

APPENDIX 3 TERMS OF REFERENCE

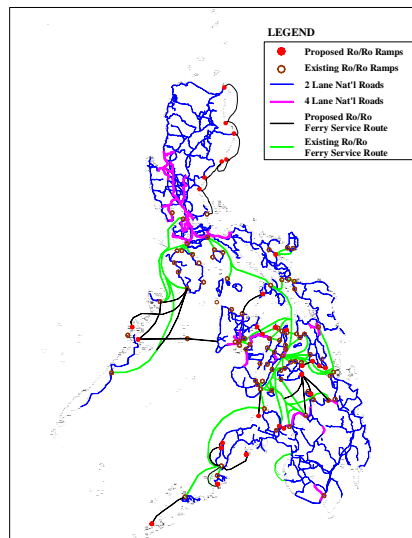
Appendix 3.1- Proposed Updated Road RoRo Terminal System (RRTS) Master Plan and Feasibility Study of Selected Corridors for the Missing Links

(1) NECESSITY/JUSTIFICATION OF THE STUDY

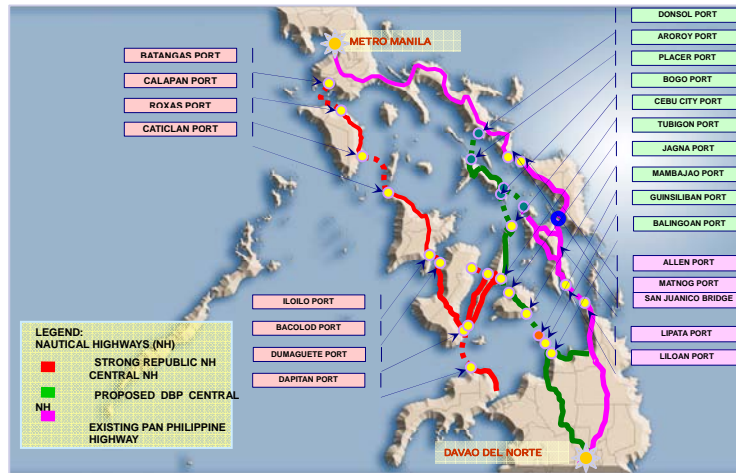
The maritime transport industry plays a very important role in the country's development. Considering the archipelagic setting of the country, efficient maritime should be one where passengers and cargoes get to their destinations on time and in good and safe condition at the least possible cost.

The Philippine Government has set in its priority agenda – the 10-pt agenda – the development of Road-RoRo intermodal connections throughout the archipelago. There are several blueprints to the development of the so-called nautical highways.

- The Study on the Master Plan for the Strategic Development of the National Port system in the Republic of the Philippines which was completed in 2004 has identified priority RoRo routes based on a set of criteria using secondary data gathered from various agencies and port management bodies implementing port development projects.



- The Philippine Medium Term Development Plan 2004-2010 has likewise presented a framework for the development of the three primary corridors – the Western, Eastern and Central Nautical Highways.



- The JICA assisted Nationwide Roll-on/ Roll-off Transport System Development Study which was started in 1989 and completed in 1992, has identified 40 routes/links for development based on Origin-Destination (OD) survey method. The links were categorized into three (3) priority groups. The first priority group aimed to develop the traditional Batangas-Calapan route and to interlink the major islands in the Visayas centering on Cebu. The second priority group aimed to strengthen the social and economic ties of Visayas and Mindanao. To date, out of the 40 priority RoRo links recommended for implementation, only twenty five links or thirty seven percent (37%) are operating with RoRo service.



- In March 2005, JICA and Transnational Diversified Group, Inc. (TDGI) published their macro study on the feasibility of the development of RoRo routes, including the acquisition of RoRo vessels, in the 18 missionary routes identified by the Sustainable Logistics Development Program (SLDP) of the Development Bank of the Philippines (DBP). The study evaluated the port condition, hydrographical, meteorological and navigation conditions based on secondary data. The result of the study showed that at an annual average load factor of 75%, only seven (7) missionary routes showed IRRs of more than 12% provided that newly constructed vessels were assigned.



The Domestic Shipping Development Plan Study conducted a pilot study on the two links of the Central Nautical Highway, Bicol-Masbate and Masbate-Cebu. In addition, the Study likewise conducted a pilot case study on the Masbate-Panay link. One issue identified in the Study is that selected or identified port terminals suggested in the abovementioned RRTS network, does not necessarily coincide with the optimal or most appropriate terminal based on in-depth analysis.

In addition, there are several opinions and advocacies to competing port terminals and routes. Given the limited demand, it is not recommendable to disperse services resulting in low load factors and repetitive port investment.

This situation creates confusion and dilutes scarce resources to develop the network. It is therefore necessary to embark on a comprehensive analysis to specify the nautical highway in a practical and appropriate manner based on business and technical sense.

At the same time, exiting routes require re-examination to identify further development directions to further strengthen existing RoRo routes. For example... the Liloan – Lipata Route , due to ongoing development of the road from Liloan to the southernmost tip of Southern Leyte, it may be better to move the RoRo port terminal to San Ricardo to reduce sea travel time by more than 50% (that is from about 6 hours to 3 hours).

There is likewise an issue of acquiring RoRo vessel to support expansion of the nautical highway and to replace aging RoRo vessels and to serve increasing demand at existing routes. Based on the Domestic Shipping Development Plan, there will be an anticipated shortage of second hand RoRo vessels; thereby subsequent procurement of vessels would require active participation from local shipyards to build domestic RoRo vessels. The RRTS Pilot Study of the DSDP, concluded that new RoRo vessels would be financially unviable, unless construction cost is reduced by around 20%. The viability of operating new ships would therefore be improved by attractive financing scheme and innovative shipbuilding strategies, such as serial building. It is therefore critical that strategies to lower shipbuilding cost be formulated to support the nautical highways.

(2) OBJECTIVES OF THE STUDY

- 1) To formulate a national nautical highway development master plan;
- 2) To formulate domestic shipbuilding strategy for RoRo vessels;
- 3) To conduct feasibility study for selected priority corridors, covering vessel procurement and infrastructure development;
- 4) To formulate action plan to effect the implementation of priority study project.

(3) STUDY AREA

The study shall cover seventeen (17) existing RoRo routes as well as nineteen (19) developmental routes (i.e. new routes). In all, the study shall cover thirty six (36) corridors.

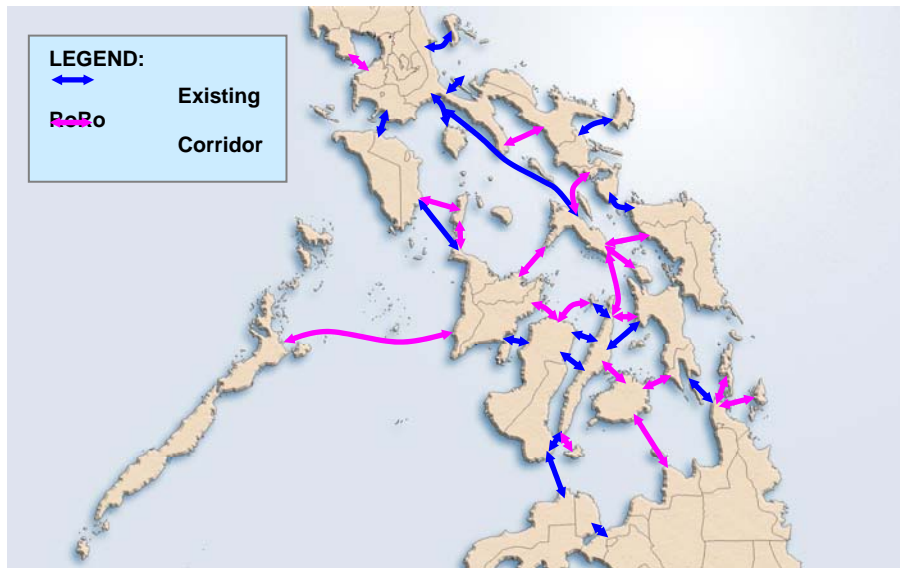
The existing RoRo corridors are the following:

- 1) Southern Luzon – Samar Corridor
- 2) Southern Leyte – Northern Mindanao Corridor
- 3) Southern Luzon – Northern Mindoro Corridor
- 4) Southern Mindoro – Northern Panay Corridor
- 5) Southern Panay – Negros Corridor
- 6) Southern Negros – Northern Mindanao Corridor
- 7) Pangil Bay Corridor (Northern Mindanao)
- 8) Northern Negros – Northern Cebu Corridor
- 9) Central Negros – Central Cebu Corridor
- 10) Southern Negros – Southern Cebu Corridor
- 11) Northern Cebu – Bantay Island Corridor
- 12) Southern Luzon – Polilo Island Corridor
- 13) Southern Luzon – Alabat Island Corridor
- 14) Southern Luzon – Marinduque Island Corridor
- 15) Southern Luzon – Catanduanes Island Corridor
- 16) Quezon/Luzon – Masbate
- 17) Central Cebu – Leyte Corridor

The developmental RoRo corridors are the following:

- 1) Bataan – Cavite Corridor
- 2) Southern Luzon – Masbate Corridor
- 3) Masbate – Samar Corridor
- 4) Masbate – Leyte Corridor
- 5) Masbate – Cebu Corridor
- 6) MASbate – Panay Corridor
- 7) Bohol – Cebu Corridor
- 8) Bohol – Leyte Corridor
- 9) Bohol – Mindanao Corridor
- 10) Bondoc Peninsula – Camarines Sur Corridor
- 11) Southern Cebu – Siquijor Island Corridor
- 12) Romblon Island – Panay Island Corridor
- 13) Romblon Island – Mindoro Island Corridor
- 14) Siargao Island – Northern Mindanao Mainland Corridor
- 15) Dinagat Island – Northern Mindanao Mainland Corridor
- 16) Northern Cebu – Leyte Corridor
- 17) Negros – Bantayan Island Corridor
- 18) Northern Negros – Northern Panay Corridor

19) Palawan – Panay Corridor



(4) SCOPE OF THE STUDY

The project study shall cover the following:

1) To formulate a national nautical highway development master plan

- Review and data collection
 - Review of relevant plans and studies
 - Field survey
 - Demand conditions (partly contract-out to a Domestic Consultant Firm)
 - Port conditions (partly contract-out to a Domestic Consultant Firm)
 - Road conditions (partly contract-out to a Domestic Consultant Firm)
 - Others
 - Stakeholder meetings
- Selection of appropriate port terminal and route network
- Identification of port requirements
 - Preliminary engineering surveys
 - Formulation of port development plans and preliminary design of facilities
 - Preliminary cost estimate
 - Initial Environmental Examination
- Identification of vessel requirements
 - Demand forecast
 - Operational planning
 - Development of standard RoRo vessel design for nautical highway
 - Vessel requirement estimation
 - Development of domestic shipbuilding capability
- Identification of other required infrastructure and facilities (such as roads)
- Preliminary economic and financial evaluation
- Selection of priority routes for short term development (five corridors)

2) Feasibility Study on Selected Corridor

- Detail design of port development plans (including access roads)

- Engineering surveys
 - Topographic survey
 - Hydrographic survey
 - Geotechnical survey
 - Others
- Detail design
- Cost estimation
- Environmental Impact Assessment
 - Environmental surveys
 - Social surveys
 - Environmental management plan
 - Others
- Economic and financial evaluation
- Detail design of model RoRo vessel
 - Survey and selection of appropriate existing vessel design
 - Model design tests and simulation
 - Construction method and schedule at selected domestic shipyards
 - Cost estimation
 - Economic and financial evaluation

3) To formulate action plan to effect the implementation of priority study project

- Review of existing relevant institutions, covering regulation, planning, financing, and execution
- Review of existing laws, policies and regulations
- Formulate institutional plan to strengthen execution capability for the implementation of the nautical highways
- Propose appropriate financing schemes

(5) STUDY SCHEDULE

The study shall be carried out for the duration of eighteen (18) months.

Start	:	June 2006
Completion	:	November 2007

(6) REPORTS

The study is expected to come out with reports detailing the accomplishment of work at different stages as follows:

- 1) Inception Report – The report shall cover the methodology of the study and shall be submitted at the time of the commencement of the study.
- 2) Interim Reports 1 – covering nautical highway master plan and shipbuilding strategy
- 3) Interim Report 2 – F/S of selected corridors and institutional recommendations
- 4) Draft Final Report – The report shall cover all the results of the study which shall be subsequently distributed to all the members of the steering committee for comments.
- 5) Final Report – The report shall incorporate all comments to the draft final report and shall be submitted together with the CD-ROM.

(7) BUDGET AND PROPOSED TEAM COMPOSITION

The total assignment will be for a period of approximately eighteen (18) months. The consultants will be expected to provide qualified personnel in all relevant technical fields, together with all appropriate managerial and administrative support. It is expected that substantial input will be provided by Philippine local specialists. The

team should have similar work experience in the Philippines, local language skills and familiarity with local laws and institutions. The proposed team may include a team leader with extensive international experience related to the project. The professional disciplines required and approximate levels of efforts are set out below. These are indicative only, however, the consultants, in preparing their proposals, are free to make their own estimates of the required resources to complete the assignment satisfactorily.

Team Composition

Team Leader/Transport planner	Corridor Development Analyst
Port Planner	Traffic Survey and Demand Forecast
Port Engineer	Development Financing Specialist
Structural Engineer	Natural/Social Environment Specialist
Port Operation Expert	Economic/Financial Analyst
Naval Architect	
Shipping Planner	
Shipyards Management Expert	
Highway Engineer	

Appendix 3.2- Terms of Reference for the Development of e - MARINA

(1) PROPOSED PROJECT

Information on domestic shipping services in Philippines is inadequate, leading to distortions in the market. The e-MARINA project has been proposed by MARINA and the recently concluded “Study on Domestic Shipping Development Plan” or DSDP (JICA-MARINA, 2005) as one of the key strategies to improve the state of competition in the domestic shipping industry in the Philippines, through the improvement of market information.

Basically, the e-MARINA project is a web-based service, to be hosted by MARINA, wherein shippers and shipping companies can post information on their services requirements in the case of shippers, or services in the case of shipping companies.

(2) NECESSITY/JUSTIFICATION OF THE PROJECT

The Philippines, being an archipelago requires a strong maritime industry to ensure the safety, reliability and efficiency of inter island travel.

Competition is a key ingredient to ensure that maritime services are provided at fair and reasonable rates. However, shippers in many forums point out the oligopolistic nature of Philippine domestic shipping industry – due to the concentration of ship capacity to only a few shipping companies. This is especially prevalent in cargo freighters and passenger-cargo service providers.

Under an oligopolistic industry structure, many shipper's complain of high tariff setting in the industry. This can be partly substantiated by the following comparison with tariff setting in other markets.

Philippines	20,000 – 30,000 P/TEU for 400 n. miles 30,000 – 40,000 P/TEU for 800 n. miles
Indonesia	2 mill. Rp or 12,000 P/TEU for 400 n. miles 3 mill. Rp or 18,000 P/TEU for 800 n. miles
International	130 – 350 US\$ or 7,000-19,000 P/TEU MNL-HK (548 n.miles) 250 – 550 US\$ or 14,000-30,000 P/TEU MNL-SNG (1,300 n.miles)

According to shippers, shipping rates have increased at a substantially higher rate compared to port services or trucking services – i.e. for the period 2000-2005 shipping rates increased by 67% while cargo handling and trucking rates only increased 21% and 32% respectively.

It is expected that with stiffer competition amongst shipping operators, freight rates will stabilize to acceptable levels.

An important ingredient of competition is “information”. Information is an enabler of competition, as only through information can shippers discriminate among shipping operators and pressure inefficiently priced service to bring down cost or to enhance the value of their services.

Another important aspect is service unavailability. Based on a shipper's survey conducted by the DSDP, many shippers – particularly in Mindanao – complain of inadequate service frequency or worse, absence of service. This constitutes missed business opportunities for both the shipper and shipping operator.

As in failure of competition, the lack of shipping service is likewise – to a large degree – attributed to failure of information.

At present, easily accessible information on shipping service is limited to a few large shipping companies. Shippers have virtually very limited opportunity to advertise for services they require.

MARINA used to regulate fares to protect shippers against predatory pricing. However, as a result of the Domestic Shipping Development Act or DSDA (RA 9295) – the shipping industry is deregulated, and MARINA no longer performs economic regulatory function.

Nonetheless, MARINA is mandated by the DSDA to promote competition within the industry as well as to contribute to the development of the countryside by ensuring the availability of sea linkages.

To achieve this end, MARINA is contemplating the development of the so-called e-MARINA. E-MARINA is a web based service to be provided by MARINA wherein shippers and shipping operators could share information on services provided and services needed on the internet.

The recently concluded DSDP, likewise emphasized on closer dialogue between shippers and shipping operators, and the study is in support of the e-MARINA concept.

However, MARINA does not have the technical capability nor the financial sources to develop such system – thus requires external technical assistance.

(3) OBJECTIVE

The objective of the project is to improve market information in the domestic shipping sector through the design and operationalization of the e-MARINA project, with the end purpose of promoting improved domestic shipping service in the Philippines.

(4) SCOPE OF THE PROJECT

The following are the scope of the project:

- Identification of information needs;
- Design of the e-MARINA web page; and,
- Installation of necessary hardware and software.

(5) REQUIREMENTS FOR THE CONDUCT OF THE STUDY

External Consultancy Services:

	Man-Months (M/M)
Software/Webpage Developer	3
Shipping Business Specialist	1
Total	4

MARINA's Contribution:

The project is expected to be a collaborative effort among the external consultant and the MARINA. MARINA is expected to provide:

- Counterpart study personnel;
- Provision of an adequate office space within MARINA for the external consultants;
- Provision of an adequate room for hardware to be installed; and
- Financing of the sustainable operation and maintenance of the project.

(6) BUDGET AND STUDY SCHEDULE

The study shall be for the period of six (3) months.

Start : _____ 2006
End : _____ 2006

The budget requirement for the study is Php 800,000, as follows:

Consultancy Fee (incl. web page development):	Php 450,000
Hardware and Software:	Php 350,000
TOTAL	Php 800,000

Appendix 3.3- Terms of Reference for Ship Safety Management Training Program

(1) BACKGROUND OF THE PROGRAM

The Philippines is the second largest archipelagic country in the world, comprising over 7,000 islands and islets. Owing to its geographical features and size, domestic shipping is understandably one of the most important basic services for the people and economy. However, there are still some basic development issues in the shipping industry which remain to be unaddressed; such as aging fleets, insufficient ship management, inadequate shipbuilding capability and so on.

In order to address those critical issues for developing a sustainable ship modernization scheme, JICA has conducted the "Study on Domestic Shipping Development Plan in the Republic of the Philippines" (hereinafter referred to as DSDP) where the development framework towards the year 2015 was formulated in line with five (5) small feasibility studies since in November 2004.

MARINA envisions a MARINA Training Center in order to promote capacity building among maritime transport engaged personnel. This concept of the Center is to offer various training programs with minimum facility installation. In this connection, DSDP has proposed several training programs such as ship management, shipyard business management and shipping business management. Among them, ship management training is highly prioritized since it bridges ship operation and shipyard and it can guarantee ship asset value with adequate services.

This TOR aims at requesting a ship safety management training program to a donor agency as part of the MARINA Training Center programs in line with the implementation of the DSDP Flagship Projects by MARINA.

(2) OUTLINE OF THE PROJECT

1) Title of the Project

Technical Cooperation Project for Ship Safety Management Training Program in the Philippines

2) Beneficiaries of the Project

(1) Direct Beneficiary

- Government ship inspectors at MARINA and PCG
- Class surveyors at domestic classification societies
- Private superintendents and fleet managers

(2) Indirect Beneficiary

- Domestic shipping companies and shipyards

(3) PURPOSE OF THE PROJECT

To provide a ship safety management training course covering from basic to professional expertise and jointly prepare teaching materials with MARINA Maritime Safety Office.

(4) EXPECTED ACTIVITIES

1) Activity 1: Joint Review of Existing Audit/Inspection Guidelines/Manuals and Preparation of Ship Management Teaching Materials

- To review existing manuals, checklists and guidelines on ISM/NSM audits and inspections/surveys under the Ship Safety Inspection System (SSIS) for domestic ships.
- To prepare teaching materials to be used in the training program regarding International Safety Management (ISM) / National Safety Management (NSM) Codes audits, survey/inspection guidelines, engine operation analysis, technical management for ship operation, marine insurance and manning and crew management
- To effectively transfer technology and prepare more practical materials taking local conditions into account, a ship management expert will work in collaboration with a MARINA team consisting of four (4) ship inspectors of Maritime Safety Office.
- To efficiently learn and familiarize teaching materials, they will be developed and compiled as computer-based learning programs. The programs will be useful for actual operation at site.

2) Activity 2: Provision of a Training Course at MARINA HQ

- To provide a full-day lecture or continuous morning and afternoon sessions twice a week. In total, Expert on Ship Management will lecture 48 sessions (i.e., 3 hours per session) during a three-month period.
- To give advise on MARINA ship inspection and it's preparatory and reporting works. Expert will join a ship inspection team as an observer to understand actual operation and identify necessary improvement.

3) Activity 3: Reorganizing Teaching Materials

- To reorganize and modify the developed teaching materials after reviewing a series of lectures at MARINA HQ to enhance effectiveness of the program.
- To prepare short-term training courses to be held by MARINA regional office.

4) Activity 4: Provision of Short-term Training Course at MARINA Regional Offices

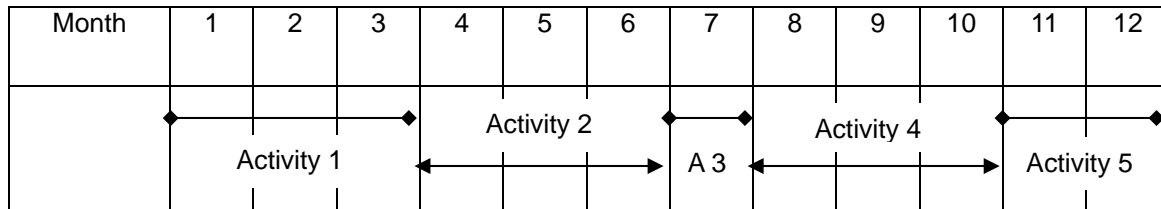
- To conduct a three-day short-term training course at eight (8) MARINA regional offices, tentatively including Northern Luzon, Legaspi, Tacloban, Iloilo, Cebu, Cagayan de Oro, Zamboanga and Davao. Like the training program at MARINA HQ, MARINA/PCG ship inspectors, class surveyors and private superintendents and fleet managers will participate in the regional training course.

5) Activity 5: Preparation of Teaching Manuals and Materials for Ship Safety Management Training Program

- To finalize a set of teaching materials to be used in the succeeding years by MARINA lectures who are supposed to be the MARINA counterpart team members.
- To provide suggestions to related training programs such as shipyard management and shipping business management based on the experience of the ship management training program.

(5) DURATION OF THE PROJECT

The Project will be conducted for approximately twelve (12) months from 2006 at the earliest possible timing.



(6) MEASURES TO BE TAKEN BY BOTH SIDES

1) The Donor Agency

The donor agency will undertake the following measures at its own expense:

- (1) Dispatch of one Japanese expert on ship management
- (2) Employment of one technical assistant and one computer programmer to support teaching materials preparation and organization of training courses
- (3) Procurement of six (6) lap-top computers for domestic assistants and the MARINA counterpart team; procurement of training equipment for the training room to be provided by the MARINA.

2) The Philippine Side

The Philippine side will undertake the following measures at its own expense:

- (1) Assignment of the MARINA counterpart team (4 ship inspectors from Maritime Safety Office) to jointly prepare teaching materials and organize training courses at MARINA HQ and regional offices;
- (2) Provision of adequate working space and facilities necessary for the Project, specifically office space for consultant and a training room;
- (3) Undertake other necessary arrangements in terms of administrative and manpower requirements of the Project.

APPENDIX 4 (APPENDIX TO CHAPTER 9)

Appendix 4.1 Small Business Guarantee and Finance Corporation

(1) SUMMARY

Authorized capital of Small Business Guarantee and Finance Corporation (SBGFC) is 5,000 million Pesos, and 1,000 million Pesos for paid capital. Shareholders of SBGFC are government financial institutions, i.e. LBP, DBP, Philippine National Bank (PNB), Government Service Insurance System (GSIS), and Social Security System (SSS).

Main businesses of SBGFC are financing and guarantee. SBGFC has 4 branch offices¹ and 10 lending officers, as of the time of research in 2004. SBGFC applies wholesale lending and retail lending systems. Financial institutions accredited by SBGFC under the wholesale lending system include commercial banks, thrift banks, rural banks, cooperative banks, and financial leasing companies. Guarantee is made for lending by institutions accredited by SBGFC, up to 85% of the amount of relevant lending. SBGFC has integrated with Guarantee Fund for SMEs, a governmental institution, in 2001. The table below shows the financial statement of SBGFC in the FY 2002, which is the first year after the integration and the following FY 2003, and also its NPL and Past-due Rate.

Financial Statement of SBGFC					
(Unit: Million Peso)			(Unit: Million Peso)		
SBC	2002	2003		2002	2003
Current Assets	1,610	2,015	Income		
(Invest in Govt Securities)	1,162	1,144	Interest on	144	138
(Note Receivable)	413	837	Investments	100	68
Note Recivable Long-Term	49	198	Loans	44	70
Note Recivable Past Due,Net	160	158	Guarantee Fee	1	3
Others			Others	6	9
Total Assets	2,050	2,596	Total Income	151	150
Current Liabilities	29	33	Expenses		
Long-Term Liabilities	2	502	Operating	27	27
Stockholder's Equity	2,019	2,062	(Provision for Probable Losses)	23	23
Total Liabilities and Stkhd's Equity	2,050	2,596	(Interest Expenses)	2	3
			Administrative	70	81
			Personal Services	37	41
			Maintenance/Other Oper	33	40
			Total Expenses	97	107
			Net Income	54	42
			Retained at Beg	91	145
			Retained at End	145	187

(Source: SBGFC)

¹ Cebu Office (8 staff members), Davao Office (9 staff members), Naga Office (2 staff members), La Union Office (2 staff members)

Non Performing Loans Ratio and Past Due Rate of SBGFC

	Non Performing Loans Ratio		Past Due Rate
	Dec 2002	Dec 2003	Oct 2003
Wholesale	14.35%	9.19%	9.19%
Retail (Direct Lending)	20.88%	15.95%* ¹	15.95%* ²
Banking System NPL Average* ³	16.6%	16.1%	
Non-Banks NPL Average* ³	12.5%	6.2%	

Source: ADB Report (SBGFC), BSP (Average of banking system and non-banks)

*1: In ADB Report, the same figure is used for NPL as of Dec 2003 and Past Due Rate as of Oct 2003. In direct lending, NPL is shared by the following type of program, Friend (69.6%), First (14.3%), and Guide (13.8%).

*2: A large part of Past Due is yielded by credits before the integration of SBGFC (It has reflected on financial statements since 2001). Ratio of Past Due and credits in dispute to the amount of whole lending changes as follows: 16.21% (1999); 16.96% (2000); 26.95% (2001); 43.69% (2002); 26.21% (2003).

*3: Inter-bank Loan is not included.

The disbursed lending amount in FY 2003 was 2 billion Pesos, in which short-term fund was 1.7 billion Pesos. By type of fund, the ratio of short-term fund was high, which is 85%.

(2) FINANCING

The lending amount by region is 77% for Luzon, 11% for Visayas, and 13% for Mindanao. In Visayas and Mindanao regions, the share of wholesale lending is higher compared to direct lending.

Ratio of Disbursed Lending Amount by Area

Region	Wholesale Lending	Direct Lending	Total
Luzon	44.4%	32.2%	76.6%
Visayas	6.9%	3.9%	10.8%
Mindanao	10.9%	1.7%	12.5%
Total	62.2%	37.8%	100.0%

Source: SBGFC

Note: Actual performance in 2003

The total amount of lending by sector is presented in Table below. For retails, lending to manufacturing sector reaches to almost 50%.

Grand Total of Lending by Sector

Grand Total of Lending by Sector (Direct Lending)

インダストリー	金額(ペソ)	
Manufacturing	656,292,055.73	48.1%
Food, Beverage & Tobacco	79,036,394.00	5.8%
Textile/Wearing Apparel	95,457,950.93	7.0%
Wood & Wood Products	120,699,162.00	8.8%
Chemicals/Coal/Rubber	65,553,940.00	4.8%
Non-metallic Products	25,330,000.00	1.9%
Basic Metal Industries	6,636,000.00	0.5%
Fab. Metal Prods.	68,953,360.75	5.0%
Footwear & Other Leather	8,380,000.00	0.6%
Handicrafts/Novelty Items	87,102,708.05	6.4%
Other Mfg. Industries	75,126,540.00	5.5%
Paper Prods/Printing	24,016,000.00	1.8%
Export/Domestic Trading	395,584,520.40	29.0%
Transport/Comm/Storage	21,166,000.00	
Transportation Services	13,566,000.00	1.0%
Communication Services	7,600,000.00	0.6%
Services	252,182,500.00	18.5%
Educational Services	19,100,000.00	1.4%
Restaurant/Htel/Tourism Fac.	26,855,000.00	2.0%
Electricity/Gas/Water Distn.	1,160,000.00	0.1%
Medical/Dental/Veterinary	2,030,000.00	0.1%
Business Services	82,336,000.00	6.0%
General Engr Contracting	26,088,719.32	1.9%
Agribusiness	12,971,800.00	0.9%
Rice Milling	1,201,800.00	0.1%
Animal/Fish/Marine Proc.	10,020,000.00	0.7%
Ice Plant & Cold Storage	400,000.00	0.0%
Others	1,350,000.00	0.1%
TOTAL	1,365,785,595.45	100.0%

(Source: SBC)

Grand Total of Lending by Sector (Wholesale Lending)

Type of Industry	Grand Total (Approval)	Share (%)
Manufacturing	1,792,954,263	19.9
Export/Domestic Trading	3,258,856,616	36.2
Transportation/Communication/Storage	369,626,093	4.1
Services	2,004,795,682	22.2
General Engineering Contracting	731,363,044	8.1
Agribusiness	764,470,647	8.5
Mining & Quarrying	90,223,711	1.0
Total	9,012,290,056	100.0

(3) FINANCING PROGRAMS

There are 7 financing programs for SMEs operated by SBGFC as seen in the following. SME-Firm program in wholesale lending was introduced in 1994, and SME-Fast in 1995. SME-Firm program provides the fund for facilities up to 5 years. Direct lending as retail lending is the program introduced in 1999 when private banks, governmental financial institutions, and private non-banks controlled lending for SMEs.² For instance, SME-Guide is a retail program that SBGFC makes appraisal and lending, as a financial institution, to the projects recommended by DTI (region / province).

² ADB, "TA No.4070-PHI Project to Improve Small and Medium Enterprise Access to Financing" March 2004

Financial Programs for SMEs implemented by SBGFC

Programs	Summary	Term	Upper Limitation of Loan
Wholesale Lending			
SME-Fast	Short-term fund (rediscount)	Short (in principle)	20 million Peso (a company to lend)
SME-Firm	Long-term investment fund, Purchasing fund of fixed assets (rediscount or re-lending)	Mid-long (1-5 years)	15 million Peso (a company to lend)
Direct Lending (Retail)			
SME-First	Security (receivables) backed finance	Short	5 million Peso (increasable to 8 million Peso)
SME-EFirst	Finance based on Purchase Order	Short	5 million Peso (increasable to 8 million Peso)
SME-Friend	Import finance	Short	5 million Peso (increasable to 8 million Peso)
SME-Force	Finance for founding and expanding of Franchisees	Medium (3 years)	5 million Peso
SME-Guide	SME Projects recommended by DTI-POs	Mid-long (3 years in principle up to 5 years)	5 million Peso

Note: In addition to the above, there is "SME-FEEL" (micro-finance by wholesale lending) .

Regulations of mortgage are varied by program. In SME-Guide program, asset purchased by loan and substitutes are listed as mortgages. In accordance with interview to SBGFC, in the case of finance based on Purchase Order (PO), Real Estate Mortgage (REM) is required for 50% of the financing amount with an upper limit to 2 million Pesos. In addition, SBGFC applies loan to value with higher ratio than Commercial Banks.³

The actual performance in 2003 was 62% for wholesale lending and 38% for direct lending as shown in the Table. The ratio of wholesale and retail lending is 2:1. Also, the average of disbursed lending amount for a company is 2.28 million Peso through wholesale lending and 0.86 million Peso through retail lending.

Lending Performance in FY2003

(unit: million Peso for lending and average lending)

	Number of Lending	Ratio of number of lending	Lending amount*	Ratio of lending amount	Average of lending amount
Wholesale	545	38%	1,240.13	62%	2.28
SME-Fast	474	33%	1,215.13	61%	2.56
SME-Firm	71	5%	24.99	1%	0.35
Direct Lending	898	62%	770.69	38%	0.86
SME-First	531	37%	329.31	16%	0.62
SME-Friend	82	6%	102.77	5%	1.25
SME-Force	14	1%	33.04	2%	2.36
SME-Guide	271	18%	305.57	15%	1.13
Total	1,443	100%	2,010.82	100%	1.39

Source: SBGFC

* A part of lending amount includes the amount on an approved basis.

(4) INTERMEDIARY FINANCIAL INSTITUTION

There are 18 PFIs that intermediate wholesale lending as of 2003, in which 4 highest ranked banks, Planters Bank, NewRBSL (Luzon), Anchor (Luzon), Equitable PCI

³ In case of REM, commercial banks applies loan to value of 60-70% of prices. It is 80% for SBC (Interviewed in Seb Office, Sep 22, 2004).

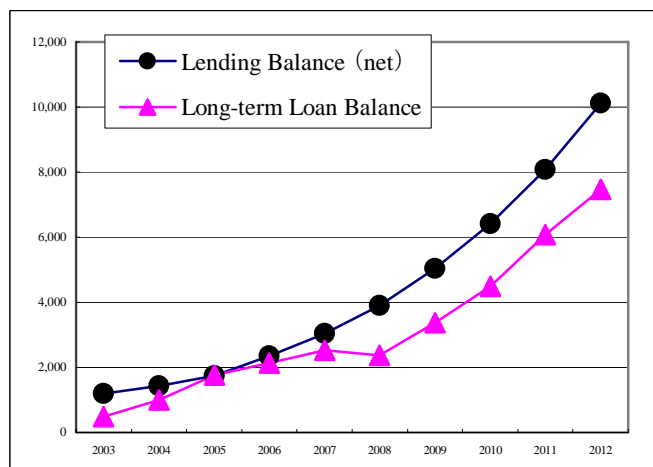
(Luzon), share almost 80% of disbursed lending amount. It is judged that 6 of 18 PFIs are Thrift Banks and 8 are Rural Banks.

(5) DEMAND OF FUND

SBGFC estimates disbursing lending amount increases from 20% to 30% a year on a balance basis. Taking latent demand into consideration, it is expected that the actual rate of increase would be higher than the estimation.

In order to correspond to increasing demand of fund, SBGFC has considered financing from ADB (25 million US\$), KfW (11 million US\$), IFAD (15 million US\$), and DBP. In addition, fund raising through issuing bonds (1~5 billion Pesos) from 2009 has also been discussed (see Table 3-28: Comparison of SBGFC assistance by ADB, KfW and IFAD). From interview to SBGFC, year loan is used for substitutes of fund raised by issuing bonds and for latent demand of fund.

Transition of Lending Balance and Long-term Loan Balance of SBGFC (expected)



Source: SBGFC

Note: Actual performance for 2003, estimated values after 2004
 Long-term loan is a total of Loans from ADB, KfW, IFAD, DBP and the amount of issued bonds. In this estimation, the loan from KfW is expected as 6 million EUR, not 11 million EUR.

Comparison of SBGFC Assistance by ADB, KfW and IFAD (as of Feb 2005)

Items	ADB	KfW*	IFAD
Loan Amount Planned	25 million US\$	11 million EUR	15 million US\$ (only loan components ⁴)
Lending Conditions	Term of repayment : 15 years Interest: LIBOR is used as standard (approx. 8.3 % p.a.) Commitment fee	Term of repayment : 40 years (in which unredeemable for 10 years) Interest: 0.75% p.a. Commitment fee	Term of repayment: 40 years (in which unredeemable for 10 years) Interest: 0.75% p.a. No commitment fee
Target Region	Whole nation	Visayas region	Whole nation
Intermediary Financial Institutions (Participating Financial Institutions)	Commercial Banks (Bank of Commerce, Philippine Ban of Communication, Equitable PCI, etc.)	Rural Banks, Cooperative Banks	Rural Banks, NGOs
Target Enterprises	SMEs (assist Bankable SME through commercial banks, assist non-bankable SME through direct lending. Wholesale: direct lending=80%: 20% (disbursed lending basis)	SMEs (Targeting Bankable and Nearly Bankable. Only wholesale lending)	Micro Enterprises (Wholesale lending)
Total Assets of Target Enterprises		0.5 – 20 million Peso	Less than 3.0 million Peso
Scale of Sub-loan	0.15-1 million Peso	2 million Peso	No more than 150 thousand Peso
Target and Contents of Technical Assistance	SBGFC (Credit scoring, Business analysis including legal outline of mortgage)	Rural Banks, Thrift Banks, SBGFC	<ul style="list-style-type: none"> • Contents of technical assistance is determined after needs assessment. (for capacity development of MFIs, such as assistance in MIS, software development, expansion of branches, staff training) • Assistance to small-sized enterprises that DTI provides Business Development Services (BDS) - Grant assistance to capacity development of SBGFC

Source: SBGFC

* In KfW loan, the multiplier effect with technical assistance by GTZ is expected. (SMEDSEP mentioned in Chapter 2) Consulting service on a grant basis is also planned in KfW loan, provision of services in appraisal based on cash flow, risk management, MIS is planned for SBGFC and participating financial institutions.⁵

⁴ In accordance with DTI, in IFAD loan there is a loan for DTI, other than SBC.

⁵ Interviewed with KfW appraisal mission (June 16, 2004)

(6) LOAN ACCEPTANCE BY SBGFC AND GOVERNMENTAL GUARANTEE

As of the end of January 2005, loans from ADB and KfW, in those planned by SBGFC, was in the process of approval within the Government of the Philippines, such as Investment Coordination Committee (ICC) of NEDA. In accordance with the interview to KfW, regarding governmental guarantee on SBGFC loans, DOF plans to guarantee with an upper limit to four times of capital, referring to the past experience.⁶

**Information: Central Bank's Regulations on SME Finances and Mortgage Claims
(as of September 2004)**

Circular No.	Description
General Banking Law 2000	Sec 37: Loan to value of real estate mortgage (75%), Sec 38: Loan to value of chattel mortgage and Intangible fixed assets mortgage (75%)
Circular No.247, Series of 2000	Section 2. Classification of Loans Unclassified Loans, Classified Loans (1) loans especially mentioned (2) substandard (3) doubtful (4) loss) and allowance based on the classification is prescribed as follows: Unclassified (0%); Loans especially mentioned (5%); Sub-standard-secured (6%-25%); Substandard-Unsecured (25%); Doubtful (50%); Loss (100%)
Circular No.313, Series of 2001	Amendment of Manual of Regulations for Banks and Non-Bank Financial Institutions; (Item III of Appendix 18 and Item 3 of Appendix Q-10) Amendment of Ratio of Allowance: Unclassified (0%); Loans especially mentioned (5%); Sub-standard-secured (10%); Substandard-Unsecured (25%); Doubtful (50%); Loss (100%)
Circular No.280, Series of 2001	Adoption of the risk-based capital adequacy framework (pursuant to Sec 34 of GBL, 2000):X116.2 Risk-Weighted Assets
Circular No.329, Series of 2002	Amendment of Section 2.B.1.d of Circular No. 247 on loans classified as Loans Especially Mentioned: d. Loans with no latest income tax return and/or latest audited financial statements except consumer and small and medium enterprises (SME) loans which are current, have not been restructured and are supported by latest income tax returns and/or latest audited financial statements at the time they were granted.
Circular No.360, Series of 2002	Guidelines to incorporate market risk in the risk-based capital adequacy framework for universal banks and commercial banks.
Circular No.360, Series of 2002	Guidelines to incorporate market risk in the risk-based capital adequacy framework for universal banks and commercial banks.
Circular No.363, Series of 2002	Approval of policy changes in order to help promote the development of the small and medium enterprises (Decrease of Regular Reserve Requirement of Thrift Bank, Rural /Cooperative Banks (to 6%), Postponement of introduction of rediscount system based on the market principles)
Circular No.364, Series of 2003	Amendment to Circular No.280 so as to reduce to 75% the risk weight applicable to SMEs and micro loan portfolios (before 100% risk weight)
Circular No.403, Series of 2003	Amendment Circular No. 360 to impose 2 % and 5% (in lieu of 10%) specific market risk capital charge on trading book debt securities issued by Philippine incorporated banks
Circular No. 416, Series of 2004	Amendment to the guidelines on the adoption of the risk-based capital adequacy framework under Circular No.280: 20% risk weight: (5) Loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation (SBGFC).
Circular No. 443, Series of 2004	Incentive for the banking sector to increase their Single Borrowers Limit (SML) by purchasing past due or extended commercial/business papers from SMEs.

(Source: BSP)

⁶ In accordance with Corporate Affairs Group in DOF, when having a loan, NPC is automatically provided a governmental guarantee under its charter. But, in case of Government-owned and Controlled Corporations (GOCC) that do not have such an article in the charter, it is considered they set the criteria of four times of equity as an upper limit of governmental guarantee. Four times of equity is a sample criteria, since it is actually set due to work performance, rate of collection, and rate of default of GOCC. This is based on information that the criteria is equivalent to total amount of domestic and overseas loans and, for other GOCC, borrowing up to the criteria is the limit amount that the GOCC is able to sustainably implement projects. Corporate Affairs Group considers that key point of governmental guarantee is how to sustainably implement projects including marketing of GOCC. (Interviewed on Feb 10, 2005)