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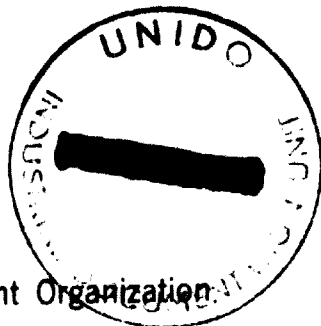
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THE PREPARATION OF MANUFACTURING DATA  
FOR SUBMISSION TO COMMERCIAL BANKS

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The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations Industrial Development Organization.

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THE PREPARATION OF MANUFACTURING DATA  
FOR SUBMISSION TO COMMERCIAL BANKS

I INTRODUCTION

Several widely varied types of financial institutions have noted that there are more funds available to finance projects than there are soundly conceived and prepared projects to utilize these funds. Especially in underdeveloped countries, emphasis may be placed upon family, social or political connections and reputation rather than on a thoroughly studied presentation which might stand its own technical and financial merit. More discipline and rigor is needed in producing engineering and marketing feasibility studies.

The information submitted to a bank for its evaluation of a lending proposal varies widely depending on (1) the bank's prior knowledge of the company and its management, (2) the bank's familiarity with general conditions in the economy of the country in which the company is located, and the particular industry the company is a part of, (3) the type, amount, and length of maturity of the loan, and (4) the purpose of the loan. The information submitted is tailored to the particular situation in each case. A general conversation with the bank may be in order to discover whether the bank is interested: then, the detailed information may be submitted

The kinds of information discussed below<sup>1</sup> are not all relevant to every kind of lending proposal. In general, however, banks suffer from having too little rather than too much information.

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<sup>1</sup>We are especially indebted to the following two sources for a convenient outline of the various kinds of information discussed: K. K. White, Financing Company Expansion, N.Y.: American Management Association, Inc., 1964 (Appendix "B", pp. 121-125); and Business International, Financing Foreign Operations, N.Y.: Author, 1964, p. 18.

## II GENERAL AND BACKGROUND INFORMATION

A. History of the Company: This includes the legal name of the company; whether it is a proprietorship, partnership, or a corporation; when and under the laws of what state it was organized; the names of the founders, directors, managers, and, if it is closely held, principal stockholders; the amount of the original paid in capital; and the location of principal offices and plants. A copy of the corporate resolution or charter should be attached.

B. Financial Statements: Statements of Assets and Liabilities (typically for the past three years) and Income or Operating Statements (typically for the past ten years) are included. It cannot be overemphasized that banks place a very high value on having statements audited by an independent, reputable firm of public accountants. The varying accounting practices, standards, and terminologies in different countries have created one of the great unresolved problems of financial dealings across national boundaries. It is often difficult or impossible for a banker to interpret financial statements submitted by foreign companies, and any explanatory material in footnotes as to the methods used is of great assistance. Investors and lenders tend to discount the feasibility of a project to the extent that they can not rely on or understand the financial figures submitted to them.

A third and newer kind of financial statement has become very important to banks, especially in connection with term lending. This is the Sources and Applications of Funds or Working Capital Statement. Sometimes a Cash Flow Statement is more useful. These statements record changes in the net working capital position of the company, and indicate how sufficient cash will be generated to repay loans.

All financial statements should include footnotes explaining unusual items or unusual methods of valuation. Footnotes should refer to assets and or contingent liabilities. Statements should be made up on a consistent basis year to year, and any changes in method should be duly noted in the footnotes. Accompanying the financial statements may be a detailed review of financial ratios and financial ratios over a number of years.

A less common but useful statement is sometimes broken out separately: the Reconciliation of Capital Accounts. This records the structure of any changes in the net worth or capital and surplus of the company as to common and preferred stock, subordinated debt including loans from stockholders or officers, original, additional, and retained capital.

Information about the normal and seasonal working capital requirements of the company may be included. This is tied in with the company's trade and credit practices, terms on which goods are sold, credit obtained from suppliers, and consignments. In connection with this, the budgeting practices of the company may be explained.

Finally, bank references and average balances maintained may be included.

C. Products: The bank often wants to have a list and description of products manufactured, bought, or sold, including new products under development. The patents under which these products are manufactured should be listed. Also important is the competitive position of the product as to workmanship, servicing requirements, quality, price, and availability.

D. Sales and Marketing: The company may submit a breakdown of sales costs, the size and quality of the sales force, the breadth of sales territories, branch offices, and contractual arrangements with distributors and retailers. If the company sells to only a few large customers, their names may be included.

The following information is often given in chart form expressed as percentages

of total sales: individual products and groups of products: sales to particular markets or countries: military and civilian sales: break-even point: backlog orders by product.

Some discussion of the cost, breadth, and depth of advertising may be included. In this connection, the bank may be interested to know whether customers have a favorable opinion of the product.

E. Competition: The company may submit an analysis of its share of the market as compared to major competitors, domestic or foreign. The stability of competition and possible saturation of markets should be discussed. The nature of the competition, whether by price or quality and product differentiation is relevant.

F. Purchasing: A presentation of the sources, types, qualities, prices, discounts, freight costs, and stability of supplies of raw materials may be made available to the bank. This becomes especially important if a company has contracted to purchase given amounts of raw materials over a period of time from another company.

G. Manufacturing and Operating Processes: For certain kinds of lending a company may make available to the bank a professional engineering analysis of operations, efficiency, and costs of the various components of the manufacturing process.

H. Research and Engineering: In industries that are growth-oriented, the facilities, directions, and expenditures for research are significant. The status of patents developed by the technical staff, and the qualifications of research and engineering personnel may be important.

I. Management: Banks are always especially concerned with the experience and ability of management, although this is difficult to define. Integrity and proven ability manifested in past operations are the most important criteria.



J. Labor and Staff: The skills required by the company should be related to the sources of supply of those skills. If the company imports a large number of workers, or is training local workers to assure core technical skills, this is of importance.

If the labor force is organized, the company may submit a report on the relationship between labor and management, including the status of wage contracts and negotiations. This may also include a discussion of social problems in some countries, and high turnover or absenteeism in others.

K. Land, Plant, and Equipment: The company may submit to the bank a complete description and evaluation of its existing land, plant, and equipment. This should include insurance coverage and general maintenance costs. The accessibility of the plant to transport facilities is important. A breakdown of depreciation policies, replacement schedules, and the modernity or potential obsolescence of equipment is often vital.

L. Special Information for Foreign Banks:

1. Government Relations: The company may submit a report on the local political situation, the government's general attitude toward foreign sources of capital, and its attitude toward the company itself. Many governments have set up priority schedules for developing various industries. Government regulations, restrictions, incentives, and assistance relating to the company should be described. Of especial importance are the laws regarding import and export controls, duties, tariffs, restrictions on the repatriation of interest and principal to a bank lender in hard currency, and the effective tax rates.

2. Relationship to the Local Economy: The bank may want to know whether the company is a net earner or spender of foreign exchange, and what the trends and problems are in the economy with regard to foreign exchange. The company may submit a report on the extent to which it uses local raw materials,

labor, professional services, and, generally, how well the company serves and dovetails with the local economy.

3. Foreign Backers: Of particular importance to be included is the relationship between a foreign company and its third-country backers or customers. If the company is receiving technical, managerial, financial, or marketing assistance from another company, this should be discussed in full. So also should relationships with third-country banks.

### III INFORMATION ON SPECIFIC LENDING PROPOSALS

If the borrowing is of a routine or seasonal nature, no specific information other than the above plus the statement of the purpose of the loan is submitted. If, however, the company is contemplating a major expansion requiring a term loan, information on the specific proposal is made available to the bank.

A. Objective: Major financing plans for the acquisition of fixed assets fall into one of three categories: expansion of present facilities, modernization of existing facilities; or the setting up of a new company, division, product or plant. The company describes the specific assets they intend to acquire, and what products will be manufactured. Both the ultimate capacity of the plant and the projected production schedules should be included.

B. Financing Plan: This includes the following:

1. A description of the assets to be acquired and/or a description or drawing of the layout of the proposed plant; a list and description of each piece of equipment to be acquired with the price and company from which it will be purchased; and the general factors taken into consideration in plant design.
2. The names and experience of companies who will design, construct, or install the new assets.
3. The construction timetable, including provision for delays.
4. Marketing surveys done by the company or by an independent research firm: this survey should indicate how much of the market the firm is attempting to capture. If there are any marketing agreement contracts by which a buyer contracts to take a certain volume of output over time, these are included.
5. Sales projections: these should be substantiated. Pricing policy and factors with a break out of gross price, freight charges, discounts and sales terms, and net price should be charted. Facilities and costs for transport, warehousing, and distribution should be included. The company may describe its inventory policies. All sales information should be broken down into particular markets

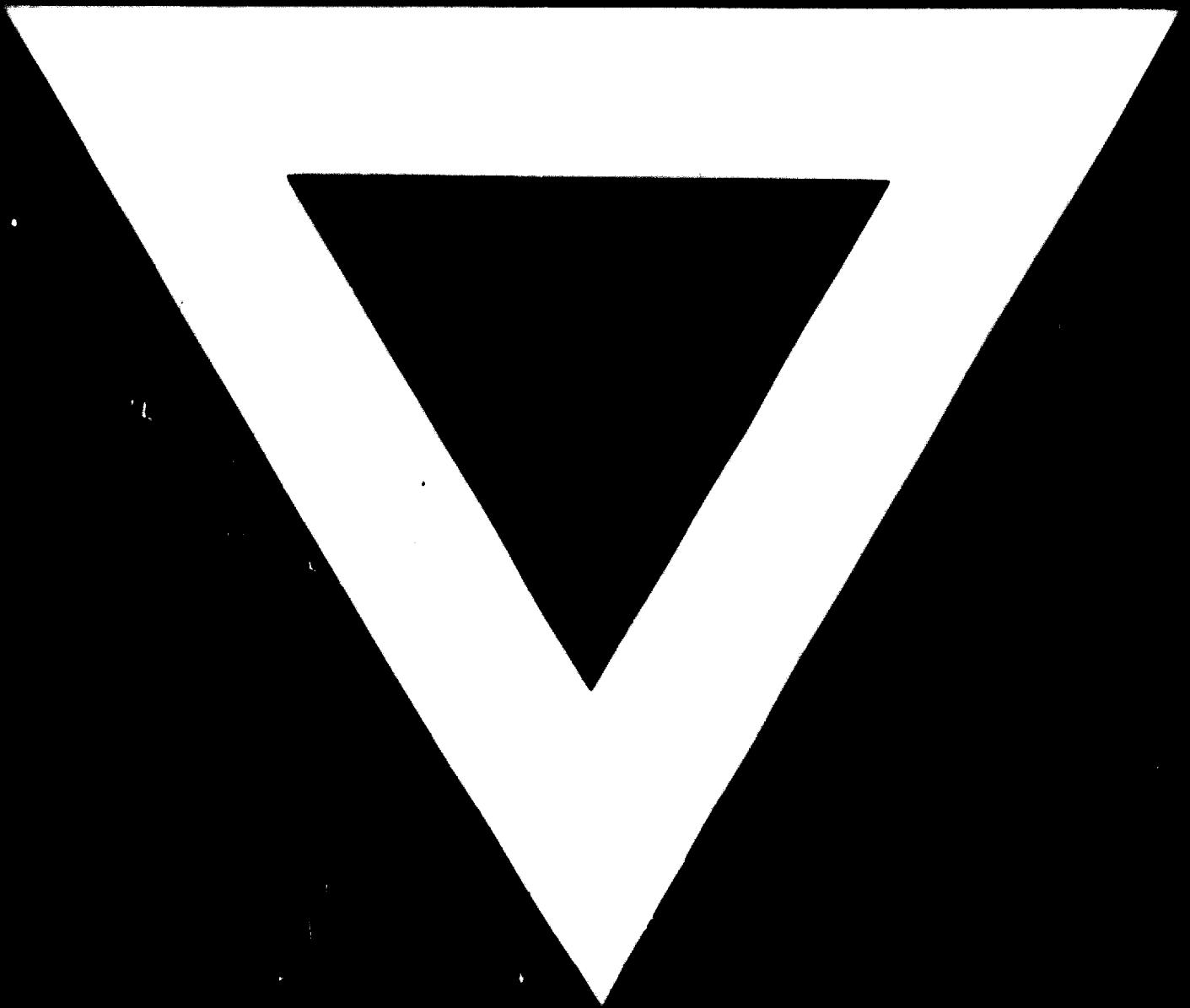
(including foreign markets, if any) and products.

6. Financial projections: The company may submit balance sheets, income statements, and sources and applications of funds statements as projected for the length of the loan, or for a minimum of three years. These should be substantiated by supporting schedules when possible. Allowances should be made for changes in general economic, competitive, and labor-wage conditions. Many new companies tend to underestimate their working capital requirements during the first few critical years when unforeseen difficulties are apt to crop up.

7. Guarantees: If the guarantees of other companies, banks, or governmental agencies are proposed, tentative copies should be enclosed.

8. Supporting documents: If the company has contracted with another for technical or managerial assistance, these contracts are included. If they have special arrangements with the local government, these are included.





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