications, the Economic and Corporate Research Office satisfies necessary research and/or analytical requirements of the different offices in PDCP. Noteworthy among those are the comprehensive and in-depth studies on various industries.

In the area of corporate planning, the Corporate Planning Secretariat (composed of the Heads of the Finance Group, Economic and Corporate Research, and the Business Development Office) oversees PDCP's corporate planning efforts, both strategic and operational, on a short-term and long-term basis. Environmental appraisal is done by the Economic and Corporate Research Office of PDCP, while the internal appraisal is done by the Controller's Office.

2.2.6 Promotional Activities of PDCP

Since August 1978, the task of promoting the direct financial assistance services of PDCP has been vested in the Business Development Office, within which a marketing group has been created. This group has been charged with the responsibility of identifying qualified companies with investment plans with the end in view of discussing their investments and promoting PDCP's services as part of their overall financing scheme. While the primary concern of the marketing effort is to promote the direct lending services of the company (i.e., long-term foreign currency loans), it becomes inevitable that the marketing officers must likewise be familiar with the other financial services such as syndication, portfolio management, or money markets in order that they can take advantage of any potential opportunity where such services could fit.

Initially, promotional efforts were geared mainly to companies registering with government agencies such as the Board of Investments, the Maritime Industry Authority, and the Export Processing Zone Authority. Over the years, however, the declining number of companies applying with these agencies for registration has substantially limited the investment leads of the marketing group. The sources of leads have thus been expanded generally such that to date the marketing group taps such other sources as business directory listings, telephone directories, the top 1,000 corporations, industry associations, project consultants, and equipment suppliers.

Companies culled out from these various sources are subjected to credit investigation, and those that show favorable feedbacks are contacted for a preliminary interview on any investment plan. Client visits are conducted with those which have definite investment requirements.

Aside from the foregoing program, the marketing efforts also include presentation of PDCP's services before industry association meetings, side by side with an economic briefing presented by the Economic and Corporate Research Office.

2.2.7 On Collection Efforts and Project Supervision

Growth prospects for the decade of the 1980s are expected to be less remarkable than in previous years. The high growth rates attained in the past--an annual average of 6.4 percent for the decade--will be difficult to sustain in the 1980s. In view of this, continuing difficulty, especially in the area of department servicing, may be expected. PDCP, for its part, anticipates this problem and has been putting greater emphasis into its collection efforts and project supervision activities.

In line with this, PDCP will continue with its Program for Reduction of Past Dues aimed at minimizing the level of arrearages through the standardization of and strict adherence to collection procedures, creation of collection units, increase in the number of existing supervision staff, establishing and closely monitoring compliance with loan requirements, providing continuous attention to problem accounts, and adoption of a stricter attitude and approach to collection.

Furthermore, a Task Force of PDCP officers will be organized to handle specific loan accounts which are encountering difficulties in debt repayments.

APPENDIX B

SELECTED QUANTITATIVE INDICATORS OF PHILIPPINE DEVELOPMENT

Table B-1. Five-Year Average Growth Rates of Real Gross Domestic Product by Sector, 1963-1982 (percentages)

Sector	1963-1967	1968-1972	1973-1977	1978-1982
Agriculture	3.77	3.74	5.19	4.22
Mining	5.58	14.62	5.45	3.31
Manufacturing	6.58	6.36	7.92	4.69
Construction	9.44	2.07	20.99	8.03
Utilities	n.a.	n.a.	8.84	8.65
Total Industry	6.47	6.24	9.60	5.40
Transportation, Communication, and Storage	4.69	6.13	11.91	4.06
Commerce	5.04	4.27	4.57	5.18
Other Services	4.42	3.85	5.37	4.98
Total Services	4.66	3.85	5.37	4.98
Gross Domestic Product	4.87	4.61	6.83	4.92

Source: NEDA Statistical Yearbook, various issues.

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Table B-2. Percentage Shares of Gross Domestic Product (GDP) by Sector, Selected Years, 1962-1982 (based on real GDP in 1972 prices)

Sector	1962	1967	1972	1977	1982
Agriculture	31.61	29.91	28.60	26.47	25.61
Mining	1.41	1.53	2.40	2.23	2.03
Manufacturing	20.86	21.98	23.88	25.04	24.76
Construction	3.87	4.71	3.99	7.14	8.25
Utilities			0.83	0.91	1.09
Total Industry	26.71	28.80	31.10	35.33	36.13
Transportation, Communication, and Storage	4.05	4.02	4.31	5.43	5.21
Commerce	22.84	23.03	22.63	20.31	20.55
Other Services	14.14	13.84	13.35	12.46	12.50
Total Services	41.68	41.29	40.29	38.20	38.26
Gross Domestic Product	100.00	100.00	100.00	100.00	100.00

Source: NEDA Statistical Yearbook, various issues.

Table B-3. Total Assets of the Philippine Financial System, 1974-1978
(millions of pesos and percentages)

	Amount (million pesos: end-of-year figures)					As Percentage of Total				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Banking Institutions	54,142.8	69,840.3	79,989.7	95,151.3	121,164.8	72.3	71.6	69.6	72.7	74.5
Commercial Banks	42,424.8	53,172.8	58,730.9	68,676.5	89,798.6	56.7	54.5	51.1	52.5	55.2
Thrift Banks	1,666.9	2,126.5	3,024.5	4,080.0	5,602.9	2.2	2.2	2.6	3.1	3.4
PDBs	296.3	381.9	482.1	595.5	759.7	0.4	0.4	0.4	0.5	0.5
Savings & Mortgage Banks	1,159.9	1,421.9	2,043.1	2,180.4	3,896.8	1.6	1.5	1.8	2.2	2.4
Stock Savings & Loan Associations	210.7	322.7	499.3	674.1	946.3	0.3	0.3	0.4	0.5	0.6
Rural Banks	2,110.7	2,749.3	3,017.7	3,327.5	4,037.5	2.8	2.8	2.6	2.5	2.5
Specialized Banks	7,940.4	11,791.7	15,216.6	19,067.3	21,726.3	10.6	12.1	13.2	14.6	13.4
DBP	6,758.0	9,644.2	12,779.8	15,805.7	18,209.7	9.0	9.9	11.1	12.1	11.2
Land Bank	1,182.4	2,095.5	2,384.4	3,193.9	3,446.1	1.6	2.2	2.1	2.4	2.1
Philippine Amanah Bank	-	52.0	52.4	67.7	70.5	-	0.1	0.1	0.0	-
Nonbank Financial Institutions	20,714.2	27,695.5	34,923.6	35,666.8	41,553.6	27.7	28.4	30.4	27.3	25.5
Investment Houses	3,839.9	4,774.0	4,824.7	4,746.7	4,762.5	5.1	4.9	4.2	3.6	2.9
Finance Companies	2,306.7	3,467.3	4,644.6	5,852.3	7,365.7	3.1	3.6	4.0	4.5	4.5
Investment Companies	689.0	1,988.9	3,751.4	3,922.3	4,651.1	0.9	2.0	3.3	3.0	2.9
Securities Dealers/Brokers	882.1	1,067.1	1,091.8	978.4	1,119.8	1.2	1.1	1.0	0.8	0.7
Pawnshops	100.8	89.6	149.0	177.8	192.3	0.1	0.1	0.1	0.1	0.1
Fund Managers	1,951.5	2,609.8	3,302.0	552.4	834.4	2.6	2.7	2.9	0.4	0.5
Lending Investors	24.9	60.9	16.9	16.2	18.5	-	0.1	-	-	-
Nonstock Savings & Loan Associations	71.2	86.2	112.1	143.5	191.8	0.1	0.1	0.1	0.1	0.1
Mutual Building & Loan Associations	24.7	25.9	23.5	23.2	21.4	-	-	-	-	-
Private Insurance Companies	3,468.0	4,244.5	5,230.1	6,168.0	7,273.9[a]	4.6	4.4	4.6	4.7	4.5
Specialized Nonbank	7,355.4	9,291.3	11,777.5	13,086.0	15,122.2	9.8	9.5	10.3	10.0	9.3
Total	74,857.0	97,535.8	114,913.3	130,818.1	162,718.4	100.0	100.0	100.0	100.0	100.0

[a] Extrapolated from 1977 figure, assuming same annual growth rate as 1977.

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979.

Table B-4. Inflation, Nominal Interest Rates, and Real Interest Rates, 1959-1978 (percentages)

Year	Rate of Inflation[a]	Savings Deposits: Interest Rate[b]	Savings Deposits: Real Rate of Return[c]	Time Deposits: Interest Rate[b] (360 days)	Time Deposits: Real Interest Rate[c]
1959	-0.9	3.0	3.9	3.5	4.4
1960	4.2	3.0	-1.2	3.5	-0.7
1961	1.6	3.0	-1.4	3.5	1.9
1962	5.8	3.0	-2.8	3.5	-2.3
1963	5.6	3.5	-2.1	4.5	-1.1
1964	8.2	3.5	-4.7	4.5	-3.7
1965	2.6	4.0	1.4	5.0	2.4
1966	5.4	5.75	0.35	6.5	1.1
1967	6.3	5.75	0.55	6.5	0.2
1968	2.4	5.75	3.35	6.5	4.1
1969	2.0	6.0	4.0	7.0	5.0
1970	14.3	6.0	-8.3	7.0	-7.3
1971	14.7	6.0	-8.7	7.0	-7.7
1972	10.3	6.0	-4.3	7.0	-3.3
1973	11.0	6.0	-5.0	7.0	-4.0
1974	34.5	6.0	-28.5	9.5	-25.0
1975	8.2	6.0	-2.2	9.5	1.3
1976	6.1	7.0	0.9	10.0	3.9
1977	7.9	7.0	-0.9	10.0	2.1
1978	7.6	7.0	-0.6	10.0	2.4

[a]Measured by changes in the consumer price index.

[b]Rates offered by commercial banks. Rates of other financial institutions were generally 0.5 percent higher since July 29, 1974.

[c]The real interest rate is defined as the nominal interest rate minus the rate of inflation.

Source: International Financial Statistics, International Monetary Fund, and data provided by the Central Bank of the Philippines.

Table B-5. Credits Granted by Banking Institutions, by Maturity, 1973-1977
(millions of pesos)

	Commercial Banks	Savings Banks	PDBs	Rural Banks[a]	DBP	Total	As % of Total
1973							
Short Term	44,546.2	39.1	17.2	966.2	930.0	46,498.8	90.3
Intermediate Term	826.9	32.7	48.1	107.4	981.5	1,996.6	3.9
Long Term	1,311.5	80.2	15.8	-	1,604.0	3,011.5	5.9
1974							
Short Term	76,925.3	186.9	28.7	1,642.0	761.9	79,544.8	90.6
Intermediate Term	2,393.2	26.2	47.7	182.5	1,007.3	3,656.9	4.2
Long Term	3,004.3	121.7	23.6	-	1,474.8	4,624.4	5.3
1975							
Short Term	112,617.2	193.0	25.3	2,242.7	1,216.0	116,294.2	95.3
Intermediate Term	1,057.9	4.6	53.7	249.2	1,158.6	2,524.0	2.1
Long Term	691.0	143.5	21.0	-	2,342.5	3,198.0	2.6
1976							
Short Term	129,460.2	251.2	26.2	1,693.3	1,215.4	132,646.3	93.3
Intermediate Term	917.7	80.8	53.7	188.1	1,554.4	2,794.7	2.0
Long Term	1,345.6	379.6	20.2	-	5,055.0	6,800.4	4.8
1977							
Short Term	153,680.2[b]	n.a.	28.4	1,859.1	563.9	156,131.6	92.8
Intermediate Term	1,639.5[b]	n.a.	53.0	206.6	1,794.9	3,694.0	2.2
Long Term	1,018.9[b]	n.a.	18.6	-	7,356.0	8,393.5	5.0

[a]Maturity breakdown estimated from 1976 and 1977 actual figures.
[b]Estimated from January to August actual figures for 1977.

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979.

Table B-6. Outstanding Loans of Nonbanking Financial Institutions by Maturity, 1973-1977[a] (millions of pesos and percentages)

	Investment Houses	Financing Companies	Investment Companies	Securities Dealers/ Brokers	Total	As % of Total
1973						
Short Term	285.3	450.7	164.8	39.3	940.1	52.8
Intermediate Term	88.1	505.8	6.9	0.6	601.4	33.8
Long Term	198.5	7.8	28.8	3.7	238.8	13.4
1974						
Short Term	328.4	715.2	137.3	134.7	1,315.6	45.4
Intermediate Term	99.8	919.3	37.5	2.1	1,058.7	36.5
Long Term	451.1	13.8	47.8	12.7	525.4	18.1
1975						
Short Term	446.7	1,089.3	186.8	430.4	2,153.2	44.7
Intermediate Term	260.1	1,320.2	119.8	6.7	1,706.8	35.4
Long Term	623.7	26.0	269.0	40.5	959.2	19.9
1976						
Short Term	660.5	1,442.8	198.6	179.6	2,481.5	41.5
Intermediate Term	323.2	1,985.1	157.2	3.6	2,469.1	41.3
Long Term	729.8	23.9	272.8	8.3	1,034.8	17.4
1977						
Short Term	414.6	1,553.8	280.0	450.7	2,699.1	38.1
Intermediate Term	378.9	2,660.7	256.5	9.1	3,305.2	46.6
Long Term	733.1	16.6	313.1	20.7	1,083.5	15.3

[a]Excluding fund managers, lending investors, pawnshops, nonstock savings and loan associations, and mutual building and loan associations, due to lack of data. These institutions comprised 3 percent of total loans outstanding of all private nonbanking financial institutions in 1977.

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979.

Table B-7. Credits Outstanding by Financial Institutions by Maturity as of December 31, 1977 (millions of pesos)

	Short Term		Intermediate Term		Long Term	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial Banks	34,256.7	87.1	4,233.6	35.1	1,682.6	10.8
Savings Banks	485.7	1.2	650.3	5.4	586.7	3.8
Stock S&L Associations	389.6	1.0	48.7	0.4	33.0	0.2
LBP and PAB[a]	482.6	1.2	88.5	0.7	501.4	3.2
Dev. Bank of Phil.	563.9	1.4	1,794.9	14.9	7,356.0	47.0
Investment Houses	414.6	1.1	378.9	3.1	733.1	4.7
Securities Dealers	450.0	1.1	9.1	0.1	20.7	0.1
Private Insurance	-	-	707.5	5.9	823.5	5.3
Others	446.5	1.1	1,218.9	10.1	3,572.9	22.8
Total	39,323.4	100.0	12,047.6	100.0	15,639.6	100.0
Percentage of Total	58.7		18.0		23.3	

[a]Land Bank of Philippines and Philippine Amanah Bank.

Source: Development Bank of the Philippines, the Insurance Commission, and other Philippine sources.

Table B-8. Structure of Credits Granted by Commercial Banks by Maturity, 1969-1977
(millions of pesos and percentages)

Year	Demand	Short Term	Intermediate Term	Long Term	Total
1969	3,494	12,730	111	55	16,390
	(21.3)	(77.7)	(0.7)	(0.3)	(100.0)
1970	4,701	16,929	248	74	21,952
	(21.4)	(77.1)	(1.1)	(0.3)	(100.0)
1971	5,692	22,446	530	153	28,821
	(19.7)	(77.9)	(1.8)	(0.5)	(100.0)
1972	6,867	24,720	757	345	32,689
	(21.0	(75.6)	(2.3)	(1.1)	(100.0)
1973	9,089	35,457	327	1,312	46,685
	(19.5)	(75.9)	(1.8)	(2.8)	(100.0)
1974	22,077	54,849	2,373	3,004	82,303
	(26.8)	(66.6)	(2.9)	(3.6)	(100.0)
1975	41,010	71,607	1,058	691	114,366
	(35.9)	(62.6)	(0.9)	(0.6)	(100.0)
1976	39,025	90,435	918	1,346	131,724
	(29.6)	(68.6)	(0.7)	(1.0)	(100.0)
1977[a]	39,775	62,678	1,093	679	104,225
	(38.2)	(60.1)	(1.0)	(0.7)	(100.0)

Note: Figures in parentheses indicate percentages of the total.

[a]January-August.

Source: Joint IMF/World Bank mission report, <u>Philippine Aspects of the Financial Sector</u>, October 1979.

Table B-9. Credits Granted by Commercial Banks by Sector, 1969-1977
(millions of pesos and percentages)

Year	Agri-culture	Mining	Manu-facturing	Con-struction	Public Utilities	Services	Trade	Financial Institutions	Real Estate	Con-sumption	Public Sector	Total
1969	1,772	93	3,656	224	172	264	7,130	1,717	248	325	788	16,390
	(10.8)	(0.6)	(22.3)	(1.4)	(1.0)	(1.6)	(43.5)	(10.5)	(1.5)	(2.0)	(4.8)	(100.0)
1970	2,195	96	4,056	186	277	366	9,795	2,775	410	868	929	21,952
	(10.0)	(0.4)	(18.5)	(0.8)	(1.3)	(1.7)	(44.6)	(12.6)	(1.9)	(3.9)	(4.2)	(100.0)
1972	2,551	563	7,391	365	815	550	13,873	4,693	514	870	505	32,689
	(7.8)	(1.7)	(22.6)	(1.1)	(2.5)	(1.7)	(42.4)	(14.4)	(1.6)	(2.7)	(1.5)	(100.0)
1973	2,828	835	10,359	368	855	590	22,380	5,776	796	971	927	46,685
	(6.1)	(1.8)	(22.2)	(0.8)	(1.8)	(1.3)	(47.9)	(12.4)	(1.7)	(2.1)	(2.0)	(100.0)
1974	6,070	2,388	22,535	481	830	1,178	31,680	12,473	1,144	1,499	2,025	82,303
	(7.4)	(2.9)	(27.4)	(0.6)	(0.1)	(0.1)	(38.5)	(15.1)	(0.1)	(1.8)	(2.5)	(100.0)
1975	9,756	4,109	30,610	851	1,478	2,506	23,506	32,275	1,772	2,448	5,055	114,366
	(8.5)	(3.6)	(26.8)	(1.0)	(0.7)	(2.2)	(20.5)	(28.2)	(1.5)	(2.1)	(4.4)	(100.0)
1976	9,140	4,357	35,142	1,592	2,236	2,958	29,247	41,560	1,680	3,188	613	131,724
	(6.9)	(3.3)	(26.7)	(1.2)	(1.7)	(2.2)	(22.2)	(31.5)	(1.3)	(2.4)	(0.5)	(100.0)
1977[a]	5,517	2,109	26,636	1,258	1,715	1,626	21,944	39,760	1,114	1,645	902	104,225
	(5.3)	(2.0)	(25.5)	(1.2)	(1.6)	(1.6)	(21.0)	(38.1)	(1.0)	(1.6)	(0.9)	(100.0)

Note: Figures in parentheses indicate percentages of the total.

[a] January-August.

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979.

Table B-10. Percentage Distribution of Credits Granted by Domestic Financial Institutions, by Sector, 1960-1977

Sector	1960-1964	1965-1970	1970-1974	1975-1977
Agriculture[a]	17.1	15.3	7.0	8.3
Industry[b]	33.4	27.2	23.1	29.0
Trade	33.6	35.5	40.0	19.0
Public Utilities	2.4	2.0	1.7	1.7
Real Estate	3.2	4.3	3.1	2.4
Banks and Other Financial Institutions	4.0	8.2	13.0	30.1
Consumption	4.6	4.4	4.3	2.6
Other	1.7	3.1	5.0	6.0
Total	100.0	100.0	100.0	100.0

[a]Includes fisheries and forestry.
[b]Manufacturing, construction, mining, and quarrying.

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979.

Table B-11. Long-term Financing for Industry by Type of Finance[a]
(millions of pesos and percentages)

	1974		1975		1976		1977		1978	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Banks	1,667.6	36.1	549.3	13.1	712.6	9.4	568.3	6.1	842.8	10.1
Commercial Banks	1,658.9	35.9	540.7	12.8	702.6	9.3	545.9[b]	-	-[c]	-
Savings Banks	4.0	0.1	6.6	0.2	6.2	0.1	-[c]	-	c	-
Stock Savings & Loan Associations	4.7	0.1	2.0	0.1	3.8	-	15.4	0.2	12.5	0.1
Offshore Banking Units[d]	-	-	-	-	-	-	7.0	0.1	830.3	10.0
Nonbank Financial Intermediates	489.1	10.6	1,180.2	28.0	1,963.1	26.0	2,452.1	26.4	3,878.7	46.5
DBP	147.6[e]	3.2	742.7	17.6	1,506.4	19.9	2,123.5	22.8	3,575.8	42.9
PDCP	104.3[f]	2.2	93.1[f]	2.2	45.6[f]	0.6	69.6[f]	0.8	77.8[f]	0.9
Private Insurance Companies[g]	30.9	0.7	75.5	1.8	49.5	0.7	58.2	0.6	9.9	0.1
Nonstock Savings & Loan Associations	-[c]	-	1.6	-	1.6	-	0.3	-	0.8[h]	-
Others	206.3	4.5	267.3	6.4	360.0	4.8	210.5	2.2	214.4	2.6
Other	1,301.6	28.2	1,222.8	29.0	3,050.7	40.3	3,396.1	36.5	2,619.9	31.4
Suppliers Credit	651.8	14.1	299.5	7.1	984.1	13.0	335.7	3.6	7.4[i]	0.1
Cash Loans	649.8	14.1	923.3	21.9	2,066.6	27.3	2,480.9	26.7	1,258.3[i]	15.1
Swaps Agreements	-[c]	-	-[c]	-	-[c]	-	579.5	6.2	1,354.2	16.2
Securities	1,156.5	25.1	1,259.0	29.9	1,837.0	24.3	2,855.6	31.0	999.6	12.0
Equity Issues	768.3	16.7	1,102.2	26.2	1,263.3	16.7	1,604.7	17.2	533.6[j]	6.4
Bond Issues	181.8	3.9	8.5	0.2	-	-	157.5	1.7	100.0	1.2
Direct Public Sector Borrowings	206.4	4.5	148.3	3.5	573.7	7.6	1,123.4	12.1	366.0	4.4
Total	4,614.8	100.0	4,211.3	100.0	7,563.4	100.0	9,312.1	100.1	8,341.0	100.0

[a]Gross disbursements by financial institutions.
[b]January to August only.
[c]Not available.
[d]Offshore banking units started operations in 1977.
[e]Domestic currency financing refers to FY 1974 (July 1 to June 30).
[f]Of the total domestic currency lending, the volume of resources going to small loans is: 1974-P 1.8 million, 1975-P 2.1 million, 1976-P 2.9 million, 1977-P 10.7 million, 1978-P 18.8 million.
[g]Comprises the lending of the four Ayala Group Insurance Companies and Philam Life Insurance Company.
[h]January to September only.
[i]January to October only.
[j]Foreign currency lending only.

Sources: Central Bank of the Philippines, Development Bank of the Philippines, PDCP, and other Philippine sources.

Table B-12. Long-Term Local and Foreign Exchange Financing for Industry, 1974-1978 (millions of pesos and percentages)

Year	Amount			Percentage		
	Local Financing	Foreign Financing	Total Financing	Local Financing	Foreign Financing	Total Financing
1974	2,668.1	1,946.7	4,614.8	57.8	42.2	100.0
1975	1,928.3	2,283.0	4,211.3	45.8	54.2	100.0
1976	2,658.7	4,904.7	7,563.4	35.2	64.8	100.0
1977	3,097.2	6,214.9	9,312.1	33.3	66.7	100.0
1978	2,367.7	5,973.3	8,341.0	28.4	71.6	100.0

Source: Joint IMF/World Bank mission report, Philippine Aspects of the Financial Sector, October 1979; AID Mission estimates.

Table B-13. Selected Administered and Market-Determined Interest Rates, 1979-1981 (annual percentage)

	Administered Maximum Rates				Market-Determined Rates[a] (except as noted)	
	Prior to 12/79	Effective 12/79	Effective 08/80	Effective 01/81	01/81	08/81
Deposit Rates						
Savings Deposits	7	9	9	Deregulated		
Below P50,000	7	9	9		9.0-10.0	9.0-10.0
P50,000 and Above	7	9	9		9.0-12.0	9.0-12.0
Time Deposits						
1-year	10	11	14	Deregulated	11.0-17.5	11.0-18.0
2-year	12	13	14	Deregulated	12.0-21.0	12.0-21.0
Over 2 years	b	b	b	Deregulated	19.38	n.a.
Deposited Substitutes	15	17	17	Deregulated	14.76	n.a.
Lending Rates						
Up to 2 Years' Maturity						
Secured	12	14	14	16	16[c]	16[c]
Unsecured	14	16	16	18	18[c]	18[c]
Over 2 Years' Maturity						
Secured	19	21	21	Deregulated	21.0-25.0	21.0-25.0
Unsecured	19	21	21	Deregulated	21.0-25.0	21.0-25.0
Selected Central Bank Rediscount Rates						
Basic Rediscount Rate	9	11	11	Floating	14.81	n.a.
Rediscount Rate for Traditional Exports	4	6	6	8	8[c]	8[c]
Rediscount Rate for Nontraditional Exports	-	-	4	3	3[c]	3[c]

[a]For market-determined rates, weighted average rates are shown if available; otherwise, ranges of observed interest rates are shown.
[b]Not applicable; interest rates on time deposits over 2 years were deregulated in 1976.
[c]Administered rate. Deregulated effective January 1, 1983.

Source: Central Bank of the Philippines.

APPENDIX C

FINANCIAL STATISTICS RELATED TO THE PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Table C-1. Total Number and Amount of PDCP Financial Assistance, Net of Withdrawals, 1963-1982 (thousands of dollars, pesos, and peso equivalents)

Year	Number	Amount: U.S. Dollars	Amount: Pesos	Total in Peso Equivalents
1963	4	154.8	770.0	1,376.8
[illegible]	21	6,133.4	16,668.0	40,711.0
	19	6,770.5	31,606.0	58,146.4
1966	15	5,065.4	13,919.5	33,775.9
1967	27	9,524.3	12,815.6	50,150.7
1968	33	14,688.5	9,144.0	66,723.1
1969	42	19,474.5	20,836.1	97,226.0
1970	26	10,349.9	10,595.8	77,197.0
1971	31	16,831.9	37,415.8	145,729.0
1972	35	13,722.0	18,741.1	111,789.8
1973	48	15,729.5	29,158	135,018.2
1974	64	31,178.0	47,066.5	267,339.0
1975	61	11,623.0	43,170.6	130,319.8
1976	60	15,265.5	86,586.5	199,978.6
1977	100	15,667.1	94,222.7	209,639.2
1978	145	45,791.4	135,937.0	473,648.4
1979	130	54,237.6	272,195.6	674,367.2
1980	109	144,277.6	228,722.7	1,325,232.6
1981	105	49,538.6	285,844.7	686,116.5
1982	108	21,626.9	321,993.0	520,333.6
Total	1,183			5,304,818.8

Source: PDPR.

Table C-2. Total Number and Amount of PDCP
Direct Financial Assistance, 1963-1982
(by number of loans and thousands of peso equivalents)

Year	Number					Amount (in thousands of peso equivalents)				
	Large Loans	Small & Medium Loans	Equity	Guarantees	Total	Large Loans	Small & Medium Loans	Equity	Guarantees	Total
1963	2	2	-	-	4	595	782	-	-	1,377
1964	9	10	-	-	19	27,551	8,624	-	-	36,175
1965	7	8	2	-	17	19,387	21,284	325	-	40,996
1966	6	6	1	1	14	20,632	4,350	45	749	25,776
1967	12	10	2	3	27	30,871	7,778	170	11,332	50,151
1968	12	13	1	7	33	39,217	10,512	200	16,794	66,723
1969	19	8	8	4	39	40,649	10,683	5,977	14,354	71,662
1970	15	5	5	-	25	65,289	3,687	7,121	-	76,097
1971	20	4	3	1	28	92,807	12,746	5,000	6,000	116,553
1972	14	12	6	-	32	68,436	18,958	846	-	88,230
1973	20	21	3	2	46	74,472	28,059	2,265	8,345	113,501
1974	28	21	10	-	59	162,993	13,412	7,382	-	183,728
1975	19	27	5	4	55	79,124	9,969	6,230	16,000	111,323
1976	11	32	8	4	55	88,116	9,007	6,771	24,200	128,095
1977	10	68	5	3	86	54,170	26,172	4,318	49,052	133,712
1978	20	102	4	1	127	259,306	47,199	11,819	3,000	321,325
1979	29	75	3	7	114	274,489	43,808	21,800	68,701	409,300
1980	30	49	3	4	86	252,047	39,859	28,240	29,054	349,200
1981	23	37	5	6	71	201,139	35,148	7,651	62,948	306,886
1982	24	48	1	2	75	202,343	50,963	200	7,763	261,269
Total	329	559	75	49	1,012	2,054,062	403,002	116,719	318,293	2,892,077

Source: PDPR. See note to Table C-8.

Table C-3. Total Amount of Indirect PDCP Financial Assistance, 1963-1982 (thousands of peso equivalents)

Year	Under-writing	Syndications	External Fund Management	Financial Advisory	Total
1963	-	-	-	-	-
1964	4,536	-	-	-	4,536
1965	17,150	-	-	-	17,150
1966	8,000	-	-	-	8,000
1967	-	-	-	-	-
1968	-	-	-	-	-
1969	3,615	21,949	-	-	25,565
1970	1,100	-	-	-	1,100
1971	18,880	10,296	-	-	29,176
1972	2,200	21,360	-	-	23,560
1973	2,00	19,517	-	-	21,517
1974	1,200	82,411	-	-	83,611
1975	5,000	13,997	-	-	18,997
1976	12,500	59,192	-	-	71,884
1977	25,784	50,192	-	-	75,977
1978	40,345	111,979	-	-	152,324
1979	107,015	158,053	-	-	265,068
1980	27,870	59,500	27,368	861,295	976,032
1981	25,265	198,550	14,974	140,441	379,231
1982	30,088	104,070[a]	124,907	-	259,065
Total	332,549	911,259	167,249	1,001,736	2,412,793

Source: PDPR.

Table C-4. PDCP's Total Financial Assistance, Cumulative, 1963-1982 (millions of peso equivalents)

Year	Direct	Indirect	Total
1963	1.4	-	1.4
1964	37.6	4.5	41.1
1965	78.6	21.6	100.2
1966	104.4	29.6	134.0
1967	154.6	29.6	184.2
1968	221.3	29.6	250.9
1969	293.0	55.1	348.1
1970	369.1	56.2	425.3
1971	485.6	85.4	571.0
1972	573.8	109.0	682.8
1973	687.3	130.3	817.8
1974	871.0	214.1	1,085.8
1975	982.3	233.1	1,215.4
1976	1,110.4	305.0	1,415.4
1977	1,244.1	381.0	1,625.1
1978	1,565.4	533.3	2,098.7
1979	1,974.7	798.4	2,773.1
1980	2,323.9	1,774.4	4,098.3
1981	2,630.8	2,153.6	4,098.3
1982	2,892.1	2,412.6	5,304.3

Source: PDCP.

Table C-5. Economic Impact of PDCP Direct Financial Assistance, 1963-1982

Type of Impact	Cumulative
Effects on Aggregate Output	
Value of sales generated by PDCP-assisted projects	P14.5 billion
Contribution to Philippine net domestic product	P5.5 billion
Capital Formation	
Total investment required by PDCP-assisted projects	P8.9 billion
PDCP's contribution	P2.9 billion
Foreign Currency Impact	
Total foreign exchange saved	US$506.5 billion
Employment and Income Generation	
Total direct employment generated	61,211 jobs
Average annual payroll	P480.6 million
Sector Orientation	
(see Table C-7)	
Intermediate and Capital Goods Industries	
Total assistance to industries engaged in the manufacture of intermediate and capital goods	58% of total
Total firms using indigenous materials	526 firms
Regional Development	
(See Table C-6)	

Source: PDPR.

Table C-6. Regional Distribution of Direct PDCP Assistance, 1963-1982 (number of loans and millions of pesos)

Region	Number	Amount[a] (millions of pesos)
Luzon		
Ilocos	22	38.5
Cagayan	8	83.4
Central Luzon	90	348.6
Southern Tagalog	69	402.9
Bicol	18	11.6
Subtotal, Luzon	207	884.8
National Capital Region	370	972.7
Visayas		
Western Visayas	122	163.4
Central Visayas	86	150.3
Eastern Visayas	6	5.6
Subtotal, Visayas	214	319.2
Mindanao		
Western Mindanao	15	26.0
Northern Mindanao	63	121.7
Southern Mindanao	89	144.8
Central Mindanao	31	150.5
Subtotal Mindanao	198	443.0
Nationwide	19	194.3
ASEAN	4	78.1
Total	1,012	2,892.1

[a]Components do not equal total because of rounding.

Source: PDPR.

Table C-7. Sectoral Distribution of PDCP
Direct Assistance, 1963-1982
(number of loans and millions of pesos)

Sector	Number	Amount (millions of pesos)
Agriculture	129	146.0
Mining and Quarrying	38	131.2
Manufacturing	661	1,788.3
Food	75	180.8
Textile/Garments	74	266.2
Paper/Printing	54	56.2
Wood/Furniture	75	201.7
Chemicals	81	331.6
Metals	89	136.7
Nonmetallic	58	357.8
Electrical Machinery	29	85.6
Nonelectrical	17	8.0
Rubber	16	20.8
Transport Equipment	11	72.1
Petroleum	3	8.3
Miscellaneous	79	62.6
Pipeline Operations	3	14.3
Transportation	62	313.9
Communication	22	184.3
Construction	11	147.4
Electric Light and Power	40	102.1
Others	46	64.7
Total	1,012	2,892.1

Source: PDPR.

Table C-8. Number of PDCP-Assisted Projects
by Size of Loan, 1963-1982, Cumulative

Year	Small (less than P1 million)	Medium (P1-P4 million)	Large (over P4 million)	Total
1963	-	2	2	4
1964	3	10	12	25
1965	6	16	22	44
1966	8	20	31	59
1967	11	32	43	86
1968	14	45	60	119
1969	116	54	91	161
1970	16	63	108	187
1971	17	69	132	218
1972	25	78	150	253
1973	32	92	177	301
1974	45	104	216	365
1975	64	119	243	426
1976	91	130	265	486
1977	154	141	291	586
1978	218	185	328	731
1979	265	213	383	861
1980	285	246	438	969
1981	300	280	493	1,073
1982	328	308	545	1,181

Source: PDPR. Note that the sum of small and medium loans here (636) differs from the sum of these categories (559) shown in Table C-2, a difference not explained in supporting documents.

Table C-9. PDCP Actual (audited, 1978-1981) and Projected (1982-1986) Income Statement
(millions of pesos)

As of December 31	1978	1979	1980	1981	1982	1983	1984	1985	1986
Income									
Interest on Project Loans and Securities	104.9	112.7	126.7	161.0	164.1	209.3	263.8	326.4	391.4
Income From Money Market Operations	5.8	14.1	25.7	20.7	20.2	26.9	29.5	33.8	38.8
Income From Stock Market Operations	7.7	9.1	16.3	4.1	3.1	5.7	5.9	6.2	6.4
Fees	5.3	5.5	7.9	11.1	8.4	11.5	12.7	14.1	15.8
Others	1.1	0.3	2.6	1.8	3.2	7.3	8.2	9.0	10.0
Total	124.8	141.7	179.2	198.7	199.2	260.7	320.1	389.5	462.4
Expenses									
Interest and Financial Expenses	71.4	86.1	118.4	134.9	148.1	180.2	224.2	272.6	322.6
Administrative Expenses	19.1	25.0	29.7	30.8	26.1	42.2	50.7	60.8	72.9
Provision for Doubtful Account and Investment	2.2	1.2	1.5	9.9	4.6	3.0	3.5	3.5	3.5
Building Operations (net)	2.4	2.6	2.8	3.4	3.1	3.8	4.3	5.0	5.8
Total	95.1	114.9	152.4	179.0	181.9	229.2	282.7	341.9	404.8
Income Before Tax	29.7	26.8	26.8	19.7	17.3	31.5	37.4	47.6	57.6
Provision for Income Tax	7.5	2.3	(0.5)	2.2	7.1	9.1	11.0	14.5	17.7
Net Income After Tax	22.2	24.5	27.3	17.5	10.2	22.4	26.4	33.1	39.9
Ratios (percentage)									
Net Profit/Average Equity	15.8	15.9	16.0	9.5	7.5	10.3	9.8	10.3	10.5
Administrative Expenses/Average Total Assets	2.0	1.4	1.3	1.2	1.4	2.3	2.3	2.3	2.4
Divided as Percentage of par Value of Shares	16.0	16.0	16.0	10.0[a]	7.5	10.0	10.0	10.0	10.0

[a]Decrease due to bonus issue of shares.

Table C-10. PDCP Actual (audited) and Projected Balance Sheets, 1978-1986
(millions of pesos)

Item	Actual 1978	Actual 1979	Actual 1980	Actual 1981	Projected 1982	Projected 1983	Projected 1984	Projected 1985	Projected 1986
ASSETS									
Current Assets									
Cash	14.4	28.4	39.0	35.0	31.4	31.2	32.8	34.4	36.2
Short-Term Investments	101.1	149.7	225.8	138.8	92.8	131.3	144.4	166.0	190.9
Accrued Interest	59.8	58.6	59.9	64.6	89.8	84.0	115.0	133.9	139.3
Other Income	18.5	14.0	43.5	35.1	62.2				
Deferred Income Tax	2.2	2.2	2.7	4.0	4.7	41.1	45.3	50.0	54.8
Other Current Assets	1.8	1.7	3.7	6.6					
Total Current Assets	197.8	254.6	374.6	282.6	287.5	287.6	337.5	384.3	421.2
Portfolio									
Foreign Currency Loans	615.4	730.2	856.7	915.3	1,057.2				
Local Currency Loans	144.1	193.9	202.6	240.2	230.2	1,738.7	2,129.2	2,566.1	3,068.5
Equity Investments	35.4	32.8	32.0	52.7	57.5	53.6	55.3	56.6	57.6
Less Provision for Doubtful Accounts	(21.3)	(22.5)	(24.0)	(24.7)	(20.2)	(17.5)	(21.0)	(24.5)	(28.0)
Total Portfolio	773.6	934.4	1,067.3 [a]	1,184.0	1,324.7	1,774.8	2,163.5	2,592.2	3,098.1
Other Assets									
Fixed Assets(net)	9.2	9.4	9.2	9.9	9.4	9.3	9.1	8.8	8.2
Acquired Assets	-	16.7	17.6	76.0	87.5	40.5	20.0	20.0	20.0
Miscellaneous Other Assets	25.6	13.7	20.6	38.6	26.5	58.5	61.5	64.5	67.8
Total Other Assets	34.8	39.8	47.4	124.5	123.4	108.3	90.6	93.3	96.0
Total Assets	1,006.2	1,228.8	1,489.3	1,591.1	1,735.6	2,170.7	2,591.6	3,069.8	3,615.3

Table C-10. PDCP Actual (audited)
and Projected Balance Sheets, 1978-1987 (cont.)
(millions of pesos)

Assets	Actual 1978	1979	1980	1981	Projected 1982	1983	1984	1985	1986
LIABILITIES AND EQUITY									
Current Liabilities									
Accrued Payables	24.1	24.8	35.2	36.5	42.0	44.8	49.2	54.2	59.6
Bills Payables	124.8	179.9	254.2	226.9	231.0	140.5	92.2	68.8	70.0
Income Tax Payable	0.1	-	-	-	-	2.3	2.7	3.6	4.4
Dividends Payable	3.6	2.9	3.3	3.9	2.8				
Subscriptions Payable	2.3	4.0	7.2	0.9	-	28.5	31.6	34.6	38.1
Other Current Liabilities	1.0	5.9	12.4	20.3	-				
Total Current Liabilities	155.9	217.5	305.2	280.6	296.6	216.1	175.7	161.2	172.1
Long-term Liabilities									
Foreign Currency Borrowings	618.9	715.2	835.2	943.0	1,046.1				
U.S. Aid Borrowings	27.5	25.7	23.8	22.0	20.2	1,714.0	2,119.7	2,559.2	3,033.2
Others[b]	57.0	108.5	145.5	158.5	182.6				
Total Long-Term Liabilities[c]	703.4	849.4	1,004.5	1,123.6	1,248.9	1,714.0	2,119.7	2,559.2	3,033.2
Equity									
Paid-In Capital	60.5	60.4	60.4	100.0	100.0	135.0	180.0	220.0	265.0
Surplus	13.1	13.1	13.1	-	-	-	-	-	-
Retained Earnings									
Appropriated	44.7	51.6	59.7	63.2	65.3	71.3	76.5	83.2	91.2
Unappropriated	28.9	36.8	46.4	23.8	24.5	34.3	39.7	46.2	53.8
Total Equity	146.9	161.9	179.6	187.0	189.8	240.6	296.2	349.4	410.0
Total Liabilities and Equity	1,006.2	1,228.8	1,489.3	1,591.1	1,735.6	2,170.7	2,591.6	3,069.8	3,615.3
Debt/Equity Ratio	5.3:1	5.8:1	6.2:1	6.5:1	6.7:1	7.9:1	7.8:1	7.9:1	7.9:1
Contingent Liability (guarantees)	71.7	83.0	102.5	96.2	91.6	176.8	190.8	194.7	205.9

[a]Does not include short-term loans inadvertently left out of audited report.
[b]Includes subscriptions payable long-term portions and local currency borrowings.
[c]Includes current portion of long-term debt.

Table C-11. PDCP Revenues and Income Before and After Taxes, 1963-1982 (thousands of pesos and percentages)

Year	Total Revenues (P1,000)	5-Year Compounded Growth Rate	Income Before Taxes (P1,000)	5-Year Compounded Growth Rate	Income After Taxes (P1,000)	5-Year Compounded Growth Rate
1963	1,351		1,019		750	
1964	6,124		4,796		3,447	
1965	7,918		5,538		3,961	
1966	9,389		5,586		3,863	
1967	11,202	52.66	5,942	42.28	4,341	42.07
1968	14,250		7,018		4,883	
1969	18,743		8,459		5,956	
1970	32,160		11,537		7,223	
1971	41,053		14,514		9,359	
1972	50,630	28.86	18,078	20.83	11,554	18.80
1973	66,883		20,566		12,716	
1974	75,202		21,111		14,385	
1975	91,509		26,944		16,455	
1976	100,420		31,017		18,951	
1977	107,584	9.97	32,357	10.40	20,372	9.88
1978	124,771		33,721		22,233	
1979	141,726		33,019		24,524	
1980	179,224		33,911		27,366	
1981	198,704		25,013		17,465	
1982	199,172	9.80	17,295	-12.50	10,223	-14.39

Source: PDCP annual reports, 1963-1982.

Table C-12. PDCP Assets, Unappropriated Retained Earnings, and Earnings per Share, 1963-1982 (thousands of pesos and percentages)

Year	Total Assets (P1,000)	5-Year Compounded Growth Rate	Unappropriated Retained Earnings (P1,000)	5-Year Compounded Growth Rate	Earnings Per Share	5-Year Compounded Growth Rate
1963	46,163		255		0.30	
1964	62,789		1,259		1.38	
1965	86,889		1,580		1.58	
1966	98,795		2,170		1.57	
1967	123,702	21.79	3,191	69.96	1.74	42.13
1968	150,179		4,597		1.95	
1969	181,171		6,845		2.16	
1970	321,830		7,000		2.28	
1971	439,698		4,508		2.41	
1972	483,631	26.35	8,856	14.01	2.87	8.04
1973	676,249		12,649		3.16	
1974	746,530		16,920		3.57	
1975	864,741		20,843		3.03	
1976	867,336		15,447		3.14	
1977	909,772	6.11	20,787	10.44	3.37	1.30
1978	1,006,253		28,913		3.68	
1979	1,228,852		36,845		4.06	
1980	1,489,322		46,424		2.74	
1981	1,599,678		23,840		1.75	
1982	1,735,622	11.52	24,518		1.02	-22.63

Source: PDCP annual reports, 1963-1982.

Table C-13. PDCP Dividends and Return on Equity, 1963-1982 (pesos)

Year	Cash Dividends	Cash Dividends Per Share	Stock Dividends	Return on Equity
1963	-		-	.04
1964	-		-	.12
1965	2,500,000	1.00	-	.13
1966	2,500,000	1.00	-	.12
1967	2,500,000	1.00	-	.13
1968	2,500,000	1.00	-	.13
1969	2,500,000	1.00	-	.15
1970	2,749,989	1.00	2,500,000	.16
1971	3,499,561	1.00	2,500,000	.15
1972	3,893,596	1.00	-	.17
1973	5,232,446	1.30	-	.18
1974	5,635,000	1.40	-	.17
1975	7,030,360	1.55	-	.15
1976	9,257,500	1.60	10,062,500	.15
1977	9,660,000	1.60	-	.15
1978	9,660,000	1.60	-	.15
1979	9,660,000	1.60	-	.15
1980	9,660,000	1.60	-	.15
1981	10,000,000	1.00	26,556,411	.09
1982	7,500,000	1.00	-	.05

Source: PDCP annual reports, 1963-1982.

Table C-14. PDCP Foreign Currency Resource Mobilization, 1963-1982
(millions of dollars and percentage terms)

Year	Source	Currency	Amount ($ mill.)	Term (years)	Interest Rate (%)	Date Fully Disbursed
1963	IBRD	Various	15.0	15	5.5-6.0	06/15/71
1964	None	-	-	-	-	-
1965	None	-	-	-	-	-
1966	IBRD	Various	25.0	15	6.0-7.0	07/13/71
1967	None	-	-	-	-	-
1968	None	-	-	-	-	-
1969	IBRD	Various	30.0	17	6.5	10/02/73
	ADB	Various	5.0	12	6.875	09/15/74
1970	ADB	Various	15.0	11	7.5	04/09/76
1971	None	-	-	-	-	-
1972	IFC	S, F, US$	15.0	9	7.75-8.75	09/27/78
	Exim/Philnabank	US$	0.5	3 1/2	-	-
1973	None	-	-	-	-	-
1974	IBRD	Various	30.0	16	8.0	09/15/81
	ADB	Various	25.0	12	7.5-8.75	04/21/80
1975	None	-	-	-	-	-
1976	ADB	Various	25.0	15	9.1	07/31/81
	DEG	DM	2.1	8	9.75	06/09/81
1977	None	-	-	-	-	-
1978	IBRD	Various	30.0	-	7.45	Still Disbursing
	BOT	US$	10.0	5	LIBOR+1.25 + tax	03/27/81
1979	CDC	£stg.	9.5	10 1/2	9.5	Still Disbursing
1980	ADB	Various	30.0	13 1/2	7.6	Still Disbursing
1981	CB Apex					
	Commercial	US$	24.0	12 1/2	LIBOR+1/8	Still
	IBRD	Various	36.0	15	9.6+0.75	Disbursing
Total			322.6			

Source: IBRD, October 1982.