

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Department of Trade and Industry (DTI)
the Republic of the Philippines

Final Report
for
Support Program for SME Development Plan in
the Republic of the Philippines

March 2004

UNICO INTERNATIONAL CORPORATION

TOKYO, JAPAN

Preface

In response to a request from the Government of the Republic of the Philippines (the Philippines), the Government of Japan decided to implement “the Support Program for SME Development Plan in the Republic of the Philippines” and entrusted the program to Japan International Cooperation Agency (JICA).

JICA sent a study team led by Mr. INOOKA, Tetsuo of UNICO International Corporation, 4 times during the period from February 2003 to September 2003.

The team had discussions on the program with the officials concerned of the Philippines and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to the promotion of the plan and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to those who participated in the program for their close cooperation throughout the study.

March 2004

IZAWA, Tadashi

Vice President

Japan International Cooperation Agency

March 2004

Vice President IZAWA, Tadashi
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Izawa

Letter of Transmittal

We are pleased to submit the “Final Report on the Support Program for SME Development Plan in the Republic of the Philippines.”

The program was conducted in the form of the development study with primary objective of assisting the Philippine government for its efforts to develop their SME Development Plan at their initiative. To maximize effectiveness of the support program, a primary focus was placed on transfer of knowledge and know-how that would enable or help organizations and individuals concerned, to drive their ongoing or new SEM support initiatives in the country. For this purpose, we held a variety of seminars and workshops in each phase of the planning process, including case studies on SME support programs and projects in Japan and other neighboring countries, sector-wise issues analysis, development of plan framework, and evaluation of action plans proposed. We believe that the workshops also have served as an important opportunity for the Philippine counterparts to confirm validity of the proposed programs and recommendations made in the study process and this report.

In addition to the focused support for the development planning process, this report also recommends a master plan for SME development that contains support programs and projects in key areas of SME promotion - marketing, management and technology, finance, and human resource development - as well as recommendations on development of an effective support system for SME promotion. These proposed programs and recommendations are the result of analysis of major issues facing the SMEs in the country and the present SME support system, which have been identified and analyzed comprehensively by the study team.

Based on the proposed programs and recommendations, the Philippine counterpart is now in the final stage of compiling its updated SME development plan. We would like to reiterate that, to ensure effective implementation of the development plan, strenuous efforts are required to train counselors who are capable of providing proper guidance and assistance to SME at field-level. We believes that your continuous support in this area would be very effective and important, not to mention further support in a wide range of areas in the plan implementation, which is essential in helping SME support organizations and personnel in the Philippines to develop the ability to carry out a wide range of activities in an efficient and timely manner by learning from experience in Japan.

Finally, We would like to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, and the Ministry of Economy, and Trade and Industry, for valuable advice and support provided in the course of the present study. We are also deeply thankful to the Philippine government, including the Department of Trade and Industry, and other agencies and organizations concerned for the close cooperation and support rendered to the Study Team during the performance of this Study.

Respectfully submitted
UNICO International Corporation

Tetsuo Inooka

Leader, Study Team
on Support Program for SME Development Plan
in the Republic of the Philippines

Abbreviation

ACAPP	: Association of Consolidated Automotive Parts Producer, Inc.
ACTETSME	: APEC Center for Technology Exchange and Training for Small and Medium Enterprises
ADB	: Asia Development Bank
AFFI	: Association of Filipino Franchisers Inc.
AFIC	: ASEAN Furniture Industries Council
AFTA	: ASEAN Free Trade Area
AICO	: ASEAN Industrial Cooperation
APEC	: Asia-Pacific Economic Cooperation
AHAM	: Association of Home Appliances Manufacturers
ASEAN	: Association of South East Asian Nations
ASPBI	: Annual Survey of Philippine Business and Industry
BAP	: Bankers Association of the Philippines
BBC	: Brand-to-Brand Complementation Scheme
BDT	: Bureau of Domestic Trade, DTI
BEMB	: Bonded Export Marketing Board, DTI
BETP	: Bureau of Export Trade Promotion, DTI
BIS	: Bureau of Import Services, DTI
BITR	: Bureau of International Trade Relations, DTI
BMBEs	: Barangay Micro Business Enterprises
BOI	: Board of Investments, DTI
BPS	: Bureau of Products Standards, DTI
BSMED	: Bureau of Small and Medium Enterprises Development, DTI
BSMI	: Bureau of Small and Medium Industries
BSP	: Bangko Sentral ng Philipinas
BTRCP	: Bureau of Trade Regulation & Consumer Protection, DTI
CAD	: Computer Aided Design
CALABARZON	: Cavite, Laguna, Batangas, Rizal, Kezon
CAMPI	: Chamber of Automotive manufacturers of the Philippines, Inc.
CARP	: Comprehensive Agrarian Reform Program
CDP	: Car Development Plan
CEPMA	: Consumer Electronics Products Manufacturers Association
CEPT	: Common Effective Preferential Tariff
CFIF	: Cebu Furniture Industries Foundation, Inc.
CFIP	: Chamber of Furniture Industries of the Philippines

CIC	: Center for International Competitiveness, DTI
CIDA	: Canadian International Development Agency
CKD	: Complete Knocked Down
CITC	: Cottage Industry Technology Center, DTI
CITEM	: Center for International Trade Expositions & Missions, DTI
CMDF	: Construction Manpower Development Foundation
COMDDAP	: Computer Manufacturers, Distributors and Dealers Association of the Philippines
CVDP	: Commercial Vehicle Development Plan
DBP	: Development Bank of Philippines
DOE	: Department of Energy
DOF	: Department of Finance
DOLE	: Department of Labor and Employment
DOST	: Department of Science and Technology
DTI	: Department of Trade and Industry
EBITDA	: Earnings Before Interest, Taxes, Depreciation and Amortization
EDC	: Export Development Council
EIAPI	: Electronics Industries Association of the Philippines, Inc.
EMG	: Economic Mobilization Group
EPZ	: Export Processing Zone
FAME	: Fashion Accessories Manufacturers and Exporters. Inc.
FDA	: Food & Drug Administration
FDC	: Food Development Center
FMS	: Financial Management Services
FPRDC	: Forest Product Research & Development Center
GAS	: General Administrative Services, DTI
GDP	: Gross Domestic Product
GFI	: Government Finance Institutions
GFSME	: Guarantee Fund for Small and Medium Enterprises
GNP	: Gross National Product
GPJI	: Guild of Philippine Jewelers, Inc.
GSIS	: Government Social Insurance System
GTEB	: Garments & Textile Export Board
GTZ	: Gesellschaft für Technische Zusammenarbeit GmbH
HACCP	: Hazard Analysis and Critical Control Point
HRDS	: Human Resource Development Services
IAC-IPR	: Inter-Agency Committee on Intellectual Property Rights

IAP	: Individual Action Plan
ICCA	: International Coffee and Certifying Agency
ICT	: Information and Communication Technology
IDE	: Institute of Development Economics
IMF	: International Monetary Fund
INFOMAP	: Integrated Food Manufacturers Association of the Philippines, for Productivity
INTERSMEX	: Internet Services for SMEs
IT	: Information technology
ITG	: International Trade Group
JASDAQ	: Japan Association of Securities Dealers Automated Quotations
JBIC	: Japan Bank for International Cooperation
JETRO	: Japan External Trade Organization
JICA	: Japan International Cooperation Agency
KfW	: Kreditanstalt für Wiederaufbau
LBP	: Land Bank of the Philippines
LGU	: Local Government Unit
MDF	: Medium-density Fiber board
MDPPA	: Motorcycle Development Program Participants Association, Inc.
MEP	: Market Encounter Program
MIAP	: Metal Working Industries Association of the Philippines
MIRDC	: Metals Industry Research and Development Center
MIS	: Management Information Services
MISSI	: Monthly Integrated Survey of Selected Industry
MJAI	: Meycauayan Jewelry Association, Inc.
MNC	: Multinational Company
MOI	: Ministry of Industry
MSP	: Monthly Survey of Production
MTPDP	: Middle Term Philippine Development Plan
MVPMAP	: Motor Vehicle Parts & Manufacturers Association of the Philippines
NASDAQ	: National Association of Securities Dealers Automated Quotation
NBR	: Establishment of a National Business Registry
NCAC	: National Consumer Affairs Council
NCC	: National Computer Center
NCIDA	: National Cottage Industry Development Authority
NCR	: National Capital Region
NDC	: National Development Company

NEDA	:	National Economic Development Agency
NGO	:	Non-Government Organizations
NIMTC	:	National Industrial Manpower Training Council
NLSF	:	National Livelihood Support Fund
NPCC	:	National Price Coordinating Council
NSCB	:	National Statistics Coordination Board
NSO	:	National Statistic Office
ODA	:	Official Development Assistance
OJT	:	On-the-Job Training
OLA	:	Office of Legal Affairs
OOP	:	Office of Operational Planning
OPR	:	Office of Policy Research
OSC	:	Office of Special Concerns
PAFI	:	Philippine Automotive Federation, Inc.
PBSP	:	Philippine Business for Social Progress
PEARL	:	Private Enterprise Accelerated Resource Linkage
PCB	:	Printed Circuit Board
PCCI	:	Philippine Chamber of Commerce & Industry
PCFM	:	Philippine Chamber of Food Manufacturers
PCNFI	:	Philippine CEFE Network Foundation, Inc.
PDCD	:	Program Development & Coordination Division
PDDCP	:	Product Development & Design Center of the Philippines, DTI
PDMA	:	Philippine Die and Mold Association
PEEAIF	:	Philippine Electrical, Electronics & Allied Industries Federation
PEZA	:	Philippine Economic Zone Authority
PFA	:	Philippine Franchise Association
PHILEXPORT	:	Philippine Exporters Confederation, Inc.
PHILFOODEX	:	Philippine Food Processors and Exporters Organization
PHILTINS	:	Philippine Trade Information and Network Systems
PIC	:	Philippine Investment Corporation
PIMSSG	:	Policy, Information & Management Support Services
PITC	:	Philippine International Trading Corporation
PMAI	:	Philippine Metal Casting Association, Inc.
PPRD	:	Policy Planning & Research Division
PPSE	:	Promoting Participation in Sustainable Enterprises
PQIP	:	Productivity and Quality Improvement Program

PRA	:	Philippine Retailers Association
PRDCP	:	Packaging Research and Design Center of the Philippines, DOST
PRIA	:	Philippine Rubber Industries Association
PTTC	:	Philippine Trade Training Center, DTI
QSPBI	:	Quarterly Survey of Philippine Business and Industry
QUENDANCOR	:	Quedan & Rural Credit Guarantee Corporation
ROG	:	Regional Operation Group
SBC(SBGFC)	:	Small Business Guarantee and Finance Corporation
SBIC	:	Small Business Investment Company
SEC	:	Securities and Exchange Commission
SEDCOP	:	Socia-Economic Development through Cooperative in the Philippines
SEIPI	:	Semiconductor and Electronics Industries in the Philippines, Inc.
SERDEF	:	Small Enterprises Research and Development Foundation
SME	:	Small and Medium Enterprises
SMEDC	:	Small and Medium Enterprises Development Council
SMEPC	:	SME Promotion Center
SRTC	:	Statistical Research and Training Center
SSS	:	Social Security System
SULONG	:	SME Unified Lending Opportunities for National Growth
TESDA	:	Technical Education and Skills Development Authority
TIDC	:	Trade & Investment Development Council
TLRC	:	Technology & Livelihood Research Center
UL	:	Underwriters Laboratories, Inc.
UP-ISSI	:	University of the Philippines Institute for Small Scale Industries
USAID	:	U.S. Agency for International Development
WB	:	World Bank
WTO	:	World Trade Organization

Table 1: Outline of Development Challenges and Recommended Strategies

Present status and issues	Background/ factors affecting the issues	Development challenges and strategies	Progress of activities under the current development plan	Projects/ programs provided by foreign donors	Expected benefits
SMEs in local-resource based industries incl. furniture, export general merchandise, and processed food industries					
Strong competitive pressure in both domestic and export markets. The small shares of Philippine products in the major export markets.	Severe competition especially with Chinese products, produced in big scale at lower costs.	<u>Enhancement of international competitiveness</u> - Creative product development and marketing capability	- Trade fairs, local & International (In operation. Highly appreciated.) - Permanent display corners (Planned but not implemented)		- Increased export - Improved awareness on needs for creative product development based on market analysis Increase in the level of Philippine designers
	Philippine needs to maintain their unique position by offering niche products, because of difference in production scale.		- Support for market survey abroad (In operation) - Design workshop (Practiced in the past. Discontinued due to termination of support of foreign donors) Buyer-supplier matching (Planned, but no in progress)		
	Advanced management techniques are not commonly used, since most of the businesses in the sectors have been started with side-work of house wives.	- Improved business management and production management capability	- Improvement of product design and packaging (In practice as a program under PRDCP, but limited budget and resources) - Compendium of government training programs (Completed) - HACCP awareness campaign (In operation through National Caravan, etc.) - Industry association training program (Planned, but not implemented)		- Increase in value added of the products - Improve in cost competitiveness
SMEs in the supporting industries of leading industries incl. electronics and automotive industries					
Lack of linkages between the local SMEs and the leading industries in the Philippines. The leading industries rely their parts and service supply to import or foreign affiliated enterprises located in the Philippines.	Big gap between the requirements of the leading industries and the understanding of local SMEs on business management, production management and	<u>Promotion of industrial linkages</u> - Practical support for development of parts and service supply of local SMEs to the leading industries	- Buyer-supplier matching (Planned, but not in progress)		- Expanded supply of parts and services to the leading industries Increased linkage with the industries other than the leading industries Increased parts export

Present status and issues	Background/ factors affecting the issues	Development challenges and strategies	Progress of activities under the current development plan	Projects/ programs provided by foreign donors	Expected benefits
	Lack of SMEs having the adequate technique of business management, production management, and technologies, which form the basis to promote the linkages with the leading	- Expansion of basis of the supporting industries		- JETRO "Supporting industry development" (In practice. Dispatch of experts) - GTZ "Dual Education and Training" (In operation. Nurturing of technicians)	- Increased linkages with local industries other than the leading industries
SMEs based on the limited local demand					
Difficulty of SMEs, particularly of small and micro enterprises, in stable operation, growth, and starting-up new businesses	Lack of business opportunity. Insufficient supporting system for SMEs in assisting them to solve their problems in their business start-up and expansion.	<u>Identification and creation of business opportunities</u> - Assistance for diversified managerial problems together with creation, identification and provision of business opportunities	- Product commercialization campaigns of DOST-developed technologies (In operation) - Product clinics/ consultation (In operation)	- GTZ "Private Sector Development Program" (Under planning) - CIDA "Private Enterprise Accelerated Resource Linkages" (To be terminated. New program is under planning.) - CIDA "Promoting Participation in Sustainable Enterprises" (In operation)	- Increased import substitution - Increased employment
Applicable to SMEs in all sectors					
In spite of the high demand for short-term finance, a third of SMEs depends their fund supply from the informal sources, having the problem of high interest rate. SMEs benefited by the finance from the formal sources, are dissatisfied with unfriendly application procedure, and high interest rate, etc.	Limited SMEs are benefited from SME finance of the formal sector, due to heavy collateral requirement, complicated loan application procedure, and high interest rate, etc.	<u>Improved accessibility of SMEs to financing</u> - Reduction of risk of SME financing - Program implementation which meets the policy needs of SME financing	- SULONG Program (In operation. Loan performance has increased, but delay in appraisal is increasingly pointed out) - Unified accreditation for rural and thrift banks (In operation) - Credit bureau development (Under planning) - Equity venture fund establishment (Under preparation)	- JBIC "ISSEP-II" (In operation. Two-step loan for SMEs)	- SME finance not dependent heavily on collateral - Modernization of SME management, and capacity building of SMEs to be able to provide reliable credit information - Active implementation of SME financing program by SBC

Present status and issues	Background/ factors affecting the issues	Development challenges and strategies	Progress of activities under the current development plan	Projects/ programs provided by foreign donors	Expected benefits
Establishment of an Implementation System for SME Development Plans at the Central Government Level					
<p>Policy and measures, and system for SME development have been established already, but the problem has been how to made it work effectively.</p>	<p>The current system assumes that the SME development policy planning, implementation promotion, and administration and monitoring are assumed to be made by specific agency or organization responsible for the specific areas.</p> <p>The coordination among these agencies or organizations are made by SME Core Group in the case of inside of DTI, and SMED Council in the case of inter-Ministry.</p>	<p><u>Establishment of a system for planning, promotion, and administration and monitoring of the SME Development Plan</u></p> <ul style="list-style-type: none"> - Establishment of the SMED Authority as the central organization responsible for SME development 	<ul style="list-style-type: none"> - Reorganization of the SME Core Group as a permanent organization within DTI to take responsibility for SME development (Under consideration) 	<ul style="list-style-type: none"> - JICA "Dispatch of SME advisor to DTI" (In operation) 	<ul style="list-style-type: none"> - Establishment of SMED Authority, or reorganization to establish a central organization responsible for SME development
	<p>Fund required in implementing the development policy and plan is not ensured yet.</p>	<ul style="list-style-type: none"> - Securing of funds required for implementation of the SME Development Plan 			<ul style="list-style-type: none"> - Funds available for implementation of SME Development Plan - Effective use of programs provided by foreign donors

Table 2: Summary of Recommended Action Plan

Development Goal	Strategic target	Major consideration in developing the programs	Development measures	Implementation schedule							Key factors to implement the development measures successfully				
				2004	2005	2006	2007	2008	2009	2010					
Local-resource based industries incl. furniture, export general merchandise, and processed food industries															
Enhancement of international competitiveness	Creative product development and marketing capability	Major focus should be placed on continuation and enhancement of the current support, considering the high appreciation of the current assistance extended for exhibitors of national/international trade fairs.	* Enhanced support for trade fair exhibitors	—	—	—	—	—	—	—	—				
			1 Design workshop (or product development workshop)		....	....	....	....	....	....	....		- Invitation of foreign designers who have expertise in the target markets abroad
			2 Design competition			..	..	..	..	..	..	..	- Design competition at the internationally recognized level
			* Market intelligence support												
			3 Business seeds identification and development			.....	.....	.....	.....	.....	.....	.....
			4 Buyer-Supplier Database			.....	.....	.....	.....	.....	.....	.....
			13 Furniture & Export General Merchandise Industry Support Center			.....	.....	.....	.....	.....	.....	.....
			14 Processed Food Industry Support Center			.....	.....	.....	.....	.....	.....	.....
			Improved business management and production management capability	Major focus should be placed on increase in value added of the products, and maintaining of the international price competitiveness through productivity improvement.	5 Packaging technology development		- Foreign support in fund for implementation and technological know-how
					6 Dissemination of production management for local-resource based industries		
	11 Develop and promote standard curriculum for technical training				.....									
	13 Furniture & Export General Merchandise Industry Support Center					.....	.....	.....	.....	.....	.....	.....
				14 Processed Food Industry Support Center			.....	.....	.....	.....	.....

Notes: [Grey box] Major projects, [White box] Measures for development of implementation system, [Solid black line] Continuation of the current projects,

.....Number of recommended measures and projects refers to the reference numbers shown in Figure III-2-1.

Development Goal	Strategic target	Major consideration in developing the programs	Development measures	Implementation schedule							Key factors to implement the development measures successfully	
				2004	2005	2006	2007	2008	2009	2010		
SMEs based on the limited local demand												
Identification and creation of business opportunities	Assistance for diversified managerial problems together with creation, identification and provision of business opportunities	Revitalization of the current SME Center system with: 1) Assignment of counselors/ advisors of professional capability 2) Creation of business opportunities through promotion of regional industrial linkages, and regional development projects	3	Business seeds identification and development								
			4	Buyer-Supplier Database	.....						
			12	Entrepreneurship development of creative SMEs		....	....	....	....	....	....
			*	Reverse trade fairs in regions	—	—	—	—	—	—		
			16	SME support network							- Foreign support in fund for implementation, and experiences in nurturing sufficient number of counselors in a short-term, and establishing the own training system
			17	SME Counselors and SME Advisors	.....						
27	Promotion of regional development seeds identification by LGUs and local CCIs			.....							
Applicable to SMEs in all sectors												
Improved accessibility of SMEs to financing	Reduction of risk of SME financing	Recommendation on supplementary measures assuming the high appreciation of the current SULONG Program	17	SME Counselors and SME Advisors	.....						
			18	SME loan without collateral			.....				
			19	Personal guarantee system	.....						
			20	SBC deposit fund system	.....						
			21	Streamlining of examination system for SBC-guaranteed loan application	.....						
	Program implementation which meets the policy needs of SME financing	Counter measures against the limitation of the current financing system regarding SME finance	24	SBC as policy execution body in the field of SME financing			.....				

Development Goal	Strategic target	Major consideration in developing the programs	Development measures	Implementation schedule							Key factors to implement the development measures successfully
				2004	2005	2006	2007	2008	2009	2010	
Establishment of an implementation system for SME Development Plans at the Central Government Level											
Establishment of the system to formulate, promote implementation of, and administrate and monitor the SME Development Plan	Establishment of Central Government Organization responsible for SME development, and securing of the fund required for implementation of the SME Development Plan	22	SMED Authority							
		23	SME Development Fund							
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I. Introduction

Chapter 1 Background, Objective and Scope of the Study

Chapter 1 Background, Objective and Scope of the Study

1.1 Objective of the Study

The primary objective of this study is to assist the Philippine government in its formulation of the “(Long-Term) SME Development Plan” and, in the process of the study, to transfer knowledge and skills in the field of SME development policy formulation and program development to the staff of the responsible government agencies, support organizations and SMEs, thereby to help them attain capabilities required for the effective promotion of SME development.

Notably, the major focus of the study is to provide necessary support and assistance for the Philippine counterpart that is to formulate at its own initiative the SME development plan.

1.2 Background of the Study

In the Philippine economy, small and medium-sized enterprises (SMEs) have a significant presence. They account for 99.6% of the total establishments in the country, 69% of all employees, and 25% of production output (on a value added basis), as of 2001. Traditionally, the previous administrations viewed SME promotion as being important from the socioeconomic policy standpoint, and implemented a variety of policies and programs on that basis. Recently, under the Magna Carta for Small Enterprises (Republic Act 6977) enacted in 1991 as an official affirmation of the importance and potential of SME promotion, institutional development efforts were devised and implemented. These efforts include the establishment of the Small and Medium Enterprises Development Council (SMEDC) which has a mandate to formulate SME promotion policy, the establishment of the Small Business Guarantee and Finance Corporation (SBC), and implementation of a SME loan quota allocation program for financial institutions.

While the efforts have been producing measurable results, the government realizes that the development policies and programs have been often planned without sufficient basic data and analyses on the actual needs of SMEs, needs which should form the basis of ensuring effectiveness of such programs.

It is also pointed out that most programs have produced less of a result than expected, due to budgetary and manpower constraints as well as poor coordination among related agencies which often led to redundancy and inefficiency. At the same time, a system and dedicated institution to implement SME promotion programs has not been established. As a result, demand has grown for undertaking of a review of the existing SME promotion measures and formulation of a comprehensive and feasible SME development plan that effectively links a

variety of initiatives that collectively have different objectives, including promotion of SMEs, attraction of foreign investment, and promotion of exports. The present administration of the Philippine government decided to formulate a long-term SME development plan (plan period, up to 2010) to meet that demand.

As part of efforts to formulate a comprehensive and effective SME Development Plan, the Department of Trade and Industry (DTI) requested the Japanese government in 2001 to conduct a development study to support the formulation process. The Japanese government decided to implement a development study that would assist DTI in its lead role in devising the development plan, because the DTI had obtained expertise and experience in this field as a consequence of several donor organizations having already provided extensive assistance to that department for promoting SMEs in the Philippines. In September 2002, the Japan International Cooperation Agency (JICA) conducted a preliminary study, and signed an Implementing Agreement with its Philippine counterpart, based on which the present study was commenced in February 2003.

The general framework of the SME Development Plan is summarized as follows.

<i>Framework of the SME Development Plan</i>	
(1) Positioning in the policy context	The plan will serve as the long-term strategy for the national SME development.
(2) Planning period	2004 - 2010 (defined as the long-term development plan)
(3) Planning policy	Based on the policy set in the National SME Development Plan published in November 2002, a new SME Development Plan will be formulated on the basis of the results of the study.

1.3 Scope of the Study

1.3.1 Scope of the Study

The study is roughly divided into three phases: “study and analysis of the current status of SMEs;” “development of promotion programs/short-term action plans;” and “publication and verification of the promotion programs and action plans.”

Key activities in the scope of the study are described in the following section according to the framework of the Implementing Arrangement (I/A).

(1) Collection and Analysis of Baseline Information

This involves collection and analysis of basic data and information on SME promotion, including the current state of SMEs in the Philippines, policies and programs, and assistance provided by donor organizations. In particular, the following items are included:

- 1) Analysis of the industrial structure in the Philippines (including the positioning of the target industries);
 - 2) Collection and analysis of basic data and information relating to the current state and operation of SMEs in the subject industries;
 - 3) Review of previous and ongoing SME policies and programs;
 - 4) Analysis of previous and ongoing SME support programs conducted by the private sector and their results;
 - 5) Identification and summarizing of support and assistance provided by other donor organizations in the field of SME development;
 - 6) Collection and analysis of statistical data on SMEs in the Philippines; and
 - 7) Analysis of the current state of SMEs and issues facing them.
- (2) Provision of knowledge and experience valuable to formulation of the SME Development Plan, including related facilities
- As part of the study, an attempt will be made to learn from success practices relating to SME policies and programs in Japan and other ASEAN countries. The study has focused on cases in Japan, Thailand and Malaysia.
- (3) Identification of priority issues for SME development in the Philippines
- (4) Recommendation of specific measures and policies to be implemented in the SME Development Plan and action plans

Concrete measures and action plans will cover the following areas:

- 1) SME Finance (including guarantee);
 - 2) Marketing;
 - 3) Human resources development;
 - 4) Production technology (innovation) and processes; and
 - 5) Provision of information relating to support measures & BDS (Business Development Services) for SME programs.
- (5) Support for formulation of the SME Development Plan
- (6) Seminars and workshops
- Seminars or workshops are to be conducted for the counterpart and other related parties. On those occasions, discussions are to be held on the issues relating to SME development planning, including methodology enabling the promotion of knowledge transfer.

1.3.2 The Study Area

The study intends to formulate a nationwide SME Development Plan. Due to time constraints, however, the following four regions were selected for the focused and in-depth study under the agreement between the JICA preliminary study team and its Philippine counterpart.

- (1) Manila Metropolitan Area and CARABARZON Region
- (2) Central Luzon
- (3) Cebu
- (4) Davao

Then, the specific, geographic study area was established within an administrative unit in each region, as summarized below:

- | | |
|---------------------------------------|----------------------------|
| (1) National Capital Region (NCR) | : Manila Metropolitan Area |
| (2) South Tagalog Region (Region 4) | : CARABARZON |
| (3) Central Luzon Region (Region 3) | : Central Luzon |
| (4) Central Visayas Region (Region 7) | : Cebu |
| (5) South Mindanao Region (Region 11) | : Davao |

These five regions account for 51.4% of the national population (in 2000) and 68.3% of GDP. And 65% of business establishments are located in these regions, together with 76% of employees. SMEs in the regions account for 65% of total. Thus, studying the regions is expected to give representative data and information on SMEs in the country as a whole.

Among the five regions, the study team did not visit the South Mindanao Region (including Davao City) as it was under an alert issued by the Japanese Ministry of Foreign Affairs, which urged visitors to the region to make careful consideration. Instead, the study team conducted questionnaire surveys of local SMEs in the region by hiring a local consultant. In addition, it held group meetings with SMEs and staffs of SME promotion organizations in Manila and Cebu.

Chapter 2 Outline of Study and Organization of Report

Chapter 2 Outline of Study and Organization of Report

2.1 Study Components

The study started in late January 2003, and submission of a final report was in March 2004. The phases and their component study activities are as follows.

<i>Phase</i>	<i>Study period</i>
I. Fact-finding study and analysis	
<ul style="list-style-type: none"> • Study and analysis of the current state of SMEs, policies and programs, etc. • Identification and summary of key issues • Kick-off seminar 	Late January – mid-May 2003 <ul style="list-style-type: none"> • Preparatory work in Japan • First field survey • First home-office work
II. Support for formulation of promotion measures and short-term action plans	
<ul style="list-style-type: none"> • Technology transfer seminars and workshops • Supplemental surveys for current state • Identification of key issues • Proposition of specific measures and plans, together with necessary support 	Mid-May – Late September 2003 <ul style="list-style-type: none"> • Second field survey • Second home-office work • Third field survey
III. Publication and verification of promotion measures and plans	
<ul style="list-style-type: none"> • Technology transfer seminars and workshops • Refinement, publication and reviewing of specific measures and plans • Preparation of a draft final report • Completion of the SME Development Plan • Completion of the final report 	Early October – Mid. March 2004 <ul style="list-style-type: none"> • Third home-office work • Fourth field survey • Fifth field survey • Fourth home-office work

2.2 Field Surveys

The study team has conducted the following field surveys and has submitted the following reports.

Field surveys conducted/scheduled

First field survey	February 9 - March 25, 2003
Second field survey	May 11 - July 17
Third field survey	September 7 - October 7
Fourth field survey	November 2 - November 8
Fifth field survey	March 2 – March 6, 2004

Reports submitted/scheduled

Inception Report (IC/R)	February 10, 2003
Progress Report (PG/R)	March 21
Interim Report (IT/R)	July 14
Draft Final Report (DF/R)	October 30
Final Report (F/R)	March 12, 2004

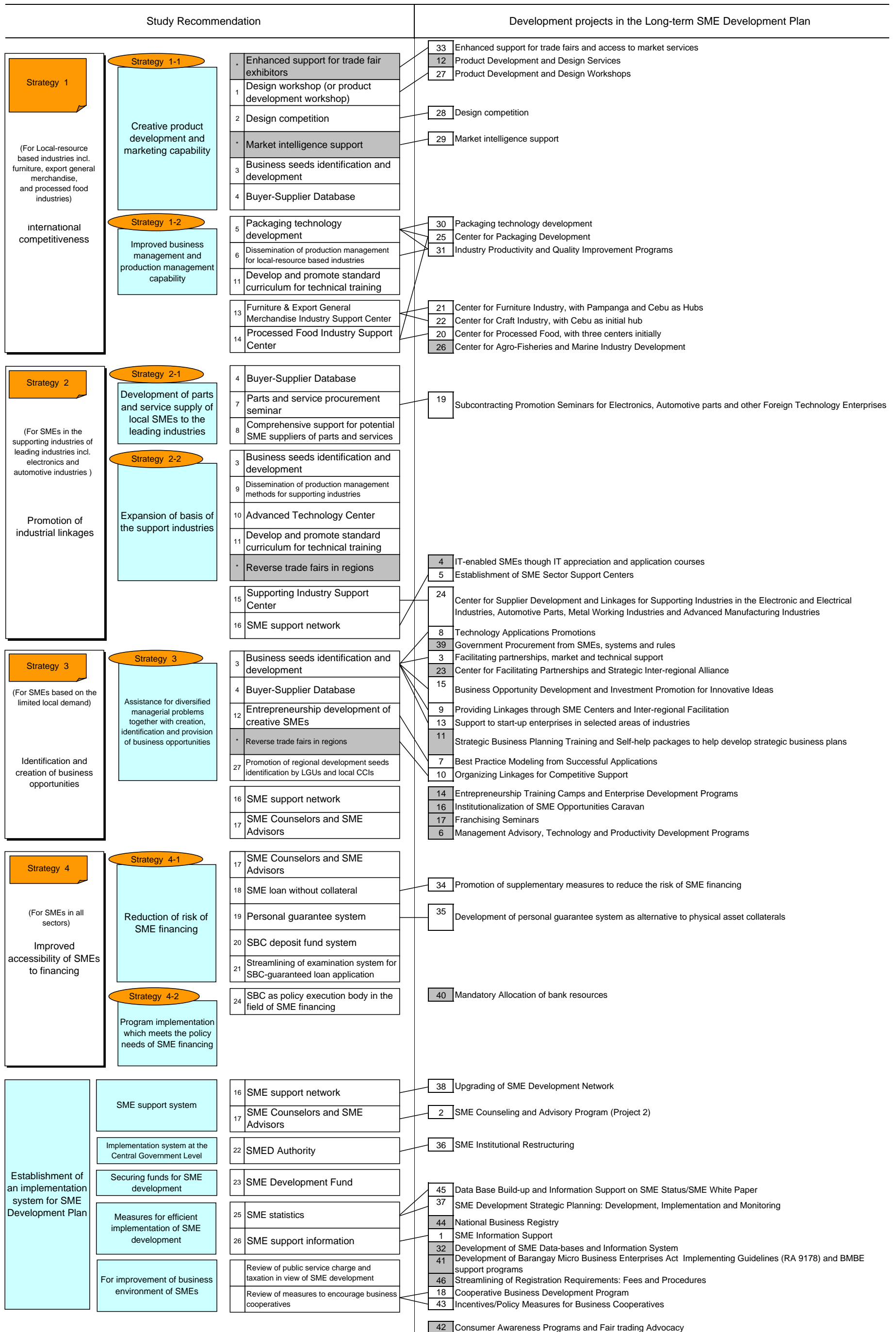
2.3 Seminars and Workshops


The following seminars and workshops have been held.

Seminars/workshops

- Kick-off seminar February 19, 2003 Manila
- Workshops on sector May 20 – 21 Manila
-focused analysis (1) – (4)
- Technology transfer seminar (1) June 27 Manila
(Planning skills)
- Program evaluation workshop (5) September 22 Cebu
(Evaluation workshop of the planning framework and the action plan for people concerned SME development in Region 7 and 11)
- Program evaluation workshop (5) October 3 Manila
(Ditto, for the people in NCR, Region III and IV)
- Technology transfer seminar November 4 Manila
(Presentation of major action programs)
- Seminar for public presentation of the March 4&5, 2004 Manila & Cebu
“Long-term SME Development Plan”

Study Recommendation and Development Projects in the Long-term SME Development Plan



Notes: Figures refer to the project reference numbers.
 Projects with  show the projects already under implementation.

II Current State and Development issues of SMEs

Chapter 1 Economic Environment in the Philippines and Economic Development Plans

Chapter 1 Economic Environment in the Philippines and Economic Development Plans

1.1 Overview of Philippine Economy in the 1990s

During the 1990s, the Philippine economy grew steadily in terms of real GDP, except for a setback in 1998 due to the Asian currency crisis. Compared to other ASEAN countries, however, the economic growth rate was not particularly high (Fig. II-1-1). The country was unable to keep pace with the strong growth enjoyed in East Asia due to various internal problems in 1990s.

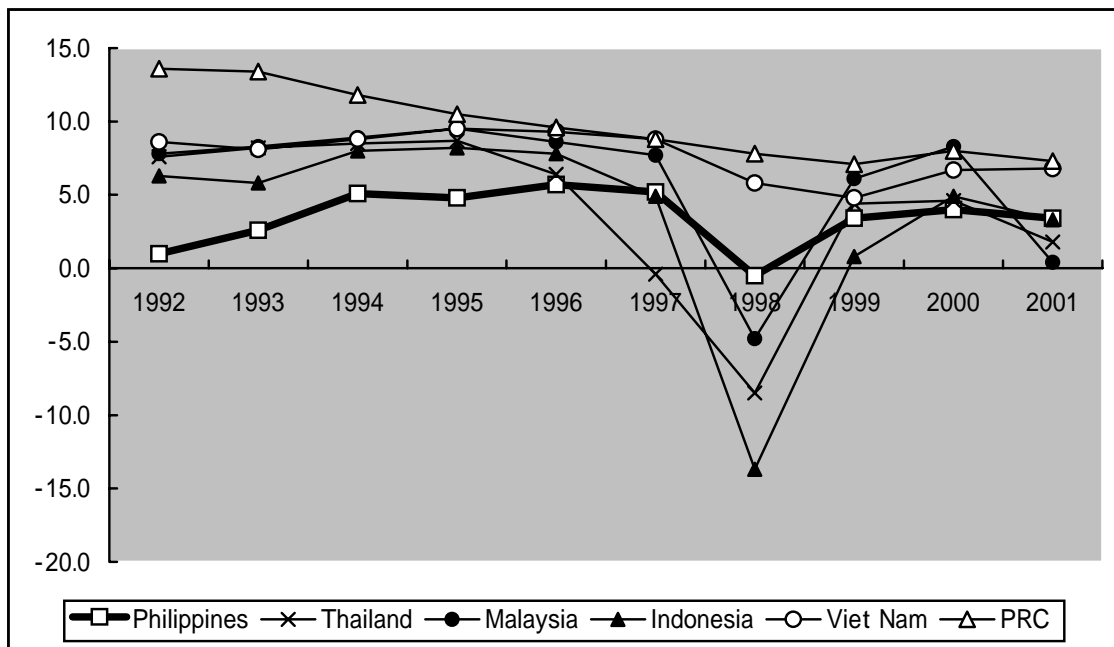


Figure II-1-1 Recent GDP Growth Rates in Selected East Asian Countries

At the same time, however, the relatively slow rate of economic development made the country less susceptible to the Asian financial crisis of 1997 and 1998, and the economy, being more dependent on the export sector (led by foreign companies) achieved a faster recovery than other ASEAN countries, such as Thailand and Malaysia. However, the recovery has been short-lived and the country's GDP growth rate has slowed down in recent years due to sluggishness of industrial exports, which has been triggered by recessions in the Japanese and U.S. economies. According to the government's preliminary economic report published on May 30, 2003, GDP in the first quarter amounted to P254.7 billion, a 4.5% increase on an annualized basis. The growth rate is within an expected range of 4.2% - 5.2%. If the economy grows at the present pace, the annual GDP will exceed P1 trillion for the first time in the country's history.

The manufacturing industry is the largest sector in the Philippines, accounting for 24.9% of GDP in 2000, it undoubtedly serves as a major engine for the national economy (cf. Table II-1-1). The manufacturing sector recorded an annual average growth rate of 5% between 1993 and 1996, but, the growth rate is much lower than that of manufacturing industries in other ASEAN countries and the PRC, which achieved nearly 10% growth during the same period. The similar trend persisted in the recovery period following the 1998 recession. In the first quarter of 2003, manufacturing output grew at an annual 4% (preliminary report). While the service sector continued to assume leadership, the fact that the production index in March showed a 7.3% increase over a year ago can be considered as a sign of recovery.

Meanwhile, the country is still afflicted with a high unemployment rate of nearly 10%, higher than in its ASEAN neighbors. Although present and past administrations assigned the highest priority in the policy agenda to the poverty problem, actual results have not been adequate. According to a national survey conducted in 2000, 33.7% of households live below the poverty line. It is pointed out that the manufacturing sector contributes to the high unemployment rate as it is capable of creating less job opportunities than the counterpart in Thailand and Malaysia. Thus, the manufacturing sector is expected to play a major role in leading the transformation of the industrial structure, however, Philippine manufacturing sector is still weak to pull the entire economy. That is one of crucial problems in the Philippine Economy¹.

The following table summarizes key economic indicators in 2002 and those forecast for 2003 on the basis of NEDA's data.

	2002 (actual, %)	2003 (forecast, %)
GNP	5.2	4.5 – 5.4
GDP	4.6	4.2 – 5.2
Agriculture	3.5	3.0 – 4.0
Industry	4.1	3.4 – 4.4
Service	5.4	5.2 – 6.2
Unemployment	3.1	4.5 – 5.5

¹ In the Philippines, the difference between GDP and GNP is larger than most countries because of a huge amount of income transfer (remittance) by overseas workers, who are estimated at nearly 8 million. Clearly, creation and maintenance of job opportunities within the country is a major policy agenda.

1.2 Liberalization of International Trade and Its Effect on the Philippine Economy

The global move toward trade liberalization has significant impacts on the Philippine economy, and especially local SMEs. The country is a formal member of AFTA (ASEAN Free Trade Area) and APEC (Asia-Pacific Economic Cooperation), as well as the WTO (World Trade Organization). The AFTA member countries have agreed, as part of the CFPT (Common Effective Preferential Tariff) scheme, to lower tariff rates toward the 0% to 5% range by 2008. Within the framework of APEC, the Philippines is scheduled, as part of its Individual Action Plan (IAP), to lower the tariff rate for raw materials and intermediate goods to 3% and that for manufactured goods to 10% in January 2003. Furthermore, it is to adopt the target rate of 5% or less for end-products, starting in 2004.

While the moves are considered to be part of the global trend toward trade liberalization, they pose a great threat and challenge to industries and companies that lack international competitiveness. In the Philippines, traditional industries (textiles, garment products, woodworking products, furniture, general merchandise, and processed food) are already facing strong competitive pressure in the U.S. and European markets from China and other newly industrialized countries, while the electrical/electronics and automotive industries are maintaining international competitiveness as they are dominated by leading foreign companies that are fundamentally oriented to global or broad regional markets. In addition to making inroads in the export markets, China and other low-cost competitors are gaining share in the Philippine market. As a result, the advance of the trade liberalization process brings with it intensified competition inside and outside of the country.

Under these circumstances, local SMEs have to strengthen their operational base for require to improve international competitiveness, together with increased awareness of their management. Their efforts have been expected to get some assist by the government and other organizations, but public support is not effective enough to improve the situation so far.

1.3 Characteristics of Industrial Structure in the Philippines and Development Challenges

(1) Slow step of industrial development

Compared to the ASEAN countries, the industrial structure in the Philippines is peculiar in that its GDP shares have remained more or less unchanged during the past 25 years. The county successfully started to industrialize after the Second World War, much earlier than other Asian countries. The manufacturing sector accounted for 25.6% of GDP by 1975, far above the level of around 10% in Thailand and Malaysia. 25 years later, the GDP share has not changed much (24.9% in 2001), while that of manufacturing industries in Thailand and Malaysia have come to exceed 30%. Coupled with a decline in the share of the agriculture,

forestry and fishery sector, Thailand and Malaysia have been steadily transforming themselves into industrialized economies.

Table II-1-1 Comparison of Key Economic Indices in Selected Asian Countries

	Year	GDP per capita (nominal)	Real GDP share (%)		Gross exports (US\$ million)	Balance of merchandise trade (US\$ million)	Unemployment rate (%)
			Agriculture/ forestry/fishery	Manufacturing			
Philippines	2000	953	20.0	24.8	38,078	6,691	10.1
	2001	892	20.1	24.6	32,150	2,600	9.8
Thailand	2000	1,926	8.8	33.6	67,889	5,466	3.6
	2001	1,800	8.6	33.5	63,190	2,525	3.9
Malaysia	2000	3,853	8.4	33.4	98,429	20,854	3.1
	2001	3,678	8.6	31.5	87,754	18,204	3.3
Indonesia	2000	748	17.0	26.2	62,124	28,609	6.1
	2001	n.a.	16.4	26.1	56,035	25,248	n.a.
Viet Nam	2000	400	24.3	18.7	14,308	-892	6.5
	2001	n.a.	n.a.	n.a.	15,100	-900	n.a.
PRC	2000	855	15.9	44.3	249,212	24,115	3.1
	2001	908	15.2	44.4	266,200	22,600	3.6

Source: Edited from "Yearbook of Asian Affairs, IDE-JETRO

Table II-1-1 compares key economic indices of the Philippines and its neighboring competitors. In terms of the GDP share of the manufacturing sector, the Philippines is lowest among the original ASEAN members².

Table II-1-2 shows output of the key economic sectors and their growth rates between 1996 and 2000. The manufacturing sector grew slower than the overall average for all the years but 2000. Its average growth rate in the five-year period is far below that of transportation/communication, finance, service, and commerce. While the manufacturing industry remains the largest industrial sector in the Philippines, it appears to have been losing momentum in recent years, as seen in the comparison of its growth rates to those in neighboring countries.

² ASEAN, when established in 1967, consisted of the Philippines, Thailand, Malaysia, Indonesia, and Singapore.

Table II-1-2 Change in GDP by Economic Sectors

(Unit: Million P (upper rows); % (lower rows))

	1996	1997	1998	1999	2000	2001	Distribution ratio in 2001
	(Compare to previous year)	(Compare to previous year)	(Compare to previous year)	(Compare to previous year)	(Compare to previous year)	(Compare to previous year)	Six year average
Agriculture/forestry/fishery	179,451	185,004	173,106	183,407	189,678	197,737	20.0%
	(3.8)	(3.1)	(-6.4)	(6.0)	(3.4)	(4.2)	(2.35)
Mining	10,166	10,338	10,624	9,736	10,580	10,002	1.0%
	(1.3)	(1.7)	(2.8)	(-8.4)	(8.7)	(-5.5)	(0.10)
Manufacturing	214,613	223,672	221,151	224,667	237,223	244,082	24.7%
	(5.6)	(4.2)	(-1.1)	(1.6)	(5.6)	(2.9)	(3.13)
Construction	49,339	57,322	51,791	50,988	47,947	49,836	5.0%
	(10.9)	(16.2)	(-9.6)	(-1.6)	(-6.0)	(3.9)	(2.30)
Electricity/gas/water	28,008	29,357	30,315	31,259	32,401	32,777	3.3%
	(7.5)	(4.8)	(3.3)	(3.1)	(3.7)	(1.2)	(3.93)
Transportation/communication	50,878	55,067	58,640	61,726	67,837	74,181	7.5%
	(7.4)	(8.2)	(6.5)	(5.3)	(9.9)	(9.4)	(7.78)
Wholesale/retail	130,247	135,326	138,641	145,406	153,549	161,487	16.3%
	(5.5)	(3.9)	(2.4)	(4.9)	(5.6)	(5.2)	(4.58)
Finance/insurance	38,513	43,509	45,445	46,311	46,728	47,293	4.8%
	(13.8)	(13.0)	(4.4)	(1.9)	(0.9)	(1.2)	(5.87)
Real estate	45,576	47,297	48,065	48,350	48,495	48,119	4.9%
	(4.1)	(3.8)	(1.6)	(0.6)	(0.3)	(-0.8)	(1.60)
Service	58,231	61,040	63,883	67,582	70,758	73,973	7.5%
	(5.0)	(4.8)	(4.7)	(5.8)	(4.7)	(4.5)	(4.92)
Public service	44,099	45,219	46,244	47,950	48,382	49,771	5.0%
	(5.9)	(2.5)	(2.3)	(3.7)	(0.9)	(2.9)	(3.03)
Total GDP	849,121	893,151	887,905	917,382	953,578	989,258	100.0%
	(5.8)	(5.2)	(-0.6)	(3.3)	(3.9)	(3.7)	(3.55)

Source: NSCB, NEDA

(2) Skewed investment pattern in the manufacturing sector

Strong economic growth of ASEAN countries, especially Thailand, Malaysia and Indonesia, in the 1990s was primarily driven by direct investment mainly from Japan and other East Asian countries, accompanied by export promotion as a result of industrial development. The investment spree in the region, which continued from the late 1980s to the early 1990s (and is referred to as the “second investment boom in ASEAN”), did not fully benefit the Philippines, as it lagged way behind the three countries in terms of foreign investment (Table II-1-3). Part of the reason for this lag was natural disasters, and political instability. While the country has developed modern industries by attracting foreign manufacturers, the current industrial structure is highly skewed; investment data indicate that foreign direct investment in the country is concentrated on electronics equipment and parts (including semiconductor assembly and packaging). As shown in Figure II-1-2, which summarizes investment trends in the special economic zones (134 throughout the country) by sector, 75% of investment made between 1994 and 2000 were directed to electrical and

electronics industries (including semiconductor), overwhelming other sectors, such as the transportation sector that accounted for 7.3%.

Table II-1-3 Foreign Direct Investment in Four ASEAN Countries

(Unit:US\$ million,%)

	Philippines		Thailand		Malaysia		Indonesia	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
1989	804	75.1	7,966	29.3	3,188	71.1	4,719	6.4
1990	961	19.5	8,029	0.8	6,517	104.4	8,750	85.4
1991	838	-12.8	4,987	-37.9	6,201	-4.8	8,778	0.3
1992	285	-66.0	10,022	100.9	6,796	9.6	10,313	17.5
1993	569	99.6	4,295	-57.1	2,995	55.9	8,144	21.0
1994	2,470	334.1	5,881	36.9	4,385	46.4	23,494	221.9

Note: Investment amounts include investment in other than manufacturing.

Source: "Yearbook of Asian Affairs, 1995" IDE

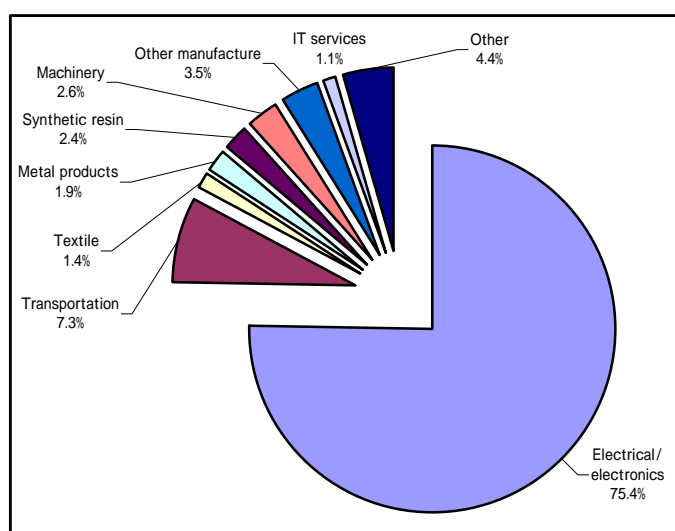


Figure II-1-2 Investment in Special Economic Zones

Source: NSCB

In fact, electrical and electronics industries also hold a dominant share of foreign investment in Thailand and Malaysia, but the two countries have attracted assembly manufacturers of household appliances and consumer electronics. Furthermore, they actively promote the automobile industry on the merit of its ability to induce development of a broad supplier base and provide incentives for foreign investment, including favorable tariff treatment. As a result, the industrial structure in these countries is much more diverse than that in the Philippines, which is highly specialized in electronics equipment and parts.

(3) Lack of industrial diversity

In the manufacturing sector in the Philippines, three industries - food processing, textile/garment, and electrical/electronic and peripheral equipment - account for a combined total of 45.3% in terms of the number of establishments, 49.1% in the number of employees, and 37.6% in the value added. In particular, the food processing industry dominates in terms of the number of establishments. This industrial structure sharply contrasts to that in Thailand where the food processing and textile industries dominated in the first stage of development and then the machinery and transportation equipment industries emerged and grew, diversifying the industrial structure.

Among the three key industries, the food processing industry, which is the largest employer with the largest number of establishments, is dominated by a handful of large conglomerates, such as San Miguel, which juxtaposes a large number of micro- and small enterprises. On the other hand, the textile and garment sector was a leading exporter until 1993. Today, however, it faces competitive pressure from emerging textile exporters of the PRC and Vietnam as it continues to depend upon imported materials while productivity deteriorates due to old, outdated production equipment. Finally, the electrical and electronics industry including peripherals is now the country's leading exporter, but it is characterized by low value added and its GDP share is still small. Also, the industry has primarily been growing under the leadership of foreign manufacturers, and their contract processing system is not formed effective assembler/supplier linkages with local industries.

(4) Dependence on export industries operating in the form of contract processing

The country's major export items, roughly divided, are traditional items consisting of primary goods, such as coconut products, sugar, wood, and fruit, and non-traditional ones dominated by industrial products, including electronics products, apparel, and automotive parts. The non-traditional group has been steadily growing since the 1970s and exceeded 70% of total export in 1985. Since then, investment by and expansion of large foreign manufacturers which chose the Philippines as a product base for supply to export markets, led to growth of the share of non-traditional items. The share passed the 90% mark of total export in 1998. Meanwhile, traditional items remained more or less unchanged in terms of export value. Thus, the country's exports have been primarily driven by growth of non-traditional items. The ratio of non-traditional items over the traditional items increased to 24.4 in 1999, compared to 4.6 in 1990 (Figure II-1-3). Among non-traditional export items, electronics equipment and parts hold a dominant share (Table II-1-4). As electronics production in the country takes place largely in the form of contract processing and assembly, the country's industrial structure generally lacks both backward and forward linkages.

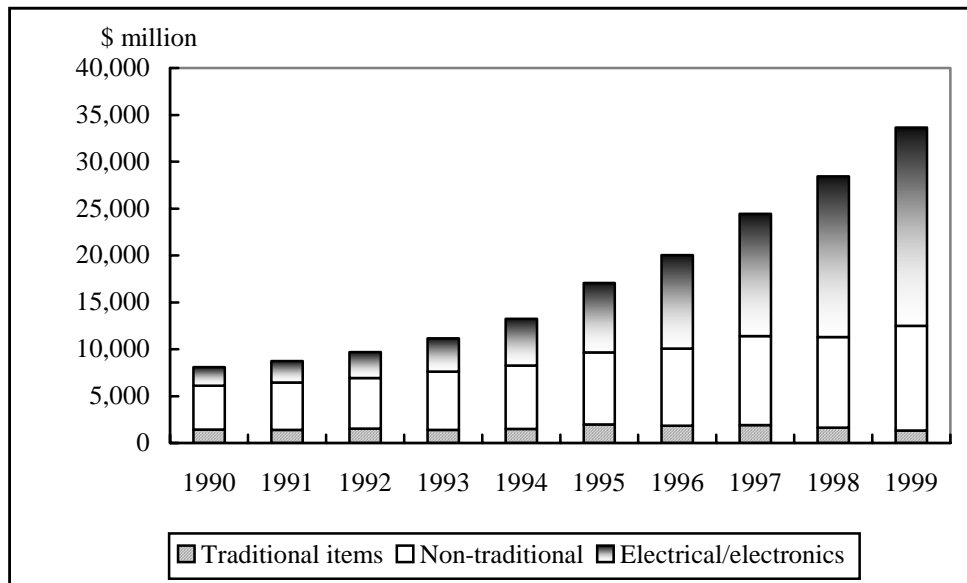


Figure II-1-3 Recent Trends in Export Item Composition

Table II-1-4 Top Ten Export Items

(Unit: US\$ million)

	1995	1996	1997	1998	1999
Electrical/electronics equipment and parts	7,413	9,988	13,028	17,138	21,166
Machinery and transportation equipment	741	1,294	2,685	3,316	4,951
Garments	2,570	2,423	2,349	2,356	2,267
Coconut oil	826	571	673	706	342
Chemicals	343	353	383	340	294
Processed foods and beverages	292	334	346	306	256
Furniture and fixtures	276	293	322	323	353
Textiles	208	253	299	242	219
Petroleum products	171	273	257	129	216
Copper metal	341	297	232	178	236
Total exports (including other items)	17,447	20,543	25,228	29,496	35,032

Source: BSP

Table II-1-5 Composition of the Manufacturing Sector by Industry Type (1997)

Industry type	No. of establishments	%	Employment ('000)	%	Value added (million peso)	%
Food processing	3,718	25.2%	190.6	17.1%	103,558	18.1%
Beverage	124	0.8%	29.6	2.7%	36,376	6.3%
Tobacco	18	0.1%	11.2	1.0%	21,531	3.8%
Textiles	583	4.0%	54.6	4.9%	11,848	2.1%
Clothing	2,003	13.6%	155.3	13.9%	22,410	3.9%
Leather products	559	3.8%	39.6	3.5%	3,860	0.7%
Wood and cork products	574	3.9%	28.0	2.5%	5,140	0.9%
Furniture	659	4.5%	32.6	2.9%	4,452	0.8%
Paper and allied products	288	2.0%	22.3	2.0%	11,243	2.0%
Printing and publishing	910	6.2%	29.9	2.7%	7,378	1.3%
Chemical industry	321	2.2%	20.3	1.8%	10,427	1.8%
Other chemicals	393	2.7%	39.4	3.5%	48,281	8.4%
Petroleum refining	5	0.0%	2.1	0.2%	68,153	11.9%
Other petroleum/coal products	15	0.1%	1.0	0.1%	627	0.1%
Rubber products	146	1.0%	9.8	0.9%	2,878	0.5%
Plastics products	457	3.1%	33.3	3.0%	11,757	2.0%
Glass and glass products	65	0.4%	6.2	0.6%	4,362	0.8%
Cement	19	0.1%	8.0	0.7%	14,967	2.6%
Non-metal mineral products	666	4.5%	32.9	2.9%	6,719	1.2%
Iron and steel	374	2.5%	30.2	2.7%	15,970	2.8%
Non-ferrous metal	26	0.2%	3.9	0.3%	4,849	0.8%
Metal products	895	6.1%	37.3	3.3%	8,759	1.5%
Machinery	726	4.9%	32.4	2.9%	7,168	1.2%
Electrical/electronics and peripheral equ	371	2.5%	147.4	13.2%	77,246	13.5%
Transportation equipment	351	2.4%	39.7	3.6%	40,819	7.1%
Grand total (including other industries)	14,734	100.00%	1,116.9	100.00	573,552	100.00

Note: Covering establishments with 10 or more employees

Source: NSO

(5) Immature of the local supplier base

General profiles of automotive industries and electrical/electronics and IT equipment industries in the Philippines are discussed in Chapter 3. One of their major characteristics is a small number of job shops (subcontractors) specialized in contract processing such as metalworking, plastics shaping, and rubber processing. For instance, semiconductor production is dominated by contract assembly and packaging of chips and other parts that are imported from foreign sources. As a result, local content is very low and local production chains are fairly discrete and confined. There is a bright prospect, however, that assembly manufacturers of electrical and communication equipment, electronics parts, and transportation equipment have the broad needs for materials and parts that can be supplied by local industries, and they are willing to increase local procurement in the future. Unfortunately, local SMEs are not capable of meeting the needs. Figure II-1-4 summarizes the results of a survey of Japanese manufacturers conducted by JETRO Manila office in 2001.

The survey results reveal that local procurement by Japanese companies accounts for only 27% of total purchase and the remaining 73% come from Japan and other foreign sources. Moreover, local procurement by Japanese manufactures in the Philippines is made from Japanese suppliers who are operating in the country, which share exceeds that of local suppliers. This indicates that local suppliers have still to win confidence of foreign assembly manufacturers in terms of quality, cost, delivery schedule, and other requirements

Thus, “slow growth of the manufacturing sector,” “skewed investment pattern and the resultant industrial structure,” “lack of industrial diversity,” “dependence on export industries operating in the form of contract processing,” and “underdevelopment of the local supplier base,” which characterize the country’s industrial structure, represents major issues facing the manufacturing sector to be addressed urgently for further industrial development.

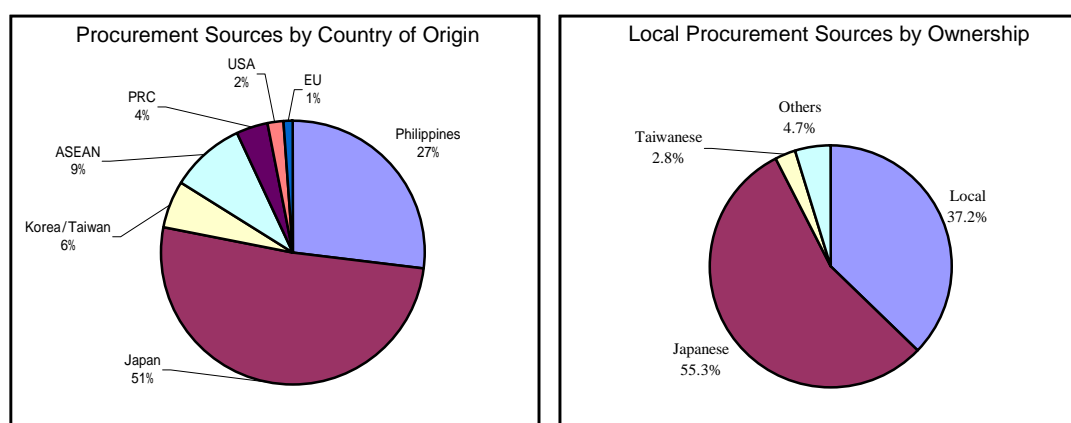


Figure II-1-4 Summary of A JETRO Survey of Japanese Manufacturers Operating in the Philippines (2001)

Source: JETRO Manila

1.4 Negative Impacts of the Industrial Structure on SME Management

As limited progress has been made in overcoming the problems facing the manufacturing sector in the country, the industrial structure has had the following negative impacts, both direct and indirect, which have implications for the local SMEs and SME policy.

- (1) The manufacturing sector has failed to create sufficient employment opportunities despite its potential.
- (2) As a result, income levels remain relatively low, contributing to keep the domestic market small in terms of purchasing power.
- (3) At the same time, a large number of Filipinos have been encouraged to emigrate for better jobs, impeding the bottom-up improvement of production techniques and skills.
- (4) The industrial structure depends much on imported raw materials, a condition that undermines the foundation of local companies.
- (5) Poor industrial infrastructure has increased electricity, fuel and transportation costs.

These are also challenges which shall be overcome by implementation of the SME Development Plan

1.5 National Development Plan and SME Development

President Arroyo, in her administrative policy speech in July 2001, set forth “the victory over the fight against poverty in the next ten years” as the ultimate goal, and as an instrument to accomplish it, she announced the “Medium-Term Philippine Development Plan 2001-2004” (MTPDP)³. MTPDP specifies growth targets for each economic sector, as shown in Table II-1-6, which assume that relatively high growth rates are achieved in 2002 and after. And it lists the strategic directions of economic policy to achieve the goals, including stabilization at the macroeconomic level, efforts to create employment opportunities and income sources, and the promotion of expansion of the market economy. Furthermore, MTPDP declares committed efforts to address the shortage of government revenues, which constitutes a major obstacle to smooth implementation of national development plans, with a goal to achieve a balanced budget by 2006.

Table II-1-6 Growth Target in MTPDP 2001-2004

(Unit : %)

	2001	2002	2003	2004	Average 2001-2004
Industry	2.3	4.0-4.3	5.8-6.2	6.2-6.6	4.6-4.9
Mining	0.0	5.0-5.5	7.0-7.5	7.0-7.5	4.8-5.1
Manufacturing	2.8	3.6-4.0	5.5-5.9	5.6-6.0	4.4-4.7
Construction	-0.4	5.0-5.3	7.3-7.7	8.7-9.2	5.1-5.5
Utilities	3.8	4.6-5.1	6.2-6.7	6.5-7.0	5.3-5.7
Service	4.0	4.5-5.0	5.8-6.3	6.1-6.6	5.1-5.5
Transport & Communications	9.0	9.4-9.8	9.5-10.0	9.5-10.0	9.3-9.7
Commerce	5.0	5.2-5.7	5.8-6.3	6.0-6.5	5.5-5.9
Finance	0.7	1.4-1.9	6.5-7.0	6.9-7.4	3.8-4.2
Ownership of Housing & Real Estate	-1.8	(0.2)-0.3	4.0-4.5	5.0-5.5	1.8-2.1
Private Service	5.0	5.0-5.5	5.6-6.1	5.8-6.3	5.4-5.7
Government Service	1.5	1.6-2.0	1.6-2.1	1.7-2.2	1.6-2.0

Source: NEDA

SME promotion is one of the priority areas emphasized in MTPDP, with clear development policy being prescribed in Chapter 3 “Enhancing Competitiveness of Industry and Services.” It aims to upgrade SMEs including microenterprises step by step with an ultimate goal to help them attain competitiveness to survive in the global economy. It sets forth the following strategies for upgrading of SMEs.

³ The Medium-Term Philippine Development Plan 2001-2004

(1) Improvement of financial accessibility

Indirect financial support including the induced augmentation of funds supply, the modification of loan application procedures and necessary documentation, and the reinforcement of microfinance

(2) Cluster development

Promotion of a group of SMEs by leveraging their physical, social and other linkages, in the areas of raw material sourcing, technology, market and social infrastructure

(3) Effective use of existing training programs and organizations

Effective and efficient use of available resources by consolidating ongoing programs and minimizing duplication of efforts, while encouraging collaboration with the private sector where possible

(4) Effective use of SME Development Centers

Promotion of use as a key contact point for SMEs to gain access to information, advice and service, while encouraging business name registration

(5) Practical Use of IT

Practical use of IT and e-commerce for SME promotion purposes

MTPDP 2001-2004 was compiled under the leadership of National Economic Development Agency (NEDA) and is substantially based on the five-year development plan for 1999-2004, which was first reviewed by the Arroyo administration in 2002. MTPDP essentially prescribes a general direction of development in the form of the national social and economic development plan, while development strategies, action plans and implementation procedures for each sector or field are to be formulated by each responsible department.

For the SME sector, DTI announced a general outline of the National SME Development Plan in November 2002. The plan serves as the development guideline and sets specific development targets, namely to increase the percentage share of SMEs (not including micro-enterprises) from 8.7% to 12% in the next three years, and to raise the share of SMEs in total value added from 32% to 40%. The plan therefore forms the foundation of the country's SME development policy, and a variety of programs are to be implemented in line with the above strategies, as discussed in detail in Chapter 5 of this report.

Chapter 2 Overview of SMEs in the Philippines

Chapter 2 Overview of SMEs in the Philippines

2.1 Definition of SMEs

At present, SMEs in the Philippines are classified into three types according to the following definition based on the value of assets (excluding land) and the number of employees. Note that this definition replaced an old definition in January 2003, under Resolution No. 1 of the Small and Medium Enterprises Development Council (SMEDC). The old definition set the upper limit for microenterprises at P1,500,000 and that for medium-sized enterprises at P60,000,000. Further note that the definition does not take into account differences inherent in sectors (e.g., manufacturing or commerce) or type of enterprises (e.g., retailing, where the number of employees in a given enterprise is likely to be low).

Definition of SMEs in the Philippines

<u>Category</u>	<u>Total asset value</u>	<u>No. of employees</u>
Microenterprises	P3,000,00 or less	1-9
Small enterprises	P3,000,001-15,000,000	10-99
Medium enterprises	P15,000,001-100,000,000	100-199

Accordingly, Bangko Sentral ng Pilipinas (BSP) announced the adoption of the above definition as BSP's definition under Resolution No. 328 of the Monetary Board in March 2003. Thus, the above definition is therefore applied to the SME financial programs.

For the purpose of this report, SMEs include microenterprises as part of small enterprises. In the analysis of the results of the questionnaire survey in 2.3, however, enterprises having the total asset of P3 million or less are classified in microenterprises, while statistical data used in other parts are based on the old definition.

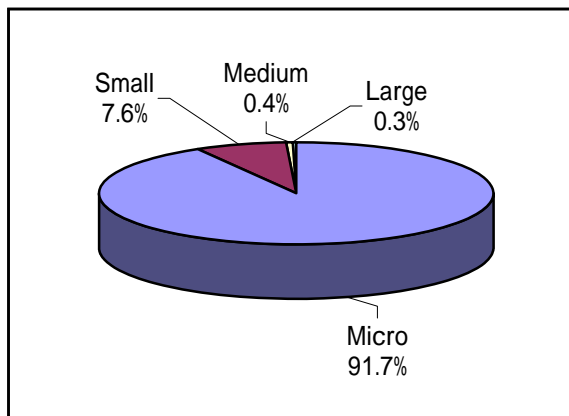
2.2 SMEs in Statistical Data

2.2.1 Numbers of Establishments and Employees

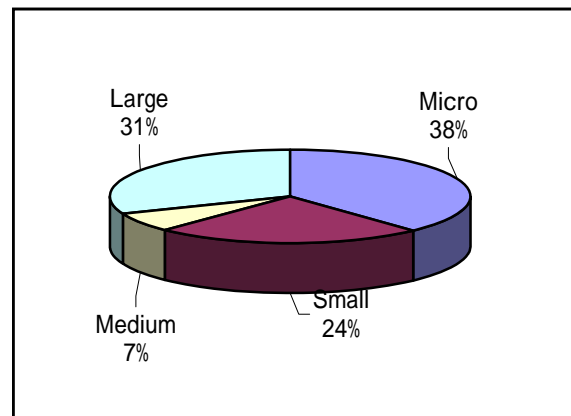
Percent distribution of establishments by size

According to the 2001 statistics of business establishments published by NSO¹, there are 811,589 business establishments in the country. Of total, microenterprises account for 743,949 (91.4%), small enterprises 1,759 (7.6%), medium enterprises 2,923 (0.4%), and large enterprises 2,958 (0.3%). In terms of the number of employees, microenterprises represent 38.0%, small enterprises 24.0%, and medium enterprises 7.0%. Thus, SMEs hold a combined share of 99.6% in the number of establishments and 69.1% in terms of employment, as of 2001.

¹ NSO, Establishments in the Philippines in 2001



Source: NSO
Figure II-2-1 Share of Establishments by Size



Source: NSO
Figure II-2-2 Total Employee by Size of Establishments

Case of composition

It is also noteworthy that, during the three-year period between 1999 and 2001, the total number of business establishments as well as employment has gradually declined. As the percentage share by size of enterprise remained more or less unchanged, the number of SMEs and the number of SME employees also declined during the period. Clearly, this seems to reflect deterioration of economic conditions in recent years, both domestic and international. Compared to 1993, the total number of establishments increased by around 30% and the number of employees by 23%, with the percentage share by enterprise size showing little change.

Percent distribution of establishments by industry

Classification by industrial sector indicates that the “wholesaling and retailing (commerce)” sector accounts for the highest share of 53.6% in terms of the number of establishments, followed by the “manufacturing” sector with a 15.3% share. The difference between the two sectors is therefore substantial, nearly 40 percentage points. On the other hand, the number of employees depicts a much smaller difference between the “wholesaling and retailing” and “manufacturing” sectors, 1,650,000 (29.2%) vs. 1,530,000 (27.1%), respectively. The breakdown by size of enterprise indicates that, for the manufacturing sector, microenterprises account for 88.0% of the total number of establishments, small enterprises 10.2%, medium enterprises 0.8%, and large enterprises 1.0%, whereas the wholesaling and retailing sector is dominated by microenterprises (95.6%), with small enterprises representing 4.2%, medium enterprises 0.1%, and large enterprises 0.08%. Finally, in terms of the number of employees, the manufacturing sector is characterized by a relatively high share of large enterprises (47.9%), followed by microenterprises (23.0%), small enterprises (21.2%), and medium enterprises (8.9%). On the other hand, the wholesaling and retailing sector is dominated by microenterprises (67.1%), compared to small enterprises

21.3%, medium enterprises 3.3%, and large enterprises 8.3%. The figures reflect a difference in their characteristics. (See Tables II-2-1 and II-2-2, and Figures II-2-1 and II-2-2.)

Table II-2-1 Number of Establishment by Sector (2001)

Unit: Establishment

PCIC	Establishments				
	Micro (%)	Small (%)	Medium (%)	Large (%)	Total (%)
Agriculture, forestry & fishing	1,956 (46.1)	2,014 (47.4)	124 (2.9)	153 (3.6)	4,247 (100.0)
Mining	216 (62.4)	100 (28.9)	14 (4.0)	16 (4.6)	346 (100.0)
Manufacturing	108,986 (88.0)	12,627 (10.2)	988 (0.8)	1,194 (1.0)	123,795 (100.0)
Utilities	485 (41.8)	483 (41.6)	99 (8.5)	94 (8.1)	1,161 (100.0)
Construction	1,530 (55.0)	1,037 (37.3)	105 (3.8)	111 (4.0)	2,783 (100.0)
Commerce	415,924 (95.6)	18,469 (4.2)	408 (0.1)	300 (0.1)	435,101 (100.0)
Finance	17,791 (75.8)	5,477 (23.3)	84 (0.4)	109 (0.5)	23,461 (100.0)
Ownership of housing & real estate	34,527 (88.3)	3,928 (10.0)	299 (0.8)	361 (0.9)	39,115 (100.0)
Private services	92,500 (89.5)	10,237 (9.9)	318 (0.3)	244 (0.2)	103,299 (100.0)
Government service	70,034 (89.5)	7,390 (9.4)	484 (0.6)	376 (0.5)	78,284 (100.0)
Total	743,949 (91.7)	61,762 (7.6)	2,923 (0.4)	2,958 (0.4)	811,592 (100.0)
%	91.7%	7.6%	0.4%	0.3%	100.0%

Source: NSO

Table II-2-2 Number of Employee by Sector (2001)

Unit: Men

PCIC	Establishments				
	Micro (%)	Small (%)	Medium (%)	Large (%)	Total (%)
Agriculture, forestry & fishing	8,077 (4.9)	47,745 (29.2)	16,740 (10.2)	90,942 (55.6)	163,504 (100.0)
Mining	1,029 (4.9)	3,049 (14.4)	2,128 (10.1)	14,897 (70.6)	21,103 (100.0)
Manufacturing	353,415 (23.0)	309,952 (20.2)	136,648 (8.9)	734,088 (47.9)	1,534,103 (100.0)
Utilities	2,152 (2.8)	14,509 (18.9)	14,124 (18.4)	46,140 (60.0)	76,925 (100.0)
Construction	6,848 (4.6)	26,928 (18.2)	13,843 (9.3)	100,472 (67.8)	148,091 (100.0)
Commerce	1,109,473 (67.1)	350,368 (21.2)	55,184 (3.3)	137,925 (8.3)	1,652,950 (100.0)
Finance	74,175 (29.2)	97,782 (38.5)	11,458 (4.5)	70,469 (27.8)	253,884 (100.0)
Ownership of housing & real estate	103,153 (25.1)	92,936 (22.6)	41,199 (10.0)	173,926 (42.3)	411,214 (100.0)
Private services	307,369 (39.8)	230,866 (29.9)	41,909 (5.4)	191,602 (24.8)	771,746 (100.0)
Government service	186,194 (29.8)	183,527 (29.4)	66,125 (10.6)	188,600 (30.2)	624,446 (100.0)
Total	2,151,885 (38.0)	1,357,662 (24.0)	399,358 (7.1)	1,749,061 (30.9)	5,657,966 (100.0)
%	38.0%	24.0%	7.1%	30.9%	100.0%

Source: NSO

2.2.2 Geographic Distribution of SMEs

Analysis of the geographic distribution of enterprises throughout the country indicates a high concentration in the National Capital Region (NCR), which accounts for 24.4% of all establishments and 40.1% of all employees. Furthermore, the five regions subject to the present study (NCR, Regions 3, 4, 7 and 11) hold a combined share of 65.0% of total establishments. Also, 64.9% of SMEs are located in the five regions. Similarly, the regions account for 72.1% of total employees. As a result, around two-thirds of SMEs are concentrated in the five regions (Table II-2-3, II-2-4).

Table II-2-3 Breakdown of Business Establishments by Size and Region (2000)

(Unit: No. of establishments)

Regional Division	Total	Percentage Share of Total	Cottage	Small	Medium	Large
National Capital Region (NCR)	196,491	23.9	167,208	26,440	1,384	1,459
South Tagalog Region (Region 4)	144,530	17.6	135,526	8,088	431	485
Central Luzon Region (Region 3)	87,383	10.6	81,866	5,140	190	187
Central Visayas Region (Region 7)	49,179	6.0	44,466	4,247	220	246
South Mindanao Region (Region 11)	35,885	4.4	32,830	2,795	127	133
Other 11 regions	307,492	37.5	285,844	20,456	718	474
Total	820,960	100.0	747,740	67,166	3,070	2,984
Share of the five regions	533,250	65.0%	61.8%	69.5%	76.6%	84.1%

Source: "Establishments in the Philippines in 2000," NSO

Table II-2-4 Breakdown of Employment by Size of Enterprise and Region

(Unit: No. of employees)

Regional Division	Total	Percentage Share of Total	Cottage	Small	Medium	Large
National Capital Region (NCR)	2,364,533	40.1	549,796	703,159	193,801	917,777
South Tagalog Region (Region 4)	925,625	15.7	370,807	191,900	68,778	294,140
Central Luzon Region (Region 3)	488,644	8.3	234,451	122,236	30,675	101,282
Central Visayas Region (Region 7)	400,483	6.8	129,075	108,931	30,364	132,113
South Mindanao Region (Region 11)	326,376	5.5	129,867	74,909	18,670	102,930
Other 11 regions	1,396,525	23.7	751,104	321,092	74,398	249,931
Total	5,902,186	100.0	2,165,100	1,522,227	416,686	1,798,173
Share of the five regions	4,505,661	76.3%	65.3%	78.9%	82.1%	86.1%

Source: "Establishments in the Philippines in 2000," NSO

2.2.3 Sales and Value Added by SMEs

The recent trends in value added by SMEs in the country and their sales are shown in Tables II-2-5 and II-2-6, respectively. Note that the figures do not take inflation into account, so that the real rate of growth cannot be read from the tables. In any case, the tables indicate growing share of SMEs in both value added and sales. Thus, SMEs as a whole have been steadily growing year after year with the overall industrial growth, as indicated by relevant factors, including the number of establishments and the number of employees. Nevertheless, compared to the absolute number of establishments and employment, SMEs hold a relatively

small share of value added and sales, around 30%. In comparison to the situation in other countries of the region, this suggests that they possess considerable development potential. Note that the value added here refers to the “census value added.”

Table II-2-5 Value Added by SMEs

Unit: Million Peso

	1983	%	1993	%	1998	%
Micro	1,381		11,013		16,086	
Small	5,891		44,754		} 669,338	
Medium	4,687	8.3	31,283	10.1		
Large	44,801	78.9	223,111	71.9		
Total	55,379	87.2	299,148	82.0		0.0
out of S&M	11,959	21.1	87,050	28.1		30.2

Note: The total amount of enterprises which having more than 10 employees
Source: NSO, Census of Establishments (Manufacturing)

Table II-2-6 Sales Amount by SMEs

Unit: Million Peso

	1983	%	1993	%	1998	%
Micro	1,859		24,707		31,672	
Small	20,369		152,531		} 1,641,583	
Medium	13,630	8.4	79,006	9.6		
Large	127,092	78.0	590,665	71.8		
Total	161,091	86.4	822,202	100.0		0.0
(内、中小)	35,859	22.0	231,539	28.2		30.7

Note: The total amount of enterprises which having more than 10 employees
Source: NSO, Census of Establishments (Manufacturing)

2.3 Results of the SME Questionnaire Survey

As part of the present study, a survey using a specially designed question sheet was conducted to collect data and information relating to the current state of SMEs. The survey was mainly conducted by enumerators hired for the purpose, who visited selected enterprises, and study team members participated in some visits. Major problems are summarized in 2.3.2, and the details of the survey results are presented in 2.3.3.

2.3.1 Survey Method

(1) Purpose

The purpose of the SME questionnaire survey is to identify the current state of SMEs and major issues facing them, and to understand the program needs for implementation of the SME development plan.

(2) Study area and subject (industry types)

The study team and the counterpart selected the following five regions as the study area and conducted the questionnaire survey of selected SMEs that belonged to any of major industries in each region (15 companies targeted for each industry), as summarized in Table II-2-7.

A total of 165 companies were set as the target size of survey population, while 175 companies have finally replied to the question.

Table II-2-7 Regional Breakdown of SME Surveys

National Capital Region (NCR)	Food processing (Area II), giftware/decors (Area IV)	30
South Tagalog Region (R4)	Automotive parts (Laguna), food processing (Cavite), electrical/electronics (Rizal)	45
Central Luzon Region (R3)	Furniture (Pampanga), decorations (Bulacan)	30
Central Visayas Region (R7)	Furniture (Cebu), electrical/electronics (Cebu)	30
South Mindanao Region (R11)	Woodwork/furniture (Davao City), food processing (N. Davao)	30

(3) Survey method

The survey was conducted by local survey companies that visited and interviewed the selected enterprises, and the study team members made visit in four regions, except for South Mindanao. The form of questionnaire is attached as Annex II-2.

2.3.2 Major Problems Relating to Development of SMEs

(1) General

The survey results indicate that major problems that were considered to impede development of SMEs are in the areas of marketing and finance.

Companies in the food processing and furniture industries are most concerned about marketing, followed by those in the metal products industry. Financial problems are also most frequently cited by these industries. On the other hand, problems cited by SMEs in the gifts/housewares, fine jewelry, and wood products industries are more or less evenly spread over marketing, finance, customer's requirements, and insufficient production capacity.

The differences in response between the two industry groups seems to be partially explained by the fact that SMEs in the food processing and furniture industries use subcontractors and have high demand for working capital, while those in the latter group - notably the gifts and housewares industry - have less financial demand because exporters function also as financiers (smaller manufacturers in particular supply products to exporters).

On the other hand, SMEs in the electronics industry are not much concerned about marketing and finance, but they feel difficulty in meeting customers' requirements.

A high percentage of companies having concern about customers' requirements was found in the food processing, furniture, metal products, electronics, and gifts/housewares subsectors, suggesting that the problem is shared by industries that make final products including parts and components.

Insufficient production capacity was frequently cited by companies in the food processing, furniture, metal products, fine jewelry, and gift/housewares sectors. It appears that those in the food processing, furniture and metal products industries cannot increase production capacity due to limited working capital (for raw materials and subcontractors) and the inability to make equipment investment on a desired scale imposes a capacity restraint. Thus the core problem seems to be closely related to finance.

Similar responses are made about the problems relating to business startups. In all the industries surveyed, financial difficulty was most frequently cited by respondents, followed by problems relating to marketing.

(2) Management

SMEs are often started as personal or family operations and many SMEs continue to be family owned and managed after they have established themselves in the market in which they operate. In the Philippines, this tendency is most widely observed in the metal products and food processing industries. In the former, the number of SMEs employing the owner's family members exceeds those that do not. In the latter, the number is more or less the same for both groups.

On the other hand, most companies in the electronics industry do not employ family members, making a sharp contrast to counterparts in other industries surveyed. Finally, SMEs in the furniture, woodcraft, fashion jewelries and gifts/housewares industries tend to have originated family enterprises, as the number of enterprises employing family members is only one half those not employing. This is because they cannot continue to rely on family management alone when they reach a certain size, and particularly because they have to use subcontractors.

However, this does not necessarily mean that SMEs not employing family members have successfully transformed themselves to modern management. Rather, the opposite is true as revealed from the results of the interview survey that were conducted with the question sheet survey. This will be discussed in more detail later.

The survey asked respondents as to whether they prepared financial reports, which are indicative of modern management. 85% of the surveyed enterprises responded yes. However, the caution is needed because the surveyed enterprises are registered with DTI or SEC (or both) and do not necessarily represent SMEs as a whole.

Yet there is a notable difference in response among the industries surveyed. While all enterprises in the electronics industry make financial reports, other industries show varying percentages of enterprises not preparing them or preparing them occasionally. Although direct comparison is difficult due to a difference in sample size among the industries, the percentage share of enterprises not preparing financial reports is higher in the gifts/houseware, fine jewelry and food processing subsectors, ranging between 17% and 29%.

(3) Finance

Difficulty in obtaining financing was cited by enterprises in all the industries as the most serious problem. While smaller enterprises try to rely on their internal funds as far as possible, the larger the firm, the greater use made of financing from outside sources.

146 out of 175 enterprises financed their operations using outside sources, and of total, 41% used commercial banks and 34% informal sources. Those using informal sources are mostly observed in the fine jewelry, metal products and food processing industries as well as in Region 4, which primarily serve the domestic market.

On the other hand, all enterprises in the electronics industry borrow funds from commercial banks, reflecting their reliance on export business.

When asked about financial sources they would expect to use in the future, 43% of respondents cited commercial banks and 25% government financial institutions. Those citing commercial banks are expecting the increase in credit line through their repeated use of the bank and a prompt response to the loan application, whereas those citing government banks favored availability of better loan conditions in terms of interest rate and repayment period. On the other hand, government loan programs were cited because of technical support provided by DOST, in addition to favorable loan terms.

Most enterprises, except those in the electronics industry, want to use outside financing to obtain working capital. In the electronics industry, one half of the respondents wants to obtain investment funds and the other half working funds.

The highest percentage of the surveyed enterprises needs funds in amounts between P1 million and P10 million, and P3 million was most frequently cited.

The major obstacle to obtaining commercial loans is inability to offer sufficient collateral, as cited by 40% of respondents, followed by complicated loan application procedures and long time required (27%) and reluctance of commercial banks to issue SME loans (17%).

(4) Human resources development

The most important problem in the area of labor management is the lack of discipline and morale (45%), followed by difficulty in skills training (35%). In particular, the latter was more cited than the former among those in the furniture and fine jewelry industries.

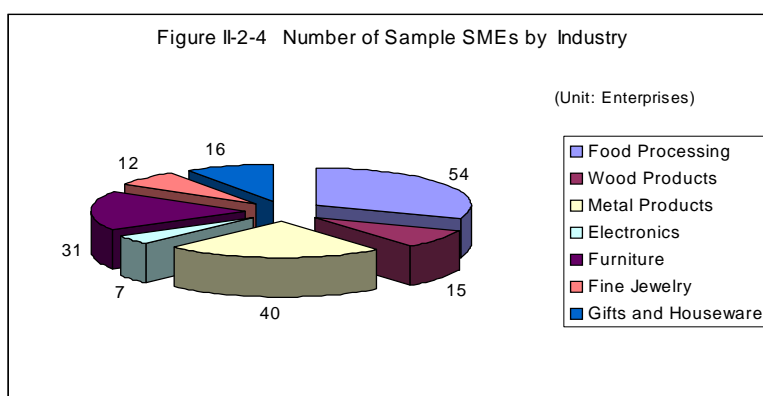
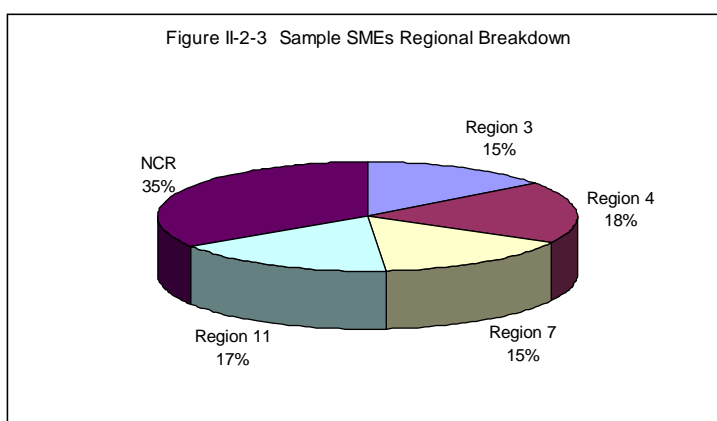
2.3.3 Analysis of Survey Results

(1) Sample Enterprises Profile

The completed questionnaire was collected from 175 firms, 35% or 60 of which were located in the National Capital Region (NCR), 15% or 26 in Region 3 (only in Bulacan and Pampanga), 18% or 32 in Region 4 (only in Laguna, Cavite and Rizal), 15% or 27 in Region 7 (only in Cebu) and 17% or 30 in Region 11 (Davao City, Davao Del Norte and Del Sur). Table II-2-8 gives an overview of the breakdown of the samples by region and industry classification. (See Fig. II-2-3 as well.)

Table II-2-8 Sample SMEs by Industry

Industry/Region	Number
Food Processing	
Region 4	19
Region 11	15
NCR	20
Wood Products	
Region 11	15
Metal Products	
Region 4	10
Region 7	6
NCR	24
Electronics	
Region 4	3
Region 7	4
Furniture	
Region 3	14
Region 7	17
Fine Jewelry	
Region 3	12
Gifts and Houseware	
NCR	16
All Industries	175



The food processing and metal products industry samples were taken from three different regions, while the electronics and furniture industry samples from two regions. Fine jewelry makers are from the town of Bulacan in Region 3, while gifts and houseware enterprises are

from NCR. As can be seen from Figure II-2-4, the food processing industry represents the largest share, followed by the metal products industry with 40 enterprises (23%). The furniture sector has 31 SMEs or 17% of the total sample, while the gifts and houseware industry (16 firms), the wood products industry (15), and fine jewelry industry (12) account for around 8-9% of the total. The electronics sector represents 4%, totaling 7 firms.

Table II-2-9 Sample SMEs Age Profile by Unit Size

Unit: Enterprises

Unit Size	Year Established						Total
	<1969	1970-1979	1980-1989	1990-1999	2000-2003	Not Specified	
>=9	1	2	3	12	5	0	23
10-19	5	6	7	10	3	0	31
20-24	0	2	2	6	4	0	14
25-29	1	1	1	5	1	0	9
30-34	0	1	7	1	2	1	12
35-49	5	2	7	1	1	0	16
50-99	2	2	9	12	2	0	27
100-399	3	5	5	13	1	0	27
400 and over	1	0	3	3	0	0	7
Not Specified	0	4	1	2	1	1	9
Total	18	25	45	65	20	2	175

Table II-2-9 summarizes the year of incorporation and the size (the number of employees) of the sample enterprises. The largest percentage of enterprises in the sample were established between 1990 and 1999 (or around 13-14 years old). Among larger enterprises (with 100 employees or more), however, many were established before 1990. 31% of the sample enterprises employ less than 19 workers.

More than half of the firms (99) do not employ family members while 43% are family operated. As shown in Figure II-2-5, the majority of companies in the metal products industry are family operated, the food processing industry one half, and the fine jewelry sector 43% fine jewelry

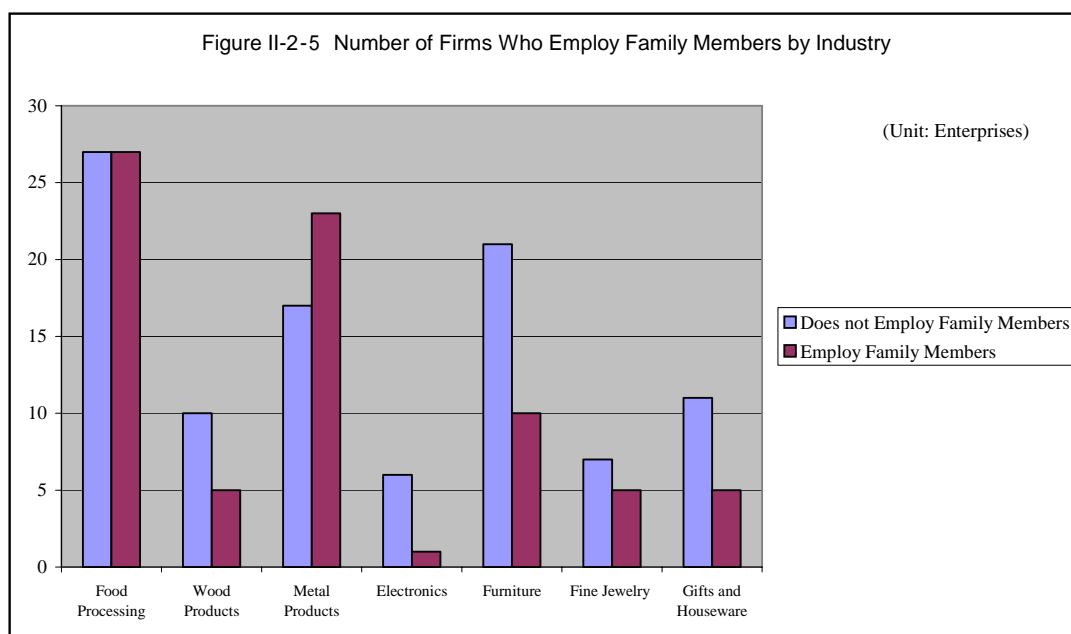


Table II-2-10 Paid-Up Capital of Sample Enterprises Classified by Size and by Industry

Unit: Enterprises

Industry	Micro Up to 3M	Small 3M - 15M	Medium 15M-100M	Not Specified	Total
Food Processing	35	10	5	4	54
Wood Products	7	2	2	4	15
Metal Products	16	9	6	8	39
Electronics	0	1	6	0	7
Furniture	17	5	3	6	31
Fine Jewelry	2	2	0	8	12
Gifts and Houseware	12	2	0	1	15
Total	89	31	22	31	173

144 out of 175 enterprises surveyed answered their paid-up capital. 91 firms or 63% had less than 3 million pesos (microenterprise), 31 firms or 22% between 3 million pesos and less than 15 million pesos (small enterprise) and 22 firms or 15% between 15 million pesos to less than 100 million pesos. There were 31 firms that did not reveal their paid-up capital and they were nonetheless SMEs as they were selected from the list of enterprises provided by DTI. Notably, a large number of enterprises in the food processing and the gifts and houseware sectors with relatively small paid-up capital, suggesting that the two industries are relatively easy for new entrepreneurs to start business.

All firms but one enterprise in the wood products sector (which did not specify an answer) are formally registered either at DTI, SEC or both. Around 45% are registered at the DTI alone and 36% both at DTI and SEC. Approximately 85% of all the firms produce financial statements annually.

Table II-2-11 Number of Enterprises Who Regularly Accomplish Financial Statements by Industry

Unit: Enterprises

Industry	Regularly Accomplish Financial Statements				Total
	Yes	No	Occasional	Not Specified	
Food Processing	44	6	3	1	54
Wood Products	13	1	1	0	15
Metal Products	37	1	2	0	40
Electronics	7	0	0	0	7
Furniture	27	3	1	0	31
Fine Jewelry	10	2	0	0	12
Gifts and Houseware	10	1	3	2	16
Total	148	14	10	3	175

Concerning the membership in the industry organization, the most popular industrial organization is PHILFOODEX, while in the wood products industry, almost half of the sample enterprises participate in CFIP. Most of the furniture enterprises are members of both CFIP and PHILEXPORT. Metal products enterprises are largely members of the Metalworking Industry Association of the Philippines while the jewelry manufacturers in Bulacan mostly join the Meycauayan Jewelry Industry Association. On the other hand, it is quite difficult to identify the current state of membership in the electronics industry since the sector is represented by a small number of samples. Similarly it is difficult to identify an organization that represents the majority of enterprises in the gifts and houseware sector that is characterized by a wide range of products. In the sector, however, many enterprises seem to participate in various business associations in their locality.

There are 43 SMEs who are not registered industrial associations.

(2) Production and Market

Table II-2-12 summarizes the market activities of the sample SMEs. 81 firms or 46% serve the local market only, whereas 26 firms or 15% are solely marketing their produce to other countries. The same pattern can be observed in other industries, with the exception of the furniture industry where more than half of the samples enterprises are 100% export oriented most of them enjoy tax relief from BOI.

Table II-2-12 Market Breakdown of SMEs by Industry

Unit: Enterprises

Market Breakdown	Industry							Total
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware	
Local 100%	27	10	27	1	3	7	6	81
99-50%	13 (7)	1	8 (6)	1	4 (1)	4 (3)	4 (4)	35
Less 50%	10 (2)	4 (1)	3 (2)	1	7 (3)	0	2 (2)	27
Export 100%	3	0	1	3	16	0	3	26
Indirect Export 100%	0	0	1	0	1	1	0	3
Indirectly Exporting & Exporting	0	0	0	1	0	0	0	1
Not Specified	1	0	0	0	0	0	1	2
Total	54	15	40	7	31	12	16	175

() number of firms that are exporting indirectly

The markets for the products vary with regions and industry types metal products. As seen in the following tables, Region 4 SMEs in the food processing industry cater more for the local market compared to Region 11 and NCR enterprises in the same industry. Furniture companies in Cebu (Region 7) are more export oriented than those in Region 3. The same is true for the electronics industry, where 3 companies in Region 7 entirely export their products. On the other hand, those in the metal products sector, even in the Region 7 and NCR are much less export oriented.

Table II-2-13 summarizes the market orientation by industry type. It indicates a relatively number of firms in furniture and electronics SMEs are export-oriented, whereas those in the food processing and metal products sectors are more concentrating on the domestic market.

Table II-2-13(a) Market Breakdown of Food Processing SMEs by Region

Unit: Enterprises

Market Breakdown	Region			Total
	Region 4	Region 11	NCR	
Local 100%	13	9	5	27
99-50%	5 (4)	2 (1)	6 (1)	13
Less 50%	1	1	8 (1)	10
Export 100%	0	2	1	3
Not Specified	0	1	0	1
Total	19	15	20	54

() number of firms that are exporting indirectly

Table II-2-13(b) Market Breakdown of Furniture SMEs by Region

Unit: Enterprises

Market Breakdown	Region		Total
	Region 3	Region 7	
Local 100%	3	0	3
99-50%	4 (1)	0	4
Less 50%	4 (1)	3 (2)	7
Export 100%	3	13	16
Indirectly Exporting & Exporting	0	1	1
Total	14	17	31

() number of firms that are exporting indirectly

Table II-2-13(c) Market Breakdown of Electronics SMEs by Region

Unit: Enterprises

Market Breakdown	Region		Total
	Region 4	Region 7	
Local 100%	0	1	1
99-50%	1	0	1
Less 50%	1	0	1
Export 100%	0	3	3
Indirectly Exporting & Exporting	1	0	1
Total	3	4	7

() number of firms that are exporting indirectly

Table II-2-13(d) Market Breakdown of Metal Products SMEs by Region

Unit: Enterprises

Market Breakdown	Region			Total
	Region 4	Region 7	NCR	
Local 100%	8	4	15	27
99-50%	2 (1)	1 (1)	5 (4)	8
Less 50%	0	0	3 (2)	3
Export 100%	0	1	0	1
IExport 100%	0	0	1	1
Total	10	6	24	40

() number of firms that are exporting indirectly

Around 55% of the firms surveyed plan to begin or expand exports. Those that are planning to expand their export mostly cited the U.S., Europe, Japan and the Middle East as the most likely destination of their products.

When asked about difficulties that the enterprises faced in relation to export, the most frequently cited was problems relating to marketing, followed by difficulties in financing. At the industry level, most follow the same pattern excepting the gifts and houseware sector, where financial problems and insufficient production capacity were recognized as most serious problems. 9 firms that did not specify any difficulty in their export. 3 firms are in the electronics sector (Fig. II-2-6).

Looking at a regional comparison within each of the three industries, there are marked differences among the food processing, furniture, and metal Products. The highest percentage of answers (38%) is found in “the lack of financing” at the initial stage of their exporting activities. “Deficiency of marketing capacity” ranks second or 18% (Fig. II-2-7).

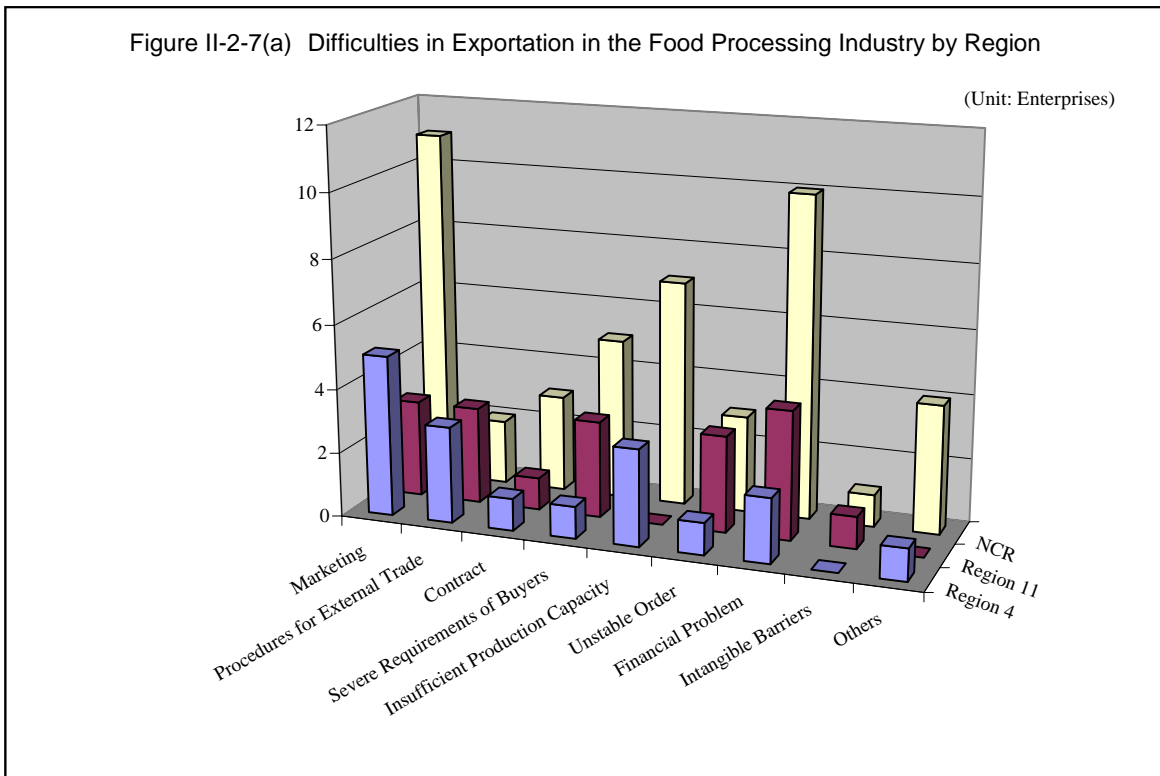
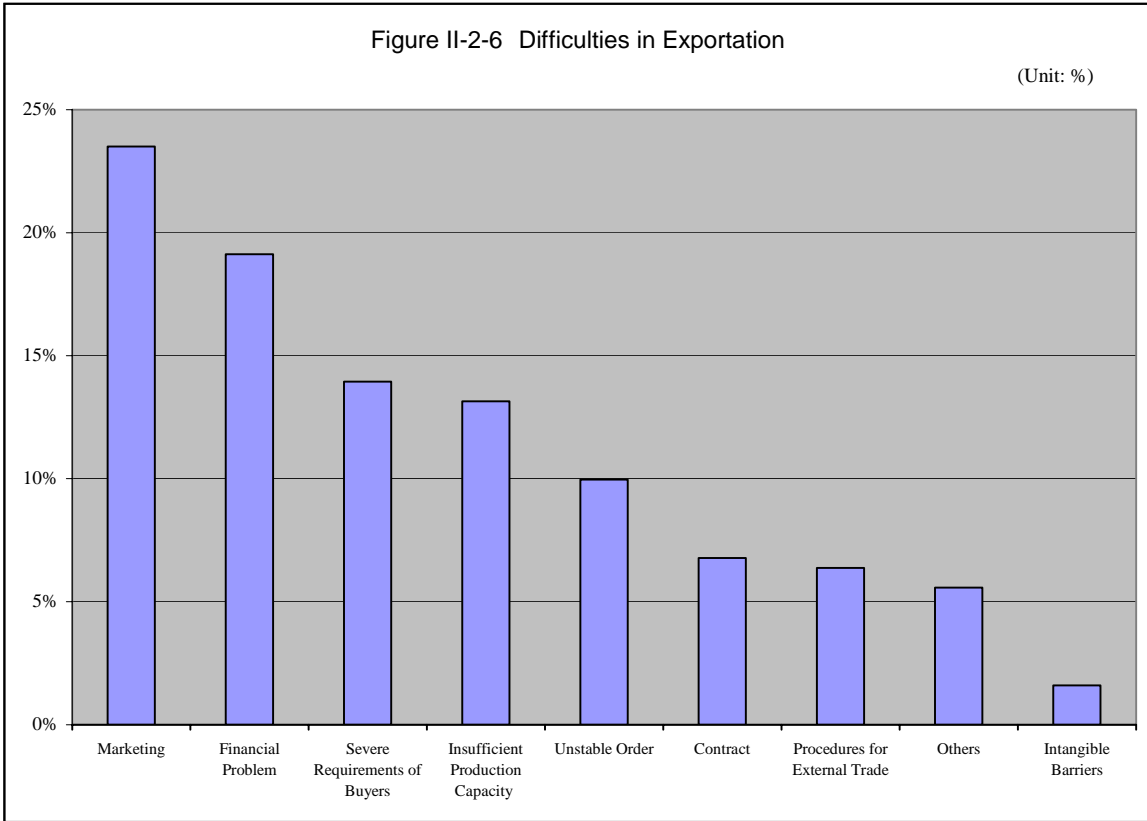


Figure II-2-7(b) Difficulties in Exportation in the Furniture Industry by Region

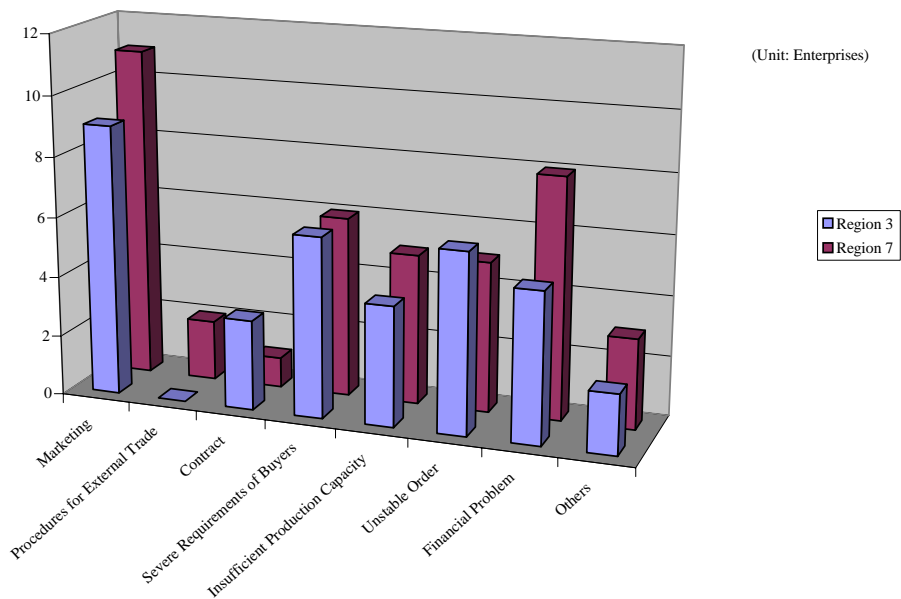


Figure II-2-7(c) Difficulties in Exportation in the Metal Products Industry by Region

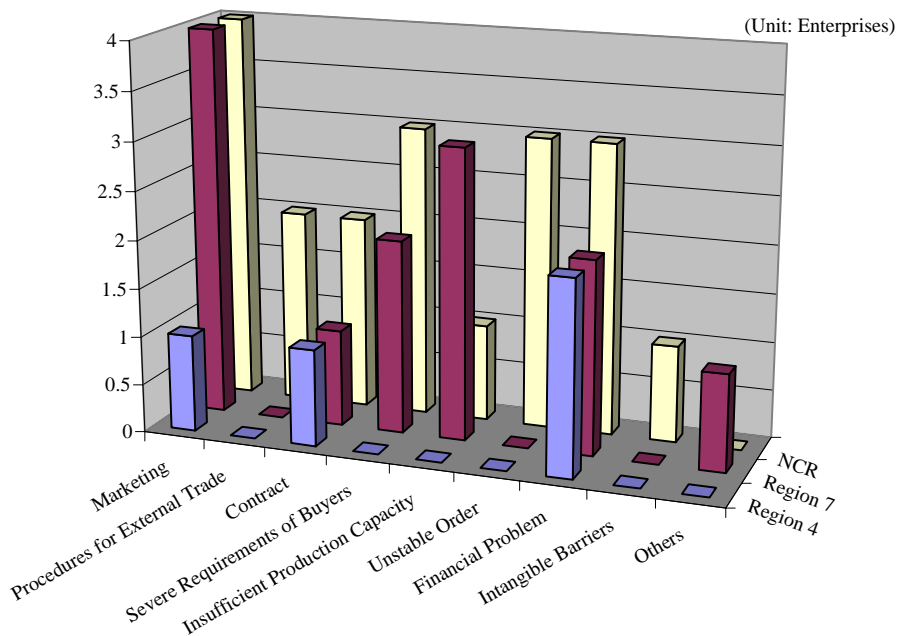


Table II-2-14 Problems in Establishing the Enterprise, by Industry

Unit: Enterprises

Problem	Industry							Total
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware	
Lack Financing/Capital	29	7	22	1	17	7	10	93
Market Penetration/Development	22	2	5	0	6	3	5	43
Others	1	0	13	0	7	2	1	24
Lack Skilled/Competent Workers	2	1	5	1	6	0	2	17
Technical Production/Product Development	2	1	6	1	2	1	1	14
Bureaucratic Process	6	0	0	1	4	0	0	11
Materials	5	2	1	0	2	0	1	11
Machinery & Eqpmt	3	2	2	0	0	1	0	8
Bureaucratic Process	1	0	0	0	2	2	1	6
High Demand/Client Orders	1	0	1	0	1	0	2	5
Company Management	0	1	0	0	0	1	0	2
Factory/Plant Facilities	1	0	0	0	1	0	0	2
Labor Problems/Min. Wage	0	0	0	0	1	0	1	2
Total Responses	73	16	55	4	49	17	24	238

(3) Manpower

Employees of all the SMEs surveyed are divided into 74% “Productive” and 26% of “Non-productive”. 64% of the total employees had a high school/vocational-level education, 20% junior college/university graduates and 15% primary/elementary school graduates. This suggests that employees who have high school/vocation school education constitute a core element of skilled work force. The majority of the surveyed enterprises employ their family members and relatives, and its percentage generally increases among smaller enterprises. Sector-wise, the highest percentage of enterprises in the fine jewelry industry employ family members. As for the duration of service, 29% of employees worked for less than 5 years, 33% for 5 - 10 years, and 6% for 10-15 years. The average age of employees is in the range between 25 - 34 years old for the majority of the enterprises. It is higher in the metal and wood products sectors.

Table II-2-15 Productive and Non-Productive Workers by Industry

Industry	Technical	Non-Technical	Total
Food Processing	886 70%	374 30%	1,260
Wood Products	1,122 88%	148 12%	1,270
Metal Products	2,188 73%	817 27%	3,005
Electronics	1,435 85%	244 15%	1,679
Furniture	833 57%	640 43%	1,473
Fine Jewelry	38 56%	30 44%	68
Gifts and Houseware	379 78%	109 22%	488
Total	6,881 74%	2,362 26%	9,243 (persons)

Table II-2-16 Employee Education Background of SMEs by Industry

Unit: %, persons

Industry	Diploma/University Level	High School Level	Primary/Elementary	Total
Food Processing	447 21%	1,339 63%	354 17%	2,140
Wood Products	348 27%	871 69%	51 4%	1,270
Metal Products	743 24%	2,015 65%	323 10%	3,081
Electronics	445 26%	1,252 73%	26 2%	1,723
Furniture	435 13%	2,060 60%	913 27%	3,408
Fine Jewelry	24 27%	55 62%	10 11%	89
Gifts and Houseware	69 12%	331 56%	188 32%	588
Total	2,512 20%	7,927 64%	1,866 15%	12,299

Table II-2-17 Average Stay of Workers by Age of Enterprise

Unit: Enterprises

Years	Year Established						Total
	<1969	1970-1979	1980-1989	1990-1999	2000-2003	Not Specified	
<4	1	3	11	22	12	2	51
5-9	5	5	16	31	1	0	58
10-14	2	5	15	5	1	0	28
15-19	5	6	1	1	0	0	13
20-24	2	1	1	0	0	0	4
25-29	1	2	0	0	0	0	3
30 and above	1	1	1	0	0	0	3
Not Specified	1	2	0	6	6	0	15
Total	18	25	45	65	20	2	175

Table II-2-18 Average Age of Employees by Age of Enterprise

Unit: Enterprises

Age Group	Year Established						Total
	<1969	1970-1979	1980-1989	1990-1999	2000-2003	Not Specified	
15-19	0	0	2	2	0	0	4
20-24	1	4	7	13	5	1	31
25-34	7	10	24	34	11	1	87
35-44	4	8	7	4	0	0	23
45-54	1	0	2	6	0	0	9
55-64	2	0	0	0	1	0	3
Not Specified	3	3	3	6	3	0	18
Total	18	25	45	65	20	2	175

Table II-2-19 Average Age of Employees by Industry

Unit: Enterprises

Age Group	Industry							Total
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware	
15-19	1	1	0	0	0	1	1	4
20-24	13	1	3	3	6	1	4	31
25-34	28	4	13	4	20	10	8	87
35-44	6	6	5	0	4	0	2	23
45-54	0	2	6	0	1	0	0	9
55-64	1	0	2	0	0	0	0	3
Not Specified	5	1	11	0	0	0	1	18
Total	54	15	40	7	31	12	16	175

Table II-2-20 Average Stay of Employees by Industry

Unit: Enterprises

Years	Industry							Total
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware	
<4	16	1	2	0	3	0	3	15
5-9	17	0	11	1	12	7	4	51
10-14	9	3	17	3	10	3	5	58
15-19	3	5	4	1	5	2	2	28
20-24	2	3	5	1	0	0	1	13
25-29	1	0	1	0	0	0	1	4
30 and above	0	1	0	0	1	0	0	3
Not Specified	6	2	0	1	0	0	0	3
Total	54	15	40	7	31	12	16	175

Table II-2-21 Most Prevalent Problems in Manpower Recruitment and Management by SMEs By Industry

Unit: Enterprises, %

Problem	Industry							Total Responses	Percent to Total Responses
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware		
Lack of Discipline and Moral for their Jobs	29	8	19	2	15	4	7	84	45%
Difficulty in Training	20	6	9	1	16	7	6	65	35%
Increase in Salaries and Wages	15	4	9	1	8	1	7	45	24%
Difficulty to Recruit Highly Educated Labor	9	0	10	2	12	5	1	39	21%
Job-hopping	3	3	7	2	4	2	1	22	12%
Others	1	0	5	1	1	1	0	9	5%
Labor Dispute	0	0	4	0	2	0	0	6	3%
Total Responses	48	13	44	7	43	16	15	186	

45% of enterprises have cited the issue on “the lack of the discipline and ethics of their workers” as the difficulties in the filed of labor management. Furthermore, most enterprises have pointed out “the difficulty of training (35%)”, “the increase in salaries and wages” and “the lack of highly educated personnel”.

In the furniture and fine jewelry sectors, the problem on the difficulty of training was more concerned than the lack of the discipline and ethics. Clearly, these industries have the major concern about how to improve their workers’ skill.

Most enterprises employ on-the-job training as the main method of worker education (35%) followed by seminars and workshops (31%). (Tables II-2-21 and II-2-22)

Table II-2-22 Most Common Method of Training Utilized by SMEs by Industry

Unit: Enterprises, %

Training Method	Industry							Total Reponses	Percent to Total Reponses
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware		
On-the-Job Training	48	13	37	7	26	11	15	157	52%
Seminars and Workshops	24	12	24	4	23	3	4	94	31%
Training course in Schools and Centers	5	2	6	1	11	2	1	28	9%
Dispatch Overseas	4	0	5	3	2	0	1	15	5%
Others	2	0	3	0	1	0	0	6	2%
Total Reponses	83	27	75	15	63	16	21	300	

(4) Financing

146 firms gave their response to the question concerning financing.

Sample SMEs cited commercial banks as the principal source of their financing (about 41% of the total responses) followed by informal financing groups with 34%. SMEs generally borrow short- and long-term loans from commercial banks while using informal organizations for short-term loans. Interest rates range between 11-20%. However, most enterprises that borrowed from informal sources did not reveal the interest rate, probably because they often borrowed from relatives and friends without a clear agreement on the interest rate and other lending terms.

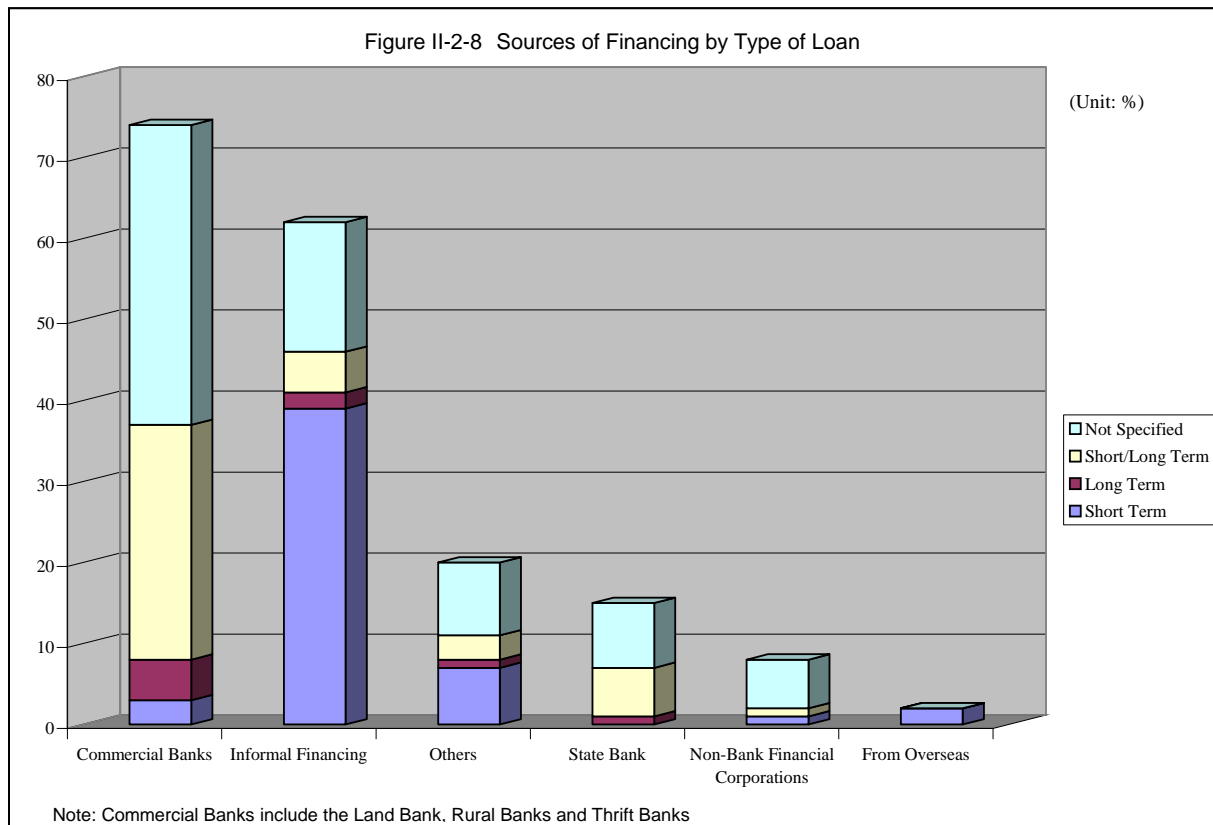


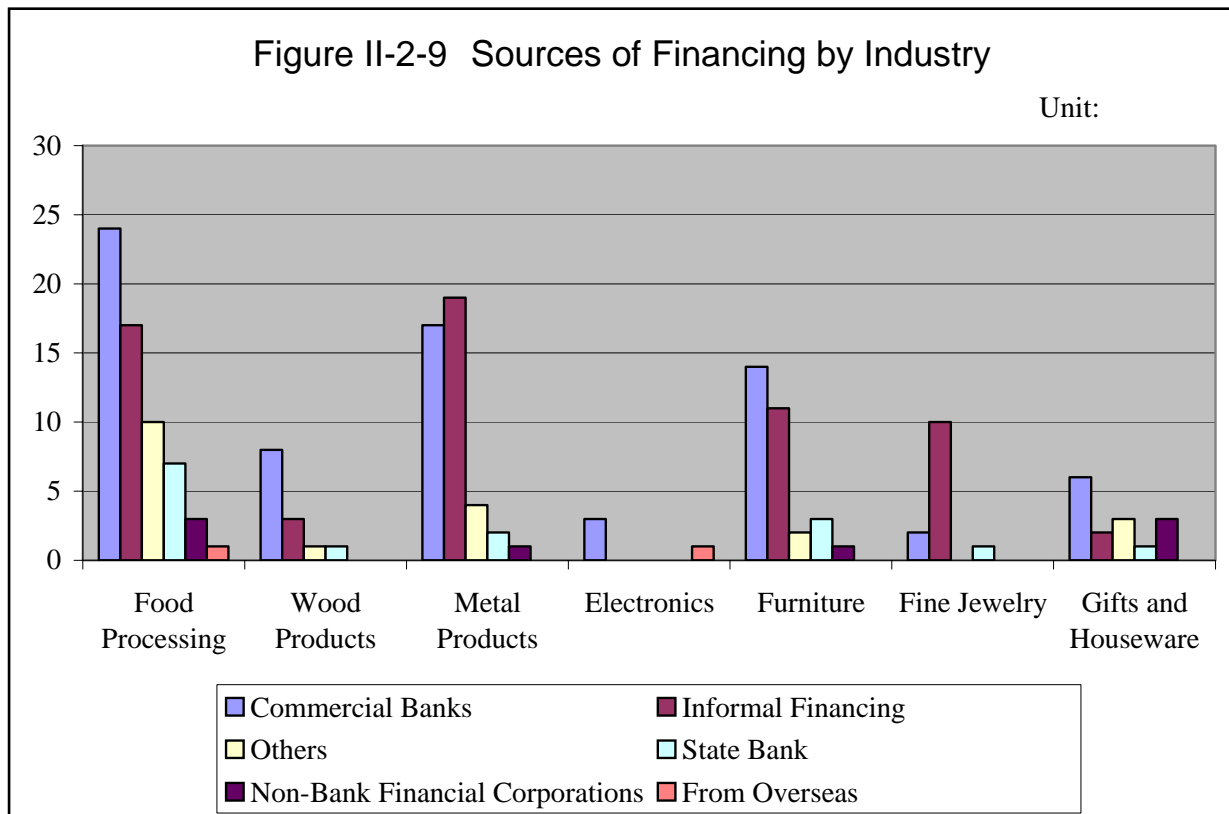
Table II-2-23 Sources of Financing and Interest Rates Availed by Sample SMEs

Unit: Enterprises

Financing Sources	Interest Rate					Total Responses
	<=5	6-10	11-20	21 & above	Not Specified	
Commercial Banks	1	18	45	2	8	74
Informal Financing	3	2	5	7	45	62
Others	3	0	1	3	13	20
State Bank	0	3	10	0	2	15
Non-Bank Financial Corporations	0	1	4	2	1	8
From Overseas	0	0	0	0	2	2
Total Responses	7	24	65	14	71	181
	4%	13%	36%	8%	39%	

Figure II-2-9 Sources of Financing by Industry

Unit:



The jewelry and metal products industries have the high percentage of “informal financing” On the other hand, all the enterprises in the electronics industry mainly borrowed from commercial banks. Geographically, Region 4 enterprises in the food processing sector highly depend on “the informal financing”.

In the metal products industry which places a higher weight on “informal financing” as a whole, firms in NCR highly depend on “informal financing”.

Table II-2-24(a) Sources of Financing of Food Processing SMEs by Region

Sources	Region						Total Responses	
	Region 4		Region 11		NCR		No.	Percent
	No.	Percent	No.	Percent	No.	Percent		
State Bank	4	18%	1	8%	2	7%	7	11%
Commercial Banks	5	23%	3	25%	16	57%	24	39%
Non-Bank Financial Corporations	1	5%	1	8%	1	4%	3	5%
Informal Financing	10	45%	1	8%	6	21%	17	27%
From Overseas	0	0%	1	8%	0	0%	1	2%
Others	2	9%	5	42%	3	11%	10	16%
Total Responses	22	100%	12	100%	28	100%	62	100%

Table II-2-24(b) Sources of Financing of Furniture SMEs by Region

Sources	Region				Total	
	Region 3		Region 7		No.	Percent
	No.	Percent	No.	Percent		
State Bank	1	7%	2	13%	3	10%
Commercial Banks	6	40%	8	50%	14	45%
Non-Bank Financial Corporations	1	7%	0	0%	1	3%
Informal Financing	5	33%	6	38%	11	35%
Others	2	13%	0	0%	2	6%
Total	15	100%	16	100%	31	100%

Table II-2-24(c) Sources of Financing of Metal Products SMEs by Region

Sources	Region						Total Responses	
	Region 4		Region 7		NCR		No.	Percent
	No.	Percent	No.	Percent	No.	Percent		
State Bank	0	0%	1	17%	1	4%	2	5%
Commercial Banks	3	30%	3	50%	11	46%	17	43%
Non-Bank Financial Corporations	0	0%	0	0%	1	4%	1	3%
Informal Financing	2	20%	3	50%	14	58%	19	48%
Others	1	10%	2	33%	1	4%	4	10%
Total	10	100%	6	100%	24	100%	40	100%

Loans are primarily used as “working capital”, and as can be seen in Figure II-2-10, the tendency is particularly strong in the fine jewelry industry.

On the other hand electronics sector primarily uses loans as “working capital” and “equipment capital” at almost same percentage and its types of loan are mostly of long term.

Figure II-2-10 Most Common Use of Loans/Credit of Sample SMEs by Industry

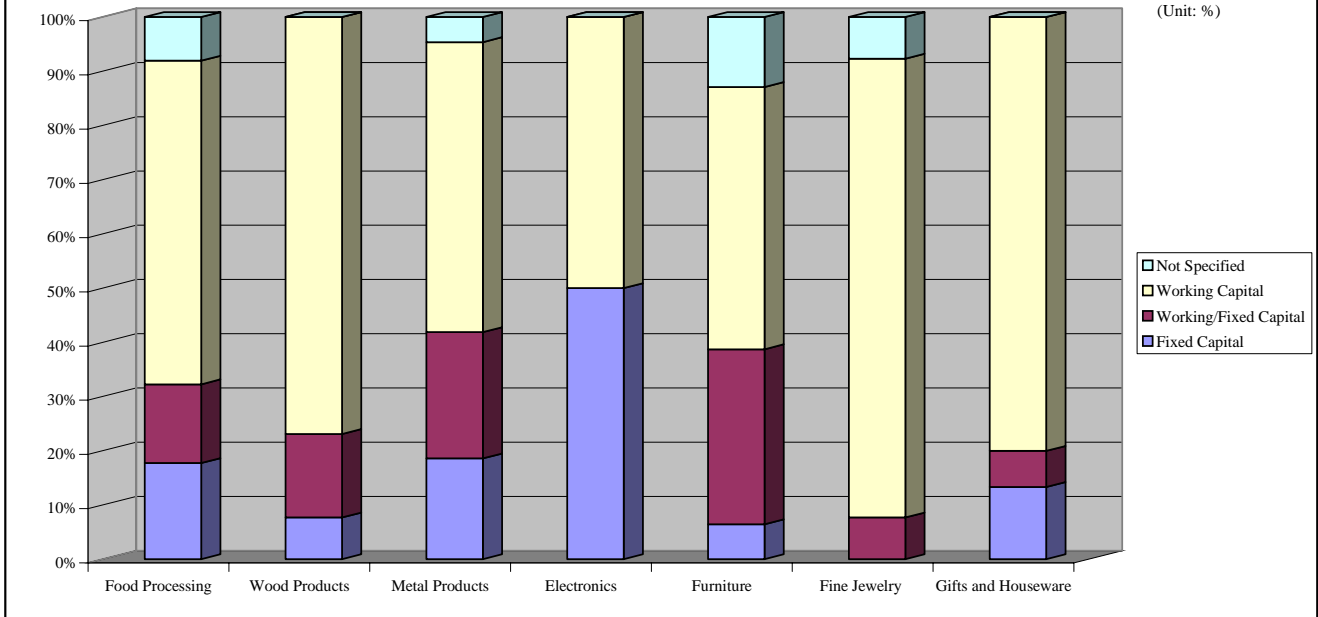


Figure II-2-11 Percentage of SMEs Needing Loans

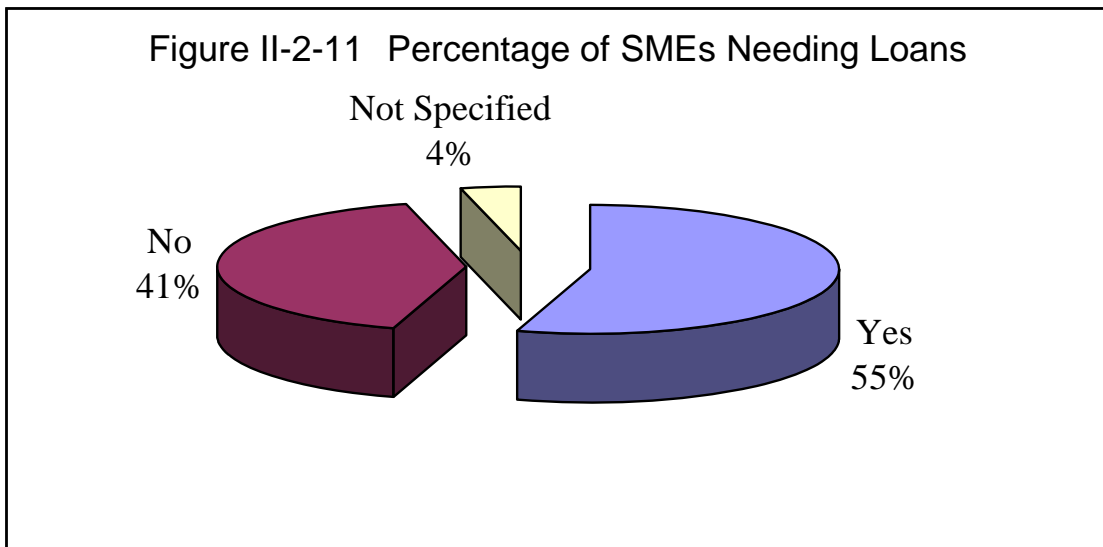


Table II-2-25 Number of Enterprises Needing Loans by Industry

Unit: Enterprises

Industry	Yes	No	Not Specified	Total
Food Processing	36	17	1	54
Wood Products	9	3	3	15
Metal Products	16	22	2	40
Electronics	2	5	0	7
Furniture	20	11	0	31
Fine Jewelry	4	8	0	12
Gifts and Houseware	9	6	1	16
Total	96	72	7	175

55% of the surveyed enterprises expressed the need for loan and credit service.” (See Fig. II-2-11 and Table II-2-24.) In the metal products, fine jewelry and electronics sectors, the percentage of enterprises that responded “no need for loan and credit” is higher than those that feel the need. Among respondents that feel the need for loans, a desirable amount was in the range between 1 million and 10 million pesos. The mean value was around 8 million pesos, the median value 3 million pesos (Table II-2-26).

Table II-2-26 Amount of Loan Needed Specified by SMEs by Industry

Unit: Enterprises

Industry	Amount				Not Specified	Total
	<1M	1M-10M	11M-20M	above 20M		
Food Processing	2	18	4	1	11	36
Wood Products	1	5	0	3	0	9
Metal Products	2	10	1	1	2	16
Electronics	0	0	2	0	0	2
Furniture	1	10	1	0	8	20
Fine Jewelry	0	1	0	0	3	4
Gifts and Houseware	4	3	0	1	1	9
Total	10	47	8	6	25	96
	10%	49%	8%	6%	26%	
Mean	8,833,944.00					
Median	3,000,000.00					

Enterprises expect to borrow mainly from commercial banks which account (43%), followed by government banks that account for 25%. Those who chose commercial banks cited an incremental nature of commercial loans on the basis of a continuous relationship and quick response as major reasons, whereas government banks were chosen for favorable loan terms, including the interest rate and the repayment period. For those who chose the “Others” category, the DTI-facilitated programs were considered favorable for lower rates and good terms, and in the case of DOST, many expected to receive technical support to their production activities.

Table II-2-27 Where Sample SMEs Intend to Borrow, by Industry

Unit: Enterprises

Sources	Industry							Total Responses	Percent to Total Responses
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware		
Commercial Banks	19	5	9	2	14	3	4	56	43%
State Bank	14	0	3	0	11	3	2	33	25%
Others	10	2	4	0	1	0	0	17	13%
Non-Bank Financial Corporations	4	0	2	0	4	2	3	15	12%
Informal Financing	1	1	1	0	1	0	3	7	5%
From Overseas	0	1	0	0	1	0	0	2	2%
Total Responses	48	9	19	2	32	8	12	130	

When asked about the difficulties that SMEs face in obtaining loans, many cited “the lack of mortgage, accounting for 40% of the total responses, followed by “complicated procedures for documentation and a long period of loan evaluation” 27%. Thirdly, “general reluctance of banks towards SME loans” represented 17%. The second and third problems are related to the primary problem plaguing small and medium scale enterprises - “lack of collateral”.

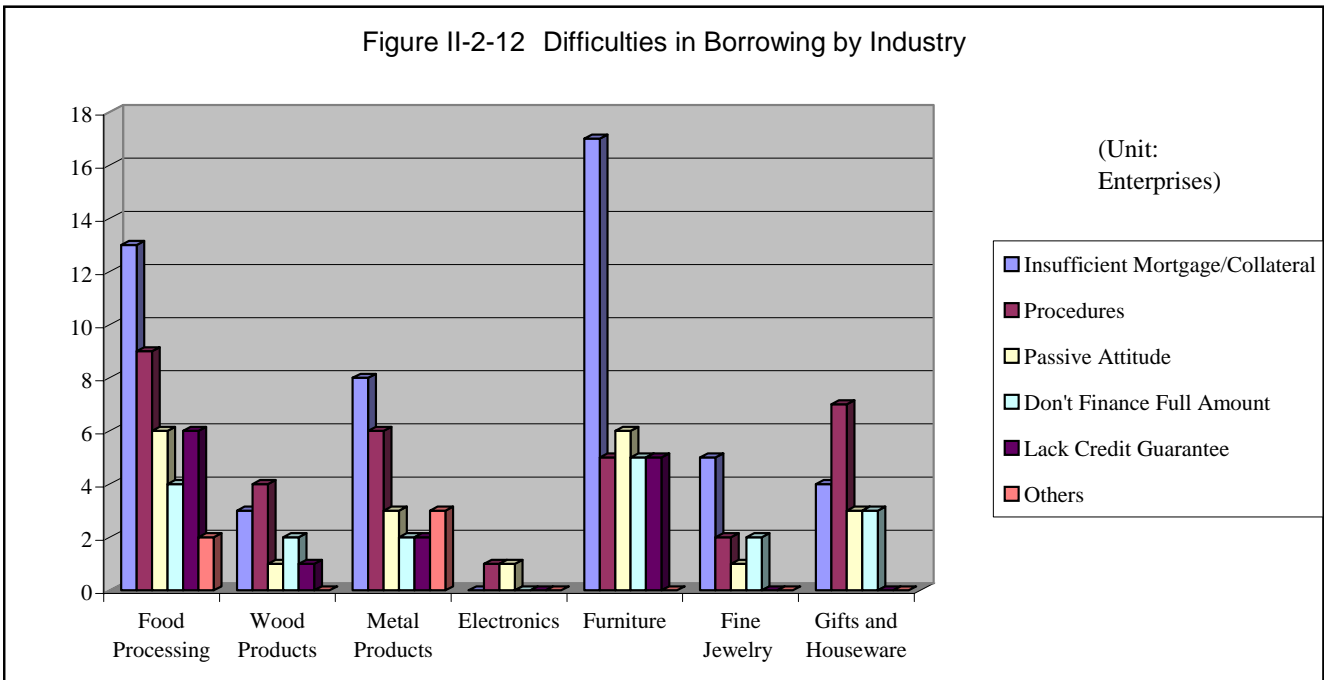
By sector, enterprises in the wood products and gifts/houseware sectors cited “complicated application procedures” most. Regionally, there is no significance difference in the above reasons.

Table II-2-28 Difficulties Faced by SMEs in Borrowing from Banks/Corporations

Unit: Enterprises, %

Difficulty	Total Responses	Percent to Total Responses
Insufficient Mortgage/Collateral	50	40%
Procedures	34	27%
Passive Attitude	21	17%
Don't Finance Full Amount	0	0%
Lack Credit Guarantee	14	11%
Others	5	4%
Total Responses	124	

Figure II-2-12 Difficulties in Borrowing by Industry



(5) Management in general

When asked to cite three problems that are applicable to their company and order them according to the degree of seriousness, SMEs cited “the unstable order” as the most serious problem, followed by the “difficulty in market development.” The third problem is the low technical capability/job-hopping of their employees (see Table II-2-29). The first and second problems are relating to marketing.

Table II-2-29 Three Major Problems Faced by SMEs in Operations by Order of Seriousness

Problem	1st Major Problem		2nd Major Problem		3rd Major Problem	
	No.	Percent	No.	Percent	No.	Percent
Difficulties in Borrowing Loans or Financing	30	17%	14	8%	6	3%
Low Technical Capability and/or Job-hopping	20	11%	16	9%	17	10%
Increase in Salaries and Wages	11	6%	21	12%	10	6%
High Import Duties of Raw Materials	25	14%	19	11%	10	6%
Obsolesnce of Production Technology and/or Facilities	12	7%	13	7%	16	9%
Unstable Purchasing Order of Customers	32	18%	20	11%	12	7%
Severe Requirement of Customers for Quality, Price and/or Delivery	15	9%	14	8%	13	7%
Difficulties in Market Development	11	6%	28	16%	23	13%
Lack of Reliable Business Partner	1	1%	3	2%	1	1%
Others	11	6%	5	3%	10	6%
None	7	4%	22	13%	57	33%
Total	175		175		175	

The survey further asked a major cause for each of the problems and a possible solution. Generally, causes for the “unstable order” are “seasonal fluctuation of supply and demand” and “competition with exports (in particular, Chinese products). Then, a possible solution is considered to be “implementation of vigorous support by the government.” On the other hand, major causes for “difficulty in market development” are “the lack of information” and “the lack of promotion.” A possible solution is “collection of information, participation in trade fairs, and efforts for product development.”

“Low technical capability/job hopping” is considered to be primarily caused by “the lack of worker training and skills” and should be solved by “reinforcement of training and seminars” and “mechanization.”

Next to the unstable order, “difficulty in financing” was the second problem and its causes are considered to “the lack of collateral” and “high interest rates.”

Table II-2-30 Matrix of Three Problems Faced by SMEs
in Operations by Order of Seriousness, by Industry

Industry	Problem		
	1st	2nd	3rd
Food Processing	a	h	(h) b
Wood Products	a/j	(a) d	e/h
Metal Products	g	f	a/c/h
Electronics	f	h/e/c/b	g
Furniture	a	h	d
Fine Jewelry	c	a	h
Gifts and Houseware	f	(f)/c/a	g

Legend:

- a- Difficulties in Borrowing Loans or Financing
- b- Low Technical Capability and/or Job-hopping
- c- Increase in Salaries and Wages
- d- High Import Duties of Raw Materials
- e- Obsolescence of Production Technology and/or Facilities
- f- Unstable Purchasing Order of Customers
- g- Severe Requirement of Customers
- h- Difficulties in Market Development
- i- Lack of Reliable Business Partner
- j- Others

In the food processing and furniture industries, the most serious problem is the financing followed by the difficulty in market development.

For the wood products, the number one problem is related to financing. The second problem concerns the high import tariffs imposed on raw materials.

For the electronics and gift/houseware industries, the first problem is the unstable order. The second problem is “financing” or “increase in salaries and wages”.

The metal products industry on the other hand cited demand from customers to reduce costs.”

For the fine jewelry industry, the most serious problem is concerned with the increase in salaries and wages of employees. There is no significant difference between regions.

Table II-2-31 Matrix of Three Problems Faced by Food Processing, Furniture and Metal Products Industry SMEs in Operations by Order of Seriousness, by Region

Region	Problem		
	1st	2nd	3rd
Food Processing Industry			
Region 4	f	h	b
Region 11	a/e/h	c	d
NCR	a	h	(h)/a/b/e/f
Furniture Industry			
Region 3	f	b/c	e
Region 7	a	g/h	f
Metal Products Industry			
Region 4	j	d	(j)/g/h
Region 7	e	d	e
NCR	d	h	(h)/b/c/f

Legend:

- a- Difficulties in Borrowing Loans or Financing
- b- Low Technical Capability and/or Job-hopping
- c- Increase in Salaries and Wages
- d- High Import Duties of Raw Materials
- e- Obsolesnce of Production Technology and/or Facilities
- f- Unstable Purchasing Order of Customers
- g- Severe Requirement of Customers
- h- Difficulties in Market Development
- i- Lack of Reliable Business Partner
- j- Others

(6) Support of the Government

From a list of government technical institutions shown in the questionnaire, majority of the enterprises indicated the Center for International Trade Expositions and Missions (CITEM) and TLRC as most familiar. It is stated that FPRDC and PDDCP garnered the most responses in the food processing sector, PDDCP in wood products and furniture sectors,

FPRDC in the fine jewelry sector, FPRDC and PDDCP in the gift/houseware sector and MIRDC in metal products sector respectively.

Food processing sector most frequently utilizes CITEM and PDDECP, FPRDI in wood products sector, SITEM and PDDCP in Furniture sector, CITEM in fine jewelry, CITEM, PDDCP and TLRC in Gift•Houseware sector and MIRDC and CITEM in metal products sector respectively.

Table II-2-32 Most Familiar Government Institutions by Industry

Unit: Enterprises

Institution	Industry							Total	Percent to Total Responses
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware		
FPRDC	26	1	5	2	0	12	15	140	25%
CITEM	37	8	26	3	24	9	13	120	21%
TLRC	34	4	24	4	19	9	10	104	18%
PDDCP	27	10	9	3	20	4	10	83	15%
MIRDC	6	4	32	3	4	5	3	57	10%
SMEC	11	4	6	2	4	1	1	29	5%
SMEPC	2	2	6	2	1	1	2	16	3%
ACTETSME	4	0	8	2	0	2	0	16	3%
Total Responses	147	33	116	21	72	43	54	565	

Table II-2-33 Problems SMEs Face in Utilizing Institutions by Industry

Unit: Enterprises

Problem	Industry							Total Responses	Percent to Total Responses
	Food Processing	Wood Products	Metal Products	Electronics	Furniture	Fine Jewelry	Gifts and Houseware		
Lack of Information about services offered	10	0	6	1	6	5	2	30	24%
Expensive service charges	14	2	4	0	4	1	5	30	24%
Far in Location	7	1	7	0	6	2	1	24	19%
Time consuming/Slow services	5	0	3	1	3	3	0	15	12%
Complicated procedure for applicaton	6	0	2	0	1	0	1	10	8%
Others	4	1	1	0	2	1	0	9	7%
Obsolete equipment and technologies	0	0	5	0	0	1	1	7	6%
Total Responses	42	8	33	3	20	10	10	126	

Both “the lack of information concerning the services and function that these institutions offer” and “the expensive charges for their services” are the most frequently cited problems that SMEs encounter in availing the services of institutions, accounting for 24% of the total each. Next is the accessibility in terms of location of these institutions followed by the slow service. In the metal products industry, the “obsolete equipment and technology” of the institutions was cited as a major problem.

Annex II-2 Questionnaire

CONTENTS OF QUESTIONNAIRE

- A. Company Profile
- B. Production & Market
- C. Manpower
- D. Financing
- E. Overall Management
- F. Support of the Government

Date _____

QUESTIONNAIRE TO SMEs

Serial No. : _____ List No. : _____
Interviewee : Name _____ Position _____
Interviewer : Name _____ Signature _____

A. Company Profile

A.1 General

- 1) Name of Company _____
- 2) Address _____
- 3) Telephone No. _____
- 4) Facsimile No. _____
- 5) Email Address _____

A.2 Status of the company

- 1) Established in the year of 19 _____
- 2) Formality of the Company
 1. Formal (registered) company at SEC, at DTI
 2. Informal (not registered) company
- 3) Number of employees _____ of which, families _____
- 4) Paid-up share capital
Amount _____ Peso
of which, domestic _____% foreign _____% (Countries: _____)

A.3 Membership of your company

Write the names of membership such as industrial associations, clubs and/or groups that you participate.

1. _____
2. _____
3. _____
4. _____

A.4 Do you make your company's financial statements every years?

- a. yes b. no c. occasionally

B. Production & Market

Items

- | Items | % of Total sales |
|----------|------------------------|
| a. _____ | _____ % of Total sales |
| b. _____ | _____ % of Total sales |
| c. _____ | _____ % of Total sales |

- B.2 Market Breakdown**
- | | | | | |
|--------------------|---|--|-------------------------------|---|
| a. Domestic | : | | % of which to Provincial area | % |
| b. Indirect export | : | | % | |
| c. Export | : | | % | |

B.3 What was your biggest problem when you established your company. Please describe freely.

B.4 If you are exporting your products, what export incentives provided by government are you using? e.g. export finance, refund of duties, investment incentive, etc..

Specify: ()

B.5 Do you desire to begin or expand direct exports?

1. No idea, so far.
2. Yes.

If yes, answer the following:

Destination (Countries): _____
 Anticipated Amount: () % of total sales

B.6 What are your difficulties in promotion of exportation? Choose all answers applicable to you.

1. Marketing (Market info., How to get inquiries)
2. Procedures for the external trade (Correspondence, Documentation, Shipping)
3. Contract (Legal matters, Guarantee)
4. Severe requirements of buyers in quality, cost and delivery.
5. Insufficient production capacity to meet lots of orders
6. Unstable order (spot-order)
7. Financial problem (Lack of working capital for exportation)
8. Intangible barriers in language and business custom, etc.
9. Others (Specify:)

B.7 Major Equipment & Machinery for Production

(Questions B.8 and B.9 are for auto parts and E&E parts manufacturers only)

B.8 Is your existing production capacity good enough to cope with market demand?

1. Over capacity 2. Appropriate 3. Short capacity

B.9 Do you have a plan to modernize your existing M & E and/or expand the existing capacity by purchasing new M & E?

1. No plan so far. 2. Yes, we do.

When you buy new and modern M & E, what kind of problems do you face? Choose two (2) answers applicable.

1. Difficulty to get financing sources.
2. High interest rates of loans.
3. Too expensive to buy the M & E.
4. Insufficient market size for installation of the modern M & E.
5. Insufficient information such as catalogues on modern M & E.
6. Lack of capability and knowledge to operate the modern M & E.
7. Others (Specify: _____)

C. Manpower

C.1 What is the educational background of your employees by grade of education? Write in the number of personnel.

	<u>Technical</u>	<u>Non-technical</u>	<u>Total</u>
1. Diploma & above	_____	_____	_____
2. High school & Vocational certificate	_____	_____	_____
3. Primary & Lower secondary	_____	_____	_____
Total	_____	_____	_____

C.2 How long is the average stay of workers in your factory? _____ years

C.3 How old is the average age of workers in your factory? _____ years old

C.4 What is the problems faced by your company in manpower recruitment and management?

Choose two (2) answers applicable to your company?

1. Difficulty to recruit highly educated persons, namely diploma and above.
2. Difficulty in training and education in the company.
3. Lack of discipline and moral for their jobs.
4. Job-hopping (They tend to easily move to another company.)
5. Labour dispute or strikes.
6. Increase in salaries and wages.
7. Others (Specify: _____)

C.5 How do you train or educate your employees? Choose all items applicable to your company.

1. On-the-job training in your factory or customer's factories.
2. By participation to seminars and workshops.
3. By a scheduled training course in schools and centers.
4. Dispatch to overseas.
5. Others (Specify: _____)

D. Financing

D.1 What is your financing sources and a use of them?

<u>a) Typed financiers</u>	<u>b) S/L</u>	<u>c) Rate</u>	<u>d) Use</u>
1. _____	()	%	_____
2. _____	()	%	_____
3. _____	()	%	_____
4. _____	()	%	_____

Use the followings symbols for filling columns a) to d).

- a) Type (A) State banks
 (B) Commercial banks
 (C) Non-bank financial corporations
 (D) Informal financing (family, friends, relatives groups for credit)
 (E) Form overseas (off shore)
 (F) Others (specify in the column)
- b) S/L S: Short-term loan (repay within one year)
 L: Long-term loan (repay within more than one year). Please fill in a repayment period.
- c) Rate write the interest rate per year.
- d) Use WC: Use for working capital. (purchasing raw materials, bridge loan etc.)
 FX: Use for purchasing fixed assets including machinery, equipment land and factory buildings.
 Others: Specify in the column.

D.2 At present, do you need loans or credit?

1. Yes. 2. No.

If yes, answer the following:

Approx. amount: _____ Peso

For what do you use them? Choose all applicable to you.

- a. Working capital
- b. Purchase of machinery and equipment
- c. Purchase of inspection/measuring equipment
- d. Land acquisition
- e. Factory building construction

- f. Expenditure for R&D
- g. Relocation of the factory site
- h. Purchase of waste treatment facilities
- i. Others (Specify: _____)

D.3. From where do you intend to borrow a loan?

- (A) State banks
- (B) Commercial banks
- (C) Non-bank financial corporations
- (D) Informal financing (family, friends, relatives groups for credit)
- (E) From overseas (off shore)
- (F) Others (specify in the column)

Reasons: _____

D.4 What are the difficulties or problems you face in borrowing from banks or corporations?

Choose two (2) answers from the following.

- 1. Insufficient mortgage or collateral to meet your loan requirement
- 2. The complicated procedure, the requirements for documentation and long time requirement for evaluation of you application
- 3. Lack of official credit guarantee system to compliment the insufficient mortgage
- 4. Banks' passive attitude to finance small- and medium- scale enterprises
- 5. Banks don't finance the full amount of loan requirements, for example 80% of total requirements is a limit of the loan.
- 6. Others (Specify: _____)

E. Overall Management

What are your major problems in operation of your company?

E.1 Choose three (3) items applicable to your company from the following, giving an order of seriousness in the parenthesis as 1st, 2nd, or 3rd.

- a. () Difficulties in borrowing of loans or financing
- b. () Low technical capability and/or job-hopping of employees
- c. () Increase in salaries and wages of employees
- d. () High import duties of raw materials, intermediates or parts
- e. () Obsolescence of production technology and/or facilities
- f. () Unstable purchasing order of customers
- g. () Severe requirements of customers for quality, price and/or delivery of products
- h. () Difficulty in market development
- i. () Lack of reliable business partner
- j. () Others _____

E.2 What do you think are major causes of the three problems which you chose at Question E.1?

- a. Problem: Difficulties in borrowing of loans or financing
Causes: 1.(_____)
2.(_____)
- b. Problem: Low technical capability and/or job-hopping of employees
Causes: 1.(_____)
2.(_____)
- c. Problem: Increase in salaries and wages of employees
Causes: 1.(_____)
2.(_____)
- d. Problem: High import duties of raw materials, intermediate or part
Causes: 1.(_____)
2.(_____)
- e. Problem: Obsolescence of production technology and/or facilities
Causes: 1.(_____)
2.(_____)
- f. Problem: Unstable purchasing order of customers
Causes: 1.(_____)
2.(_____)
- g. Problem: Severe requirements of customers for quality, price and/or delivery of products
Causes: 1.(_____)
2.(_____)
- h. Problem: Difficulties in market development
Causes: 1.(_____)
2.(_____)
- i. Problem: Lack of reliable business partner
Causes: 1.(_____)
2.(_____)
- j. Problem: Others
Causes: 1.(_____)
2.(_____)

E.3 What do you think are passable solutions of the three problems which you choose at Question E1?

- a. Problem: Difficulties in borrowing of loans or financing
Causes: 1.(_____)
2.(_____)

- b. Problem: Low technical capability and/or job-hopping of employees
 Causes: 1.()
 2.()
- c. Problem: Increase in salaries and wages of employees
 Causes: 1.()
 2.()
- d. Problem: High import duties of raw materials, intermediate or part
 Causes: 1.()
 2.()
- e. Problem: Obsolescence of production technology and/or facilities
 Causes: 1.()
 2.()
- f. Problem: Unstable purchasing order of customers
 Causes: 1.()
 2.()
- g. Problem: Severe requirements of customers for quality, price and/or delivery of products
 Causes: 1.()
 2.()
- h. Problem: Difficulties in market development
 Causes: 1.()
 2.()
- i. Problem: Lack of reliable business partner
 Causes: 1.()
 2.()
- j. Problem: Others
 Causes: 1.()
 2.()

F. Support of the Government

F.1 Do you know the name and its functions of the following technical institutions? Please check what you know.

1. SMEC (Regional SME Center)
2. MIRDC (Metal Industry Research and Development Center)
3. FPRDC (Food Packaging Research and Development Center)
4. SMEPC (SME Production Center)
5. ACTETSME (APEC Center for Technology Exchange and Training and Medium Enterprise)
6. CITEM (Center for International Trade Expositions and Missions)
7. PDDCP (Product Development and Design Center of the Philippines)
8. TLRC (Technology Livelihood and Resource Center)

F.2 Have you ever used any technical, marketing, training and managerial institutions, such as the above institutions, Universities, private laboratories and so on? If yes, please specify.

<u>Name of Institutions</u>	<u>Objectives</u>
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

F.3 What kind of problems have you faced in using such institutions? Choose two (2) answers applicable to you.

1. Lack of information about the services & functions they provide.
2. Complicated procedures for application
3. Time consuming for the services (Not quick services)
4. Those institutions are far in location
5. Obsolete equipment and technologies in the institutions
6. Expensive in service charges
7. Others (Specify: _____)

F.4 Freely describe your requests to the government of Philippines

Chapter 3 Current State and Development Issues of SMEs in the Selected Industries

Chapter 3 Current State and Development Issues of SMEs in the Selected Industries

3.1 Food Processing Industry

3.1.1 Industry Profile

(1) Production

The food and beverage industry accounts for 47% of the total value added by the entire manufacturing sector, amounting to approximately P390 billion, as of 2001 according to NSCB. (NSO's data in 1997 indicate that the food processing industry's total output was P297 billion, with the value added of P110 billion.)

(2) Number of enterprises and employment

As explained later, there are several statistics of the food and processed food industries, which give varying estimates of the number of enterprises, depending upon which level of the industrial structure is threshold. The total number of enterprises in the food sector, including all types of operations, is estimated to exceed 200,000. Most of them are classified as one-man enterprises or microenterprises, which serve a very small, local market. On the other hand, those that serve regional or national markets appear to be approximately 4,000 enterprises, which mostly employ 10 or more workers each.

According to NSO, the total work force in the food processing industry is approximately 400,000 (as of 1997), which does not include those working in the informal sector.

Subsectors in the food processing industry are arranged according to the number of enterprises as follows. (As of 1998, based on a survey by Dr. Mario Capariaana under DTI-DOST's Processed Food Development Program.)

• Bread & Bakery Products	1,649
• Processed Fruits & Vegetables	1,128
• Processed Fish & Other Marine Products	456
• Meat and Meat Preparation	375
• Cereal/preparations	290
• Confectionary	212
• Dairy Products	161
• Sauces/Condiments & Other Ethnic Products	105
• Beverages	87
• Coffee & Cocoa Products	45
• Nuts/Coco Products	..
• Sugar/preparations	..
• Tea & Mate	..

• Vegetable Fats/Oils	..
• Others	409
Total	4,917

Note: Subsectors marked by “...” are relatively large in the industry, although no data are specified. Data in these subsectors are deemed to be included in “Others.”

While the figures represent only small portions of enterprises engaged in food processing business, including beverage production, they appear to embrace most of large corporations, SMEs, and some microenterprises engaged in food production, as surmised from data that are presented later.

In fact, most of them are SMEs. Mr. Jesus T. Tanchanco¹ states that there are as much as 200,000 enterprises engaged in some form of food production, of which only 15% are registered with the government and large enterprises are around 30. According to Mr. Jesus, the Philippine food industry is dominated by six large conglomerates and two multinationals with highly integrated operations from production to manufacturing and distribution.

Except for the multinationals which have worldwide distribution, the conglomerates are focused on the domestic market with a wide assortment of consumer-packed food products.

NSO’s older data (1995) indicate approximately 44,000 enterprises engaged in food and beverage production. Of total, 2,600 enterprises have 10 or more employees (annual average). Note that the figures include manufacturers of fresh food, but they are not accounted for as a subsector.

As for regional distribution of the 4,917 enterprises counted in the 1998 survey, approximately 55% are located in NCR or Region 4.

(3) Export and import

Table II-3-1 shows the export of processed food in the Philippines.

¹ President of the Philippine Food Exporters and Processors Organization (PHILFOODEX). Source: "As They Sow So Shall SMEs Reap, Globalized Market Demands Met" (Oscar M. Alfonso, et. al., "Bridging the Gap; Philippine SMEs & Globalization" (2001: Small Enterprises Research and Development Foundation - UP-ISSI)

Table II-3-1 Export of Processed Food in the Philippines

	2002		2001		2000		1999		1998	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Food and Food Preparations	1,393,401,754	3.97	1,308,188,935	4.07	1,290,177,365	3.39	1,183,185,762	3.38	1,272,606,859	4.31
Processed Foods	588,271,599	1.68	558,546,250	1.74	512,521,576	1.35	491,987,895	1.40	520,019,122	1.76
• Meat and Meat Preparations	1,142,135	0.00	1,146,691	0.00	1,615,477	0.00	937,432	0.00	515,164	0.00
• Dairy Products and Bird's Eggs (Processed)	49,472,766	0.14	32,201,424	0.10	13,804,613	0.04	2,013,256	0.01	1,243,872	0.00
• Margarine, Shortening, Vegetable Fats and Oil	243,589	0.00	295,942	0.00	135,476	0.00	119,643	0.00	537,293	0.00
• Cereal and Flour Preparations	38,469,092	0.11	38,002,580	0.12	29,564,412	0.08	34,368,504	0.10	25,500,989	0.09
• Processed Fruits	205,944,047	0.59	219,893,735	0.68	201,377,463	0.53	179,063,128	0.51	180,377,881	0.61
• Dried, Glazed, Crystallized Fruits	25,659,240	0.07	28,063,114	0.09	26,514,457	0.07	24,704,431	0.07	23,507,115	0.08
• Jams, Jellies, Marmalades and Prepared	129,296,520	0.37	129,273,394	0.40	122,538,261	0.32	115,279,425	0.33	109,505,601	0.37
• Juices, Purees and Concentrates	50,988,287	0.15	62,557,227	0.19	52,324,745	0.14	39,079,272	0.11	47,365,165	0.06
• Processed Vegetables	4,775,781	0.01	3,587,283	0.01	3,547,692	0.01	4,302,220	0.01	3,696,880	0.01
• Sugar and Sugar Preparations	46,550,673	0.13	32,301,639	0.10	57,039,350	0.15	71,253,075	0.20	99,639,778	0.34
• Coffee (Processed)	3,080,591	0.01	3,725,889	0.01	1,757,349	0.00	887,677	0.00	1,373,854	0.00
• Cocoa (Processed)	9,452,270	0.03	8,271,027	0.03	7,635,672	0.02	10,551,698	0.03	16,615,762	0.06
• Beverages	21,085,559	0.06	21,274,452	0.07	14,214,277	0.04	12,625,175	0.04	13,862,841	0.05
• Non-Alcoholic Beverages	5,396,484	0.02	3,750,122	0.01	2,989,619	0.01	3,148,598	0.01	5,410,380	0.02
• Alcoholic Beverages	15,689,075	0.04	17,524,330	0.05	11,224,658	0.03	9,476,577	0.03	8,452,461	0.03
• Nuts and Coconut Products (Processed)	105,668,469	0.30	74,282,161	0.23	80,591,730	0.21	99,089,577	0.28	82,345,723	0.28
• Sauces, Condiments, Spices, Mixes and Mfrs	21,057,000	0.06	18,427,394	0.06	19,481,536	0.05	17,921,289	0.05	17,564,305	0.06
• Animal Feeding Stuff	32,284,740	0.09	41,182,841	0.13	31,246,752	0.08	27,358,339	0.08	45,902,235	0.16
• Confectionery and Honey	22,212,872	0.06	27,898,107	0.09	28,461,707	0.07	18,420,147	0.05	18,710,928	0.06
• Tea and Mate	557,976	0.00	502,086	0.00	561,556	0.00	484,804	0.00	361,240	0.00
• Miscellaneous Edible Preparations	26,274,039	0.07	35,552,999	0.11	21,486,514	0.06	12,591,931	0.04	11,770,377	0.04
Fresh Foods	396,016,914	1	380,023,798	1	379,410,083	1	321,005,362	1	310,595,222	1.05
• Fresh Fruits	371,145,823	1.06	357,206,957	1.11	354,143,351	0.93	297,467,653	0.85	280,233,069	0.95
• Fresh Vegetables	23,119,147	0.07	21,915,120	0.07	23,668,895	0.06	21,525,998	0.06	23,526,133	0.08
• Others	1,751,944	0.00	901,721	0.00	1,597,837	0.00	2,011,711	0.00	6,836,020	0.02
Marine Products	409,113,241	1.17	369,618,887	1.15	398,245,706	1.05	370,192,505	1.06	441,992,515	1.50

Foodstuffs and processed foods account for approximately 4% of the country's total value of exports. Of total, processed foods amount to slightly less than US\$600 million per year, representing 42% of foodstuff and processed food exports (as of 2002). Within processed food exports, the largest item are processed fruits, accounting for 35%, which largely consist of jams, jellies, marmalades and preparations that have a combined share of over 60%, followed by nuts and coconut products (18%).

The U.S. is the largest market, accounting for one thirds of total processed foods exported by the Philippines. The second largest market is Japan, which export value is much smaller than that of the U.S. and represents slightly less than 7%. However, Asia including Japan accounts for more than 40% of the total, and thus, exports to other countries and regions are fairly limited.

Compared to major Asian countries that export food products, the PRC is 7.2 times larger than the Philippines, Thailand 5 times, and Indonesia 1.9 times.

As for food imports, the value of processed foods imported by the Philippines is around 2.4 times that of exports. Among import items, dairy products have the large share because of

small domestic production. In addition, animal feeds, beverages, cereals and cereal products, sugar and sugar-based products, and processed vegetables show a relatively high import/export ratio.

3.1.2 SMEs in the Food Industry

The domestic market for foodstuffs² and processed foods is estimated at around P800 billion annually (2.2 times the value of exports). Of total, household consumption accounts for approximately 75% and commercial consumption (such as hotels, restaurants, and fast food chains) 25%. In recent years, commercial consumption and consumption of precooked foods are on the rise to reflect the change in lifestyle in urban areas.

The major characteristic of the domestic market for processed foods in the Philippines is the dominant position of brand products supplied by foreign companies and large domestic conglomerates. In fact, branded products account for as much as 95% of processed foods distributed and sold through supermarkets and other retailers³.

Meanwhile, SMEs play an important role in several national markets including supermarkets, e.g., as suppliers of concentrated juices, seasonings, sauces, and spices, together with organics. SMEs also hold a high share in supply of raw materials to fast food chains and large food processing manufacturers. Nevertheless, they are mainly middle-sized enterprises, and small enterprises and microenterprises are generally unable to enter the national markets due to the lack of ability to supply large quantities of products steadily.

Many of today's processed foods were actually developed out of the need to put excess supply to use rather than leaving it to rot in the fields. Among them, those that can be stored for a long period of time have expanded their markets. In particular, the improvement of packaging methods has been contributing greatly to the increase in the storage period and has helped various local products to find a wider market. The regions will boast of a wide array of food delicacies, such as various types of cakes and snacks which, if properly packaged, can be distributed over a wider market all over the country or even to other countries. Food processors, however, still employ simple, largely kitchen-scale technologies and equipment making operations largely manual and thus labor intensive.

In fact, SME products exported to foreign markets are the same as or similar to those supplied to domestic markets. Concentrated juices, seasonings, sauces, and spices are exported for consumption by Filipinos living overseas, together with specially seasoned snacks and nuts for local consumption.

² DBP, "Processed Food Industry Profile," (April 2002)

³ Information provided by a supermarket

Recently, SMEs have been active in produce development and have commercialized various products that use materials available in the country, especially fruits and vegetables that are processed, canned or bottled.

3.1.3 Major Issues Facing Promotion of SMEs in the Food Processing Industry

(1) Strategic direction

Efforts to develop SMEs in the food processing industry should be approached from the following two directions: development of SMEs that already sell their products to a regional or national market and/or export them to foreign markets; and development of SMEs that serve a small local market. For the former, strategic focus should be placed on the further improvement of competitiveness in the domestic and export markets to allow SMEs to expand their sales. For the latter, it is necessary to enable local SMEs to enter a regional or national market by developing or improving their products, and etc.

Major issues relating to each of the two approaches are summarized as follows.

(2) Evolution from supplying the small local market to the regional/national market

To promote processed foods that meet local demand - notably cakes, snacks and seasonings that are currently sold at local groceries or confectioners - to a regional or national market, much improvement should be made, particularly in the following areas.

1) Increase in product shelf life to improve marketability

Process foods that serve local demand are generally consumed within a relatively short period of time after preparation. To develop them into products suitable for a larger market, their shelf life should be increased to ensure good quality until they reach consumers. This can be accomplished by taking proper measures to prevent contamination by bacteria, without affecting product quality, and by improving packages.

2) Improvement of packaging

Products that are consumed in local markets are mostly not packaged or are put in a simple package. If they are to be sold in a regional or national market, they should be packaged in a proper box or container with a proper label in order to create a clear product image. In fact, shelf life of many products can be prolonged by improving their packaging.

3) Proper bookkeeping and management

Selling products to a regional or national market requires basic management knowledge on standard rules and methods for commercial transaction, including proper bookkeeping practice and business planning.

4) Compliance with technical standards and legal restrictions covering the food industry

Food suppliers serving a large market are required to comply with a set of technical standards and legal restrictions, including hygienic control, allowable food additives, and indication and marking of food content and quality, and to establish and maintain internal rules and standards to ensure compliance.

(3) Securing of international competitiveness in domestic and export markets, and strengthening of supply capacity for prospective products

As for SMEs that already sell their products to a regional or national market, efforts should be made to help them strengthen competitiveness in their markets and expand sales further. To achieve the goal, the following issues need to be addressed.

1) Improvement of accessibility to market information, and product development and upgrading capabilities as well as sales promotion capabilities

Many SMEs do not have accurate information on their target markets. Market information on consumer attitudes and reactions to their own products, but this is of basic importance and needs to be improved. Further, SMEs must be made capable of obtaining information on the needs and wants of buyers. At present, most of market efforts are dedicated to participation in trade fairs that are held locally or overseas. Web-based advertisement and promotion is limited to a small number of SMEs that are quick to adopt new technology.

Some SMEs learn effective marketing techniques through participation in trade fairs and negotiation with buyers, such as a method to appeal a product to a potential market and a method for upgrading a product in stock. Although such SMEs are steadily on the rise, however, most SMEs fail to attain such knowledge and techniques.

Recently, new products are announced by an increasing number of companies at trade fairs, but they still remain as a minority group.

2) Strengthening of international competitiveness

In the ethnic food market where many SMEs operate, competition with PRC and Thai suppliers is becoming intensified in not only the export market, but the domestic market as well. Further, of particular concerns are companies in the juice, confectionery, biscuits, and preserved fruits category which now find themselves competing in the local market against products from Thailand, Malaysia, Indonesia, and even China.

These products are consumed by Filipinos living overseas, as well as in the domestic market. Now, products from the PRC and Thailand destined for the Philippines are made on the basis of elaborate study of the Philippine market, including cooking methods and taste preferences there. To compete with these products, local products should be further

improved so as to increase their consumer appeal, including use of packages and other features.

In fact, processed foods made in the Philippines are losing price competitiveness due to high cost. This is another challenge to the industry. Food companies can reduce production costs in a number of ways, such as productivity improvement, mechanization of the packaging process to reduce labor costs, and innovative efforts in material purchase, transportation and storage processes. In particular, many SMEs serving the local market have been growing by using low-cost labor force since the beginning and often hesitate to reduce the number of workers by means of mechanization.

In addition to individual efforts, some cost problems cannot be solved by individual companies, such as high costs for domestic transportation (particularly maritime transport), raw sugar, electricity, labor, and packaging materials.

In the area of raw material, procurement of sugar is pointed out as a major problem. While the processed food industry consumes sugar in large quantities⁴, the country mostly exports locally produced sugar to the U.S. on the basis of quota, with some portions being reserved for local consumption in the form of special allocation. As SMEs cannot obtain local sugar under the special allocation system, they have to rely on imported sugar, which is subject to a very high tariff rate for protection of local products⁵. As a result, the sugar cost is very high for most SMEs.

Labor costs tend to rise despite of relatively low levels of labor productivity and pose a serious problem for the food processing and other industries.

3) Expansion of supply capacity

It appears that many products have a high prospect for market success but cannot be made in sufficient quantity to meet demand due to the shortage of supply capacity, particularly for snack food⁶. In particular, small food processing companies purchase raw materials for production after they have received an order. In this case, raw materials are procured in a small lot and are often purchased directly from farms or fishermen in cash. On the other hand, suppliers generally receive payment from local customers 45 days after invoice, or even 60 days. Any difference in payment terms will create a cash shortage for SMEs, which have to use their own funds or borrow money from relatives or friends, as they have difficulty in borrowing from financial institutions. Furthermore, some can borrow the

⁴ Accounting for approximately 18% of the total cost.

⁵ Under the AFTA agreement, tariff rates on all imports will be lowered to 5% at maximum. However, sugar is exempted from the agreement and the lowering of the tariff rate has been postponed until 2010 for the interest of protection of the local industry.

⁶ Information from a supermarket.

amount equivalent to a purchase order from banks by presenting a LC in the case of export business and a purchase order in the case of sales to a large corporation, but this only serves to covers immediate fund requirements and the loan is not available for capacity expansion. As a result, even if a small enterprise successfully promotes its product and has prospects for sales, it cannot take advantage of the situation due to the shortage of investment capital. Delays in equipment modernization is another factor to restrict expansion of supply capacity. Most companies are reluctant to new capital spending on account of the unfavorable business environment in recent years. As a result, they still rely on manual labor for most production processes with little progress in mechanization.

4) Quality management and compliance with technical standards

Processed foods supplied by SMEs are often criticized by buyers for the lack of uniform quality. The industry is expected to make continuous efforts to develop, produce and distribute products that are safe to consumers by meeting technical standards in terms of safety, hygiene and indication of nutrients, additives, etc. contained.

In particular, export foods are required to satisfy strict hygienic standards, control on food additives, and proper indication and marking of nutrient content, as well as other requirements enforced in importing countries.

It is widely seen that SMEs in the food processing industry are lagged behind in equipment investment in the areas of hygienic control and quality management. It is the time to ensure uniform and reliable product quality by mechanizing a quality-critical part of the production process.

5) Stabilization of raw material sourcing

One of the major issues facing the food processing industry is need to ensure stable supply of raw materials of uniform quality and in sufficient quantities. In fact, some SMEs cannot expand production capacity largely due to the difficulty in materials procurement, preventing them from taking advantage of healthy demand. For raw materials which production is highly seasonal, many companies purchase them in the harvest season to meet annual requirements, resulting in inventory buildup. Also, most agricultural products lack price elasticity, so that supply does not respond to demand growth. This means, if a company develops a new product and increases the use of an agricultural product as a material, the product price will likely rise sharply.

Another problem relating to the procurement of raw materials is the high risk of damage and loss in the transportation and storage process, which is estimated to range between 20% and 40% of the total material cost⁷. As product damage mostly occurs due to loading in an

⁷ PRDCP

ordinary truck under a hot weather, or reckless handling and excess stacking of products, it can be substantially reduced by using a reefer truck and/or a standard package.

Finally, the high marine transport cost presents a problem when raw materials are purchased from a remote source or local producers send their products to Manila. Fast food chains reduce the transportation cost by processing agricultural products in their production areas, reducing weight, and sending them by air. However, this can only be done by large enterprises, and SMEs that cannot afford to take such measures need government support in the areas of transportation and handling, such as a joint project by SMEs to process product before shipment, the improvement of the post harvest process, construction of joint physical distribution facilities, and the improvement of packaging.

6) Improvement of accessibility to financial service

For SMEs, the most important issue in the financial area is to secure working funds. As discussed earlier, processed food manufacturers purchase raw materials from farms or fishermen in a small lot and in cash. On the other hand, they can receive payment from customers under the term of 45 days after sight (practically 60 days). The SMEs have to borrow working capital through loans from friends and relatives at high interest rates, unless they can use a letter of credit (in the case of exports) or a purchase order (from a large corporation) as collateral for commercial loans.

SMEs generally lack access to financial services in a variety of aspects, including the lack of collateral to take out commercial loans, high interest rates, strict requirements for documentation, and a relatively long period of time to obtain loans. Because of this, they have to borrow from informal sources and pay a high interest rate.

SMEs that make sizable exports can establish a credit line at commercial banks, but the credit line is fairly limited, so that there often is a shortage of funds when sales increase rapidly.

In the Philippines, export sales and distribution of SME products are handled by consolidators, which maintain continued relationships with buyers in various markets, place orders to local manufacturers, and consolidate products in a lot suitable for shipment. In the food industry, consolidators serve as a financier for manufacturers, but the credit line they obtain at commercial banks is usually limited, which in some cases in effect constitutes a restriction on export expansion.

As a result, many SMEs maintain management policy on the basis of their own funds to avoid a risk of high interest rate to affect profitability. Nevertheless, they cannot make effective investment in hygienic control and capacity expansion by themselves. In

particular, the upgrading of hygienic facilities is critical for companies that emphasize exports.

7) Compliance with technical standards and business rules

As discussed above, hygienic control is the most important element of food production, and is particularly important for companies that aim for export markets. They have to meet strict hygienic standards as a first requirement for entering those markets.

Another important issue, which is becoming a major concern for food exports, is the compliance with food-related regulations in different countries, including regulations regarding food additives, ingredients subject to restriction, and residual chemicals. This type of information is difficult for SMEs to obtain, and if they ship products that fail to comply with local requirements without knowing them, it will adversely affect not only each company but the entire food industry in the Philippines as well. In this sense, proper information management, including the provision of access, is a major challenge.

In addition, environmental management including water quality and waste disposal will increasingly become an important management issue for food companies.

3.2 Furniture Industry

3.2.1 Industry Profile

(1) Production

According to NSCB's data, value added by the furniture and fixtures sector amounted to P4.8 billion in 2001, which was equivalent to 1.5% of the total value added by the entire manufacturing sector. Value added by the industry has grown steadily at the average annual rate of 5.06% between 1996 and 2001 (based on the 1985 price), far above the manufacturing sector's average growth rate of 2.6%.

(2) Number of enterprises and employment

The furniture and fixtures industry in the Philippines has the largest production area in Cebu, followed by Manila and Pampanga. In addition, there are small production areas in Mindanao.

There are approximately 15,000 enterprises engaged in production of furniture and fixtures, including subcontractors⁸. Of total, 400 - 500 enterprises export their products directly to foreign countries. The industry has a total of 481,5000 employees. In addition, approximately 300,000 people are employed by subcontractors.

⁸ DBP, "Furniture Industry Profile," (March 2002); except for data on Cebu that are provided by CFIF.

(3) Export and import

Exports of furniture and fixtures from the Philippines amount to US\$316 million (as of 2002, according to BETP), accounting for 0.9% of the country's total exports (Table II-3-2).

Table II-3-2 Export of Furniture in the Philippines

	2002		2001		2000		1999		1998	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Furniture	316,015,625	0.90	296,772,062	0.93	381,395,174	1.00	352,523,833	1.00	323,356,352	1.11
• Bamboo Furniture	3,343,939	0.01	2,929,625	0.01	3,180,533	0.01	2,673,867	0.01	1,903,731	0.01
• Buri Furniture	201,242	0.00	161,301	0.00	458,130	0.00	253,424	0.00	1,758,606	0.01
• Furnishings	7,020,389	0.02	5,804,520	0.02	1,713,392	0.00	1,450,493	0.00	2,524,815	0.01
• Metal Furniture	40,938,731	0.12	39,849,335	0.12	49,438,590	0.13	43,948,507	0.13	35,578,890	0.12
• Parts of Furniture	28,276,979	0.08	28,366,499	0.09	53,311,062	0.14	43,616,025	0.12	28,231,772	0.10
• Plastic Furniture	608,994	0.00	615,534	0.00	724,958	0.00	486,075	0.00	530,413	0.00
• Rattan Furniture	96,939,841	0.28	91,980,072	0.29	118,024,536	0.31	112,886,571	0.32	108,263,807	0.37
• Stone Furniture	11,851,329	0.03	8,675,289	0.03	9,086,525	0.02	13,455,563	0.04	15,331,877	0.05
• Wood Furniture	122,526,674	0.35	114,850,751	0.36	143,295,184	0.38	132,669,481	0.38	128,326,693	0.44
• Furniture of Other Materials	4,307,507	0.01	3,539,136	0.01	2,162,264	0.01	1,083,827	0	905,748	0.00

The largest export market is the U.S. to account for around 60%, followed by Japan that represents only 10-15%. The EU as a whole holds more or less the same share as Japan, but it is on the declining trend in recent years.

In fact, the Philippines were the largest exporter of furniture products in the ASEAN between the 1970s and the early 1980s. However, the country has been lagged behind other ASEAN countries since then, and according to 1999 data published by the ASEAN Furniture Industries Council (AFIC), the value of exports made by Malaysia was approximately 3.7 times that by the Philippines, Indonesia 3.4 times, and Thailand 2.4 times.

In the U.S. that is the largest market for the Philippines, the country's share is slightly above 2%. In contrast, the value of exports made by the PRC is approximately 13 times that by the Philippines, Indonesia 1.7 times, and Malaysia 1.7 times.

3.2.2 SMEs in the Furniture and Fixtures Industry

(1) General

The import/export ratio for furniture and fixtures ranges between 13% and 17%. Although few data on domestic demand are available, there seems to be relatively steady demand for furniture and fixtures for commercial use (e.g., hotels and restaurants), whereas low-end, low-price furniture appears to be dominated by imports.

Most enterprises in the furniture industry are SMEs. According to DBP's Furniture Industry Profile, large enterprises account for only 10% of the total, small enterprises and micro-enterprises 65%, and medium-sized enterprises 25%. It should be noted, however, that

subcontractors play a vital role in the country's furniture production. In particular, those in Cebu account for as much as 80% of total production⁹.

SMEs in the industry are multi-tiered. In the first tier, there are SMEs that maintain business relations with major buyers on a continuous basis, have good product design and development capabilities, and are capable of obtaining technical and other information by themselves. They only expect government support in the area of improving the business environment, such as the sponsoring of international trade fairs.

In the second tier, there are small enterprises that do not have regular customers and require government support in a number of areas, such as assistance relating to participation in trade fairs, financial support, and access to technical information.

Finally, subcontractors are responsible for supply of parts or a specific production process of a furniture assembly manufacturer. Also, they serve as a buffer or swing producers for demand fluctuation.

(2) Major production areas

Furniture production mainly takes place in Cebu, Pampanga, and NCR, with Mindanao where production has increased in recent years.

Furniture manufacturers in Cebu opt for export markets and more than 60% of exports from the Philippines originate in the region. 53% of manufacturers produce furniture for export markets only, 42% both export and domestic markets, while only 5% are dedicated to the domestic market. Furthermore, the U.S. market for manufacturers in Cebu has an even higher share than the national average (72%), followed by Europe (12%), Japan (4%), and Australia (3%).

As for furniture companies that are CFIF members, 98% are SMEs (25% MEs, 70% SEs and 3% micro-enterprises). The furniture industry in Cebu is characterized by strong presence of subcontractors that play a critical role in the whole production process ranging from parts production to final assembly. This is reflected in the fact that furniture manufacturers in Cebu employ approximately 52,000 workers, while subcontractors have 80,000 employees¹⁰.

The furniture industry in Cebu intends to position the region as a production center in Asia. In fact, Cebu X, an international trade fair held in Cebu is widely known by world buyers and attracted approximately 1,300 buyers in 2002 as well as in 2003 (not counting other visitors).

On the other hand, furniture production in Pampanga originated and emerged from traditional woodcarving and rattan weaving techniques. Then, the presence of a U.S. base

⁹ According to CFIF

¹⁰ According to CFIF

created furniture demand and prompted the development of a major concentration of furniture manufacturers. Because of this historical background, Pampanga remains a major production area for furniture destined to the U.S. market after the withdrawal of U.S. troops. In addition to furniture shops, there are a large number of establishments to make woodcarving products, wooden doors and other fixtures. At present, there are around 200 furniture manufacturers operating in the province.

Finally, many furniture manufacturers in NCR focus on high-end products intended for both export and domestic markets. They are relatively small and emphasize hand-made, luxurious furniture, while not using subcontractors often for the sake of quality management. They successfully supply high value added products with high profit margins and are capable of collecting market information by themselves.

3.2.3 Major Issues Relating to Development of SMEs in the Furniture Industry

(1) Strategic direction

The furniture industry in the Philippines emerged from production of wooden cabinets, which techniques were brought from Spain. Originally, Philippine furniture featured ornamental woodcarving. Then, as rattan exports were prohibited by the government, production of rattan furniture started. Meanwhile, ornaments and designs were changed in response to U.S. demand, followed by the increased difficulty in obtaining suitable raw woods, and intensive competition with rattan furniture made in other countries due to the lifting of export embargo. Today, furniture produced in the country has been diversifying due to a noticeable trend toward furniture using new materials.

Wood furniture is facing increasing competitive pressure from companies in China, which have been modernizing production lines and have volume production capabilities with price competitiveness. In contrast, many manufacturers in the Philippines still rely on manual work, and face difficulty in obtaining locally produced wood materials. They increasingly use imported woods, MDF, and plywood, making themselves less competitive against the PRC manufacturers.

For the Philippine manufacturers, selection of volume production as strategy, following the lead of the companies in China, is not feasible on account of the lack of infrastructure (as well as high transportation cost for export products), high labor costs, poor productivity, and difficulty in purchasing suitable wood materials at reasonable prices. Instead, the industry is pursuing niche markets such as furniture using new materials, making hand-made, high-grade furniture, and concentrating on design-intensive products.

As part of such efforts, production of business furniture using a wrought iron frame and rattan parts (largely chairs, normally classified into metal furniture) is on the rise. This type

of furniture is mainly manufactured in Cavite and Pampanga. Notably, it is well received in the market because of good design, suggesting that the design capability holds the key to the development of SMEs in the furniture industry. Stone craft furniture is mainly produced in Cebu and finds applications in manufacture of top boards, legs and other components.

Nevertheless, wooden and rattan furniture still remains in the mainstream of the furniture market. In particular, rattan products are widely accepted in the U.S. and Europe for home use because of good design, quality, and a relatively short lead-time. Business use, including hotels, restaurants and coffee houses, is also expected to grow in the future. It should be noted, however, that manufacturers are required to improve their product design and development capabilities all the time.

In the standard wooden furniture market, Philippine companies are losing competitiveness against Thai and Malaysian counterparts in terms of quality and price, and their products are mainly supplied to the domestic market. In Cebu, many of leading manufacturers have shifted from production of standard tables and chairs to high value added, wooden case goods (cabinets) featuring an early American style coating. Similarly, furniture companies in Manila move from low-end, low-price products to near-custom-made, high-grade products.

Thus, the furniture industry is pursuing niche markets in an attempt to avoid competition with low-cost volume products from the RPC and other countries. The key successful factor in this strategy is product development capability, especially in the areas of materials and design.

(2) Major issues to be addressed in SME promotion

1) Comprehensive and focused support for marketing and product development by using trade fairs as recurring, major opportunities

International trade fairs have been playing the most important role in marketing of furniture products in the Philippines. In fact, many manufacturers, of all sizes, emphasize marketing activities and actively participate in trade fairs.

Many deals are made as a buyer serving export markets takes interest in a product at a trade fair, requests its manufacturer to supply a sample or other product according to the buyer's specifications, and offers to local buyers in various markets. Given the importance of trade fairs as a marketing opportunity, some companies try to be prepared for trade fairs by means of continuous product development, preparation of a price list and promotional tools, and market study. Effective use of trade fairs therefore constitutes a critical element of marketing activity. However, many companies still participate in trade fairs without much preparation.

The industry also emphasizes the sending of trade missions for a variety of purposes including normal promotion, collection of market information, contributing to product

development activities, and benchmarking. Information obtained from such missions is shared within the industry. It is now important to draw attention of key buyers during the period other than trade fairs, such as the development of human networks and the establishment of a permanent organization to provide marketing guidance, while further reinforcing information gathering activities.

2) Strengthening of design and development capabilities, including raw materials

The furniture industry in the Philippine is increasingly required to develop and offer new products in order to win over competitors from neighboring countries. To offer a new product acceptable to the market, marketing and information gathering activities are of critical importance. Based on market information, a new product is developed by applying design and development skills, including skills and know-how related to raw materials.

In fact, designer in the Philippines are considered to have high levels of skills and are recruited by the RPC and other countries. Yet, there is an apparent lack of full-fledged efforts to train designers.

In the area of materials development, there must be an adequate organization and system to enable acquisition and use of knowledge about available raw materials for the purpose of using them for furniture and provide consultation, testing and guidance services for manufacturers.

3) Learning of production management techniques

The largest problem in the area of production management is related to proper control of subcontractors in terms of quality and lead-time. As pointed out earlier, 80% of furniture production appear to be carried out by subcontractors (according to CFIF). However, they are generally unreliable in terms of on-time delivery. Also, their quality control is very poor, resulting in a defective rate of 10% to 20% and delays delivery. Some manufacturers and exporters have switched to internal production or require subcontractors to receive quality control training at their costs.

At the same time, furniture manufacturers can be improve their situation by learning proper control techniques. As they have their own assembly and fining (coating) lines and focus on flexible production (large variety, small lots) rather than mass production, they can improve productivity and competitiveness by mastering the latest process management techniques, including flexible production and by purchase control. In particular, computer-based management techniques should be introduced where feasible.

4) Effective training for skilled workers

Small furniture manufacturers can rarely afford to provide in-house training for their own workers, and instead send them to outside training courses. However, many companies

feel that these courses provide general training only and additional training is required internally. Also, most training facilities use old equipment and fail to provide a practical training environment.

There is a furniture production center in Pampanga, which was established to undertake the technician training, covering the furniture production areas over the country. Cebu manufacturers used to send their trainees, but they gave it up due to difficulty to make the trainees stay in the center during the course, since the location is far from their locality.

The manufacturers in Manila also have not sent the trainees, and the trainees there are now limited to those from Pampanga.

CFIF has developed their comprehensive training curriculum for trainees from the furniture industry, since they have not been satisfied with the existing curriculum. It consists of 32 courses with the following 4 levels:

1. Executive management level
2. Middle management level
3. Technical level
4. Personnel manager level

These courses are accredited as TESDA's courses. The instructors have been nurtured by CFIF.

CFIF do not have any own training facilities. They have tried to use the production facilities of the member companies for training. However, they have faced difficulty in finding out the appropriate training facilities, since most of companies are reluctant to open their facilities to trainees outside. In the case of vocational training schools like Don Bosco, their facilities are obsolete and their curriculum does not meet the practical purpose. CFIF has been offering the curriculum which they have developed, to these vocational schools for their use.

The training facilities, which are on the same advanced level as those in manufacturers, are not available.

The CFIF's training courses are charged courses, without subsidy for the participants. SMEs engaged in exports are willing to send their trainees to the courses, even if the courses are charged. However, micro-scale manufacturers are still backward in investing on workers, having the feeling that the investment is nothing but the additional costs for them.

5) Improvement of accessibility to financial service

Financial access is the most serious problem for SMEs in the furniture industry. While large and medium-sized enterprises can use commercial banks, including those providing export finance, small enterprises and micro-enterprises point out that commercial banks and government financial institutions are not accessible to them because of: (1) high interest rates; (2) cumbersome and time-consuming procedures in an unfriendly atmosphere; and (3) strict collateral requirements.

Also, exporters serve as a financier for subcontractors by making advance payments or down payments, so that financial access to exporters is equally important to ensure smooth production by the small enterprises which rely on them.

CFIF has provided their members with assistances for improved accessibility to finance as described in the following. It could be one of useful examples in planning measures to assist SMEs to access finance.

1. Issuance of certificate to members: CFIF has issued a certificate to members with the following conditions for their use for banks, as good-standing enterprises:
 - Members who have not caused any problems among the industry
 - Existing enterprises engaged in export on continuous basis
 - No delay in payment
2. Information service to their members on the government financing programs
3. Offering of seminars on finance in collaboration with banks

3.3 Export General Merchandise Industry

3.3.1 Industry Profile

Export general merchandise includes interior goods, household goods, Christmas and other holiday decorations, gifts, toys, and accessories. The industry originated from traditional handicraft production (baskets, etc.) based on locally available materials and folk handicraft making techniques.

The majority of companies in the industry is export-oriented and forms a major export item for the country. On the other hand, plastics and industrial products - another major category of general merchandise – are not produced much locally and are largely imported.

There is no official statistics available to indicate the number of enterprises and employment in the industry. Unofficial information (industry source) indicates that approximately 180 companies are engaged in production of holiday decorations (141 in NCR, 30 in South Luzon, and 4 in Central Luzon). Employment including subcontractors is estimated to reach 250,000.

As for basket ware, there can be as much as 3,000 enterprises and 50,000 employees, plus 100,000 people working for subcontractors¹¹.

According to DETP's export product classification, these products are classified as consumer manufactures. Each item accounts for less than 1% of the country's total export value (as of 2002), and consumer manufactures including furniture hold a combined share of slight over 2.6%¹² (Table II-3-3).

¹¹ BETP, "Tradeline Philippines"

¹² From all items classified in "Consumer Manufactures," garments, builders' woodwork, wood products, NES, footwear, and other consumer manufactures are excluded.

Table II-3-3 Export of General Merchandise in the Philippines

	2002		2001		2000		1999		1998	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Housewares	267,444,666	0.76	268,377,184	0.83	318,137,138	0.84	327,315,359	0.93	331,899,048	1
• Basketwork/Wickerwork	68,689,428	0.20	73,261,839	0.23	85,836,740	0.23	80,445,431	0.23	84,009,766	0.28
• Shellcraft and Other Carving Materials	16,129,069	0.05	14,551,597	0.05	14,348,756	0.04	16,575,076	0.05	15,579,359	0.05
• Woodcraft	25,860,656	0.07	28,496,217	0.09	36,335,917	0.10	43,942,102	0.13	51,086,412	0.17
• Ceramics/Stoneware	30,213,458	0.09	33,195,965	0.10	41,726,624	0.11	50,753,626	0.14	59,132,343	0.20
• Articles of Textile materials	49,088,692	0.14	53,751,819	0.17	63,270,413	0.17	64,365,615	0.18	52,271,398	0.18
• Artificial Flowers and Trees	2,672,883	0.01	3,365,815	0.01	4,639,123	0.01	4,569,687	0.01	5,317,950	0.02
• Metalware	28,446,436	0.08	20,868,846	0.06	28,968,281	0.08	28,667,577	0.08	29,879,930	0.10
• Articles Made of Glass	2,562,231	0.01	2,654,701	0.01	3,355,352	0.01	2,543,498	0.01	3,169,203	0.01
• Handmade Paper	222,947	0.00	149,447	0.00	210,000	0.00	1,544,985	0.00	582,140	0.00
• Other Housewares	43,558,866	0.12	38,080,938	0.12	39,445,932	0.10	33,907,762	0.10	30,870,547	0.10
Holiday Decorations	62,992,482	0.18	74,666,007	0.23	102,275,898	0.27	95,104,370	0.27	96,586,841	0.33
Toys and Dolls	20,886,633	0.06	25,434,156	0.08	24,606,919	0.06	27,534,917	0.08	32,269,388	0.11
Fashion Accessories	256,758,450	1	357,114,908	1.11	363,928,590	0.96	321,127,889	0.92	335,083,886	1
• Jewelry	57,655,763	0	44,837,055	0.14	51,067,613	0.13	48,391,426	0.14	33,514,542	0
• Costume Jewelry	36,965,737	0.11	25,280,722	0.08	30,181,185	0.08	30,159,063	0.09	16,330,912	0.06
• Precious Jewelry	20,690,026	0.06	19,556,333	0.06	20,886,428	0.05	18,232,363	0.05	17,183,630	0.06
• Hats and Other Headgear	11,999,262	0.03	11,647,279	0.04	16,538,532	0.04	12,407,886	0.04	12,834,705	0.04
• Leather Goods	168,906,807	0	274,801,555	0.85	272,716,369	0.72	238,096,535	0.68	265,589,342	1
• Handbags and Belts	17,848,891	0.05	24,705,855	0.08	22,618,920	0.06	14,570,136	0.04	20,078,148	0.07
• Leather and Non-Leather Gloves	73,768,562	0.21	84,786,321	0.26	79,893,442	0.21	75,218,820	0.21	75,557,254	0.26
• Travel Goods	77,289,354	0.22	165,309,379	0.51	170,204,007	0.45	148,307,579	0.42	169,953,940	0.58
• Other Fashion Accessories	18,196,618	0.05	25,829,019	0.08	23,606,076	0.06	22,232,042	0.06	23,145,297	0.08

Source: "Tradeline Philippines" BETP

3.3.2 SMEs in the Export General Merchandise Industry

Of the commodity goods and general merchandise sold in the country, 70% are locally made products and 30% are imports (according to supermarkets and other industry sources). Among locally made products, those made by large enterprises account for 60% while SME products account for 40%.

However, export general merchandise is mostly manufactured by SMEs and micro-enterprises. The supply chain for export-destined general merchandise is controlled by manufacturers and exporters that are also SMEs. They generally use subcontractors to make parts or semi-finished products and assemble and finish them at their own facilities, followed by coating and packaging for shipment. Subcontractors are usually microenterprises, family-operated enterprises or self-employed workers, and manufacturers and exporters often provide design and materials. They also serve as an intermediary by making advance payments to subcontractors.

In the case of a basket or other handcraft product made from a natural plant (such as vines), for instance, an exporter develops its application, designs a product, and subcontracts a weaving job to housewives in an area where the plant is produced. The exporter collects the hand woven products and send them to a subcontractor for finishing. In this case, the exporter functions as a product developer/designer, a wholesaler/financier, and a marketer.

3.3.3 Major Issues Relating to SME Promotion in the Export General Merchandise Industry

(1) Strategic direction

From the demand side, export general merchandise made in the Philippines is classified into the following items:

- 1) Interior goods;
- 2) Household goods and general merchandise;
- 3) Toys;
- 4) Gifts;
- 5) Accessories and clothing - leather goods, shoes, consume jewelries, fine jewelries, other fashion accessories, and caps; and
- 6) Holiday decorations – Christmas, Easter and Halloween

The world holiday decorations market is estimated at around US\$5.8 billion and has continued to expand at an annual rate of 8%¹³. The U.S. is the largest market that accounts for more than 45% of worldwide demand, followed by Hong Kong (20%) and major European countries (the UK, Germany, France, Italy, the Netherlands, and Belgium) slightly less than 20%.

On the other hand, the largest exporter of holiday decorations is the PRC, which holds a dominant 77% share (up to 1999; 58% in 2000, according to a different statistics), followed by the Philippines, Taiwan, Germany, the U.S., and Thailand, which share ranges between 1.4% and 4.9% (depending on the year and the data source). Exports from the Philippines are mostly Christmas decorations (95% of total) and 60% are destined to the U.S. However, they have steadily been on the decline in recent years (with an annual average rate of decrease at 7.3% between 1997 and 2001; a 27% decrease in 2001). On the other hand, imports have been on the rise and the value of imports reached a level equivalent to 14.5% of the value exports in 2000.

The world giftware market is estimated at around \$5.7 billion¹⁴ and expanded at an annual average rate of 4.57% between 1996 and 2000. Again, the U.S. is the largest market and represents approximately 35% of world demand as of 2000, followed by major European countries 13% and Hong Kong 12%. The largest exporter is the PRC, which boasts a dominant share (ranging between 25% and 39% according to data sources), followed by the U.S., Italy, Thailand, and Mexico (4% - 7%). The Philippines is estimated about 2%.

¹³ The average growth rate between 1996 and 2000; BETP

¹⁴ 2000; BETP

Giftware exports from the Philippines are dominated by desk accessories that account for 80% of total, including statuettes and ornaments made of wood, metal or ceramics. However, the value of exports has been declining in recent years, with an annual average rate of 9.9% between 1996 and 2001, and a 21.7% decrease in 2001. Slightly more than 50% of the country's giftware exports go to the U.S.

While the world market for export general merchandise has been expanding steadily, exports from the Philippines have been on a constant decline, while imports have increased. This largely reflects the fact that the PRC, the largest exporter of export general merchandise, mainly supplies mass-consumed products (including plastics and metal products), whereas the Philippine products are mainly handicrafts. On the other hand, competition with products exported by other Asian countries, including Thailand, Indonesia and Vietnam, is governed by various factors such as price and quality. As yet, detailed analysis of market-related problems has not been carried out.

As for design, general merchandise designers in the Philippines are highly valued by buyers. Designs of Philippine products are sometimes copied by exporters in other countries, while the PRC companies hire Philippine designers and craftsmen at higher wages than paid by companies in the Philippines.

As for raw materials, some point out that what is used in the Philippines is not much different from that available in India or Thailand. Furthermore, raw materials available in the Philippines are often exported to the PRC where they are processed for exports.

Thus, the export general merchandise industry in the Philippines is still very small in terms of world market share. While one can say that it has large growth potential in export markets, it is facing intensifying competition with various countries and may continue to lose share unless it establishes its own differentiating factor.

(2) Major issues to be addressed in SME promotion

1) Lack of market analysis

As in the case of furniture, marketing of export general merchandise also concentrates on participation in trade fairs, which serve as the best opportunity for SMEs to promote their products to buyers¹⁵.

Compared to the furniture industry, there are more small enterprises and micro-enterprises in the export merchandise sector. They cannot collect market information by themselves and their marketing activity is limited to exhibition of their products at trade fairs. Despite the recent decline in exports, the industry lacks the ability to collect and analyze relevant information in an organized manner.

¹⁵ For some products, buyers of large retail chains are stationed in the Philippines to make purchase under direction of their head office.

In particular, the country's exports of holiday decorations have been on the steady decline, as opposed to a gradual expansion of the world market. It is important to identify a cause(s) for the decline and a possible course for improvement.

The largest market for most product items is the U.S., which holds a dominant share, followed by Japan. Philippine designers appear to understand consumer taste in the U.S. market, but not the Japanese market. It is important to keep abreast of changing consumer taste in major importing countries.

2) Multi-faceted marketing and product development efforts targeting trade fairs

Undoubtedly, trade fairs provide the most important marketing opportunity for the export general merchandise industry. However, many companies do not seem to take full advantage of the potential of these fairs. Further efforts should be made to attract the attention of buyers by presenting a product that has been developed on the basis of careful analysis and evaluation of market trends.

In this connection, technical support organizations that assist SMEs in product development should provide multi-faceted support for participation in trade fairs by collecting and disseminating market information, and by mobilizing support of designers and buyers in and outside the country. It is especially important to obtain information on raw materials, technologies and merchandising, which is hard to get in the Philippines. Also, product development efforts in the country seem to overemphasize visual elements, while other functional elements (e.g., action, illumination, sound, and smell) have still to be fully exploited.

Finally, product mix is generally skewed to several areas, e.g., Christmas-related products for holiday decorations, and statuettes and ornaments for giftware. Also, fashion accessories are nature-oriented, featuring natural materials, and their sales are largely affected by the cyclical market trend. By redesigning the product mix, manufacturers and exporters can expect a more steady income stream by minimizing seasonal variation of sales and inventory.

3) Improvement of design skills through training of designers

Household articles and interior decorations are basically designed by modifying and adapting traditional goods to modern life. It is therefore important to redesign traditional handicrafts to make them suitable and acceptable for everyday use. As Philippine products generally intend to materialize design concepts based on notions "more humane" and "back to nature" – as opposed to "mass production by machine" and "uniform appearance and design" – they have to appeal true quality of a natural material, including its beauty. This requires high levels of creativity (conception and design), while appealing to consumer taste in each export market. As export general merchandise does not require sophisticated

production techniques, design capability, including the ability to express an idea effectively, constitutes a competitive edge for the industry.

As discussed earlier, the U.S. is by far the largest export market for most products in the category share, followed by Japan. Philippine designers understand consumer taste in the U.S. market, but not the Japanese market. It is important to give them an opportunity to encounter foreign products and learn consumer taste in major importing countries.

Market information can also be learned from designers working in foreign markets. This is particularly effective in understanding a market in which Philippine designers find it difficult to understand consumer taste. By inviting to the Philippines foreign designers who are familiar with their own markets, in-depth information can be collected for the benefit of effective marketing.

4) Systematic R&D efforts on commercialization of natural materials

Export general merchandise made in the Philippines has as an important feature the use of locally available materials, which should be carefully commercialized on the basis of their characteristics. This requires continuous R&D efforts. Fortunately, they do not have to start from scratch. As similar R&D activities have been carried out in various countries, efforts should be made to find and introduce the fruits of material development projects in other countries, followed by supplemental R&D in the Philippines, if necessary. For instance, basic techniques to prepare and shape wood and bamboo materials (e.g., moisture control and bending) have already been established in Japan.

Also, commercialization of materials should be started from the viewpoint of product development. In the Philippines, there are various research institutes specialized in specific types of materials, and commercial development of materials tends to start with basic research. For effective and efficient development, however, production design should come first, and based on functional and design requirements, development efforts should focus on selection of a material suitable for the application and commercialization of technology required to ensure its effective use.

5) Establishment of permanent access by potential buyers

There is no formal response system for handling inquiries and questions by buyers outside of trade fairs. Now is the right time to provide a permanent exhibition space and build an Internet-based system to disseminate and receive information on a continuous basis.

Finally, marketing focusing on the domestic market is important. As imports are increasingly available in the domestic market, sales promotion to domestic buyers should be planned and implemented.

6) Production management techniques optimized to the export general merchandise industry

Export general merchandise in the Philippines is mainly hand made and has a competitive advantage from its flexible production (capable of making a wide variety of products each in a small lot). Such an advantage, however, can be translated into a lack of uniform quality and an unreliable delivery schedule.

To make the Philippine products competitive, especially against Chinese products, the industry should make efforts to keep abreast of market trends and reflect them into design. At the same time, cost reduction should be made by means of rationalization, including productivity improvement and cost control that covers subcontractors. At present, the following cost items are relatively expensive in the Philippines, 30% to 35% higher than the PRC: 1) financial; 2) labor; and 3) electricity. The industry should immediately address these cost factors and/or consider measures to reduce costs in other items.

7) Poor management skills

Many general merchandise companies in the Philippines lack business experience and expertise because they have been started by individuals whose primary interest lies in making handicrafts. As a result, they do not have proper management know-how in the areas of pricing, cost control and subcontract management. This makes Philippine companies lose competitiveness against the PRC counterparts.

Recently, more and more U.S. buyers require vendor compliance, i.e., manufacturers are required to certify their compliance with various standards, including working conditions, environmental standards, and the manufacture of electrical products according to international technical standards such as UL and CE. Philippine companies are no exception to this and have to start efforts to satisfy vendor compliance requirements, otherwise they will run a risk of losing the U.S. business and market. In this connection, establishment of a support organization, which extends the support services on behalf of overall development of the general merchandise sector, is urgently needed.

By the same token, they have to develop the ability to prepare financial statements and other documentation required by financial institutions to borrow funds. In fact, some companies have gone bankrupt as they were not able to secure loans due to the inability to submit documentation. Thus, it is an urgent challenge for most general merchandise companies to acquire management skills that comply with international standards.

8) Improvement of accessibility to financial service

Production of export general merchandise is highly dependent upon microenterprises and independent contractors, and exporters and assembly manufacturers constitute the first tier and generate cash flow to subcontractors.

Medium-sized enterprises with stable business (exporters) can obtain short-term loans from commercial banks on the basis of a credit line established for each company.

However, the credit line is generally set at a relatively low level and is not sufficient to provide operating funds required for business expansion. As a result, even these companies have to borrow from an informal source, which charges a high interest rate, typically 5% per month and 60% per year.

On the other hand, small exporters have difficulty in borrowing funds from commercial banks. While they rely on internal funds as far as possible but it is sometimes necessary to go to an informal source.

The major reason for difficulty of SMEs to obtain bank loans is that they cannot meet stringent collateral requirements. Also, their loan applications are sometimes turned down due to the inability to submit documents required by the bank.

In any case, the high financial cost is a major factor for deteriorating competitiveness of the export general merchandise industry. To improve the situation and reduce the financial cost, therefore, efforts should be made on both sides: the lender should become flexible in setting collateral requirements, e.g., the requirement should be lowered for a company that operates sound business for a fairly long period of time; and the borrower should establish accounting practice to allow prompt and accurate reporting of their business conditions to the lender.

3.4 Electronic and Electrical Parts Industry

3.4.1 Industry Profile

(1) Production

According to NSCB's data, value added by the electronics and electrical industry amounted to P96 billion in 2001, representing 11.5% of the total for the entire manufacturing sector. Moreover, it has been growing rapidly in recent years, at an average annual growth rate of 15.9% between 1996 and 2001 (based on the 1985 price; an annual 2.6% for the entire manufacturing sector).

(2) The number of enterprises and employment

As of 2002, there are approximately 800 enterprises in the electronics industry. Their geographical distribution is summarized below and notable concentrations are observed in Calabarzon and Metro Manila.

	Number of Enterprises
Northern/Central Luzon	22
Metro Manila	328
Calabarzon	400
Cebu	50
Total	800

Source: PEZA & BOI (Reproduced from "SEIPI Information Book 2003")

The industry has approximately 335,000 employees. Employment has been growing more than 10% annually, except for a slight decline in 2001. In particular, appreciable growth occurred due to a rapid increase in foreign manufacturers of computer peripheral equipment after 1994, and international expansion of the Philippine electronics industry between 1996 and 2000.

(3) Export and import

The electronics industry is the country's largest export industry and accounts for 69% of total exports from the Philippines (as of 2002).

The following table shows the recent change in electronics exports by subsector, as measured by percentage share. Note that semiconductors and computer peripheral equipment (electronic data processing) represent around 94% of the total, with a notable increase in the latter.

	% share		
	2002	2000	1998
Components and devices (Semiconductors)	69.42	75.73	78.00
Electronic data processing	24.22	18.57	14.99
Office equipment	0.52	0.30	0.51
Medical and industrial	0.01	0.00	0.00
Control & instrumentation	0.06	0.06	0.05
Communications and radar	1.56	1.66	0.51
Telecommunications	0.85	0.67	2.19
Automotive electronics	1.32	1.29	1.40
Consumer electronics	2.04	1.72	2.35
Total electronics (in US\$ millions)	24,221	26,569	17,932

3.4.2 SMEs in the Electronics Industry

(1) Emergence of the electronics industry

The electronics industry in the Philippines experienced two peaks of foreign investment in recent years. The first peak occurred in the 1970s, when European and American leading manufacturers started semiconductor assembly and testing (backend) operations. The second peak started in 1994 as Japanese manufacturers invested in computer peripherals production. In fact, these two areas of production still form principal elements of the electronics industry.

The semiconductor production process is roughly divided into the front-end process where semiconductor chips are fabricated from silicon wafers, and the backend process to assemble chips into components and devices. Semiconductor manufacturers were initially concentrated in Silicon Valley and other high-tech areas and moved the labor intensive

backend process to foreign countries with low labor costs in the 1970s as a result of a rapid rise in wage in the U.S. and Europe. The Philippines attracted leading U.S. and European semiconductor companies partly because of availability of a well educated labor force that was required to perform delicate and precise processing and inspection tasks - an essential factor for improvement of yield and productivity - and partly because the country offered tax and other incentives relating to investment, exports and imports for manufacturers that would import all parts and materials and export all final products.

Then after 1994, Japanese companies started production of computer peripheral equipment in the Philippines as part of efforts by Japanese electronics manufacturers to establish an international production and export base, and production was supported by a global sourcing system. During the period, Japanese companies accelerated relocation to overseas of production bases for items which were produced using matured technology. At the same time, they encouraged localization of the entire production process by bringing Japanese suppliers and promoting production by local suppliers. Such relocation process created investment sprees in Singapore, Taiwan, Thailand, and Malaysia. The Philippines also benefited from investment on account of the high quality labor force as well as incentives and privileges granted for foreign investment, parts imports, and product exports. However, local procurement was limited to the sourcing from foreign suppliers operating in the country, while local suppliers have not been able to participate in the supply chain, with few exceptions, as discussed later. This largely reflects the fact that Japanese companies intend to establish long-term relations with local suppliers, which should be based on mutual confidence between buyers and suppliers to ensure flexible delivery schedule and quality assurance, but they have still to build such confidence in the country.

In fact, there is the third type of accelerated investment by foreign electronics manufacturers in many developing countries: to meet domestic demand for household appliances and other electrical products. This type of investment is characterized by foreign companies that primarily serve the domestic market. As a result, these companies intend to operate in each country on a continuous basis and thus actively promote localization of parts production.

The appreciation of the Japanese yen after 1985 prompted electronics manufacturers further to meet demand for local production and build plants for exports to other countries or their home country. In this case, each plant was specialized in a specific product item and had large capacity to serve export markets. Interesting enough, however, the third type of foreign investment seldom occurred in the Philippines during the period, because political and economic instability in the country, which persisted from the late 1980s to the early 1990s, discouraged foreign investment. As a result, demand for electric parts and components did not emerge in the country and their production is limited to some resistors, capacitors, boards and connectors.

(2) Composition of electronics manufacturers by ownership

Of around 800 electronics manufacturers operating in the country, 72% are foreign-based or foreign-affiliated and 28% locally owned. Foreign-based and foreign-affiliated companies include Malaysian (2%) and Singaporean (2%).

Most electronics companies are located in the Export Processing Zones (589 as of the end of 2000) or are registered with BOI and receive export incentive.

(3) SMEs in the electronics industry

Semiconductor production is entirely in the hands of European and American multinationals, which make no purchases from local SMEs.

Manufacturers of computer peripheral equipment (e.g., HDDs, FDDs, printers, CD-R/W drives, and DVDs) purchase most parts and components from affiliate plants in other countries, which form the global production bases, or other sources through their global procurement centers or companies. Compared to semiconductor production, they purchase much more parts from local suppliers (as much as 20% for a Japanese manufacturer), which are mostly foreign-affiliated companies operating in the country.

Local procurement is characterized as follows.

1. Bulky parts such as stamped and die cast ones account for large portions, but precision parts are purchased from foreign-affiliated suppliers.
2. Standard parts, including small motors, magnets, coils, labels, and seals, are purchased from foreign-affiliated suppliers that produce them for export purposes.
3. Dies, molds and jigs are partially purchased from local sources (precision molds made by laser cutting are imported from overseas, such as Japan, South Korea and Singapore) but the sourcing from local suppliers is fairly limited (largely jigs).
4. PCBs are largely procured from local sources, mainly foreign-affiliated companies (Japanese or Korean).
5. Among metalworking jobs, a relatively high percentage of sheet metal working is contracted to local SMEs.
6. Other items of procurement from local suppliers include assembly jobs, packaging materials, non-molded plastics products, printed matters, office supplies, and various services, but they represent a very small percentage of the total purchase value (around 1% in the case of a Japanese company)
7. Some manufacturers make the same products according to different specifications for the domestic and export markets and use parts made by local suppliers for domestic products only.

Thus, SMEs that are classified in the electronics industry or its support industries are mostly foreign-affiliated companies and are located within two hours from Manila. The remaining, small part of the industry, are represented by local SMEs, which are exceptionally

advanced manufacturers or metalworking or plastics molding shops that have major customers in other industries.

For instance, metalworking companies in Cebu mostly serve customers in Cebu or other areas in Visayas (around 90%), while customers in Manila account for 10%. Furthermore, customers in Cebu are not manufacturers operating in the Mactan EPZ, but food processors and ship repair yards. Procurement from EPZ manufacturers is limited to non-repeatable, small parts such as jigs.

(4) Household appliance industry and SMEs

Compared to the electronics industry, the household appliance industry primarily serves the domestic market. It has a long history of local production and has a well-developed supplier base.

For instance, Company M uses around 170 suppliers, of which foreign-affiliated companies represent small portions and largely make parts and components for export products. Other local suppliers have been growing under the extensive guidance and support of since the early 1970s when the company started production in the Philippines. In fact, local suppliers have diversified to electronic and automotive parts. To meet requirements by the household appliance manufacturer, local suppliers continue “kaizen” activities in the following areas by organizing technical committees:

- Productivity Enhancement
- Quality Improvement
- Cost Competitiveness
- Electronic Data Interchange

Also, Company M discloses information on locally procured parts and invite new suppliers to make an inquiry or an offer.

It should be noted, however, that an electronics manufacturer in the same company group largely makes export products and its purchase of parts from local suppliers is still limited.

3.4.3 Major Issues Relating to Promotion of SMEs in the Electronics and Supporting Industries

(1) Strategic direction

Foreign electronics manufacturers (assemblers) operating in the Philippines do not have to discriminate local procurement from global sourcing. They are willing to purchase from any source so long as their specifications are complied with, and lead-time and cost requirements. In reality, however, for various reasons it is not feasible for local SMEs to supply key parts to foreign manufacturers.

Today, important parts and components need to be mass produced to enjoy economies of scale and are therefore manufactured in one or several production bases that meet global demand. They are thus sold to many companies, both domestic and foreign. Foreign suppliers operating in the Philippines serve not only local customers but elsewhere. For this reason, it is very difficult for local SMEs to win contracts for key parts so long as they approach the manufacturer operating in the country.

Even if they receive an order from a local electronics manufacturer, they will face difficulty in procuring certain materials. For instance, some metallic materials are difficult to obtain in the Philippines and are thus costly to import for a single company.

Moreover, an increasing number of electronics manufacturers use companies specialized in global sourcing, rather than a procurement center of their head office. This way, manufacturers can reduce burdens relating to inventory management, not to mention inventory costs. As true global sourcing is increasingly practiced without consideration of whereabouts of suppliers, local SMEs that are capable of supplying a specific product must go through the screening process of the procurement company, which involves competitive selection from potential suppliers worldwide.

Thus, if the final goal of SME promotion in the electronics industry is set at supply of key parts and components, it will be very difficult, if not impossible to achieve. This partially explains why diverse efforts made in the past have not produced measurable results.

On the other hand, as seen in the actual procurement practice from local sources, local companies can show a competitive edge in parts and components that do not need to achieve economies of scale, such as bulky products. Also, surface treatment processes such as electroplating and heat treatment have prospects for local service in terms of economy of transportation and handling. Furthermore, SMEs may be able to find new business opportunities in the area of flexible supply and service (small lot and diverse).

At the same time, some foreign manufacturers view the Philippines as a potential base for software and IT development and R&D, in addition to the export production base, in order to take advantage of the country's highly educated work force (including the English ability), and advantages in the local currency and geographic location.

Therefore, the strategic focus of SME promotion in the electronics industry should be placed on provision of diverse business opportunities, rather than mere expansion of the parts supply business.

As for parts supply, efforts should be made to focus on SMEs having high growth potential by providing intensive support in the form of a pilot project, from which experience and benefits can be expanded to other suppliers.

(2) Pursuit of diverse business opportunities

1) Development of an effective communication channel between electronics manufacturers and local SMEs

At present, Japanese electronics manufacturers receive a number of offers for supply of parts and components from companies in various Asian countries, including Singapore, Thailand, Malaysia and the PRC. But they receive few offers from local suppliers.

On the other hand, local SMEs do not have access to information on foreign-affiliated electronics manufacturers, and according to them, there is no way to contact.

Clearly, the major problem that hinders market development in the industry is the lack of information, i.e., local SMEs do not have information on potential customers, who in turn do not have information on local suppliers.

Most important, no one knows what needs potential customers have. For SMEs, there is no contact point with electronics manufacturers and no source of information. They do not have a sales force capable of collecting customer information.

By the same token, electronics manufacturers do not have access to information required for evaluation of possibility of local sourcing. They can only exchange information with other manufacturers, concerning availability of SMEs and their levels of quality and other aspects.

The reverse trade fair, meaning a trade fair sponsored by buyers rather than sellers, is expected to provide an opportunity for electronics manufacturers to expand local procurement.

Data on the previous reverse trade fair experience suggest that it has some effects to create business opportunities for SMEs and manufacturers. And more effects can be expected by improving the method for recruiting participants in the reverse trade fair and by providing comprehensive support in the areas of finance and technology to help both sides to close the deal. For further detail on the reverse fair, see (2)-1, 3.5.3).

Meanwhile, the reverse trade fair has a clear disadvantage in that it requires large costs compared to the limited effects that normally can be expected. It is therefore necessary to develop other matchmaking methods, such as seminars and an IT-based approach.

For instance, to provide information on SMEs that are considered to be potential supplies for electronics manufacturers, development of a SME database and provision of information service appear to be effective.

At present, some government agencies including BOI and DTI have made efforts to develop database of enterprises. Most of them, however, have limited their contents to the name of enterprises, without having functions to provide information on the potentials of the registered enterprises.

Japanese Chamber of Commerce and Industry in Cebu has a plan to provide members data to PIC (Philippine Investment Corporation), connecting their databases. This plan will be useful in providing the needs of electronics industry to SMEs.

2) Improvement of production management and quality control

To promote a workable linkage between electronics manufacturers and local SMEs, strategic focus should be placed on the improvement of the supply relationship concerning parts and outfits (sheet metal, non-molded plastic parts, and outfits), materials, and services (including assembly), which are not heavily affected by economies of scale. To supply these parts and services in a reliable manner, production management capabilities are indispensable for delivery of a product that meets quality requirements within a specified schedule, in addition to production technology itself. In this connection, even foreign suppliers do not meet all the requirements and electronics manufacturers pointed out that they often provided technical support and guidance.

The lack of production management capability on the supplier side is primarily caused by the fact that workers in the industry do not have basic knowledge on production management and quality control, suggesting the need for basic education in these fields at universities and vocational training schools. Pervasiveness of proper production management (including quality control) is the first step to establish an effective linkage between local SMEs and foreign manufacturers.

3) Encouragement of technology transfer to suppliers

As discussed above, it is not feasible to promote supply contracts for key parts between local SMEs and electronics manufacturers given consideration of the economics of production (not technical skills).

Instead, the linkage between the two parties should be promoted for parts and dies/molds that do not require cost competitiveness based on economies of scale and that are already supplied by local SMEs, such as bulky parts.

To win supply contracts from electronics manufacturers on a continuous basis, however, local suppliers must have high levels of production techniques. At present, local sourcing is limited to a handful of local suppliers and a number of Malaysian and Singaporean companies, which have achieved international technology levels by means of licensing from industrialized countries or joint research and development efforts with foreign partners. On the other hand, local suppliers and foundries that supply products to the industrial machinery industry cannot meet requirements for electronic parts unless they introduce advanced production technology from outside. Technology transfer or licensing should play a vital part in the process.

3.5 Automotive Parts Industry

3.5.1 Industry Profile

(1) Production

The transport equipment industry¹⁶ created value added of P8.8 billion in 2001, which represented 1% of the total (NSCB data). The annual average growth rate of the value added between 1996 and 2001 is 2%, but in real terms (based on the 1985 price), it declined rapidly from P3 billion in 1996 until 1999, followed by small recoveries in 2000 and 2001. The value added in 2001 remained at 75% of the peak level in 1996.

The production trend in automotive parts appears to follow that in the transport equipment industry, although no detailed data on automotive parts production is not available.

Table II-3-4 compares automobile sales in the Philippines and other ASEAN countries.

Table II-3-4 Comparison of Automobile Markets in Selected ASEAN Countries
(Unit of Sales)

	1996	1997	1998	1999	2000
Philippines	161,823	145,128	81,062	74,288	83,652
Thailand	589,126	363,156	144,065	218,330	262,189
Indonesia	332,035	386,711	58,198	93,814	300,967
Malaysia	364,811	404,831	164,151	288,640	343,409

In the Philippines, jeepny and jeep-like vehicles are produced in addition to the above production. If imported used cars and cars brought by diplomats and overseas workers are added, annual registration is estimated to reach a few ten thousand vehicles, although no accurate data is available. (For instance, in 2002, 86,000 cars were newly registered, while total registration reached approximately 160,000 vehicles.)

Automobile production in the Philippines grew rapidly between the late 1980s and the early 1990s, reaching its peak at over 160,000 vehicles in 1996. In 1998, however, it plummeted to one half the peak level due to the currency crisis in 1997. Since then, production has not shown much recovery and remains at 70,000 – 80,000 vehicles annually (Table II-3-5).

¹⁶ NSCB's statistics include production of both motor vehicles and automotive parts in the category "transport equipment," but there is no data on the auto industry or the automotive parts industry alone.

Table II-3-5 Automobile Production in the Philippines

	1986	1991	1996	1999	2000	2001
Passenger car	3,610	27,796	88,846	27,565	28,814	23,684
Commercial vehicle	93	20,158	72,977	46,847	55,136	52,986
Total	3,703	47,954	161,823	74,412	83,950	76,670

Source: Philippine Japanese Chamber of Commerce and Industry "Philippine Handbook, 2002"

In other ASEAN countries, production also reached its peak in 1996 or 1997 and dropped sharply after the currency crisis, but it has been steadily recovering. This makes a sharp contrast to the Philippines where sluggish production persists partly due to a small domestic market.

(2) Number of enterprises and employment

The automotive parts industry in the Philippines grew by taking advantage of local content requirements that were raised inline with the country's policy (as discussed later), the obligation to secure foreign currency for imports of CKD parts (relating to automotive exports), and production integration and mutual exports/imports of automotive parts among ASEAN countries. In particular, it underwent accelerated growth due to rapid economic development of ASEAN countries in the early 1990s. After the Asian currency crisis, however, local companies went bankrupt or withdrew to result in stagnation of the entire industry. The recent trends in the number of enterprises and employment are shown below.

Table II-3-6 Automotive Parts Industry Trend

	1988	1993	2000
No. of enterprises	60	176	194
Employment	11,000	36,500	40,000

In 2000, there were 194 automotive parts manufacturers, employing approximately 40,000 workers. They were further divided into metalworking parts (93 companies, 48%), rubber parts (15%), interior parts (10%), plastics parts (9%), electrical and electronic parts (8%), and others (10%).

(3) Exports and imports

The domestic market for automotive parts hovers low at around US\$200 million annually since 1996. A rapid recovery cannot be expected as automobile production remains stagnated.

In contrast, exports have been steadily growing from \$754 million in 1995 to \$1,000 million in 2000.

Table II-3-7 Export of Automotive Parts in the Philippines

Unit: million US\$ (FOB)

Product	% Share		
	1998	1999	2000
Wire Harness	66.98	60.14	56.99
Transmission	8.94	12.15	14.07
Tire	3.83	4.74	3.70
Aluminum Foil	3.85	3.45	2.99
Parts of body	2.17	2.80	2.46
Pedal & Chassis	0.44	0.82	1.20
Radiator	2.03	1.48	1.11
Battery	0.80	0.79	0.95
Other	10.96	13.63	16.53
Total	100.00	100.00	100.00

Source: BETP

The major export items are wire harnesses, accounting for 57% of total in 2000, followed by transmissions (14%).

3.5.2 SMEs in the Automotive Parts and Supporting Industries

(1) Auto industry policy and parts production

Production of automotive parts in the Philippines has been strongly influenced by the country's policy for the automobile industry. In particular, local production is encouraged by means of mandatory parts exports (to require the earning of foreign currency) and local content requirements.

The government's first industrial policy targeting the automobile sector was the phased localization plan (PCMC) that was launched in 1971. Under the policy, mandatory exports of large parts and a phased rise in local content were introduced, and restriction on the number of automakers (five companies) was imposed. The similar policy was introduced in 1977 for commercial vehicles, under PTMP.

The policy was replaced with a new policy as domestic demand plummeted after the oil crisis in 1979 and a number of auto companies withdrew from the country, and new localization programs, CDP for passenger vehicles and CVDP for commercial vehicles, were launched in 1987 and 1988, respectively. The policy was later extended to low-cost vehicles and high-grade ones in 1992.

The industrial policy based on mandatory exports of automotive parts and local content requirements, however, faced the need for reform as pressure on trade liberalization increased, including the recommendations by the IMF and the World Bank on the abolition of protection

of domestic auto industries and promotion of free competition, the move toward the establishment of AFTA, the establishment of the trade liberalization goals by APEC, the announcement of WTO's policy to remove trade barriers through localization requirements. In 1996, a new automobile policy was announced. However, it still includes localization requirements and mandatory exports and the government is working on its revision in line with WTO's rules.

(2) Automotive parts exports

As pointed out earlier, exports of automotive parts increased steadily from \$754 million in 1995 to \$1,000 million in 2000 despite sluggish domestic demand.

In fact, export growth owes much to special arrangements on production sharing within the ASEAN region, called BBC and AICO schemes. For instance, automakers designate the Philippines as the regional supply source of transmissions, meters on electrical instruments under their sourcing policy. These parts and components are made by automakers and their affiliates (foreign suppliers) operating in the country and are exported through their own distribution channels.

Nevertheless, parts suppliers in the Philippines are in an unfavorable position compared to some ASEAN countries due to: 1) small domestic production; 2) relatively high labor and electricity costs; 3) required imports of all materials; 4) the lack of a reliable supporting industry base; and 5) the unfavorable business environment, including labor disputes and security problems. As a result, localization has been limited to small parts, while bulky parts and frame components are much less localized. Also, foreign-made parts are abundant in the aftermarket.

(3) SMEs in the automotive parts industry

Most local suppliers, with the exception of wire harness assembly, supply secondary or lower tier parts or manufacture and sell spare parts. Details of their operation are not known, but many of them are specialized in machining, plastics molding, die making and/or assembly and finishing and make automotive parts as part of their business.

Automaker A uses 14 Japanese companies as first-tier suppliers, under which 45 local companies serve as second-tier suppliers (or subcontractors). All of them are formally qualified to meet the automaker's requirements in terms of production management (especially quality control and lead-time management). In addition, the automaker uses 85 third-tier suppliers (including raw materials and consumables), subcontractors, and service providers. For most of them, the contracts from the automaker account for only small portions of their sales.

Automaker B has been gradually localizing the sourcing of parts, which total around 30,000 products or a few thousand assemblies. At the beginning, it imported most of parts

from Japan and local operation was virtually confined to assembly. As Japanese suppliers started production in the country, the automaker started localization, together with imports from neighboring countries. At present, it intends to promote local sourcing as far as possible and uses slightly more than 30 local suppliers, which constitute the majority of the company's local supplier base. Nevertheless, low value added products are mainly purchased from local suppliers and account for less than one half of total procurement on a value basis.

Notably, local procurement is made as part of the company's globally optimum sourcing policy and supply capabilities of various countries are evaluated and compared by the procurement center for Southeast Asia. Thus, selection is made in strict consideration of international competitiveness. At the same time, each supplier qualified by Company B in the Philippines can supply its products to the same company operating elsewhere. In fact, Company B has conducted extensive surveys of parts and components that can be procured from local sources. It has selected 123 parts that are currently not localized and has made information available to potential suppliers to invite them to make an inquiry or an offer. Some parts are being prototyped by selected potential suppliers and two thirds of the solicited parts are expected to be purchased from local suppliers in the near future, including vacuum formings, rubber hoses, radiators, wash pumps, cables, and press parts. It should be noted, however, that safety critical parts and those requiring high levels of production techniques are not included in the list.

At present, many of local companies obtaining subcontracts from automakers, first-tier suppliers or electronics manufacturers also have business relations with other industries. The current state of supply and service provided by local SMEs in the automotive parts and supporting industries is described as follows.

1) Forging

Since customers for forging in the Philippines - the automotive, machining and machine assembly and parts industries - form a relatively small market, there is only one company specialized in forging service (foreign-affiliated), plus several small, non-specialized companies.

2) Sheet metal and pipe forming (press work)

The press work industry has been growing, together with the welding industry, from early times to play a core part of production of jeepnies and tricycles. Today, there are a few hundred power work companies. They maintain close relations with the auto industry and most press molded products can be manufactured locally. However, due to the delay in automation at most shops, a model change often causes late delivery.

3) Casting

There are around 200 foundries in the country¹⁷, of which large enterprises account for only 9.6%, medium-sized enterprises 21.2%, small enterprises 38.2%, and microenterprises 31%.

For the auto industry, local SMEs manufacture small, simple-shaped iron castings (e.g., disk brakes, drum brakes, crank shaft pulleys, front valve retainers, and exhaust pipes) and aluminum wheels. Engine blocks and safety critical parts are not contracted to local SMEs. Medium-sized enterprises with monthly capacity of 200 tons mainly serve the market. Production of spheroidal graphite cast iron is also on the rise.

4) Die making

Die and mold making constitutes the largest share of machining jobs contracted by foreign manufacturers in the electronics and auto industries and their parts industries to local SMEs, which hold a relatively large share of jigs and plastics molds, although precision molds and tools are still out of reach. CAD systems are increasingly used.

Companies that make success in the business often have owners or engineers who have worked for foreign electronics manufacturers, automakers or suppliers. Their work experience seems to help their market development and production management as they can understand customers' precision and lead-time requirements and have communication routes with diverse customers.

On the other hand, other SMEs in the die making business cannot understand customers' needs in terms of technology and production management. Furthermore, the first group of SMEs that have regular customers cannot obtain information on other potential customers. By the same token, potential customers do not have information on potential suppliers, except for information from other manufacturers in the same industry, with regard to a limited number of companies in their procurement list.

5) Assembly service

Assembly service in the Philippines is founded upon subcontracts from foreign electronics manufacturers and automakers. The most typical type of service is the assembly of wire harnesses.

As in the case of the die making business, many companies win contracts because their owners or engineers have worked for foreign manufacturers and their suppliers in the two industries. Needless to say, the key success factor is to understand the needs of foreign customers in the areas of production management and quality control.

Other types of assembly services include the outsourcing of assembly and finishing processes. Again, success in the market relies on workers and their understanding of production management and quality control.

¹⁷ According to MIRDC's survey in 1996

6) Machining

Many SMEs engaged in machining service primarily serve customers relating to the food processing equipment, ship repairing and mining machines, which do not require highly precision machining. None of them make automotive parts. In fact, they do not understand or practice production planning, production management, quality control, and production schedule management, which are essential elements of automotive parts production. Only a small number of workers can read design drawings.

7) Plastics molding

There are reportedly as much as 400 plastics molding companies, which mainly perform injection molding service. Automotive parts made by these companies are largely plastics molded products that not require high levels of precision (equivalent to the precision level required for general merchandise, rather than industrial products). At the same time, there are a small number of companies that possess advanced levels of production technology and capacity, sufficient to supply products to Japanese automakers. These companies have customers in other countries and are ready for global deployment. In any case, it is difficult to obtain large and precision molds in a complex shape from local sources, which are furnished by automakers or imported.

8) Others

In addition, there are several local companies engaged in assembly and packaging of PCBs by using their own printers and mounters. Again, their owners or engineers have worked for foreign assemblers and have designed production lines on the basis of their knowledge and experience. This type of business is considered to be capital intensive.

On the other hand, rubber and glass parts are made by foreign companies. Glass molds are manufactured by foundries under guidance of parts manufacturers.

Finally, supply of electronic parts for audio systems, engines and antennas is mostly dependent upon foreign manufacturers operating in the PEZAs. Few local suppliers are engaged in the business.

3.5.3 Major Issues Relating to Promotion of SMEs in the Automotive Parts and Supporting Industries

(1) Strategic direction

The auto industry has a broad supplier base. Automakers in the Philippines manufacture and export motor vehicles in keeping with the global production strategy established and implemented for the entire MNC groups. Procurement of parts and components is also carried out for the interest of globally optimum sourcing. Thus, the BBC and AICO schemes

are not intended to serve the country's interest but are based on the premise that the country can supply specific parts under the best terms and conditions.

At the same time, most MNCs are pursuing the policy of promoting local procurement, except for key parts and components that are to be procured from global sources. Thus, local suppliers can win contracts from automakers as far as they can supply products that meet strict technical and cost requirements.

Automotive parts are divided into those that require advanced production capabilities to make, and those that can be made relatively easily. For local suppliers with advanced production capabilities, supply to foreign automakers operating in the Philippines can open up an opportunity to become a global supplier that serve the entire MNC group, which consists of assembly plants all over the world.

Thus it is important to establish and implement a strategy for entering the market according to the current level of technology of each company.

Finally, supply to the MNC group allows the supplier to learn a wealth of technical know-how and make itself ready for exports of spare parts in the future.

(2) Major issues to be addressed for SME promotion

1) Development of an effective communication channel and tool linking automakers, suppliers, and supporting industries

Generally, auto makers have suppliers form a group for systematic control and guidance in order to communicate and enforce procurement policy and request the improvement of production management practice and standards. On the other hand, local SMEs that do not belong to such group do not understand the needs of auto makers. Also, they do not have an established communication channel whereby they can contact auto makers' representatives in charge of procurement, excepting some medium-sized enterprises.

On the other hand, automakers intend to use local suppliers by publicizing requirements for parts and components that they willing to procure locally. However, such information is rarely known to local SMEs.

Some automakers are expecting participation of new local parts suppliers in their parts supply, showing their parts, which they are expecting to change them to local procurement. These information, however, is not widely available among the local SMEs. Reverse Trade Fair is a tool to disseminate these information to SMEs. The reverse trade fairs have been held a few times by CITEM as "Industry Search". Following table shows the change in number of exhibitors in the reverse trade fairs in recent years.

Table II-3-8 Number of Participated Enterprises to Reverse Trade Fair

	1999	2000	2001
By category of business			
Commercial		54	62
Trade Association		2	3
Trade Service		7	8
Total		63	73
By industry			
Auto Parts	11	11	18
Electronics	35	11	24
Industrial Materials/Machineries	9	32	31
Others	12	9	9
Total	67	63	82
By size of enterprise			
Small			26
Medium			24
Large			14
Trade Associations/Gov't Agencies			9
Total			73

Source: CITEM

- Note:
1. The number of response by industry in 2001 is multiple response.
 2. Others in "by industry" means Institutional agencies, and manpower contracting.
 3. Breakdown of exhibitors in 1999 is estimated from the percentage of total, and total number of exhibitors.

In contrast to the above figures, the number of visitors has increased from 575 in 1999, to 1,716 in 2000, and further to 2,575 in 2001. The increase in visitors in 2001 may be partly attributable to the fact that it was held simultaneously with PHILTRONICS 2001, and Enviro-tech Philippines 2001.

The amount under business negotiation in 2000 was 16 million Pesos, and increased to 20 million Pesos in 2001. The number of business negotiations held at 1999-show was reportedly 1,326. The final results on the effects of the reverse trade fairs, however, are not available, since no follow-up analysis has been made on that point. According to the limited information, however, it is pointed out that many exhibitors have participated from the electronics industry at the initial Reverse Fairs, but that very few of them are still in the fair since there were no successful business contract at that time due to the big gap in understanding on quality requirement, compliance with delivery time, and costs.

The reverse trade fair is an effective method to create a business opportunity for manufacturers and buyers in many industries, but it has not been widely used for procurement of automotive parts because, although the reverse trade fair has attracted a number of visitors, many of them did not have experience in production of automotive parts and few results have been produced.

Clearly, it is important to develop an alternative system or mechanism to link buyers and suppliers and enable them to exchange information quickly and efficiently. The system should cover not only first-tier suppliers but also second- and third-tier ones. Feasible methods include seminars held by buyers (auto makers or first-tier suppliers) and a supplier database system.

2) Deployment of multi-faceted and focused technical support specifically for certain parts

Generally, an auto maker purchases a new part or component by ordering its prototypes to candidate suppliers and evaluating them for final selection. The selection process usually involves companies that presently supply products to the auto maker, while other companies not on the supplier list do not have access to information, and even if they obtain information, they usually will have difficulty in making the prototype due to technical and/or financial burdens. It is therefore important to disseminate procurement information from automakers to a large number of potential suppliers, while providing technical and financial support for prototyping and other procurement procedures. It should be provided in the form of one-stop shopping support including reference service for proper support organizations and potential partners.

Furthermore, SMEs do not have advanced production technologies - in particular “soft” technology such as die making and design – and do not have an opportunity to learn them. As a result, they cannot respond to procurement information in many cases.

While there are many technical training courses offered by various organizations. For instance, the metalworking industry accepts MIRDC’s training courses relatively well, but foreign manufacturers see them ineffective because they are limited to basic skills training and do not address the needs for local SMEs to improve competitiveness and expand their business. In fact, the courses mainly benefit companies and workers with initial skill levels but do not help SMEs to improve skill levels for production of electronic and automotive parts.

In addition to advanced production technology, local SMEs have to learn quality control and production management techniques and know-how if they are to win contracts from foreign manufacturers. The Philippine auto industry, because of the small domestic market, does not need to rely on volume production technology and SMEs opt to maintain production practice and standards that are based on their existing technology. However, both electronics manufacturers and automakers manage their parts supply chain according to the Japanese just-in-time production management system (regardless of whether they are Japanese-affiliated or not). In addition, suppliers are expected to conduct pre-shipment inspection by performing functional check as well as accuracy check.

To provide public support for local SMEs to learn proper quality control and production management, technology transfer can be carried out at the following three levels.

Training at a public organization (skills training and basics of advanced techniques and skills)

Evaluation and guidance at individual companies (field application of production management techniques and standards)

Technical licensing and assistance on a contract basis (production know-how on specific parts and components)

It is important to provide such multi-level and multi-faceted technical support for prospective SMEs according to the level of technical requirement for candidate parts and components in order to maximize effectiveness.

3) Nurturing of technicians

Various public organizations centering on TESDA have provided training courses for nurturing of technicians. Also, there are some training courses provided by foreign donors. However, there are some comments on these training courses that the contents of the courses do not meet the target level. The comments are mostly for courses operated by the public sector.

There are some private enterprises, which are offering training courses, and supply trained technicians not only for their enterprise but also for other enterprises. If the Government utilizes these enterprises entrusting the analysis of the training needs, setting of the training target, formulation of curriculum and the course management, while the Government showing only the basic needs for the training course, then these private enterprises will implement the training more efficiently.

Some success cases of training of supervisors and technicians may be seen in that of Japanese affiliated enterprises. They send their trainees to their parent company or relevant companies in Japan for training. This method have especially been found effective in terms of technical transfer.

In the future, industries are recommended to take initiative in training, as have been seen in the furniture industry in Cebu, formulating practical standardized curriculum in consultation with parts procurement companies, and entrusting the operation to the private enterprises, vocational schools and/or training organizations.

4) Encouragement of investment in equipment modernization

Manufacturers in the Philippines are generally cautious about capital spending, especially equipment investment, in the wake of the persistent recession. As a result, they are lagging behind competitors in other countries in terms of productivity and quality, including precision. Even advanced SMEs continue to use obsolete and aging equipment.

The major obstacle to equipment investment is the difficulty in borrowing funds. SMEs in good standing - those that supply products or services to foreign companies - can borrow from commercial banks, including investment funds. Also, advanced SMEs often opt for introduction of foreign capital in the form of an alliance or a joint venture, rather than bank loans.

On the other hand, few local metalworking companies can have access to commercial loans or credit service. SMEs have strong demand for short-term operating funds to meet financial requirements between the acceptance of an order and actual payment. Small enterprises and microenterprises usually have to purchase materials and parts in cash. On the other hand, they can receive payment for their products 30 - 60 days after shipment. They need a bridge loan to make up for a cash shortage.

However, they cannot obtain commercial loans for several reasons. First of all, many SMEs do not keep accurate books and records on their business operation or even practice double-entry bookkeeping. Secondly, many companies cannot meet collateral requirements largely because a very small portion of their asset value (say, 20%) is acceptable as security or machinery cannot be used as a collateral. Thirdly, SMEs do not have time and resources to prepare documents that should be attached to a loan application. Many companies do not have any middle manager, and owners have to deal with documentation but have little time to do so. Banks provided documentation service for companies when they enjoyed a large spread, but not any more. Government financial institutions do not provide such service.

SMEs often borrow funds from relatives and friends, which are not large enough to meet financial requirements for capital investment.

Another problem relating to fundraising for business expansion and equipment modernization is that public financial assistance programs do not meet the actual needs of SMEs. For instance, it is pointed out that the minimum amount of loan is too large for most SMEs. DBP's program sets the minimum loanable amount at P50 million, whereas most SMEs need around P5 million.

For government financial institutions, some SMEs demand a longer repayment period, while they can accept commercial interest rates. (It is very difficult for them to repay P10 million in four to five years.)

Larger enterprises purchase machinery from a machine dealer in monthly installments. The installment term is generally one year without an interest rate., but expensive equipment is purchase under a few year installment plan. In fact, the installment system is increasingly adopted by SMEs.

Financial support should therefore be focused on low-interest loans or a subsidy on interest payment for purchase of machinery in order to allow SMEs to make timely investment as they win a new supply contract.

II Current State and Development issues of SMEs

Chapter 4 Current State and Development Issues of SME Finance

Chapter 4 Current State and Development Issues of SME Finance

4.1 Financial System in the Philippines

4.1.1 General Outline

The financial system in the Philippines is roughly divided into two sectors, formal and informal. The formal financial sector is led by Bangko Sentral ng Philipinas (BSP=Central bank) and is composed of various types of institutions, namely commercial banks, expanded commercial banks, governmental specialized banks, thrift banks, rural banks, and finance companies. The informal financial sector includes private money lenders, Rotating Savings and Credit Associations (ROSCAs), and financing from relatives and friends, but details on the sector are not known. Within the formal sector, governmental specialized banks and finance companies may be further classified into the non-bank institution. Note that the non-bank institutions includes the largest pension funds in the Philippines, the Social Security System (SSS) and the Government Social Insurance System (GSIS), which extend loans for housing and other purposes to their members. Furthermore, they serve as wholesale banks to supply funds, via local financial institutions, for resending to SMEs and MEs.

4.1.2 Regulatory Measures for Financial Reforms

The Asian currency crisis, which originated in Thailand in July 1997, adversely affected already vulnerable financial institutions in the Philippines and prompted the government to proceed with reforms of the financial system at an accelerated pace. The series of regulatory measures have been introduced in recent years are summarized below¹.

(1) Imposition of an equity capital to risk assets ratio standard

Banks are required to maintain equity capital as percentage of risk assets above 10%, and unlike the Bank for International Settlements (BIS) regulation, all risk assets are treated as 100% risk assets. (Previously, all loans to SMEs and MEs have been classified in 100% risk assets, but they have been reclassified in 75% risk assets under the circular of the central bank in January 2003.)

(2) Setting of a minimum capital requirement

In May 1998, BSP announced a schedule to raise a minimum capital requirement for financial institutions in several phases over three years. This aimed to reinforce the financial base of financial institutions that weakened after the Asia currency crisis in 1997. Under the regulation, banks have been required to increase their equity capital to a specific level by the each yearend during the three-year period, and those who have failed to meet the minimum capital requirement are downgraded (e.g., from an expanded commercial bank to a

¹ Japanese Chamber of Commerce and Industry in the Philippines, "Philippine Handbook 2002,"

commercial bank). Due to the subsequent deterioration of economic conditions, however, the current minimum requirement is retained at the level specified for the end of 1999, namely P5,400 million for expanded commercial banks, P2,800 million for commercial banks, P400 million for thrift banks, and P32 million for rural banks².

(3) Loan portfolio regulation

1) Limit imposed on the amount that can be provided to a single given borrower

It is set at 25% or less of a bank's equity capital.

2) Lending requirements were imposed for agriculture and agrarian reform

All lending institutions are required to allocate 15% of their deposits and a specific percentage of equity capital to agricultural loans and 10% to loans relating to land reforms, provided that they can purchase and hold government-issued or government-approved bonds in place of agricultural loans.

3) Real estate loans were restricted

Loans relating to real estate acquisition and development should be limited to 20% of the total amount of loans made.

4) SME loan requirements were imposed

All lending institutions are required to set aside and lend at least 6% of their total loan portfolio to small enterprises and at least 2% to medium-sized enterprises. However, they can satisfy this requirement by making equivalent funds available to BSP or by holding government-issued or government-approved bonds. (In fact, the Republic Act 6977 enacted in 1991 (the Magna Carta for Small Enterprises) required 10% or more to be diverted to SMEs. Then, it was amended in 1997 under the Republic Act 8289 to extend the applicable period to 2007 and lower the minimum level to 6% and 2%.)

(4) Regulation of the requirement for bad debt reserves

1) Definition of bad debt

Bad debt is defined as the debt which repayment is in arrears for three months or longer. It does not include debt that is entirely secured by a collateral.

² The minimum equipment capital requirements for thrift and rural banks vary with regions where their headquarters are located. The above figures apply to those based in Manila.

2) Classification of debts and bad debt reserve requirements

Classification	Reserve required	Description
Special mentioned	5%	Debts considered as more credible assets than substandard debts, but potentially vulnerable, such as loans that lack credit information or documentation to require careful management
Substandard	25%	Including secured debts that are in arrears for three months or longer (no reduction of principal repayment involved) and unsecured debts in arrears for 90 days or longer
Doubtful	50%	Secured debts in arrears, which collateral value has dropped significantly while the debtor does not offer an additional collateral and faces deteriorated financial conditions
Loss	100%	Including secured debentures that are in arrears for three months or longer and for which no collection is made, and secured debts which collateral is deemed as valueless and the debtor or his joint surety has become insolvent

In addition to the bad debt reserve requirements, since October 1999, financial institutions are required to maintain an additional reserve equivalent to 2% of the outstanding amount of loan.

4.1.3 Financial Institutions and Their Operation

4.1.3.1 Banking Structure

Financial institutions in the Philippines are generally classified as shown below.

(1) Central bank (Bangko Sentral ng Philipinas: BSP)

BSP was originally established as the nation's central bank in January 1948 under the Central Bank Act of 1948, with the equity capital being wholly contributed by the government. On July 6, 1993, it was reestablished as BSP under the new Bank Act that was enacted in June as part of financial reforms. (The old Central Bank of the Philippines was liquidated.)

BSP is primarily responsible for the issuance of local currency, the trading and underwriting of government bonds, treasury management, supervision of commercial banks and other financial institutions, and stabilization of the local currency. In particular, BSP focuses on inflation control, the establishment and maintenance of the healthy banking system, and currency stabilization. In addition, it monitors money supply to commercial banks by means of rediscounting promissory notes.

(2) Private financial institutions

1) Commercial banks

Commercial banks are further classified into (ordinary) commercial banks and expanded commercial banks. The former is chartered to receive deposits, make lending, issue the letter of credit, and provide foreign exchange and trust services, but investment is limited. On the other hand, expanded commercial banks were created according to the institutional reform in 1980. At present, 17 expanded commercial banks are chartered. They are authorized to be engaged in securities underwriting and trading, and investment in non-financial industries, in addition to the services of commercial banks. They are larger than commercial banks in terms of capital and other resources.

2) Thrift banks

Thrift banks collect small deposits through financial products designed for small savers and provide small loans, housing loans, and invest in convertible receivables and mortgage securities.

3) Rural banks

Rural banks were established under the Rural Bank Act of 1952. They have a mission to support rural development and are small scale in asset size but large in number.

(3) Government financial institutions (GFIs)

1) Development Bank of the Philippines

The Philippines Reconstruction and Development Corporation was reorganized to Development Bank of the Philippines in 1958. It provides medium- and long-term loans for the rehabilitation, development and expansion of agricultural and industrial sectors. It is also active in SME loan. In particular, it provides long-term, fixed rate loans for SMEs by using funds borrowed from JBIC in Japan and kfw in Germany.

2) Land Bank of the Philippines

The bank was established in 1963 as a government organization to promote agrarian reforms. While serving as a wholesale bank to supply funds for rural industrial development, it provides retail-banking service through its 300 branch offices (45 rendering centers). Also, it supplies funds to local industries, primarily for regional development purposes, based on borrowing from the World Bank, kfw in Germany, and ADB.

3) Al-Amanah Islamic Bank

Located in Mindanao, Al-Amanah Islamic Bank is specialized in credit and loan service for the Islamic community.

4) Small Business Guarantee and Finance Corporation (SBC)

Based on the Republic Act 6977 (Magna Carta for Small Enterprises) enacted in 1991, which called for the establishment of a new organization to provide credit guarantee service for SMEs, SBC was established as a government organization in July 1992. Before then, the Guarantee Fund for Small and Medium Enterprises (GFSME) established in 1984 provided credit guarantee service. GFSME coexisted with SBC until the two organizations merged in November 2001 and SBC became a surviving organization. At present, SBC provides SME loans through wholesale and retail channels, in addition to the credit guarantee service.

4.1.3.2 Operating Status of Financial Institutions

As of the end of 2002, there were 42 commercial banks (including 17 expanded commercial banks), 94 thrift banks, and 776 rural banks. They operated a combined total of 7,454 branches throughout the country (Table II-4-1). It should be noted, however, that the banks account for only 42% of all banks (including branches). Nearly one half of branch offices of commercial banks are located in and around Metro Manila, while thrift banks and rural banks operate branches in other regions throughout the country.

In fact, the country has a much larger number of financial institutions compared to other ASEAN countries. In response to the regulatory measures to raise the minimum capital requirements, however, consolidation is underway in the form of merger and acquisition. In particular, the merger between Equitable Bank and PCI Bank and the one between Bank of Philippine Island and Far East Bank in 1999, and the acquisition of Solid Bank by Metro Bank in 2001 have accelerated the emergence of mega banks. And the wave of M&A and the widening difference in size within the financial industry are expected to continue for a while.

Table II-4-1 Breakdown of the Formal Financial Sector

Type	Total asset value (end of 2000)	%	Capital (billion peso)	%	No. of banks (including branches)	%
A Financial institutions	3,475.72	82.47	464.45	100.0	912(6,542)	41.86
1. Commercial banks	3,141.41	74.54	408.78	88.0	42(4,223)	23.95
2. Thrift banks	253.41	6.01	42.50	9.2	94(1,184)	7.18
3. Rural banks	80.91	1.92	13.17	2.8	776(1,135)	10.73
B Non-bank corporations	738.80	17.53	n.a		5,381(4,959)	58.07
Total	4214.53	100.00	464.45		6,304(11,502)	100.00

The figures in () denote the number of head offices. (as of the end of 2002)

Source: BSP

The total asset held by the formal financial sector amounts to approximately 4.2 trillion. While commercial banks hold a dominant share of 74%, each bank is relatively small in size. According to another source, top five banks account for a combined total of 50% of the total asset held by commercial banks, amounting to around P2 trillion, which is equivalent to that of Bangkok Bank, one of the largest banks in the ASEAS region. These data, together with the large number of financial institutions, indicate small sizes of commercial banks and even smaller sizes of thrift banks and rural banks. This constitutes one of the major characteristics of financial institutions in the Philippines.

As for the lending status, Table II-4-2 compares the balances of loans made by commercial banks in 2000 and 2002 (at the yearend), with the breakdown by industrial sector. While the balance of loans to five sectors declined during the period, that to wholesale/retail and other (led by the service industry) sectors was on the rise. In total, the overall balance of loans grew slightly. As for individual sectors, loans to the manufacturing industry dropped 6% due to the sluggish export markets accompanied by a slow rate of capital investment.

Table II-4-2 Balance of Loans Made by Commercial Banks (2000 and 2002),
by Sector

(Unit: million P)

	December 2000	December 2002	Difference	Compared to 2000
Manufacturing	405,664	381,258	24,406	6.0
Electricity/gas	75,479	71,437	4,042	5.4
Construction	46,499	35,543	10,956	24.0
Wholesale/retail	205,608	218,898	13,290	6.5
Transportation	99,776	71,914	27,862	27.9
Real estate	223,535	203,790	19,745	8.8
Others	571,653	672,305	100,652	17.6
Total	1,628,214	1,655,145	26,931	1.7

Source: BSP

4.2 Current State of SME Finance

4.2.1 SME Finance by the Private Financial Institutions

(1) Analysis of SME Loans

Table II-4-3 shows the changes in the balance of SME loans between December 1998 and June 2002. While the total amount of loans has gradually declined since 1998, SME loans gained in share from 23.3% in 1998 to 27.0% in the first half of 2002. Thus, SME loans account for more than one fourth of total lending and have steadily increased share in the net loan portfolio.

At the same time, however, the absolute amount of SME loans remained more or less unchanged, indicating that the government's efforts to increase SME loans have failed to produce significant results despite intensive promotional measures that have been taken in recent years. While some financial institutions point out that the country's deteriorated economic conditions in the late 1990s adversely affect SME finance, financial demand has been recovering since 2002. Furthermore, it is reported that SME loans have increased significantly after the introduction of SULONG in 2003.

Table II-4-3 Recent Changes in SME Loans

(Unit: billion P, %)

Year	Small		Medium		Small & Medium		Net Loan Portfolio	
	Amount	Share	Amount	Share	Amount	Share	Amount	Total
Dec. 1998	141	13.7	99	9.6	240	23.3	1,028	100
Dec. 1999	148	14.8	100	10.00	248	24.8	1,002	100
Dec. 2000	125	12.7	106	10.8	231	23.4	986	100
Dec. 2001	155	15.6	94	9.5	249	25.1	992	100
July 2002	166	16.9	99	10.1	265	27.0	983	100

Source: BSP

(2) SME loans by type of lending institution

Table II-4-4 shows the composition of SME loans by type of bank, as of June 2002. Clearly, commercial banks have a dominant share in SME loans, i.e., 82.4% for small enterprises, 84.9% for medium-sized enterprises, and 83.3% for SMEs as a whole. In contrast, thrift banks account for 11.7% of the total, while rural banks account for only 5.0%. Thus, it is interesting to see that commercial banks which are based in urban areas are dominant as lenders to SMEs, whereas thrift banks and rural banks, which operate in rural areas where there are a large number of small enterprises and microenterprises, hold relatively small shares. This seems to reflect the fact that thrift banks and rural banks are very small in size and there is a relatively small number of midsize enterprises in their service areas (dominated by microenterprises). In fact, SME loans account for larger portions of loan portfolio of thrift banks and rural banks than commercial banks.

Although not seen in the table, the published data are not entirely accurate as large banks seem to report wholesale lending and the purchase of government bonds as part of SME loans, while some rural banks do not report accurate data on SME loans because they often feel difficult to find medium-sized enterprises in their service areas. It is therefore suggested that the actual growth rate of SME loans may be lower than those shown in the above data.

Table II-4-4 Composition of SME Loans by Type of Bank (June 2002)

(Unit: billion P)

	Small		Medium		Small & Medium		Net Loan Portfolio	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Commercial banks	136	82.4	84	84.9	220	83.3	879	89.4
Thrift banks	19	11.5	12	12.1	31	11.7	76	7.7
Rural banks	10	6.1	3	3.0	13	5.0	28	2.9
Total	165	100.0	99	100.0	264	100.0	983	100.0

Source: BSP

According to BSP's data, 58.6% of loans to SMEs have been provided by five banks, and notably, the top bank accounts for 36% of the total amount of loans. The fact that only 5 out of 912 banks in the country provide more than half of SME loans indicates that a small number of banks are accessible to SMEs.

(3) SME loans by region and industry

Then, SME loans in the three regions subject to the present study - Luzon, Visayas and Mindanao - were analyzed. Table II-4-5 summarizes the balance of loans made by commercial banks, disaggregated by region and industry. Among the three regions, Luzon holds a predominant share of 80%, Visayas 10% and Mindanao 10%. As for industry, the wholesale and retail sector is the largest borrower, followed by the manufacturing sector.

Table II-4-5 Composition of SME Loans Made by Commercial Banks, by Selected Regions and Industry (2002)

(Unit: million P)

	Luzon	Visayas	Mindanao	Total
Manufacturing	46,842	4,530	1,947	53,319
Electricity/gas	409	109	59	577
Construction	6,276	996	1,149	8,421
Wholesale/retail	49,076	7,407	8,674	65,157
Transportation/warehousing	3,734	777	806	5,317
Real estate	20,718	2,109	1,642	24,469

Source: BSP

In each of the three regions, the wholesale/retail and manufacturing sectors hold a combined share of more than 50%. While top three industries are same in Luzon and Visayas, agriculture comes to third in Mindanao. In Mindanao, the manufacturing sector holds a relatively small share (less than 10%), indicating a different industrial structure from that in other two regions.

Luzon	1) Wholesale/retail	31.0%	2) Manufacturing	29.6%	3) Real estate	13.1%
Visayas	1) Wholesale/retail	33.7%	2) Manufacturing	20.4%	3) Real estate	9.5%
Mindanao	1) Wholesale/retail	43.7%	2) Manufacturing	9.8%	3) Agriculture	8.7%

The above analysis indicates that manufacturing industries are concentrated in urban areas and Luzon, as reflected in their large shares in SME loans. Rural regions where thrift banks and rural banks are based are dominated by microenterprises and small enterprises and need a financial system that promote social welfare more than they need, industrial development.

4.2.2 SME Financing by Government Financial Institutions

At present, three government financial institutions provide credit and loan services for SMEs across the nation, namely Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), and Small Business Guarantee and Finance Corporation (SBC).

(1) Loan policy and status

1) DBP and LBP

Generally, government financial institutions have a primary mission to provide financial service to supplement the role of private financial institutions. Government financial institutions in the Philippines are no exception to this. DBP has 80 branches and LBP 300 branches throughout the country, through which they provide wholesale financial services for commercial banks (including cooperatives in the case of LBP), in addition to SME loans. It should be noted that DBP is primarily responsible for industrial financing, not necessarily SMEs, while LBP mainly serves local industries, small farmers and fishermen. In addition, LBP's subsidiary, People's Credit and Finance Corporation supplies microfinance amounting to P5,000 - P10,000 per case.

Table II-4-6 shows recent changes in outstanding loans made by government financial institutions, which amount to around P200 billion and account for 12% to 13% of the total balance of loans made by commercial banks. The figures seem to be relatively high, judged from the number of financial institutions and the financial needs in the country. Also, government financial institutions play an important role in supplying funds to commercial banks.

Table II-4-6 Recent Changes in the Balances of Loans Made by Government Financial Institutions and Commercial Banks

(Unit: million P)

	Government financial institutions		Commercial banks	
		Share (%)		Share (%)
December 1998	185,916	12.1	1,542,644	100
December 1999	200,989	12.7	1,582,894	100
December 2000	222,388	13.7	1,628,214	100
December 2001	200,304	12.3	1,625,052	100
December 2002	196,966	11.9	1,655,145	100

Source: BSP

As for SME loans, Table II-4-7 indicates that while the total loans made by government financial institutions decreased between 2000 and 2001, SME loans increased. As a result, the balance of loans to small enterprises totaled P12,344 million and that to medium-sized enterprises P8,826 million.

Table II-4-7 SME Loans by Government Financial Institutions

(Unit: million P)

	6%		2%		8%		Net Lone Portfolio	
	Small	Share (%)	Medium	Share (%)	Small & Medium	Share (%)		Share (%)
December 2000	11,290	10.0	6,497	5.7	17,787	15.7	113,053	100
December 2001	12,334	15.9	8,826	11.4	21,160	27.3	77,548	100

Source: BSP

Recently, government financial institutions are playing a more active role in financial service relating to promotion of SMEs, by means such as a special SME loan program offering favorable conditions, and by significant expansion of branch networks³. Nevertheless, it is pointed out that the increase in direct SME loans by government financial institutions has intensified competition with private financial institutions, and that they require stricter loan conditions (especially collateral requirements) in order to have assurance of the soundness of retail finance. As a result, government financial institutions do not pay as much attention to fulfilling their role of supporting the private financial sector⁴.

³ The government and BSP have approved the increase in the number of branch offices, which grew from 76 in 1990 to 418 in 2002.

⁴ Based on SME interview survey.

2) SBC (SBGFC)

SBC is a loan guarantee organization the mission of which is to facilitate supply of funds to SMEs by reducing risks for financial institutions that supply SME loans. It was established pursuant to the Republic Act 6977 of 1991 (generally referred to as the “Magna Carta for Small Enterprises”). Since then, it has been expanding its scope of business, including direct lending to SMEs, and it is in the process of establishing a venture capital. It is therefore becoming a financial institution providing comprehensive credit and loan services for SMEs. It is under DTI’s jurisdiction and primarily operates in line with a policy guideline established by the SME Development Council (SMEDC). As of March 2002, it has working capital of 1,825 million P and has four branch offices⁵ with approximately 100 staffs.

(Note: Traditionally, various financial institutions have been providing credit guarantee and insurance services for the primary industry sector, such as Quedan and Rural Credit Guarantee Corporation, Home Guarantee Corporation, and Philippine Export & Import Credit Agency. On the other hand, GFSME was the first to offer such services for SMEs.)

As of the end of 2002, SBC is primarily responsible for two functions, credit guarantee and lending (wholesale and retail). According to SBC, it offers five guarantee programs and six loan programs. The total values of loans and guarantees provided by SBC in FY2002 are summarized as follows.

- 1) Guarantee program: P119 million
- 2) Long-term loan: P53 million
- 3) Short-term loan: P242 million
- 4) Wholesale lending: P17 million
- 5) Discount financing: P741 million

The operating results in 2002 indicate that loan and rediscount services as a percentage of SBC’s total operations have surpassed that of the traditional guarantee service. According to SBC, business targets set for FY2003 are P600 million for the credit guarantee sector (six times that in 2002) and P1,200 million for the loan sector (including rediscounting) (compared to P1,050 million in 2002). While the target for the credit guarantee sector is set at a relatively high level, the loan sector continues to hold a much higher share. The business targets for FY2008 are set at P8 billion for the credit guarantee sector and at P12 billion for the loan sector. As the targets are very ambitious by aiming at growth of more than ten times in five years, SBC is expected to develop and execute effective programs to achieve the targets.

⁵ Additional five branches will be opened by FY2004, of which two branches will be inaugurated by the end of 2003.

(2) SULONG Program

The SME Unified Lending Opportunities for National Growth (SULONG) program is a newly started SME loan program created by a presidential decree in December 2002. It is implemented as part of programs under the National SME Development Plan. In particular, it aims to expand fund supply to SMEs by mitigating much-criticized barriers to SME finance, including the difficulty in loan application documentation, strict collateral requirements, and high interest rates. It functions through government financial institutions (GFIs), and started in January 2003. A general outline of the program is presented below.

1) Financial institutions participating in the SULONG program

- Development Bank of the Philippines (DBP)
- Land Bank of the Philippines (LBP)
- National Livelihood Support Fund (NLSF)
- Small Business Guarantee and Finance Corp. (SBC)
- Philippine Export-Import Credit Agency (EX-Im)
- Quedan & Rural Credit Guarantee Corporation (QUENDANCOR)
- Social Security System (SSS)
- Peoples Credit and Finance Corporation

2) Program fund

The government does not provide a special fund for the program, which is basically funded in the form of commitments by the participating banks to make the source fund available to the program.

3) Eligibility

SMEs which local ownership exceeds 60%, in all the industries except for exporting, alcohol beverage and tobacco.

4) Loan scheme and interest rate

The participating banks make wholesale and retail loans. Wholesale lending is made through thrift and rural banks that operate throughout the country (which, however, are required to satisfy certain standards)⁶. As SMEs can apply for loans to thrift and rural banks by using a unified form of application, they have ease of access to many more banks than before. The program provides short-term operating funds (with a repayment period of one year or shorter) and long-term funds (five years or less, with a one-year grace period), with the maximum amount of loan being limited to P5 million. Interest rates are 9% p.a. for direct loans from GFIs participating in the program and 12.75% p.a. for long-term loans

⁶ According to 12-Point Accreditation Guidelines, thrift and rural banks handling SULONG loans are selected. At present, approximately 200 banks are authorized to extend SULONG loans.

(and 11.25% for three-year loans). The maximum amount of each loan is P5 million for both short-term and long-term loans.

5) Differences from the previous SME loans

The following differences exist between the previous SEM loans and SULONG loans.

- Interest rates for the SULONG loans are lower than the previous SEM loans. For instance, direct loans from the participating GFIs can be had at 9% p.a., much lower than the 11% - 12% for ordinary SME loans.
- Compared to the 100% collateral requirements for the previous SEM loans, the SULONG loans require collateral to supplement personal guarantees and other forms of security.
- An application form consists of only two pages and is in a uniform format that can be used by all banks handling the SULONG loan. The application is thus much simpler and streamlined than before, with a shorter examination period (although not yet realized significantly due to a larger number of applications).

6) Lending record

Between January and August 2003, the cumulative amount of loan exceeded P15 billion, much faster than expected. In particular, Land Bank accounts for 55% of the total SULONG loan extended and most of its loans have been made via its own branches. SBC is also active and has executed a total of P1.5 billion loans up to the end of August. This means, SBC has already achieved its loan target for 2003 (P1.2 billion) through the SULONG loan alone. It should be noted that the accounts in the table designate the number of loan applications, which do not necessarily correspond to the number of SMEs as a single enterprise may apply more than two times.

While it is too early to evaluate the program and its effectiveness as a small number of borrowers have started repayment, the program is being well received by SMEs compared to the previous programs. At the same time, however, it is pointed out that the program has not fully accomplished its main goals, including modification of the lending stance of relying heavily upon collateral, simplification of the examination process, and the lowering of interest rates.

Profile of the First Eight Months of the SULONG Program
(Jan.-Aug. 2003)

(million P)

	GFI	Lending Mode	Accounts	Releases (million Pesos)
SME	Land Bank	Wholesale	45	284
	Land Bank	Retail	9,750	8,132
	Land Bank	Total	9,795	8,415
	DBP	Wholesale	114	1,097
	DBP	Retail	1,052	2,918
	DBP	Total	1,166	4,015
	SB Corp	Wholesale	314	713
	SB Corp	Retail	930	576
	SB Corp	Guarantee	46	208
	SB Corp	Total	1,290	1,497
	Philexim	Retail	13	58
	Philexim	Guarantee	20	106
	Philexim	Total	33	164
Sub-total			12,284	14,091
Micro	Qudeancor	Retail	157,235	1,265
	Quedancor	Total	157,235	1,265
	NLSF	Wholesale	6,556	77
	NLSF	Total	6,556	77
Sub-total			163,791	1,341
Grand Total			176,075	15,432

Source: SBC

(3) Micro-enterprise loans

BSP has issued a guideline for loans to micro-enterprises, separate from that for SME finance. It states that ME loans should be P150,000 or less per case, non-secured and short-term (repayment period of one day, one week or one month). The interest rate should be based on the market interest rate, not necessarily at a concessionary rate. To facilitate ME loans, BSP designates thrift and rural banks as microfinance-oriented banks that are required to lend 15% of total loanable funds to micro-enterprises and provide funds by means of rediscounting. As of February 2003, there are four microfinance-oriented banks, and in addition, 88 rural banks are designated as financial institutions specialized in ME loans.

In addition, the government enacted the Barangay Micro Business Enterprises (BMBEs) Act of 2002, which establishes new incentives for microfinance. In particular, the law requires GFIs to maintain a special loan desk for ME loans. Similarly, it requires that the credit guarantee service set a special line of credit for micro-enterprises. This newly enacted law receives attention for its effectiveness on support of micro-enterprises.

4.2.3 Credit Guarantee System

(1) Outline

SBC's credit guarantee system and its service content are outlined as follows.

(Financing eligible for loan guarantee)

- Land acquisition
- Building and equipment
- Fixed working capital
- Short-term working capital
- Export/import funds
- Refinancing
- Equipment leasing
- Purchase of second-hand equipment

(Guarantee fee)

2% of the loan portion covered by guarantee

In addition, the processing fee is charged, either 1% of the total amount of loan or P1,000, whichever higher.

(Collateral)

Assets purchased by the guaranteed loan (including other collaterals)

(Documents to be submitted)

- 1) A statement of loan approval issued by the bank
- 2) A loan examination report prepared by the bank
- 3) A credit report on the loan applicant
- 4) An evaluation report on collateral
- 5) Business name registration of the applicant
- 6) A tax certificate on the applicant
- 7) Financial statement on the applicant (company)
- 8) A report on trade partners
- 9) Other information on the applicant

(Credit line and maximum coverage)

Clean loan guarantee (not covered by collateral)

	Credit line	Maximum loan coverage
Start-Up Projects		
Local Producers	P1 million	60%
Franchises	P3 million	60%
New Exporters	P3 million	85%
Non Start-Up Projects	P5 million	70% ~ 85%

Credit risk guarantee (loans wholly or partially covered by collateral)

	Credit line	Maximum loan coverage
Start-Up Projects		
Local Producers	P2 million	80%
Franchises	P5 million	80%
New Exporters	P5 million	85%
Non Start-Up Projects	P20 million	85%

* Period required for final decision on guarantee approval

Less than P10 million..... Approx. 2 weeks

Over P10 million Approx. 1 month (to be approved by the board meeting that is held annually)

(2) Results of the credit guarantee system

SBC renders credit guarantee service for a total of 45 financial institutions (20 commercial banks, 15 thrifty banks, and 10 rural banks) through its head office in Manila and four branches. In 2002, 42 guaranteed loans totaling P118,860,000 (average, P2,830,000 per loan) were extended. It was equivalent to only 17% of the annual target. By type of bank, 50% was accounted for commercial banks, 35% thrifty banks, and 15% rural banks. A regional breakdown is as follows.

<u>Region</u>	<u>No. of guaranteed loans</u>	<u>Total amount</u>	<u>Amount per loan</u>
Metro Manila	15	P42.8 million	P2, 850,000
Luzon	9	P27 million	P3, 000,000
Visayas	16	P43.7 million	P2, 730,000
Mindanao	2	P5.3 million	P2, 650,000

As for share of individual banks, Planters bank holds the highest share of 38% (16 loans), followed by Export Industry Bank and Bank of Commerce, 5 loans each. On the other hand, DBP and LDP - shareholders of SBC - have extended one loan each.

SBC cites a low rate of growth of SME loans as a major reason for the low level of SBC's loan guarantee activity in 2002. However, the results of the interview survey indicate that the credit guarantee system has not been widely recognized among SMEs.

4.2.4 Equity Financing

(1) The current state of equity financing

For SMEs in the Philippines, loan arrangements including loans from the informal sector are virtually the sole means of raising funds. Equity financing facilities such as venture capital (VC) and private equity (PE) are underdeveloped and there is no equity financing market to supply funds to SMEs. Although the government introduced a venture capital system in the 1970s by modeling after the U.S. Small Business Investment Companies Program and commercial banks established venture capitals to be engaged in investment business accordingly, there has been no successful case of business development.

For SMEs, growth opportunity is limited unless they can raise funds through not only the bank loans but the equity financial one as well. Equity financing is characterized as a source of supplying risk money. Unlike bank loans that hedge risks relating to it by securing a collateral, equity financing made in the form of equity contribution is rarely secured and the investor can only earn a return (capital gain) from an increase in the value of his share in the company he has invested. While the investor expects a large capital gain as the company grows, he must take a risk of losing everything when the company goes bankrupt, as the share becomes void and valueless. This is high-risk, high-return investment, which is also called the risk money.

The inflow of the risk money to the country can be viewed from various angles. Table II-4-8 shows the recent trends in foreign portfolio investments by non residents (corporations and individuals). The table indicates that the level of interest in the Philippine stock market by foreign investors showed a short-term recovery from the Asian financial crisis in 1997 and hovered low again in the recent three years. Compared to 1996, the amount of investment last year shrank to one fifth. In particular, there has been a substantial decline in investment in the manufacturing sector.

Table II-4-8 Recent Trend in Portfolio Investments by Non Residents

Unit : Million US\$

	1996	1997	1998	1999	2000	2001	2002
Total	9,099	10,251	4,916	10,000	3,587	1,778	1,862
Financial Institutions	3,587	3,068	1,165	1,989	847	262	341
Manufacturing	1,235	1,299	716	730	227	121	85
Mining	49	59	40	7	5	0	0
Commerce/real estate	1,718	1,693	980	972	274	279	352
Services	199	681	99	107	13	4	4
Public Utilities	1,341	1,720	1,190	1,562	1,091	590	307
Construction	35	12	1	2	0	0	0
Other	932	1,716	721	4,628	1,127	520	770

Source : BPS

On the other hand, the recent trend in foreign direct equity investments by non residents is shown in Table II-4-9. Direct equity investments include construction of factories or branch offices by foreign companies, investment and acquisition of local companies. Compared to portfolio investments, direct equity investments show a relatively constant inflow of funds to the country. This means, while foreign investors find the Philippines to be fairly attractive as a production and/or service activity base, the Philippine stock market and companies listed there are viewed as less attractive. Thus, supply of risk money is on the gradual decline.

Table II-4-9 Recent Trend in Direct Equity Investments by Non Residents

Unit : US\$ million

	1996	1997	1998	1999	2000	2001	2002
Total	1,281	1,053	884	2,106	1,398	857	1,431
Financial Institutions	513	226	193	258	483	476	153
Manufacturing	477	172	245	1,049	171	262	943
Mining	3	2	161	27	239	66	114
Commerce/real estate	84	78	161	166	62	23	26
Services	34	33	12	16	5	8	21
Public facilities	1	0	0	0	0	0	0
Construction	45	242	6	1	0	0	40
Other	0	0	36	33	10	0	0

Source : BPS

(2) Necessary conditions for development of the equity finance market

Thus, equity financing is primarily driven by availability of the risk money and investors who are willing to take risks. In addition, the secondary (stock) market must emerge, together with the development of M&A opportunities, to ensure liquidation of capital. Furthermore, it is important to train venture capitalists and fund managers who are required to have different capabilities than those required for ordinary banking business, because they have to select SMEs properly that are suitable for highly risky equity investment before public offering.

On the other hand, companies that receive equity financing have to prepare a detailed business plan, which progress is thoroughly checked, while no collateral is required. The management and its ability are under vigilant review and evaluation, together with periodical disclosure of management information and strict corporate governance. Then, if the company fails to achieve the results as promised to shareholders, its management will be replaced or the company will have to withdraw from the market it operates. As equity financing is complementary to loans and guarantees by fulfilling different functions, the company can ensure flexibility in financial management, including the ability to raise funds according to the actual needs. Viewing the government policy for SME finance from this perspective, therefore, the apparent lack of the equity financing function is definitely one of restraining factors for fostering of SMEs.

(3) Stock market

Venture capitals earn profits from the rise in the share value created by the company's growth. They realize profits by selling their share at the stock market. The stock market has a two-tier structure consisting of the primary market where companies offer stocks for public subscription, including Initial Public Offering (IPO), and the secondary market where stocks are traded freely.

Table II-4-10 compares stock markets in four ASEAN countries including the Philippines, in terms of the total market capitalization and the number of companies listed. All the stock markets were adversely affected by the financial crisis that was started in Thailand in July 1997. During the period of two years and a half (the end of December 2000 and the end of June 2002), three stock markets excepting the Philippines showed firm recoveries in the market cap, whereas the Philippines market recorded a decline to indicate a stagnated flow of capital to the market. In terms of the number of companies listed, only 7 companies were newly listed in the Philippine market during the period, far behind the Malaysian market (41) and the Indonesian market (40). (Only 3 companies were added to the Thai market.)

Table II-4-10 Comparison of Stock Markets in Selected ASEAN Countries

	Market capitalization (billion dollars)			No. of companies listed		
	End of December 2000	End of June 2002	Increase/Decrease (%)	End of December 2000	End of June 2002	Increase/Decrease (%)
Philippines	51.6	44.4	- 7.2 (- 13.9%)	230	237	+7 (+3.0%)
Thailand	29.8	51.2	+21.4 (+71.8%)	381	384	+3 (+0.7%)
Malaysia	116.9	133.0	+16.1 (+13.7%)	795	836	+41 (+5.1%)
Indonesia	27.1	36.2	+9.1 (+33.5%)	284	324	+40 (+14.0%)

Source: Nomura Insitutute, Bloomberg

As for the secondary market, Table II-4-11 shows the value of trade at the Philippine stock exchange, by sector. Again, the value of trade declined substantially to reflect the retreat of the risk money from the country.

Table II-4-11 SEC Trade by Sector

Unit : Million pesos

	1997	1998	1999	2000	2001	2002
Total	586,172	408,679	780,963	357,659	159,555	159,727
Banking & Financial services	96,795	50,763	167,216	81,065	24,298	32,395
Commercial/industrial	310,672	285,009	519,058	232,252	108,272	98,285
Property	125,403	69,400	82,407	28,113	26,177	28,500
Mining	22,502	1,363	8,933	9,647	633	374
Oil	30,799	2,142	3,347	6,579	169	154
SME*	0	0	0	0	0	17

* Trade of stocks at the SME Board was commenced on July 20, 2002.

Source: Philippine Stock Exchange

Clearly, equity financing can be induced by growth of the stock market which attracts the risk money. By the same token, equity financing for SMEs can only be invigorated by developing a necessary mechanism to create smooth flow of capital. For instance, NASDAQ in the U.S. has made a great success as the stock market for startups by listing a number of fast growing companies, such as high-tech ventures and innovative service providers, which have attracted risk-taking investors. As a result, the market has created a significant increase in capital flow to funds operated by venture capitals, which then have made reinvestment in new startups, resulting in increased diversion of investment to SMEs. Thus, reinvigoration of the

SME Board in the Philippines holds the key to successful growth of equity financing for SMEs.

(4) Emerging stock market

In fact, the SME Board at the Philippine Stock Exchange has only listed two companies since its launch in 2000. The paucity of use seems to come from several factors: (1) most SMEs do not have a clear understanding of listing their shares, including its advantages and disadvantages; (2) the presence and activity of the SME Board is not known due to the lack of publicity and promotion; (3) there is a lack of consultants who can effectively assist companies in making preparation for listing, including reorganization; and (4) the listed companies are not attractive enough to investors in terms of performance and growth potential, resulting in a low level of trading after the IPO. With regard to (1), as there is no organization providing the equity financing function in the country, e.g., the venture capital fund, companies do not have access to information on the listing, including its rationale and merit.

In Japan, a large number of venture capitals were established in the late 1980s by financial institutions. They worked with their parents - securities companies and commercial banks - to propose the listing to SMEs and make equity contribution. At that time, the listing was beyond imagination for most SMEs, which believed that the securities market was an exclusive club for large corporations. It therefore took considerable time and effort to establish an over-the-counter market (the present JASDAQ) and attract a number of excellent SMEs which successfully raised funds through the IPO. To reinvigorate the SME Board, therefore, it is important to establish venture capitals that introduce the IPO to SMEs step by step and invest in those that have growth potential.

The general listing requirements of SMEs on the SME Board are the authorized capital stock of minimum P20 million - maximum P100 million, of which 25% should be subscribed and paid up, the net tangible assets of at least P5 million, operational for at least two years with positive net operating income (EBITDA) and so on. The easing of the requirements is currently being considered as they are very difficult for most SMEs to meet. In particular, the lock-up requirement does not allow founders of SMEs to sell their share upon the listing have little incentive to go public. The current requirements should be modified to create a clear merit for SME founders to bring their companies to listing.

4.3 Major Issues for Improvement of SME Finance

Major issues relating to SME finance, as identified during the field surveys, are summarized as follows.

(1) Vulnerability of financial institutions

As pointed out earlier, financial institutions in the Philippines are relatively small in terms of asset holdings, while there is a relatively large number of institutions. These characteristics seem to stem from several factors. First of all, national income and the propensity to save are very low. Secondly, reliability of financial institutions is generally low, causing capital flight to overseas or to the informal sector, preventing the healthy circulation of funds. As a result, many financial institutions face difficulty in raising sufficient funds for lending. In particular, they have to borrow funds from larger financial institutions as well as governmental ones to make up for the shortage of deposits, causing a cost increase (including the interest). Thirdly, the small size delays cost reduction efforts, including efforts through use of IT. As pointed out earlier, despite the large number of financial institutions, financial access to SMEs is limited as they can approach or obtain loans (according to reasonable terms) a small number of banks. The situation should be improved urgently in order to promote SME finance further, including the development of a mechanism to provide low-cost loanable funds for local financial institutions.

(2) Overemphasis on collateral requirements

Generally, financial institutions consider SME loans as a high risk and a low return, and do not provide them unless a sufficient collateral is pledged. Collateral requirements are particularly severe for medium- and long-term loans. Rarely are project feasibility or creditworthiness of personal security is taken into account when SME loan applications are evaluated. The SULONG program that was launched in 2003 has made significant improvements in financial accessibility, but it is said to give heavy weight to collateral requirements in actual operation. There are two reasons for this, the lack of collateral on the borrower's side (SMEs) and the inability of lenders to evaluate loan applications on the basis of criteria other than non-personal security. As a result, most financial institutions are not ready to fulfill their role in providing financial support for "not bankable but viable projects" that are often initiated by SMEs. Clearly, the overemphasis on the tangible collateral works as an impediment to new business development or expansion by SMEs.

An immediate solution to deal with the lack of collateral on the SME side is to make the credit guarantee system more accessible to SMEs. While improving the system itself (by lowering the guarantee fee, etc.), contact points for applications should be increased, and additional staff should be assigned to the service. Meanwhile, efforts should be made to improve management capabilities of individual SMEs, including the ability to prepare

documents required by financial institutions. Finally, personal security should be adopted, where possible, as an alternative to physical assets.

(3) The lack of a credit information system and the highly centralized examination system

Large financial institutions operating nationwide examine and decide on most loan applications at their head office. While they have their own reasons for the centralized system, it is problematic in terms of customer service. In particular, loan application examination often takes a long period of time, causing loss of opportunities for potential borrowers who need to make prompt payment or investment. The centralized system also prevents or discourages branch staff from making their own judgments, leaving most decisions to the head office and creating an undue delay in examination. Moreover, financial institutions often lack a strong desire to upgrade skills of branch staff. Finally, credit information used for examination (corporate information, land valuation, past credit performance, etc.) is not integrated or updated, so that most financial institutions do not have a formal examination system utilizing advanced information technology.

(4) Reinforcement of the guidance system for SMEs

Generally, SMEs in the Philippines obtain funds from the informal sector and commercial banks. Commercial banks require SMEs to submit financial statements and present their business plan or project, but they seldom provide consultation service or guidance for SMEs (based on the interview surveys). As financial institutions have a large amount of information on industries, markets and individual companies, together with the ability to analyze financial statements and other data, they should be able to provide systematic advice and guidance for SMEs (including computer-based corporate diagnosis).

(5) Major issues relating to equity financing for SMEs

In addition, the following issues should be addressed to ensure further development of equity financing and credit guarantee service.

1) Lack of attractiveness of the SME Board

The SME Board, which is supposed to introduce emerging companies, lacks attractive investment opportunities. As discussed earlier, the SME Board lists only two companies as only three years have passed since its opening. Clearly, efforts should be made to increase the listing. This should be accomplished by selecting prospective SMEs and entrepreneurs in industry sectors that have comparative advantage and approaching to their managers for extensive discussion on the company's future including the IPO. Then, various SME support programs of the Philippine government should be directed to the selected companies. The strategic focus is the key word instead of a broad-based approach. For instance, 500 prospective companies will be selected for intensive guidance and support. It will serve as an incubator for companies that can move to IPO, say around 50.

2) Fostering of investors and investment companies

At the same time, the establishment of a government investment company should be considered. At present, SBC is preparing itself for SME investment. However, the investment business is substantially different from guarantee and loan businesses in terms of risk management as well as fund management. In the initial stage, an SME investment initiative can be started in the form of a pilot project within the same company, but it should be separated from the guarantee and loan unit from the standpoint of asset/liability management. Also, it should increase investment funds by attracting local and foreign investors by using a limited partnership, thereby to support active and diverse investment policy. At the same time, to induce the return of the risk money from institutional investors, the government should help SME investment to become an important element of portfolio investment by adjusting and coordinating legal and taxation systems.

3) Easing of the IPO requirements

The stock exchange should review and modify IPO requirements and their operation policy in order to provide sufficient incentive for individual companies as well as investment companies to find the IPO an attractive opportunity. As more and more prospective SMEs aim at public offering, they will prompt underwriters to ensure a quick path to IPO. The listing of new companies with high growth potential will then attract local and foreign investors to the secondary market. It will in turn reinvigorate the primary market and benefit investment companies and institutional investors who supply the risk money. To turn a upward cycle, it is important to find SMEs with high growth potential.

The current IPO requirements in the Philippines include the authorized capital of P20 - 100 million, of which 25% should be subscribed and paid up, the net tangible assets of at least P5 million, and operational for at least two years with positive net operating income (EBITDA) and so on. The easing of the requirements is currently being considered, as they are very difficult for most SMEs to meet. In particular, the lock-up requirement does not allow founders of SMEs to sell their share upon the listing have little incentive to go public. Clearly, the stock exchange should be reformed to create a clear merit for SME founders to bring their companies to listing.

(6) Major issues relating to SBC's credit guarantee system

1) Poor recognition among SMEs

The study team asked questions on SBC's guarantee system to 5 commercial banks, 5 government financial institutions, and approximately 40 SMEs. While all the banks knew the content of the system, nearly one half of the SME managers surveyed did not know about SBC or did not have knowledge on the credit guarantee system. This, together with the poor results in 2002, indicates that the system is not widely recognized among SMEs.

SBC has been conducting a variety of promotional activities, including the “Bank Dialog” with commercial banks in various regions, a TV commercial on Saturday afternoon, and day-to-day promotion to trade associations, local chambers of commerce and industry, and individual SMEs. Nevertheless, SBC’s staffing - 6 full-time employees⁷ at the head office and four branch offices - is limited to conduct effective promotional activities. SBC should now focus on efforts to make the benefits of the guarantee system known to SMEs by emphasizing examples of successful companies that have benefited from the loan guarantee service, in addition to the increase in the number of staffs.

2) Lack of standard credit information and data

In the Philippines, there is no organization that serves as a credit bureau having reliable credit data, financial institutions make credit ratings on the basis of their own customer data. The absence of the credit bureau is considered to be a major factor for the lengthy time needed for examination of SMEs and small loans. According to SBC, it takes 2-3 weeks to examine an application for loan guarantee. Borrowers, however, have already waited for an average of two months to complete examination by a bank. This means nearly three months for the entire examination process, which is fairly long and may prevent the borrower to raise funds in a timely manner.

In fact, the lack of standard credit data concerns not only SBC but the financial industry as a whole. This partly comes from the lack of basic data (statistics) on SMEs in the country and many SMEs are reluctant to disclose corporate information. While the credit bureau should be created under the leadership of the Bankers’ Association of the Philippines (BAP), the government should made further efforts to develop and maintain a reliable SME database, which should form the basis of effective policymaking.

3) Revision of guarantee conditions

Financial institutions using the credit guarantee system complain about expensive fees (guarantee and processing), strict collateral requirements, and a large number of documents to be submitted. The guarantee fee should be based on an insolvency rate and a collection rate determined from past experience and should be set within a range where revenues and expenditures - including gains from investment - can be balanced. At the same time, the guarantee fee is a major source of income for SBC and cannot easily be lowered, whereas 2% plus the processing fee are relatively expensive for borrowers, in light of the fact that the lending rate is on the decline. It therefore requires careful consideration to these factors in order to determine whether the guarantee fee is revised or not. In addition, favorable conditions may be set for prospective projects or strategic areas and a mechanism to cover the loss from the government budget (subsidy) may have to be considered.

⁷ Among 15 staffs in Credit Guarantee Group at the head office, only 6 are full-time staffs in charge of guarantee service.

Chapter 5 SME Promotion Policy, System and Organization

Chapter 5 SME Promotion Policy, System and Organization

5.1 Major SME Related Laws

At present, there are two laws relating to SME promotion, which are considered to be more important, Magna Carta for Small Enterprises (amended RA 8289) and Barangay Micro Business Enterprises Act of 2002 (RA 9178). They are described as follows.

(1) Magna Carta for Small Enterprises (RA6977 and amended RA 8289)

The basic law governing SME promotion in the Philippines is generally referred to as the Magna Carta for Small Enterprises (Republic Act 6977; amended and renamed as RA 8289 in 1997). Originally enacted in 1991, the law is relatively compact, consisting of 4 chapters and 17 articles. Essentially it sets forth basic rules for SME promotion and provides for the definition of SMEs and mandates the establishment of the institutional framework for the existing SME promotion system, the Small and Medium Enterprises Development Council (SMEDC) and the Small Business Guarantee and Finance Corporation (SBC). It also stipulates the provision of the mandatory quota for SME loans¹. After the major amendment in 1997, the law has been regularly reviewed and its amendment is currently under discussion.

At present, RA 8289 sets forth the following four key policies for SME promotion, called “Guiding Principles:”

- A minimum set of rules and simplification of procedures and requirements
- Encouragement of private sector participation
- Coordination of government efforts for coherence in objectives
- Decentralization

(2) Barangay Micro Business Enterprises Act of 2002 (RA 9178)

The Barangay Micro Business Enterprises Act was recently enacted to support microenterprises as well as the informal sector, which have survived through the financial crisis. The Act defines micro-enterprises as enterprises having a total asset value of 3 million Pesos. RA 9178 legislates public support in response to programs for the alleviation of poverty. The Act calls for enterprise promotion in rural areas, especially focusing on the use of local resources and creation of employment opportunities. It provides for the following incentives for microenterprises:

- Exemption from the business income tax for two years
- Exemption of minimum wage requirements

¹ Every financial institution is required to establish loan funds for SMEs, and under the amended law, it must lend 6% of its total loan funds to small enterprises and 2% to medium-sized enterprises between 1997 and 2007.

- Financial support which can be sourced from government financial institutions such as DBP, SSS and GSIS, and
- Technology transfer, production and management training and marketing assistance through the DTI, DOST, University of the Philippines Institute for Small-Scale Industries (UPISSI), Cooperative Development Authority (CDA), Technical Education and Skills Development Authority (TESDA) and Technology and Livelihood Resource Center (TLRC).

5.2 SME Development Plans

The Philippine government has announced several SME development plans (and strategies). Among them, “SME Development Strategy 1998” which was announced by the Secretary of DTI (also serving as Chairman of SMEDC) in June 1998 has served as a general yardstick for SME development to this date. Then, SME Development Plan/SME Core Group Action Plan for 2002 was announced in September 2002, followed by the National SME Development Plan 2002 that was presented in November. Table II-5-1 presents general features of the three plans the three development plans have the following common elements that are considered to serve as the general framework for the country’s SME development policy:

- 1) To reinforce the industrial (inter-company) linkages;
- 2) To reinforce financial support (accessibility) for SMEs; and
- 3) To review the existing programs and ensure their efficient management as a whole.

The SME Development Plan announced in September 2002 was eventually considered as the draft plan for National SME Development Plan, which was then announced by President Gloria Macapagal Arroyo in November 2002. Thus, National SME development Plan 2002 is considered as the formal SME development plan currently being implemented.

In addition, the Arroyo administration is currently compiling key policies as “National SME Development Agenda,” some of which are already implemented under the leadership of DTI. While others have still to be implemented, National SME Development Agenda clearly forms a general framework for SME policy. The following is a list of the key policies and their titles, as arranged according to the field of focused development.

National SME Agenda Key Components

<u>Finance</u>	<u>Present State</u>
➤ SULONG:GFI unified lending program for SMEs	Implementing
➤ Unified accreditation for rural and thrift banks	Implementing
➤ Improved SME lending rules by Monetary Board	Implementing
➤ Credit bureau development	Under planning
➤ Equity venture fund establishment	Under planning

Marketing

- Trade fairs, local & international Implementing
- Buyer-supplier matching Implementing
- Permanent display corners Unknown

Training/HRD

- Compendium of government training programs Unknown
- Business counselors program: DTI staff and professional volunteers
Implementing
- Entrepreneurship and skills training: Fee seminars on “How to Start a Business”
Implementing
- Review academic curricula Under planning
- Provide special request or industry association training programs
Under planning

Product Development/Technology Intervention

- Product technology
Product development compendium
Product commercialization campaigns of DOST-developed technologies
HACCP awareness campaigns
Preparing Halal and Kosher food primers Unknown
- Product clinics/consultations Implementing
- Product design and packaging Implementing
- Common service facilities (CSFs) nationwide Under planning
- DOST Set-up Program Unknown

Advocacy for an Enabling Business Environment

- Barangay Micro-Business Enterprise Law (RA 9178) Into effect
- Simplification/harmonization of LGU business registration process
Under planning
- Review of laws affecting SMEs Implementing

Regional

- SME Forums nationwide Implementing
- Strengthened SME Centers Implementing
- SME Caravans Implementing

Table II-5-1 SME Development Transition

SME Development Strategy 1998

1. The Vision for Philippine SMEs

SMEs are a key component in the chain of institutions contributing to national economic growth. Enhancing the vitality of SMEs is of pivotal importance in maintaining Philippine dynamism into the 21st century.

2. Strategic Imperatives and Action Programs

(1) Narrowing the Focus: Small Firms, Specific Sectors

(From the point of view of international competitive and job creation)

- Narrowing the focus and zoom in on five priority sectors through discussion with the private business people.

(2) Promoting Synergistic Linkages among Firms: Gearing Up for Maximum Growth

- Promotion of industrial sub-contracting (involving assemblers and exporters)
- Implementing a pilot project of Link-based Economic Growth Model in a specific sector
- Strengthening and activation of SME associations, and groups of SMEs and industry and trade associations.

(3) Strengthening Technology and RR & D Initiatives

- Support and promoting technology development in SMEs by government and other relevant institutions
- Promoting the use of quality systems and standards
- Strengthening activities of the Technology Exchange and Training Center for SMEs

(4) Bolstering Human Resource Development for SMEs

(For managers, technicians, and entrepreneurs)

- Expansion and improving of training programs and curricular for SMEs
- Advocating for improved basic education at the primary and secondary levels.
- Identification of human resource development requirements in specific industries/sectors
- Special economic zones must provide facilities and resources for skills training for SMEs in their respective zones.

(5) Improving SME Access to Financing

- Developing innovative schemes to increase SME access to financing.
- Monitoring banks' compliance with the mandatory allocation of credit resources as provided for under the Magna Carta for Small Enterprises.



SME Development Plan 2002 (SME Core Group Action Plan for 2002)

1. Strategic Concern of Philippine SMEs

- Expansion of the enterprises by graduating micro and small enterprises to higher levels of business undertakings
- Upgrading of their productivity and value-added capabilities

2. Three-point Strategy for the SME Sector

Mission: Integration of the SME sector with the domestic economy

Strategy 1 Soft-entry of SMEs into the formal economy

Strategy 2 Improvement in the business environment

Strategy 3 Improved credit flow and transfer of technology

3. SME Core Group for 2002

Initial Priority Industries

- 1) Food Products
- 2) Giftware and Holiday Decors
- 3) Home Furnishings
- 4) Wearable
- 5) Organic and Natural Products

4. SME Core Group Action Plan for 2002

1) Strengthening backward and forward linkages

- Support for positioning of local SMEs as backward linkages to anchor corporations vice foreign suppliers

2) Small Business Incubation Program

- Strengthening of the SME centers and providing wide range of supporting programs for Small business
- Experts in various fields of business will conduct assessments and provide recommendations to SMEs on site

3) Raising Star program

- A financing program for the ten best business ideas to support the development of the priority sectors. This program also complements DTI's Plus One program.

4) InterSMEX Project

- Establishment of SMEs to trade and source capital, business and production technologies, marketing opportunities through the Internet.



National SME Development Plan 2002

(The President's Priority Strategy for Developing the SME Sector)

1. Three Year Objectives

- (1) 40% increase in the share of the Small and medium segments from 8.7% to 12%
 - Graduation of micro enterprises into small businesses plus new entrants will result in a total increment of 38,000 new SME
- (2) Increase the productivity in terms of GVA from 32% to 40% of Small and Medium segments of the local SME sector to the level of the ASEAN average.
 - More companies in manufacturing/processing sector, better utilization of local materials and higher value for labor component

2. Six Month Objectives

- (1) Increase share of SME segments from 8.7% to 10% by graduating mezzanine micro enterprises to small business & generating new businesses
 - Additional 11,600 SME in six months
- (2) Strengthen 20 strategic SME Centers all over the country
- (3) Strengthen financing programs for SMEs

3. Basi Strategies for SME Development

- (1) Integrate the various SME development program
 - in the field of financing, HRD, market development, product development and advocacy for enabling environment
- (2) Implement a near term supply side push particularly in financing
- (3) Localization of development programs
 - Participation by the key players of the local economies such as rural banks, coops, LGUs, etc.
- (4) Strengthen of SME Centers

4. Development Direction

- (1) Financing
 - 1) Lending and guarantee by GFIs will initiate a supply side push for SME financing
 - 2) Establishment of venture capital fund (P1.75 billion)
 - 3) Funding for SME through DTI network (P1.5 billion for 3 years)
 - 4) Improve credibility of Small Business Corporation
 - 5) Develop and adopt standardized forms for SME loan documents acceptable to all banks
 - 6) Decrease in reserve requirements on rural banks and thrift banks
- (2) Marketing
 - 1) Increase exposure of SME products in domestic and foreign markets (Trade fairs, buying & selling missions)
 - 2) Improving of distribution network
 - 3) Promotion of investments by SMEs
- (3) Product Development
 - 1) Strengthening of advisory services for SMEs
 - 2) Commercialization of research outputs on alternative uses of indigenous raw materials
 - 3) Technology improvement
- (4) HRD/Entrepreneurship Training
 - 1) Reviewing existing curriculum to minimize duplication and streamline training offerings
 - 2) DOLE/OWWA implements special OFW Entrepreneurship Training Programs
 - 3) Academe to be a seedbed for the formation of entrepreneurs
 - 4) Skills upgrading for SME service providers (Training of trainers)
- (5) Advocacy/Enabling Environment
 - 1) Monitor implementation of the BMBE Law
 - 2) Harmonize, simplify and standardize business forms and fee among LGUs
 - 3) Reviewing government rules and regulations that impede the efficient conduct of SME business

5. DTI Firm-level Initiatives

- 1) Brand Management Program
- 2) Opportunities Caravan
- 3) PEZA and Captains of Industry
- 4) Survey on Competitiveness of Cities
- 5) Entrepreneurship Livelihood Program for Specialized Groups

6. Priority Industries and Areas

- 1) Jewelry in Bulacan
- 2) Local industries in Negros
- 3) Furniture industry in Cebu
- 4) SMEs in different parts of the country

5.3 SME Promotion System and Organization

5.3.1 DTI's SME Promotion System

(1) Central government level

At present, public policy for SME promotion in the country is formulated by the Bureau of Small and Medium Enterprises Development (BSMED) of DTI. SME promotion efforts by the public sector date back to 1962 when the National Cottage Industry Development Authority (NCIDA) was established to foster cottage and small enterprises using locally available resources. In June 1969, R.A 6041 created the Institute for Small-Scale Industries as a unit of the University of the Philippines (UP-ISSI) to engage in the development of small-scale industries through training, research and consultancy. UP-ISSI authored and implemented the first supervised credit program with funds from the Social Security System (SSS) for three years.

In 1974, as the importance of SME promotion was recognized in the National Development Plan, the Bureau of Small and Medium Industries (BSMI) was established within DTI. BSMI was reorganized to BSMBD in 1987, then to BSMED in 2002. At present, DTI consists of six groups including International Trade Group and Industry & Investment Group. BSMED, together with Board of Investment (BOI), belongs to Industry & Investment Group. Its primary responsibility is to provide support for SME development, support for functional enhancement of SME support and related organizations; and SME policy planning and coordination. (See organizational charts in Figures II-5-1 and II-5-2.)

Another organization that plays a key role in SME-related administration is the Small and Medium Enterprises Development Council (SMEDC), which is chaired by the Secretary of DTI. Established under the mandate of RA 6977 (the "Magna Carta"), SMEDC is the key organization responsible for the formulation of SME promotion policies, organization, system and institution, and offers its opinions and recommendations to other organizations where SME is a major consideration. SMEDC is organized at central and local levels. At the central government level, it is composed of 14 members, 10 representatives from government offices and 4 from the private sector, with BSMED acting as the secretariat. SMEDC is organized in the provinces. Provincial SMEDCs provides the local conduit for opinion, plans and programs which are elevated to central SMEDC². SMEDC designates a responsible perform for each of the development fields listed as key components of "National Development Agenda."

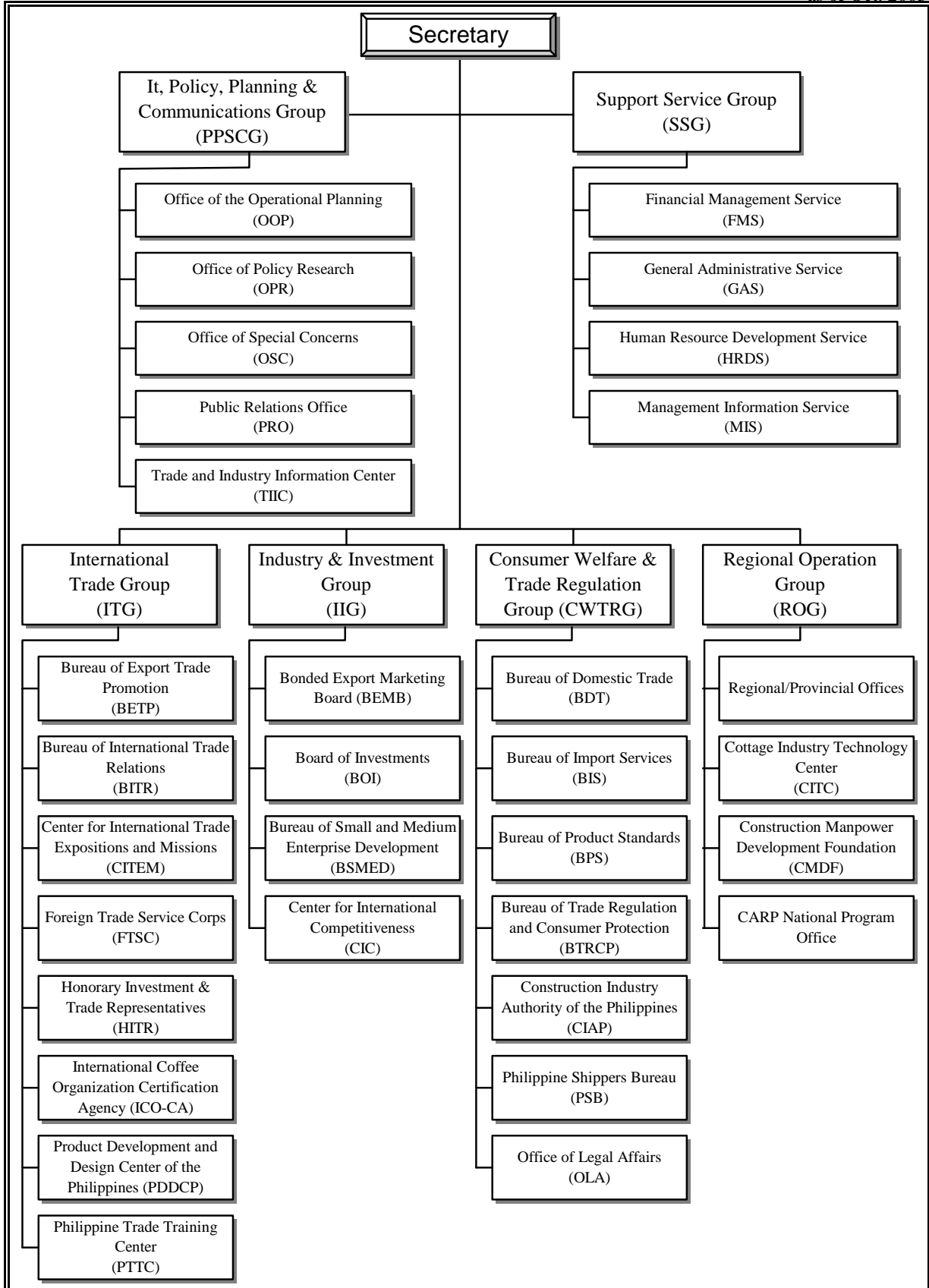
Finally, within the framework of the Magna Carta, the establishment of an inter-departmental SME promotion organization is being planned by using the existing organizations, but it has not been materialized.

² At present, it is not established in every province.

DTI plans to reorganize its bureaus and offices those are related to SME development in the Development to improve efficiency of program implementation. As of November 2003, however, it is not yet formally decided.

Figure II-5-1 DTI Organization Chart

as of Oct. 2003



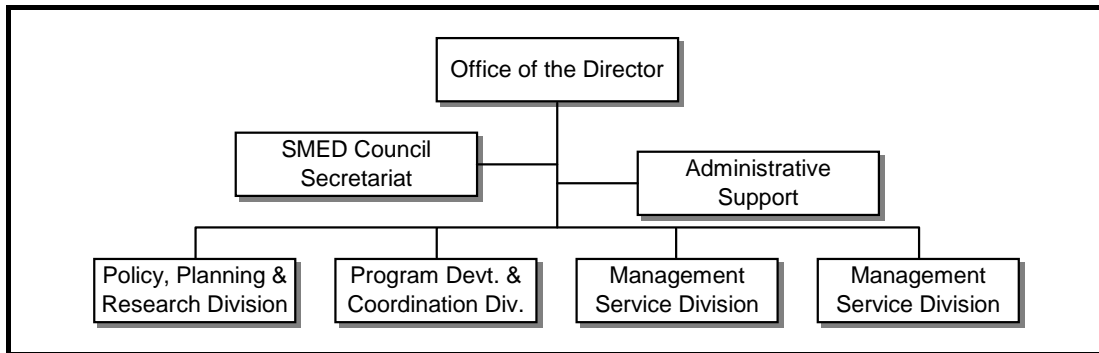


Figure II-5-2 Organization of BSMED

The Cottage Industry Technology Center (CITC) is providing basic technical skills training in the interest of SME promotion. Originating from the Technology Development Center that was established under the assistance of JICA, CITC was then attached to NACIDA. At present it is under the Regional Operation Group (ROG) and is primarily responsible for technical assistance to micro-enterprises engaged in wood products, furniture, gifts/housewares and sundries. It conducts training programs in local communities and has facilities for bamboo craft, woodworking, and metalworking, which are partially made available to the public. It offers simple production process to jobless persons at the Barangay level as well as support programs to upgrade professional skills, however, they are not very active due to budget constraint.

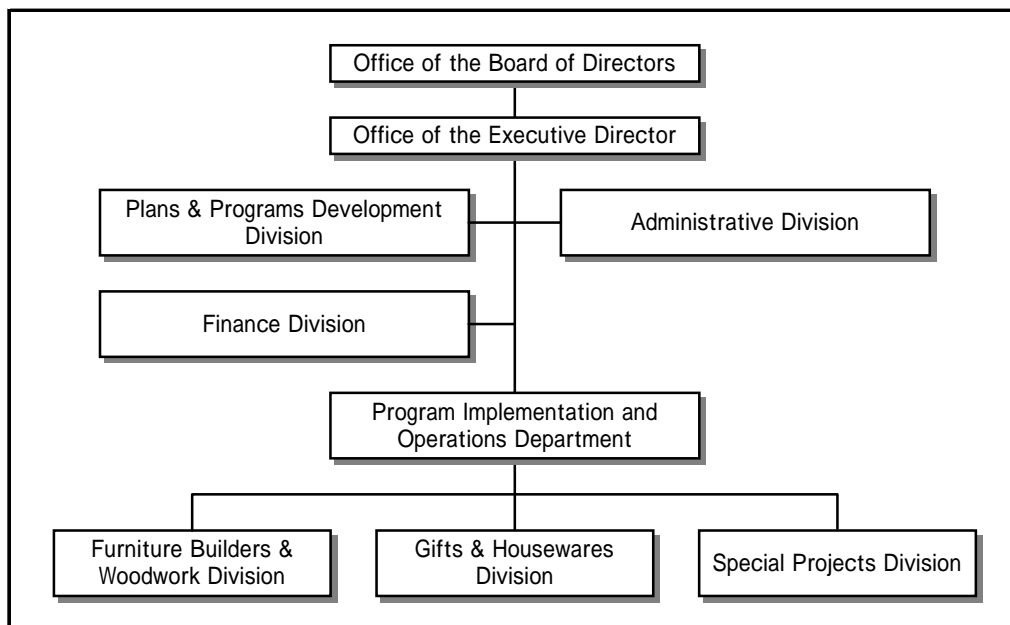


Figure II-5-3 Organizational Chart of CITC

(2) Local level

SME promotion at the local level is implemented by DTI regional and provincial offices, which also serve as the local contact for the functions of DTI. SME promotion programs are implemented with BSMED's budget. However, not all local office have staff who are familiar with SME promotion. The local DTI offices are under the jurisdiction of the Regional Operation Group (ROG) and thus report directly to ROG. The regional offices employ an average of 55 persons each and supervise all DTI offices within the province.

One of the important functions of the provincial DTI is to handle the "business name registration" system, under which business owners register their business name and use it exclusively for five years for a registration fee of 300 pesos. The registration differs from a general database on business establishments.

(3) SME Centers

There are 79 SME Centers throughout the country. They have been established in the provinces since 1996. 65 centers are currently accommodated in DTI regional or provincial offices. Other centers are located in the local chamber of commerce or the municipal/city office. SME Centers are primarily responsible for providing information on SMEs as well as implementing programs and projects. They provide the following services:

- 1) Information service through various media, including pamphlets, posters, directories, and newsletters;
- 2) Intermediary service such as referrals to management consultants, and financial institutions; also to other private enterprises;
- 3) Management advice on business planning;
- 4) Other technical advice such as business startup and commercialization; and
- 5) Provision of or arrangement for facilities used for workshops, seminars and training programs.

SME Centers are required to report their activities monthly to DTI local offices, which in turn make a quarterly report to ROG. While 79 SME Centers are reported to be operating throughout the country, the actual number of centers engaged in substantial activities seems to be fairly limited, less than ten as of April 2003. The low budget and limited manpower account for the inactivity of most SME Centers. Active centers are gaining support from local chambers of commerce and industry. Operating SME Centers effectively on a continuous basis requires adequate support measures.

DTI and SMEDC are working to revitalize SME Centers by designating 25 centers for priority development to allocate resources including equipment and staff required for their activities. While a program budget has been approved, it has partially been disbursed as of September.

To give a typical example of the revitalization program, the case of the Pasig City Business Center is described below. It is considered to be a successfully project.

Pasig City Business Center

The center is located in Pasig, a city nested within the NCR and is operated under support of the municipal government and the chamber of commerce and industry. It has an office in a city hall and the municipal government bears rent and energy costs. The center employs 4 full-time staffs, of which the municipal government pays salaries for three persons and the chamber of commerce and industry for one person. Its principal activities are: (1) to hold special seminars and workshops; (2) to publish relevant information on its Web site; and (3) to operate the business one-stop shop (BOSS). In reality, however, it is not actively promoting itself due to a limited program budget and rather waits for inquiries and requests. In 2002, the center held 10 seminars and provided around 1,000 cases of consultation service at the BOSS. In addition, it provides support for DTI's programs at its own cost.

The center has been designated as one of 24 centers for which the reinforcement program will be implemented for this fiscal year.

(4) SME Production Centers

DTI is authorized, under the General Appropriations Act of 1994, to establish seven SME Production Centers throughout the country. Accordingly, DTI established the following seven centers.

- Los Banos Basket Weaving Center: Opened in July 1996
- Bicutan Ceramic Training Center: July 1997
- Albay Ceramics Center: October 1999
- Cebu Decors Center: June 1997
- Bgy Marble Processing Center: October 1999
- Mabalacat Furniture Center: June 1998
- Guiguinto Marble Processing Center: November 1998

These centers are expected to be self-supporting after the government funding has been provided during the initial five-year period. Therefore they are mandated to create or expand revenue-earning activities to cover operating costs, such as the rental, service for its facilities and equipment, and the contract processing service. But three centers, namely Los Banos, Bicutan, and Albay have suspended operations due to financial problems. The other centers are facing difficulties in maintaining efficient facilities and equipment due to budgetary constraint. Support by local trade associations seems to be a critical factor to the continuation of the centers.

Among the Production Centers in operation, the study team visited two centers located in the study area, namely Cebu Fashion Accessories Training Center and Mabalacat (Pangpanga) Furniture Training Center. The two centers were owned by the government (DTI), both land and buildings, and training and other equipment was provided by DTI or donated by foreign organizations. The Cebu center was built under the support from the Japanese government, and the Mabalacat center from the Denmark government and other organizations. Their operating funds are mainly provided by local trade associations and they do not receive financial assistance from the government. As a result, they are operated with a primary aim to supply human resources to local industries and seem to contribute greatly to local communities by accepting a large number of trainees. Nevertheless, as they have been operating for more than five years, they need to upgrade their curriculum and equipment in order to meet the changing needs of local industries. In addition, they are actively engaged in contract processing work entrusted by local industries for the purpose of earning operating funds, and many trainees are assigned to actual work. As the training centers are expected to assume different roles according to the changes of the times, it is the time to consider the needs for public support in order to help them to fulfill their functional requirements to train and supply human resources in an effective and efficient manner.

DTI's local-level organization for SME promotion is summarized in Figure II-5-4.

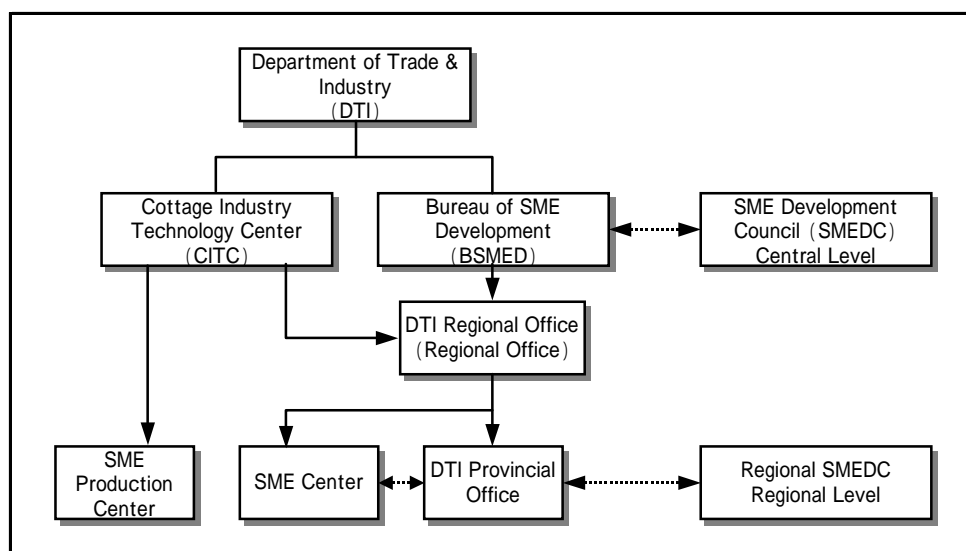


Figure II-5-4 Organization for DTI's SME Promotion

5.3.2 Other SME Support Organizations

(1) Other public organizations

In addition to DTI, there are a number of organizations providing support for SMEs, which are under jurisdiction of various departments. Department of Science and Technology (TST) implements a relatively large number of SME support programs, most of which focus on

technical support but some are engaged in loan programs relating to equipment upgrading. Also, UP-ISSI has a long history of involvement in SME support as a university organization and provides a wide range of services. As there are a large number of organizations that are involved in SME promotion, including those conducting activities that are indirectly related thereto, the report lists them together with their general profiles in Annex II-5-2.

(2) NGOs and SME promotion

In the Philippines, a number of non-government organizations (NGOs) have been extending a variety of support and assistance services for microenterprises in rural areas. They vary greatly in size and scope of activity, ranging from large organizations that conduct nationwide civilities to local, community-based organizations. Among them, well-known NGOs include the following:

- Philippine Business for Social Progress (PBSP)
- Small Enterprises Research and Development Foundation (SERDEF)
- Philippine CEFE Network Foundation, Inc. (PCNFI)
- Center for Small Entrepreneurs (CSE)

NGOs are mainly engaged in technical training and guidance services, which are largely contracted to various government organizations that are responsible for SME support services. Also, many NGOs are involved in financial support activity whereby they make use of their close contact with micro-enterprises in rural areas; they are often used to verify credit standing of small lenders and to help collection of loans.

5.3.3 SME Promotion by Local Governments

(1) Local government units (LGUs)

The local government system in the Philippines, governed under the 1987 constitution and the Local Government Code of 1991, consists of four levels, namely provinces, cities, municipalities, and Barangay. Cities are further divided into highly urbanized cities and component cities (Figure II-5-5). As of October 2003, there are 79 provinces, 115 cities, 1,497 municipalities, and 1,959 barangays, each of which has its own assembly and administrative functions. They are collectively referred to as local government unit (LGUs). The Local Government Code delegates some of its services to the LGUs, including those relating to industrial development. However, actual activities of LGUs funded by their own budget are largely limited to infrastructure development (mainly roads), education and medical service. Few LGUs implement industrial development projects or programs.

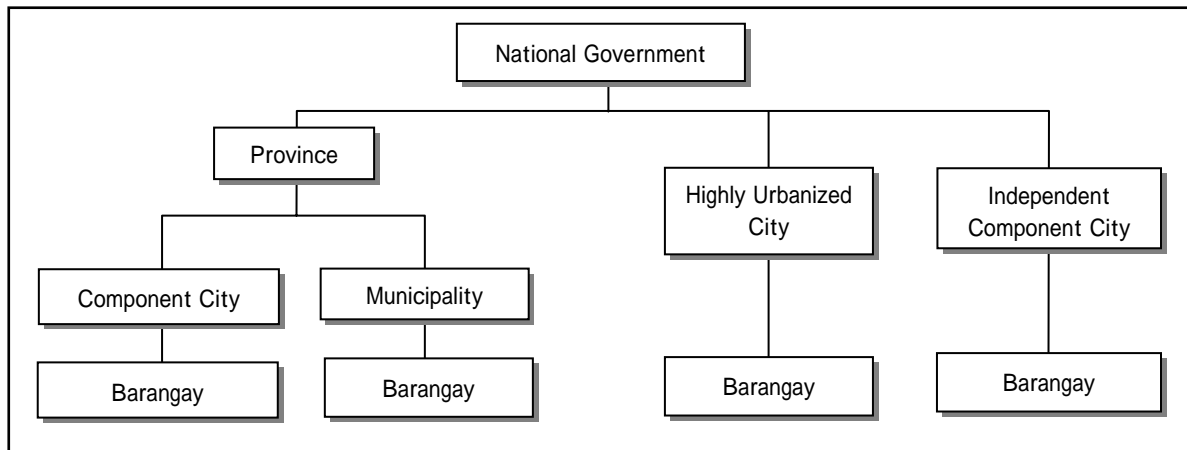


Figure II-5-5 Local Government System in the Philippines

(Note) Provinces, cities, and municipalities are classified according to the population, land area, and the average annual income for the last three (3) calendar years.

Source: Prepared by the SAPI team

Among local governments visited during the first field survey, Bulacan, Pasig City, and Marikina City try to play an active role in industrial development by making effective use of local resources and competitive advantages. According to these governments, other local governments have a great expectation for industrial development projects, but many of them feel that local governments can do little due to budget constraints, suggesting the need for further collaboration with and support of the central government, private organizations, and NGOs.

(2) New Challenge by LGUs

As a landmark legislation, Republic Act No.7160, more commonly known as the Local Government Code (LGUs) of 1991, not only drastically shifted power from the central government to the local governments but also initiated the major changes in the country's political and economic development arenas at local levels. The devolution process allows local governments to leverage the advantage of having first-hand knowledge of local conditions and to allocate its resources in the manner most effective for local economic development. Some strategies that are desired by LGUs in their regional economic development process are as follows:

- 1) Making available sites for entrepreneurs to locate their business or identifying infrastructures and facilities that will attract prospective investors to establish their business in their locality (Including establishments of special economic zones in designated areas);
- 2) Sourcing for external funds for local public enterprise;
- 3) Organization of teams and economic promotion units that could hasten or facilitate the effective implementation of economic plans;

- 4) Collaborating with private investors, NGOs and other civic groups who can contribute resources, ideas and skills to ensure the attainment of the economic aims of the local units;
- 5) Strengthening internal administration to insure improved performance of the economic functions of the local units;
- 6) Direct intervention in creating jobs by facilitating the supply of labor and ensure that unnecessary impediments to employment generation are removed; and
- 7) Initiating sustainable development programs that build in “environmental consideration.

5.4 SME Promotion Programs

5.4.1 Ongoing SME Promotion Programs by BSMED

SME promotion programs (short-term programs) underway, as led by BSMED, are described as follows.

(1) Trade Fairs

Primarily designed for local enterprises, both exhibitors and buyers, trade fairs are held on national and regional scales. For instance, a national trade fair was held in the MCR between March 12 and 16, 2003. 186 SMEs from all over the country displayed their products and there were approximately 15,000 visitors. The trade fair also offered design advice and training programs for SMEs. On the other hand, regional trade fairs are held in cooperation with DTI’s provincial offices and local government units (LGUs). The trade fairs have traditionally been held periodically under the sponsorship of DTI. In the future, it is planned to hold them with less financial assistance from DTI by attracting private organizations as major sponsors and mobilizing more support from LGUs. Program budget for Trade Fairs accounts 4 million Peso in 2003.

(2) SME Opportunities Caravans

This is a seminar program to reinforce competitiveness of SMEs, held throughout the country in the first half of 2003. The first one was held at La Union, followed by 27 caravans being scheduled. BSMED has allocated 6 million pesos for the program, which consists of three components: (1) needs analysis for SMEs; (2) seminar-style training courses; and (3) follow-up activity. The first two components are held as part of a one-day seminar and are managed by PTTC on a contract basis. DTI’s regional offices are responsible for recruitment of program participants and follow-up activities. In fact, the activities covered in the program should be carried out by local SME centers. As discussed earlier, however, most centers do not function properly and are not capable of performing their services. Besides, an intensive program to reinforce competitiveness of SMEs is required to foster new startups as targeted in the National SME Development plan. Under these circumstances, the program was incepted. In the future, if the efforts taken under the program are to continue on a

sustainable basis, a permanent structure should be established to ensure its implementation, including revitalization of SME promotion centers.

(3) Entrepreneurship training

The program is implemented by BSMED to provide training for would-be entrepreneurs. In fact, any person who has potential and willingness to start his or her own business is eligible for the program, thus accepting a wide variety of people, including those who have returned from overseas work, former employees of large corporations, aspiring college students, and tricycle drivers. The training program lasts only one day and is thus characterized as a seminar to teach useful hints to would-be entrepreneurs, rather than an entrepreneurship training camp. This makes a sharp contrast to TESD's entrepreneurship training program that focuses on management skills and techniques required for business startup. In 2003, 16 seminars were already held between January and May and approximately 400 people attended. BSMED allocates a budget for the program at 334,000 peso only.

(4) Franchise seminars

This is designed to promote business startups by encouraging participation in franchise chains, mainly restaurants, and introducing them to potential franchisees in the form of a seminar. The program has been conducted for several years by BSMED in collaboration with the Philippine Franchise Association (PFA) and the Association of Filipino Franchisers Inc. (AFFI). The frequency of the seminar varied between years due to actual business conditions. In 2003, two seminars were held with nearly 170 participants. So far, 15 franchise contracts have been concluded as a result of the program. Thus, the program serves to create opportunities for business startups with a different approach from the training program.

(5) Display House/SME Corner

This program was planned but its implementation in 2003 has been postponed.

(6) SME Centers

The program is designed to revitalize the existing SME Centers by redeeming their role as a one-stop service center for local SMEs. It is planned to select and develop 20 centers for functional enhancement by providing PCs and other resources. 8 million pesos have been appropriated as the program budget, but it has not started as of the end of May 2003.

In addition, BSMED implements several continuous programs, such as SME Week and SME Awards.

Table II-5-2 List of SME Promotion Policies and Programs

Legal infrastructure, plans, policies and programs	Year enacted/established	Organizations established
Magna Carta for Small Enterprises (Republic Act 6977) (Republic Act 8289)	Enacted in 1991 and amended in 1996	BSMBD/SMEDC
Barangay Micro Business Enterprises Act (RA9178)	2002	BSMED/DTI
SME Development Plan	2002	BSMED/DTI
SME Development Strategy, 1998	1998	BSMBD/SMEDC
National Business Registry	2001	SMEDC
Database Build Up	2001	DTI
Support and promotion programs in the filed of technology		
Increase Awareness of SMEs toward ISO Certification		DOST/BPSCT
APEC Center for Technology Exchange and Training for SMEs	1996	DTI/BSMBD
Improve and Expand Technology Service/Transfer to SMEs Focusing on DTI Priority Sectors	Reviewed/revised annually	DOST
Comprehensive Program to Enhance Technology Enterprises		DOST
Establishment of a National Packaging R & D Center		DOST
Expansion of Regional Metrology Centers		MTPDP
S & T Program for Mindanao		DOST
Support and promotion programs in the filed of human resource development		
Countryside Entrepreneurship Development Program	1995	BSMBD & UPISSI
"Links Model" Pilot Implementation	1999	CITI/CARP Philexport
Benchmarking and Documentation of Best Practices on HRD for SMEs		CIC/ECOP/PCCI
Values Formation for SMEs and their Workforce		UP-ISSI/SMEDC
Franchising Seminars	2001	BSMED
Support and promotion programs in the filed of market development		
Market Encounter Program	Implemented intermittently since 1983	DTI/BDT
Trade Fairs		DTI/BDT
Determine SME Volume Requirement for Bulk Buying of Say Raw		Philexport/DT
Involve Overseas Filipinos in Marketing Products	1997	PRA/PITC
Government procurement from SMEs		PRA/DTI
E-commerce Law (Republic Act 8792)	1999	ICT、DTI他
Philippine Export Development Program, 1999-2001	1999	EDC
Support and promotion programs in the filed of finance		
Establishment of Small Business Guarantee and Finance	1996	
Compile Best Practices of Banks in Streamlining their Documentary Requ	1998	
Act of Providing Assistance to Women (Republic Act 7882)	1995	DTI/MOF/GFIs/DBP

Source: Philippine SME Best Practices and other documents, edited by the Study Team

5.4.2 Other SME Promotion Programs

Table II-5-2 lists major SME promotion policies and programs that are underway as of 2002. In fact, the ongoing programs contain many programs that have been continuously implemented for a long period of time by various institutions.

Tables II-5-3 and II-5-4 summarize support programs and measures conducted by SME support organizations including those under DTI. Table II-5-3 lists service areas covered by 32 leading SME support organizations (13 under the supervision of DTI), particularly the following five fields which are priority areas of the present study.

- Marketing
- Production technology and process
- SME finance
- Human resource development
- Dissemination of information on SME support policies and programs

For instance, 28 organizations are engaged in the service providing market information, although the details of their service have still to be analyzed. It should be noted that there are a small number of organizations engaged in financial service. This simply reflects the fact that there are a small number of public financial institutions in the country and it does not necessarily mean that they are only organizations that provide financial support for SMEs. In fact, private financial institutions that hold the bulk of share in the financial market play a critical role in this respect.

Notably, many SME support organizations are engaged in two types of services, education/training and technical assistance, reflecting the fact that these service areas are most suitable for public support. Within the education and training field, the largest number of organizations offer service to teach technical skills. Thus, so far as the number of support organizations is concerned, technical support is the area where relatively rich resources are available. Many organizations providing technical support including education and training send consultants and advisors to SMEs for field guidance, rather than long-term training at a school or similar facility. And they generally face problems relating to the shortage of production or training equipment due to aging or obsolescence, which is the result of budget constraint or inadequate maintenance.

It has been pointed out that under the SME support system involving as it does a multiple number of departments and organizations, in a number of fields there is duplication of services provided by DTI organizations and other departments. Although they attempt to demarcate responsibilities, further efforts should be made for optimum coordination (i.e., most organizations are not aware of services provided by others in detail). In fact, optimization of resources and efforts by minimizing the duplication of activity areas will help SME support

organizations to mitigate the persistent issue of budget constraint and to maximize efficiency and effectiveness of their programs.

5.4.3 Major Issues of the Past SME Promotion Policies and Programs

The country has established its basic SME promotion policy and system relatively early. In fact, the government started its SME promotion initiatives much earlier than other ASEAN countries, but it has been criticized for having failed to produce significant results. Against the background, it is encouraging to see that the present administration is fully committed to SME promotion by placing it as a core target for structural improvement of the Philippine industry, while the previous administrations viewed SME promotion as part of efforts to develop local industries or regions. The government's strong commitment is reflected in the fact that the present SME development plan specifies quantitative targets (e.g., the number of new establishments, the value added). Yet it seems to set forth ambitious goals that are to be achieved within a relatively short period of time³, and major issues relating to program implementation, such as the delay in budget execution and the shortage of human resources, remain unchanged. Clearly, result-oriented management of the SME development plan continues to be the key to the successful implementation of the SME promotion policy according to its well-established framework.

³ During the field surveys, it has often been heard that the goals would be difficult to achieve in light of the unfavorable environment surrounding SMEs and the persistent delay in implementation of support programs.

Table II-5-3 Number of Agencies per Functional/Service Area

Code	Functional Area	No of Agencies
1. Market Development, Sales Promotion, Product Development, providing with:		
1.1	Direct sales opportunity (e.g. priority in Government procurement, etc)	9
1.2	Market Information	28
1.3	Opportunity to access to market (e.g. support for participation to trade fair; Business Matching, etc)	15
1.4	Assistance for enhancement of capability (e.g. consultancy/advisory service; workshop;seminars, etc)	22
2. Technology (including Production Management)		
2.1	Direct advice / diagnosis on production management	16
2.2	Direct advice/diagnosis on production technology	16
2.3	Support through provision of technical infrastructure (e.g.tests, research, calibration, etc)	11
2.4	Equipment Modernization	11
2.5	Common Service Facilities	11
3. Financing		
3.1	Short term loan	0
3.2	Long term loan for investment on equipment	2
3.3	Equity Financing	7
3.4	Credit Guarantee	6
3.5	Rental/Leasing	8
4. Training and Education on:		
4.1	Start-up Business	14
4.2	Mid/high level management method	14
4.3	Production Management (incl: quality management,cost management, production plan management, etc)	15
4.4	Technical Skills	20
4.5	Training of private SME catalysts	18
5. Legislative and Institutional Development		
5.1	Basic policy framework	19
5.2	Encouraging Business (incl.investment promotion; export promotion, etc)	19
5.3	Protection of Domestic Market/Industry	16
5.4	Training and Education of Administrative staff of government agencies or SME Development Catalyst	20

Table II-5-4 Number of Programs per Agency, per Functional Area

Agencies Programs/ Projects	No. of Programs	F U N C T I O N A L A R E A S																							
		<i>Market Development</i>				<i>Technology</i>					<i>Financing</i>					<i>Training and Education</i>					<i>Legislative and Institutional Development</i>				
		1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	
DTI Line Agencies	57	7	27	14	14	8	9	4	4	6	0	0	2	2	2	6	6	6	9	9	11	17	11	8	
DTI Attached Agencies	33	8	9	6	5	3	4	5	5	3	0	2	4	4	4	4	7	5	7	8	6	12	7	6	
Department of Science & Technology	23	0	8	1	8	7	8	10	5	2	1	1	1	0	2	1	1	1	3	0	1	0	0	1	
Department of Labor & Employment	4	0	1	1	1	0	0	0	0	0	0	0	0	0	0	1	0	0	1	1	1	0	0	1	
Other Institutions	5	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	
University of the Philippines	7	0	2	3	4	2	2	2	1	0	0	0	1	0	4	3	4	3	3	2	1	0	3		
Associations	12	1	2	3	8	2	1	0	1	2	0	0	0	1	1	3	4	2	3	7	3	3	6	4	
Total Number of Programs	141	16	54	28	40	22	24	21	16	13	1	3	7	8	9	19	21	18	26	28	25	33	24	23	
Percentage [Programs/Total Progs]	100%	11%	38%	20%	28%	16%	17%	15%	11%	9%	1%	2%	5%	6%	6%	13%	15%	13%	18%	20%	18%	23%	17%	16%	

Annex (II-5)

1. List of SME Development Programs/Projects	AII-5-1
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Chamber of Furniture Industries of the Philippines (CFIP)	AII-5-13
Cebu Furniture Industries Foundation, Inc. (CFIF).....	AII-5-15
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Visayas Cooperative Development Center (VICTO)	AII-5-17
Philippine Food Processors and Exporters Organization, Inc. (PHILFOODEX)	AII-5-18
Saint Louis University Extension Institute for Small-Scale Industries Foundation (SLU-EISSIF).....	AII-5-20
Philippine Partnership for the Development of Human Resources in Rural Areas (PhilDHRRA)	AII-5-21
Small Enterprises Research and Development Foundation of the Philippines, Inc. (SERDEF).....	AII-5-23
APEC Center for Technology Exchange and Training	

for Small and Medium Enterprises (ACTETSME)	AII-5-24
Bureau of Import Services (BIS)	AII-5-25
Board of Investments (BOI)	AII-5-26
Bureau of Trade Regulation & Consumer Protection (BTRCP)	AII-5-28
Construction Industry Authority of the Philippines (CIAP)	AII-5-30
Center for Industrial Competitiveness (CIC)	AII-5-32
Cottage Industries Technology Center (CITC)	AII-5-34
Construction Manpower Development Foundation (CMDF)	AII-5-36
Food and Nutrition Research Institute (FNRI)	AII-5-37
Industrial Technology Development Institute (ITDI)	AII-5-39
Metals Industry Research and Development Center (MIRDC)	AII-5-41
National Statistics Office (NSO)	AII-5-43
Product Development & Design Center of the Philippines (PDDCP)	AII-5-45
Philippine Trade Training Center (PTTC)	AII-5-46
Technical Education and Skills Development Authority (TESDA)	AII-5-48
UP Institute for Small Scale Industries (UP ISSI)	AII-5-50
Philippine Chamber of Commerce and Industry (PCCI)	AII-5-52
Bureau of Export Trade Promotion (BETP)	AII-5-54
Bureau of International Trade Relations (BITR)	AII-5-56
Center for International Trade and Exposition Mission (CITEM)	AII-5-58
Philippine International Trade Corporation (PITC)	AII-5-60
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Philippine Export Zone Authority (PEZA)	AII-5-64
National Development Corporation (NDC)	AII-5-66
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Explanatory notes: Meaning of Functional Areas

Market Development, Sale Promotion, Product Development, providing with:

- 1 Direct sales opportunity (e.g. priority in Government procurement, etc)
- 2 Market Information
- 3 Opportunity to access to market (e.g. support for participation to trade fair; Business Matching, etc)
- 4 Assistance for enhancement of capability (e.g. consultancy/advisory service; workshop; seminars, etc)

Technology (including production management) on:

- 1 Direct advice / diagnosis on production management
(including quality management; cost management; production control; shop floor management, etc.)
- 2 Direct advice/diagnosis on production technology
- 3 Support through provision of technical infrastructure (e.g. tests, research, calibration, etc)
- 4 Equipment Modernization
- 5 Common Service Facilities

Financing

- 1 Short term loan
- 2 Long term loan for investment on equipment
- 3 Equity Financing
- 4 Credit Guarantee
- 5 Rental/Leasing

Training and Education on:

- 1 Start-up Business
- 2 Mid/high level management method
- 3 Production Management (incl: quality management, cost management, production plan management, etc)
- 4 Technical Skills
- 5 Training of private SME catalysts

Legislative and Institutional Development

- 1 Basic policy framework
- 2 Encouraging Business (incl. investment promotion; export promotion, etc)
- 3 Protection of Domestic Market/Industry
- 4 Training and Education of Administrative staff of government agencies or SME Development Catalyst

Table 1: Matrix of Department of Trade and Industry Line Agencies & their Programs/Services

Agencies Programs/Projects	FUNCTIONAL AREAS																				Micro or SME				
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development					
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4	
DTI LINE AGENCIES																									
BETP (Bureau of Export Trade Promotion)																								All	
Export Promotion Arm of DTI	X																				X	X			
Export Trade Facilitation	X	X											X		X	X						X	X	X	
Business Matching			X																						
Product & Market Consultancy		X	X	X		X												X	X						
Trade Information Services			X	X	X			X	X																
BIS (Bureau of Import Services)																								All	
Monitoring Price Levels of Imports		X																							
Trade Remedy Measures																					X				
Import Procedures																						X			
Import Statistics		X																							
BTR (Bureau of International Trade Relations)																									
Supervise Int'l Trade Negotiations		X																	X						
Formulate Phil. Position & Strategies			X																						
Evaluate Commercial Policies																						X			
Coordinate Foreign Trade Negotiations		X																			X				
Consultancy /Technical Assistance		X	X	X			X		X															X	
BOI (Board of Investments)			X	X	X																X	X		X	All
Industry Investment Information		X																							
Technical Consultancy			X	X										X								X			
Training																			X					X	
Support for Investors		X	X	X																		X			
Missions/Seminars/Conferences		X	X	X																		X			
BPS (Bureau of Product Standards)																								All	
Standards Development																					X		X		
Accreditation of Assessment Bodies																					X				
Laboratory Accreditation																					X		X		
Product Certification & Testing				X				X													X				
Technical Info & Training		X				X																			
BTRCP (Bureau of Trade Regulation and Consumer Protection)																								All	
Business Regulation		X																X					X		
Consumer Welfare		X																					X		
Fair Trade																							X	X	
Price Monitoring		X																							
Monitor Enforcement of Trade Laws																						X	X		
CIC (Center for Industrial Competitiveness)																								All	
Philippine Quality Awards		X																				X			
Training														X	X	X									
Policy Development																		X	X				X	X	
Linkages		X																							

Table 1: Matrix of Department of Trade and Industry Line Agencies & their Programs/Services

Agencies Programs/Projects	FUNCTIONAL AREAS																				Micro or SME			
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development				
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4
DTI LINE AGENCIES Continued...																								
CITC (Cottage Industries Technology Center)																								Micro
Technology Transfer & Skills Development Programs															X			X	X				X	
Common Service Facility								X	X															
Technical Consultancy					X	X	X	X	X									X	X					
CITEM (Center for International Trade Expositions and Mission)																								SME
Trade Fairs Local and Overseas	X	X	X										X							X	X			
Out-Going Trade Missions	X	X	X																		X			
In-Coming Trade Missions	X	X	X																		X			
Enterprise & Market Dev. Program		X	X	X								X				X		X	X	X	X			
Mechandise/Technical Consultancy				X	X	X	X										X	X	X				X	
Export Awards																								
Special Projects															X									
IPO (Intellectual Property Office)																								All
Promote Intellectual Property																					X	X		
Patent/Trademarks Registration		X																						
Technology Transfer Registration		X																						
Dispute Settlements				X																				
Statistical Reports		X																						
PDDCP (Product Development and Design Center of the Philippines)																								All
Product/Package Design						X	X																	
Product Technology Demo																		X						
Design & Technology Info/Seminars				X																				
Library		X																						
PITC (Philippine International Trading Corporation)																								All
Trade & Bus. Opportunities	X																							
Bonded Warehousing																								
Trade Financing												X	X	X										
Raw Materials procurement	X																							
Package of Trade Services & Facilities		X							X											X	X			
Product Development						X												X						
Services to Int'l Buyers																								
Trade Info and Assistance			X	X	X											X	X		X		X	X		
PTTC (Philippine Trade Training Center)																								SME
Trade Management/Exhibition/ Testing & Inspection Courses					X	X									X	X	X	X	X				X	
Expert-SME Matching				X																				
Facilities			X						X															
Publications/Resource Centers		X																			X			

Table 2: Matrix of Department of Trade and Industry Attached Agencies & their Programs/Services

Agencies Programs/Projects	FUNCTIONAL AREAS																								Micro or SME
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development					
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4		
DTI ATTACHED AGENCIES																									
CIAP (Construction Industry Authority of the Philippines)																									All
Policy Development		X																					X		X
Licensing				X																			X		X
Export Development		X																					X		X
Domestic Construction Dev't																							X		
Arbitration													X										X		
CMDF (Construction Manpower Development Foundation)																									All
Training & Certification															X	X	X	X							
GETB (Garment Export Textile Board)																									All
Export Promotions & Development	X														X								X		
Trade Facilitation and Policy		X														X						X	X		
Market /Merchandize Development			X		X	X	X											X	X						
Industry Development								X				X	X	X										X	
Organization strengthening				X									X									X			X
NDC (National Development Company)																									All
Investment promotion	X		X										X	X		X					X	X	X	X	
Operations and Promotions			X		X			X										X	X	X		X			
Undertake Divestments																									
Promote Agro-based Projects								X						X											
Promote Info. & Technology Proj.		X		X		X			X							X									X
PEZA (Philippine Export Zone Authority)																									SME
Promo. & Estab'mt of Eco-Zones	X						X	X															X		
Acceleration of Export Opportunities	X	X		X			X	X			X					X							X		
Promotion/Support of Investment	X	X							X			X	X	X									X		X
Coordination			X															X	X						
Formulation of Legal Policy Framewk.																						X		X	
PSB (Philippine Shippers Bureau)																									ALL
Promote/Protect Interest of Shippers																							X		
Licensing & Acceleration				X									X					X					X		
Consumers Protection							X		X				X		X								X		X
SME Dev. & Promotion	X	X	X													X									
SME Centers **																									SME
SME Promotion and Dev.	X														X								X		
Information Services and Monitoring		X			X	X												X	X				X	X	
Economic Reports																									
Economic & Development Studies																									
Technical Assistance																		X	X						
SME Training and Development	X	X	X				X	X								X								X	

** There are 20 existing DTI -SME Centers located in the following areas:
 Cordillera Autonomous Region - Benguet
 Region II - Pangasinan, La Union, Isabella, Nueva Viscaya
 Region III - Pampanga, Olongapo
 Region IV-A - Cavite, Laguna
 Region IV-B - Palawan
 Region V - Albay

Region VI - Negros Oriental, Negros Occidental, Iloilo
 Region VII - Cebu
 Region VIII - Leyte
 Region IX - Zamboanga City
 Region X - Misamis Oriental
 Region XI - Davao City
 Region XII - South Cotabato, Coronadal, Agusan del Norte

Table 3: Matrix of DOST/DOLE Agencies & their Programs/Services

Agencies Programs/Projects	FUNCTIONAL AREAS																				Micro or SME			
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development				
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4
DEPARTMENT OF SCIENCE & TECHNOLOGY																								
FNRI (Food and Nutrition Research Institute)																								All
Nutritional Surveys/Studies		X																						
Food Product Development					X	X	X		X															
Nutrition Database/Library		X																						
Pilot Plants/Biz Incubators				X	X	X	X						X	X				X	X					
Food Demo/Tech Transfer		X							X															
Lab Services/Food Analysis									X															
Research & Consultancy		X		X		X																		
ITDI (Industrial Technology Development Institute)																								All
Technology Transfer				X	X	X	X	X																
Test, Analysis, Calibration								X																
Industry Training & Skills Devt																			X					
Technical Info		X																						
Design & Fabrication of Equipment								X	X															
Labs/Plants/Incubators				X	X	X	X	X						X										
MIRDC (Metals Industry Research and Development Center)																								All
R&D (Technology/Process/ Design)		X		X				X	X															
Specialized Industrial Training				X														X						X
Technical Information																								
Tech Biz Incubation Program				X	X	X			X															
Technical Consultancy		X		X	X	X																		
Analysis and Testing									X															
DEPARTMENT OF LABOR & EMPLOYMENT																								
TESDA (Technical Education and Skills Development Authority)																								All
Policy																								X
Information		X																						
Assessment & Certification				X																				
Training															X				X	X				X

Table 4: Matrix of Other Institutions & their Programs/Services

Agencies Programs/Projects	FUNCTIONAL AREAS																				Micro or SME				
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development					
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4	
OTHER INSTITUTIONS																									
NEDA (National Economic & Development Authority)		X																						X	All
NSO (National Statistics Office)																									All
Census		X																							
Socio-Econ/Industry/Price Survey		X																							
Econ & Social Studies		X																							
Administrative Statistics		X																							
UNIVERSITY OF THE PHILIPPINES																									
UP ISSI (UP Institute for Small Scale Industries)																									All
Training				X											X	X	X	X	X					X	
Research				X			X													X				X	
Consultancy				X	X	X																			
Advocacy		X																				X			
Institution Building				X	X	X	X								X	X	X	X	X	X				X	
ACTETSME (APEC Center for Technology Exchange and Training for Small and Medium Enterprises)																									SME
Information Exchange		X																							
Business Matching			X																						

Table 5: Matrix of SME Associations & their Programs/Services

Agencies Programs/Projects	F U N C T I O N A L A R E A S																				Micro or SME			
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development				
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4
OTHER INSTITUTIONS																								
PCCI (Philippine Chamber of Commerce and Industry)																								All
Economic Policies/Thrust																								
Advocacy																								
Economic Reports/Analysis				X																				
Economic & Development Research				X																				
Technical Assistance		X		X																				
Local/Global Representation			X																					
Philexport (Philippine Exporters Confederation Inc)																								All
Trade Advisory and Facilitation																								
Trade & Investment Promo. Progm	X		X																					
Info. & Tech Support		X	X	X	X				X	X														
One-Stop Export Doc. Processing				X																				
Advocacy / Policy Anaysis																								
Bonded Warehousing Operation									X					X										
SME PRIME																								SME
Promote Environmental Policies				X																				
Transfer of Technology					X																			
Environmental Management				X		X																		
Industrial Environmental Sytems				X																				

Table 6: Matrix of Non-Government Organizations/Foundations & their Programs/Services

NGO/Foundation Programs/Projects	FUNCTIONAL AREAS																				Micro or SME				
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development					
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4	
NATIONWIDE																									
PBSP (Philippine Business for Social Progress)																									All
SMEC																									
Technology Centers																									
SERDEF (Small Enterprises Research and Development Foundation, Inc)																									All
Training																									
Research																									
Consultancy																									
Information																									
CEFENET (Philippine CEFE Network Foundation, Inc)																									All
Enterprise Devt.																									
Learning Tools																									
Inst.Cap'ty Bldg.																									
NATIONAL CAPITAL REGION (NCR)																									
ELF (Education for Life Foundation)																									Mi
Distance																									
Learning																									
PhilDHRRRA (Philippine Partnership for Development of Human Resources in Rural Areas)																									Mi
Project Development																									
Institution Building																									
Entrepreneurship Development																									
CSE (Center for Small Entrepreneurs)																									Mi/S
Supervised Credit																									
Business Training																									
Product Development																									
Newsletter																									
Organizing Entrepreneurs																									
Shell Found (Pilipinas Shell Foundation)																									Mi
Sanayan sa Kakayahang Industriyal (SKIL)																									
Sanayan sa Kakayahang Pangangalakal (SKP)																									
TWH (Tahanang Walang Hagdanan)																									Mi
On the Job Skills Training (OJS)																									

Table 6: Matrix of Non-Government Organizations/Foundations & their Programs/Services

NGO/Foundation Programs/Projects	F U N C T I O N A L A R E A S																				Micro or SME				
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development					
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4	
NCR, REGION 5, MINDANAO																									
JEP Consultants																									Mi/S
Small Enterprise Development		X		X	X	X									X			X							
Small Business Course		X		X											X			X							
Business Improvement		X		X	X	X										X									
Consultancy		X		X	X	X									X	X	X								
REGION 1																									
SLU-EISSIF (St. Louis University Extension for Small Scale Industrial Foundation)																									Mi/S
Community Credit Project			X	X						X					X	X									
Small Entrepreneurship Development		X		X											X										
Trade Exhibits			X	X																					
Industry Research		X			X	X									X	X	X								
Beekeeping Project		X			X	X																			
JVOFI (Jaime V. Ongpin Foundation Inc)																									Mi
Enterprise Development		X		X	X	X				X					X				X						
REGION 5																									
BSBI (Bicol Small Business Institute Foundation Inc)																									Mi/S
Enterprise Development & Management		X													X										
Business Improvement																X									
Credit Assistance										X															
Business Consultancy		X			X	X																			
Marketing Assistance		X	X																						
REGION 6, 7 & 8																									
VICTO (Visayas Cooperative Development Center)																									Mi/S
Training		X			X	X									X	X	X								
Consultancy		X			X	X																			
Financing										X															
Research/Publications		X			X	X																			

Table 7: Matrix of Trade Associations & their Programs/Services

Trade Associations Programs/Projects	F U N C T I O N A L A R E A S																				Micro or SME			
	Market Development				Technology					Financing					Training and Education					Legislative and Institutional Development				
	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1		2	3	4
CFIF (Cebu Furniture Industries Foundation)																								SME
Technology Assistance					X	X	X	X	X															
CFIP (Chamber of Furniture Industries of the Philippines)																								SME
Exposition	X	X	X	X																				
Seminars				X	X	X		X										X	X					
Information/Advocacy		X		X																				
Philfoodex (Phil. Food Processors and Exporters Organization)																								All
Information Dissemination	X	X																						
Fairs/Programs	X	X	X																	X	X			
Policy																								
Research/Advocacy																				X	X			
Trainings/Seminars		X		X														X						
Market Matching			X																					
Technical Assistance					X	X	X																	

Center for Small Entrepreneurs (CSE)

Address: Rm. 122, Asian Social Institute Building
1518 L. Guinto corner Escoda St.
Malate, Manila

Telephone: 525-6268; 523-8266 local 313

Email: cse@pacific.net.ph

Type of Organization: Academe-based NGO
Private Service Delivery Institution
Social Development NGO

Scope/Nature of Work: Education, Training and Resource Development
Enterprise, Livelihood Development
Micro Credit/Micro Finance
Social Services

Organization Description:

The Center for Small Entrepreneurs, Inc. (CSE) is a non-stock, non-profit organization whose main thrust is to aid in the development of business management skills of individuals engaged in micro and small-scale businesses. It was established in Manila in February, 1996. The Center is committed to promoting the recognition of small entrepreneurs as significant contributors to economic growth by developing their knowledge, skills and attitude in running successful businesses through trainings/seminars, management consultation, marketing assistance, technological information, supervised credit facility, legal assistance, organizing and advocacy.

Services/Activities:

CSE has focused its activities on promoting its services for the empowerment and capacity building of the micro and small entrepreneurs under its "Enterprise Enhancement Plan". The services which are being offered and are continuously developed are:

1. Supervised Credit: The objective of this service is to provide an alternative financing package for micro and small entrepreneurs and assist them in utilizing the funds efficiently through business development assistance.

2. Record-keeping Services: This service aims to instill appreciation of the usefulness of systematic recording process system.
3. Business Training: This service package is the formation component of CSE services to clients in order for them to improve their business operations and increase their capacities to manage their businesses.
4. Networking and Product Development: This service takes care of the database of all entrepreneur contacts of CSE. From the database, analyses on common needs of entrepreneurs are done. This will aid the CSE in matching their programs and services to the clients' needs with accessible resources. New service packages can be conceptualized and developed to address the growing needs of entrepreneurs.
5. Entrepinoy Newsletter/Publication: The service is intended to be a strategic medium in fostering a continuing relationship between CSE, the micro and small entrepreneurs, other organizations with orientation towards entrepreneurship, and local government bodies and entities. The publication also intends to update entrepreneurs of current business trends, entrepreneur trainings, and current government policies affecting their existence and operations.
6. Organizing of Entrepreneurs: This aims to group together the entrepreneurs for the promotion of their welfare, in recognition of their capacities to develop themselves collectively.

Chamber of Furniture Industries of the Philippines (CFIP)

Address: 9/F, Unit H, Strata 100 Bldg.
Emerald Avenue, Ortigas Center, Pasig City

Telephone: 632-9007, 631-12834

Type of Organization: Industry Association

Scope/Nature of Work: Advocacy
Adviser/Consultant
Establishing Linkages
Catalyst

Organization Description:

The establishment of the Chamber of Furniture Industries of the Philippines was prompted by common problems besetting the furniture makers: lack of knowledge of and appreciation for fellow furniture makers, lack of information on developing technological expertise and the realization of the value of the collective use of influence. CFIP is a national association of companies and affiliates working together for mutual benefit and the sustained growth of the Philippine Furniture Industry.

Services/Activities:

The CFIP performs the following services to its members:

1. **Advocacy:** It identifies, responds to and facilitates the implementation of changes adverse to the continued growth of the furniture industry. This could be in the areas of government policy, environment, or inter-company cooperation networking, to name a few.
2. **Catalyst:** CFIP provides the impetus for the industry-wide implementation of productivity improvement schemes and similar novel ideas by organizing opportunities for pilot-testing and trial implementation of these projects.
3. **Advisor/Consultant:** CFIP utilizes the talents and capabilities of its members as well as external technical assistance to provide advice and consultancy services to the association in order to maintain the continued growth and positive image of the industry. This assistance could be in the form of marketing, product development or business ethics.
4. **Linkage:** CFIP establishes linkages with government agencies and other institutions and associations to ensure that the growth of the furniture industry is

aligned with, and benefits from their respective initiatives and programs. The linkage could be in the areas such as fund sourcing for training and development, product design, etc.

Cebu Furniture Industries Foundation, Inc. (CFIF)

Address: 3/F, LDM Bldg.
Legaspi Street corner M.J. Cuenco Avenue
Cebu City

Telephone: 63(32)253-3091, 253-0274

Fax: 63(32)254-8246

Email: cfif@furniturecebu.com

Organization Description:

The Cebu Furniture Industries Foundation, Inc. (CFIF) is a non-profit organization composed of 153 of the bigger and more successful furniture manufacturing and exporting firms in Cebu. The association's mission is to contribute to the continued growth of the furniture industry by rationalizing the furniture industry and providing direction to its development efforts. It serves as a forum wherein industry-related issues are discussed and resolved.

Services/Activities:

CFIF undertakes the following services for its members:

Training

Areas: Production Capability; Woodworking - Challenges in Drying and Lumber Grading; Product Development; Strategy Concerns of HRM; Organizational Research, Design and Development; Management of Change; Participative Quality Management; Jigs & Fixtures: Secrets to Faster, Safer and Cost Effective Production, etc.

Consultancy

When training courses and development programs are not enough to bring about the changes and improvements needed in the factories, consultancy services can be rendered by CFIF consultants. The consultants have broad and lengthy experiences in the field of furniture manufacturing. Aside from in-house trainers and consultants, CFIF links with external specialists, individual and organizations, who can provide the needed expertise and services to the enterprise.

BICOL SMALL BUSINESS INSTITUTE FOUNDATION, INC. (BSBI)

Address: Bicol University Compound
Legaspi City
Telephone: (052)820 6469
Fax:
Email: bsbi@globalink.net.ph

Organization Description:

The Foundation operates in the Bicol Region, specifically in the province of Albay. Its mission is to help create a self-reliant community by developing the human resources in the Region through community organizing, education and training. It also helps in the promotion of SMEs by providing adequate knowledge and skills in enterprise development. At the same time, the Foundation develops and introduces innovative schemes that will generate adequate funds for micro, cottage, and small-scale enterprises, including cooperatives.

The Foundation started as an NGO whose main function is to package and facilitate seminars for cottage, micro and small businessmen, especially for the members of the local Chamber of Commerce and Industry. It has since then expanded its programs by organizing communities and extending credit assistance to community livelihood projects of organized groups, e.g., cooperatives, women's groups and micro enterprises.

Services/Activities:

BSBI's programs for SMEs include Community Mobilization for Enterprise Development; Enterprise Development and Management; Micro, Cottage, and Small Business Start-Up Course for Women Entrepreneurs; New Business Creation Course and Business Improvement Course.

Other support given to SMEs includes: Business Consultancy; Credit Assistance; Organizational Diagnosis; Marketing Assistance and Linkaging and Networking.

Visayas Cooperative Development Center (VICTO)

Address: VICTO Iloilo
202 Rizal Street, Mandurriao
Iloilo City
Telephone: (033)321 0824
Fax:
Email: victo@cebu-online.com
victor-6@mozcom.com

Organization Description:

The Visayas Cooperative Development Center (VICTO) is an active cooperative-owned institution in the Visayas with a membership of two hundred forty-nine (249) cooperatives. Its mission is to act as a catalyst and unifying force in the promotion, development and cooperation of cooperatives at all levels towards the improvement of the quality of life. Among its goals is the strengthening of primary cooperatives by ensuring their management effectiveness and accountability through programs and services. It enhances the economic viability of cooperatives by assisting cooperatives in the development of programs and projects that will enable members to become independent and productive.

Services/Activities:

Training
Audit
Consultancy

**Philippine Food Processors and Exporters Organization, Inc.
(PHILFOODEX)**

Address: Room 305, Ang Bahay ng Alumni
Ramon Magsaysay Avenue
UP Campus, Diliman, Quezon City

Telephone: 925-3519; 436-3556

Fax: 925-3518

Email: pfdexsec@philonline.com

Organization Description:

Philfoodex is a non-stock, non-profit organization of small, medium and large-sized food manufacturers and exporters. Philfoodex focuses on the planning, development and sourcing of raw materials, on research and technology development in producing world class quality products, on the improvement of manufacturing efficiency and productivity and on the promotion of sound trade practices in order to be competitive and responsive to the changing international food market trends. It assists its members in their marketing, technology, raw material requirements, and financing, among others.

Services/Activities:

- Information Dissemination: Publication of a quarterly newsletter incorporating market updates, the latest developments in food technology, policy issues affecting the industry, trade and business opportunities for the food processor/exporter.
- Fairs and Promotion: Participation in local and international trade missions and expositions to promote Philippine food products.
- Policy Research & Advocacy: advocacy of export-oriented government policies by closely coordinating with government and private institutions toward this end.
- Trainings and Seminars: conduct of training and seminars aimed at improving or enhancing productivity and marketing/promotion.
- Market-Matching Activities: assists members in securing better strategic raw materials and supplies from local and/or international sources at competitive rates.

Technical Assistance: assists members in acquiring quality and safety accreditation and certification.

Saint Louis University Extension Institute for Small-Scale Industries Foundation (SLU-EISSIF)

Address: CCA Building
SLU Complex
Bonifacio Street, Baguio City

Telephone: (074)442-3043

Fax:

Email: eissif@perfecto.slu.edu.ph

Organization Description:

The primary objective of SLU-EISSIF is to perform extension work for small businesses in the form of entrepreneurship, management and technical training, consultancy or advice, research and information. Its mission is to bring about a more equitable distribution of income through strong programs in entrepreneurship and small enterprise development, community credit projects and community organizing.

Services/Activities:

Its current program thrusts are in the areas of education and training, enterprise livelihood development, sustainable beekeeping, consultancy, micro finance, community organizing and research and information.

Current services include seminars and mini-courses on subjects that are useful to small enterprise owner-managers like small business planning, entrepreneurship development, taxation for small enterprises, financial management, accounting for non-accountants, marketing management, and supervisory leadership training; publications that meet the information needs of small businessmen; consultancy on areas such as personnel, financial and marketing management and technical consultancy on beekeeping; conduct of researches on the various industries operating in the region, dialogues among entrepreneurs belonging to the same industry to motivate them to get together and work out solutions to common problems and conduct of enterprise studies for businesses that need to be appraised.

Philippine Partnership for the Development of Human Resources in Rural Areas (PhilDHRRA)

Address: 59 C. Salvador St.
Loyola Heights, Quezon City
Telephone: 426-6740; 426-0713
Fax: 426-0305
Email: phildhrra@netasia.net

Organization Description:

PhilDHRRA is composed of 64 member-NGOs that are involved in appropriate technology, income generation, community organizing, education and training of grassroots leaders, agricultural extension, cooperatives development, integration of gender and environment concerns and advocacy for agrarian reform. It serves as a catalyst for participatory human community and national development. While doing so, it strengthens and broadens the network of social development organizations at all levels through various programs like institution building, information dissemination and exchange.

Services/Activities:

- Institution Building: It helps in building the institutional capability of member NGOs to manage the delivery of services to their target communities.
- Enterprise Development: It helps generate income for local communities. It promotes responsible development and management of resources.
- Policy Research and Advocacy: Convenes consultation and discussion groups on issues.
Gathers, processes and disseminates issue-related data

Project Development and Resource Accessing: Provides technical assistance in project development & packaging to member-NGO's.

Monitors & evaluates projects granted assistance by donor agencies.

Conducts project-related training where needed.

Small Enterprises Research and Development Foundation of the Philippines, Inc. (SERDEF)

Address: Virata Hall, UP Campus
Diliman, Quezon City
Telephone: 928-7076 to 79
Fax: 920-6923
Email: serdef.issi@up.edu.ph

Organization Description:

The Small Enterprises Research and Development Foundation (SERDEF), the partner organization of the UP Institute for Small-Scale Industries, is a non-profit, non-stock corporation established to provide a private institutional medium that initiates, sponsors, promotes and assists or conducts researches, programs and projects geared towards the promotion and development of small and medium enterprises.

Services/Activities:

The conduct of training courses, workshops, seminars, conferences, etc. on matters of vital importance to small and medium enterprises development.

The gathering, compilation, evaluation and study of activities and other informative data and materials on small and medium enterprises development.

The publication and dissemination of information, researches, studies, workshops, conferences and other activities.

**APEC Center for Technology Exchange and Training
for Small and Medium Enterprises
(ACTETSME)**

Address: ACTETSME Center
Science Park, University of the Philippines
Los Baños, Laguna

Telephone: (63 049) 536 4225

Fax: (63 049) 536 4224

Website: <http://www.actetsme.org>

Scope/Nature of Work: SME Referral Center/Resource Facility

Organization Description:

The ACTETSME is seen as a medium to assist the SME sector in preparation for and in adjusting in the age of globalization by providing (a) access to quality and timely information; (b) technology exchange and transfer; and (c) training and human resource development

Services/Activities:

Information Exchange

ACTETSME facilitates and expedites the acquisition of information through a network of sources and/or providers of information exchange between information users and providers.

Training

ACTETSME provides training as a vehicle for human resource development. It delivers information on programs appropriate for the entrepreneur and their employees, development catalysts and policy/decision makers available through print and electronic medium.

Technology Exchange

ACTETSME provides the venue for business matching that leads to technology exchange between suppliers and recipients.

Bureau of Import Services (BIS)

Address: 3rd Floor, OPPEN Bldg, 349 Sen. Gil Puyat Avenue,
Makati City, Philippines

Telephone: 890-54-18/895-54-74/895-92-28/
895-92-28/896-44-30/896-44-31

Fax: 895-74-66

Email: bis@dti.gov.ph

Website: <http://www.dti.gov.ph/bis/>

Type of Organization: DTI Line Agency

Scope/Nature of Work: Importation Monitoring

Organization Description:

The Bureau of Import Services (BIS) is the unit in the Department of Trade Industry, which provides a wide range of import services to businessmen and the general public. It works closely with the Office of the President and the Bangko Sentral ng Pilipinas (BSP) with respect to issues related to import transactions.

In particular, the BIS is responsible for:

- Monitoring the levels and prices of imports
- Initiating and conducting preliminary determination of cases involving trade remedy measures

Services/Activities:

Trade law enforcement and accreditation

Initiates and conducts preliminary determination of cases involving trade remedy measures under the Anti Dumping (RA 8752), Countervailing Act (RA 8751) and the Safeguard Measures Act (RA 8800).

Trade Information

- General import procedures
- Import statistics

Board of Investments (BOI)

Address: Industry & Investments Bldg.
385 Sen. Gil Puyat Avenue,
Makati City 1200, Philippines

Telephone: (632) 897-6682, 895-3640 to 41

Website: <http://www.boi.gov.ph/>

Type of Organization: DTI Line Agency

Scope/Nature of Work: Promotion of Investments in the Philippines

Organization Description:

The BOI, an attached agency of the DTI is the lead government agency responsible for the promotion of investments in the Philippines.

Taking the lead in the promotion of investments, BOI assists Filipino and foreign investors to venture and prosper in desirable areas of economic activities. Investors are welcome to experience the potentials of the booming Philippine Industry sectors. Profitable business opportunities abound in the food processing, construction, metal products, telecommunications, power and infrastructure projects among others.

Services/Activities:

- Information assistance to local and foreign investor
- Timely investment advice and facilitation regarding investor's business transactions
- Assistance in the selection of ideal investment location
- Joint Venture Matching Services for international local and foreign entrepreneurs
- Investment advice and facilitation for Small and Medium Entrepreneur (SMEs)
- Business linkages with public and private sector
- Evaluation and supervision of investment applications
- Training on Investment Promotion
- Seminar on Investment Networking for Local Executives
- Facilitation of Environmental Clearance Certificate and advocacy for environment-related projects

- Investment briefings, inbound and outbound missions, seminars and conferences for local and foreign investors
- After-sales service through the Investment Promotion Network (IPN), a system of hotlines connecting Investment Promotion Units (IPUs) across 24 related government agencies
- Entrepreneurial assistance to Overseas Filipino Workers
- Industry sectors planning and preparation of Industry sector profiles

Bureau of Trade Regulation & Consumer Protection (BTRCP)

Address: 2nd Flr. DTI Bldg.
#361 Sen Gil Puyat Avenue Makati City
Telephone: 896-5785 or 890-4901
Fax: 890-4949
E-mail: btrco@dti.gov.ph
Website: www.dti.gov.ph/btrcp/
Type of Organization: DTI Line Agency
Scope/Nature of Work: Trade Regulation/Consumer Protection

Organization Description:

The Bureau of Trade Regulation and Consumer Protection (BTRCP) formulates and monitors the implementation of programs for the effective enforcement of laws, correct interpretation and adoption of policies on monopolies and restraint of trade, mislabeling, product misrepresentation and other unfair trade practices; monitor the registration of business names and the licensing and accreditation of establishments and practitioners; protect and safeguard the interest of customers and the public, particularly the health and safety implications of intrinsic product features, product representation, and the like; and establish the basis for evaluating consumer complaints and product utility failures.

Services/Activities:

Business Regulation

- Oversees effective implementation of Trade Regulation Laws.
- Provides standards and systems in issuance of licenses and permits for realty service practice, fire extinguisher, bonded warehouse, and retail trade nationalization.
- Oversees compliance of business name registration

Consumer Welfare

- Releases information materials such as Consumer Alerts, Consumer Tips and flyers
- Provides mechanism for the speedy resolution of consumer complaints

- Prepares guidelines in the development and strengthening of consumer organizations

Fair Trade

- Oversees the effective implementation of Fair Trade Laws
- Monitors Congress bills and resolutions which directly affect the consumers
- Conducts regional consultancy on enforcement.

Price Monitoring

Provides protection to consumers by stabilizing the prices of basic and prime commodities through: regular price monitoring; strict enforcement of the Price Act; regular dialogue with the manufacturers.

Construction Industry Authority of the Philippines (CIAP)

Address: 2nd - 4th Floors, Jupiter I Bldg.,
56 Jupiter St., Belair Village,
Makati City 1209, Philippines

Telephone: (632) 895-4424

Fax: (634) 897-9336

E-mail: ciap@info.com.ph

Website: <http://www.dti.gov.ph/ciap/>

Type of Organization: DTI Attached Agency

Scope/Nature of Work: Construction Promotion/Licensing/Development

Organization Description:

DTI attached agency mandated to promote, accelerate and regulate the growth and development of the construction industry.

Services/Activities:

Licensing

- Issues licenses to contractors; suspend/revokes licenses
- Registers and classifies contractors for government projects
- Registers Philippine contractors for overseas construction operations

Export Development

- Prepares and disseminates project opportunities/studies
- Monitors the performance of registered contractors
- Promotes Philippine construction capabilities in the overseas market.

Domestic Construction Development

- Formulates and promotes the Contractors Performance Evaluation System (CPES) implementing guidelines
- Accredits Construction Performance Evaluators of government agencies

Arbitration/Dispute Settlement

- Resolves construction contract disputes through arbitration and mediation.

- Offers subsidy to small claims (P1 Million and below) through the Arbitration Development Fund

Industry Policy Development

- Formulates/recommends policy measures for industry development; provides information about the Philippine construction industry

Center for Industrial Competitiveness (CIC)

Address: 2nd Floor Trade and Industry Building,
361 Sen. Gil Puyat Avenue,
Makati City, Philippines 1200

Telephone: (632) 890-4889 or 890-4901 loc. 463, 464, 535

Fax: (632) 897-5554

E-mail: cic@dti.gov.ph

Website: <http://www.dti.gov.ph/cic-nimtc/>

Type of Organization: DTI Line Agency

Scope/Nature of Work: Industrial Policy Development

Organization Description:

The CIC aims to sustain leadership in promotion and implementation of sustainable programs to achieve industrial harmony, quality and productivity. As a member of the DTI Family, the Center is also involved in the identification of necessary interventions, in terms of policies and programs, relative to human resource requirements of different sectors and industries.

Services/Activities:

Pro-Active Training Programs

For Competitiveness on Human Relations, Management Development and Quality and Productivity

Philippine Quality Award

The Philippine Quality Award (PQA) is a specific strategy to promote quality and productivity excellence in private and public sector organizations. It will provide a framework for assessing organizational performance and recognizing quality and productivity excellence. It shall also serve as the apex of all awards, the highest level of national recognition for organization performance.

Industrial Manpower Development Policy Planning

- Technical inputs to: TESDA Law Review, TESDA Comprehensive Employment Strategy Program monitoring, National Technical Education and

Skills Development Research Agenda, Medium-Term Youth Development Plan specific of the Monitoring and Evaluation Instrument

- Compendium of Industrial HRD Policies: Resolutions and Implied Policy Directives prepared and disseminated to relevant GOs, State Colleges and Universities and Technical Vocational Institutions numbering 160
- Policy Brief on Global Competitiveness and Rural Development: HRD Implications

Linkage with local and international HRD policy makers and planners

Cottage Industries Technology Center (CITC)

Address: No. 20 Russet Street SSS Village,
Marikina City
Telephone: (632) 948-2875, 942-0880, 942-3974
Fax: (632) 942-0107
E-mail: citc_dti@edsamail.com.ph
Website: <http://www.dti.gov.ph/citc/>
Type of Organization: DTI Line Agency
Scope/Nature of Work: Cottage Industries

Organization Description:

The CITC is an attached DTI agency mandated to encourage and support the establishment of micro, cottage and small industries to improve product quality towards becoming globally competitive and thereby generate employment and livelihood opportunities and contribute to building a reliable supply base for exports of furniture, Gifts and House wares, Fine Jewelry and Foot ware and Leather goods. Provides skills training, technical consultancy and common facility services.

Services/Activities:

Technology Transfer and Skills Development

To develop and conduct skills development programs aimed to develop the economic initiatives of individuals or potential entrepreneurs for livelihood and self-employment as well as address the existing entrepreneurs' needs for skilled production workers and supervisors. Also, along CITC's field of expertise, implement programs to improve the skill capabilities of trainers from other institutions.

Common Facility Service

As a production capacity enhancement program, CITC provides facility servicing assistance to *Micro-Cottage, Small and Medium Enterprises* by making available to them the use of productivity-increasing machines and equipment for raw material and product processing.

Technical Consultancy Services

Extension of technical assistance and consultancy services for product improvement, prototyping and improved production techniques, including the fabrication and provision of quality-enhancing tools and gadgets for the furniture, gifts and houseware sectors.

Construction Manpower Development Foundation (CMDF)

Address: Office of the Executive Director
6th Floor Prudential Bank Bldg.,
2158 Pasong Tamo, Makati City

E-mail: cmdf@dti.gov.ph

Website: <http://www.dti.gov.ph/rog/cmdf.html>

Type of Organization: DTI Attached Agency

Scope/Nature of Work: HR Development of the Construction Industry

Organization Description:

THE CMDF is an attached agency of the DTI mandated to oversee the development of human resources of the construction industry to include all levels of manpower - labor, engineers, supervisors, managers and contractors.

Services/Activities:

Training and Certification

Training Focus:

Quality, Productivity, Livelihood, Management Competence, Training capability build-up

Training and Certification Courses:

- Construction Management Series
- Construction Manager's Training and Certification Program
- Skills Development Program
- Construction Technology Courses for Engineers and supervisors/Fresh Engineers

Food and Nutrition Research Institute (FNRI)

Address: FNRI, DOST Compound, Gen. Santos Avenue
Bicutan, Taguig, Metro Manila, PHILIPPINES
Telephone/Fax: 837-2934;837-3164
E-mail: cvcb@fnri.dost.gov.ph
Website: <http://www.fnri.dost.gov.ph>
Type of Organization: DOST Line Agency
Scope/Nature of Work: Research on Food and Nutrition

Organization Description:

Principal research arm of the Philippine government on food and nutrition.

Services/Activities:

Nutritional Assessment and Monitoring (Surveys)

Food Science and Technology

Dev't of food products in terms of nutritional value, sensory acceptability, packaging and shelf-life; composition of foods including nutrients, microbial pathogens, chemical toxins, contaminants and other deleterious factors in foods)

Nutrition Science and Technology Studies

- Medical Nutrition Studies
- Nutrition Intervention and Policy Studies
- Nutritional Biochemical Studies
- Nutritional Anthropology and Education Studies

Nutrition Information Dissemination & Technology Transfer

Seminars/press con/materials

Other Services:

Information and Consultancy
Library and Documentation
Technologies Business Incubator
Communal Food Processing Plants

Food Analysis
Sensory Evaluation

Industrial Technology Development Institute (ITDI)

Address: Industrial Technology Development Institute
DOST Cmpd, Gen. Santos Ave., Bicutan,
Taguig Metro Manila, Philippines 164

Telephone: (062) 837-2071 to 82 locs. 2182/2218/2180;

Fax: (062) 837-3167/837-6150/837-6156

Website: <http://mis.dost.gov.ph/itdi/services.htm>

Type of Organization: Department of Science and Technology
Attached Agency

Scope/Nature of Work: Industrial Technology/Manufacturing Development

Organization Description:

Mandated by virtue of Executive Order No. 128 dated 30 January 1987 to render a variety of services to local industries, ITDI is multidisciplinary with a unique blend of scientific disciplines linking the institute as an active partner in the country's industrialization program. ITDI plays a vital role in providing tests and analytical services needed by government agencies and industries in the discharge of their functions and by industries for product and raw material evaluation/testing. With the acquisition of new and modern instruments and facilities, the Institute is now one of the most fully equipped testing laboratories in the country.

Services/Activities:

Research and Development (R&D)

Multidisciplinary applied researches in the fields of industrial manufacturing, mineral processing, energy and environment using local raw materials.

Technology Transfer and Contract Projects

Mature technologies with techno-economic viability, from product/process development to techno-assessment to commercialization.

Tests, Analyses and Calibration

Testing, analytical and calibration services.

Industry Trainings and Skills Development

On-the-job trainings of technical manpower through participation in the Institute's test and analyses, R&D, equipment design and fabrication, and trainings on ITDI technologies.

Technical Information

Publication and dissemination of information on S&T services, technologies and other technical inquiry data.

Design and Fabrication

Local design and fabrication of equipment and apparatus needed in process development and scale- up production.

Use of Laboratory/Pilot Plant Facilities

R&D and testing infrastructures including pilot plants can be availed of by industry.

Technology Business Incubators

Designed for technology to spin off from the laboratories to industries, ITDI offers tenancy to prospective investors to set up their own business, from technical to marketing to managerial services.

Metals Industry Research and Development Center (MIRDC)

Address: MIRDC Compound Gen. Santos Ave. Bicutan,
Taguig, Metro Manila
Telephone: 837-04-31 to 38;
Fax: 837-04-30
Website: <http://www.mirdc.dost.gov.ph/tis.htm>
Type of Organization: DOST Line Agency focused on Metals
Scope/Nature of Work: Research, Training, Consultancy on Metal Products

Organization Description:

The Center utilizes conventional and specialized machining process specifically in the fabrication of tools, dies, jigs, and fixtures, plastic molds and components.

Services/Activities:

Research and Development

- Conduct research and development studies on Philippine produced and processed metals
- Provide engineering design and analysis services for the industry

Specialized Industrial Training

Seminars, workshops and hands-on training courses are conducted regularly for industry maintenance managers, engineers, supervisors and trainers for the effective practice of preventive maintenance.

Technical Information Dissemination

- Industry and sectoral studies
- Technical Information Service (through the MIRDC Technical Library) which supplies pre-determined technical information needs with data culled from the most up-to-date technical books/journals
- Technical information brochures on newly-developed or adapted technologies and newsletter on industry trends and events exhibits/fairs

Technology Business Incubation Program

The TBI Program is for start-up businesses with limited capital and in need of readily available infrastructure and utilities for their production and business operations. The TBI Program provides business space equipped with common service facilities at reasonable rates. It also provides technical assistance, progressively phased development process of technology transfer and engineering design services

Technical Consultancy & Extension Services

Management consultancy, feasibility studies, periodic analysis of industry status, and extension of S&T services to rural areas.

National Statistics Office (NSO)

Address National Statistics Office
Vibal Building EDSA, Quezon City

Telephone: 737-1111

Website: <http://www.census.gov.ph>

Scope/Nature of Work: Philippine Statistics

Organization Description:

Major Statistical agency responsible in collecting, compiling, classifying, producing, publishing and disseminating general-purpose statistics

Services/Activities:

Census

- Census of Population and Housing
- Census of Agriculture and Fisheries
- Census of Establishments
- Census of Buildings

Socioeconomic Household Surveys

- Labor Force Survey
- National Health Survey
- National Demographic Survey
- Family Income and Expenditures Survey
- Survey on Overseas Filipinos
- Survey on Household Operated Activities
- Functional Literacy, Education and Mass Media Survey

Industry and Price Surveys

- Weekly and Monthly Price Surveys
- Monthly, Quarterly and Annual Surveys of Establishments
- Annual Survey on Construction Projects of Local Governments
- Quarterly Survey of Employment and Compensation in the National Gov't
- Quarterly Survey on Employment and Compensation in the National Gov't

Administrative Based Stats

- Foreign Trade Statistics
- Commodity Flow (Domestic Trade) Statistics
- Private Building Construction (Building Permits) Statistics
- Vital Statistics

Economic and Social Studies

1. Input-Output Table
2. Population Studies
3. Economic Studies

Civil Registration Services

Product Development & Design Center of the Philippines (PDDCP)

Address: CCP Complex, Roxas Boulevard,
Pasay City 1300, Philippines
Telephone: (632) 832-1112 to 19
Fax: (632) 832-3649
E-mail: pddcp@dti.gov.ph
Website: <http://www2.mozcom.com/~pddcp/>
Type of Organization: DTI Line Agency
Scope/Nature of Work: Product/Packaging Design

Organization Description:

The PDDCP is mandated to promote industrial design as a tool for improving the quality and competitiveness of Philippine products.

Services/Activities:

Product Design

Design of a new product, product adaptation, product diversification or expansion of existing product or line based on market needs and available technology.

Package Design

New design or redesign of packages of food and non-food products based on requirements of target market.

Product Technology Demonstration

Hands-on learning and application of skills such as finishing techniques related to product development.

Design and Technical Information

Seminars on product development and trends, and information on generic product and package design details and processes related to product development.

Library

The PDDCP Library holds over 1,000 book and magazine titles on design and related topics.

Philippine Trade Training Center (PTTC)

Address: PTTC Building
Sen Gil J. Puyat Avenue Cor Roxas Blvd.,
1300 Pasay City, Philippines

Telephone: (63-2) 834-1344 to 49

Fax: (63-2) 834-1343

E-mail: pttc@netgazer.com.ph

Website: <http://www.dti.gov.ph/pttc>

Type of Organization: DTI Line Agency

Status/Nature of Work: Trade Training and Promotion

Organization Description:

The Philippine Trade Training Center (PTTC) is the training arm of the Department of Trade and Industry that provides training programs and advisory services in the fields of export business management, entrepreneurship, quality and productivity and related subjects to exporters and entrepreneurs in various industries to satisfy their customers' needs for competitive products and services.

The Center likewise markets and rents out exhibition and conference facilities to exhibition organizers, trade and industry associations, government agencies, and educational and other institutions.

Services/Activities:

Training

- Trade Business Management Courses
- Trade Exhibition Courses
- Testing and Inspection Courses

Expert-SME Matching Services (Expertise matching database system)

Facilities -**Exhibition Halls, Seminar Rooms, Audio-Visual Studios**
WTO Resource Center/ International Trade Center

Publications

- Trade Secrets Book
- E-commerce Book

Technical Education and Skills Development* Authority (TESDA)

Address: TESDA Complex
East Service Road South Super Highway,
Taguig, Metro Manila

Telephone: (63)2 8174076 to 81

Website: <http://www.tesda.gov.ph>

Type of Organization: Department of Labor and Employment Line Agency

Scope/Nature of Work: Skills training for middle-level manpower

Organization Description:

Institute mandated to:

1. Integrate, coordinate and monitor skills development programs
2. Restructure efforts to promote and develop middle-level manpower;
3. Approve skills standards and tests;
4. Develop an accreditation system for institutions involved in middle-level manpower development;
5. Fund programs and projects for technical education and skills development;
6. Assist trainers training programs.

Services/Activities:

Direction Setting

- TESD* Policy Formulation
- Info Series
- Labor Market Intelligence Report
- Industry Studies/TESD Statistics

Assessment and Certification Services

- Registry of Certified Workers
- Accredited Assessment Centers
- Accredited Competency Assessors

Program Registration and Accreditation

TESD Services

- School-Based Training
- Enterprise-Based Training
- Community Based Training and Entrepreneurship Development Services
- Center Based Training Services

UP Institute for Small Scale Industries (UP ISSI)

Address: UP Institute For Small Scale Industries
E. Virata Hall, E. Jacinto St.
U.P. Diliman, Quezon City 1101

Telephone: (63 2) 920-7076 to 79 or 927 9238

Fax: (63 2) 920-69 23

Website: <http://www.up.edu.ph/~issi>

Type of Organization: University of the Philippines Extension Unit

Scope/Nature of Work: SME Promotion and Development

Organization Description:

Business Training, research and consultancy organization established by law as a research and extension unit of the University of the Philippines.

Services/Activities:

Training

- Training of SME Consultants, trainers, credit officers and other change agents.
- New enterprise/Small business development and management programs
- Technology upgrading, including factory automation and robotics
- Manager's Course for SMEs, supervisory effectiveness
- Human resource development programs
- Customized programs even for large industries NGOs, MNC etc.

Research

- Policy research in aid of legislation
- Program evaluation research
- Entrepreneurship research
- Area economics/market studies
- Training oriented research (case studies, training manuals...)
- Extension oriented research (project feasibility studies, business plans, market studies, borrowing manuals, etc)

Consultancy

- Productivity desks/data bases for industry clusters
- Volunteer extension services to industry associations
- In-plant survey/ management audit programs
- Contract training with consultancy component

Advocacy and Information

- Policy Position Papers
- Advocacy articles in national newspapers
- Roundtable Forums
- Organizing & facilitating conferences, for a, etc.
- Small Business Primers, management guides and credit manuals
- Entrepreneurship training manuals
- Casebooks on entrepreneurs

Philippine Chamber of Commerce and Industry (PCCI)

Address: 14th Floor Multinational Bancorporation Center
6805 Ayala Avenue
Makati City, Philippines

Tel: (632) 844-5713 / 843-4098

Fax no: (632) 843-4102 / 843-4103

Email: <http://www.philcham.com>

Type of Organization: Chamber/Business Association

Scope/Nature of Work: Acts As a Consultative Mechanisms for Business and Industry.
Represents the Private Business Sector in Government and
International Fora

Agency Description:

1. The Chamber movement in the Philippines has been in a constant state of evolution for over a century. Forged into one unified organization in July 1978, the Philippine Chamber of Commerce and Industry continues to act as a consultative mechanism for the business community to put forward proposals and policy recommendations geared towards the promotion of a sound and dynamic business environment.
2. The PCCI has a corporate membership of about 1,113 and 18,000 Small and Medium Enterprise Members in 5 geographical areas in the Philippines: North Luzon; National Capital Region; South Luzon; Visayas and Mindanao. It has 110 Local chamber affiliates and 112 Industry Associations. The PCCI continues to promote the interest of the business community by making representations in government and quasi government bodies. These forums are used to constructively engage government on issues affecting the business community.
3. PCCI also takes on the role of a “salesman” as it promotes trade and business among and in behalf of its members. PCCI is a critical catalyst in building globally competitive businesses and strengthening local chambers and affiliated businesses associations. It achieves its vision and mission through focused advocacy for business growth, strategic business services, and national and

international business networking resulting in sustainable economic growth for the long-term benefit of the business sector.

Services/Activities

1. Acts as consultative mechanism for the business community to put forward proposals and put forward proposals and policy recommendations geared towards the promotion of a sound and dynamic business environment.
2. Promotes the interest of the business community by making representations in government and quasi government bodies and in all for a at the local, regional, national and international levels
3. Establishes and maintains linkages with global organizations representing agriculture, commerce and industry
4. Initiates, submits recommendations and assist in the formulation, development, implementation and evaluation of plans, policies, programs, and all other activities that will promote the interest of private business;
5. Conducts, assists and encourage the compilation of data, research materials and studies for use in the development of socio-economic plans, policies and programs and related activities
6. Acts as primary liaison and channels of communication between business and government on matters and issues of interest to both;
7. Enhances the country's role and status in the community of nations.

Bureau of Export Trade Promotion (BETP)

Address: 5th Floor Solid Bidg.
357 Sen. Gil J. Puyat Ave.
Makati City, Phillipines

Telephone: 890-46-59; 890-47-26

Fax No. 890-47-16

E-mail: betplynp@dti.gov.ph

Type of Organization: DTI Line Agency

Scope/Nature of Work: Export Promotion Arm of the Department of Trade and Industry

Agency Description

BETP provides front-line assistance, information, and consultancy services to all exporters, would-be exporters, as well as the general public. As the lead agency tasked to develop and promote export trade, BETP seeks to enable the Philippine exporters to compete with world class products and services in the international marketplace.

Services/Activities

(1) Export Trade Facilitation:

Through the Export Assistance Network (EXPONET), a one-stop shot export information center, BETP provides information an assistance to exporters in connection with specific export problems.

(2) Business Matching

Provides consultancy and assistance to potential buyers and suppliers of Philippine export products and service.

(3) Product Consultancy

Product officers provide product consultancy services. Consultation meetings with major industry representatives are held regularly to discuss issues and concerns affecting Philippine exports.

(4) Market Consultancy

Country Desk Officers provide updated market information on major markets of Philippine exports such as Americas, Europe, Japan, ASEAN, the Middle East, and Greater China.

(5) International Trade Resource Center

An electronic trade library with a comprehensive collection of trade books, journals, and audio-visuals on international trade, specifically focused on product and market information.

(6) Tradeline Philippines

An on line trade information systems on trade statistics, product and market information, exporters' directory, trade directory, and product-market matching information.

Bureau of International Trade Relations (BITR)

Address:

Telephone:

Fax:

E-mail:

Type of Organization: DTI Line Agency

Scope/nature of Work: Foreign Trade Relations

Agency Description

The Bureau of International Trade Relations (BITR) is the primary arm of the Department of Trade and Industry responsible for all matters pertaining to foreign trade relations. Specifically, BITR is responsible for all international trade matters and market access related to the following fora:

- 1.1 Bilateral Trade Agreements (all countries)
- 1.2 Regional Trade Agreement which covers the:
 - Association of southeast Asian Nations (ASEAN);
 - Asia Pacific Economic Cooperative (APEC);
 - Economic and Social Commission or Asia and Pacific (ESCAP);
 - Global System on Trade preferences (GSTP); and
 - Asia Europe Meeting (ASEM)
- 1.3 Multi-lateral
 - World Trade Organization (WTO);
 - United Nations Conference on Trade and Development (UNCTAD)

Functions/Services:

1. Supervise international trade negotiations, consultations and conferences;
2. Formulate Philippine positions and strategies for trade negotiations, consultations and conferences;
3. Evaluate and submit recommendations on existing and proposed commercial policies of the Philippines;
4. Identify tariffs and non-tariff barriers affecting products of export interest to the Philippines and negotiate measures for liberalizing them at the bilateral , regional and multilateral fora;

5. Coordinate with other Departments and Agencies of the Philippine government with the view to assuring consistency of Philippine positions in trade negotiations and other activities pertaining to foreign trade negotiations
6. Consult with industry groups and provide technical assistance on the above matters and activities, and,
7. Chairmanship/Secretariat functions on the Bilateral, Regional and Multilateral Committees

Center for International Trade and Exposition Mission (CITEM)

Address: Golden Shell Pavilion, International Trade Center
Roxas Boulevard, 1300 Pasay City
Metro Manila, Philippines

Telephone: (632) 832-5001 / 831-2201

Fax: (632) 832-3965 / 834-0177

E-mail: <http://www.citem.com.ph>
info@citem.com.ph

Type of Organization: DTI Line Agency

Scope/Nature of Work: Export promotion arm of the DTI through trade expositions and missions showcasing the country's image as a reliable source of products in the international market.

Agency Description:

1. CITEM mandate is to contribute to DTI's export growth targets by promoting the country's image as a reliable source of products in the international market through well-selected and professionally managed trade fairs, trade missions, and other export promotion programs and activities held in the Philippines and abroad.
2. CITEM manages opportunities in the export market by assisting Filipino exporters develop their core competencies in the areas of marketing, promotion and capability building through professionally managed and well selected programs and export activities.
3. As the export arm of the government, CITEM has been credited with having helped the Philippines earn its reputation in the global trading community as a source of reliable and high-quality products and services.

Services/Activities

1. Develop, implement and manage international trade fairs, special exhibits, trade missions (incoming and out going) and other marketing promotional activities in the Philippines and abroad
2. Provide assistance in matching buyers with exporters

3. Assist in merchandize development and provide technical consultancy programs
4. Develop enterprises and market special programs as well as export awards
5. Coordinate integrated promotional programs to foster the growth of emerging export industries

Philippine International Trade Corporation (PITC)

Address: PITC Bldg., 46 Sen. Gil J. Puyat Ave.
Makati City, Philippines
Telephone: 845-47-76
Fax: 845-43-63 / 845-43-73 / 845-43-76
E-mail: pitc_cmc@mnl.wequel.net
Type of Organization: DTI Line Agency
Scope/Nature of Work: International Trading

Agency Description

1. The Philippine International Trading corporation (PITC) is the international trading arm of the government which undertakes both the import and export of new nontraditional products.
2. Trading is usually in markets not normally pursued by private business. It can supply foreign buyers with a broad range of Philippine products that meet international quality standards. Likewise it can offer manufacturers ready access to international and domestic marketing channels

Services/Nature

1. Consumer Goods Merchandising
2. Merchandising operations like :
 - Export sales
 - “Order Regalo” or indirect exports mainly aimed at overseas Filipinos sending presents to the Philippines
 - Direct marketing and Trade promotions
3. Merchandising Services
 - Product development/Raw materials procurement/Financial assistance
 - Quality assurance/Handling and delivery
4. Commodity Trading
 - Trading Operations which includes (Exports, Bulk procurement, Non-conventional trading, Third-country trading)
 - Trading Services which includes (market development, Trade promotion, Trade financing)

5. Services Trading

- Exports of Philippine labor, e.g. film animation, ship repair and dry docking, medical and tourism trades

6. Auxiliary Trade Services

- Customs bonded trading warehouse
- Common customs bonded warehouse (for garments)/Ship chartering
- Counter-trade packaging and monitoring
- Research and development of new products

Garments Export Textile Board (GETB)

Address: 3rd Floor new Solid Bldg
357 Sen. Gil J. Puyat Ave.
Makati City, Philippines

Telephone: 890-46-46

Fax No: 890-46-53

E-mail: gtebbaby@dti.gov.ph

Type of Organization: DTI Attached Agency

Scope/Nature of Work: Integrate and rationalize government policies and procedures governing the Philippine garment industry

Agency Description

1. The Garment and Textile export Board (GETB) is the lead agency of the Philippine government responsible for the development of garments and textile export through its mission, objectives, policies and strategies and prescribed rules and regulations. Created on May 24, 1979 by virtue of Executive Order no. 537, GETB's mandate is to integrate and rationalize government policies and procedures governing the garment industry in the country. Its operation is envisioned to accelerate the growth of garment exports, maximize the benefits from textiles agreements with major importing countries, and optimize foreign exchange earnings through export of garments.
2. GETB's primary mission is to be the industry's active partner in propelling the Philippines as the one stop sourcing center for globally competitive apparel and textile products. It aims to optimize foreign exchange earnings through garments and textiles exports, to help achieve the national goals of sustaining economic growth. Also it aims to establish a secure position in the international market through an expanded export base, and provide employment opportunities to help reduce the poverty level of the country.

Services/Activities

1. Promote Exports through:
 - 1.1 Trade Facilitation
 - Improve efficiency of systems, processes and procedures

- Develop and implement innovations in service delivery

1.2 Trade Policy

- Improve market access

1.3 Quota System

- Maximize utilization in terms of both quantity and value

2. Market /Merchandise Development

2.1 promote the Philippines as the preferred manufacturing and sourcing base in the Asia-pacific region

2.2 regain market niches in Europe

2.3 expand exports to the US with high value products

2.4 conduct image building/Conference building programs for the country and the industry

3. Industry Development

Philippine Export Zone Authority (PEZA)

Address: Roxas Boulevard Cor. San Luis St.
Pasay City, Philippines
Telephone: 551-34-36 / 551-34-38
Fax: 551-34-36
E-mail: Imagsanoc@hotmail.com
Type of Organization: DTI Line Agency
Scope/Nature of Work: Economic Zones

Agency Description

1. The Philippine Economic Zone Authority (PEZA) is a government corporation established through legislative enactment known as “The Special Economic Zone Act of 1995”. As an important national development strategy, the government promotes the establishment of world-class, environment-friendly economic zones (ecozones) all over the country to respond to demands for ready-to-occupy locations for foreign investments.
2. PEZA assist in the national effort to accelerate the creation of employment opportunities particularly in the countryside, and to spur the growth and diversification of export by attracting foreign investors to develop or put up export manufacturing plants or regional warehouses in world-class, environment friendly economic zones. PEZA administers and manages the incentives of 114 approved special economic zones in various parts of the country.

Services/Activities

- (1) Registers local and foreign investors as; Export enterprise; Domestic market enterprise; Pioneer enterprise; Free trade enterprise; Zone facilities and utilities enterprise; Service and Tourism enterprise; Ecozones developers and Regional warehouse operators.
- (2) Processes application of Zone locators and developers for availment of incentives like: (a) application of Zone locators and developer like: Income tax holiday (four years for non-pioneer firms; six years for pioneer firms) (b) Exemptions from payment of import duties, and taxes; Export taxes and fee; Local taxes and

fees; Tax credits and wharfage fees; Exemption from value added (VAT) on local purchases; Additional deduction for labor training expenses; Permanent resident status for foreign investors and immediate family members; and Employment of foreign nationals.

- (3) Administers the use of zone facilities in public ecozones (power and water, communication, standard factory buildings, recreational areas.
- (4) Assist in maintaining industrial harmony in the zones and resolving ecozone-related problems,
- (5) Provides information on: Investment prospects; Tax incentives, privileges and requirements, rules and regulations; Availability of standard factory building and areas in the ecozones, General business conditions prevailing in the country, Functions and roles of ecozones in economic development.

National Development Corporation (NDC)

Address:

Telephone:

Email:

Type of Organization: DTI Attached Agency

Scope/Nature of Work: - A Catalyst in the Establishment of Philippine Enterprises.

- Government's corporate arm in developing financing and implementing pioneering projects vital to the advancement of the government's industrialization program

Agency Description

The National Development Company is an attached agency of the Department of trade and Industry acting as a catalyst of key industries in the country for national growth. NDC is proud to have helped the contemporary national economy by acting as a catalyst in the establishment of Philippine enterprises and industries. Today NDC is again at the forefront of the country's industrial development, performing a strategic role as the government's corporate arm for developing arm financing, and implementing projects vital to the government's new industrialization program.

Services/Activities

NDC is committed to uplift the quality of life of Filipinos worldwide and to be the globally preferred business partner of the private sector through its 3 pronged functions. To wit:

1. **Invest.** NDC undertakes pioneering projects that the private sector is reluctant to invest due to high risks or lack of financial resources
2. **Operate.** NDC either operates or monitors the performance of its companies to ensure that returns on NDC's equity investments are maximized
3. **Divest.** Once there are willing buyers from the private sector, NDC embarks on the divestment of its shareholdings in these companies.

With the entry of the Arroyo Administration and its focus on poverty alleviation, good governance, among others, NDC will again be in the forefront of economic and social development programs. As such:

- NDC will be a key player in harnessing the country's potential to excel in agro-based and information technology projects
- NDC shall give prime attention to small and medium enterprise in order to create a strong entrepreneurial base that will lead to job creation and ultimately to the government's goal of reducing the gap between the rich and the poor.
- NDC shall favorably pursue projects with high social development impact putting to action NDC's exemplary corporate citizenship.

With a revitalized corporate thrust, good governance and a more stable balance sheet, the National Development Company will be ready to take on the challenges of the 21st century to pursue its given objectives

Bureau of Domestic Trade Promotion (BDTP)

Address: 2nd Floor Trade and Industry Bldg.
361 Sen. Gil J. Puyat Ave.
Makati City

Telephone: 890-49-33

Fax: 890-48-58

Type of Organization: DTI Line Agency

Scope/nature of Work: Domestic Trade Promotion

Agency Description

1. Develops and strengthens domestic linkages among establishments in the manufacturing and trade sector. The Bureau undertakes: National Trade Fair, Island Fair, Selling Fair, Regional Fairs, Subcontractors Fair, Trade Mission
2. BDTP promotes efficient marketing and distribution of local products and services in the domestic market and expands and strengthens linkages among and between small, medium and large enterprise from all over the country thru information exchange, market matching and the mounting of domestic marketing events

Services/Activities

SME Development

- 1.1 Trade Facilitation/Market Matching/Bulk Trading
- 1.2 Policy Advocacy
- 1.3 Subconex

Institutional Development and Strengthening

- 1.4 Retailers' Council
- 1.5 Franchising Seminar Cum Business matching

Market Information

- 1.6 Data base of Domestic Suppliers
- 1.7 Directory of Trade Associations
- 1.8 Regional and Provincial profile
- 1.9 Trade Houses

SME Private Sector Participation in Managing the Environment (PRIME)

Address: SME PRIME Project Management Office
3rd Floor, Board of Investment Bldg.
385 Sen, Gil J. Puyat Ave.
Makati City

Telephone: 897-6682 Loc. 300

E-mail/Fax No. 895-3982

Type of Organization: A Project of United National Development Organization (UNDP)

Scope/Nature of Work: Environmental Management Systems in the Business Sector
Philippine Agenda 21
Promotion of Cleaner production in the country's growth centers
Environmental self regulations among industries

Agency Description

1. The PRIME Project is a joint project of the United Nations Development Program (UNDP) and the Department of Trade and Industry - Board of Investment and the Department of the Environment and Natural Resources.
2. Project PRIME is expected to initiate the introduction of clear means of production and adoption of environmental management systems in the business sector. These measures will enhance the global competitiveness of the Philippines firms as these will lead to better production efficiency as firms will meet international environmental standards improving competitiveness of export-oriented firms.
3. PRIME is directed towards enhancing emerging private initiatives in minimizing industrial environmental impact. The project aims to strengthen the role of the private sector in environmental management to complement regulatory mechanisms. Prime seeks to attain this objectives through four thrust, namely;

Services/Activities

PRIME is composed of four major thrust Modules. To wit:

Module 1. The Business Agenda 21

The Philippines Agenda 21 has been adopted as the nation's blueprint for sustainable development. It lays down the principles that should govern the actions of major stakeholders, as well as an action agenda for each ecosystem. This first thrust aims to catalyze the development of the Business Agenda 21 in consonance with the principles laid down by the Philippine Agenda 21.

Module 2. Industrial Ecology

This second thrust will promote cleaner production in the country's growth centers through adopting concepts of industrial ecology in areas designed for industrialization. Industrial ecology is a new innovative concept that involves restructuring the industrial systems to minimize wastes and maximize the cycling materials and energy.

Module 3 Environmental Management Systems

The 3rd thrust aims to promote environmental self-regulation among industries. A growing trend among firms, particularly the large corporations, is to move beyond a position of mere compliance to a more proactive stance. This leads to a "total quality systems" approach to environmental issues. EMS integrates environmental procedures with an organization's business strategies. It is closely linked with the new set of international environmental management standards, ISO 14001.

This PRIME module is designed to facilitate the efforts of businesses to track their own environmental operations and performance and therefore can be a means of reducing the need for regular control from the environmental agencies.

Module 4 Environmental Entrepreneurship

The government alone cannot fully meet the demands of the general public for basic environmental services. Hence, the 4th component of the PRIME Project will examine various environmental services especially those related to pollution abatement, which can be provided by the private sector. The objective is to encourage investment from the private sector in such activities that will provide environmental services and infrastructure.

Chapter 6 Other Environment Related to SME Promotion and Policymaking

Chapter 6 Other Environment related to SME Promotion and Policymaking

6.1 Current State of SME Support by Major Donor Organizations

6.1.1 Official Development Assistance (ODA) to the Philippines

According to the annual ODA Portfolio published by NEDA in 2002, 195 projects and 7 loan program were implemented using ODA funds in 2001 in the Philippines. On a value basis, they total US\$13.2 billion (including ongoing projects), which are equivalent to approximately 90% of the national budget in the Philippines and thus contribute greatly to the country's economic development.

The classification of ODA projects and programs according to service area indicates that infrastructure development accounts for 69% of the total, amounting to US\$9.1 billion, followed by agriculture (including resource development and land reform) with a 15% share. The industry and service sector represents 9% of the total, or US\$1.2 billion. Most of the ODA projects and programs are implemented by the Philippines government, while three infrastructure projects are carried out by local government units (LGUs), which borrow ODA loans directly to finance them.

Approximately 60% of ODA projects and programs, on a value basis, are under financial assistance of the Japanese government, followed by Asian Development Bank (ADB) 22% and the World Bank 12%. Furthermore, ADB's programs are partially funded by the Japanese government, indicating Japan's significant contribution.

As for geographical distribution of ODA, the NCR accounts for approximately 20% of the total on a value basis, followed by Region 3 near the NCR, Region 6 in Cebu, and Region 7 in Mindanao, each accounting for around 10%. In particular, Region 7 obtains an increased share in consideration of the conflict involving the Islamic residents in Mindanao.

Meanwhile, the Philippine government has revealed its intention through NEDA to discourage ODA projects that would impose financial burdens on the government, including project operation costs in the future as well as counter portions during project implementation. As a result, the government is becoming increasingly reluctant to carry out projects involving construction of infrastructure or other facilities under the ODA and those are required counter portions.

Table II-6-1 Top Ten ODA Providers for the Philippines

Unit: Million US\$

		1990	1995	1998	1999
Bilateral	Japan	647	416	298	413
	U.S.A	248	112	27	73
	Australia	29	56	45	29
	Germany	44	68	45	22
	Spain	5	12	15	13
	France	32	36	24	10
	Netherlands	22	19	20	10
	Canada	29	20	15	11
	Multi	EC	11	41	36	30
	ADB	128	55	21	24
Total ODA		1,276	883	607	690
Bilateral ODA Ratio (%)		86.6	84.8	87.0	89.2

Source: OECD(DAC)

Donor organizations have been providing extensive support in the areas of industrial development and SME promotion. In the Philippines, representatives of major donor organizations held periodical meetings to discuss SME promotion, and Appendix II-6 lists SME-related ODA projects confirmed at the meeting. They are analyzed in more detail in the following section.

6.1.2 Actual Record of Support by Major Donor Organizations

(1) Japanese government

The Philippines is one of the countries to which the Japanese government gives the highest priority in its official development aid. In 2000, the development aid to the Philippines ranked sixth in share of Japan's bilateral ODA expenditures (net), and ranked third in the cumulative total up to 2000, next to Indonesia and the PRC. Similarly, for the Philippines, Japan is the top donor country. In 1999, the amount of ODA executed by Japan accounted for approximately 60% of the total ODA to the Philippines. Since 1990, Japan has been contributing around one half of the yearly ODA disbursement to the country. Japan's current ODA policy for the Philippines focuses on the following four priority objectives or areas, which have been selected on the basis of results of research and study on the current state of the country's development, major issues, and relevant development plans, together with the results of a policy dialog taken place between the General Economic Cooperation Study Mission and the Philippine government in March 1999.

- 1) To strengthen the economic base and overcome factors restraining sustainable growth (including assistance for fostering of supporting industries as part of reinforcement of the industrial structure);
- 2) To reduce poverty and correct regional disparity (including development of social and economic infrastructure in rural areas);

- 3) Environmental preservation and disaster prevention
(including industrial pollution control measures); and
- 4) Human resource development and institution building
(including the enhancement of skills and technical education to meet the industrial needs of local communities)

In the area of support and assistance for industrial development and SME promotion, Japan's ODA projects concentrate on JICA's development studies as well as technical assistance including consultation and guidance by JODC and JETRO (e.g., the sending of experts). Also, JBIC provides two-step loans for SMEs (ISSEP-II) via the Development Bank of the Philippines.

(2) Support by other major donor countries

In addition to Japan, there are several key donor countries contributing to the development of the Philippines, including the U.S., Australia, and Germany. Among them, Germany and Canada are actively involved in SME promotion and industrial development in rural areas.

1) GTZ (Germany)

GTZ is implementing various support programs in the Philippines, of which the largest program is titled "Promotion of Dual Education" with TESDA being the counterpart. The program was started in 1996 and is designed to train skilled workers using TESDA's facility as well as on-the-job training. GTZ provided US\$7 million to TESDA for the purchase of machinery and equipment used for training, in addition to program management support. GTZ will also participate in the Private Sector Development Program that will be launched in 2004 by allocating a total budget of \$5 million over three years for reinforcement of the SME and provision of business development services. The program is expected to be implemented under the aegis of the chamber of commerce and industry as the counterpart. In addition to GTZ, KfW has been rendering support in the area of SME finance (particularly microenterprises and small enterprises), which will be continued for limited geographical areas.

Germany's assistance has primarily focused on human resources development such as vocational training, and the program covers the entire country but is highly concentrated in Visayas.

2) CIDA (Canada)

CIDA sets forth the following three strategic objectives for its development aid in the Philippines.

- Promotion of an efficient and transparent system
- Development of SMEs as a means to create employment opportunities

- Reduction of the poverty class through support for social development

Under the strategic objectives, CIDA is currently implementing 15 projects, of which the following five projects focus on development of industries and enterprises.

- Private Enterprise Accelerated Resource Linkage (PEARL)
- Promoting Participation in Sustainable Enterprises (PPSE)
- Socia-Economic Development through Cooperative in the Philippines (SEDCOP)
- Business Advisory Project (BAP)

Among them, “Private Enterprise Accelerated Resource Linkages (PEARL)” and “Promoting Participation in Sustainable Enterprises (PPSE)” are closely associated with SME promotion. Basically, they aim to reinforce competitiveness of small enterprises through technical assistance and consulting service. Note that CIDA has discontinued PEARL and is contemplating a new SME support program.

Geographically, CIDA’s development assistance mainly takes place in Mindanao (60% of total) and Visayas (30%). Also, CIDA emphasizes support for microenterprises.

As discussed earlier, JICA (Japan), GTZ (Germany) and CIDA (Canada) are most active in industrial development and SME promotion. Among their programs (including under planning one), “Private Sector Development Program” by GTZ will be somehow related to some proposed action programs by the JICA Study Team. On the other hand, GTZ is planning to concentrate its activities in Visayas, whereas CIDA intends to focus on program deployment in Mindanao. As JICA’s support covers the entire country, it will discuss with GTZ and CIDA at the donor meeting to coordinate their roles and geographical coverage, thereby to maximize efficiency and effectiveness of ODA projects.

3) Others

Development aid by the United States has been provided as part of the anti-terrorism campaign conducted by both countries. To support joint military operations in Mindanao. The assistance by the U.S. government emphasizes projects conducive to the island’s economic development. Among them, USAID has been conducting the Regional Enterprises Development Project, together with the reinforcement of the chambers of commerce and industry in major cities. It was carried out with PCCI as the counterpart up to 1997. The project is known as the basis of establishing the Davao Business Center, which is currently operated by the local chamber of commerce and industry.

Australia has been involved in projects to create cash income sources and improve hygiene in rural areas, as well as environmental remediation in Mindanao. Finally, the World Bank and the Asian Development Bank emphasize SME support in the area of assistance targeting eradication of poverty.

6.2 Current State of SME Statistics and Major Issues

To formulate and implement effective industrial policy and SME promotion programs, availability of statistical data on SMEs including microenterprises is essential. In particular, industrial statistics have been rediscovered in ASEAN countries as an important tool that enables governments to develop plans for regeneration of domestic industries that were hit hard in the Asia currency crisis in 1997. Industrial statistics referred herein are composed of different types of statistics, including: 1) structural statistics containing vital business data, including the numbers of enterprises and establishments, geographical distribution, capital formation, and the number of employees; 2) current statistics that monitor updated production trends on a real time basis; and 3) production statistics that represent production quantities and levels presented in a format allowing international comparison.

The country's statistical system, currently in place, was established pursuant to Executive Order No.121 of 1987, which, among other things, authorized the establishment of the National Statistical Coordination Board (NSCB) and the Statistical Research and Training Center (SRTC) and defined the role of the National Statistics Office. Accordingly, NSCB is primarily responsible for formulation of national policy in the field of statistics, coordination of statistical services conducted by various organizations, and census-related activities. In addition, two other bureaus were created to cover statistics in specific fields, namely the Bureau of Agricultural Statistics (pursuant Executive Order No.116) under the Department of Agriculture, and the Bureau of Labor and Employment Statistics (EO No.126) under the Department of Labor and Employment. Thus, the present statistical system in the Philippines is fairly decentralized.

The following sections outline the above three types of statistics - structural statistics, current statistics, and production volume statistics - which are highly demanded for industrial policy including SME promotion, and identify and analyze their current state and major issues.

6.2.1 Structural Statistics

Structural statistics in the Philippines are compiled by NSO, which conducts periodical surveys of business establishments, including the Census of Philippine Business and Industry (CPBI) that is conducted every five years, the Annual Survey of Philippine Business and Industry (ASPBI), and the Quarterly Survey of Philippine Business and Industry (QSPBI), which contain a standard set of statistical data. The most recent census was conducted in 2000 to collect 1999 data ("CSPB12000"), but its results have not been published fully due to a delay in data compilation.

The accuracy and reliability of the structural statistics surveys is chiefly governed by the precision of the survey population consisting of business establishments surveyed.

NSO maintains the survey population called the List of Establishments, which was originally compiled from the results of fieldwork. Since then, the list has been updated by means of field verification at the time of each census, collation of data owned by other government offices and private organizations, use of data and information obtained from newspapers and telephone directories, and collation with the list of companies maintained by the Security Exchange Commission (SEC). In reality, however, the updating has not been carried out as planned due to budget constraint.

In addition to NSO, various organizations maintain the similar lists of business enterprises and establishments. At present, the following organizations register business enterprises and establishments in the Philippines.

- (1) Business enterprises (including partnerships), their branch offices, representative offices, and non-profit organizations are required to be registered with SEC. The list does not cover establishments.
- (2) Private enterprises are registered with DTI's provincial office for business name registration.
- (3) All business establishments must be registered with a local government unit where they operate when they apply for a business permit (Mayor's permit).
- (4) Business enterprises that receive incentives from BOI/PEZA are required to register with BOI/PEZA.

Thus, several organizations maintain basic statistics on business enterprises and establishments. NSO has compared its list of establishments with similar databases and has found various problems relating to data integrity: each database contains somewhat different data and information and other databases do not have certain items that NSO require; different organizations apply different industrial classification standards; and registration data are kept in a file, not stored in a computer. These problems prevent the databases from being linked for shared use or interoperability. Among the currently available databases, NSO's List of Establishments or business permit data at LGUs are considered to be the most reliable source for understanding the general status of SMEs.

In addition, all the databases cannot be updated to reflect bankruptcy and suspension of business enterprises and establishments, which should be obtained from the Bureau of Labor and Employment Statistics, DOLE.

It is therefore important to realize that the currently available structural statistics have various problems that need to be improved to ensure their effective use.

6.2.2 Current Statistics and Production Statistics

Current statistics represent industrial activities that change everyday, such as production and inventory. Previously, DTI conducted monthly surveys of manufacturing industries, called DTI-MIS, which has later been integrated into NSO's MISSI (Monthly Integrated Survey of Selected Industries). MISSI covers 16 manufacturing sectors and publishes two key indices for each sector monthly, i.e., the Value-added Production Index (VaPI) and the Volume of Production Index (VoPI). However, these indices are not widely recognized or used by the government or the private sector. And the following problems have been pointed out.

- (1) Generally, a production index refers to an index number representing the quantity of production, not containing any price factor. However, MISSI determines its production index (VoPI) by using a VaPI calculated for each sector, on the basis of the total value of production at each establishment, which is then divided by a price index. This is called an indirect method and is effectively an index number representing the value of production. As the price factor is involved in determining the VoPI, its precision cannot be totally relied upon.
- (2) Due to the absence of item-based data, MISSI cannot provide production data or a VoPI by item. Despite of the fact that item-based production data are strongly demanded by both the government and the private sectors, very small portions of official data are item-based, such as petroleum products (maintained and published by DOE). Several private organizations compile item-based production statistics, but most of them are sales data and are limited to those obtained from their member companies.

To correct these shortcomings, NSO intends to modify the survey methods for MISSI. In 2002, it started the Monthly Survey of Production (MSP) in addition to MISSI. MSP collects item-based production data from eleven industries in the manufacturing sector, except those which produce items that are not suitable for the item-based survey. It aims to calculate VoPIs on an item and a sector basis by using a direct method and publish item by item production data. In addition to the production indices, MSP can calculate sales and inventory indices and are expected to provide data for short-term business forecast on the basis of an inventory cycle model.

6.2.3 DTI's Statistics and Current State of Utilization

DTI has an organization responsible for system development and statistics management, called Management Information Services (MIS). However, actual data collection, statistical processing, and data use and management seem to be conducted by other organizations within DTI according to their operational needs. For instance, BOIs collect investment-related data and BSMED compiles data on SMEs, and they maintain their own databases. Similarly, data on business enterprises that have registered their business names through DTI's provincial

offices are processed and compiled by the Bureau of Trade Registration for Consumer's Protection and are used as statistical data within DTI.

In fact, the business name registration data boast the most comprehensive coverage among other data on business enterprises owned by DTI, but they are updated only at an interval of five years. They are submitted voluntarily by business enterprises on the occasion of business name registration and do not reflect DTI's active efforts to collect SME data. As they are not dynamically updated, it is very difficult for DTI to grasp the current status of SMEs. SME Core Group has decided to collect and compile basic data on SMEs and started to build the National SME Database in 2003, under the leadership of BSMED. It plans to develop the SME database covering as much as 80,000 business enterprises in six months¹. At present, it uses enumerators to collect data throughout the country, but given the budget constraint, it is not certain if it can collect the target amount of data (around 80,000 enterprises) within the period².

In addition to the National SME Database, a program to establish a national business registry (NBR) is proposed. While the National SME Database aims to collect and compile SME data for use within DTI, NBR is designed to build an online, inter-departmental SME data management system by linking databases of related government organizations. The plan was announced by the SMED Council in 2001 and has still to be officially approved or implemented. Nevertheless, the plan envisages the participation of NSO, DOLE and BIR, as well as DTI, and when completed, NBR is expected to provide highly useful data for a variety of purposes. In fact, the NBR data will not only be used as the basis of policy development but also credit information required by financial institutions.

6.2.4 Issues Relating to Development of SME Statistics

Business statistics in the Philippines are based on different types of databases maintained by NSO and other organizations, which try to develop their own statistical bases of essentially similar content. In reality, however, the budget constraint facing the entire Philippine government renders such efforts to develop discrete statistical bases incomplete and imperfect. Even NSO, which has built a more complete statistical system than others, is not immune from the problem. Clearly, it is the time to concentrate limited resources on certain organizations in an effort to build a cost-effective statistical system. It is important to realize that the development of a cost-effective system should start from the linking of different databases of NSO and other organizations, e.g., when DTI takes charge of current statistics, it should develop the list of surveyed establishments by using such linkage. Then, if any shortage of data or

¹ The database will cover SMEs throughout the country, including microenterprises. According to NSO's statistics of business establishments, there were approximately 810,000 enterprises in 2001, and BSMED intends to cover 10% of the total in the initial stage.

² The budget allocated for development of the National SME Database amounts to 18 million pesos, of which 1.3 million pesos will be allocated to the employment of enumerators.

information is found, efforts should be made to add it to the existing system in a coordinated manner.

The following statistical data are very important in formulation of SME development policy and monitoring of program implementation.

- 1) Statistical data for quantitative analysis of SMEs from macro-economy viewpoints e.g. the number of establishments, employees, geographical distribution, industrial distribution.
- 2) Data for the relation between category of SMEs classification and actual business conditions to formulate SME development policy.
- 3) Data for ascertaining the nature and extent of the influence and impact of specific policy themes (or measures)

Therefore, the institution in charge of SME development (DTI or SMEDC in the Philippine now) has to define a category of SMEs or number of employee together with NSO, and apply it to SME statistics. This will make it possible to obtain the necessary data.

It is also necessary to conduct, periodically, a dedicate sample survey apart from national statistics for the purpose of grasping the above 2) and 3) data as SME development institution.

Chapter 6 Other Environment Related to SME Promotion and Policymaking

Annex (II-6)

Summary of the Official Development Assistance to SMEs

**SUMMARY OF
THE OFFICIAL DEVELOPMENT ASSISTANCE (ODA) TO
SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)
AND OTHER ASSISTANCE PROGRAMS TO SMEs IN THE PHILIPPINES
(As of June and Dec. 2002 and April 2003)**

SOURCE(S) OF GRANT PORTFOLIOS and DONOR'S TRUST	DETAILS OF ASSISTANCE PROVIDED			PARTNER AGENCIES / COUNTERPARTS
	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION	
1. Asian Development Bank (ADB)				
<u>Technical Assistance</u>	<ul style="list-style-type: none"> - Technical assistance on policy and Institutional reform studies - Institutional capacity building - Project preparation activities 	<ul style="list-style-type: none"> - Technical assistance on policy and Institutional reform studies - Institutional capacity building - project preparation activities 	<ul style="list-style-type: none"> Agriculture and Natural Resources Energy, Finance, Industry Social Infrastructure Transport and communication 	<ul style="list-style-type: none"> Department of Education DILG SEC
<u>SME Policy</u>	<ul style="list-style-type: none"> -Strengthening Export Competitiveness (TA No. 3345) -(2000-2001) Completed Nov. 2001 	<p>The advisory TA covers trade policy, investment policy and promotion, competition policy, trade finance, SME policy and credit, labor policies and customs admin policies and plans, and strengthen investment nistration. Furthermore, the TA has outlined methods to Improve formulation of trade and investment promotion. The TA provides in-depth analysis of labor policies, identifies skill shortages and makes recommendations to improve tertiary education. Finally, there is an assessment of competition and detailed recommendations for formulation of competition policy and associated legislation.</p>	Dept. of Trade and Industry and Dept. of Finance	The primary results indicate that there is a need to strengthen the policy environment for SMEs facilitating access to credit streamline the registration and licensing procedures and develop trade finance for export-oriented firms.
<u>ADB (TASF)</u> <u>Coordination and</u> <u>Integration</u>	Regional Technical assistance SME Development tin the EAGA Region (TA No. 5880) approved in December 1999	Primary goal; reduce poverty in the targeted sub-region by stimulating long term economic growth and creating opportunities for employment.	DTI/MEDCO	DTI /ADB

SOURCE(S) OF GRANT PORTFOLIOS and DONOR'S TRUST	DETAILS OF ASSISTANCE PROVIDED				PARTNER AGENCIES / COUNTERPARTS
	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
	for \$300,000 2000-2002 Project is on going	Areas covered: only part of the EAGA region: Southern Philippines ad Eastern Indonesia as they lag behind their respective countries as a whole in economic development and social progress. SMEs were targeted for assistance, because of their employment generating potential and because of their impact on the regional economies.			
ADB (TASF) <u>Coordination and Integration</u>	Regional Technical Assistance for SME Development Expanding the Strategy in the East Asean Growth Area (TA No. 6018) approved in December 2001 for \$240,000. 2002-2003 Consultants are recruited underway	Support the revival of economic activities in BIMP-EAGA by promoting the development of SMEs in the sub-region. Identify the constraints to and opportunities for SMEs development through cooperations in EAGA, particularly focusing on the economic linkages of Malaya and Brunie Darussalam and with other EAGA regions to complement the results of the recently completed Strategy for SME Development in the EAGA which is focused on the Indonesia and Philippines parts of EAGA.	SMEs/ LGU and other stakeholders in the BIMP-EAGA region.	EPU/ MPR	

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION	
2. CANADA				
Canada International Development Agency (CIDA)	Role of Women – Institutional Strengthening Project II (NCRFW)	Gender training Capacity transferred to institutions like (Ateneo de Manila and University of the Philippines, Los Banos	Filipino Women (NCRFW)	Training for Academic institutions, non governmental organizations and private organizations
SME POLICY	Enterprise Support Program (ESP) Enterprise Linkages Project (ELP) 1994-2000 Project completed 2001	Number of studies have been made on the various issues done under ESP/ ELP project	DTI / BSMBD Selected areas in Negros Occidental, Cebu and Sultan Kudarat	Improved productivity, profitability, investment and market share of medium-scale enterprises (MSEs) Improved and increased business sales Increased investments and job opportunities
CIDA-PEARL I & II	Rural Enterprise Development Project (RED) Private enterprise SME Promotion and Dev. Technical assistance to local chambers and industry associations	Adopted Sustainable Agro- Forestry Systems Institutional and capability building to chamber and industry groups Investment promotion	Women beneficiaries involved in swine fattening and basket industries Dept. of Trade and Industry Local Chambers and Industry Associations PCCI	Contributed to the improvement of food supply for beneficiaries Generated income to women beneficiaries PCCI Development of identified SMEs

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
<u>SME BUSINESS SUPPORT</u>	PEARL-private Enterprise Accelerated Resource Linkages 1997-2002 Project completed	To foster an environment conducive to the development of dynamic Philippines SMEs via sub-projects that integrate and improve coordination of existing SMEs support programs by the government business associations, donors and non- governmental associations in order for SMEs to expand their operations and increase their competitiveness; and to promote the development of long-term linkages between Canadian and Philippines SMEs for the transfer of technology.	SMEs	DTI BOI	
<u>SME BUSINESS SUPPORT</u>	CESO-BAP- Canadian Executive Service organization (CESO)- Business Advisory Project (BAP) 1999-2003 Project is ongoing	To increase the operating effectiveness of Small and Medium Enterprises (SMEs) in selected sectors and selected regions of the Philippines in order to promote sustained and equitable economic growth.	SME	CESO	
<u>SME BUSINESS SUPPORT</u> CIDA/COA/DID /NATCCO	Socio-Economic Development Through Cooperatives in the Philippines (SEDCOP) 1998-2003 Project is ongoing	To increase the performance and effectiveness of people-based co- operatives as enterprises , notably in financial intermediation, insurance, housing and commodity trading.	SMEs	CCA/DID/	

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRIPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
<u>SME BUSINESS SUPPORT</u> <u>CIDA</u>	PDAP-PPSE Philippines Development Assistance Program (PDAP) promoting Participation in Sustainable Development (PPSE) 1997-2003 Project is on going	To support rural sustainable enterprises by promoting private sector development at the household, community, and regional levels; to build suitable policy and Institutional environment at the local, national and international levels in support to sustainable enterprise development; to increase the participation of the Philippine and Canadian community groups, private ectors, academe, and governments in sustainable enterprise development			
<u>SME BUSINESS SUPPORT</u>	Private Enterprise Accelerated Resource Linkages (PEARL II) 2002-2007 Project in preparation	To support the development of SMEs that create meaningful jobs for both women and men via support to key labor intensive sectors; key SMEs0 related organizations and through capacity development for investment.	SMEs DTI/ BOI		DTI/ BOI
<u>SME POLICY</u>	Policy Training and Technical Assistance Facility (PTTAF) 1999-2004 Project on going WTO Implementation Support / APEC 2002-2005 In preparation	Technical assistance and training to national agencies on sub- project basis To enhance compliance with WTO obligations and / or WTO accession requirement of 6 Southeast Asian nations and to increase the ability of the nations to take advantage of their WTO rights	Various NEDA field offices TBC		TBC

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRIPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION	
3. EUROPEAN COMMISSION				
<u>Credit Support Systems</u>	Agricultural production and marketing, rural infrastructure; cooperative and credit Schemes Support micro, cottage, and medium scale enterprises Agrarian reform support	Capability strengthening for LGUs Environmental protection program	Partnership with NGOs and LGUs Western Samar, Catanduanes, Aurora Province	Projects encouraged communities to take part in the implementation using the micro-project approach as instrument of development
<u>SME SUPPORT</u>	Partnership Programs: Adopted centralized and participatory approach to development and emphasized partnership with LGUs and NGOs	Equipped local planning units with the skills I community planning through training and hands on formulation of Barangay Development Plans	Cordillera Regions Municipalities in the provinces of Nueva Ecija, Southern Mindanao, Camarines Sur, Negros Occidental, Agusan del Sur and Agusan del Norte	Empowerment of beneficiaries in LGUs and Upland agrarian reform communities through participative approaches
<u>Credit Support Systems</u>	Livelihood Programs Credit Support Systems	Establishment of Credit Support Systems	Catanduanes, Western Samar and Aurora	Improved living conditions of target beneficiaries noted
4. GERMANY				
German Technical Cooperation (GTZ)	Vocational Training and Dual Technology Training for the development of underdeveloped regions	TESDA	TESDA Visayas Region (start in 2003)	Visayas Region
German Government /KfW	Industrial Pollution Control Project 1 1997- 2001 Project completed	Provision of financial support to industrial enterprises, primarily the SMEs for their environment - related requirements	SMEs	DBP
SME Credit and Finance	Industrial Pollution Control Project 2 2001-2005 Project on going	Continuation of IPCLP I which involves the provision of financial support to industrial enterprises, primarily the SMEs	SME	DBP
-do-				

SOURCE(S) OF GRANT PORTFOLIOS and DONOR'S TRUST	DETAILS OF ASSISTANCE PROVIDED				PARTNER AGENCIES / COUNTERPARTS
	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRIPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
-do- Credit Lines for SMEs	Credit Lines for SMEs 2000-2002 On going	Involves the provision of sub-loans to finance SMEs importation of capital and intermediate goods and spare parts.	SMEs	DBP	
-do- Promotion of Small enterprises Project II	Promotion of Small enterprises Project II 1998-2002 Project on going	Involves the provision of sub-loans to finance SMEs to finance their working capital, fixed and asset investments. The sectors include trading, manufacturing, processing and services.		LBP	
-do- Credit Lines for SMEs	Credit Lines for SMEs 199-2002 Project on going	Involves the provision of sub-loans to finance SMEs importation of capital and intermediates goods and spare parts		LBP	
-do- SME POLICY German Government /GTZ	Country Study: The financial Sector in the Philippines 1998 Project completed	The country study focused on: (1) impact of financial market reforms at the institutional level and on client target groups accorded development policy priority (SMEs and poor sections of the population); (2) assessment of new financial market products, particularly in capital market development;(3) identification on successful and viable financial institutions; (4) identification of successful and sustainable development of models.			The study focused more on the assessment of the macro, sectoral and institutional levels and development approaches and programs in place with specific regard to poverty alleviation projects
SME Promotion / Infrastructure German Government/ GTZ	SME promotion (Private Sector Development Program) 2002 Project in the Pipeline	The TA will consist of a three pillar approach: (1) promotion of a business friendly environment (improve framework conditions for private sector development; (2) business development service for SMEs; and (3) improved access to financial services. The program will also be developed consistent with other program		DTI	There is no detailed proposal yet. The appraisal Mission on the program design, approach and components will be dispatched in April 2002 and be convened in June /July 2002 to finalize the program

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRIPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
SME BUSINESS SUPPORT GTZ	Countryside Entrepreneurship Development Project 1997-2001 Project is completed	<p>focal area strategies on environment and rural development, donor coordination and public-private partnership.</p> <p>The project aims to strengthen the capacity of existing and potential entrepreneurs in selected provinces on entrepreneurial an organizational competence or to run competitive an sustainable enterprise to contribute to socio-economic development of the selected provinces. The project uses the competency-based Economies through the Formation of Entrepreneurs (CEFE) approach which promotes the creation and upgrading of existing micro, cottage, small and medium enterprises. It also aims to influence SME support institutions to help promote the environment conducive to the SME sector and its entrepreneurs.</p>	DTI		
SME BUSINESS SUPPORT GTZ	Promotion of Small and Medium Industries in Southern Mindanao, Business Center Davao (BCD) 1992-2000 Project is completed	<p>The project's objective was to promote SMEs in Mindanao by strengthening the SME SME associations and establishing a self- help organization called the Business Center Davao, as a non-stock, no profit organization. The BCD serves as center for networking and cooperation in procurement, marketing, organizational development and linkage for individual businesses among all SMEs in Mindanao. A</p>	DTI Region XI and Business Center Davao	As of 1998, BCD and 25 member organization out of 12 different industry and service sectors with over 8,000 individual enterprises as members of micro, small and medium industry and service levels. Creation of the Dual Vocational Training Institute	

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		training arm of the BCD called the Dual Vocational Training Institute was also created under the project. In its last phase from 1997 to 2000, the project focused on accelerating the growth and development of the SMEs in Southern Mindanao.			
5. THE NETHERLANDS					
Support Systems	Sustainable Agrarian Reform Communities Project	Installation of Farming Systems Development Approach	Nationwide program DAR personnel Farmers	Improvement in the capabilities of DAR personnel to handle training on cooperative strengthening Adoption of the farming system development approach wherein farming techniques were disseminated to the farmers by means of the BWC	
Support Systems	Cooperative strengthening	Barangay Workshop Consultation (BWCs) and Training –cum– planning Activities	Laguna de Bay communities	Extended knowledge and understanding of the land and water resources issues in Laguna de Bay	
Support Systems	Sustainable Development for the Laguna de Bay Environment	Technical assistance in the development and use of databases, management information systems and decision support systems			
6. JAPAN					
JICA 2002	Japan's Experts Dispatched Program: Expert on SME Promotion and Development To be dispatched	This consultancy is aiming to create a favorable policy environment and well-coordinated institutional set up for the promotion and development of SMEs in the Philippines	SMEs		DTI
<u>SME POLICY</u>	Philippine Small and Medium Scale enterprise Development Plan 2002 To be dispatched	To hasten the growth of SMEs, this Development Study assess the present condition of local small and medium scale enterprises, identify competitive advantage of the priority sector and revalidate current SMEs policies, strategies and	SMEs SMEs stakeholders		DTI

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
SME PROMOTION / INFRASTRUCTURE	Project for Modernization of Industrial Property administration 1999- 2003 On going	programs. Subsequently, preparations of SMEs development plan and its presentations to the stakeholders to be conducted This project Type Technical Cooperation aims to make IPO be able to grant industrial property rights more promptly with increased accuracy. The project purpose is that the patent administration process shall be facilitated in IPO	IPOs IPO		
JICA SME PROMOTION / INFRASTRUCTURE	Investment Promotion Project 1989 On going	Advisor is being dispatched as the Foreign Desk Officers of BOI to promote the entry of Japanese investment to the Philippines and to formulate and recommend tot he Philippine Government authorities, measures and action programs for the promotion of foreign as well as local investment in the Philippines	BOI / DTI BOI / DTI		BOI / DTI
JICA SUPPORT For INDUSTRIES	Upgrading Project for Plastic Molding Tool Technology 1997-2002 Project is on going	This project Type Technical Cooperation aims to make the Philippine tool and die producers to be able to supply tool and die products of good quality. The project purpose is that MIRDC will be able to provide training and technical support related to plastic molding tools for tool and die engineers	MIRD / DOS		
JICA SUPPORT FOR INDUSTRIES	Electric and Electrical Appliance Testing project 1999-2003	This project Type of Technical Cooperation aims to improve the safety of the electrical and electronic appliances in the	BPS / DTI		

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	AREAS OF ASSISTANCE / and STATUS of PROJECT	DISCRIPTION OF ASSISTANCE PROVIDED	BENEFICIARIES / INSTITUTION		
	Project is on going	market of the Philippines .the project purpose is that BPS Testing Center will be able to provide appropriate technical service in the field of electrical and electronic appliance testing.	Filipino counterparts		
	Japan's Expert Dispatch Program	Technical assistance to enhance Technology and Scientific Knowledge in toxin and microscopic analysis		Bureau of Fisheries and Aquatic Resources (BFAR)	
ISSEP-II Program Japan Bank for International Cooperation (JIBIC)	Technical Assistance Financing plus and a wide range of credit plans and technical information services to small and medium scale firms belonging to the priority sub sectors and industry associations	SME Financing Scheme ISSEP II is the Industrial and Support Services Expansion Program (Phase II) a 35.35. B credit facility for the growth and expansion needs of the Philippine manufacturing sector as well as selected non-manufacturing (services and educational) enterprises.	SMEs	Development Bank of the Philippines Services for this project included the following: Business diagnosis and training needs analysis Management and technical training Advisory and information services Marketing of firms with strategic partners	
Japan Cooperation International Agency (JICA)	Covers: Technical Assistance to SMEs Long term grant in support of an SME Development Plan	Product safety and Standardization SME Development Plan SME promotion Policies	Small and Medium Scale Enterprises in the Philippines Selected Industry Sector	Dept. of Trade and Industry (DTI) Bureau of Product Standards Dept. of Science and Technology (DOST) Partnership with the Philippine Chamber of Commerce and Industry (PCCI)	
7. THE NETHERLANDS					
Netherlands Management Cooperation Programme (NMCP)	Consultancy through Volunteer Services in the Philippines within selected sector : Printing, Metal Industry, processed Food, Horticulture, Irrigation and Flood control and Agri-Industries Flower	Consultancy through Volunteer Services Technical Assistance to SMEs through consultancy services of Senior Volunteers	Luzon area; Baguio, Pampanga, Banagas Visayas : Cebu City Mindanao: Davao City	Provided consultancy to the Diary Foundation of Quezon City Build up the social market economy of	

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8. United Nations SYSTEMS				
	Under the Philippine Assistance Program Support Project (PAPSP) funding,	Credit facilities Strengthening of financial institutions	Micro-enterprise sector through market oriented credit policies Financial Institutions	Changes made with Credit Policy Improvement Program's assistance now enables GOP to save financial resources committed to inefficient GOP sponsored credit programs, and to give private financial institutions opportunities to provide financial services to micro-enterprise sector through market oriented credit policies
9. UNITED STATES OF AMERICA				
USAID	Developmental Programs Designed new strategy for development aid			
SME.BUSINESS SUPPORT	Growth With Equity Mindanao Program (GEM) 1999-2002 Project is on going	Technical support and training to the Mindanao Business Council and other BSOs to enable them to provide production and marketing assistance to their members, and to advocate for needed policy reforms	Local Government SMEs	MEDCO
10. THE WORD BANK The Global Environmental Facility (GEF)	Phase Out Investment Program and Metro Manila Urban Transport Integrated Project under the Global Environmental Facility (GEF)	Assistance to the development of alternative income generating activities	Metro Manila selected industry association groups (e.g. Bicycle Network Demonstration Pilot Project)	Positive results noted
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)	Agrarian Reform Agenda Land Ownership Awards Support projects for the Indigenous Communities and Mindanao National Liberation Front Communities in the Investment areas	Instillation of Agrarian reforms through the distribution of CLOAS	Indigenous communities in MNLF and Farmer beneficiaries in the ZOPAD areas	A total of 932 Certificates of Land Ownership Awards (CLOAS) was prepared for indigenous communities in the Zone of Peace and Agrarian Reform Communities (ZOPAD) in Mindanao
ASTA FOUNDATION	Investment areas	Identification Investment areas	Manila	Commissioned a study on the ICT in

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	Financing investment schemes Information and Communication Technology (ICT)	Reviewing strategic investments to nurture businesses in the country	Cebu Davao		Metro Manila, Cebu, Davao to assess ICT use in these areas
SME Credit and Finance	Avalon Professional Website Project completed	IFC has provided a partial guaranty facility to working capital loans granted by Banco de Oro through APW to furniture manufacturers in Cebu, IFC also has and equity investment in APW	Cebu		Cebu Furniture Manufacturers