Assessment of the GFIs, GOCCs and NBFIs In Implementing Directed Credit Programs

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ASSESSMENT OF THE GFIs, GOCCs AND NBFIs IN IMPLEMENTING DIRECTED CREDIT PROGRAMS

1 INTRODUCTION

1.1 Background

Directed credit programs (DCPs) in the Philippines, as defined by the National Credit Council (NCC), are those that cater to specific or identified sectors and funded out of government budget, special funds, or official development or external assistance. They are implemented by department or line agencies, government financial institutions (GFIs), government-owned and controlled corporations (GOCCs), and non-bank financial institutions (NBFIs). A survey by the Credit Policy Improvement Program (CPIP) in June 1997 identifies 86 DCPs managed by these institutions.

A study by Lamberte *et al.* (1997) of the effectiveness and efficiency of 37 DCPs administered by line agencies or government non-financial agencies (GNFAs) showed that these agencies have not factored in efficiency in managing the DCPs. All the 37 DCPs were found to be ineffficient, i.e., they were not able to recover the costs of administering these programs. *To be efficient, the GNFAs must at least double the interest rate they charge on loans or significantly reduce operational costs to fully recover cost of lending.* Some DCPs were effective in reaching their target beneficiaries, but they have incurred huge administrative costs, which would make them unsustainable in the long run.

Given these results, the Lamberte study recommends that the government prohibits GNFAs from implementing DCPs. The study also suggests that GNFAs should only allowed to indicate what sectors need to be supported and leave the selection of clients to GFIs.

Does this recommendation imply that the implementation of DCPs be left to GFIs? Should GOCCs and NBFIs administering DCPs also transfer their programs to GFIs? The huge demand for credit and the lack of access of many borrowers to formal sources of credit have provided the motive for some GOCCs to implement special credit programs for specific sectors. Does this justify their implementation of DCPs?

Previous studies indicate that the task of implementing credit programs catering to special sectors may well be relegated to GFIs. Stiglitz and Uy (1996), for instance, found that some countries in East Asia performed well in directing credit toward priority sectors because the entities that ran these special credit programs were financial institutions. These institutions have their own charters and employ commercial standards and performance-based criteria for allocating credit to priority sectors. This protected them from political influences and ensured their viability. Yaron (1992) also noted that the highly successful rural finance institutions in Indonesia, Thailand and Bangladesh have substantial degree of managerial independence in selecting clients. Unlike GNFAs, financial institutions have the flexibility to design credit programs suited to the needs of different target sectors and have the authority to create better incentives for their staff. Further, they have the capability to acquire information on their clients for credit risk assessment through the other financial services which they offer, such as deposit mobilization.

The OECF-RIDA study (1995) of the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) also suggested that credit programs managed by GNFAs be transferred to GFIs so that GNFAs could focus on their original mandate to provide non-financial services to target groups. However, as far as lending operations to targeted sectors are concerned, the GFIs themselves need some improvement, especially since DCPs constitute the bulk of their portfolio.

In view of this and of the NCC's current mandate to rationalize the DCPs, it is necessary to review and assess the DCPs being implemented by GFIs, GOCCs and NBFIs. The results of the review will complement the earlier results of the study on GNFAs and will provide NCC some input in its current effort to rationalize the DCPs. The review is also necessary in view of an earlier recommendation to transfer to GFIs all the DCPs implemented by GNFAs. Thus, this study reviews and assesses the performance of GFIs, GOCCs and NBFIs in implementing DCPs. The results, based on empirical evidence, are expected to validate earlier claims that GFIs are more efficient in managing DCPs and that GNFAs, GOCCs and NBFIs should focus more on their main mandates.

1.2 Objectives of the Study

The study seeks to assess the performance of GFIs, GOCCs and NBFIs in implementing DCPs. More specifically, it attempts to:

- estimate the effective cost (including administrative and loan losses) to the GFIs, GOCCs and NBFIs of implementing DCPs;
- assess the relative effectiveness of the various modes by which the GFIs, GOCCs and NBFIs implement the DCPs; and
- recommend specific actions that the NCC or other appropriate government body may adopt in rationalizing DCP activity.

The study also examines the impact of DCPs on the financial viability and operations of GFIs, GOCCs and NBFIs.

1.3 Scope of the Study

The study covers the DCPs implemented by government banks, corporations and those with quasi-banking functions. The 1997 CPIP survey identifies 49 DCPs implemented by these institutions. The majority (31) of these DCPs are implemented by the Land Bank and the DBP, while seven are implemented by GOCCs, such as the Technology and Livelihood Resource Center (TLRC), National Food Authority (NFA), Philippine International Trading Corporation (PITC), and Philippine Coconut Authority (PCA). The rest (11) are managed by government institutions with quasi-banking functions, such as Quedan Credit and Finance Corporation (Quedancor), Livelihood Corporation (Livecor), National Livelihood Support Fund (NLSF), People's Credit and Finance Corporation (PCFC), and Small Business Guarantee and Finance Corporation (SBGFC).

A survey by this study of DCPs managed by the abovementioned institutions identified additional DCPs not covered by the 1997 CPIP study. These DCPs are either new programs (one year or less in operation), such as the ADB-IFAD Rural Microenterprise Finance Program of the PCFC, Rediscounting Facility for Small Enterprises of the SBGFC, and the Industrial Pollution Control Loan Project and Environmental Infrastructure Support Program of the DBP, or existing ones left out in the previous survey, such as the Agro-Industrial Technology Transfer Program, Export Industry Modernization Program, and Special Direct Micro-Lending Scheme of the TLRC. A review of DCPs implemented by these institutions also reveal that some programs have been phased out or merged with other programs since 1997. These include the *Bagong Pagkain ng Bayan* Program and *Tulong Pangnegosyo* Program of the TLRC, which were phased out and whose funds were consolidated into the new ASAHAN Program; and the Farm Level Agricultural Machinery and Equipment Program of Quedancor, which was merged with its Coordinated Agricultural Marketing and Production Program in 1998. Livecor has also phased out its DCPs starting January 1998 as a result of a ruling by the Department of Justice (DOJ) that it should focus on its mandate of establishing processing centers. The ruling noted that Livecor has no staff for its lending operations under its organizational structure and staffing pattern approved by the Department of Budget and Management (DBM).

All together, 45 DCPs are currently implemented by seven government institutions. However, only 32 DCPs are included in this study because they have complete data.

1.4 Organization of the Study

Chapter 2 presents the framework and methodology of the study. Chapter 3 gives a profile of GFIs, GOCCs and NBFIs and the DCPs they implement. Chapter 4 discusses the results of this assessment. Chapter 5 presents the conclusions and some recommendations for rationalizing DCPs.

2 FRAMEWORK AND METHODOLOGY

This study adopts the framework and methodology used by Lamberte *et al.* (1997) in evaluating the effectiveness and efficiency of DCPs implemented GNFAs. The main argument is that DCPs implemented by GFIs, GOCCs and NBFIs must be both effective and efficient. Using the indices developed in the earlier study, this evaluation measures the productivity, effectiveness (in terms of outreach) and efficiency of DCPs implemented by GFIs, GOCCs and NBFIs. These indices are briefly discussed below.[1]

Aside from looking into the outreach and efficiency of each of the DCPs, this study also examines the impact of the DCPs on the financial viability and on the regular and overall operations of each GFI.

2.1 Productivity

Productivity is defined as the ratio of output to input. The output of a DCP, in this case, is measured in terms of the volume or number of loans it provides to target clientele. The output can be in the form of stocks or loans outstanding, or flows or loans granted. The input, on the other hand, includes the labor services expended to process, deliver, monitor and collect the loans.

The study uses the following measures of productivity:

- Number of loans granted to the number of DCP personnel
- Volume of loans granted to the number of DCP personnel
- Number of loans outstanding to the number of DCP personnel
- Volume of loans outstanding to the number of DCP personnel

To derive the productivity indices, the volume and number of loans granted, the volume and number of loans outstanding, and loans outstanding net of past due[2] are each divided by the number of personnel directly or indirectly involved in implementing the DCP. A full time personnel is considered one staff. The percentage time spent on the DCP is used for personnel involved on a part-time basis or for handling many DCPs other than the one being measured. If actual data are not available, the number of personnel is estimated based on the number of accounts or total loans outstanding of a department or institution handling the DCP or several DCPs, whichever is most applicable.

2.2 Outreach

The study attempts to determine the effectiveness of DCPs in terms of outreach. It is to be noted that the NCC is concerned about DCPs for the so-called *"basic sectors,"* which consist of small borrowers. Thus, DCPs must be able to reach the *"basic sectors."* However, this study was

[1] For more details, see Lamberte *et al.* (1997).

[2] Based on the technical definition of the Bangko Sentral ng Pilipinas, a loan is considered past due when an amortization is unpaid after the third month for accounts with monthly amortization schedules, one quarter for those with quarterly payments, and one year for semi-annual or annual payments (termed as 3-1-1). Prior to April 1, 1998, the base period was 6-2-2.

unable to gather data from the end-users of DCPs; hence, the need to develop an alternative measure of outreach.

Outreach is measured as a weighted average of two indices: the *reaching the target borrowers index* (**RTBI**), which is the ratio of average loan size of the target sector as reported by other studies to the average loan size of the DCP being examined; and the *credit extension index* (**CEI**), which is the ratio of actual number of borrowers of a DCP in a given period to the potential number of borrowers that a DCP could reach given its limited resources. That is,

$$\textbf{Outreach Index (OI)} = w_1\ \textbf{RTBI} + w_2\ \textbf{CEI}$$

where

RTBI	=	average loan in sector ÷ average loan size;
CEI	=	no. of borrowers ÷ no. of potential borrowers; and
w_1,w_2	=	weights.

An RTBI ≥ 1 implies that the DCP concerned is reaching its ultimate target borrowers since the average size of its loans is less than the average size of the loans of its target basic sector. Conversely, if RTBI < 1, then the DCP is not reaching its target borrowers since its average loan size is greater than the average loan size of the sector being targeted.

Meanwhile, a CEI ≥ 1 implies that the DCP concerned is reaching the potential number of borrowers given its limited resources. Conversely, if CEI < 1, then the DCP is said to be servicing borrowers below the potential number that it could have reached given its limited resources. Potential borrowers (PB) is computed as PB = [(total amount of loanable funds ÷ average loan in sector) × 12/average loan maturity] for loan programs whose loans mature in less than one year; otherwise, the last term is dropped.

Giving equal weights to the RTBI and CEI (i.e., $w_1 = w_2 = 0.5$) and adding them will yield the DCP's outreach index (OI). ***A DCP is considered effective or has a high level of outreach if the computed OI is equal to or greater than 1; it has a low outreach if the computed OI is less than 1.***

Note that the formula developed above applies only to DCPs for the basic sectors. However, this study also covers DCPs implemented by GFIs and GOCCs that target small, medium, and large enterprises. Since this study did not gather information from the end-users themselves, there is no way of determining the extent of the outreach of DCPs whose target beneficiaries include small, medium and large (SML) borrowers. For these types of DCPs, the issue of efficiency will be given emphasis.

2.3 Efficiency

To measure the efficiency of a DCP, the study uses *the cost recovery index* (**CRI**) developed in Lamberte *et al.* (1997). The CRI is defined *as the ratio of income from lending to the total costs of lending*. The components of total costs of lending are: administrative cost, risk-induced cost, cost of borrowed funds, and cost of equity capital. ***A CRI that is equal to or greater than 1 indicates that the DCP being investigated is efficient.*** An efficient DCP must at least recover

its total costs. If it recovers only the administrative and risk-induced costs, then it is considered only ***operationally efficient***. The components of the CRI are further defined below.

2.3.1 Income from Lending

Income or revenue from lending refers to interest earnings and other fees earned by a DCP for extending loans to borrowers. For each DCP, the study presents two types of earnings in terms of interest rates. One is the nominal effective interest rate on loans, which is equal to the unit price of the loan or the income per peso of loans outstanding. By computation, this is equal to income from lending divided by the average loans outstanding during a certain period. The other type of earning is the posted interest rate, i.e., the interest rate charged by a DCP on borrowers as announced by the GFI.

2.3.2 Total Costs of Lending

In implementing a DCP, a GFI incurs four types of costs: administrative cost, risk-induced cost, cost of borrowed funds, and cost of the institution's equity capital.

Administrative Cost

Administrative cost refers to the direct cost in cash incurred by the GFI or GOCC in administering a DCP. This includes salaries and other benefits paid to full-time and part-time officers and staff of the DCP, maintenance and other operating expenses, depreciation allowance for equipment, training and seminar costs in credit programs that incorporate this activity in credit extension, and other administrative costs. The administrative cost is converted into a unit cost by dividing the administrative cost by the average loans outstanding for the period.

Risk-Induced Cost

Risk-induced cost refers to the cost arising from loan losses that can be allocated to the period being examined. This can be measured in terms of the amount set aside by the GFI for possible loan losses. In the case of GOCCs which do not normally set aside an amount to cover probable loan losses, the cost of carrying out past due loans shall be used. Because past due loans forego some interest earnings, the cost of carrying out past due loans is equal to the actual amount of past due loans multiplied by the lending rate. To convert the risk-induced cost into a unit cost, the risk-induced cost is divided by the average loans outstanding for the period being examined.

Cost of Borrowed Funds

Cost of borrowed funds refers to the actual interest expense and other fees, including commitment fees, guarantee fees, and foreign exchange risks incurred by the GFI for funds borrowed from various sources to finance or augment the resources of a particular DCP. The unit cost of the borrowed funds is obtained by dividing the interest expense and other fees on borrowed funds by the total amount borrowed.

Cost of Equity Capital

The cost of equity capital has three components. First is the equity capital put up by the GFI for the DCP, that is, funds given or donated by the government or external donors to the DCP being implemented by the GFI for on-lending purposes. This is equivalent to program funds. (If program funds include an amount to cover administrative and other costs, then such program funds were adjusted to exclude these costs.) The second component includes all interest-free funds borrowed from any source for the DCP. The third component is the in-kind donation. This includes salaries for personnel and consultants, office space rental, equipment, vehicles and others received by the GFI for implementing the DCP.

There are two possible ways of measuring the cost of equity capital. One is by setting the cost of equity capital to the inflation rate of the period being considered, the reason being that the DCP concerned must always protect the real value of its equity capital. Another is by equating the cost of equity capital to the annual average treasury bill (T-bill) rate. The inflation rate or T-bill rate immediately gives an idea of the unit cost of equity capital.

2.4 Summary of Outreach and Efficiency Indicators

Given the measures of outreach and efficiency, a DCP being examined may fall in any one of the following combinations: **(1)** *low outreach and inefficient*; **(2)** *high outreach but inefficient*; **(3)** *low outreach but efficient;* or **(4)** *high outreach and efficient*. The results of the assessment will be mapped out in a matrix shown in ***Figure 1*** below.

Figure 1
Framework for Evaluating the Outreach and
Efficiency of DCPs

	Low Outreach	**High Outreach**
	1	**2**

	3	4

2.5 Impact of DCPs on the Institution's Viability and Regular Operations

To determine the overall impact of DCPs on the institutions' financial viability and regular operations, key officers of the GFIs and GOCCs were interviewed. They were asked how the DCPs they manage affect the GFIs' policies and procedures on resource mobilization, lending and loan recovery, and the size and composition of their loan portfolios. They were also asked whether implementing a DCP is profitable to their institution, and what benefits the institution has derived from the DCP.

Aside from the interviews, the institutions' viability and regular operations were examined based on financial statements and other available reports. The GFI's financial condition over the last four years (1994-1997) were examined in terms of overall efficiency (i.e., ratio of income to total expenses), amount of loan exposures, income per peso of loan, return on performing assets, and other basic financial indicators. Although it is difficult to attribute any increase or decrease in these indicators to the GFI's implementation of a DCP, nevertheless this analysis gives rough indications of the effects of DCPs on the operations of the implementing institutions.

2.6 Problems Encountered and Limitations of the Study

Collection of data from GFIs and GOCCs took an unexpectedly longer time since the bulk of information needed for the study had to be retrieved from other departments, field offices or branches, or district offices of the institutions concerned. In some instances, the researchers had to sort out the data directly from the records of GFIs and GOCCs.

The effectiveness of the DCPs can best be measured by getting first hand information on their impact from the end-users themselves. Due to time and budget constraints, this study only uses an indicative measure of effectiveness using the outreach index. The outreach index, as defined in the framework of the study, may not be the best indicator of the effectiveness or the reach of the program. The number of borrowers reported by the program implementors may not be the actual users of fund, as some of them may only be members but not borrowers of beneficiary cooperatives or associations covered. Moreover, there may be flaws in the use of the average sector loan (ASL) sizes, which vary depending on what survey or source may be used.

There is also a problem in getting the actual number of borrowers (AB) of each DCP in some cases, particularly those implemented by GFIs. In most instances, loanable funds allotted for a specific sector (e.g., agrarian sector) are pooled and the number of borrowers in the sector is consolidated. Thus, the number of beneficiaries based on fund source is apportioned and may not tally with the actual number of borrowers of the DCP, which may result in an overestimation or underestimation of the effectiveness of the program.

In computing the efficiency ratios, the data used were mostly estimates based on available data. This is particularly true for administrative expenses of each DCP. Most DCPs have no program management units, which makes it difficult to get the actual implementation cost of the DCP. The research team had to apportion total administrative costs of the institution or department in charge based on the number of personnel actually involved, their time spent on tasks involving each DCP, or number of accounts handled, whichever is most applicable and practical. It is to be noted that a staff may handle several accounts of one or more programs, which makes the estimation tedious. Such estimations may also be overstated or understated.

Data on income and expenses per program are also not readily available for most DCPs. Actual data can be gathered from the branches, but it takes more time than what is allowed for this study. In cases where program operations are centralized, income and expenditure data are usually pooled and not recorded per DCP. Thus, estimates are again used based on the number of accounts or loans outstanding of each DCP.

3 DESCRIPTION OF IMPLEMENTING INSTITUTIONS AND THEIR DCPs

This section describes the profiles of two GFIs and five GOCCs covered by the study and the DCPs they administer. Of the 45 DCPs currently implemented by these institutions, 32 are managed by GFIs and 13 by GOCCs/NBFIs (see Annex A for the complete list of DCPs).

3.1 Government Financial Institutions (GFIs)

The Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) operate as universal banks. They are specifically mandated by the government to administer DCPs for specific sectors of the economy. DBP is mandated to cater to agricultural and industrial small, medium and large enterprises (SMLEs).[3] LBP is primarily tasked to service the needs of the agrarian reform beneficiaries and to support countryside development activities. To date, the DBP implements 19 and the LBP 13 DCPs to meet the demand for credit in their respective target sectors.

3.1.1 Development Bank of the Philippines (DBP)

Charter/Legal Mandate. The DBP was created by virtue of Republic Act (RA) No. 85 in 1947 to provide credit facilities for the rehabilitation, development and expansion of agriculture and industry, broaden and diversify the national economy, and promote the establishment of private development banks in the countryside. Executive Order (EO) No. 81 issued on December 3, 1986 revised the bank's charter and give it a new development mandate: provide banking services to meet the medium and long term financing needs of small and medium-scale agricultural and industrial enterprises. The bank's orientation was similarly changed to that of a primarily wholesale bank with significant retail presence. Guided by its new mandate, DBP's priority areas for financing included export promotion, new entrepreneurs, and infrastructure, including loans for the local government units.

On December 20, 1995, the Bangko Sentral ng Pilipinas (BSP) granted DBP a permit to operate as an expanded commercial bank (EKB). DBP started operation as an EKB on February 7, 1996. As an EKB, it offers the following products and services: a) deposit; b) fund transfer, including provision of telegraphic transfer and acceptance of payments for the Philippine Long Distance Telephone (PLDT), Social Security System (SSS) and Bureau of Internal Revenue (BIR); c) fund management, including government securities dealership and servicing of foreign currency remittances; d) trust products and services, including dealership of blue chips and trusteeship of asset-backed securities; e) merchant banking, including underwriting and loan syndications; f) wholesale lending; g) retail lending; h) export financing; and i) guarantee. At present, DBP has five regional offices and 70 branches nationwide.

Major Policies/Strategies. The DBP was restructured into a predominantly wholesale bank in 1990 following the recommendations of a study conducted under the World Bank

[3] The Magna Carta for Small Enterprises (RA 6977), as amended by RA 8289, defines SMLEs based on total assets as follows: micro - below P1.5 million; small (includes industries defined as cottage) - P1.5 million to 15 million; medium - above P15 million to P60 million; and large - above P60 million.

Financial Sector Adjustment Loan in 1987. Participating financial institutions (PFIs) were tapped as conduits of DBP's wholesale funds. With its restructured operations, the share of its wholesale accounts increased from 12% in 1990 to more than 50% of its total loan portfolio in 1997. By the first semester of 1998, the ratio was about 60:40 in favor of wholesale lending. DBP is still targeting a portfolio of 70% wholesale and 30% retail.

To avoid sharing the same market segment and competition, DBP's wholesale and retail banking operations have been separated such that wholesale resources are not employed to fund its retail activities. Both operations are also administered separately by two different groups in the DBP. The major functional departments of DBP's retail banking operation are the Institutional Banking Group (IBG), Branch Credit Group (BCG) and branches, and Window III group. Wholesale banking, on the other hand, is handled by the Wholesale Banking Group (WBG) and is still considered centralized. Although the Wholesale Banking Regional Office was opened in February 1996 in Cebu City to make funds more accessible to borrowers in the Visayas and Mindanao regions, most loans were still approved and released by the WBG at the DBP head office.

The accreditation scheme of PFIs and sub-borrowers is uniform in all the wholesale lending programs of the DBP. Prospective sub-borrowers file an application form with a PFI. The PFI evaluates and approves the application and submits it to the WBG, together with required documents. Loans of up to P60 million in the Visayas and Mindanao are approved by the head of the WBG Regional Office in Cebu. Loans beyond P60 million and those in the Luzon region are approved by the head of the WBG at the head office. Upon favorable review of the DBP of the application, funds are released in one or more tranches to the PFI for relending to the sub-borrower. A post-audit or end-use verification survey is conducted by the WBG as needed.

The DBP, meanwhile, maintains three lending modes or windows as part of its retail lending services. Window I (WI) caters to short-term working capital needs with maturities of up to 18 months. The DBP internal funds are usually used for this purpose. Window II (WII) finances the acquisition of fixed assets and permanent working capital, with repayment term of up to five years. Loans under WII are funded by DBP's own resources or by retailing official development assistance (ODA) or external loans acquired by the bank. Lastly, Window III (WIII) assists activities that have catalytic effects on the country's economic development. Loans under this window are for infrastructure, fixed asset acquisition, and/or working capital, with repayment period of more than five years. This window is also the centerpiece of DBP's retail lending operations that support the government's Social Reform Agenda. Credit programs under WIII specifically cater to the unbankables, to which loans are provided at concessional rates. Most of its programs are implemented in cooperation with government line agencies, such as the Department of Science and Technology (DOST), Department of Agriculture (DA), and Department of Agrarian Reform (DAR), and Congress. Borrowers under WIII social programs include cooperatives, associations, and non-government or private institutions engaged in development activities. DBP is mandated to maintain at least 20% of its loan portfolio for WIII. Thirty percent of DBP's net income after tax is used to fund this window. Other domestic sources of funds, e.g., SSS, finance WIII. In 1996, WIII accounts comprised about 18% of its outstanding loan portfolio.

All DCP loans under DBP's retail operations undergo the same process as those under its regular loans. DBP personnel in the branch offices review applications of borrowers. Approval authority varies depending on the amount applied for. Loans below P4 million are approved by the branch manager, above P4 million to P10 million by the regional manager, above P10 million to P12 million by the head of the BCG, above P12 million to 15 million by the Executive Vice President of the Bank Branching Sector (BBS), and above P15 million by a loan committee.

In the recent years, the DBP also focused on the delivery of medium and long term funds to the domestic market in keeping with the increasing demand for credit to finance medium to long term investments. These term loans covered 42% of the bank's outstanding loan portfolio in 1996.

DCPs Implemented. The DBP currently administers 19 DCPs financed by foreign or domestic borrowings and special funds. These DCPs are apart from those which the bank administers for government line agencies. Of the 19 programs, 10 fall under its wholesale lending operations and use the PFIs as conduits of funds. The remaining nine programs are implemented as part of its retail operations and cater directly to end-borrowers. These DCPs generally service the financing requirements of SMLEs.

A. *Wholesale Lending*

Industrial Investment Credit Project (IICP)

The project provides funds in local currency to accredited PFIs for relending to viable investment enterprises. Eligible areas for financing under the project include acquisition of equipment and working capital, lease financing, and equity and quasi-equity investment (e.g., common or preferred equity, convertible debentures, or subordinated debts). Qualified sub-borrowers are industrial enterprises catering to domestic and export markets, with asset size of not less than P20 million before financing and 70% owned by Filipinos. The project has been implemented nationwide for the past eight years starting January 4, 1990. It currently uses second generation funds from collections and interest earnings on the original fund.

The original fund of the IICP was a US$57.17-million loan from the International Bank for Rural Development (IBRD) of the World Bank contracted in 1989. The government shouldered the guarantee fee (GF) of 1% of total loan amount, foreign exchange cover fee (FECF), and pre-termination fee of 2% of the amount, all prepaid. The loan has a variable interest rate per annum based on the cost of qualified borrowing (CQB) set and adjusted by the WB every six months + _%, and a commitment fee of _ of 1% of unreleased amount of loan scheduled to be released during the year.

Loans lent under the IICP have short to long term maturity periods. Pass on rate to conduit PFIs is based on the weighted average interest rate (WAIR) and could either be fixed or variable. PFIs charge varied interest rates to end-users based on the DBP pass-on rate plus their spread, but not to exceed the prevailing market rate.

Industrial Restructuring Project (IRP)

This project offers long term funds, in local or foreign currency, to PFIs for relending to private industrial enterprises for modernization and expansion of their existing plants and for acquisition of new facilities. Eligible loans under IRP include those for permanent working capital, equity and quasi-equity investments (including investments in energy conservation and pollution control devices), and lease contracts. The project has been in operation nationwide since April 23, 1991. Like the IICP, it uses second generation funds from collections and interest earnings on the original fund.

The IRP was originally funded by a US$165-million loan contracted in 1990, also from the IBRD. The loan has guarantee of 1% and a pre-payment premium of 3% of the loan, prepaid from the government. Other terms such as in the IICP apply to IRP.

Maturity of loans under the project varies from short to long term. Minimum loan amount is US$250,000. Interest rate charged to conduit PFIs is based on the WAIR and could either be fixed or variable. Pass on rate by PFIs to end-borrowers is equivalent to the DBP rate to the former, plus a certain spread not exceeding the current market rate.

Japan EXIMBANK-ASEAN Japan Development Fund Untied Loan to DBP (JEXIM_AJDF)

This credit facility offers long term funds to PFIs for relending to viable industrial enterprises. Qualified for financing under this facility are medium and long-term requirements for plant improvement or construction, acquisition of equipment and raw materials, and lease financing. Eligible borrowers are those with assets of not less than P200 million before financing and enterprises financed by a PFI in amounts totalling not less than P100 million. Priority subsectors are mining and quarrying, manufacturing, transportation, hotels and other lodging places. This facility, administered nationwide, has been available since March 27, 1991.

The facility currently uses second generation funds from the original loan of US$83 million from the Export-Import Bank (EXIMBANK) of Japan and JPY11.35 billion from the ASEAN Japan Development Fund (AJDF). The loans were contracted in 1990 with a sovereign guarantee from the government, including a pre-payment premium of 3% of loan. An interest rate of 6.6% per annum, and a commitment fee of _ of 1% of unreleased amount for the year, is imposed on the loan. Interest rate charged by DBP on conduit PFIs is based on the WAIR and could either be fixed or variable. Pass on rate by PFIs to end-borrowers is equivalent to the DBP rate, plus a certain spread not exceeding the current market rate. Maturity of loans from this facility ranges from short to long term. Maximum loanable amount is 70% of total project cost of the borrower.

Japan EXIMBANK-Three Step Untied Loan to DBP (JEXIM 2)

This facility provides long term funds to PFIs to finance viable private industrial enterprises. It has been implemented nationwide since May 26, 1993.

JEXIM 2 credit facility currently uses second generation funds from the original loan of US$105.79 million from the EXIMBANK contracted in 1992. The loan also has a government guarantee, including a pre-payment premium of 3% of the loan. Interest rate on the loan is fixed

at 4.7% per annum, with the same commitment fee as in the JEXIM-AJDF loan. The same interest rates imposed on the other programs apply to this program. Maturity of loans also ranges from short to long term. Maximum loanable amount is equivalent to 70% of total project cost of the borrower.

Japan EXIMBANK Untied Loan to DBP (JEXIM 3)

As in JEXIM 1 and 2, this facility offers long term funds to PFIs for relending to viable private industrial enterprises. It is administered nationwide and has been on-going since June 27, 1996.

The facility uses second generation funds from the original loan of US$19.55 million, also from EXIMBANK. The same conditions are imposed on the loan as in the JEXIM 2 loan, except for the interest rate which, in this case, varies based on the long term program loan rate (LTPLR) of 0.2%, or fiscal investment loan program rate (FILPR) determined by Japan's monetary authorities. Interest rate charged to conduit PFIs is based on the WAIR and could either be fixed or variable. The pass on rate by PFIs to end-borrowers is equivalent to the DBP rate, a certain spread not exceeding the current market rate. Loan maturity ranges from short to long term, with maximum loanable amount of 70% of total project cost of the borrower.

ASEAN-Japan Development Fund-Overseas Economic Cooperation Fund (AJDF-OECF)

This facility provides long term funds in local currency to PFIs to finance productive enterprises, including construction or expansion of plants, acquisition of machinery and equipment. Excluded from financing under the program are land acquisition, payment of custom duties and taxes, and purely working capital loans. The facility has been on-going nationwide since September 30, 1991.

The AJDF-OECF facility uses second-generation funds from the original loan of JPY19.55 billion from the OECF contracted in 1990, with a guarantee from the government, including the FECF, GF and GRT. Interest rate on loan is 2.5% per annum, With the same commitment fee as in the other contracted loans. Interest rate charged on loans of conduit PFIs is also based on the WAIR and could either be fixed or variable. Pass on rate by PFIs to end-borrowers is equivalent to the DBP rate, plus a certain spread not exceeding the current market rate. Maturity of loans ranges from short to long term. Maximum loanable amount is P99.9 million per project.

Asian Development Bank Third DBP Project (ADBIII)

This project offers funds to PFIs for relending, on medium to long term basis, to small and medium industries (SMIs) for the acquisition of machinery and equipment, importation of raw materials, and lease financing. SMIs are defined under the program as those with asset size of P12-20 million before financing. Priority subsectors are those with inherent comparative advantage, need minimum or no protection, and are capable of competing effectively in the export and/or domestic market. The facility has been available since December 23, 1991.

The facility currently uses second generation funds from the original loan of US$29.64 million from the ADB. The loan has similar terms and conditions as in the case of the OECF

loan, except for the interest rate based on the CQB set by ADB. Loans lent under ADBIII are lent to PFIs and relent to borrowers at the same rates as in the other cited programs.

Industrial and Support Services Expansion Program (ISSEP)

The ISSEP started implementation nationwide on March 24, 1995. As in the other wholesale lending programs of DBP, its targets are medium to large enterprises. Conduits are the PFIs. It also provides training and technical assistance.

The program uses second generation funds from the original OECF loan of JPY22.50 billion contracted in 1994. The loan has an interest rate of 3% per annum and a commitment fee of _ of 1% on unreleased amount scheduled for disbursement during the year. The same pass on rates apply to conduit banks and end-borrowers as in the other cited programs. Loan maturity ranges from short to long term. Maximum loanable amount to end-users is P100 million.

Cottage Enterprises Finance Project (CEFP)

CEFP provides funds in local currency to PFIs for onlending to cottage and small enterprises. It has been in operation nationwide since August 16, 1991. Eligible loans are short-term working capital to finance inventory, and medium to long term credit for acquisition of new equipment, construction or expansion of existing plant, including land. Eligible sub-borrowers are strictly cottage and small enterprises engaged in commercial activities, except purely agriculture, real estate, financing and insurance; members or stockholders of a Mutual Guarantee Association (MGA); with asset size of P50,000 to P5 million at the time of joining the MGA; and with employees of not more than 50.

CEFP's original funds come from a loan co-financed by the *Kredita Stalfur Wiederaufban* (KFW) of Germany and the IBRD contracted in 1991, amounting to DEM2.75 million and US$1.41 million, respectively. The program currently uses second generation funds from the said loan. Interest rate averaged 6.96% per annum from 1994 to 1997. Interest rate charged by DBPon the loans of conduit PFIs is based on the WAIR and could either be fixed or variable. Pass on rate by PFIs to end-borrowers is equivalent to the DBP rate, plus a certain spread not exceeding the current market rate. Loan maturity ranges from short to long term. SMEs can borrow a maximum of P1 million from the accredited PFIs.

Industrial Guarantee and Loan Fund (IGLF)

This program provides funds to PFIs in peso currency for relending to small and medium enterprises engaged in the manufacture or processing of a product on a commercial scale, as well as in the delivery of services supportive of manufacturing activities. Credit facilities include term loans for capital assets expenditures and working capital requirements, short-term loans for production credit, and export packing credit for working capital financing for exporters. The IGLF also offers guarantee facilities as follows: credit risk guarantee of up to 80% for cottage and small industrial loans, and 50% for medium industrial loans; and collateral-short guarantee of up to 60% of total loan, or 100% of the unsecured portion of the loan, whichever is lower. Eligible borrowers include investment enterprises with maximum asset size, excluding cost of land, of P60 million before financing. The IGLF has been running since February 1989 and is using second generation funds for relending.

The IGLF was originally implemented by the Central Bank. Total fund amounted to P5.20 billion contracted from the IBRD and ADB in 1988. The program was transferred to DBP in August 1990.

Loan maturity period ranges from short to long term. SMEs can avail themselves of a maximum of P60 million from accredited PFIs, with the following financial mix: IGLF loan - 72%; PFI loan - 8%; and borrower's equity - 20%. Interest charges imposed in other programs apply in this program.

B. Retail/Direct Lending

Damayan sa Pamumuhunan Program (DPP)

This program provides financing at concessional terms to cooperatives engaged in viable business undertakings except in direct agricultural, agro-forestry, fish and marine production. It assists non-agricultural cooperatives in undertaking development-oriented projects that have socio-economic impact on their respective localities. Eligible borrowers include new and existing cooperatives with sub-contracting/marketing tie-ups and those with existing purchase orders or line credits. Activities eligible for financing include fixed assets acquisition and/or establishment of common service facilities, working capital, and relending activities, provided that the amount of loan shall be based on the cooperative's capital build up on a 1:1 basis. Trading activities, except trading of the cooperative members' produce, are not eligible for financing under the program. DPP has been in operation nationwide since 1993.

Funds for the program come from DBP's WIII fund and from the Countrywide Development Fund (CDF), specifically from Senator Butch Aquino. The maximum loanable amount is equivalent to 95% of total or incremental project costs but not to exceed P2 million for start-up projects and P5 million for expansion projects. The remaining 5% share comprises the borrower's equity. Funding of the 95% loan is as follows: 55% from WIII fund and 40% from the CDF.

Interest rates charged on loans without collateral are 15% and zero% on WIII funds and on CDF, respectively. For fully secured loans, interest rate is 15% on WIII funds, with 5% prompt payment rebate, and zero% on CDF. A one-time service/front-end fee equivalent to 0.5% of the approved loan amount is collected prior to loan release. Guarantee coverage is also sought from GFSME or SBGFC on qualified projects. Term of repayment is based on cash flows, but not to exceed five years for start-up projects and seven years for expansion projects, inclusive of a maximum of two years grace period.

Domestic Shipping Modernization Program (DSMP)

DSMP supports investments of enterprises engaged in domestic shipping and related industries, e.g., ship repair, ship building, cargo handling, and terminal operations. Eligible borrowers include single proprietorships, partnerships, or corporations with at least 70% Filipino-owned capital, and which are duly accredited by concerned government agencies to

engage in the business of domestic shipping and related activities. The program has been in operation nationwide since the latter part of 1995.

The source of fund is a loan from the Overseas Economic Cooperation Fund (OECF). The loan involves a sovereign guarantee from the government, an interest rate of 2.5% per annum, and same commitment fee as in other foreign loans. The OECF loan has a maturity of 30 years, inclusive of 10 years grace period starting 1995.

Maximum loanable amount is P400 million payable within three to 15 years, inclusive of a maximum five-year grace period. The program adopts either a variable or fixed interest rate on loans of end-borrowers, depending on the latter's choice. The variable rate is based on (WAIR), but not lower than 12% per annum. The fixed rate depends on the maturitnd conditions as in the case of the OECF loan, except for the interest rate based on the CQB set by ADB. Loans lent under ADBIII are lent to PFIs and relent to borrowers at the same rates as in the other cited programs.

Industrial and Support Services Expansion Program (ISSEP) The ISSEP started implementation nationwide on March 24, 1995. As in the other wholesale lending programs of DBP, its targets are medium to large enterprises. *Conduits are the PFIs. It also provides training and technic*al assistano Pts.1.26 billion.

Loanable amount depends on the requirements of the projects to be financed. Interest rate on loans is fixed at 13% to end-users. Soft loans have a maturity of up to 10_ years, inclusive of one-year grace period. Commercial loans, on the other hand, have a term of up to 8_ years, inclusive of six months grace period.

To date, the SMCF has only one taker, the Julu Cornstarch Corporation, formerly Julu Enterprises, Inc., in Dumoy, Toril, Davao City.

US$25 Million Tied Aid Credit Line from DEFC and DANIDA

This facility supports social and economic development within an environmentally sustainable context. The program focuses on improvement of the environment through the provision of clean and safe technologies and equipment. It funds environmental, water supply, and infrastructure projects. It has been implemented nationwide by the DBP since September 11,1995.

The project has two components: the loan and the grant. The loan component is financed by the Danish Export Finance Corporation (DEFC), and the grant component by the Danish International Development Aid (DANIDA). The DEFC loan is equivalent to US$24.16 million contracted in 1994. The DANIDA grant is in the form of a subsidy to the interest on the DEFC loan.

Loanable amount under the program depends on the type and requirements of eligible projects. Loan maturity ranges from six to 10 years, with an interest rate of 11% per annum to end users.

US$10 Million Credit for Small and Medium Enterprises from International Commercial Bank of China (ICBC10)

This program caters to the requirements of small and medium enterprises (SMEs) in the manufacturing and export sectors for the purchase of equipment and for working capital. It is a credit program with technical assistance, which is provided through a grant from the ICBC. The program has been implemented by the DBP nationwide since September 6, 1995.

The program is financed by a US$9.5-million loan from the ICBC of the Republic of China (Taiwan) contracted in 1994. Grant assistance amounted to US$0.5 million for training and technical assistance.

Loanable amount depends on the type and requirements of eligible projects. Loans have a maximum maturity of five years, with an interest rate of up to 18% per annum, depending on the term and credit evaluation of the project and the client.

US$5 Million Credit Facility for Agro-Production and Agro-Food Processing Projects from ICBC (ICBC5)

This program is similar to ICBC10, but with specific focus on SMEs in the agri-production and agro-food processing sectors. Unlike the ICBC10, however, it is a purely credit program. The program has been implemented nationwide since November 23, 1995.

ICBC5 is also financed by a loan from the ICBC of Taiwan, amounting to US$5 million. The same loan terms as in ICBC10 apply on this facility. Maximum loanable amount by end-users is US$10,000 for agri-production and US$50,000 for agro-processing projects. Loans have a maximum maturity period of five years, and are charged an interest rate of up to 18% per annum, depending on the term and credit evaluation of the project and the client.

Industrial Pollution Control Loan Project (IPCLP)

The project aims to reduce environmental pollution and improve working conditions in manufacturing companies, primarily in the SME sector. Eligible borrowers include SMEs with asset size not exceeding P60 million. IPCLP is a credit cum technical assistance program implemented nationwide by the DBP. It has been in operation since December 1996.

The KFW of Germany provided the DBP a loan of DEM9.2 million and a grant of DEM0.8 million to finance the project's activities. The loan has a term of 40 years, with 10 years grace period.

The amount of loan financed under the IPCLP depends on the requirements of eligible projects. Loan maturity is a maximum of 10 years, with two years grace period. Interest rate on loans of borrowers is fixed at 11% per annum.

US$25 Million Mixed Credit Facility from Norway

This facility finances the importation of capital goods and services from Norway. It targets maritime, environmental and telecommunications projects whose facilities and services may be provided by the Norwegian government through loans under the program. It is a credit with grant assistance component. It has been marketed by the DBP since December 1996.

The funds consist of a US$25 million loan from the *Eksportfinans* and a US$300,000 grant from the Norwegian Agency for Development Cooperation (NORAD). Loanable amount depends on the type and requirements of eligible projects. Maturity of loans ranges from five to eight years. An interest rate of 5-7% per annum is charged on loans, depending on the term and credit evaluation of the project and the client.

Environmental Infrastructure Support Program (EISCP)

This program aims to restore environmental quality in the country by financially assisting investment projects to abate pollution and increase industrial efficiency. Priority industries include food processing, piggery, beverage production, dye and textile production, and chemical and petrochemical industries. Eligible projects include those intended for pollution treatment/minimization, adoption of clean technology, toxic and hazardous waste management, and solid waste management. The EISCP is a credit program with technical assistance component. It is implemented mainly in Metro Manila and suburban areas. It has been in operation since 1996. The program involves a loan from the OECF contracted in 1996.

Amount of loans vary depending on the nature and scale of eligible projects. Loan maturity ranges from three to 15 years, with a maximum of five years grace period. Interest rate on loans is fixed at 11% per annum.

3.1.2 Land Bank of the Philippines

Charter/Mandate. The Land Bank of the Philippines (LBP) was established on August 8, 1963 as a government-owned financial institution by virtue of Republic Act (RA) No. 3844, otherwise known as the Agricultural Land Reform Code. LBP was primarily mandated to serve as the financial arm of the land reform program, advancing payments to landowners and collecting amortization from farmer beneficiaries. In 1973, LBP was given a comprehensive commercial or universal banking status through a presidential decree. It put up a commercial banking arm to cater to agribusiness projects and rural industries, in support of its agrarian reform operations.

With the enactment of RA No. 6657, or the Comprehensive Agrarian Reform Law (CARL), in 1988, LBP expanded its agrarian operations after the Comprehensive Agrarian Reform Program (CARP) put under its coverage all agricultural lands, both private and public, regardless of tenurial arrangement and commodity produced. Under CARP, cooperatives emerged as the main conduit of LBP support to agrarian reform beneficiaries.

Up until it was given a new charter under RA 7907 on February 23, 1995, LBP utilized a structure that tried to balance its universal banking and countryside development mission through a unique combination of branches and field offices scattered nationwide. Its branch

network handled commercial banking while its field offices took charge of developmental or agrarian reform functions. Profits derived from commercial banking operations finance development initiatives that benefit the small farmers, fisherfolk, and other countryside-based small and medium entrepreneurs. However, under its new charter which authorized it to pursue a developmental approach in banking, it implemented the Unified Systems Project (USP). While the balancing act remained, the USP merged the field banking and agrarian operations and placed them under one roof in order to operate as a one-stop shop. USP was meant to enable LBP to cut down on operating expenses and to ensure a more efficient delivery of services, provide more convenience to clients, and enable the bank to undertake more ambitious projects for rural development and food security.

Major Programs and Lending Strategies. To enhance rural development efforts, LBP implements the Total Development Option-Unified LandBank Approach to Development, or TODO-UNLAD program. TODO-UNLAD links cooperatives, farmers' cooperatives, private companies, rural banks, non-government organizations (NGOs) and local government units (LGUs) in specific areas around an integrated area development project through LBP's various lending programs and support services. Each project under the program links producers to markets and processors, and strengthens the cooperatives and local government units. TODO-UNLAD prioritizes communities covered by CARP and the communities belonging to the 20 priority provinces identified under the Social Reform Agenda. Qualified for financing are farm production, farm-to-market roads, rural electrification, telecommunication systems, and processing and post-harvest facilities, among others.

LBP has access to various bilateral and multilateral institutions for special credit facilities that target as beneficiaries such priority sectors as the farmers and fisherfolk cooperatives, LGUs, small and medium enterprises, agrarian reform beneficiaries, and microenterprises. Through these credit facilitiess, LBP is able to address the country's need for long-term loans, dispersal of economic activity, infrastructure, and support for agrarian reform beneficiaries. LBP's international partners include the World Bank (WB), Asian Development Bank (ADB), Overseas Economic Cooperation Fund (OECF), and Kreditanstalt fur Wiederaufbau (KFW) of Germany.

LBP also supports the small and medium enterprises (SMEs). In 1996 it launched six credit programs for SMEs, foremost of which were the "Negosyo Mo, Susuportahan Ko" and the "Todo Kaya: Isulong ang Pagsulong," even as it remained a preferred conduit of the Social Security System (SSS) and the DBP in their SME financing.

LBP provides institution building and technical assistance to bank-assisted cooperatives (BACs) to strengthen them and assist them in becoming self-reliant. In coordination with the GTZ-Project Linking Banks and the Integrated Rural Financing project, LBP intensifies efforts to build up capital and mobilize savings for BACs.It has tied up with more NGOs, civic groups, private voluntary organizations, and other government agencies to give BACs trainings that would enhance their farming and marketing capabilities. It also assists in improving the organizational management, accounting, auditing, and overall financial management system of cooperatives.

LBP taps rural banks as conduits in its credit delivery. It is in fact the major institution which rehabilitated the rural banks through various capital infusion and rediscounting programs.

LBP promptly responds to the emergency requirements of the agricultural/agrarian sector. It launched the Program for Grains Productivity Enhancement and other Support Services (PROGRESS) when the rice crisis hit the country in 1995. PROGRESS offers financing schemes to increase rice and corn production while ensuring the profitability of farmers' cooperatives. It integrates all aspects of farm operation from crop production, storage and milling to marketing. Through the program, LBP finances the production of certified seeds, provision of communal irrigation systems, acquisition of post-harvest facilities, and extension of marketing assistance.

Finally, in keeping with its original mandate, LBP assists landowners through the trading of 10-year agrarian reform bonds. The bonds are used to settle the landowners' loans with LBP and other banks; secure housing loans and buy construction materials; purchase real estate and government assets; obtain agricultural machinery, home appliances and furniture; defray hospital expenses and even pay for the tuition fees of their children. In 1996, LBP approved for payment P3.1 billion land transfer claims under the CARP.

Description of DCPs Implemented. LBP currently implements 13 DCPs (see Annex A for the complete list and Annex B for the profile of each). This does not include those DCPs administered by LBP for government line agencies. Of the 13 DCPs, nine are funded by foreign loans while the rest are supported by special funds from domestic sources, such as the CDF/CIA. These nine programs[4] are briefly described below.

ADB Industrial Forest Plantation Project (IFPP)

This project started in October 1991 to develop industrial forest plantations on degraded public and private forest lands in the Visayas and Mindanao. The aim was to encourage private sector participation and reduce pressure on the dwindling natural forest resources. Funding for this program, amounting to $25 million, was borrowed from ADB at 10% per annum. Total loan releases from the fund has reached P246.4 million, mostly to finance industrial tree plantations devoted to the cultivation of falcatta, gmelina, bagras, mangium and other fast growing trees. Loans provided to private corporations and individuals have a maturity of 15 years and a fixed interest rate of 14% per annum.

Agricultural Loan Fund (ALF)

The ALF was established by the World Bank, USAID and Bangko Sentral ng Pilipinas (BSP) for on-lending to the agricultural sector. Administration of the fund was transferred from the BSP to LBP on January 12, 1990. LBP previously acted as a collection agent of all existing loans granted by the BSP to participating financial institutions (PFIs). After the transfer, LBP assumed all the wholesale lending functions under the program. As of December 31, 1997, the fund amounted to P686.1 million.

[4]These are the programs that have complete data and hence evaluated in terms of outreach and efficiency.

ALF provides working capital and fixed asset acquisition loans for agricultural and agribusiness sub-projects such as production, processing, farm mechanization, support facilities, and other marketing facilities, except purely trading activities. Target end-users or sub-borrowers are sole proprietors, partnerships, corporations, and cooperatives/associations which are at least 70% owned by Filipinos. They can avail themselves of loans of up to P100 million. The sub-borrower must also pass the ALF and the sponsoring PFI's criteria. The project is implemented nationwide.

LBP relends the project fund in pesos to PFIs on reimbursement basis and at variable rate. BSP determines the cost to LBP, which at present is placed at 17.4% per annum. Since LBP assumes the credit risk on PFIs, it passes on this cost to the PFIs and adds 2% per annum. Loan rates to sub-borrowers are as negotiated between the PFIs and end-users. On average, PFIs charge 6.3% on top of LBP's on-lending rate. A commitment fee of 3/4 of 1% per annum is charged on undrawn balance for loans of at least P5 million.

Rural Finance Project I or Countryside Loan Fund I (CLF I)

CLF I is a credit facility from the IBRD-World Bank (WB) available in pesos through LBP to accredited PFIs for on-lending to private investment enterprises. The program supports the government's effort to accelerate private investment in the countryside to boost productivity, generate employment, and raise incomes.

The program has been in operation since 1991 and its resources (including loans to borrowers) has grown to about P3.5 billion as of December 31, 1997. It provides working capital and fixed asset acquisition loans for agriculture-related, food or agro processing, manufacturing, and service-oriented projects. CLF I addresses short, medium and long term needs of the sub-borrowers, i.e., practically all types of projects except land acquisition. The proposed sub-projects are evaluated by the PFI as to technical feasibility, financial viability, environmental soundness, and consistency with the national economic priorities. A sub-borrower can avail itself of at least P100,000 loan, but not more than 5% of LBP's equity (which as of July 1995 was placed at P526.0 million). The program is implemented outside of Metro Manila.

The PFIs have the option to borrow from LBP at floating or fixed rate established every quarter. The floating rate is based on the T-bill WAIR and the applicable rate on the contracted loan is reviewed quarterly. The fixed rate, which does not vary over the term of the loan, is also based on WAIR, but a premium is added, ranging from 2% to 3.5% depending on the loan term. Interest rate applied to PFIs in the second quarter of 1997 was 17.4% per annum. For sub-loans, i.e., loans of PFIs to end-users, applicable interest rates are negotiable between the PFI and the sub-borrowers. However, sub-loans maturing within one year are automatically charged a variable rate. For those with term exceeding one year, the sub-borrower has a one time option to switch from variable to fixed rate, but not vice versa.

Second Rural Finance Project (CLF II)

This program started on April 24, 1996 and supplements CLF I. It is also a credit facility from the IBRD-WB but is made available to PFIs through LBP in pesos or in US dollars for on-lending to private investment enterprises. As in ALF and CLF I, LBP-accredited PFIs lend to sub-borrowers (sole proprietorship, partnership, corporation, cooperative/association) meeting

the required minimum Filipino ownership of 70% and the PFI's credit criteria. Eligible sub-borrowers for peso loans are those whose asset size does not exceed P250 million before financing. There is no asset size limitation for US dollar loans.

Eligible projects or loan purposes valid for financing have also been expanded under CLF II. Aside from financing agriculture-related, food or agro processing, manufacturing and service-oriented projects (*i.e.*, projects eligible under CLF I), CLF II finances environmental protection projects, countryside-based tourism-related projects, and countryside property development project. However, the program does not provide short-term loans, only loans with maturities of over one to 15 years. Other terms and condithich were the "Negosyo Mo, Susuportahan Ko" and the "Todo Kaya: Isulong ang Pagsulong," even as it remained a preferred conduit of the Social Security System (SSS) and the DBP in their SME financing.LBP provides institution building and technical assistance to bank-assisted cooperatives (BACs) to strengthen them and assist them in becoming self-reliant. In coordination with the GTZ-Project Linking Banks and the Integrated Rural Financing project, LBP intensifies efforts to build up capital and mobilize san). Aside from credit, this program has the following components: equipment acquisition, survey and training, consulting services, and technical assistance. It provides short-term production loans to farmers of ARC cooperatives, long-term production loans to farmers, medium- and long-term fixed asset loan to cooperatives and farmers, long-term working capital loan, and credit line to cooperatives for relending to farmer-members.

Funding for the RASCP, contracted from the OECF in November 1996, amounted to about 5.6 billion yen. Funds for the sub-loan component carries an interest rate of 2.7% per annum, while the rate for other components (except technical assistance) is 2.3% per annum. LBP in turn charges cooperatives 12% per annum for production/working capital loans and 14% per annum for fixed assets loans, plus 2% per annum supervision fee.

5-25-70 Financing Program

This scheme is implemented nationwide by LBP for acquisition of affordable pre- and post-harvest equipment and other fixed assets to deserving farmers and fishermen cooperatives. This is actually a joint financing program between LBP and a program sponsor (legislator or a government agency). The program sponsor puts up a fund to be deposited in trust to LBP. The fund finances 25% of the fixed assets applied for financial assistance by qualified borrowers. LBP finances the 70% under its regular program for fixed assets lending. The remaining 5% is the equity of the borrowing cooperative, which could be in cash or in kind. The 25% from the program sponsor is interest-free, while the 70% from LBP bears regular interest rates for fixed assets lending. Eligible borrowers are LBP-accredited cooperatives endorsed by sponsors.

Special Livelihood Financing Assistance Program (SLFAP)

This is another joint program by LBP and the country's legislators. It caters to cooperatives, groups, associations, foundations (endorsed by sponsors) not covered by LBP's regular agrarian lending. The objective is to provide financing to viable and feasible income-generating projects to improve the living conditions of and provide additional source of income for selected groups of beneficiaries which could not qualify under LBP's 5-25-70 program. Funds allocated for the program came from the CDF of legislators amounting to about P68

million, the balance of which as of December 31, 1997 was P5.3 million. Loans provided to end-users are interest-free.

Kawal Pilipino Kabuhayan 2000 (KPK 2000)

KPK 2000 is a livelihood program for Armed Forces of the Philippines (AFP) personnel and their dependents. It started in 1995. It is a joint project of LBP, AFP Retirement and Separation Benefits System (AFPRSBS), Cooperative Development Authority (CDA), DA, Technical Education and Skills Development Authority (TESDA), and the AFP. The program adopts the 5-25-70 financing scheme. AFPRSBS has provided P10 million as sponsor. Eligible borrowers are the cooperatives of active and retired military personnel who are members in good standing of the AFP.

Metro Cebu Development Project Phase III (MCDP III)

This is also known as the Cebu South Reclamation Project included in the 20th Yen loan credit facility of OECF to LBP. The loan agreement between LBP and OECF (PH-P157) was signed on August 30, 1995. MCDP III aimed to establish the Cebu Export Processing Zone to provide additional space for industries in Cebu City and Metro Cebu. It has two components: the consultancy and the civil works components. Under the program, LBP lends directly to the Cebu City government at 4.3% per annum under the consultancy component, and at 4.7% per annum under the civil works component. Loans have maturity of 30 years, inclusive of 10 years grace period on the principal.

3.2 Government-Owned and Controlled Corporations (GOCCs) and Non-Bank Financial Institutions (NBFIs)

3.2.1 National Livelihood Support Fund

Charter/Mandate. The National Livelihood Support Fund, or NLSF,[5] is mandated to improve the quality of life of small farmers, fisherfolk and their dependents in ARCs through strengthening of institution-building and credit for livelihood projects. It operates under the supervision and administration of LBP.It envisions itself to be a major livelihood development institution committed to improving the socio-economic condition of ARCs.

Major Programs and Lending Strategies. In carrying out its task, NLSF wholesales funds to NGOs, people's organizations (POs), and PFIs involved in socio-economic development. These roups, collectively called NLSF's program partners, in turn relend the borrowed funds to program beneficiaries to finance livelihood projects.

[5]NLSF evolved from the Kilusang Kabuhayan at Kaunlaran (KKK) program created by EO 715 (1981), which was subsequently changed to Bagong KKK (BKKK). Pursuant to Sec. 37 of RA 6657 (CARL), BKKK Capital Fund/NLSF was transferred from the Office of the President to LBP by virtue of AO 75 signed on August 6, 1993. It should be noted that while there was no explicit mention of the creation and/or mandate of NLSF in these legal issuances, the BKK Capital Fund and the NLS Fund appear to be one and the same fund. In AO 75, it was stated that there was an imperative need to effect the transfer in order to provide support services to farmers.

To ensure effective implementation of its lending program, NLSF conducts training for partners to strengthen their capability as credit conduits. NLSF also conducts consultative and marketing workshops for prospective program partners. These workshops are undertaken in cooperation with other institutions. For instance, NLSF has forged agreements with the Department of Agrarian Reform (DAR) and the Bishops-Businessmen's Conference Livelihood Foundation, Inc. (BBCLFI) to conduct consultative and marketing workshops for prospective program partners.

Aside from providing wholesale funds and capacity-building assistance, NLSF supervises loan accounts under the BKKK, a livelihood credit program which started in 1988 and ended in 1992 (i.e., prior to the transfer of NLSF to LBP). Total outstanding loans under the BKKK as of end 1995 amounted to P44 million covering 70 accounts. NLSF also collects KKK loans and institutes legal action against delinquent borrowers.

Description of DCPs Implemented. At present, NLSF is implementing only one DCP. This is described in detail below.

Livelihood Credit Assistance Program (LCAP) for ARCs

This program, launched in July 1996, is implemented by NLSF jointly with the DAR. It seeks to improve the economic and social conditions of farmer beneficiaries in ARCs nationwide by providing credit assistance and institutional development services through organized groups and entities. Specifically, it aims to: 1) support the comprehensive development plan of the ARCs based on a strong partnership/tie-up among NLSF, DAR, program partners, and target beneficiaries; 2) enhance the socio-economic development of ARCs by providing credit funds and institutional services to farmer beneficiaries through credit conduits; and 3) strengthen the capability of program implementors and their conduit organizations in the ARCs to effectively deliver credit and other support services to qualified beneficiaries. Target end-users or beneficiaries are: wives and other dependents of farmers in ARCs; other non-farm households in ARCs; and other sectors in non-ARCs covered under special tie-up.

Under this program, NLSF makes available credit funds to qualified lending conduit to finance the requirements of the livelihood or income-generating activities of the target beneficiaries in the ARCs. DAR, meanwhile, takes the lead role in sourcing and providing institutional development fund. It also conducts initial screening (at the provincial level) of prospective conduits and endorses qualified applicants to NLSF based on the latter's policies and guidelines.

LCAP for ARCs has two major components 1) credit; and 2) non-credit or institutional capability. Under the credit component, NLSF provides two types of loans. One is the one-year revolving credit line to program partners for relending purposes. The amount of credit line is based on credit evaluation, program plans, type and number of beneficiaries (or sub-borrowers). Loan limit is P25,000 per borrower, but not to exceed the program partner's total asset base. In case the borrowing program partner is already accredited by LBP under the latter's program, an automatic credit line may be granted by NLSF equivalent to 1/3 of the partner's credit line with LBP. The actual drawdown, however, shall be based on the amount of promissory notes of individual borrowers approved for financing or rediscounting. NLSF charges program partners

an interest rate of 12% per annum. Partners can relend at interest rates approved by NLSF, which at present shall not exceed 30% per annum.

The other type of loan is the soft credit intended for program operations of conduits or partners and for training of end-beneficiaries. The soft loan aims to finance the start-up cost or the costs of the first year of operation of the program partners in launching the NLSF-funded credit program. Specifically, the soft loan covers the salaries of staff directly involved in the NLSF lending program, training/community organizing costs of target beneficiaries, and logistic support expenses. Partners are required to pay an interest of 3% per annum on the loan which should amount to not more than 10% of the credit line. Maturity of soft loans range from three to five years.

3.2.2 People's Credit and Finance Corporation

Charter/Legal Mandate. The People's Credit and Finance Corporation (PCFC) was established by virtue of Memorandum Order No.261 issued on February 9, 1995. The issuance mandates the PCFC as the lead financial institution in the wholesale delivery of microcredit funds to NGOs, POs and RBs for relending to the poor or marginalized sectors.[6] The PCFC is wholly capitalized by the National Livelihood Support Fund, which is supervised and controlled by the LBP, with the cooperation of the Department of Finance. It is subsumed under the Flagship Program on Credit of the Social Reform Agenda, which envisions to improve the access to credit of the marginalized sectors and effect a more equitable distribution of wealth in the countryside.

R.A. 8425, or the Poverty Alleviation Act, enacted on December 8, 1997, strengthens the mandate of PCFC. Section 14 specifically designates the PCFC as the "vehicle for the delivery of microfinance services for the exclusive use of the poor. As a GOCC, it shall be the lead government entity tasked to mobilize financial resources from both local and international funding sources for microfinance services for the poor." Section 15 increases the capitalization of PCFC to serve its function. Funds for additional paid-up capital come from the national government through earnings from PAGCOR and through the issuance of stocks to private investors.

Existing Policies/Strategies. PCFC assists in the country's poverty alleviation efforts through the wholesaling of funds to accredited partners (NGOs, POs and RBs) for relending to non-bankable microentrepreneurs. Generally, microenterprises assisted by the PCFC should be viable and have ready market, able to generate income and savings for clients within a short period, and within the capability of borrowers to manage. So far, PCFC has assisted projects related to trading or buying and selling of goods, manufacturing of handicraft, food processing, agricultural production, and services, among others.

PCFC accredits program partners for wholesale lending activities. Eligible partners should be duly organized and registered with the relevant government agency, have proven track

[6]Defined under RA 8425 as those individuals and families whose incomes fall below the poverty threshold, and cannot afford to provide their minimum basic needs for food, health, education, housing, and other essential amenities of life. The poverty threshold, as defined by NEDA, is set at P8,885 per capita per annum, based on the 1994 FIES.

record in lending or have relevant capabilities in implementing micro-credit programs for the poor.

PCFC processes all applications to its programs in its Manila office. It has no branch at the local level. Application procedures are common for all programs. Potential partners provide the following: a) information on the organization; b) certificate of registration, articles of incorporation and by-laws; c) information sheet on members of the board of directors and on principal officers; and d) annual reports for the past three years, including audited financial statements. Disbursement of funds to and collection of loans from program partners are done through LBP.

As part of its reporting and monitoring system, the PCFC requires program partners to maintain or submit separate books of accounts/ledgers for full accounting of the PCFC loan and its utilization by end-beneficiaries, annual audited financial statements, and semi-annual operational reports on the lending program, with statistical data on PCFC prescribed forms. PCFC representatives conduct field visits in program areas as needed.

DCPs Implemented. PCFC currently implements two DCPs for the poor or marginalized sectors. The funds come from the NLSF and an external source. A common feature of both programs is the provision of institutional loans for social preparation and capacity building of program partners and their clients. These programs employ conduits, including NGOs, FIs and Pos, to channel funds to the target sector.

Helping Individuals Reach their Aspirations Through Microcredit (HIRAM) Lending Program

The program provides investment loans to accredited NGOs, FIs and POs which are involved in credit assistance programs to fund livelihood projects. It also offers credit to program partners for institution and capability building activities and for expenditures related to the lending program.

HIRAM has an initial fund of P100 million, which forms part of the capital infused by NLSF to PCFC in 1996. It is to be noted that PCFC also assumed the NLSF loan portfolio amounting to P103 million of outstanding receivables from 63 active program partners upon its operation on September 14, 1995. These receivables were incorporated into the program. Eligible NGO/POs, aside from being duly registered, should have a track record of at least three years, with working capital of at least P250,000, have at least 500 existing clients, past due rate of not more than 20% on its lending operations, and no loans in arrears with other lending institutions. Eligible FIs, meanwhile, should have 10% capital to risk assets ratio, have no more than 20% past due rate on its loan portfolio, have no legal reserve deficiencies for one year immediately preceding application, and have at least 500 existing clients. Target clientele of PCFC funds are those belonging to the poverty sector, including small farmers, landless farm workers, sharecroppers, nomads and cultural communities, out of school youth, and others. HIRAM has been implemented since 1996.

The amount of loan for investment projects is based on evaluation, but not to exceed P25,000, while that for institutional building should not be more than 20% of investment credit. Interest rates on the loans are 12% and 3% per annum, respectively. A processing fee of 1% of total loan amount is also charged. Maturity of investment loan is a maximum of one year, while

institutional loan may have a longer term depending on the capability of the borrower. Promissory notes (PN) of clients and underlying collaterals or assets acquired serve to secure either loan.

ADB-IFAD Rural Microenterprise Finance Project (RMFP)

The RMFP is PCFC's latest program and started implementation in 1996. It offers funds to finance the investment and institutional credit requirements of NGOs, POs and FIs implementing the Grameen Bank Approach (GBA) to providing loans to individuals for livelihood projects. The program has two credit facilities: a) investment credit - credit line to support the incremental credit requirements of GBA replicators for relending to self-help groups (SHGs); and b) institutional credit - credit line to support the start-up costs of new GBA replicators, trainings of staffs and institutional preparation of SHGs. Eligible partners should have a minimum two-year experience in successfully implementing a GBA or other lending program and in social mobilization. They should have financial resources of at least P500,000, a minimum net worth of at least P250,000, and a current ratio of 1:1.

The program is funded by a US$34.7-million loan from the ADB and the International Fund for Agricultural Development (IFAD) contracted by the government through the LBP. Loan maturity is 40 years. PCFC, however, has a term of 20 years to repay LBP as the contractor, with six years grace period starting 1997. The loan from LBP by PCFC comprised P1.2 billion for investment credit and P22.56 million for institutional building of program partners and beneficiaries. Interest rates on the loans charged by LBP to PCFC are 5.25% and 1% per annum, respectively.

The maximum investment loan to any one branch of a replicator is P25 million per year. The amortization schedule of each investment loan should not exceed seven years, including the three-year grace period. Payments are done in equal semi-annual or quarterly aggregate payments. The initial loan to borrowers ranges from P1,000 and P5,000, with subsequent loans increasing gradually to not more than P14,000 payable within a maximum of one year. On lending rates on investment and institutional loans by replicators are reviewed annually by PCFC in consultation with concerned government agencies, LBP, ADB and IFAD. At present, these are 12% and 3% per annum, respectively.

3.2.3 Quedan and Rural Credit Guarantee Corporation

Charter/Legal Mandate. The Quedan and Rural Credit Guarantee Corporation (Quedancor), formerly known as Quedan Guarantee Fund Board (QGFB), was strengthened in April 13, 1992 through RA No. 7393, or the "Quedan and Rural Credit Guarantee Corporation Act." The law reorganized the agency and expanded its powers and resources.It also established Quedancor as a corporate body attached to the DA and subject to the regulatory powers of the Securities and Exchange Commission (SEC).

RA No. 7393 mandates Quedancor to undertake the following: a) establish a credit-support mechanism for the benefit of farmers, fisherfolk, rural workers, cooperatives, retailers, wholesalers and agricultural processors; b) implement a guarantee system to promote inventory financing of agri-aqua commodities, establishment of production and post-production facilities and acquisition of farm and fishery equipment; c) set up a system of accrediting borrowers,

banks and financial institutions for participation in its programs; d) franchise bonded warehouses intended for quedan inventory financing; and f) perform other functions related to its mandates.

Per the law, 60% of Quedancor's authorized stocks is owned by the national government and 40% by small farmers, fisherfolk, their cooperatives and other investors. The affairs and business of the corporation is directed by a Government Board of 15 members from various governmnet agencies and representatives from the small farmer, fisherfolk and agricultural workers groups. In view of the ownership and functions of Quedancor', it is considered a semi-private NBFI.

Existing Policies/Strategies. In keeping with its mandate of providing credit and guarantee to promote inventory financing of agricultural products, Quedancor currently implements three modes of credit delivery: a) sole guarantee mode (SGM), in which Quedancor provides guarantee cover on loans fully provided by PFIs to accredited borrowers; b) guaranteed co-financing mode (GCFM), in which financing of loans is shared equally by Quedancor and PFIs, and the latter's share is guaranteed by the former; and c) special window mode (SWM), in which Quedancor provides full financing of loans, particularly in areas where there are no servicing banks. Under the SGM, Quedancor's guarantee cover is 100% of the outstanding principal, plus accrued interest up to maturity or date of demand for full payment, whichever comes first. Under the GCFM, guarantee cover is on PFI's share of the outstanding principal, plus accrued interest charges. A program implemented by the corporation may adopt any or a combination of these modes.

DCPs Implemented. Quedancor currently administers 13 DCPs, two of which are funded by its internal/corporate funds and one by a special fund from another GOCC. The rest are implemented by Quedancor as fund administrator of government line agencies. Of the three programs covered by the study, two cater to agri-related activities while one assists the credit needs of market retailers. These DCPs adopt the direct mode of credit delivery, with cooperatives, associations or individuals as borrowers.

Coordinated Agricultural Marketing and Production (CAMP)

This program aims to a) improve agricultural production, processing and marketing; b) enhance farmers' opportunity for better income; c) promote the bankability of and access by agricultural enterprises to formal credit institutions; and d) spur the flow of credit from the banking system to the agricultural sector. The Quedan Board Resolutions No. 25-93 dated July 26, 1993, No. 50-94 dated October 26, 1994, and No. 54-95 dated October 5, 1995 provide the basis for the existence of the program, which has been in operation since 1993. Eligible projects under the CAMP include production, processing and/or marketing of crops, agro-forestry, hogs, poultry, and livestock, and/or acquisition of production and post-production facilities and equipment. Borrowers must be accredited with Quedancor, have viable projects supported by a feasibility study, registered with appropriate government agency, and have a savings account with an accredited PFI in order to avail themselves of financing under the program.

CAMP is fully funded by Quedancor's internal funds. It adopts any of the three modes of lending mentioned earlier. The SWM, however, is resorted to only when access to a PFI is difficult or not available. Loans are fully secured by any or a combination of the following: real

estate or chattel mortgage, assignment of government bond/securities, or co-makers. Loans under the SGM and GCFM are guaranteed by Quedancor.

Maximum loanable amount is P2 million for the GCFM and SWM, and P5 million for the SGM. Loans under the GCFM and SWM bear an interest rate of 14% per annum, plus a service fee of 2% of the loan amount deducted from the loan proceeds. The term does not exceed three years, payable in semi-annual amortizations. Surcharges of 2% per month is collected on unpaid amortization until the date of actual payment, but not beyond maturity date. A penalty of 2.5% per month is charged on unpaid principal upon demand for full payment or upon maturity date, whichever comes first.

Applications for loan are submitted to the Quedan Operations Officer (QOO), or through the PFI for the SGM/GCFM, and directly to the QOO for the SWM. The QOO inspects and appraises the requirements and evaluates project proposal submitted by the borrower. The QOO prepares credit evaluation report and loan appraisal memo, which are reviewed by the district Supervisor/sector head and referred to appropriate bodies as needed. Loans are approved based on Circular No. 071 as follows: up to P300,000 - by the district supervisor/sector head; up to P500,000 - by the assistant vice president of concerned division; up to P700,000 - by the vice president, program operations department; up to P900,000 - by the executive vice- president; and above P900,000 by the president. Under the SGM/GCFM, the PFI applies its own evaluation and approval processes. Loans are released in the form of checks to be drawn from PFIs.

The QOO conducts project monitoring through periodic inspection and reporting. The QOO or a representative of the PFI conducts spot inspection anytime. Restructuring of loans is allowed when these are in arrears or past due, but no legal action or guarantee claim has yet been filed.

Food and Agricultural Retail Enterprise (FARE)

This program aims to develop a vibrant market for farmers' produce, help stabilize retail prices of basic commodities by facilitating the flow of institutional credit to market retailers, and encourage the banking sector to actively service the credit needs of market retailers. The legal basis of the program is Letter of Instruction (LOI) No. 1392 dated March 17, 1984, which authorizes Quedancor (at that time the QGFB) to promote the extension of credit support to market retailers. FARE covers raw and semi-processed agricultural products sold on retail. It is implemented for retailers in public/private market areas deemed operationally viable through a market survey. It also guarantees loans provided by PFIs. Borrowers must be bonafide stall holders, lessee or store owner/operator, duly accredited with Quedancor, possess a mayor's permit or municipal license, have a savings account with a PFI, and have a project proposal for loans amounting to P100,000 or above to be able to avail themselves of financing.

The program adopts either the GFCM or the SWM. Loanable amount and corresponding collateral requirements are as follows: a) P20,000 - promissory note (PN) with trust receipt (TR) and two co-makers, and/or a certificate of bank deposits (CBD); b) P30,000 to P50,000 - PN with TR and real estate mortgage (REM), or chattel mortgage (CM) and/or CBD; c) P75,000 to P100,000 - PN with TR and REM/CM and/or CBD; d) P150,000 to P500,000 - PN with TR and REM/CM and/or CBD. Issuance of post-dated checks for amortizations is

promoted. Interest rate is 14% per annum if mode of payment is weekly, and 16% per annum if monthly. in addition, a service fee of 10% per annum is charged per borrower and is deducted from the loan proceeds. Loans not exceeding P50,000 are payable within a maximum of 180 days in fixed 26 weekly amortizations. Loans from P75,000 up to P500,000 may be allowed a maximum term of 360 days, to be paid in 52 weekly or 12 monthly amortizations. Surcharges of 0.1% per day is collected on unpaid amortizations, and a penalty charge of 2.5% per month of the unpaid principal upon demand of payment or upon maturity date.

Farm Level Grains Center (FLGC)

This program aims to a) establish farm-level infrastructure; b) accelerate the provision of low-cost credit; c) promote dynamic cooperativism; and d) improve the quality of grains and other agricultural crops. The legal basis of FLGC is LOI No. 704 dated June 9, 1978 establishing the Quedan Financing Program, and the Memorandum of Agreement (MOA) dated November 22, 1994 between the National Food Authority (NFA) and Quedancor on the implementation of the FARE. The MOA authorizes the release of an initial amount of P10 million to finance the operations of the program, to be increased to P155 million subject to the availability of funds from the NFA. The program finances the establishment of FLGCs consisting of a warehouse, solar dryer and mechanical dryer. Target clients are primary cooperatives located in irrigated palay/corn producing provinces listed under DA's Key Grain Areas (KGAs). Borrowers must be duly registered with the CDA and accredited with Quedancor, have been in operation for at least one year, and willing to put up at least 10% equity in the form of land, labor or materials. The program is implemented in KGAs nationwide and has been in operation since 1995.

FLGC is financed by a special fund from NFA, which is also a GOCC. The program adopts the SWM and requires collateral in the form of real estate mortgage on the lot, warehouse on warehouse construction and marketing loans, and grains inventory on quedan inventory loan. Loanable amounts are as follows: P700,00 for warehouse construction; P150,000 to P500,000 for marketing loans; and 85% of the value of stocks for quedan inventory loan. Interest rates and maturity periods vary depending on the type of loan. For warehouse construction - 14%, payable in five years in semi-annual amortizations starting on the second year; for marketing loan - 14 %, payable in three years in semi-annual amortizations starting on the sixth month after release of loan; and quedan inventory loan - preferred rate for cooperative, 180 days for palay and 90 days for corn. A service fee of 2% of the loan amount is charged and deducted from the loan proceeds. A surcharge of 2% per month is imposed on unpaid amortizations and a penalty of 2% per month is charged on unpaid principal upon demand for payment or upon maturity date.

The QOO reviews the loan applications and forward them along with the requirements to the Quedancor head office, which processes the loan. Releases are done through PFIs where Quedancor opens a savings account for the borrower and deposits the corresponding fund requirements, depending on loan obligations agreed upon by the borrower.

The QOO monitors the project through periodic inspection and reporting. Restructuring of loans is allowed when these are in arrears or past due, but no legal action or guarantee claim has yet been filed.

3.2.4 Small Business Guarante and Finance Corporation (SBGFC)

Charter/Mandate. SBGFC was created on January 24, 1991 by virtue of RA 6977, or the Magna Carta for Small Enterprises (as amended by RA 8289 signed on May 5, 1997). It aims to support the development of small and medium enterprises (SMEs) by providing and promoting various alternative modes of financing and credit delivery systems. It is attached to DTI and is under the policy, program and administrative supervision of the Small and Medium Enterprises Development (SMED) Council. It started operations on July 16, 1992.

The law specifically authorizes SBGFC to provide, promote, develop and widen, in both scope and service reach, various alternative modes of financing for SMEs, including but not limited to direct and indirect project lending, venture capital, financial leasing, secondary mortgage and/or rediscounting of loan papers to small businesses, secondary/ regional stock markets. It is, however, not allowed to service crop production financing.

SBGFC is also mandated to guarantee up to 100% the loans obtained by qualified SMEs, local and/or regional associations' small enterprises and industries, private voluntary organizations, and cooperatives.

Major Programs and DCPs Implemented. At present, SBGFC implements three programs: (1) Guarantee Program; (2) Small Enterprise Financing Facility (SEFF); and (3) Rediscounting Facility for Small Enterprises (RDF-SE). The guarantee program was designed to encourage financial institutions to lend to SMEs by providing guarantee cover of up to 85% on the loans of qualified entrepreneurs. It aims to increase the flow of funds from the formal lending institutions to the SME sector, especially to those without collateral. The SEFF and the RDF-SE are SBGFC's lending programs for the small and medium enterprise sector. These are described below.

Small Enterprise Financing Facility (SEFF)

SEFF was established in 1993 to supplement the financial sector's resources for SME development financing. Under the SEFF, accredited financial institutions (AFIs) which are in need of small enterprise financing may apply for accreditation as lending conduits. Prospective SME borrowers (individual or sub-borrowers) may directly apply with any of the AFIs and avail themselves of loans ranging from P50,000 to P8 million. This facility targets small- and medium-scale businesses with asset size not exceeding P15 million, and which are or will be engaged in manufacturing, processing, agribusiness (except farm-level production), and services (except non-export trading).

Loans for fixed asset acquisition or working capital are payable within five years, while loans for building improvement or expansion, or construction of plant facilities have seven years maturity. SEFF also provides revolving loan or credit line with maturity of up to one year. Interest rates to FIs are based on the WAIR 91-day T-Bill rate, which is reviewed every quarter. Interest rates charged on loans to end-users are left to the discretion of AFIs.

Rediscounting Facility for Small Enterprises (RDF-SE)

This is a credit window where AFIs may negotiate their eligible SME loans or credit instruments with SBGFC. AFIs wishing to avail themselves of loans from this window can

rediscount their promissory notes by assigning/endorsing them, with recourse promissory notes in favor of SBGFC together with underlying securities. End-users targeted under this program are the same as those of SEFF.

The maximum amount of loan which the AFIs can obtain depends on their net worth. For instance, RBs and NBFIs can avail themselves of rediscounting loan equivalent to 100% of their net worth or to P20 million, whichever is lower. Other types of banks can borrow an amount equal to 100% of their net worth, or up to P50 million, whichever is lower. Rediscounting loans are payable within one year and are charged the market rates based on WAIR on 91-day T-bill rate.

3.2.5 Technology and Livelihood Resource Center

Charter/Legal Mandate. The Technology and Livelihood Resource Center (TLRC), which started as the Technology Resource Center (TRC), was established by Presidential Decree (PD) 1097 issued on February 23, 1977. The TRC was principally created to hasten and enhance progress by rationalizing and systemizing research and development efforts and by harnessing indigenous resources and appropriate technologies to improve the effectiveness and efficiency of technical activities in the production and service sectors. The decree empowered the TRC to: a) take and hold, either absolutely or in trust, any property and to convey such and to invest and reinvest any principal to expand the resources of the Center; and b) collect, receive and maintain funds by subscription or otherwise to promote its aims and purposes, among others. A memorandum order issued by the then Ministry of Human Settlements in the early 1980s revised the mandate and powers of TRC, renamed it TLRC to include the provision of credit assistance, and placed it as a corporation directly under the jurisdiction of the Office of the President. This MO, however, was declared null by the Department of Justice. The move reverted the TLRC's mandate as provided for in PD 1097.

DCPs Implemented. TLRC currently administers five DCPs. Two of these (the Agri-Industrial Technology Transfer Program and the Export Industry Modernization Program) are implemented by the Technology Finance Assistance Group (TFAG), which is tasked to provide financial and technical assistance to improve the productivity and competitiveness of the production and export sectors. The remaining programs (*Alalay sa Hanapbuhay*, Community Empowerment Program, and Special Direct Micro-Lending Program) are administered by the Livelihood Funds Assistance Group (LFAG), whose main responsibility is to provide funds to SMEs for income-generating projects. Previous DCPs of TLRC -- such as the *Tulong Pangnegosyo, Bagong Pagkain ng Bayan*, and *Balikatan sa Kabuhayan* -- were gradually phased out in 1997. Funds from these programs were pooled into the corporate funds, portions of which are now used to finance the *Alalay sa Hanapbuhay* and the Special Direct Micro-Lending Program. Of the five programs, three adopt the direct mode of credit delivery, in which beneficiaries are either individuals or groups. The rest tap program partners as conduits.

<u>Agri-Industrial Technology Transfer Program (AITTP)</u>

This program assists the non-traditional agriculture sector by providing financial support for viable projects, including the establishment of common service facilities. It provides credit assistance directly to individuals or groups. Qualified borrowers include farmers, orchard growers and marine/fishpond operators; new and existing agri-based enterprises, including joint

ventures; and pioneer technology ventures. The program also has institution building and social preparation components. It has been implemented nationwide since 1982.

The program was originally funded by a JPY5-billion loan from OECF contracted on May 31, 1982, with TLRC and DBP as executing agencies, and the latter as trustee bank. Second generation funds from the loan are currently used to finance the activities of the program. The loan is guaranteed by the government and has an interest rate of 3% per annum. Commitment fee is also imposed, as in the other foreign loans of government. The loan has a term of 30 years, inclusive of 10 years grace period.

Maximum loanable amount is P21 million for individual projects and P40 million for common service facilities. Maturity periods and repayment schedules are based on project cash flows and the borrower's overall paying capacity. Normally, however, Short term loans have a term of one year and medium to long term loans have a term of five to 15 years, including a grace peroid of one to five years. Interest rate charged on the loan of borrowers is 14% per Annum.

Export Industry Modernization Program (EIMP)

The program assists in the development of small- to medium-scale industries that produce non-traditional products for export. It directly lends term loans to individuals or groups for the acquisition of eligible goods and services, such as equipment or new technology. Target clientele includes small and medium producers engaged in traditional export industries such furniture, food processing, garments, and light metal processing, among others. EIMP is a purely credit program implemented nationwide by TLRC since 1980.

The program uses second generation funds from an original OECF loan amounting to JPY5.4 billion and contracted on June 20, 1980 with TLRC and DBP as the executing agencies. DBP holds the funds in trust. The loan has a guarantee from the government and an interest rate of 3% per annum. The government also pays the commitment fee, similarly computed as in the other government loans. The loan has a maturity of 30 years, inclusive of 10 years grace period. Another loan of JPU6.015 billion was contracted from the same source on January 27,1988 to augment program funds. The same terms and conditions as in the first loan apply, except that the maturity period is shorter by 10 years.

The loan ceiling per borrower is P14 million for firm level modernization projects and P40 million for establishment/expansion of common service facilities. Interest rate on loan of borrowers is 14% per annum. Loan term ranges from five to 15 years, including one to five years grace period on the principal.

Alalay sa Hanapbuhay (ASAHAN)

ASAHAN, which connotes hope and dependability, is a support program for the SRA. It envisions to provide the poor the means to work and earn a living through fast and easy access to information, technology, credit, markets, savings and capital formation, and to enhance the capability of program partners in providing enterprise development services needed by the poor. The goal is to turn the poor and the basic sectors into entrepreneurs. Community-based organizations are accredited as ASAHAN partners to act as program implementors and loan fund conduits. ASAHAN adopts eight strategies to achieve its vision, namely: a) organization of beneficiaries in depressed communities; b) strengthening of the values of partners and beneficiaries; c) development of technical capabilities of partners and beneficiaries; d) creation of a dynamic network of community-based organizations serving as partners in the delivery of services; e) engagement of successful professionals and businessmen as volunteer advisers of beneficiaries; f) provision of credit under liberal terms and building up capital base of beneficiaries; g) linking the beneficiaries with each other and with consumer/supplier groups; and h) monitoring and evaluation of program implementation by partners. The program was launched on November 23, 1997 with a funding of P350 million from the corporate funds of TLRC.

Eligible ASAHAN partners must have a counterpart fund of at least 10% of the credit line amount, inclusive of a minimum cash amount of P20,000 to cover operating expenses; at least two full-time staffs; and an office structure based in the community to be served. TLRC provides the orientation program and study mission, training on the ASAHAN operating

system, loans for microlending, networking services, business advice, and capacity building support.

The general terms and conditions of the program are: a) loan ceiling of P5 million per ASAHAN partner for relending to beneficiaries; b) interest rate of 12% per annum on the loan of partners (partners are encouraged to add a 3% spread on their loans to beneficiaries); c) maximum of five years repayment term; d) quarterly amortization; e) non-collateralized loan; f) penalty charge of 2% per month on delinquent amortizations.

Community Empowerment Program (CEP)

The credit component of this program is implemented by the TLRC for the Presidential Council for Countryside Development (PCCD). CEP's implementation was a result of consultations with *barangays* in the 20 priority provinces identified by the SRA. The program uses the Beneficiary Motivation Approach (BMA), which is based on the premise that "seeing is believing." The BAM is being piloted for expansion nationwide. CEP aims to a) increase household incomes through group-based agro and non-agro related economic activities; b) strengthen the institutional capacity of LGUs to mobilize and organize communities through integrated and coordinated efforts among national, provincial and municipal authorities; and c) transform grassroots institutions such as *barangays* into self-sustaining organizations for socio-economic activities, with their own credit facilities established.

CEP initially covers households or individuals in 40 most depressed but accessible *barangays,* comprising two from each of the 20 priority provinces as identified by governors and mayors. A total of 4,000 *barangays* nationwide is targeted for coverage by the program. It has six components: a) establishment of *barangay* hall and storage facilities; b) provision of support infrastructure, such as irrigation and site communication; c) establishment of a *barangay* business center (BBC) as a grassroot socio-economic base for income generation, fund conduit, and for promotion of family savings; d) training on group and financial management and entrepreneurship development; e) provision of credit; and f) benefit monitoring and evaluation (BME) for impact. CEP has been implemented since 1996.

Program cost is about P80 million, comprising of P20 million for support inputs and P60 million for credit. Cost of the facilities is financed by the LGUs, with financial support from the Local Empowerment Fund and/or the Poverty Alleviation Fund. The fund for credit operations, which comes from TLRC's corporate funds, is provided to each of the BBCs under the direct supervision of the LGUs. Credit is only provided by TLRC when all the other components are in place.

Loan ceiling per BBC is P1.5 million, payable within five years with one year grace period. Interest on loans to BBC is 12% per annum. BBC imposes a pass on rate of 14% per annum to individual borrowers.

Special Direct Micro-Lending Program (SDML)

The SDML is a loan window designed to partly fill in the gap in financial intervention for micro-entrepreneurs and would-be entrepreneurs who have no access to the formal lending system. The program assists the unbankable borrowers to engage in self-help livelihood projects

and to build up capital to sustain their operations. Eligible borrowers include individuals who are not more than 60 years old, with asset size of not more than P150,000, or gross family income of not more than P120,000 per annum. Projects covered by the program are those that utilize family-labor resources and provide income opportunities. Loans under the program may be used for expansion of existing facilities, acquisition of equipment, and working capital. SDML has been in operation since June 1996.

Funds for the implementation of SIML come from TLRC's corporate funds. Maximum loan amount is P20,000 for the first loan and P50,000 for re-loan. Interest rate is 24% per annum on diminishing principal balance, payable within one year. A penalty of 2% per month is charged on outstanding amount due and demandable. The equity requirement from borrowers is a minimum of 5% of total project cost, including project site, machinery or tools. A minimum of 10% of loan amortization is required as forced savings.

To date, the SDML Program has concentrated its operations in Metro Manila owing to the relative ease of validating and monitoring projects of borrowers. It should be mentioned that the program, or TLRC as a whole, has no office or branch at the sub-national level.

3.3 Summary Profile of the DCPs

The study covers 45 DCPs currently administered by two GFIs and five GOCCs. Seventy percent, or 32, of these DCPs are managed by GFIs, and the rest by the GOCCs/NBFIs. The DBP implements 19 DCPs, while LBP manages 13. Of the 13 programs of the GOCCs/NBFIs, one is implemented by the NLSF, two each by PCFC and SBGFC, four by Quedancor, and five by TLRC.

The DCPs cater to various economic sectors. Table 3.1 shows that only seven, or 16%, of the DCPs cater to the agrarian and agriculture sectors. Another 16% provide loans to the small borrowing sector for livelihood activities. The majority, or 44%, service the financing requirements of the big borrowing sector (SMLEs), of which 17 DCPs are managed by GFIs against only three by the GOCCs/NBFIs. On the other hand, five DCPs (11%) cater to the credit needs of the poor or marginalized sector. Only the GOCCs/NBFIs -- namely PCFC, NLSF and TLRC -- provide credit to this particular sector. Special DCPs account for 13% of the total and are mostly implemented by the GFIs.

Table 3.1.
Distribution of DCPs by Target Sector

Target Sector	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
Agriculture/Agrarian	4	3	7	(16)
Small Livelihood Sector	5	2	7	(16)
SMLEs	14	3	20	(44)
Poor	-	5	5	(11)
Special Sectors [a/]	6	-	6	(13)

Total DCPs	32	13	45	(100)

[a/] *Includes environment, shipping, cornstarch, forest plantation, and an LGU.*

By type of assistance, 41% (23 DCPs) provide pure credit to target clientele (Table 3.2). The GFIs account for 16 of these DCPs. DCPs with institutional building or social preparation component comprise about 24% of the total, while those which provide technical assistance in the form of training account for 18%. Programs providing guarantee support, comprising 7% of total, include the two DCPs implemented by the SBGFC and the IGLF of DBP.

Table 3.2
Distribution of DCPs By Type of Assistance

Type of Assistance	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
Purely credit	16	7	23	(51)
Credit with IB/SP	7	4[a/]	11	(24)
Credit with TA	8	-	8	(18)
Credit and Guarantee	1	2	3	(7)
Total	32	13	45	(100)

[a/] *Two programs with TA component also.*

Implementation period of the programs range from barely a year to about 17 years. In Table 3.3, about a third of the DCPs (33%) have been in operation for one to two years. These include the DCPs for the poor of the PCFC, NLSF and TLRC for the GOCCs/NBFIs, and the programs funded by loans recently contracted by the DBP (IPCLP, Norwegian and ICBC facilities) and LBP (CLF II, OECF-AJDF SFCP and MCDP III). The majority of the DCPs of GFIs have been implemented for about three to six years. Three programs (FARE of Quedancor, AITTP, and EIMP of TLRC) have been on-going for more than 10 years.

Table 3.3
Distribution of DCPs by Number of Years in Operation

Years in Operation	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
1-2 years	8	7	15	(33)
3-4 years	9	3	12	(28)
5-10 years	15	-	15	(33)
more than 10 years	-	3	3	(6)
Total	32	13	45	(100)

The majority, or 67%, of the DCPs, particularly those implemented by GFIs, are financed by foreign sources, either by loans or grants (Table 3.4). Loans are financed by the WB-IBRD, JEXIM Bank, OECF and ADB. Meanwhile, grant assistance comes from DANIDA, KFW and NORAD. Eighteen percent are funded by special funds, including CDF and funds from other GOCCs such as the NFA and NRDC. DCPs of the GOCCs/NBFIs, which are financed by corporate or internal funds, account for 15% of total.

Table 3.4.
Distribution of DCPs by Source of Fund

Source of Fund	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
Foreign Loan or Grant	27	3	30	(67)
Special Funds [a/]	5 [b/]	3 [c/]	8	(18)
Corporate/Internal Funds	-	7	7	(15)
Total	32	13	45	(100)

a/ *Include CDF and funds from other GOCCs*
b/ *Two programs (DBP's DPP and LBP's 5-25-70) are supplemented by the bank's internal funds*
c/ *One program (TLRC's ASAHAN) is supplemented by corporate funds*

By mode of credit delivery, about 42% (19 DCPs) provide loans directly to end-borrowers (Table 3.5). Of these, the majority, or 33%, cater to individuals or enterprises (including single proprietorships, partnerships and corporations) and only 7% provide funds directly to groups or cooperatives. On the other hand, more than 50% of the DCPs employ the indirect mode of credit delivery, with PFIs accounting for 33% of the conduits. Only 18% use cooperatives as channels of funds. It is to be noted that more DCPs of GOCCs/NBFIs employ cooperatives, NGOs, or POs as conduits.

Table 3.5
Distribution of DCPs by Mode of Credit Delivery

Mode	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
Direct Mode	13	6	19	(42)
Group [a/]	2	1	3	(7)
Individuals [b/]	11	4	15	(33)
Both	-	1	1	(2)
Indirect Mode	19	7	26	(58)
PFIs	13	2	15	(33)
Coops/NGOs/POs	6	2	8	(18)
Both	-	3	3	(7)
Total	32	13	45	(100)

a/ Strictly cooperatives only.
b/ Includes single proprietorships, partnerships or corporations; also includes LGU under MCDPIII

DCPs that provide loans with long term maturities comprise 36% of the total (Table 3.6). Those offering loans with various maturity periods ranging from short to long term equally account for the same number of programs. GFIs implement the majority of DCPs that fall under these two categories. Meanwhile, DCPs of GOCCs/NBFIs account for all the programs offering purely short-term loans (13% of total). Medium term loans are provided by 15% of the DCPs.

Table 3.6
Distribution of DCPs by Maturity of Loans Granted

Maturity of Loans	GFIs	GOCCs/NBFIs	ALL DCPs	(% of Total)
Short term (1 to 18 months)	-	6 [a/]	6	(13)
Medium term (19 mos to 5 years)	3	4	7	(15)
Long term (above 5 years)	14	2	16	(36)
Mixed terms (short to long term)	15	1	16	(36)
Total	32	13	45	(100)

[a/] *Three programs (RMFP, HIRAM and LCAP) have soft loans with maturity of 3-5 years*

The various lending rates charged by GFIs and GOCCs/NBFIs on their conduits and end-borrowers are shown in Table 3.7.

GFIs generally charge higher interest rates, equivalent to WAIR, on loans of PFIs serving as conduits, compared to 12-16% per annum charged on loans of cooperatives, POs, NGOs and LGUs. Pass on rates of PFIs to end-users are equal to WAIR plus their spread. Cooperatives/NGOs/POs, on the other hand, also charge about the same rates as the PFI pass on rate to end-users of funds. Interest rates imposed by GFIs on direct users of funds may range from a low of 5% to a rate similar to the PFI pass-on rate. The rate depends highly on the source of fund being lent. Some facilities, such as the MCF from Norway, prescribe a low of 5% on loans to be lent by DBP, and the market rate on funds to end-users.

GOCCs/NBFIs, on the other hand, charge an interest rate of about 14%, but not exceeding 30%, on loans of cooperatives/POs/NGOs. Interest rates charged on loans to end-users under the direct lending mode range from 14% to WAIR.

Table. 3.7
Range of Interest Rates Charged by GFIs and GOCCs/NBFIs
By Mode of Credit Delivery, Per Annum

	Direct to Individuals/Groups	Indirect thru	
		PFIs	Coops/POs/NGOs / LGUs
GFIs			
To conduits	-	WAIR (91 day T-bill)	12% to 16%
To end-users	5% to WAIR (91 day t-bill) + 2-2.5% [a/]	WAIR (91 day T-bill) + PFI spread	market rate [b/]
GOCCs/NBFIs			
To conduits	-	WAIR (91 day T-bill)	12% [c/]
To end-users	14% to WAIR (91 day T-bill)	market rate [b/]	14% -30%

a/ CDF funds are interest-free; rate charged on LGU under MCDP III is 4.3-4.7%.
b/ Unprescribed rate which may also be equal to WAIR (91 day T-bill rate) + spread of conduit.
c/ For institutional loans, interest rate is 3%.

4 ASSESSMENT OF THE PERFORMANCE OF THE DCPs

This section examines the performance of 32 DCPs being managed by GFIs and GOCCs/NBFIs in terms of productivity, outreach, efficiency and impact on the over-all operations of the implementing institutions. Their performance will be compared with those of GNFAs reported in Lamberte *et al.* (1997).

The number of DCPs evaluated in this study constitutes 71% of the total DCPs implemented by GFIs and GOCCs/NBFIs. In the course of gathering data, the research team found out that the data required for this study were not readily available at the implementing institutions. Some institutions, particularly the GFIs, opted to furnish data on their major programs only. In the case of DBP, while all of its wholesale lending DCPs are assessed, only three out of nine programs under its retail banking operations are included. Most of these DCPs have only a few borrowers, but with huge volume of loans. In this regard, only DCPs with more than five borrowers are included in the evaluation.

For other institutions, some DCPs could not be included in the analysis due to inadequate data received by the research team. More specifically, only nine out of LBP's 13 DCPs are included in the analysis; and for GOCCs/NBFIs, 11 out of 13 DCPs.

As mentioned in Chapter 2, some DCPs cater only to small borrowers while others cater to small, medium and large (SML) borrowers. The performance of DCPs for small borrowers will be analyzed separately from those DCPs that cater to small, medium and large (SML) borrowers.

4.1 PRODUCTIVITY OF DCPs

Table 4.1 shows the productivity ratios of DCPs catering to small borrowers. In general, all the average productivity indices of the DCPs of GFIs are significantly higher than those administered by GOCCs/NBFIs. In particular, the average productivity indices of the DCPs managed by GFIs in terms of number and volume of loans granted are 45.01 and 11.68, respectively, while those of the GOCCs/NBFIs are only 18.45 and 7.70, respectively. In terms of number and volume of loans outstanding per staff, the GFIs are also found to be more productive than the GOCCs/NBFIs.

The average number of personnel of GFIs is placed at five, which is substantially smaller than that of GOCCs/NBFIs, which is 20. This suggests that the GFIs have higher staff efficiencies than GOCCs/NBFIs. It also implies that the latter institutions have higher administrative costs. This will be discussed in detail below.

Table 4.1
Annual Productivity of DCPs for Small Borrowers Implemented by GFIs and GOCCs/NBFIs, 1994-97

GFI/GOCC/NBFI/ Mode of Credit Delivery	Ave. No of Per-sonnel	Loans Granted/ Personnel		Loans Outstanding/Personnel		
		Number	Amount (PM)	Number	Amount (PM)	Net of Past Due (PM) a/
A. GFIs						
Direct	**3.67**	**45.67**	**2.36**	**21.50**	**13.00**	**11.79**
DBP – DPP	1	12.00	7.04	21.50	13.00	11.79
LBP - 5-25-70	5	80.00	0.03	-	-	**-**
LBP – SLFAP	5	45.00	0.01	-	-	-
Indirect	**6.34**	**44.35**	**20.99**	**31.18**	**16.58**	**16.26**
DBP – CEFP	7	33.06	3.55	3.45	2.35	2.35
LBP – RASCP	12	50.00	40.12	40.10	28.10	27.13
LBP – KPK 2000	0.02	50.00	19.30	50.00	19.30	19.30
Average GFIs	**5**	**45.01**	**11.68**	**28.76**	**15.69**	**15.14**
B. GOCCs/NBFIs						
Direct	**25.25**	**31.75**	**4.08**	**18.97**	**4.93**	**4.76**
QUEDANCOR – FLGCI	2	23.00	5.14	39.69	10.65	10.65
QUEDANCOR – FARE	77	86.00	4.00		2.28	1.78
QUEDANCOR – CAMP	17	9.00	6.91	8.87	6.57	6.39
TLRC-SDML	5	9.00	0.25	8.40	0.24	0.21
Indirect	**15.5**	**5.15**	**11.33**	**5.22**	**8.97**	**8.93**
NLSF – LCAP for ARCs	38	0.59	0.95	0.32	0.87	0.87
PCFC – HIRAM	19	5.00	25.26	3.21	9.70	9.60
PCFC – ADB-IFAD RMFP	4	3.00	1.86	0.86	1.86	1.86
TLRC-CEP	1	12.00	17.24	16.50	23.46	23.41
Average – GOCCs/NBFIs	**20.38**	**18.45**	**7.70**	**11.12**	**6.95**	**6.85**

a/ *A loan is considered past due when an amortization is unpaid after the 3rd month for accounts with monthly amortization schedules, one quarter for those with quarterly payments, and one year for semi-annual or annual payments (termed as 3-1-1). Prior to April 1, 1998, the base period was 6-2-2.*

Closer observation reveals that DCPs catering directly to cooperative endeavors, such as LBP's 5-25-70 and SLFP, and Quedancor's FLGC, and those that tap cooperatives as conduits (RASCP and KPK 2000) have relatively high productivity indices. Cooperatives, either as client

or conduit of DCPs, may require less credit-risk investigation than individuals, thereby reducing staff work for a DCP. Meanwhile, Quedancor's FARE has an exceptionally high productivity ratio in terms of number of loans granted per staff. This can be attributed to the fact that the program provides basically short-term loans, allowing funds to be revolved immediately to cover more borrowers. On the other hand, new programs, such as NLSF's LCAP, PCFC's HIRAM and RMFP, and TLRC's SDML and CEP, have relatively low productivity indices.

By mode of credit delivery, it is observed that DCPs that tap conduits have higher productivity indices than those that provide loans directly to end-borrowers. However, it may not necessarily follow that DCPs adopting the indirect mode of credit delivery have smaller number of personnel. The average number of personnel of DCPs of GFIs employing such mode is higher compared to that of their DCPs catering directly to borrowers.

A comparison of productivity indices of DCPs catering to small borrowers reveals that those of the GFIs are most productive (see Table 4.2). In particular, the average productivity indices, measured in terms of the number of loans granted per personnel, are 45.01 for GFIs, 18.45 for GOCCs/NBFIs, and 30.4 for GNFAs. In terms of outstanding loans, the average productivity ratios, measured by the number and volume of loans outstanding, of GFIs are also the highest among implementing institutions. These findings indicate that GFIs have higher staff efficiencies than the GOCCs/NBFIs and GNFAs. The high productivity indices of GFIs may be attributed to their use of conduits. Also, the relatively higher capacity of bank personnel to handle and manage loan accounts and acquire information about their clients for credit risk assessment, made possible through the provision of services other than credit, may have contributed to the higher productivity of their DCPs.

Table 4.2
Average Productivity of GFIs, GOCCs/NBFIs and GNFAs in Implementing DCPs, By Mode of Credit Delivery, 1994-97

	Ave. No of Per-sonnel	Loans Granted/ Personnel		Loans Outstanding/Personnel		
		Number	Amount (PM)	Number	Amount (PM)	Net of Past Due (PM)
A. GFI						
Direct Mode	3.67	45.67	2.36	21.5	13.00	11.79
Indirect Mode	6.34	44.35	20.99	31.18	16.58	16.26
Average	5.00	45.01	11.68	28.76	15.69	15.14
B. GOCC/NBFI						
Direct Mode	25.25	31.75	4.08	18.97	4.93	4.76
Indirect Mode	15.50	5.15	11.33	5.22	8.97	8.93
Average	20.38	18.45	7.70	11.12	6.95	6.85
C. GNFA a/						
Direct Mode	14.98	15.5	1.99	14.57	4.65	3.85
Indirect Mode	20.11	37.8	4.69	8.82	15.78	9.53
Average	18.46	30.4	3.82	11.06	12.48	7.85

a/ *From Lamberte et al. (1997).*

Table 4.3 shows the productivity indices of DCPs of both GFIs and GOCCs/NBFIs catering to small, medium and large (SML) borrowers. GFIs are observed to have more DCPs that service the medium to large borrowers compared to GOCCs/NBFIs. The GFIs are likewise more productive in their lending operations. The productivity index of 702.61 of GFIs, in terms of volume of loans granted per staff, is significantly higher than the GOCC/NBFI's index of 5.45, indicating that the former institutions have bigger loan portfolios and accounts. The higher productivity indices of the GFIs in terms of stocks (number and volume of loans outstanding and net of past due) imply that these big loan portfolios also consist of accounts with longer maturity periods.

DCPs that tap PFIs as conduits of funds, that have full time personnel assigned solely to undertake program activities, and that have huge number of accounts comprised of term loans, exhibit relatively higher productivity indices in terms of number and volume of loans outstanding and loans outstanding net of past due per staff. These include the wholesale programs of DBP (IGLF, IICP, IRP, ISSEP, OECF and JEXIM) and the CLF and ALF programs of LBP.

Yaron (1992)[7] estimated the productivity indices, in terms of number of loans outstanding per personnel, of successful rural financial institutions in Indonesia and Thailand, and the Grameen Bank in Bangladesh at 272, 203 and 127, respectively. These institutions were noted to be highly self-sustainable because of their reasonably low administrative costs and high rate of loan collections. They have achieved high levels of outreach with their targeted population. Productivity ratios of these institutions are seen to be substantially higher compared with the same indices of the GFIs under study. This indicates that GFIs, while they are performing relatively better than GNFAs, still need to substantially improve their productivity.

In brief, DCPs managed by GFIs have higher average productivity indices compared with those administered by GOCCs/NBFIs and GNFAs. The management, size and maturities of loans lent by DCPs, and mode of credit delivery affect productivity. DCPs that have full time personnel assigned solely to undertake program activities are found to have high productivity indices. DCPs that provide loans with shorter maturities have particularly high number of loans per staff index. Those with relatively big loan portfolios, consisting of huge and long-gestating loan accounts, have high productivity ratios in terms of volume of loans granted, loans outstanding, and loans outstanding net of past due per staff. DCPs that adopt the indirect mode of credit delivery have higher productivity indices compared to programs that lend directly to end-borrowers. Finally, although GFIs are found to be more productive than GOCCs, NBFIs or GNFAs, their productivity still leaves much to be desired when compared with similar institutions in other Asian countries.

[7] Jacob Yaron, "Successful Rural Finance Institutions," World Bank Discussion Papers, Washington D.C., 1992.

Table 4.3
Annual Productivity of DCPs for SML Borrowers Implemented by GFIs and GOCCs/NBFIs , 1994-97

GFI/GOCC/NBFI/ Mode of Credit Delivery	Ave. No of Per-sonnel	Loans Granted/ Personnel		Loans Outstanding/Personnel		
		Numbe r	Amount (PM)	Numbe r	Amount (PM)	Net of Past Due (PM)
A. GFIs						
Direct	**2.58**	**13.15**	**994.89**	**10.76**	**567.25**	**566.68**
DBP – DSMP	1	11.52	861.44	20.61	1254.37	1252.10
DBP – EISCP	0.3	40.00	2969.40	20.00	838.30	838.30
LBP – IFPP	8	0.36	4.55	1.70	32.15	32.15
LBP – MCDP III	1	0.71	144.16	0.71	144.16	144.16
Indirect	**8.27**	**10.87**	**596.33**	**37.57**	**1011.77**	**1011.7**
DBP – IGLF	43	6.91	40.45	29.89	108.91	108.79
DBP – IICP	1	2.38	391.95	30.24	951.12	951.12
DBP – IRP	5	1.28	220.49	29.83	836.26	836.26
DBP – ISSEP	5	14.13	432.54	31.13	775.96	775.96
DBP – OECF	9	4.28	173.18	29.81	608.46	608.46
DBP – JEXIM I	1	3.33	757.89	30.42	2839.17	2839.17
DBP – JEXIM II	2	5.08	741.23	30.17	2324.35	2324.35
DBP – JEXIM III	1	29.17	3479.32	32.50	1975.34	1975.34
LBP – CLF I	7	18.00	173.85	94.76	519.69	519.11
LBP – CLF II	13	20.00	93.91	33.69	128.21	128.21
LBP – ALF	4	15.00	54.81	40.81	61.97	61.92
Average - GFIs	**6.75**	**11.48**	**702.61**	**30.36**	**893.23**	**893.03**
B. GOCCs/NBFIs						
Direct						
TLRC-AITTP	11	0.18	0.32	5.64	25.70	5.50
Indirect	**25.5**	**7.02**	**8.02**	**5.19**	**6.02**	**6.02**
SBGFC – SEFF[a]	28	5.01	6.86	0.00	7.43	7.43
SBGFC - RDFF[a]	23	9.02	9.18	10.38	4.60	4.60
Average - GOCCs/NBFIs	**20.67**	**4.74**	**5.45**	**8.01**	**12.58**	**5.84**

[a]*Due to lack of information on the average loan size of end-borrowers, this DCP is included under the SML category.*

4.2 OUTREACH OF DCPs

This section assesses the effectiveness of DCPs using indices that measure their levels of outreach based on their targeted population and actual beneficiaries. As discussed in Chapter 2, outreach is measured using the following indices: a) *Reaching the Target Borrowers Index (**RTBI**),* or the ratio of the average loan size of the target sector, or average sector loan (ASL), as reported by other studies or surveys to the average loan size (ALS) of the DCP under investigation; b) *Credit Extension Index (**CEI**),* or the ratio of the actual number of borrowers of a DCP to the potential number of borrowers it could reach given its available resources; and c) *Over-all Outreach Index (**OI**)*, which is the equally weighted average of the computed RTBI and CEI of the DCP. *If the OI is greater than one, then the DCP is said to significantly reach its target clientele (or it has high level of outreach or effective); otherwise, the DCP concerned is not significantly reaching its target clientele (or it has a low level of outreach or is ineffective).*

As mentioned in Chapter 2, the outreach index is designed to determine the effectiveness or outreach of DCPs catering to the small borrowers only. Thus, only 14 DCPs out of 32 are evaluated in this section.

4.2.1 Reaching the Target Borrowers Index

The RTBI is computed by getting the ratio of the average loan size of the target sector (ASL) as reported by other studies or surveys to the average loan size of the DCP (ALS). The average sector loan (ASL) sizes used to derive the RTBIs are based on results of the following: a) *for the agriculture sector* - ACPC Rider Survey on the Social Weather Station (SWS) Omnibus Survey covering the agriculture sector, TBAC Small Farmer Indebtedness Survey (SFIS), Rural Welfare Monitoring Project of the Bureau of Agricultural Statistics on credit requirements of agrarian reform beneficiaries (ARBs), ACPC Bank Loans to the Small Agricultural Sector, and ACPC/LBP Survey of NGOs'/Cooperatives' Agricultural Lending Activities (only the results of the two latter surveys are used when the end-beneficiaries are cooperatives or groups); b) *for the poor or marginalized sector* - SWS survey covering all sectors; c) *for small livelihood projects which exclude agriculture-related activities* - SWS survey covering the non-agricultural sectors, ACPC Bank survey and ACPC/LBP survey; and d) *for small livelihood projects which include both agri- and non-agri-related activities* - SWS survey, ACPC Bank survey and ACPC/LBP survey covering all sectors.[8] The data were adjusted for inflation.

The ALS was computed by dividing the volume of loans granted by the number of end-borrowers for the year. The number of end-borrowers are based on the actual figures for DCPs that directly lend to their clientele and on reports by conduits for DCPs that deliver loans indirectly.

[8] See **Annex C** for the details of these surveys.

Table 4.4
Reaching the Target Borrowers Indices
For the Period 1994-97

Name of Program	Average Loan Size (in pesos)	Ave. Size of Loan in Sector (in pesos)	RTB Index a/
A. GFIs			
Direct			**0.04**
DBP – DPP	541,423.00	24,834.00	0.05
LBP – 5-25-70*	1,040,330.00	33,730.00	0.03
LBP – SLFAP*	196,000.00	8,930.00	0.05
Indirect			**2.07**
DBP – CEFP	107,273.00	24,834.00	0.23
LBP – RASCP**	4,866.00	19,840.00	4.08
LBP – KPK 2000***	4,710.00	9,020.00	1.90
Average GFIs			**1.06**
B. GOCCs/NBFIs			
Direct			**0.30**
QUEDANCOR - FLGC I*	227,120.00	18,854.00	0.08
QUEDANCOR - FARE	64,590.00	8,620.00	0.13
QUEDANCOR - CAMP	787,950.000	32,230.00	0.04
TLRC - SDML****	29,456.98	27,974.08	0.95
Indirect			**0.89**
NLSF - LCAP for ARCs**	7,038.83	7,520.00	1.07
PCFC - HIRAM****	9,650.00	7,340.00	0.76
PCFC - ADB-IFAD RMFP**	5,650.00	7,520.00	1.33
TLRC - CEP****	17,993.74	7,340.00	0.41
Average - GOCCs/NBFIs			**0.60**

a/ Average sector loan/Average loan size
** covers the period 1995-1997*
*** covers 1997 only*
**** covers 1996 only*
***** covers the period 1996-1997*

Table 4.4 presents the computed ALS, ASL and RTBI for each DCP. The ALSs vary widely depending on the kind of project, type of conduits, and number of end-borrowers of a DCP. Programs that mostly finance cooperative endeavors or fixed investments have significantly large average loan sizes. Examples of these are DBP's DPP and CEFP, LBP's 5-25-70 and SLFAP, and Quedancor's FLGC and CAMP. The ALSs likewise vary widely depending on the sector being targeted by the DCP and the period covered.

The average RTBI of DCPs administered by GFIs is greater than one, while the DCPs managed by GOCCs/NBFIs yield an average RTBI of only 0.60. The results suggest that the GFIs are generally more effective in reaching borrowers in their target sectors than the GOCCs/NBFIs. However, looking at the mode of lending, the results in Table 4.4 clearly show that DCPs employing conduits have higher RTBIs than those that provide loans directly to target beneficiaries. Programs that have RTBIs greater than one, such as LBP's RASCP and KPK 2000, NLSF's LCAP and PCFC's RMFP, utilize conduits to reach their target borrowers.

4.2.2 Reaching the Potential Number of Borrowers Index

The CEI is derived by computing the ratio of the actual number of borrowers (AB) to the potential number of borrowers (PB) a DCP can serve, given its limited resources. The AB is the reported number of end-beneficiaries. The PB, on the other hand, is computed by dividing the available resources of the DCP (including program funds at the beginning of the year, new funds acquired, collections accruing to the fund, interest income from lending, and investment of funds held in trust) by the ASL deemed appropriate for the targeted sector, multiplied by maturity period (in months) of loans granted under the program.

The CEIs of the DCPs being investigated are shown in Table 4.5. Using the available resources of DCPs as a constraint in reaching target borrowers, the average CEIs seem to suggest that both GFIS and GOCCs/NBFIs have the same degree of outreach. However, looking more closely at individual DCPs, it can be observed that only one DCP each for GFIs and GOCCs/NBFIs obtained CEIs that are greater than one. These are the CEFP of DBP and HIRAM of PCFC. The CEIs of the other programs all fall below one, implying that DCPs of GFIs and GOCCs/NBFIs have not yet reached their potential number of borrowers.

4.2.3 Overall Outreach Index (OI)

The computed OIs of DCPs are presented in Table 4.6. The average OI of DCPs managed by GFIs stands at 1.04, while that of DCPs implemented by GOCCs/NBFIs is 0.49. Looking at individual DCPs, it can be observed that there are only three programs with OIs of more than one. These are DBP's CEFP, LBP's RASCP, and PCFC's HIRAM. These programs employ conduits. The OIs of CEFP, RASCP and HIRAM have been notably influenced by their high CEIs or RTBIs.

Table 4.5
Credit Extension Indices
For the Period 1994-97

Name of Program	Actual No. of End-Borrowers	Potential No. of End-Borrowers	Credit Extension Index a/
A. GFIs			
Direct			**0.04**
DBP – DPP	7	777	0.01
LBP - 5-25-70	396	6,463	0.06
LBP – SLFAP	221	5,551	0.04
Indirect			**2.03**
DBP – CEFP	230	44	5.16
LBP – RASCP	99,122	114,727	0.86
LBP – KPK 2000	82	1,481	0.06
Average GFIs			**1.03**
B. GOCCs/NBFIs			
Direct			**0.09**
QUEDANCOR – FLGC I	38	1,398	0.02
QUEDANCOR – FARE	4,761	27,647	0.17
QUEDANCOR – CAMP	151	3,576	0.04
TLRC – SDML	43	316	0.14
Indirect			**0.69**
NLSF – LCAP for ARCs	5,061	234,402	0.02
PCFC – HIRAM	49,415	29,754	1.66
PCFC – ADB-IFAD RMFP	1,150	12,500	0.09
TLRC – CEP	958	982	0.98
Average - GOCCs/NBFIs			**0.39**

a/ *Actual number of borrowers ÷ Potential number of borrowers*

Table 4.6
Measures of Outreach of DCPs Implemented by GFIs and GOCCs/NBFIs
For the Period 1994-1997

Sector/Name of Program	RTB Index a/	Credit Extension Index b/	Outreach Index c/
A. GFIs			
Direct	**0.04**	**0.04**	**0.04**
DBP – DPP	0.05	0.01	0.03
LBP - 5-25-70	0.03	0.06	0.05
LBP – SLFAP	0.05	0.04	0.04
Indirect	**2.07**	**2.03**	**2.05**
DBP – CEFP	0.23	5.16	* 2.70
LBP – RASCP	4.08	0.86	* 2.47
LBP - KPK 2000	1.90	0.06	** 0.97
Average GFIs	**1.06**	**1.03**	**1.04**
B. GOCCs/NBFIs			
Direct	**0.30**	**0.09**	**0.20**
QUEDANCOR – FLGC I	0.08	0.02	0.06
QUEDANCOR – FARE	0.13	0.17	0.15
QUEDANCOR – CAMP	0.04	0.04	0.04
TLRC – SDML	0.95	0.14	0.54
Indirect	**0.89**	**0.69**	**0.79**
NLSF – LCAP for ARCs	1.07	0.02	0.55
PCFC – HIRAM	0.76	1.66	* 1.21
PCFC – ADB-IFAD RMFP	1.33	0.09	0.71
TLRC – CEP	0.41	0.98	0.69
Average – GOCCs/NBFIs	**0.60**	**0.39**	**0.49**

a/ Average sector loan ÷ Average loan size
b/ Actual number of borrowers ÷ Potential number of borrowers
c/ Weighted average of RTB Index and Credit Extension index
** High outreach*
*** Relatively high*

LBP's KPK 2000 has an OI of less than one, but very close to one. The program can be considered to have attained a relatively high outreach and, therefore, can be considered

effective.[9] This DCP also lends to target borrowers through conduits. Its relatively high OI can be attributed to its high RTBI, implying that it might have reached its target borrowers but fall short of its potential number of borrowers.

The results show that the average OIs of DCPs of both institutions employing conduits are higher compared to the average OIs of programs which provide funds directly. These findings suggest that the mode of credit delivery matters in reaching the DCPs' target sectors.

Among various implementing institutions, DCPs of GNFAs are found to have the most significant outreach *vis-a-vis* those of the GFIs and GOCCs/NBFIs (Table 4.7). The much wider outreach of the GNFAs' DCPs may be attributed to the existence of their regional, provincial and municipal offices. This means that even without conduits, the GNFAs can reach more borrowers compared to the other two institutions. Moreover, small borrowers usually face difficulty in securing loans from the formal sources. Naturally, many of the small borrowers would borrow from the GNFAs since most of their programs do not require collaterals or even collateral substitutes on loans. The low outreach of GOCCs/NBFIs, on the other hand, can be attributed to the fact that a number of their DCPs have centralized operations and are relatively new programs.

Table 4.7
Measures of Outreach of GFIs, GOCCs/NBFIs and GNFAs

Sector/Name of Program	RTB Index a/	Credit Extension Index b/	Outreach Index c/
A. GFIs			
Direct Mode	0.04	0.04	0.04
Indirect Mode	2.07	2.03	2.05
Average	1.06	1.03	1.04
B. GOCCs/NBFIs			
Direct Mode	0.30	0.09	0.20
Indirect Mode	0.89	0.69	0.79
Average	0.60	0.39	0.49
C. GNFAs d/			
Direct Mode	2.72	1.60	2.16
Indirect Mode	1.50	2.73	2.11
Average	1.93	2.33	2.13

a/ Average sector loan ÷ Average loan size
b/ Actual number of borrowers ÷ Potential number of borrowers
c/ Weighted average of RTB Index and Credit Extension index
d/ From Lamberte et al. (1997).

[9] In the analysis below, this DCP shall be considered as effective or having high levels of outreach.

In summary, DCPs of GFIs and GOCCs/NBFIs with OIs that are more than one or very close to one, which are considered effective, generally employ lending conduits to reach their target borrowers. DCPs with high RTBIs may have reached their target borrowers but still fall short of their potential number of borrowers, given the available resources they have on hand. It is noteworthy that while the use of conduits in credit delivery can increase program outreach for GFIs and GOCCs/NBFIs, this may not necessarily apply to GNFAs. Even without conduits, GNFAs can still reach more borrowers because of the presence of their offices in various parts of the country.

4.3 Efficiency of DCPs

As stated in Chapter 2, this study uses the cost recovery index (CRI), which is the ratio of income from lending to the total costs of lending, as a measure of efficiency. A CRI equal to or greater than one indicates that the DCP is sufficiently recovering its total costs, which means it is efficient. Since two alternative measures of total program cost and also two alternative measures of revenue from lending are being considered, four CRIs can be computed for each DCP.

CRI 1, which is obtained using the nominal effective interest rate as revenue from loan and inflation rate-based cost of equity capital;
CRI 2, which is obtained using the nominal effective interest rate as revenue from loan and T-bill rate-based cost of equity capital;
CRI 3, which is obtained using the contracted or posted interest rate as revenue from loan and inflation rate-based cost of equity capital; and
CRI 4, which is obtained by using the contracted or posted interest rate as revenue from loan and T-bill rate-based cost of equity capital.

A DCP is considered efficient if at least one of the measures of CRI described above is equal to or greater than one; otherwise, it is considered inefficient.

The CRIs were computed for each of the 32 DCPs with sufficient information on costs, revenue and volume of loans. Table 4.8a presents the estimated CRIs of DCPs of GFIs and GOCCs/NBFIs for small borrowers only. Six out of 14 DCPs are efficient, i.e., they have been generating incomes from lending sufficient to cover total lending costs. Three of the DCPs belong to GFIs and the other three to GOCCs/NBFIs. By mode of credit delivery, three of these DCPs use the direct lending mode, while the other three use the indirect mode.

Table 4.8a
Estimated CRIs of each DCP for Small Borrowers, 1994-1997
by Type of Financing Institution and by Mode of Credit Delivery

Type of Financing Institution/ Mode of Credit Delivery	CRI ESTIMATES				Efficient (E)/
	CRI 1	CRI 2	CRI 3	CRI 4	Inefficient (I)
I. GFI					
A. Direct					
DBP – DPP	1.10	0.82	0.99	0.75	E
LBP - 5-25-70	0.38	0.31	0.56	0.45	I
LBP – SLFAP	0.00	0.00	0.00	0.00	I
B. Indirect					
DBP – CEFP	0.73	0.73	0.96	0.96	I*
LBP - RASCP	0.06	0.06	1.72	1.72	E
LBP - KPK 2000	0.001	0.001	1.61	1.09	E
II. GOCC/NBFI					
A. Direct					
QUEDANCOR – FLGC	0.34	0.21	1.90	1.16	E
QUEDANCOR – FARE	0.32	0.27	0.28	0.24	I
QUEDANCOR – CAMP	1.33	0.95	1.28	0.92	E
TLRC – SDML	0.09	0.09	0.12	0.12	I
B. Indirect					
NLSF - LCAP for ARCs	0.05	0.04	0.23	0.20	I
PCFC – HIRAM	0.53	0.45	0.93	0.80	I*
PCFC - ADB-IFAD	0.00	0.00	0.76	0.76	I
RMFP					
TLRC – CEP	0.08	0.05	1.22	0.76	E

* *Operationally efficient (see annex D for the level of operational efficiency of each DCP).*

Note:
CRI 1 - obtained using nominal effective interest rate as revenue from loan and inflation rate-based cost of equity capital;
CRI 2 - obtained using nominal effective interest rate as revenue from loan and T-bill rate-based cost of equity capital;
CRI 3 - obtained using contracted interest rate as revenue from loan and inflation rate-based cost of equity capital;
CRI 4 - obtained using contracted interest rate as revenue from loan and T-bill rate-based cost of equity capital;
E - Efficient DCP, i.e., if one of the computed CRIs is greater than or equal to 1.
I - Inefficient DCP, i.e., if all the computed CRIs are less than 1.

The direct lending mode is adopted by the Damayan sa Pamumuhunan (DPP) of DBP, and Quedancor's Farm Level Grains Center (FLGC) and the Coordinated Agricultural Marketing/Production (CAMP). DPP, which has been in operation since 1992, provides loans to cooperatives engaged in viable business undertakings, except direct agricultural production activities. It is funded by the CDF of a senator and by DBP's internal funds. Loans granted under the program are charged an interest rate of 15% per annum. Quedancor also lends directly to primary cooperatives for farm-level marketing infrastructure projects under FLGC. Under CAMP, it lends directly to cooperatives, partnerships, corporations and individual farmers engaged in processing or marketing and to those intending to undertake or expand integrated projects.

Efficient DCPs for small borrowers employing the indirect mode of lending include the Rural Farmers and Agrarian Reform Support Credit Program (RASCP) and the Kawal Pilipino Kabuhayan (KPK) 2000 program of LBP, as well as the Community Empowerment Program (CEP) of TLRC. Under the OECF-funded RASCP, LBP lends to ARBs and other small farmers, fishers and livestock raisers for their livelihood projects through their cooperatives. Likewise, under the KPK 2000, LBP provides loans to military personnel and their dependents through their cooperatives. TLRC's CEP, meanwhile, taps LGUs in lending to households or individuals in depressed communities for livelihood projects.

The eight inefficient DCPs for the small borrowing sector comprised of five DCPs of GOCCs/NBFIs, two DCPs of LBPm and one DCP of DBP. Inefficient DCPs of GOCCs/NBFIs are able to recoup, on the average, only up to 68% of their total expenditures. Of these five inefficient DCPs, two are operationally efficient, i.e., their interest earnings are sufficient to cover operational costs of lending but not the total lending costs. These operationally efficient programs are the DBP's Cottage Enterprises Financing Project (CEFP) and PCFC's HIRAM.

The two inefficiently run DCPs of LBP, namely the 5-25-70 Financing Program and the Special Livelihood Financing Assistance Program (SLFAP), use the direct lending mode. The former is able to recover an average of only 42% of total lending costs. SLFAP, meanwhile, provides interest-free loans to cooperatives, groups, associations, and foundations not eligible under LBP's regular agrarian lending program.

Table 4.8b presents the CRI estimates of the 18 DCPs of GFIs and GOCCs/NBFIs for SML borrowers. Clearly, all (11) DCPs of GFIs using the indirect or wholesale lending mode are efficient. Among the four DCPs of GFIs employing the direct mode of credit delivery, LBP's Industrial Forest Plantation Project (IFPP) and Metro Cebu Development Project Phase III (MCDP III) are found inefficient. The funds for IFPP borrowed from ADB have not yet been fully disbursed. IFPP, however, is found to be operationally efficient. MCDP III, on the other hand, lends to the Cebu City local government only at about 4.5% per annum. Meanwhile, lending programs of TLRC and SBGFC intended for relatively bigger borrowers are found inefficient. TLRC's Agro-Industrial Technology Transfer Program (AITTP) has been in operation since 1982. For the past several years, it has generated not even half of the total lending costs incurred due mainly to the slow utilization of loan fund. On the other hand, SBGFC's Rediscounting Facility (RDF) and the Small Enterprise Financing Facility (SEFF), which both employ accredited financial institutions in reaching out to small and medium entrepreneurs, are also found inefficient mainly because of high administration cost and few

participating financial institutions. Both programs, however, are found to be operationally efficient.

Table 4.8b
Estimated CRIs of each DCP for the SML Borrowers,*
by Type of Financing Institution and by Mode of Credit Delivery

Type of Financing Institution/ Mode of Credit Delivery	CRI ESTIMATES				Efficient (E)/
	CRI 1	CRI 2	CRI 3	CRI 4	Inefficient (I)
I. GFI					
A. Direct					
DBP – DSMP	0.05	0.05	4.27	4.27	E
DBP – EISCP	0.07	0.07	12.17	12.17	E
LBP – IFPP	0.54	0.54	0.81	0.81	I**
LBP – MCDP III	0.00	0.00	0.68	0.68	I
B. Indirect					
DBP – IGLF	4.85	4.85	6.05	6.05	E
DBP – IICP	1.08	1.08	1.11	1.11	E
DBP – IRP	1.52	1.52	1.89	1.89	E
DBP – ISSEP	2.84	2.84	2.89	2.89	E
DBP – OECF	1.52	1.52	1.65	1.65	E
DBP – JEXIM I	1.33	1.33	1.49	1.49	E
DBP – JEXIM II	1.08	1.08	1.17	1.17	E
DBP – JEXIM III	7.09	7.09	6.02	6.02	E
LBP - CLF I	1.02	1.02	1.03	1.03	E
LBP - CLF II	1.17	1.17	4.15	4.15	E
LBP – ALF	2.99	2.99	3.74	3.74	E
II. GOCC/NBFI					
A. Direct					
TLRC – AITTP	0.30	0.30	0.47	0.47	I
B. Indirect					
SBGFC – SEFF	0.56	0.44	0.76	0.60	I**
SBGFC – RDF	0.80	0.63	0.77	0.60	I**

**See Table 4.8a for notes.*
*** Operationally efficient (see annex D for the level of operational efficiency of each DCP).*

Whether for small or SML borrowers, efficient DCPs incurred substantially lower administrative costs (or direct costs of implementation) than inefficient DCPs (Table 4.9). DCPs for small and SML borrowers that are efficient spend an average of 3 centavos and 1.5 centavos

per peso lent out, respectively. On the other hand, inefficient DCPs for the SML sectors incur on average of 8 centavos per peso lent out, while those for small borrowers spend twice as much.

Table 4.9 clearly shows that inefficient DCPs are not charging interest rate on loans that can fully cover the total lending costs. Interest charges of some DCPs for small borrowers can not even cover the direct or administrative costs. Earnings from lending of inefficient DCPs average 13 centavos per peso lent, which is hardly sufficient to cover the average total program costs of 18 centavos. On the other hand, efficient DCPs, particularly those catering to the SML sectors, charge lending rates which on average are about twice as much as what they have been spending. On the other hand, lending rates of efficient DCPs servicing small borrowers average 14%, and this is just enough to cover total lending costs.

Table 4.9
Efficient vs. Inefficient DCPs for Small and SML Borrowers:
Various Items

	DCPs for Small		DCPs for SML	
	Efficient (n = 6)	Inefficient (n = 8)	Efficient (n = 14)	Inefficient (n = 4)
Average administrative cost per peso loan	2.75	16.95	1.49	8.05
Average cost of funds per peso loan				
Low [1/]	6.98	7.85	5.34	8.06
High [2/]	11.16	12.59	5.34	10.08
Average total program cost per peso loan				
Low [1/]	10.14	25.66	7.51	18.02
High [2/]	14.30	29.53	7.64	20.03
Average interest rate on loan				
Nominal Effective Rate	7.41	7.93	10.21	8.64
Contracted Rate	13.97	12.62	12.41	12.17
Average no. of borrowers	247.20	8,677.29	64.85	70.60
Average loan size (in P '000)	10.29	18.03	48,398.00	5,564.68
Average loan portfolio (in P'000)	81,236.17	64,624.84	1,972,970.44	173,714.67
Average loan term/maturity (in months)	32.69	29.40	106.24	131.84
Average no. of years in operation	2.78	4.23	5.40	5.65

[1/] *using inflation rate-based cost of equity*
[2/] *using Tbill rate-based cost of equity*

Inefficient DCPs for small borrowers have significantly larger number of borrowers than efficient DCPs for the same sector. For DCPs catering to SML borrowers, the average number of borrowers does not markedly differ between the efficient and the inefficient ones. As regards average loan size, inefficient DCPs for small borrowers have much larger average loan size than

efficient DCPs. The reverse holds true for DCPs for the SML borrowers. Average loan maturity is about the same for both efficient and inefficient DCPs for small borrowers. The inefficient DCPs for SML borrowers have longer average loan maturity than the efficient DCPs. In terms of the number of years of operation, inefficient DCPs for small borrowers have on average been operating much longer than inefficient DCPs. For DCPs for the SML borrowers, efficient and inefficient DCPs have been operating for about the same number of years.

Table 4.10a presents a comparison of the CRIs of efficient and inefficient DCPs for small borrowers by type of financing institution and by mode of credit delivery. Based on CRI 3, GFIs on average have almost recovered their total costs of lending, while GOCCs/NBFIs recovered an average of 81% only. DCPs of GNFAs, meanwhile, recovered only about 18% of their total lending costs. For GFIs, only DCPs that use the indirect mode of credit delivery are found to be efficient. However, for GOCCs/NBFIs, some efficient DCPs have been using the direct mode of credit delivery, while other efficient DCPs are using the indirect mode.

Table 4.10a
CRI* of Efficient (and Inefficient) DCPs for the Small Borrowing Sector by Type of Institution and by Mode of Credit Delivery

	Mode of Credit Delivery					
	Direct		Indirect		Both Modes	
	No. of DCPs	Average CRI	No. of DCPs	Average CRI	No. of DCPs	Average CRI
A. GFIs						
Efficient DCPs	1	0.99	2	1.67	3	1.44
Inefficient DCPs	2	0.28	1	0.96	3	0.51
All DCPs	3	0.97	3	1.43	6	0.97
B. GOCCs/NBFIs						
Efficient DCPs	2	1.59	1	1.22	3	1.47
Inefficient DCPs	2	0.20	3	0.55	5	0.41
All DCPs	4	0.81	4	0.72	8	0.81
C. GNFAs **						
Efficient DCPs	0	-	0	-	0	-
Inefficient DCPs	10	0.16	22	0.18	32	0.18
All DCPs	10	0.16	22	0.18	32	0.18

** Using CRI 3.*
*** From the results of the CPIP study entitled "Assessment of the Role and Performance of GNFAs in*

Implementing DCPs ".

Table 4.10b presents a comparison of the CRIs of efficient and inefficient DCPs for SML borrowers by type of financing institution and by mode of credit delivery. DCPs of GFIs have earned more than three times what they have spent, while DCPs of GOCCs/NBFIs on average have recouped only 67% of their total lending costs.

Table 4.10b
CRI* of Efficient (and Inefficient) DCPs for the SML Borrowing Sectors by Type of Institution and by Mode of Credit Delivery

	Mode of Credit Delivery					
	Direct		Indirect		Both Modes	
	No. of DCPs	Average CRI	No. of DCPs	Average CRI	No. of DCPs	Average CRI
A. GFIs						
Efficient DCPs	2	8.22	11	2.84	13	3.66
Inefficient DCPs	2	0.74	0	-	2	0.74
All DCPs	4	4.84	11	2.84	15	3.27
B. GOCCs/NBFIs						
Efficient DCPs	0	-	0	-	0	-
Inefficient DCPs	1	0.47	2	0.76	3	0.67
All DCPs	1	0.47	2	0.76	3	0.67

* *Using CRI 3.*

Among the three types of lending institutions, GFIs incurred the lowest administrative cost or direct costs in implementing DCPs (see Table 4.11a and Table 4.11b). On average, GFIs spent 5 centavos for every peso lent out under their DCPs for small borrowers, while GOCCs/NBFIs and GNFAs spent a lot more, averaging 36 centavos and 28 centavos, respectively. By mode of credit delivery, GFIs, GOCCs/NBFIs and GNFAs incurred bigger costs in lending directly to end-borrowers than lending through conduits.

Table 4.11a
Average Administrative Cost of Efficient (and Inefficient) DCPs for Small Borrowers by Type of Institution and by Mode of Credit Delivery*

	Mode of Credit Delivery					
	Direct		Indirect		Both Modes	
	No. of DCPs	Average Administrative Cost (%)	No. of DCPs	Average Administrative Cost (%)	No. of DCPs	Average Administrative Cost (%)
A. GFIs						
Efficient DCPs	1	6.64	2	1.19	3	3.00
Inefficient DCPs	2	8.42	1	5.03	3	7.29
All DCPs	3	7.83	3	2.47	6	5.15
B. GOCCs/NBFIs						
Efficient DCPs	2	2.22	1	3.04	3	2.49
Inefficient DCPs	2	105.57	3	21.73	5	56.47
All DCPs	4	55.40	4	17.06	8	36.23
C. GNFAs*						
Efficient DCPs	0	-	0	-	0	-
Inefficient DCPs	10	50.08	22	17.69	32	27.81
All DCPs	10	50.08	22	17.69	32	27.81

* *See annex E for the estimates of administrative cost of each DCP.*
** *From the results of the CPIP study entitled "Assessment of the Role and Performance of GNFAs in Implementing DCPs".*

Table 4.11b
Average Administrative Cost of Efficient (and Inefficient) DCPs for the SML Borrowers by Type of Institution and by Mode of Credit Delivery*

	Mode of Credit Delivery					
	Direct		Indirect		Both Modes	
	No. of DCPs	Average Administrative Cost (%)	No. of DCPs	Average Administrative Cost (%)	No. of DCPs	Average Administrative Cost (%)
A. GFIs						
Efficient DCPs	2	0.09	11	0.91	13	0.78
Inefficient DCPs	2	3.23	0	0.00	2	3.23
All DCPs	4	1.66	11	0.91	15	1.11
B. GOCCs/NBFIs						
Efficient DCPs	0	-	0	-	0	-
Inefficient DCPs	1	9.92	2	9.94	3	9.93
All DCPs	1	9.92	2	9.94	3	9.93

* *See annex E for the estimates of administrative cost of each DCP.*

4. 4 OUTREACH AND EFFICIENCY OF DCPs

The results of the analysis of outreach and efficiency of DCPs implemented by GFIs and GOCCs/NBFIs are summarized in Figure 2 below. The summary includes only 14 DCPs that cater to small borrowers.

As shown in the figure, only two out of 14 DCPs are found to be efficient or able to fully cover their total lending costs and, at the same time, have a high level of outreach. Both are managed by LBP and use the wholesale or the indirect mode of lending. Four DCPs are found to be efficient but have low levels of outreach. Two have high levels of outreach but are inefficient. Both are, however, operationally efficient (i.e., they are able to cover both the administrative and risk-induced costs, but not the total cost of lending). Six are in the first cell, which means they have low outreach and are inefficient.

Figure 2
Outreach and Efficiency of DCPs for Small Borrowers Implemented by GFIs and GOCCs/NBFIs

	Low Outreach	High Outreach
	(1) LBP - 5-25-70[1] LBP – *SLFAP*[1] NLSF – *LCAP for ARCs*[2] QUEDANCOR – *FARE*[1] TLRC - *SDML*[1] PCFC – *ADB-IFAD RMFP*[2]	**(2)** DBP – *CEFP*[*2] PCFC – *HIRAM*[*2]
	(3) DBP - *DPP*[1] TLRC – *CEP*[2] QUEDANCOR – *FLGC*[1] QUEDANCOR – *CAMP*[1]	**(4)** LBP – *RASCP*[2] LBP – *KPK*[2]

[*] *Operationally efficient.*
[1] *using direct mode of credit delivery.*

[2] *using indirect mode of credit delivery.*

Before drawing any conclusions from the results presented above, it may be worthwhile to ask the following questions: *First*, are GFIs more efficient than GOCCs/NBFIs in managing DCPs? *Second*, are DCPs utilizing the indirect mode of credit delivery more effective in reaching their target borrowers than the indirect mode? *Third*, are DCPs of GFIs that utilize the indirect mode of credit delivery more effective and efficient than those of GOCCs/NBFIs?

As regards the first question, three DCPs of GFIs are found to be efficient. However, the other three DCPs of GFIs are inefficiently managed, albeit one of the three has attained operational efficiency. Moreover, three DCPs of GOCCs/NBFIs have been managed efficiently. Thus, it cannot be *generally* said that GFIs are more efficient than GOCCs/NBFIs in managing DCPs.

With respect to the second question, the results show that four out of seven DCPs utilizing the indirect mode of credit delivery have high levels of outreach. On the other hand, all DCPs, regardless of the type of implementing institutions, that have gone into direct lending have yielded low levels of outreach. The results seem to suggest that the indirect mode of credit delivery or the use of conduits can be more effective in reaching the targeted borrowers.

Finally, the two DCPs found to be efficient and, at the same time, have high levels of outreach belong to a GFI (i.e., LBP). Both DCPs have been using an indirect mode of credit delivery. Also, one of the highly effective DCPs that already achieves certain operational efficiency belongs to a GFI (i.e., DBP). It needs to exert some effort, such as reducing its administrative cost or slightly adjusting its interest rate, to make it fully efficient, i.e., recover the total costs of lending. These results seem to suggest that DCPs utilizing the indirect mode of credit delivery can be efficiently managed by GFIs. This observation, however, needs to be qualified in light of the results for other DCPs presented in Figure 2. Specifically, two other DCPs of a GFI are found to be both inefficient and ineffective or have low levels of outreach. Note that these two DCPs have been using the indirect mode of credit delivery. Also, one DCP managed by a GFI is found to be efficient, although it has low level of outreach. Note again that this DCP has been using an indirect mode of credit delivery. Thus, while the results show that GFIs are not currently efficient and effective in managing *all* their DCPs, the same results suggest that they still have some room for improvement in these two areas.

In Lamberte *et al.* (1997), it was found that none of the 31 DCPs implemented by GNFAs were efficient. The results of the present study are an improvement over those of the earlier study in the sense that six out of 14 DCPs are found to be efficient. However, while 21 (68%) out of 31 DCPs managed by GNFAs have achieved a high level of outreach, this study shows that only five (36%) out of 14 DCPs implemented by GFIs and GOCCs/NBFIs have attained a high level of outreach.

In sum, the results of this study somehow indicate that that GFIs can manage DCPs for small borrowers more efficiently and effectively than GOCCs/NBFIs. However, GFIs have to exert some effort and choose the appropriate mode of credit delivery to improve their efficiency and effectiveness in managing DCPs.

4.5 Impact on Operations

This section analyzes the effects of DCPs on the overall operations of GFIs and GOCCs/NBFIs, based on the key informants' perceptions and on the limited data available about the institutions' loan portfolio, income, resources and expenses.

Effects on Policies and Procedures. Officers of GFIs and GOCCs/NBFIs were asked how the implementation of DCPs has affected their respective institutions' internal lending policies and procedures. The GFIs were specifically asked how the lending policies and procedures applied under the DCPs differ from those imposed under their regular credit facilities. In general, policies adopted by DBP under its regular window are the same as those adopted under the DCPs. While the DCPs' coverage and scope, lending criteria (i.e., criteria for borrower and project eligibility), interest rate and/or loan maturity may differ from those of the DBP's regular window, the policies and procedures they adopt on loan collection, monitoring and evaluation do not vary. DBP also cited that their wholesale lending programs, mostly funded by foreign loans, differ somewhat from their regular lending window, and even from one another, depending on the agreed operating guidelines between the DBP and the donor agencies. Also, while the accreditation of PFIs under wholesale banking follows DBP's established credit policies, a separate system of approving sub-loans was designed and implemented as approved by the bank's Board of Directors.

In the case of LBP, lending policies and procedures adopted for DCPs are generally the same as those under its regular programs. However, there are slight differences on the criteria for lending, interest rate and maturity periods, depending largely on the terms agreed upon between LBP and the donor agencies.

Meanwhile, the SBGFC, whose other major financing function is to provide credit guarantee, cited that all their financing programs are guided by the same policies (as prescribed by RA 6977, as amended by RA 8289), though implemented by different systems and procedures. Their financing programs (guarantee and lending) are likewise implemented by the same groups, i.e., marketing and credit evaluation by the Marketing and Credit Evaluation Group, account monitoring and remedial management by the Account Management and Remedial Management Group, etc.

Effects on Loan Portfolio. Many of the DCPs have significantly increased the loan portfolio of the implementing institution. DBP, for instance, had been able to raise the proportion of its wholesale loans to 60% of its total loan portfolio. Most of it was funded by foreign donors. LBP also cited the same effect of its DCPs on its loan portfolio.

Table 4.12 shows the proportion of DCP loans to the total loans outstanding of the GFIs and GOCCs/NBFIs over the last four years. As shown in the table, DCP outstanding loans of DBP have been increasing at a faster rate than the bank's aggregate loan portfolio, bringing the share to an average of 60%. In the case of LBP, although all of its DCPs, including those it implements for government line agencies, may have outstanding loans that constitute a big portion of its total loans outstanding, nonetheless, the nine DCPs included in this study have outstanding loans that amounted to only about 8% of its total loan portfolio. Among the

GOCCs/NBFIs, the bulk if not the entire loan portfolio of PCFC, QuedanCor and SBGFC, is made up of DCP loans.

Table 4.12
Percent Share of Outstanding Loans of DCPs to Total Loans Outstanding of GFIs and GOCCs/NBFIs

	No. of DCPs	1994	1995	1996	1997	Average	Average Growth Rate,%
DBP							
Total Loans Outstanding (PM)		39732.7	42323.9	46759.4	64087.3	48225.8	18.02
% DCPs	12	47.94	54.66	85.08	50.13	59.45	24.72 *
LBP							
Total Loans Outstanding (PM)		36353.6	60226.7	82856.2	98498.8	69483.8	40.71
% DCPs	9	9.81	7.27	6.47	7.98	7.9	30.62 *
NLSF							
Total Loans Outstanding (PM) a/				1114.7	1059.9	1087.3	-4.92
% DCPs	1				3.08	3.1	
PCFC							
Total Loans Outstanding (PM)				135.9	236.6	186.3	74.10
% DCPs	2			100.00	100.00	100.00	74.10 *
QUEDANCOR							
Total Loans Outstanding (PM)		297.0	423.6	492.6	496.9	427.5	19.92
% DCPs	3	87.19	72.07	56.48	73.56	72.33	13.46 *
SBGFC							
Total Loans Outstanding (PM) b/		8.66	180.37	303.44	695.7	297.0	726.77
% DCPs	2	77.37	96.47	97.75	96.22	92.0	897.72 *
TLRC							
Total Loans Outstanding		-	-	-	-	-	-
Loans Outstanding of	3	319.1	287.1	284.31	302.4	298.2	-1.55

DCPs (PM)							

a/ Comprised of loan receivables from PCFC and KKK/BKKK.
b/ Includes notes receivables with guarantee called.
c/ Comprised of 1 DCP in 1994 to 1995 and 3 DCPs starting 1996.
** Average growth rate of DCP outstanding loans.*

Effects on Viability. In general, implementing DCPs has been profitable for the GFIs and GOCCs/NBFIs. According to DBP, profitability has always been considered in the implementation of its credit programs, regular or DCPs, in order to sustain the bank's operations. Lending rates applied in every lending program always consider viability and profitability, except in the case of the Damayan sa Pamumuhunan (DPP) where DBP claims not to realize any profit since interest rates are concessional (although it was shown in this study that under this program, DBP is able to recover total lending costs incurred). Also in some of its DCPs, particularly those using the wholesale lending mode, DBP's profits have reportedly been very limited because the interest spread it realizes is small due to the guarantee and foreign exchange risk cover fees it pays to the national government. SBGFC also claims to have profitable operations, including its lending programs. For the past six years it generated an average net income of P48.2 million. Admittedly, these claims need to be qualified in view of the results discussed earlier. In the case of DBP, its large DCPs definitely had yielded good profits for the bank.

In 1994-1997, DCPs' contribution to total incomes of GFIs and GOCCs/NBFIs had widely varied (Table 4.13). Annually, at least 12% of the gross income of DBP, amounting to an average of P8 billion, came from DCP operations. Meanwhile, revenues of nine DCPs contributed only an average of 2% to LBP's annual income of about P11.5 billion.

Among the GOCCs/NBFIs, PCFC and QuedanCor generated earnings mainly from their lending operations (73% and 62%, respectively), particularly from DCPs. These institutions, however, have been generating minimal profits. On the other hand, SBGFC and NLSF obtained earnings largely from investing in securities rather than from their lending operations, i.e., from DCPs. Thus, the contribution of DCPs to the viability of these institutions had not been not significant.

Benefits Derived by the Implementing Institutions. Aside from generating profits, albeit minimal, GFIs and GOCCs/NBFIs cited benefits they derive from implementing DCPs. The most important is the fulfillment of their mandated functions. LBP cited that its implementation of DCPs augments its loanable funds and lowers its credit risk, while attaining its mandate of providing affordable credit financing to the countryside.

DBP also stated a number of benefits derived from implementing DCPs: (1) in general, the pool of DCPs provides a large array of loan products, the terms of which have been carefully negotiated toward obtaining as wide a clientele reach as possible; (2) enhancement of the bank's image as a bank for a good and healthy environment; (3) provides DBP the opportunity to instill

environmental awareness among industries; (4) access to export credit facilities at concessional terms; (5) contributes to national development and socio-economic growth; and (6) increase in loan portfolio and income.

SBGFC also cited that in making available lending facilities to small and medium enterprises, it is able to fulfill its mandate as contained in the Magna Carta for Small Enterprises. At the same time, it earns from the operations to pay off dividends to stockholders.

Table 4.13
Selected Indicators of Viability: Entire Operations vs. DCP Operations Only
1994 – 1997

	For Entire Operations				
	DBP	LBP	NLSF	PCFC	QuedanCor
Average total cost per peso loan	0.14	0.14	0.05	0.08	0.25
Average total income per peso loan	0.18	0.19	0.22	*	0.24
Average total income/total expenses	1.32	1.35	4.25	0.03	1.00
Average annual total income (PM)	8,048.50	11,468.52	243.11	14.11	101.14
Average annual net income (PM)	1,745.48	2,989.04	183.93	0.34	(0.24)
% income from lending	66.19	50.67	1.30	76.15	61.94
Total resources (PM)	105,243.90	160,149.20	3,146.39	347.61	1,545.55
	For DCPs Only				
	DBP (n=12)	LBP (n=9)	NLSF (n=1)	PCFC (n=2)	QuedanCor (n=3)
Average total program cost per peso loan	0.08	0.11	0.54	0.17	0.25
Average total income per peso loan					
Nominal	0.11	0.05	0.02	0.03	0.12
Contracted	0.13	0.10	0.12	0.12	0.15
Average operational efficiency	10.42	2.83	0.16	1.02	5.47
Average annual total income (PM)	926.29	243.17	0.75	10.35	63.11
% to total income	11.51	2.12	0.31	73.33	62.41
Total resources as of end 1997 (PM)	1,178.35	359.20	1,884.37	162.08	224.03
% to total resources of	1.12	0.22	59.89	46.63	14.50

GFIs/GOCCs						

** No data Nil.*

5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study evaluated the performance of 32 DCPs managed by two GFIs and five GOCCs/NBFIs using indicators that measure their productivity, outreach, efficiency and impact on the over-all operations of the implementing institutions. This chapter summarizes the major findings of this assessment and presents some recommendations for rationalizing the DCPs.

5.1 Summary Profiles of Implementing Institutions and their DCPs

Institutions Covered and Their Mandates. The two GFIs, namely the DBP and LBP, are mandated by law to administer credit programs directed toward specific sectors of the economy. DBP is particularly mandated to cater to agricultural and industrial small, medium and large enterprises (SMLEs). On the other hand, LBP is primarily tasked to service the needs of the agrarian reform beneficiaries and support countryside development activities. DBP and LBP operate as universal banks that offer various services, including lending for investments and capital enhancement, fund management, merchant banking, and deposit mobilization.

The five GOCCs/NBFIs included in this study are the NLSF, PCFC, Quedancor, SBGFC and TLRC. Quedancor and SBGFC were created by law to establish credit support mechanisms for agricultural producers and processors, and provide and promote financing to SMEs. TLRC is mandated by law to hasten and enhance development efforts by harnessing appropriate technologies to improve the efficacy of the production and service sectors. Its mandate, however, does not specifically state that it provide credit to pursue its general mandate. NLSF evolved from a Presidential Administrative Order which transferred the Bagong Kilusang Kabuhayan at Kaunlaran (BKKK) capital fund from the Office of the President to LBP. It was eventually established as a subsidiary of the LBP to provide credit and capacity building assistance to the poor, particularly dependents of ARBs. PCFC was established by a Presidential Memorandum Order to be the lead financial institution in the wholesale delivery of funds to the poor or the marginalized sector. Its mandate has been strengthened by the Anti-Poverty law which designates it as the vehicle for the delivery of microfinance services for the exclusive use of the poor.

DCPs Covered by the Study. There are 45 DCPs currently implemented by the GFIs and GOCCs/NBFIs, based on the latest survey conducted in connection with this study. However, only 32, or 71%, of the 45 DCPs have complete data and were, thus, included in the study. The rest were excluded either because they had inadequate information or were miniscule in terms of funding or operations. Twenty one of the 32 DCPs are managed by GFIs and 11 by the GOCCs/NBFIs.

Sectors Covered by the DCPs. Fourteen of the 32 DCPs cater to small borrowers who belong to the so-called "basic sectors," while the rest (18 DCPs) provide credit to specific sectors regardless of the size of the borrowers (i.e., small, medium and large, or SML, borrowers). Of the 21 DCPs managed by the GFIs, two cater to the agriculture sector, four to the small livelihood sector, three to special sectors including environment, forestry and LGU, and 12 to the SML enterprises. On the other hand, the majority of programs (four out of 11 DCPs) implemented by the GOCCs/NBFIs have the poor as their target clientele, two have agriculture, two have the small livelihood sector, and three the SML enterprises.

Sources of Funds of DCPs. Funding sources of the DCPs implemented by the seven institutions vary. For the GFIs, 17 out of the 21 DCPs assessed in the study are funded by loans and grants from foreign sources. The rest are funded by special funds, including the CDF. On the other hand, the majority of GOCCs/NBFIs' programs (nine out of 11 DCPs being investigated) are funded by internally generated or corporate funds. Only two programs are financed by external sources.

Mode of Credit Delivery. Fourteen of the 21 DCPs administered by the GFIs adopt the indirect mode of delivering funds (or wholesale lending) to borrowers. Out of 14 DCPs, 11 use PFIs as conduits, while the rest channel credit through cooperatives and associations. Similarly, six out of 11 DCPs of the GOCCs/NBFIs tap both NGOs and PFIs as conduits of funds. The rest provide loans directly to borrowers, either individuals or groups.

Number of Years in Operation. The implementation period of the programs included in the assessment range from a year to about 16 years. Of the DCPs managed by GFIs, the majority (12 out of 21) have been in operation between five to 10 years, five have been operating during the last three to four years, and only four during the last two years or less. Meanwhile, of the DCPs managed by GOCCs/NBFIs, more than half (six out of 11) have been implemented during the last two years, three during the last three to four years, and two for more than 10 years.

Maturity of Loans Granted. The majority of DCPs handled by GFIs provide loans of mixed maturities from short to long term. Meanwhile, more DCPs of GOCCs/NBFIs provide short-term to medium-term loans rather than long-term loans or loans with varied maturities.

Interest Rates on Loans. GFIs generally charge higher interest rates, equivalent to WAIR (91 day T-bill rate), on loans of PFIs compared to 12%-16% per annum charged on cooperatives, NGOs and POs, which serve as conduits of funds. The pass-on rate of PFIs to end-users is equal to the WAIR plus a certain spread. Cooperatives, NGOs or POs also charge about the same rates as the PFI pass-on rate to end-users. Under the GFIs' direct lending mode, end-users are charged a low of 5% to a rate similar to the PFI pass-on rate, depending on the source of funds being lent.

GOCCs/NBFIs charge their conduits much lower rates, ranging from 14% to 16%. Pass-on rates of conduits to end-users are similar to the PFI pass-on rate. Interest rates on loans of end-users borrowing directly from GOCCs/NBFIs range from 14% to WAIR.

5.2 Major Findings and Conclusions

It is to be noted that the DCPs managed by GFIs and GOCCs/NBFs are mixed in the sense that some target small borrowers within a specific sector, while others target a specific sector regardless of the size of borrowers. Still others only cater to medium and large enterprises. Given the special concern of the NCC for the "basic sectors" who are small borrowers, and to facilitate the comparison of the results of this study with those done earlier for GNFAs, this study analyzed separately the performance of DCPs for small borrowers from the performance of DCPs for small, medium and larger borrowers.

Productivity of DCPs. DCPs managed by GFIs have higher average productivity indices compared with those administered by GOCCs/NBFIs and GNFAs. This is true for DCPs catering both to the small and SML borrowers. The management, size and maturities of loans lent by DCPs, and the mode of credit delivery affect productivity. DCPs that have full time personnel assigned solely to undertake program activities are found to have high productivity ratios. DCPs that provide loans with shorter maturities have particularly high number of loans per staff. Those with relatively big loan portfolios, consisting of huge and long-gestating loan accounts, have high productivity ratios in terms of volume of loans granted and outstanding and net of past due per staff. DCPs that adopt the indirect mode of credit delivery have high productivity indices compared to those that lend directly to end-borrowers. Finally, although GFIs are seen to be more productive than GOCCs, NBFIs or GNFAs, their productivity still leaves much to be desired when compared with similar institutions in other Asian countries.

Outreach of DCPs. Only four of the 14 DCPs for small borrowers can be considered effective or have reached a high level of outreach. All four DCPs employ the indirect mode of credit delivery. The findings suggest that these DCPs may have been reaching their target borrowers but have not yet reached their potential number of borrowers given their available resources. In other words, these DCPs still have some room for reaching a greater number of their target borrowers. It is to be noted that while the use of conduits could increase program outreach for GFIs and GOCCs/NBFIs, this may not necessarily apply to GNFAs. Even without conduits, GNFAs can still reach more borrowers because of the existence of their offices in various parts of the country.

Efficiency of DCPs. Six out of 14 DCPs for small borrowers are efficient, i.e., they have been generating incomes from lending sufficient to cover total lending costs. Three DCPs belong to GFIs and the other three to GOCCs/NBFIs. By mode of credit delivery, three of these DCPs use the direct lending mode, while the other three use the indirect mode. Aside from the above-mentioned six DCPs, two are operationally efficient, i.e., interest earnings are sufficient to cover the operational cost of lending.

Of the 18 DCPs that cater to SML borrowers, 13 are found to be efficient. All of them utilize the indirect mode of lending. Of the remaining five inefficient DCPs, three are operationally efficient. Two of them have been using the indirect mode of credit delivery. The findings suggest that DCPs for SML borrowers are generally well managed.

Outreach and Efficiency of DCPs. Only two out of 14 DCPs for small borrowers are found to be efficient or able to fully cover their total lending costs and, at the same time, have a high level of outreach. Both DCPs are managed by a GFI and use the wholesale or the indirect mode of lending. Four DCPs are found to be efficient but have low levels of outreach. On the other hand, two programs have high outreach but are inefficient. However, these DCPs are operationally efficient. One of the DCPs found to have a high level of outreach and to be operationally efficient belongs to a GFI. Six DCPs have low levels of outreach and are inefficient.

An earlier study found that none of the 31 DCPs implemented by GNFAs were efficient. The results of the present study showed an improvement over those of the earlier

study in the sense that six out of 14 DCPs were found to be efficient. However, while 21 (68%) of the 31 DCPs managed by GNFAs have achieved a high level of outreach, this study shows that only four (29%) out of 14 DCPs implemented by GFIs and GOCCs/NBFIs have attained a high level of outreach.

In sum, the results of this study generally indicate that GFIs can manage DCPs for small borrowers more efficiently and effectively. However, GFIs have to exert some effort and choose the appropriate mode of credit delivery to improve their efficiency and effectiveness in managing DCPs. More specifically, the indirect mode of credit delivery is a better approach than direct lending.

Impact on Over-all Operations. Lending policies and procedures adopted by GFIs for their DCPs and regular programs are generally the same. However, there are slight differences in terms of criteria (borrower and project eligibility) for lending, interest rates, and maturity of loans, which depend largely on the terms agreed upon by the GFIs and the funding source for DCPs.

DCPs have also generally increased the loan portfolio of GFIs and GOCCs/NBFIs. In particular, DCP portfolio comprises the bulk if not the entire portfolios of DBP, Quedancor, SBGFC and PCFC. DCPs also contribute significantly to the viable operations of GFIs and some GOCCs/NBFIs in terms of contribution to total income and earnings from lending operations. SBGFC and NLSF, on the other hand, obtain earnings largely from investing in securities rather than from their lending operations.

Aside from profits, the GFIs and GOCCs/NBFIs believe that implementing the DCPs help them fulfill their mandates. DBP also notes other benefits of administering DCPs, including widening of its clientele reach through the large array of loan products offered by DCPs, and enhancement of its role in national development and socio-economic growth. For SBGFC, DCPs also provide earnings to pay off dividends of stockholders.

5.3 Recommendations

This study has laid down the main principle for having sustainable DCPs, that is, DCPs especially for the basic sectors must effectively reach their target borrowers and, at the same time, must be efficient. Efficient DCPs will be able to expand the number of their clientele through time even if they do not receive additional funding support from the government. In contrast, inefficient DCPs will find their resources shrinking and, therefore, their target clientele declining over time. On the other hand, reaching the greatest number of target borrowers, given limited resources, is the very reason for the existence of DCPs. Those that are able to preserve their funds but are not lending a big portion of it to target borrowers lose their purpose. Sustainable DCPs must satisfy the efficiency and effectiveness conditions.

General Recommendation. Results of this study indicate that DCPs, including those for small borrowers, can be better implemented by GFIs. It is recommended that the government transfer the management of DCPs from GOCCs/NBFIs and GNFAs to GFIs. Many credit programs of GOCCs/NBFIs and GNFAs are seen to duplicate each other and those of the GFIs, and it certainly will be more efficient to subsume these activities under the latter. While

GOCCs/NBFIs and GNFAs can direct their attention to their main functions, GFIs can exploit economies of scale and scope in implementing DCPs. However, for GFIs to efficiently manage the DCPs and attain a high level of outreach, they must use the indirect mode of credit delivery by using various conduits that have closer relationship with the end-borrowers. The use of conduits will enable GFIs to leverage its limited funds for on-lending to target beneficiaries and, at the same time, avoid competition with the private sector. Unlike GOCCs/NBFIs and GNFAs, GFIs have clearer accountabilities when it comes to credit programs, and they follow the generally acceptable accounting and auditing standards. They are also under the supervision of the central bank, which ensures that financial institutions behave prudently.

Specific Recommendations. The following specific recommendations naturally flow from the general recommendation that credit programs of GOCCs/NBFIs and GNFAs be transferred to GFIs.

Development Bank of the Philippines. The DBP is mandated by RA 85 (1947) to provide credit facilities for the rehabilitation, development and expansion of agriculture and industry. EO 81 (1986) revised DBP's mandate to specifically provide banking services to meet the medium and long-term financing needs of small and medium-scale agricultural and industrial enterprises.

The DCPs covered by this study comprise about 60% of DBP's loan portfolio. The majority of these programs are seen to generally cater to the medium and large borrowers. The small borrowing sector is actually serviced by only two programs (DPP and CEFP). This indicates that, notwithstanding its mandate to cater to small and medium enterprises, the DBP has given more priority to the medium and large borrowers and less to the small ones.

The DBP has fared well in terms of productivity and cost recovery, particularly for its wholesale lending programs for small borrowers. This shows its capability to implement DCPs efficiently. As a financial institution, it would not be difficult for DBP to widen its outreach through the use of conduits, specifically the PFIs.

It is, thus, recommended that DBP continue to implement DCPs. Given its capacity to implement DCPs efficiently and its potential to acquire a wider clientele base, it is also suggested that it absorb the credit programs of GOCCs/NBFIs and GNFAs. In consolidating the funds and programs of these other government institutions, it would be able to fulfill its mandate of lending to small borrowers.

Operationally, DBP has to determine which of its groups or departments would handle the programs transferred from other agencies. At present, WIII under its retail banking operations implement programs in coordination with line departments. These programs, however, are mostly DCPs that provide concessional loans to borrowers. Since it is more efficient to lend indirectly, DBP may consider implementing these DCPs under its wholesale banking operations and at rates that would recoup implementation costs. This move will also be consistent with its goal of increasing its wholesale operations, which has long been recommended for GFIs.

Land Bank of the Philippines. LBP was established by RA 3844 (1963) to serve as the financial arm of the agrarian reform program of the government. This function was expanded

with the passage of RA 6657 (CARL) in 1988. RA 7907 in 1995 gave LBP a new charter to balance its universal banking and countryside development missions.

LBP's DCPs are seen to cater to small or large borrowing sectors in the countryside. Its programs are found to have high productivity indices, particularly in terms of number of loans granted and loans outstanding. Further, LBP's programs that cater to the small borrowers and employ conduits are found to have high OIs. These DCPs and those that cater to the SML borrowers are also found to be efficient.

In view of its generally good performance in implementing DCPs, and consistent with its legal mandate, it is recommended that LBP be the main financial institution to provide the financing needs of the agriculture (including agri-related activities) and agrarian sectors. All DCPs or government funds meant to provide loans to the said sectors can be managed by LBP.

National Livelihood Support Fund. The NLSF has no clear legal mandate to provide credit, considering that it only evolved from AO 75 which transferred BKKK's capital fund to LBP. To delineate its activities from those of LBP's agrarian credit programs, its LCAP has focused on the provision of financing assistance to the dependents of ARBs.

LCAP was evaluated on the basis of its performance for only one year (i.e., 1997), since it was launched only in 1996 and its lending activities started the following year. This programprovides credit and institution-building support mainly to wives and other dependents of ARBs. So far, it was found to have low outreach and is inefficient. Inasmuch as its target clientele can also be reached by LBP, it is recommended that this program of NLSF be transferred or integrated into the lending programs of LBP.

People's Credit and Finance Corporation. PCFC was created by virtue of Presidential MO 261 (1995), which mandates it to be the lead institution in the wholesale delivery of funds to NGOs, Pos, and RBs for relending to the poor or marginalized sector. RA 8425, or the Poverty Alleviation Act, further tasks PCFC to mobilize financial resources for microfinance services for the poor. The law provides the legal basis for PCFC's existence, which was not explicitly provided for in the MO.

PCFC is seen to specifically cater to the poor sector through conduits. Its strict accreditation criteria for program partners as well as the end-borrowers, and its regular reporting system have ensured that the target clientele are being served. In terms of cost recovery, however, PCFC's programs have not fully recouped their costs of implementation due to the liberal terms of loans provided. It may be recalled that conduits are charged only 12% per annum on investment credit, and even a lower rate of 3% per annum on institutional loans.

This study recommends that the lending function of PCFC be transferred to the LBP. The abolition of PCFC is consistent with the thrust on downsizing the government bureaucracy. It is not difficult to undertake such move since PCFC was only created by virtue of a presidential issuance. A legal implication would be the assumption by LBP of the function assigned to PCFC under RA 8425. Such function may well be assumed by the National Anti-Poverty Commission (NAPC) itself in coordination with NEDA, which is tasked to coordinate programming of official development assistance, and with DBM, which is a major player in the budgeting process.

Quedan and Rural Credit Guarantee Corporation. Quedancor was established by RA 7393 (1992), which specifically mandates it to establish a credit support mechanism for the benefit of farmers, fisherfolk, rural workers, cooperatives, retailers, wholesalers and agricultural processors.

Quedancor's CAMP and FLGC service the credit needs of the farming sector for working capital and farm equipment, while its FARE covers the food market retailers. However, these three DCPs are found to have low Ois, indicating that Quedancor has not been actually reaching its target and potential clientele given its available resources. One reason for the restricted outreach is that Quedancor only intervenes or provides credit when bank credit is not available. Furthermore, unlike GNFAs and banks which have numerous subnational offices and branches, Quedancor maintains a head office and district offices which may cover several regions or provinces. It also implements the guarantee co-financing mode wherein financing of loans is shared with a bank. Except for FARE, its two other DCPs are found to be efficient.

Quedancor's lending operations, however, are seen to duplicate the services offered by banks, specifically the LBP. The terms of loan, including interest rates, are similar. In this regard, since both are government entities, it may be well to consolidate there programs and transfer them to LBP. Quedancor can then concentrate on implementing its other functions, including provision of loan guarantee and warehouse bonding.[10]

This move is consistent with RA 8435 (Agriculture and Fisheries Modernization Act), which provides for the phase-out of all DCPs catering to the agricultural sector and the review of the mandates of Quedancor. In the interim, Quedancor can focus on loan collection to reduce its overall past due rate on all programs. Lending operations may have to be limited to viable projects.

Small Business Guarantee and Finance Corporation. The SBGFC was created by RA 6977 (1991) to support the development of SMEs through the provision and promotion of various alternative modes of financing and credit delivery systems. Its two programs, RDF and SEFF, have clearly focused on the provision of credit to the SMEs.

The study was not able to evaluate the effectiveness or outreach of the lending programs of RDF and SEFF, which are "wholesale" lending facilities to financial institutions that provide loans to small and medium entrepreneurs. However, these DCPs are found to be inefficient, or do not generate enough earnings to cover total costs. Hence, these programs are not sustainable and in the long run would be unable to reach its targeted beneficiaries. Moreover, it was found that SBGFC derives earnings mainly from investment of "idle" funds in government securities, not from lending or even guarantee operations. Notwithstanding that SBGFC is mandated by law to undertake lending activities, aside from providing guarantees and other financing facilities, it is recommended that SBGFC's lending functions be transferred to DBP. It is further recommended that, in the interim, the mandate of SBGFC be reviewed to determine what role SBGFC can effectively and efficiently play in the development of SMEs.

[10] This is a subject being investigated in a forthcoming study by Adams and Orbeta.

Technology and Livelihood Resource Center. The Technology Resource Center (TRC) was established by PD 1097 (1977) to hasten and enhance research and development efforts to improve the effectiveness and efficiency of the production and service sectors. An MO in the early 1980s renamed it to TLRC and mandated it to provide financing to livelihood activities. This MO, however, was declared null by the Department of Justice since another PD was required to change the mandate of a corporation created by such an issuance. This decision reverted back the mandate of TLRC to that stated in PD 1097. Said mandate does not explicitly state that TLRC undertake lending activities. It should be emphasized that two on-going programs of TLRC (EIMP and AITTP) resulted from the MO. The three new programs (ASAHAN, CEP and SDML), on the other hand, are financed by funds pooled from terminated livelihood programs.

The three programs evaluated (SDML, CEP and AITTP) were all found to have low outreach. Except for CEP, where TLRC only handles the credit component for PCCD, the two programs were also found to be inefficient.

Based on TLRCs unclear mandate to lend on and the performance of its DCPs, it is recommended that TLRC also transfer its lending programs to the GFIs. In particular, AITTP and SDML, which caters to SMLEs and to small livelihood sectors, respectively, may be subsumed by DBP. CEP may be transferred to LBP (also the ASAHAN, which is also supposed to cater to the poor sector). The transfer of AITTP (and also EIMP) may require a renegotiation of the loan agreements with the OECF. The transfer of the rest of the programs may only require MOAs among concerned agencies. TLRC could then concentrate on its main mandate of developing and promoting technologies for the improvement of its target sectors.

Creation of a Joint Committee. To enhance their effectiveness in implementing DCPs and avoid having overlapping programs, the two GFIs (DBP and LBP) should create a joint committee whose functions would include, but not limited to, formulating general and specific policies for the DCPs and designing mechanisms for monitoring the performance of DCPs. The committee may also serve as a forum for public discussion of issues related to the design and implementation of DCPs.