



# Industrial and Support Services Expansion Program (2)

Encouraging the growth of supporting industries with increasing medium- and long-term financing to SMEs

**[External evaluator]**

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Rating		
Effectiveness, Impact	a	Overall rating <b>A</b>
Relevance	a	
Efficiency	a	
Sustainability	a	

**Project Objectives**

To provide medium- and long-term financing mainly to small and medium enterprises in the manufacturing and related industries of the Philippines through DBP and also to provide technical assistance including technical / management guidance and marketing support to companies in supporting industries for the purpose of promoting the manufacturing industries and developing the supporting industries, thereby creating employment and contributing to the economic development of the Philippines.

**Outline of the Loan Agreement**

- Loan amount / disbursed amount: 35,350 million yen / 35,260 million yen
  - Loan agreement: December 1999
  - Terms and conditions: 0.75% interest rate; 40-year repayment period (including a 10-year grace period); general untied (or bilateral tied in parts)
  - Final disbursement date: March 2006
  - Executing agency: Development Bank of the Philippines (DBP)
  - Website URL: <http://www.devbankphil.com.ph/>
- \* This project was evaluated jointly with the DBP.

**Effects of Project Implementation (Effectiveness, Impact)**

This project has produced the expected outcomes, including the profitability of small and medium-sized enterprises (SMEs), through (i) providing medium- and long-term finance by using two-step loan framework, and (ii) technical assistance for the development of supporting industries. Phase I of this project or, the Industrial and Support Services Expansion Program (I), offered only one method of financing which indirectly financed through private financial institutions (PFIs) (wholesale method). In this project, direct financing from DBP to SMEs was added (retail method). The adoption of the retail method has resulted in promoting loans to smaller enterprises, contributing to the development of SMEs. A comparison of the business conditions of end-users before and after receiving the loans under this project shows an increase in gross income (up 18.4%), net profit (up 31.1%), and total assets (up 49.2%).

Furthermore, factoring and business matching through technical assistance have also improved the environment for supporting industries.

Therefore, this project has largely achieved its objectives and its effectiveness is high.

**Relevance**

This project has been highly relevant with the Philippines' national policies and development needs at the times of both appraisal and ex-post evaluation. At both points in time, support for SMEs remained high on the agenda for employment creation and the development of supporting industries. It is an important challenge to relieve the shortage of investment funds and the level of cash flows that are needed by SMEs.

**Efficiency**

Both project period and costs were almost as planned; therefore, efficiency of the project is high.

**Sustainability**

No major problems have been observed in the capacity of the executing agency nor its operation and maintenance system; therefore, the sustainability of this project is high. DBP has a well-established operational framework for each financing program, with a clearly defined division of duties. The agency also enjoys a sound financial base as a bank.

**Conclusion, Lessons Learned, Recommendations**

In light of the above, this project is evaluated to be highly satisfactory. As a major lesson learned from this project, it is advised to consider adequately how to balance between the wholesale and retail methods and how to determine the sub-loan interest rate amid falling of market interest rates in the context of supporting SMEs in the Philippines.

**Breakdown of borrowers by asset size and lending method**

	Asset size	No. of projects	%
Retail by the DBP	Large (over 100 million pesos)	29	18.0%
	Medium (15-100 million pesos)	81	50.3%
	Small (less than 15 million pesos)	51	31.7%
	Total	161	100.0%
Wholesale via PFI	Large	51	33.8%
	Medium	85	56.3%
	Small	15	9.9%
	Total	151	100.0%

Source: Project Completion Report (PCR)