

ASEAN-Japan Development Fund for Republic of the Philippines Category B (AJDF), Industrial and Support Services Expansion Program (ISSEP)

Report Date: December 1999
Field Survey: January 1999

1 Project Summary and Japan's ODA Loan

(1) Background

The Medium Term Philippines Development Plan for 1987-1992 named the promotion of micro, small and medium businesses as one of 13 key national policies. The plan included support for such businesses in terms of both finance and technology. It was decided that such support should be provided through the ASEAN Japan Development Fund (AJDF) within the period of the development plan, and the Fund was expected to meet the growing demand for finance from the private sector in the Philippines, where it is difficult to obtain long-term finance at low and fixed interest rates.

(2) Objectives

To supply long-term finance at low and fixed interest rates, which is hard for small and medium businesses to obtain in the Philippines, in order to help those businesses to develop and succeed. The use of private sector financial institutions as intermediary agencies was intended to improve the skills of these institutions in financing small and medium businesses. By nurturing and strengthening small and medium businesses, the project was expected, by extension, to strengthen the foundations of the Philippines economy.

(3) Project Scope

This project was a financial intermediary loan in which the funds lent to the borrower by the JBIC are channeled through Participating Financial Institutions (PFIs) to the small and medium businesses that are the end-users. The conditions for sub-loans are as follows:

Eligible businesses: Both AJDF and ISSEP (Industrial and Support Services Expansion Program) lend to businesses with total assets of less than 200 million Pesos before the loan.

Eligible purpose of loans: [1] The construction, expansion or modernization of factories and related works, the purchase of mechanical equipment and spare parts, and startup funds (ISSEP includes additional working capital).

[2] Installation of environment-related medical equipment (ISSEP only).

Finance terms: [1] Loan amount of at least 50,000 Pesos and less than 100 million Pesos from both AJDF and ISSEP.

[2] Interest from the AJDF is (WAIR* - 2%) + maximum 5% and from ISSEP is (WAIR* - 2%) + maximum 5% for



variable interest rate and (WAIR - 2%) + 2~3.5% + maximum 5% for fixed interest rate (all at the time of the appraisal).

(*WAIR: Weighted Average of Interest Rates)

[3]Repayment period between three and 15 years from both the AJDF and the ISSEP.

[4]The ODA loan ratio was 80% of the cost of sub-projects.

(The details of finance conditions between JBIC and DBP, DBP and PFLs, and PFI and the end-users are presented below in 2.(2)[1])

(4) Borrower/Executing Agency

In each case this was the Development Bank of the Philippines (DBP) (Guaranteed by the Philippine government).

(5) Outline of Loan Agreement

	AJDF	ISSEP
Loan Amount	¥30,084 million	¥22,500 million
Loan Disbursed Amount	¥30,084 million	¥22,500 million
Loan Conditions		
Interest Rate	2.5%	3.0%
Repayment Period (Grace Period)	30years(10years)	30years(10years)
Procurement	General Untied	General Untied
Date of Loan Agreement	June 1991	December 1994
Final Disbursement Date	March 1995	July 1997

2 Analysis and Evaluation

(1) Record of Loans Disbursed

(i) Project Scope: The project was carried out with eligible end-users, loan targets and terms as planned.

(ii) Disbursement Record:AJDF; 227 loans, 7,304,440,000 Pesos. ISSEP; 184 loans, 5,605,560,000 Pesos.

(iii) Breakdown by Scale:AJDF; micro-scale businesses 0.8%, small businesses 14.6%, medium businesses 35.7% and large businesses 48.9%.

ISSEP; micro-scale businesses 1.2%, small businesses 14.2%, medium businesses 37.6% and large businesses 47.1%.

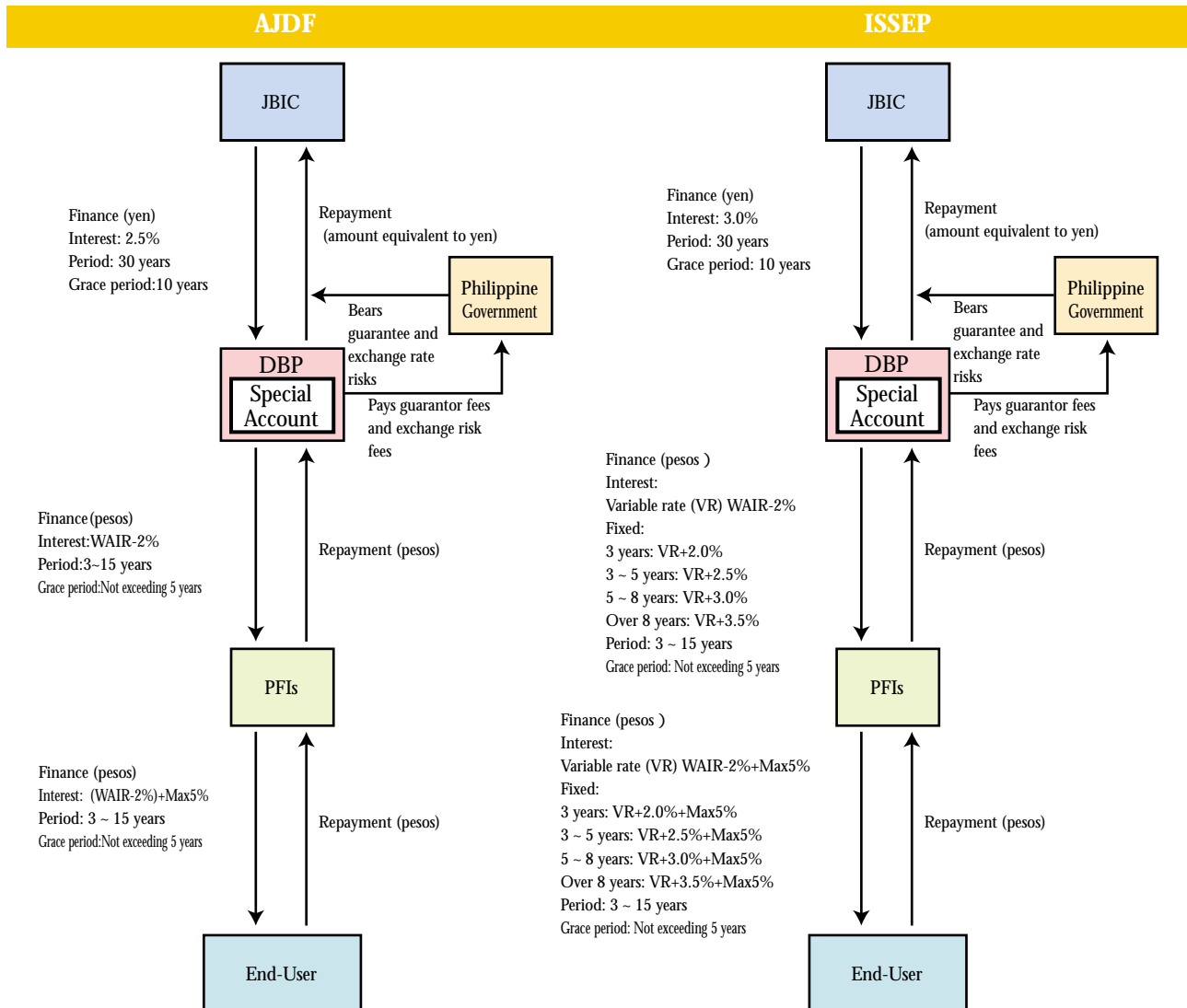
* The classifications used by the AJDF are based on total assets before the loan, such that micro businesses had 100,000~1 million Pesos, small businesses had 1~10 million, medium businesses had 10~40 million and large businesses had 40~200 million Pesos. The ISSEP classifications were that, similarly, micro businesses had 150,000~1.5 million Pesos, small businesses had 1.5~15 million, medium businesses had 10~60 million and large businesses had 60~200 million Pesos.

(iv) Breakdown by Industry:The breakdown of borrowers by their type of business is as tabulated below:

	AJDF	ISSEP
Manufacturing of foodstuff and beverage	13.7%	15.0%
Textiles and apparel related industries	14.9%	9.3%
Metal goods	8.9%	11.5%
Paper, paper products	8.2%	4.9%
Timber, cork, furniture	7.7%	6.4%
Petroleum and chemical products	7.8%	8.9%
Plastic products	0.0%	7.5%
Electric and industrial machinery	0.0%	1.4%
Manufacturing industry and others	13.9%	1.0%
Total of manufacturing industries	75.1%	66.0%
Transport, communications	15.9%	26.5%
Marketing distributor	2.8%	0.0%
Publishing, printing	1.1%	0.0%
Hospital and medical treatment related	0.0%	2.6%
Education	0.0%	1.9%
Non-manufacturing industries	5.1%	3.0%
Total of non-manufacturing industries	24.9%	34.0%
Grand Total	100.0%	100.0%

(2) Project Implementation Scheme

Sub-loans under this project were made through the flow of funds shown below :



(i) Sub-loan Recovery Situation

No arrears have occurred in payments from the PFIs to the DBP, and it is reported to DBP that there has been basically no problem in repayments from end-users to the PFIs. However, after the economic crisis some PFIs discussed rescheduling of their payments with the DBP, and some end-users fell somewhat into arrears in their payments to the PFIs. The situations of the end-users and PFIs appear to warrant some caution.

(ii) Revolving Fund

The revolving fund was set up within the DBP, and the secondary loans were made from the revolving fund. The activity of the revolving fund is reported to JBIC in progress reports every three months. The revolving fund is well managed.

3 Project Effects and Impacts

(i) Developing and Strengthening Small and Medium Businesses

In line with the original objective, long-term finance at fixed and low interest is being channeled to small and medium businesses which are keen to invest, and the finance serves to encourage their growth. The experience of having received a loan under this project has given many end-users credit history, which makes it possible for them to obtain long-term funds from private-sector financial institutions, which would have been extremely difficult before.

(ii) Enhancing the Ability of the Executing Agency and Intermediary Agencies

This project included technical support to DBP to establish rule-based systems for loan appraising and to enhance credit management ability. As a institution for the implementation and supervision of "directed credit", DBP is pushing to change

perceptions and attitudes and to raise the skill levels of staff. As a result, DBP has been able to build up the managerial ability of the PFIs which serve as the intermediary institutions and achieve the smooth operation of the project. Training for the staff of PFIs has made a valuable contribution to raising their skill level of financing small and medium businesses, and particularly for project finance.

4 Lessons Learned

Technical assistance to the executing agency and related institutions is valuable for ensuring the swift and smooth operation of financial intermediary loans.



End-user's Project, a Canning Plant



End-user's Project, a Candy Plant



Containers purchased by an End-user for Cold Storage of Imported Fruits