PROGRESS REPORT □ Jake T. Espino

Multiplying opportunities in the countryside

CLOSELY identified with the government effort to improve the living conditions in the countryside is the Industrial Guarantee and Loan Fund (IGLF). And perhaps, this credit scheme best exemplifies the dramatic turnabout in state policy concerning the geographical allocation of resources in the country since the proclamation of authoritarian rule in 1972.

Until a few years back, the IGLF concentrated its lending operations on well-established companies—those that can put up acceptable collateral. And these firms were usually located in the cities. This lending policy certainly is in accord with "sound banking" principles. In terms of the national development program, however, the agency failed to "deliver the goods," so to speak.

While the well-off companies in the cities enjoyed more capital for expansion, the rural population remained tied up to agricultural activities for their livelihood. There were very limited economic activities, in short, in the countryside aside from farming and fishing.

This situation was precisely what President Ferdinand E. Marcos sought to reform when he declared martial law four years ago. Thus, the state now recognizes that to uplift the welfare of the poor, the government must actively invest resources in the countryside.

In line with this national policy, the IGLF has drastically altered its lending schemes to give priority to rural entrepreneurs. The strategy is to encourage the growth of small- and medium-scale industries in the rural areas. As activities are mainly labor-intensive, their establishment will surely spur the multiplication of employment opportunities for the rural population.

Implementing the Strategy

HOW to implement this strategy? Leonardo Mariano Jr., director, industry and utilities staff of the National Economic and Development Authority (NEDA) and concurrent chairman of the IGLF review committee recently stressed that under the new financing scheme, prospective borrowers will no longer be required to submit "expensive project studies" which are considered to be the bane of new entrepreneurs engaged or planning to engage in small- and medium-scale industries. Small entrepreneurs have complained that they could not afford the high cost of preparing project studies. The relaxation of collateral requirements is another incentive in the revised lending program.

Mariano said that the implementation of the new IGLF financing scheme would entail the selection of some 100 commercial, savings, development and rural banks and other financial intermediaries throughout the country intending to participate in the lending program as sponsoring banks. Government financial institutions may also become sponsoring banks.

Under the revised IGLF policies, the maximum amount of a loan is P500,000 and the enterprises eligible for loans must have assets not exceeding P1 million. These IGLF loans are obtainable from the sponsoring banks located in the area of the borrowers. The funds are made available to the sponsoring banks to enable them to extend loans without necessarily using their own resources. But these sponsoring banks will evaluate the loan applications to the IGLF review committee which is composed of the NEDA, the Central Bank, the Board of Investments and the UP Institute of Small Scale Industries. The review committee are given four weeks to decide on the applications.

Proceeds of the loan may be used for the purchase of capital goods and working capital or a combination of both. Repayment is within a maximum period of three years for working capital loans and up to 10 years for fixed assets loans.

There are at least two advantages of coursing loan applications to the sponsoring banks.

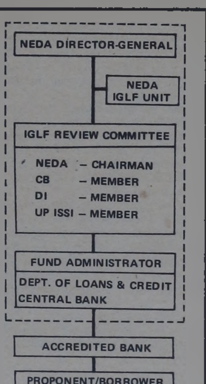
First, the borrower will get longer maturity period for his working capital loan, the interest rate is much lower and can easily avail of the guarantee feature of the IGLF for the insufficiency of his collaterals.

Second, the participation of the private banking system will encourage its greater involvement in promoting small-scale industries.

As the administrator of the IGLF funds, the Central Bank (CB) recently released new rules on how the different banks and nonbank financial intermediaries may be accredited to participate in the IGLF financing program. To be accredited, the following CB requirements must be complied with: 1. Minimum paid-up capital. For rural banks, the paid-up capital should not be less than P500,000, exclusive of government counterpart capital (preferred shares); 2. Sound and efficient management and an adequate number of qualified staff to carry out the institution's normal business; 3. Capability for satisfactory appraising of the technical, marketing and financial viability of small industry projects together with satisfactory systems and procedures for regularly following up project implementation and operations; 4. An over-all level of arrearages of no more than 15 percent of the total outstanding loans of the institution; and 5. Non-arrearages with the CB or the IGLF. On the other hand, the general procedures for participating institutions in the IGLF program are:

1. Banks and nonbank financial intermediaries should apply for accreditation with the IGLF;

2. All applications for accreditation should be in the prescribed form and should be filed in quadruplicate with the CB department of loans and credit. This department will evaluate applications for accreditation in accordance with the established criteria; and



4. The CB will communicate to the applicant banks or nonbank financial intermediaries the action taken either by the CB governor or senior deputy governor on their applications for accreditation, copy furnished NEDA.

Under the accreditation scheme, the accredited bank evaluates and approves the loan to facilitate the processing of loan applications.

After the accredited institution has submitted all the required documents the CB will release an initial 50 percent of the total amount for approved projects in the form of special time deposit for banks, and deposit substitutes (certificate of assignment with recourse) for nonbank financial intermediaries. The remaining 50 percent will be released to the accredited institution after submitting evidence on the disbursement of the initial funding to the borrowers.

The rules also stipulate that the CB will undertake the postaudit of IGLF-assisted projects on a periodic basis and submit the corresponding reports to the IGLF review committee.

For purposes of industry dispersal, accredited institutions will be required, for a six-month period, to channel to the rural areas a minimum of 60 percent of the total approved applications.

Operating Guidelines

THE IGLF, established in 1952, is a joint project of the governments of the Philippines and United States pursuant to Section I of Annex I of the economic and technical agreement between the two governments. Counterpart funds were authorized under R.A. 604. The sum of P10 million was withdrawn from the counterpart fund special account as initial fund. In the said agreement, the CB was appointed agent for the purpose of administering the IGLF program for a period of ten years. The master agreement was renewed in 1965 and again in 1975 for another ten years to expire on January 22, 1985.

In the new IGLF policies, small industries get much-needed assistance.

Dir. Mariano announces new guidelines.

The counterpart project agreement and the rules and regulations governing the operations of the IGLF were revised on July 16, 1973. The revision of the two documents resulted in the following policy and operational changes: 1. Withdrawal of the United States Assistance for International Development (USAID) representation in the IGLF review committee; 2. Representation of the Department of Industry and the UP-ISSI in the review committee; 3. Emphasis on the utilization of IGLF for small-scale and cottage-type industries; 4. Further relaxation of qualifications of participating rural banks; 5. Approval of the participation of the investment houses and financial companies to expand the base of participation in the IGLF lending program.

On April 5, 1975, a loan agreement was established between the Philippine government and the International Bank for Rural Development (IBRD) under which the IGLF's share was $12 million. The term of the loan is 12 years including a two-year grace period during which only interests will paid. With the entry of the World Bank into the IGLF picture, the lending policy was again changed, as follows: 1. The loan/equity proportion in project financing was raised to 80-20 ratio which means that the IGLF will assume 80 percent of the investment while the borrower will put up the remaining 20 percent and; 2. The increase in the lending rate from 10 to 12 percent on special time deposit loans. 3. Guarantee fee of 2 percent for automatic 60 percent guarantee.

As of June 30, 1976, total contribution to the fund amounted to P99.5 million, P50 million of which came from counterpart funds and the remaining from the loan accounts. During the same period, total assets of the fund amounted to P112.25 million. The total liabilities stood at P46.93 million resulting in a net worth of P65.31 million.

Outstanding special time deposits reached P82.03 million with unreleased commitments on approved loans amounting to P13.8 million. Available funds stood at P11.4 million as against pending applications in the amount of P8.22 million, thereby reducing the amount available for new applications.

Consistent with the government objective of dispersing small-scale industries in rural areas, more projects in the far-flung areas of the country were extended IGLF assistance. Where before the Metropolitan Manila region used to account for over 60 percent of IGLF financing, the trend under the revised lending scheme has been reversed. Less developed regions like Bicol and those in the Visayas and Mindanao which were hardly reached before by the IGLF financing, are now beginning to get the much-needed assistance for small, medium-and cottage industries.

Of the 570 projects approved from July 1973 to June 30, 1976, 301 projects or 53 per cent of total projects financed by IGLF are within the P50,000 and below and P100,000 range. This indicates that the IGLF is assisting mainly the small-scale industries.

A study of loan disbursements and dispersal for those past years identifies two key imperatives for the program to maximize its contribution to the country and our economic development:

1. That more loans be extended to enterprises outside the Metro Manila;

2. That greater participation must come from the banking sector and that this sector be familiarized with the program, so that a broader public may be reached by the IGLF.

With wider participation, the IGLF foresees even better results may be attained in the financing of the small-scale industries. □