

**A STUDY OF THE EXPORT FINANCING SYSTEM
IN THE PHILIPPINES**

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TABLE OF CONTENTS

I.	Introduction	1
	A. Rationale and Objectives of the Study	1
	B. Sources of Data	3
	C. Existing Literature on Export Finance	6
	D. Organization of the Study	6
II.	Export Promotion Policies	7
	A. Trade Policy Environment	7
	B. Fiscal Incentives for Exports	16
	1.0 Theoretical Framework	18
	2.0 Analysis of Fiscal Incentives to Exports	20
	2.1 Access to Intermediate Inputs at World Market Prices	21
	2.2 Export Incentives under BOI and EPZA	34
III.	Philippine Export Structure and Forecast of Exports and Demand for Pre- and Post-Shipment Financing	47
	A. The Philippine Export Structure	47
	B. Forecasts of Exports and Demand for Pre- and Post-Shipment Financing	89
IV.	Institutional Support for the Export Sector	95
	A. The Government's Export Development Program	102
	1.0 The Present Export Development Program	103
	2.0 Service Coverage	117
	3.0 Effectiveness of Export Development Program	118
	B. The Private Sector and Exports	122
V.	Export Financing System in the Philippines	131
	A. The Export Financing System in the Philippines	131
	1.0 Export Refinancing Scheme of the Central Bank	131
	2.0 The Commercial Banking System	140
	3.0 Special Credit Programs	143
	4.0 Export Credit Guarantee System	163
	B. Experience with Export Financing	186
	1.0 Banks	186
	2.0 Exporters	197

VI.	Overall Evaluation of the Export Financing System in the Philippines	217
	A. Theoretical Export Financing System	217
	B. Evaluation of the Export Financing System	220
	1.0 Refinancing Scheme of the Central Bank	220
	2.0 Financing Scheme	222
VII.	Conclusions and Agenda for Policy and Institutional Reforms	230
	A. Reforms for Achieving a Free Trade Status on the Export Sector	232
	B. Reforms for Assuring Automatic Access to Export Financing	233
	C. Scope for ADB Assistance	239
	References	243
	Annexes	245

LIST OF TABLES, FIGURES AND ANNEXES

I.1	Profile of Sample Respondents	5
II.1	Real Effective Exchange Rate	12
II.2	Average EPRs	12
II.3	Number of Items Regulated, Liberalized and Newly Regulated by Year, 1977-88	14
II.4	Report on Nominal Protection for the Philippines - Customs Tariff	15
II.5	Nominal Exchange Rate and Real Exchange Rate Index: Philippines vs. Korea, Singapore, Thailand, Taiwan, and Hongkong 1973-1989	17
II.6	Documentary and Other Requirements for Establishment of BMWs	23
II.7	Documentary Requirements in Application for Duty Exemption Under CAO 3-78	26
II.8	Procedures for the Release of Importation Under CAO 3-78	28
II.9	Requirements for BOC Drawback Claims	30
II.10	Requirements and Procedures For Fixed Drawback Scheme	31
II.11	Comparison of Incentives Under BP391 and EO226	36
II.12	Change in the Internal Rate of Return of Hypothetical BOI Registered Firms Under BP391	38
II.13	Change in the Internal Rate of Return of Hypothetical BOI Registered Firms Under EO 226	39
II.14	Project Cost of BOI Approved Projects, 1981-87	42
II.15	Internal Rate of Return of A Hypothetical Firm Under Selected Incentive Schemes In ASEAN Countries, 1988..	43
II.16	Special Incentives Given by the Government	46
II.17	Summary of Selected Trade and Fiscal Problems, Recommendations and Prospects	48
III.1	Importance of Natural Resource-Based Exports in Philippine Trade	62
III.2	Philippine World Exports By 1-Digit PSCC Category ..	64
III.3a	Distribution of Philippine Merchandise Exports	65
III.3b	Percentage Distribution of Philippine Merchandise Exports	66
III.4a	Value of Exports by Major Commodity Group, 1970-1987	68
III.4b	Growth Rate of Philippine Exports, 1970-1987	72
III.4c	Structure of Philippine Exports	76
III.5	Percentage Distribution of Total Exports, Traditional/Non-traditional (1971-1987)	78
III.6a	Merchandise Trade (F.O.B. Value)	79
III.6b	Annual Growth Rate of World Trade - DMCs, EEC, US, Japan and ASEAN	80
III.6c	Percentage Share of Imports/Exports to Total Trade, by Country of Destination - 1965-1988	81
III.7a	Average Percentage Distribution of Export Products to Total Exports: ASEAN, DMCs and World	83
III.7b	Average Growth Rate of Philippine Exports to DMCs and World Exports	85

III.7c	Traditional and Non-traditional Exports to DMCs and World Exports	87
III.8a	Percentage Distribution of Philippine Merchandise Exports by Destination (1987-2000)	90
III.8b	Distribution of Philippine Merchandise Exports by Destination (1987-2000)	90
III.9	Total Merchandise Exports, 1977-2000	92
III.10	Comparison of Central Bank and PIDS Forecasts, 1989-1994	94
III.11a	Pre-shipment Financing Requirements By 1-Digit PSCC Category (1989-2000)	96
III.11b	Post-shipment Financing Requirements by 1-Digit PSCC Category (1989-2000)	97
III.11c	Percentage Distribution of Philippine Merchandise Exports By 1-Digit PSCC Category (1987-2000)	98
III.11d	Distribution of Philippine Merchandise Exports by 1-Digit PSCC Category (1987-2000)	99
III.12a	Percentage Distribution of Philippine Merchandise Exports Classified as Traditional/Non-traditional ..	100
III.12b	Distribution of Philippine Merchandise Exports as Traditional/Non-traditional	100
III.12c	Pre-shipment Financing Requirements Classified as Traditional/Non-traditional	101
III.12d	Post-shipment Financing Requirements Classified as Traditional/Non-traditional	101
IV.1	One-Stop Export Documentation Center: Participating Agencies	113
IV.2	Government Funding and Support, 1989 (DTI Agencies)..	116
IV.3	Services of Government Agencies Availed of by Exporters	121
IV.4	Trade Associations of Exporters	125
IV.5	The PCHI-TLKC Financing Programs	129
V.1	Central Bank Rediscounting Policy, Inflation Rate and Various Interest Rates	134
V.2	Outstanding Rediscounts of the Central Bank, Loans Outstanding of Commercial Banks, and Commodity Exports	138
V.3	Loans Granted by the Central Bank to Commercial Banks	139
V.4	Total Resources of the Philippine Financial System	141
V.5	Loans Outstanding: Commercial Banks	142
V.6	Some Features of the Special Lending Programs	145
V.7	ALF And IGLF Availments by Investment Area	148
V.8	IGLF Sources of Funds	150
V.9	Interest Rates on IGLF Availments of Participating Financial Institutions	152
V.10	Operating Highlights, GFSME	168
V.11	GFSME Loan Availments by Investment Area	169
V.12	Past Due Accounts, GFSME	170
V.13	Income Statement, GFSME	171
V.14	Annual Performance Highlights, ECGP-SMI	178
V.15	Actual Number of Participating Banks	180
V.16	Annual Guarantee Issuances, by Type	181
V.17	Annual Guarantee Issuances, by Product	182

V.18	Guarantee Defaults Trend	183
V.19	Profit and Loss Statement, ECGP-SME	185
V.20	Number Of Export Customers, 1988	188
V.21	Size of Individual Transactions, 1988: Banks' Responses	188
V.22	Terms of Export Transactions	189
V.23	Letters of Credit	189
V.24	Amount of Export Loans Granted in 1988	191
V.25	Export Loans	191
V.26	Types of Collateral for Loans	192
V.27	Difficulties in Extending Financing to Local Exporters	192
V.28	Banks' Availment of Guarantee Facilities	195
V.29	Ratio of Guaranteed Loans to Export Loans Granted in 1988	195
V.30	Claims Made Under the Guarantee Programs	196
V.31	Problems With Export Guarantee Facilities	196
V.32	Major Product Lines	198
V.33	Form of Products/Services Exported/Sold in 1988	199
V.34	Countries Where Firm Exported to in 1988	200
V.35	Annual Sales and Export Sales	201
V.36	Average Size of Transactions in 1988	203
V.37	Percentage Change of Export Sales in the Last Three Years	204
V.38	Ratio of Credit Terms to Total Exports	205
V.39	Sources of Financing Export Production, 1988	206
V.40	Percentage of Exports in 1988 Which Were Pre- financed and Received Post-shipment Financing	208
V.41	Export Financing from Local Banks	210
V.42	Cancellation of Orders by Buyers	212
V.43	Export Prospects for the Next Three Years and Prospective Markets	213
V.44	New Export Products	214
V.45	Summary of Selected Finance-Related Problems, Recommendations and Prospects	215
VI.1	Commercial Banks' Approval Rates for Every 100 Loan Applications Received in 1986	223
VI.2	Ratio of Agricultural Loans to Total Loans and Ratio of Agricultural Loans Guaranteed to Total Agricultural Loans Granted, Commercial Banks, 1981-1986	227
VII.1	Projected Banks' Loans and Discount, and Pre- and Post-Export Financing	240
Figure I	Total Exports, FOB \$million	61
II	219
Annex A	List of Persons/Institutions Visited	245
B	Organizational Chart (DTI)	247
C	1987 Positional Organization Chart (GFSME)	248
D	Philguarantee Organizational Chart	249
E	Philippine Export and Foreign Loan Guarantee Corporation	250
F	Export Credit Guarantee Program for Small and Medium Industries	253
G	Proposed Guarantee Assistance Program for Overseas Contractors	255

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I. INTRODUCTION

A. Rationale and Objectives of the Study

The Philippines went through a recession for two consecutive years. Inappropriate economic policies, political instability, corruption at the highest level, and unfavorable external environment all contributed to the crisis. In the last three years, the economy has rebounded at a relatively faster pace under a new government which immediately instituted political and economic reforms. In 1988, GNP grew by 6.7 percent in real terms with the industry sector leading the pack. Merchandise exports increased by a hefty 27 percent.

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The views expressed in this study are those of the authors and do not necessarily reflect those of the Institute.

Despite the remarkable economic recovery and major reforms already instituted by the government, still the economy faces serious constraints to the attainment of a sustainable growth. One such constraint in which no solution seems to be near in sight is the external debt burden that is getting heavier each year. Borrowing to service external debt piles up more debt, and an external shock could easily put the economy into serious problem, perhaps far worse than the 1984 - 1985 crisis. The debt reduction proposal along the Brady proposal is a long shot. The reluctance on the part of creditor banks and governments of more developed countries is the key stumbling block to such solution.

The Philippines should therefore look inward and examine its strengths. Exports have performed remarkably well in the recent past, and huge potentials still remained untapped. Perhaps, this is one area where the Philippines can further develop to sustain its growth momentum.

In recent years, there has been a renewed concern in the design and administration of export promotion policies. Worldwide, this interest has been stimulated by the success stories of the East Asian dragons; success that has been largely attributed to their export performance. At the same time, the works of Bhagwati (1978), Krueger (1978), Michaelley (1977), Balassa (1978) documented with cross country data the positive link between economic growth and exports. In the Philippines, recurring balance of payments problems has highlighted the need to nurture exports. Furthermore, the import substituting strategy pursued in the fifties and sixties and the concomitant trade regime that has been carried over into the seventies and early eighties is perceived by many as exhibiting an overwhelming bias against export (Power and Sicat 1971; Tan 1979; Medalla 1986). In this context, exports promotion becomes imperative not only

because exports are by themselves desirable because of the foreign exchange they bring and the favorable growth implications of increased exports but also because of the need to counteract the anti-export bias. Export promotion would imply the use of instruments that compensate for the implicit penalties against exports in the macroeconomic environment as well as those that provide incentives to the exporting activity over and above that which would prevail in a neutral strategy.

This study therefore examines the export promotion policies and programs of the Philippines with special focus on export financing system.

More specifically, it attempts to:

1. review the export promotion policies of the Philippines;
2. analyze the Philippine export structure;
3. provide forecasts of exports and demand for post- and pre-shipment financing from 1989 to 2000;
4. describe and assess the contribution of non-financial government and private agencies providing assistance to exporters;
5. describe and evaluate the existing export financing system in the Philippines; and
6. recommend policy and institutional reforms that can further strengthen the export sector.

B. Sources of Data

The study uses both primary and secondary data. The primary data were obtained from three groups of data sources. The first group consists of key officers of export-oriented private institutions and government agencies providing financial and non-financial services to exporters.

Interviews were conducted using open-ended structured interview schedule. The information gathered from these interviews were supplemented with unpublished reports of concerned agencies.

The second group consists of seven commercial banks: one government-owned bank; one branch of a multinational bank; three large domestic banks; one medium-size bank; and one small bank. The aggregate assets of these banks as of December 1988 amount to ₱156B comprising 48 percent of the total assets of the commercial banking system. Non-random sampling was used in choosing the sample banks. A structured questionnaire was utilized in collecting primary data from these banks.

The third group consists of 23 firms which are producing non-traditional export products. Five are purely producers or indirect exporters; six pure traders; and 12 producers-traders. The profile of these sample respondents is summarized in Table I.1. A structured interview schedule was utilized in gathering data from the sample exporters. For Metro Manila based respondents, the questionnaires were sent to them and clarifications regarding some of the answers given in the returned questionnaires were done through the telephone, while for non-Metro Manila based respondents, personal interviews were conducted. Non-random sampling was used in choosing respondents. The regional offices of the National Economic and Development Authority and the Department of Trade and Industry helped in identifying respondents using the guidelines provided by the research team.

The secondary data were obtained from published reports, brochures and hand-outs generally available to the public from government and private agencies.

Table I 1
PROFILE OF SAMPLE RESPONDENTS

Assets	Exporter No	Business Address	No of Employees	Type of Business	Type of Ownership	Year Began Operation	Number of Years Exporting
A Small Scale							
	1	2	8	x trader	corporation	1988	1
	1	3	10	x trader	single proprietorship	1982	7
	1	3	13	both	single proprietorship	1983	5
	1	3	9	both	single proprietorship	1985	3
	1	3	30	both	single proprietorship	1982	4
	1	3	70	both	single proprietorship	1981	8
	1	3	15	x producer	single proprietorship	1983	nap
	1	3	20	both	single proprietorship	1988	1
	1	4	25	both	single proprietorship	1979	9
	1	1	48	x producer	corporation	1984	nap
	1	5	41	both	corporation	1988	10
	1	6	25	both	single proprietorship	1988	5
B Medium Scale							
	2	2	180	x trader	corporation	1973	15
	2	2	20	x producer	corporation	1981	nap
	2	2	300	both	corporation	1987	2
	1	3	80	x producer	corporation	1980	nap
	2	4	45	x producer	partnership	1983	nap
	1	1	42	both	corporation	1974	9
C Large Scale							
	2	2	700	x trader	corporation	1985	6
	2	1	4	x trader	corporation	1986	2
	2	1	n a	x trader	corporation	1953	36
	1	1	8	both	corporation	1983	5
	3	1	1855	both	corporation	1974	15

NOTE Assets 1 less than P5 million
2 P5 million to P20 million
3 more than P20 million

Business Address 1 Metro Manila
2 Cebu City
3 Davao City
4 Tagbilaran City, Bohol
5 Baguio City
6 Dagupan City

n a no answer
nap not applicable

C. Existing Literature on Export Finance

This study has greatly benefited from recent studies on export finance in the Philippines. In fact, many of the points raised in earlier studies are reiterated in this study. It is therefore important at this point to mention the following major studies:

1. Presidential Action Center for Trade Facilitation, Office of the President, "Export Credit Insurance: A Dynamic Approach to Export Development in the Philippines" (15 September 1981);
2. The World Bank, "The Philippines: Financial Sector Study" (23 August 1988);
3. Ifzal Ali, "Manufactured Exports from the Philippines: A Sector Profile and an Agenda for Reform," Asian Development Bank Economic Staff Paper No. 4 (September 1988); and
4. First Washington Associates, "Report on Philippine Export Finance Structure," A report prepared for the Industry and Energy Operations Asia Region, the World Bank (September 1988).

D. Organization of the Study

The next chapter discusses the export promotion policies in the Philippines. Trade policy environment and fiscal incentives are being given emphasis. Chapter III analyzes the Philippine export structure since 1970 and presents forecasts of exports and demand for pre- and post-shipment financing from 1989 to 2000. The contribution of government and private agencies providing non-financial assistance to exporters is described and assessed in Chapter IV. Chapter V discusses the export

financing system in the Philippines and export finance experience of banks and exporters. Chapter VI presents an overall evaluation of the existing export financing system. The last chapter pulls together the major conclusions of the study and presents a set of agenda for policy and institutional reforms.

II. EXPORT PROMOTION POLICIES

This chapter discusses the export promotion policies of the Philippines from 1950 up to the present. The trade policy environment is first analyzed followed by a review of fiscal incentives for exports.

A. Trade Policy Environment

For more than three decades, continuing up to the present, the overall Philippine trade policy has been generally protectionist in nature, although in varying degrees during the period. This was inadvertently began in 1950, when the Philippines imposed strict foreign exchange controls in response to a severe balance-of-payments difficulty resulting from a drop in U.S. economic assistance. Foreign exchange was rationed according to "essentiality." Virtually only producer goods could be imported as foreign exchange could hardly be obtained for "non-essential" consumer goods. The system became a permanent policy feature for the rest of the decade, fully entrenching an import substitution policy, which, as such, necessarily favors and highly rewards the finishing stages of manufacturing while effectively penalizing backward linkages and exports.

Import substitution proved to be an expensive means of saving foreign exchange while dependence of primary exports increased as the pegged exchange rate and lopsided incentive structure towards import substitution

effectively penalized exports and discouraged export growth. Thus, after a decade, even the strict exchange controls could not hold down the recurring balance-of-payments pressure. By 1960, the government had to devalue the peso and opted for a relaxation of import controls.

With the completion of the decontrol program in 1962, the tariff system which was promulgated in 1957 became the effective tool of protection, replacing but largely preserving the structure of protection of the 1950s control system. Import substitution in the finishing stages of manufacturing remained highly rewarded while backward linkages and exports were still penalized. With the same biases in the protection structure, foreign exchange earnings remained dependent on primary exports while foreign exchange saving increasingly became more costly and difficult to achieve. Thus, the country remained vulnerable to balance-of-payments problem. In the late 1960s, import controls were restored.

In the 1970s, import controls became more widespread. The Central Bank started the system of classification by type of product. CB Circular 289 was issued requiring CB approval for imports of commodities classified as Unclassified Consumer (UC), Semi-Unclassified Consumer (SUC), and Non-Essential Consumer (NEC). More CB Circulars followed, adding more imports to be covered. In the majority of cases, the motive for import licensing was protection of local industry in the domestic market. The system of quantitative restrictions, in general, buttressed the effect of the tariff structure. Escalation of tariffs according to stage of processing remained.

By the late 1960s, government planners have become more aware of the bias against exports. Instead of reforming the protection structure,

however, export promotion measures, mainly through BOI, started to be adopted in the 1970s. Clearly, however, such an offset approach could only reach a limited number of sectors. While nontraditional exports grew, these were mostly concentrated in semi-conductors and garments (which has low value-added).

The exchange rate policy during these periods did not help reverse the bias against exports. On the contrary, it added to the penalty already received by exports by fixing the rate at unrealistically low levels. In the 50s and the 60s, this was made possible, by import controls and high tariffs. In the late 1970s up to early 1980s, huge foreign borrowing (which cannot indefinitely be sustained) propped up the peso, hiding an underlying BOP disequilibrium. Table II.1 shows the movement in the nominal and real exchange rate from 1973 to 1987. The real exchange rate is the nominal exchange rate deflated by the ratio between the domestic price index and the foreign/world price index.

The Philippines has a history of trying to maintain a fixed nominal exchange rate, until extreme BOP difficulties made it impossible to do so. With higher domestic inflation relative to the world, the relatively constant nominal rate has meant a real appreciation of the peso. Eventually, the Philippines had to devalue drastically (e.g., 1969, 1983-84).

With an unrealistically low (real) exchange rate, exports were effectively penalized. Non-tradeables, on the other hand (these are goods or services which can neither be imported -- naturally or because of government policy -- nor exported) were rewarded, especially non-tradeables dependent on imports for their inputs. Ranking different commodity groups

Table II.1
 REAL EFFECTIVE EXCHANGE RATE
 (1973 = 100)

Year	Real Effective Exchange Rate Index
1973	100
1974	83.69
1975	92.17
1976	95.64
1977	98.04
1978	105.32
1979	93.72
1980	88.10
1981	85.91
1982	83.13
1983	102.36
1984	100.03
1985	88.37
1986	112.03
1987	111.10

Source: International Financial Statistics (IFS)
 Key Indicators of ADB & DMCs

from most rewarded to most penalized group, heading the list would be the import-dependent "non-tradeables" — composed mainly of import substitutes covered by a binding import ban but whose inputs could readily be imported. Next would be local production of high tariff items but are importable. In the middle would be the "true" non-tradeables — i.e., goods which can neither be exported nor imported due to natural reasons as bulk and other factors making transport costs prohibitive. These are neither rewarded nor penalized. The next group, which would be slightly penalized, is composed of neglected import substitutes (e.g., some intermediate and capital goods) the imports of which are allowed at low duties. The most penalized is exports. To this would belong agriculture which is a large net exporter.

It is thus not difficult to see how the policies in the past have promoted import-dependent import substitution. There was some growth achieved, but given the resulting incentive structure which highly rewarded production for the small domestic market and penalized exports, growth could not be sustained.

Perhaps, recognizing these constraints, starting in the 1970, export incentives were granted, but these were not enough to offset the huge penalty arising from the exchange rate policy.

By the end of the 1970s, the inherent biases of the protection structure was recognized and the inadequacy of an offset approach through various incentives became more and more apparent. Thus, in 1981, the government finally launched the first major reform of the protection system. First, the Tariff Reform Program (TRP) was implemented. Second, a schedule of import licensing liberalization was formulated. Except for the uniform additional import surcharge which was eventually removed, the TRP proceeded as planned. Import liberalization had to be shelved, however, with the 1983-1984 BOP crisis.

The TRP has substantially reduced not only nominal tariffs but the effective protection rates (EPRs) as well (see Table II.2).^{1/} The EPR structure remained the same but at lower levels. Consequently, relative penalty to exports has been reduced after TRP.

Achievements derived from the TRP would be totally nullified if no similar efforts were done in import liberalization. Reduction in tariffs while import barriers are being maintained would not only retain the old protection structure but also shift the foregone tariff revenue to private

Table II.2
AVERAGE EPRs (in percent)

	Pre-TRP	Post-T.
All Sectors	24	12
Exportables	-3	-3
Importables	44	25
Primary and Agriculture	1	-1
Manufacturing	40	23
Exportables	1	1
Importables	50	33

Source: Tariff Commission

rents. Thus, a schedule of import liberalization was planned simultaneously with the TRP.

Starting in 1981, a schedule of import liberalization was implemented. The first stage, in 1981, removed 263 items from the list of banned items. In 1982, 610 more items were liberalized. However, CB circulars were issued to regulate more importations. In 1983, 48 items were removed from the banned list. In the second half of 1983, in response to the BOP crisis, CB Circular 970 was issued pooling all foreign exchange receipts and limiting foreign exchange allocation to payments for crude oil, essential grain imports and raw materials for exports and vital domestic products. Lesser priority items were allowed through a scheme of no-dollar importations and pre-paid import L/Cs. The commitment to liberalize stayed

1/

The EPR for a certain industry measures how much increase, in percentage, in the value-added brought about by protection. For example if DVA is the value-added given tariffs and import controls and FTVA the value added without tariffs and import controls, then $EPR = DVA/FTVA - 1$.

through, albeit not without controversy, after the February 1986 Revolution. The new government liberalized more items between March 1986 and April 1988. Some 951 items were liberalized in 1986, 171 items in 1987, and 129 items in 1988. The number so far liberalized comprises around 80 percent of the total number regulated based on CB circulars. These are summarized in Table II.3. As of December 1988, some 673 items remain regulated representing less than 12 percent of the total number of items.

Some tariff adjustments have been made to help smoothen the impact of the recent import liberalization experience. On the whole, however, these appear to be minimal as indicated by the almost unchanged (unweighted) tariff average shown in Table II.4.

As already mentioned above, the exchange rate policy in the past has been one of penalty, not protection, to not only the export sector but also to efficient but neglected import substitutes. With the current thrust of an export-led growth, it is imperative that the exchange rate should at least be neutral, if not actually according "protection" to exports and even import substitutes.

After a series of de facto devaluations following the 1983-84 BOP crisis, a real depreciation of the peso could be noted.^{2/} The peso went up slightly in 1985 but with the world currency realignment, the composite real price of the peso (weighted by trade with major trading partners)

^{2/} What is more important than the trend in nominal exchange rate is what happens to the real exchange rate, that is, the nominal exchange rate including effects of domestic and foreign inflation. (Specifically $RER = NER \times FPI/DPI$ where RER is the real exchange rate, NER the nominal exchange rate, FPI the foreign/world price index and DPI the domestic price index).

Table II.3
 NUMBER OF ITEMS REGULATED, LIBERALIZED
 AND NEWLY REGULATED BY YEAR
 1977 TO 1988

	Total Number Regulated	Newly	Liberalized	No. of Regulated Items or Percent of PSCC lines
1977	1892	47	-	33.5
1978	1926	34	-	34.2
1979	2031	104	-	36.0
1980	2032	1	-	36.0
1981	1771	2	263	31.4
1982	1438	277	610	25.5
1983	1988	598	48	35.3
1984	1994	6	-	35.4
1985	1924	-	70	34.1
1986	973	-	951	17.3
1987	802	-	171	14.2
1988	673	-	129	11.9

Table II.4

REPORT OF NOMINAL PROTECTION FOR PHILIPPINES
CUSTOMS TARIFFS WEIGHTED BY IMPORTSREPORT OF NOMINAL PROTECTION FOR PHILIPPINES - 1986
CUSTOMS TARIFFS WEIGHTED BY IMPORTSREPORT OF NOMINAL PROTECTION FOR PHILIPPINES - 1988
CUSTOMS TARIFFS WEIGHTED BY IMPORTS

SECTOR	WEIGHTED AVERAGE	UNWEIGHTED AVERAGE	SECTOR	WEIGHTED AVERAGE	UNWEIGHTED AVERAGE	SECTOR	WEIGHTED AVERAGE	UNWEIGHTED AVERAGE
Food, Live Animals food	16.4	38.8	Food, Live Animals food	16.4	38.8	Food, Live Animals food	16.4	38.8
Beverages & Tobacco	50.0	46.5	Beverages & Tobacco	50.0	46.5	Beverages & Tobacco	50.0	46.5
Crude Mat'ls., Inedible	12.1	21.0	Crude Mat'ls., Inedible	12.1	21.0	Crude Mat'ls., Inedible	12.1	21.0
Mineral Fuels, Lubricants	19.8	17.4	Mineral Fuels, Lubricants	19.8	17.4	Mineral Fuels, Lubricants	19.8	17.4
Animal, Veg. Oils, Fats..	18.8	28.8	Animal, Veg. Oils, Fats..	18.8	28.8	Animal, Veg. Oils, Fats..	18.8	28.8
Chemicals, Rel Food Nes	17.6	22.9	Chemicals, Rel Food Nes	17.6	22.9	Chemicals, Rel Food Nes	17.6	22.9
Mfd Goods-by Material	31.4	35.6	Mfd Goods-by Material	31.4	35.6	Mfd Goods-by Material	31.4	35.6
Machinery, Transp Equip	20.2	23.1	Machinery, Transp Equip	20.2	23.1	Machinery, Transp Equip	20.2	23.1
Misc. Mftd. Articles	24.3	46.6	Misc. Mftd. Articles	24.3	46.6	Misc. Mftd. Articles	24.3	46.6
Commodities, Transactns	24.4	37.6	Commodities, Transactns	24.4	37.6	Commodities, Transactns	24.4	37.6
Overall Average:	21.3	31.4	Overall Average:	21.3	31.4	Overall Average:	21.3	31.4

again went down in 1986 and rising slightly in 1987. This indicates some gain in the competitiveness of the peso at least in the recent years (cf. Table II.1).

The more revealing indicator of the competitiveness of the peso, is how it has fared with the currencies of our major competitors, specifically, Thailand, Taiwan, S. Korea, and Hongkong. This is shown by the movement in the real exchange rate index between the peso and the currencies of these countries presented in Table II.5. As shown, the peso/won real exchange rate index rises in 1983-84 but falls again in 1985-1986. Hence, the peso became relatively cheaper in 1983-84 only to lose some competitiveness again against the Korean won in 1985-1986. Preliminary estimate for 1988 shows however a real depreciation again of the peso against the won. The peso/HK\$ real exchange rate index has fallen from 1973 index but at least has been maintained in the past three years. The peso/baht real exchange rate index was falling from 1973 to 1982, but the index rose in 1983-84. The peso lost again some competitiveness against the baht thereafter and the index is still below that of 1973 in 1988. Taiwan, on the other hand, with its long-running BOP surplus has been under pressure to revalue its currency. Thus, the peso/Taiwan dollar real exchange rate index has risen substantially.

B. Fiscal Incentives for Exports

This section reviews and analyzes fiscal incentives for exports in the Philippines, specifically, focusing on the incentives provided under the aegis of the Board of Investment (BOI) and the Export Processing Zone Authority (EPZA), and the tax and duty exemption/drawback schemes administered by the Bureau of Customs and the BOI. It presents first a

Table II.5
 NOMINAL EXCHANGE RATE AND REAL EXCHANGE RATE INDEX:
 PHILIPPINES: KOREA, SINGAPORE, THAILAND, TAIWAN AND HONGKONG
 1973-1988

YEAR	Korea		Singapore		Thailand		Taiwan		HongKong	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1973	0.017000	100.00%	2.764900	100.00%	0.327700	100.00%	0.176600	100.00%	1.311800	100.00%
1974	0.016800	90.24%	2.785500	89.47%	0.333200	92.55%	0.178600	115.30%	1.337000	82.88%
1975	0.015000	95.88%	3.056500	93.22%	0.355700	95.98%	0.190700	119.60%	1.467500	86.35%
1976	0.015400	107.27%	3.011300	84.30%	0.364700	96.73%	0.195800	118.51%	1.517100	87.04%
1977	0.015300	108.91%	3.034700	80.99%	0.362900	95.75%	0.194800	116.91%	1.587900	89.14%
1978	0.015219	115.85%	3.239100	84.16%	0.362200	95.95%	0.198800	117.22%	1.572200	86.83%
1979	0.015243	115.39%	3.392800	75.74%	0.361300	87.12%	0.204700	110.07%	1.474700	75.29%
1980	0.012365	105.72%	3.507800	70.92%	0.366800	89.81%	0.208600	113.05%	1.509400	74.97%
1981	0.011600	107.85%	3.739300	72.20%	0.362100	88.30%	0.214400	119.81%	1.412500	70.93%
1982	0.011681	105.46%	3.990700	72.45%	0.371300	86.19%	0.218300	113.42%	1.406500	70.88%
1983	0.014270	121.82%	5.259100	89.11%	0.483200	106.71%	0.277400	134.26%	1.528000	76.91%
1984	0.020719	118.28%	7.828500	90.08%	0.706400	103.17%	0.421700	136.43%	2.136000	75.03%
1985	0.021387	97.71%	8.457000	76.90%	0.685100	78.74%	0.466900	119.33%	2.883000	86.32%
1986	0.023128	107.17%	9.372067	83.63%	0.779250	90.42%	0.539967	137.93%	2.613600	80.04%
1987	0.025180	116.37%	9.776900	84.74%	0.800908	91.68%	0.651375	162.34%	2.669400	81.42%
1988 p/	0.029000	132.65%	10.490400	85.06%	0.834200	90.92%	0.740100	172.67%	2.702000	--

p/ As of August 1988 only

Source: International Financial Statistics (IFS)
 Key Indicators of DMCs of ADB

theoretical framework for the design of an optimal incentive package for exports, and then describes and evaluates the existing fiscal incentives to exports.

1.0 Theoretical Framework

The rationale for the provision of export incentives is better understood by taking a closer look at the bias against the export activity relative to the import substituting activity. This bias against exports, B , is defined as the proportional difference in the domestic value added from import substitution and the domestic value added from exporting (Balassa 1971). Thus,

$$B = \frac{\frac{v_d^{is}}{x}}{\frac{v_d^x}{d}} - 1 \quad (1)$$

or

$$B = \frac{(1+T_i^{is}) - \frac{a_{ji} T_i}{i}}{(1+T_i^x) - \frac{a_{ji} T_i}{i}} - 1 \quad (2)$$

where $\frac{v_d^{is}}{d}$ is domestic value added in import substituting industry,

$\frac{v_d^x}{d}$ is domestic value added in the exporting industry,

T_i is implicit tariff rate on the output of the substituting activity in industry j ,

T^x is the implicit tariff rate on the output of the exporting activity in industry j ,

a_i is the amount of intermediate input i used to produce one unit of output and

T_i is the implicit tariff on input i .^{3/}

B is positive. This results from the fact that for exports the implicit tariff on output is zero unless there is a subsidy on exports (it is negative if there is an export tax) while the implicit tariff on inputs are positive. This measure represents the penalty on exports, relative to import substitution, that the protection structure perpetuates. This anti-export bias can be eliminated by reducing the expression in (2) to zero. The first best and most direct way of achieving this is by the outright removal of tariffs and restrictions on all imports. Doing this reduces both numerator and denominator of the first term in (2) to the free trade value added. It also implies that EPR_j is zero for all j s. Alternatively, low and uniform tariffs on all imports will approximate the results of the first option. However, both economic (adjustment costs, timing/sequencing issues, etc.) as well as noneconomic (political, etc.) considerations indicate that the first best approach may not be feasible in the short run or even in the medium term. The second best solution would then compensate for the bias against exports via a combination of subsidy on output and exemption/credit/drawback on taxes on inputs.

^{3/} The implicit tariff is the ratio of domestic price to border price of any given commodity less one.

The appropriate combination of instruments in this second best scenario suggests itself if we take equation (2) and ask ourselves what we can do to domestic value added in the exporting activity (i.e., the denominator of the first term) to make it equal to domestic value added in the import substituting activity (i.e., the numerator of the first term) so as to remove the bias against exports. And the answer is: simultaneously reduce T^x and all T_i s in the exporting activity to zero and augment the resulting value added by an amount equal to $EPR(v_j)$. In other words, the bias against exports arising from the protection structure may be counteracted by giving export producers access to inputs (intermediate and capital) at world market prices and by providing exporters the same protection or incentives accorded to producers in the import substituting industry.^{4/} The first adjustment equates domestic value added in exports to free trade value added while the second one makes up for the disincentive against exports relative to import substitutes.

2.0 Analysis of Fiscal Incentives to Exports

Given the perspective outlined above, we are now ready to evaluate the existing package of incentives to exports. At present, the Philippines employs a number of schemes all aimed at providing free trade status to

^{4/} "Providing access to inputs at world market prices" entail the following: (1) tax and duty free importation of intermediate inputs and capital equipment for use in export production, (2) a rebate to exporters equal to the implicit tariff times the free trade value of locally sourced importable inputs and (3) a rebate to exporters equal to the implicit tariff times the free trade value of the traded goods content of non-traded intermediate inputs, in addition to the elimination of import and foreign exchange restrictions on imported inputs. The second and third adjustments are necessary once one recognizes that tariffs drive the domestic price by the proportion T relative to the border price. An alternative to items (2) and (3) would be the provision to indirect exporters of access to inputs at world market prices.

exports in terms of their intermediate input use. These are discussed in detail in Section 2.1. BOI and EPZA also grant various incentives to export producers. In turn, these are reviewed and analyzed in Section 2.2.

2.1 Access to Intermediate Inputs at World Market Prices

2.1.1 Description

To ensure that exporters are competitive with their foreign counterparts as far as intermediate input cost is concerned, the government administers tax and duty exemption as well as tax and duty drawback mechanisms. Exporters may avail themselves of tax and duty exemption on imported intermediate inputs via any one of the following: (1) locating in an export processing zone (EPZ); (2) using bonded manufacturing warehouse (BMW) facilities; and (3) importing under Customs Administrative Order 3-78 (CAO 3-78). On the other hand, tax and duty drawback on imported intermediate inputs used in export production may be obtained under the following modes: (1) individual drawback scheme of the Bureau of Customs (BOC); and (2) fixed drawback scheme of the BOI.

EPZ enterprises are exempt from tariffs, taxes and other restrictions that might otherwise be imposed on their imports. Furthermore, administrative procedures covering importation of these firms are highly simplified relative to those applicable to non-EPZ firms. For instance, EPZ enterprises comply with a five step procedural requirement supported by three documents when they import while other exporters wishing to import under consignment need at least 13 documents. Also, non-CIF cost of imports of EPZ firms is low. The processing fee charged by EPZA on each shipment is no more

than ₱200 (DTI 1988). In terms of value of exports, EPZ enterprises ranked second amongst firms that availed of the various exemption/drawback systems (WB 1987).

The bonded manufacturing system allows exporters to import inputs free of tax and duty. It also facilitates the release of imported raw materials from the BOC. The documentary requirements for the establishment of a BMW number at least 15. Foremost amongst these are: (1) BOI registration, and the firm's commitment to export at least 70 percent of its output with a minimum value of US\$1 million; (2) "formula of manufacture"^{5/}; (3) copy of feasibility study of BMW operations. There are also specific requirements to be met regarding the physical condition of the BMW (see Table II.6). BMWs are costly to operate. The following payments are required: (1) a fixed annual supervision fee of ₱45,000; (2) a performance bond of ₱200,000 to guarantee compliance with the laws and regulations affecting BMWs; and (3) re-export bond equivalent to the amount of duties, taxes and other charges that would have been due otherwise. Finally, all imports of BMWs are required to be covered by a BOI certificate of non-availability of local substitutes.

While access to BMWs tend to be effectively limited to large firms, small and medium exporters may import raw materials tax and duty free by making use of the facilities of customs common bonded warehouses (CCBWs) operated by the Philippine International Trading

^{5/}

The "formula of manufacture" consists of physical input coefficients endorsed by the National Institute of Science and Technology (NIST) and differentiating between domestically produced and imported inputs.

Table II.6
DOCUMENTARY AND OTHER REQUIREMENTS FOR ESTABLISHMENT OF BMWs

WITHOUT SUBCONTRACTING

1. Instruments evidencing absolute ownership or lease contract covering the proposed warehouse;
2. Plant location showing means of access to the property;
3. Plant layout showing and describing the size and construction of the proposed warehouse together with the intended use of each room, section or compartment as well as the surrounding premises;
4. Flowchart showing the nature of the work of manufacture/processing;
5. Certified true copy of Registration Certificate with the SEC together with the Articles of Incorporation and By-Laws of Co-Partnership, as the case may be;
6. Certified true copy of Registration Certificate with the BTRCP and BIR;
7. List of machinery and equipment;
8. Certified true copy of Certificate of Registration with the BOI;
9. BOI Indorsement of the application (for garments, GTEB issues the license to operate a BMW);
10. Copy of Inspection Permit from the Electrical Department;
11. List of articles to be manufactured;
12. List of all raw materials to be imported;
13. Formula of Manufacture, patterns or sketches of articles to be exported;
14. Building (Mayor's) Permit; and
15. Copy of project feasibility study of BMW operation.

WITH SUBCONTRACTING

1. Name of subcontractor;
2. Copy of contract with the subcontractor;
3. Certificate of accreditation of the subcontractor, if already accredited by BOC; if the subcontractor selected is not yet accredited, a letter of application of the subcontractor together with other documents required for the application;
4. Flowchart showing the specific processing stage to be subcontracted; and
5. List of materials to be subcontracted.

PHYSICAL CONDITIONS

1. Plant Location - The proposed BMW shall be located in an accessible place to ensure easy inspection by Customs officials.
2. Compartments for Materials/Articles
 - a. Every BMW shall have permanent compartments separated from the premises to be used exclusively for the storage and safekeeping of all imported materials, finished articles ready for export, and by products/wastages;
 - b. The compartment shall be properly secured to prevent any unauthorized person from having access thereto;
 - c. Such compartments shall each have two locks: the key of one lock shall be kept by the Customs bonded warehouse officer at all times and the key to the other lock shall be kept by the operator;
 - d. The contents therein shall be properly arranged to give all practicable convenience to authorized Customs official making the required examination, inspection or inventory.
3. Office Space for Customs Personnel - Accessible and adequate office space shall be provided for the Customs personnel to be assigned at the BMW.

FEES

1. Supervision fee equal to P45,000 per annum.
2. Performance Bond in the amount of P200,000 to guarantee compliance with laws and regulations affecting BMWs.
3. Re-export bond equivalent to the amount of duties, taxes and other charges that would otherwise be due.

Corporation (PITC), Philippine Exporters Foundation (Philexport), Mindanao Textile Corporation (Mintex), Philippine Integrated (Manufacturers) Exporters, Inc. (PIE), Red Flower Garments, Inc. and Royal Undergarments Corporation (RUC). Entities that operate CCBWs essentially serve as import agents of small exports for a service fee that ranges from one to five percent of CIF value of imports. The exporters are generally required to be registered with either the BOI or NACIDA or to be accredited by the BOI, NACIDA, BOC, etc. They also have to comply with the "formula of manufacture" and the BOI certification of non-availability of local substitutes and the posting of the re-export bond requirements. BMWs and CCBWs account for the biggest chunk of exports (in terms of export value) with access to duty free imports (WB Report 1987).

CA03-78 exempts small and medium exporters importing raw materials on consignment from duties and taxes on imports. To be eligible to this privilege, exporters have to satisfy the following:

- (1) their total assets must be between ₱500,000 and ₱5 million; and
- (2) they must not be registered with the BOI as an export producer, nor should they have access to Drawback and Warehousing schemes of the Tariff and Customs Code of the Philippines (TCCP) or the incentives under the Embroidery Law. Firms wishing to avail of benefits under CA03-78 have to submit numerous (exactly 19) documentary requirements and to follow a rather complicated procedure for the release of importation (see Table II.7 and Table II.8). Like the BMW scheme, CA03-78 calls for the submission of a formula of manufacture and the posting of a re-export bond. However, the necessary re-export bond

Table II.7
DOCUMENTARY REQUIREMENTS IN APPLICATION FOR DUTY EXEMPTION
UNDER CAO 3-78

1. CB IMPORT AUTHORITY (IA)

Requirements for issuance of IA:

- 1.1 Copy of the Certificate of Registration with the concerned government agency, such as the BOI, GTEB, PITC, or CB; in the absence thereof, a Certificate of Qualification from the BOC;
- 1.2 Copy of the processing agreement between consignee and foreign principal or supplier, or the confirmed purchase order or export L/C;
- 1.3 For regulated items, commodity clearance from the appropriate government agency;
- 1.4 Proforma Invoice; and
- 1.5 Mark-up Computation Report approved by the CB Export Department (this requirement can be waived for the first shipment).

Requirements for MCR

- 1.5.1 Copy of Processing Agreement of Confirmed Purchase Order (PO);
- 1.5.2 Copy of Certificate of Registration as export producer with the BOI, CB, GTEB, EPZA or other government agencies (for new applications); or

Copy of Certificate of Qualification (if not registered with any government agency);

- 1.5.3 If the product's quantity and/or fee/billing is based on the PO, Agreement or other documents - copy of source document; or

If the product's quantity and/or fee/billing is estimated - explanation on how the estimated were derived, i.e., assumptions used, basis of assumptions and supporting documents/computations, if any;

1.5.4 If the quantity/cost of the consigned materials is based on the invoice or other documents - copy of source document; or

If the quantity/cost of consigned materials is estimated - explanation on how the estimates were derived i.e., assumption used, basis of assumptions and supporting documents/computations, if any; and

1.5.5 Formula of Manufacture submitted to the Bureau of Customs.

2. BOI certificate of non-availability

3. Re-export bond equal to one and one half times the ascertained duties, taxes and other charges.

4. Certificate of Qualification (CQ)

Requirements for CQ

4.1 Authentic copy of importer's Certificate of Registration with the SEC, and the copy of the Articles of Incorporation or Articles of Co-Partnership, for corporations or partnerships; and Certificate of Registration with the BTRCP (formerly BDT) for sole proprietorships;

4.2 Financial Statement certified by the BIR;

4.3 Certified copy of a valid and subsisting contract between the importer and foreign supplier/buyer;

4.4 Formula of Conversion certified by the Department of Science and Technology or any appropriate government agency;

4.5 Plant's location map; and

4.6 Sworn Statement stating the following:

- i. That the materials are to be imported on consignment basis, and are solely intended for commercial export or sample purposes, based on the design/pattern prescribed by the supplier/foreign buyer.
- ii. Procedures to be followed in the production of imported materials; and
- iii. That the applicant does not have the financial capacity to make prior payment of the Customs duties, taxes and other charges, or does not have the necessary resources to establish and operate a bonded manufacturing warehouse.

Table II.8
PROCEDURES FOR THE RELEASE OF IMPORTATION
UNDER CAO 3-78

The following are the procedures in the release of the importation:

1. The importer submits to the Entry Processing Division the following:
 - a. Import Entry and its supporting documents; and
 - b. Copy of the CQ.
 2. The Entry Processing Division processes the entry and stamps the name "SMALL SCALE INDUSTRIES" and forwards the entry to the Special Assessment Unit, Bonded Warehouse Division, Port of Manila (POM), or the Warehousing Unit, Assessment Division, Ninoy Aquino International Airport (NAIA).
 3. The Special Assessment of Warehousing Unit:
 - a. Undertakes an examination and appraisal of the shipment pursuant to existing rules and regulations;
 - b. Verifies if the imported materials as declared in the entry documents are the ones specified in the CQ;
 - c. Adds the quantity of raw materials imported to date and checks if the quantity specified in the contract was not exceeded; and
 - d. Transmits entry to the Bonds Division.
 4. The Bonds Division, on the basis of the documents presented:
 - a. Checks if there are due and demandable bonds from previous importations;
 - b. Checks and approves ordinary re-export bonds; and
 - c. Transmits entry to the Cash Division, POM, or the Liquidation Unit, Collection Division, NAIA.
 5. The Cash Division or Liquidation Unit:
 - a. Receives entry and issues Permit to Deliver Imported Goods (POM) or Gatepass (NAIA);
 - b. Forwards the same to the Piers and Inspection Division, POM, or the Office of the Bonded Warehouse Supervisor, or the PAL Warehouse, NAIA; and
 - c. Returns the entry to the Special Assessment Unit, Bonded Warehouse Division, POM, or the Warehousing Unit, Assessment Division, NAIA.
-

under CAO3-78 is one and a half times that required under the BMW scheme.

The requirements for drawback claims under the BOC scheme are presented in Table II.9. Common with the other schemes are requirements on the formula of manufacture and BOI certification of non-availability of local substitutes. Tax credits under this system is available from 7 to 30 days upon submission of necessary documents. It should be pointed out that at most 99 percent of duties and taxes paid on imported materials may be refunded.

While the refunds under the individual drawback are based on actual usage of imported inputs, tax credits under the fixed drawback scheme are based on predetermined rates set by the BOI. The requirements and procedures to be followed for firms to benefit from the fixed drawback system are relatively simple (see Table II.10). However, while this scheme is available to both BOI and non-BOI registered export producers, the number of export items covered is rather limited (e.g., only 225 items in 1987) (WB Report 1987).

Finally, under the value added tax (VAT) system that is currently in place, exports are zero rated. This implies that a VAT registered enterprise will have no taxes on its exported output but it can claim a tax credit for value added tax paid on imported and locally sourced raw materials used in export manufacture. The tax refund is due within 60 days from the date of filing of claim which is 20 days following the end of each quarter.

Table II.9
REQUIREMENTS FOR BOC DRAWBACK CLAIMS

1. Import documents;
 2. Export documents;
 3. Bank credit memo or similar document evidencing remittance of export proceeds;
 4. Abstract of record (Form No. 1);
 5. Certificate of non-availability of competitive substitutes for the imported materials for regulated commodities under CB Circular 1029;
 6. Formula of manufacture or conversion issued by DOST or other related agencies;
 7. Certificate of exportation (Form No. 11), if required; and/or
 8. Constructive exportation documents (for indirect exporters);
 - a. Purchase Order;
 - b. Sales Invoice
 - c. Delivery Receipt;
 - d. Certificate of sales and delivery confirmed by a Chief of the Bonded Warehouse Division (Drawback Form No. 1-A); and/or
 - e. Certificate of sales and delivery confirmed by EPZA (Drawback Form No. 1-B).
-

Source: DTI, (1988).

Table II.10
REQUIREMENTS AND PROCEDURES FOR FIXED DRAWBACK SCHEME

Documentary Requirements

1. Export invoice;
2. Bill of Lading;
3. Bank Credit Memo; and
4. A statement under oath stating that:
 - a. Taxes and duties have been paid on the raw materials/supplies;
 - b. Said raw materials/supplies are not enjoying preferential rates; and
 - c. Said raw materials/supplies were purchased within one (1) year from date of actual exportation.

Procedures for Availment of Standard Rebate

1. Importer/claimant files application including the required documents with the Tax Rebate Center (TRC) through the Records Section of the BOI.
 2. If the documents are complete, applicant pays the application fees with the Cashier. Otherwise, documents are returned to the applicant for completion.
 3. Tax Credit Application (TCA) is forwarded to the industry group and evaluated by the Analyst.
 4. The Analyst prepares an Evaluation Report and issues a Tax Credit Certificate (TCC) amounting to the computed tax credit based on the standard rate.
 5. The deputized representative of the BOC and the BIR to the Center sign the TCC's in the following manner:
 - a. The representative of the Customs Commissioner signs the tax credits against tariff duties.
 - b. The representative of the Commissioner of Internal Revenue signs tax credits against value-added tax.
 6. The TRC releases the TCC to the supplier/applicant within two (2) working days from the time the application is officially accepted.
-

2.1.2 Assessment

The framework outlined above suggests that an important component of providing free trade status to exports is the absence of import restrictions on inputs. Contrary to this precept, all exporters except those located in an EPZ are asked to get a BOI certification of non-availability of domestic substitute for the imported raw material. This condition is over and above the more general restrictions on imports pending complete import liberalization (Medalla 1989).

The tax and duty free importation of raw materials (item 1 of footnote 4) is met with varying degrees of effectiveness by the different exemption and drawback systems that are currently in place. It should be emphasized that in practice all of these schemes account for less than 50 percent of exports, values with the majority of small exporters effectively excluded (WB 1987). Locating in an EPZ distorts the price of imported inputs least if one takes into account both direct and indirect (transactions) costs of importing materials. While BMWs free exporters from actually paying taxes and duties on imported inputs, the financial costs associated with this system in the form of supervision fees and performance and re-export bonds are by no means small. In the Philippines, the procedural requirements for BMWs are simpler relative to other schemes but these are more stringent than those in other countries where exporters using BMWs are not required to submit a "formula of manufacture" and to post a re-export bond. The operation of CCBWs is a commendable development since it minimizes the bias against small exporters inherent in the BMW system. CCBWs have also introduced some laudable innovations.

For instance, Philexport allows the issuance of a post-dated check in lieu of a re-export bond.

CAO-3-78, which was instituted in support of small and medium exports, is rendered ineffective by the complicated administrative requirements and the implied high transactions cost. Also, there appears to be no rationale for the higher re-export bond required under CAO 3-78.

The drawback system under the BOC and the BOI, on the other hand, entails additional cost in terms of the implied interest cost on the working capital used to pay the duties and taxes before refunds are due and the concomitant transactions costs arising from the complicated import administration. The products included in the fixed drawback system is also rather limited.

While the advantages of the BMWs and CCBWs cannot be underestimated these schemes are better suited to firms that produce primarily for export. At the same time, the edge of the exemption over the drawback are obvious. Thus, one cannot escape the need for an efficient exemption system if one hopes to encourage firms that produce both for the domestic and export markets, and marginal exporters for these type of exports will become increasingly important in the medium term.

Rhee (1984) asserts that the regular publication of up-to-date input-output coefficients for exports is an important element in effective import administration for exports. World Bank (1987), on the other hand, notes that the determination of the formula of

manufacture appears to be unsystematic and is usually set on an ad hoc basis in the Philippines.

The zero rating of exports under VAT partially addresses the requisites of item 2 of footnote 4 as it rebates the indirect tax component of the implicit tariff for domestically produced traded inputs, although the holding cost of capital involved in the advance payment of VAT on raw materials is not taken into consideration. The import duty portion is also not accounted for in this adjustment. Nor is item 3 of footnote 4 met under the various schemes discussed. It is interesting to note that the tax credit equal to 10 percent of net local content that is provided to exporters under the old Investment Code, (i.e., BP 391) may be viewed as addressing, albeit partially, the duty component of item 2 and all of item 3.^{6/} Therefore, it is unfortunate that this provision was dropped with the promulgation of the new Code.

2.2 Export Incentives under BOI and EPZA^{7/}

2.2.1 Description

Incentives to exports in the form of investment and other inducements have been in force in the Philippines since 1970 with the enactment of Republic Act 6135 or the Exports Incentives Act. Since

^{6/} This adjustment is less than that which is required because 10 percent is less than the average tariff on intermediate inputs which stands at 25 percent in the eighties (Tariff Commission).

^{7/} In addition to the special treatment of imported materials and equipment in EPZs that effectively establish a free trade regime for exports, EPZA grants the same incentives to exporters as the BOI so that in the discussion that follows when we talk of BOI incentives we also mean EPZA incentives to exporters.

then, it has been amended and codified three times over. However, the changes introduced under Batas Pambansa 391 (BP 391) in 1983 were truly radical and deserve some comment despite the fact that it has since been superseded by Executive Order 226 (EO 226) or the Omnibus Investments Code of 1987 (OIC 1987).

A comparison of the incentives granted under BP 391 and EO 226 is presented in Table II.11. EO 226 replaces the provisions on tax credit on net value earned and net local content by the income tax holiday for a duration that ranges from 3 to 8 years. Duty free importation of capital equipment is made available to both exporting and non-exporting firms under EO 226 while this privilege was granted to exporting firms only under BP 391.^{8/}

EPZA registered firms produce solely for the export market. On the other hand, BOI registration may be obtained if the proposed project is included in the Investment Priorities Plan or, if it is not so listed, at least 50 percent of its total production is for export.^{9/} The equity restrictions on foreign investors is waived if they propose to engage in a pioneer project or if they propose to export at least 70 percent of total output.^{10/}

^{8/} BP 391 allowed pioneer non-exporting firms to defer all duties and taxes on capital equipment while non-pioneer non-exporting firms are permitted to defer only 50 percent of these taxes for a period of 5 years.

^{9/} The 50 percent export criterion was first introduced in 1983.

^{10/} In general, foreign equity participation in any particular project cannot exceed 40 percent.

Table II.11
COMPARISON OF INCENTIVES UNDER BP391 AND EO226

Incentive	BP 391				EO 226			
	Domestic Producer		Export Producer		Domestic Producer		Export Producer	
	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer
1. Exemption from duties and taxes on imported capital equipment			100%	100%	100%	100%	100%	100%
2. Deferment of duties and taxes on imported capital equipment, to be repaid within 5 years	100%	50%	N/A	N/A	N/A	N/A	N/A	N/A
3. Tax credit on domestic capital equipment equivalent to duties and taxes on similar foreign equipment			100%	100%	100%	100%	100%	100%
4. Tax credit on domestic capital equipment to be repaid within 5 years	100%	100%	N/A	N/A	N/A	N/A	N/A	N/A
5. Tax credit on net value earned for five years	10%	5%	10%	5%	N/A	N/A	N/A	N/A
6. Tax credit on net local content for five years			10%	10%	N/A	N/A	N/A	N/A
7. Tax holiday	N/A	N/A	N/A	N/A	a/ 6-8 years	a/ 4-7 years	a/ 6-8 years	a/ 4-7 years
8. Net operating loss carry over	Yes	Yes	Yes	Yes	No	No	No	No
9. Deduction from taxable income of 50% of incremental labor expense for 5 years	No	No	No	No	b/ Yes	b/ Yes	b/ Yes	b/ Yes

a/
These are applicable to new projects. Expanding firms are entitled to 3 year tax holiday. Existing firms are not entitled to the tax holiday at all.

b/
Redundant for firms enjoying tax holiday.

2.2.2 Assessment

A cursory examination of Table II.11 indicates that BP 391 provided more benefits to exporters than to non-exporters while the incentives under EO 226 are perfectly neutral with respect to these two groups of producers. Following the approach developed in Manasan (1986, 1988) we estimated the impact on the internal rate of return (IRR) of the more important provisions of BP 391 and EO 226 on hypothetical BOI registered firms. Table II.12 shows that the increment on the IRR of exporters is 3 to 4 times as large as that of non-exporters under BP 391 while Table II.13 indicates that EO 226 differentiates between pioneer and non-pioneer enterprises only. Consequently, the inducements given to exporters are reduced by half while the benefits made available to non-exporters almost double under the new Investment Incentives Code.

From the vantage point of the framework presented above, EPZA/BOI incentives may be viewed as providing compensating adjustments to counteract the anti-export bias of the prevailing trade regime. EPZA/BOI provisions on the tax and duty free importation of capital equipment as well as the tax credit for domestically-sourced capital effectively grant exporters access to capital inputs at undistorted prices. It was pointed out earlier that the tax credit on net local content under BP 391 partially addresses the adjustment called for under item 2 of footnote 4. This provision is no longer available under EO 226. Nor is an efficient mechanism that extends the access to intermediate inputs at free trade prices to indirect exporters in place.

Table II.12
 CHANGE IN THE INTERNAL RATE OF RETURN OF HYPOTHETICAL BOI
 REGISTERED FIRMS UNDER BP391 a/
 (IN PERCENTAGE POINTS)

	Exporting				Non-Exporting			
	Non Pioneer		Pioneer		Pioneer		Pioneer	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
1. Exemption/ Deferment of duties on capital b/	3.5	2.5	3.5	2.5	.5	.25	1.0	.5
2. Tax Credit on net value earned	2.25	.5	3.5	1.75	2.25	.5	3.5	1.75
3. Tax Credit on net local content	9.0	4.75	9.0	4.75	-	-	-	-
4. Total	15.75	8.75	17.0	10.0	3.75	1.75	5.5	3.25

a/
 Change in IRR is computed relative to $IRR_0 = 10\%$

b/
 Computed based on $t = .2$ and VAT where t is tariff on capital equipment.
 k k

Table II.13
 CHANGE IN THE INTERNAL RATE OF RETURN OF HYPOTHETICAL
 BOI REGISTERED FIRMS UNDER EO 226 a/
 (IN PERCENTAGE POINTS)

	Non Pioneer		Pioneer	
	n=10	n=20	n=10	n=20
1. Tax holiday without extension	2.5	1.75	3.5	2.5
2. Tax holiday with maximum extension	3.75	2.75	4.0	3.0
3. Duty Exemption <u>b/</u> on Capital	3.5	2.5	3.5	2.5
4. 1+3	7.25	4.9	8.25	5.75
5. 2+3	8.75	6.0	9.0	6.5

a/
As in Table II.12.

b/
As in Table II.12.

The tax credit on net value earned under BP 391 may be seen as partially providing the second major adjustment outlined in the framework since it augments domestic value added in the exporting activity by some proportion of value added.^{11/} A value-added based incentive like this one is "the ideal form of tax incentive for exports" (Rhee 1984). This incentive, however, has been replaced by the income tax holiday under EO 226. A comparison of line 2 in Table II.12 and line 1 in Table II.13 suggests that the tax credit on net value earned and the income tax holiday provide roughly equivalent benefits to exporters (at least in terms of their impact on the internal rate of return.) However, the inducement provided by the income tax holiday as estimated in Table II.13 is likely to be overstated. First, our analysis on Table II.13 is based on the assumption that the registered enterprise is uniformly profitable over its life span. The firm might actually be incurring losses in the years near its inception which coincides with the period when the tax holiday is in force. In this case, the value of the tax holiday to the exporter would be diminished considerably. Second, the absence of tax sparing arrangements between the Philippines and most capital exporting countries nullifies the potential benefits from the income tax holiday to foreign investors.

To summarize, the combination of the exemption/drawback system for intermediate inputs and BOI/EPZA incentives is not enough to compensate for the anti-export bias of the protection system.

^{11/}

The average EPR for import substitutes is 25 percent in 1985 (Medalla 1986). It is considerably higher than the 10 percent adjustment granted by the above mentioned provision.

Furthermore, the changes introduced under EO 226 exacerbate this deficiency.

While the export orientation of the incentives under EO 226 has declined relative to those under BP 391, both versions of the Investments Code share the same bias in favor of exports in terms of project selection. Consequently, there has been an enormous increase in the share of exports in BOI approved projects since 1984 (see Table II.14).

The "measured capacity" concept as a criterion in project selection was a feature of all investment incentive legislations including EO 226 except BP 391. This concept implies some limitation on competition. It loses substance not only when exports are potential but also when imports are not prohibited. Thus, if the BOI uses it to regulate entry it will penalize exporters on two counts: (1) potential exporters might not be allowed entry on grounds of overcrowding; and (2) existing exporters will have to bear the higher input costs implied by limited output (via the measured capacity concept) in the upstream industries.

There has been some concern about the competitiveness of BOI incentives with those offered by other countries given the importance of foreign investment implied by the country's financing gap. Manasan (1988) compared the investment incentives granted by the ASEAN countries and concluded that the ASEAN countries are equally competitive with each other before as after incentives (see Table II.15). Since EO 226 incentives were the ones used in this comparison, we can infer that BP 391 incentives are more generous than

Table II.14
PROJECT COST OF BOI APPROVED PROJECTS, 1981-1987
(in million pesos)

	1981		1982		1983		1984	
	Levels	%	Levels	%	Levels	%	Levels	%
Agricultural Producers	2650.2	23.3	627.3	5.0	476.0	6.4	703.2	9.8
Domestic Producers	3533.6	31.1	9185.9	72.8	5088.6	68.4	1037.9	14.4
Export Producers	5180.5	45.6	2797.4	22.2	1872.3	25.2	5462.5	75.8
Total	11364.4	100.0	12610.6	100.0	7437.0	100.0	7203.6	100.0
	1985		1986		1987			
	Levels	%	Levels	%	Levels	%		
Agricultural Producers	486.8	17.8	422.6	19.3	1453.7	14.8		
Domestic Producers	206.3	7.5	199.9	9.1	786.1	8.0		
Export Producers	2049.0	74.7	1569.5	71.6	7604.3	77.2		
Total	2742.1	100.0	2192.0	100.0	9844.1	100.0		

Source: Board of Investments

Table II.15
INTERNAL RATE OF RETURN OF A HYPOTHETICAL FIRM
UNDER SELECTED INCENTIVE SCHEMES IN ASEAN COUNTRIES, 1988

	Indonesia		Malaysia		Philippines		Singapore		Thailand	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
1. Regular Taxes	11.0	13.0			10.25	11.5	15.0	16.5	11.25	13.25
(no incentive)	10.0	12.5	10.25	11.1						
	9.0	12.0								
2. Tax Holiday	NA		16.5	15.0	12.5	13.5	17.0	17.25	12.0	13.5
(min. no. of years allowed)							19.0	18.75		
3. Tax Holiday	NA		16.75	17.0	14.1	15.0	20.0	19.0	14.0	15.0
(max. no. of years allowed)							20.0	19.75		
4. Duty Exemption on Capital	15.0	16.5	12.25	12.25	13.75	14.0	NA		15.0	16.5
	14.25	15.75								
	13.5	15.25								
5. (2 + 4)	15	16.5	19.35	17.35	17.5	17.0	17.0	17.25	16.5	17.0
	14.25	15.75					19.0	18.75		
	13.5	15.25								
6. (3 + 4)	15	16.5	20.0	19.25	19.25	18.4	20.0	19.0	19.0	18.5
	14.25	15.75					20.0	19.75		
	13.5	15.25								
7. Investment Allowance Only (max. allowed)	NA		16.0	15.1	NA		18.0	18.25	NA	

	Indonesia		Malaysia		Philippines		Singapore		Thailand	
	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20	n=10	n=20
8. (7 + 4)			17.7	17.0	NA		18.0	18.25	NA	
9. Export Allowance Only			16.5	16.0					11.5	13.5
10. (2 + 4 + 9)	NA		20.0	19.5	NA				17.0	17.5
11. (3 + 4 + 9)	NA		20.0	20.0	NA				19.5	19.0
Memo items:										
tm	.25		.12		.2		0		.2	
u	.15/.25/.35		.40 + .05		.35		.33		.35	

*

The assumed income stream used in these calculations is that which yields before tax IRR of .20

a/

for u = 15, 25, 35%, respectively

b/

special allowance for depreciation in tax holiday period.

c/

for 100% export.

Source: Manasan (1988).

those of other ASEAN countries with respect to export producers. Thus, the shift to EO 226 might have reduced the attractiveness of the Philippines to foot loose export industries. Also, the Philippines, unlike Singapore and Malaysia, does not provide exporters incentives based on export promotion/overseas expansion expenditures.

The sample exporter-respondents were asked whether they received any special incentives from the government. It is noteworthy that half of them admitted that they have not received or have no knowledge at all about any incentives given by the government (see Table II.16). Others mentioned BOI incentives, exemption from export tax, and some programs of the DTI as the most important incentives they have received from the government. As regards the New Omnibus Investment Code (NOIC), five respondents said that the incentives contained therein are better than the previous ones. However, a great majority of the respondents do not have any knowledge at all regarding the new incentives given under the NOIC, hence they do not have any basis for comparing them with the incentives given under the previous code.

The respondents cited paper work involved in exporting, importation of raw materials and machinery, regulations in gathering locally available materials (e.g., rattan pools), quota allocation system (in favor of big exporters), and foreign exchange proceeds requirement (i.e., the requirement to immediately surrender all foreign exchange earnings) as major regulations that adversely affect exports.

The Inter-Agency Study Group on External Trade Statistics and Projections Foreign Operations Committee which met with exporters last December 1987 prepared a comprehensive summary of the problems encountered

Table II.16
SPECIAL INCENTIVES GIVEN BY THE GOVERNMENT

Assets	Export No.	Incentives	NOIC
A. Small-Scale			
1	1	none	no knowledge
1	6	regular trade exhibition	better
1	7	product exposure	better
1	8	none	no knowledge
1	9	list of direct buyers	no knowledge
1	10	have not received any	no knowledge
1	11	no knowledge	no knowledge
1	12	BOI incentives, Kalakalan ng 20	no knowledge
1	14	market encounter	better
1	17	export sales - exempted from VAT	better
1	20	no knowledge	no knowledge
1	21	no knowledge	no knowledge
B. Medium-Scale			
2	2	BOI	same
2	3	none	not aware
2	4	BOI - importation of eqpt. & mach.	same
1	13	BOI, tax incentives	no knowledge
2	15	no knowledge	no knowledge
1	22	no knowledge	no knowledge
C. Large-Scale			
2	5	BOI under BP 391	no knowledge
2	16	none	no knowledge
2	18	VAT & other tax exemptions	worse
1	19	no knowledge	no knowledge
3	23	tax credit on NVE/NIC	better

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

NOIC - New Omnibus Investment Code

by exporters and their recommendations. Those related to trade and fiscal policies are reproduced in Table II.17.

III. PHILIPPINE EXPORT STRUCTURE AND FORECASTS OF EXPORTS AND DEMAND FOR PRE- AND POST-SHIPMENT FINANCING

This chapter is divided into two sections. The first discusses the Philippine export structure from 1970 to 1988 while the second presents forecasts of exports and demand for pre- and post-shipment financing.

A. The Philippine Export Structure

From a level of only US \$768 M in 1965, the level of Philippine exports has grown to US \$7.1 B by 1988. The most rapid growth occurred during the decade of 1970 to 1980 when exports grew by an annual average of 20.7 percent. Export level declined during the first half of the 1980s but has recovered steadily from 1986 to 1988.

The composition of Philippine exports has changed substantially in the last two decades. Even as late as the mid-1960s, the Philippines was still basically an agriculture and mineral exporter. By the 1980s, manufactured exports comprised more than half of total exports. These changes are readily discerned using different classification schemes.

Table III.1 shows that the share of exports of natural resource-based sectors has fallen markedly from around 44.5 percent in 1970 to 9 percent in 1987. The share of logs and lumber in the top ten principal exports fell down from 29.5 percent in 1970 to 13.8 percent in 1987.

Using the one-digit PSCC classification scheme, the changes in the export structure are found to be very pronounced. This is presented in

Table II.17

SUMMARY OF SELECTED TRADE-AND FISCAL-RELATED PROBLEMS, RECOMMENDATIONS AND PROSPECTS
DECEMBER INDUSTRY DIALOGUES CONDUCTED BY THE IASG

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
A. Problems/Recommendation Common To All Industry Sectors			
PRODUCTION	Unavailability of competitively priced and good-quality raw materials in the domestic market.	Allow importation of necessary raw materials these are not available locally in order to sustain industries.	BOI/CB/DTI
	High cost of production.	Work for the reduction of tariff rates on imported raw materials and equipment in order to cut the high cost of production.	BOI/DTI
	Inadequate technical assistance, technological skills and basic facilities, particularly small entrepreneurs or farmers/planters.	Allow the application of earned credits as payment for use of public utilities and other taxes to lessen the financial burden of rising electric power cost, water and other taxes.	BOI/DTI
	High tariff rates imposed on imported raw materials and equipment.		
	Unreasonable cost of freight both in international and inter-island shipping.	Provide more infrastructure, transportation and communication facilities.	Present Administration
	Inadequate dissemination of information to small exporters regarding market developments and prospects	Forge a more effective labor and management to minimize labor disputes which may eventually lead to the erosion of the competitive edge of Philippine exports - cheap labor - if not given the proper direction.	DLE/DTI
	Decreased production due to the effects of recent natural calamities such as drought and typhoons.		
	Mounting labor-management problems.	Address the prevailing political uncertainty brought about by mounting insurgency problems.	Present Administration
Deteriorating peace and order condition.			
FISCAL	Rising cost of red tape and bureaucracy in government channels, specifically in the processing of pertinent documents.	Promote efficiency in all government channels to minimize the cost of bureaucracy and red tape and to eliminate uncoordinated activities of the government.	All government agencies
	Lack of innovative and effective incentives, particularly for small exporters who are being discriminated in favor of large corporations.	Review and revise/amend existing policies perceived by the business sector to	DTI/BOI/DF/NEDA

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
	Sluggish action on the CARP has stalled plans for expansion and development of most agri- and agro-industrial enterprises.	strengthening structural support at the fiscal level. Request for the government to be more "pro-active" and promotive rather than reactive and regulative so as not to scare away investments and other growth opportunities. Provide a more healthy business environment through government and private sectors joint efforts in order to attract more investments into the country.	Present administration Present administration and Industry members
		Rationalize travel taxes, particularly to exporters who travel frequently to promote/sell their products abroad.	DF/DTI/BOI
		Formulate and provide appropriate schemes to improve the competitiveness of Philippine exports relative to other exporting countries.	DTI and Industry members
EXTERNAL	Stiff competition from producers who enjoy better incentives and subsidies by their governments.	Reduce or eliminate tariff and non-tariff barriers through international agreements with trading partners.	DTI/NEDA
	Existence of tariff and non-tariff trade barriers against some Philippine exports.	Conduct on an on-going basis review of current market trends and opportunities by both the export sector and the government sector.	DTI and Industry members
		Establish a market intelligence network in order to provide market information as well as data on other competitor countries.	DTI
PROCEDURAL	Ineffective import procedures/system which delay processing of pertinent documents.	Improve on import procedures/system to hasten procurement of raw material requirements of manufacturing industries.	CB/BOI
	Lack of comprehensive and effective classification scheme for some export products which leads to confusion in reporting and policy information.	Lessen export documentation process by establishing "one-stop shop" for export shipment applications, permits and clearances.	CB/BOI/Bureau of Customs

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
B. Problems/Recommendation of Specific Industries			
(1) Coconut Products Production	Decreased production because of the effects of the recent natural calamities like drought and typhoons.	Implement and supervise closely the replanting, intercropping and fertilization schemes in order to improve the quality and quantity of production.	DA/PCA
	Deteriorating peace and order condition in most coconut-producing areas.	Extend the research and study agreement with the Harvard Medical School to develop new products or uses of coconut and to provide medical basis against the smear campaign of ASA.	DA/PCA
	Limited domestic market for coconut products which should complement the export industry.	Introduce innovation and more effective drying procedures and techniques to limit the aflatoxin content found in meal.	DA/PCA
Fiscal	Sluggish action on the CARP has stalled plan for expansion and development.	Monitor carefully the establishment of barangay cooperatives in order to maximize the use of funds, especially in the grass roots level.	DA/PCA
External	The growing concern over the following recent developments in the international market which would substantially reduce export earnings of coconut products if these are allowed to take their course.	Continue the counter-offensive move against the smear campaign undertaken by the American Soybean Association.	DTI/PCA
	a) the smear campaign of the American Soybean Association against coconut oil and other tropical oils being launched in the U.S., and the discriminatory bills being debated currently in the US Congress about the deterioration of the degree of saturation of the tropical oils.	Strengthen the lobby against the bills which ban the entry of coconut products in the U.S. now pending in the US Congress, i.e. HB 2148, SB 1109 and 1699.	DTI/PCA
	b) the proposed imposition of a vegetable oil consumption tax on local and imported oil in EEC.	Intensify the lobby being staged against the proposed imposition of the vegetable oil consumption tax in EEC.	DTI/PCA
	c) the proposed stringent measure in EEC to limit the aflatoxin content found in imported copra meal.	Penetrate other prospective markets such as PRODC, Indonesia and other socialist countries which hold great potentials in order to offset the likely negative impact on the demand for coconut products due to the recent developments in the US and EEC markets.	DTI/PCA

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(2) Sugar and Molasses Production	<p>Reduced profitability due to increasing labor demands.</p> <p>Lack of technical and farm facilities to attain efficiency in production.</p> <p>Mounting insurgency.</p> <p>Rising cost of production relative to world market prices due to farm and milling inefficiencies.</p>	<p>Implement a contract-farming scheme between the sugar planters and processed food exporters, whereby both parties will be given a free hand in the determination of price.</p> <p>Diversify idle sugar lands to other crops like ramie, cassava and other root crops to maximize the use of land.</p> <p>Accelerate the preparation of studies on the ethanol program and other industrial uses of sugar.</p>	<p>SRA/and Association of Sugar Planters</p> <p>DA</p> <p>DTI/SRA</p>
Fiscal	<p>Red tape in government bureaucracy increases the cost of production and operation.</p>	<p>Formulate a comprehensive program through a concerted effort between the private sector and the government, defining the policies on administration, pricing marketing and financing aspects.</p>	<p>SRA and Industry members</p>
External	<p>Low world market prices.</p> <p>Continued dependence on declining US quota allocation.</p> <p>Shift in preference of American consumers to alternative sweeteners.</p>	<p>Penetrate other prospective markets.</p>	<p>SRA/DTI</p>
(3) Fruits			
(a) Bananas Production	<p>Reduced production due to natural calamities such as drought and typhoons.</p>	<p>Enhance production by maximizing the allowable hectarage planted to bananas.</p>	<p>Industry members</p>
Fiscal	<p>Sluggish formulation and implementation of the guidelines of the CARP which stall plans of expansion in terms of additional hectarage planted to bananas.</p>	<p>Formulate and implement the final guidelines of the CARP to eliminate uncertainties that surround its implementation and enable the industry to determine the proper courses of action.</p>	<p>DA/DAR/Congress</p>
External	<p>Traditional markets have grown to maturity so not such improvement in volume shipments to these markets may be expected.</p>	<p>Explore or penetrate new markets such as South Korea and the People's Republic of China to offset the declining Philippine market share in the traditional Japanese and Middle East markets.</p>	<p>DTI</p>

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
	<p>Strong re-entry of Columbian and Equadorian exporters to the Japanese market posing a threat on the already declining Philippine share in the said market.</p> <p>Existence of trade barrier against Philippine bananas landed in Japan in the form of tariff rates.</p>	<p>Explore the possibility of negotiating with the Japanese government the reduction of or exemption from the tariff rates imposed on Philippine bananas in order to ease up the trade of the commodity in the said market.</p>	DTI
(b) Pineapple Products			
Fiscal	<p>A growing concern on the implementation of the final guidelines of the CARP.</p> <p>Export-oriented pineapple farming require large hectarage and inclusion of these farms in the CARP might lead to the death of the industry.</p>	<p>Work for the immediate implementation of the final guidelines of the CARP.</p>	DAR/Congress
External	<p>There may be negative represson on the demand for the products in the US as an aftermath of the US stock market crash, albeit minimal.</p>	<p>Diversify into other potential markets.</p>	QTI
(c) Mangoes			
Production	<p>High cost of air and sea transportation for cargoes going to U.S. & Europe compared to costs incurred by South American and African suppliers thereby impeding the country's ability to strongly penetrate U.S. and EEC markets.</p> <p>Further research is necessary to produce and export high-yielding and disease-free varieties.</p>	<p>Reduce air and sea transportation costs to reasonable levels in order to protect exporters speedy access to traditional and prospective markets.</p> <p>Undertake a comprehensive research development of high-yielding and disease-free varieties.</p> <p>Disseminate information regarding the new technology in fumigation called the vaport beat treatment to other growers.</p>	DTI/MARINA/PAL
External	<p>The immediate implementation of the Japanese ban on mangoes having been treated with EDB resulted in lower shipments in November and December 1987.</p>	<p>Negotiation with the Japanese government on how to compensate the drop in November and December 1987 shipments.</p>	DTI

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(d) All Fruits	<p>Production Prohibited importation of cheaper of-the-road or utility vehicles.</p> <p>Mounting labor problems.</p> <p>Deteriorating peace and order condition.</p>	<p>Explore the possibility of procuring imported and less expensive utility vehicles which are not available locally.</p> <p>Address to the present administration the concerns on labor disputes and national security.</p>	<p>BOI/CB</p> <p>Present government</p>
(4) Coffee	<p>Production Low production level due to inadequate technological and agricultural extension assistance to small farmers.</p> <p>Inadequate dissemination of information to small farmers regarding export market developments and prospects.</p>	<p>Upgrade traditional production and marketing techniques.</p> <p>Provide updated information about export quota allocation and other recent export developments to other coffee growers to be able to give them an incentive to produce more.</p>	<p>DA</p> <p>DTI/ICO-CA</p>
Fiscal	<p>Only the big traders benefit from the quota allotments for export granted by the ICO-CA.</p>	<p>Implement vigorously the ban on importation of coffee in any form.</p>	DF/CB
External	<p>Exports are limited to quota markets because non-quota countries have not yet been explored and also because the country cannot compete quality-wise and price-wise.</p>	<p>Develop the potential of exporting to non-quota countries.</p>	DTI
(5) Tobacco	<p>Production Low yields to insufficient technology on tobacco farming.</p> <p>Poor quality of Philippine virginia tobacco.</p>	<p>Undrtake R & D to improve yield and quality of locally-grown tobacco.</p>	DTI/PVTA
Fiscal	<p>Imposition of taxes on tobacco products reduces profitability of growers and processors.</p>	<p>Formulate effective incentives to motivate growers and exporters to produce efficiently.</p>	BOI
External	<p>The growing anti-smoking campaign worldwide dampens prospects for growers and processors.</p>	<p>Develop new market prospects, such as China which could be initiated on a government-to-government basis.</p>	DTI

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(6) Fish and Fish Products			
Production	Low productivity because of the government's inability to implement strict marine regulations on proper fishing.	Implement effectively and enforce strictly, fishing regulations to conserve the natural fish resources and make the industry self-reliant in the long run.	DNR/Bureau of Fisheries
	High cost of production inputs such as energy and the 20-100 percent import tax slapped on the value of imported fishing equipment.	Review the import liberalization program in the light of its adverse effects on the local fish and fish products industry. Corollary to this, there is a need to monitor the supply requirement of fish canners to determine the right volume and kind of species to be imported in order to keep the local canneries' operations going.	BOI/DTI/CB/NEDA
	Imported fish products allowed under the import liberalization program are competing stiffly with local catches.		
	Limited capacity of canneries due to lack of supply of cannery grade fish.		
Fiscal	Lack of government subsidy and incentives for the fish sector.	Formulate an effective incentive scheme to promote the industry.	BOI
External	There exists stiff competition from Thailand which gives subsidy to its fishing industry.	Penetrate or tap other prospective markets.	DTI
(7) Forest Products			
Production	Reduced log export earnings because of the ban to protect the growth of the ancillary industries.	Enhance the local value added contributed to wood products.	DTI/BOI
Fiscal	Inability of the industry to operate freely because of government intervention on the allowable timber cut and logging to be exploited.	Allow the industry to operate through market forces with less government intervention.	DNR/BFD
	The uncertainty regarding the tenure of timber licenses as the new constitution implicitly prohibits the grant of timber license agreements.	Ascertain the duration or the security of tenure of the licenses of producers/ planters which will serve as as incentive to reforestation and ensure increased production.	DNR
	The imposition of 10% duty and other non-tariff barriers such as controls on the importation of logs are burdensome.	Work for the elimination of the TDI duty on in imported logs to arrive at a more competitively priced manufactured wood product exports.	BOI

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
	Being a party to the joint venture or profit/production sharing arrangement with the government does not guarantee the producer the tenure of his license.		
External	Stiff competition posed by Indonesia, Sabah and Sarawak which manage to produce more yields at lower cost.	Tap other potential markets and produce better products to compete with other producers.	DTI/DWR/BOI
(6) Furniture and Fixtures			
Production	Dwindling supply of local raw materials, particularly rattan poles due to the rapid denudation of forests.	Work out a scheme providing continuous supply of necessary raw materials (specifically rattan) through importation to supplement the dwindling local supply and thus sustain the industry.	DTI/BOI
	Inadequate technical assistance, technological skills and necessary equipment to set up operations.	Formulate and implement an effective replanting scheme of rattan poles, its proper care and handling when harvested.	DNR
	A growing concern on labor unrest and national security exerts further pressure to local manufacturers.	Encourage integration and/or the use of indigenous materials.	BFD/DTI
	Illegal exactions by rebels and military personnel at forest concessions increase the cost of production.	Conduct training programs to be able to upgrade and standardize skills and technical know-how.	Industry members/DTI
		Disseminate market developments, trade opportunities and participation in international furniture exhibits and trade shows.	DTI
		Look into the implementation of a strike moratorium in order to enhance labor productivity.	DLE
Fiscal	High cost of bureaucracy and red-tape in government channels in the processing of pertinent documents increases the cost of production.	Discard the documentation requirements of the Department of Natural Resources which are not necessary in the process of securing concessions on rattan resources.	DNR
(9) Handicrafts Production	Low productivity because of rising labor disputes and other related manpower problems.	Improve product and design innovation given available raw material supply and production constraints.	DTI/BOI/ Industry members

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
	Political instability and national security concerns stir fear and apprehension among foreign borrowers.	Implement a strike moratorium in the medium term to counter the effects of strikes on labor productivity.	DLE
Fiscal	The rising cost of government bureaucracy and red-tape, particularly in securing applications for importation of raw materials on consignment basis.	Encourage and promote efficiency in all government channels.	Concerned government agencies
External	Heavy competition posed by Thailand and China which enjoy favorable edge over local producers because of incentives provided by their respective governments which translate into lower prices	Provide assistance for the establishment of a product and market development center.	DTI/BOI
(10) Mineral Products			
Production	CB's high refining charges compared to other foreign gold refineries increase the cost of production and operation.	Reach a compromise agreement between the gold producers (through the Chamber of Mines) and the CB on improving the recovery rates applied to gold bullion.	Chamber of Mines
		Conduct research and development studies on low cost and high recovery mine systems with short gestation periods and exploration of better ore grades.	Chamber of Mines/ Bureau of Mines
		Disseminate important geologocial, technical and economic informaton vital to mineral investment decisions.	Industry members/ Bureau of Mines
Fiscal	The producers are not allowed by the government to sell their primary gold produce in the free market which sometimes offers higher returns.	Enforce the selling of all gold production to the CB by small-scale miners and gold panners.	CB
	The production of small-scale miners or gold panners are being smuggled out of the country due to inadequate government surveillance/monitoring of their operations.	Study the possibility of a reduction or exemption of gold producers from the 30% sales tax imposed on manufactured articles fabricated with gold and other precious metals. Sales to CB should not be treated as an ordinary commercial transaction since gold bullions become monetized gold forming part of the country's international reserves.	DF through the recommendation of CB
	The 30% sales tax on manufactured articles fabricated with gold and other precious metals is an added burden to the producers.		

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(11) Petroleum Products Production	Operation of hydro-power plants was hampered by the low water level caused by the prolonged drought.	Promote and develop the local or indigenous sources of energy to be able to produce them economically and efficiently.	NEDA/BEU
	Heavy reliance of export shipments on excess domestic consumption of petroleum products.	Minimize the dependence of the exportable capacity on the surplus in domestic consumption of petroleum products by developing indigenous or conventional sources of energy, or by adding more value added in them through further processing of petroleum products to some higher-priced exportable grades.	BEU/Office of the Energy Affair
	External	Unstable world prices of crude oil.	
(12) Chemicals Production	Supply of coconut oil (the main ingredients for coco-chemicals may be adversely affected by the drought and the typhoons which hit coconut-producing regions.	Work for the replacement of imported ingredients/materials particularly those that directly affect the ecological balance of nature with coco-chemicals.	DTI/PCA/BOI
	Fiscal	Lack of product standardization on the part of government particularly for coco-chemicals.	Formulate and enforce product standardization measures in order to be competitive quality-wise in the international market.
(13) Electronics Production	Mounting labor disputes.	Implement a strike moratorium in order to enhance labor productivity.	OLE
	Inadequate support for the development of higher assemblies because of limited domestic market for semi-conductor and other electronic devices.	Formulate measures that will prevent/minimize sudden or unannounced strikes (such as the Welga ng Bayan) which disrupt or paralyze operations.	OLE
		Facilitate a gradual shift from simple assemblies to higher-level assemblies.	Industry members and DTI/BOI

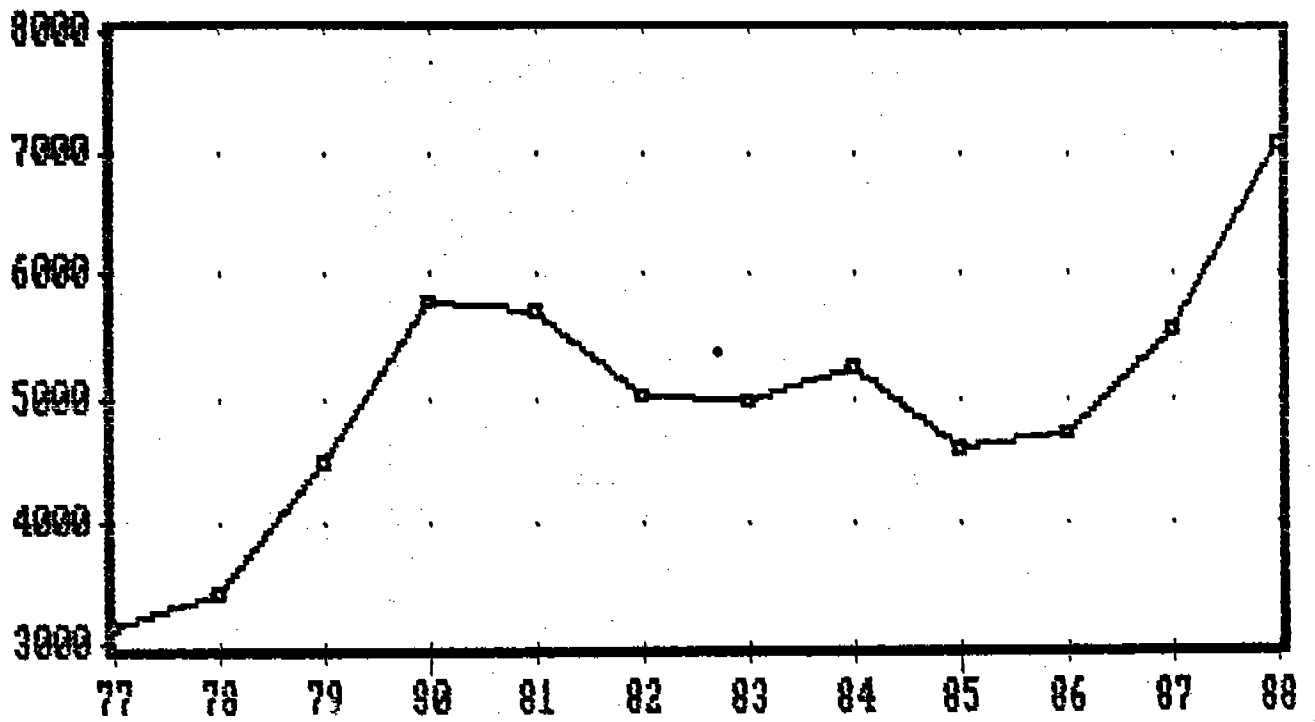
INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
		Develop efficiency in production of high quality products in order to improve the country's export competitiveness.	Industry members
Fiscal	Inconsistency of some provisions with regard to importation by foreign-owned firms contained in CB Circular 1029 and the Omnibus Investment Code 226.	Coordinate formulation and implementation of appropriate policies among concerned government agencies.	CB/BOI
External	Reduced bullishness brought about by the August 28 coup attempt may have stalled plans of expansion and may have even driven away potential investments. The impact of the US stock market fall may dampen demand for 1988.	Encourage potential investors by providing a climate of political and economic security and effective incentives.	BOI/DTI/Industry members
Procedural	The 30-day repayment scheme on O/As and D/As becomes overdue for some companies because of the requirement that a bank could not remit without the documents bearing the CICC registration first, the release of which is always delayed.	Eliminate further costs as a result of delayed releases of documents on OAs/DAs repayments through exemption from the CICC registration requirement everytime importation is made. The initial registration should suffice.	CB
(14) Garments/Textiles			
Production	Limited growth of the local textile industry because of the dependence of the garment sector on imported raw materials, which cannot be produced efficiently by local producers or are unavailable in the local market. High cost of production. Lack of technology and local raw materials to manufacture good quality fabrics.	Forge a strong interface between the textile and garment industries to be able to develop and enhance their respective capacities. Optimize the utilization of quotas in order to improve the supply of garments.	Industry groups with the supervision of DTI. DTI/GTEB
External	Stiff competition from new producers. Smuggling of quality fabrics because of the inability of local producers to manufacture at reasonable costs.	Penetrate other free-quota countries initially on a government-to-government basis.	DTI

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(15) Processed Food and Beverages Production	High cost of packing materials due to inavailability of good quality materials in the local market and the high tariff rates imposed on imported materials.	Reduce or scrap the tariff rates applied on imported packing materials.	BOI/DTI/DF
	Higher prices of domestic sugar relative to the world market price.	Include packaging items and other necessary inputs of the industry in the import liberalization scheme in order to minimize the cost of production.	CB/DTI/BOI/NEDA
	Unreasonable cost of freight both in the international and inter-island shipping.	Provide food processors and exporters access to lower-priced sugar through the SRA's assistance. Corollary to this, industry representatives are requesting to SRA to reclassify/treat sugar used as inputs to export products as export sugar which is priced lower than domestic sugar.	DTI/SRA
		Rationalize freight rates, both in international and inter-island transportation.	DTI/MARINA
		Exempt or give preferential rates on travel tax to enable the exporter to at least recover promotion costs abroad.	
Fiscal	Lack of incentives for small exporters which are being discriminated in favor of large corporations particularly the multinationals.	Improve on customs drawback mechanism and on BOI tax credit system on imported raw materials forming part of the export products.	BOI/DF
	Duplication of functions of the Bureau of Food and Drugs and the NFA-FTI by virtue of the bilateral memorandum of understanding between USFDA and NFA for testing of food products before the actual shipment.	Consolidate under one central agency the responsibility of testing the quality of food exports in order to avoid duplication of functions among government agencies, thus minimizing cost for exporters.	Bureau of Standards/FDA
	Disincentive posed by the travel tax to small and medium-sized firms in the promotion of their products abroad.	Hold regular forum between food processing industries, research agencies and/or other government agencies in the development of policies, plans or programs promotive/supportive of the industry rather than regulative.	DTI/BOI
	Excessive fees are charged by the FTI in the testing of food products for export relative to those of BFAD.		

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
Procedural	<p>FTI, being the marketing and testing arm of the NFA competes with private food exporters in terms of market share and capability to attract foreign clients.</p> <p>High cost of dealing with the government (red tape, exorbitant licensing and permit fees, graft and corruption).</p> <p>Certain food products like ethnic foods are not captured in government statistics (DTI, BOI, CB) on processed food, hence, the industry's real performance could not be properly ascertained.</p>	<p>Coordinate between concerned government agencies the formulation of an effective monitoring and classification system for the industry's products.</p>	DTI/BOI/CB

Source: Inter-Agency Study Group on External Trade Statistics and Projections Foreign Operations Committee Central Bank of the Philippines, Annual Report 1987.

Figure I



— TOTEXP (Total exports, FOB \$million)

Table III.1
 IMPORTANCE OF NATURAL RESOURCE-BASED EXPORTS IN PHILIPPINE TRADE
 (F.O.B. value, in million U.S. dollars)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987
TOTAL PHILIPPINE EXPORTS	1,142	2,294	5,788	5,720	5,021	5,005	5,391	4629	4842	5720
Exports of Resource-Based Sectors: (percent share)	508 (44.5)	574 (25.0)	1,285 (22.2)	1,138 (19.9)	858 (17.1)	744 (14.9)	561 (10.4)	442 (9.5)	491 (10.1)	512 (9.0)
Forest Products	301	260	468	469	362	331	323	246	251	306.3
Logs	243	167	92	76	78	74	88	39	26	0.3
Lumber	13	27	181	126	124	149	107	90	103	154
Plywood	20	21	111	111	67	76	56	51	56	67
Others	25	45	84	156	93	32	72	66	66	85
Mineral Products	207	314	817	669	496	413	238	196	240	206
Copper Concentrates	185	212	545	429	312	249	115	84	90	109
Gold	-	76	239	215	169	154	104	100	140	90
Iron ore and concentrates	13	13	0	0	0	0	0	0	0	0
Chromite ore	9	13	33	25	15	10	19	12	10	7
Others	17	18	214	89	36	27	28	47	27	18
Ten Principal Exports	868	1,619	2,635	2,315	1,672	1,730	1,646	1,125	1,068	1,122
Logs and Lumber exports (percent share)	256 (29.5)	194 (12.0)	273 (10.4)	202 (8.7)	202 (10.8)	223 (12.9)	194 (11.8)	130 (11.6)	130 (12.2)	155 (13.8)
Gold and Copper exports (percent share)	185 (21.3)	288 (17.8)	784 (29.8)	645 (27.9)	481 (25.7)	403 (23.3)	219 (13.3)	184 (16.4)	230 (21.5)	200 (17.8)
Non-Traditional Manufactures	95	374	2,107	2,572	2,461	2,537	2,991	2564	2685	3604
Resource-Based Manufactures (percent share)	13 (14.2)	127 (34.0)	300 (14.2)	342 (13.3)	300 (12.2)	266 (10.5)	317 (10.6)	292 (11.4)	295 (11.0)	440 (12.2)

Source: NEDA, Philippine Statistical Yearbook, various issues.

Table III.2. In 1970, more than 80 percent of Philippine exports were in the Food and Food Preparation (PSCC 0), Beverage and Tobacco (PSCC 2), and Crude Materials, Inedible (PSCC 3). This share consistently went down to only around 25 percent in 1988. The most drastic change occurred in PSCC 3 which went down from 54.0 percent in 1970 to only 10 percent in 1988. On the other hand, exports under PSCC 9 (commodities and transactions not classified elsewhere, the bulk of which consist of BMW exports of garments and semi-conductors) rose dramatically from .05 percent in 1970 to 29 percent in 1988.

Another way of analyzing the change in the export structure is by re-classifying the commodities into the following categories: (1) fuel primary commodity exports; (2) nonfuel primary commodity exports; (3) labor-intensive exports; (4) moderately capital and skill-intensive exports; and (5) highly capital- and skill-intensive exports.

While total exports fluctuated unpredictably during the period 1977-1988, the composition defined along these five categories exhibited a distinct pattern (see Tables III.3a and III.3b). Labor-intensive manufactured exports, of which garments and furniture are the prime examples, have accounted for an increasing share of the total, surpassing primary nonfuel commodities for the first time in 1987. The latter category had been the perennial number one source of exports. The new international division of labor dictated this shift as light manufacturing industries, characterized by a high degree of labor intensity, were transferred to developing countries with relatively low wage rates. Moreover, world demand for primary nonfuel commodities has been declining due to several factors including the development of synthetic substitutes and changing tastes and technology. Added to these is the stiff

Table III.2
 PHIL. WORLD EXPORTS
 BY 1-DIGIT PSCC CATEGORY
 (For selected years - 1970-1988)
 (In Million US\$)

CODE	EXPORTS (f.o.b.)	1970 % Share	1975 % Share	1980 % Share	1985 % Share	1987 % Share	1988 % Share
0	FOOD AND FOOD PREPARATIONS	272 25.73	828 36.14	1402 24.37	825 17.98	888 15.94	1057 14.94
1	BEVERAGES AND TOBACCO	15 1.42	36 1.57	32 0.56	31 0.68	28 0.50	32 0.45
2	CRUDE MATERIALS, INEDIBLE	571 54.02	652 28.46	1446 25.14	480 10.46	535 9.60	709 10.02
3	MINERAL, FUELS AND LUBRICANTS	17 1.61	37 1.62	38 0.66	42 0.92	97 1.74	153 2.16
4	ANIMAL AND VEGETABLE OILS & FATS	96 9.08	233 10.17	573 9.96	372 8.11	397 7.13	425 6.01
5	CHEMICALS	5 0.47	21 0.92	89 1.55	150 3.27	245 4.40	257 3.63
6	MANUFACTURED GOODS CLASSIFIED : CHIEFLY BY MATERIAL	69 6.53	238 10.39	532 9.25	468 10.20	469 8.42	717 10.14
7	MACHINERY AND TRANSPORT EQUIPMENTS	0.814 0.08	12 0.52	127 2.21	309 6.73	553 9.93	694 9.81
8	MISCELLANEOUS MANUFACTURES	9 0.85	101 4.41	610 10.61	537 11.70	758 13.61	954 13.49
9	COMMODITIES AND TRANSACTIONS NOT : CLASSIFIED ELSEWHERE	0.502 0.05	133 5.81	903 15.70	1375 29.96	1601 28.74	2075 29.34
	TOTAL EXPORTS	1057 100.00	2291 100.00	5752 100.00	4589 100.00	5571 100.00	7073 100.00

Source: DER, Statistical Info. Center, CB
 National Statistical Office

Table III.3a
 DISTRIBUTION OF PHILIPPINE MERCHANDISE EXPORTS
 (million FOB \$)

Year	FUEL	NFUEL	LI	MCSI	HCSI
1977	19	2432	576	59	52
1978	10	2408	824	123	61
1979	11	3156	1164	158	112
1980	50	3784	1634	231	89
1981	42	3318	2013	244	106
1982	33	2649	2005	230	95
1983	114	2519	1942	310	86
1984	87	2410	2195	470	105
1985	42	2063	1969	365	150
1986	66	2091	1883	447	243
1987	97	2171	2438	620	245
1988	113	2688	3113	849	311
1989	143	2852	3565	1030	333
1990	176	2990	4046	1187	396
1991	128	3251	4630	1428	414
1992	165	3530	5294	1599	441
1993	214	3771	6159	1886	541
1994	161	4234	7300	2336	569
1995	167	4662	8492	2747	583
1996	281	4862	9631	3179	748
1997	253	5275	10972	3798	802
1998	261	5570	12561	4385	924
1999	320	5874	14418	5073	1015
2000	330	6000	16500	6000	1170

FUEL - Fuel primary commodity exports
 NFUEL - Nonfuel primary commodity exports
 LI - Labor-intensive exports
 MCSI - Moderately capital- and skill-intensive exports
 HCSI - Highly capital- and skill-intensive exports

* - 1989-2000 values are forecasted values

Table III.3b
 PERCENTAGE DISTRIBUTION OF
 PHILIPPINE MERCHANDISE EXPORTS

Year	PFUEL	PNFUEL	PLI	PMCSI	PHCSI
1977	0.6	77.5	18.4	1.9	1.6
1978	0.3	70.3	24.0	3.6	1.8
1979	0.2	70.1	25.8	3.5	2.5
1980	0.9	65.4	28.2	4.0	1.5
1981	0.7	58.0	35.2	4.3	1.8
1982	0.7	52.9	40.0	4.6	1.9
1983	2.3	50.7	39.1	6.2	1.7
1984	1.6	45.8	41.7	8.9	2.0
1985	0.9	45.0	42.9	7.9	3.3
1986	1.4	44.2	39.8	9.4	5.1
1987	1.7	39.0	43.8	11.1	4.4
1988	1.6	38.0	44.0	12.0	4.4
1989	1.8	36.0	45.0	13.0	4.2
1990	2.0	34.0	46.0	13.5	4.5
1991	1.3	33.0	47.0	14.5	4.2
1992	1.5	32.0	48.0	14.5	4.0
1993	1.7	30.0	49.0	15.0	4.3
1994	1.1	29.0	50.0	16.0	3.9
1995	1.0	28.0	51.0	16.5	3.5
1996	1.5	26.0	51.5	17.0	4.0
1997	1.2	25.0	52.0	18.0	3.8
1998	1.1	23.5	53.0	18.5	3.9
1999	1.2	22.0	54.0	19.0	3.8
2000	1.1	20.0	55.0	20.0	3.9

FUEL - Fuel primary commodity exports
 NFUEL - Nonfuel primary commodity exports
 LI - Labor-intensive exports
 MCSI - Moderately capital- and skill-intensive exports
 HCI - Highly capital- and skill-intensive exports

* - 1988 figures are estimated values while
 1989-2000 figures are forecasted values

competition among developing countries for markets for these types of commodities.

Another category that has experienced an increasing share is moderately capital-and-skill intensive (MCSI) exports rising from 2 percent in 1977 to 11 percent in 1987. Semiconductors, the number one export of the Philippines at present, fall in this category. It is predicted that by the year 2000 the percentage share of these three categories will stabilize at 20 percent for primary nonfuel, 55 percent for labor intensive, and 20 percent for MCSI exports with the rest going to the other two categories. These figures differ significantly from those projected by the ADB which puts the percentage shares as 36, 46, and 14 percent, respectively.

Tables III.4a, III.4b, and III.4c show the composition of exports by traditional/non-traditional categories used by the Central Bank.^{12/} In 1970, the share of traditional exports (coconut products, sugar, forest products and minerals) was more than 91.5 percent. The share went down to only 23.9 percent in 1987. Sugar, forest and mineral products suffered the largest decline from around 18.5 percent, 26.2 percent and 20.4 percent respectively in 1970 to only around 1.2 percent and 4.2 percent and 3.9 percent in 1987. Coconut products remain important although their share in exports also declined from 19.7 percent in 1970 to 9.8 percent in 1987. On the other hand, the share of non-traditional exports grew from only around 8 percent in 1970 to 73.4 percent in 1987. Non-traditional manufactures compose the bulk of these shares. However, although the healthy growth of certain sectors (e.g., footwear, chemicals, processed food and beverages

^{12/}

Central Bank defines traditional exports as those sectors which have exported at least US \$5 million in 1968.

Table III.4a
 VALUE OF EXPORTS BY MAJOR COMMODITY GROUP
 1970-1987
 (In Million US Dollars)

Commodity Group	1970	1971	1972	1973	1974	1975	1976	1977	1978
I. Traditional Exports	972	1027	982	1606	2306	1767	1773	2097	1975
Coconut Products	209	255	228	374	609	466	540	761	907
Copra	80	114	110	166	140	172	150	201	136
Coconut oil	96	104	84	153	381	230	299	412	620
Desiccated Coconut	19	21	18	32	60	31	37	90	82
Copra Meal/Cake	14	16	16	23	28	33	54	58	69
Sugar and Products	196	220	217	293	765	615	454	532	213
Centrifugal Refined	188	212	211	275	737	581	429	512	197
Molasses	8	8	6	18	28	34	25	20	16
Forest Products	278	259	226	416	292	225	270	263	328
Logs	237	215	164	304	216	167	135	134	145
Lumber	13	11	10	35	30	27	68	67	85
Plywood	20	24	34	59	27	23	47	41	72
Veneer Sheets/Corestocks	8	9	18	18	19	8	18	20	22
Others							2	1	4
Mineral Products	217	218	239	438	519	332	371	386	375
Copper Concentrates	185	185	191	290	393	212	266	268	250
Gold	--	8	27	104	74	76	65	71	76
Chromium Ore	6	6	5	9	13	13	15	25	25
Others	26	19	16	35	39	31	25	22	24
Fruits and Vegetables	26	24	23	24	37	44	58	73	77
Canned Pineapple	21	20	19	20	31	35	47	56	60
Pineapple Juice	2	1	1	1	1	3	1	3	2
Pineapple Concentrates	3	2	2	2	3	3	5	5	5
Others	--	1	1	1	2	3	5	9	10
Abaca Fibers	15	13	13	20	38	14	18	17	15
Tobacco Unmanufactured	14	14	17	26	30	34	28	28	29
Petroleum Products	17	24	19	15	16	37	34	37	31

Commodity Group	1979	1980	1981	1982	1983	1984	1985	1986	1987
I. Traditional Exports	2561	3068	2742	2116	2068	1828	1302	1275	1367
Coconut Products	1024	811	750	590	680	727	459	470	561
Copra	89	47	34	49	4	--	--	18	32
Coconut oil	742	567	533	401	516	580	347	333	381
Desiccated Coconut	107	116	102	68	88	106	76	44	75
Copra Meal/Cake	86	81	81	72	72	41	36	75	73
Sugar and Products	239	657	604	441	316	279	185	103	71
Centrifugal Refined	212	624	566	416	299	246	169	87	60
Molasses	27	33	38	25	17	33	16	16	11
Forest Products	490	425	352	294	331	271	199	201	243
Logs	144	92	76	79	74	88	39	27	0
Lumber	198	181	126	124	149	107	91	104	154
Plywood	107	111	111	67	76	56	51	56	68
Veneer Sheets/Corestocks	35	36	31	20	28	14	12	9	15
Others	6	5	8	4	4	6	6	5	6
Mineral Products	608	918	757	532	440	266	243	267	224
Copper Concentrates	440	545	429	312	249	115	84	90	109
Gold	103	239	215	169	154	104	100	140	91
Chromium Ore	23	33	25	15	10	19	12	11	7
Others	42	101	88	36	27	28	47	26	17
Fruits and Vegetables	100	111	121	128	107	133	136	137	150
Canned Pineapple	74	82	89	88	74	87	89	83	86
Pineapple Juice	3	6	6	9	4	5	7	6	6
Pineapple Concentrates	10	9	7	10	9	13	14	18	20
Others	13	14	19	21	20	28	26	30	38
Abaca Fibers	25	27	21	20	18	30	17	13	12
Tobacco Unmanufactured	33	29	48	47	34	29	24	21	18
Petroleum Products	42	90	89	64	142	93	39	63	88

Commodity Group	1970	1971	1972	1973	1974	1975	1976	1977	1978
II. Non-Traditional Products	85	100	119	269	407	504	749	1024	1422
Non-Traditional Manufactures	72	74	77	212	328	367	546	711	1045
Elec. & Elec. Eqpt./Parts & Telecom.	--	--	2	11	27	47	85	124	253
Garments	--	1	2	58	94	100	185	250	327
Textile Yarns/Fabrics	6	7	9	24	20	22	39	34	44
Footwear	1	1	1	2	4	3	5	10	32
Travel Goods and Handbags	1	1	2	5	8	10	4	6	9
Wood Manufactures	11	7	8	24	35	29	32	28	30
Furnitures and Fixtures	1	1	2	3	6	5	10	22	27
Chemicals	5	6	6	10	15	21	27	51	59
Copper Metal	--	--	--	--	--	--	--	--	--
Non-Metallic Mineral Manufactures	3	10	8	25	37	33	28	38	43
Machinery and Transport Eqpt.	1	2	3	3	6	10	16	26	37
Processed Food and Beverages	8	9	11	15	17	14	20	31	41
Misc. Manufactured Articles, n.e.c.	5	4	10	20	23	46	65	60	81
Others	30	25	13	12	36	27	30	31	62
Non-Traditional Unmanufactures	13	26	42	57	79	137	203	313	377
Nickel	--	--	--	--	--	33	59	77	55
Iron Ore Agglomerates	--	--	--	--	--	--	--	57	104
Bananas	5	16	24	28	45	73	76	73	84
Mangoes	1	1	1	1	2	2	3	2	4
Coffee, Raw not Roasted	--	--	--	--	--	2	25	45	34
Fish, Fresh or Simply Preserved	2	5	11	20	17	16	26	41	57
Rice	--	--	--	--	--	--	--	4	14
Others	5	4	6	8	15	11	14	14	25
III. Special Transactions		1	1	9	9	21	28	16	6
IV. Re-Exports	5	8	4	2	3	2	24	14	22
TOTAL EXPORTS	1062	1136	1106	1886	2725	2294	2574	3151	3425

Commodity Group	1979	1980	1981	1982	1983	1984	1985	1986	1987
II. Non-Traditional Products	2000	2650	2920	2851	2846	3430	3275	3447	4197
Non-Traditional Manufactures	1474	2005	2374	2376	2387	2992	2765	2879	3642
Elec. & Elec. Eqpt./Parts & Telecom.	412	671	838	1000	1053	1329	1056	919	1119
Garments	405	502	618	541	545	603	623	751	1098
Textile Yarns/Fabrics	55	74	69	56	44	38	39	44	68
Footwear	51	67	73	62	55	46	39	31	31
Travel Goods and Handbags	8	9	10	10	8	6	10	12	16
Wood Manufactures	40	35	46	41	53	50	43	49	62
Furnitures and Fixtures	55	77	87	72	84	88	84	89	130
Chemicals	112	89	105	95	86	105	150	243	245
Copper Metal	--	--	--	--	26	111	168	172	162
Non-Metallic Mineral Manufactures	31	60	48	40	26	21	24	18	22
Machinery and Transport Eqpt.	47	47	47	48	35	36	30	45	78
Processed Food and Beverages	46	92	154	150	127	109	106	116	126
Misc. Manufactured Articles, n.e.c.	118	149	155	143	133	137	136	159	199
Others	94	133	124	118	112	313	257	231	286
Non-Traditional Unmanufactures	526	645	546	475	459	438	510	568	555
Nickel	92	138	103	49	53	12	64	15	
Iron Ore Agglomerates	120	118	116	106	114	105	95	85	76
Bananas	97	114	124	146	105	122	113	130	121
Mangoes	5	7	6	8	9	7	7	8	12
Coffee, Raw not Roasted	44	45	39	49	47	76	70	119	32
Fish, Fresh or Simply Preserved	87	107	90	71	77	69	99	143	207
Rice	46	73	24	--	9	--	--	--	25
Others	35	43	44	46	45	47	62	68	82
III. Special Transactions	11	33	50	45	57	8	12	8	7
IV. Re-Exports	29	37	10	9	34	125	40	112	149
TOTAL EXPORTS	4601	5788	5722	5021	5005	5391	4629	4842	5720

SOURCE: Dept. of Economic Research,
Central Bank of the Phil.

Table III.4b

GROWTH RATE OF PHILIPPINE EXPORTS
(In %)
1970-1987

Commodity Group	1971	1972	1973	1974	1975	1976	1977	1978	1979
I. Traditional Exports	5.66	-4.38	63.54	43.59	-23.37	0.34	18.27	-5.82	29.67
Coconut Products	22.01	-10.59	64.04	62.83	-23.48	15.88	40.93	19.19	12.90
Copra	42.50	-3.51	50.91	-15.66	22.86	-12.79	34.00	-32.34	-34.56
Coconut oil	8.33	-19.23	82.14	149.02	-39.63	30.00	37.79	50.49	19.68
Desiccated Coconut	10.53	-14.29	77.78	87.50	-48.33	19.35	143.24	-8.89	30.49
Copra Meal/Cake	14.29	0.00	43.75	21.74	17.86	63.64	7.41	18.97	24.64
Sugar and Products	12.24	-1.36	35.02	161.09	-19.61	-26.18	17.18	-59.96	12.21
Centrifugal Refined Molasses	12.77	-0.47	30.33	168.00	-21.17	-26.16	19.35	-61.52	7.61
	0.00	-25.00	200.00	55.56	21.43	-26.47	-20.00	-20.00	68.75
Forest Products	-6.83	-12.74	84.07	-29.81	-22.95	20.00	-2.59	24.71	49.39
Logs	-9.28	-23.72	85.37	-28.95	-22.69	-19.16	-0.74	8.21	-0.69
Lumber	-15.38	-9.09	250.00	-14.29	-10.00	151.85	-1.47	26.87	132.94
Plywood	20.00	41.67	73.53	-54.24	-14.81	104.35	-12.77	75.61	48.61
Veneer Sheets/Corestocks	12.50	100.00	0.00	5.56	-57.89	125.00	11.11	10.00	59.09
Others							-50.00	300.00	50.00
Mineral Products	0.46	9.63	83.26	18.49	-36.03	11.75	4.04	-2.85	62.13
Copper Concentrates	0.00	3.24	51.83	35.52	-46.06	25.47	0.75	-6.72	76.00
Gold		237.50	285.19	-28.85	2.70	-14.47	9.23	7.04	35.53
Chromium Ore	0.00	-16.67	80.00	44.44	0.00	15.38	66.67	0.00	-8.00
Others	-26.92	-15.79	118.75	11.43	-20.51	-19.35	-12.00	9.09	75.00
Fruits and Vegetables	-7.69	-4.17	4.35	54.17	18.92	31.82	25.86	5.48	29.87
Canned Pineapple	-4.76	-5.00	5.26	55.00	12.90	34.29	19.15	7.14	23.33
Pineapple Juice	-50.00	0.00	0.00	0.00	200.00	-66.67	200.00	-33.33	50.00
Pineapple Concentrates	-33.33	0.00	0.00	50.00	0.00	66.67	0.00	0.00	100.00
Others		0.00	0.00	100.00	50.00	66.67	80.00	11.11	30.00
Abaca Fibers	-13.33	0.00	53.85	90.00	-63.16	28.57	-5.56	-11.76	66.67
Tobacco Unmanufactured	0.00	21.43	52.94	15.38	13.33	-17.65	0.00	3.57	13.79
Petroleum Products	41.18	-20.83	-21.05	6.67	131.25	-8.11	8.82	-16.22	35.48

Table III.4b (cont'd)

AVERAGE FOR THE PERIOD

Commodity Group	1980	1981	1982	1983	1984	1985	1986	1987	1970-77	1978-87
I. Traditional Exports	19.80	-10.63	-22.83	-2.27	-11.61	-28.77	-2.07	7.22	14.81	-2.73
Coconut Products	-20.80	-7.52	-21.33	15.25	6.91	-36.86	2.40	19.36	24.52	-1.05
Copra	-47.19	-27.66	44.12	-91.84				77.78	16.90	
Coconut oil	-23.58	-6.00	-24.77	28.68	12.40	-40.17	-4.03	14.41	35.49	2.71
Desiccated Coconut	8.41	-12.07	-33.33	29.41	20.45	-28.30	-42.11	70.45	39.40	3.45
Copra Meal/Cake	-5.81	0.00	-11.11	0.00	-43.06	-12.20	108.33	-2.67	24.10	7.71
Sugar and Products	174.90	-8.07	-26.99	-28.34	-11.71	-33.69	-44.32	-31.07	25.48	-5.71
Centrifugal Refined Molasses	194.34	-9.29	-26.50	-28.13	-17.73	-31.30	-48.52	-31.03	26.09	-5.21
Molasses	22.22	15.15	-34.21	-32.00	94.12	-51.52	0.00	-31.25	29.36	3.13
Forest Products	-13.27	-17.18	-16.48	12.59	-18.13	-26.57	1.01	20.90	4.16	1.70
Logs	-36.11	-17.39	3.95	-6.33	18.92	-55.68	-30.77	-100.00	-2.74	-21.59
Lumber	-8.59	-30.39	-1.59	20.16	-28.19	-14.95	14.29	48.08	50.23	15.86
Plywood	3.74	0.00	-39.64	13.43	-26.32	-8.93	9.80	21.43	22.53	9.77
Veneer Sheets/Corestocks	2.86	-13.89	-35.48	40.00	-50.00	-14.29	-25.00	66.67	28.04	4.00
Others	-16.67	60.00	-50.00	0.00	50.00	0.00	-16.67	20.00	-50.00	39.67
Mineral Products	50.99	-17.54	-29.72	-17.29	-39.55	-8.65	9.88	-16.10	13.09	-0.87
Copper Concentrates	23.86	-21.28	-27.27	-20.19	-53.82	-26.96	7.14	21.11	10.11	-2.81
Gold	132.04	-10.04	-21.40	-8.88	-32.47	-3.85	40.00	-35.00	81.88	10.30
Chromium Ore	43.48	-24.24	-40.00	-33.33	90.00	-36.84	-8.33	-36.36	27.12	-5.36
Others	140.48	-12.87	-59.09	-25.00	3.70	67.86	-44.68	-34.62	5.09	11.99
Fruits and Vegetables	11.00	9.01	5.79	-16.41	24.30	2.26	0.74	9.49	17.61	8.15
Canned Pineapple	10.81	8.54	-1.12	-15.91	17.57	2.30	-6.74	3.61	16.69	4.95
Pineapple Juice	100.00	0.00	50.00	-55.56	25.00	40.00	-14.29	0.00	40.48	16.18
Pineapple Concentrates	-10.00	-22.22	42.86	-10.00	44.44	7.69	28.57	11.11	11.90	19.25
Others	7.69	35.71	10.53	-4.76	40.00	-7.14	15.38	26.67	49.44	16.52
Abaca Fibers	8.00	-22.22	-4.76	-10.00	66.67	-43.33	-23.53	-7.69	12.91	1.80
Tobacco Unmanufactured	-12.12	65.52	-2.08	-27.66	-14.71	-17.24	-12.50	-14.29	12.21	-1.77
Petroleum Products	114.29	-1.11	-28.09	121.88	-34.51	-58.06	61.54	39.68	19.70	23.49

Table III.4b (cont'd)

Commodity Group	1971	1972	1973	1974	1975	1976	1977	1978	1979
II. Non-Traditional Products	17.65	19.00	126.05	51.30	23.83	48.61	36.72	38.87	40.65
Non-Traditional Manufactures	2.78	4.05	175.32	54.72	11.89	48.77	30.22	46.98	41.05
Elec. & Elec. Eqpt./Parts & Telecom.			450.00	145.45	74.07	80.85	45.88	104.03	62.85
Garments		100.00	2800.00	62.07	6.38	85.00	35.14	30.80	23.85
Textile Yarns/Fabrics	16.67	28.57	166.67	-16.67	10.00	77.27	-12.82	29.41	25.00
Footwear	0.00	0.00	100.00	100.00	-25.00	66.67	100.00	220.00	59.38
Travel Goods and Handbags	0.00	100.00	150.00	60.00	25.00	-60.00	50.00	50.00	-11.11
Wood Manufactures	-36.36	14.29	200.00	45.83	-17.14	10.34	-12.50	7.14	33.33
Furnitures and Fixtures	0.00	100.00	50.00	100.00	-16.67	100.00	120.00	22.73	103.70
Chemicals	20.00	0.00	66.67	30.00	40.00	28.57	88.89	15.69	89.83
Copper Metal									
Non-Metallic Mineral Manufactures	233.33	-20.00	212.50	48.00	-10.81	-15.15	35.71	13.16	-27.91
Machinery and Transport Eqpt.	100.00	50.00	0.00	100.00	66.67	60.00	62.50	42.31	27.03
Processed Food and Beverages	12.50	22.22	36.36	13.33	-17.65	42.86	55.00	32.26	12.20
Misc. Manufactured Articles, n.e.c.	-20.00	150.00	100.00	15.00	100.00	41.30	-7.69	35.00	45.68
Others	-16.67	-48.00	-7.69	200.00	-25.00	11.11	3.33	100.00	51.61
Non-Traditional Unmanufactures	100.00	61.94	35.71	38.60	73.42	48.18	54.19	20.45	39.52
Nickel						78.79	30.51	-28.57	67.27
Iron Ore Agglomerates								82.46	15.38
Bananas	220.00	50.00	16.67	60.71	62.22	4.11	-3.95	15.07	15.48
Mangoes	0.00	0.00	0.00	100.00	0.00	50.00	-33.33	100.00	25.00
Coffee, Raw not Roasted						1150.00	80.00	-24.44	29.41
Fish, Fresh or Simply Preserved	130.00	120.00	81.82	-15.00	-5.88	62.50	57.69	39.02	52.63
Rice								250.00	228.57
Others	-20.00	50.00	33.33	87.50	-26.67	27.27	0.00	78.57	40.00
III. Special Transactions		0.00	800.00	0.00	133.33	33.33	-42.86	-62.50	83.33
IV. Re-Exports	60.00	-50.00	-50.00	50.00	-33.33	1100.00	-41.67	57.14	31.82
TOTAL EXPORTS	6.97	-2.64	70.52	44.49	-15.82	12.21	22.42	8.70	34.34

Table III.4b (cont'd)

AVERAGE FOR THE PERIOD

Commodity Group	1980	1981	1982	1983	1984	1985	1986	1987	1970-77	1978-87
II. Non-Traditional Products	32.50	10.19	-2.36	-0.18	20.52	-4.52	5.25	21.76	46.17	16.27
Non-Traditional Manufactures	36.02	18.40	0.08	0.46	25.35	-7.59	4.12	26.50	46.82	19.14
Elec. & Elec. Eqpt./Parts & Telecom.	62.86	24.89	19.33	5.30	26.21	-20.94	-12.97	21.76	159.25	29.37
Garments	23.95	23.11	-12.46	0.74	10.64	3.32	-20.55	46.21	514.76	17.07
Textile Yarns/Fabrics	34.55	-6.76	-18.84	-21.43	-13.64	2.63	12.82	54.55	38.53	9.83
Footwear	31.37	8.96	-15.07	-11.29	-16.36	-15.22	-29.51	0.00	46.81	24.13
Travel Goods and Handbags	12.50	11.11	0.00	-20.00	-25.00	66.67	20.00	33.33	46.43	13.75
Wood Manufactures-	-12.50	31.43	-10.87	29.27	-5.66	-14.00	13.95	26.53	29.21	9.86
Furnitures and Fixtures	40.00	12.99	-17.24	16.67	4.76	-4.55	5.95	46.07	64.76	23.11
Chemicals	-20.54	17.98	-9.52	-9.47	22.09	42.86	62.00	0.82	42.02	21.17
Copper Metal					326.92	51.35	2.38	-5.81		93.71
Non-Metallic Mineral Manufactures	93.55	-20.00	-16.67	-35.00	-19.23	14.29	-25.00	22.22	69.08	-0.06
Machinery and Transport Eqpt.	0.00	0.00	2.13	-27.08	2.86	-16.67	50.00	73.33	62.74	15.39
Processed Food and Beverages	100.00	67.39	-2.60	-15.33	-14.17	-2.72	9.43	8.62	23.52	19.50
Misc. Manufactured Articles, n.e.c.	26.27	4.03	-7.74	-6.99	3.01	-0.73	16.91	25.16	54.09	14.06
Others	41.49	-6.77	-4.84	-5.08	179.46	-17.89	-10.12	23.81	16.73	35.17
Non-Traditional Unmanufactures	22.62	-15.35	-13.00	-3.37	-4.58	16.44	11.37	-2.29	58.80	7.18
Nickel	50.00	-25.36	-52.43	8.16	-77.36	433.33	-76.56	-100.00	54.65	19.85
Iron Ore Agglomerates	-1.67	-1.69	-8.62	7.55	-7.89	-9.52	-10.53	-10.59		
Bananas	17.53	8.77	17.74	-28.08	16.19	-7.38	15.04	-6.92	58.54	6.34
Mangoes	40.00	-14.29	33.33	12.50	-22.22	0.00	14.29	50.00	16.67	23.86
Coffee, Raw not Roasted	2.27	-13.33	25.64	-4.08	61.70	-7.89	70.00	-23.11	615.00	6.62
Fish, Fresh or Simply Preserved	22.99	-15.89	-21.11	8.45	-10.39	43.48	44.44	44.76	64.45	20.84
Rice	58.70	-67.12								
Others	22.86	2.33	4.55	-2.17	4.44	31.91	9.68	20.59	21.63	21.28
III. Special Transactions	200.00	51.52	-10.00	26.67	-85.96	50.00	-33.33	-12.50	153.97	20.72
IV. Re-Exports	27.59	-72.97	-10.00	277.78	267.65	-68.00	180.00	33.04	147.86	72.40
TOTAL EXPORTS	25.80	-1.14	-12.25	-0.32	7.71	-14.13	4.60	18.13	19.73	7.14

SOURCE: Dept. of Economic Research,
Central Bank of the Phil.

Table III.4c
STRUCTURE OF PHILIPPINE EXPORTS
(In percent)

	1970	1980	1985	1987
A. COMMODITY GROUPS				
I. Traditional Exports	91.53	53.01	28.13	23.90
Coconut Products	19.68	14.01	9.92	9.81
Sugar and Products	18.46	11.35	4.00	1.24
Forest Products	26.18	7.34	4.30	4.25
Mineral Products	20.43	15.86	5.25	3.92
Fruits and Vegetables	2.45	1.92	2.94	2.62
Abaca Fibers	1.41	0.47	0.37	0.21
Tobacco Unmanufactured	1.32	0.50	0.52	0.31
Petroleum Products	1.60	1.55	0.84	1.54
II. Non-traditional Products	8.00	45.78	70.75	73.37
Non-Traditional Manufactures	6.78	34.64	59.73	63.67
Non-Traditional Unmanufactures	1.22	11.14	11.02	9.70
III. Special Transactions	0.00	0.57	0.26	0.12
IV. Re-Exports	0.47	0.64	0.86	2.60
TOTAL	100.00	100.00	100.00	100.00
B. MARKETS				
ADB Developing Member Countries	7.50	16.60	21.40	18.50
European Economic Community (EEC)	8.70	16.70	13.60	18.50
United States of America	41.50	27.20	35.70	34.60
Japan	39.60	26.50	18.90	17.20
Others	2.70	13.00	10.40	11.20
TOTAL	100.00	100.00	100.00	100.00

Source of basic data: Dept. of Economic Research,
Central Bank of the Phils.

and furnitures and fixtures which grew by an average of more than 15 percent for the period 1978 to 1987) is worth noting, non-traditional manufactured export is still concentrated in garments and electronics. Garments and electronics together, already make up around 39 percent of total exports in 1987. The increase in the share of non-traditional manufactures has also been substantive from around 1.2 percent in 1970 to 9.7 percent in 1987. Bananas, Raw Coffee and Fish, Fresh or Simply Prepared, are among the more important non-traditional unmanufactured exports.

If we define traditional exports to be equivalent to primary goods and non-traditional exports as manufactured goods, there are slight changes in the composition of exports along these lines. This definition of traditional/non-traditional exports will be used in forecasting their future values. Table III.5 shows that in 1987 the share of traditional exports was 33.6 percent while the share of non-traditional exports was 63.7 percent, with the rest falling under re-exports and others.

There is some change, although not as marked, in the direction of trade as well (see Tables III.6a, III.6b and III.6c). The share in Philippine exports by traditional trading partners namely the US and Japan has declined. The US share fell from around 41.5 percent in 1970 to 34.6 percent in 1987 while that for Japan fell from 39.6 percent in 1970 to 17.2 percent in 1987. The slack was taken up mostly by EEC and ADB developing member countries particularly Hongkong, South Korea and ASEAN. The share of EEC rose from 8.7 percent in 1970 to 18.5 percent in 1987 while that of ADB developing member countries rose from around 7.5 percent in 1970 to 18.5 percent in 1987 (Table III.6c). The growth in Philippine exports to

Table III.5
 PERCENTAGE DISTRIBUTION OF TOTAL EXPORTS,
 TRADITIONAL/NON-TRADITIONAL
 (1971 - 1987)

Year	Non-Traditional	Traditional	Others
1971	6.51	92.69	0.79
1972	6.96	92.59	0.45
1973	11.24	88.18	0.58
1974	12.04	87.52	0.44
1975	16.00	83.00	1.00
1976	21.21	76.77	2.02
1977	22.56	76.48	0.95
1978	30.51	68.67	0.82
1979	32.04	67.09	0.87
1980	34.64	64.15	1.21
1981	41.49	57.46	1.05
1982	47.32	51.60	1.08
1983	47.69	50.49	1.82
1984	55.50	42.03	2.47
1985	59.73	39.14	1.12
1986	59.46	38.06	2.48
1987	63.67	33.60	2.73

Table III.6a
MERCHANDISE TRADE
(f.o.b. value in thousand U.S. \$)
(1965 - 1988)

YEAR	WORLD		DEVELOPING MEMBER COUNTRIES		EUROPEAN ECONOMIC COMMUNITY		UNITED STATES		JAPAN		ASEAN COUNTRIES	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1965	807,579	768,448	102,594	26,942	122,029	144,219	274,115	348,745	195,478	217,565	46,945	2,306
1966	852,772	828,195	71,586	39,279	133,418	147,502	284,500	346,355	243,912	264,262	46,464	4,043
1967	1,062,191	821,456	90,389	64,845	158,619	98,698	362,673	352,609	306,927	278,619	57,250	22,296
1968	1,150,218	857,715	84,925	66,598	199,468	88,859	372,167	391,463	326,612	283,336	53,653	16,141
1969	1,131,486	854,601	86,765	61,212	221,304	73,467	320,244	360,327	336,718	328,811	55,694	10,164
1970	1,090,120	1,061,702	86,713	79,244	179,667	92,344	315,083	440,172	344,879	420,753	57,035	12,804
1971	1,185,959	1,136,431	127,775	90,909	214,806	148,543	291,184	459,460	359,100	398,570	82,272	22,751
1972	1,229,593	1,105,544	95,935	68,915	181,408	168,172	312,625	446,551	390,785	373,449	58,456	15,075
1973	1,596,618	1,886,315	86,027	159,912	209,894	238,798	449,492	675,955	518,519	674,523	34,554	39,008
1974	3,143,260	2,724,989	223,262	136,898	425,698	335,652	734,482	1,156,731	864,596	949,207	75,331	35,994
1975	3,459,183	2,294,470	359,714	170,227	300,666	427,592	754,252	664,321	966,291	864,997	172,817	60,509
1976	3,633,482	2,573,676	465,771	238,466	438,644	484,092	801,771	924,397	976,416	621,455	243,609	80,073
1977	3,914,763	3,150,887	551,804	346,198	468,700	581,243	799,155	1,112,074	975,300	726,883	260,528	125,871
1978	4,732,196	3,424,876	699,399	465,059	596,536	634,235	995,579	1,156,247	1,285,105	818,381	273,585	208,313
1979	6,341,731	4,601,190	922,857	620,453	850,680	930,779	1,402,459	1,384,176	1,397,929	1,201,004	363,832	187,754
1980	7,726,912	5,787,788	1,236,804	963,115	827,532	980,781	1,785,695	1,576,404	1,531,182	1,533,333	483,156	376,967
1981	7,945,679	5,722,157	1,288,996	1,086,030	819,020	924,302	1,787,216	1,765,826	1,494,114	1,250,487	538,321	412,244
1982	7,666,918	5,020,593	1,312,959	893,066	813,828	726,272	1,702,675	1,586,303	1,532,022	1,145,508	509,679	358,738
1983	7,486,626	5,005,291	1,442,099	802,969	879,861	813,813	1,739,105	1,799,571	1,266,000	1,015,035	671,077	352,748
1984	6,096,612	5,390,646	1,518,810	1,037,399	674,099	680,485	1,630,543	2,050,534	814,544	1,042,697	783,016	516,557
1985	5,110,673	4,628,954	1,611,753	988,642	424,990	628,858	1,282,089	1,653,493	734,508	874,635	754,003	530,761
1986	5,043,597	4,841,781	1,345,992	931,122	568,682	913,990	1,255,955	1,716,757	868,187	851,084	510,752	351,410
1987	6,736,969	5,720,238	1,620,443	1,060,750	781,872	1,059,792	1,485,276	1,976,191	1,121,166	981,492	687,397	507,303
1988	8,159,378	7,153,954	2,204,638	1,356,177	1,309,855	1,248,917	1,715,033	2,432,431	1,421,309	1,420,374	665,563	491,128

Source: National Statistics Office
CB Statistical Bulletin

Table III.6b
ANNUAL GROWTH RATE OF WORLD TRADE
DMCS, E.E.C., U.S., JAPAN AND ASEAN
(In %)

YEAR	WORLD		DEVELOPING MEMBER COUNTRIES		EUROPEAN ECONOMIC COMMUNITY		UNITED STATES		JAPAN		ASEAN COUNTRIES	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1965-1966	5.60	7.78	-30.22	45.79	9.33	2.28	3.79	-0.69	24.78	21.46	-1.02	75.33
1967	24.56	-0.81	26.27	65.09	18.89	-33.09	27.48	1.81	25.84	5.43	23.21	451.47
1968	8.29	4.41	-6.04	2.70	25.75	-9.97	2.62	11.02	6.41	1.69	-6.28	-27.61
1969	-1.63	-0.36	2.17	-8.09	10.95	-17.32	-13.95	-7.95	3.09	16.05	3.80	-37.03
1970	-3.86	24.23	-0.06	29.46	-18.81	25.69	-1.61	22.16	2.42	27.96	2.41	25.97
1971	8.79	7.04	47.35	14.72	19.56	60.86	-7.58	4.38	4.12	-5.27	44.25	77.69
1972	3.68	-2.72	-24.92	-24.19	-15.55	13.21	7.36	-2.81	8.82	-6.30	-28.95	-33.74
1973	29.85	70.82	-10.33	132.04	15.70	42.00	43.78	51.37	32.69	80.62	-40.89	158.78
1974	96.87	44.46	159.53	-14.39	102.82	40.56	63.40	71.13	66.74	40.72	118.01	-7.73
1975	10.05	-15.80	61.12	24.35	-29.37	27.39	2.69	-42.57	11.76	-8.87	129.41	68.11
1976	5.04	12.17	29.48	40.09	45.89	13.21	6.30	39.15	1.05	-28.16	40.96	32.33
1977	7.74	22.43	18.47	45.18	6.85	20.07	-0.33	20.30	-0.11	16.96	6.95	57.20
1978	20.88	8.70	26.75	34.33	27.70	9.12	24.58	3.97	31.77	12.59	5.01	65.50
1979	34.01	34.35	31.95	33.41	42.13	46.76	40.87	19.71	8.78	48.75	32.99	-9.87
1980	21.84	25.79	34.02	55.23	-2.72	5.37	27.33	13.89	9.53	27.67	32.80	100.78
1981	2.83	-1.13	4.22	12.76	-1.03	-5.76	0.09	12.02	-2.42	-18.45	11.42	9.38
1982	-3.51	-12.26	1.86	-17.77	-0.63	-21.42	-4.73	-10.17	2.54	-8.40	-5.32	-12.98
1983	-2.35	-0.30	9.84	-10.09	8.11	12.05	2.14	13.44	-17.36	-11.39	31.67	-1.67
1984	-18.57	7.70	5.32	29.20	-23.39	-16.38	-6.24	13.95	-35.66	2.73	16.68	46.44
1985	-16.17	-14.13	6.12	-4.70	-36.95	-7.59	-21.37	-19.36	-9.83	-16.12	-3.71	2.75
1986	-1.31	4.60	-16.49	-5.82	33.81	45.34	-2.04	3.83	18.20	-2.69	-32.26	-33.79
1987	33.57	18.14	20.39	13.32	37.49	15.95	18.26	15.11	29.14	15.32	34.59	44.36
1988	21.11	25.06	36.05	27.85	67.53	17.85	15.47	23.09	26.77	44.72	-3.18	-3.19
AVERAGE:												
1965-1970	6.63	7.05	-1.58	26.99	9.22	-6.48	3.66	5.27	12.51	14.52	4.42	97.63
1970-1975	29.85	20.72	46.55	26.50	18.63	36.80	21.93	16.30	24.83	20.18	44.37	52.82
1975-1980	17.90	20.69	28.13	41.85	23.97	18.91	19.75	19.40	10.20	15.16	23.74	49.19
1980-1985	-7.55	-4.03	5.47	1.88	-10.78	-7.82	-8.02	1.98	-12.55	-10.32	10.15	8.78
1985-1987	16.13	11.37	1.95	4.85	35.65	30.65	8.11	9.47	23.67	6.31	1.16	5.29
1985-1988	17.79	15.93	13.32	11.98	46.28	26.38	10.56	14.01	24.70	19.12	-0.28	2.46
1965-1975	18.24	13.89	22.49	26.75	13.93	15.18	12.80	10.78	18.67	17.35	24.39	75.12
1975-1987	7.00	8.84	14.33	18.81	11.44	9.73	7.07	10.49	2.97	3.07	14.31	25.03
1975-1988	8.09	10.08	16.00	19.51	15.75	10.35	7.72	11.46	4.80	6.27	12.97	22.86

Table III.6c
 PERCENTAGE SHARE OF IMPORTS/EXPORTS TO TOTAL TRADE,
 BY COUNTRY OF DESTINATION - 1965-1988 (In %)

YEAR	WORLD		DEVELOPING MEMBER COUNTRIES		EUROPEAN ECONOMIC COMMUNITY		UNITED STATES		JAPAN		ASEAN COUNTRIES	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1965	100.00	100.00	12.70	3.51	15.11	18.77	33.94	45.38	24.21	28.31	5.81	0.30
1966	100.00	100.00	8.39	4.74	15.65	17.81	33.36	41.82	28.60	31.91	5.45	0.49
1967	100.00	100.00	8.51	7.89	14.93	12.02	34.14	42.92	28.90	33.92	5.39	2.71
1968	100.00	100.00	7.38	7.76	17.34	10.36	32.36	45.64	28.40	33.03	4.66	1.88
1969	100.00	100.00	7.67	7.16	19.56	8.80	28.30	42.16	29.76	38.48	4.92	1.19
1970	100.00	100.00	7.95	7.46	16.48	8.70	28.90	41.46	31.64	39.63	5.23	1.21
1971	100.00	100.00	10.77	8.00	18.11	13.07	24.55	40.43	30.28	35.07	6.94	2.00
1972	100.00	100.00	7.80	6.23	14.75	15.21	25.43	40.39	31.78	33.78	4.75	1.36
1973	100.00	100.00	5.39	8.48	13.15	12.66	28.15	35.83	32.48	35.76	2.16	2.07
1974	100.00	100.00	7.10	5.02	13.54	12.32	23.37	42.45	27.51	34.83	2.40	1.32
1975	100.00	100.00	10.40	7.42	8.69	18.64	21.80	28.95	27.93	37.70	5.00	2.64
1976	100.00	100.00	12.82	9.27	12.07	18.81	22.07	35.92	26.87	24.15	6.70	3.11
1977	100.00	100.00	14.10	10.99	11.97	18.45	20.41	35.29	24.91	23.07	6.86	3.99
1978	100.00	100.00	14.78	13.58	12.65	18.52	21.04	33.76	27.16	23.90	5.78	6.08
1979	100.00	100.00	14.55	13.48	13.41	20.23	22.11	30.08	22.04	26.10	5.74	4.08
1980	100.00	100.00	16.01	16.64	10.71	16.95	23.11	27.24	19.82	26.49	6.25	6.51
1981	100.00	100.00	16.22	18.98	10.31	18.15	22.49	30.86	18.80	21.85	6.78	7.20
1982	100.00	100.00	17.12	17.79	10.61	14.47	22.21	31.60	19.98	22.82	6.65	7.15
1983	100.00	100.00	19.26	16.04	11.75	16.26	23.23	35.95	16.91	20.28	8.96	7.05
1984	100.00	100.00	24.91	19.24	11.06	12.82	26.75	38.04	13.36	19.34	12.84	9.58
1985	100.00	100.00	31.54	21.36	8.32	13.59	25.09	35.72	14.37	18.89	14.75	11.47
1986	100.00	100.00	26.69	19.23	11.28	18.88	24.90	35.46	17.21	17.58	10.13	7.26
1987	100.00	100.00	24.05	18.54	11.61	18.53	22.05	34.55	16.64	17.16	10.20	8.87
1988	100.00	100.00	27.02	18.96	16.05	17.46	21.02	34.00	17.42	19.85	8.16	6.87
AVERAGE:												
1965-1969			8.93	6.21	16.52	13.51	32.42	43.59	27.97	33.13	5.25	1.31
1970-1974			7.80	7.04	15.21	12.39	26.08	40.11	30.74	35.81	4.30	1.59
1975-1979			13.33	10.95	11.76	18.93	21.49	32.80	25.78	26.98	5.97	3.98
1980-1984			18.71	17.74	10.89	15.29	23.56	32.74	17.77	22.16	8.30	7.50
1985-1987			27.43	19.71	10.40	17.00	24.01	35.24	18.08	17.88	11.69	9.20
1985-1988			27.32	19.52	11.81	17.11	23.26	34.93	16.41	18.37	10.81	8.61
1985-1975			8.55	6.70	15.21	13.47	28.57	40.68	29.22	34.77	4.79	1.56
1976-1987			19.34	16.26	11.31	16.95	22.95	33.71	19.84	21.80	8.45	6.86
1976-1988			19.93	16.47	11.68	16.99	22.81	33.73	19.65	21.85	8.43	6.86

ADB developing member countries (DMC) and ASEAN in particular is especially worth noting. Philippine exports to DMCs grew at an average annual rate more than double that of world exports during the period 1975-1988. The growth rate was most spectacular for ASEAN, which grew at an average annual rate of 75 percent and 23 percent respectively for the period 1965-1975 and 1975-1988 (see Table III.6b).

ADB developing member countries (DMCs), especially ASEAN, have thus increasingly become important Philippine trading partners. The composition and trend of exports follow the general pattern in that there was a noted shift away from traditional exports. A comparison, however, shows the Philippines exporting a greater proportion of non-traditional products, especially non-traditional manufactures, to DMCs than it exported to the rest of the world. The share of non-traditional manufactures in Philippine exports to DMCs was around 40 percent compared to 29 percent to the world during the period 1975 to 1980. This share grew to 73 percent for DMCs and 62 percent for the world in 1986 and 1987. The most phenomenal growth was in electronics and chemical. The share of garments remains stagnant unlike the trend for Philippine exports to the world (see Table III.7a).

With respect to ASEAN, coconut products are among the high-growth exports (in contrast with the declining trend for the world). Electronics export grew at an enormous pace during 1975-80, modestly during the period 1981-85 before falling during 1985-1986. It picked up again in 1987, growing by around 32 percent. Exports of garments, textile and footwear to ASEAN in the recent years have also been encouraging (see Table III.7b). The value of Philippine exports classified according to commodity groups by destination is given in Table III.7c.

Table III.7a
 AVERAGE
 PERCENTAGE DISTRIBUTION OF
 EXPORT PRODUCTS TO TOTAL EXPORTS
 Exports to Asean, DMCS and World
 (In %)

Commodity Group	1975-1980			1981-1985			1986-1987		
	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD
I. Traditional Exports	34.66	49.34	59.82	13.35	31.75	38.68	7.25	13.23	25.12
Coconut Products	1.94	4.59	15.80	2.15	3.74	12.37	2.55	3.05	9.76
223.1 Copra	0.00	0.16	2.71	0.00	0.06	0.33	1.68	1.44	0.47
Coconut oil	1.88	4.06	9.86	2.09	3.41	9.17	0.85	1.41	6.77
057.72 Desiccated Coconut	0.05	0.37	1.82	0.05	0.28	1.70	0.03	0.20	1.11
081.3700 Copra Meal/Cake	0.00	0.00	1.41	0.00	0.00	1.17	0.00	0.00	1.41
Sugar and Products	20.16	16.26	15.74	8.27	12.04	6.96	0.00	0.79	1.68
Centrifugal Refined Molasses	20.16	15.51	14.91	8.26	11.15	6.47	0.00	0.30	1.42
061.5200	0.00	0.75	0.83	0.00	0.88	0.49	0.00	0.50	0.26
				0.00			0.00		
Forest Products	1.03	7.70	8.04	0.33	4.09	5.59	0.10	2.29	4.20
247 Logs	0.14	4.20	3.20	0.00	1.62	1.37	0.00	0.20	0.28
248 Lumber	0.60	0.49	2.57	0.23	0.44	2.32	0.07	0.34	2.42
634.2 Plywood	0.00	2.62	1.66	0.08	1.84	1.39	0.03	1.64	1.17
Veneer Sheets/Corestocks	0.29	0.27	0.54	0.02	0.06	0.40	0.00	0.02	0.22
Others	0.00	0.13	0.06	0.00	0.12	0.11	0.00	0.10	0.10
Mineral Products	0.06	14.86	15.47	0.05	8.64	8.56	0.10	2.79	4.72
287.1102 Copper Concentrates	0.00	10.52	9.37	0.00	5.76	4.53	0.00	1.72	1.88
Gold	0.00	3.92	3.90	0.00	2.30	2.86	0.00	0.75	2.24
287.9101 Chromium Ore	0.05	0.15	0.57	0.05	0.17	0.31	0.03	0.17	0.17
Others	0.01	0.27	1.63	0.00	0.41	0.87	0.07	0.16	0.42
Fruits and Vegetables	0.21	0.39	1.92	0.23	0.64	2.44	0.81	0.92	2.73
058.9908 Canned Pineapple	0.01	0.20	1.45	0.01	0.30	1.66	0.00	0.20	1.61
058.5400 Pineapple Juice	0.01	0.02	0.11	0.01	0.02	0.12	0.02	0.03	0.11
058.5705 Pineapple Concentrates	0.00	0.00	0.15	0.00	0.00	0.21	0.00	0.00	0.36
Others	0.20	0.16	0.21	0.21	0.32	0.45	0.79	0.70	0.64
OTHERS	11.26	5.54	2.86	2.32	2.59	2.76	3.69	3.39	2.03
265.5 Abaca Fibers	0.00	0.25	0.51	0.02	0.10	0.41	0.00	0.07	0.24
121 Tobacco Unmanufactured	0.29	0.17	0.78	0.08	0.27	0.70	0.09	0.12	0.37
Petroleum Products	10.96	5.12	1.57	2.22	2.21	1.65	3.60	3.19	1.42

Table III.7b
 AVERAGE GROWTH RATE OF PHILIPPINE EXPORTS
 TO DMCS AND WORLD EXPORTS
 (In %)

Commodity Group	1975-1980			1981-1985			1985-1987			1986-1987		
	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD
I. Traditional Exports	155.44	82.17	14.73	-23.35	-18.61	-15.22	79.91	-3.00	-7.88	235.42	47.73	7.22
Coconut Products	3036.33	40.41	14.81	80.28	0.85	-8.71	234.98	31.49	-5.04	47.17	55.25	19.36
223.1 Copra	0.00	23.87	-14.53	53.30	58.23	-35.08	21.28	32.67	25.93	63.85	98.02	77.78
Coconut oil	0.00	42.20	29.30	87.33	4.88	-5.97	74.80	-4.12	-3.93	19.80	29.76	14.41
057.72 Desiccated Coconut	43.92	31.34	54.84	7.78	-1.38	-4.77	-16.07	-9.62	0.02	19.74	0.66	70.45
081.3700 Copra Meal/Cake	0.00	0.00	29.09	-20.00	-22.88	-13.27	0.00	-33.33	31.16			-2.67
Sugar and Products	0.00	701.56	1.37	-23.96	-9.69	-21.76	-57.91	10.45	-36.36	-33.68	104.47	-31.07
Centrifugal Refined	0.00	1048.61	1.48	-23.44	-9.46	-22.59	-33.33	405.25	-36.95		1282.54	-31.03
061.5200 Molasses	0.00	57.50	-0.59	19.80	13.66	-1.69	-33.33	-18.19	-27.59		0.57	-31.25
Forest Products	103.46	10.05	17.78	-35.61	-14.38	-13.15	-7.65	-2.06	-1.56	37.33	46.80	20.90
247 Logs	-20.00	-9.83	-8.98	0.00	-7.66	-11.31	0.00	-69.57	-62.15		-100.00	-100.00
248 Lumber	19321.31	414.77	114.07	-32.03	-7.21	-10.99	-18.25	11.42	15.80	-16.63	45.22	48.08
634.2 Plywood	-20.00	151.30	76.52	-20.46	-17.20	-12.29	226.28	30.29	7.43	790.87	105.73	21.43
Veneer Sheets/Corestocks	0.00	0.00	70.00	-20.03	-21.48	-14.73	-32.35	595.11	9.13	-53.48	1931.88	66.67
Others	0.00	0.00	0.00	-20.00	42.40	12.00	-65.41	55.38	1.11	-100.00	-65.91	20.00
Mineral Products	205.72	116.38	35.30	86.60	-25.62	-22.55	61.81	-17.22	-4.96	16.20	-18.37	-16.10
287.1102 Copper Concentrates	0.00	117.71	31.42	0.00	-29.14	-29.90	0.00	-13.07	0.43		-8.95	21.11
Gold	0.00	110.82	42.89	0.00	-20.98	-15.33	0.00	-10.85	0.38		-20.89	-35.00
287.9101 Chromium Ore	0.00	479.05	30.77	82.34	15.49	-8.89	0.69	-10.06	-27.18	-100.00	-75.61	-36.36
Others	-15.25	93.43	45.16	1375.46	82.67	-5.08	2532.42	-40.90	-3.81	146.72	-20.01	-34.62
Fruits and Vegetables	-2.04	56.61	30.45	130.86	20.10	4.99	30.55	10.64	4.16	65.72	21.48	9.49
058.9908 Canned Pineapple	-5.04	147.66	26.86	93.74	15.38	2.27	110.08	-15.27	-0.28	325.63	-19.79	3.61
058.5400 Pineapple Juice	13.00	27.26	20.00	15.52	6.17	11.89	3.36	20.61	6.57	-14.89	26.64	0.00
058.5705 Pineapple Concentrates	0.00	0.00	40.00	0.00	424.92	12.55	0.00	708.20	15.79			11.11
Others	-2.43	22.21	73.33	295.90	28.97	14.87	33.82	25.70	11.64	67.22	36.11	26.67
OTHERS	0.00	0.00	0.00									
265.5 Abaca Fibers	28.78	37.05	14.35	-26.72	-26.33	-5.96	297.98	77.16	-1.49	983.62	129.88	21.65
121 Tobacco Unmanufactured	-20.00	17.30	18.57	40.00	-2.70	-2.73	-33.33	16.14	-24.85		-10.71	-7.69
Petroleum Products	-4.83	-10.21	-2.94	-6.46	233.02	0.77	16.36	73.06	-14.68	-34.46	2.97	-14.29
	30.62	42.70	28.65	-27.16	-25.54	0.02	351.36	89.36	14.39	1148.00	143.33	39.68

Commodity Group	1975-1980			1981-1985			1985-1987			1986-1987		
	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD
II. Non-Traditional Products	89.00	107.45	85.16	19.14	13.76	4.73	0.85	5.08	7.50	34.20	17.84	21.76
Non-Traditional Manufactures	65.28	92.48	89.26	24.60	16.43	7.34	1.49	5.04	7.68	36.28	19.18	26.50
Elec. & Elec. Eqpt./Parts & Tel.	4211.88	2009.07	265.53	32.84	23.42	11.04	-3.25	0.32	-3.92	31.69	34.10	21.76
Garments	-5.54	31.37	80.40	-15.49	-5.39	5.07	32.29	39.90	23.36	104.68	-1.34	46.21
65 Textile Yarns/Fabrics	4.95	105.35	47.27	172.57	1537.78	-11.61	341.40	2645.07	23.33	25.32	62.03	54.55
85 Footwear	-7.24	134.01	426.67	39.05	-1.00	-9.80	27.65	-2.70	-11.91	63.33	-1.16	0.00
83 Travel Goods and Handbags	-9.34	21.97	-2.00	30.39	-4.44	6.56	114.31	174.34	40.00	152.71	7.32	33.33
Wood Manufactures	-11.35	-13.45	4.14	72.08	60.02	6.03	-14.40	21.13	8.83	-79.56	-3.96	26.53
82 Furnitures and Fixtures	10.25	68.13	288.00	61.54	21.12	2.53	29.95	9.08	15.82	9.98	35.44	46.07
5 Chemicals	6.85	14.69	64.76	47.09	37.59	12.79	100.85	83.72	35.23	64.91	16.35	0.82
682.1205 Copper Metal	0.00	-20.00	0.00	0.00	0.00	75.65	0.00	0.00	15.97			-5.81
66 Non-Metallic Mineral Manufactures	-0.88	22.38	16.36	-20.95	-14.86	-15.32	-39.29	-28.27	3.84	-20.24	-21.23	22.22
Machinery and Transport Eqpt.	0.18	53.20	74.00	7.92	-11.76	-7.75	12.13	29.24	35.56	-54.76	53.12	73.33
Processed Food and Beverages	137.35	115.59	111.43	5.79	1.41	6.51	-0.28	5.23	5.10	1.91	13.71	8.62
89 Misc. Manufactured Articles, n.	171.56	160.51	44.78	-8.14	-10.75	-1.69	11.21	10.13	13.78	-17.42	12.11	25.16
Others	46.03	58.84	78.52	11.47	71.05	28.98	29.00	2.73	-1.40	111.30	-0.38	23.81
Non-Traditional Unmanufactures	922.24	331.16	74.16	1.90	-4.59	-3.97	5.42	8.76	8.51	15.81	5.26	-2.29
Nickel	0.00	0.00	63.64	289.10	643.21	57.27	0.00	6.92	85.59		-100.00	-100.00
931.2905 Iron Ore Agglomerates	0.00	0.00	0.00	0.00	-16.11	-4.04	0.00	-60.19	-10.21			-10.59
057.3100 Bananas	0.00	122.46	11.23	50.06	136.73	1.45	-0.52	-6.88	0.25	-14.99	-39.33	-6.92
057.9703 Mangoes	3633.88	40.99	50.00	23.19	-2.11	1.87	16.96	24.01	21.43	100.49	116.86	50.00
071.11 Coffee, Raw not Roasted	28.87	34.15	430.00	94.83	92.74	12.41	-21.66	-16.74	-3.67	-76.26	-78.43	-73.11
Fish, Fresh or Simply Preserved	0.00	0.00	113.75	41.92	18.38	0.91	100.22	68.22	44.23	-12.85	52.50	44.76
042.2102 Rice	0.00	79881.76	0.00	-48.90			0.00					
Others	123.76	102.67	58.18	73.07	11.53	8.21	10.07	22.87	20.73	7.42	16.48	20.59
III. Special Transactions	326.21	204.12	11.43	-12.56	16.07	6.44	16.65	40.84	1.39	33.72	-0.60	-12.50
IV. Re-Exports	0.00	0.00	350.00	121.26	82.50	78.89	68.34	81.30	48.35	52.79	33.63	33.04
TOTAL EXPORTS	113.09	96.50	30.46	8.37	1.59	-4.03	4.20	4.07	2.87	44.20	22.37	18.13

Table III.7c
 TRADITIONAL AND NON-TRADITIONAL EXPORTS
 TO DEVELOPING MEMBER COUNTRIES
 AND WORLD EXPORTS
 (1975-1987)
 (In Million U.S. \$)

Commodity Group	1975			1980			1985			1987		
	* ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD
I. Traditional Exports	16	92	1,767	137	471	3,068	9	144	1,302	51	165	1,367
Coconut Products	0	13	466	8	39	811	1	12	459	13	39	561
223.1 Copra	0	1	172	0	1	47	0	0	0	9	20	32
Coconut oil	0	11	230	8	35	567	1	9	347	4	17	381
057.72 Desiccated Coconut	0	1	31	0	3	116	0	2	76	0	2	75
081.3700 Copra Meal/Cake	0	0	33	0	0	81	0	0	36	0	0	73
Sugar and Products	0	5	615	88	181	657	0	65	185	0	11	71
Centrifugal Refined	0	3	581	88	174	624	0	59	169	0	6	60
061.5200 Molasses	0	2	34	0	7	33	0	6	16	0	5	11
Forest Products	1	35	225	4	53	425	0	23	199	0	29	243
247 Logs	1	32	167	0	16	92	0	8	39	0	0	0
248 Lumber	0	0	27	3	5	181	0	3	91	0	4	154
634.2 Plywood	0	3	23	0	27	111	0	10	51	0	23	68
Veneer Sheets/Corestocks	0	0	8	1	3	36	0	0	12	0	1	15
Others	0	0		0	1	5	0	2	6	0	0	6
Mineral Products	0	22	332	0	148	918	0	29	243	0	25	224
287.1102 Copper Concentrates	0	15	212	0	105	545	0	16	84	0	17	109
Gold	0	6	76	0	39	239	0	8	100	0	7	91
287.9101 Chromium Ore	0	0	13	0	2	33	0	2	12	0	1	7
Others	0	0	31	0	3	101	0	3	47	0	1	17
Fruits and Vegetables	0	1	44	0	3	111	2	7	136	4	10	150
058.9908 Canned Pineapple	0	0	35	0	2	82	0	3	89	0	2	86
058.5400 Pineapple Juice	0	0	3	0	0	6	0	0	7	0	0	6
058.5705 Pineapple Concentrates	0	0	3	0	0	9	0	0	14	0	0	20
Others	0	1	3	0	1	14	2	4	26	4	8	38
OTHERS	14	16	85	35	47	146	5	8	80	33	50	118
265.5 Abaca Fibers	0	1	14	0	2	27	0	1	17	0	1	12
121 Tobacco Unmanufactured	1	1	34	1	1	29	0	0	24	0	1	18
Petroleum Products	14	14	37	34	44	90	5	7	39	33	48	88

Commodity Group	1975			1980			1985			1987		
	* ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD	ASEAN	DMCS	WORLD
II. Non-Traditional Products	41	73	504	223	465	2,650	510	825	3,275	408	893	4,197
Non-Traditional Manufactures	40	68	367	169	385	2,005	487	770	2,765	372	817	3,642
Elec. Eqpt./Parts & Telecom.	1	2	47	106	172	671	410	470	1,056	269	390	1,119
Garments	4	6	100	3	16	502	1	8	623	3	18	1,098
65 65 Textile Yarns/Fabrics	3	5	22	3	33	74	1	11	39	2	18	68
85 85 Footwear	0	0	3	0	3	67	0	2	39	0	2	31
83 83 Travel Goods and Handbags	0	0	10	0	0	9	0	0	10	0	0	16
Wood Manufactures	1	1	29	0	0	35	1	1	43	0	1	62
82 82 Furnitures and Fixtures	0	0	5	0	1	77	1	2	84	1	3	130
5 5 Chemicals	7	13	21	10	22	89	32	67	150	54	143	245
682.1205 682.1205 Copper Metal	0	0	0	0	0	0	0	0	168	0	0	162
66 66 Non-Metallic Min. Manuf.	13	19	33	12	41	60	2	16	24	1	8	22
Machinery and Transport Eqpt.	4	5	10	4	17	47	3	6	30	3	13	78
Processed Food and Beverages	1	2	14	5	15	92	5	13	106	5	16	126
89 89 Misc. Manuf. Articles, n.e.c.	1	1	46	5	11	149	3	6	136	4	8	199
Others	6	14	27	20	54	133	29	168	257	31	195	286
Non-Traditional Unmanufactures	1	5	137	53	80	645	23	55	510	36	77	555
Nickel	0		33	0	4	138	0	1	64	0	0	0
931.2905 931.2905 Iron Ore Agglomerates	0	0	0	0	0	118	0	0	95	0	0	76
057.3100 057.3100 Bananas	0	0	73	0	2	114	0	9	113	0	7	121
057.9703 057.9703 Mangoes	0	2	2	0	5	7	1	4	7	1	5	12
071.11 071.11 Coffee, Raw not Roasted	1	1	2	2	3	45	17	17	70	6	6	32
Fish, Fresh or preserved	0	0	16	9	11	107	3	9	99	2	10	207
042.2102 042.2102 Rice	0	0	0	40	45	73	0	0	0	25	25	25
Others	0	2	11	1	9	43	2	16	62	1	23	82
III. Special Transactions	1	2	21	16	24	33	2	3	12	1	3	7
IV. Re-Exports	0		2	6	15	37	10	17	40	46	79	149
TOTAL EXPORTS	57	167	2,294	381	975	5,788	530	989	4,629	506	1,140	5,720

* Figures does not sum up total due to rounding

It is predicted that the share of exports to developing member countries will rise from 18.5 percent in 1987 to 25 percent in the year 2000 (see Tables III.8a and III.8b). Similarly, exports to Japan will increase, though slightly, from 17.2 percent in 1987 to 22 percent in the year 2000. On the other hand the share of the United States and EEC countries will decline, from 34.5 percent to 27 percent in the case of the U.S., and from 18.5 percent to 12 percent for EEC countries. The reason for this shift in the pattern of the direction of trade would be the realignment of economic forces that will see the rise of protectionism in the Western capitalist countries. Intra-regional trade then will become more prevalent. It is also worth noting that the share of exports to countries outside these four categories will rise from 11.3 percent to 14 percent. This will result mainly from increased trade with the socialist countries as the latter open up their economies to the outside world.

B. Forecasts of Exports and Demand for Pre- and Post-Shipment Financing

This section attempts to forecast merchandise exports from 1989 to 2000 with the end in view of determining pre- and post-shipment financing requirements. The forecasted values will then be disaggregated along various classifications of exports, namely: (1) the ten single digit PSCC categories; (2) the five aggregated categories (primary fuel, primary non-fuel, labor intensive, moderately capital- and skill-intensive, and highly capital- and skill-intensive); (3) by country of destination; and (4) traditional and non-traditional.

Table III.8a
 PERCENTAGE DISTRIBUTION OF PHILIPPINE MERCHANDISE
 EXPORTS BY DESTINATION
 (1987 - 2000)

Year	Developing Member Countries	European Economic Community	United States	Japan	Others
1987	18.54	18.53	34.55	17.16	11.22
1988	18.96	17.46	34.00	19.85	9.73
1989	19.46	17.00	33.42	20.03	10.08
1990	19.97	16.55	32.83	20.21	10.44
1991	20.47	16.09	32.25	20.39	10.80
1992	20.97	15.64	31.67	20.57	11.15
1993	21.48	15.18	31.08	20.74	11.51
1994	21.98	14.73	30.50	20.92	11.86
1995	22.48	14.27	29.92	21.10	12.22
1996	22.98	13.82	29.33	21.28	12.58
1997	23.49	13.36	28.75	21.46	12.93
1998	23.99	12.91	28.17	21.64	13.29
1999	24.50	12.45	27.58	21.82	13.64
2000	25.00	12.00	27.00	22.00	14.00

Table III.8b
 DISTRIBUTION OF PHILIPPINE MERCHANDISE
 EXPORTS BY DESTINATION
 (1987 - 2000)

Year	Developing Member Countries	European Economic Community	United States	Japan	Others
1987	1032.86	1032.31	1924.78	955.98	625.0662
1988	1341.23	1235.12	2405.16	1404.19	688.3002
1989	1541.82	1346.91	2647.87	1586.98	111.79
1990	1756.36	1455.57	2887.40	1777.47	128.52
1991	2016.30	1584.87	3176.63	2008.42	148.93
1992	2312.99	1725.09	3493.20	2268.87	172.16
1993	2700.04	1908.13	3906.76	2607.02	202.58
1994	3209.08	2150.58	4453.00	3054.32	242.42
1995	3742.92	2375.96	4981.68	3513.15	284.85
1996	4297.26	2584.34	5484.71	3979.36	329.34
1997	4956.39	2818.96	6066.25	4528.06	381.95
1998	5685.63	3059.67	6676.29	5128.68	440.96
1999	6541.50	3324.15	7363.86	5825.94	509.86
2000	7500.00	3600.00	8100.00	6600.00	588.00

In order to forecast total exports, the dollar equivalent was disaggregated into its various components thus:

$$X\$ = X - \frac{P}{E}$$

where X is the peso equivalent of exports at constant prices, P is the implicit peso price deflator, and E is the implicit exchange rate applying to exports. A log-linear model was fitted to these three variables using data covering the period 1967-87 and the following compounded growth rates were obtained: 6.7 percent for X, 12.5 percent for P and 3.1 percent for E. Since

$$\dot{X\$} = \dot{X} + \dot{P} - \dot{E}$$

the compounded growth rate for dollar exports should be approximately 16.1 percent.

Adjustments were made when making projections. For example, since there is an impending economic slowdown in the world economy, the growth rate of real exports is placed at 7 percent (from a growth of 21 percent in 1988). This was combined with a rate of peso depreciation of 3 percent and an inflation of 8 percent with a net result of 12 percent growth in 1989 for dollar exports.

The forecasts of merchandise exports are presented in Table III.9. From a level of \$8B in 1989, exports are expected to reach \$30B in 2000. The export projections up to the year 1994 are lower than similar forecasts presented by the Central Bank of the Philippines.^{13/} The forecasts are

^{13/}

A similar methodology was applied by the Central Bank.

Table III.9
TOTAL MERCHANDISE EXPORTS
1977 - 2000

Year	Merchandise Exports (FOB, Current \$million)	Pre-shipment Financing Requirements (Current \$ million)	Post-shipment Financing Requirements (Current \$ million)
1977	3138	-	-
1978	3424	-	-
1979	4504	-	-
1980	5788	-	-
1981	5722	-	-
1982	5012	-	-
1983	4971	-	-
1984	5266	-	-
1985	4589	-	-
1986	4730	-	-
1987	5571	-	-
1988	7074	-	-
1989	7923	1109	50
1990	8795	1231	55
1991	9850	1379	74
1992	11030	1544	110
1993	12570	1760	157
1994	14600	2044	219
1995	16650	2331	291
1996	18700	2618	351
1997	21100	2954	448
1998	23700	3318	533
1999	26700	3738	634
2000	30000	4200	750

*

1989 - 2000 figures are forecasted values

compared in Table III.10. The downward bias in our forecasts was introduced in order to account for the impending slowdown in the U.S. economy which in turn would have a significant impact on world trade. Recessionary forces would be present up to 1992 when the EEC finally consolidates its common market. Hopefully, after this time the uncertainty that would have resulted from these events would disappear leading to a renewed expansion in world trade. This prospect is reflected in the relatively high growth rates of exports from 1993-95. After this, a constant growth rate of approximately 12.5 percent was applied (9 percent for P, 6.5 percent for X, and 3 percent for E).

X

Pre-shipment financing requirements were calculated based on the figures used in the sample computations presented in the ADB terms of reference. The former is equal to 14 percent of total exports and it incorporates financing needs for both domestic and imported components. It is quite difficult to establish trend behavior on the percentage of exports under guarantee and insurance coverage and percentage of exports which are officially financed. Data on these variables are not readily available and most of the exporters interviewed are self-financed.

As no data on past post-shipment financing (which is surely negligible) are available, an educated guess had to be made on how much credit demand would arise from this need. At present about 95 percent of exports are covered by letters of credit. The remaining amount is assumed to be supported by post-shipment financing. It is estimated that this percentage will gradually rise to 10 percent by the year 2000. The amount of financing required is then adjusted by assuming a 90-day turnover rate.

Table III.10
 COMPARISON OF CENTRAL BANK AND
 PIDS FORECASTS, 1989-1994

Year	PIDS Forecast	CB
1989	7923	7980
1990	8795	9015
1991	9850	10725
1992	11030	11930
1993	12570	13415
1994	14600	15230

Sources: Table III.7 of this study, and
 Inter-Agency Study Group on External
 Trade Statistics and Projections of
 the Foreign Operations Committee,
 Central Bank of the Philippines,
 Annual Report 1987

The forecasted pre- and post-shipment financing requirements are shown in Tables III.11a and III.11b, respectively. For pre-shipment, the financing requirements are expected to increase from \$1.1B in 1989 to \$4.2B in 2000, while for post-shipment, the financing requirements will increase from \$50M in 1989 to \$750M in 2000.

The disaggregated forecasts for total exports (both in percentage terms and value) are shown in Tables III.3 and III.4 and Tables III.11 through III.12. Pre-shipment and post-shipment financing requirements are also disaggregated but only along two modes of classification: the ten 1-digit PSCC categories and traditional/non-traditional exports (see Tables III.12a, III.12b, III.12c and III.12d).

Tables III.11a and III.12c show that the bulk of financing requirements will come from manufactured exports. This is an indication that much of the credit requirements will be relatively long term in nature (i.e., a shorter turnover rate is involved). This is based on the assumption that primary exports are easier and cheaper to finance. However, because of lack of data, it is not possible to distribute the total financing requirements across the spectrum of maturities.

IV. INSTITUTIONAL SUPPORT FOR THE EXPORT SECTOR

To a large extent, institutional support plays a vital role for the growth and direction of Philippine exports. It provides the necessary "infrastructure" by which a fledgling export sector can thrive. A substantial share of this support is provided by the government with a supplementary role coming from the private sector.

Table III.11a
 PRE-SHIPMENT FINANCING REQUIREMENTS BY 1 - DIGIT PSCC CATEGORY
 (1989-2000)
 (Current \$ Million)

Year	0	1	2	3	4	5	6	7	8	9
1989	160.25	4.77	107.24	22.85	63.77	38.59	110.90	112.67	153.82	332.48
1990	171.72	5.05	114.85	24.25	67.71	40.87	123.10	129.38	175.29	376.93
1991	185.34	5.38	124.11	25.79	72.40	43.71	137.90	149.76	201.61	430.94
1992	200.10	5.71	133.86	27.33	77.20	46.63	154.40	173.08	231.60	492.38
1993	219.30	6.16	146.61	29.57	83.60	50.51	176.00	203.28	270.51	572.53
1994	244.67	6.54	163.52	32.30	91.98	55.60	204.40	243.24	321.73	677.99
1995	267.60	6.99	178.79	34.50	99.07	59.67	233.10	285.55	375.76	788.11
1996	287.46	7.33	191.90	36.39	104.72	63.09	261.80	329.87	431.97	901.90
1997	309.58	7.68	206.78	38.11	110.78	66.76	295.40	382.54	498.34	1036.26
1998	331.80	7.96	221.31	39.48	116.13	69.68	331.80	441.29	572.36	1185.19
1999	355.11	8.20	236.62	41.12	121.49	72.89	373.80	510.24	658.64	1359.14
2000	378.00	8.40	252.00	42.00	126.00	75.60	420.00	588.00	756.00	1554.00

Table III.11b
 POST-SHIPMENT FINANCING REQUIREMENTS BY 1 - DIGIT PSCC CATEGORY
 (1989-2000)
 (Current \$ Million)

Year	0	1	2	3	4	5	6	7	8	9
1989	7.23	0.22	4.84	1.03	2.88	1.74	5.00	5.08	6.94	14.99
1990	7.67	0.23	5.13	1.08	3.03	1.83	5.50	5.78	7.83	16.84
1991	9.95	0.29	6.66	1.38	3.89	2.35	7.40	8.04	10.82	23.13
1992	14.26	0.41	9.54	1.95	5.50	3.32	11.00	12.33	16.50	35.08
1993	19.56	0.55	13.08	2.64	7.46	4.51	15.70	18.13	24.13	51.07
1994	26.21	0.70	17.52	3.46	9.86	5.96	21.90	26.06	34.47	72.64
1995	33.41	0.87	22.32	4.31	12.37	7.45	29.10	35.65	46.9092	98.39
1996	38.54	0.98	25.73	4.88	14.04	8.46	35.10	44.23	57.92	120.92
1997	46.95	1.16	31.36	5.78	16.80	10.12	44.80	58.02	75.5776	157.16
1998	53.30	1.28	35.55	6.34	18.66	11.19	53.30	70.89	91.9425	190.39
1999	60.23	1.39	40.13	6.97	20.61	12.36	63.40	86.54	111.7108	230.52
2000	67.50	1.50	45.00	7.50	22.50	13.50	75.00	105.00	135.00	277.50

Table III.11c
 PERCENTAGE DISTRIBUTION OF PHILIPPINE MERCHANDISE EXPORTS BY
 1 - DIGIT PSCC CATEGORY
 (1987-2000)

Year	0	1	2	3	4	5	6	7	8	9
1987	15.94	0.50	9.60	1.74	7.13	4.40	8.42	9.93	13.61	28.74
1988	14.94	0.45	10.02	2.16	6.01	3.63	10.14	9.81	13.49	29.34
1989	14.45	0.43	9.67	2.06	5.75	3.48	10.00	10.16	13.87	29.98
1990	13.95	0.41	9.33	1.97	5.50	3.32	10.00	10.51	14.24	30.62
1991	13.44	0.39	9.00	1.87	5.25	3.17	10.00	10.86	14.62	31.25
1992	12.96	0.37	8.67	1.77	5.00	3.02	10.00	11.21	15.00	31.89
1993	12.46	0.35	8.33	1.68	4.75	2.87	10.00	11.55	15.37	32.53
1994	11.97	0.32	8.00	1.58	4.50	2.72	10.00	11.90	15.74	33.17
1995	11.48	0.30	7.67	1.48	4.25	2.56	10.00	12.25	16.12	33.81
1996	10.98	0.28	7.33	1.39	4.00	2.41	10.00	12.60	16.50	34.45
1997	10.48	0.26	7.00	1.29	3.75	2.26	10.00	12.95	16.87	35.08
1998	10.00	0.24	6.67	1.19	3.50	2.10	10.00	13.30	17.25	35.72
1999	9.50	0.22	6.33	1.10	3.25	1.95	10.00	13.65	17.62	36.36
2000	9.00	0.20	6.00	1.00	3.00	1.80	10.00	14.00	18.00	37.00

Table III.11d
DISTRIBUTION OF PHILIPPINE MERCHANDISE EXPORTS BY 1 - DIGIT PSCC CATEGORY
(1987-2000)
(Current \$ Million)

Year	0	1	2	3	4	5	6	7	8	9
1987	888.02	27.86	534.82	96.94	96.94	245.12	469.08	553.20	758.21	1601.11
1988	1056.86	31.83	708.81	152.80	425.15	256.79	717.30	693.96	954.28	2075.51
1989	1144.87	34.07	766.15	163.21	455.57	275.72	792.30	804.98	1098.92	2375.32
1990	1226.90	36.06	820.57	173.26	483.73	291.99	879.50	924.35	1252.41	2693.03
1991	1323.84	38.42	886.50	184.20	517.13	312.25	985.00	1069.71	1440.07	3078.13
1992	1429.49	40.81	956.30	195.23	551.50	333.11	1103.00	1236.46	1654.50	3517.47
1993	1566.22	44.00	1047.08	211.18	597.08	360.76	1257.00	1451.84	1932.01	4089.02
1994	1747.62	46.72	1168.00	230.68	657.00	397.12	1460.00	1737.40	2298.04	4842.82
1995	1911.42	49.95	1277.06	246.42	707.63	426.24	1665.00	2039.63	2683.98	5629.37
1996	2053.26	52.36	1370.71	259.93	748.00	450.67	1870.00	2356.20	3085.50	6442.15
1997	2211.28	54.86	1477.00	272.19	791.25	476.86	2110.00	2732.45	3559.57	7401.88
1998	2370.00	56.88	1580.79	282.03	829.50	497.70	2370.00	3152.10	4088.25	8465.64
1999	2536.50	58.74	1690.11	293.70	867.75	520.65	2670.00	3644.55	4704.54	9708.12
2000	2700.00	60.00	1800.00	300.00	900.00	540.00	3000.00	4200.00	5400.00	11100.00

Table III.12a
 PERCENTAGE DISTRIBUTION OF PHILIPPINE MERCHANDISE
 EXPORTS CLASSIFIED AS TRADITIONAL/NON-TRADITIONAL
 (1987 - 2000)

Year	Traditional	Non-Traditional	Others
1987	33.6	63.7	2.7
1988	32.5	64.6	2.9
1989	31.5	65.4	3.1
1990	30.5	66.3	3.2
1991	29.4	67.2	3.4
1992	28.4	68.0	3.6
1993	27.3	68.9	3.8
1994	26.3	69.8	3.9
1995	25.2	70.7	4.1
1996	24.2	71.5	4.3
1997	23.1	72.4	4.5
1998	22.1	73.3	4.6
1999	21.0	74.1	4.9
2000	20.0	75.0	5.0

Table III.12b
 DISTRIBUTION OF PHILIPPINE MERCHANDISE EXPORTS
 CLASSIFIED AS TRADITIONAL/NON-TRADITIONAL
 (1987 - 2000)

Year	Traditional	Non-Traditional	Others
1987	1871.9	3548.7	150.4
1988	2299.1	4569.8	205.1
1989	2495.7	5181.6	245.6
1990	2682.5	5831.1	281.4
1991	2895.9	6619.2	334.9
1992	3132.5	7500.4	397.1
1993	3431.6	8660.7	477.7
1994	3839.8	10190.8	569.4
1995	4195.8	11771.6	682.7
1996	4525.4	13370.5	804.1
1997	4874.1	15276.4	949.5
1998	5237.7	17372.1	1090.2
1999	5607.0	19784.7	1308.3
2000	6000.0	22500.0	1500.0

Table III.12c
 PRE-SHIPMENT FINANCING REQUIREMENTS CLASSIFIED AS
 TRADITIONAL/NON-TRADITIONAL
 (1989 - 2000)
 (Current \$ Million)

Year	Traditional	Non-Traditional	Others
1989	349.3	725.3	34.4
1990	375.5	816.2	39.4
1991	405.4	926.7	46.9
1992	438.5	1049.9	55.6
1993	480.5	1212.6	66.9
1994	537.6	1426.7	79.7
1995	587.4	1648.0	95.6
1996	633.6	1871.9	112.6
1997	682.4	2138.7	132.9
1998	733.3	2432.1	152.6
1999	785.0	2769.9	183.2
2000	840.0	3150.0	210.0

Table III.12d
 POST-SHIPMENT FINANCING REQUIREMENTS CLASSIFIED AS
 TRADITIONAL/NON-TRADITIONAL
 (1989 - 2000)
 (Current \$ Million)

Year	Traditional	Non-Traditional	Others
1989	15.8	32.7	1.6
1990	16.8	36.5	1.8
1991	21.8	49.7	2.5
1992	31.2	74.8	4.0
1993	42.9	108.2	6.0
1994	57.6	152.9	5.0
1995	73.3	205.7	11.9
1996	84.9	251.0	15.1
1997	103.5	324.4	20.2
1998	117.8	390.7	24.5
1999	133.1	469.8	31.1
2000	150.0	562.5	37.5

The first section of this chapter provides an overview of government support to enhance local exports after which the private sector initiative is presented. The latter focuses on the role played by major exporter organizations toward the development of exports.

A. The Government's Export Development Program

This section is an attempt to review the existing export development program of the government. The primary concern is to look into the existence of a coordinated policy towards the development of Philippine exports and at the same time, attempt to assess the effectiveness of the system. First and foremost is that there must be an objective to meet - that is the need to achieve an increasing share of Philippine products in foreign markets. Secondly, there is a consensus that this objective can best be achieved through the institution of an export development program.

Export development is a process of enhancing viability of local exportable products in foreign markets. It involves first the identification of products which are marketable, and second, the need to enhance their marketability and competitiveness. Dealing with the former is to have knowledge of foreign demand for particular products in order to be able to assess the country's comparative advantage, in terms of the availability of local raw materials and other resources to engage in their production in meeting such demand. To enhance the products' marketability, on the other hand, includes product development, and promotions and marketing. Product development encompasses the technical knowhow of its production, skills training, product concepts and design, and production management. Promotions and marketing involve selling

through the exposure and promotions of the product, negotiations for a share of the market, such as negotiations for quotas, and market penetration, such as negotiations for lower tariff and non-tariff barriers.

Given this background, this chapter proceeds by asking the following questions:

- (a) What is the present support given by the government for export development - the agencies involved, the policies and programs of action?
- (b) How amply covered are the various aspects of export development?
- (c) How effective is the program in terms of implementation and accessibility to its intended beneficiaries?

1.0 The Present Export Development Program

The task to develop Philippine exporters is assigned to the Department of Trade and Industry (DTI). As the primary government office for business and trade, the Department expands the exports as one of its implementing strategies. As such it has under its wings the International Trade Group (ITG) which is mainly concerned with the formulation and implementation of the country's export development program (see Annex B for the organizational structure of the Department of Trade and Industry).

The ITG is composed of ten agencies which are brought together to ensure a comprehensive formulation and a focused implementation of the government's export program. These agencies are involved in (1) policy formulation, (2) program development, (3) monitoring, (4) regulation, and

(5) service delivery pertinent to international trade and commerce. These agencies and their mandate are described below:

(a) Philippine Trade Training Center (PTTC)

The PTTC is responsible for upgrading the knowledge and skills of Filipino exporters through a comprehensive training program. The agency offers three major services: (1) training; (2) product testing; and (3) exhibition training.

The first aims to develop the competitiveness of local exporters in the international market on the aspect of marketing their products. This includes knowledge on efficient production, costing and pricing, sources of financing and financial management, techniques in market research and market penetration.

Product testing includes testing of raw materials and finished products on garments and textiles, furnitures and fresh and preserved foods. The Center has linkages with other specialized agencies such as the Food Development Center (FDC), Philippine Textile Research Institute (PTRI), Forest Products Research Institute (FPRI), Cottage Industry Technology Center (CITC), and the Bureau of Product Standards (BPS) for product quality testing.

Exhibition training involves the effective use of exhibition for promoting products. This includes presenting products, as well as planning and management in participation to trade fairs.

In addition, the Center is involved in the upgrading of the skills of government personnel in the field of international market

research, market information dissemination, and planning and management of export training and seminars.

Year Operated	:	1986
Budget	:	₱21M
Personnel Complement	:	80

(b) Bureau of Export Trade Promotion (BETP)

The BETP is an export assistance and information agency under the Department of Trade and Industry. The agency is involved in (1) export assistance and facilitation, (2) marketing and promotion, (3) market and product studies and (4) policy review and coordination.

Considered the primary agency on export assistance under DTI, it offers consultancy services on export procedures, documentation, marketing, and financing for exporters and would-be exporters. It also operates a one-stop export documentation center and an export assistance unit.

An exporter can register his product with the agency which circulates an internationally-distributed Registry of Philippine Exporters as part of its marketing and promotions program. Likewise, it is engaged in promoting international sub-contracting between foreign buyers and local manufacturers and producers.

It conducts studies on product and raw materials sourcing, international-market profile and formulate country and product export strategies. The agency is also involved in identifying and recommending measures for appropriate export-import procedures. It monitors private and foreign-trade missions and conducts industry-sector dialogues

with local exporter organizations as part of its policy-review and coordination efforts.

Year operated	:	1987
Budget	:	₱26.7M
Personnel Complement	:	150

(c) Center for International Trade Expositions and Missions (CITEM)

It is the main marketing and promotions arm under the DTI. Basically, its activity is the organization and participation in trade exhibitions here and in foreign countries as a way of exposing Philippine export products.

The Center provides assistance in the planning and organization of exporters participating in trade fairs and exhibits. It is also involved in on-site matching of buyers and producers/manufacturers. Lastly, it provides merchandising assistance and consultancy services. The latter provides Filipino exporters specialized, updated and accurate information about new products, and developments of new products.

The Center also conducts exhibition and trade fairs locally on a regional basis as a way of exposing the products of exporters.

Year operated	:	1987
Budget	:	₱47.5M
Personnel Complement	:	150

(d) Garments and Textiles Export Board (GTEB)

GTEB's primary objective is to oversee the overall administration of exports of garments and textiles. This agency is given the task to issue

quota allocation and export authorizations on the exports of garments and textiles. It issues licences for the importation of textile materials and other raw materials and in the operation of a bonded garments warehouse.

It provides international exporters information on industry/market data, such as prices and demand, up-to-date developments in the industry, trends in garments, and other developments pertaining to garments.

Year operated	:	1979
Budget	:	₱57M
Personnel Complement	:	268

(e) Foreign Trade Service Corps (FTSC)

This agency gathers commercial and marketing information as an input in the formulation of market strategy. This involves identification of investment areas, investors and specific products that have potential in specific markets. As such, the agency is also involved in the implementation of product-market strategies.

FTSC makes representations to organizers of trade exhibitions and fairs in foreign countries which enables the country to participate. It also conducts on-site promotional activities such as scheduling foreign buyers visit to the country and servicing incoming selling missions.

Year Operated	:	1986
Budget	:	₱119M
Personnel Complement	:	80

(f) Bureau of International Trade Relations (BITR)

This agency is responsible for all matters pertaining to foreign trade relations especially on matters pertaining to market access. As such, it is involved in formulating positions and strategies for trade negotiations and consultations. The primary issues it tackles is the elimination or reduction of tariff and non-tariff barriers, inclusion of local products in the different preferential trading schemes (GSP, GSTP, ASEAT-PTA), and in negotiating for quota allocation for specific products. This requires coordination with other agencies to assume government-wide consistency of positions on trade negotiations.

Year Operated	:	1979
Budget	:	₱4.7M
Personnel Complement	:	91

(g) Philippine Shippers Council (Shippercon)

Shippercon is tasked to provide adequate, reliable and economic shipping services and as a clearinghouse of information on shipping assistance and services.

The agency provides assistance to shippers especially to exporters by negotiating for lower freight rates for various export products, and in assuring adequate supply of containers of all types in the country's major ports. It conducts a training program for exporters on the proper techniques on shipping one's products. In addition, it provides assistance to exporters regarding booking and chartering.

Shippercon also provides exporters information on basic freight rates, various surcharges, and shipping terms and conditions. It also gives

assistance to exporters in computing freight costs and in securing insurance.

The agency have field offices outside Metro Manila and are represented in the regions by the DTI Regional Offices.

Year operated	:	1982
Budget	:	₱1.2M
Personnel Complement	:	18

(h) International Coffee Organization-Certifying Agency (ICO-CA)

This agency is responsible for the administration of Philippine coffee exports and represents the country in the International Coffee Organization - an organization of coffee buyers and producers. Its primary task is to develop and promote coffee exports to quota and non-quota countries. Specifically, it accredits coffee exporters, assigns and monitors quota allocations to exporters, provides certification of the coffee's origin as required by ICO, and provides the clearance for coffee exports.

The agency also provides information to exporters pertaining coffee production, quota and export guidelines. Similarly, information on market opportunities and world prices of coffee is provided by the agency.

Year operated	:	1981
Budget	:	₱4.3M
Personnel Complement	:	21

(i) Product Development and Design Center of the Philippines (PDDCP)

This agency contributes to the marketability of Philippine exports through product quality and design. Its primary function is product research and development. In this connection, it provides exporters assistance in product and package evaluation and in product design, free of charge. Producers are assisted in the development of new products as well as in the design of existing ones. This allows export products to adapt to changing market conditions, materials, and technology.

In addition, it provides exporters information in the latest in design trends, such as color and style of products to suit foreign market preferences. The Center also provides consultations on the proper utilization materials as well as the source for such materials.

Its two design mobiles bring design awareness to the region and conducts its seminar workshops to help exporters in adapting to the latest technology and processes in design.

Year operated	:	1978
Budget	:	₱20.8M
Personnel Complement	:	145

(j) Philippine International Trading Corporation (PITC)

PITC is the government's international trading arm. It thus engages in export and import of products not normally pursued by private enterprises. As such, there are two types of trading that PITC engages in. First is trading of new non-traditional products which the private sector is hesitant to engage in. Second is trading with socialist countries that are normally inaccessible to the private sector.

PITC also engages in the importation of raw materials for local producers. On this aspect PITC operates custom's bonded trading warehouses (CBTWs) for export producers who may import their raw materials requirements. This has the added benefits of faster processing and shipment for imports and eliminates the importation of raw materials under the duty-drawback system.

Lastly, PITC operates a FLOM financing facility for small exporters.

Year operated	: 1977
Budget	: own revenues
Personnel Complement	: 217

All of these ten agencies are involved in the delivery of front line export services. Of the ten, three are regulatory namely ICO-CA, GTEB, Shippercon. The agencies comprising the ITG are under the supervision of one undersecretary whose main task is to address the need for a focused and comprehensive export strategy. Among the ten agencies, BETP is considered the lead agency. Its mandate is considered to be general in nature vis-à-vis the nine agencies.

As a sign of the government's thrust to encourage exports, the Department of Trade and Industry provides, free of charge, exporters and would-be exporters information on setting-up export business, export procedures and documentation, export marketing and promotions, export financing and incentives, product and raw-material sourcing, product design and development, technical services and quality control. A separate unit under the BETP, the Export Assistance Network (EXPONET), has

been set up to provide these services. EXPONET is represented in the regions by DTI's regional offices and has been operating since 1984.

One of the innovative features of the present export development program is the government's policy to ease on export procedures to minimize the time by which exporters will go through the process. Most exporters shy away from government services because of time-consuming paperwork. Extensive paperwork also gives rise to red tape. In this regard, the One-Stop-Export Documentation Center (OSED) has been established to simplify export procedures and documentation.

This office brings under one roof various government offices to facilitate application, processing, and approval of export documentation. These are the Bureau of Customs (BC), Bureau of Animal Industry (BAI), Bureau of Fisheries and Aquatic Resources (BFAR), Bureau of Plant Industry (BPI), Philippine Coconut Authority (PCA), Philippine Ports Authority (PPA), Garments and Textile Export Board (GTEB), and Department of Trade and Industry-NCR (see Table IV.1). The OSED is located at the International Trade Center and has offices in key export-oriented regions, such as Cebu, Davao, Zamboanga, and Baguio.

Similarly, a One-Stop Import Documentation Center (OSID) has been set up to facilitate the importation of raw material requirements by exporters. The OSID houses the Bureau of Custom's Assessment Division, Bonds Division, and the Bonded Warehouses and Conduction Division.

In addition to these, GTEB has its own one-stop action center that assists exporters on matters such as policies and procedures on the export of garments, provision of information regarding market opportunities and in entertaining complaints. Likewise, a one-stop

Table IV.1
ONE-STOP EXPORT DOCUMENTATION CENTER: PARTICIPATING AGENCIES

Agency	Commodity	Documents Issued
Bureau of Customs Export Coordination Division (BOC-ECD)		<ul style="list-style-type: none"> ‡ Authority to Load ‡ Special Permit to Load ‡ Certification of Origin (GSP and non-GSP) ‡ Certificate of Shipment ‡ Certificate of Re-exportation
Bureau of Animal Industry (BAI)	Animal and Animal by-products	<ul style="list-style-type: none"> ‡ Export Clearance
Bureau of Fisheries and Aquatic Resources	Fish and Fishery aquatic	<ul style="list-style-type: none"> ‡ Export Clearance ‡ CITES Clearance
Bureau of Plant Industry (BPI)	Plants	<ul style="list-style-type: none"> ‡ Phytosanitary Certificate
Department of Trade and Industry, National Capital Region (DTI-NCR)	Handicrafts	<ul style="list-style-type: none"> ‡ Special Documentation Certificate for Preferential Treatment to Australia and EEC
Philippine Coconut Authority (PCA)	Coconut and by products	<ul style="list-style-type: none"> ‡ Export Clearance
Philippine Ports Authority (PPA)		<ul style="list-style-type: none"> ‡ Exemption from Wharfage Fee for BDI and EPZA Registered Exporters ‡ Accepts Payments for Wharfage Fee
Fiber Industry Development Authority (FIDA)	Natural Fibers	<ul style="list-style-type: none"> ‡ Commodity Clearance
Garment and Textile Export Board (GTEB)	Garments and Textiles products	<ul style="list-style-type: none"> ‡ Textile Export Clearance

action center that serves as a complaints, assistance, and information unit has also been set up by the Bureau of Customs and the Philippine Ports Authority.

The government has also created the Commission on Exports Procedures (CEP). The Commission periodically undertakes an overall review of the procedural and documentation requirements on exporting in response to the need to amend or introduce new policies and guidelines to simplify export procedures. It is headed by the DTI Secretary with the CB Governor, NEDA Director-General, Customs Commissioner and four representatives from the private sector as members.

To further underline its support for exporters, the government through DTI in cooperation with Philippine Exporters Foundation (Philexport) has instituted an exporters' accreditation scheme as an incentive to bonafide exporters. All exporters who have been operating for at least three years or most have exported at least \$100,000 and have had at least 10 exports transactions for a 2-year period, are given the following privileges: (a) the use of Philexport-operated customs bonded warehouses for importation of materials; (b) full listing in the Philippine Exporters Registry; and (c) availment of the services of the Special Customs Group in the OSEDC.

Also, a subcontractors exchange known as SUBCONEX has been instituted by the DTI. The program matches manufacturer-exporters with sub-contractors. This enables the former to have access to reliable sub-contractors in meeting export orders. The program also serves an important contribution of the export sector in the development of backward linkages. SUBCONEX assistance covers the garments, gifts and houseware,

furnitures and fixtures, footwear and leathersgoods, and fresh and processed foods sectors.

To supplement these services, DTI produces publications. One of these is the Exporters Manual, a 4-volume publication for circulations to exporters and would-be exporters which contains all information about exporting including export financing. It is for sale to all exporters and would-be exporters. It also publishes a Registry of Philippine Exporters, a compilation of present DTI registered exporters circulated world-wide complete with their addresses and products. This has been found to be very helpful to exporters since it exposes their products to foreign buyers without extra cost on their part. Likewise, each of the ten agencies is also encouraged to produce its brochures as a way to inform exporters of their services.

Recently, in addressing the need to draw up an export strategy BETP with all the other agencies under the ITG in consultation with the private sector, such as the various exporters organization, has identified priority products for exports to serve as a basis for a 3-year product-market export strategy. The reason behind this product and market classification scheme is for the government to focus its support on products that exhibit good export potential. This will enable the government to channel and concentrate its resources to products that are marketable and to markets that exhibit a potential demand for local exports.

Table IV.2 presents the level of government financial support to ITG Agencies in 1989.

Table IV.2
GOVERNMENT FUNDING AND SUPPORT, 1989
(DTI AGENCIES)

Agency	Fund Allotment (P million)	% of Total
Office of the Secretary	615.423	
BOI	67.465	
BEMB	3.761	
CIAP	19.587	
CMOF	13.686	
CITC	5.411	
EPZA	65.000	
ICO-CA	4.335	0.41
PTTC	20.542	1.90
PDDCP	20.865	2.00
CITEM <u>1/</u>	47.480	4.50
BITR	4.771	0.46
FTSC	119.183	11.52
BETP	26.965	2.60
Shippercon	1.200	0.111
PITC	<u>2/</u>	-
GTEB	<u>2/</u>	-
		----- 23.5

1/
Subsidy requirements on top of operating budget

2/
Self-supporting government agencies or corporations
Source: General Appropriative Act, 1989

Note: Total government support for its export development effort is reflected in the 23.5% share of all agencies comprising the ITG to the total government funds allotted to the Department of Trade and Industry

2.0 Service Coverage

A comprehensive export development program can be gleaned on how the different aspects of the program are amply provided for. If one is to judge it from the respective programs and services offered by these agencies, then it can be said that the primary elements of an effective export development strategy are amply covered. This includes market and product research and strategy (BETP, FTSC), trade negotiations (BITR), training for exporters and government personnel involved in export development, and product testing (PTTC), product development and design (PDDCP), product marketing and promotion (CITEM, BETP), export-product administration (GTEB, ICO-CA), international trading (PITC), and transport services (Shippercon).

Having personnel based abroad, FTSC identifies new exportable products, works for the country's participation in trade fairs and exhibits, helps in the development and implementation of product-market strategies. BETP, on the other hand, conducts product studies on these identified commodities.

PTTC engages in training exporters on basic export production and marketing techniques and in testing products for quality control. BITR is involved in trade negotiations among which are inclusion of Philippine products in various GSP, quota negotiation and negotiation regarding tariff and non-tariff barriers.

CITEM is the vehicle by which local products are exposed to buyers through its trade fairs and exhibits here and abroad. BETP complements

Exporters. PDDCP provides service on designs, proper use of raw materials, and information on trends such as color and shape.

Both GTEB and ICO-CA are involved in quota allocation and accreditation of exporters for garments and coffee, respectively, while Shippercon helps exporters transport their products through lower shipping rates, chartering, booking and assistance on freight handling and shipping.

Majority of these agencies conduct seminars on their respective services in various parts of the country. Shippercon has conducted 14 seminars last year. CITEM regularly holds trade fairs in major cities in the country. In addition, it has design mobiles that go to the regions to increase design awareness. There are, however, agencies that conduct seminars in Metro Manila only for lack of facilities. One is the PTTC. In January of 1989, PTTC conducted a total of 13 seminars alohe in its new facility.

All of these agencies are represented in the regions by DTI's Regional Offices. These offices are located in cities like Davao, Cebu, Cagayan de Oro. For others such as Shippercon, it has also field offices in other key shipping ports, such as Legazpi, Iloilo and Zamboanga.

3.0 Effectiveness of Export Development Program

The effectiveness of the government's export development program may not be directly inferred although the country's export performance has greatly improved despite constricting overseas markets brought about by declines in demand and increasing protectionism.

An important consideration to make, however, is the contribution of these agencies to grab a larger share of the export market than what it

used to be when these were not in existence. Statistics on the performance indicators such as the number of exporters serviced by these agencies attest to this fact. For instance as of 1987, the BETP has provided 4,054 exports direct assistance in marketing their products abroad, about 2,424 exporters were given information on raw material sourcing and about 384 foreign buyers were linked with Filipino suppliers. FTSC has matched 1,440 exporters with foreign buyers. CITEM through its promotional efforts abroad has brought in 2,239 foreign buyers that resulted in total sales of \$26M. Shippercon directly assisted 1,017 exporters in shipping-related problems and trained 2,162 other exports on freight handling. ICO-CA has already accredited 96 coffee exporters from an original of six. PPTC by year-end of 1987 has already trained 180 exporters using its new facility.

The increase of Philippine exports for the past two years may be partly attributed to a guided export strategy and policy and this is exemplified by a shift in emphasis from the usual traditional exports to the non-traditional exports to the classification of priority products. Another contributing factor has been the inception of a focused and comprehensive export development program which enables goal-setting. This was vital in channeling the government's meager resources to one direction. This was done through a streamlining of the bureaucracy by bringing together all agencies dealing with international trade into one group each with a clear mandate and objectives to work on. This has greatly reduced overlapping and duplication of functions for the various government agencies and increased accuracy in pinpointing accountability. These agencies also functioned according to the government's overall export policy. In the performance of their specific tasks, the various agencies

came to appreciate the need for closer coordination through regular exchange of information as well as referrals among themselves. This is facilitated by having a regular monthly meeting among the agencies chaired by the DTI Secretary.

A great majority of the respondent-exporters admitted having availed of the services/assistance of certain government agencies (see Table IV.3). Most popular among the government agencies mentioned by exporters is CITEM which helps exporters find markets for their products through various programs, such as market encounter, trade exhibits, brochures listing products and exporters, etc.

Respondent-exporters were asked to rate the overall non-financial export services of the government. Thirteen of them said that the government's export services were adequate; seven said that they were inadequate; and three admitted having no knowledge at all about government's export services.

Despite the government's renewed drive to intensify the country's exports, bringing these services closer to its intended beneficiaries especially outside Metro Manila is still to be desired. This is hampered by lack of funds in extending the facilities to the region or hire additional personnel for their respective operations. Majority of these agencies are aspiring for a separate staff in the regional offices who would look after their respective services. This has hampered their accessibility as evidenced by the fact that most exporters do not know of the services offered by these agencies. This point will be taken up further in the next chapter.

Table IV.3
 SERVICES OF GOVERNMENT AGENCIES
 AVAILED OF BY EXPORTERS

Assets	Export No.	Gov't Agency	Services
A. Small-Scale			
1	1	56	CITEM exhibition
1	6	15	Exposure of products
1	7	156	PITC -Exhibit
			PITC - Source of potential buyers
1	8	5	Product exhibition
1	9	15	Exposure of products, list of buyers
1	10	35	CITEM - International exposure
			GTEB - no red tape
1	11	5	Exposure of products
1	12	15	PITC - Source of potential buyers
1	14	25	gov't promotion of Filipino products to foreign countries
1	17	nap	nap
1	20	35	regular information about foreign buyers, trends, new decrees
1	21	5	fair/exhibits
B. Medium-Scale			
2	2	5	CITEM
2	3	12	PDDCP
2	4	15	CITEM - Exposure of products
			PITC - Raw materials
1	13	16	Provide information about buyers
2	15	nap	n.a.
1	22	135	PITC/CITEM
C. Large-Scale			
2	5	5	n.a.
2	16	7	none yet
2	18	nap	nap
1	19	nap	nap
3	23	nap	nap

NOTE: Assets: 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

nap - did not avail of the services
 n.a. - no answer

Gov't Agencies: 1 - PITC
 2 - PDDCP
 3 - GTEB
 4 - ICO-CA
 5 - CITEM
 6 - PITC
 7 - others (BEPT)

B. The Private Sector and Exports

Private sector support for exports comes by way of the various export organizations. There are two main reasons why exporters band together: (1) to promote their own interest; and (2) to provide themselves with a medium for collective representation with the government.

Export organizations are nonstock, nonprofit corporations with the main purpose of promoting the business interests of their members. These organizations assist their members through the promotions and marketing of their products, manpower training programs, financial packaging, raw material sourcing, product design, and information sharing.

In addition, private export organizations serve as a vehicle for maintaining linkages with the government and the various agencies involved in export promotions and development. Collective representation provides an appropriate forum for the exporters to point out inefficiencies and deficiencies in the government's export development program and in recommending specific programs for the government to adopt in order to encourage exports. The latter may come in the form of requests for government support and assistance either through fiscal and financial incentives, importation of inputs, financing, shipment, promotions and marketing of their products, product development, and manpower development and exporters training programs.

The Philippine Exporters Foundation (PHILEXPORT) is a nonstock, nonprofit semi-government organization intended to mobilize the private sector towards the development of the country's exports. It boasts of a membership of about 500 active and inactive exporting companies and individuals the membership of which contributes to more than three-fourths

of the total traditional and non-traditional exports of the country. PHILEXPORT was established in 1984 with the primary objective of promoting the general welfare of local exporters through a joint government and private sector initiative. It is managed by a 21-man Board of Trustees, fourteen of these are heads of the different export industries and seven undersecretaries of the different government agencies.

The presence of government representatives in its Board serves to underscore its role as a primary link between exporters and the government in fostering the development of local exports. PHILEXPORT's strong linkage provides a starting point to lobby for government incentives for exporters and a forum to propose effective measures and policies pertinent to exports.

The Confederation of Philippine Exporter (COPE) is private nonstock, nonprofit organization of exporters established in 1973. Like PHILEXPORT, its main objectives are to promote the interests of its member-exporters and to seek government support and assistance for exports. COPE's membership of 300 individual exporters and corporations comes from the different industry groups and trade associations involved in exports.

Some members of COPE are also members of PHILEXPORT. Lately, they have agreed in principle to merge. The details of the merger are still being worked out.

The Philippine Chamber of Handicraft Industries, Inc. (PCHI) is another private organization of manufacturers, producers, and exporters engaged in local handicrafts. It was established in 1984 and has about 250 members to date. PCHI's efforts are geared towards the development

of small and medium enterprises in ten product sectors all in handicrafts such as toys, ceramics, baskets, shellcrafts, woodcrafts and paper products, house ornaments, house textiles, and handlooms.

Aside from these big umbrella organizations of exporters, there are other smaller trade associations within each of the different export sectors whose aim is to maintain close links among themselves in order to promote their business interests. An example is the Philippine Federation of Food Exporters (Philfoodex), an association of local food exporters. It was established in 1980. To date, it has 62 active members including some of the established food corporations in the country. Like their bigger counterparts, trade associations are examples of self-help efforts on the part of exporters belonging to a particular industry. For Philfoodex, the benefits come in the form of exchanging the latest and up-to-date trade information among exporters dealing with the same producers of a product line as well as in seeking assistance from the government on matters pertaining to the food industry. A listing of some of these trade associations per industry is given in Table IV.4.

The existence of umbrella organizations or trade associations arises out of the need for stop-gap and/or supplementary measures in response to the deficiencies or inefficiencies in the government's export development program. Membership in these organizations provides an exporter additional benefits aside from those already provided by the government through its program to develop exports. These benefits come in the form of marketing services for exporters, acquisition of local or imported inputs, raw-material sourcing, information on market and trade prospects such as market demand, price and recent trends, and training assistance for exporters.

Table IV.4
TRADE ASSOCIATIONS OF EXPORTERS

INDUSTRY	TRADE ASSOCIATIONS
Footwear, Bags and Belts	Association of Footwear Industries of the Philippines Marikina Footwear Development Council Association of Philippine Leathergoods Exporters and Manufacturers Footwear and Integrated Leather- goods Industries Foundation
Jewelry and Fashion Accessories	Fashion Accessories and Jewelry Associations of the Philippines Fashion Designers Association of the Philippines
Gifts and Toys	Community Crafts Association of the Philippines Philippine Toy Manufacturers Association, Inc.
Baskets	Handloom Weaving Association of the Philippines Philippine Toy Manufacturers Association, Inc.
Fruits and Other Edible Commodities	Philippine Association of Fresh Coconut Exporters, Inc. Philippine Mango Exporters Foundation, Inc. Philippine Banana Growers and Exporters Association Coffee Exporters Association of the Philippines
Linens, Handweaves and Houseware	Knitting and Weaving Association of the Philippines Philippine Association of Embroidery and Apparel Exporters
Construction	Export of Metals Industry Council G.I. Wire Association of the Philippines Philippine Electrical Suppliers Manufacturers Association, Inc. Philippine Cement Manufacturers Corp.

INDUSTRY	TRADE ASSOCIATIONS
Home Decor, Furniture Accessories, Furnishings	Antique Dealers Association of the Philippines Ceramic Association of the Philippines Ceramic Export Manufacturers Association, Inc. Lamps and Allied Electrical Products Manufacturers of the Philippines
Marine Products and Other Processed Food	Association of Shrimp Producers and Exporters Philippine Food Exporters and Processors Organization Philippine Tuna Producers and Exporters Association Philippine Federation of Food Exporters Tuna Cannery Association of the Philippines
Industrial Supplies, Parts and Equipment	Philippine Association of Electronic Exporters Metals Industry Council Metalworking Industries Association of the Philippines Semiconductor Electronics Industry Foundation, Inc.
Non-Rattan Furniture and Components	Philippine Wood Products Association Pipes and Tubes Association of the Philippines
Garments	Confederation of Garment Exporters of the Philippines, Inc. Garments Business Association of the Philippines Textiles Producers Association of the Philippines
Others	Association of Philippine Coconut Dessicators Association of Philippine Copra Exporters, Inc. Philippine Bonsai Society Samanan sa Pilipinas ng mga Industriyang Kimika

An essential service rendered by these organizations is in the form of product promotion and marketing. These organizations have linkages with foreign buyers and/or foreign organizations and therefore an added advantage for an exporter in the exposure of his products as well as referrals to prospective buyers. Opportunities for contacts of potential buyers come about when these organizations participate in foreign trade exhibits and when they sponsor trade fairs. Enlistment with these organizations, likewise, provides foreign buyers with a single, convenient, and reliable contact with local producers and exporters.

Another important benefit for an exporter in joining exporter organizations is in the sourcing of raw materials especially for imported inputs. PHILEXPORT for example maintains common customs bonded warehouses (CCBWs) for the importation of raw materials needed by its members. This provides members with an economical way of obtaining inputs through tax and duty-free importations as well as the convenience of a simplified import facility. Most exporters are burdened by tedious processing for the release of their input requirements when dealing with government agencies.

PHILEXPORT's CCBWs is open to members and non-members alike. In availing of this service, the exporter should have at least a cumulative export performance of \$100,000 and ten transactions for any two-year period or must be a BOI-registered exporter of good-standing. Otherwise, the exporter must be personally guaranteed by any member of PHILEXPORT's accreditation committee. For new exporters or those who are not yet accredited, they may qualify if they can get endorsement from BOI while

endorsement from any two of PHILEXPORT's Trustees, or from DTI, CB, and/or BOC in order to be able to avail themselves of the facility.

An important feature of PHILEXPORT's CCBWs is that it is also open to indirect exporters. Indirect exporters must, however, first secure certification from the direct exporter whom they are linked with that the end-products will be exported.

One of the most important services these organizations provide to its members is helping individual members secure a loan package. One such program is the joint Technology Livelihood Resource Center (TLRC) - PCHI financing program. The PCHI-TLRC financing program has three schemes. One type of loan is the letter of credit financing which may be availed of by an exporter who has already reached his packing credit limit but has a confirmed or irrevocable LC in his favor. Another form of loan of the program assists indirect exporters or subcontractors through purchase order financing. This is for those who have yet to establish track record in exports or for those who are short of collaterals and find it hard to borrow from other financing programs. Lastly, the PCHI-TLRC financing program has the small subcontractors loan scheme for small subcontractors who can pool their resources together sufficient enough to offer these as security for a loan. These financing packages are open only to PCHI members. The details of these three programs are given in Table IV.5.

In addition to these benefits, these organizations provide exporter-members consultancy services, information on trade and market prospects, and training through sponsorship of export training and manpower development programs. One such service is that provided by the PCHI Research and Development Foundation which was established in 1984 as a

Table IV.5
THE PCHI-TLRC FINANCING PROGRAMS

	LC Financing "Balikatan sa Kabuhayan"	Purchase Order Financing Under ULFP	Socialized Credit Scheme
:Maximum Loan Limit	P200,000.00	P100,000.00	P10,000.00
:Negotiable Document	Letter of Credit*	Purchase Order From Exporter	Purchase Order From Exporter with PCHI Endorsement
:Collateral/Security	Soft***	Soft***	Collateral Pool****
:Maturity	60 to 120 Days or Life of LC	60 Days	60-90 Days or Life of Purchase Order
:Loanable Amount	80% of LC	50% of Purchase. Order-One Release 70% of Purchase Order-Staggered Release	50%-70% of Total Appraised Value of Collateral (for Single/Staggered Releases)
:Interest	12% Per Annum	14% Per Annum	15% Per Annum
:TLRC Filing Fee	5% Per Annum	2% Every Six Months	
:PCHI Processing Fee	500.00	300.00	200.00
:Principal Borrower	LC Beneficiary	Purchase Order Beneficiary	5-15 Members Signing Jointly and Severally.

Notes:

- * Only Confirmed and Irrevocable Letter of Credit payable at sight with more than 60 days maturity data.
- ** Purchase Orders 60 days or more in Duration.
- *** Soft Collaterals: Office Equipment, Household Appliances.
Issuer of Purchase Order Co-signs the loan.
- **** If the collateral of the loan is not enough, the Purchase Order Issuer co-signs the loan.

clearinghouse for subcontracting, trading, and information sharing for both members and non-members alike. It has also exposed exporters and traders to foreign buyers and has provided them with wider opportunities for market and product development.

There are three ways by which these organizations can effectively represent the interest of their members with the government. First, these organizations serve as a platform for exporters to air their grievances or to point out deficiencies in the system. Examples of these are the elimination of red tape in government agencies, the simplification of import-export procedures, and quota allocations. Second is through collective bargaining with the government in the form of fiscal or tax incentives or liberal financing assistance for exports, such as lower rediscounting charged by the Central Bank for export papers. Lastly, these organizations provide valuable endorsements for individual exporters when seeking government assistance or availing of any of the government services especially if the exporter is small or new. These endorsements may be either for accessing the manpower and development training programs offered by the government agencies such as PTTC or NMYC; for expeditious processing of export documents with the different agencies such as the Bureau of Customs; for gaining accessibility to a guarantee facility like Philguarantee in the case of PCHI; for financing in cases where there is a tie-up between the organization and other government agencies regarding export financing such as the PCHI-TLRC financing program; and for product promotions such as enlistment in DTI's Registry of Philippine Exporters jointly undertaken by PHILEXPORT and the DTI. On the latter, PHILEXPORT is charged by DTI to handle the registration/accreditation system for exporters. PHILEXPORT, therefore, evaluates applications and

issues certifications, which in turn are used as a basis for the enlistment in the registry.

Overall, local exporter organizations are an indispensable by-product of local producers and traders' earnest efforts to increase the share of local products in foreign markets.

V. EXPORT FINANCING SYSTEM IN THE PHILIPPINES

This chapter is divided into two sections. The first describes the export financing system in the Philippines and the second discusses banks' finance experience and policies as well as exporters' experience with export financing.

A. The Export Financing System in the Philippines

Actually, there exist a number of export financing schemes in the Philippines. Some of them are administered by government financial institutions, while others, by non-financial government institutions. The Central Bank's refinancing scheme will be discussed first. This is followed by a discussion of the role of the commercial banking system on export financing and the various lending programs to exporters. The export guarantee schemes will be discussed toward the end of this section.

1.0 Export Refinancing Scheme of the Central Bank

The export refinancing scheme of the Central Bank is a part of its overall rediscounting facility. To better appreciate the role of the rediscounting facility in providing credit to the export sector, it is important to understand the overall monetary policy of the Central Bank.

Liquidity management is one of the major functions of the Central Bank. This is anchored on the classical hypothesis of a strong inflation rate-money supply-monetary base linkage. Once an inflation rate target for a certain period is decided on, the Central Bank then determines the level of monetary base that is deemed consistent with that target. It does this by manipulating the components of the monetary base over which it has greater control.

The major components of the monetary base are the Net Foreign Assets (NFA) and Net Domestic Assets (NDA). The latter can be more readily controlled by the Central Bank. NDA can be further decomposed into net credits to the public sector (NCPS), net credit to the deposit money banks (NCDMB), and others (NDAOTHERS). The action of the Central Bank with respect to its rediscounting window is reflected in the NCDMB. For instance, if the Central Bank increases its rediscounting of export loans, then NCDMB increases, ultimately resulting in an increase in the monetary base, assuming other things being equal. Increases in the monetary base arising from the rediscounting window may be completely offset by conducting an open market operation. The Central Bank may do this by selling either its own liabilities (e.g., CB bills, reverse repos) or National Treasury's liabilities (i.e., Treasury bills). In the former case, NCDMB is literally kept constant, while in the latter case, NCDMB is allowed to increase, but the increase is offset by an equivalent decline in the NCPS.

The rediscounting facility of the Central Bank took a major turn in November 1985. Before this period, the rediscounting facility was used to allocate credit to high priority sectors, including the export sector. Within the export sector, the non-traditional export sector was given a

preferential rate over the traditional export sector. The rediscount rate for the former was three percent per annum with a prescribed ceiling on the lending rate of banks at 12 percent per annum, while for the latter, it was eight percent per annum with the ceiling on the lending rate of banks fixed at 14 percent per annum.

Starting in November 1985, the rediscounting window of the Central Bank has been used more for stabilization purposes rather than for allocating credit to priority sectors. Thus, the proportion of the loan value that the Central Bank rediscounts has been standardized for all eligible papers at 80 percent. Eligible papers include agricultural production credits, cottage and small industries credits, general purposes working and capital financing, and other short-term credits. The Central Bank grants rediscounting for 90 days renewable for another 90 days. Moreover, a uniform rediscount rate that is aligned with the market rate has been applied (see Table V.1).^{14/} This is adjusted every quarter. Although there is no more ceiling on banks lending rates, nevertheless, the Central Bank regularly monitors the interest rates especially on loans that have been rediscounted, and when necessary exerts moral suasion on banks. In effect, loans refinanced by the Central Bank have lower interest rates than those funded by banks' own funds. For example, one bank included in our study indicated that it charges between 17 to 19 percent per annum on export loans before Central Bank rediscounting and 14 to 16 percent per

^{14/} The rediscount rate is based on the MRR90 (Manila Reference Rate). The old MRR is based on the interest rate on promissory note with a 90-day maturity. The new MRR90 which appeared starting January 1989 is based on the weighted average of the interest rates on promissory notes and time deposits with a 90-day maturity.

Table V.1
CENTRAL BANK REDISCOUNTING POLICY, INFLATION RATE
AND VARIOUS INTEREST RATES

Year	Date	Circular Number	CB Rediscount Rate		Loan Value		Lending Rate a/ (Secured Loans)	Time Deposit Rate a/ (% p.a.)	Treasury Bill Rate c/ (% p.a.)	Reverse Repurchase Rate (% p.a.)	Domestic Inflation Rate (% p.a.)	U.S. Inflation Rate (% p.a.)	U.S. Prime Rate (% p.a.)
			High (% p.a.)	Low (% p.a.)	High (% p.a.)	Low (% p.a.)							
	05-19-78	CLR 610	9.00	1.00	100	50							
1980	09-24-80	CLR 762	9.00	1.00	100	50	14.00	.	12.14	.	17.60		15.24
1981	02-27-81	CLR 784	8.00	3.00	100	80	16.00	16.74	12.55	.	12.39	10.4	18.80
	03-10-81	CLR 786	8.00	3.00	100	80							
	06-18-81	CLR 803	8.00	1.00	100	80							
1982	05-23-82	CLR 930	8.00	1.00	100	80	17.13	15.81	13.79	.	10.21	6.2	14.81
1983			8.00	1.00	100	80	21.28	15.30	14.23	13.93	10.17	3.2	10.78
1984	01-23-84	CLR 991	LR-6	1.00	100	80	39.10	24.16	27.16	29.25	50.35	4.3	12.04
	03-12-84	CLR 994	MRR-6	MRR-12	90	80							
1985	05-30-85	CLR 1063	MRR-3	MRR-12	90	80	28.30	21.83	19.65	24.18	23.10	3.6	9.93
	11-22-85	CLR 1086	12.75	12.75	80	80							
1986	09-1-86	CLR 1114	11.75	11.75	80	80	17.30	14.77	16.90	13.25	0.75	2.0	8.32
	12-15-86	CLR 1125	10.00	10.00	80	80							
		AVE	12.27	12.27									
1987		CLR 1125	10.00	10.00	80	80	13.30	9.77	11.50	11.64	3.79	3.6	8.20
1988		CLR 1125	10.00	10.00	80	80	15.92	13.16	13.59	9.85 b/	9.06	4.0	9.31

MRR - Monetary Board Resolution

LR - Lending Rate

a/ - Weighted Average for all maturities

b/ - Weighted Average for Transacted Rates

c/ - Weighted Average for 91-day T-Bill rates

SOURCES : CB Review (various issues)

CB Annual Report (various issues)

IMF International Financial Statistics (various issues)

IMF Survey (March 1989)

annum after rediscounting. Banks usually refer to the former as the commercial rates.

In terms of the loan value and rediscount rate, the export sector seems to have lost its advantage over other priority sectors under the new rediscounting policy. In reality, however, the Central Bank has been silently pursuing an export-oriented rediscounting policy. This is understandable since the Philippines has been confronted with a balance-of-payments situation in the last few years. Indeed, it is easier for banks to obtain rediscounting on export loans than on non-export loans. Within the export sector, the non-traditional sector is given priority over the non-traditional sector.

Banks can be credited in their account with the Central Bank on the same day that they apply for rediscounting provided that all papers are in order and are submitted before noon.

Currently, the Central Bank sees to it that the export sector's access to the rediscounting window will not be grossly affected by any change in the monetary policy (i.e., a change from easy to tight monetary policy). This is reflected in the way it manages liquidity. The Central Bank makes a forecast of exports every quarter. This forms the basis for determining the net increase in the rediscounting of export loans that the Central Bank could allow for the reference quarter. Aside from this, the Interagency Study Group on External Trade Statistics and Projections Foreign Operations Committee which is headed by the Central Bank meets with exporters twice a year to validate its medium term forecast of exports. Thus, going back to our framework above, the projected net increase in the rediscounts of export loans will cause an increase in NCDMB, which in turn will exert an

upward pressure on the monetary base, other things being equal. If the projected increase in the monetary base arising from the net increase in the rediscounting of export loans exceeds the level that is thought to be consistent with the inflation rate target, the Central Bank will not adjust downwards its rediscounting of export loans. Rather, it will engage in open market operation to bring down the increase in the monetary base to its targeted level.

Table V.1 shows that the interest rates on reverse repos and Treasury bills have consistently been above the Central Bank's rediscounting rate. It suggests that rediscounted loans have been subsidized by Central Bank, in the case where reverse repos were used to mop up liquidity, and by the national government, in the case where the Treasury bills were used.

So far, the discussions lead us to the following conclusions: (1) from the point of view of the Central Bank, exporters have somewhat automatic access to its rediscounting window; (2) the Central Bank's approach towards liquidity management ensures export sector's continued access to the rediscounting window regardless of the prevailing monetary policy; and (3) rediscounted loans including export loans appeared to have been subsidized by the Central Bank and the national government.

The Central Bank requires the following as collateral for its loans to commercial banks: original copy of the promissory note of the exporter duly endorsed to the Central Bank by commercial banks; original copy of deed of assignment; and copy of the L/C, purchase order (PO) or sales contract (SC). In effect, only loans of direct exporters are being refinanced by the Central Bank. Indirect exporters who may be holding domestic L/C, purchase order or sales contract with final exporters are not

given access to the rediscounting window of the Central Bank. There are at least two reasons we could think of why the Central Bank does not refinance loans of indirect exporters. One probable reason is that the Central Bank is afraid that it might lose control of the monetary base if it opens its rediscounting window to a wider range of borrowers. It is to be noted that the pre-shipment export financing system in the Philippines is still traditional. Modernization of the pre-shipment export financing system could help allay fears of the Central Bank regarding the possible impact of refinancing loans of indirect exporters on the monetary base. This is discussed in greater detail in the last chapter. The other probable reason is that presently there are several special financing schemes that indirect exporters can access. Whether these alternative financing schemes can adequately meet the financing requirements of indirect exporters is, of course, a big issue which will be discussed below.

The World Bank study (1988) uses the ratio of loans outstanding of the Central Bank to commercial banks to export value as an indicator of the aggregate access to the Central Bank export loan rediscounts. Table V.2 shows that the ratio has fallen from nine percent in 1980 to about one percent in 1988, suggesting a decline in the access of the export sector to the rediscounting window. However, this should not be construed as a result of the Central Bank's effort to reduce the export sector's access to the rediscounting window. In fact, the ratio of outstanding export rediscounts to total outstanding rediscounts to commercial banks has risen especially in the last two years. Also, the loans granted by the Central Bank to commercial banks for refinancing exports have been above 85 percent of the total loans granted to commercial banks since 1984 (see Table V.3). The decline in the ratio of loans outstanding of the Central Bank to

Table V.2
 OUTSTANDING REDISCOUNTS OF THE CENTRAL BANK,
 LOANS OUTSTANDING OF COMMERCIAL BANKS, AND
 COMMODITY EXPORTS

Year	Average Exchange Rate (P/\$)	(a) Total Rediscounts to Commercial Banks		(b) Export Rediscounts						(c) Total Loans Outstanding of Commercial Banks		(d) Commodity Exports		(b)/(a)	(b)/(c)	(b)/(d)
		(P M)	(US\$ M)	Total		Traditional		Non-Traditional		(P M)	(US\$ M)	(P M)	(US\$ M)			
				(P M)	(US\$ M)	(P M)	(US\$ M)	(P M)	(US\$ M)							
1980	7.51	9079	1208.9	3969	528.50	2259	300.80	1710	227.70	77198	10279.4	43467.9	5788	0.437	0.051	0.091
1981	7.90	11393	1440.9	2736	346.33	1234	156.20	1502	190.13	96505	10950.0	45203.8	5722	0.240	0.032	0.061
1982	8.54	12963	2400.6	2583	302.46	950	111.24	1633	191.22	98240	18192.6	42879.3	5021	0.199	0.026	0.060
1983	11.11	8504	765.4	1955	175.97	72	6.48	1883	169.49	111388	10025.9	55605.6	5005	0.230	0.018	0.035
1984	16.70	4533	271.4	2092	125.27	1446	86.59	646	38.68	116382	6969.0	90029.7	5391	0.462	0.018	0.023
1985	18.61	5121	275.2	2162	116.17	1077	57.87	1085	58.30	87573	4705.7	86145.7	4629	0.422	0.025	0.025
1986	20.39	3167	155.3	1174	57.58	886	43.45	288	14.12	83087	4074.9	98748.8	4843	0.371	0.014	0.012
1987	20.57	3609	175.4	1736	84.39	1035	50.32	701	34.08	96936	4717.1	117660.4	5720	0.481	0.018	0.015
1988	21.09	3559	168.7	1983	94.00	1026	48.64	957	45.37	115392.4 a/	5470.2	149139.5	7070	0.557	0.017	0.013

a/ As of Sept. 1988

SOURCE : Central Bank

Table V.3
LOANS GRANTED BY THE CENTRAL BANK TO COMMERCIAL BANKS
(In ₪ M)

	(a) Total	(b) Traditional Exports	(c) Non-Traditional Exports	b + c ----- a
1980	38,707	20,000	11,607	0.82
1981	46,096	19,571	13,684	0.73
1982	39,121	15,459	10,833	0.67
1983	28,229	8,256	12,028	0.72
1984	14,392	1,568	10,805	0.86
1985	7,040	575	5,787	0.90
1986	9,696	2,251	6,322	0.88
1987	5,173	1,485	3,493	0.96
1988	9,582	2,150	6,959	0.95

1/
Includes other loans.

Source: Central Bank

commercial banks to export value could perhaps be attributed to the highly liquid situation of most banks. This will be further discussed below.

2.0 The Commercial Banking System

The commercial banking system has had a long history of supporting exporters. It dates back to the Spanish colonial period when the Manila-Acapulco trade was established. During the American colonial period, commercial banks were supporting exporters of primary products to the US.

At present, there are 30 commercial banks of which two are government-owned and four are subsidiaries of foreign banks. Their combined assets comprise about 61 percent of the total assets of the financial system (see Table V.4). Ten commercial banks are authorized to operate as a universal bank.

Commercial banks offer both pre- and post-shipment financing facilities to exporters. Pre-shipment loan may be granted by commercial banks to exporters in each stage of business operations from raw material acquisition to the shipment of goods. Exporters may obtain post-shipment financing from banks in at least two ways. One is through the Export Bill Line. Under this arrangement, the bank provides funds to the exporter by purchasing his collection documents with recourse to him should the collection not be paid. The other is through Documentary Acceptance Financing. Under this arrangement, the bank can immediately provide funds to the exporter by discounting the bankers' acceptance.

Table V.5 shows the loans outstanding of commercial banks from 1980 to 1987. Unfortunately, the loan categories are too aggregative. There is no way by which we could determine pre- and post-shipment loans since both are

Table V.4 1/
 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM
 (In Million Pesos)

	1988 March
Commercial Banks	318.2 ^{2/}
Thrift banks	285.0
Specialized Government Banks	26.5
Rural Banks	10.0
Non-Financial Institutions	122.7

1/ Starting December 1986, data reflect the transfer of assets/liabilities of one specialized government bank and one commercial bank to the National Government.

2/ As of November 1987.

Source: Central Bank of the Philippines.

Table V.5
 LOANS OUTSTANDING : COMMERCIAL BANKS
 (In Million Pesos)

	1980	1981	1982	1983	1984	1985	a/ 1986	b/ 1987
Loans and Discounts	64514 ^{c/}	73347 ^{c/}	87750	96587	110513	80785	75259	78602
Agra Reform/Agri Credit Loans	7505	9427	10924	11495	9340	10700	10298	12151
Bills Purchased	2610	2635	1773	2465	2695	3706	5510	10395
Domestic Bills	885	686	404	1764	2129	1542	2908	3209
Export Bills	1500	1748	1354	565	339	1902	2197	6808
Foreign Bills	225	201	15	136	227	262	315	378
Customer's Liability Acceptances	9868	11356	11482	12232	10822	7782	5861	7272
Trading Account Securities	3831	3447	1557	1057	1507	3212	2183	1394
T O T A L	88328	100212	113486	123836	134877	106185	99111	109814

a/ Revised to include reports of two commercial banks.

b/ As of September 1987

c/ Including interbank loan receivables.

Source: Philippine Financial Statistics
 Central Bank Statistical Bulletin

lumped together with other types of loans under the item "loans and discounts." A rough estimate of the size of pre- and post-shipment loans is obtained from our survey of a sample of commercial banks which is being discussed in the next section .

3 0 Special Credit Programs ^{15/}

Despite financial liberalization, the Philippines still maintains a number of special credit programs. There are several reasons for this. One is that the country still lacks financial resources to support growth. It should be noted that most of these special credit programs, especially the larger ones, are externally funded. Obviously, one of the purposes of these programs is to augment resources of the country. Another reason is that some sectors of the economy (e.g., agriculture, small and medium enterprises) are still given low priority by the banking system because they are perceived as either too risky or unprofitable business ventures. And donor agencies too have their proclivity to direct their assistance to specific sectors of the economy because in this manner, it is easier for them to monitor the effectiveness of their assistance.

It should, however, be noted that most of these programs have features completely different from the myriad of special credit programs launched by the previous government. For one, these programs are less specialized in the sense that they target a much wider range of beneficiaries. For instance the Agricultural Loan Fund (ALF) caters to practically all agricultural and agro-processing industries, in contrast to the previous credit programs which are directed to specific commodity groups. Also, the

^{15/}

This section partly draws from the Lamberte study (1989).

interest rates of most of these programs have been aligned with the market rate, in contrast to the highly subsidized interest rate of the previous credit programs.

The major features of these programs are summarized in Table V.6. Note that we have included here the Industrial Guarantee and Loan Fund (IGLF) because it is utilized mainly as a lending mechanism, rather than as a guarantee mechanism. Some of these programs cater to both domestic-oriented and export-oriented industries, while others, only to export-oriented industries. The features and performance of these programs will be discussed individually below.

(a) The Agricultural Loan Fund (ALF)

The ALF is managed by the Central Bank with assistance coming from IBRD (\$100M) and USAID (\$20M). It is envisioned to supplement the traditional sources of farm credit. Single proprietorship, partnerships, corporations, or cooperatives may avail of the ALF credit to finance their working capital requirements and fixed assets acquisition, excluding land purchase, for their agricultural and agro-processing projects. It is available to both domestic-oriented and export-oriented agricultural producers through a network of accredited participating banks. The ALF is designed in such a way that the end-user borrowers and banks participate in the financing of the project. Specifically, an end-user is required to have an equity of 10 percent of total project cost for loans of ₱1M and below, 15 percent of total project cost for loans over ₱1M but exceeding ₱5M, or 20 percent of total project cost for loans over ₱5M, while participating banks are required to put up 10 percent of subloans (referring to total cost less borrowers' contribution) of ₱1M but not

Table V.6

SOME FEATURES OF THE SPECIAL LENDING PROGRAMS

PROGRAM	START OF OPERATION	START OF RESOURCES	SOURCES OF FUNDS	IMPLEMENTING ORGANIZATION/ OFFICE	ELIGIBILITY	LOAN PURPOSE	LOAN REQUIREMENTS	LOAN CEILING	INTEREST	MATURITY	PRIORITY PRODUCTS	OTHER HIGHLIGHTS
a) ALF	1986	\$ 20M \$100M ----- \$120M	USAID IBRD	Agricultural Loan Fund, Central Bank	Agricultural and Agro Processing Enterprises	1) working capital 2) fixed assets acquisition	Collateral - real estate, chattel mortgages, government bonds, and securities, grains and sugar quedans D/E - 10% of TPCost (loans P1M below) - 15% of TPCost (loans P11 - P5M) - 20% of TPCost (loans P5M over) Project Study	open but subect to single borrower limitation under Sec. 23 of R.A. 337	Market or STD rate - certain spread	Short Term 12-18 months Long-Term max. 15 years	rice, sugar, corn, soybeans, rootcrops, cotton, vegetables, fruits, livestock, aquaculture/poultry, swine, cattle production, fisheries development; plantation, agroprocessing farm mechanization	no guarnatee provision although borrowers are required to issue collateral
b) IGLF	1982	\$321M ^{a/}	USAID IBRD	Industrial Guarantee and Loan Fund, Central Bank	Manufacturing and Service industries with total assets from P500,000-P20M	1) working capital 2) fixed assets acquisition 3) packing 4) production	D/E - 80:20 Collateral - real estate, government securities Project Study	a) cottage P150,000-P.4M b) small P150,000-P.4M c) medium P 50,000-P16M	Market rate	1) 7 years 2) 12 years 3) 180 days 4) 1 year	none	provides optional guarantee coverage 1) collateral short - max. of 25% of loan 2) credit risk - 60% of loan for small
c) EIMP	1980	P165.5M	OECD	Technology Livelihood Resource Center	Resource-based Export Manufacturing and Processing Enterprises	1) fixed assets acquisition	Collateral - project assets	P 5M	10%	10 years	woodworking, building component - related products, food processing, garments, light metals	

PROGRAM	START OF OPERATION	SOURCES OF FUNDS	IMPLEMENTING ORGANIZATION/OFFICE	ELIGIBILITY	LOAN PURPOSE	LOAN REQUIREMENTS	LOAN CEILING	INTEREST	MATURITY	PRIORITY PRODUCTS	OTHER HIGHLIGHTS	
d) EDAP	1987	P20M	KKK	Technology Livelihood Resource Center	Export Manufacturing and Processing Enterprises	1) working capital	D/E - 80:20 Collateral - unincumbered personal/project assets, L/C, inventories of raw materials and finished goods	P2M	12%	Term loans: 1 year Credit line accomodation: expiry date of L/C or as negotiated	non-traditional export-products	
e) PITC	1988	P10M	PITC	Philippine International Trading Corporation	Export Manufacturing and Processing with Assets not more than P10M	1) working capital 2) raw-materials	Collateral - L/C	70% of L/C value or P200,000 whichever is higher	Market rate	Expiry date of L/C	non-traditional export-products or all priority products of ITG	
f) TF	1984	P16.5	KKK	Livelihood Corporation	Manufacturing Enterprises with L/Cs, POs	1) working capital 2) raw-materials	Collateral - unincumbered real estate, personal/project assets, chattel mortgage	80% of L/C and/or PO not to exceed P750,000 (domestic) P1,000,000 (foreign)	18%	6 months	none	
g) APEX	1980	\$20M	WB Int'l Banks	Central Bank	Export Manufacturing Industries with Assets from P4M to P100M	1) fixed assets acquisition 2) equity investments	Collateral - project assets	\$6M	Market rate	15 to 20 years	none	

a/ starting January 1989.

b/ refers to APEX I; APEX underway

exceeding ₱5M and 25 percent of subloans over ₱5M. There is no limit as to the loan amount, provided that it does not exceed the single borrower limitation under existing Central Bank regulation. Short-term loans should not exceed 12 months, while long-term loans should not exceed 15 years inclusive of a grace period.

The interest rate that the Central Bank charges on its ALF credit to banks is based on either the cost of borrowings to the ALF, related administrative costs, and an element of foreign exchange risk; or the weighted average cost of the banking system's savings and time deposits, whichever is higher. This is reviewed every quarter. At present, the interest rate on ALF credit to participating banks is 10.7 percent, which is 0.7 percentage point higher than the rediscounting rate. There is no ceiling on the relending rates of banks. As of December 1988, there was a total of 83 participating banks.

Table V.7 shows the loan availments of ALF by investment area in 1988. A total of 549 loans were granted valued at ₱799.7M. About 47 percent of the total loan value went to the export and commercial crops (i.e., sugar, ramie, banana, coffee, cacao, and fishery prawn), with sugar and prawns covering most of it. Thus, ALF is one of the largest sources of funds for the export industry. Banks consider the ALF facility more attractive than the rediscounting window of the Central Bank despite its relatively higher interest rate. One reason is that ALF loans have longer maturities than the Central Bank's rediscounts. Another reason is that banks' contribution is limited to only 10 percent of the project cost (net of borrower's contribution) compared to 20 percent in the case of rediscounts with the Central Bank. This could be one of the reasons why banks recently slowed down their rediscounting with the Central Bank.

Table V.7
ALF AND IGLF LOAN AVAILMENTS BY INVESTMENT AREA
(Jan.-Dec. 1988)

	ALF		IGLF	
	No.	Value (P M)	No.	Value (P M)
A. Primary				
Fuels	-	-	-	-
Non-Fuels				
Live Animals	134	220.560		
Meat, preparations				
Dairy products, birds eggs				
Fish, preparations	143	180.440		
Cereals, preparations	7	2.031		
Vegetables and Fruits	15	62.250		
Sugar, preparations	165	203.074		
Coffee, tea, cocoa, spices	5	1.688		
Feeding staff for animals				
Misc. Edible Products, Preparations	6	3.059	83	210.752
Beverages			1	0.800
Fertilizers/Minerals				
Animals, Vegetable Oils and Fats Processed	1	0.090		
Wood and Wood Products			42	116.824
Paper and Paper Products			14	93.000
B. Manufactured				
Labor Intensive (LI)				
Non-Metallic Mineral Products			27	44.897
Furniture and Parts			35	69.180
Footwear, Apparel, Garments			130	274.453
Misc. Manufactures			41	58.191
Moderately Capital and Skill Intensive (MCSI)				
Leather and Leather Manufactures			9	29.850
Rubber and Rubber Manufactures			13	72.900
Iron and Steel			55	179.595
Electrical and Non-Electrical Machineries			13	40.900
Transport Equipment			11	36.300
Highly Capital and Skill Intensive (HCSI)				
Chemical materials, products			39	127.764
Not Elsewhere Classified	73	126.502	43	56.250
(Ricemilling, Feedmilling, Marketing Facilities, Transport, Printing/Publishing, Other Services)				
Total	549	799.716	556	1499.086

Sources: Unpublished ALF and IGLF Reports (February 1989)

In its first two years of operation, ALF incurred some losses. In 1988, however, it realized a net income of ₱43.5M. Up to the present, ALF boasts of a 100 percent collection rate.

(b) Industrial Guarantee and Loan Fund (IGLF)

The IGLF is a revolving fund established in 1952 by an agreement between the Philippine government and the United States for the purpose of meeting the financing needs of cottage, small, and medium scale enterprises, regardless of whether they are producing for the export or domestic market.^{16/} The fund is administered by the Central Bank.

The USAID was initially the major contributor to the Fund. (see Table V.8). Since 1975, IBRD has been providing additional funds. Over the years, the share of the Philippine government's counterpart had been declining from 40 percent to 15 percent. The new program which started last January 1989 projected that IGLF would require \$321M to support its activities during the period 1989 to 1991. A major portion of it would come from ADB (\$100M), IBRD (\$60M), and ASEAN-Japan Development Assistance Program (\$40M). Thus, IGLF will remain a major source of funds for the cottage, small, and medium scale enterprises in the future.

The IGLF has three main programs, namely: (1) straight refinancing; (2) refinancing and guarantee; and (3) straight guarantee. The last is the least popular among banks. In fact there are no takers in this program

^{16/} Cottage industries refer to enterprises excluding agriculture whose total assets are over ₱50,000 but not more than ₱500,000 before financing. Small industries refer to enterprises excluding agriculture whose total assets are over ₱500,000 but not more than ₱5M before financing. Medium industries refer to enterprises excluding agriculture whose total assets are over ₱5M but not more than ₱20M before financing.

Table V.8
IGLF SOURCES OF FUNDS

	Foreign Counterpart		Government Counterpart		Total Amount (₱M)
	Amount (₱M)	%	Amount (₱M)	%	
Original:					
USAID (1956)	13.04				13.04
USAID (1957)	14.99		19.00		33.99
USAID (1964)	1.00				1.00
Sub-Total	29.03	60%	19.00	40%	48.03
Additional:					
IBRD 1120 PH (1975)	88.96	75%	30.00	25%	118.96
IBRD 1727 PH (1979)	189.89	78%	55.00	22%	244.89
IBRD 2169 PH (1982)	979.92	85%	171.00	15%	1150.92

Source: Magno (1988).

since 1973. The main reason is that in case of default, banks are first required to exhaust all possible means to collect from borrowers before calling on the IGLF guarantee. And this normally takes more than a year. Thus, banks have now opted for the first program.

Loans obtained from IGLF may be used for permanent working capital (with a maximum maturity period of seven years inclusive of two years grace period) acquisition of fixed assets (with a maximum of 12 years inclusive of three years grace period), and for production (with a maturity period of one year). In March 1987, a decision was made to include in the IGLF program the financing of short-term working capital requirements of export-oriented cottage, small and medium enterprises. For export packing credit, the loan maturities should not exceed 180 days, while for production credit loans, it should not exceed 360 days. This is one of the most important developments as far as export financing is concerned.

The interest rate that the Central Bank charges to IGLF loans to banks is based on the average rate of time deposits with maturities of two years or more during the preceding six months if the fixed interest rate is applied, or on the average rate of time deposits with maturities of up to six months if the variable interest rate is applied.

Banks may charge the market rate to end-user borrowers. However, borrowers located in underdeveloped areas of the country are supposed to be charged a rate that is two percentage points below the market rate. IGLF encourages banks to do it by differentiating its lending rate to banks located in various areas of the country. The lending rate structure of IGLF loans to participating banks for the period 23 January 1989 to 30 June 1989 is presented in Table V.9.

Table V.9
 INTEREST RATES ON IGLF AVAILMENTS OF
 PARTICIPATING FINANCIAL INSTITUTIONS
 (For the period 23 January to 30 June 1989)

Location of Project	Interest Rate Per Annum (%)	
	Fixed	Variable
National Capital Region (NCR)	14.1	12.1
Region I	12.1	10.1
Region II	12.1	10.1
Cordillera Autonomous Region (CAR)	11.1	9.1
Region III	14.1	12.1
Region IV (except Quezon, Aurora, Romblon, Marinduque, Palawan, and Mindoro)	14.1	12.1
Region V	11.1	9.1
Region VI (except Antique, Aklan and Capiz)	13.1	11.1
Region VII (except Bohol, Negros Oriental and Siquijor)	14.1	12.1
Region VIII	11.1	9.1
Region IX	11.1	9.1
Region X (except Camiguin)	13.1	11.1
Region XI	13.1	11.1
Region XII	12.1	10.1
Quezon, Palawan, Capiz and Aklan	12.1	10.1
Bohol, Antique, Siquijor, Mindoro, Aurora, Rombolon, Marinduque, and Camiguin	11.1	9.1
Negros Oriental	13.1	11.1

Source: CB Circular No. 89-01 (January 1989).

Unlike the ALF loans, IGLF loans are subjected to predetermined ceilings depending on the size of the firm concerned. The loan ceiling for cottage, small, and medium scale enterprises are P0.4M, P4.0M, and P16.0M, respectively.

In 1988, IGLF granted a total of 577 loans valued at P1,499M (see Table V.7). The predominantly export-oriented industries (i.e., footwear, non-metallic mineral products, apparel, garments, furniture and parts, miscellaneous manufactures, leather and leather products, and electrical and non-electrical machineries) received about 32 percent of the total loans granted. With the new emphasis on export financing, the IGLF will become a very important source of funds to export-oriented small and medium enterprises in the near future.

IGLF has a history of bad repayment rates. In 1978, collections amounted to only 17 percent of principal and interest falling due. This has increased to about 57 percent in 1986. In 1988, however, only two and a half percent of principal and interest falling due are past due. The remarkable performance of the IGLF in the most recent years augurs well for its future.

IGLF realized a net income of P48.1M in 1987. Figures for 1988 are not yet available at this time.

(c) Export Industry Modernization Program (EIMP)

Unlike the ALF and IGLF, EIMP is a financing facility which was launched in 1980 solely for export-oriented industries. Managed by the Technology Livelihood Resource Center (TLRC), a government non-financial institution, EIMP is designed to meet the needs of non-traditional export-

oriented industries for the modernization of their facilities, production technologies and services so that they can be competitive in the export market. The funds mainly came from the ¥5B soft loan from Overseas Economic Cooperation Fund (OECF) of Japan.

The maximum loanable amount per borrower is ₱5M with a maximum maturity of 10 years. The interest rate is fixed at 10 percent per annum which is substantially below the market rate. The service fee is three percent of the total amount of the loan.

To qualify under the program, the following conditions must be satisfied:

- 1) The project must be resource-based, export-oriented (preferably 50 percent for export after second year of expansion or establishment with EIMP assistance), labor-intensive or must generate substantial labor through linkage with other industries;
- 2) Assets must not exceed ₱20M after EIMP assistance; and
- 3) There should be modernization input in the project which will lead to production cost reduction, improvement in quality or expansion of capacity.

This facility is also available to indirect exporters or sub-contractors provided that they can show proof that at least 50 percent of their output will be exported by the final exporter. Since TLRC is a non-financial institution, loans are released through and collected by the Development Bank of the Philippines (DBP).

As of December 1988, TLRC granted a total of 140 loans under the EIMP valued at ₱400M. Ten percent of it was availed of by sub-contractors.

Most of the loans went to the garments, furniture, food processing and gifts and houseware sectors. The average loan size was ₱3M. About 60 percent of the borrowers are located in Region IV and the National Capital Region. Loan collection is estimated to run to ₱4M to ₱5M per month which are re-lent to new clients. The estimated default rate is alarmingly high at 18 percent.

The ₱5B assistance from the OECF has already been fully disbursed. At present, TLRC is negotiating with OECF for another ₱5B to augment its resources.

(d) Export Development Assistance Project (EDAP)

EDAP is another project of TLRC. While EIMP provides long-term capital to export-oriented enterprises, EDAP grants only short-term working capital to help exporters fulfill their contracts and/or letters of credit. It was set up in 1987 with a ₱20M fund contributed by the government. The facility is open to serve both direct and indirect exporters who are producing non-traditional export commodities.

The maximum loan amount per borrower is ₱2 M with a maturity period of one year for term loans, or upon negotiation or expiry date of assigned L/Cs whichever comes first in the case of credit line accommodation. The interest rate is 12 percent per annum with a filing fee equivalent to one-fourth of one percent of the loan amount applied for to be paid upon filing of application, a commitment fee of one-fourth of one percent on the unavailed portion of the credit line, and a one time fee of five percent per annum based on the availments/drawdown.

To qualify for a loan, the project must have a loan to beneficiary ratio of not more than ₱50,000 to one; the borrower must not have any outstanding loan in any KKK lending program and must be credit worthy; project's cash flow statement must show positive cash balances after payment of obligation due and must be satisfactorily profitable with a minimum internal rate of return of 18 percent; and project must comply with all existing government rules and regulations and must have a firm, determined and reliable market.

(e) Philippine International Trading Corporation (PITC)
Financing Facility for Small and Medium Scale Export Producers

Having been constantly in contact with direct and indirect exporters, PITC took note of the difficulty encountered by small and medium-scale export producers in fulfilling export contracts and orders. So, in April 1988, it set up a ₱10M financing facility for small and medium export producers. It is the latest non-financial government agency that joined the bandwagon in providing short-term capital loan to small and medium exporters. The ₱10M was sourced entirely from PITC's resources. As of December 1987, PITC's total assets stood at ₱375M.

The facility may be tapped to finance the acquisition of raw materials, working capital and other costs of servicing export orders of small and medium export producers whose assets do not exceed ₱20M. Unlike the four financing schemes discussed above, this facility does not require borrowers to put up hard collateral. The only security requirements are: L/C proceeds being assigned to PITC with bank's conforme, and promissory note of the borrower. Since only those who have valid and operative L/Cs opened in favor of the export producer are being accommodated, indirect

exporters who may have purchase order from final exporters but are not beneficiaries of the L/C, do not have access to this facility.

Loan applications are processed by the PITC Special Credit Unit. It normally takes three days to approve the loan application. However, prior evaluation is done by BETP/CITEM/GTEB/ROG/Industry Association who must have closely monitored performance of the applicant concerned over a minimum period of one year. The maximum loan amount is set at 70 percent of the L/C value but not to exceed ₱200,000. A floating interest rate is applied which is based on the prime rates charged by the Philippine National Bank or Land Bank, whichever is lower during the immediately preceding week. The current prime rate of these banks is about 18 percent per annum. Loans are supposed to be repaid either upon negotiation of export L/C or upon maturity date of the promissory note, whichever comes earlier.

In less than one year, PITC lent to 21 export producers some of whom borrowed three times already from the same facility. The total amount of loans granted already reached about ₱4M, while loans outstanding as of December 1988 stood at around ₱2M. So far, PITC has a 100 percent collection rate. The main reason for this is that the BETP/CITEM/GTEB/ROG/Industry Association who evaluates the loan application also closely monitors production to ensure that shipment schedules are met by the borrower-exporter.

- (f) Transactional Financing (formerly called Purchase Order Financing).

Transactional Financing (TF) is a financing program of the Livelihood Corporation (LIVECOR). Its main purpose is to provide short-term financing

to accredited producers/suppliers of retail stores/traders/importers. It is being managed by the Transactional Lending Center (TLC) composed of 11 full-time staff who are mostly loans specialists and loan collection officers. As of December 1988, its total resources stood at ₱16.5M all of which came from the government through budgetary appropriations.

TF started financing purchase orders (POs) held by producers/suppliers in 1984. Then in 1986, it added the financing of irrevocable L/Cs. It is available to both domestic- and export-oriented industries, whether direct or indirect exporters, provided that they are a manufacturing enterprise which has been operational for at least six months; have been a regular supplier of any retail store/trader/importer for at least six months prior to application; and have the capability to put up a collateral. All those who apply for Transactional Financing have to be accredited first by the LIVECOR-TLC.

TF grants financing up to 80 percent of the total value of POs or L/Cs provided that it does not exceed ₱750,000 per borrower. The loan should be used solely for the purchase of raw materials, payment of labor and/or other working capital purposes. The maximum loan maturity is six months with fixed interest rate of 14 percent per annum. Also, TF charges a front end fee of ₱1,000 or two percent of the amount of the loan applied for, whichever is higher. Loans can be released within ten days after filing of the application if all papers are in order.

TF requires collateral in the form of unencumbered real estate, personal properties and chattel mortgage. Moreover, it asks borrowers to surrender all pertinent loan documents, such as POs and deed of assignment with bank certification in the case of L/Cs. For POs, TF directly collects

repayment from PO issuers upon delivery of the goods; and for L/Cs, it collects from the bank upon negotiation of the L/Cs. One special feature of the TF facility is that it enters into a contract with a borrower wherein the latter graduates to another facility which is called LIVECOR-GFSME Guaranty Facility after three years, or if not to a regular facility of banks.

The total value of loans granted from 1984 to 1988 was ₱75M. The number of clients reached a peak of 90 in 1987. Accordingly, some of them graduated already to another program, while others do not need anymore special assistance since they have already become bankable. At present, TF'S outstanding loans amount to ₱15M. These come from 15 clients who obtained multiple loans. Ninety (90) percent of the outstanding loans are backed up by POs. So far, three borrowers with a total loan value of ₱2M defaulted. Two of them defaulted because the importers did not honor anymore their irrevocable L/Cs. Thus, the default rate of TF stands at 13.3 percent. In addition, four loans which are past due are being considered for restructuring.

All of TF's borrowers have their offices in Metro Manila. The main reason for limiting itself only to Metro Manila borrowers is that it directly collects the loan from issuers of POs and banks who should be located nearby. It hopes to expand its resources in the future so that it can open up branches in Cebu City and Davao City which have a large number of small and medium-size export-oriented enterprises, and include in its operation discounting of post-dated checks similar to what PCIB is currently doing in the Marikina Shoe Industry.^{17/}

^{17/} See Lamberte and Jose (1988) for a detailed discussion of this arrangement.

(g) APEX Re-Financing Program

The APEX Financing Program was established in 1980 to address the need for long-term financing of viable industries in the country. Managed by the Central Bank Apex Development Finance Unit (CB-ADFU), the program is open to medium and large-scale industrial enterprises preferably export generating with assets ranging from ₱4M to ₱100M. The proceeds of an APEX loan can be used to finance the acquisition of capital assets such as factory buildings, machineries, and other equipment either for purposes of expansion or for start-up projects. APEX funds may also be used to finance equity investments. This arrangement must be agreed upon between the borrower and the participating financial institution (PFI). In some meritorious cases, it may also be used for working capital purposes.

The funds are intended mainly for private domestic industries although to some extent it is also available for projects by the government assuming these projects have extensive linkages with the private sector or if these have substantial development impact. On the other hand, projects from the private sector must show inherent comparative advantage in order to compete in foreign and domestic markets, and should make optimal use of local resources as the primary criteria for its eligibility to the program.

APEX funds must be spent in the following manner: (a) 100 percent of the cost if the goods is directly imported; (b) 70 percent of the cost if locally procured imported goods; (c) 50 percent of locally produced goods with direct or indirect foreign exchange component; and (d) 45 percent of civil works with direct or indirect foreign exchange component. The normal disbursement period for an APEX loan ranges from one to two years.

Just like the other refinancing facilities, APEX is a relending program intended to replenish funds by participating financial institutions lent to eligible industrial projects. APEX funds are relent by the CB-ADFU to participating financial institutions (PFIs) which in turn make individual subloans to project proponents at a market-determined rate inclusive of the cost charged by the CB for the funds.

APEX is a foreign currency denominated loan which underlines its purpose mainly for the acquisition of imported machineries and other equipment. Actual repayments are, however, generally made in the peso-equivalent of the amount due on the basis of the CB's existing peso-dollar exchange rate. It is, therefore, normally the borrower who will assume the foreign exchange risk for the loan.

The first phase of the program was APEX I which was funded by a loan from the World Bank (WB) and a consortium of foreign commercial banks led by Lloyd's of London. APEX I started in 1981 with a WB fund of \$150M and the consortium's counterpart fund of \$100M. Due to the nature of the program's fund, APEX I was relent by the CB-ADFU to PFIs through a mixed-lending system. Under the system, the refinancing is done with a mix of 60 percent WB and 40 percent consortium funds. However, the PFI has the option to relend these funds in any mix it wants.

The maximum loanable amount under the APEX I program is \$6M for a single borrower repayable for 15 to as long as 20 years or normally based on the economic life of the assets to be financed. A grace period of four years is given on the principal. However the consortium banks' portion of the loan is good only for 12 and a half years. As a result of the program's mixed lending system, a two-structured interest rate scheme was

charged on an APEX loan to a participating financial institution - 9.6 percent on the WB component which remains fixed up to maturity and a floating LIBOR rate (average of 6 mos. + 0.125%) on the consortium funds plus three-fourths of one percent as service charge by the CB. The cost of the loan to the end-borrower, although market determined, essentially includes the cost of the funds to the PFI - the interest cost and the CB service charge, plus a reasonable re-lending spread for the PFI. Overall, the cost of the APEX loan to an end-user fluctuated largely to the extent of the consortium's component of the loan.

APEX I had its last loan disbursement as of June 1988. Initially, loan availments of APEX I was very slow that briefly in 1984, with enough funds to spare, APEX was open for loans for working capital purposes. Repayment of the APEX funds by PFIs to the CB is almost 100 percent with the PFI's encountering very few cases of delays or defaults in their loan recovery operations. These funds are in turn invested by the CB which will eventually be merged with new funds for APEX II. In the interim, the program is not operational with the negotiation of fresh funds for APEX II underway. The additional \$65M funding for APEX II from the WB together with the original funds of APEX I will be managed by the Development Bank of the Philippines. However, the collection of the remaining outstanding loans under APEX I will be undertaken by the Central Bank. The consortium's counterpart fund in APEX I, a part of the country's foreign debt, has already been restructured for re-lending in the second phase of the program.

4.0 Export Credit Guarantee System

There are three guarantee schemes catering to export-oriented industries, namely: (1) the Industrial Guarantee and Loan Fund (IGLF); (2) the Guarantee Fund for Small and Medium Enterprises (GFSME); and (3) the Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee). As already mentioned above, IGLF is more of a financing rather than a loan guarantee facility. Hence, it will not be discussed here.

(a) The Guarantee Fund for Small and Medium Enterprises (GFSME)

GFSME was established in April 1983 and began its actual operations in February 1984. It is a special program attached to the Kilusan Kabuhayan at Kaunlaran (KKK) - Processing Center Authority (KKK-PCA), now renamed Livelihood Corporation (LIVECOR) which is a government-owned corporation. A Management Board composed of three private sector and four government sector representatives oversees its operations. All three private sector representatives are professional bankers. A full-time Managing Director manages the day-to-day affairs of GFSME (see Annex C for the Organizational Chart). Currently, GFSME has 16 senior staff and 16 junior staff.

An initial P302M was allocated as seed fund of the GFSME, of which P300M came from the proceeds of the Economic Support Fund and P2M from the KKK-PCA. At present, total resources of GFSME amount to about P500M.

GFSME has identified agriculture as its exclusive market area. Specifically, it supports projects which are or will be engaged in the direct production and/or processing of food intended for biological consumption as well as those projects which are indirectly involved in food production, up to one level of backward or forward integration or linkage,

and other agri-projects majority of the produce of which is intended for export. Thus, both export- and domestic-oriented industries can be beneficiaries of the GFSME program. GFSME intends to give more emphasis on food and non-food agricultural processing during the period 1989 - 92. Export-oriented projects will be given high priority.

GFSME principally operates through a network of accredited financial institutions composed of commercial, development, rural, and thrift banks. To encourage banks to lend to small and medium enterprises, GFSME operates the following regular subsystems:

(1) Guarantee Subsystem. This is designed to mitigate perceived risks of agricultural sector lending by providing lending banks an 85 percent guarantee cover on all types of credit risks.

(2) Interest Rate Subsidy Subsystem. Under this subsystem, GFSME absorbs the interest rate variabilities in the credit market and thereby ensures viability of the loan portfolio carried by participating banks at all times. This subsystem is now being phased out in favor of market-determined interest rate facility.

(3) Liquidity Subsystem. This subsystem provides participating banks with a rediscount facility for loan originations under the program on a matched maturity basis. There is a plan to eliminate this subsystem so that GFSME can concentrate more on its guarantee mechanism.

(4) Recycling or Mortgage Subsystem. This is designed to provide a secondary market for GFSME guaranteed loans and tap available liquidities external to GFSME. This subsystem will be further developed in the future.

As already mentioned earlier, both export- and domestic-oriented enterprises can qualify for the GFSME Program. However, the project must qualify under the following minimum criteria:

- (i) The project must be small-scale (i.e., those projects with assets of not less than ₱82,500 but not more than ₱2.5M after financing) or medium-scale (i.e., those projects with assets of more than ₱2.5M but not exceeding ₱10M after refinancing);
- (ii) The project must have a projected rate of return on investment of at least 20 percent per annum;
- (iii) The project must have a firm, determined and reliable market; and
- (iv) The proponent must have proven managerial capability.

The GFSME Program accommodates loans intended for the acquisition of fixed assets with a maximum maturity period of 10 years inclusive of the two-year grace period and for working capital with a maximum maturity period of five years inclusive of the one-year grace period. The loan ceiling is ₱2M for the small scale enterprise and ₱8M for the medium scale. All loans should be collateralized. The Management Board determines and reviews the interest rate every quarter. The prevailing interest rate on loans under the GFSME Program is more or less the same as the market rate.

Aside from the interest rate, the borrower has to pay an origination fee which is fixed at three percent of the principal loan amount payable upon loan approval, a guarantee fee which is two percent per annum of the guaranteed portion of outstanding loan amount, documentary stamps and other registration fee, and other charges that may be charged by the originating banks.

A default occurs in case the borrower fails to pay three consecutive monthly amortizations or one quarterly amortization, including all applicable fees. The mortgages will be foreclosed if the borrower fails to pay the unpaid balance and other applicable fees. The lending institution may call on the guarantee 10 days after sending a letter of demand to the defaulter. GFSME acts on the claim within 30 days after receiving the bank's notice. Since GFSME possesses all the pertinent loan documents once it pays bank's claims, it can run after the defaulters for collection.

Aside from the regular facilities above, three newly created facilities are now being offered by GFSME. These are:

- (i) CALF-GFSME Guarantee Facility. This is a P100M facility funded by the Comprehensive Agricultural Loan fund (CALF) of the Department of Agriculture. It is different from the regular GFSME Program since it does not have an interest subsidy and liquidity support and the maximum loan amount is much higher, (i.e., P20M for group borrowers and P2M for single borrowers).
- (ii) Farm Machinery Dealer Discount Line Facility. This facility provides guarantee cover to discount lines extended by accredited financial institutions to farm machinery dealers.
- (iii) LIVECOR-GFSME Guarantee Facility. This is an extension of LIVECOR's Loan Program for non-agricultural livelihood projects. With this program, it can be said that GFSME has also its foot on non-agricultural economic activities.

As of February 1989, the number of accredited financial institutions stood at 23, down from a high of 39 in 1985. The number of accredited commercial and private development banks substantially declined, but was

partially offset by the rise in the number of accredited rural banks. Total number of projects approved to date is 346 with an aggregate loan value of P620M (see Table V.10). The average loan size is P1.8M. About 42 percent of the projects approved are those of the small scale enterprises. Loans are heavily concentrated in Regions III, IV, and VI.

Table V.11 shows the sectoral distribution of GFSME active loan accounts. About half of the total amount of active accounts went to the fish and fish preparations sector. It is to be noted that almost all of these loans were used for prawn production which is a non-traditional export-oriented industry. If we also consider other non-traditional export crops, such as coffee and cacao, then it can be said that GFSME provides substantial support to the non-traditional export-oriented industries.

The number of past due accounts reached 40 as of February 28, 1989 with a total value of P38.7M (see Table V.12). So far, GFSME was able to fully recover from five accounts its exposure amounting to P6.6M. Thus, the net past due rate posted at 10.25 percent, while the default rate (i.e., accounts which are in default according to GFSME's definition) stood at 9.9 percent of the total outstanding balance of all accounts as of that date. All past due loans are fully covered by collateral. So far, GFSME has promptly paid banks in their claims within the stipulated time mentioned earlier.

Table V.13 presents the income statement of GFSME from 1984 to 1987. Note that income derived from the guarantee and origination fees has not been enough to cover general and administrative expenses. GFSME has to rely more on income from its investments in government securities and from its liquidity subsystem. One large operating expense item is interest

Table V.10
OPERATING HIGHLIGHTS, GFSME
(As of February, 1989)

Items	Figures
Total loans approved	
Number	346.0
Amount (₱M)	619.7
Average Loan Size (₱M)	1.8
1/	
Inactive accounts	
Number	99
Amount (₱M)	214.9
Active accounts	
Number	247.0
Amount (₱M)	404.7
Loans Released	
Number	228
Amount (₱M)	378.8
Outstanding Balance (₱M)	316.7
Total Contingent Liability (₱M)	191.1
Taken Out (Net of Repurchases)	
Number	43
Amount (₱M)	83.8
Purchased/Repurchased by Banks	
Number	10
Amount (₱M)	24.6

1/

Accounts means either of the following:
guarantee revoked, prepaid, fully paid,
withdrawn or acquired.

Source: GFSME Report (February 1989).

Table V.11
GFSME LOAN AVAILMENTS BY INVESTMENT AREA
(As of February 1989)

	GFSME	
	No.	Value (₹ M)
A. Primary		
Fuels	-	-
Non-Fuels		
Live Animals	78	107.214
Meat, preparations	2	6.050
Dairy products, birds eggs	7	1.620
Fish, preparations	117	205.297
Cereals, preparations	5	5.725
Vegetables and Fruits	7	20.045
Sugar, preparations		
Coffee, tea, cocoa, spices	8	15.710
Feeding staff for animals	7	14.800
Misc. Edible Products, Preparations	11	19.442
Beverages		
Fertilizers/Minerals	1	8.000
Animals, Vegetable Oils and Fats Processed		
Wood and Wood Products		
Paper and Paper Products		
B. Manufactured		
Labor Intensive (LI)		
Non-Metallic Mineral Products		
Furniture and Parts		
Footwear, Apparel, Garments		
Misc. Manufactures		
Moderately Capital and Skill Intensive (MCSI)		
Leather and Leather Manufactures		
Rubber and Rubber Manufactures		
Iron and Steel		
Electrical and Non-Electrical Machineries		
Transport Equipment		
Highly Capital and Skill Intensive (HCSI)		
Chemical materials, products		
Not Elsewhere Classified	4	8.035
(Ricemilling, Feedmilling, Marketing Facilities, Transport, Printing/Publishing, Other Services)		
Total	247	404.718

Sources: Unpublished ALF and IGLF Reports (February 1989)

Table V.12
 PAST DUE ACCOUNTS, GFSME
 (As of February 28, 1989)

Type	Number	Value (₱000)
1. Accounts with delayed payment	8	637.5
2. Accounts with unpaid guarantee fee	16	309.6
3. Accounts with legal	11	31,095.8
a) Accounts with on-going negotiations	7	28,880.3
b) Accounts under foreclosure	4	10,215.5
4. Acquired assets (Recoveries)	5	6,650.0
Net Past Due	35	32,042.1

Source: GFSME Unpublished Report

Table V.13
INCOME STATEMENT, GFSME
(In Million Pesos)

	1984	1985	1986	1987
REVENUES				
Interest on:				
Investment in government securities	66.4	87.7	55.8	36.8
Notes receivable purchased	-	6.2	5.0	10.2
Others	0.1	0.9	1.1	0.7
Guarantee fee	0.1	0.6	3.0	4.4
Origination fee	0.1	1.4	2.0	2.6
TOTAL	66.7	96.8	66.9	54.7
EXPENSES				
Operating:				
Interest subsidy	-	2.3	7.2	2.4
Provision for probable losses	-	-	6.2	3.9
Others	-	0.9	0.7	0.5
General & Administrative	4.1	6.7	8.4	9.6
TOTAL	4.1	9.9	22.5	16.4
NET INCOME	62.6	86.8	44.4	38.2
	====	====	====	====

Sources: GFSME Annual Reports (various years).

subsidy. It rose to ₱7.2M in 1986, representing about one-third of the total expenses. GFSME's plan to phase out the interest subsidy subsystem is therefore a step in the right direction to improve its operating profits. Another large expense item is the provision for probable losses which practically eats up the income from guarantee and origination fees. Thus, without the large investible funds and prudent management of these funds, the viability of GFSME as a guarantee institution will be in danger, unless it substantially increases its guarantee fee, a move that will likely raise the cost of funds to small and medium enterprises.

(b) The Philippine Export and Foreign Loan Guarantee Corporation
(Philguarantee)

Philguarantee is a government-owned corporation created in 1977 by virtue of Presidential Decree No. 1080 which essentially revised an earlier decree creating the Philippine Foreign Loan Guarantee Corporation. It has an authorized capital stock of ₱10B. The Paid-in capital stood at ₱3B as of September 1988. It is functionally attached to the Department of Finance. The Board of Directors is composed of seven members: two representatives from the Department of Finance and one representative from the Central Bank, Department of Trade and Industry, Development Bank of the Philippines, Philippine Overseas Construction Board, and National Economic and Development Authority. Presently, Philguarantee is headed by a part-time president. It has full-time staff complement of 70 as of December 1988 (see Annex D for the Organizational Chart).

The primary functions of Philguarantee are as follows:

- (a) To promote and facilitate the entry of foreign loans into the country for development purposes having special regard to the

- needs of export-oriented industries, industries registered with the Board of Investments, public utilities, and industries the promotion of which is encouraged by government policy;
- (b) To guarantee loans granted by Philippine banking and financial institutions to qualified exporters, producers of export products, and contractors with approved service contracts abroad;
 - (c) To facilitate and assist in the implementation of approved service contracts abroad entered into by Philippine entities, enterprises or corporations with foreign exchange earning potentials, by providing counter-guarantees to Philippine banks and financial institutions issuing standby letters of credit or letters of guarantee for the performance of said service contracts;
 - (d) To meet requests from domestic entities, enterprises, and corporations to assist them in the coordination of their development and expansion plans with a view to achieving better utilization of their resources; and
 - (e) To provide technical assistance in the preparation, financing and execution of development or expansion programs, including the formulation of specific project proposals.

In a nutshell, Philguarantee provides guarantee coverage to Filipino exporters on their borrowings whether obtained from local or foreign sources. Such coverage is designed to demonstrate the creditworthiness of qualified exporters and, thus, enhance their ability to secure financing for their various requirements. Its services are available to producers

and traders of Philippine products for export as well as to service exporters and contractors. Unlike GFSME which has a number of facilities including a liquidity facility, Philguarantee provides only a guarantee facility.

At present, Philguarantee offers two major facilities namely, the General Guarantee Facility and the Export Credit Guarantee Program for Small and Medium Industries. These are discussed below.

(1) General Guarantee Facility. This is for guarantee of more than ₱5M per beneficiary that requires the approval of the Board of Directors. However, guarantees of ₱50M or more per beneficiary need approval from the President of the Philippines. These can either be peso or foreign currency denominated guarantees.

For export producer and/or trader to qualify under this program, he/she must be a producer or a trader of non-traditional export products and registered with the Board of Investment or the Central Bank as export-oriented. Thus, indirect exporters can have access to Philguarantee's assistance. On the other hand, for a service exporter and/or contractor to qualify, he/she must be involved in construction projects or other services provided to overseas customers; or, if involved in domestic infrastructure projects, such projects must have foreign-funding requirement and be open to international bidding; and that he/she must be registered with the Central Bank or to Board of Investment if a service exporter, or with the Philippine Overseas Construction Board if a contractor. The foreign currency and peso loan obtained by borrowers may be used for working capital and acquisition, construction and improvement of fixed assets for expansion.

Philguarantee provides 70 percent of the loan accommodation value in the case of export producer and trader and 80 percent of the loan accommodation value in the case of service exporter and contractor. Philguarantee charges a guarantee fee of 1.5 percent per annum of the amount guaranteed.

(2) Export Credit Guarantee Program for Small and Medium Industries (ECGP-SMI)

This is for guarantees of ₱5M or less that do not need approval from the Board. The Chairman of the Board, President and Executive Vice-President of Philguarantee are authorized by the Board of Directors to approve loans under this facility.

This facility was designed in collaboration with the Bankers Association of the Philippines. It would enable an eligible small- and medium-size exporter lacking sufficient collateral to obtain pre-shipment and post-shipment revolving credit facilities from any participating bank. The maximum guarantee coverage provided by Philguarantee is 70 percent of the approved credit facility. Small-size exporters are those which have assets of at least ₱500,000 but less than ₱5M, while medium-size exporters are those who have assets of at least ₱5M but less than ₱20M.

To qualify for the ECGP-SMI facility, borrowers must be engaged in the processing, production or trading of priority non-traditional export products; must have a three-year track record; and must have an average profit margin of 10 percent, average return on equity of 15 percent, average current ratio of 1.5:1, and an average debt to equity ratio (net of valuation increment) of 75:5. Both direct and indirect exporters can avail themselves of such facility.

Under the ECGP-SMI facility, Philguarantee charges a minimum guarantee fee of 1.5 percent per annum of the guarantee accommodation payable prior to the issuance of the guarantee and a filing fee of one-fifth of one percent of the granted accommodation with a minimum of ₪1,000 payable upon filing of the credit and guarantee application, to be shared equally between Philguarantee and the lending bank.

All applications for a credit and guarantee facility are to be submitted to participating banks. Although participating banks already do the normal loan processing procedure before endorsing the application for guarantee, Philguarantee still reviews the application on a case-by-case basis, and in some cases conducts its own credit assessment and investigation. Thus, all applications for guarantee submitted by participating banks are not automatically approved by Philguarantee.

Philguarantee does not require separate collaterals from the exporter-borrower. However, it has a proportionate share on all collaterals, rights, interests and claims held by the participating banks against the borrower for the credit accommodation under guarantee. The exporter-borrower is required to execute in favor of Philguarantee an Indemnity Agreement with Negative Pledge.

Under the ECGP-SMI program, claims for guarantees may be submitted by banks at the time of default. No claims will be honored if submitted 15 days later than the expiry date of the guarantee. All claims will be paid within 30 days.

Philguarantee has had a poor performance record mainly due to failures in Middle East construction contracts which it guaranteed in foreign currency. About ₪5.5B non-performing assets of Philguarantee are supposed

to be transferred to the national government by virtue of Executive Order No. 64, but as of September 1988, this has not yet been done. As a result, Philguarantee continues to suffer huge losses. For the period January to September 1988 alone, it lost ₱165M (see Annex E). This is mainly due to the interest and financial charges on the non-performing assets amounting to ₱174M. The government has been providing advances to Philguarantee to sustain its operation. As of September 1988, advances from the National Treasury related to the non-performing assets for transfer to National Government already totalled ₱489M.

In view of its heavy losses, Philguarantee's General Guarantee Facility has been essentially inactive today. One highly exceptional case was the \$40M guarantee it provided to PLDT in 1987 because the company is exceptionally creditworthy and that it serves a vital role in the communication system in the Philippines. However, the ECGP-SMI remains active. Thus, the discussion that follows will focus on the performance of this program.

Between 1980 and 1988, guarantee issuances under the ECGP-SMI amounted to ₱335.8M (see Table V.14). It reached a peak in 1982, but declined thereafter as the economy went through a balance-of-payments crisis. As of December 1988, outstanding guarantees net of re-availments, cancelled guarantees and guarantees in default were only ₱38.4M down from a high of ₱80.4 in 1982. The number of accounts outstanding also declined substantially from 83 in 1982 to 17 in 1988. The effort to revitalize the ECGP-SMI in 1987 resulted only in a small improvement in the guarantee issuances in 1987 and 1988 even as the economy, particularly the export sector, started to recover. One of the reasons is that the number of

Table V.14
ANNUAL PERFORMANCE HIGHLIGHTS, ECGP-SMI
(In Million Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	TOTAL
Guarantee Outstanding, Beginning	-	29.7	64.6	80.4	70.2	53	32.9	30.9	34.5	396.2
Add: Guarantees Issued for the Year	29.7	55.6	64.8	55.8	37.7	18.9	22.1	25.5	25.7	335.8
Guarantee Outstanding for the Year	29.7	85.3	129.4	136.2	107.9	71.9	55.0	56.4	60.2	732.0
Less: Reavailments for the Year	-	9.3	22.1	32.5	30	13.6	20.2	16.5	15.3	159.5
Guarantee Outstanding Net of Reavailments	29.7	76.0	107.3	103.7	77.9	58.3	34.8	39.9	44.9	572.5
Less: Cancelled Guarantees	-	10.1	16.5	28.4	21.1	15.4	3.6	5.4	6.5	107.0
Guarantee Outstanding before Defaults	29.7	65.9	90.8	75.3	56.8	42.9	31.2	34.5	38.4	465.5
Less: Guarantee in Default	-	1.3	10.4	5.1	3.8	10	0.3	-	-	30.9
Guarantee Outstanding, Ending	29.7	64.6	80.4	70.2	53.0	32.9	30.9	34.5	38.4	434.6
Number of Accounts Outstanding	24	82	83	76	42	35	17	18	17	394

Source: Philguarantee Unpublished Report (March 1989).

active banks considerably declined during the last few years (see Table V.15), not to mention the fact that all of them need time to adjust to the new program. The other reason is that the eligibility criteria of the new ECGP-SMI as earlier discussed are much more rigorous than the previous one. Banks indicated that firms that satisfy the newly revised requirements are those that do not need anymore assistance from Philguarantee. It seems that Philguarantee went so far in an effort to reduce calls on its guarantees.

Classified according to type of credits, a greater proportion of the guarantee issuances was for pre-shipment export credit (see Table V.16). This reflects the banks' preference for short-term financing. However, the share of comprehensive export credit in total guarantee issuances is catching up fast especially in the last two years. Post-shipment export credit is still not popular among banks, as shown in the share of guarantee accommodation going to it.

Before 1984, guarantee issuances went to quite a number of industries (see Table V.17). From 1985 onwards, however, the guarantee issuances became more concentrated in only three industries, namely garments, handicrafts and furniture.

During the period 1980 to 1988, ₱30.9M in guarantees defaulted. This is about 9.2 percent of the total guarantees issued. The highest default rates occurred in 1982 and 1985. However, a closer look at the distribution of default by year would show that the highest default rates were incurred by guarantees issued in earlier years (see Table V.18). Accordingly, banks' misconception of the program largely contributed to the high default rates. More specifically, only riskier loans were endorsed by

Table V.15
ACTUAL NUMBER OF PARTICIPATING BANKS

Year	Active Banks	Participating Banks	Ratio
1980	12	27	44
1981	16	28	57
1982	23	31	74
1983	20	31	64
1984	16	31	52
1985	10	31	32
1986	8	31	26
1987	5*	31*	16
1988	3*	5**	60

* Participating banks in the Old ECGP

** Selected banks in the New ECGP-SMI

Source: Philguarantee Unpublished Report (March 1989).

Table V.16
ANNUAL GUARANTEE ISSUANCES, BY TYPE
(In Percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	AVE. SHARE
Pre-shipment Export Credit	52.7	52.6	50.1	56.7	61.7	81.0	73.0	44.0	53.0	58.3
Post-shipment Export Credit	-	0.3	2.2	3.4	14.9	-	7.0	-	1.0	4.1
Comprehensive Export Credit	11.8	15.2	23.6	28.4	10.6	17.0	18.0	48.0	41.0	23.7
Export Production Finance	35.5	15.9	13.7	6.6	2.2	2.0	2.0	-	-	8.7
Export Development Finance	-	16.0	10.4	-	-	-	-	-	5.0	3.5
Restructured Guarantee	-	-	-	4.9	10.6	-	-	-	-	1.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Accounts Outstanding	24	82	83	76	42	35	17	18	15	

Source: Philguarantee Unpublished Report (March 1989).

Table V.17
ANNUAL GUARANTEE ISSUANCES, BY PRODUCT
(In Million Pesos)

Prod. Group	1980		1981		1982		1983		1984		1985		1986		1987		1988		TOTAL AMT. OF GTEES.	% TO TOTAL AMT.
	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total	Amount of Gtees.	% to Annual Total		
Garments	12.7	42.7	14.5	26.1	18.6	28.7	16.6	29.7	14.7	39.1	10.5	56.0	12.0	54.0	12.5	49.0	7.4	3.0	119.5	36.0
Handicrafts	2.7	9.2	8.1	14.6	12.6	19.4	15.2	27.2	7.1	18.7	5.1	27.0	6.4	29.0	6.1	24.0	11.0	4.0	74.3	22.0
Footwear	3.6	12.1	7.6	13.6	10.3	15.9	6.9	12.3	4.1	10.8	-	-	-	-	-	-	-	-	32.5	10.0
Services	2.2	7.3	7.6	13.7	7.8	12.0	3.9	6.9	3.7	9.8	0.4	2.0	0.4	2.0	-	-	1.4	1.0	27.4	8.0
Furniture	1.3	4.2	3.0	5.4	2.8	4.3	3.5	6.3	5.9	15.6	2.9	15.0	3.3	15.0	6.9	27.0	5.9	23.0	35.5	11.0
Fresh & Processed Food	6.9	23.3	4.3	7.7	1.1	1.7	-1.3	2.4	0.2	0.6	-	-	-	-	-	-	-	-	13.8	4.0
Electronics	-	-	-	-	3.0	4.6	5.5	9.9	-	-	-	-	-	-	-	-	-	-	8.5	3.0
Others	0.3	1.2	10.5	18.9	8.6	13.4	3.0	5.3	2.0	5.4	-	-	-	-	-	-	-	-	24.4	7.0
TOTAL	29.7	100.0	55.6	100.0	64.8	100.0	55.9	100.0	37.7	100.0	18.9	100.0	22.1	100.0	25.5	100.0	25.7	100.0	335.9	100.0

Source: Philguarantee Unpublished Report (March 1989).

Table V.18
 GUARANTEE DEFAULTS TREND
 (In Million Pesos)

YEAR GTEE. ISSUED	YEAR GUARANTEE DEFAULTED								TOTAL	% TO GTEES. ISSUED IN YEAR	RECO- VERIES IN YEAR	NET DEFAULTS IN YEAR	ADJUSTED % TO GTEES. ISSUED IN YEAR
	1981	1982	1983	1984	1985	1986	1987	1988					
1980	1.1	2.6	-	-	-	-	-	-	3.7	12.5	0.1	3.6	12.1
1981	0.1	7.4	3.0	1.6	-	-	-	-	12.1	21.9	0.7	11.4	13.4
1982	-	0.4	1.8	0.4	3.1	-	-	-	5.7	9.0	0.1	5.6	4.3
1983	-	-	0.3	1.9	2.7	-	-	-	4.9	9.0	3.1	1.8	1.3
1984	-	-	-	-	4.2	0.3	-	-	4.5	11.9	1.4	3.1	2.9
1985	-	-	-	-	-	-	-	-	-	-	-	-	-
1986	-	-	-	-	-	-	-	-	-	-	-	-	-
1987	-	-	-	-	-	-	-	-	-	-	-	-	-
1988	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1.3	10.4	5.1	3.8	10.0	0.3	0.0	0.0	30.9		5.4	25.5	
% TO TOTAL GTEES. ISSUED									9.2		1.6	7.6	
AVERAGE										7.1			3.8

Source: Philguarantee Unpublished Report (March 1989).

banks to the ECGP-SMI, while the relatively good accounts were kept by them. This practically negates the risk-pooling feature of the ECGP-SMI. Philguarantee responded by tightening their screening process on guarantee recommendation by banks to the point of duplicating the credit evaluation and monitoring normally done by banks. The tighter screening process and constant credit monitoring coupled with a much stricter eligibility criteria all helped in attaining a zero default rate in 1987 and 1988. But this has resulted in a smaller number of accounts outstanding and a much leaner guarantees outstanding net of reavailments, thus, almost completely losing the effectiveness of the ECGP-SMI.

So far, recoveries amounted to ₱5.4M which is equivalent to 17.5 percent of total guarantee defaults. Improvement in recoveries was made in the last two years when Philguarantee started to directly take the responsibility of running after defaultees.

The profit and loss statement of the ECGP-SMI program is shown in Table V.19. For the period 1980 to 1987, total revenues derived from filing and guarantee fees amounted to ₱5.1M, while expenses totalled only ₱2.6. Except for one year during that period, a positive profit was realized by the program in all the years of its operation. However, the net income of ₱6.8M realized in its eight years of operation cannot cover total advances made by the program for the same period. Clearly, a sufficiently huge investible fund is required for the ECGP-SMI to be self-liquidating.

To improve the effectiveness of ECGP-SMI, Philguarantee is planning to introduce the so-called "Bank Guarantee Line" program (see Annex F). It is designed to simplify and facilitate the delivery of financial assistance

Table V.19
PROFIT AND LOSS STATEMENT, ECGP-SME
(In Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	TOTAL
REVENUES									
Filing Fees	16,488.30	50,516.02	51,903.75	34,964.84	28,038.34	12,365.75	12,742.50	21,225.00	228,244.50
Guarantee Fees	259,137.98	891,793.60	1,065,694.40	932,698.57	692,277.46	279,641.00	365,483.00	417,849.75	4,904,275.76
Total Revenues	275,626.28	942,309.62	1,117,598.15	967,663.41	720,315.80	292,006.75	378,225.50	439,074.75	5,132,520.26
EXPENSES									
Salaries & Other Personnel Expenses	59,045.62	161,221.58	208,112.87	243,712.35	326,808.33	308,987.16	220,102.52	328,614.04	1,856,613.47
Supplies/materials	-	4,587.63	11,120.66	10,218.82	12,940.21	8,544.42	8,168.62	11,543.48	67,123.84
Meetings & Conferences	-	4,062.60	2,380.67	1,141.92	1,032.12	-	-	1,438.07	10,055.38
Representation Allowances	-	9,600.00	11,400.00	16,800.00	-	-	-	-	37,800.00
Travelling & Per Diem	-	1,298.00	9,542.57	591.50	397.50	-	-	1,065.75	12,895.32
Staff Training & Development	-	100.00	850.00	3,775.00	-	-	-	350.00	5,075.00
Utilities	-	57,122.41	60,877.02	69,338.29	83,185.62	82,817.71	81,019.60	84,544.99	516,905.64
Depreciation	-	6,362.30	10,123.35	12,030.64	12,445.02	11,739.02	6,082.73	2,936.17	61,719.23
Miscellaneous	-	2,466.70	3,642.70	4,870.00	3,996.03	2,941.50	3,974.79	4,417.30	28,309.02
Total Expenses	59,045.62	246,821.22	318,049.84	362,478.52	440,804.83	415,029.81	319,348.26	434,909.80	2,596,496.90
OPERATING INCOME (LOSS)	216,580.62	695,488.40	799,239.31	605,184.89	279,510.97	(123,023.06)	58,877.24	4,164.95	2,536,023.36
Add: Recoveries on Advances	-	45,108.00	546,138.95	12,000.00	174,825.04	357,820.83	314,061.07	2,815,636.99	4,265,590.88
INCOME	216,580.62	740,596.40	1,345,378.26	617,184.89	454,336.01	234,797.77	372,938.31	2,819,801.94	6,801,614.24
ANNUAL ADVANCES	-	1,331,228.07	8,612,621.76	6,936,345.85	2,601,803.13	15,410,946.05	626,087.52	-	35,519,032.38

Source: Philguarantee Unpublished Report (March 1989).

and guarantee support to deserving exporters by providing a guarantee line of ₱25M per participating bank. Only pre-shipment export credits granted against irrevocable L/Cs or acceptable POs are eligible under this program. The eligibility criteria for borrowers are much more liberal than the existing one. Philguarantee hopes to issue ₱1B in guarantees for pre-export financing or five times the ₱200M liquid assets now readily available for its use.

Philguarantee is also planning to re-introduce its guarantee assistance program for overseas contractors, although in somewhat limited amount and in selected types of contracts (see Annex G). Under this proposed program, Philguarantee will provide guarantee on performance bond, advance payment or peso working capital for mobilization expenses. It proposes a guarantee sharing with a bank and the contractor concerned.

Recently, Philguarantee obtained a technical assistance from the World Bank to improve its operations. Indeed, it is gearing itself to become a truly export credit guarantee institution.

B. Experience with Export Financing

This section is divided into two parts. The first discusses export finance experience of banks, and the second, the exporters' experience with export financing.

1.0 Banks

Export transactions normally pass through the commercial banking system. This is the most convenient way for both exporters and importers to transact their business. There is a regulation that requires all exporters to report to the Central Bank both the volume and value of

exports. In addition, exporters are required to immediately surrender to their banks all export proceeds denominated in foreign currency. This is closely monitored by the Export Department of the Central Bank.

In 1988, the seven sample banks had a total of 2,392 export customers (see Table V.20). This is roughly 45 percent of the total number of active exporters in 1987.^{18/} Except for one bank, only a small proportion of their export customers in 1988 were new ones.^{19/} The size of individual export transactions in 1988 greatly varies within and among banks (see Table V.21). The lowest average transaction was P25,700, while the highest average transaction was P5M.

The typical terms of export transactions are cash, sight draft, documentary credit and L/Cs. One of the seven sample banks mentioned L/Cs only (see Table V.22). As regards L/Cs, three banks are advising only while the rest are both advising and confirming. The ratio of usance to L/Cs is relatively small for most banks, and the typical term of usance L/Cs for most banks is 60 days (see Table V.23).

The total amount of export loans granted in 1988 by the seven sample banks amounted to P5B, which is only about three percent of the total value of merchandise exports in that same year. All, except one bank, did not fully refinance their export loans with the Central Bank (see Table V.24). It seems that banks rely on their own funds to a certain degree. When asked how liquid the banking system at present, all respondent banks said

^{18/} We are using 1987 figure since the 1988 figure is not yet available.

^{19/} New customers may include old exporters who may have just newly bank with the respondent.

Table V.20
NUMBER OF EXPORT CUSTOMERS, 1988

Banks	No. of Export Customers	% New Export Customers
1	80	70
2	1073	34
3	200	15
4	119	5
5	154	30
6	100	15
7	666	7

Table V.21
SIZE OF INDIVIDUAL TRANSACTIONS,
1988: BANKS' RESPONSES
(In Pesos)

Banks	Average	Minimum	Maximum
1	5,000,000	20,000	50,000
2	25,700	21,090	63,270,000
3	200,000	10,000	100,000
4	1,894,430	12,584	110,000,000
5	423,500	8,270	886,696,168
6	1,200,000	10,000	220,000,000
7	39,500	4,270	64,000,000

Table V.22
TERMS OF EXPORT TRANSACTIONS

Banks	Terms
1	1245
2	12345
3	24
4	234
5	1234
6	4
7	2345

Note: Terms - 1 - Cash
2 - Sight Draft
3 - Documentary Credit
4 - Letter of Credit (L/C)
5 - Others

Others: for Bank 1 - Cash against Documents
Documents Against Acceptance
for Bank 2 - Open Account DP, DA
for Bank 7 - Prepaid Exports
Documents against Payments

Table V.23
LETTERS OF CREDIT

Letters of Credit			
Banks		Terms of Usance (Days)	Ratio of Usance to L/Cs (%)
1	Advising	60	0.05
2	Advising & confirming	60	15.00
3	Advising	60	10.00
4	Advising & confirming	30	20.00
5	Advising & confirming	60	10.00
6	Advising	45	30.00
7	Advising & confirming	60	3.00

that it is liquid. This seems to be the prevailing situation despite the fact that the economy has picked up quite fast in the last two years. This could perhaps be one of the reasons why rediscounting availments with the Central Bank are at a lower rate.

Pre-shipment loans were the typical export loans provided by banks. Thus, the usual credit term was less than 180 days (see Table V.25). The current rate for export loans is between 14 to 18 percent which is close to the rate given by banks to their prime customers. Note that not all exporters have access to bank loans. Hence, the rate on export loans reported by the sample banks most probably applies to exporters whom they consider creditworthy.

Banks in the Philippines are extremely conservative. Usually, they lend to exporters up to 70 percent of the L/C. But they do not lend to exporters on the strength of an L/C even if it is irrevocable. Aside from the assigned L/C, the most common type of collateral asked by banks for pre- and post-shipment loans are real estate and deposit/placements of exporter-borrowers with the bank (see Table V.26). The value of the collateral ranges between 100 percent to 125 percent of the loan value.

Banks have been encountering some difficulties in extending financing to local exporters. The most common of these is that the buyers of exporters' products do not appear to be creditworthy (see Table V.27). This partly stems from the fact that banks have very little information about the creditworthiness of importers of Philippine products, except the very big ones. There is no mechanism by which local banks can obtain at a lower cost information about the credit track record of numerous importers. The second most common difficulty in extending financing to exporters is

Table V.24
AMOUNT OF EXPORT LOANS GRANTED IN 1988

Banks	Amount of Export Loans (in Pesos)	Refinanced through CB Rediscounting %	Sourced From	
			Special Lending Programs (e.g. ALF, IGLF, etc.)	Own Funds %
1	1,544,993,455.94	83.0	0	17.0
2	450,000,000.00	47.0	0	53.0
3	530,518,997.00	90.0	0	n.a.
4	314,607,600.00	80.0	0	n.a.
5	139,889,100.00	36.0	0	n.a.
6	80,000,000.00	100.0	0	0
7	2,053,000,000.00	79.8	1.9	18.3

Table V.25
EXPORT LOANS

Banks	Distribution of Export Loans by Credit Term (%)		Current Rate on Export Loans (% p.a.)	Current Rate to Prime Customers (% p.a.)
	< 180 days	180 days to 1 year		
1	100.0	0.0	18.5	17
2	90.0	10.0	14 to 18	17
3	90.0	10.0	15 to 18	20
4	n.a.	n.a.	n.a.	n.a.
5	100.0	0.0	16	16
6	100.0	0.0	17 to 19 a/ 14 to 16 b/	17 a/ 14 b/
7	96.6	3.4	18	16

Note:

n.a. - No Answer

a/ - Prior to CB Rediscounting

b/ - Upon CB Rediscounting

Table V.26
TYPES OF COLLATERAL FOR LOANS

Banks	Post-Shipment Loan	Pre-Shipment/Working Capital Loan
1	123	123
2	45	125
3	nap	15
4	nap	234
5	235	235
6	4	4
7	15	14

NOTE:

- Collateral - 1 - L/C
 2 - Real Estate Mortgage
 3 - Deposits/Placements
 4 - Guarantee (Letter, Corporate, JSS, etc.)
 5 - Others

nap - bank did not have any post-shipment loan

Table V.27
DIFFICULTIES IN EXTENDING FINANCING TO LOCAL EXPORTERS
(By Rank: 1 = Most important; 7 = Least important)

Difficulties	Banks							
	1	2	3	4	5	6	7	8
Export Loan is not profitable to the bank	3	6	n.a.	6	n.a.	2	3	6
Size of transaction does not meet with bank policy	5	2	n.a.	5	1	5	6	3
Country of buyer is not believed to be creditworthy	6	5	n.a.	4	4	6	2	2
Required maturity of credit is believed to be unreasonable	4	4	n.a.	2	2	4	5	5
Buyer does not appear creditworthy	1	1	n.a.	1	3	1	1	1
Required interest rate is believed to be low	2	3	n.a.	3	n.a.	3	4	4

Note: n.a. - no answer

that the required maturity of credit is believed to be unreasonable. Banks have strong preference for short-term loans. As pointed out above, the typical maturity of export loans extended by banks is less than 180 days, and most of these are pre-shipment loans. Very rarely do they give long-term loans which exporters want to obtain. The other most common difficulty is that the interest rate exporters are willing to pay is low compared to what banks want to charge them. It is not uncommon among exporters to turn away from banks because of their inability or unwillingness to pay a high interest rate.

AS regards pre-shipment export loan requests, the most common problems encountered by the sample banks are discrepancies in the documents submitted and insufficient collateral. Similar problems are encountered by the sample banks as regards post-shipment export loan requests. In addition, all, except one bank, admitted that they do not have sufficient information to evaluate foreign buyers. This is one of the major reasons why post-shipment loans are least preferred by banks.

Only one of the seven sample banks claimed that current Central Bank regulations have imposed restrictions in its lending that affect its ability to lend to exporters. And these pertain to the low loan value and shorter maturity period of rediscounts.

Five of the sample banks indicated that they offer domestic letters of credit to support indirect exporters. But of these five banks, only two admitted to have lent to indirect exporters. The aggregate loans granted to indirect exporters by these two banks were estimated to be between one to five percent of the total loans granted in 1988. Most of the sample banks suggest that indirect exporters, who are mostly small producers, be given

preferential rate for their export loans under a special government lending program.

As mentioned in the earlier section, there are three existing guarantee facilities in the Philippines, namely: Philguarantee, GFSME, and IGLF. Five of the seven sample banks have themselves availed of the guarantee facilities at one time or another (see Table V.28). But in 1988, only three of the sample banks utilized the guarantee facilities. As shown in Table V.29, the guaranteed loans were only a small proportion to their total export loans.

Banks evaluate loan application of exporters that are submitted for guarantee using their standard evaluation system, such as financial and market viability of the project, debt-service capacity, quality of management, export record and credit experience, and resources of stockholders. Five of the seven sample banks have tapped the services of the Credit Investigation Bureau (CIB) in evaluating export loan applications being submitted for guarantee. More specifically, they want to find out through CIB the loan applicants' repayment record, court cases and current loans with other banks.

Of the seven sample banks, only two had experienced calling on the guarantee on some of the loans they granted to exporters (see Table V.30). Both of them said that their claims were paid.

Numerous documentation requirements, long evaluation process and stringent evaluation criteria were mentioned by three banks as their problem with the Philguarantee facility (see Table V.31). Three of the seven sample banks suggested that the existing guarantee programs should be

Table V.28
BANKS' AVAILMENT OF
GUARANTEE FACILITIES

Banks	Guarantee Facilities
1	2
2	23
3	none
4	none
5	1
6	3
7	123

Note: Guarantee Facilities:
1 - Philguarantee
2 - GFSME
3 - IGLF

Table V.29
RATIO OF GUARANTEED LOANS TO
EXPORT LOANS GRANTED IN 1988

Banks	Ratio (in %)
1	0
2	2
3	nap
4	nap
5	1
6	0
7	< 1

Note: nap - not applicable

Table V.30
CLAIMS MADE UNDER THE GUARANTEE PROGRAMS

Banks:	Claims Made			Claims Paid		
	Philguarantee	GFSME	IGLF	Philguarantee	GFSME	IGLF
1	2	2	2	nap	nap	nap
2	2	2	1	nap	nap	1
3	2	2	2	nap	nap	nap
4	2	2	2	nap	nap	nap
5	1	2	2	nap	nap	nap
6	2	2	2	nap	nap	nap
7	2	2	2	nap	nap	nap

Note: nap - not applicable
 Claims Made : 1 - Yes; 2 - No
 Claims Paid: 1 - Yes; 2 - No

Table V.31
PROBLEMS WITH EXPORT GUARANTEE FACILITIES

Banks	Philguarantee	GFSME	IGLF
1	15	6	6
2	6	6	6
3	6	6	6
4	6	6	6
5	2	6	6
6	6	6	6
7	23	1	45

Note: Problems:
 1 - numerous documentation requirements
 2 - long evaluation process
 3 - stringent evaluation criteria
 4 - limited coverage of collateral
 5 - snorter maturity of the scheme
 6 - none

modified. Their specific recommendations are as follows: simplifying procedures, reducing fees and interest rate, clearer requirements for claims, higher guarantee cover up to 85 percent, and shortening the period for processing claims.

The Philippines does not have an export credit insurance scheme. This facility is, however, most welcomed by banks. Five of the sample banks indicated that they will seriously consider the loan application by an exporter who has secured an export credit insurance policy. However, almost all of them said that they will not automatically accept the export credit insurance policy as a collateral for loan application by exporters.

2.0 Exporters

The major product lines of the 23 sample exporters are varied (see Table V.32). They range from agricultural products, such as prawns, to gifts and housewares, such as toys and toy accessories, to electronic products, such as integrated circuits. All, except two firms which are engaged in garments and electronic products, are producing products for exports which have high value-added. A great majority of the sample exporters exported/sold their products in finished form (see Table V.33).

As regards foreign markets, only two firms have concentrated in marketing their products in one country. The rest have fairly diversified markets (see Table V.34).

Table V.35 shows the total amount of sales and export sales of the sample firms. For the five indirect exporters, the export sales reported refer to the value of commodities sold to final exporters. Only five of the sample exporters have export sales below 50 percent of their total

Table V.32
MAJOR PRODUCT LINES

Assets Export No.	Products
A. Small-Scale	
1	1 baskets (made from buri and coconut)
1	6 abaca fabric bags, fashion accessories, home decors
1	7 garments, worked horn
1	8 fashion accessories
1	9 baskets, trays
1	10 fashion accessories, office decor, ceramics
1	11 cocowood ashtrays and jars
1	12 home and office accessories (wood)
1	14 native handicrafts
1	17 marble slabs and tiles
1	20 blankets, clothing, decors, ethnic items
1	21 toys and toy accessories (buri)
B. Medium-Scale	
2	2 fashion accessories
2	3 rattan products
2	4 rattan products
1	13 banana chips
2	15 prawns
1	22 painted woodcarvings and shell
C. Large-Scale	
2	5 stone in-laid furniture, bamboo, wicker, leather
2	16 natural rubber
2	18 furniture and handicrafts
1	19 processed foodstuffs
3	23 integrated circuits, LED display, disk drives, photo detector

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

Table V.33
FORM OF PRODUCTS/SERVICES EXPORTED/SOLD IN 1988
(In Percent)

Assets	Exporter No.	Products/Services				
		Raw Materials	Semi-Finished	Capital Goods	Consumer Goods	Services
A. Small-Scale						
1	1	0	0	0	100	0
1	6	0	60	0	40	0
1	7	0	0	0	100	0
1	8	0	0	0	100	0
1	9	0	0	0	100	0
1	10	0	0	0	100	0
1	11	0	0	0	100	0
1	12	0	0	0	100	0
1	14	0	30	0	100	0
1	17	0	0	0	100	0
1	20	0	0	0	100	0
1	21	0	0	0	100	0
B. Medium-Scale						
2	2	0	0	0	100	0
2	3	0	100	0	0	0
2	4	0	0	0	100	0
1	13	0	0	0	100	0
2	15	0	100	0	0	0
1	22	0	0	0	100	0
C. Large-Scale						
2	5	0	0	0	100	0
2	16	0	100	0	0	0
2	18	0	0	0	100	0
1	19	0	0	0	100	0
3	23	0	100	0	0	0

NOTE: Assets - 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

Table V.34
COUNTRIES WHERE FIRM EXPORTED TO IN 1988
(In Percent to Total Exports)

Assets	Exporter No.	USA	Japan	Germany	Netherlands	Hongkong	Australia	S. Korea	France	Others
A. Small-Scale										
	1	0	0	0	0	0	80	0	20	0
	1	0	0	50	0	0	0	50	0	0
	1	7	30	2	0	0	2	0	0	60
	1	8	90	0	0	0	0	0	0	10
	1	9	80	0	0	0	20	0	0	0
	1	10	100	0	0	0	0	0	0	0
	1	11	nap	nap	nap	nap	nap	nap	nap	nap
	1	12	80	5	2	0	5	6	0	2
	1	14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1	17	nap	nap	nap	nap	nap	nap	nap	nap
	1	20	70	0	0	0	30	0	0	0
	1	21	15	10	30	15	0	0	30	0
B. Medium-Scale										
	2	2	40	20	15	0	15	0	0	10
	2	3	nap	nap	nap	nap	nap	nap	nap	nap
	2	4	75	20	5	0	0	0	0	0
	1	13	nap	nap	nap	nap	nap	nap	nap	nap
	2	15	nap	nap	nap	nap	nap	nap	nap	nap
	1	22	34	33	0	0	33	0	0	0
C. Large-Scale										
	2	5	85	3.75	3.75	3.75	3.75	0	0	0
	2	16	0	0	0	0	0	100	0	0
	2	18	0	0	0	0	0	0	0	90
	1	19	1.5	0	0	0	0	0	0	98.5
	3	23	44	19	2	0	0	0	0	34

NOTE: Assets - 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

n.a. - no answer

Table V.35
ANNUAL SALES AND EXPORT SALES
(In Pesos)

Assets	Exporter No.	Total Annual Sales		Total Export Sales	
		1987	1988	1987	1988
A. Small-Scale					
1	1	nap	423,475.00	nap	320,000.00
1	6	380,000.00	420,000.00	380,000.00	420,000.00
1	7	400,000.00	450,000.00	300,000.00	350,000.00
1	8	270,000.00	140,000.00	91,000.00	21,000.00
1	9	123,000.00	165,000.00	50,000.00	35,000.00
1	10	566,020.04	1,698,060.12	452,816.03	1,358,448.10
1	11	32,000.00	48,000.00	8,000.00	10,000.00
1	12	nap	200,000.00	nap	150,000.00
1	14	400,000.00	200,000.00	400,000.00	200,000.00
1	17	2,180,000.00	2,000,000.00	625,000.00	910,000.00
1	20	980,000.00	2,000,000.00	120,000.00	400,000.00
1	21	1,900,000.00	2,400,000.00	1,900,000.00	2,400,000.00
B. Medium-Scale					
2	2	9,600,000.00	10,300,000.00	8,500,000.00	9,700,000.00
2	3	3,800,000.00	4,600,000.00	3,800,000.00	4,600,000.00
2	4	430,499.70	9,944,874.38	353,175.70	4,326,981.27
1	13	6,500,000.00	8,000,000.00	6,500,000.00	8,000,000.00
2	15	1,800,000.00	2,850,000.00	350,000.00	1,300,000.00
1	22	8,991,699.77	9,541,627.32	5,313,638.86	8,122,402.55
C. Large-Scale					
2	5	21,446,000.00	36,091,000.00	21,446,000.00	36,091,000.00
2	16	30,900,000.00	48,600,000.00	11,080,000.00	34,700,000.00
2	18	60,874,865.30	58,091,616.10	60,266,116.00	57,510,699.00
1	19	34,854,000.00	31,798,000.00	34,363,000.00	31,665,000.00
3	23	42,400,000.00	49,300,000.00	42,400,000.00	49,300,000.00

NOTE: Assets - 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

nap - not applicable

annual sales in 1988. The export sales considerably vary among the sample exporters. The lowest export sale in 1988 was ₱21,000 or \$1,000 while the highest export sale was ₱57M or close to \$3M. The size of individual export transactions by an individual firm widely varies (see Table V.36). Among firms, the size of individual transactions also greatly varies. The lowest average size of individual transactions was ₱11,000, while the highest was ₱40M.

Exporters typically use containerized van to deliver their goods to importers. In the case of small exporters, export goods are consolidated into one van and sent together to importers located in the same country. In almost all export transactions, importers take care of the insurance and freight cost.

Only five firms suffered a decline in their export sales over the last three years, while the rest achieved a quite impressive growth in export sale in the same period (see Table V.37). It is noteworthy that three small firms realized a growth rate in sales over the last three years in excess of 100 percent.

Almost all sample firms usually export in cash or L/C upon shipment in 1988 (see Table V.38). This corroborates the information provided earlier by banks. Exporters prefer this arrangement for at least two reasons. One is that it reduces the uncertainty regarding payments of goods sold especially that exporters do not have adequate information about the track record of importers. The other is that they need high sales turnover because most of them are self-financing their export production/trading activities. As shown in Table V.39, 15 out of 23 respondent firms

Table V.36
 AVERAGE SIZE OF TRANSACTIONS IN 1988
 (In Pesos)

	Assets	Export No.	Average Size	Lower Range	Upper Range
A. Small-Scale					
	1	1	120,000	95,000	140,000
	1	6	n.a.	n.a.	n.a.
	1	7	175,000	100,000	250,000
	1	8	52,500	20,000	85,000
	1	9	67,000	60,000	75,000
	1	10	300,000	50,000	350,000
	1	11	11,000	2,000	20,000
	1	12	20,000	10,000	60,000
	1	14	n.a.	n.a.	n.a.
	1	17	150,000	n.a.	n.a.
	1	20	60,000	50,000	80,000
	1	21	110,000	100,000	120,000
B. Medium-Scale					
	2	2	800,000	500,000	2,000,000
	2	3	340,000	100,000	700,000
	2	4	250,000	70,000	400,000
	1	13	1,200,000	200,000	2,400,000
	2	15	n.a.	n.a.	n.a.
	1	22	n.a.	n.a.	n.a.
C. Large-Scale					
	2	5	n.a.	n.a.	n.a.
	2	16	2,000,000	1,500,000	2,500,000
	2	18	n.a.	n.a.	n.a.
	1	19	460,000	100,000	950,000
	3	23	40,000,000	35,000,000	45,000,000

NOTE: Assets: 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

Table V.37
 PERCENTAGE CHANGE OF EXPORT SALES
 IN THE LAST 3 YEARS

	Assets	Exporter	Increase	Decrease
		No.	(%)	(%)
A. Small-Scale				
	1	1	nap	nap
	1	6	10	nap
	1	7	30	nap
	1	8	nap	76
	1	9	nap	15
	1	10	150	nap
	1	11	25	nap
	1	12	nap	nap
	1	14	nap	50
	1	17	46	nap
	1	20	120	nap
	1	21	150	nap
B. Medium-Scale				
	2	2	60	nap
	2	3	20	nap
	2	4	1225	nap
	1	13	15	nap
	2	15	40	nap
	1	22	53	nap
C. Large-Scale				
	2	5	68	nap
	2	16	237	nap
	2	18	20	nap
	1	19	nap	8
	3	23	nap	10

NOTE: Assets - 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

nap - not applicable

Table V.38
RATIO OF CREDIT TERMS TO TOTAL EXPORTS
(In Percent)

Assets	Export No.	Cash or L/C Upon Shipment	Less Than 180 Days	180 days to 1 Year	Over 1 Year
A. Small-Scale					
	1	1	100	0	0
	1	6	100	0	0
	1	7	100	0	0
	1	8	100	0	0
	1	9	100	0	0
	1	10	100	0	0
	1	11	nap	nap	nap
	1	12	100	0	0
	1	14	0	100	0
	1	17	nap	nap	nap
	1	20	100	0	0
	1	21	100	0	0
B. Medium-Scale					
	2	2	100	0	0
	2	3	nap	nap	nap
	2	4	100	0	0
	1	13	nap	nap	nap
	2	15	nap	nap	nap
	1	22	100	0	0
C. Large-Scale					
	2	5	100	0	0
	2	16	100	0	0
	2	18	25	25	50
	1	19	100	0	0
	3	23	34	64	0

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

nap - not applicable

Table V.39
 SOURCES OF FINANCING EXPORT PRODUCTION, 1988
 (In Percent)

Assets	Export No.	Firm	Factoring House	Local Bank	Foreign Bank	Foreign Buyers/ Customers	Others
A. Small-Scale							
1	1	100	0	0	0	0	0
1	6	100	0	0	0	0	0
1	7	100	0	0	0	0	0
1	8	100	0	0	0	0	0
1	9	100	0	0	0	0	0
1	10	0	0	0	0	0	100
1	11	100	0	0	0	0	0
1	12	20	0	30	0	50	0
1	14	100	0	0	0	0	0
1	17	100	0	0	0	0	0
1	20	100	0	0	0	0	0
1	21	40	0	30	0	0	30
B. Medium-Scale							
2	2	100	0	0	0	0	0
2	3	100	0	0	0	0	0
2	4	100	x	0	0	0	0
1	13	0	0	100	0	0	0
2	15	100	0	0	0	0	0
1	22	100	0	0	0	0	0
C. Large-Scale							
2	5	100	0	0	0	0	0
2	16	0	0	60	0	0	0
2	18	80	0	0	20	0	0
1	19	10	0	50	0	0	40
3	23	65	0	35	0	0	0

NOTE: Assets: 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

are completely financing their export production/trading activities most of the time.

About half of the respondents claimed that the payment arrangement they have now with their buyers is about the same as their foreign competitors. However, a great majority said they could have increased their export sales between 30 and 50 percent had they offered better credit terms to their present customers. Many of the firms interviewed admitted that definitely they cannot go on for long demanding cash or sight L/C especially since orders of their buyers who have shown good payment record are becoming larger. Accordingly, some of their buyers have already started asking for term L/Cs for about 180 days. A great majority of the respondents said that they are not worried about price competition since they are confident that the prices of their export commodities are competitive at present, and will remain competitive in the future. It is the credit term that they offer to their buyers that they are worried about. They noted that some foreign competitors are now offering better credit terms to their buyers.

In 1988, only three out of the 23 sample firms obtained pre-shipment financing from a local bank (see Table V.40). For the two exporters, however, the level of pre-shipment financing was low. The lack of access to pre-shipment financing has led almost all exporters interviewed to turn down large orders, picking up the smaller ones only. Thus, the amount of export sales/ production was severely constrained by lack/absence of pre-shipment financing. The same can be said of post-shipment financing. Only four out of 18 final exports interviewed obtained post-shipment financing in 1988 (see Table V.40). The level of financing was low for two of these

Table V.40
 PERCENTAGE OF EXPORTS IN 1988
 WHICH WERE PRE-FINANCED AND
 RECEIVED POST-SHIPMENT FINANCING

Assets	Export No.	Pre-Shipment	Post-Shipment
A. Small-Scale			
	1	1	0
	1	6	80
	1	7	0
	1	8	0
	1	9	0
	1	10	0
	1	11	nap
	1	12	0
	1	14	0
	1	17	nap
	1	20	0
	1	21	30
B. Medium-Scale*			
	2	2	0
	2	3	nap
	2	4	0
	1	13	nap
	2	15	nap
	1	22	0
C. Large-Scale			
	2	5	0
	2	16	60
	2	18	80
	1	19	0
	3	23	20

NOTE: Assets: 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

nap - not applicable

firms. The lack of financing to finance a higher level of receivables has severely constrained the amount of export sales made by exporters.

Respondent firms were asked whether they ever obtained export financing from a local bank (see Table V.41). Twelve of the 23 sample firms gave a positive answer. This means that many of them did not borrow from banks in 1988. High interest rate was the most common reason cited for not borrowing from banks in 1988. Of the total number of respondents, only one was fully satisfied with the export finance services of his bank; four said that the export finance services of their bank were just adequate; ten said that they were inadequate; and the rest said that they do not have any knowledge at all regarding the adequacy of local banks' export finance services. It is interesting to note that half of those who ever obtained an export financing from local banks claimed that export finance services of banks were inadequate. The major reasons they cited are the following: collateral asked by banks was too high compared to what they can offer; interest rate was high; and loan maturity being offered by banks was too short.

Of the 23 respondents, only one was able to borrow from one of the special lending programs of the government (i.e., EIMP). It was a long-term loan which was used for the acquisition of fixed assets.

Six of the 18 final exporters encountered problems with regard to payment of the goods already delivered to importers. The specific problems mentioned were: non-payment; issuance of post-dated check for 30 days instead of cash payment; alleged short shipment; non-acceptance of documents and delayed payments.

Table V.41
EXPORT FINANCING FROM LOCAL BANKS

Assets	Export No.	Bank office	Bank ownership	Gov't Program	Processing Time for Loans (days)	Local Banks Export Finance Services
A. Small-Scale						
	1	branch	gov't	n.a.	7	3
	1	branch	private	nap	nap	4
	1	nap	nap	nap	nap	4
	1	nap	nap	nap	nap	3
	1	nap	nap	nap	nap	3
	1	10	nap	nap	nap	4
	1	11	nap	nap	nap	4
	1	12	branch	private	nap	5
	1	14	nap	nap	nap	4
	1	17	nap	nap	nap	3
	1	20	nap	nap	nap	4
	1	21	branch	private	nap	3
B. Medium-Scale						
	2	2	branch	private	nap	3
	2	3	nap	nap	nap	3
	2	4	branch	private	nap	7
	1	13	branch	private	nap	2
	2	15	nap	nap	nap	4
	1	22	nap	nap	nap	4
C. Large-Scale						
	2	5	head	gov't	TLRC	365
	2	16	branch	private	nap	3
	2	18	head	private	nap	5
	1	19	head/branch	private	nap	2
	3	23	branch	private	nap	7

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

Service : 1 - Fully Satisfactory
2 - Adequate
3 - Inadequate
4 - No Knowledge

nap - not applicable
n.a. - no answer

Five of the 18 final exporters experienced cases wherein buyers suddenly cancelled their orders (Table V.42). Four of them had already L/Cs opened by importers for their orders. The value involved ranged from ₱100,000 to ₱400,000. Two firms did not know the reason why export orders were cancelled, while the three firms cited time element, financial problems of the importer and labor problems of the exporter as the reasons for the cancellation of export orders.

Eight of the 23 respondents indicated that there is a high level of bankruptcies and insolvencies in their industry. Six of these respondents said that exporting has contributed to these problems.

Despite the various problems now facing exporters, they are very optimistic as regards export prospects for the next three years. The expected increase in exports by individual firms ranges between 60 and 300 percent over a three-year period (see Table V.43). A great majority of them are now actively pursuing new export markets for their products. Some of them plan to introduce new products to be marketed in specific countries (see Table V.44). But limited or lack of financing could douse the enthusiasm of exporters.

The Inter-Agency Study Group on External Trade Statistics and Projections Foreign Operations Committee which is chaired by the Central Bank has been making dialogues with exporters twice a year for the last two years. Table V.45 presents a comprehensive summary of the problems/bottlenecks related to financial matters encountered by exporters and some recommendations to ease/eliminate the bottlenecks.

Table V.42
 CANCELLATION OF ORDERS BY BUYERS

Assets	Export No.	Reasons	Value (In Pesos)	Payment Terms
A. Small-Scale				
1	1	nap	nap	nap
1	6	time element	400,000	1
1	7	nap	nap	nap
1	8	financial problems of importer	n.a.	1
1	9	nap	nap	nap
1	10	nap	nap	nap
1	11	nap	nap	nap
1	12	nap	nap	nap
1	14	none	100,000	5
1	17	nap	nap	nap
1	20	labor problems of the exporter	250,000	1
1	21	nap	nap	nap
B. Medium-Scale				
2	2	nap	nap	nap
2	3	nap	nap	nap
2	4	nap	nap	nap
1	13	nap	nap	nap
2	15	nap	nap	nap
1	22	none	n.a.	145
C. Large-Scale				
2	5	nap	nap	nap
2	16	nap	nap	nap
2	18	nap	nap	nap
1	19	nap	nap	nap
3	23	nap	nap	nap

NOTE: Assets: 1 - less than P5 million
 2 - P5 million to P20 million
 3 - more than P20 million

nap - not applicable
 n.a. - no answer

Payment Terms: 1 - L/C.
 2 - Document against payment
 3 - Document against acceptance
 4 - Sight draft
 5 - others

Table V.43
EXPORT PROSPECTS FOR THE NEXT THREE YEARS
AND PROSPECTIVE MARKETS

Assets	Export No.	% Increase	Countries
A. Small-Scale			
1	1	120	12
1	6	60	1234
1	7	80	1235
1	8	100	5
1	9	100	nap
1	10	100	n.a.
1	11	100	nap
1	12	200-300	1234
1	14	60-70	7
1	17	nap	nap
1	20	100	123
1	21	200	3
B. Medium-Scale			
2	2	150	3
2	3	nap	123
2	4	300	123
1	13	nap	nap
2	15	nap	nap
1	22	100	123
C. Large-Scale			
2	5	n.a.	n.a.
2	16	200	56
2	18	60	3
1	19	90	16
3	23	60	126

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

Countries: 1 - USA
2 - Japan
3 - Europe
4 - Australia
5 - Hongkong
6 - others (Korea, Taiwan,
Papua New Guinea,
Middle East)
7 - no country in mind

nap - not pursuing new export markets
n.a. - no answer

Table V.44
NEW EXPORT PRODUCTS

Assets	Export No.	Products	Countries
A. Small-Scale			
1	1	charcoal briquets & coconut husk	2
1	6	n.a.	n.a.
1	7	carabao horn & bone accessories handscreened dresses & beach wear	1235
1	8	n.a.	nap
1	9	baskets	56
1	10	ceramics	1
1	11	nap	nap
1	12	handpainted wooden jars	134
1	14	a/	n.a.
1	17	nap	nap
1	20	ladies & children wear (with ethnic design), bags	12
1	21	furnitures (buri)	3
B. Medium-Scale			
2	2	stonecraft fashion accessories	3
2	3	nap	nap
2	4	nap	nap
1	13	nap	nap
2	15	nap	nap
1	22	nap	nap
C. Large-Scale			
2	5	n.a.	n.a.
2	16	latex, steel	56
2	18	b/	3
1	19	sacks for sugar and coffee, work clothes	6
3	23	FAX, numeric	26

NOTE: Assets: 1 - less than P5 million
2 - P5 million to P20 million
3 - more than P20 million

nap - not considering new products

n.a. - no answer

a/ - same handicrafts but with different design
and made from different materials

b/ - would like to know

Countries: 1 - USA

2 - Japan

3 - Europe

4 - Australia

5 - Hongkong

6 - others (Korea, Taiwan, Papua New Guinea, Middle East)

SUMMARY OF SELECTED FINANCE-RELATED PROBLEMS, RECOMMENDATIONS AND PROSPECTS,
DECEMBER INDUSTRY DIALOGUES CONDUCTED BY THE IASG

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
A. Problems/Recommendations Common to All Industry Sectors			
	High financing cost.	Provide necessary financing and credit facilities at relatively easy terms to be used in the procurement of needed raw materials in the short term, and additional purchase of capital equipment and expansion projects in the long term.	CB
	Cautious mood in the financial market in giving credit access to small-and medium-scale industries which results in inadequate financial assistance for their operations and expansion.	Review of CB rediscounting policy with the end in view of lowering rediscount rate to stimulate borrowings and including small and medium-scale firms in export packing credits.	CB
	Collateral requirement is overemphasized rather than giving more weight to past performance and economic viability of the project.	Work towards the reduction of the CB-imposed reserve requirements on commercial banks' liquid portfolio, particularly if a certain percentage of these funds is for export. The interest spread slapped by commercial banks on rediscount loans borrowed from CB should be examined.	CB
		Ease up the stringent requirement on collaterals, particularly for small-and medium-scale enterprises to enable them to avail themselves of the necessary financing and give them opportunity to grow and develop.	
		Size exporters preferential rates of interest and collateral-free loans.	
Problems/Recommendation of Specific Industries			
(1) Sugar and Molasses			
	Inadequate financial assistance to planters.	Give deserving planters preferential rates of interest and collateral-free loans.	CB/SRA
(2) Coffee			
	High financing cost impedes the growth of investment in the industry.	Facilitate credit and financing requirements of growers in order to improve production.	CB/DTI

INDUSTRY SECTOR	BOTTLENECKS	RECOMMENDATIONS	AGENCY INVOLVED
(3) Tobacco	Inadequate funding which affects the operations of the National Tobacco Administration.	Provide easy credit and financing packages to growers, specifically those geared towards the export market.	CB/DF
(4) Fish and Fish Products	Limited and high cost of financing hinders efficiency in operation.	Provide preferential interest rates and financial packages to boost production.	CB/DF
(5) Furniture and Fixtures	Limited financial support, especially to small-and medium-sized producers inhibits the growth of the industry.	Give preferential interest rates and low-cost financial packages to exporters to boost operations.	CB/DOF
(6) Handicrafts	Inadequate financing and credit facilities coupled with high interest charges for investment and operational purposes.	Give preferential interest rates and easy financial terms to enhance production and exportation	CB/DF
(7) Garments/Textiles	Cautious attitude in the financial market in giving credit access to small and medium scale industries for their operations and expansion. High financing cost.	Develop small-and medium-scale garment firms by giving them access to packing credits and other financial packages at lower interest rates and easy collateral requirements.	CB
(8) Processed Food and Beverages.	High lending rates charged by local banks which make exporters uncompetitive in the world market relative to other Asian exporters. Discrimination in the extension of bank credit against small- and medium-scale enterprises for investment and operational purposes.	Give preferential support to exporters with regard to their financial requirements.	CB

VI. OVERALL EVALUATION OF THE EXPORT FINANCING SYSTEM IN THE PHILIPPINES

This chapter provides a general evaluation of the export financing system in the Philippines. To facilitate the evaluation, a theoretical export finance system is first presented.

A. Theoretical Export Financing System

It is important to point out at the outset that the theoretical export financing system presented below is not necessarily the best one among export financing systems that we could think of for the Philippines. It is devised for the purpose of helping us analyze the existing export financing schemes in the Philippines.

To simplify the presentation, we will limit ourselves only to the pre-shipment working capital requirement of exporters. We assume the following:

- (1) the economy has an active commercial banking system;
- (2) the economy has both export and domestic L/Cs;
- (3) the economy has a well-functioning Export Credit Guarantee Corporation;
- (4) the Central Bank refinances export loans of commercial banks;
- (5) the Central Bank considers loans of indirect exporters eligible for rediscounting; and
- (6) all raw materials are available locally.

From the demand side, the key players are: the direct exporters (or purely traders) who do not manufacture exportable goods but buy them instead from local manufacturers, and the local manufacturers who are in this case the indirect exporters since they do not sell directly to foreign

buyers. From the supply side, the key players are: the commercial banks, the Central Bank, and the Export Credit Guarantee Corporation.

The transaction process proceeds as follows (see Figure II):^{20/}

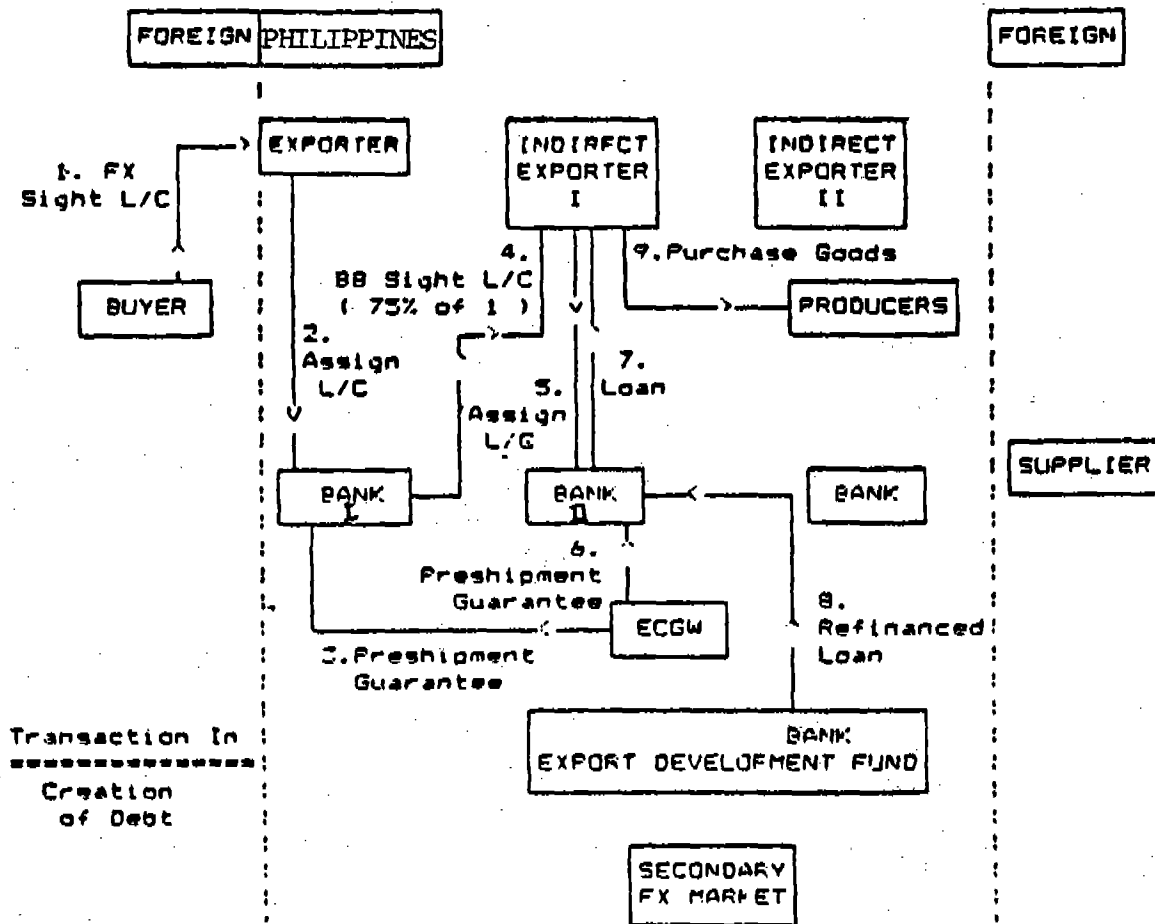
- Step 1 - Exporter receives in his favor an immediate Letter of Credit (L/C) at sight in dollars under pre-determined terms to include expiry date sufficient to provide an adequate period for preparation and shipment.
- Step 2 - Exporter assigns L/C to local Bank I as support for his request to establish a Back-to-Back Inland Letter of Credit (BB L/C) in favor of the manufacturer, or Indirect Exporter (IE).
- Step 3 - Bank I obtains a pre-shipment guarantee from Export Credit Guarantee Corporation (ECGC); and
- Step 4 - Against the assigned export L/C opens through Bank II a BB L/C in favor of the IE in local currency up to a certain percent of the value of the underlying export L/C, available for a shorter period than the export L/C to allow receipt of product, packing, and shipment by exporter.
- Step 5 - IE assigns the BB L/C to Bank II and requests a local currency loan equal up to a certain percent of BB L/C to be used for purchase of raw material and working capital.
- Step 6 - Bank II obtains pre-shipment guarantee from ECGC;
- Step 7 - Grants loan to IE; and
- Step 8 - Refinances loan with the Central Bank;

^{20/}

This is drawn from the hand-out provided by Mr. Bruce Nicholson during the Commencement Workshop for the study of Export Financing in Selected DMCs, Manila, 22 - 23 September 1988.

Figure II

Exporter/Trading Co. --- Local Manufacturer --- Local Supplier



Step 9 - IE uses cash to purchase raw material from local suppliers and begins the manufacturing process.

It is important to point out that under this system, indirect exporters who may be small producers have ready access to the rediscounting window of the Central Bank. Moreover, the existence of a well-functioning guarantee scheme encourages banks to provide loans to small and medium exporters.

B. Evaluation of the Export Financing System

As may be gathered from Chapter V, the export financing system in the Philippines consists of three major components, namely: refinancing scheme, financing scheme, and the guarantee scheme. Each of these components will be evaluated below.

1.0 Refinancing Scheme of the Central Bank

As indicated in the preceding chapter, the Central Bank has been pursuing an export-oriented rediscounting policy. In particular, non-traditional exports are preferred over traditional exports. Like other eligible papers, export loans (whether pre-shipment or post-shipment) can be rediscounted at 80 percent of the loan value with a rediscount rate that varies with the market rate. The maturity period is 90 days and renewable for another 90 days. Rediscounting can be processed within one day if all papers are in order and are submitted before noon to the main office or branch office of the Central Bank. With the open market operation of the Central Bank, rediscounts on export loans will not be severely affected by any change in monetary policy. All these ensure quick and automatic access of exports to the rediscounting facility of the Central Bank.

However, the facility is limited only to direct exporters. Thus, in the context of the framework laid out earlier, domestic L/Cs will remain underdeveloped under the present rediscounting policy. As of this moment, loans of indirect exporters are given less preference by banks because they cannot be rediscounted with the Central Bank.

At present, the rediscounting availment rate is relatively low. This is because the banking system is generally liquid. The availability of alternative sources of loans with terms better than those of the rediscounting facility to a certain degree has contributed to the low rediscounting availment rate. But it is believed that the generally liquid situation of the banking system is only temporary. The economy has already started to pick up. In fact, actual merchandise exports in 1988 exceeded the targeted level. Our forecasts presented in Chapter III suggest that the pre-shipment and post-shipment financing requirements on an outstanding basis in 1990, 1995 and 2000 will be ₱29.4B, ₱72.8B and ₱167.2B, assuming a peso depreciation rate of four percent a year. This can very well be accommodated by the Central Bank rediscounting facility without serious implications on reserve money. For instance, the reserve money target for 1990 is ₱86.4B, whereas the forecasted pre- and post-shipment financing for the same year is only ₱26.4B. In 1992, the reserve money target is ₱110B, while the forecasted pre- and post-shipment financing is only ₱41B. In the 1980s, the highest ratio of total rediscount to commercial banks to reserve money was achieved in 1982 at 68 percent. Since then it went down to only about seven percent in 1987.

The effectiveness of the rediscounting facility of the Central Bank in reaching a wide range of exporters is weakened by its policy to accommodate only direct exporters. But even its effectiveness in supporting direct

exporters is undermined by banks' attitude towards extending credit to exporters. This will be discussed below.

2.0 Financing Scheme

The commercial banking system is the most important potential source of funds for the export sector. All commercial banks are engaged in international banking at varying degree. Commercial banks in the Philippines are basically conservative. Table VI.1 outlines the loan processing procedure commonly followed by banks and the approval rates. The information contained in this table is based on an empirical study by Lapar and Graham (1988). Note that not all those who approached the bank are given a loan application form. The branch manager who interviews prospective borrowers determines who should be given an application form. On the average, 58 out of 100 loan applicants who approached the bank are given loan applications. Some of these loan applications are processed and approved by the branch manager while others are sent to the main office for approval. The overall approval rate is 53 percent.

Banks have strong preference for short-term loans and are basically collateral-oriented. As reported by sample banks, commonly-accepted collateral are real estate mortgage and deposits/placements of exporters with the bank. Some of the exporters did borrow from banks but are collateral-short. So, they selected only small export orders since loans they obtained were relatively small. Having a good credit track record with banks simply means that the borrowers can easily obtain a loan, but yet they are still required to present a collateral. When new orders come, exporters either ask their customers to wait until such time they comply with the prior order and pay the bank so that they can use again the same

Table VI.1
 COMMERCIAL BANKS' APPROVAL RATES FOR EVERY
 100 LOAN APPLICATIONS RECEIVED IN 1986

Screening

1.	No. of loan applicants who approached the bank for a loan	100
2.	No. of loan applicants given and submitted loan applications (total no. of loan applications received).	58

Processing

3a.	No. of loan applications approved by the manager out of total loan applications received from loan applicants.	35
	Approval rate at the manager's level, in % (3.a/2).	60
	No. of loan applications recommended by the manager for approval by the Board of Directors (for RBs) or the area or head office (for PDBs and KBs) out of total loan applications received from loan applicants.	18
	No. of loan applications approved by the BOD or at the area or head office out of total loan applications recommended by the manager.	18
	Approval rate by BOD or at the area or head office with respect to the manager's recommendation, in (4b/4a)	100
	Approval rate in processing stage (3a + 4b/2)	91

6.	Overall approval rate, in % = total no. of loan applications approved *3a + 4b)/no. of loan applications who approached the bank for a loan.	53
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Source: Lapar and Graham (1988).

collateral for borrowing, or simply turn down the order. Not few of the exporters we interviewed admitted that banks turned down their additional loan requests because they cannot present additional collateral inspite of the fact that they had valid L/Cs or POs. Indeed, the lack of or limited collateral has constrained exporters to raise funds to finance production for exports.

Other exporters did not borrow from banks because they could not present an acceptable collateral. Still others find the prevailing lending rate very high that would have an impact on the competitiveness of their products. This is over and above what banks normally charge for every export transaction. Accordingly, banks charge ₱500 for advising exporters of their L/Cs. Other charges including telex, mail, etc., could go up to ₱2,000 per transaction. Since exporters are usually paid between ₱0.50 - ₱0.80 lower than the BAP reference rate for every dollar they earn, therefore a transaction worth \$5,000 implies a total cost of ₱5,000 to an exporter.

There is a general perception among exporters that Central Bank regulations tend to reward banks and penalize exporters. Below is an example of this which is taken from PHILFOODEX NEWS (January 1989).

"Do you know how much you are losing because of the Central Bank ruling that requires us to pay our freight in pesos instead of dollars?

Take a very recent example. Two Philfoodex members recently shipped their products abroad, incurring a freight cost of \$1,350. But instead of allowing the exporters to just deduct the freight cost from the dollar proceeds of the sale, which could have been simpler, the rules required them instead to first get the peso proceeds of their dollar earnings at ₱21.25.

And then, they were made to turn around and, using the pesos that they got, to buy dollars to be used to pay for the freight. There's nothing wrong about that, except that when they bought the dollars these cost ₡21.94.

So from this transaction alone, the two exporters lost ₡931.50. And this happened without even leaving the same bank from which they collected the dollar payments of their foreign buyers.

Apparently, the CB wants the banks to earn extra from this. But at what cost?"

This is one of the reasons why exporters prefer that importers directly pay the freight cost.

Thus, in the context of our framework above, one of the greatest bottlenecks seems to lie on the attitude of banks towards lending as a whole. Even if the Central Bank is ready to refinance export loans, but if such loans are not forthcoming then its rediscounting facility is rendered ineffective.

The special lending programs have been introduced to ease up this bottleneck. More specifically, they have been addressed to those who have been left out by the banking system, such as the small and medium enterprises. That most of them are managed by non-financial institutions merely underscores the point that they were designed to partly do what banks failed to do. However, the resources of these programs are small relative to the financing requirements of the export sector. Admittedly, two programs (i.e., ALF and IGLF) are well-endowed, however, they cater to both the domestic-oriented and export-oriented enterprises. It is also noteworthy that almost all of these programs require hard collateral. In the case of IGLF and ALF, a project study is required which unnecessarily adds to the cost of borrowing from these programs.

In the preceding chapter, the impressively high availment rates of these programs have been noted. Whether they have reached a wider clientele is indeed questionable. It could be that these programs have been serving the same set of borrowers who probably have already exceeded the individual loan limit from a particular program. Officers of some of these programs whom we interviewed said that they do not bother at all to check whether their borrowers borrowed from other credit programs since it is not part of their criteria for approving loan applications. So long as they can present unincumbered assets as collateral and can assign a certain portion of the L/Cs, exporters can borrow from these programs. Thus, these special credit programs could have limited impact insofar as the financing requirements of a wider range of exporters are concerned.

While it has been pointed out that these special credit programs, however small and fragmented, could have catered to the same set of borrowers, it is also worthwhile to note that obtaining small loans from different lending institutions could unnecessarily raise the cost of borrowing.

Recently, Magno and Meyer (1988) evaluated the effectiveness of the guarantee programs, namely GFSME, IGLE, and Quedan Guarantee Fund Board (QGFB). All three programs have liquidity window. Table VI.2 shows that while the ratio of agricultural loans to total loans of commercial banks declined during the period 1981 to 1986, the ratio of agricultural loans guaranteed to total agricultural loans granted increased during the same period. This suggests that the additional funds from the guarantee programs did not result in net additions to loans granted to the agricultural sector. Participating and non-participating commercial banks showed negligible difference in the ratio of their agricultural loans to

Table VI.2
 RATIO OF AGRICULTURAL LOANS TO TOTAL LOANS AND RATIO OF
 AGRICULTURAL LOANS GUARANTEED TO TOTAL AGRICULTURAL LOANS
 GRANTED, COMMERCIAL BANKS, 1981-1986

	Average Ratio (%)	Average Annual Growth Rate (%)
1. Ratio of agricultural loans to total loans	7.3	-3.0
1. Ratio of agricultural loans to guaranteed to total agricultural loans granted	2.9	29.8

Source: Magno and Meyer (1988)

total loan portfolio, again suggesting the ineffectiveness of the guarantee programs.

The gearing ratio of GFSME has been substantially below one (i.e., 0.08 in 1984, 0.30 in 1985 and 0.34 in 1986). It implies that the guarantee fund had not been fully utilized.

In our survey, only three out of seven sample banks availed of the guarantee facilities in 1988. Moreover, the ratio of guaranteed loans to total export loans had not been more than two percent for these banks. This suggests that the guarantee facilities have been considered less useful to banks.

Philguarantee's effectiveness in providing guarantee facilities to small and medium scale enterprises has been weakened by lack of funds. Although it is highly capitalized, losses incurred in the guarantee it provided to overseas contractors have practically dissipated its capital. This is compounded by its stringent qualification requirements. Thus, in 1988, Philguarantee was servicing only 15 exporters which accounts for only 0.3 percent of the total number of exporters. Meanwhile, guarantees outstanding as of 1988 amounted to P38.4M which is only two percent of the total outstanding export rediscounts of the Central Bank. Thus, Philguarantee's desire to attain a zero default rate has rendered the EGCP-SMI program virtually useless.

The gearing ratio of Philguarantee's EGCP-SMI program could not be determined because it does not have a separate fund. But if we were to base it on its readily available liquid resources of about P200M, then we will arrive at a gearing ratio of less than one.

In general, servicing a guaranteed loan is time consuming. For example, it takes an average of 308 percent more man-hours to service a loan under the GFSME program than an ordinary loan (see Magno and Meyer 1988). This is due to the following reasons: First, guarantee programs have numerous and cumbersome requirements and involve more paperwork. Second, banks are mandated by the guaranteeing institution to monitor solely guaranteed loans to reduce the possibility of credit being diverted to other uses. And lastly, banks spend so much time in seeing to it that borrowers would not default for fear of being blacklisted by the agency concerned. As noted by Magno and Meyer, being accredited to a guarantee program brings extra value to the banks even if they do not actually participate in the program.

While there is a consensus regarding the importance of having a strong guarantee program, however, one must not lose sight of the fact that any guarantee program needs the support of banks. In the Philippines, banks do not consider guarantee as a substitute to collateral. Thus, so long as exporters lack or have limited collateral to offer, the effectiveness of a guarantee program, no matter how well funded, will be severely limited. This somehow suggests that an export financing system should directly address the lack of or limited collateral on the part of exporters.

The inescapable conclusion that can be drawn from our evaluation is that exports do not have automatic access to finance. While the Central Bank stands ready to provide automatic and quick refinancing of export loans, the collateral-orientedness of commercial banks and relative ineffectiveness of the special lending programs and guarantee schemes serve as a major bottleneck. Indirect exporters suffer most from the weaknesses of the existing export financing system.

VII. CONCLUSIONS AND AGENDA FOR POLICY AND INSTITUTIONAL REFORMS

After a two-year recession (i.e., 1984-85) the Philippine economy has resumed its growth path. It achieved a solid growth of 6.7 percent in 1988. More importantly, the level of exports increased to \$7.1B in 1988, slightly exceeding the targeted level for that year. Despite this remarkable performance, the Philippines has been lagging way behind other Asian countries. For instance, in 1970, the value of Philippine merchandise exports was \$1.1B, much higher than Korea's \$835M exports and Thailand's \$710M exports. In 1988, however, merchandise exports of Korea and Thailand reached \$59.5B and \$16B, respectively. Past policies that were biased against exports had largely contributed to the lackluster performance of Philippine exports. Definitely, the Philippines has a lot of catching up to do in the next few years.

The new government has increased its intensity in pushing further the development of the export sector. The export drive seems to be well-coordinated by the International Trade Group of the Department of Trade and Industry. Gains realized in the past, such as the increasing share of the non-traditional exports to total exports and greater market diversification, have been maintained and improved as demonstrated in various government programs designed to promote non-traditional exports. Significant policy changes, like trade liberalization and the new fiscal incentives included in the Omnibus Investment Code, and institutional reforms, like licensing more common bonded warehouses and the one-stop processing center for exports, have been introduced. Notwithstanding these new developments, serious obstacles to the rapid development of the export sector still remain.

First of all, the exchange rate policy needs to be reconsidered. The Philippine exports are losing their competitiveness vis-à-vis their competitors, specifically Thailand.

Second, exports seem to be not accorded a free trade status as regards imported raw materials. For instance, all exporters except those located in the EPZ are asked to get a BOI certification of non-availability of domestic substitute for the imported raw material. This condition is over and above the more general restrictions on imports pending complete import liberalization. Another example relates to the administration of BMWs. In the Philippines, the procedural requirements for BMWs are simpler relative to other schemes. However, these are more stringent than those in other countries where exporters using BMWs are not required to submit a "formula of manufacture" and to post a re-export bond. In general, the combination of the exemption/drawback system for intermediate inputs and BOI/EPZA incentives is not enough to compensate for the anti-export bias of the protection system.

And lastly, the export financing system seems to be weak and ineffective. In particular, the refinancing facility of the Central Bank does not provide an equal status to indirect exporters. The commercial banking system is generally conservative and is collateral-oriented. The special credit programs are fragmented and small. And the credit guarantee system has been generally ineffective.

Thus, some policy and institutional reforms should be introduced to support the export sector.

A. Reforms for Achieving a Free Trade Status on the Export Sector

Many of the recommendations advanced here to achieve a free trade status for the export sector have been already discussed in detail in Ali (1988) and Rhee (1984). In particular, the policy recommendations are: (1) abolish import licenses for exporters; (2) abolish non-availability test for gaining access to duty free imports; (3) replace tax certificates with cash rebates; and (4) limit duty exemption to exporters, otherwise the duty should be reduced to zero. These privileges should be provided to all firms that generate export value added. Hence, indirect exporters should be allowed to enjoy such privileges.

The demand for BMWs facilities is expected to increase in the future. The procedure for accessing such facilities is a lot simpler than other mechanisms currently available to exporters. However, the requirement to submit the "formula of manufacture" remains a thorny issue. In commodities where input coefficients can be easily obtained, such as garments, electronics, rattan furniture, the requirement may be maintained. NIST shall regularly update and widely disseminate the input coefficients. But in commodities where it is extremely difficult to arrive at input coefficients unless all exporters have to divulge their trade secrets, such requirement should be dispensed with. This is most apparent in the food export sector wherein almost every item has different input mix, some of which are imported. Perhaps, it is even better not to require at all exporters using BMWs to submit a "formula of manufacture" as what other countries are doing.

Finally, it is imperative that incentives/privileges given to exporters be widely disseminated. In our survey, results show that several

exporters were not aware at all about incentives given to exports. In this regard, seminars/workshops should be regularly conducted by the regional offices of the Department of Trade and Industry in collaboration with exporters' associations. Measures should, however, be taken to include indirect exporters in the dissemination program.

B. Reforms for Assuring Automatic Access to Export Financing

There is a need to focus on pre-shipment financing. At the moment, post-shipment financing requirement comprises only about five percent of the total export financing requirements. In our forecast given in Chapter III, the share of post-shipment financing requirement to total export financing requirements will not exceed 10 percent up to the year 2000.

The policy and institutional reforms should address the issue of exports' access to financing. While a preferential rate for export loans is not prescribed, a generally lower interest is certainly desirable for the entire economy. As of this moment, the Central Bank is using the interest rate policy to defend the domestic currency. In view of the external debt overhang and low gross international reserves, the pressure on the domestic currency remains strong. While this pressure exists, domestic interest rates are likely to remain high. This adversely affects exports on two counts. First, a high domestic interest rates vis-à-vis the interest rates of competitors lessens the competitiveness of Philippine exports. As shown in our survey results, many exporters did not borrow because of the prevailing high interest rate. Second, an overvalued domestic currency makes Philippine exports relatively more expensive compared with those of competitors and also reduces export earnings which exporters could have plowed back to finance higher volume of production.

There is therefore a need to reconsider the interest rate and exchange rate policies. It should be noted that the Philippine peso has lost its competitiveness against the Thai baht since 1984.

At present, the Central Bank refinancing facility provides access only to direct exporters. It is desirable that indirect exporters be given equal access to such facility. With this policy, it is expected that banks would also provide both direct and indirect exporters equal access to financing. For this policy to be effective, it is however necessary to modernize the export financing system in the Philippines. One of the key elements to modernizing pre-shipment export financing is disaggregating export loans into those which (i) generate value added (VAL), (ii) purchase domestically produced intermediate inputs (DIL), (iii) purchase imported intermediate inputs (FIL), and (iv) purchase domestically produced finished goods (DOL).^{21/} The separation of DIL from FIL and DOL from production financing makes it possible to implement a domestic L/C system for domestic purchase and import L/C system for imported inputs. As noted in the preceding two chapters, the Philippines virtually does not have a domestic L/C system. The development of the domestic L/C system assures automatic availability of short-term export loans and free trade status to all indirect exporters. Moreover, the separation of FIL, DIL and DOL from VAL makes it possible to make a quasi-physical collateral, with inputs or outputs financed by export loans through the automatic loan disbursement mechanisms. It should be noted that one of the main bottlenecks in the export financing system in the Philippines is the fact that commercial banks are overly collateral-oriented. With the creation of a quasi-

^{21/}

See Rhee (1984).

physical collateral, it is hoped that commercial banks respond to the credit needs of all qualified exporters, whether they are direct or indirect exporters.

The modernization of pre-shipment export financing system could also allay fears of the Central Bank that providing indirect exporters access to its rediscounting window could result in losing control of the monetary base. As pointed out by Ali (1988), the basis of export loans would be an actual export order (backed by an L/C) or an expected order based on past performance. The sum of export product loans, VAL + DIL + FIL, cannot exceed the value of the associated export order. A loan given for purchase of domestic DOL cannot exceed the value of the associated export order. Since the Philippines has already gone into value-added taxation, it would be relatively easy to implement this scheme.

The Central Bank should relinquish its responsibility of managing special credit programs. Such should be transferred to government financial institutions. Specifically, IGLF should be transferred to the Development Bank of the Philippines and the Agricultural Loan Fund to the Land Bank of the Philippines. IGLF should do away with its guarantee function, which is not utilized anyway, and instead concentrate on its refinancing function. DBP is in a better position to implement the export packing and production credits facility for exporters. Its regional branches can either directly on-lend to exporters or quickly refinance export loans made by banks falling in any of the four export loan categories mentioned above.

The small and fragmented export credit programs managed by non-financial government agencies should not be continued. For efficiency,

they should be consolidated and transferred to a regular financial institution which has the comparative advantage in managing a credit program.

One of the key elements of an effective pre-shipment export finance system is a strong pre-shipment export finance guarantee schemes. As noted in the preceding chapter, the existing guarantee programs seem to be weak and ineffective. There is therefore a need to strengthen it. First of all, there should be a policy statement making GFSME and Philguarantee as the main guarantee institutions. However, both should sit down together to define their own areas of coverage to prevent any overlapping. It was noted in Chapter V that GFSME has been providing guarantee to export-oriented agro-processing industries and has plans to expand its exposure to this sector. This plan should be supported.

GFSME's plan to abandon its liquidity and interest rate subsidy should be implemented right away so that it can direct all its resources to the provision of guarantee. Since it has been proposed earlier that IGLF withdraw its guarantee function, GFSME should be ready to pick up the slack. Thus, its guarantee should be extended to both agricultural and non-agricultural loans.

At present, GFSME is only a program of LIVECOR, the mother corporation. In view of its huge responsibilities, GFSME should be converted into a regular government corporation attached to the Office of the President for greater autonomy and flexibility. This is going to be relatively difficult though since it needs a congressional action. If ever this pushes through, it is desirable that the ratio of government to

private sector representatives in the Board of Directors of the incorporated GFSME be the same as the present Management Board.

GFSME should maintain its guarantee coverage of 85 percent on all types of credit risks. As regards its definition of small and large enterprises, GFSME should adopt Philguarantee's definition (i.e., small firms are those with assets of less than P5M and medium size firms are those with assets of P5M but less than P20M).

For the export-oriented agro-processing industries, GFSME should implement a bank guarantee line of P25M per participating bank similar to Philguarantee's proposed bank guarantee line with a maximum guarantee coverage of 85 percent of the outstanding principal and accrued interest.

In terms of flexibility, Philguarantee is in a better position than GFSME because it is already incorporated. However, it is financially weaker than GFSME. The first task in rehabilitating Philguarantee therefore is to finally transfer its non-performing assets to the National Government which in effect is a mere implementation of E.O. No. 64. Second, its resources should be increased. The study of First Washington Associates (1988) has recommended an additional capital of P400M which is deemed sufficient to support a healthy growth of guaranteed and insured finance for exporters from 1989 to 1993. It is recommended that resources of export credit programs of non-financial government agencies which were suggested earlier to be phased out be transferred to Philguarantee. This includes the P165.5M from EIMP, P20M from EDAP and P16.5M from TF. The P5B being negotiated now by the government in behalf of EIMP should instead be used to increase Philguarantee's capital.

The maximum guarantee coverage of Philguarantee should be increased from 70 percent of outstanding credit to 85 percent to align it with that of GFSME's.

Recently, Philguarantee was given the authority to grant guarantees of less than ₱50M per beneficiary without seeking the approval of the President of the Philippines. It has lined up new initiatives as shown in Annexes D and E. As it prepares itself towards becoming a truly export credit guarantee institution, Philguarantee's organizational structure has to be overhauled. The number of the Board of Directors should be reduced from seven to five, with two private sector representatives, preferably one from the commercial banking system and one from the association of exporters. A full-time president is definitely desirable.

It has been shown in the case of Philguarantee that loan recoveries have improved tremendously when it started to directly take the responsibility of recovering loans. This should be continued and strengthened further by having a separate division to manage claims and collections. GFSME should likewise maintain such division.

It would be worthwhile to do away with accreditation of banks. Whether banks are stable or not should be the concern of the Central Bank, not that of guarantee institutions. Instead, the export guarantee facility should be open to all banks who wish to endorse an export loan for a guarantee. This is important especially if the export financing system is to be modernized along the lines suggested above. To minimize the occurrence of loan default, GFSME and Philguarantee should link up with exporters association in building a profile of the creditworthiness of exporters, particularly the small- and medium-size exporters. Exporters

know very well producers who have the potential for becoming direct exporters since they have been in constant contact with them through sub-contracting or other means.

As may be gathered from the discussion above, most of the recommendations have focused on policy and institutional reforms as well as on improving the guarantee system. These are the major bottlenecks to export financing identified earlier. At the national level, export financing does not seem to be a major problem. In Table VII.1, we have reproduced the figures for pre- and post-export financing requirement. We have also estimated commercial banks' outstanding loans and discounts for 1989 to 2000 assuming a 14 percent growth rate and a four percent depreciation rate of the peso vis-à-vis the U.S. dollar.^{22/} A comparison of these two sets of figures suggests that the resources of commercial banks can very well cover the demand for export financing. The problem, however, is that such resources have not flowed to the export sector, especially the small- and medium-exporters who typically have insufficient collateral and are considered highly risky by banks.

C. Scope for ADB Assistance

There are some areas by which ADB can assist the country in its export drive. One is to continue its policy dialogue with the Philippine Government. The export sector cannot thrive well if the policy environment is hostile towards it. The discussions should focus on the ways by which

^{22/}

The 14 percent was the average growth rate of loans and discounts during the period 1980-84 (see Table V.5). The years 1985-87 were excluded because of the abnormal drop in loans and discounts during this period that was mainly brought about by the transfer of non-performing assets of the Philippine National Bank to the National Government.

Table VII.1
 PROJECTED BANKS' LOANS AND DISCOUNT,
 AND PRE- AND POST-EXPORT FINANCING

Year	Projected Exchange Rate (P/US\$) 1/	Banks' Loans 2/ and Discounts	Pre- and Post Export Financing Requirement 3/
1989	21.93	4.7	1.15
1990	22.81	5.1	1.29
1991	23.72	5.6	1.45
1992	24.67	6.1	1.65
1993	25.66	6.7	1.92
1994	26.69	7.4	2.26
1995	27.75	8.1	2.62
1996	28.86	8.8	2.97
1997	30.02	9.7	3.40
1998	31.22	10.6	3.85
1999	32.47	11.7	4.37
2000	33.77	12.8	4.95

- 1/ The assumed depreciation rate is 4 percent per year.
- 2/ Assumed to be growing at the rate of 14 percent.
- 3/ From Table VI.9.

exports can be given an "extended neutral status." Another area is to provide the Philippine Government with technical assistance in modernizing the pre-shipment export financing system. The assistance should be directed to a committee representing various government agencies and private export associations who will study the issues involved in modernizing the pre-shipment export financing system, formulate the mechanisms for implementing such program, and monitor the progress of the program. Still another way by which ADB can assist the country in its export desire is to provide both GFSME and Philguarantee with technical and financial assistance. The technical assistance may be directed at two levels. One is human resource development aimed at improving the technical know-how of the staff of these guarantee institutions. The other involves improvement in the procedure for delivering the guarantee programs. This would include improvement in information dissemination, processing procedures for applications and claims, and collection and litigation. As regards financial assistance, ADB may either directly invest in or provide long-term soft loans to both GFSME and Philguarantee. Additionally, ADB may buy shares of the Credit Investigation Bureau (CIB) which is now being privatized.

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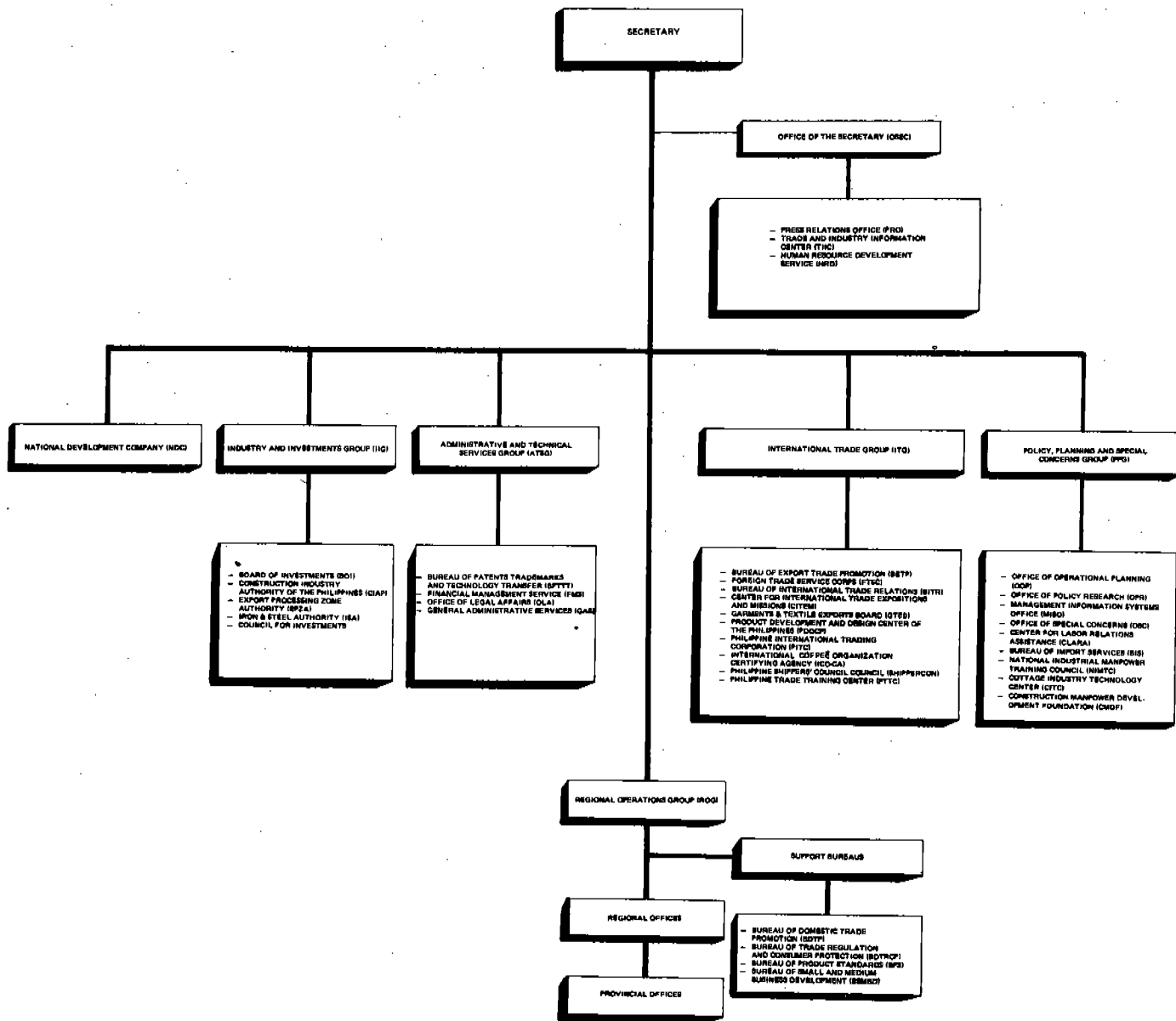
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LIST OF PERSONS/INSTITUTIONS VISITED

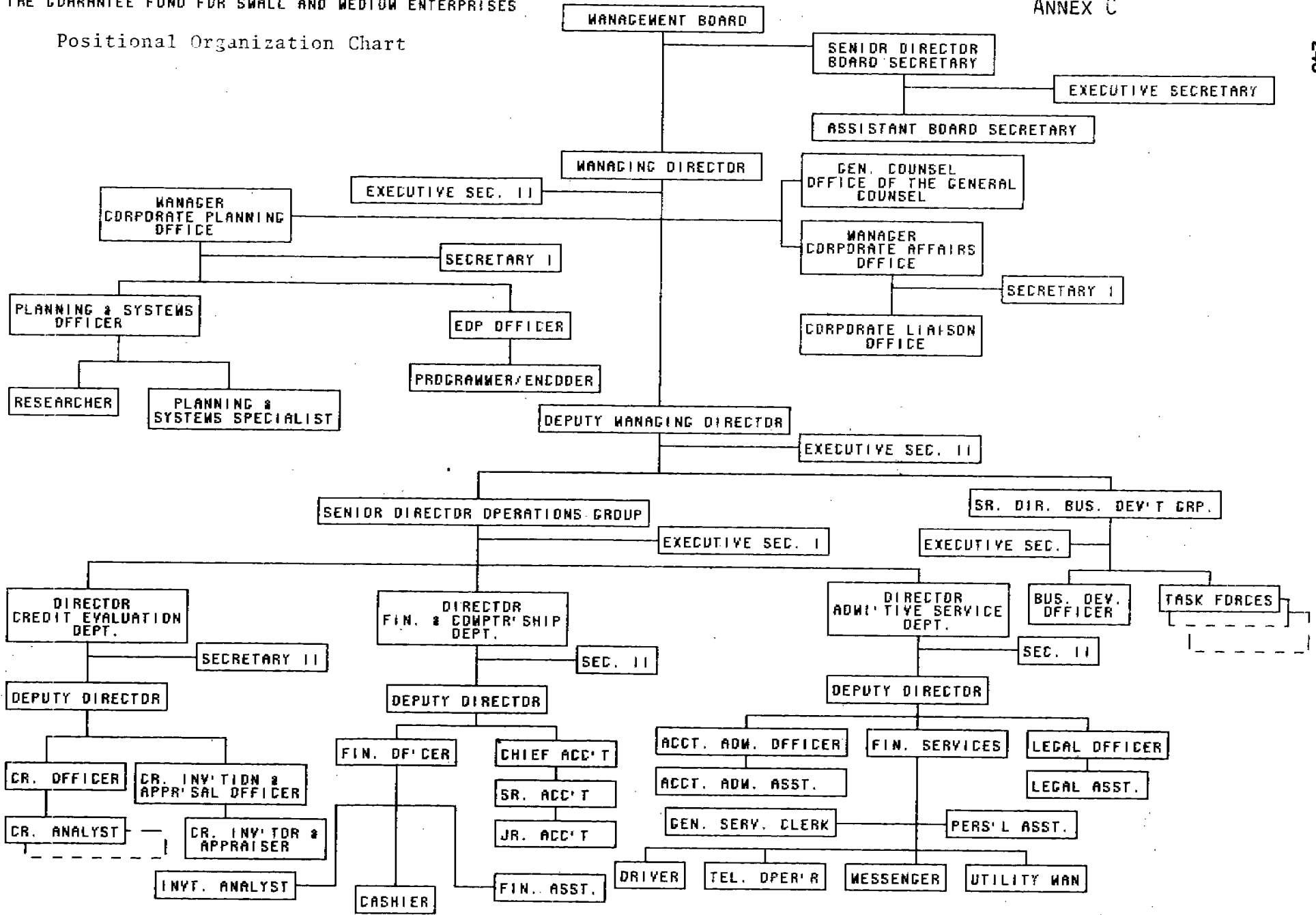
1. Mr. Armando Tetangco
Director, DER-International
Central Bank of the Philippines
2. Ms. Purita Neri
Director, DER-Domestic
Central Bank of the Philippines
3. Ms. Cecilia Arguelles
Director, Loans and Discounts Department
Central Bank of the Philippines
4. Mr. Jose Tirona
Director
Export Department
Central Bank of the Philippines
5. Mr. Jesus Tañedo
Executive Vice-President
Philippine Export and Foreign Loan Guarantee Corporation
6. Mr. Manuel Batallones
Manager, Export Credit Guarantee Corporation
Philippine Export and Foreign Loan Guarantee Corporation
7. Ms. Evanor Palac
Assistant Director
Business Development and Marketing Group
Guarantee Fund for Small and Medium Enterprises
8. Dr. Gloria Arroyo
Undersecretary
Department of Trade and Industry
9. Mr. Victor Lim
Vice-President
Financial Executive Institute of the Philippines
10. Atty. Jose Hisamoto
Officer-in-Charge
Philippine Exporters Foundation
11. Ms. Clara Lapus
President
Philippine Federation of Food Exporters
12. Mr. Reynaldo Vergara
President
Philippine Chamber of Handicraft Industries
13. Ms. Dalisay
Director
Purchase Order Financing
14. Mr. Manuel Colayco
Executive Vice-President
Philippine International Trading Corporation
15. Mr. Tony Honrado
Assistant Managing Director
Export Industrial Modernization Program
Technology & Livelihood Resource Center

16. Mr. Nestor Mijares
Director
NEDA Region VII
17. Mr. Ernesto Balangue
Director
NEDA Region XI
18. Mr. Arnel Salva
Division Chief
Bureau of Export Trade Promotion
19. Ms. Ria Ramirez
Bureau of Export Trade Promotion
20. Ms. Minerva Franco
Executive Director
Product Development and Design Center of the Philippines
21. Mr. Alfonso Villaverde
Executive Director
Philippine Shippers' Council
22. Ms. Lina Batallones
Investment One-Stop Action Center
23. Ms. Becky Estalilla
Marketing Manager
Credit Information Bureau, Inc.
24. Mr. Conrado San Juan
APEX Financing
25. Ms. Zeny Galatera
Director
Export Development Assistance Program
Technology and Resource Livelihood Center
26. Ms. Leny Abella
Exponet
27. Ms. Helen Alvarez
International Coffee Organization - Certifying Agency
28. Ms. Ma. Angelina Angeles
Deputy Executive Director
Philippine Trade Training Center
29. Ms. Gigi Quiazon
Office of Policy Research
Department of Trade and Industry
30. Ms. Plavia Tan
Assistant Director
Loans and Credit Department
Central Bank of the Philippines

Organizational Chart DEPARTMENT OF TRADE AND INDUSTRY

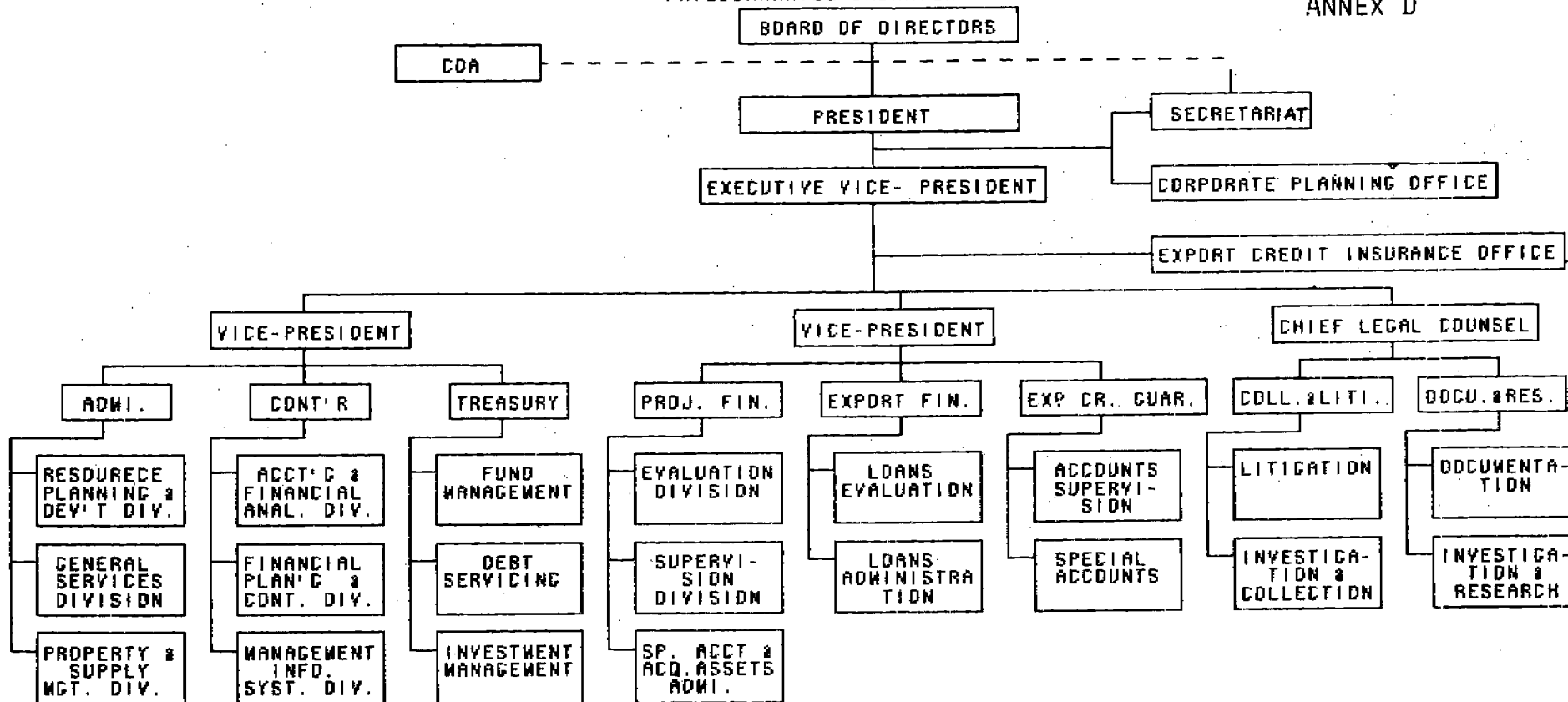


Positional Organization Chart



PHILGUARANTEE ORGANIZATIONAL CHART

ANNEX D

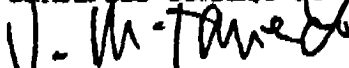


PHILIPPINE EXPORT AND FOREIGN LOAN GUARANTEE CORPORATION
5th Floor, Executive Building Center, Sen. Gil J. Puyat Corner Makati Avenue
Makati, Metro Manila

STATEMENT OF INCOME AND EXPENSES
For The Three Quarters Ending September 30, 1988
(Unaudited)

INCOME		
Guarantee and Commitment Fees	P 10,344,553.25	
Interest on Investments and Deposits	20,841,552.70	
Processing and Other Fees and Charges	13,693,588.55	
Lease Income	15,205,391.68	
GFI-Linked NPAs	<u>17,549,596.62</u>	
GROSS INCOME		P 77,634,682.80
OPERATING EXPENSES		
Salaries and Other Personnel Expenses	P 3,515,992.83	
Utilities	1,692,778.84	
Professional Fees	742,410.83	
Depreciation - Equipment	106,513.89	
Other Operating Expenses	847,079.42	
GFI-Linked NPAs	<u>15,017,845.65</u>	
TOTAL OPERATING EXPENSES		<u>21,922,621.46</u>
OPERATING INCOME (LOSS) BEFORE		
EXTRAORDINARY ITEMS		P 55,712,061.34
Foreign Exchange Gains		256,489.18
Interest and Financial Charges		
Regular	P 46,712,420.25	
GFI-Linked NPAs	<u>174,195,222.95</u>	<u>220,907,643.20</u>
NET INCOME (LOSS)		<u>(P164,939,092.68)</u>

CERTIFIED CORRECT BY:



JESUS M. TANEDO
Executive Vice President

Annex E (Cont'd.)

PHILIPPINE EXPORT AND FOREIGN LOAN GUARANTEE CORPORATION
 5th Floor, Executive Building Center, Sen. Gil J. Puyat Corner Makati Avenue
 Makati, Metro Manila

BALANCE SHEET
 As of September 30, 1988
 (Unaudited)

ASSETS

Current Assets

Cash and Due From Banks	₱ 6,734,126.18
Short Term Investments	220,711,787.99
Guarantee Fees Receivable (Net)	5,248,590.39
Accounts Receivable (Net)	1,280,305.28
Prepaid Expenses	12,247,247.34

Total Current Assets ₱ 246,222,057.18

Investment in Government Securities 31,471,283.56

Fixed Assets 347,348.38

Other Assets

Advances and Other Receivables on Guaranteed Loans	₱ 328,308,249.42
Other Advances	947,908.97
Acquired Assets	521,598,570.21
Contract Mortgage Receivable	163,100.00
Debenture Bonds	194,296,135.87
Notes Receivable	94,123,000.00
Miscellaneous Assets	522,902.85
Assets for Transfer to National Government	5,493,233,137.56

Total Other Assets 6,633,193,004.88

TOTAL ASSETS

₱6,911,233,694.00
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Current Liabilities		
Liabilities for Transfer to National Government	₱ 132,015,544.14	
Income Tax Payable	89,149,205.31	
Interest Payable	24,541,312.14	
Accounts Payable and Other Liabilities	11,631,878.91	
Total Current Liabilities	₱ 257,337,940.50	
Advances from National Treasury	₱ 332,442,039.87	
Advances from National Treasury (related to NPAs for Transfer to National Government)	₱ 488,918,160.99	
Long Term Liabilities		
Loans Payable	₱ 816,891,711.30	
Liabilities for Transfer to National Government	2,653,951,588.81	
Total Long Term Liabilities	₱3,470,843,300.11	
Total Liabilities		₱4,549,541,441.47
Deferred Credits		10,746,594.02
Deferred Credits (related to NPAs for Transfer to National Government)		149,801,525.03
Stockholders' Equity		
Capital Stock (Authorized and Subscribed - P10.00)	₱3,230,438,657.00	
Retained Earnings (Deficit)	(864,355,430.84)	
Profit (Loss)	(164,939,092.68)	
Total Stockholders' Equity		2,201,144,133.48
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		₱6,911,233,694.00

Annex F

EXPORT CREDIT GUARANTEE PROGRAM
FOR SMALL AND MEDIUM INDUSTRIES

BANK GUARANTEE LINE

- PURPOSE** : To raise the level of preshipment financing available and accessible to creditworthy but collateral-deficient small and medium-size export enterprises.
- To simplify and facilitate the delivery of financial assistance and guarantee support to deserving exporters.
- CONCEPT** : Philguarantee shall, in addition to the existing Individual Account Guarantee Facility, extend Bank Guarantee Lines in favor of private banks participating under the ECGP-SMI.
- Subject to conditions embodied in a new agreement, Philguarantee shall delegate authority to participating banks to approve and grant preshipment credits to small and medium-size exporters secured by the guarantee of the corporation.
- ACCREDITED BANKS** : Citytrust Banking Corporation
Far East Bank and Trust Company
Philippine Commercial International Bank
Pilipinas Bank
Rizal Commercial Banking Corporation
Solidbank Corporation
- GUARANTEE LINE** : P25 Million per participating bank renewable annually for the same amount based on the bank's overall performance in the ECGP-SMI.
- GUARANTEE COVERAGE** : Maximum of 70% of the outstanding principal and accrued interest
- GUARANTEE FEE** : 1.5% per annum
- PERFORMANCE STANDARDS AND SANCTIONS** : Past due ratio must not exceed 20%. Otherwise, the facility shall be automatically suspended.
- A default ratio must not exceed the 10%. Otherwise, the facility shall be automatically terminated.

ELIGIBLE LOAN	:	Preshipment Export Credit granted against irrevocable letter of credit or acceptable confirmed purchase order
GUARANTEE CEILING	:	Small enterprise - maximum of ₱500 thousand Medium enterprise - maximum of ₱1.5 million
LOAN UTILIZATION	:	Purchase of inventories, payroll and other operating expenses to service export orders
MINIMUM COLLATERAL REQUIREMENT	:	Assignment of irrevocable letter of credit or confirmed purchase order JSS of principals in their personal capacity
QUALIFIED BORROWERS	:	A small or medium-size export enterprise with total assets of at least ₱500 thousand but not exceeding ₱20 million
OWNERSHIP	:	Majority-owned Filipino firm
BUSINESS ACTIVITY	:	Processing, production or manufacturing and marketing of non-traditional products directly for exports
TRACK RECORD	:	At least one (1) year export performance or 4-5 negotiated shipments with a total value of at least \$100 thousand
FINANCIAL STANDING	:	a. Unimpaired capital of ₱250 thousand (net of pre-operating expenses) b. Debt-Equity ratio of 80:20 after financing
CREDIT RECORD	:	Satisfactory credit dealing as certified by past/present creditors for the enterprise and its principals No derogatory findings for the enterprise and its principals

Annex G

PROPOSED GUARANTEE ASSISTANCE PROGRAM
FOR OVERSEAS CONTRACTORS

- OBJECTIVE : To facilitate bonding for POCB-accredited contractors in order for these firms to maintain their competitiveness in service exports.
- CONCEPT : Philguarantee shall provide guarantees to a pool of selected/pre-qualified POCB-registered overseas contractors who are encountering difficulties due to the rather stringent collateral policy of most banks. These contractors have been successful in their undertakings and the program aims to ensure that these accomplishments continue.
- PROPOSED SCHEME :
1. Project Qualified under the Program:
 - * Labor Subcontracts to established foreign contractors (i.e. Japanese, U.S., Italian, Korean) as determined by POCB;
 - * Officer In Charge of Construction (OICC) Projects.
 2. Qualified Contractors:

Some ten (10) qualified firms shall be chosen among the "surviving" POCB registered contractors. The selection process to be undertaken in close coordination with POCB shall be based on the following factors:

 - * Historical Net FX Remittance per POCB Records
 - * Accreditation with POCB
 - * Contracting Ability of the firms based on Net Worth, Projects Finished/Ongoing
 - * Dollar Remittance and Employment to be generated by the Project
 - * Credit Record

Annex G (Cont'd.)

3. Types of Guarantee Available:

Performance Bond, Advance Payment
or Peso Working Capital for
Mobilization Expenses

4. Guarantee Ceiling: \$500 Thousand
maximum exposure to each qualified
contractor; P100.0 Million ceiling
on all issuances under this program.

5. Guarantee Coverage:

The total guarantee requirement of the
firm shall be shared proportionately
among Philguarantee, Bank and the
Contractor in the following manner:

- * 50% Philguarantee
- * 25% Bank
- * 25% Contractor's Equity
Contribution

6. Collateral Requirement:

Philguarantee's exposure shall be
secured by the assignment of contract
proceeds plus the JSS of company's
principals. Any other collateral
held by the bank shall be shared
parri-passu with Philguarantee.

7. Fees:

Commitment Fee - 1/4 of 1% p.a.
commencing on
the 90th day
upon approval.

Guarantee Fee - Minimum of 2.0%
p.a.