FAR EAST BANK AND TRUST COMPANY
IFI LOAN CASE STUDY
PRE PROJECT NUMBER 940-0002.49

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FAR EAST BANK AND TRUST COMPANY

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Note: U.S. $1 = Pesos 20.4

I. GENERAL ECONOMIC ENVIRONMENT

The Far East Bank and Trust Company (FEBTC) project was designed and implemented during a period of economic difficulties and uncertainty in the Philippines. During 1985 and 1986 business owners and investors had drastically curtailed new investments, and commercial banks shed many old customers as they waited for conditions to stabilize.

The Philippines economy has recently come through the painful process of stabilization from a negative GDP growth of 6.8 percent in 1984 and 3.8 in 1985 to a positive growth of 1.5 percent in 1986 and a projected 6.5 percent in 1987. Inflation has continued to fall from 50 percent in 1984 to 23 percent in 1985, and less than one percent in 1986. The country's international reserve position registered a balance of $2.5 billion at the end of 1986, compared to only $865 million at the end of 1983 and $1.3 billion at the end of 1985. During the same period the external current account balance turned from minus 8 percent of GNP in 1983 to a small surplus in 1985 and a surplus of 3 percent of GNP in 1986.

The improvement in the balance of trade and international reserve position, however, is mainly due to falling oil prices (which caused a saving of $500 million in 1986 or 1.6% of GNP), debt rescheduling and declining interest rates in the international markets. In 1984-1985 the IMF provided a Standby Program for a total of SDR 615 million of which Special Drawing Rights (SDR) 403 million was drawn prior to its termination in April 1986. Under the new government another IMF Standby arrangement for 1986-1988 was negotiated for SDR 422 million. Last March, the World Bank approved an Economic Recovery Loan for $300 million. The U.S. government provided $200 million in Economic Support Funds for FY 1987; under the Paris Club, $660 million was restructured in 1985, $379 million in 1986, and $906 million for 1987 to June 1988. Commercial banks have restructured US $731 million in 1986.

Recently, the country concluded a multi-year loan restructuring agreement with the Advisory Committee of Creditor Banks, covering $9.4 billion in commercial bank debts falling due during 1987-1992, for a 17-year period with 7 1/2 years grace. The agreement also allows the Philippines to issue a new financial instrument (Philippine Investment Note - PIN) allowing a portion of the interest payment on bank debts to return to the country in the form of approved equity investment. The Philippine foreign debt at the end of 1986 stood at US $28.2 billion and the debt service ratio was 34 percent of export of goods and services.

In February 1986, the new government, with a view to addressing long-standing structural weaknesses and creating a stable economic environment, embarked on a far reaching program of structural reforms. The basic objectives of the reforms, as reported in the recent IMF Survey, are:

- o Reduction of government interventions in the economy and removal of disincentives to private sector activity;
- o Reorientation of development activities toward the rural and export sectors;
- o Promotion of a more outward-looking and competitive economy through appropriate exchange rate and tariff policies.

In June 1986 a new program of tax reform was adopted which includes reductions of income and corporate taxes at the highest income levels; elimination of tax exemptions (including public sector corporations); elimination of monopolies and other restrictions on imports in order to encourage imports of raw materials and intermediate goods; elimination of export taxes and monopolies; simplification of the tax rate structure and a broadening of the sales tax base. Privatization and wider ownership of state-owned enterprises is a cornerstone of the economic recovery program.

On the monetary front, in order to stimulate economic recovery, the Central Bank started to relax its monetary policy in the last quarter of 1985. Relaxations took place in three monetary policy areas: reserve requirements, open market operations and rediscounting. The reserve requirement on short-term deposits of commercial banks was gradually reduced by three percentage points from 24 percent, in April 1984, to its present 21 percent. In November 1986 the reserve requirement on long-term deposits was also lowered by one percentage point from 6 to 5 percent.

In the area of open market operations, rates on Central Bank and Treasury bills were reduced from about 30 percent in June 1985 to 16 percent at the end of 1985, 14.5 percent at the end of 1986 and 12.8 percent at the end of June 1987. In the area of rediscounting, the access of banks to this facility was encouraged, the ceilings on bank relending rates were lifted, and the rediscount rate was adjusted downward from 12.75 percent in 1985 to 11.75 percent in September 1986 and the present 10.0 percent.

It is too early to forecast with great accuracy the long-term impact of fiscal and monetary policy reforms that have been implemented since the new government took office in February 1986. Recent improvements in economic indicators are mainly the results of external factors such as falling oil prices, debt rescheduling, and lower inflation as a result of the 1984-1985 recession. The fiscal and monetary policy reforms, including measures to improve the financial system and implement privatization of state-owned enterprises, are, however, the most far-reaching measures taken by any developing country in such a short span of time. Contingent on political stability, these reforms can be expected to have a substantial positive impact on sustainable economic recovery and growth.

In summary, the Far East Bank and Trust guarantee project was designed during a period of serious need for increased business activity in the Philippines. From the time that this project was conceived to the present there has been little new private investment, and this situation is expected to continue until investors' confidence in the economy returns.

Because of continued strong foreign demand for certain Philippine exports, the export sector was one of the few areas with significant near-term prospects for strong economic growth. It was, when the PRE project was designed (1985), an excellent focal point for projects intended to stimulate business activity among small- and medium-sized enterprises in the Philippines.

Midway through the project, at the end of 1987, economic conditions were improving, but business owners and investors continued to postpone new investments until the economic situation showed signs of long-term stability and growth. Under these conditions of continuing uncertainty, the guarantee facility encourages lending to smaller enterprises, thus generally stimulating economic activity.

II. BANKING AND FINANCE

A. Institutional Framework

The Philippines financial system is in an advanced stage of development. Financial institutions consist of 29 commercial banks, 28 private development banks, 38 stock savings and loan associations, approximately 850 rural banks, 7 savings and mortgage banks, 3 specialized government banks, over 1300 pawnshops, and numerous registered money lenders called "lending investors". The Central Bank of the Philippines has regulatory and supervisory authority over the financial institutions. At the end of 1986 there were 5,946 financial institution offices (headquarters and branches) in the country: 62 percent, or 3,698, operating in the countryside and 38 percent, or 2,248, in metro Manila.

Commercial banks constitute the largest sector of the financial system in terms of financial resources. At the end of 1986, total deposits at commercial banks amounted to P141 billion ($6.9 billion), which is 85 percent of the total deposits in the financial system. Total loan and investment portfolios of commercial banks at the end of 1986 was P128.9 billion ($6.3 billion), which is 78 percent of the total portfolio of the banking system and 64 percent of the financial system. Commercial banks have 1,516 branches of which 688 (45%) are located in metro Manila and 828 (55%) are located in the countryside. Five commercial banks hold approximately 50 percent of the total deposits of all the 29 commercial banks, 32.7 percent of the loan portfolio of the banking system, and 26 percent of the loan portfolio of the total financial system.

The Far East Bank and Trust Company is the second largest non-government commercial bank in terms of deposits, and fifth in terms of loans. At the end of 1986 total resources of the bank stood at P15.7 billion ($770 million), an increase of 23.7 percent over the end of 1985; deposits stood at P11.7 billion ($574 million), an increase of 37 percent; and the loan portfolio stood at P5.5 billion ($270 million), an increase of 23.6 percent, which indicates a high liquidity and reflects the conservative lending policy of the bank.

B. Liquidity and Interest Rate Structure

At the end of June 1987 domestic liquidity stood at P140 billion ($6.86 billion), an increase of 9.4 percent over end-June 1986. The net domestic credits of the monetary system reached P99.6 billion ($4.88 billion) as of end-June 1987; this is P47.2 billion ($2.3 billion) or 32 percent lower than its level as of end-June 1986. Credit to the public sector decreased by P35 billion ($1.7 billion), while credit to the private sector decreased by P12.2 billion ($.6 billion).

Nominal interest rates on both borrowing and lending instruments of banks continued to decrease during 1986. The decline in interest rates was largely due to the impact of high liquidity in commercial banks following official monetary interventions, the sluggish demand for credit, and relative price and exchange rate stability. Interest rates started an upward trend during the second quarter of 1987. The following table shows selected financial indicators from the beginning of the FEBTC project until the present:

Interest Rates	Today	6 months ago	1 year ago
Savings Account (passbook)	5.511	5.759	8.239
Time Deposit			
1 month	8.107	8.143	10.776
3 month	7.042	7.153	9.558
12 month	7.731	7.733	9.587
Lending Rate (Prime)	10.50	11.000	12.500
Government Bond (1 year bill)	14.713	14.000	13.300

Other Local Market Rates*

	Second Quarter 1987	Fourth Quarter 1986	Fourth Quarter 1985
Interbank Call Loans	10.85	9.38	14.11
Rates on Secured Loans	12.82	14.47	18.70
Control Bank Bills	12.12	13.15	16.63

*/ Weighted average for all maturities.
Source: FEBTC Financial Planning Division.

Overall, then, the FEBTC project operated in a financial environment of high liquidity and weak demand for commercial credit. Credit demand, particularly from large corporations and rural businesses, was stagnant, while many commercial banks were actively cutting back their loan portfolios to reduce their exposure in this unstable market. In this situation, the relative strength of smaller export companies offered a new source of demand for commercial credit.

III. THE LOAN AGREEMENT BETWEEN FAR EAST BANK AND TRUST AND A.I.D.

A. <u>How the Guarantee Facility Works</u>

A.I.D. provided a $2.0 million indirect loan to Far East Bank and Trust (the Local Lending Bank) to be used as a guarantee fund to cover 50 percent of the principal value of qualifying subloans to small- and medium-scale exporters. The $2.0 million was deposited in a collateral account in the Rainier Bank, (the Depository or Issuing Bank) on behalf of FEBTC. The collateral account pays interest to A.I.D. equal to the yield on investments in the account, estimated at about 7.5 percent per annum. By guaranteeing only 50 percent of the loans made by FEBTC, PRE leverages its resources, stimulating $4 million in loans to small- and medium-scale enterprises (SMSEs).

FEBTC was selected by the A.I.D. Bureau for Private Enterprise for four principal reasons. First, FEBTC is a private commercial bank, with substantial experience in trade finance. Second, FEBTC enjoys an excellent reputation for sound management and financial prudence in the Philippines. The bank would be a strong and competent local partner, capable of reaching small- and medium-scale enterprises (SMSEs) clients and administering the project. Third, the bank is a major player in Philippines financial markets. It is the second largest bank, and therefore any change in its lending practices regarding SMSEs would have a significant impact on local credit practices. Finally, the bank had recently adopted a strategy of increased lending to SMSEs, and so its objectives matched those of the guarantee project.

The PRE Guarantee Project was one of the first two Revolving Fund loan projects involving intermediate financial institutions in Asia. The Project Agreement between FEBTC and A.I.D./PRE was approved in August 1985 and funds were obligated on August 31, 1985. FEBTC started using the letter of credit facility on March 21, 1986 with an initial coverage of $1 million. One hundred percent utilization of the $2 million guarantee facility was reached on October 6, 1986, and the facility has been fully utilized ever since. Full utilization was achieved by a weekly review of the expiry dates of FEBTC loans and credits covered by the facility, with any expiring loans replaced before expiration of coverage.

To activate guarantee coverage of qualifying subloans FEBTC must submit a Certificate of Estimated Standby Utilization which estimates the coverage needed over the upcoming six-month period and provides a warranty that the bank has met the conditions in the project agreement. The bank must also submit to A.I.D. and the Rainier Bank a Local Lending Bank Standby Certificate, which is a request for the Issuing Bank to issue a Standby letter of credit and specifies the subloans to be covered by the L/C. Provided all conditions are met, the Issuing Bank then makes coverage available by issuing Standby L/Cs. The loan agreement between A.I.D. and FEBTC provides for disbursements in multiples of $500,000, and thus Certificates of Estimated Standby Utilization must also be in such multiples.

For use of the Guarantee Facility, FEBTC pays 1.25 percent per year to USAID and .15 percent per year to Rainier Bank on the total amount covered by the facility. This equals approximately $28,000 per year at full utilization of the guarantee. In addition, there are nominal fees charged to FEBTC for alterations in the letters of credit.

Up to September 4, 1987 a total of 216 loans and credits have been made, the largest number of subloans of any PRE intermediary financial institution facility. Phase-out of guarantee facility coverage started on September 21, 1987 with a 12.5 percent reduction in the guarantee facility. Reductions will continue at the rate of 12.5 percent every six months until project termination in 1991.

The FEBTC loan guarantee project was based on two agreements: one between A.I.D. and Rainier National Bank of Seattle, Washington, and the second between A.I.D. and FEBTC. According to the first agreement, the Bureau for Private Enterprise provided a loan from the Revolving Fund to Rainier Bank to establish a Standby Letter of Credit facility for the project. Standby L/Cs drawn on this collateral account provide the guarantee coverage for FEBTC's qualifying small business credits.

Within the terms of the agreement, a small business was defined as a firm with net fixed assets of no more than $1 million. Qualifying activities were broadly described, with the only stipulation being that they be involved directly or indirectly in the manufacture and/or marketing of export products. Qualifying businesses were required to:

(a) be owned by a National of the Philippines;

(b) be 100 percent privately owned;

(c) be based in the Philippines; and

(d) own no more than $1 million in net fixed assets or procure the majority of its materials from individuals or companies with net fixed assets of no more than this amount.

One of the facility's primary objectives was to provide trade credit to small- and medium-sized companies at a time when foreign trade was at unusually low levels. The agreement permitted FEBTC to loan on the basis of several types of export documents, such as export L/Cs and confirmed export orders. FEBTC then provided credit lines to finance the export-related expenses of SMSEs, accepting discounted export L/Cs as collateral. Because of the speed with which FEBTC was able to use the facility, the rapid turnover of its export credit lines, and high exporter demand for trade credit, FEBTC replaced credits under the facility more than 216 times and filed frequent Notices of Substitution of Subloans to replace expiring credits with new ones. Since Rainier Bank regarded these substitutions as amendments to standby L/Cs, FEBTC was charged a small fee for each amendment, and passed these costs on to A.I.D. in accordance with the terms of the Agreement. The notification requirements for such substitutions were subsequently amended such that only the names of customers were changed, while the standby L/C amount remained the same. By making this change, FEBTC's credit substitutions were no longer technically L/C amendments, and so the charge to FEBTC was not required. All subsequent Revolving Fund guarantee facility documentation is now modeled on the improvements made in the FEBTC project documents.

FEBTC may submit claims for payment against the guarantee facility when a client's payments are at least ninety days past due. The bank, however, must pursue "reasonable and diligent" collection activities against the defaulter. In only one instance has the bank been obliged to request compensation under the guarantee facility. This case, JBL Sales Corporation, is discussed in the Borrower Profiles section below.

IV. IFI ORGANIZATION AND OPERATIONS

The Far East Bank and Trust Company, FEBTC, was founded in 1960, and is now the second largest non-government bank in the Philippines in terms of loans and net assets. As of December 31, 1986 it had net assets of P1,460,628,000 ($71,599,412), deposits of P11,734,047,000 ($575,198,382), and loans of P6,229,810,000 ($305,382,843). As of the end of the fourth quarter of 1987 deposits had grown to P13.17 billion ($646 million), and loans to 7.19 billion ($352 million).

FEBTC has traditionally been a wholesale bank lending primarily to large domestic companies and multinational corporations in the Philippines. In the early 1970s the bank expanded its international operations and increased its capital through equity investments by Chemical Bank (New York) and Mitsui Bank (Tokyo), with each now holding 12 percent of FEBTC equity. Under the Financial Reforms Act of 1980, FEBTC became a "Unibank", which requires that the bank have more than P1 billion ($49 million) in assets and allows the Unibank to offer both investment and commercial banking services.

As of August 1987 FEBTC had 94 branches, 70 percent of these outside of the metro Manila area. FEBTC recently acquired 36 additional branches from Pacific Bank and will add these to their network by the end of 1988.

Capital at the end of 1986 was 9.3 percent of total assets; reserves for losses were 11.8 percent of total loans. Based on a consolidated net income for the year, the return on average capital funds was a healthy 23.4 percent for 1986.

In 1985 FEBTC management made a strategic decision to expand lending to small- and medium-scale enterprises (SMSEs) and to increase its retail banking generally. Competition has been increasing in FEBTC's traditional wholesale market, and spreads have reportedly narrowed considerably. Management also recognized that middle sized companies, particularly exporters, are a potentially profitable market for the bank. FEBTC earns a large portion of its revenues from providing collateral services to clients, and saw expansion in the middle market as an opportunity to provide a wide range of services to fast growing medium sized companies.

To pursue this strategy FEBTC established the Business Development Group in 1986; the task of the Business Development Group was to develop new SMSE clients. Within the Business Development Group there are two divisions that manage SMSE accounts: the Special Lending Unit handles Chinese business accounts and guarantee programs; and the SMSE Group, which handles other lending to SMSEs. These are the two units within FEBTC that are most actively involved in small business lending. They also book and manage most of the credits under the PRE sponsored Guarantee Facility, while actual administration of the facility as a whole is carried out by the Foreign Currency Deposit Unit. For internal purposes, FEBTC defines an SMSE firm as one with less than P3,000,000 ($146,341) in net assets.

A. <u>Guarantee Programs in FEBTC</u>

Guarantee programs form an important part of FEBTC's SMSE business development strategy. When FEBTC adopted the strategy of expanding into more SMSE lending, management also decided to use guarantee programs to help cover certain of the risks inherent in initial entry into this sector. The A.I.D./PRE Revolving Fund loan project came at exactly the time when FEBTC was exploring the use of guarantee programs to expand its lending, thereby contributing to FEBTC's enthusiasm for the project, and to using it as an integral part of its business strategy in 1986 and 1987.

Because the A.I.D./PRE project would begin to phase down starting in September 1987, at a time when the bank expected to still be on the steep portion of the SMSE "learning curve", bank management decided to actively seek other guarantee programs to continue covering some of their risk exposure after that date. These other guarantee programs are currently the Philippines Central Bank Industrial Guarantee Loan Fund (IGLF), the Government of the Philippines recently established Phil Guarantee Program, the Guarantee Fund for Small and Medium Enterprises, and the Quedan Guarantee Fund. While these programs embody several features comparable to the Revolving Fund facility, none of these specifically addresses the needs of small export companies.

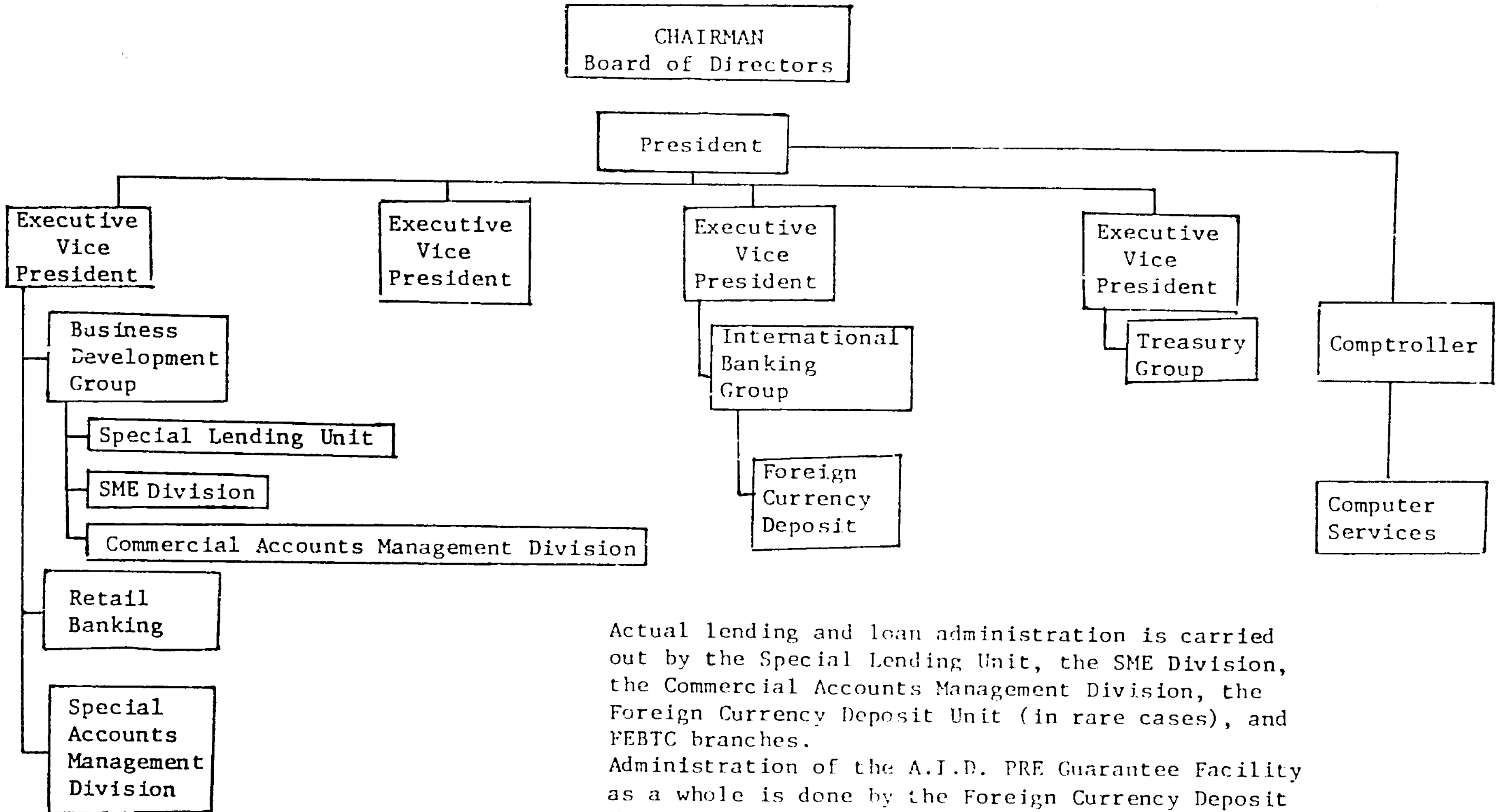
Having decided to enter the SMSE market, FEBTC officers note that the bank now has an SMSE exposure that is substantially larger than the A.I.D./PRE guarantee facility portfolio; they estimate that the Business Development Group alone, only one of the three divisions that has loans under the guarantee, has P80 million ($3.92 million) in loans and credits outstanding to SMSEs, only 20 percent of which are covered by guarantee facilities. There are also outstanding SMSE loans booked in the Special Accounts Management Group and the Foreign Currency Deposit Unit.

FEBTC officers stated that they hope that they will be able to replace the A.I.D. facility with other guarantee programs after the project phases out in 1992. By so doing, they can continue to expand their SMSE export finance program.

B. Operation of the A.I.D. Small Business Guarantee Project

The Revolving Fund guarantee facility is under the general oversight of the Foreign Currency Deposit Unit (FCDU) of the International Banking Group. Actual program administration is done by the Manager of the FCDU. In practice, the FCDU is responsible for submitting Local Lending Bank Standby Certificates, Certificates of Estimated Standby Utilization, any claims against L/Cs, and Semiannual Project Performance Reports. The FCDU is also responsible for fees paid to the issuing bank and A.I.D.

FAR EAST BANK & TRUST COMPANY ORGANIZATIONAL CHART



Actual lending and loan administration is carried out by the Special Lending Unit, the SME Division, the Commercial Accounts Management Division, the Foreign Currency Deposit Unit (in rare cases), and FEBTC branches.
Administration of the A.I.D. PRE Guarantee Facility as a whole is done by the Foreign Currency Deposit Unit.

Lending and loan administration under the guarantee facility are decentralized to several divisions of the bank, and are fully integrated into FEBTC's usual credit functions. Actual lending activities are handled by four separate units within the bank:

(1) Business Development Group Special Lending Unit;

(2) Business Development Group Small and Medium Scale Enterprises Division;

(3) The Commercial Accounts Management Division; and

(4) Bank Branches.

A few accounts are also handled by the Foreign Currency Deposit Unit: these are in cases of engineered foreign currency swap funding arrangements. Thus, in practice, only application for L/C coverage, administration of coverage, and A.I.D. reporting is carried out in a centralized manner.

Any division with a qualifying subloan is allowed to submit the loan for coverage under the guarantee facility. At the beginning of the program loans were booked under the facility on a first-come-first-served basis. After full utilization was reached, priority was given to loans to smaller businesses that in many cases would not have passed the credit review without A.I.D.'s guarantee, thereby allowing the bank to extend and broaden its coverage.

Loans or lines of credit included under the guarantee facility go through the same credit application and review process as other loans. This typically includes the following documents:

(1) The Loan Approval Memo which is a summary of credit reviews prepared by the concerned Account Officer;

(2) The Credit Study Memo prepared by the Credit Division; and

(3) The Appraisal Memo which is an assessment of collateral prepared by the Credit Division.

Account Officers claim that the guarantee facility is often used to cover risk involved in taking on new accounts where the borrower has no previous credit history with FEBTC, and where "clean" loans or lines of credit are provided, i.e., where the only collateral is an export L/C or confirmed export order. Officers also said the facility is used to cover some of the risk of lending to businesses that are using commercial credit for the first time.

The guarantee facility was also used in several cases where the bank's Credit Department advised the credit committee to reject a loan application that an Account Officer had recommended for approval. In these cases the Account Officer used the guarantee facility to cover part of the exposure to what was considered a risky SMSE loan. When reasonable applications from higher risk clients were not available, lower risk clients were put under the guarantee facility.

Management of accounts covered by the Revolving Fund guarantee facility is done by the division under which the loan is booked.

Loan Replacement

In the case of revolving credit lines, FEBTC applies separately for guarantee facility coverage for each drawdown; this explains why there have been 216 replacements to date. A client is typically given an advance on an export L/C. When the L/C expires, the client repays FEBTC with export proceeds, which is often four to six weeks. Excess L/C coverage results when a credit under the standby L/C expires; this means that the principal amount of the Qualifying Subloans guaranteed by A.I.D. goes below the level of available standby coverage.

From the beginning of the guarantee facility FEBTC has replaced credits immediately on expiration. This is in accordance with Section 4.5 of the Project Agreement ("Procedures Upon Prepayment of Principal"). As stated above, a small fee was originally charged to FEBTC for each alteration in the Standby L/C, and each loan replacement was counted as an alteration. The fee was then deducted by FEBTC from guarantee fees paid to A.I.D. in accordance with Section 4.7 of the Project Agreement. This problem was solved by having FEBTC replace sub-borrower names but not change the amount covered by Standby L/C. This new procedure allowed FEBTC to replace expiring credits without technically altering the Issuing Bank's Standby L/C.

Collateral and Interest Rates

In granting export trade credits FEBTC evaluates the L/C or trade bill concerned and provides 50, 60, or 70 percent of the face value as a credit or loan. In principle, the same amount of collateral is required regardless of whether the credit is covered by the guarantee facility or not. In practice, however, the guarantee facility was often used where the bank felt a particular borrower's available collateral to otherwise be inadequate. Real property collateral pledged for a loan or line of credit under the guarantee facility ranged from a low of five percent of the loan value to a high of 816 percent; this reflects the accepted local practice of taking all available collateral.

FEBTC set interest rates by reference to three important guidelines: marginal cost of funds, a risk premium, and the net interest margin. The net interest margin is a calculation that sums up the value of all collateral business with a customer, including all interest and fee earnings from an account.

Interest rates for credits under the guarantee facility ranged from a low of 11.39 percent to a high of 23 percent. Almost 50 percent of guarantee facility loans were between 14 and 15 percent, which was three to four percent above prime rate when the loans were approved. This is considered a competitive rate in the SMSE market. Clients who received loans just above prime were generally larger than average and had long established credit histories, but were given lines of credit secured only by export L/Cs.

V. LOAN DISBURSEMENT AND IMPACT ON SUB-BORROWERS

As of September 4, 1987 FEBTC has had a total of 85 accounts under the guarantee facility; 78 of these have been open export credit lines, discounting lines, or omnibus credit lines. Seven were straight term loans. Average credit size in the portfolio during the first half of 1987 was P1,644,692 ($80,622).

The following table describes the nature of the loans made in 1987 and is typical of the portfolio of loans made under the guarantee facility.

Guarantee Facility
Portfolio Classification by Economic Activity

Economic Activity	1987 Number	1987 Value (Pesos 000's)	1987 % of 1987 loans
Wood & Rattan Products	12	19,028.	23.6
Garments	11	11,937.	14.8
Marine Products	10	24,199.	30.0
Agricultural Products	8	18,184.	22.6
Handicrafts	4	5,362.	6.7
Plastic Packaging	1	1,363.	1.7
Wigs	1	83.	.1
Automotive Filters	1	400.	.5
Totals	48	80,556.	100.0

The primary effect of the short term trade credit is to finance the costs associated with confirmed export orders; most credits under the A.I.D. facility are granted against export letters of credit or other trade documents confirming export purchase orders. Therefore, the effect of the guaranteed credit on foreign exchange is to facilitate a level of exports that may not have been financed by a private commercial bank without such a guarantee. While it is difficult in an export transaction-based, short-term lending project such as this one to attribute specific economic effects directly to particular guaranteed credits, it is clear from a review of sub-borrower files that the project contributed to economic activity in general, and export activity in particular, during a time of economic difficulty in the Philippines.

Because of the short-term revolving nature of credits under the A.I.D./PRE guarantee facility, no accurate estimate of additional employment generated as a result of guarantee project credits can be made. Employers do not generally hire additional employees on receipt of a single short-term trade credit, but individual export orders, when linked together over time, do have a positive impact on employment. FEBTC estimates somewhat conservatively that cumulative employment generated as a result of lending under its SMSE guarantee portfolio is 517 workers as of March 31, 1987. Total employment by firms with A.I.D. guaranteed credits or loans as of September 12, 1987 was 6,634 workers. FEBTC also hired several new employees to service SMSE accounts under the guarantee facility. In addition, it should be noted that under conditions of economic contraction, the stimulus to exports provided by the guarantee contributed to job retention in some cases where workers would perhaps otherwise have been laid off.

The study team estimated that total foreign exchange generated by loans financed through the guarantee facility up to March 31, 1987 was $56,535,004. This appears to represent substantial leverage on the $2 million Revolving Fund loan in the eighteen months of project operation.

Additionality of Loans Under the Guarantee Facility

The guarantee project appears to be accomplishing the objective of encouraging FEBTC to lend more to small- and medium-scale businesses. Given the unstable and depressed economic situation in the Philippines during the past year and a half, FEBTC has assembled a portfolio of sound loans including several new starts and numerous borrowers with no previous commercial credit record. In addition, firms received lines of credit under the guarantee facility early in the program and then "graduated" to non-guaranteed credits later, reflecting the clients' improving credit records and FEBTC's improved ability to identify and manage SMSE credits. There is strong evidence that the guarantee project gave numerous small- and medium-scale firms an opportunity to establish a good credit history with a major commercial bank.

In FEBTC's guarantee facility portfolio as of August 1987, 12 of 41 clients (29%) were new clients to the bank.

Forty of 41 guarantee facility accounts renewed their lines of credit with FEBTC after their expiration, and thereby established longer successful credit records. In addition, of the 41 firms in the August guarantee facility portfolio four had already been approved to graduate to non-guaranteed credit facilities after expiration of their current credit. This indicates that some clients who were tested by the bank under a guarantee were found to be sufficiently reliable to borrow subsequently on an unguaranteed basis.

It should be noted that it was often the riskiness of the transactions to be financed, and not the risk rating of the borrower, that caused a credit to be put under the guarantee facility. There were numerous cases of credits to borrowers with very good credit ratings being put under the guarantee facility because the particular transactions to be financed were collateralized only by export L/Cs (cash flow) and not by real property. The same clients often received fully collateralized term loans that were not guaranteed.

A client's past history in business is a key factor considered by commercial loan officers when reviewing a loan application. Several clients who were first time users of commercial credit received credits under the A.I.D./PRE guarantee facility. This successful first use of credit contributed to the credit history of the client and made subsequent borrowing more feasible.

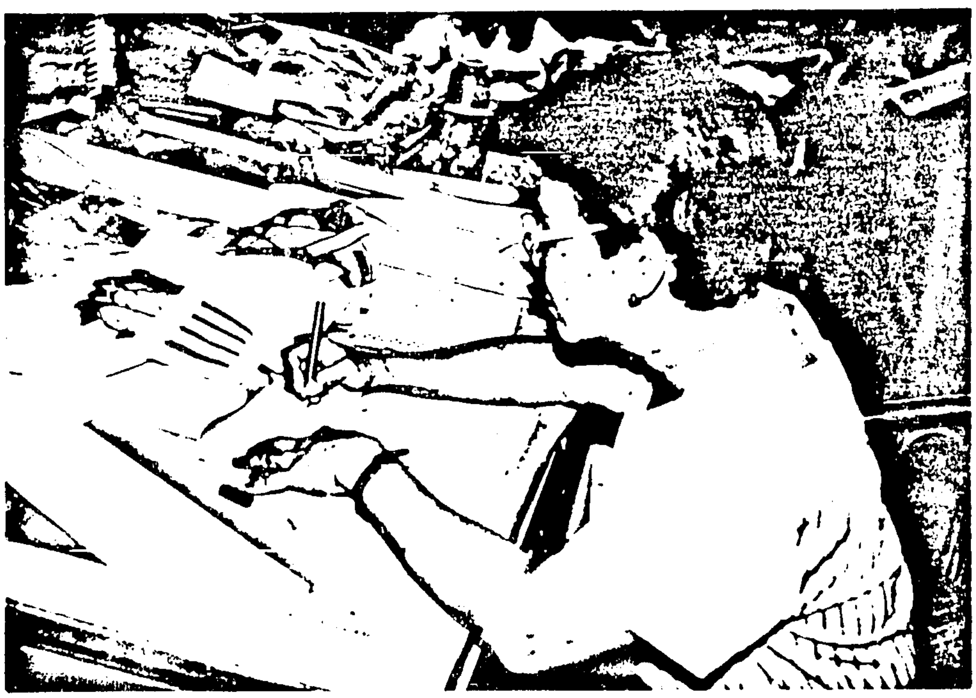
Economic Impact of Credit on the Sample of Sub-borrowers

In order to gain additional insights concerning the operations and impact of the guarantee project, an in-depth review of 19 sub-borrowers was made. The sample of sub-borrowers was selected to be fully representative of the project portfolio in terms of loan size, size of business, status of loan (current or in arrears), FEBTC relationship with client (new or old), and nature of business. In each case the entire sub-borrower file was reviewed and discussed with concerned account officers.

The study team's usual procedure for reviewing the sample of sub-borrowers involved site visits and interviews with sub-borrowers. During the first meeting between the team and senior officers of the FEBTC, the team was informed that FEBTC senior management would not agree to the study team visiting sub-borrowers. FEBTC management claimed that they were afraid that if sub-borrowers knew that 50 percent of their credit was guaranteed by the U.S. Government, the risk of default would be higher. Account Officers also noted that if clients had been informed that there was a 50 percent guarantee of their credits, they would insist on a lower interest rate to adjust for the reduction in risk associated with a guarantee.

Because of these concerns, the team's in-depth look at sub-borrower cases included a review of files supplemented by discussion of the clients with account officers. It was the view of the team that, given the unusually complete files maintained by FEBTC and the forthcoming response of account officers, the inability to interview clients introduced little or no bias to the results of the review effort. In fact, in terms of the financial information about sub-borrowers, the files provided more accurate data than face-to-face interviews would have.

Pressing cut patterns at Creative Lines, Inc.



Designing patterns at Creative Lines, Inc., producers of giftwares

The following table lists the 19 sub-borrowers included in this sample:

Breakdown of Existing and New Clients in Sample

Existing: Only Deposits	Existing: Deposits & Loans	New
MTJ Knitwear	SMI Industries	VNS Trading
Shellcraft Prod.	Trimica, Inc.	Artifacts, Inc.
GTI Sportswear	Mechanical Factors	Albay Industries
	McLyn Garments	Sibling Sales
	Pete Galang, Inc.	FEMS Garments
	Amancor, Inc.	Jakob Hoffman
	Saldana & Company	National Filter
		Fil-Asia Corp.
		JBL Sales Corp.

Among the direct impacts of the guarantee project on sub-borrowers are foreign exchange earnings and additional working capital during a period when most commercial banks were reducing their lending because of uncertain economic and political conditions. Credits under the PRE guarantee to the sample of 19 sub-borrowers resulted in the generation of about $3,500,000 in foreign exchange. In accordance with the July 1985 Investment Proposal, many of these sub-borrowers are engaged in non-traditional exports, including such products as shrimp, other marine foods, and automotive parts.

Average net assets for the sample of 19 firms in September 1987 was $247,676. The largest firm had net assets of $991,029, and the smallest had $14,695. All of the firms in the sample had net assets of less than the $1 million limit established by the project agreement.

In most cases, the lines of credit made available under this project were provided to firms with previous commercial credit histories. Eighteen of the 19 sub-borrowers sampled had used some form of commercial credit prior to their coverage under the A.I.D. project.

Of the sample of nineteen sub-borrowers, ten were customers of FEBTC before the guarantee project began, while nine were new customers. Of the ten old FEBTC customers the majority were originally short-term borrowers who are now considered eligible for longer term credits.

Six of the nineteen were implementing capital expansion projects during the period covered by the guaranteed credit. Although the PRE project was not used directly to finance the expansion, clients were often given credit lines to increase working capital during expansion periods. Because of the fungibility of working capital, these short-term credits freed funds for investment in fixed assets needed for expansion.

All of the 19 credits reviewed were advances against an export L/C lasting one year or less, as provided for under the A.I.D. agreement.

Defaults

In January, 1986 a P4 million ($196,078) credit line was approved for JBL Sales Corporation. JBL Corp. used this line two times for P1.6 million each in 1986, and paid this off both times. In January and August JBL used the line two more times for a total of

P3.2 million; these went delinquent in September and October 1987 because of a strike by the company's workers and difficulties in getting supplies of young prawns.

In January of 1987, PRE/I received a Notice of Setoff from the Issuing Bank, Rainier National Bank, for $39,110, or half the principal involved in the default. This amount was paid by Rainier to FEBTC in reimbursement of this claim against a Qualifying Standby L/C. A second Notice of Setoff was sent to PRE by Rainier in February 1987, when $39,028 was paid to FEBTC covering a second default by JBL Corporation. This was the first write-off against the FEBTC/A.I.D. guarantee facility. Since then five accounts have gone past due, but according to the FEBTC these are all only technical defaults. Technical defaults result when an export L/C used as collateral expires before payment is made. In these cases the borrower generally applies for extension of the L/C in order to make its account current again.

VI. INSTITUTIONAL IMPACT

A. Far East Bank & Trust

FEBTC officers feel that the guarantee project has allowed the bank to be less conservative in its lending to small-and medium-scale businesses. It also enabled FEBTC to consider cash flows as a basis for lending, for example, using L/C proceeds rather than the usual practice of fully collateralized asset lending.

Bank officers stated that there are many potential clients in the SMSE category who have good business prospects but are considered risky because they have no credit record or insufficient collateral. The increased risk involved in lending to SMSEs allows FEBTC to charge a risk premium, and so these borrowers are potentially profitable customers.

Officers commented that the guarantee facility also allows them to lend to family-owned business and sole proprietorships which they would have to avoid if traditional lending criteria were applied. This group of SMSEs often have relatively poor accounting practices and provide loan officers unreliable financial statements.

Credits under the guarantee facility constitute about one percent of FEBTC's entire portfolio. The fact that the A.I.D./PRE guarantee facility fit FEBTC's overall business strategy contributed heavily to the success of this Revolving Fund project. The bank committed itself to expanded lending to SMSEs and used the guarantee facility to cover some of the risk associated with rapid entry into this market. Bank officers stated that they intend to continue lending to SMSEs after the end of the PRE project.

In this way, the guarantee project encouraged a major bank whose traditional business was almost exclusively wholesale lending to very large firms to lend to small- and medium-scale enterprises. It should be noted that bringing such a major institution into this market encourages competition among financial institutions in SMSE lending, and in doing so promotes more efficient financial markets.

B. <u>Other Banks in the Philippines</u>

It is important to mention the impact the guarantee project has had on other banks in the country. Since the project began, several banks have asked to participate in the guarantee project. Guarantee facilities have since been replicated by PRE with three banks: Metropolitan Bank and Trust, the Philippines Commercial and International Bank, and the Bank of the Philippine Islands. In addition, as a result of the success of these first rounds of guarantee facilities, a second wave of peer group replication is currently occurring among banks in the Philippines.

C. <u>The Government of the Philippines</u>

The Government of the Philippines was not directly involved with this project. Nevertheless, the GOP operates numerous other guarantee programs. FEBTC officers claimed that they will place credits under these Government of the Philippines guarantee facilities as the PRE facility phases out over the next three years.

USAID Mission staff felt that there had been relatively little direct impact on Philippine Government institutions from the FEBTC project. Nevertheless, the fact that FEBTC plans to make use of Government of Philippines-supported guarantee programs once the PRE project ends, and that other commercial banks have shown great interest in the follow-on guarantee projects, indicates that this approach to SMSE lending is becoming increasingly institutionalized in the Philippines.

D. USAID/Philippines

The PRE guarantee facility to Far East Bank and Trust, while not directly integrated into USAID/Manila operations, was closely followed by personnel in the Mission's Program Development Office. There has been a significant growth in interaction between PRE and the Mission during the PRE guarantee project. Since PRE has no permanent staff or Personal Services Contractors in the Philippines, this interaction was coordinated in the Mission by the Office of Capital Development.

Because of the major political upheavals that occurred from 1985 through 1987, the project was exposed to some risks, and was closely followed by the Mission. As noted above, the years immediately prior to the beginning of the project were economically unstable, with the rural credit system virtually collapsing, and numerous small enterprises on the verge of disaster. The commercial banking sector, which had previously lent mainly to large corporations, found foreign investors retreating from the Philippines and local investors unwilling to undertake any major new projects.

In addition to the financial risks involved in PRE's decision, political and policy considerations dictated the choice of a private institution controlled by individuals not associated with the previous regime or the current government. The fact that PRE was not restricted by the same political and programmatic limitations facing the Mission made its intervention highly effective during this period of uncertainty.

Although the FEBTC project is centrally funded, it appears to have demonstrated to the Mission the effectiveness of the guarantee mechanism for SMSE development. The Mission has made substantial strides in using PRE's technical support in other areas, particularly in the area of privatization of the agricultural sector. Since the Mission continues to be limited in the degree to which it can become directly involved with the private sector, it has not directly undertaken projects employing the guarantee model. Mission program officers commented that they have tried to use the guarantee mechanism, but statutory constraints on the Mission make it difficult to apply the guarantee model directly within its programs.

On the other hand, PRE does have a follow-on project aimed at providing SMSE loan guarantee facilities to three other private commercial banks. In addition, the Mission is considering transferring some of its own resources for PRE to use in starting a venture capital partnership.

USAID/Philippines, as well as most commercial banks, are closely monitoring agrarian reform efforts in the country. Until the land reform program is clearly defined, the use of agricultural land as collateral is not acceptable, and this will severely constrain rural credit programs. According to Mission officials, this problem has caused one of the commercial banks to delay its participation in the follow-on PRE guarantee program aimed specifically at small- and medium-scale enterprise outside Metro Manila. Given this uncertainty, Mission officials say they hope to continue to take advantage of PRE's flexibility in programming for future private sector activities.

VII. BORROWER PROFILES

The following pages provide brief descriptions of 20 sub-borrowers. Only 19 of these businesses provided the depth of information needed for this study, while one could provide only enough for a a profile. The borrower profiles are intended to capture something of the flavor of the individuals involved, their businesses and their relationships to Far East Bank and Trust Company. Statistical information on these enterprises surveyed is presented in tabular form in Appendix 1.

NATIONAL FILTER MANUFACTURING CORP.
Manila
Throwaway Auto Filter Manufacture
$46,908 Export Packing Credit Line

National Filter Manufacturing's credit request sparked a lively exchange between FEBTC's credit department and the account officer in the Business Development Group.

Originally based in Singapore, National Filter relocated to the Philippines in order to take advantage of lower labor and overhead costs and fiscal incentives. The company is a joint venture with Singaporean and Filipino owners and was the country's first manufacturer of throw-away auto filters. It was given tax and duty exemptions on imported capital equipment, and a number of tax concessions by the government. The company was started with stockholder capital and applied for credit only after starting its operations. Its president, James Kua, has numerous investments in other parts of the Philippines as well as internationally.

Given the level of sophistication of the company's management, it was not surprising that the company was able to bargain with a number of lenders and negotiate favorable interest rates with FEBTC. Although two other banks were offering credit, the company obtained approval for a case-by-case export credit from FEBTC in August of 1986. It first availed itself of this credit in October of the same year.

The account officer reported in detail on negotiations which indicate that the account was aggressively sought by the account officer, despite hesitancy on the part of the bank's credit department. This hesitancy was based partially on the fear of possible import restrictions, foreign exchange fluctuations, and the lack of a nationwide distribution system. Credit information reports were done in February 1986 and repeated a year later, and denial was recommended. The resultant argument on paper between the credit and the business development departments of FEBTC illustrate the bank's procedures. In response to the denial recommendation, the account officer wrote: "The study's preoccupation with the role of domestic sales misled the readers into the false impression that the company will not survive without it (a nationwide distribution system). Of total vehicles registered in the country 40% were in Metro Manila resulting in demand of 1,432,683 filters per annum, more than enough to absorb the plant capacity." To this the credit department replied, after repeating its case and acknowledging the account officer's argument: "As a result there will be differences in opinion that should make for a healthy exchange of ideas and that would have to be resolved ultimately (at a higher level of bank management)". Management eventually approved funding of a secured cred line of P1,600,000 ($78,431). The line was secured by a mortgage on machinery and equipment and the personal guarantees of two of the company's principals. The approval process took four months to complete.

In February 1987 the company applied for renewal of its line and an increase to P1,950,000 ($95,588). This request was approved rapidly as the company had established a good track record with the bank. Reporting at the time of this renewal request, the account officer noted, "Debt servicing was likewise smooth with no problem whatsoever. The company has survived despite strong competition posed by imported brands. In the final analysis, the company has manifested its capability to survive in an industry dominated by foreign brands because of its superior technology to produce products whose quality matches and even surpasses the imported ones. Apparently, the market is not only accepting their products but also the pricing strategy of the firm."

Again the credit department took a cautious line citing the existence of a competitor who was developing its own throwaway filter, and the increasing amount of bank borrowing which was replacing stockholder advances and thus creating a greater interest burden on the company. In that there was still some concern about the risk of this investment, the credit was expanded and continued under the guarantee program.

SHELLCRAFT
Manila
Manufacturer Seashell-based products
$286 Export Packing Credit Line (Amount under guarantee)

Shellcraft, a company whose majority ownership was in the hands of women, was considered a leader in the business of exporting shellcraft articles made of capis and other shells since 1920. The company introduced the production of laminated capis panelling to the Philippines in the mid-1950s, creating a new industry for the country.

The company had begun negotiations with FEBTC in November of 1985, withdrawing gradually from Bank of America, and was granted an omnibus line of credit in August 1986 under the guarantee program. The company came back in May of 1987 to request an increase of its export credit line and a working capital loan to finance expansion plans that had been approved by the Board of Investments of the government. Again, the bank's thorough investigation into the company indicated that the investment had certain risk factors that made the guarantee a necessary element in securing approval for the increased credit.

The credit department noted in particular that there was some indication that the company's president and principal technical expert, an American, was under pressure from his family to sell the company and return to the U.S. The company's steady growth, which reached its peak in 1985 at P10 million ($490,196) in sales, had begun to decline. The bank's report suggested that an adjustment in the company's old pricing structure would be necessary in order to keep profits up as production costs increased. The general manager of the firm, a woman who had been with the company for over 20 years, was regarded as a strong point in the company's favor, however. When the bank obtained an agreement that the company or any substantial portion of its assets would not be sold without the prior consent of the bank, the increased credit was approved under the guarantee program.

ALBAY AGRO-INDUSTRIAL DEVELOPMENT CORPORATION
Exporter of Abaca Pulp Sheet
Makati, Metro Manila
Export Packing Credit Line: $19,456.53

Albay Agro-Industrial Corporation (Albay Corp), started in 1974, is a joint venture between a group of Philippine businessmen and Japanese investors headed by Yamamoto Tomo Menko, Ltd. (itself an SMSE). The company manufactures and exports unbleached abaca pulp fiber sheets used to make Japanese paper currency and securities papers, tea bags, food casings, and stencil paper. The company also exports raw abaca, unbleached abaca pulp fiber, cord and rope, and other pulps. The company rents an office in Makati, Metro Manila, and owns a packing plant on five hectares of land in Albay. Current production capacity is 3.3 metric tons per day, and an expansion program undertaken in 1986 will increase capacity to 6.6 metric tons by the end of 1987.

In 1986 Albay Corp. had net assets of $991,029, gross sales of $2,349,265, and net income of $283,970. The company employs 120 workers: 10 clerical and management and 110 plant workers.

Albay Corp. buys abaca and other raw fibers from middlemen in Bicol, Leyte, and Davao, all economically depressed rural areas. Marketing is handled by the Japanese partners, with the Japanese Ministry of Finance as the largest single buyer.

The company has had six previous credit lines with three banks other than FEBTC. Starting in 1985 Albay Corp. has had credit lines with several banks at one time and has no difficulties servicing its debt. In 1986 FEBTC solicited Albay Corp from another major local bank. In June of that year a $19,456 export packing credit line (EPCL) at 16.25 percent was approved by FEBTC. Albay Corp. agreed at that time to send a large share of its export earnings through FEBTC and also transferred its plant payroll to FEBTC. Because Albay was a new client and the credit line was granted on a clean basis, FEBTC officers put the credit under the PRE guarantee facility. When this first credit expired in August 1986, Albay Corp. was given an unguaranteed term loan for $19,020 to carry on its expansion program in 1987.

SMI FISH INDUSTRIES, INC.
Marine Products Exporting
Makati, Metro Manila
Export Packing Credit Line $343,137.25
Discounting Credit Line $147,059.
Amount Covered by Guarantee Facility $245,098.

SMI Fish Industries buys, processes and exports marine products, including shrimp and prawns (40 percent by value), octopus (40%), milkfish (5%), and cuttlefish (10%). The owners have been in this business for fifteen years, and SMI Industries was incorporated in 1980. They currently have thirty buying stations and three processing plants nationwide. Net assets in 1986 were $377,598, gross sales were $14,217,059, and net profit was $41,814.

The firm exports to AYC Trading Corporation, a marketing subsidiary of the Ayala Corporation that operates in the U.S.A., Hong Kong and Japan.

As sole supplier of marine products to AYC, SMI used to finance its export operations with advances from Ayala Corporation, paying off these advances with deliveries to AYC Corporation at prices fixed by AYC every month. For example, Ayala recently provided a short-term $735,294 loan maturing in June 1987, and a term loan for the same amount for five years at a fixed 17 percent per annum rate. This financial relationship assures that Ayala will not shift entirely to other suppliers in the near term, but SMI does fear that its main buyer may diversify its supplier network in the future. In addition, SMI was forced to look into other sources of export credits when in 1986 Ayala made a management policy decision to stop financing suppliers. For these reasons, SMI management decided in

1986 to expand its production and to seek other sources of commercial finance. It was during this period of financial reorientation that SMI approached FEBTC.

SMI Corporation plans to construct a new processing plant in Cebu province, and this will increase plant capacity by 100 percent, which SMI hopes will allow the company to begin exporting to European markets. The owners plan to invest P10 million of their own funds in the expansion.

FEBTC has carefully maintained its banking relationship with SMI Corporation over the last two years. In 1987 FEBTC granted SMI a P7 million export packing credit line and a P3 million discounting line. P5 million in availments under these facilities has been put under the Revolving Fund guarantee facility.

VNS TRADING COMPANY
Exporter of Handicrafts & Food Products
Quezon City
Export Packing Credit Line Under Guarantee P400,000.

The VNS Company exports Filipino food items to the Middle East, particularly Saudi Arabia. Products include noodles, fish sauce, vinegar, milkfish, and canned sweets. Annual sales have been about $200,000 since 1980. Gross assets in 1985 were $129,461. Gross sales in 1986 were $276,470, and net income was $62,254.

VNS Company has been banking with FEBTC since August 1986 when it was granted a case-to-case export packing credit line (EPCL) under the A.I.D. guarantee facility for $14,592. The company was solicited from Metrobank. As of August 31, 1987 the company was given a renewed P400,000 ($19,608) EPCL at 15 percent under the guarantee facility.

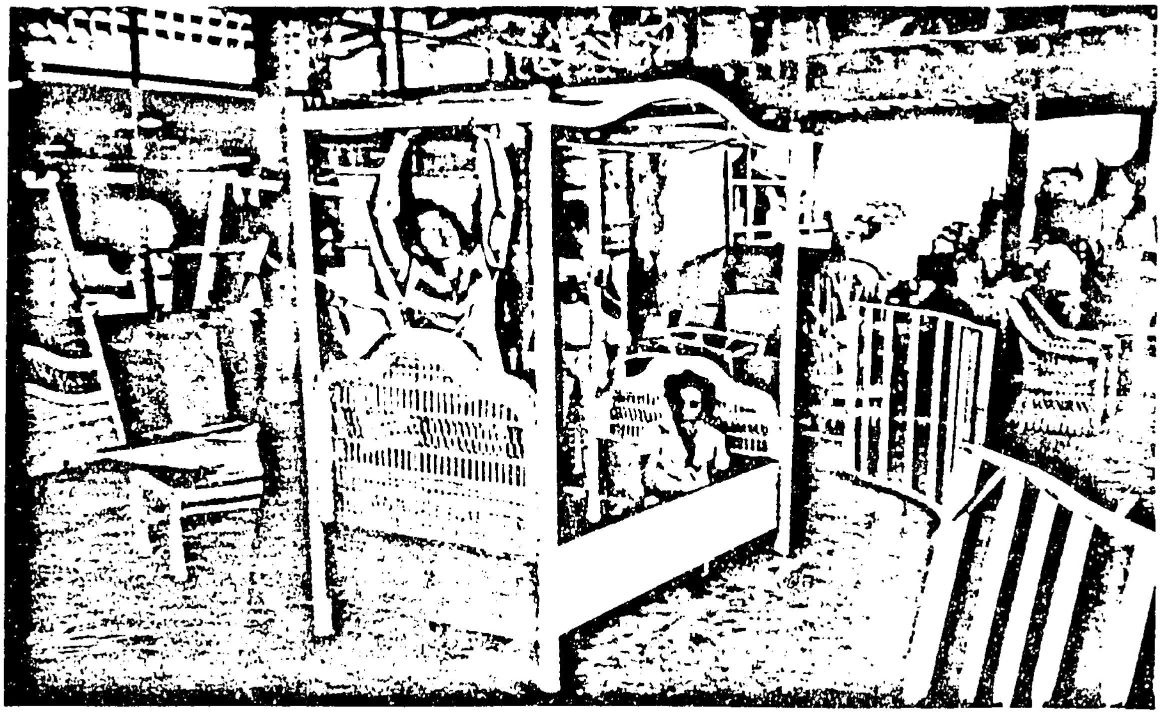
TRIMICA, INC.
Producer & Exporter of Rattan Furniture
Makati, Metro Manila
P1 million Discounting Line
P1 million Export Packing Credit Line
P875,982 Amount Under Guarantee Facility

Trimica, Inc. was founded in 1963 and currently produces wood and rattan furniture on a job order basis for local and export sale. In 1986 the company had net fixed assets of P3,553,000 ($174,167), sales of P34,520,000 ($1,692,157), and net profit of P1,090,000 ($53,431). The firm employs 120 people.

Trimica has had previous credits with other government and commercial banks in the Philippines, but gets most of its financing through suppliers' credits. The company has been a client of FEBTC since 1981, but this relationship began to dwindle after Trimica was granted a substantial credit from another major commercial bank in 1984. In 1986 the company approached FEBTC for a credit to help it finance construction of a new factory. The bank granted a P1,000,000 ($49,020) discounting line and a P1,000,000 export packing credit line. Only half of this was collateralized by real property, so the bank decided to put the P875,982 ($42,940) availment under the unsecured portion under the guarantee facility, as part of a packaged credit.

Sorting and storing raw materials
at TRIMICA, Inc.

Weaving and constructing chairs and
couches in the factory



Finishing a rattan bed

FIL-ASIA TRADING CORPORATION
Exporter of Shells, Baskets, and Wood Products
Port Area, Manila
Export Packing Credit Line Amount Under Guarantee P295,449.70

Fil-Asia Trading Corporation was incorporated in 1980 and currently exports basket wares (70 percent of sales), wood wares (20%) and shell wares (10%). Products are manufactured by subcontractors throughout the Philippines. The company's main export market is Japan, where 60 percent of sales are to direct buyers, and 40 percent are to a major trading company.

In 1985 Fil-Asia had net assets of $14,695, sales of P3,682,803 ($180,530), and net profit of P17,790 ($872). Sales for 1985 fell by 55 percent over the previous year because of a government import duty imposed in Japan. This duty was abolished in the second quarter of 1986, and sales have rebounded to previous levels.

Fil-Asia has received two credit lines under the guarantee facility, and as of August 31, 1987 has an outstanding export credit for P295,450 ($14,483).

MCLYN GARMENTS COMPANY
Knitwear Manufacturing
$980,392 Omnibus Credit Line (All unguaranteed)

McLyn Garments graduated from the PRE guarantee facility and now receives unguaranteed credit lines from FEBTC. McLyn Garments, a family-owned business, manufactures and exports machine-knitted wear, particularly children's sweaters and cardigans, infant clothing, and women's wear. Children's wear and cardigans account for 60 percent of total revenues.

In this highly labor-intensive industry, McLyn is able to reduce labor costs by subcontracting 50 percent of its output to small firms around Manila. To assure steady supplies of raw materials McLyn provides cash advances to its suppliers, thus acting as a lender to micro-scale borrowers. About 450 people are presently employed in McLyn's factory, operating one to one and a half shifts per day, six days a week, producing 90,000 dozens per year. The company's capacity is 120,000 dozens a year.

The company has been able to maintain its long relationship with eight principal buyers because of good quality control and low production costs. During the last three years McLyn's export quota utilization averaged 99 percent. For 1987 the quota allocation was set at 1,151,982 pieces, 3 percent higher than last year.

Company sales for 1986 went up to P71 million ($3.4 million) from 1985's 63 million ($3.1 million). Despite the increase in sales, however, gross margins contracted from 15.7 percent in 1985 to 13.7 percent in 1986. This decrease was due to increased manufacturing costs and labor problems in 1986. Increases in raw material costs were due to a worldwide shortage of acrylic yarn resulting from high world demand and strengthening of the Japanese yen. Labor staged a three-week strike in 1986 which forced the company to use air freight to meet shipping deadlines. Management cited delays in delivering promised benefits as the cause of the strike; this situation was resolved.

The introduction of the Derrick Bill in the U.S. Congress is expected to threaten the local garment industry because the bill seeks to limit the annual growth of U.S. textile and clothing imports. Stiff competition from more efficient garment exporting countries such as Taiwan, Hong Kong and Korea also continues to pressure McLyn to keep costs down.

McLyn has renewed its credit line with FEBTC several times. In 1987 the company was granted an unguaranteed omnibus credit line for P20 million to finance export packing and shipment.

ARTIFACTS, INC.
Trading Art & Antiques, Manufacturing of Lacquerwares
Makati, Metro Manila
Export Packing and Domestic L/C Credit Line $3,599.

Artifacts, Inc. was incorporated in 1982 and is involved in three lines of business: retailing of antiques and art, exporting decorative goods, and manufacture and sale of lacquerwares. The firm has a retail store in the Manila Peninsula Hotel. Almost 90 percent of gross sales are throw pillows, which are sold primarily to buyers in the United States. Domestic sales of bags and purses, pillows and art objects form 10 percent of gross sales. The firm has ten employees and net assets of $201,667. In 1986 gross sales were P3,100,000, ($152,000) and net income was P830,000 ($40,686).

FEBTC provided Artifacts with a $3,599 credit line beginning at 14.18 percent interest and later reduced to 12 percent. The credit line has been used to increase working capital while the firm expands its lacquerware production facilities. The company has no outstanding credit with other banks.

PETE GALANG, INC.
Manufacturing of Artificial Plants and Flowers
Laguna
$106,586. Packing Credit
$ 24,510. Under Guarantee

Pete Galang, Inc. is a family owned corporation started in 1981. The company manufactures and exports artificial plants and flowers and other handicrafts. Its office and plant are located in Laguna, where 40 to 50 employees work in the plant. Net assets in 1984 were $164,236. Gross sales in 1985 were P3,865,000 ($189,461) and net income was P1,583,000 ($77,598).

Pete Galang, Inc. markets primarily to the U.S. through its exclusive distributor, International Floral Fashions, Inc. This distributor has ties with over 3000 interior design stores, and also has its own distribution centers.

Current production is over 700,000 pieces per month, but due to sustained strong demand in the U.S., the company cannot produce enough to fill all its orders. To solve this problem Pete Galang plans an expansion of P1.6 million ($78,431), which will more than double production capacity. To implement this plan FEBTC granted the company a P2,174,370 ($106,587) Packing Credit Loan at 17 percent interest, and a P1 million ($49,020) term loan. P500,000 of the credit line is covered by the A.I.D. guarantee facility.

JBL SALES CORPORATION
Prawn Exporting
Taguig, Metro Manila
Loan P3,200,000 ($156,863)

JBL Sales Corporation was established in 1977 as a trading company engaged in the manufacture of stainless steel couplings, distribution of construction supplies and general hardware. The company shifted to shrimp exporting in 1979.

Today JBL Sales Corporation hatches, grows and exports prawns to Japan. In 1985 JBL Corp. accounted for 13 percent of total Philippines prawn exports and was the third largest prawn exporter in the country. JBL Corporation processes four species of shrimp and has three processing plants with a total annual capacity of 2,880 metric tons per year. The company has had problems obtaining shrimp supplies sufficient to meet orders, and this has resulted in substantial underutilization of capacity; actual 1985 sales were only 623 tons. In 1985 JBL Corporation had net assets of $341,520, gross sales of $5 million, and an estimated net profit of $174,000.

The company's supply of prawns comes mostly from private fishponds, and this supply has been highly unreliable. In 1984 JBL Corporation decided to solve its supply problem by starting its own ponds. It constructed 194 hectares of ponds as well as a hatchery in Cebu. Once the hatchery began production it yielded 20 percent of JBL's fry requirements; total production of shrimp in all ponds was only 5 percent of JBL's sales volume by 1985.

To finance the company's development of shrimp and hatchery ponds JBL Corporation began borrowing from FEBTC in early 1986, when a P4 million ($196,078) line of credit was approved. The company had an established credit record, with current or previous lines of credit from five other banks, the largest credit having been a P8 million ($392,157) export packing credit line. On the other hand, the company was considered highly risky by FEBTC because it is a rural agribusiness and its financial statements did not clearly reflect FEBTC's assessment of JBL's operations. For that reason, credits to JBL Corporation were put under the PRE guarantee facility.

In 1986 JBL Corporation was hit by a series of difficulties. In the summer of that year a prawn glut in the Japanese market severely cut demand for JBL's prawns. In September of the same year JBL's ponds were severely damaged by floods, and the company had to sell three processing plants to meet cash flow needs. In early September 1986, JBL's labor force struck to demand benefits that had been promised but not delivered by the company's management. This strike made it impossible for the company to ship shrimp that had been ordered.

In the face of these setbacks JBL Corporation went past due on a $39,110 export credit, and a legal collection letter was sent by FEBTC on September 25th. On October 30, 1986 an export credit that had been advanced in June went past due, and negotiations continued between FEBTC and JBL Sales Corporation management to reach a settlement. JBL Corporation management informed FEBTC that the company had solicited a major investment from a Japanese client, and the company was waiting for a final answer to its proposal. In the meantime FEBTC requested $78,138 from Rainier Bank against the PRE Standby Letter of Credit. To date no settlement has been reached with JBL Corporation, but negotiations are continuing and seem to reflect a sound collection effort.

AMANCOR, INC.
Cebu
Furniture Manufacturing
EPCL $57,485 (3/31/87)

Amancor is one of the top five exporters of rattan furniture in the Philippines. The company was registered with the Securities and Exchange Commission in 1976 as Atillos Manufacturing Corporation, and changed its name in 1980 to avoid confusion with another Atillos family firm which was also in the furniture business. The Atillos family had been involved in furniture manufacturing since 1948, and Amancor was founded by the younger son of the family's head.

Amancor had been a customer of FEBTC prior to the A.I.D. guarantee facility. Due to a combination of adverse circumstances, however, the bank did not want to renew Amancor's credit, and bank officials decided to put the new credit under the guarantee facility until things settled down. The most important of the problems was a series of strikes that began in June and August of 1986, resulting in a substantial decrease in production. Shutdown costs and interest expenses resulted in an operating loss of P1.7 million ($83,333) and a net loss of P2.6 million ($127,451) in 1986. At the end of the year Amancor had past due accounts amounting to P1,185,000 ($58,088) with Metropolitan Bank and Trust and FEBTC. During the period from 1/86 through 3/87, however, the company had generated slightly over $2 million in foreign exchange earnings. Through the arrangement with FEBTC, the company was able to refinance its past due obligations through a substitute confirmed letter of credit.

Although there was risk involved in the investment, both the company and the overall market outlook were generally encouraging. Industry sales growth was at 19.5 percent from 1980 to 1985 despite national economic problems, and the company had maintained steady sales growth from P2,716,000 ($133,137) in 1980 to P7,925,000 ($388,480) in 1984. Ninety-five percent of the firm's exports were to the United States.

The credit line was made available against the signatures of the company's principals, a mortgage on merchandise inventory at about 50 percent of its appraised value, and confirmed purchase orders or export L/Cs at 80 percent of face value. The company also agreed to course at least US $1 million worth of exports through the bank and maintain its deposits at FEBTC.

The borrower risk ratings of the company dropped from three to four, and then to five between 1984 and the time of request for renewal of its credit line in late 1986. For this reason the initial recommendation of FEBTC's credit department was to deny renewal. However, with the prospect of an acceptable net income margin for the bank resulting from the foreign exchange and deposit transactions of the company, and with the availability of the PRE guarantee program, the bank approved the company's request.

JAKOB HOFFMANN INTERNATIONAL, INC
Manila
Hairpiece Manufacturer
$4,069 Export Credit Line

Jakob Hoffman originally came to the Philippines in the early '70s as a technical advisor to a local manufacturer of wigs. He had already gained international recognition as a wig maker, and his reputation as one of the top five designer-manufacturers in the world in this field continues to be a major intangible asset of his company.

Having left the Philippines at the time martial law was declared, Hoffmann returned in 1977 to open a wig making business with other expatriate investors. Following a dispute with his business partners, Hoffman split from the original company to join a group of Filipino investors affiliated with Newman Philippines, Inc., another manufacturer of hairpieces, and to establish Jakob Hoffmann International.

The break with his original company was apparently acrimonious, involving court cases and claims of misuse of funds, which in turn raised serious questions about the new company's creditworthiness. The company was, at this time, backed by the personal guarantees of the company's senior Filipino officer and the general manager of Bankers Trust in Manila, had an exclusive contract with an American firm, and possessed established clients such as Frank Sinatra and Burt Reynolds. With these assets the company went to FEBTC for financing.

Processing Jakob Hoffmann International's request for credit through the bank's system was difficult. While there was no question of the technical qualifications of its principal, some felt that Hoffman was too eccentric and might not be a very good manager. A P500,000 ($24,510) line of credit was approved in May of 1986, six months after the new company was registered with the Securities and Exchange Commission.

This line, which was placed under the guarantee program, was based in part on real estate collateral. Unfortunately that proposed collateral proved to be encumbered. Within a two month period, however, the company had rolled over its credit line with more than P600,000 ($29,412) in availments at interest rates of between 19 and 26 percent, and had coursed $72,000 worth of export earnings through the bank.

As noted by the accounts officer in arguing on behalf of her risky client, "the firm's business is growing and since the company is new, operations are sometimes haphazard. A lot of time is spent on the details of servicing the account, but there is clearly export potential, thus the account should be developed and cared for." The account has required some care, with poor documentation leading to problems in collection of L/C proceeds. The bank's services have, to some extent, justified its charging of high interest rates to the company, and the company has not objected. "Like most small-scale enterprises in the process of start-up," a company officer wrote to the bank, "we are having our share of financial problems. But please rest assured that we are a very viable enterprise and that we are on top of the situation." Without other collateral, the company requested an arrangement whereby the bank would purchase outright the company's export bills. In justifying this arrangement to the bank's reluctant credit department, the account officer pointed out that the company's principal buyer had consistently paid in full within two weeks of receiving clean documents. Bank executives then agreed to a larger credit line within the terms of the guarantee program.

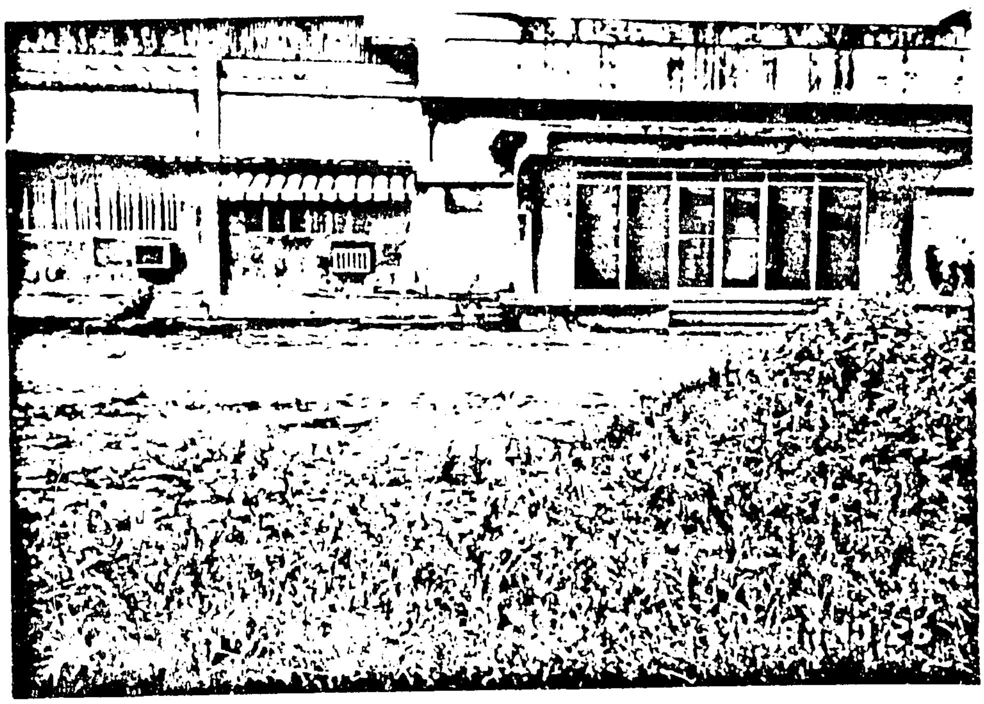
MTJ KNITWORLD
Manila
Garment Manufacturing
$46,908 Export Packing Credit Line

MTJ Knitworld is a small, family-owned enterprise established by Philip and Lulu Duyango. After eight years of subcontracting to a larger manufacturer, the couple incorporated their home-based industry. From the time they incorporated in 1984, until they first borrowed from FEBTC in late 1986, their revenues increased 200 percent and their export quota allocations doubled.

With only their personal surety, and a longstanding relationship as depositors at one of FEBTC's branch banks to back up their request, they approached the bank for the credit they needed to maintain their growth.

The bank thoroughly reviewed their case, noting in the process that the company's bank statements indicated significant profits, and a very healthy average daily balance in their account. While concerned with a discrepancy between the authorized export quota and the estimated sales growth of the company, the bank's credit department recommended exposure on a secured case-by-case basis under the guarantee facility.

The bank's involvement was rewarded by a complete rollover of their credit within the year, as well as earning additional profits on $56,000 worth of foreign exchange transactions. A new line of P2 million ($98,039) was approved in May of 1987, part of which was to finance imports of yarn and machines. The establishment of an outside source for yarn was a direct response to the bank's earlier concern that the company's production was totally dependent on the availability of yarn from one local manufacturer. MTJ Knitworld had managed to hold on to customers with whom they had dealt as a subcontractor, and on the basis of its performance with the first line of credit they were well on the way to becoming a regular FEBTC credit customer. The guarantee program had helped significantly in MTJ Knitworld's first steps toward developing a sound credit history.



MTJ Knitworld's factory entrance

MTJ knitting operations

MECHANICAL FACTORS PHILIPPINES, INC.
Numerous Locations
Shrimp Production and Machinery Distribution
$481,647 Export Packing Credit Line (Under guarantee)

Mechanical Factors has been in the business of trading in agricultural machinery since 1975. Its principal business has been the distribution of a popular kind of Japanese rice milling equipment, for which it is the sole distributor.

In 1983, however, it was severely affected by the economic crisis in the Philippines, during which the peso suffered a major devaluation. The company's major trading partner, in fact its only trading partner at the time, Toyo Menka of Japan, advised Mechanical Factors to venture into prawn raising for export to Japan in order to finance its imports.

The company began its shrimp operations by establishing buying stations throughout the country in 1984, and has since established its own production facilities in two locations. Born of necessity, its shrimp export activities have become a major part of its operations. During the same period, the company expanded its client base from the one Japanese company to four major Japanese and three American customers.

As a regular customer of FEBTC for many years, the company was placed under the guarantee facility as soon as the project started. Although its trade in agricultural machinery was well established, lending for its venture into shrimp export was considered risky. A credit appraisal undertaken by the bank in mid-1987, however, revealed the very successful history of this venture and that it had been a profitable investment for the bank.

Although its trade in agricultural equipment remains 50 percent of its business, and it received in early 1987 a P44 million ($2,156,863) contract for machinery, the company's diversification into shrimp production and export pulled it through the crisis and has proved its potential. Shrimp exports in 1986 amounted to over $3 million. The company's net income after tax increased by over 400 percent between 1985 and 1986 officially, and internal accounts made available to the bank indicated that actual profits were perhaps higher.

The company's P4 million ($196,078) term loan for expansion, which was fully secured with 200 percent collateral, was supplemented by an export credit line of up to P1.5 million ($73,529) in August 1987. At this time the company was able to present a contract for processing four metric tons of prawns every six months, with a profit margin of P2 to P5 per kilo, and the company's manager was a personal friend of the First Vice President of FEBTC. The bank's interest in maintaining this customer was also stimulated by the fact that the total income generated for the bank by the Mechanical Factors accounts during 1986 was P1.2 million, with a yield on net funding of 31 percent. Despite these favorable conditions, the credit department was concerned about the bank's credit exposure, and requested assurances from the company that its earnings were not being drained off into other enterprises.

SIBLING SALES CORPORATION
Manila
Food Exports
$24,510 Export Packing Credit Line
Amount under guarantee: $5,165.

Beginning business originally in 1979 as Firstling Industries Corporation, a food processing operation, Sibling Sales Corp. was established in 1983 by five stockholders of the original firm in order to expand into exports. It is a small company whose principal business is the export of native foodstuffs to Saudi Arabia.

The company, which used to bank with Metrobank, went to FEBTC in July, 1986 when the company's account officer moved from Metro to FEBTC. Although its record with Metrobank was good, and it was well known to the account officer, FEBTC considered this new company somewhat risky and placed it under the guarantee program. The company had previously had a P350,000 ($17,157) credit line with Metrobank. FEBTC extended a P200,000 ($9,804) line almost immediately, and after several availments on this line were repaid within one month, increased the line to P500,000 three months later. Export sales had dropped with the end of the world oil boom, from $682,000 in 1984 to $256,000 in 1985; nevertheless the market had stabilized and the enterprise was viable.

The close relationship between the FEBTC account officer and the company gave the bank intimate access to the company's in- house accounts, which provided a revealing look at actual financial status, in contrast to records submitted for tax purposes. The differences are significant and affect virtually every line of the financial statements.

The phenomenon of customers following account officers to new institutions is common in many countries, and, although FEBTC regarded Sibling Sales as a new and untried customer, the unique relationship between the account officer and the client provided the bank with realistic insights into the actual operations of the enterprise.

FEMS GARMENT INDUSTRIES CO., LTD.
Manila
Garment Manufacturing and Export
Under guarantee: $73,529.

FEMS Garment Industries is a major manufacturer in the Philippines, and is one of a group of FEMS companies located throughout the Far East, the United Kingdom, Egypt and South Africa. Majority ownership is in the hands of individuals of Indian origin, and the President and General Manager is a naturalized Filipino citizen. The firm employs 100 workers in its main plant and subcontracts with approximately 30 small producers, each with an average of 10 workers. As of the end of June 1986 the company held over P12 million ($588,235) in net assets.

FEMS had been a customer of the Philippine Commercial International Bank until it followed its account officer to FEBTC when she moved. As is often the case with new customers, the exchanges between the account officer and the credit department of the bank were spirited.

While the company was very profitable in the Philippine context, having constructed its own building at a cost of P25 million ($980,392) financed fully from equity, and had an established customer base of 40 buyers around the world, the credit department analysis gave it a relatively low credit ranking of four on the basis of their analysis that most of the profits were held in Hong Kong. There were also suspicions in the credit department that the firm was not exporting as much as it claimed, and that it was embarking on a P10 million ($490,196) expansion plan which would increase its interest burden. The fact that a large portion of its production was farmed out among a number of subcontractors was also viewed as a structural weakness. The credit department recommended denial of the application.

The account officer objected to the analysis, and because of her long established relationship to the client was able to obtain the client's in-house statements.

The account officer, commenting on the credit department's objections, pointed out, "The company can actually finance the (proposed expansion) through internally generated funds." The credit department maintained its position, and refused to recommend a credit line.

In late 1986, a P1.5 million line of credit was approved, placed under the guarantee facility in recognition of the credit department's initial concerns, and collateralized by a mortgage on FEMS' property valued at 300 percent of the credit line. By September 1987, however, the company had graduated to unguaranteed facilities.

GTI SPORTSWEAR CORPORATION
Manila
Garment Manufacturing and Export
($140,089 Direct Loan)
(Entire amount under guarantee)

GTI Sportswear, whose specialty is jeans manufacturing, ranked third in terms of export sales among garment manufacturers in the Philippines in 1985. The 1984 economic crisis in the country, however, severely reduced the company's profits. The value of 1984 export sales dropped to half compared with 1983, and decreased even further in 1985. This drop was caused, for the most part, by import restrictions that resulted in reduced margins previously obtained through direct raw materials purchases. At the same time debt service costs were increasing because of rapidly rising interest rates. Income estimates in 1984 before debt service showed a loss of P7,778,000 ($381,275) and an after debt service loss of P21,338,000 ($1,045,980). This was in contrast to a pre-debt service positive income of P26,344,000 ($1,291,373) in 1983. Fortunately, in that same year the company had reduced its loan principal balances by P14,213,000 ($696,716).

When the situation rectified itself in early 1986, the company found itself strapped for cash although its sales were rapidly growing to their earlier levels. The company approached FEBTC in October 1986 for an export line of credit of P1.5 million ($73,529). Although the company was generally regarded as a good credit risk overall, its temporary situation made extension of credit risky in view of existing obligations to other financial institutions of approximately P29 million ($1,421,569). Because of the significant potential for additional business, and the availability of the guarantee facility as protection, FEBTC granted the requested line.

The bank was on the crest of a wave. After-tax income for the company increased by 600 percent from 1985 to 1986, and as of April 1987 net income for the first three months of the year was already three times the total for 1986. GTI was quickly graduated into the bank's regular credit facilities when its export line came up for renewal.

These business improvements were reflected in the information supplied to the bank for renewal of GTI's credit lines. Foreign exchange earnings increased from $2,236,579 for the period January to August, 1986 to $3,582,178 for the period September 1986 to March 1987. A substantial portion of this was coursed through FEBTC. The company's assets had increased by P14 million ($686,275) over the same period, and the number of employees grew from 847 to 874.

SALDANA AND COMPANY
Manila
Garment Manufacturer and Exporter
$80,299 Direct Loan
(Entire amount under guarantee)

Saldana and Company is another major garment manufacturer and exporter in the Philippines. Established in 1946, it is part of a large family-owned business made up of a number of companies including Eastern Carpet Manufacturing Incorporated, a subsidiary run by one of the sons. The companies, and the family, are long time FEBTC customers.

Saldana and Company had enjoyed a P7 million ($343,137) omnibus line with the bank dating back to its beginnings. The earlier line had been collateralized by the family's real estate holdings worth 200 percent of the loan.

Like many Filipino companies, the Saldana enterprises had suffered severe reversals at the time of the economic crisis in 1983-1985. The most devastating impact was felt by the carpet manufacturing firm which had made a substantial investment in expansion just before the bottom dropped out of the market, and stiff competition arose from Korea, Taiwan and China. At the time Saldana requested an increase in its omnibus line to P10 million ($490,196) in June 1986, the carpet firm was facing bankruptcy.

Furthermore, in early 1986, the mother of the family, longtime manager of the garment manufacturing company, died, and the father was already semiretired. The son inherited his mother's stock, and at the time of the loan request, became manager of Saldana and Company.

The garment company had an export credit line of P5 million ($245,098) secured by the signatures of the father and son, and the company's June 1986 request for credit involved a consolidation of its two existing lines into an omnibus line, including an export credit line of approximately P900,000 ($44,118).

The major concern of the bank was the relationship of Saldana and Company to the failed carpet manufacturing enterprise. The failure of this company cast some doubts on the management capabilities of the son, and stimulated fears that credit might be diverted to the failed company.

Nevertheless, the bank, because of its longstanding relationship with the family, approved the credit consolidation, putting the export portion under the guarantee facility, and obtaining agreement that funds would not be diverted to the carpet company.

While the credit line is still regarded as a risk, the bank was amply rewarded with collateral business. In the first two months of 1987 the firm had coursed $600,000 in foreign exchange transactions through the bank According to bank officers, the family had paid off the debts of the carpet manufacturing firm by mid-1987, and had started production on a small scale for the local market.

MAYON GARMENTS
Cavite (Export Promotion Zone)
Garment Manufacturing and Export
$26,748 Export Packing Credit (Under guarantee)

Mayon Garments is a cottage industry and small business success story. The operation was started from the residence of Adelaida and Narciso Quesada in 1976, after Adelaida completed a dressmaking and tailoring class at the Marikina Institute of Science and Technology in the Philippines. The couple first started as subcontractors and, after receiving a number of small orders from the U.S., Canada, West Germany and Holland, started their own business in 1981.

They obtained a lease financing facility from FEBTC at the end of 1981 that helped pay for some of their equipment and a rented lot. That loan, collateralized by their production machinery, was fully paid off ahead of time in late 1985. They had also received an export credit line from another bank when they received their first L/Cs from FEBTC. Their sales expanded rapidly to reach an annual average of $200,000 between 1982 and 1984 and then dropped dramatically when Narciso, in his late 40s, returned to the U.S. to obtain his MBA, specializing in industrial management.

Upon his return, the company moved to the export promotion zone at Cavite, becoming the first firm to operate from this zone. This move gave the company the advantage of tax exemptions available under a new export promotion zone act. The company had reinvested its earnings wisely, using credit from FEBTC to finance high powered sewing machines and cutters in 1984. The decision to scale down production during the year of study abroad was also serendipitously timed so that it avoided severe effects of the economic crisis of 1984.

Although the past history of the company revealed consistent early payment of revolving export lines of P100,000 ($4,902), and it supported a request for increased facility up to P500,000 ($24,510) with firm orders amounting to $122,200 from the U.S., the bank placed its line under the guarantee program, and required that Mayon course its export business through the bank.

Although the credit seems risky, the Quesada family - mother Adelaida, who is production manager and designer, and the four sons who manage printing, purchasing, accounting and warehousing respectively - will probably remain under the influence of Narciso, whose file at the bank contains a 1967 letter from the Vice President of the Hartford National Bank and Trust Company in Connecticut thanking him for the early payment of the time payment loan he had received while a student and offering him future credit if he needed it.

APPENDIX 1

GENERAL STATISTICS

Number of active loans under FEBTC/PRE project (August 31, 1987)		50
Number of loan replacements		216
Largest loan		$481,647.
Smallest loan		286.
Average loan		$ 80,622.
Largest borrower [1]		$991,029.
Smallest borrower [1]		$14,695.
Average size of borrower (net assets excl. land)		$247,676.
Defaults	1 client:	$78,138.

Portfolio Classification by Economic Activity
(In millions of pesos, US $1 =20.4)

Economic Activity	1987 Number	Value (000's)	%
Wood & Rattan Products	12	19,028.	23.6
Garments	11	11,937.	14.8
Marine Products	10	24,199.	30.0
Agricultural Products	8	18,184.	22.6
Handicrafts	4	5,362.	6.7
Plastic Packaging	1	1,363.	1.7
Wigs	1	83.	.1
Automotive Filters	1	400.	.5
Totals	48	80,556.	100.0

FEBTC Guarantee Portfolio Breakdown By Loan Size
(000s Pesos)

5	83	100- <500	500- <1,000	1,000- <2,000	2,000- <5,000	5,000+
1	1	10	8	18	9	2

1. Net fixed assets excluding land.

1

APPENDIX 2

LIST OF SUB-BORROWERS VISITED

(1) MTJ Knitworld
(2) Shellcraft Products, Inc.
(3) GTI Sportswear Corporation
(4) SMI Industries
(5) Trimica, Inc.
(6) Mechanical Factors Phils, Inc.
(7) McLyn Garments
(8) Pete Galang, Inc.
(9) Amancor. Inc.
(10) Saldana & Company, Inc.
(11) VNS Trading
(12) Artifacts, Inc.
(13) Albay Agro-Industrial Development Corp.
(14) Siblings Sales Corp.
(15) FEMS Garment Industries Co., Ltd.
(16) Jakob Hoffman International, Inc.
(17) National Filter Manufacturing Corp.
(18) Fil-Asia Trading Corp.
(19) JBL Sales Corp.

APPENDIX 3

SEMI-ANNUAL REPORT ON USAID FACILITY - MARCH 31, 1987

SUB-PROJECT NAME	NEW OR EXISTING	LOCATION	BUSINESS ACTIVITY	LOAN AMOUNT (DOLLAR)	LOAN TYPE	LOAN PURPOSE	LOAN TERMS TENOR	LOAN TERMS INTEREST
1 ALFRED AND COMPANY, INC.	NEW	QUEZON CITY	EXPORTER OF WOODEN PRODUCTS	34,043.40	EPCL	WORKING CAPITAL	SHORT TERM	16.00%
				4,863.34	D/L			
2 AMANCOR, INC.	NEW	CEBU-MANDAUE	EXPORTER OF RATTAN FURNITURES	57,484.71	EPCL	WORKING CAPITAL	SHORT TERM	17.00%
3 ARC-MEN INDUSTRIES, INC.	NEW	MAKATI	MANUFACTURER OF PLASTIC PACKAGE	126,917.38	D/L	WORKING CAPITAL	SHORT TERM	12.50%
4 ASEAN TIMBER CORPORATION	NEW	VALENZUELA, M.M.	EXPORTER OF SEMI-PROCESSED & PROCESSED WOOD WORKING PRODUCTS	29,180.05	EPCL	WORKING CAPITAL	SHORT TERM	13.00%
5 ATILLOS RATTAN AND WOOD INDUSTRIES, INC.	NEW	CEBU-MANDAUE	EXPORTER OF RATTAN & BURI FURNITURES	20,231.50	EPCL	WORKING CAPITAL	SHORT TERM	17.00%
6 ERILLO HANDICRAFTS, INC.	NEW	SAN JUAN, METRO MLA.	MANUFACTURER-EXPORTER OF HANDICRAFTS CONSISTING OF BAGS, BELTS & HANDWOOVEN MATERIALS	20,516.31	CASE TO CASE EPCL	WORKING CAPITAL	SHORT TERM	14.50%
7 CRISMINA GARMENTS, INC.	NEW	MAKATI	EXPORTER OF GARMENTS	136,635.37	D/L	WORKING CAPITAL	SHORT TERM	15.00%
8 DACEBU TRADERS AND EXPORTER CORP.	NEW	CEBU-MANALILI	EXPORTER OF COCONUT GRANULATED CHARCOAL	37,253.20	EPCL	WORKING CAPITAL	SHORT TERM	18.00%
9 EASTAR RESOURCES (ASIA) CORPORATION	NEW	GREENHILLS	EXPORTER OF COCONUT, WOOD & AGRICULTURAL PRODUCTS	300,068.22	EPCL	WORKING CAPITAL	SHORT TERM	13.00%
10 ERMA INDUSTRIES, INC.	NEW	NORTH BAY BLVD., M.M.	EXPORTER OF FROZEN FOOD PRODUCTS	63,223.45	EPCL	EXPANSION	SHORT TERM	13.00%
11 FCG TRADING PHILIPPINES,, INC.	NEW	STA. MESA, MLA.	EXPORTER OF ETHNIC FOOD PRODUCTS & NON-FOOD ITEMS	113,293.34	EPCL	EXPANSION	SHORT TERM	15.00%
12 FEMS GARMENT INDUSTRIES CO. LTD.	NEW	SOUTH SUPERHIGHWAY, M.M.	EXPORTER OF LADIES' DRESSES/GOWNS, T-SHIRTS BABY DRESSES, UNDERWEARS & OTHER RELATED ITEMS	202,957.00	D/L	WORKING CAPITAL	SHORT TERM	13.00%
13 FIL-ASIA TRADING CORPORATION	NEW	PORT AREA, MLA.	EXPORTER OF SHELL WARES, BASKET WARES & WOOD WARES	21,685.04	EPCL	WORKING CAPITAL	SHORT TERM	17.50%
14 GRACE PARK INDUSTRIES, INC.	NEW	CALOOCAN CITY	EXPORTER OF WOOD BASED PRODUCTS	24,316.71	TIME LOAN	WORKING CAPITAL	SHORT TERM	11.50%
15 GREEN ORIENT TRADE CORPORATION	NEW	SAN ANDRES BUKID, M.M.	EXPORTER OF NON-TRADITIONAL / AGRICULTURAL PRODUCTS	36,475.07	CASE TO CASE EPCL	WORKING CAPITAL	SHORT TERM	15.00%
16 GTI SPORTSWEAR CORPORATION	NEW	QUEZON CITY	EXPORTER OF JEANS AND TOPS MADE OF HEAVY MATERIALS	140,089.00	D/L	WORKING CAPITAL	SHORT TERM	18.00%
17 INTEGRATED MARINE PRODUCTS & TRADING CORP.	NEW	PASAY CITY	EXPORTER OF MARINE PRODUCTS	194,533.69	STRAIGHT LOAN	WORKING CAPITAL	SHORT TERM	16.00%
18 JCL SALES CORPORATION	NEW	TAGUIG, M.M.	EXPORTER OF PRAWNS	73,056.40	CASE TO CASE EPCL	EXPANSION	SHORT TERM	17.00%
				78,220.48	CASE TO CASE EPCL			
19 J. R. GARMENTS CORPORATION	NEW	MANDALUYONG, M.M.	MANUFACTURER-EXPORTER OF INFANT'S AND CHILDREN'S APPAREL	12,159.36	EPCL	WORKING CAPITAL	SHORT TERM	16.50%
20 LAVIN COTTAGE INDUSTRIES, INC.	NEW	PASAY CITY	EXPORTER OF LOCALLY MADE COTTAGE INDUSTRY PRODUCTS	56,755.20	EPCL	EXPANSION	SHORT TERM	14.00%
21 LICUP OIL MILL	NEW	LUCENA CITY	MANUFACTURER-EXPORTER OF CRUDE COCONUT OIL AND ITS BY-PRODUCT COPRA CAKE	291,600.54	D/L	WORKING CAPITAL	SHORT TERM	18.00%
22 MAGARA RATTAN & COTTAGE INDUSTRIES, INC.	NEW	SAN JUAN, M.M.	EXPORTER OF RATTAN & OTHER WOOD FURNITURES & FIXTURES	14,590.03	EPCL	WORKING CAPITAL	SHORT TERM	15.00%
				13,947.37	TERM LOAN			
23 MANETH GARMENTS INDUSTRY	NEW	BAGUMBAYAN, BULACAN	SUB-CONTRACTS FOR DIRECT GARMENTS-EMBROIDERY EXPORTERS	33,761.32	D/L	WORKING CAPITAL	SHORT TERM	16.75%
24 MAYON GARMENTS MANUFACTURING	NEW	ROSARIO, CAVITE	MANUFATURER-EXPORTER OF GARMENTS	26,743.38	EPCL	WORKING CAPITAL	SHORT TERM	15.00%
25 MECHANICAL FACTORS PHILIPPINES, INC.	NEW	MANDALUYONG, M.M.	EXPORTER OF VARIOUS MARINE PRODUCTS	417,552.33	EPCL	WORKING CAPITAL	SHORT TERM	16.00%
26 NATION FILTER MANUFACTURING CORP.	NEW	MANDALUYONG, M.M.	MANUFACTURER-EXPORTER OF THROW-AWAY AUTOMOTIVE FILTERS.	37,111.46	D/L	WORKING CAPITAL	SHORT TERM	16.00%
27 OCEANLIGHT EXPORT AND IMPORT CORPORATION	NEW	BINONDO, MLA.	EXPORTER OF MARINE PRODUCTS	187,150.09	EPCL	WORKING CAPITAL	SHORT TERM	12.15%
28 PAULTON ENTERPRISES	NEW	CEBU-MANALILI	EXPORTER OF SHELLCRAFT & OTHER MARINE PRODUCTS	13,374.19	D/L	WORKING CAPITAL	SHORT TERM	17.00%
29 PESCANOVA, INC.	NEW	PASIG, M.M.	EXPORTER OF FROZEN MARINE PRODUCTS	126,445.90	D/L	EXPANSION	SHORT TERM	14.00%
30 PETE GALANG, INC.	NEW	SAN PEDRO, LAGUNA	MANUFACTURER-EXPORTER OF INNOVATIVE AND DECORATIVE PRODUCTS	29,180.05	CASE TO CASE EPCL	WORKING CAPITAL	SHORT TERM	15.00%
31 PHILIPPINE CARPET MANUFACTURING CORP.	NEW	MAKATI	EXPORTER OF HIGH QUALITY CARPET	43,468.67	D/L	EXPANSION	SHORT TERM	13.00%
32 P. M. RELOVA, INC.	NEW	MUNTINLUPA, M.M.	MANUFACTURER-EXPORTER OF WOODEN PRODUCTS	14,590.03	STRAIGHT LOAN	WORKING CAPITAL	SHORT TERM	18.00%
33 SALDANA AND COMPANY, INC.	NEW	PASIG, M.M.	EXPORTER OF CHILDREN'S WEAR NIGHTIES & HANDKERCHIEF	80,299.68	D/L	EXPANSION	SHORT TERM	11.00%
34 SAMPAGUITA GARMENTS CORPORATION	NEW	CALOOCAN	EXPORTER OF LADIES' & MEN'S COATS AND JACKETS	29,399.47	EPCL	EXPANSION	SHORT TERM	17.00%
35 SAN MIGUEL BAY TRADING CORPORATION	NEW	MAGA CITY	EXPORTER OF SHRIMPS	24,316.71	EPCL	WORKING CAPITAL	SHORT TERM	14.00%
36 SEASEMS SHELLS, INC.	NEW	CEBU-MANDAUE	EXPORTER OF POLISHED SHELLS AND SHELLCRAFT	9,240.35	EPCL	WORKING CAPITAL	SHORT TERM	18.00%
37 SEATRADE INTERNATIONAL, INC.	NEW	MAKATI	EXPORTER OF PRAWNS & FILIPINO FOOD STUFF	72,911.26	D/L	EXPANSION	SHORT TERM	19.00%
38 SEVEN SEAS APPAREL MANUFACTURING CORP.	NEW	BULACAN	EXPORTER OF GARMENTS	33,044.50	EPCL	WORKING CAPITAL	SHORT TERM	17.00%
39 SINDO RESOURCES, INC.	NEW	MAKATI	EXPORTER OF RATTAN FURNITURES	12,159.36	EPCL	WORKING CAPITAL	SHORT TERM	13.00%
40 SPECIAL LADIES, INC.	NEW	MAKATI	EXPORTER OF SWEATERS	39,905.74	D/L	WORKING CAPITAL	SHORT TERM	16.00%

41	STA. AGUEDA ENTERPRISES, INC.	NEW	PARANAQUE, M.M.	EXPORTER OF WOOVEN ARTICLE	26,553.74	CASE TO CASE EPCL	WORKING CAPITAL	SHORT TERM	17.00%
42	TAG FIBERS, INC.	NEW	PORT AREA, MLA.	EXPORTER OF ABACA FIBERS	102.130.19	EPCL	EXPANSION	SHORT TERM	11.00%
43	TARGA TRADING AND RESOURCES, INC.	NEW	PASIG, M. M.	EXPORTER OF DOORS, FIREPLACE, MANTELS & FILIPINO FOOD	72,950.13	D/L	WORKING CAPITAL	SHORT TERM	17.50%
				ITEMS	34,043.40	CASE TO CASE EPCL			
44	TOP-STITCH APPAREL CORPORATION	NEW	MANDALUYONG, M.M.	MANUFACTURER-EXPORTER OF GARMENTS	160,490.30	CASE TO CASE EPCL	WORKING CAPITAL	SHORT TERM	14.46%
45	TRANS-PHILIPPINES EXPORTERS	NEW	MAKATI	EXPORTER OF HANDICRAFTS	144,966.78	D/L	EXPANSION	SHORT TERM	11.00%
46	UNIMER EXPORT CORPORATION	NEW	MAKATI	EXPORTER OF AGRICULTURAL GOODS	27,576.74	D/L	EXPANSION	SHORT TERM	13.00%
47	VICARDI GARMENTS	NEW	VALENZUELA, M.M.	EXPORTER OF SKI-JACKETS, JOGGING SUITS, LADIES SWEATER	41,500.44	EPCL	WORKING CAPITAL	SHORT TERM	16.00%
48	WINK GARMENTS	NEW	CALOOCAN	EXPORTER OF VARIOUS SPORTS-WEAR PRODUCTS	48,633.42	EPCL	WORKING CAPITAL	SHORT TERM	17.00%
					4,000,000.00				

LEGEND:

EPCL - EXPORT PACKING CREDIT LINE

D/L - DISCOUNTING LINE

O/L - OMNIBUS LINE

APPENDIX 4

DATA COLLECTION GUIDE

I. MACROECONOMIC CONDITIONS: IMF, IBRD, BIS, ETC. DOCUMENTS

1. What has been the rate of change in inflation since the financing?

____

2. What is the forecast for inflation? ______________________

____

3. What is the level and percent of employment? What is the forecast?

____

4. What has been the rate of change in employment since financing? _____

____

5. What has been the level and rate of change in GNP/GDP since financing? What is the forecast?______________________________

____

6. What is the breakdown of employment and GDP by sector?__________

____

7. What is the population growth rate? What is the age composition of the population? What is the rural/urban breakdown? Any major changes occurring?______________________________________

____

8. What has been the changes in the currency conversion rate since financing? Is there a black market exchange rate? ____________

____

9. What are the foreign exchange constraints on the economy?________

____

10. What are the government policies regarding:

    a. The private sector
    b. Interest rates
    c. Business financing
    d. Collateralization of loans to SMSE

II. INTERVIEWS WITH CENTRAL BANK AND GOVERNMENT OFFICIALS

1. Please describe the structure of financial markets, credit availability, and subsidies. ____________________

____

2. What are the major trends in government policy toward the country's financial markets? ____________________

____

3. Please tell me what you can about the current discussion on interest rate policy. Are interest rates subsidized in any way? What is the prevailing interest rate? ____________________

____

4. What regulations are there on financial markets? What particular regulations relate to SMSE credit? What regulations concern collateral requirements? Is there ongoing discussion on financial market reform? ____________________

____

5. What are the trends on privatization of banking institutions? ________

____

6. What are the major institutional changes that are currently happening in your country's financial markets? ____________________

____

7. What do you think of this project? ____________________

____

8. Has this project led, or will it lead to changes in provision of credit? ____________________

____

9. Has this project affected access to credit for small businesses? _____

____

10. Is there a government policy to improve access to credit for small business? How does the PRE project fit in? ____________________

____

11. Are there other successful small business lending programs here? ______

____

III. INTERVIEWS WITH PRE STAFF

1. Why was this particular project selected? Was it particularly suited to local economic conditions? How did it fit into PRE programming at that time?

2. Why was this project undertaken?

3. In terms of financial and management capacities, how strong would you say that the project IFI is?

4. In what ways was the local IFI involved in project design?

5. In what ways have A.I.D. Mission staff assisted you in the design or implementation of this project?

6. In what ways does the PRE project credit delivery system differ from other credit systems in this country?

7. Have the loan policies of this IFI changed at all during the PRE project period?

8. Have there been any important management changes at the IFI during the period from _____ to ________?

9. (SHOW OBJECTIVES LIST) Of this list, which were the six primary objectives in carrying out this project?

10. Would you say that this PRE project has had any significant impacts on the local economy or credit system? What impacts?

11. Do you feel that investigations preceding the project were adequate? What would have helped?

12. Did you or others in the agency carry out a policy constraints analysis before you made the investment decision?

13. Will the project continue after termination of PRE assistance? How?

14. If you see that the PRE project is not going to meet project objectives, what action can you take?

15. Could you give me any examples of Mission projects that were stimulated by PRE activity?

16. What control do you have over the implementation of this project once you have disbursed the loan?

17. Please tell me about instances when innovative approaches have been taken to solving difficulties caused by government regulations, or changing circumstances.

IV. INTERVIEWS WITH A.I.D. MISSION STAFF

1. How does this project relate to the mission portfolio? Why was this particular project undertaken?

2. Does the Mission consider the project successful? Unsuccessful? If so, why?

3. Is the government interested in the project?

4. (SHOW OBJECTIVES LIST) What do you see as being the six most important objectives of this project?

5. What have you learned from the project and how would you change it?

6. How much backup and assistance has the Mission provided to this project? Any assistance to other PRE projects?

8. Has this project in any way influenced other activities in the Mission?

9. Has this project stimulated any further Revolving Fund projects in country?

10. Have other host country institutions replicated the programming approach taken by the A.I.D. supported IFI?

11. Has the Mission initiated any new private sector projects?

12. Is there ongoing discussion on increased private sector involvement in development programming?

13. What is the general relationship between PRE/Washington and the A.I.D. Mission here?

V. AID/PRE DOCUMENTS

Project Loan Information

1. Date of Application ________ 2. Date of Approval _______

3. Amount Approved: Before After

	Before	After
Loan	$__________	$__________
Grant	$__________	$__________
Bank Matching Funds	$__________	$__________
Additional Commitments	$__________	$__________
Other loans/grants	$__________	$__________

4. Term of Loan (months) ______________________________

5. Repayment Requirements: Interest Rate ____%

   Principal Reductions __________________

6. Date of First Disbursement ________________

7. Amount Disbursed: As of _______ Loan $ _______ Grant $ _______

8. Amount Outstanding $_________ As of ___________

9. Current? Yes ___ No ___ If no: Amount in Arrears $ __________

10. Other indicators of the strength and competence of the IFI:

    Total loan arrears $ _______

    Reserves presently $ _______ Last year $ _________

    Value of PRE project portfolio $ _________

11. Any indication that this IFI was involved in the design of this PRE project?

12. Type of loan mechanisms used by project? ________________________

13. Total amount invested in the project by all sources? _____________

14. Any evidence of A.I.D. Mission staff involvement in this project?

15. Primary purpose of loan. _____________________________________

    Types of businesses eligible for loans.__________________________

    How many applicants were there? _______ How many were accepted? _____

16. Has PRE/I made a field visit? Yes ___ No ___. If yes, date?_______

17. What factors were considered by PRE/I in selection of this project for evaluation? ____

____

18. Did the Bureau for Private Enterprise carry out a structural analysis of the banking sector before you made the investment decision? What were the results? ____________________

____

Investment Proposal

1. Types of businesses to be financed? ____________________

2. Basic loan criteria for subborrowers:

   Maximum size __________ Minimum size ____________
   Maximum maturity ________ Minimum maturity _________
   Interest rate _________ Collateral ______________
   Minimum equity participation___________

3. Methods to acquire subprojects.

4. Financial: (review financial statements filed in support of PRE/I loan)

5. Grant component of PRE assistance:

VI. IFI DOCUMENTS

1. Name of Project Organization ____________________

2. Address ____________________

3. Country ____________

4. Principal Officer ________

5. Purpose of IFI ____________________

6. Costs associated with admin. of A.I.D. project ____________

7. List of subborrowers ____________________

NOTE: If possible, get the following: A profit and loss statement for the PRE funded project, a P&L for the IFI as a whole, and other financial statements for the past 3 to 5 years. If a formal P&L is not available then:

1. Financial information on the IFI as of (date)

   a. Total loan portfolio Amount ____________
   b. No. of loans ________
   c. Average size loan ________
   d. Revenues (Fiscal year ended):
      Total ____________
      USAID Loan funds ____________

   e. Net Profit:
      Total __________
      USAID Loan funds ____________

2. Ratio Analysis

   a. Profitability (for each fiscal period)
      Net Profit Margin: Net Profit/Total Revenues
      Asset Turnover: Total Revenues/Total Assets
      Asset Leverage: Total Assets/Total Equity
      Return on Equity: Net Profit/Total Equity
      Interest Income on Loans: Loan interest income/
      Average loan portfolio

   b. Solvency (for each fiscal period)
      Financial Leverage: Total Debt/Total Equity
      Liquidity: Cash and Cash Equivalents/
      Short term indebtedness

   c. Loan Quality: Overdue outstanding loans/
      Gross value of loan portfolio

   d. Efficiency: Principal collected during period/
      Principal due during period.
      Amount of payments made
      during period/Amount of
      payment due during period.

Financial Reports

1. Were funds used as required by the loan documents? Does file contain documentation of the use of funds?

2. Were training grant funds used as proposed?

3. Loan information: As Reported As Projected DIfference Reason
   Number of Loans __________
   Amount of Loans __________
   Collections ______________
   Delinquencies
   Other ____________________

USAID Funded Portfolio

1. Loans disbursed as of ________________ (date)
   Amount ____________
   No. _______________
   Location: _______ Urban _______ Rural

2. Disbursed loans that are current in payment
   Amount ____________
   No. _______________

3. Disbursed loans that are delinquent

   Up to 30 days: Amount ________________ No. ______________

   31-60 days: Amount ________________ No. ______________

   61-90 days: Amount ________________ No. ______________

   Over 90 days: Amount ________________ No. ______________

4. Disbursed loans that have had moratoriums on payment and/or been rescheduled: ___________ Amount __________ No. _______________

5. Disbursed loans that are under foreclosure and other liquidation action: ____________ Amount ______________ No. ________________

6. Pending loan applications

   Amount ______________ No. ______________

7. Remarks ____

____

Subborrower Matrix

Borrower/Loan Number

Rural/Urban

Size

Sector

Export/Import

Assets

Employment

Gender

Sales

New Old

Current

Subborrower Matrix

Borrower/Loan Number

Rural/Urban

Size

Sector

Export/Import

Assets

Employment

Gender

Sales

New Old

Current

VII. INITIAL IFI STAFF INTERVIEWS

Interviews with division chiefs and others responsible for the operation of the USAID funded program will be required.

1. How does the A.I.D. project fit in with the rest of the institution? (do you have an organization chart?)

2. Which department or individual is responsible for management of the USAID funded program?

3. Is this a sole duty or does the department/individual also have other responsibilities?

4. Does this department/individual have authority to hire, dismiss, set salaries, etc.?

5. Which department or individual is responsible for credit analysis and approval of loan requests?

6. Which department or individual is responsible for loan servicing and customer relations?

7. Which department is responsible for loan collection and funds accounting?

8. Which department is responsible for loan accounting and recording?

VII. INTERVIEWS WITH IFI LINE STAFF

Financial Policies

NOTE: These questions should be asked of the individual responsible for management of the A.I.D. funded program.

1. Who establishes policy for the IFI?

2. Does the IFI have discretion to set interest rates on loans?

3. How is the interest rate determined?

4. What are the basic loan criteria?

   Maximum size ______________ Minimum size _________________

   Maximum maturity __________ Minimum maturity ______________

   Maximum grace period ________________

   Processing fee ____________ Administrative fee______________

   Repayment method: Monthly____ Qtrly ____
   Principal plus interest ____

   Equal Amortization ____ Other _____________________

   Collateral amount as percent of loan ________________

   Types of collateral required _________________

   Eligible businesses: New ____ Industrial ____
   Agriculture ____

   Retail ____ Wholesale ____ Service ____

   Agri-business ____ Other ______________

5. Equity requirements (as percent of total assets)

6. Ownership/management of business:
   Must owners also be active in management?
   Are there educational or age requirements?
   Must borrowers maintain accounting records?

7. Are interest penalties charged on delinquent loans?

   What? _____________

8. Are prepayment penalties charged for payment prior to maturity?
   What? _____________

Credit Policies: Loan Division Supervisor

1. Are credit policies for USAID funded subprojects different than other loans of the institution? (NOTE: Evaluator to probe for criteria such as lower interest rate, lower collateral requirements, longer maturities, staggered repayment schedules, etc.) Why?

2. Obtain and review copies of application forms for loans

   a. Promissory note

   b. Collateral documentation (simply characterize)

3. Please explain your policy with respect to collateral.

4. Review project appraisal process:

   a. Is there a review to determine whether stated loan purpose agrees with lending objectives?

   b. What is the source of baseline data for loan appraisal?

   c. Application acquisition and acceptance procedure

   d. Application processing
      Financial analysis
      Technical (production) analysis
      Market analysis
      Management evaluation

   e. What is the time from application acceptance to application approval?

5. What is the composition of the credit committee?

6. What is the time from application approval to first disbursement? From first disbursement to final disbursement?

Loan Servicing, Collection Policies, and Profitability

1. What are the legal requirements in this country for loan collection, foreclosure, and liquidation of collateral?

2. Are field visits made to borrowers?
   Specify period ______________
   Only when delinquent ________ Other ___________

   What happens at these field visits?

3. What technical oversight is there once loans are disbursed?

4. What resources exist for technical oversight? Is there a special technical unit? How much staff time is allocated to technical oversight?

5. Who has the responsibility for loss mitigation from defaulted loans?

6. Are safeguards established for collection of loan repayments?

7. What is the procedure for collection of delinquent loans?

8. How does the bank determine profitability of each loan?

   - cost of funds
   - risk premium
   - administration
   - allowance for bad debt
   - profit margin

   How does this compare to the bank's other activities?

9. Please describe the branch network of this bank.

IX. INTERVIEW WITH MANAGEMENT OF THE IFI

0. Please describe your bank's lending facilities available to SMSE's.

1. Why did you choose to obtain a loan through A.I.D.?
Was your institution involved in the design of this PRE project?

2. Is this program profitable for the bank? If not, why not.
Would you do it again?

3. Do you believe the USAID funded project is meeting its initial goals?
Why or why not?

4. Have there been any new mechanisms developed to finance SMSE's recently? What?

5. Have loans been made available to special groups such as women-owned enterprises or rural businesses?

6. Has the operation of the project funded by USAID substantially changed from the initial expectations? In what ways?

7. Has the operation of the project resulted in any change to the way the entire organization is operating? In what ways?

8. What impediments do you see in making this project more successful?

9. What changes, if any, would you like to make in the project to enable you to meet its goals? How would such changes operate? How would those changes enable the project to meet its goals?

10. Have funding levels for activities targeted in the A.I.D./IFI agreement increased?

11. Have the PRE funds used in this project been complemented by any other source, such as another bilateral aid program or your government?

12. Has any other financial institution in the country begun to fund similar subprojects since you started this project? Are they, in your opinion, successful? Are you able to meet the competition from these institutions?

13. Have you made any administrative or policy changes in the project since it started?

14. What innovative approaches have you taken in this project to adapt to problems caused by government regulations and changing economic conditions?

15. How is credit usually provided to PRE project borrowers?
Please describe the lending program for small businesses.

16. Would this group of borrowers have obtained loans if loans from the PRE-assisted project had not been available?

17. What is the range of credit delivery mechanisms offered by your bank?

18. In what ways does the PRE project differ from your usual credit

operations?

19. Has there been any significant change in your institution's capacity to identify suitable loans in the SMSE sector since the start of this project?

20. Has there been any significant change in your institution's capacity to process and monitor viable loans since the project started?

21. Has there been any significant change in your institution's ability to recover loans in the SMSE sector?

22. Will you continue this type of lending after termination of PRE assistance?

23. How many staff members are involved in the PRE project? What levels of personnel?

24. Do you feel your loan officers are adequately qualified to administer SMSE loans? Could training help them?

Personnel

1. Staff size of PRE supported project.
2. Skill level of PRE project staff.
3. Skill level of general staff loan officers.

X. SUBBORROWER INTERVIEWS

Collection and analysis of quantitative data on subprojects are labor intensive and time consuming activities. The time available to the evaluation team will dictate the extent to which such activity will occur. In general, an evaluator can interview 3 to 4 small and micro scale firms, or 2 to 3 medium scale firms in one day. Since many firms do not have telephones, it will be difficult to make prior appointments and visits will have to be made without knowing if the owner or manager will be present. The number to be evaluated will be determined by the time available to the evaluation team. To insure reasonable representation, consideration would be given in the selection process to the following:

Loan Size: Both large loans and small loans

Industry: To the extent possible, the firms selected should be representative of the industries financed.

Location: To the extent possible, both urban and rural firms.

Loan Type: Loans for working capital, for equipment, and for permanent assets (as applicable).

Maturity: Short term, medium term and long term loans.

Loan Status: Both current and past due accounts.

Credit History: New and old borrowers from this bank.

Asset Value of Business: Large and smal

GENERAL INFORMATION

Through interviews with the sub-borrowers, obtain the following information:

- description of business, what production processes it uses, new technologies.
- background information on the owner(s)/manager(s), such as experience, education, etc.
- credit experience: has it been good or bad, from whom, why this IFI was chosen? Who else could you borrow from? Have they invested their own money in this business?
- what other features of the program were attractive?

	Before loan	At present
Production:		
Units Produced		
Annual Sales		
Assets:		
Total Assets		

What kind of recent purchases have you made?

Personnel:

	Before loan	At present
Number of Employees		
Payroll		
How many are women?		

- if this is a new business, what was the owner doing before this?
- has the owner invested in other businesses? Has his/her family been in business?
- does the owner have any other loans? from what sources?
- what were the loan proceeds used for?
- who are your competitors? are they larger or smaller than you? has competition increased since obtaining the loan?
- who are your customers? are they local, regional, national, international (%'s)? how do you market your product(s)?
- in general, how do you feel your firm is doing?
- what are the biggest problems your company faces?
- are you having difficulty repaying the loan?
- how has their loan helped you?
- do you have any other comments?

X. INTERVIEWS WITH OTHER INSTITUTIONS INVOLVED IN INNOVATIVE SMSE LENDING

Note: Conduct an unstructured interview with representatives of other institutions involved in innovative SMSE loan programs.