Interest Rates, Subsidies and Directed Credit Programs in the Philippines

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Background

In the early 1980s, an increasing number of countries began altering the ways they used financial markets to support development. Previously, centrally planned economies and many other governments used subsidized and directed credit to energize development plans. This involved credit planning, credit targeting, subsidized interest rates, and, in many cases, tolerating hefty amounts of loan default on directed loans. It was believed that subsidized loans could be used to stimulate selected activities, boost development in priority areas, compensate those who were adversely affected by other economic distortions, and ease poverty. As a result, many financial markets carried out fiscal functions: transferring subsidies and imposing implicit taxes on holders of financial assets through negative real rates of interest.

During the late 1970s and early 1980s the performance of these programs was increasingly criticized. In some countries the fiscal burden of paying for the interest rate subsidies and loan defaults – combined with inflation and economic reforms – forced governments to eliminate most subsidized lending. Many academics also criticized cheap credit on three fronts: they argued that it was not effective in easing poverty, that subsidized and directed credit had ambiguous effects on investment and production decisions, and that subsidized credit weakened the ability of financial markets to intermediate between savers and borrowers (Gonzalez-Vegas 1984; Krahnen and Schmidt 1994; Shaw 1973). Major donors, especially the Agency for International Development, the World Bank, and the Inter-American Development Bank likewise concluded that this type of lending was ineffective in boosting development efforts. The dramatic shift in the preferred development paradigm during the 1980s, from one that favored providing subsidies and special incentives for targeted priority areas to one that relied on market forces, also stimulated reassessments of how financial markets were used to support development, since subsidized directed credit was inconsistent with this new market-oriented paradigm. Major policy statements issued by the World Bank in the late 1980s recommended that donors and governments abandon interest rate ceilings and directed credit programs that involve subsidies to targeted borrowers (World Bank 1989; World Bank 1991).

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Subsidized Credit in the Philippines

Subsidized directed credit programs have a long and checkered history in the Philippines. More than 400 years ago Spain provided such loans in its colonies to stimulate the production of export crops such as tobacco. The Americans likewise promoted various subsidized credit programs in the Philippines in the pursuit of social and economic goals. The use of subsidized credit expanded rapidly after World War II, especially in rural and agricultural programs. Directed credit was a major tool used to combat rural insurgency in the 1950s and was a prominent part of programs aimed at stimulating food production in the 1960s and early 1970s. Subsidized loans were also widely used to prod industrial output, promote exports, and substitute internal production for imports. The Agency for International Development and the World Bank eagerly supported many of these efforts through the late 1970s.

Serious loan recovery problems, allegations of associated corruption, troubled banks, and overall economic stress in the late 1970s and early 1980s led to major reforms in financial markets starting in the early 1980s (Dingcong 1995). The disappointing results from the Masagana 99 program were especially important in dampening the enthusiasm for government-sponsored subsidized credit efforts – possibly because these results were carefully documented (Esquerra 1981; Herdt and Rosengard 1988; Sacay, et. al. 1985). These reforms moved the country away from subsidized credit and toward more market-oriented financial markets. Major changes included eliminating most concessionary rediscount lines in the Central Bank that had earlier been the major channels for subsidized loans, allowing more competition in banking, and liberalizing interest rate policies. A general consensus emerged among policy makers and most donors in the Philippines that lenders should charge and pay "market rates of interest."

Although the enthusiasm for interest rate subsidies waned with the financial market reforms of the 1980s, directed credit programs were not eradicated and in fact, began to increase in the late eighties and throughout the nineties. Two comprehensive surveys of these programs in 1992 and in 1997 showed directed credit endured and even expanded, although the degree of subsidies associated with these programs generally shrunk (Lamberte 1992; Llanto et. al. 1997). Llanto and associates found 86 directed credit programs in 1997 that were administered by government agencies, a substantial increase from the 68 directed credit programs recorded by Lamberte in 1992. In addition to these explicit directed credit programs, there are financial regulations that try to redirect lending toward sectors or activities deemed to be important through loan portfolio lending quotas imposed on commercial banks – examples being loans for agriculture and for land reform participants. A milder form of loan targeting involves loan guarantee programs established to subsidize part of the risks of making loans to agriculture and other areas (Abiad 1997).

Financial market reforms in 1986 swept most directed credit programs out of the Central Bank and into a large number of government agencies and government-owned banks.[1] These include the Agricultural Credit Policy Council (ACPC), the Cooperative Development Authority (CDA), the Department of Agrarian Reform (DAR), the Department of Agriculture (DA),

1 *In 1997 the Central Bank still administered several rediscount lines of credit aimed at agriculture and export activities worth the equivalent of about $200 million.*

the Department of Labor and Employment (DOLE), the Department of Science and Technology (DOST), the Department of Social Welfare and Development (DSWD), the Department of Trade and Industry (DTI), the Development Bank of the Philippines (DBP), the Land Bank of the Philippines (LBP), the Livelihood Corporation (Livecor), the National Livelihood Support Fund (NLSF), the Quedan and Rural Credit Guarantee Corporation (Quedancor), the Peoples' Credit and Finance Corporation (PCFC), and the Technology and Livelihood Resource Center (TLRC). Many non-government organizations, government line agencies, cooperatives, and banks are now involved in channeling, dispensing, and collecting these targeted loans (Llanto et. al. 1997).

Directed credit programs are built on the assumption that freely functioning financial markets do not allocate loans efficiently and/or equitably due to market imperfections. Initially, these imperfections were ascribed to monopoly powers exercised by lenders; but more recent formulations of the argument emphasize information problems (Stiglitz and Weiss 1981). Proponents of the latter view argue that the lack of information about new borrowers blocks lenders from extending loans to those who may have attractive investment opportunities, especially when the amounts involved are small. They further argued that the inability of relatively poor people to provide adequate loan collateral blocks lenders from extending loans to people of modest means who might have good projects. The above, this view claims, may justify directed credit programs as long as good projects that are rationed out due to the above reasons can be pinpointed. Whether government or donors can pinpoint these projects is a point of contention between those for and against this view.

A review of the 86 government-sponsored directed credit programs reveals a long list of objectives or "spots." These include strengthening cooperatives, developing their agro-industrial activities, improving their marketing systems, and providing support services to cooperatives. Other credit programs provide funds for production credit, warehouses, and solar drying facilities for land reform participants. More than a dozen credit programs administered by the DA attempt to alleviate poverty, promote cooperatives, assist coconut farmers and farm workers, improve livestock breeding, empower rural people, improve pre- and post-harvest facilities, assist fishermen and their cooperatives, rehabilitate the coastal environment, organize farmers into subsistence groups, finance small farmers and fishers, improve living conditions in specified areas of the country, provide earthquake relief, and promote production of specialized crops and enterprises. A substantial number of directed credit projects administered by a handful of government agencies and banks are aimed at promoting microenterprises, small firms, and medium-sized firms. Other credit programs are directed at helping people with disabilities, strengthening trade unions, assisting women, fostering new technologies, stimulating invention, and helping out-of-school youth. Still other programs are directed at promoting exports, assisting with imports, developing the countryside, improving living standards, promoting countrywide industrialization, stimulating textile production, developing the private sector, protecting the environment, strengthening capital markets, improving loan guarantee mechanisms, modernizing shipping, improving irrigation, promoting the forestry industry, assisting rebel returnees, helping military personnel, lending to veterans who want to be farmers or fishermen, and financing the construction of barangay halls.

The long list of objectives simply points to the growing number and diverse types of credit programs that have cropped up within the last decade.

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Terms and Sources of Funds

Many of the programs are funded directly through the government's budget, usually from initiatives from Congress or the executive branch. Other programs are funded by donors such as the Asian Development Bank, the World Bank, and other bilateral donors. Still other programs are at least partially supported by funds owned by the lending agency or by voluntary or involuntary deposits from clients. Llanto et. al. (1997) were able to obtain data on the loan balances for only 26 of the 86 directed credit programs they surveyed. The programs that provided loan data were mostly funded by donors and the aggregate amount of lending on the reporting programs was P37.2 billion or about $1.4 billion at the end of 1996 (Llanto et. al. 1997).

The funds going into these directed credit programs as well as the loans made to the final borrowers carried a variety of loan terms. Most of the government funds used for directed credit are budgetary allocations and therefore carry zero interest rates. Some donor funds were inserted as grants while other donor loans involved concessionary interest rates.[2]

The nominal interest rates applied to the loans vary widely, from highly concessional rates to "market" or (a preferred term to be explained later) 'cost recovery' rates. The effective costs of

2 *Often, the government assumes the foreign exchange risk associated with loans that are denominated in foreign currencies. This may turn out to be an unfunded liability for the government if future devaluations are more severe than anticipated.*

borrowing varied even more broadly when service charges, loan-guarantee program fees, involuntary deposits or share purchases, borrowers' loan transaction costs, and the way interest charges were calculated are factored into borrowing costs. Some programs, for example, routinely add one to two percent service or supervision fee on loans. Those loans that are covered by a loan guarantee scheme typically involve an additional fee of one or two percent of the value of the loan. Some organizations increase the effective costs of borrowing by forcing borrowers to buy shares in the organization or to maintain "forced savings deposits" that may amount to 10 to 20 percent of the total value of the loan—essentially compensatory balances. A few organizations increase the effective interest rate on loans by charging a flat rate of interest on the original loan principal, rather than on declining balance, or they may discount the interest payment in advance. Some organizations periodically adjust their interest rates depending on a central monetary measure while others do not.

Unfortunately, no studies are available that document the costs imposed on borrowers by the variety of loan procedures used in the directed credit industry. These costs likely vary widely, however, due to the many lending technologies used in the industry. For example, the group-lending technology employed by some lenders may impose fewer loan transaction costs on borrowers than the individual loan technology used by other lenders (ACPC, 1995). Likewise, lenders who have an extensive branch network and who operate close to their clients probably impose fewer transactions costs on borrowers than do organizations that require clients to travel long distances to transact loans.

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The Costs of Directed Lending

From a policy perspective, at least three types of costs are usually associated with directed lending.[3] The first is the overall cost of subsidies going into the financial system in support of directed credit. This subsidy is usually paid by the government or by donors.[4] These subsidies are usually inserted in the form of concessionary interest rates or prices on funds that move into the financial system in support of directed credit.

A second type of cost is the additional loan transaction costs imposed on financial market participants by directed credit programs. This is particularly true if budgetary items are alloted just so that executing agencies and conduits can operate the directed credit programs, or if borrowers and conduits are forced to undertake voluminous paper work and spend significant amounts of time in order to avail of the directed credit funds. Note that this type of costs is not independent of the first type of cost. Indeed much of the subsidy given to executing agencies and conduits is to compensate them for the administrative, operating and transactions costs incurred as well as to compensate them for loan and foreign exchange risks.

A third class of costs – which is not measured but merely discussed in this paper – may occur when these subsidized funds

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3 *See Appendix I for a discussion of the supposed benefits of directed lending.*

4 *This includes the costs of setting up and maintaining loan guarantee funds that are designed to reinforce directed credit.*

discourage intermediaries from providing attractive deposit services to savers. The economy-wide costs are the losses that occur because of repressed financial intermediation (in particular, timid deposit mobilization).

Interest Rate Structure and Subsidies of 20 Directed Credit Programs

Three important policy questions are related to these costs:

a) What are the levels of interest subsidies given by directed credit programs?
b) Who captures the bulk of these subsidies? and
c) How might the subsidies and transaction costs associated with directed credit be reasonably reduced?

Documenting the interest rate and subsidy structure of major directed credit programs is the general objective of the discussion that follows. Our specific objectives are:

1. Review and assess the interest rate structure in existing directed credit programs.

2. Estimate the levels of subsidies associated with these programs and the distribution of these subsidies among executing agencies, financial conduits, non-financial conduits and end-borrowers. And,

3. Draw from our analysis appropriate policy recommendations.

From the 86 credit programs studied by Llanto and associates, this study picked out the top 20 programs based on new loans granted for 1996 (from those who reported these figures). These programs disbursed loans totalling P14.41 billion in 1996, or more than ₱100 million per program. . Table 1 gives summary characteristics of the 20 programs while Appendix III gives a more detailed description of each program. The object of the study is to come up with some picture of the interest rate structure of the large directed credit programs and to give a rough estimate of the credit subsidies given to executing agencies, financial conduits, non-financial conduits (mostly cooperatives and NGOs) and end-borrowers. The study uses 1996 data.

Some notable features of the twenty programs are:

1. The national government funds seven of the programs. The loans extended under these programs comprise 12.37% of the total loans released in 1996 under the 20 programs. Some features of the programs and the funders are:

   a) Four are funded by the Department of Finance (DA) – two Food and Agricultural Retail Enterprise (FARE) and Coordinated Agricultural Marketing and Production (CAMP) are implemented through Quedancor (which insures loans connected with agricultural produce, inventory and marketing) and two (Integrated Rural Finance (IRF) and Gintong Ani Programs) are under the Agricultural Credit Policy Council (ACPC);

   b) One (Agricultural Loan Fund - ALF) is funded by the Bangko Sentral ng Pilipinas (BSP) with its past funds from rediscount windows rechanneled to the Land Bank of the Philippines (LBP);

   c) One (Small Enterprise Financing Facility – SEFF) is funded by equity infusion from five government financial institutions (GFIs) for lending to small and medium enterprises;

d) One (the HIRAM program) is funded by the National Livelihood Support Fund (NLSF) with funds from the LBP and implemented through the People's Credit and Finance Corporation (PCFC in a three-tiered channelling of credit funds.

Most of these programs were created from Letters of Instructions, Executive Orders or Republic Acts. The rest were continuation of programs from the Central Bank's rediscount windows or those with funds from the DA and the LBP.

2. The other 13 programs have much larger financing, with funds coming from various foreign multilateral agencies: the World Bank (WB), the Asian Development Bank (ADB), the Overseas Economic Cooperation Fund (OECF), and the Export-Import Bank of Japan (EXIM Bank). Loans under these programs comprise 87.63% of the total new loans released in 1996 for the 20 programs.

3. The biggest-funded directed credit programs are lodged in the DBP, which funds large programs aimed at the industrial and manufacturing sectors. These programs provide a significant amount of loans to small and medium scale enterprises. The next set of credit programs with large volume of loan releases are with the LBP, which funds activities and projects in agricultural production, marketing and processing, agro-businesses, and rural livelihood programs. The DA and the ACPC also give sizeable credit to integrated rural finance projects, the fisheries sector, and food security and production

programs. Thus, both agriculture and industry have their sizeable share of directed credit programs.

Interest and Default Subsidies under the 20 Programs

Table 1 gives us a summary of the data gathered by the project team.[5]

Participants in the credit programs are varied and heterogeneous. It is therefore difficult to set a "market rate" for credit to financial institutions (commercial banks, rural banks, private development banks, savings and loans associations, cooperative banks), to non-financial institutions (cooperatives, credit unions, farmers' organizations, self-help groups, NGOs) and to end-borrowers (industrial and commercial borrowers, microenterprises, farmers, fisherfolks, etc.). But in order for us to come up with some measure of subsidy, some heroic assumption will have to be made on these opportunity costs or "market rates". Since we used 1996 data, we assume that for financial institutions, the "market rate" of funds is 12.62%. This is more or less the average of the 91-day and 182-day treasury-bill rates in 1996, and the same figure for the average interbank call loan rate of the banks for 1996. Ideally, time deposit rates should be used. But these vary from 11% in big commercial banks, to 13% to 18% for rural banks. Again we find 12.62% to be a reasonable compromise.

For industrial and commercial borrowers (mostly DBP borrowers), we assume their interest rate to be the average bank lending rate for 1996, which is 14.8%. For cooperatives and NGOs

5 Each agency was approached and information requested. Because of the voluminous data and subcategories and subcomponents of each program, it is very possible that mistakes are made. We apologize to the agencies if such errors are detected.

(including credit unions) as well as other microenterprises, the lending rate we use is 25%[6] . For end-borrowers who ordinarily would not get credit from the formal financial institutions, we assume their "market" lending rate to be 35%[7] . In Appendix II, we will explain that for "market" lending rates charged to end-borrowers, we would prefer to use the term "cost recovery rate".

Assuming these rates, we are able to come up with the figures in ***Table 1*** (via the other information from ***Appendix III***). The table reveals the following:

1. Total interest and default subsidies are estimated to total ₱1.89 billion in 1996 for the 20 programs. Interest subsidies total ₱1.39 billion while default (principal and interest) subsidies sum to ₱0.51 billion .

2. Interest rates charged to executing agencies are well below the market cost of funds. Many programs actually have zero cost of funds for the executing agency (FARE, CAMP, IRF, Fisheries Sector Program, Gintong Ani Program, SEFF) and some have interest rates or charges worth only 1% to 3% of the loan amount (Tulong sa Tao, OECF funds for ADB, Industrial and Support Services Expansion Program, and HIRAM). The rest of the executing agencies are charged anywhere between 6% to 10.5% – still low compared to time deposit rates that average 11.8% and above in 1996.

   It must be pointed out that funds from the government all have zero interest rates charged to the executing agency (except for the Agricultural Loan Fund funded by the BSP with a 10.25% charge to the executing agency). Thus it is not surprising that the biggest chunk of interest subsidies goes to the executing agencies. For the 20 top programs of 1996 with total interest subsidies of ₱1.39 billion, we estimate that ₱848.1 million are interest subsidies (net of charges) to executing agencies. This comprises 61.1% of total interest subsidies and 44.8% of the combined interest and default subsidies for the 20 programs.

This interest subsidy to executing agencies mainly goes to fund the administrative and operating expenses, as well as transactions costs of these agencies; provide foreign exchange cover for money derived in foreign currencies; pay for charges on loan insurance schemes. The excess between the interest subsidy and these costs is usually used as seed capital for additional loans in the directed credit program. The picture verifies the known fact that administrative and transactions costs are very significant costs incurred in promoting directed credit programs. Inasmuch as the big credit programs are financed by multilateral agencies, explicit or implicit payment for foreign exchange cover becomes important as well.[8] Guarantee fees are sometimes charged to executing agencies (see ***Appendix III***), though more often than not, these are passed on to the end-borrower.

3. Among the 20 programs, twelve channel credit through financial conduits. Most of the interest rates charged are close to deposit and T-bill rates, providing little subsidy to the financial institutions. The programs with significant interest

6 *In an informal ACPC survey in early 1997, they found that rural banks were lending 28% to 30% to rural cooperatives and some microenterprises. Our interest rate is lower, so we are more conservative, and tend to underestimate the credit subsidies.*

7 *In many studies of informal credit, interest rates would be much higher than 35% per annum. Again, we prefer to be conservative in our estimates of the credit subsidies.*

8 *The latest currency devaluation on 1997 had put the national government and some executing agencies (the ones shouldering the foreign exchange risk) in a disadvantaged position with respect to repaying the foreign currency denominated loans.*

subsidies to financial institutions are the Integrated Rural Finance Program (IRF) and the Fisheries Sector Program (the latter funded by ADB and OECF). Both are programs of the ACPC with a 6% interest rate. The OECF programs in DBP supporting small and medium enterprises (SMEs) provide interest subsidies as well, but to a lesser extent. The interest rates under the programs equal 10.34%. Because of the relatively low subsidized component for financial institutions, the total interest subsidy to participating financial institutions (PFIs) is the smallest among all categories, totalling P131.76 million. This is roughly 9.5% of total interest subsidies, and 7.0% of total interest and default subsidies.

The relatively small amount of interest subsidy to financial institutions is partly the result of financial liberalization and a conscious policy of veering away from the subsidized credit strategy of the seventies. With high transactions costs and paper work, it is therefore not surprising that most financial institutions (especially rural financial institutions) are not enthusiastic about these directed credit programs. However, inefficient financial institutions (who do not do well in deposit mobilization) will still find it attractive to participate in these credit programs, as long as there is a spread between the cost of funds offered by these directed credit programs and the lending rate to different types of borrowers. The fact that the credit subsidies are still positive will definitely discourage these inefficient PFIs from pursuing deposit mobilization. This is a significant cost that is not measured in this study since it is beyond the scope of the project.

4. Seven of the 20 programs channel directed credit through cooperatives, NGOs, credit unions or self-help groups. Most

of these programs cater to farmers, fisherfolks and microenterprises. Although they are fewer in number than programs employing financial conduits, the levels of subsidies of these seven programs are much more significant. These subsidies amount to ₱261.4 million (double the level of subsidies to financial conduits), equivalent to 18.9% of total interest subsidies and 13.8% of total interest and default subsidies of the 20 programs.

The higher level of subsidies given to non-financial institutions is due to the belief that cooperatives, NGOs and self-help groups give more direct benefits to the needy and low-income groups. Hence, they should be subsidized more. There is also a strong belief that institution-building and institutional support for these non-financial conduits should be one of the goals of the credit subsidies.

5. Only six of the programs give subsidized interest rates to end-borrowers. These programs include four that cater to agricultural and rural produce, one promoting modernization of the shipping fleet, and one promoting small and medium enterprises. Again, subsidies to end-borrowers are not very substantial due to financial liberalization and the earnest moves towards employing “market” or “cost recovery” rates. For the six programs, the estimated interest subsidies to end-borrowers add up to ₱145.7 million, just slightly more than the interest subsidies to financial conduits. They comprise 10.5% of total interest subsidies and 7.7% of total interest and default subsidies of the twenty programs.

6. Although interest subsidies to end-borrowers are not large, the default subsidies seem to be quite significant. In estimating

these, we made the strong assumption that the default rate – the converse of the repayment rate or the percentage of maturing outstanding loans that are not paid – will also hold for the volume of loans released in 1996 (i.e., we multiplied the volume of loans released in 1996 by the default rate and assumed that that was the level of defaults for the year.)

This may not be precise but it is the only way we can come up with some estimate. But in fact, this method underestimates the level of defaults since most programs have repayment rates of 100% either because they have just started or have not encountered default programs due to the "good times" – (1996 was the best year in the latest growth period of the Philippines. In hard times, for instance beginning the second half of 1997, we should begin to see more defaults).

The default subsidies are further subcategorized into the principal and the interest components, as shown in ***Table 1***. The default subsidy for interest payments is netted out in the estimates of interest subsidies for executing agencies, conduits and end-borrowers.

7. The default subsidies are estimated to total ₱507.3 million, the second largest among our different subsidy types. These subsidies are concentrated in a few programs that have high default rates – mainly programs for small rural borrowers and small owners of microenterprises. For the programs that target small rural borrowers, those that use non-financial conduits (e.g., cooperatives, NGOs) seem to have higher default rates and default subsidies. The fact that poorer borrowers seem to default more on their loans is, of course, quite reasonable. But it may point to the limitations and obstacles of using credit

subsidies to improve the lot of the poor. The last column of ***Table 1*** shows that for those programs which declared some guarantee fee charges, the total guarantee fee charges for 1996 totalled close to ₱91 million, not an unsubstantial amount.

8. A cursory look at ***Table 1*** shows that programs that incur large interest and default subsidies are precisely those programs that have several layers of interest subsidies (to executing agency, financial and non-financial conduits, and end-borrowers) and significant default costs.

Deposit mobilization

One of the major criticisms of subsidized and directed credit in the past was that it discouraged deposit mobilization. This damaged the ability of the financial system to assist in allocating resources within the economy more efficiently. If a financial intermediary, such as a rural bank, could access rediscount facilities from the Central Bank and pay only four percent on the loan funds, the rural bank would be discouraged from mobilizing deposits on which it must pay higher rates of interest. Access to these cheap rediscounting facilities made intermediaries more dependent on outside funds for on-lending and lessened their willingness to provide attractive deposit services for clients, especially those dealing in small amounts.

In diagnosing the deposit mobilization issue, it is useful to think of the financial system as comprising two segments – those elements that are prudentially regulated by a central authority and are authorized to accept deposits from the public, and those that are not. Commercial banks, government-owned banks, rural banks, and savings and thrift banks are example of these regulated elements, while non-government organizations and some cooperatives are examples of the unregulated elements. Organizations such as credit cooperatives or credit unions may, depending on the country, fall in a gray area between regulated and non-regulated.

Only the interest rates applied on outside funds available to the regulated portion of the financial system directly affect the incentives to mobilize deposits. Deposit mobilization is not undercut if the costs of these outside-funds to regulated intermediaries are approximately equal to the deposit or the interbank rate and are generally above the average rate of interest paid on deposits. Generally, the Philippines appears to follow the loan pricing policy with the exception of the LBP, which has access to subsidized funds and mobilizes deposits as well. Most of the “outside” funds available to deposit-taking institutions were priced at around 12 percent (close to the deposit and interbank rate) in 1996.

In the long run, access to substantial amounts of funds carrying concessionary interest rates may have an adverse effect on deposit mobilization. This is especially true for cooperatives and self-help groups where the levels of interest subsidies are higher. These organizations often specialize in providing microloans to poor people and over time, should mature into more comprehensive financial institutions that provide a broader range of financial services, including deposits.[9] This maturation is more likely to occur if the organizations that wish to assist poor depositors and poor borrowers, are eventually weaned from subsidies (although this does not preclude one-shot subsidies for institution building).

Transaction costs

Unfortunately, the administrative and transaction costs generated by the large number of directed credit programs in the

Philippines have not been well documented. The above results of large subsidies to executing agencies point to the high administrative and operational costs of implementing directed credit programs. Research in other countries also shows that these costs can be substantial (Cuevas and Graham). These costs come in two forms: (a) the costs of setting up and running organizations that manage directed credit programs; and (b) the additional transaction costs caused by directed-credit lending procedures.

The first type of cost consists of expenses in setting up new organizations to direct credit towards target groups. The different layers of organizations built on top of one another as subcategories of target groups and/or subprojects of the original programs add to this type of costs. The second type of cost involves increases in the normal lending costs when: (a) third parties, such as loan guarantee agencies[10] or second storey banks, become involved in the loan approval process; (b) providers of funds require detailed reports on loan use; and (c) credit impact studies are required.

Indicators of high transactions costs are substantial spreads between borrowing and lending rates, lending procedures that impose hefty transaction costs on borrowers, and effective lending rates on loans to final borrowers that are quite high. The study does not attempt to measure all these costs since it would require a micro study involving surveys of borrowers and lenders of directed credit programs.

9 *BancoSol in Bolivia, Mibanco in Peru, and the Grameen Bank in Bangladesh are examples of non-government organizations that have evolved from doing mainly microlending to doing microfinance, including deposit mobilization.*

10 *We have discussed the guarantee fee charges in some of the credit programs analyzed.*

5

Distribution of Subsidies and Costs: A Summary

The above study of the 20 credit programs suggest that large directed credit programs are giving large subsidies to the executing agencies to pay for their administrative, operational and transactions costs and to cover their loan and foreign exchange risks. Interest subsidies to non-financial conduits (cooperatives, NGOs, self-help groups) are also substantial because of the belief that such groups need credit-related assistance. Programs directed to the rural borrowers and to small and medium sectors are burdened with relatively large default subsidies. The rest of the borrowers appear to be paying interest rates that are relatively high and not so different from the so-called "market" or "cost recovery" rate. The low (but positive) levels of subsidies to financial conduits and end-borrowers are reflective of the more "market-oriented" approach to credit for these groups, in contrast to credit channeled through cooperatives, credit unions and the like.

We also discussed, but did not empirically measure, possible negative effects on deposit mobilization of interest subsidies to conduits. Since our results show larger interest subsidies to non-financial conduits (cooperatives, credit unions, self-help groups) than to financial conduits, the danger of jeopardizing deposit mobilization may be stronger in directed credit programs employing non-financial conduits.

Finally we mentioned additional transactions costs that may be incurred by directed credit programs in terms of the additional layers of institutions providing guarantees and credit investigation, and implementing subcomponents of the programs. This is, of course, usually accompanied by burdensome paper work that entail time and resource costs to both borrowers and lenders. These costs are hard to aggregate (though we did try to estimate total guarantee fees for the twenty programs) and the paper did not attempt to quantify them.

6

Questions Posed and Recommendations

The study measures only part of the costs of directed credit programs and does not go into evaluating whether these costs are commensurate to the benefits derived from the programs. It is of course unwise to try to actually quantify the benefits of the various directed credit programs since, aside from the problems of objectively doing cost-benefit analyses on credit programs, the need for normative judgments inevitably arise. Thus this paper tries to ask more questions rather than answer pre-set questions. Here are some of the questions and a few policy recommendations and suggestions for additional research:

1. The top twenty programs released ₱14.4 billion in loans in 1996. Given other projects that the government could have gone into, are these directed credit programs the best place to put this amount of money? Of course this entails value judgments from the policy makers and a careful evaluation of the projects involved.

2. We estimated total interest and default subsidies to total close to P1.9 billion for the top twenty programs – around 13.15% of the value of loans released in 1996 under these programs. Are these subsidies necessary and worth the additional benefits derived from the programs? Furthermore, if one looks at the opportunity cost of the loans released under the 20 programs from the government's point of view, it is (based on the interest

income that the government could have derived if the money were put in treasury bills or time deposits) almost equivalent to the interest subsidy to the executing agencies. This opportunity cost to the government is measured by deducting the interest rate on T-bills or time deposits from the actual costs of money charged to executing agencies and multiplying the result by the volume of loans. The amount was around ₱850 million for the top 20 programs in 1996. The question therefore is: are the shadow earnings or the monetary equivalent of the incremental social benefits of the top 20 programs more than ₱850 million? Again only value judgments and careful evaluation by top government policy makers can answer this question. If the answer to any of these questions is no, then it is worthwhile to look at each credit program to determine which ones have higher costs than perceived benefits. The next step is to decide whether the program can be improved upon so that actual and perceived benefits will surpass the costs of the program. If this cannot be done, then there should be a plan to eventually phase out the directed credit program.

3. The paper showed that the biggest subsidy component is the subsidy given to the executing agencies. This is in order to compensate the agencies for administrative, operational and transactions costs. If these costs can be reduced, it will free up some money that the government can use for other vital projects. Thus it is imperative that the government rationalize the entire system and institutions of directed credit programs. In terms of interest rate structure, this means that the interest rates charged to executing agencies should be nearer the actual opportunity cost of funds so that the government can charge higher rates and use the higher proceeds for other projects. The rationalization of the directed credit program of the country can be in the form of pooling and consolidating similar

programs together under one institution. In this regard, agricultural and rural loans made by the DA, ACPC, NLSF, PCFC and Quedancor can be pooled and consolidated with similar loans in the LBP to save on administrative and operations costs. Similarly, loans for small and medium enterprises and microentrepreneurs in the Bureau of Small and Medium Enterprise and the Small Business and Guarantee Fund can be pooled and consolidated together with similar loans in the DBP. One should also study the possibility of rationalizing the operations and fees of guarantee funds, credit investigation and collection which often entail additional institutions, paper work, time and resource costs.

4. Given the current market orientation in the credit and loans market, it would be wise to undertake careful studies of whether interest subsidies to conduits and end-borrowers have their corresponding benefits. For one, given the possibility that interest subsidies to conduits may serve as disincentives for deposit mobilization, one should study whether this actually happens in programs with such subsidies. Second, we have noted that interest subsidies to cooperatives, credit unions, self-help groups and NGOs are in general higher than subsidies to financial institutions. Inasmuch as the aim of these subsidies is for institution building, it may be that initial start-up subsidies may be beneficial but continuing subsidies may heighten these institutions' dependence on subsidies and actually jeopardize their sustainability.

5. One should also look at whether subsidies to end-borrowers are justified from the viability and sustainability point of view. The high default rates and default subsidies (the second largest component in our study) of certain programs for rural folks and small and medium enterprises is cause for worry. Hence,

the government should institute policies to make sure that the high defaults and failures of subsidized credit programs in the 70s and early 80s are not repeated.

6. Instead of continuing to stress interest rate policies, it might be more appropriate to directly estimate the costs of financial intermediation and to focus on how directed credit programs affect these costs. The primary objective in doing this would be to make the costs of directed credit more apparent. This includes the costs of government subsidies and the cost in managing the many lines of directed credit.

7. It would be interesting to come up with a research that estimates subsidy-dependency indices (Yaron 1992) for directed credit programs and their institutions and to see if these measures can be useful in rationalizing the system of directed credit.

Table 1
Summary Table of Twenty Credit Programs

Name of Program	Purpose	Nature of Conduits	Executing Agency	Source of Funds	Volume of New Loans 1996 (millions of pesos)	Interest Rate & other Charges from Source to Exec. Ag.	Interest Rate & other Charges from Exec. Ag. to PFI
FARE	To provide addititonal working capital to market retailers that sell agricultural produce	none – they lend directly to the end-user	DA- Quedan and Rural Credit Corporation	Internal + one-time DA capital infusion	184.1	0.00%	n.a.
CAMP	to provide start-up or expansion capital for integrated agricultural marketing and production	none – they lend directly to the end-user	DA- Quedan and Rural Credit Corporation	Internal + one-time DA capital infusion	77.86	0.00%	n.a.
Agricultural Loan Fund	Agricultural and agri-business sub-projects except purely trading	accredited PFIs	LandBank of the Philippines	BSP	227.89	10.25%	12.25%
Rural Finance Proj. I (Countryside Loan Fund I or CLF I)	for agri related product activity; food agro-processing, mfg., and service-oriented projects	accredited PFIs	LandBank of the Philippines	IBRD – WB	1285.95	10.33%	12.33%
Second Rural Finance Project (CLF II)	agri-related, food or agro-processing, mfg., service-oriented, environmental protection project, tourism related and prop. dev't. proj.	accredited PFIs	LandBank of the Philippines	IBRD – WB	586.61	10.50%	12.50%
ADB Small Farmers Project	PL, WCL, FAL	cooperatives	LandBank of the Philippines	ADB	544.25	9.49%	n.a.
OECF -AJDF Small Farmers Credit Proj.	PL, Marketing/WCL, FAL	cooperatives	LandBank of the Philippines	OECF	818.56	7.10%	n.a.
IRF	crop-prod'n, fishing, livestock,and poultry; Quedan financing and commodity loans; prod'n & mfg activities of CBEs	Accrdited FO or PFI	Agricultural Credit Policy Council (ACPC)	DA – ACPC	620.527	0.00%	6.00%
Fisheries Sector Program	PL, WCL, FAL, start-up capital	LBP, DBP, Quedancor & PFIs & coops	Agricultural Credit Policy Council (ACPC)	ADB & OECF	227.75	0.00%	6.00%
Gintong Ani Program	production, post-harvest & mktg needs of farmers; rice & corn prod'n	PFIs and SHFGs	Agricultural Credit Policy Council (ACPC)	DA	413.94	0.00%	n.a.
Tulong sa Tao	provision of credit to microentrepreneurs through NGOs to finance projects in line with trading, mfg, processing and services	Coops, NGOs, credit unions & banks	DTI- Bureau of Small and Medium Business Development (BSMBD)	ADB	350.87	1.00%	n.a.
SEFF	to supplement the financial sector's resources for small enterprise dev't financing	Accredited FIs	Small Business Guarantee and Finance Corporation	GFI stockholders	148.48	0.00%	12.40%
Industrial Restructuring Program	capital expenditures and WC requirements of the industrial sector	KBs, DBs, gov't banks, Finance Leasing Cos.	Development Bank of the Philippines	WB	1114.66	8.01%	12.34%
Indl Guar & Loan Program	FAL & WCL of mfg industries under the SME category	accredited PFIs	Development Bank of the Philippines	WB, ADB, ICAX	1672	7.00%	12.05%
OECF	to provide financial assistance to small and medium scale enterprises	Savings and Loans associations	Development Bank of the Philippines	Asean-Japan Development Fund	222	2.50%	10.34%
Indl Inv. Credit Program	to finance eligible industrial projects	KBs, DBs, gov't banks, Finance Leasing Cos.	Development Bank of the Philippines	WB	118.78	8.01%	12.33%
EXIM Japan Untied Loan	To fill the gap in the supply of Medium and Long-term credit to ind'l enterprises	KBs, DBs, gov't banks, Finance Leasing Cos.	Development Bank of the Philippines	Export-Import Bank Japan	1909.41	6.08%	12.33%
Domestic Shipping	to support the modernization of the domestic shipping fleet	directly implemented	Development Bank of the Philippines	OECF	1374.29	7.00%	n.a.
Indl & Support Serv Exp. Prog	to provide financial assistance to SMEs in the Phils. to develop the private sector	Inv. house, finance & lease co., sav. & loan associations	Development Bank of the Philippines	OECF	2400	3.00%	10.34%
HIRAM	to provide the poor access to credit	RBs, PDBs, NGOs, Coops, Coop bnks, unions	People's Credit and Finance Corporation	NLSF	108.8	3.00%	n.a.
	Total				**14406.73**		

Name of Program	Interest Rate & other charges from Exec. Ag. to Coop or NGO	Interest Rate & other charges to End-Borrower	Interest Subsidy to Executing Agency	Interest Subsidy to PFIs	Interest Subsidy to Coops or NGOs	Interest Subsidy to End-Users	Total Interest Subsidy	Default Subsidy (principal)	Default Subsidy (interest)	Total Default Subsidy	Total Interest & Default Subsidies	Gurantee Fee Charges
FARE	n.a.	26.00%	46.85	n.a	n.a.	16.22	63.07	3.9	1.01	4.91	67.99	6.4
CAMP	n.a.	18%	13.36	n.a	n.a.	12.62	25.97	3.65	0.66	4.31	30.28	1.56
Agricultural Loan Fund	n.a.	cost recovery rate	4.56	0.83	n.a.	n.a.	5.39	0	0	0	5.39	
Rural Finance Proj. I (Countryside Loan Fund I or CLF I)	n.a.	cost recovery rate	25.72	3.72	n.a.	n.a.	29.44	0	0	0	29.44	
Second Rural Finance Project (CLF II)	n.a.	cost recovery rate	8.8	0.50	n.a.	n.a.	9.3	0	0	0	9.3	
ADB Small Farmers Project	14.05%	cost recovery rate	22.58	n.a	54.23	n.a.	76.82	48.98	6.88	55.86	132.68	5.44
OECF -AJDF Small Farmers Credit Proj.	14.00%	cost recovery rate	48.52	n.a	77.44	n.a.	125.95	114.60	16.04	130.64	256.60	8.19
IRF	14.00%	cost recovery rate	27.55	30.38	50.51	n.a.	108.44	161.34	22.59	183.93	292.37	12.41
Fisheries Sector Program	12.50%	15.08%	11.93	17.88	3.18	33.57	66.56	28.90	4.25	33.15	99.71	4.56
Gintong Ani Program	19.00%	cost recovery rate	58.40	n.a	23.36	n.a.	81.76	24.63	4.68	29.31	111.06	8.28
Tulong sa Tao	12.00%	16.80%	32.78	n.a	38.73	24.43	95.94	52.91	8.89	61.80	157.74	
SEFF	n.a.	cost recovery rate	18.41	0.32	n.a.	n.a.	18.73	0	0	0	18.73	
Industrial Restructuring Program	n.a.	cost recovery rate	48.25	3.07	n.a.	n.a.	51.32	0	0	0	51.32	11.15
Indl Guar & Loan Program	n.a.	cost recovery rate	84.28	9.53	n.a.	n.a.	93.81	1.67	0.20	1.87	95.68	
OECF	n.a.	cost recovery rate	17.39	5.06	n.a.	n.a.	22.46	0	0	0	22.46	
Indl Inv. Credit Program	n.a.	cost recovery rate	5.14	0.33	n.a.	n.a.	5.47	0	0	0	5.47	1.19
EXIM Japan Untied Loan	n.a.	cost recovery rate	119.41	5.41	n.a.	n.a.	124.82	0	0	0	124.82	19.09
Domestic Shipping	n.a.	12.00%	68.71	n.a	n.a.	38.48	107.19	0	0	0	107.19	13.74
Indl & Support Serv Exp. Prog	n.a.	13.95%	175.8	54.73	n.a.	20.4	250.93	0	0	0	250.93	
HIRAM	12.00%	cost recovery rate	9.67	n.a	13.97	n.a.	23.64	1.33	0.16	1.49	25.13	
			848.10	**131.76**	**261.42**	**145.72**	**1387.01**	**441.91**	**65.36**	**507.27**	**1894.29**	**92.01**

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Appendix I

The Supposed Benefits of Subsidized Credit Programs

The benefits of subsidized credit programs are more difficult to document than are their costs. In part, this is because the hoped-for benefits are often measured by social rather than economic criteria: easing of poverty, empowering the poor, or providing a social entitlement in the form of loans. The fact that the supposed economic benefits of subsidized credit programs – increases in income, in employment, in investment, or in production – are diffused among thousands of loan users compounds the problem of measuring economic benefits. The costs of doing credit impact studies and the associated methodological problems seriously limit the extent to which borrower-level benefits can be reliably measured.[11] Short-run versus long-run considerations further complicate the measurement of benefits and their comparison with costs. A short-run program to provide hundreds of thousands of subsidized loans to farmers with small units, for example, may undermine or destroy the ability of a financial system to provide sustained financial services to the beneficiaries of short-run programs.[12]

Those who analyze the benefits of subsidized credit programs are forced to rely heavily on microeconomic theory and

11 See Adams, 1988 and Von Pischke and Adams 1980 for further discussion of methodological problems.

12 The wear-and-tear on the financial system of the Masagana 99 program in the Philippines during the 1970s is an example of this.

documentation of who receives subsidized loans to arrive at qualitative judgements about the social benefits of these programs. Insights into the economic benefits of these efforts must largely be inferred from loan-recovery performance. Before summarizing the insights microeconomic theory provides on social benefits, it may be useful to briefly describe loan subsidies.

Forms of loan subsidies

Three forms of subsidy can be associated with loans: an interest rate subsidy that may be captured by either the lender or borrower, a default subsidy that is captured by the borrower, and implicit subsidies embedded in loan guarantee programs that are usually captured by lenders. (Abiad, 1997; Vogel and Adams, 1996) Interest rate subsidies occur when borrowers are charged interest rates that are below market rates for similar loan contracts, the rate of subsidy being the difference between the two rates. This may involve lenders receiving concessionary funding from governments or donors, or final borrowers receiving loans that carry concessionary terms. A default subsidy occurs when borrowers fail to repay all or part of their loans, the amount of the subsidy being the loan principal and interest due but not recovered by the lender.

The magnitude of the interest rate subsidy increases when nominal interest rate policies are sticky and inflation increases. Likewise, the magnitude of the default subsidy usually increases when loans are made in a rush, when loans are allocated on the basis of need, when the macroeconomic environment deteriorates, and when loans are made by individuals or organizations that lack experience in creditworthy lending. Typically, loan guarantee programs that support directed credit efforts are subsidized by governments or donors and this subsidy is most often captured by lenders who are able to transfer part of their loan recovery risk to the guarantee program.[13]

Since someone must pay for the subsidies, credit subsidies are always associated with implicit taxes. These taxes might be paid by foreign citizens who provide donor funds to finance credit subsidies, by domestic citizens who pay taxes that are used to fund credit subsidies, or by all holders of financial assets-particularly deposits – whose real values erode with the onslaught of inflation. The overall social benefits of subsidized credit programs are partly determined by who receives the subsidies and partly by who pays the associated tax.

Subsidized credit and poverty

A subsidized credit program is only effective in alleviating poverty if poor people capture most of the associated subsidy. Two elements determine the distribution of credit subsidies: the access to subsidized credit and the magnitude of the subsidy attached to the loan. Only those who receive subsidized loans, for example, benefit from the loan subsidy, with the magnitude of the subsidy determined by a subsidy formula.

Who receives subsidized loans? At first blush this appears to be a superficial question since most subsidized credit programs are directed at pre-selected target groups: for example, poor people, women, microentrepreneurs, or operators of small farms. Research on microfinance, however, shows that the differences between what the designers of directed credit programs desire (de jure) and what actually happens later (de facto) may differ substantially due to the microeconomic interests of dozens of lenders and thousands

13 See Vogel and Adams (1996) for further discussion of this topic.

of borrowers whose actions occur largely beyond the control of credit planners.

Loan access is determined by the actions of both lenders and borrowers. Attaching a subsidy element to loans complicates analysis of these actions. When the subsidy component is relatively large, it may convert borrowers into rent seekers who primarily wish to capture the subsidy, rather than to apply borrowed resources in a profitable economic activity. If the subsidy component is large enough the demand for subsidized loans may become essentially infinite, thereby forcing lenders to ration loans through non-price mechanisms. This might include the lender imposing additional loan transaction costs on non-preferred clients to discourage them from asking for credit and loan officers participating in rent seeking by accepting bribes.

Lending small amounts to new clients, especially those in rural areas, is naturally costly and risky for lenders. Credit subsidies make this type of lending even less attractive. The net result of this is likely to be lenders favoring previous clients over new loan clients and preferring large loans over small loans, thus, shrinking poor people's access to formal loans.

What is the subsidy formula? In most subsidized credit programs the interest rate subsidy and the default subsidy are always proportional to the size of loan. If the degree of the interest rate subsidy, for example, is equal to 10 percent of the value of the loan, a borrower of $100 receives an interest subsidy equal to 1/10th the size of the interest subsidy received by someone who receives a loan 10 times as large, $1,000. Likewise, a borrower who fails to repay a loan of $100 receives a default subsidy that is only 1/10th the size of the default subsidy captured by someone who fails to repay a loan of $1,000.

This leads to the following general conclusion: those who are unable to access subsidized loans receive no subsidies attached to loans, those who obtain small subsidized loans receive small subsidies and those with access to large loans receive large subsidies. Since loan access and wealth are highly correlated, subsidies attached to loans are inevitably distributed regressively - those borrowers who are relatively well-off capture a larger proportion of the total subsidy than do those who are less well-off. If a uniform formula regarding interest rates and loan recovery enforcement is applied to all borrowers, subsidies attached to loans exacerbate, rather than ameliorate, income- and wealth-distribution problems.

To overcome this proportionality problem, policy makers may attempt to adjust the subsidy formula in favor of the poor. This might include loan size ceilings on subsidized loans, application of differential interest rates on loans, or application of differential loan recovery standards depending on loan size. All three policy options have important implication on the microeconomic decisions of affected lenders, who may try to circumvent these policies.

Appendix II

Market rates of interest

Although the term "market rate of interest" is widely used in the Philippines to describe interest rate policies on directed credit loans, the use of this term in ambiguous. One may, for example, argue that the 12 percent per annum interest rate on loans to farmer-cooperatives in late 1996 is a market rate when, in fact, the prime lending rate of commercial banks on large and well-secured loans at that time, ranged from 22 to 26 percent down from 35 percent a few months earlier. Likewise, several non-government organizations argue that they are charging "market rates of interest" on loans, when their nominal loan rates plus hidden charges (such as service fees, compensatory balances and insurance fees), and their practice of charging interest on a "flat basis" may elevate the effective costs of borrowing to well over 50 percent per annum.

In part, the ambiguity of the term "market rate of interest" stems from confusion about the nature of financial products. Casual observers often assume that all loans are essentially the same product and that if financial markets are working efficiently all debt should carry the same market-clearing interest rate – the so-called "market rate of interest." Following this logic, a number of casual observers of financial markets cite the wide spreads between what informal lenders charge under a 5/6 lending arrangement, for example, and the rates charged by commercial banks as indications of market imperfections. The fundamental problem with this view is that it glosses over the huge variety of loan contracts that are produced in these markets.

Comparing the term ”loans” to the term “fruit” analogously may clarify the loan-contract notion. The term ”fruit” covers a large number of distinct crops as different as tomatoes, mangos, and bananas. The price of each type of fruit is determined largely independently by the interplay of supply and demand forces. Furthermore, there may be a range of prices that consumers are willing to pay for sub-varieties of a fruit or for quality differences, apples being a case in point. One does not expect to pay the same price for a large, crisp, and perfectly shaped apple, for example, as for a small, soft, and misshapen one.

Similar differences exist in the “varieties” of loans. A small loan that is made without imposing transaction costs on the borrower, that involves no physical collateral, and that has highly flexible repayment terms is one of these “varieties.” The explicit interest rate on this type of loan may be much higher than commercial rates charged by banks. A completely different “variety” is a commercial loan that is large, that imposes substantial loan transaction costs on the borrower, that requires significant physical collateral, and that has inflexible repayment conditions. Likewise, the instantaneous loans one may acquire through the use of a credit card are viewed by lender and borrower alike as substantially different loan contracts from a 30 year mortgage involved in purchasing a house. There is no logical reason to expect that these vastly different loan contracts – different in costs to produce and different in borrowers’ satisfaction – should carry the same price.

Instead of using the term “market rate of interest” when referring to the pricing of loans to end users in directed credit programs, it may be more appropriate to use the term "cost recovery rate". Using this term would force program administrators to analyze more carefully their costs and to compare these costs with their revenues. This, in turn, would allow policy makers and administrators of these organizations to measure their movement toward, or away from, subsidy independence.

Appendix III

The Twenty Credit Programs

Name of Program	Food and Agricultural Retail Enterprise (FARE)
Purpose	To provide addititonal working capital to market retailers that sell agricultural produce.
Conduits	none - they lend directly to the end-user
Executing Agency	DA- Quedan and Rural Credit Corporation
Source of Funds	Internal + one-time DA capital infusion
Volume of New Loans (Total)	184.10
Volume of New Loans (Co-Financing) *[1]	136.07
Volume of New Loans (Special Window) *[2]	48.03
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate from Conduit to End-user (%)	16.00%
Other Charges to End-user* [3]	10.00%
Other Charges to End-user* [4]	1000
Interest Subsidy to Executing Agency (000,000)	46.85
Interest Subsidy to end-user (000,000)	16.22
Total Interest Subsidy to Exec. Agency & End-User	63.07
Repayment Rates (%)	97.88%
Default Subsidy - Principal (000,000)	3.90
Default Subsidy - Interest (000,000)	1.01
Total Interest & Default Subsidy (000,000)	67.99
Compensatory Financing (Forced Saving)	None. However, they encourage the borrower's to open an account with the counterpart banks.
Loan Insurance Scheme	100% Quedancor
Foreign Exchange Risk	n.a. (Source of funds in pesos)
Guarantee Fee for Sole Guarantee Mode (000,000)	2.72
Guarantee Fee for Counterpart Funding & Special Window	3.68
Total Guarantee Fee (000,000)+A14 — 2% of loan value	6.40
Other Information	3 Components: a)50-50 counterpart funding Quedancor and PFIs; b)special window, 100% of loan shouldered by Quedancor c)sole guarantee mode: credit provided by PFIs guaranteed by Quedancor

1 *Figure refer only to amount of loan provided by Quedancor*
2 *Figure represents special window loan fully funded by Quedancor*
3 *service charge of 10% of loan amount*
4 *accreditation fee, good for two years*

Name of Program	**Coordinated Agricultural Marketing and Production (CAMP)**
Purpose	To provide start-up or expansion capital for integrated agricultural marketing and production
Conduits	none - they lend directly to the end-user
Executing Agency	DA- Quedan and Rural Credit Corporation
Source of Funds	Internal + one-time DA capital infusion
Volume of New Loans (Total)* [1]	77.86
Volume of New Loans (Co-Financing)* [2]	11.73
Volume of New Loans (Special Window)	66.13
Volume of New Loans (SGM)	59.58
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate from Exec. Agency to Conduit (%)	0%
Other Charges to Conduit* [3]	2.00%
Interest Rate from Conduit to End-user (%)	16.00%
Other Charges to End-user* [4]	2.00%
Other Charges to End-user* [5]	1000
Interest Subsidy to Executing Agency (000,000)	13.36
Interest Subsidy to End-User (000,000)	12.62
Total Interest Subsidy to Exec. Agency & End-User	25.97
Repayment Rates (%)	95.31%
Default Subsidy - Principal (000,000)	3.65
Default Subsidy - Interest (000,000)	0.66
Total Interest & Default Subsidy	30.28
Compensatory Financing (Forced Saving)	None. However, they encourage the borrower's to open an account with the counterpart bank/s.
Loan Insurance Scheme	100% QUEDANCOR
Foreign Exchange Risk	n.a. (in pesos)
Guarantee Fee for Sole Guarantee Mode (000,000)	1.43
Guarantee Fee for Counterpart Funding & Special Window	1.56
Total Guarantee Fee (000,000) - 2% of loaan value	2.98
Other Information	3 Components: a)50-50 counterpart funding Quedancor and PFIs; b)special window, 100% of loan shouldered by Quedancor; c)sole guarantee mode: credit provided by PFIs guaranteed by Quedancor

1 *This is just the sum of Co-Financing loans and Special Window loans, or the total exposure of Quedancor*
2 *This includes only the funding from Quedancor and excludes the counterpart funding of the PFIs.*
3 *Guarantee fee for the Sole Guarantee Mode*
4 *service charge of 2% of loan amount*
5 *accreditation fee, good for two years*

Name of Program	Agricultural Loan Fund
Purpose	Agricultural and agri-business sub-projects except purely trading
Conduits	Accredited PFIs
Executing Agency	LandBank of the Philippines
Source of Funds	BSP
Volume of New Loans - Total (000,000)	227.89
Volume of New Loans - Less Than Five Million (000,000)	102.39
Volume of New Loans - More than five million (000,000)	125.50
Interest Rate from Source (%)	10.25%
Other Charges to Exec. Agency	none
Interest Rate Exec. to Conduit (%)	12.25%
Other Charges to Conduit [1]	0.75%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	4.56
Interest Subsidy to Conduit (000,000)	0.83
Total Interest Subsidy to Exec. Agency & Conduit	5.39
Repayment Rates (%)	100%
Default Subsidy	0
Total Interest & Default Subsidy	5.39
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	n.a.
Other Information	

1 *Only loans P5 million and above have to pay a commitment fee of 3/4 of 1% for the days funds are unreleased (usually one day)*

Name of Program	**Rural Finance Project I (Countryside Loan Fund I or CLF I)**
Purpose	for agri related product activity; food agro-processing, mfg., and service-oriented projects
Conduits	accredited PFIs
Executing Agency	LandBank of the Philippines
Source of Funds	IBRD - WB
Volume of New Loans - Total (000,000)	1285.95
Volume of New Loans - Less than 5 million (000,000)	140.94
Volume of New Loans - More than 5 million (000,000)	1145.01
Interest Rate from Source (%)	6.97%
Other Charges to Exec. Agency (Guarantee Fee)	1.00%
Other Charges to Exec. Agency (GRT)	0.50%
Other Charges to Exec. Agency (FXRC Fee)	1.86%
Interest Rate Exec. to Conduit (%)	12.33%
Other Charges to Conduit [1]	0.75%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	25.72
Interest Subsidy to Conduit (000,000)	3.72
Total Interest Subsidy to Exec. Agency & Conduit	29.44
Repayment Rates (%)	100%
Default Subsidy	0
Total Interest & Default Subsidy (000,000)	29.44
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by DOF
Total Guarantee Fee (000,000) - 1% of loan value	12.86
Other Information	

1 *commitment fee 3/4 of 1% p.a. for ALF/CLF loans P5M and above from date of loan approval*

Name of Program	Second Rural Finance Project (CLF II)
Purpose	agri-related, food or agro-processing, mfg., service-oriented, environmental protection project, tourism related and property development project
Conduits	Accredited PFIs
Executing Agency	LandBank of the Philippines
Source of Funds	IBRD - WB
Volume of New Loans - Total (000,000)	586.61
Volume of New Loans - Less than 5 million (000,000)	130.52
Volume of New Loans - More than 5 million (000,000)	456.09
Interest Rate from Source (%) (CPL) [1]	6.94%
Interest Rate from Source (%) (VSCL) [2]	5.84%
Interest Rate from Source (%) (FSCL) [3]	6.33%
Other Charges to Exec. Agency (Guarantee Fee)	1.00%
Other Charges to Exec. Agency (GRT)	0.50%
Other Charges to Exec. Agency (FXRC Fee - CPL)	2.03%
Other Charges to Exec. Agency (FXRC Fee VSCL)	3.16%
Other Charges to Exec. Agency (FXRC Fee FSCL)	2.67%
Other Charges to Exec. Agency [4]	0.25%
Interest Rate Exec. to Conduit (%)	12.50%
Other Charges to Conduit [5]	0.75%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency* (000,000)	8.80
Interest Subsidy to Conduit* (000,000)	0.50
Total Interest Subsidy to Exec. Agency & Conduit	9.30
Repayment Rates (%)	100%
Default Subsidy	0
Total Interest & Default Subsidy (000,000)	9.30
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by DOF
Total Guarantee Fee (000,000) - 1% of loan value	5.87
Other Information	The program started only in the 2Q of 1996

* *adjusted to reflect only the last three quarters of 1996*
1 *Currency Pool Loan*
2 *Variable Single Currency Loan*
3 *Fixed Single Currency Loan*
4 *Commitment Fee of 1/4 of 1% p.a. based on undrawn loan amount*
5 *commitment fee 3/4 of 1% p.a. for ALF/CLF loans P5M and above from date of loan approval*

Name of Program	ADB Small Farmers Credit Project
Purpose	PL, WCL, FAL
Conduits	directly implemented/ through cooperatives
Volume of New Loans - Total (000,000)	544.25
Volume of New Loans (PL/WCL)	529.59
Volume of New Loans (FA/MT/LT)	14.66
Executing Agency	LandBank of the Philippines
Source of Funds	ADB
Interest Rate from Source (%)	6.79%
Other Charges to Exec. Agency (Guar. Fee)	1.00%
Other Charges to Exec. Agency (Commitment Fee)	0.75%
Other Charges to Exec. Agency (FXRC - PL/WCL)	0.91%
Other Charges to Exec. Agency (FXRC - FAL)	2.55%
Average interest rate to executing agency	9.49%
Interest Rate Exec. to Conduit (%) (PL/WCL)	12.00%
Interest Rate Exec. to Conduit (%) (FA/MT/LT)	14.00%
Average Interest rate to conduit	12.05%
Other Charges to Conduit (Supervision Fee)	2.00%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	22.56
Interest Subsidy to Conduit (000,000)	54.23
Total Interest Subsidy to Exec. Agency & Conduit	76.80
Repayment Rates (%)	91.00%
Default Subsidy - Principal (000,000)	48.98
Default Subsidy - Interest (000,000)	6.88
Total Interest & Default Subsidy (000,000)	132.66
Compensatory Financing (Forced Saving)	n.a.
Loan Insurance Scheme	n.a.
Foreign Exchange Risk	Borne by DOF
Guarantee Fee (000,000) - 1% of loan value	5.44
Other Information	

Name of Program	**OECF -AJDF Small Farmers Credit Project**
Purpose	PL, Marketing/WCL, FAL
Conduits	directly implemented/ through conduits
Executing Agency	LandBank of the Philippines
Source of Funds	OECF
Volume of New Loans (000,000)	818.56
Interest Rate from Source (%)	2.50%
Other Charges to Exec. Agency (Guar. Fee)	1.00%
Other Charges to Exec. Agency (Ser. Ch. per drawdown)	0.10%
Other Charges to Exec. Agency (FXRC & Credit Risk Cover)	3.50%
Total Interest Rate & Charges from Source to Exec. Agency	7.10%
Interest Rate Exec. to Conduit (%) (PL/WCL)	12.00%
Other Charges to Conduit (Supervision Fee)	2.00%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	48.52
Interest Subsidy to Conduit (000,000)	77.44
Total Interest Subsidy to Exec. Agency & Conduit (000,000)	125.95
Repayment Rates (%)	86%, 3% default fee of outstanding amount
Default Subsidy - Principal (000,000)	114.60
Default Subsidy - Interest (000,000)	16.04
Total Interest & Default Subsidy (000,000)	256.59
Compensatory Financing (Forced Saving)	n.a.
Loan Insurance Scheme	n.a.
Foreign Exchange Risk	Borne by DOF
Guarantee Fee (000,000) - 1% of loan value	8.19
Other Information	

Name of Program	DA-ACPC-LBP Integrated Rural Financing (IRF) Program
Purpose	crop-production, fishing, livestock, and poultry; Quedan financing and commodity loans; production & manufacturing activities of CBEs
Conduits	LBP FOs, Accredited RFIs of LBP (for rediscounting)
Executing Agency	Agricultural Credit Policy Council (ACPC)
Source of Funds	DA - ACPC
Volume of New Loans	620.53
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate Exec. to Conduit (%) (ACPC to LBP)	6.00%
Interest Rate Exec. to Conduit (%) (LBP to Coops)	12.00%
Other Charges to Coops	2.00%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user (Supervision Fee)	2.00%
Interest Subsidy to Exec. Agency (000,000)	27.55
Interest Subsidy to LBP	30.38
Interest Subsidy to Coop	50.51
Total Interest Subsidy (000,000)	108.44
Repayment Rates (%)	74.00%
Default Subsidy - Principal (000,000)	161.34
Default Subsidy - Interest (000,000)	22.59
Total Interest & Default Subsidy (000,000)	292.37
Compensatory Financing (Forced Saving)	None, but since they are coops, they need CBU (normal for coops not because of the program).
Loan Insurance Scheme	PCIC up to 85%
Foreign Exchange Risk	none
Guarantee Fee (000,000) - 2% of loan value	12.41
Other Information	Part of the IRF funds were realigned for Gintong Ani, so to avoid double counting, only loans of coops were used. The data for the amount of rediscounting by RFIs is not yet available.

Name of Program	Fisheries Sector Program (FSP)
Purpose	PL, WCL, FAL, start-up capital
Conduits	Accredited coops of LBP; LBP, DBP, Quedancor
Executing Agency	Agricultural Credit Policy Council (ACPC)
Source of Funds	ADB & OECF
Volume of New Loans - Total (000,000)	227.75
Volume of New Loans (LBP)	48.12
Volume of New Loans (DBP)	165.68
Volume of New Loans (QUEDANCOR)	13.96
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate from Exec. Agency to LBP, DBP, & Quedancor	6.00%
Interest Rate from LBP to coops [1]	12.50%
Other Charges from LBP to coops	2.00%
Interest Rate DBP to end-borrower	15.00%
Interest Rate from Quedancor to end-borrower	16.00%
Average interest rate from DBP & Quedancor to end-borrower	15.08%
Interest Subsidy to Exec. Agency (000,000)	11.93
Interest Subsidy to LBP (000,000)	2.58
Interest Subsidy to DBP (000,000)	13.91
Interest Subsidy to Quedancor (000,000)	1.40
Interest Subsidy to all Conduits (LBP, DBP & Quedancor)	17.88
Subsidy to coops from LBP assuming lending rate to be 25%	3.18
Subsidy from DBP & Quedancor to end-borrower	33.57
Total Interest subsidies net of other charges (000,000)	66.57
Repayment Rates (%) (LBP)	63.00%
Repayment Rates (%)	93.30%
Default Subsidy - Principal (LBP)	17.80
Default Subsidy - Principal (DBP)	11.10
Total Default Subsidy - Principal (000,000)	28.90
Default Subsidy - Interest (LBP)	2.58
Default Subsidy - Interest (DBP)	1.67
Total Default Subsidy - Interest	4.25
Total Interest & Default Subsidy (000,000)	99.72
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	PCIC up to 85%, & QUEDANCOR
Foreign Exchange Risk	n.a.
Guarantee Fee Charges (000,000)	4.56
Other Information	This is a loan from ADB but it is the national government paying the interest rate (variable) to ADB plus other charges.

1 *This is actually 12% for PL/WCL loans and 14% for FAL loans. Since there is no breakdown, but we know that PL/WCL loans have a bigger share, 12.5% was used.*

Name of Program	Gintong Ani Program (GPEP IV) - formerly GPEP
Purpose	production, post-harvest & mktg needs of farmers; rice & corn production
Conduits	Self-Help Farmers' Group (SHFGs)
Executing Agency	Agricultural Credit Policy Council (ACPC)
Source of Funds	DA
Volume of New Loans (000,000)	413.94
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate from Exec. to Conduit (%)	n.a.
Other Charges to Conduit	n.a.
Interest Rate from ex.agency to SHFG (%)* [1]	15.00%
Other Charges to SHFG* [2]	4.00%
Interest Subsidy to Exec. Agency (000,000)	58.40
Interest Subsidy to SHFG assuming 25% lending rate	23.36
Total Interest subsidy net of charges (000,000)	81.76
Repayment Rates (%)	94.05%
Default Subsidy - Principal (000,000)	24.63
Default Subsidy - Interest (000,000)	4.68
Total Interest & Default Subsidy (000,000)	111.06
Compensatory Financing (Forced Saving)	4% Capital Build-up
Loan Insurance Scheme	PCIC up to 85%
Foreign Exchange Risk	none
Guarantee Fee Charges (000,000) - 2% of loan value	8.28
Other Information	Funds for the progam came from IRF, only the loans given to Self Help Farmers Groups (SHFG) are reflected here to avoid double counting. Loans to Coops & RFIs are reflected in IRF.

/ *Interest rate for loans:* *a) <= 5 hectares - 14%*
b) > 5 hectares - 16%

2 *Capital build-up*

Name of Program	Tulong sa Tao Program - NGO Microcredit project
Purpose	Provision of credit to microentrepreneurs for trading, mfg, processing, and services.
Conduits	NGOs: coops, associations,foundations,
	credit unions, coop banks, etc.
Executing Agency	DTI - Bureau of Small and Medium Business Development
Source of Funds	ADB
Volume of New Loans (000,000)	350.87
Interest Rate from Source (%)	1.00%
Other Charges to Exec. Agency	0%
Interest Rate from Exec. to Conduit (%)* [1]	12.00%
Other Charges to Conduit	0%
Interest Rate from Conduit to End-User (%)	14.80%
Other Charges to End-User* [2]	2.00%
Interest Rate & Other Charges to End-User	16.80%
Interest Subsidy to Exec. Agency (000,000)	32.78
Interest Subsidy to Conduit (000,000)	38.73
Interest Subsidy to End-User (000,000)	24.43
Total Interest Subsidy (000,000)	95.94
Repayment Rates (%)	84.92%
Default Subsidy - Principal (000,000)	52.91
Default Subsidy - Interest (000,000)	8.89
Total Interest & Default Subsidy (000,000)	157.74
Compensatory Financing (Forced Saving)	2% Capital build-up
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by DTI
Other Information	GOP budget 25M-31M for 1996 administrative costs; loan management by DBP

1 *to cover:*
a) forex risk
b) loan loss provision
c) DTI admin. overhead & costs

2 *CBU for NGO, equal to 2% of loan value*

Name of Program	Small Enterprise Financing Facility (SEFF)
Purpose	To supplement the financial sector's resources for small enteprise dev't financing
Conduits	Accredited PFIs
Executing Agency	Small Business and Guarantee Finance Corp.
Source of Funds	GFI Stockholders
Volume of New Loans (000,000)	148.48
Interest Rate from Source (%)	0%
Other Charges to Exec. Agency	0%
Interest Rate from Exec. to Conduit (%)	12.40%
Other Charges to Conduit	0%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a
Interest Subsidy to Exec. Agency (000,000)	18.41
Interest Subsidy to Conduit (000,000)	0.32
Total Interest Subsidy Net of Charges (000,000)	18.73
Repayment Rates (%)	100%
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Other Information	

Name of Program	Industrial Restructuring Program
Purpose	Capital expenditures and WC requirements of the industrial sector
Conduits	private KBs, private DBs, specialized gov't banks, Finance Leasing Cos.
Executing Agency	Development Bank of the Philippines
Source of Funds	WB
Volume of New Loans (000,000)	1114.66
Interest Rate from Source (%)	7.01%
Other Charges to Exec. Agency (FXRC)	Residual of relending rate minus costs & admin. fee
Other Charges to Exec. Agency (Guar. Fee)	1.00%
Other Charges to Exec. Agency* [1]	0.75%
Other Charges to Exec. Agency* [2]	0.15 to 1.00
Interest Rate & Other Charges to Exec. Agency	8.01%
Interest Rate Exec. to Conduit (%)	12.33%
Other Charges to Conduit* [3]	0.75%
Other Charges to Conduit* [4]	3.00%
Interest & Other Charges to Conduit	12.34%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	48.25
Interest Subsidy to Conduit (000,000)	3.07
Total Interest Subsidy net of Other Charges	51.32
Repayment Rates (%)	100%
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Guarantee Fee Charges (000,000) - 1% of loan value	11.15
Other Information	

1 *commitment fee on unavailed amount*
2 *prepayment penalty based on interest rate multiplied by 0.15 to 1.00 depending on time of prepayment*
3 *commitment fee on unavailed amount*
4 *prepayment fee*

Name of Program	Industrial Guarantee and Loan Fund
Purpose duits	FAL & WCL of mfg industries under the SME category **Con-** Accredited PFIs
Executing Agency	Development Bank of the Philippines
Source of Funds	WB, ADB, ICAX
Volume of New Loans - Total (000,000)	1672
Volume of New Loans (Regular)	1307
Volume of New Loans (Special)	365
Interest Rate from Source (%)	7.00%
Other Charges to Exec. Agency	none
Interest Rate Exec. to Conduit (%) (Regular Facility)	12.40%
Interest Rate Exec. to Conduit (%) (Special Facility)	10.78%
Average Interest to conduit	12.05%
Other Charges to Conduit	none
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	84.28
Interest Subsidy to Conduit (000,000)	9.53
Total Interest Subsidy net of Charges (000,000)	93.81
Repayment Rates (%)	99.90%
Default Subsidy - Principal (000,000)	1.67
Default Subsidy - Interest (000,000)	0.20
Total Interest & Default Subsidy (000,000)	95.68
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	None, but if collateral is not enough (this is a rare occurence), they require a guarantee.
Foreign Exchange Risk	Borne by the national government
Other Information	Conduits are encouraged to maintain a savings account with DBP where DBP can credit releases.

Name of Program	Overseas Economic Cooperative Fund
Purpose	To provide financial assistance to small and medium scale enterprises
Conduits	Through counduits' Savings' and Loan Association
Executing Agency	Development Bank of the Philippines
Source of Funds	Asean-Japan Development Fund
Volume of New Loans (000,000)	222
Interest Rate from Source (%)	2.50%
Other Charges to Exec. Agency	none
Interest Rate Exec. to Conduit (%)	10.33%
Other Charges to Conduit* [1]	0.75%
Other Charges to Conduit* [2]	3.00%
Interest & Other Charges to Conduit	10.34%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Executing Agency (000,000)	17.39
Interest Subsidy to Conduit (000,000)	5.06
Total Interest Subsidy net of Other Charges	22.46
Repayment Rates (%)* [3]	100%
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Other Information	

/ commitment fee of 3/4 of 1% of unavailed amount
2 prepayment penalty
3 all accounts are current

Name of Program	**Industrial Investment Credit Project**
Purpose	To finance eligible industrial projects
Conduits	private KBs, private DBs, specialized gov't banks, Finance Leasing Cos.
Executing Agency	Development Bank of the Philippines
Source of Funds	WB
Volume of New Loans (000,000)	118.78
Interest Rate from Source (%)	7.01%
Other Charges to Exec. Agency (FXRC)	Residual of relending rate minus costs & admin. fee
Other Charges to Exec. Agency (Guarantee Fee)	1.00%
Other Charges to Exec. Agency* [1]	0.75%
Other Charges to Exec. Agency* [2]	0.15 to 1.00
Interest and Other Charges to Exec. Agency	8.01%
Interest Rate Exec. to Conduit (%)	12.33%
Other Charges to Conduit* [3]	0.75%
Other Charges to Conduit* [4]	2.00%
Interest & Other Charges to Conduit	12.33%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	5.14
Interest Subsidy to Conduit (000,000)	0.33
Total Interest Subsidies (000,000)	5.47
Repayment Rates (%)	100%
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Guarantee Fee Charges (000,000)	1.19
Other Information	

1 commitment fee on unavailed amount
2 prepayment penalty based on interest rate multiplied by 0.15 to 1.00 depending on time of prepayment
3 commitment fee on unavailed amount
4 prepayment fee

Name of Program	EXIM Japan Untied Loan to DBP
Purpose	To fill the gap in the supply of Medium and Long-term credit to industrial enterprises.
Conduits	private KBs, private DBs , specialized gov't banks, Finance Leasing Cos.,
Executing Agency	Development Bank of th e Philippines
Source of Funds	Export-Import Bank Japan
Volume of New Loans - Total (000,000)	1909.41
Volume of New Loans (EXIM1)	587.04
Volume of New Loans (EXIM2)	1039.55
Volume of New Loans (EXIM3)	282.82
Interest Rate from Source (%) (EXIM1)	6.60%
Interest Rate from Source (%) (EXIM2)	4.70%
Interest Rate from Source (%) (EXIM3)	3.30%
Other Charges to Exec. Agency (FXRC)	Residual of DBP relending rate minus DBP's costs & admin fee
Other Charges to Exec. Agency (Guar. Fee)	1.00%
Other Charges to Exec. Agency* [1]	0.25%
Other Charges to Exec. Agency* [2]	0.50%
Average Interest Rate & Other Charges to Exec. Agency	6.08%
Interest Rate Exec. to Conduit (%)	12.33%
Other Charges to Conduit* [3]	0.75%
Other Charges to Conduit* [4]	2.00%
Interest & Other Charges to Conduit	12.33%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency - EXIM1 (000,000)	27.77
Interest Subsidy to Exec. Agency - EXIM2 (000,000)	68.93
Interest Subsidy to Exec. Agency - EXIM3 (000,000)	22.71
Total Interest Subsidy to Exec. Agency (000,000)	119.41
Subsidy to Conduit (000,000)	5.41
Total Interest Subsidy net of Other Charges (000,000)	124.82
Repayment Rates (%)	100%
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Guarantee Fee Charges (000,000) - 1% of loan value	19.09
Other Information	

1 commitment charge on daily unutilized portion of the facility
3 commitment charge on unavailed loan commitments
2 prepayment premium
4 prepayment fee

Name of Program	Domestic Shipping Modernization Progra
Purpose Conduits	To support the modernization of the domestic shipping fleet. Directly implemented
Executing Agency	Development Bank of the Philippines
Source of Funds	OECF
Volume of New Loans (000,000)	1374.29
Interest Rate from Source (%)	2.50%
Other Charges to Exec. Agency (FXRC)	3.50%
Other Charges to Exec. Agency (Guarantee Fee)	1.00%
Interest & Other Charges to Exec. Agency	7.00%
Interest Rate to End-user (%)	12.00%
Other Charges to End-user	depends on package
Interest Subsidy to Exec. Agency (000,000)	68.71
Interest Subsidy to End-User (000,000)	38.48
Total Interest Subsidy to Exec. Agency & End-User	107.19
Repayment Rates (%)	100% all accounts are current
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Guarantee Fee Charges (000,000) - 1% of loan value	13.74
Other Information	

Name of Program	**Industrial and Support Services Expansion Program**
Purpose	To provide financial assistance to SMEs in the Phils. to develop the private sector
Conduits	Investment Houses, Leasing & Finance Cos., Savings & Loan Assn's
Executing Agency	Development Bank of the Philippines
Source of Funds	Overseas Economic Cooperation Fund
Volume of New Loans (000,000)	2400
Interest Rate from Source (%)	3.00%
Other Charges to Exec. Agency	none
Interest Rate Exec. to Conduit (%)	10.33%
Other Charges to Conduit* [1]	0.75%
Other Charges to Conduit* [2]	3.00%
Interest & Other Charges to Conduit	10.34%
Interest Rate from Conduit to End-user (%)	13.95% (average)
Other Charges to End-user	application fee, commitment fee
Interest Subsidy to Exec. Agency (000,000)	175.80
Interest Subsidy to Conduit (000,000)	54.73
Interest Subsidy to End-User (000,000)	20.40
Total Interest Subsidy net of Charges	250.93
Repayment Rates (%)	100% all accounts are current
Default Subsidy	0
Compensatory Financing (Forced Saving)	none
Loan Insurance Scheme	none
Foreign Exchange Risk	Borne by the national government
Other Information	

1 *commitment fee on unavailed loan amount*
2 *prepayment penalty*

Name of Program	**Helping Individuals Reach their Aspirations thru Micro-Credit (HIRAM) Lending Program**
Purpose	To provide the poor access to credit
Conduits	RBs, PDBs, NGOs, Coops, Cooperative Banks and Credit Unions
Executing Agency	People's Credit and Finance Corporation
Source of Funds	NLSF
Volume of New Loans (000,000)	108.80
Interest Rate from Source (%)	3.00%
Other Charges to Exec. Agency	none
Interest Rate Exec. to Conduit (%)	12.00%
Other Charges to Conduit* [1]	24.00%
Interest Rate from Conduit to End-user (%)	cost recovery rate
Other Charges to End-user	n.a.
Interest Subsidy to Exec. Agency (000,000)	9.67
Interest Subsidy to Conduit (000,000)	13.97
Total Interest Subsidies (000,000)	23.64
Repayment Rates (%)	98.78%
Default Subsidy - Principal (000,000)	1.33
Default Subsidy - Interest (000,000)	0.16
Total Interest & Default Subsidies (000,000)	25.13
Compensatory Financing (Forced Saving)	Depends on the policy of the conduit but this will fall on the end-user
Loan Insurance Scheme	none
Foreign Exchange Risk	n.a.
Other Information	Counterpart funding by conduit for projects in excess of 25T

1 penalty for overdue accounts

About the Author

DALE W ADAMS. A Professor of Agricultural Economics at The Ohio State University, Dale Adams has been widely organized as a leading expert on rural financial markets, agricultural credit and informal financial markets in developing countries for more than 20 years. Professor Adams' recent work has focused on means for improving the performance of rural financial markets in countries that are dismantling central planning and allowing market forces to play a larger role in their economies. He has edited several books and published numerous articles in major professional journals on these subjects. He has worked with IMCC on a number of assignments in Latin America and Asia and has also consulted widely for USAID, the World Bank and various other international organizations.

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