## Philippines

# Export Industry Modernization Project (II)

Report Date: November, 2002
Field Survey: July, 2001

## 1. Project Profile and Japan's ODA Loan

Location Map of the Project


Project Site

### 1.1 Background

The Export Industry Modernization Project I (EIMP I) was implemented from 1980 and the Philippine Government highly evaluated the result of EIMP I in terms of contribution to the expansion of exports of the small and medium size enterprises. According to the Technology and Livelihood Resource Center (TLRC) that was one of the executing agencies in EIMP I, 28 sub-projects loaned through EIMP I acquired about US$10 thousand of foreign currency and increased the number of employees by about 3,300 people in 1985.

In 1988, the Philippines was suffering from a heavy external debt balance totaling US$28 billion. Although the country urgently needed to widen its export base in order to reduce its balance of payments gap, the export sector was heavily dependent on traditional products such as sugar, coconuts and copper, which were quite vulnerable to global price fluctuations. Therefore, the expansion of the export of non-traditional products was of vital importance, in order to secure foreign currency earnings and to advance the industrialization of the country. Furthermore, it was expected that the growth of small- and medium-sized, export-oriented enterprises would lead to the generation of employment, which was also a major concern of the government. In response to these circumstances, the EIMP II was developed. Its aim was to provide technical and financial assistance to small- and medium-sized, export-oriented enterprises through the Technology and Livelihood Resource Center (TLRC).

### 1.2 Objectives

To promote industrialization, reduce external debt and improve unemployment conditions simultaneously by expanding exports, thereby acquiring foreign exchange and creating employment.

Efforts will be focused on small- and medium-sized, export-oriented enterprises that produce non-traditional products.

### 1.3 Project Scope

(1) Long-term loan and investment by the TLRC to the following sub-projects:

(a) Eligible industries: non-traditional export-oriented products, such as garments, wood products, food processing, light metal processing, gifts, and houseware.

(b) Eligible end-users: small- and medium-sized export-oriented enterprises with an asset size not exceeding 20 million pesos.

(c) Eligible projects: Expansion, modernization and renewal of the enterprises, excluding land purchase

(d) Amount of loan limit: 14 million pesos for sub-projects and 40 million pesos for common service facilities projects, not exceeding 70% of the total amount of sub-loans

(e) Interest rate: 10% per annum

(f) Repayment period: 5 to 15 years with a 1- to 5-year grace period

(2) Consultancy services for technique, marketing, finance, management, implementation and supervision to project proponents and the TLRC

### 1.4 Borrower/Executing Agency

The Government of the Republic of the Philippines / The Technology and Livelihood Resource Center, Development Bank of the Philippines

### 1.5 Outline of Loan Agreement

| | |
|---|---|
| Loan Amount (estimated)<br>Loan Disbursed Amount | 6,015 million Yen<br>5,935 million Yen |
| Date of Exchange of Notes<br>Date of Loan Agreement (L/A) | Dec. 1987<br>Jan. 1988 |
| Terms and Conditions<br>Interest Rate<br>Repayment Period (Grace Period)<br>Procurement | 3.0%,<br>30 years (10 years)<br>General Untied<br>(Partially Untied for Consulting Services) |
| Final Disbursement Date | Aug. 1995 |

## 2. Results and Evaluation

### 2.1 Relevance

The Philippines was suffering from heavy external debt in the 1980s. Development objectives of the Philippine Government in the 1980s included increasing foreign reserve through the promotion of exports, generating employment through the development of labor-intensive, resource-based small-and medium-sized enterprises (SMEs), and the equitable industrialization of local areas. The above development strategy has essentially succeeded up to the present as in continuing to be a priority to the present. In the Updated Medium-term Development Plan 2000-2002, poverty reduction is a top priority and SMEs are planned to be promoted, since they have the potential to expand economic opportunities for the poor by providing them with employment.

At the time of appraisal, it was recognized that SMEs were constrained by limited access to credit and management know-how, and market information. Addressing these constraints has been the objective of the EIMP II. In this light, the current project has maintained its relevance and consistency with the Government’s development policy up to the present.

Under the agreement with the Development Bank of the Philippines (DBP), TLRC was responsible for the appraisal and monitoring of sub-projects, while DBP was in charge of safekeeping of funds, collateral valuation, collection, recording and reporting. Considering the result of the project, discussed below, it was not sufficiently appropriate to assign TLRC responsibility for the appraisal and monitoring of sub-loans.

## 2.2 Efficiency

### 2.2.1 *Disbursement of Sub-loans*

Although the original schedule for the disbursement of the EIMP II fund covered a period of six years, actual disbursement took seven years, mainly because of the general slowdown in economic activities resulting from a power crisis that peaked between 1992 and 1993.

By the end of Year 2000, 215 sub-loans were implemented, including those financed through the revolving fund. The total disbursement amounted to 1,592 million Pesos. Table 1 shows the number and amount of sub-loans by type of sub-industry. The sub-loans were mostly small- or medium-sized, ranging from 2 million Pesos to 40 million Pesos and averaging 7.4 million Pesos.

**Table 1 Number and Amount of Sub-projects Disbursed by Dec. 31 2000**

| Sub-Industry | Number of sub-projects | Total amount of sub-loans (’000 Pesos) | Share in Amount |
|---|---|---|---|
| Wood/ Rattan furniture | 33 | 258,047 | 16% |
| Food Processing | 16 | 189,044 | 12% |
| Light Metal Processing | 29 | 269,220 | 17% |
| Garments/ Textile | 56 | 297,427 | 19% |
| Gifs, Toys & Houseware | 35 | 166,419 | 10% |
| General / Others | 46 | 411,650 | 26% |
| Total | 215 | 1,591,807 | 100% |

Source: TLRC

Table 2 shows the geographical distribution of sub-projects. Sub-projects are mostly located in central to southern Luzon (NCR, Region III and IV) and Cebu (Region VII), where infrastructure is well developed, although TLRC staff have made efforts to develop sub-projects in other areas, such as Mindanao.

**Table 2 Geographical Distributions of Sub-projects**

| Region | Number of sub-projects | Total amount of sub-loans ('000 Pesos) | Share in Amount |
|---|---|---|---|
| I (Ilocos) | 2 | 8,316 | 0.5% |
| II (Cagayan Valley) | 2 | 13,675 | 0.9% |
| III (Central Luzon) | 28 | 200,087 | 12.6% |
| IV (Southern Tagalog) | 42 | 307,719 | 19.3% |
| V (Bicol) | 3 | 23,614 | 1.5% |
| VI (western Visayas) | 6 | 22,605 | 1.4% |
| VII (Central Visayas) | 28 | 242,081 | 15.2% |
| VIII Eastern Visayas) | 1 | 8,535 | 0.5% |
| IX (Western Mindanao) | 2 | 10,463 | 0.7% |
| X (Northern Mindanao) | 2 | 15,058 | 0.9% |
| XI (Southern Mindanao) | 8 | 102,876 | 6.5% |
| XII (Central Mindanao) | 2 | 40,000 | 2.5% |
| CARAGA | 1 | 12,760 | 0.8% |
| NCR (National Capital Region) | 88 | 586,018 | 36.8% |
| TOTAL | 215 | 1,591,808 | 100.0% |

Source: TLRC

The maturity period for most of the loans was five years, including a one-year grace period on principal repayment. As agreed with the JBIC, the interest rate applied to the EIMP II until 1997 was 10%, while the 91-day T-bill rates during the same period were between 12% and 24%. Later, T-bill rates fell from 15% in 1998 to 10% in 2000, and the TLRC raised the interest rate to 14% in 1998 to reflect increased loan administration costs and a 10% Value-Added Tax.

### 2.2.2 *Consulting services*

The project employed 24 man-months of Japanese consultants and 84 man-months of local consultants. Technical and managerial advice was provided to sub-loan borrowers by the consultants, while techno-business workshops exploring business linkages between Japanese companies and borrowers were held. The consultants also provided assistance to the TLRC in its technical evaluation, implementation and supervision of sub-projects. According to the TLRC, through the technical assistance, the program's operations have been improved; after-sales services and loan collections, among other things, have been strengthened.

## 2.3 Effectiveness

The JBIC evaluation mission conducted an interview survey. The number of interviewees was limited to 43, since it was difficult to interview those borrowers for sub-projects whose accounts were already closed or sub-projects under litigation. 32 borrowers provided data on current sales revenues and on revenues before the loan. Only 15 sub-projects, or 47%, achieved a net increase in sales (after the adjustment for the price increase), and 10 sub-projects increased exports. Overall, sub-projects in light metal and garments/textile industries showed poor performance. Table 3 shows the increase in revenues and export of sub-projects, categorized by sub-industry.

**Table 3 Interview Survey Results: Effects of Loan as of Year 2000 ('000 Pesos)**

| End-user | Year of disburse-ment | Loan amount | Annual revenue before loan | Revenue in 2000 in disbursement year price | Increase (decrease) in annual revenue | Increase in Direct export |
|---|---|---|---|---|---|---|
| Wood/ Rattan Furniture: Since the industry does not have price advantages, only those companies that have innovative designs increased export and sales. | | | | | | |
| 1 | 1985 | 9,800 | 4,000 | 8,553 | 4,553 | 13,840 |
| 2 | 1996 | 10,000 | 73,440 | 31,275 | (42,165) | - |
| 3 | 1999 | 10,000 | 11,392 | 33,815 | 22,423 | 23,345 |
| 4 | 1997 | 12,000 | 7,000 | 10,691 | 3,691 | - |
| Food Processing: Stable supply of cheap raw materials contributed to the growth of sales and exports. | | | | | | |
| 1 | 1997 | 33,000 | 30,000 | 123,355 | 93,355 | 56,760 |
| 2 | 1992 | 11,000 | 41,511 | 275,907 | 234,396 | - |
| Light Metal: Companies that made investments before 1997 were hit by the Asian economic crisis. | | | | | | |
| 1 | 1998 | 15,000 | 120 | 108 | (12) | - |
| 2 | 1992 | 2,000 | 2,000 | 1,018 | (982) | - |
| 3 | 1992 | 10,000 | 24,000 | 5,658 | (18,342) | - |
| 4 | 1998 | 14,000 | 36,000 | 64,895 | 28,895 | - |
| 5 | 1996 | 11,000 | 80,000 | 6,211 | (73,789) | - |
| 6 | 1993 | 30,000 | 7,486 | 6,017 | (1,470) | - |
| Garments/ Textile: Since the industry does not have a price advantage, only those companies that have innovative designs increased exports and sales. | | | | | | |
| 1 | 1995 | 10,000 | 90,000 | 6,395 | (83,605) | - |
| 2 | 1993 | 1,900 | 60 | 1,937 | 1,877 | 3,101 |
| 3 | 1994 | 4,000 | 160 | 49 | (111) | - |
| 4 | 1996 | 5,100 | 15,000 | 3,882 | (11,118) | - |
| 5 | 1998 | 9,000 | 38,000 | 22,533 | (15,467) | - |
| 6 | 1993 | 6,500 | 1,500 | 8,375 | 6,875 | 11,358 |
| 7 | 1993 | 1,700 | 1,000 | 908 | (92) | - |
| Gifts, Toys &Houseware: Most companies increased exports and sales. | | | | | | |
| 1 | 1996 | 5,000 | 5,300 | 6,754 | 1,454 | 1,873 |
| 2 | 1997 | 26,000 | 18,500 | 30,181 | 11,681 | 14,204 |
| 3 | 1992 | 2,750 | 4,000 | 4,526 | 526 | 930 |
| 4 | 1989 | 7,300 | 19,700 | 33,059 | 13,359 | 30,307 |
| 5 | 1991 | 4,000 | 2,000 | 158 | (1,842) | - |
| General / Others | | | | | | |
| 1 | 1993 | 7,800 | 0 | 4,710 | 4,710 | - |
| 2 | 1998 | 8,000 | 9,241 | 8,311 | (929) | - |
| 3 | 1997 | 40,000 | 15,900 | 16,864 | 964 | - |
| 4 | 1984 | 14,000 | 20,000 | 7,237 | (12,763) | - |
| 5 | 1998 | 16,500 | 0 | 31,618 | 31,618 | 1,508 |
| 6 | 1994 | 4,200 | 2,500 | 2,368 | (132) | - |
| 7 | 1991 | 10,000 | 5,300 | 8,316 | (3,016) | - |
| 8 | 1997 | 14,000 | 272,688 | 37,972 | (234,716) | - |

Source: JBIC interview survey, 2001

## 2.4 Impact

### 2.4.1 *Social Impact*

Table 4 shows the changes in the number of employees, by sub-industry, as of the time of the interview survey. 35 out of the 43 sub-projects interviewed provided information on employment. 19 sub-projects had experienced an increase in the number of employees, 12 sub-projects saw a decrease and in 4 sub-projects the number did not change; the net increase in employment was 171. With regard to seasonal employment, 10 companies increased and 7 companies decreased employment. The decrease of employment is mostly attributed to the sub-industries whose performance was poor: light metal and garments/textile industries.

The total investment cost of these 35 sub-projects was 422 million Pesos. Cost for employment is quite expensive, approximately 1 million pesos including seasonal employment.

**Table 4 Changes in Employment by Sub-industry**

| Sub-Industry | Increase (decrease) in employment | Increase (decrease) in seasonal employment |
|---|---|---|
| Wood/ Rattan furniture | 190 | 54 |
| Food Processing | 146 | 80 |
| Light Metal | -254 | -240 |
| Garments/ Textile | -143 | -13 |
| Gifs, Toys & Houseware | 105 | 435 |
| General / Others | 127 | -5 |
| **Total** | **171** | **311** |

Source: JBIC interview survey, 2001

### 2.4.2 *Economic Impact*

At the time of appraisal, it was expected that the project would contribute to the improvement of the current account and to the reduction of unemployment in the Philippines. Table 5 shows the current account and unemployment rate of the Philippines in 1989, 1994 and 1999. The current account improved considerably in the 1990s, owing to the increase in the export of non-traditional manufactured products. On the other hand, the national unemployment rate did not improve because it largely relied on other industries. Judging from Table 4, this project may have contributed to the reduction of unemployment to some extent.

**Table 5 Current Account and Employment of the Philippines**

| | 1989 | 1994 | 1999 |
|---|---|---|---|
| **Export (FOB value in million US $)** | 7,821 | 13,483 | 35,037 |
| Traditional products | 1,550 | 1,505 | 1,326 |
| Non-traditional manufactured products | 5,531 | 10,917 | 31,562 |
| Non-traditional non-manufactured products | 659 | 806 | 770 |
| Others | 160 | 355 | 1,516 |
| **Current Account (million US $)** | -1,456 | -2,950 | 7,239 |
| **External Debt (million US $)** | 28,652 | 39,412 | 52,022 |
| **Unemployment rate** | 8.4% | 8.4% | 9.4% |

Source: National Statistical Coordination Board

### 2.4.3 *Environmental Impact*

Pursuant to existing law which went into effect in 1978, new or expansion projects and/or businesses shall submit an Environment Compliance Certificate (ECC) prior to project implementation. Such certificates are obtained from the Department of Environment and Natural Resource (DENR). The ECC provision is a pre-requisite for loan release to sub-projects. Furthermore, the TLRC has created the T.E.M.P.O. (TLRC Environment Management Program Office), whose task is to coordinate/supervise/integrate environment management in all of the TLRC's operations, including those of its clientele. This service is being provided on a fee basis. Owing to this framework and related actions, no significant environmental impact has been reported to the TLRC.

## 2.5 Sustainability

### 2.5.1. *Sustainability of Sub-loans*

The overall collection rate (total repaid principal / total due) through the end of Year 2000 was 60%. Although the repayment performance of EIMP II is insufficient, the TLRC has taken necessary measures to recover the loans; over 70% of non-performing loans have been transferred to the court, and some assets have already been seized by the TLRC.

**Table 6 Collection of Sub-loans as of Dec. 31, 2000 ('000 Pesos)**

| Account Status | No. of Accounts | Disbursed Amount | Amount Due (Principal) | Past Due Amount (Principal) | Collection Rate |
|---|---|---|---|---|---|
| 1.Fully repaid | 97 | 501,314 | 503,463 | 0 | 100% |
| 2.Current Accounts | 36 | 432,707 | 134,393 | 37,537 | 75% |
| 3.Past Due Accounts | 27 | 219,275 | 141,952 | 95,691 | 33% |
| 4.Past Due under Litigation | 55 | 438,513 | 373,365 | 331,033 | 11% |
| Total | 215 | 1,591,808 | 1,153,174 | 464,261 | 60% |

Source: TLRC

There are several key factors that have affected the performance of EIMP II sub-projects adversely, such as the globalization of production, peace and order conditions, and currency devaluation. Table 7 shows the performance of sub-projects by sub-industry.

**Table 7 Performance of Sub-projects by Industry**

| EIMP II Sub-industry | No. of Sub-projects | Collection Rate | Performance |
|---|---|---|---|
| Wood/ Rattan Furniture | 33 | 53% | Poor. Restrictions on log harvesting starting in the 1990s caused unreliability in the procurement of raw materials, which led to the loss of the market. |
| Food Processing | 16 | 80% | Good. Robust markets with reliable raw materials have contributed to the sector's healthy performance. |
| Light Metal | 29 | 49% | Fair until 1996, but poor from 1997. The 1997 Asian crisis resulted to a local (even worldwide) market slump; as a result, borrowers have reduced their operating capacities and encountered collection problems from buyers. Other borrowers who are subcontractors to IT-related electronic firms still enjoy good business. |
| Garments/ Textile | 56 | 52% | Poor. Smaller assisted projects lost their market when U.S. garment quotas to the Philippines were cut back in the second half of 1990s. Moreover, currently, Philippine products have difficulty competing with China's cheaper products. |
| Gifts, Toys & Houseware | 35 | 70% | Fair. Some companies enjoy premium prices with indigenous materials and design innovativeness, while others are saddled with increasing prices for imported raw materials. |
| General / Others | 46 | 66% | Fair. |
| Total | 215 | 60% | |

Source: TLRC

The sustainability of sub-projects is even worse than the collection rate implies. Even if a sub-project fully repaid its debt, this does not necessarily mean that its operation was successful; according to the TLRC, there were a number of cases where sub-project owners repaid their debt using other sources of income or by selling their assets when their sub-projects did not generate enough cash to pay the debt. Moreover, many sub-projects, such as furniture producers, stopped operations after completing repayment because of adverse market changes or difficulty in procuring materials. To the extent of the TLRC's knowledge, less than half of the fully repaid sub-projects are still operational.

Problematic accounts undergo a thorough review, as well as one-to-one negotiations between the Technology Funds Assistance Group (TFAG) and the project principal, after which one of the measures are taken:

- Loan restructuring, for projects that may become viable again and repay their restructured loans;
- Special payment arrangements for projects whose debt-servicing capability is doubtful, even though they are still operating (funds need to be secured elsewhere to assure debt repayment); or
- Payment in kind, where borrowers offer their assets/collateral to pay-off TLRC loans.

**2.5.2** ***Sustainability of the Executing Agency***

Since the beginning of the project, the TLRC has been the executing agency. The TFAG (Technology Funds Assistance Group) was created within the TLRC to manage technology-related funding assistance programs after the commencement of the project, and three units for managing the JBIC's two-step loans were placed under it: the AITTD (Agro-industrial Technology Transfer Department) for the AITTP (Agro-industrial Technology Transfer Program), the IDD (Industry Development Department) for the EIMP I, and the EIMD for the EIMP II. In 1997, the TFAG underwent an internal realignment to strengthen its loan recovery capacity. The resulting three departments -- the NAMD (New Accounts Management Department), the CAMD (Current Accounts Management Department), and the PAMD (Problem Accounts Management Department) – continue to exist today.

Table 8 shows the indicators of TLRC's financial performance in 1999 and in 2000. Although the TLRC reported a loss of over 100 million Pesos over these two years, it can be considered adequately solvent because it has 2 billion Pesos in retained earnings. Part of this amount is provided in the form of subsidies from the government, as compensation for extending public services related to livelihood improvement. (e.g. 97 million Pesos in 1999).

**Table 8 TLRC's Financial Performance in Year 2000 (in million Pesos)**

| Financial Statement | Year 1999 | Year 2000 |
|---|---|---|
| Total Assets | 4,053 | 3,984 |
| Current Assets | 1,377 | 1,387 |
| Current Liabilities | 564 | 607 |
| Equity and Retained Earnings | 2,314 | 2,234 |
| Sales Revenue | 238 | 282 |
| Net Income before Subsidy | -135 | - 101 |
| Financial Indicators | Year 1999 | Year 2000 |
| Return on Total Assets | - 3.3% | - 2.5% |
| Return on Sales | - 57% | - 36% |
| Total Assets Turnover | 0.06 | 0.07 |
| Current Ratio | 244% | 228% |
| Stockholder's Equity Ratio | 57% | 56% |

Source: TLRC

The EIMP II has a considerable number of non-performing loans (e.g. 82 out of 215 sub-projects; see Table 6), which is likely to become a serious burden on the TLRC's financial performance. The TLRC is currently seeking the best way to dispose of its acquired collaterals, considering the following methods: (1) offering the assets to interested borrowers for lease, or including them in the loan package; (2) utilizing the acquired assets in other projects administered by TLRC; and (3) pursuing liquidation of the acquired assets through sale in order to prevent further deterioration of the assets. According to the TLRC, although it has already sold some of these assets, it still retains a considerable amount. For this reason, the creation of the AAMD (Acquired Assets Management Department) was proposed to the Board of the TLRC.

Although the TLRC has made its best effort to supervise and monitor the sub-projects effectively, its data processing ability is questionable. It has sufficient technical expertise in the agriculture sector, but, judging from the results of this project, it does not have sufficient operational efficiency or appraisal ability, compared with commercial banks or DBP.

The poor performance of the EIMP II has been caused not only by external factors and TLRC's insufficient data processing ability but also by the TLRC's institutional difficulty to properly consider risks associated with these external factors. The EIMP II is focused on export-oriented businesses, which are influenced by exchange rate fluctuations and the globalization of the economy. In order to avoid default on individual sub-projects, the TLRC was expected to conduct an appropriate evaluation of all the risks associated with sub-projects. However, it seems that the TLRC did not sufficiently consider negative scenarios adequately when appraising sub-projects, relying too heavily on the fact that all sub-projects were to be secured fully by collateral. The TLRC did not sufficiently consider the fact that recovery of non-performing debt is quite costly, raising administration expenses significantly. Considering the above situation, it is suggested that TLRC was incompetent to conduct the appraisal of sub-loans.

### 2.5.3 *Revolving Fund and Special Account*

A special account was opened at the Development Bank of the Philippines (DBP). However, DBP did not keep account information properly; as a result, the status of neither the special account nor the revolving fund could be obtained.

## 3. Lessons Learned

Government Financial Institutions (hereinafter 'GFIs') and Non-Financial Government Agencies should focus on their original mandates and exploit their comparative advantage: the GFIs in delivering financial services, Non-Financial Government Agencies in not financial domain but providing non-financial services to the target groups, including training, information dissemination, institution building and experimental functions.

## Comparison of Original and Actual Scope

| Item | Plan | Actual |
|---|---|---|
| (1) Project Scope | (1) Long-term loan and equity investment for small and medium-sized enterprises producing non-traditional products for export.<br>(2) Consultancy services for technical assistance to TLRC and project proponents.<br>-Foreign consultants : 78M/M<br>-Local consultants : 336M/M | (1) As planed<br>(2) Consultancy services for technical assistance to TLRC and project proponents.<br>-Foreign consultants : 24M/M<br>-Local consultants : 84M/M |
| (2) Implementation Schedule | April 1988 to 1994 | April 1988 to 1995 |
| (3) Project Cost | | |
| Foreign currency | 6,015 million Yen | 5,935 million Yen |
| Local currency | - | - |
| Total | 6,015 million Yen | 5,935 million Yen |
| ODA Loan Portion | 6,015 million Yen | 5,935 million Yen |

## Independent Evaluator's Opinion on Export Industry Modernization Project (II)

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The objective of the project ---the development of export-oriented small and medium scale enterprises--- is as relevant today as during the start of the project.
The experience of high performing countries in East Asia shows the importance of a dynamic SME sector with rising productivity and linked with large enterprises in the country's export, employment and output performance and prospects.

The Project Evaluation Report, while a good start, needs further beefing up in order to help the Philippine government and the donor government (Japan) get a better understanding of why the Export Industry Modernization Project II had an extremely mixed performance. Was the relative failure of the project primarily caused by overall macroeconomic, industry and globalization factors or by poor project administration and weak loan appraisal?

Toward a more in-depth analysis, it is useful to compare the project result in terms of output effect, export effect, and employment effect with the industry performance in output, exports and employment during the period. The employment impact of EIMP II (in Table 4 of the Report) appears to rely only on direct hires of the beneficiary firms. However, it appears that 75 % of the respondents used sub-contractors. If so, it is important to indicate if possible the direct and indirect (through subcontracting) employment effects of the project. Also, it is useful to indicate in Table 3 of the Report both direct and indirect exports of the beneficiaries. (By the way, firm No. 1 in wood/furniture and Firm No. 4 in general/others in Table 3 are likely EIMP I beneficiaries, and therefore should be excluded from the evaluation of EIMP II.)

The provision of technical and marketing advice and assistance by the project consultants presumably improved the relative competitiveness of the beneficiary firms compared to their industry competitors. Did the firms that received technical advice/assistance improve their productivity and competitiveness compared to those firms that did not? How did the beneficiary firms rate the performance of the consultants? Were they effective? It would be useful to have more detailed discussion in the Report on the impact of the consultants.

Based on the background information on EIMP II, EIMP I appears to be more successful than EIMP II. Yet EIMP I was implemented during the worst economic crisis of the country while EIMP II encompassed one of the better economic recovery periods during the past two decades. Thus, other things being equal, we should expect that on the average EIMP II perform better than EIMP I.

Finally, a comparison between EIMP II and a similar JBIC-funded project for SMEs---ISSEP I--- but which was coursed through DBP indicates that ISSEP I performed significantly better than EIMP II. (Please see project evaluation report on ISSEP I submitted to DBP by the DLSU Angelo King Institute for Economic and Business Studies.) This seems to suggest that a significant reason for the extremely mixed performance of EIMP II has to do with the inadequate quality of loan appraisal and monitoring at TLRC. This buttresses the view in the Project Evaluation Report that non-financial government agencies like TLRC should focus on providing non-financial services (e.g., training, technical support, etc.) and leave the provision of financial services to government financial institutions like DBP. I agree with the recommendation of the Project Evaluation Report.