GOVERNMENT AND FINANCIAL INSTITUTIONS ASSISTANCE TO PHILIPPINE INDUSTRY

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List of Acronyms

ACA	Agricultural Credit Administration
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BDT	Bureau of Domestic Trade
BID	Bureau of Industrial Development
BOI	Board of Investments
BSMI	Bureau of Small and Medium Industries
CB	Central Bank
CBCI	Central Bank Certificate of Indebtedness
CIDE	Cottage Industry Development Enterprise
CPI	Consumer Price Index
DBP	Development Bank of the Philippines
DCP	Design Center Philippines
EPZA	Export Processing Zone Authority
GOP	Government of the Philippines
GSIS	Government Service Insurance System
IBRD	International Bank for Reconstruction and Development
IGLF	Industrial Guarantee and Loan Fund
KB	Commercial Bank
KKK	Kilusang Kabuhayan at Kaunlaran
MASICAP	Medium and Small-Scale Industries Coordinated Action Program
MHS	Ministry of Human Settlements
MTI	Ministry of Trade and Industry
NACIDA	National Cottage and Development Authority
NBFI	Non-Bank Financial Intermediary
NDC	National Development Company
NIDC	National Investments and Development Corporation
PDB	Private Development Bank
PDCP	Private Development Corporation of the Philippines
PISO	Philippine Investment Systems Organization
PNB	Philippine National Bank
RB	Rural Bank
SBAC	Small Business Advisory Center
SMI	Small and Medium Industry
SMILE	Small and Medium Industry Lending Department, DBP
SSS	Social Security System
UP-ISSI	University of the Philippines Institute of Small Scale Industries
VCC	Venture Capital Corporation

GOVERNMENT AND FINANCIAL INSTITUTIONS ASSISTANCE TO PHILIPPINE INDUSTRY

EXECUTIVE SUMMARY

1. Since the mid-70s the government has been giving increasing attention to the role of small- and medium-sized industries in Philippine development. The GOP has consistently cited the strategic importance of the SMI sector in employment generation and regional growth in all of the multi-year Development Plans it has had since 1974. But as one is fully aware, the small size of these enterprises and their dispersion put them at a disadvantage compared to the large industries. With the exception of programs specifically designed to deal with SMIs, the GOP's general programs for industrial development, e.g., the investment incentives being administered by the Board of Investments (BOI), are mostly geared towards the bigger enterprises.

2. As part of the increasing emphasis on SMI development, the sector should be receiving larger amounts of technical assistance and finance. This paper attempts to determine whether indeed the resources that the GOP and the financial institutions have provided to the SMI sector over time show evidences of a growing commitment to support small industries vis-a-vis large industries. Constrained by time and the paucity of comprehensive information on GOP and financial institution activities relating to the SMI sector, the paper is compelled to rely mainly on data that are generally available from official sources. This study should then be treated as a preliminary effort to look at existing trends on the actual levels of assistance being given SMIs amidst the growing rhetorical support for the sector coming from both public and private institutions. Annual appropriations data for GOP technical offices assisting small and large industries and for industry financing programs are used as the basis to gauge GOP commitment in lieu of the absence of information on actual GOP expenditures. In the case of banks and other credit institutions, there is no specific breakdown in the amount of the outstanding loans of the industrial sector by firm size. However, some indication of possible credit assistance levels can be ascertained from the nature of their operations, their clientele, and from other past studies on SMIs and financial institutions.

3. By and large, budgetary data over the last six years indicate no substantial change in the level of resource transfers in favor of SMI promotion and development. Appropriations for GOP technical agencies assisting SMIs such as NACIDA and Bureau of Small and Medium Industries (BSMI), etc, is still extremely limited (only 0.14 percent of total budget in 1981) and its growth over time (4.8 percent in real terms per year between 1977-1981) does not reflect increasing GOP commitment nor a higher priority for the SMI sector vis-a-vis large industry. Public budgetary support to

technical offices involved with large industries like the BOI, EPZA and Bureau of Industrial Development grew by a much higher 10.4 percent annually in real terms, and their share of the total GOP budget rose from 0.18 percent in 1977 to 0.23 percent in 1981.

4. Even with the GOP financing programs, the SMI sector does not appear to have gained much ground over big industries. The launching of the Kilusang Kabuhayan at Kaunlaran (KKK) program in 1981 with an initial capital fund of ₱1 billion substantially augmented public resources available for SMI financing. Prior to KKK, the only major GOP source of SMI financing was the Industrial Guarantee and Loan Fund and its total cumulative lendings from 1976 to 1980 amounted to only ₱285 million. At the same time, however, the GOP has appropriated more than ₱1.7 billion during the last two years (or 1.5 percent of the total GOP budget for 1980-81) for the National Development Company (NDC) to support its operations and its investments in major capital-intensive industrial projects and several "distressed" large companies. The huge transfers to NDC appear to offset whatever "advantage" the SMI sector has gained over the large industries to greater access for GOP financing resources with the KKK program. Thus, approximately the same levels of assistance have been appropriated by the GOP to the SMI and the large industry sectors from 1977 to 1981.

5. These trends are somewhat surprising, given the increasing GOP verbal commitment to focus on SMI development. Also, considering that four-fifths of the industrial work force are accounted by the SMI sector, small industries require more technical and financial assistance than the large industry. The number of beneficiaries are likely to be much greater for resources channelled to the SMI sector. Moreover, a big number of the large industries already receive considerable assistance from the GOP in the form of fiscal incentives like exemptions from tax and import duties payments, etc., over a period ranging from 5 to 10 years. In the case of SMIs, only NACIDA-registered cottage enterprises are eligible for tax benefits, and these are only enjoyed up to a period of 5 years. While information on the actual amounts of fiscal incentives that have accrued to large corporations is difficult to obtain, it can be surmised on the basis of their operations and their import requirements that the fiscal benefits that have been received by large industries are substantially higher than those availed of by small enterprises.

6. There also has not been any major significant shift in the level of financial resources being provided to SMIs by private and public credit institutions. While total outstanding loans of the domestic financial system to the industrial sector have risen at annual real growth rate of 9.0 percent between 1977 and 1981, it is believed that the bulk of these new loans have been given to larger industries rather than to the SMI sector. In fact, the share of SMI lendings to total outstanding industry loans have declined during this period. In 1981, the SMI sector was estimated to account for 22 percent of the total outstanding credit of the industrial sector compared to 27 percent in 1977. This is indicative that the relative level of assistance being provided by the financial sector to SMIs vis-a-vis large industries is deteriorating rather than improving.

7. Commercial banks and development banks provide over 90 percent of the loans to the industrial sector. However, as of December 1981, large corporations absorbed 75 percent of the total outstanding credits to enterprises by the commercial banking system (which accounts for two-thirds of the loan portfolio of the financial sector). The banks seeming preference for big industries can be attributed to several factors. Large corporations (especially those with good track records or multinational connections) are deemed less risky than SMIs. They also bring in compensating businesses to the banks in the form of sales deposits, foreign exchange deposits, letters of credit, etc. which increase the effective returns on loans made to them. In contrast, the administrative costs of the commercial banks in terms of the time and costs involved in processing loans for SMI without established track record, is said to be 5 to 6 times that for prime- or near-prime companies, and the risk of arrears and write offs on SMI loans are higher than on loans to established enterprises. Consequently, in terms of both return and risk there had been few incentives for private commercial banks to lend to SMIs out of their own resources, especially when interest rates were controlled. Hopefully, recent financial reforms that started in 1981, including the lifting of interest rate ceilings, the reduction of marginal deposit requirements and the introduction of a prime rate system, would encourage the banks to actively pursue more and longer term loans to SMIs, particularly those located outside Manila, because these should more profitable.

8. Another striking recent development has been the exceptionally high growth in the amount of loans and guarantees being provided to large industries by the Development Bank of the Philippines (DBP), the country's largest supplier of long term industrial loans. From 1977 to 1981, DBP's financial assistance to large industries has risen by an average of 50 percent annually compared to only a 10 percent yearly growth in the Bank's lendings to the SMI sector. Thus the share of SMI loans to the total DBP industrial loans has declined from some 7 percent in 1977 to just 2 percent in 1981. This reflects DBP's bias toward supporting large industries (many of whom were adversely affected by the 1981 financial crisis and now are unprofitable and in dire financial trouble) over SMIs, the majority of whom depend solely on the DBP as their source of institutional or formal credit. With IBRD support, the DBP is now in the process of reorganizing and strengthening its operational units assisting the SMI sector to enable it to service the needs of small enterpreneurs more effectively. Hopefully again, the result would be more SMI lendings and greater geographical dispersion of financial assistance to small industries.

9. Other credit institutions also extend loans to the industrial sector, but at a more limited scale partly due to restricted resource availability and partly because of the nature of their operations. (These institutions combined account for roughly 6 percent of the outstanding loans of industry in 1981.) Yet most of them are able to service certain types of SMIs which, given their characteristics and geographical location, would find it difficult to obtain loans from commercial banks and the DBP. Part of the clientele of rural banks are small, agri-business establishments in the provinces. Private development banks and savings banks are able to service small manufacturing

concerns mostly located in non-metropolitan areas. Some of these institutions, together with selected private non-bank financial intermediaries, have been accredited by the Central Bank to participate in the IGLF program and are provided financial resources for onlending to SMIs.

10. Government non-bank financial institutions, referring principally to the Social Security System (SSS) and the Government Service Insurance System (GSIS), are a major source of credit in the economy, accounting for around 11 percent of total outstanding loans of the financial system. They seldom extend direct loans to industries, preferring instead to assist the industrial sector through huge placements with the PNB and DBP. These investments, in turn, have enabled the PNB and DBP to expand their lending activities to both industrial and non-industrial borrowers. But lately, both GSIS and SSS have been quite active in financially supporting certain large industries and banking establishments that had been affected by the 1981 financial crisis and the on-going economic recession. However, little information regarding the types of activities they are now financing and the source of such resources is presently available.

11. It appears on the basis of accessible empirical data that there is still no evidence of an increasing shift in the flow of GOP's and financial institutions' resources towards the SMI sector in recent years. But as mentioned earlier, a lot of information gaps do exist and further research in certain areas is necessary to obtain better knowledge of the levels and impact of assistance programs for small industries vis-a-vis those supporting the large-scale industrial sector. More information on the actual levels of public expenditures on industry assistance programs and on the amount of tax and other incentives being received from the GOP by large and small enterprises would give a better insight into the actual strength of the GOP's commitment to promote and develop small industries. Likewise, more specific data on financial institution lendings to SMIs, the cost of administering SMI loans and the repayment performance on these loans would be helpful in understanding the reasons for the apparent reluctance of credit institutions to lend to the SMI sector. For policy implications, further work should be made to study the real effectiveness and impact of existing GOP industry financing programs and to determine ways to encourage the banking sector to be more SMI-oriented than in the past.

Summary Table
Rough Estimations of Assistance Levels to Industry by GOP and Financial Institutions

I. GOP (1977-1982 Appropriations, in million pesos)1/

A. Agencies Providing Technical & Related Assistance	SMI's	Large Industry
Bu. of Small & Med. Ind.	₱ 74.2	
NACIDA	164.1	
Bu. of Domestic Trade	38.1	
Design Center of the Phil.	52.4	
UP-ISSI	9.9	
Board of Investments		₱ 107.3
Bu. of Ind'l Development		18.5
Export Proc. Zone Authority		258.9
Sub-Total	₱ 338.7	₱ 384.7
B. Financial Programs		
KKK	1,000.0 2/	
CIGLF	84.0 3/	
IGLF	677.3 4/	
National Development Co.		1,730.0 5/
Sub-Total	₱ 1,761.3	₱1,730.0
TOTAL	₱2,100.0	₱2,114.7

1/ Actual GOP disbursements to these agencies are apparently less than the appropriated amount. However, no information on past expenditures for each office is available.

2/ Disbursements from the ₱1-billion KKK fund reportedly amounted to some ₱370 million as of late 1982.

3/ Represents commitment level on a program basis in 1981 and appropriations in 1982.

4/ Includes total amount of loans released from 1977-1981. See Table 10.

5/ Represents GOP appropriations in 1981-82. We have no information on NDC disbursements or drawdowns. NDC was not given any appropriations during 1977 to 1980.

II. Private and Public Financial Institutions (Loans Outstanding as of Year-end 1977 and 1981, in billion pesos)

	Total Outstanding Loan Portfolio[6]		Total Outstanding Loan to Ind'l Sector[6]		Est. 1977 % Share of Total Ind'l Loans:		Est. 1981 % Share of Total Ind'l Loans:	
	1977	1981	1977	1981	Large Ind.	SMI's	Large Ind.	SMI's
Commercial Banks	₱ 40.2	₱ 86.5	₱ 15.7	₱ 38.5	70%[7]	30%	75%[8]	25%
Development Banks	10.4	25.0	4.3	9.9	90[9]	10	95[9]	5
Rural Banks	2.8	5.5	0.1	0.1	0	100	0	100
Savings Banks	1.7	2.9	0.3	0.6	40	60	40	60
Non-Bank Financial Intermediaries (NBFIs):								
Government	8.1	14.5	0.5	0.9	90	10	90	10
Private	1.1	1.5	0.7	1.4	75	25	75	25
Total	₱ 64.3	₱135.9	₱ 21.6	₱ 51.4	73%	27%	78%	22%

6/ Based on Tables 6 and 8.

7/ Based on Table 12. The amount of loans outstanding of KBs (except PNB) by firm size (but excluding others) is used to get the estimated figures.

8/ Based on Table 7. The amount of KB loans outstanding by firm size (but excluding others) is used to get the estimated figures.

9/ Mainly based on DBP operations; see Table 9.

Government and Financial Institutions Assistance to Philippine Industry

1. Introduction

1.01 There has been an increasing emphasis on the development of small and medium industries (SMIs) in the Philippines since the mid-70s. In its 1974-1977 Four-Year and 1978-1982 Five-Year Development Plans, the Government of the Philippines (GOP) has categorically recognized the strategic importance of the SMI sector in employment creation and regional dispersion.1/ The country's SMIs currently account for about one-fourth of industry gross value added and employ close to 80 percent of the work force of the industrial sector. The value of their contribution to the domestic economy, as past studies have pointed out, lies in their low capital use and favorable capital productivity, their extensive utilization of indigenous resources, and, above all, in their role in maintaining the level of local industrial employment and generating new non-farm job opportunities. Indeed, there is a pressing need to develop more small, labor-intensive industries in order for the country to absorb a rapidly growing labor force (currently increasing by about 3.7 percent annually) and to achieve a more balanced economic growth and development.

1.02 The new Five-Year Development Plan for 1983-1987 and recent Ministry of Trade and Industry's pronouncements make clear that the promotion of SMIs is a major priority area. This trend has encouraged both the GOP and the private sector to initiate new, and strengthen and expand existing, small enterprise programs, most of which are focussed to increase the availability of credit and technical, marketing and supporting services to SMIs. Indeed, the GOP and, more recently, private financial institutions, have been quite vocal about promoting existing and new SMI development programs with a few of the institutions already actively pursuing them. Given the apparent shift in focus over time, it would be interesting to determine if the level of resources that the GOP and the financial institutions have extended to SMIs (compared with those provided large industries and other economic sectors) is reflective of the shift.

1.03 This paper attempts to measure the change in two ways: (1) by identifying the major GOP agencies involved with programs for small and large industries and the budgetary resources that have been extended them over time;

1/ Concern for the SMI sector has also been raised in two fairly comprehensive analysis of the Philippine economy: Ranis, et. al., Sharing in Development, ILO (1974) and IBRD, The Philippines: Priorities and Prospects for Development (1976). Likewise, an extensive analysis of the SMI sector is made in Anderson and Khambata, Small Enterprises and Development Policy in the Philippines: A Case Study, World Bank Staff Working Paper No. 468, July 1981.

and, (2) by determining the levels of resources which have been made available to industry over time by domestic financial institutions, both public and private. This should be treated as a preliminary effort to find out if the GOP is really committing its resources to promote small industries as vigorously as its statements, and whether the domestic financial sector is increasing its assistance to SMIs. However, given the paucity of comprehensive statistics on GOP and financial institutions activities relating to the SMI sector, the study is forced to rely on generally available data from official sources. Therefore, it serves as a survey and analysis of existing data on industry assistance programs which is only indicative of where further in-depth analyses are needed.

1.04 The primary source of information for the first part, Part II, Government Assistance to Industry has been the GOP Budget and General Appropriations records from 1977-1982. Data on past actual GOP expenditures would have given us a better idea of the level of public resources that have been channelled to the SMI sector, but obtaining such information is difficult. Central Bank data on financial institutions have been the key information source for the second part, Part III, Philippine Financial Institutions. In the case of the latter, it would have been ideal to break down the credit resources received from banks and other institutions by SMIs vis-a-vis large corporations, but the lack of "hard" data has made this impossible at this point in time. However, from the nature of the banks' operations, their clients, and from other existing studies on SMIs, and financial institutions, some indications of the possible assistance levels to small and large firms can be ascertained.

1.05 In this paper, the SMI sector refers to domestic cottage (micro) industries and small and medium enterprises with total assets (including land) valued at less than ₱4.0 million and are engaged in manufacturing, mining, utilities and construction activities. Small firms belonging to the service or tertiary sector are excluded. Large industries will include establishments with total assets amounting to more than ₱4.0 million and employing 200 or more workers.

II Government Assistance to Industry

A. GOP Funding of Technical Support to SMIs.

2.01 Despite the rhetoric, the budgetary support provided by the GOP for the promotion and development of domestic small and medium industries (SMIs) is still extremely limited and its growth over time does not lead one to conclude that the GOP has in the past given a very high priority to this sector compared to large industry. Since 1977, the GOP has only allocated around 0.15 percent of its annual appropriations to public offices and bureaus involved in promoting and assisting SMIs (Table 1). This encompasses principally those GOP offices directly mandated to assist local small entrepreneurs but excluding other offices/ministries which might have been doing similar activities on a limited scale or through some minor SMI programs. Also excluded are the GOP non-budgetary financial assistance being given to SMIs, primarily tax benefits or exemptions granted under some GOP SMI programs including those received by cottage industries registered with the National Cottage Industry Development Authority (NACIDA). The real growth in resources programmed in this sector from 1977 to 1982 has just approximated the 27 percent growth in real total GOP appropriations during the period. (See Table 1, line IID; annual real growth rate was about 4.8 percent). Therefore, in both absolute and relative percentage terms, the GOP has shown no significant shift in resource commitment in this area.

2.02 These SMI-oriented agencies include the NACIDA, the Bureau of Small and Medium Industries (BSMI), the Bureau of Domestic Trade (BDT), the Design Center of the Philippines (DCP) and the University of the Philippines Institute of Small-Scale Industries (UP-ISSI). The first four offices are under the Ministry of Trade and Industry (MTI) while the UP-ISSI is under the U.P. System. The types of assistance being provided by these agencies have included SMI project development, enterpreneurial skills development, consultancy services, technological and marketing assistance.

2.03 Given the present large number of GOP and privately-owned agencies servicing SMIs and the apparent lack of coordination among them, it is inevitable that there are duplication of efforts. During the past months, the GOP has been streamlining the operations of these agencies with BSMI expected to take the lead role in SMI policy and development activities.

2.04 Of the GOP resources appropriated for these offices from 1977 to 1982, nearly half annually went to NACIDA (including those for the defunct Cottage Industry Development Enterprise or CIDE). NACIDA is the primary GOP agency responsible for organizing and promoting the establishment of cottage industries nationwide and for providing technical, financial and marketing assistance to cottage producers. This agency has played a key role in making handicrafts and garments one of the country's major exports since the mid-70s.

2.05 Another 25 percent of the GOP budget for SMI-oriented public agencies has been allocated to BSMI which is tasked to initiate and implement projects and programs addressed to the specific need of the SMI sector and to provide technical assistance to small entrepreneurs. BSMI's two prominent programs are the Medium and Small Industries Coordinated Action Program (MASICAP) and the Small Business Advisory Centers (SBAC), both of which assist small entrepreneurs, particularly those located outside Manila, identify feasible projects, prepare project studies and seek loans from financial institutions. These two programs have had technical and financial support from the World Bank under its Small and Medium Industries Projects. The World Bank resources (and those of other donors) are included in the appropriations data in Table 1.

2.06 The rest of the GOP resources for SMI-oriented offices went to BDT, DCP and UP-ISSI. The BDT promotes domestic trade research and assistance services to local entrepreneurs and producers. The Design Center extends technical assistance to SMIs on design development and research for purposes of improving the quality and marketability of SMI products. UP-ISSI offers various entrepreneurship and management development programs, including selected training courses, to potential entrepreneurs. It has also undertaken research and other studies related to SMI development.

B. GOP Support to Large Industries.

2.07 By comparison, GOP budgetary support to agencies involved with large industry programs rose from about 0.18 percent of total GOP appropriations in 1977 to roughly 0.23 percent in 1982 although it fluctuated greatly in-between (See Table 2). This represents an annual growth rate in the real peso value of 10.4 percent over the six-year period. This is much higher than that for SMIs. Assistance to large industry is provided by GOP offices responsible for promoting industrial policies and guidelines, and by government corporations that are supporting big industries through infrastructure, and related extension and advisory services.

2.08 The Board of Investments (BOI) and the Bureau of Industrial Development (BID), both of which are under the MTI, are the technical agencies involved in promoting large domestic industries. BOI is responsible for the development and administration of the GOP investments and exports incentives plans. Although its coverage does not exclude SMIs, BOI generally caters to fairly large scale manufacturing establishments which are engaged in pioneering[1/] or priority industries. It has received roughly 28 percent of the budget allotted to GOP agencies assisting large industry between 1977-1982. The BID is responsible for formulating industrial policies and guidelines for large-scale industries and in coordinating with other GOP agencies and industry associations on industrial rationalization and development programs. While it services both the SMI and the large industry sectors, the BID assists mostly the latter given its major functions.

1/ A pioneer industry is one in which, in addition to being important to national economic development, involves the manufacture or production of commodities or raw materials that are not being produced on a commercial scale in the Philippines, or one which uses a new design, formula, or process for producing or transforming raw materials into finished products.

Significantly, its 1982 budget increased nearly four times over the previous year's level, mainly because it is the lead agency for implementing the IBRD Structural Adjustment Loan.

2.09 Two-thirds of the GOP budget allotted to big industry-oriented offices (excluding financial assistance programs) have been to the Export Processing Zone Authority (EPZA), also under the MTI. Most of the public investments with EPZA chiefly involved the purchase of land, the construction and the management of the zone facilities. EPZA currently operates three export zones (in Bataan, Mactan and Baguio) catering to large domestic and foreign corporations and two industrial estates (in Tacloban and Batangas) for medium-sized and large establishments. There are other GOP non-financial corporations such as the National Power Corporation, the Metals Industry Development and Research Center (MIRDC), the Philippine Veterans Investment Development Corporation (PHILVIDEC), all of which similarly assist large industries rather indirectly through the provision of infrastructure support and other forms of assistance (marketing, technological, etc.). However, no attempt has been made to estimate the value of their assistance to industry. Likewise, the National Development Company (NDC) is a major public corporation involved in assisting big industries, but its assistance is mainly in the form of financial support or equity investments in large industrial projects. Its operations are further discussed in II.D. below.

C. Conclusion: Institutional Support

2.10 Given the increased attention on the role of SMIs in the country's industrial development, the GOP should be strengthening the capabilities of its agencies servicing this sector. A major initial step should be the infusion of more resources to support the operations and activities of these entities. However, there seems to be no discernible shift in GOP resources towards the SMI sector in recent years. Public appropriations for technical assistance agencies engaged in promoting small industries have risen at just about the same rate as the budget for the entire GOP operations during the last six years. By contrast, the increase in the appropriations for GOP entities directly promoting large industry has been much higher.

2.11 This is somewhat surprising, given the growing verbal commitment to focus on SMI development and, likewise, considering that SMI-oriented agencies cover a larger number of enterprises and individuals compared to the GOP entities working with big industries. The number of potential beneficiaries of GOP SMI programs are indeed much greater since four out of five workers in Philippine industry are employed by SMIs. Thus, resources channelled to the small-scale sector are likely to have greater employment impact compared to those provided the large-scale industrial sector.

2.12 GOP technical agencies assisting SMIs also play a key role in the GOP countryside development program as they encourage SMIs to produce for the local markets, as well as for the export market, utilizing indigenous resources, as evidenced by the wide regional coverage of the NACIDA and BSMI's MASICAP/SBAC programs. Obviously, working with SMIs can be very staff- and time-intensive so that the GOP may be wary of investing greater resources to it. But small businesses generally are less dependent on large infrastructure investments than big industry, and therefore, require lesser GOP investments per firm. Public expenditures on technical assistance to SMIs in the provinces can be as cost-effective, if not less expensive, as establishing industrial estates.

2.13 It is possible that one reason for the lower funding allotments to some SMI-oriented GOP entities (e.g. BSMI) is directly attributable to some absorptive capacity problems. Thus, it is not entirely fair to use the level of public appropriations as the sole basis for measuring GOP commitment as some of the offices may have more money in the past than they could utilized efficiently. Nonetheless, it is clear that the absorptive capacity of these entities should have been improved in the first place since the primary objective is to upgrade and enhance these entities' technical support and services to SMIs.

2.14 It should also be noted that GOP assistance to large industry may be actually much greater than mere budgetary provisions if other forms of fiscal incentives given them such as tax relief and exemptions from or deferred or reduced payments of import duties on machineries and raw materials are taken into account. In the case of SMIs, only NACIDA-registered enterprises are eligible for fiscal and other benefits (i.e. raw material sourcing, and tax relief) (See Annex I for description of the incentives available from BOI and NACIDA). Although information on the actual amounts is difficult to obtain, it appears that the tax benefits that have accrued to large corporations, given their operations and import requirements, are substantially higher than those received by cottage industries. Further study comparing the level of direct and indirect tax and other benefits received by SMIs and large industry should be pursued.

D. GOP Appropriations for Public Financial Institutions and Programs Servicing Industry

2.15 Financial Institutions. Another indicator of the GOP's actual position regarding an increased emphasis on SMI is to look at the appropriations for public financial institutions and programs servicing domestic industry. This is another way of measuring GOP commitment to the SMI sector. The Development Bank of the Philippines (DBP), the Philippine National Bank (PNB), the Land Bank of the Philippines (LBP), the Government Service and Insurance System (GSIS) and the Social Security System (SSS) are the key GOP financial institutions, though not all of their major clients have been the industrial sector. Regular GOP appropriations have been made only to the three state-owned banks during 1977 to 1982 to enable them to meet their lending and operational requirements. The GSIS and the SSS have managed to sustain their operations through the contributions of their respective members (i.e. government employees for GSIS, and private employees, employers and self-employed for SSS); therefore, neither has received appropriated funds during the period.

2.16 Over the last six years, about ₱1.8 billion have been appropriated by the GOP for the three banks (Table 3). However, in real terms, these appropriations in 1982 were 11.2 percent lower than in 1977. Almost half of the total amount appropriated for GOP-owned banks during the period have been for DBP which is the major source of long-term finance for both industry and agriculture in the country. Some 10 percent of the DBP appropriations have been earmarked for funding support to rural banks and private development banks. The remaining 90 percent (₱775 million) is to be used for its lending operations. There is no published specific data indicating how DBP has allocated GOP funding among sectors, or distributed it between SMIs and large corporations. (This is also true in the case of the other financial institutions. On the other hand, the discussion on banks and other financial institutions in Part III tries to come out with some rough magnitudes of the credit assistance these institutions have extended each sector.)

2.17 The nation's largest commercial bank, PNB, has absorbed 28 percent of the budget provided the three GOP banks during 1977-1982. Its assistance to the industrial sector has been in the form of short- and medium-term credit to relatively large corporations, although it also serves as a financial conduit for several SMI financing programs. Though the ₱500 million allotted to PNB during the past six years looks miniscule for a bank with more than ₱50 billion in assets as of year-end 1982, it should be noted that PNB had received considerable equity contributions from the GOP during the 60s and early 70s, and is now much less dependent on GOP direct funding than before. Among its other activities, PNB has played a key role in the GOP's Masagana 99 program for rice and the development and modernization of the domestic sugar industry. Meanwhile, the Land Bank has been appropriated around ₱455 million or 25 percent of the budget for state-owned banks from 1977 to 1982. While principally serving as the financial arm of the GOP in the agrarian reform program, the LBP in recent years has been increasingly extending credit assistance to small farmers, landowners and farmers' cooperatives for crop production loans, to small entrepreneurs engaged in agri-business, and to banking institutions for relending to small agricultural, commercial and industrial firms.

2.18 Both GSIS and SSS are primarily involved in social insurance programs for the benefit of their members. However, these two institutions have been able to assist private industries through investments in securities of the national government, PNB, DBP and private businesses. They seldom extend direct loans to private corporations, preferring instead to assist the private sector through its huge placements in PNB and DBP. These investments, in turn, have enabled the PNB and DBP to expand their lending activities to both industrial and non-industrial borrowers.

2.19 Financial Programs. In addition to the financial institutions, the GOP has established several financing programs specifically to support the SMI sector. In August 1981, the GOP launched the Kilusang Kabuhayan at Kaunlaran or KKK (National Livelihood Movement) to stimulate small-scale income-generating activities, particularly in rural areas. With an initial capital fund amounting to a whooping ₱1.0 billion (notably, three times the allocations received by the agencies involved with the SMI sector from 1977-1982), the KKK through its regional offices is able to provide funds to potential enterpreneurs in the provinces. Of this ₱1 billion, ₱300 million will be used for collateral-free and interest-free loans, and the balance will be lent at 12 percent interest per annum through the DBP, LBP and the PNB. However, the actual level of commited funds was reportedly around ₱370 million as of late 1982. More funds are expected to be allocated to the KKK in the future years. For instance, another ₱1.0 billion have been appropriated for the KKK program in 1983, prior to the recent effort to reduce budget expenditures. This level is consistent with GOP efforts to promote this program more extensively as indicated in the Five-Year Plan for 1983-1987.

2.20 There are at present two other GOP financing programs supporting SMIs: the Industrial Guarantee Loan Fund (IGLF) and the Cottage Industry Guarantee Loan Fund (CIGLF). The IGLF is being administered by the Central Bank and the loans are released through accredited private financial institutions. A fuller discussion on IGLF is given in Para 3.21. For its part, the CIGLF was established in March 1981 for the promotion and development of domestic cottage industries with a multi-year loan fund amounting to ₱800 million. NACIDA is the lead agency in administering the CIGLF, being responsible for identifying clients and doing the project feasibility studies. These studies are then referred to either the DBP or PNB for project review, approval, and disbursement of funds. NACIDA is also responsible for project supervision. Approximately ₱43.6 million has been approved under CIGLF for some 800 cottage industries in 1981. Another ₱40 million has been appropriated for it in 1982.

2.21 Meanwhile, to support large industries and other capital-intensive projects, the GOP established the National Development Company (NDC) as its corporate arm to engage or invest in commercial, industrial, agricultural, mining and other enterprises where government investment is considered necessary to foster economic growth. NDC's activities have stepped up in recent years as it is the lead agency in implementing the GOP's 11 major industrial projects.1/ Among its current key powers are the rights to draw up contracts of any kind and description, hold public agricultural and mineral lands in excess of the 1,000-hectare limit permitted to private enterprises, guarantee domestic and foreign loans, invest in projects of the Association of Southeast Asian Nations (ASEAN) and issue bonds and other obligations to generate necessary funds for investments. In 1981-82, the GOP appropriated ₱1.73 billion or some 1.5 percent of the two years' total budgets for NDC in support of its investments and operations. Aside from its equity investments in the GOP industrial projects, NDC's other major projects are oil palm

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1/ The GOP's eleven major industrial projects include the following: copper smelter, phosphate fertilizer plant, aluminum smelter, heavy engineering industries, petro-chemical complex, integrated steelmill, alcogas program, integrated pulp and paper mill, diesel engine manufacturing, cement industry expansion, and rationalization of the coconut industry.

plantations and mining ventures with foreign partners, investments in ASEAN industrial projects, equity contributions in venture capital corporations set up by private commercial banks, and equity participation in a number of private enterprises.

E. Conclusion: GOP Financial Programs

2.22 Substantial GOP resources have been made available to state-owned banks and specific GOP financing programs for relending to industry as well as to other non-industrial sectors. Budgetary support to public financial institutions appears to be declining gradually over time as the latter increasingly seek other funding sources to support their operations. On the other hand, the GOP has now placed emphasis on selected financing programs, like the KKK, CIGLF and through NDC to channel its resources directly to targetted beneficiaries. Based on the appropriations data for these programs, approximately the same levels of assistance are being provided by the GOP to the SMI sector and to large industry (Table 4). Actual disbursements are not publicly known yet, and the effectiveness of said programs in terms of their overall implementation, coverage and "payback" should be a good topic for further research. But at least with the KKK, a better balance in GOP fund allocations between small and large enterprises is made possible. Otherwise, it would have been exceedingly one-sided in favor of the latter, what with the massive infusion of GOP investments with NDC to finance the major capital-intensive industrial projects.

III. Philippine Financial Institutions

3.01 The country has a good number of specialized financial institutions providing credit assistance and services to various economic sectors. The domestic financial sector has two major components: the banking system and the non-banking system. The former is comprised of commercial banks, rural banks, development banks, thrift banks and savings and loan associations. Together, they account for 88 percent of loans and investments outstanding of the financial sector in 1981. The non-banking institutions accounted for the other 12 percent and consist of government-sponsored social insurance corporations, and private non-bank financial intermediaries such as investment houses, finance companies, and insurance companies.

3.02 Nearly 40 percent of the total outstanding loan portfolio of the domestic financial system have been received by the industrial sector. Over 90 percent of these industrial loans are provided by commercial and development banks. Statistics from the Central Bank show that the total outstanding credits of industry have risen at annual real growth rate of 9.0 percent between 1977 and 1981. While actual data is not available, it is believed that the bulk of these new loans have been received by larger industries rather than small enterprises. In fact, the share of SMI lendings to the total loans outstanding of the industrial sector is estimated to have declined from around 27 percent in 1977 to a lower 22 percent in 1981 (see Summary Table). This is indicative that the level of assistance being given by the banking system to the SMI sector vis-a-vis the large industries has deteriorated rather than improved. The following discussion assesses the role of each major type of financial institution with emphasis on the level of assistance they have provided industries, particularly the SMI sector.

A. Commercial Banks.

3.03 Commercial banks (KBs) are the largest source of institutional credit in the country, accounting for about two-thirds of the total loans outstanding of all local financial institutions. At the end of 1981, the total credits outstanding of the commercial banking system (which is comprised by 28 private domestic banks, 2 government-owned banks and 4 branches of foreign banks) reached ₱86.51 billion, or more than double its loan portfolio in 1977. Based on CB data, the real growth of outstanding domestic credits of KBs from 1977 to 1981 was 28 percent, slightly higher than the 25.6 percent real growth in the total loan outstanding of the entire financial system over the same period (Table 5).

3.04 Most commercial bank loans are short-term and serve to provide trade credits and working capital to industry and commerce. Over 30 percent of KB lending is to manufacturing, while another 14 percent goes to the other industrial subsectors (i.e., mining, utilities and construction). Commerce absorbed around 18 percent of KB loans in 1981, a decline from a 29 percent share in 1977. The agriculture sector's share was only 13 percent despite a CB regulation requiring financial institutions to allocate 25 percent of their resources for this sector. (Apparently, the KBs have been able to get around this by acquiring CB Certificates of Indebtedness and GOP securities and treasury notes, most of which are intended to finance GOP agricultural programs.) The rest of the KB lendings (some 25 percent in 1981) have been to other services sub-sectors, including loans for consumption and other types of advances by firms and individuals. (Table 6).

3.05 The distribution and allocation of KB credit resources among borrowers are notably uneven. Their prime customers are corporations which accounted for two thirds of the loans extended by KB as of year-end 1981. Individual borrowers accounted for some 21 percent of the outstanding KB loans, an indication that some better-off or well-placed individuals and families do have strong business or social influence on KBs that have enabled them to avail of bank credits that often carry liberal terms compared to other loans. But a noteworthy development in recent years has been the steady increase in KB lendings to government. From a measly 1.4 percent in 1977, the share of public borrowings to total KB loans has gone up to 7.8 percent in 1981 (an almost six-fold increase in its share). This reflects the growing reliance by GOP on the domestic banking system to support related deficit spending. It also means that the public sector is becoming a serious competitor of the private sector for the utilization of relatively limited KB credit supply. In fact, the share of corporate borrowings in total borrowings from KBs has declined from 75 percent in 1977 to 67 percent in 1981. This may have been a direct result of the big upsurge in GOP borrowings to finance its large deficit but this needs further analysis to be sure.

3.06 Small and medium-sized firms and cottage industries accounted for only one-fourth of the total KB loans to industrial and non-industrial enterprises in 1981 (Table 7)1/. This level already includes funds extended by GOP to KBs for relending to SMIs under the IGLF program, estimated at some ₱90 million in 1981 or less than 1 percent of the total KB loan portfolio (See the discussion on IGLF in Part 3.21). Commercial banks seeming preference for large industries is quite understandable. Large corporations, especially those with good track records or multinational connections are deemed less risky than SMIs. The former also bring in compensating businesses to the banks (i.e. company deposits, payroll deposits, letters of credits for imports, etc.) which increase the effective returns on loans made to them. In contrast, the administrative costs of KBs in terms of the time and costs involved in processing loans for SMIs without established track record, is estimated to be 5 to 6 times that for prime or near-prime companies, and the risks of arrears and write-offs on SMI loans are higher than on loans to established enterprises. Consequently, in terms of both return and risk there had been few incentives for KBs to lend to SMIs out of their own resources when interest rates were controlled.

1/ CB data for 1977 in Table 12 shows that SMIs accounted for a higher 30 percent of the KB outstanding loans to enterprises, but these statistics may not be entirely comparable with the 1981 data, because PNB loans are excluded in the former.

3.07 Commercial banks go mostly for short-term loans, undertaking little medium- and long-term lending. As of year-end 1981, the maturity period of 74 percent of their outstanding loans were up to 1 year, 17 percent were 1-3 years and only 10 percent were over 3 years. However, these levels are much better than the 1977 ratios of 85 percent, 11 percent and 4 percent, respectively. Such improvements, to some extent, are the result of GOP efforts to encourage longer term lending by the financial institutions. Indeed, the reluctance of KBs in the past to lend long-term can be partly explained by the interest rate structure and the banks' practice of matching maturities between borrowings (which are also mostly short-term) and lendings. Until 1981, interest rate ceilings on both deposits and loans had been pegged by the Central Bank so that the spreads between the borrowing and lending rates of KBs were not much (i.e. ranging from 3-5 percent). Considering the greater administrative costs, project risks and uncertainties of lending long term, the banks found it more profitable to lend for the short-term. Now that the ceilings have been lifted and that a prime rate system is being implemented by the CB, an interest rate incentive could restore more active pursuit of long-term loans and more lendings to SMIs because these should be more profitable.

3.08 Geographically, the bulk of the credit extended by the commercial banking system has been concentrated in Metro Manila. More than 85 percent of the total outstanding loans have been in Manila, while only 7.5 percent and 2.8 percent, respectively, were in the Visayas and Mindanao. This reflects the fact that financial institutions and related financial services, and for that matter, the country's modern sector are overly concentrated in Manila and the surrounding areas to the detriment of the other regions. Since the mid-70s, there has been a proliferation of KBs and other credit institutions in the provinces, mostly branches of the Manila-based KBs, yet there has not been any significant shift in the loan portfolio of these banks towards more loans to areas outside the central region--which may be partly attributed to the lack of potentially attractive investments in these areas. Hopefully, the recent interest rate reforms would allow a greater movement of funds outside Manila where rates should be relatively higher and therefore more attractive to credit institutions.

B. <u>Development Banks</u>.

3.09 Development banks are the next major source of credit in the Philippines after KBs, providing mostly long-term finance for both industrial and non-industrial investments. They account for almost one-fifth of the loans outstanding in the financial system (some ₱25 billion as of Dec. 31, 1981), with an estimated 90-95 percent of these originate from the GOP-owned DBP. Forty percent of the outstanding credits of development banks in 1981 have gone to industry, largely to the manufacturing sector (Table 8). Around 30 percent of development bank loans in 1981 have been to finance consumption and other types of loans and advances which is more than twice the 13.4 percent share in 1977. (Apparently, this is because DBP, along with other GOP-owned banks, played a key role in providing funds to distressed financial institutions affected by the Dewey Dee financial scandal in early 1981).

Agricultural and real estate loans have accounted for the remaining balance albeit their combined shares have considerably dropped from 46 percent in 1977 to only 30 percent in 1981.

3.10 DBP plays a vital role in the economy as it is by far the largest supplier of long-term local currency and foreign exchange credit to large and small borrowers in the Philippines. However, based on its annual reports from 1977-1981, more than 95 percent of DBP's financial resources supporting the industrial sector have been received by large-scale corporations (Table 9). In fact, DBP's financial assistance to large industries have risen by an average of 50 percent annually during the period compared to only a 10 percent yearly growth in the Bank's lendings to the SMI sector. Thus, the share of SMIs to total DBP loans and other financial assistance granted to industry has declined from 7 percent in 1977 to just 2 percent in 1981. Further, some ₱29.6 billion in DBP loans and other financial support have been received by about 773 large establishments from 1977-1981, or an average of ₱5.9 million per firm. In contrast, DBP financial assistance to 6,102 SMIs, including cottage industries, amounted to ₱932 million, or just an average of ₱186,000 per SMI--less than 0.5 percent of the average amount obtained by large industries during the five-year period.

3.11 To directly support SMIs, DBP has established in 1973 a Small and Medium Lending Department (SMILE) that is responsible for processing all of its SMI loans. Similarly, it finances and administers a number of special financing schemes catering to the needs of specific SMI subsectors. Under the World Bank-assisted Third Small and Medium Industry Development Project, DBP is expected to reorganize and strengthen SMILE, and establish separate SMI units in its branches outside Manila to enable it to service the needs of small entrepreneurs more effectively.

3.12 Under its charter, the DBP is also mandated to help establish and develop the private development banks (PDBs) in the country by providing them technical assistance and rediscounting facilities. There are at present some 44 PDBs which generally service limited geographic areas. However, they perform an important role in providing long-term finance to small agricultural and industrial enterprises. Through the IBRD-supported SMI Project, some of the PDBs are accredited to obtain resources from the Project to finance small enterprise activities based on the latter's financial and economic viability rather than just on the collateral offered, and to undertake project supervision on a regular basis. Accredited PDBs located outside Metro-Manila would be required to provide at least 60 percent of their loans to subprojects within their areas to encourage geographical dispersion of SMI and support regional development.

C. Rural Banks.

3.13 Rural banks are relatively small unit banks situated in municipalities or towns that are chiefly providing short-term loans to agriculture. With their wide geographical network and large number, rural banks account for 4.0 percent of the credit resources of the domestic financial system. As of year-end 1981, there were 1,088 operating rural banks in the country which are privately-owned but heavily dependent on Central Bank funds.

3.14 The GOP has used the rural banking system to implement many of its rural credit programs such as the Masagana 99 (for rice) and Maisagana (for corn) programs. Thus, 90 percent of their outstanding loans have been to the agricultural sector. But rural banks also provide assistance to small entrepreneurs in the provinces. In fact, around 5 percent of rural bank credits have been received by industry, most of which have been made to SMI's engaged in agro-related cottage industries such as fisheries, piggeries and poultry.

D. Saving Banks.

3.15 According to the CB, the country's leading savings, mortgage and thrift banks have accounted for 2 percent of the credit portfolio of all financial institutions. Savings banks are highly localized and, unlike commercial banks, cannot perform quasi-banking activities like foreign exchange operations, acceptance of demand deposits, etc. without specific CB approval. With limited abilities to attract big depositors and corporate clients, their resources for credit are quite restricted. Most of them are primarily involved in financing consumer durables, and providing real estate loans and other short- and medium-term lending to domestic manufacturers and traders. The industrial sector has absorbed 22 percent of the savings banks' outstanding loans as of year-end 1981. The bulk of the savings banks credits (70 percent) have been extended to commerce, real estate and other services.

E. Non-bank Financial Intermediaries.

3.16 Non-bank financial intermediaries (NBFI) include institutions such as GOP social security and insurance corporations, private finance companies and investment houses and other GOP investment and credit institutions. Private insurance companies are also considered NBFIs, but the CB has no data regarding their loan operations.

3.17 Public NBFIs (or financial institutions not falling under any bank classification) account for 90 percent of NBFI loans and a significant 11 percent of the total loans outstanding of the entire financial system in 1981. These GOP institutions include the Government Service Insurance System (GSIS), the Social Security Sytem (SSS), the National Investment and Development Corporation (NIDC) and the former Agricultural Credit Administration (ACA). The first two are the largest NBFIs, accounting for a combined 87 percent of total outstanding loans of GOP non-bank financial entities. Both the SSS and GSIS derive their resources from contributions of the employees and management in the private and public sectors. NIDC, a subsidiary of the Philippine National Bank, is actively engaged in lending to relatively large industries, public utilities and agro-based corporations. ACA makes credit available to small farmers and farm cooperatives, but effective July 7, 1982, it has ceased operations and its functions and loan portfolio has been absorbed by the Land Bank.

3.18 Given the nature of GSIS and SSS operations, it is not surprising that 53 percent of public NBFIs active loans in 1981 accrued to the services sector, the majority of which are real estate loans. Indeed, a growing amount of their outstanding credit have been real estate loans to members and corporations since both the GSIS and SSS are known to have one of the more effective government housing loan programs. The industrial sector's share of NBFI credits in 1981 was 7.2 percent, while a substantial proportion (some 39 percent) went to consumption and other types of loans and advances (i.e. policy loans, salary loans, educational assistance, etc.).

3.19 Lately, it has been noted that the GSIS and SSS have been using their excess funds to provide loans to and investments in industries (mostly to large corporations in dire need of funding support) and other financial institutions (such as an investment house adversely affected by the 1981 crisis). In 1980, for instance, the total loans granted by both GSIS and SSS and other GOP NBFIs rose to ₱13.1 billion from only ₱4.8 billion during the previous year, nearly 90 percent of which were for consumption and other types of loans and investments (See Table 14). However, little information regarding the types of activities they are now financing and from where they got/obtained such resources is available. GSIS is known to have given support to the GOP-owned Philippine Airlines by furnishing the seed money for the latter's Fly-Now Pay-Later Plan. It is also major stockholder of the five-star Manila Hotel and recently acquired the Commercial Bank of Manila. For its part, SSS has provided equity financing in 1981 to Union Bank, a new commercial bank that was an offshoot of the bankrupt Bancom Development Corporation, formerly one of the largest investment houses in the country.

3.20 Meanwhile, the CB data on selected private NBFIs show that only 1 percent of the outstanding credits of the financial system in 1981, with 90 percent of such loans going to industry (Table 8). However, for unknown reasons, the CB figures do not seem to include the data for a good number of local private NBFIs. Although supporting figures are unavailable, it is believed that the outstanding credit resources of all NBFIs, including investment houses, financing companies and thrift non-bank institutions would be 2-3 times greater than the CB-reported levels of ₱1.5 billion in 1981.

3.21 Private investment houses are engaged in underwriting securities of firms but are also heavily into money market operations. The reduction in the profitability of money market operations in recent years and the financial crisis in 1981 have affected the activities of many investment houses so that most of them are going into more underwriting and syndication. However, except for the Private Development Corp. of the Philippines (PDCP) and the Philippine Investment Systems Organization (PISO), little long-term lending are done by investment houses. Although PDCP is considered an investment house its main business is the provision of long-term loans to business, particularly to manufacturing and transportation establishments. Together with PISO, PDCP also serves as a conduit of the ADB and IBRD funds from where it gets foreign exchange resources to lend to domestic borrowers. On the other hand, financing companies and thrift non-bank institutions are mostly subsidiaries of major commercial banks and are engaged in financing the purchase of consumer durables, and supplying short-term and medium term credit to local manufacturers and traders to finance inventory, receivables and transport equipments.

F. Industrial Guarantee and Loan fund (IGLF).

3.22 The IGLF, established in 1952 as a compensatory financing and guarantee fund, is being administered by the Central Bank's Department of Loans and Credit. It operates as an apex unit providing resources and loan guarantees to accredited financial institutions for onlending to SMIs. There are currently 32 institutions that have been accredited: 14 commercial banks, 12 nonbank financial intermediaries; 4 private development banks, and 2 savings banks. While CB provides institutional guidance and monitors the overall performance of the program, all appraisal and supervision responsibilities fall on the accredited financial institutions.

3.23 The IGLF program is intended to complement private sector and DBP financing to SMIs in many ways. Since several private KBs and NBFIs are participating, the GOP program has a far wider geographic reach than would have been possible if SMI lending were confined to DBP and its branches. Through its risk guarantee facility, the IGLF also provides an inducement to the private credit institutions to develop procedures for handling long-term loans to SMIs. In regions where both DBP and IGLF financing are available, the small entrepreneur is given the opportunity to either borrow from a GOP bank or a private financial institution operating as a conduit for IGLF funds. Moreover, the composition of the IGLF program enables the risk of SMI lending to be spread among participating institutions rather than being concentrated in any one bank on NBFI.

3.24 From a level of ₱29.2 million in 1976, loan approvals from the IGLF program increased from ₱59.9 million in 1979, reflecting a 27 percent annual growth rate. With medium-scale industries becoming eligible for IGLF financing starting in 1979, loan approvals have risen to ₱234.4 million in 1981 (Table 10). It is reported that almost ₱900 million have been already loaned out by the IGLF program over its 30 years of operation. The program's outstanding loan portfolio as of December 31, 1981 stood at ₱415.8 million, of which 71 percent are accounted by accredited NBFIs, 22 percent by KBs and the balance by private development banks and savings banks.

3.25 The increases in IGLF's loan portfolio in recent years has been accompanied by a significant improvement in its quality. According to the CB, the total arrears of borrowers to accredited institutions as a percentage of outstanding portfolio as of year-end 1981 has declined to 6 percent vis-a-vis the 20.3 percent level in December 31, 1979. Under the IBRD-supported Third Small and Medium Industries Development Project, the IGLF program and staff are expected to take a more active role in upgrading the SMI operations of its accredited institutions and to shift its focus from reviewing individual subprojects to evaluating the participating institutions.

G. Conclusion: Financial Institutions

3.26 During the past few years, there has been quite a significant increase in credit flows towards the industrial sector. This sector's share of the loan portfolio of the financial system has risen from just a little over one-third of total outstanding loans in 1977 to almost 40 percent by year-end 1981. Assistance of private and GOP financial institutions to the SMI sector has apparently also gone up in absolute terms, but not as much as one would expect given the increased GOP focus toward this sector. In fact, is believed that the share of SMI lendings to the total outstanding loans of the industrial sector has dropped from an estimated 27 percent in 1977 to 22 percent in 1981, reflecting a deterioration in the level of assistance being provided by the banking institutions to the SMI sector relative to large industries. However, more specific information on financial institution lendings to industrial firms by size is needed so that a more definite picture of assistance to SMIs can be established. Similarly, further study on the repayment performance of the SMI sector on loans would be useful in understanding the reasons for the reluctance of banks to lend to SMIs.

3.27 Notwithstanding GOP efforts to lure banks to service non-metropolitan areas, large corporate borrowers in Manila continue to receive the bulk of domestic credit resources of the financial system as shown by CB data on KB loans. Recent financial reforms such as the lifting of interest rate ceilings and the reduction in bank reserve requirements may offer some relief to small entrepreneurs. These changes should result in greater supply of long-term credit in the provinces, since banks would be attracted to invest in areas where the returns are high. However, unless the incentives to lending to the SMI sector becomes more favorable vis-a-vis large industry, the country's financial institutions would likely be reluctant to risk an increasing proportion of their lendings to small firms. This is especially true with private commercial banks which are reputed to be highly conservative in their operations, preferring less risky, short-term investments.

3.28 At this stage, the GOP still plays a key role in encouraging private financial institutions to assist the SMI sector. The IGLF program is a prime example. The MASICAP and SBAC programs have made it easier for banks to evaluate and process loan applications of potential entrepreneurs whose project feasibility studies have been prepared with assistance from the two GOP programs. Likewise, guarantees from the DBP and PNB facilitate SMI lendings from private banks as they serve some form of an assurance that the loans are backed up by the GOP. While the prominent participation of GOP in SMI financing schemes is understandable, it can also be a liability if it stifles the initiative of private institutions to undertake their own SMI programs. It is then noteworthy that some 17 private commercial banks have established venture capital corporations (VCCs) with GOP support that would provide equity financing for qualified SMIs. The management of a VCC is the responsibility of the private bank, which contributes 60 percent of the capital with GOP owning the remaining 40 percent. However, whether VCCs have a significant impact on enhancing SMI development in the country still remains to be seen.

3.29 On the other hand, the GOP itself is becoming a serious competitor of private industry for the utilization of domestic credits. The nominal amount of GOP's outstanding loans from commercial private banks have annually increased by 143 percent on the average between 1977 to 1981. Its borrowings from public non-bank financial institutions like the SSS and GSIS through government bonds and securities are also reportedly to have increased substantially. Part of these public borrowings are channelled back to the industrial sector in terms of technical and financial assistance to SMIs and major industrial projects. But when CB or other GOP regulations are used to channel lendings from banks and public financial institutions to the GOP, then, it becomes a significant issue with the efficiency in the allocation of scarce resources reduced.

3.30 Finally, much of the discussion here has been on the extent of the loans that has been actually lent out to industry by the financial institutions. Little mention has been made on the magnitude of demand for credit coming from industries, particularly the SMIs, because information, if available, are inadequate even for a general analysis. Indeed, the whole area of supply and demand for loanable funds requires a new look. Past studies have pointed out that credit availability is a major problem facing the SMI sector, and yet loan funds appear to be plentiful enough for good and viable projects. Therefore, the problem seems to be related to the absence of an effective demand mechanism that is capable of providing small enterpreneurs greater access to adequate credit from lending institutions.

Annex I.
Government Incentives to Industry

AI.01 The GOP has various sets of investment incentives that are being provided the industrial sector, with each set covering specific groups of industries. For example, NACIDA - accredited cottage industries enjoy certain fiscal incentives over a number of years. Large enterprises, and even SMIs, registered with the Board of Investments are also granted a comprehensive scheme of benefits under the Omnibus Investment Code (also known as Presidential Decree No. 1789). Likewise, enterprises in the export processing zones are given tax benefits and other privileges as an attraction to domestic and foreign investors.1/ By and large, these incentives serve to attract investments into activities the GOP deems to have priority and to be consistent with the economic development objectives.

1. NACIDA Incentives

AI.02 Cottage industries registered with NACIDA are exempted from paying sales and other taxes (except specific and income taxes) and from complying with the minimum wage legislation for a period of 5 years from the date of registration. To be eligible, registered firms must have fixed assets below ₱100,000 and 75 percent of the total cost of raw materials must be of domestic origin. But the raw materials requirement does not cover the embroidery, piggery, livestock, poultry and metalcraft industries. Exemptions from the percentage taxes on revenues are also applicable only to sales not in excess of ₱400,000 each year.

AI.03 Around 100,000 firms are presently registered with NACIDA. However, it is alleged that some cottage industries manage to continue their NACIDA registration even after their asset value has surpassed the legal limits. Others reorganize the enterprise under a new name after a few years of operation and thus are able to get a new NACIDA registration. A review of NACIDA administration, staffing and operations is currently underway which may result in some modifications in the incentives systems and likely tightening of these loopholes. The possibility of merging the MASICAP/SBAC and NACIDA programs is also being considered by GOP.

2. BOI Incentives

AI.04 Previously, four laws provided the framework for investments in the Philippines and the corresponding BOI incenives being granted for such investments: the Investment Incentives Act (R.A. 5186), the Export Incentives Act (R.A. 6135), the Foreign Business Regulations Act (R.A. 5455) and the

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1/ For a more comprehensive description and listing of BOI and EPZA - incentives, see the SGV Group, Doing Business in the Philippines, 1982, Manila, 1982.

Agricultural Investment Incentives Decree (PD 1159). On January, 1981, the four laws were incorporated into the Omnibus Investment Code which consolidates the various incentive acts, integrates amendments, and clarifies provisions for the proper guidance of domestic and foreign investors as well as for the efficient implementation of these provisions. Moreover, there is now only one Investment Priorities Plan listing areas in which investments and preferred, in lieu of the five which were issued by BOI yearly in the past.

AI.05. In its Investment Priorities Plan, the BOI lists the priority areas of investments and distinguishes between preferred pioneer and preferred nonpioneer areas. Both import substitution and export industries are given high priority in the Plan and special emphasis is placed on labor-intensive industries and those which increase the value of agricultural, mining and forestry products for export. A preferred pioneer area is either one which involves the manufacture and production of commodities or raw materials that are produced in commercial quantity in the Philippines, or one which uses a new design, formula or process for producing or transforming raw materials into finished products.

AI.06 BOI-registered enterprises, whether pioneer or non-pioneer, except export traders and service exporters engaged in a preferred nonpioneer area of investment are granted the following fiscal incentives:

(a) deduction from taxable income of organizational and preoperating expenses for a period not more than 10 years from start of operation;

(b) accelerated depreciation of fixed assets;

(c) carryover for the next of 6 years of net operating losses incurred in any of the first 10 years of operation;

(d) exemption from tariff duties and compensating tax on imported equipment, machinery, and spare parts to the extent of 50% of the payable duties within 7 years from date of registration;

(e) tax credit equal to 100% of the value of the compensating tax and customs duties that would have been on machinery, equipment and spare parts purchased from a domestic manufacturer had these items been imported;

(f) deduction from taxable income of an amount equivalent to 100% of the cost of necessary infrastructure works that may need to be undertaken by a registered enterprise if it is located in an area that the BOI designates as necessary for industrial dispersal or in an area that BOI finds deficient in infrastructure;

(g) certain deductions from taxable income of undistributed profits reinvested by a registered enterprise in its capital stock for the procurement or expansion of machinery and equipment used in the business;

(h) deduction from taxable income of 50% of labor training expenses to the extent of 10% of the direct labor wage.

AI.07 Additionally, BOI-preferred pioneer firms are exempted from all taxes, except income tax, on a graduated basis over a period of 15 years from the date the area of investment is included in the Investment Priorities Plan. These enterprises also enjoy tax- and duty-free importation of capital equipment within 7 years from the date of registration. Meanwhile, export producers accredited with BOI are also given, among others, (1) a special tax credit on the materials and supplies used in the manufacture of export products; (2) deduction from taxable income of the cost of direct labor and locals raw materials used for the first 5 years of operation; (3) exemptions from any export tax, or fee for its non-traditional products; and (4) tax and duty-free importation of machinery, equipment and spare parts with 7 years from date of registration.

AI.08 Tax benefits and other incentives are also being provided BOI-registered agricultural corporations, export trading companies and service exporters engaged in rendering technical, professional or other services abroad. The incentives granted them are discussed more fully in the SGV publication.

3. EPZA Incentives

AI.09 Under P.D. 66, the law creating the Export Processing Zone Authority, EPZA-registered enterprises are given these incentives:

(a) tax and duty-free importation of capital equipment, raw materials, and supplies;

(b) exemption from export tax and provincial and municipal taxes;

(c) accelerated depreciation of fixed assets;

(d) amortization of organizational and preoperating expenses;

(e) deduction of taxable income of 50% of the labor training expenses incurred provided that such deduction does not exceed 10% of the direct labor wage.

(f) carryover of net operating losses incurred in any of the first 10 years of operation as a deduction from taxable income up to 6 years following the year of loss;

(g) tax credit equivalent to the sales and specific taxes and duties on locally purchased supplies, raw materials and semimanufactured goods used for production;

(h) exemption from real estate tax on movable production equipment;

(i) exemption from the 3% contractor's tax on gross receipts of or from registered zone enterprises.

AI.10 A firm may register with both the BOI and the EPZA in order to qualify for all the benefits being offered by the two agencies. However, the enterprise will be required to locate its operations in one of the country's export zones. With dual registration, that firm practically enjoys all the incentives under both laws.

4. Concluding Remarks

AI.11 Among the different BOI incentives described above, there are several which are predominantly availed by registered enterprises. Based on a World Bank study on Philippine industry in 1979,1/ for projects registered with the under the then Investment Incentives Act, the exemption of import taxes on imported capital equipment and the accelerated depreciation allowance amounted to 40 percent of the total value of the incentives granted in 1977. Interesting enough, both of these incentives represent subsidies on the use of capital. On the other hand, the provision allowing for the deduction from taxable income of an amount related to labor costs and indigenous raw materials expenditure accounted for 53 percent of the value of the incentives to export-oriented BOI-registered firms in 1977. The tax credits for import taxes on products used in export production accounted for around 12 percent. More information to indicate recent trends in the availment of incentives by BOI registered firms are not yet available. Still, there is no reason to believe that there have been drastic changes in the types of incentives most large industries used to avail in the past.

AI.12 It is clear that on balance the incentives given to large industries by GOP are much greater than those available for cottage industries and SMIs. These incentives definitely enhance the profitability of BOI-registered firms, especially when such BOI registration also facilitates the firms' dealings with other GOP agencies, i.e. Central Bank, DBP and others. Unfortunately for the SMIs, they have to make do with much less tax benefits and other privileges. Another major criticism of the BOI incentive system is that several of the incentives favor the use of capital rather than labor. The latter are the key targets of an on-going review of the GOP investment incentive system that is being assisted by IBRD in connection with the Structural Adjustment Loan.

1/ See De Vries, et. al., Industrial Development Strategy and Policies in the Philippines, World Bank Report No. 2513-PH, Vols. I-III, Oct. 29, 1979.

ANNEX II

TABLES

Table 1

GOP Budgetary Provisions for Small and Medium Industries Development*

(In '000 Pesos)

	1977	1978	1979	1980	1981	1982
I. Budget Data						
A. Promotion & Dev. of SMIs						
Bur. of Small and Med. Ind.(BSMI)1/	2420	5857	7649	9598	18387 3/	13277 3/
B. Business Advisory Services						
(BSMI)	1894	4763	4807	5608	-	-
C. NACIDA2/	12077	23644	21894	23313	26094	39500
of w/c: product research & dev.	4253	3726	6062	6953	7863	-
prom & mktg of cott.prod.	1102	1294	1148	1253	2015	27452
cottage ind. loan fund	100	1000	1500	5400	7425	8000
D. Cottage Ind. Dev. Enterprise (CIDE)	3963	4368	4500	4727		
of w/c: prodn. centers & mktg.	1317	1933	1713	1934	2150 4/	3774 4/
proc. & dist. of raw mat.	396	362	346	400		
E. Design Center Phils.	7912	8021	8447	9294	9307	9403
of w/c: dev, prom & regulation of product design	5599	5359	6326	6756	6667	6652
F. U.P. Institute for Small Scale Ind.	n.a.	1550	1562	1562	2396	2820
G. Bureau of Domestic Trade	4709	6320	6134	6218	966	5441
H. Small & Medium Industries Services	-	-	-	-	-	8293
TOTAL	32,975	50,155	54,993	60,320	57,150	78,734 5/
II. Comparative Data						
A. % of Total GOP Appropriations	0.14	0.17	0.17	0.16	0.11	0.14
B. CPI Manila (1977=100)	100.0	107.6	127.8	150.6	168.4	188.6
C. Real Value of Appropriations for SMI-oriented agencies (1977 prices)	32,975	46,613	43,030	40,053	33,937	41,747
D. Growth Rate in Real Appropriations (% annualized rate from 1977)	-	43.7	14.2	6.7	0.7	4.8

* Estimates based on appropriations alloted for GOP agencies engaged in activities promoting SMI development

1/ Used to be the Commission on Small and Medium Industries (CSMI).

2/ National Cottage Industry Development Authority.

3/ Including business advisory services.

4/ CIDE activities are now part of NACIDA.

5/ Appropriations for the Kilusang Kabuhayan at Kaunlaran amounted to ₱1.0 billion in 1982. If this amount is included, the share of GOP appropriations for SMIs to total appropriations will be 1.89% in 1982.

Sources: GOP General Appropriations Act for each Calendar Year.

Table 2

GOP Budgetary Provisions for Large Industries Development

(in '000 Pesos)

	1977	1978	1979	1980	1981	1982
I. Budget Data						
A. Ministry of Trade & Industry						
1. Bureau of Ind'l Coordination (Bu. of Ind'l Dev.)	1151	1306	1676	2313	2579	9522
2. Board of Investments (BOI)	12162	15857	16578	17471	20960	24321
of w/c: proj. eval, sup. & assist.	4033	7556	8556	9306	11583	13505
-market and product research training	6505	6625	5560	5585	6255	7155
3. Export Processing Zone Auth. (EPZA)	30000	20000	58869	-	50000	100000
Total	43,313	37,163	77,123	19,784	73,539	133,843
II. Comparative Data						
A. % of Total GOP Appropriations	0.18	0.13	0.24	0.05	0.15	0.23
B. CPI Manila (1977=100)	100.0	107.6	127.8	150.6	168.4	188.6
C. Real Value of Appropriations for Large Industry-oriented Agencies	43,313	34,538	60,347	13,137	43,669	70,967
D. Growth Rate in Real Appropriations (% annualized rate from 1977)	-	(20.3)	16.0	(32.8)	0.2	10.4

Source: GOP General Appropriations Act for each Calendar Year.

Table 3

GOP Budgetary Provisions for Public Financial Institutions, 1977-1982*

(in million pesos)

	1977	1978	1979	1980	1981	1982	Total 1977-82	% Share of Total
I. Budgetary Data								
A. Development Bank of the Phil. (DBP)								
- for lending operations	100.0	100.0	100.0	75.0	100.0	300.0	775.0	42.6
- for rural banks dev. fund	8.0	8.0	8.0	7.0	14.0	14.0	59.0	3.2
- for private dev. banks fund	-	-	-	10.0	10.0	10.0	30.0	1.6
DBP Total	108.0	108.0	108.0	92.0	124.0	324.0	864.0	47.5
B. Phil. National Bank (PNB)								
- for lending operations and investments	-	-	100.0	-	200.0	200.0	500.0	27.5
C. Land bank of the Philippines (LBP)1/								
- for investment in land reform financing program	205.0	-	110.0	90.0	50.0	-	455.0	25.0
TOTAL	313.0	108.0	318.0	182.0	374.0	524.0	1819.0	100.0
II. Comparative Data								
A. % of Total GOP Appropriations	1.33	0.36	0.98	0.48	0.72	0.93		
B. CPI Manila (1977=100)	100.0	107.6	127.8	150.7	168.4	188.6		
C. Real Value of Appropriations for Financial Institutions	313.0	100.4	248.8	120.8	222.1	277.8		
D. Growth Rate in Real Appropriations (%)	-	(67.9)	147.8	(51.4)	83.9	25.1		

1/ Including ₱5.0 million in 1977 and ₱10.0 million in 1979 for the Agricultural Credit Administration which has recently been absorbed by the LBP.

Note: * Referring to GOP banks and financial institutions with appropriations during the period but excluding those not engaged in lending to private industry/private sector such as the Amanah Bank and Phil. Veterans Bank. The GSIS and SSS did not receive any GOP appropriations during the period.

Source: GOP General Appropriations Act for each year.

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Table 4
GOP Appropriations for Financing Programs for Industry
(in million pesos)

	1977-1980 Cumulative	1981	1982	1977-1982 TOTAL
I. SMI sector				
Kilusang Kabuhayan at Kaunlaran (National Livelihood Movement)	-	-	1,000.0	1,000.0
Cottage Industry Guarantee Loan Fund (CIGLF)	-	43.6 1/	40.0	83.6
Industrial Guarantee Loan Fund (IGLF) 2/	258.0	219.3	200.0 e/	677.3
TOTAL	258.0	262.9	1,240.0	1,760.9
% of Total GOP Appropriations	0.02	0.01	0.21	0.08
II. Large Industry Sector				
National Development Co.	-	780.1	950.0	1,730.1
% of Total GOP Appropriations	-	0.16	0.16	0.07

1/ Based on commitment levels; CIGLF started in March 1981 and has no alloted appropriations for the year.
2/ Based on the amount of loans released during the year. See also Table 10.
e/ Estimated.

Sources: GOP General Appropriations Act for each year.
IBRD, Philippines: Staff Appraisal Report on the Third Small and Medium Industries Development Project, May 1982.

Table 5
Total Loans Outstanding of All Financial Institutions
(in billion pesos)

	1977	% Share	1978	% Share	1979	% Share	1980	% Share	1981	% Share
I. Banking Institutions										
a. Commercial Banks	40.2	62.5	54.1	66.0	68.3	67.9	77.2	66.2	86.5	63.7
b. Savings Banks	1.7	2.7	2.4	3.0	3.2	3.2	4.3	3.6	2.9	2.1
c. Development Banks	10.4	16.1	11.5	14.0	13.9	13.8	17.4	14.9	24.9	18.4
d. Rural Banks	2.8	4.4	3.4	4.2	4.2	4.1	4.7	4.0	5.5	4.0
II. Non-Bank Financial Institutions										
a. Private1/	1.1	1.7	1.2	1.5	1.4	1.4	1.7	1.4	1.5	1.1
b. Government2/	8.1	12.6	9.3	11.3	9.7	9.6	11.5	9.8	14.5	10.7
TOTAL	64.3	100.0	81.9	100.0	100.6	100.0	116.7	100.0	135.9	100.0
Growth Rate (in %)	-		27.5		22.8		16.0		16.5	
CPI Manila (1977=100)	100.0		107.6		127.8		150.6		168.4	
Real Value of Total Loans (1977 prices)	64.26		76.11		78.70		77.49		80.70	
Growth Rate of Real Value of Total Loans (% annualized rate from 1977)	-		18.4		10.7		6.4		5.9	

1/ Includes selected private investment houses, financing companies and other thrift non-bank institutions.
2/ Includes the GSIS, SSS, NIDC and ACA.

Source: Central Bank

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Table 6

Commercial Banks: Total Loans Outstanding by Different Categories[1]

(in billion pesos)

	1977		1981		Ave. Annual Growth Rate	Ave. Annual Real Growth Rate of Loans
	Amount	% Share	Amount	% Share	1977-81	1977-81[2]
Economic Activity						
Production	19.67	49.0	44.20	51.1	22.4	7.5
Trade	12.00	29.9	15.56	18.0	6.8	(6.3
Contract Construction	.95	2.3	3.01	3.5	33.4	17.1
Consumption	1.31	3.3	1.73	2.0	7.2	(5.9
Others	6.25	15.5	22.00	25.4	37.0	20.2
TOTAL	40.17	100.0	86.51	100.0	21.1	6.3
Type of Borrower						
Individual	7.29	18.1	17.79	20.6	25.0	9.7
Single Proprietorship	1.05	2.6	2.52	2.9	24.5	9.3
Partnership	1.00	2.5	1.52	1.8	11.0	(2.5)
Cooperative	.009	.02	.11	0.1	87.0	64.1
Corporation	30.26	75.3	57.84	66.9	17.6	3.2
Government	.57	1.4	6.71	7.8	85.2	62.6
TOTAL	40.17	100.0	86.51	100.0	21.1	6.3
Maturity						
Demand	7.49	18.6	10.67	12.3	9.2	(4.1)
Short Term	26.77	66.6	52.82	61.1	18.5	4.0
Intermediate-term	4.23	10.5	14.98	17.3	37.2	20.4
Long-term	1.68	4.2	8.04	9.3	47.9	29.8
TOTAL	40.17	100.0	86.51	100.0	21.1	6.3
Industry						
Agriculture	5.45	13.6	11.12	12.9	19.5	4.9
Mining	1.58	3.9	7.07	8.2	45.4	27.7
Manufacturing	13.13	32.7	26.35	30.5	19.0	4.5
Utilities	.11	.3	.98	1.1	72.8	51.7
Construction	.89	2.2	4.05	4.7	46.1	28.2
Trade	11.83	29.4	15.56	18.0	7.1	(6.0)
Other Services	7.19	17.9	21.38	24.7	31.3	15.3
TOTAL	40.17	100.0	86.51	100.0	21.1	6.3

1/ Excluding past due items, items on litigation, domestic and foreign bills-clean.

2/ Adjusted for inflation using the Consumer Price Index (CPI) for Manila (1977=100).

See Table 11 for yearly breakdown from 1977-1981.

Table 7

Loans Outstanding of Commercial Banks by Size of Firm and by Region
(in billion pesos)

	1980		1981				
	Amount	% of Total	Amount	% of Total	% Growth	Diff-erence	% Share
A. Size of Firm1/							
Cottage Enterprises	4.10	5.3	4.59	5.3	12.0	0.49	5.3
Small-scale Enterprises	4.67	6.0	4.91	5.7	5.1	0.24	2.6
Medium-scale Enterprises	6.48	8.4	7.08	8.2	9.3	0.60	6.4
Large-scale Enterprises	48.34	62.6	51.50	59.5	6.5	3.16	33.9
Others	13.61	17.6	18.43	21.3	35.4	4.82	51.8
TOTAL	77.20	100.0	86.51	100.0	12.1	9.31	100.0
B. Region							
Luzon	69.32	89.8	77.64	89.7	12.0	8.32	89.4
of w/c: Metro Manila	66.48	86.1	74.06	85.6	11.4	7.58	81.4
Central Luzon	1.05	1.4	1.32	1.5	25.7	0.27	2.9
Visayas	5.90	7.6	6.47	7.5	9.7	0.57	6.1
of w/c: Western Visayas	3.70	4.8	3.62	4.2	(2.2)	(0.08)	(0.9)
Mindanao	1.98	2.6	2.40	2.8	21.2	0.42	4.5
of w/c: Southern Mindanao	1.05	1.4	1.25	1.4	19.0	0.20	2.1
TOTAL	77.20	100.0	86.51	100.0	12.1	9.31	100.0

1/ Loans to agriculture and commerce appears to have been included in these definitions; cottage enterprises are firms with assets of less than ₱100,000; small enterprises, ₱100,000-₱1 million; medium enterprises, ₱1 million-₱4 million; large enterprises, more than ₱4 million; others refers to consumption and other loans of firms/individuals not falling in any of the above.

Source: Central Bank

Table 8
Total Loans Outstanding of Other Banks and Non-Bank Financial Institutions, 1977-81
(in million pesos)

	1977		1981			
	1977	% Share	1981	% Share	Ave. Annual Growth Rate 1977-81	Ave. Annual Real Growth Rate of Loans 1977-81 2/
Savings Banks						
Agriculture	92.4	5.4	148.0	5.1	12.5	(1.2)
Industry	313.4	18.2	691.2	23.8	21.9	7.0
Commerce	1316.9	76.4	2069.2	71.1	11.3	(1.7)
TOTAL	1722.7	100.0	2908.4	100.0	14.0	0.1
Development Banks						
Agriculture	2392.5	23.1	3585.1	14.4	10.6	(2.9)
Industry	4256.3	41.1	9889.4	39.6	23.4	8.4
Commerce	2323.5	22.4	3965.4	15.9	14.3	0.3
Others	1389.4	13.4	7512.8	30.1	52.5	33.9
TOTAL	10361.7	100.0	24952.7	100.0	24.6	9.4
Rural Banks						
Agriculture	2597.1	92.0	4876.6	86.2	17.1	2.8
Industry	123.0	4.4	269.8	4.8	21.7	6.8
Commerce	74.1	2.6	147.6	2.6	18.8	4.3
Others	26.8	1.0	194.1	3.4	64.0	44.0
TOTAL	2821.0	100.0	5488.1	100.0	18.1	3.7
Non-Bank Financial Institutions						
A) Private						
Agriculture	32.7	2.9	51.6	3.4	12.1	(1.6)
Industry	694.6	62.6	1377.6	90.5	18.7	4.2
Commerce	131.5	11.9	88.8	5.8	(9.3)	(20.4)
Others	250.8	22.6	4.0	0.3	(64.5)	(68.8)
TOTALS	1109.6	100.0	1522.0	100.0	8.2	(5.0)
B) Government						
Agriculture	307.2	3.8	333.4	2.3	2.1	(10.4)
Industry	494.3	6.1	944.7	6.5	17.6	(3.2)
Commerce	3522.8	43.6	7602.6	52.4	21.2	6.4
Others	3753.4	46.5	5636.1	38.8	10.7	(2.8)
TOTAL	8077.7	100.0	14516.8	100.0	15.8	1.6
TOTAL						
Agriculture	5421.9	22.5	8994.7	18.2	13.5	(0.4)
Industry	5881.6	24.4	13050.5	26.4	22.0	7.1
Commerce	7368.8	30.6	13995.8	28.4	17.4	3.1
Others	5420.4	22.5	13347.0	27.0	25.3	10.0
TOTAL	24091.1	100.0	49388.0	100.0	19.7	5.0

1/ Adjusted for inflation using the CPI for Manila (1977=100).
Source: Central Bank.

See Table 13 for yearly breakdown.

Table 9

DBP Loans and Other Financial Assistance Granted to Industries

1977-1980

(in million pesos)

	1977	1978	1979	1980	1981	Annual Average 1977-81
Large Industries[1/]						
No. of Firms	116	99	82	138	338[e/]	155
% Growth	-	(14.7)	(16.2)	68.3	144.9	30.6
Amount	2,467	2,671	3,912	8,178	12,400	5,926
% Growth	-	8.3	46.5	109.0	51.6	50.0
Average Amount per Firm	21.3	27.0	47.7	59.3	37.0	38.5
% Growth	-	26.8	76.7	24.3	37.6	14.8
Small & Medium Industries[2/]						
No. of Firms	1,545	1,212	1,105	1,132	1,108	1,220
% Growth	-	(21.6)	(8.8)	2.4	(2.1)	(8.0)
Amount	176	133	181	186	256	186
% Growth	-	(24.4)	36.1	2.8	37.6	9.8
Average Amount per Firm	0.11	0.11	0.16	0.16	0.23	0.15
% Growth	-	0.0	45.5	0.0	44.4	20.2

e/ Estimate

1/ Refers to establishments with assets of over ₱4.0 million ($47,600)

2/ Refers to establishments with assets ranging from less than ₱100,000 ($11,770) to ₱4.0 million.

Sources: DBP Annual Reports for each year.

Table 10

Industrial Guarantee and Loan Fund (IGLF) Program

Summary of Operations, 1976-1981

(amount in million pesos)

	1976	1977	1978	1979	1980	1981	An. Growth Rate 1976-1981 (in %)
Loans Approved							
- number	130	71	140	147	170	222	11.3
- amount	₱ 29.2	20.3	47.0	59.9	147.2	234.4	51.7
Loans Released							
- number	148	108	n.a.	325	242	370	20.1
- amount	₱ 26.9	21.7	43.8	59.4	133.1	219.3	52.1
Loans Repaid to IGLF							
- number	956	1,069	n.a.	1,551	2,523	2,888	24.7
- amount	₱ 18.9	18.9	19.7	21.2	39.5	49.3	21.1
Loans Outstanding							
- number	679	734	850	962	793	750	2.0
- amount	₱ 87.1	89.9	114.0	152.2	245.7	415.8	47.8

Source: IBRD, Philippines: Staff Appraisal Report on the Third Small and Medium Industries Development Project, May 6, 1982, p. 93.

Table 11

Commercial Banks: Total Loans Outstanding by Different Categories[1/]

(in billion pesos)

Classification	1977	% Share	1978	% Share	1979	% Share	1980	% Share	1981	% Share	1982 (As of March)	% Share
Economic Activity												
Production	19.67	49.0	27.59	51.0	35.36	51.8	45.35	58.7	44.20	51.1	42.99	48.9
Trade	12.00	29.9	14.00	25.9	14.15	20.7	11.21	14.5	15.56	18.0	16.57	18.9
Contract Construction	.95	2.3	1.17	2.2	1.66	2.4	2.27	2.9	3.01	3.5	4.92	5.6
Consumption	1.31	3.3	2.89	5.3	2.07	3.0	1.38	1.8	1.73	2.0	1.69	1.9
Others	6.25	15.5	8.43	15.6	15.02	22.0	16.99	22.0	22.00	25.4	21.65	24.7
TOTAL	40.17	100.0	54.08	100.0	68.26	100.0	77.20	100.0	86.51	100.0	87.82	100.0
Type of Borrower												
Individual	7.29	18.1	12.46	23.0	11.01	16.1	15.57	20.2	17.79	20.6	17.93	20.4
Single Proprietorship	1.05	2.6	3.02	5.6	1.95	2.9	2.32	3.0	2.52	2.9	2.48	2.8
Partnership	1.00	2.5	1.30	2.4	1.59	2.3	1.22	1.6	1.52	1.8	1.43	1.6
Cooperative	.009	.02	.03	.05	.02	.03	.075	1.0	.11	0.1	.06	0.7
Corporation	30.26	75.3	35.75	66.1	50.31	73.7	51.75	67.0	57.84	66.9	57.62	65.6
Government	.57	1.4	1.53	2.8	3.38	5.0	6.26	8.1	6.71	7.8	8.31	9.5
TOTAL	40.17	100.0	54.08	100.0	68.26	100.0	77.20	100.0	86.51	100.0	87.82	100.0
Maturity												
Demand	7.49	18.6	9.16	16.9	10.64	15.6	10.46	13.5	10.67	12.3	11.06	12.6
Short Term	26.77	66.6	35.23	65.1	37.60	55.1	49.84	64.6	52.82	61.1	53.63	61.1
Intermediate-term	4.23	10.5	5.55	10.2	9.39	13.8	7.75	10.0	14.98	17.3	13.89	15.8
Long-term	1.68	4.2	4.14	7.7	10.64	15.6	9.15	11.9	8.04	9.3	9.24	10.5
TOTAL	40.17	100.0	54.08	100.0	68.26	100.0	77.20	100.0	86.51	100.0	87.82	100.0
Industry												
Agriculture	5.45	13.6	5.77	10.7	8.12	11.9	12.01	15.6	11.12	12.9	11.03	12.6
Mining	1.58	3.9	3.61	6.7	5.51	8.1	7.33	9.5	7.07	8.2	7.58	8.6
Manufacturing	13.13	32.7	17.49	32.3	22.10	32.4	27.05	35.0	26.35	30.5	25.68	29.2
Utilities	.11	.3	.31	0.6	.76	1.1	.64	0.8	.98	1.1	1.10	1.3
Construction	.89	2.2	1.56	2.9	2.04	3.0	2.72	3.5	4.05	4.7	4.43	5.0
Trade	11.83	29.4	14.16	26.2	14.05	20.6	11.21	14.5	15.56	18.0	16.57	18.9
Other Services	7.19	17.9	11.18	20.7	15.68	23.0	16.22	21.0	21.38	24.7	21.44	24.4
TOTAL	40.17	100.0	54.08	100.0	68.26	100.0	77.20	100.0	86.51	100.0	87.82	100.0

1/ Excluding past due items, items on litigation, domestic and foreign bills-clean.

Source: CB Statistical Bulletin and Staff Files.

Table 12

Loans Outstanding of Commercial Banks by Size of Firm and by Region
(in billion pesos)

	1977*	% of Total	1978*	% of Total	1979*	% of Total	1980	% of Total	1981	% of Total	1982 (As of March)	% of Total
A. Size of Firm 1/												
Cottage Enterprises	0.66	2.4	2.03	5.4	1.54	3.3	4.10	5.3	4.59	5.3	3.57	4.1
Small-scale Enterprises	3.08	11.2	5.28	14.0	3.18	6.8	4.67	6.0	4.91	5.7	4.52	5.1
Medium-scale Enterprises	3.12	11.4	4.94	13.1	4.47	9.5	6.48	8.4	7.08	8.2	6.85	7.8
Large-scale Enterprises	15.46	56.4	15.65	41.4	29.78	63.5	48.34	62.6	51.50	59.5	51.77	59.0
Others	5.08	18.5	9.90	26.2	7.92	16.9	13.61	17.6	18.43	21.3	21.11	24.0
TOTAL	27.40	100.0	37.80	100.0	46.89	100.0	77.20	100.0	86.51	100.0	87.82	100.0
B. Region												
Luzon	24.58	89.7	33.93	89.8	42.67	91.0	69.32	89.8	77.64	89.7	79.14	90.1
of w/c: Metro Manila	23.75	87.0	32.68	86.5	41.18	87.8	66.48	86.1	74.06	85.6	75.36	85.8
Central Luzon	0.23	0.8	0.45	1.2	0.51	1.1	1.05	1.4	1.32	1.5	1.35	1.5
Visayas	1.95	7.2	2.56	6.8	2.82	6.0	5.90	7.6	6.47	7.5	6.34	7.2
of w/c: Western Visayas	0.77	2.8	0.83	2.2	0.80	1.7	3.70	4.8	3.62	4.2	3.65	4.2
Mindanao	0.85	3.1	1.21	3.2	1.40	3.0	1.98	2.6	2.40	2.8	2.33	2.7
of w/c: Southern Mindanao	0.44	1.6	0.60	1.6	0.74	1.6	1.05	1.4	1.25	1.4	1.21	1.4
TOTAL	27.40	100.0	37.80	100.0	46.89	100.0	77.20	100.0	86.51	100.0	87.82	100.0

* Excludes outstanding loans by PNB because data is not available. PNB accounted for roughly 30% of the total loans of commercial banks during 1977-79.

1/ Loans to agriculture and commerce appears to have been included in these definitions; cottage industries are firms with assets of less than P100,000; small industries, P100,000-P1 million; medium industries, P1 million-P4 million; large industries, more than P4 million; others refers to consumption and other loans of firms/individuals not falling in any of the above.

Source: Central Bank

Table 13
Total Loans Outstanding of Other Banks and Non Bank Financial Institutions, 1977-1982
(in million pesos)

	1977	% Share	1978	% Share	1979	% Share	1980	% Share	1981	% Share	1982 (As of March)	% Share
Savings Banks												
Agriculture	92.4	5.4	179.9	7.4	252.7	7.9	350.7	8.2	148.0	5.1	233.9	7.6
Industry[1]	313.4	18.2	466.7	19.3	957.9	30.0	709.6	16.7	691.2	23.8	679.5	22.1
Commerce[2]	1316.9	76.4	1768.4	73.3	1979.6	62.1	3193.3	75.1	2069.2	71.1	2160.7	70.3
TOTAL	1722.7	100.0	2415.0	100.0	3190.2	100.0	4253.6	100.0	2908.4[7]	100.0	3074.1[8]	100.0
Development Banks												
Agriculture	2392.5	23.1	2556.2	22.3	2830.0	20.4	3131.6	18.0	3585.1	14.4	3624.5	13.7
Industry	4256.3	41.1	5319.0	46.3	5817.9	41.9	8403.5	48.3	9889.4	39.6	9580.5	36.3
Commerce	2323.5	22.4	2691.4	23.4	2985.2	21.5	3745.5	21.5	3965.4	15.9	4180.9	15.9
Others[3]	1389.4	13.4	921.3	8.0	2235.6	16.1	2126.4	12.2	7512.8	30.1	8991.6	34.1
TOTAL	10361.7	100.0	11487.9	100.0	13868.7	100.0	17406.9	100.0	24952.7	100.0	26377.5	100.0
Rural Banks												
Agriculture	2597.1	92.0	3114.6	91.0	3773.8	90.5	4241.2	90.4	4876.6	86.2	5051.1	88.8
Commerce	123.0	4.4	163.0	4.8	209.0	5.0	219.2	4.7	269.8	4.8	294.5	5.2
Industry	74.1	2.6	90.6	2.6	112.9	2.7	120.5	2.6	147.6	2.6	147.8	2.6
Others	26.8	1.0	54.6	1.6	76.4	1.8	109.8	2.3	194.1	3.4	193.8	3.4
TOTAL	2821.0	100.0	3422.8	100.0	4172.1	100.0	4690.7	100.0	5488.1	100.0	5687.2	100.0
Non-bank Financial Institutions												
a) Private[4]												
Agriculture	32.7	2.9	58.6	4.9	63.1	4.5	66.1	3.9	51.6	3.4	53.1	3.4
Industry	694.6	62.6	765.5	64.1	940.5	66.7	1147.9	68.0	1377.6	90.5	1412.8	90.5
Commerce	131.5	11.9	137.4	11.5	123.8	8.8	107.9	6.4	88.8	5.8	91.4	5.9
Others	250.8	22.6	232.8	19.5	282.6	20.0	365.8	21.7	4.0	0.3	4.0	0.2
TOTAL	1109.6	100.0	1194.3	100.0	1410.0	100.0	1687.7	100.0	1522.0	100.0	1561.3	100.0
b) Government[5]												
Agriculture	307.2	3.8	323.4	3.5	345.5	3.6	367.9	3.2	333.4	2.3	337.7	2.4
Industry	494.3	6.1	532.5	5.7	718.3	7.4	997.6	8.7	944.7	6.5	1010.7	7.2
Commerce[6]	3522.8	43.6	3741.1	40.3	4058.0	41.9	4381.5	38.3	7602.6	52.4	7690.8	54.5
Others	3753.4	46.5	4698.3	50.6	4556.3	47.1	5710.9	49.8	5636.1	38.8	5072.4	35.9
TOTAL	8077.7	100.0	9295.3	100.0	9678.1	100.0	11457.9	100.0	14516.8	100.0	14111.6	100.0
TOTAL												
Agriculture	5421.9	22.5	6232.7	22.4	7265.1	22.5	8157.5	20.7	8994.7	18.2	9300.3	18.3
Industry	5881.6	24.4	7246.7	26.1	8643.6	26.7	11477.8	29.1	13050.5	26.4	12831.3	25.3
Commerce	7368.8	30.6	8428.9	30.3	9259.5	28.7	11548.7	29.2	13995.8	28.4	14418.3	28.4
Others	5420.4	22.5	5907.0	21.2	7150.9	22.1	8312.9	21.0	13347.0	27.0	14261.8	28.0
TOTAL	24092.1	100.0	27815.3	100.0	32319.1	100.0	39496.9	100.0	49388.0	100.0	50811.7	100.0

See footnotes at next page.

1/ Refers to manufacturing, mining, public utility and construction.

2/ Refers to trade, real estate, business, personal and government services.

3/ Refers to consumption and other types of loans and advances.

4/ Includes selected investment houses and thrift non-banks

5/ Includes GSIS, SSS, NIDC and ACA

6/ Mostly real estate

7/ Family Savings Banks converted into a commercial bank

8/ Union Savings Bank converted into a commercial bank

Source: Central Bank Statistical Bulletin and Staff Files

Table 14

Loans Granted by Other Financial Institutions, 1977-1982
(in million pesos)

	1977	% Share	1978	% Share	1979	% Share	1980	% Share	1981	% Share	1982 (As of March)	% Share
Development Banks												
Agriculture	624.6	21.2	617.2	17.4	830.3	17.1	833.5	13.7	1099.6	16.5		
Industry 1/	1900.9	64.4	2307.1	65.2	3275.3	67.4	3836.9	63.1	4096.1	61.3		
Commerce 2/	425.8	14.4	615.6	17.4	755.2	15.5	1414.2	23.2	1483.9	22.2		
Others 3/	-	-	-	-	-	-	-	-	-	-		
TOTAL	2951.3	100.0	3539.9	100.0	4860.8	100.0	6084.6	100.0	6679.6	100.0		
Rural Banks (# of Units Operating)	850		931		979		1096		1088		1081	
Agriculture	1799.1	87.1	2384.8	86.8	2950.4	86.2	3257.3	86.2	3729.9	85.0	979.5	83.1
Commerce	55.5	2.7	75.6	2.8	102.1	3.0	105.5	2.8	116.2	2.6	39.9	3.4
Industry	180.7	8.7	240.0	8.7	305.1	8.9	330.6	8.8	397.3	9.1	114.9	9.8
Others	30.4	1.5	48.3	1.8	65.1	1.9	82.0	2.2	145.5	3.3	44.1	3.7
TOTAL	2065.7	100.0	2748.7	100.0	3422.7	100.0	3775.4	100.0	4388.9	100.0	1178.4	100.0
Non-bank Financial Institutions												
a) Private 4/												
Agriculture	27.5	2.0	63.1	3.9	33.8	2.4	20.8	1.4	2.3	0.2	2.5	1.2
Industry	315.0	22.3	550.1	34.2	508.9	35.7	567.0	38.8	485.2	42.8	96.5	45.6
Commerce	218.5	15.5	151.9	9.4	117.6	8.3	117.1	8.0	131.4	11.6	20.9	9.9
Others	848.6	60.2	843.9	52.5	764.8	53.6	758.7	51.8	414.1	36.5	91.7	43.3
TOTAL	1409.6	100.0	1609.0	100.0	1425.1	100.0	1463.1	100.0	1133.0	100.0	211.6	100.0
b) Government 5/												
Agriculture	40.1	1.0	37.7	1.0	45.6	1.0	57.8	0.4	45.3	0.3	8.7	0.5
Industry	61.0	1.6	92.3	2.3	258.9	5.9	350.7	2.7	341.9	2.4	92.6	5.3
Commerce 6/	579.3	14.7	550.4	13.9	662.0	15.1	988.8	7.6	1356.6	9.7	111.6	6.4
Others	3252.4	82.7	3276.3	82.8	3414.6	77.9	11660.3	89.3	12270.0	87.6	1518.6	87.7
TOTAL	3932.8	100.0	3956.7	100.0	4381.1	100.0	13057.6	100.0	14013.8	100.0	1731.5	100.0
TOTAL												
Agriculture	2491.3	24.0	3102.7	26.2	3860.1	27.4	4169.4	17.1	4877.1	18.7		
Industry	2332.4	22.5	3025.1	25.5	4145.2	29.4	5085.2	20.9	5320.5	20.4		
Commerce	1404.3	13.6	1557.9	13.1	1839.9	13.1	2625.6	10.8	3088.1	11.8		
Others	4131.4	39.9	4168.5	35.2	4244.5	30.1	12500.5	51.3	12829.6	49.1		
TOTAL	10359.4	100.0	11854.2	100.0	14089.7	100.0	24380.7	100.0	26155.3	100.0		

1/ Refers to manufacturing, mining, public utility and construction.
2/ Refers to trade, real, estate, busioness, personal and government services.
3/ Refers to consumption and other types of loan and advances.
4/ Includes investment houses and thrift non-banks.
5/ Includes GSIS, SSS, NIDC and ACA.
6/ Mostly real estate.
Source: Central Bank Statistical Bulletin and CB records

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