

III Recommendation on SME Development Plan

Chapter 1 Basic Direction and Policy Framework of SME Development Plan

Chapter 1 Basic Direction and Policy Framework of SME Development Plan

1.1 Objectives and Challenges of SME Development

1.1.1 Expected Role and Contribution of SMEs in Economic Development

The Philippine economy is under increasing pressure to create assurances of its stability and growth under the condition of greater integration with the rest of the world. The fragility of the Philippine economy, however, has been exposed at various times in the in the past and is evident at present, as shown by the significant stagnation of economic growth devolving from the Asian financial crisis in 1997, and effects of the present economic recession in the U.S. and Japan.

The major causal factor of this fragility is lack of diversity and depth of the industrial structure. Industrial activities are concentrated excessively to three sub-sectors, namely, the electronics, food, and textile sub-sectors, and industrial linkages are lacking in many areas, resulting in heavy dependence on imports for most materials, parts and machinery for industrial use, and even for some daily necessities. As a result, the creation of employment has been insignificant, and the fight against poverty still remains the most essential policy target of the National Development Plan.

It has been recognized all over the world that the SMEs play an important role if not a critical role in economic and social development of a country. This is also applicable to the Philippines, in the following aspects:

- 1) SMEs are relatively easy to establish, and play the supplemental role of providing niche services, a function that is not viable for large businesses. SMEs may be regarded as the seedbed of businesses.

The local industries in rural areas in the Philippines, are mostly made up of SMEs, which are dependent on primary industry with simple processing of locally available materials, and thus, have low capacity for creation of value added. Development of SMEs in the secondary and tertiary industries will contribute to diversification of local industries, and increase the local value added.

The same also applies to national economy. Development of SMEs in various industries, which the Philippines now lacks, will establish niches, bridge gaps among industries, and contribute toward a reduction in dependence on imports.

- 2) The major industries of the Philippines, which have the feature of producing on consignment, and operating with insignificant linkage with local industries, will be

enhanced if the supporting industries having international competitiveness are developed. SMEs specialize in small-lot, large-variety production, and possess quicker ability to make decisions than big businesses. They are suitable to form the supporting industries providing niche services. Thus, SME development will contribute to deepening of industrial structure of the Philippines.

- 3) Competitive industries and service sectors are sustainable sources of stable and remunerative jobs. The capital cost per job creation is usually lower in the case of SMEs than that of big business, and there is ample evidence that the labor absorptive capacity of SMEs is high. Development of SMEs generates employment and contributes to poverty reduction. The unemployment rate in the Philippines has remained high, above 10%, for many years. More than 8 million Philippine people are out of the country to seek jobs abroad. The increase and improvement of distribution of income will increase domestic demand for industrial products, and form a strong base of industrial development.

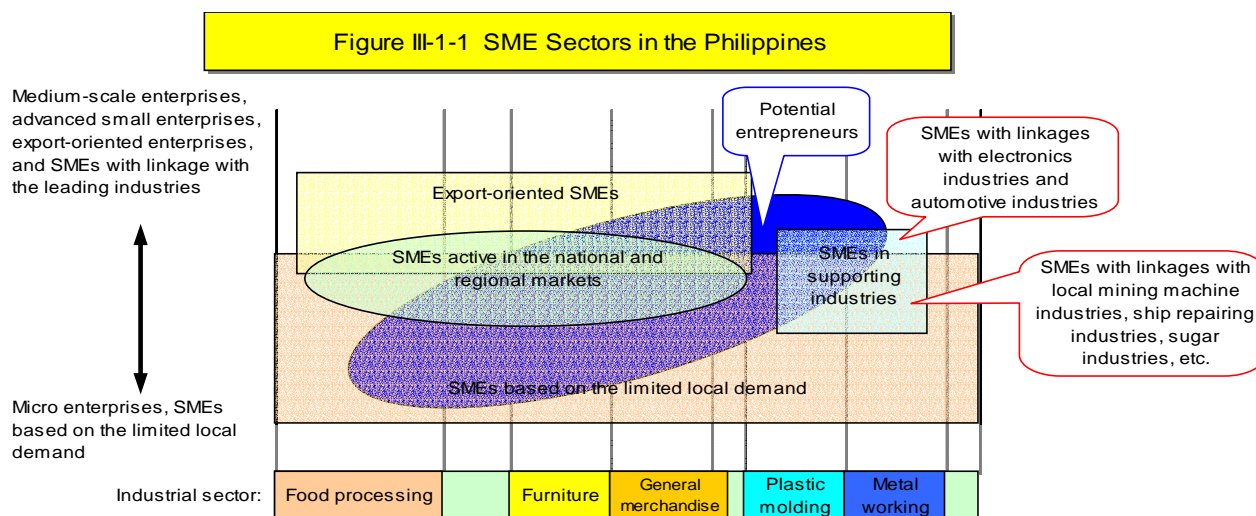
1.1.2 Goal and Challenges of SME Development

Goal of SME development

Prerequisites for realization of the above role of SMEs are the stable operation and growth of the SMEs, and robust activity in the start-up of businesses. This must be accomplished, however, in the economic environment of an internationally open and free market economy, which is basic assumption of Philippine economic policy. These constitute the goal of SME development.

Development challenge

The SMEs in the Philippines may be categorized into the following three in terms of sectors where they are active; namely, (1) SMEs in the export-oriented industries, which are operated on the basis of utilization of locally available resources and include the furniture industries, export general merchandise industries, and food processing industries, (2) SMEs in the industries supporting other industries by supplying their parts and services, and (3) SMEs active in the markets where demand is limited to their own localities (Fig. III-1-1). The development challenge of SMEs to achieve the goals described above varies depending on the business environment of each sector, as analyzed in II-3, and may be summarized as follows:



(1) Development challenge of SMEs in export-oriented industries using local resources

Among SMEs in the Philippines, those exporting products using local resources (such as furniture, merchandise, and food) are expected to enjoy the highest effect of the development programs.

These industries, however, are facing strong competitive pressure from foreign products in both export and domestic markets, and pressure especially from Chinese products, except for processed food products in the domestic market, where local large manufacturers are dominant.

As China is the world-leading exporter of products for mass consumption, and has support for this furnished by the gigantic domestic market, Philippine industries have been maintaining their unique position in the competitive environment by offering niche products that appeal to specific consumer groups. Continued efforts to maintain their unique product positioning and customer base are essential to ensure their sustainable growth.

SMEs in these sectors are dominated by those that are characterized by familial or one-person operation, and lack modern management knowledge and skills, while there are some that have gained international competitive through exports. At the same time, many of SMEs that make export products contract the bulk of the production process to specialized SMEs (subcontractors). To meet the quality, delivery and cost requirements for having competitiveness in export markets, therefore, manufacturers must control subcontractors and their operations, while subcontractors must modernize their production and management.

The development challenge of SMEs in these particular sectors, in view of the above, is enhancement of international competitiveness with consideration given to their position in the international markets. In this regard, the key features the SMEs must possess are as follows:

- 1) Creative product development and marketing, based on adequate market intelligence
- 2) Improved management and production capability including what is needed to increase value added of products, and meet the requirements of the markets as to technical regulations, delivery condition and quality maintenance or improvement

(2) Development Challenge of SMEs in the supporting industries

The electronics/electrical and automotive industries require a large number of components and parts and a variety of services, in their production and assembling processes. They can provide numerous business opportunities for suppliers and contract manufacturers in this connection. In the Philippines, however, except for the electrical appliance industry, most industries, such as the strategically important electronics and automotive industries, have imported most of their parts or have purchased a portion of their requirements from foreign suppliers operating in the country. Further, the foreign suppliers operating in the country, in turn, have imported parts and materials or bought them from other foreign suppliers operating in the country. As a result, only an insignificant number of local SMEs have become established in the supplier base for the country's key industries. This is because of the significant gap between the requirements of the leading industries and capability of the local SMEs in technology and production management.

Efforts to foster SMEs that can serve the electronics and automotive industries are of very high importance for the upgrading of local SMEs in the manufacturing sector in terms of their levels of management and production, though the effectiveness in promoting the linkages has been insignificant according to the experiences so far.

In particular, an emphasis should be placed on the automotive industry. Compared to the electronics industry, for which the establishment of a linkage with local SMEs seems to be difficult in the short run, some automakers are interested in improving their international competitiveness by increasing local procurement. As a case in point, at this moment an automobile assembler is selecting potential local suppliers to increase procurement of the local parts at the next model change. These moves will create many opportunities for local SMEs.

The leading industries, however, do not have adequate information on potential suppliers, while the SMEs do not understand the requirements of the leading industries on technology and management, since they have had limited experience in transactions with the former.

Thus, the major challenge for development for the SMEs in this sub-sector is to promote the linkages among them, with the essential points being as follows:

- 1) Promotion of communications between the potential buyers and the potential suppliers, and upgrading of capability of SMEs in technology and management to meet the requirements of the leading industries

2) Expansion of bases of the supporting industries, considering that the number of SMEs, which have potential as suppliers of parts and services to the leading industries, is limited

(3) Development challenge of SMEs active in the local-demand markets

In the Philippines, most of SMEs are concerned with the markets of local demand, a type of market, which is limited to a narrow geographical scope. Such local demand is very diverse, including as it does demand concerning the clothing, food and housing needs of the local residents, demand concerning other everyday needs, education and transportation, and demand concerning supply of services and goods to local industry. They are generally small in scale of management, and lack basic knowledge of business management.

The main obstacles for those SMEs to develop new market is they have only limited business opportunities and they are limited as regards the business management, production and financial capacities needed for market and customer development, but the situation varies greatly from enterprise to enterprise, and it is therefore not possible to deal them in view of specific problems for any particular industry.

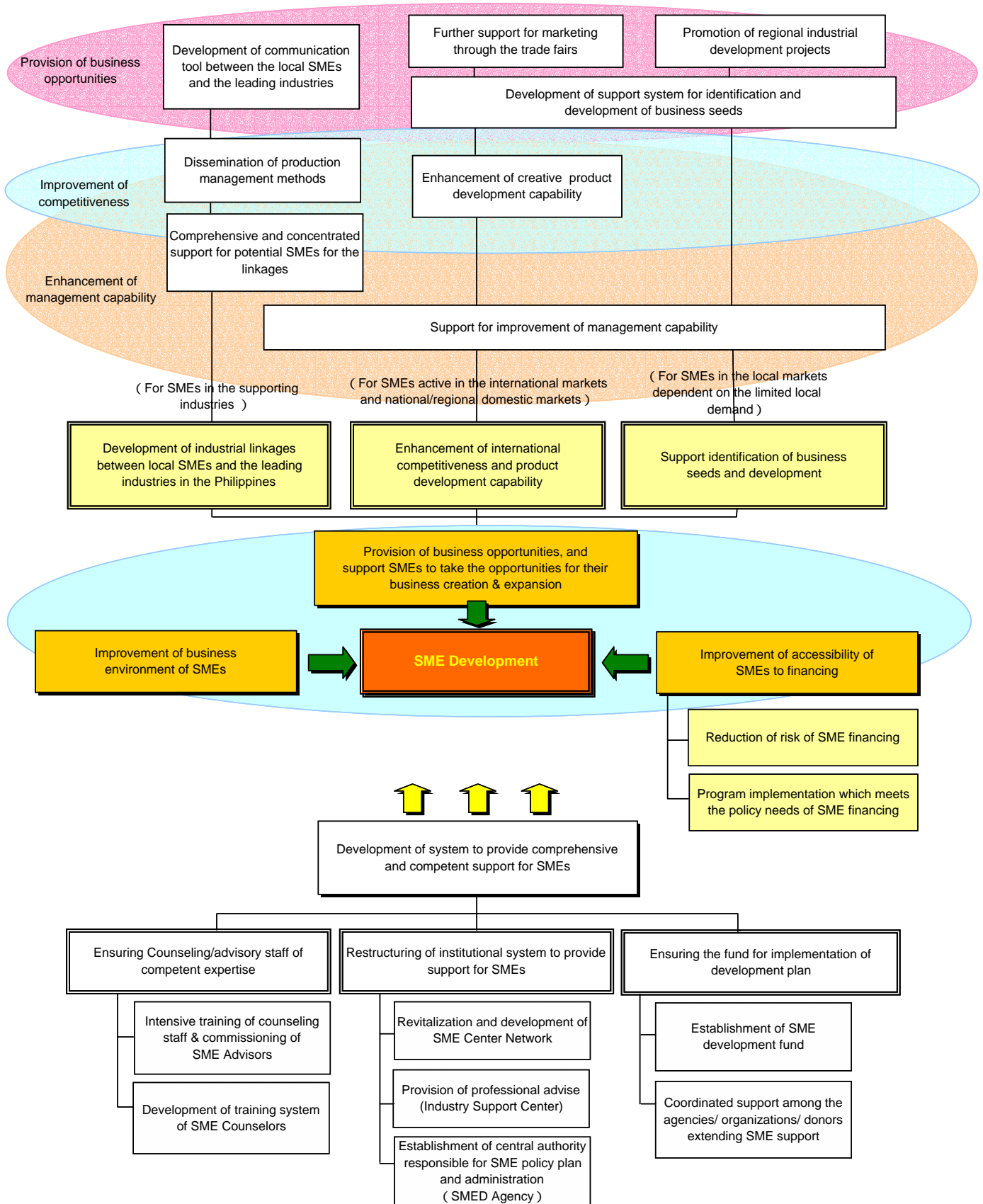
The key requirements in supporting the SMEs in this sector are as follows:

- 1) Provision of services to respond to the diversified problems they are facing in the operation and expansion of the businesses
- 2) Creation, identification, and/or provision of business opportunities

1.1.3 Policy Framework for SME Development

Unlike large enterprises, most SMEs do not have funds and human resources sufficient to make major initiatives that can accomplish the above development challenge by themselves. Nor do they have sufficient management expertise. It is therefore imperative to provide public support for SMEs and their development efforts. In moving toward the development goal set in the foregoing section (1.1.2), the government should address the following policy framework for SME development (see Fig. III-1-2).

Figure III-1-2 Proposed Development Policy Framework



- (1) Provision of business opportunities to SMEs, while providing concentrated and comprehensive support for enhancement of the SMEs' managerial and technological capability to tap the opportunities

Success of any SME development effort primarily depends on the availability of business opportunities for SMEs, and capability of them to make use of such opportunities. The proposed SME development plan provides support for the following three key sectors where SMEs in the Philippines have established their position, focusing on the creation, expansion and maintenance of market/business opportunities for each sector. The development goals set for these key sectors are summarized as follows.

Key sectors for SMEs	Development goals
Export-oriented enterprises and those operating in the national and regional markets	Strengthening of international competitiveness and market development
Supporting industries	Formation of linkage with leading industries in the country
SMEs serving limited local demand	Provision of business opportunities for SMEs and local entrepreneurs, support for identification and development of business seeds, and strengthening of basic management capability

As for the provision of business opportunities for SMEs, together with provision of support for SMEs so that they can strengthen their managerial and technological capabilities in order to utilize the business opportunities that become available, public support is required in a variety of areas, including marketing, product development, financial access, managerial and technological capabilities, and equipment modernization. The emphasis of support, however, should be varied according to the sector in which the SMEs are operating. It is important to provide a right set of support programs that address the particular needs for SMEs operating in each sector, while concentrating the support on the strategic fields in an integrated manner.

One of the critical factors hampering the SMEs' achievement of sustainable growth is the difficulty they have in prospecting for business opportunities on their own. They are weak at gathering and analyzing information on markets, technology, and resources available. Also they are weak in presenting themselves to potential customers, since they mostly lack an organization for marketing, unlike the case of big businesses.

SMEs also have had difficulties in securing and developing presently available business opportunities. The SMEs in the Philippines have faced an intense competition both in the national and international markets, especially with products from China, and others, which are common in the field of mass production items. The Philippine SMEs, therefore, have made an effort to survive in the niche markets, since their production size is limited.

The Government has made continued efforts to introduce SMEs to potential customers both in the domestic and international markets through trade fairs. Many SMEs could have established good communication with the customers through the programs. One of the significant challenges in this area is how to strengthen the efforts further to provide more opportunities for more SMEs.

Also important, considering that business opportunities are going to be created, is how to increase the opportunity for formation of linkages with leading industrial sectors located in the Philippines. At present, the linkages of SMEs with the leading industrial sectors like electronics industry and automotive industry are insignificant.

Further, there is a need to create business opportunities, promoting regional economic development projects. It is particularly important for the SMEs and the potential entrepreneurs whose businesses are based on local demand, and it requires aggressive participation of local private sectors and LGUs since they are an important source of local knowledge, and are beneficiaries at the same time.

Besides the above, SMEs are required to have managerial and technological capability enabling them to utilize the business opportunities provided. The contents and areas of the capability to be enhanced vary depending on the industries in which they are active and their goal of development. The major areas of enhancement for the SMEs in the above two sectors are as follows:

For SMEs in the food processing, furniture, and export general merchandise industries

- Improvement of effectiveness of production processes including those of sub-contractors, and particularly production management of a large variety of products in small-lots, and production/quality management by the sub-contractors
- Improvement of production management, quality management, and hygiene management in the food processing industry
- Improvement of packaging mainly of the food processing industry, in view of lengthening shelf life of the products, and increasing the value added of the products

For SMEs in the supporting industries

- Production management centering on cost management, quality management, and delivery management, particularly improvement of shop floor management
- Acquisition of advanced technologies required by the leading industries as purchasers of parts and service
- Technician training on the above management and production technologies

(2) Improvement of accessibility of SMEs to finance

Improvement of accessibility of SMEs to finance has been the first-priority issue of most of the SMEs. The Government has made efforts to improve this aspect for many years. The current SULONG program is the major result of such efforts. Further efforts should be

made in view of enhancement of the SULONG program, and improvement of the current financing system, which is heavily dependent on collateral, which in turn is one of the causes of SME's difficulty in gaining access to finance. Encouraging the investment of SMEs, which is at low ebb at present, is another important issue of SME financing.

(3) Improvement of SMEs' business environment in view of diversification and deepening of industrial structure

Besides the current industrial policy direction, which focuses particularly on export promotion and foreign investment promotion, there is a need for a new direction of policies and measures to diversify and deepen the industrial structure of the Philippines. Need exists to review and modify the current tax system and policy regulations so as to be more favorable for SMEs as they go about their business, and to materialize the new policies and measures with coordination with the relevant government agencies.

The industrial policy focus in the Philippines has been placed mostly on promotion of foreign investment to the Philippines, and export promotion. SMEs, however, could not enjoy the benefit of such a policy to a significant extent. Rather, sometimes, they have been affected adversely by the policy.

There is a need to review and improve the industrial policies, particularly in view of promoting SMEs' industrial linkages, and ensuring equal footing in international competition for ordinary industries compared with the priority industries in investment promotion and export promotion. This includes:

- 1) Treatment of disadvantage of SMEs regarding tax on imported materials and equipment for industrial use evenly, compared with that on imported finished goods, including the high import tax on sugar for food processing sector.
- 2) Improvement of regulations relating to industrial infrastructure and its use, or relating to monopolized operations, particularly through rationalization of electric power user charges and inter-island transportation tariff rates.

(4) Development of an implementation system allowing comprehensive and concentrated support for SMEs

Development of an implementation system is essential to provide qualified and continuous support to fulfill the development needs of SMEs. The system should be made available not only at the central level but also at the local level, and include the systems needed to secure the funds for implementation, develop the staff for support services, and take responsibility for planning, implementation and administration.

1.2 Role of Government

Necessity of Government Support for SME

Under the basic policy direction of the Philippines, namely a shifting to globalization of the economy, the SMEs have to sustain themselves and continue to grow despite intense competition with foreign competitors, not only in the export markets, but also in the domestic markets. The globalization has benefited and will continue to benefit the Philippine economy, expanding the markets, and enabling local Philippine firms to have access to a wide variety of resources worldwide. The globalization, however, has affected adversely to those who are not ready to play on a global field. Also, it has amplified the imperfections, or failures, of the market mechanism. The SMEs in the Philippines have encountered severe competition particularly with China, which is endowed with a giant domestic market that serves as the base for their industries' development.

The above situation affected SMEs resulting in unstable operation and difficulty to make growth. This is because of the fact that SMEs are small in management scale, and weak in information gathering, financing arrangements, and human resource development due to their limited organizational capacity compared to large enterprises. They cannot compete without support from the outside.

While recognizing the role and importance of SMEs in the social and economic development of the Philippines (see 1.1.1), and taking seriously the difficulty of SMEs to sustain themselves under the conditions of a globalization of the economy, the Government needs to take appropriate actions to support SMEs.

Role of the Government in SME Support

Generally, the government sector is expected to assume a specific role different from the one expected for the private sector: the former is supposed to stimulate business activity and promote competition, while the latter drives the economy by operating actual businesses. This division of responsibilities under the "free enterprise" principle should also be applied to SME support. Government's functional role in this area should focus on support activities to ensure the smooth functioning of the market, such as simplification of administrative procedures to minimize time and effort required on the business side, and regulatory control to facilitate market activity.

In reality, however, government's direct support in the form of market intervention is desirable to some extent in countries where a large number of SMEs are not ready to compete in the international marketplace, and at the same time, liberalization of the national economy has been selected as a major development goal. In these countries including the Philippines, government is expected to provide active support to reinforce SMEs from their foundation up, so that they can compete with large companies as well as foreign companies on a level playing field.

Direct support for SMEs should be justified in compensating for a general lack of resources on the SME side, including the ability to collect market and other information, raise funds, and train human resources, and the market mechanism alone is unable to allow most SMEs to overcome such disadvantage.

Sustainability and viability of government support

Some argue that government services designed to support SMEs should be provided on a fee basis to make every program or project financially viable. However, the concept of service-for-pay for sustainable project on individual project basis, would limit the number of recipients and therefore adversely affect program effectiveness – with a result contradictory to the spirit of SME support policy. This is because that policy is specifically intended to help SMEs that cannot afford to conduct a project on their own.

It does not necessarily mean, however, that any support programs or projects should be justified regardless of their feasibility. They must be effective enough from the standpoint of national economy when evaluated on the basis of costs required and benefits expected from each program; provided that benefits should not be limited to direct benefits that can be measured quantitatively. Rather, they should include intangible benefits as well as indirect effects (whole or part) that would derive from the specific program and its implementation. Support programs and projects should therefore be justified on the basis of economic feasibility, rather than financial feasibility that reflects only direct revenues and expenditures produced from each program.

In practice, if a program is not financially feasible – i.e., its benefits (revenues) do not cover its costs – it will require additional funds from outside (donations, grants, or governmental assistance). Yet, if such costs generate sufficient economic benefits (including indirect ones) in later years (after the project period), which would result in a desirable benefit/cost ratio, i.e., equivalent or higher than a standard rate of return that is generally expected from total benefits and costs, then the program should be entitled to government support (the required inputs and expected economic return of the proposed projects are evaluated project by project in III-3).

Despite the above, unnecessary free services and wasteful subsidies should be avoided, and, in general, programs, which involve services that can generate revenues according to general business practice should seek to generate reasonable revenues. Namely, the government services should be provided in the following way:

- 1) All the services should be provided for a fee. If a for-a-fee service is considered inappropriate for some of the target enterprises, then, the government should subsidize only those enterprises, which are deemed eligible for the subsidy, contingent on their applying for the subsidy.

- 2) The government burden should be reduced as much as possible, by seeking possible revenue from the programs. Possible revenue sources include that of advertisement, and sponsorship, etc.¹

Use of private or non-government organizations in providing the support services

The Government should entrust the implementation of support programs to enterprises or organizations, instead of the government's implementing it by itself, if firms or organizations having appropriate implementation capability are available. It is also recommended to introduce the market mechanism in selecting the firms or organizations to be entrusted with the implementation, and make most of the capability of private/non-government organizations in the process of policy implementation.

The government, however, is required to be involved in more-direct support activities, considering the insufficient supporting measures presently available in the Philippines, in the case of:

- 1) Absence of appropriate services, which are indispensable to SMEs, but cannot be provided by the private sector, at least at the required level, or at a cost affordable to SMEs,
- 2) Needed activities for formation of the basic guidelines, or for protection of the interest of consumers and industries, and
- 3) Activities which are not appropriate to seek from the private sector from the standpoint of public fairness.

The government currently tends to turn over the support activities to entirely to or collaborative with private sector and LGUs, mainly due to the limited funds and resources of the Government. The active involvement of the private sector and LGUs in the support activities will be useful to make the support more practical and effective. However, the initiatives of the government in planning the policies and administration and monitoring of the implementation, together with the actions needed to ensure the effective implementation of support programs and projects, should remain unchanged.

The actions to thus ensure the support programs include:

- Ensuring of the funds required in providing the support, and
- Development of organizational setups with improved organizational efficiency, and assignment of required capable staff

¹ The Government agencies in the Philippines are prohibited from obtaining revenue from advertisements relating to their activities. In order to comply with the regulation, it is advisable that programs be implemented by private or non-government organizations under the contract with the agencies.

Further, the government should prepare supplementary measures for LGUs, considering the limited capability of LGUs in providing support services.

1.3 Need for the Development Plan

A number of government agencies and institutions have planned and implemented SME support policies and programs in the past. There has been some progress in upgrading the SMEs through the implemented policies and programs, but many issues remain to be solved, as analyzed in the previous chapters.

Many programs are in progress under the current short-term SME Development Plan. However, despite the fact that SME development is vital for the social and economic development of the Philippines, the fund and resources available for allocation to SME development are very limited. One of the big issues related to SME support in the past was the insufficient allocation of funds and resources, resulting in insignificant impact and fragmented efforts.

There is a need for the funds and resources to be concentrated in strategic policy areas and programs selectively and in an optimum manner in order to maximize the impact. Also, there is a need for co-ordination and co-operation among the support agencies in keeping with the clearly defined national strategy framework. The Plan now under development, will provide a road map for support for the development of SMEs, on the basis of thorough analysis of the issues to be focused on.

The Plan will also be useful for SME development in its planning process and implementation process, in that:

- 1) In the planning stage, the plan makes it possible to gain the recognition and consensus of government agencies, and organizations concerned, on the necessity of SME development, through its validation process,
- 2) The Plan defines the priority areas of support, and makes resource allocation more efficient and effective,
- 3) The Plan also identifies the responsible agencies and institutions so that the co-ordination and co-operation among the agencies and institutions can be established, and
- 4) The mid-term review of the Plan enables the policy planners to identify the gap between the plan and results of implementation, and enables them to take necessary action for improvement.

1.4 Discussion on coverage of the SME Development Plan

(1) SMEs and microenterprises

Microenterprises require different policy considerations compared to the SMEs. They are characterized by one-person management, or family-run management, and are disadvantaged in information gathering, fund raising, recruitment, R&D, and stability of operation, etc. compared to SMEs. Their business risk directly affects the livelihood of the owner and/or the family. Thus, the development plan requires policies specifically targeting microenterprises.

However, when it comes to the Philippines' case, microenterprises are not a special segment of the SMEs, with microenterprises accounting for 92% of total enterprises, and 38% of total employees including large enterprises. In III-2, the Study focuses attention on the nature of microenterprises, in that they are mostly operated based on the demand that is generated in or limited to their own locality, and sets the development goal and programs specifically to these enterprises, though it is not solely for microenterprises.

However, it should be noted that the SME development policy is different from the policy, which seeks to contribute to livelihood support for poverty groups. The SME policy deals with enterprises (and entrepreneurs intending to start up businesses) engaging in economic activities. The policy measures are provided to encourage and support their business activities in the case of SME policy, but in the case of livelihood assistance policy it has the intention of assisting maintenance and improvement of their livelihood, including grant of goods or money in some cases, from the standpoint of social welfare.

If the businesses had been started with the objective of improving the livelihood of people in target groups, but developed so as to become involved in economic activities as enterprises or cooperatives, then, such businesses will be the target of the SME policy.

(2) Industrial policy vs. SME policy

SME policy is policy that focuses attention on the size of enterprises, while the industrial policy focuses on development of specific industrial sectors. SME policies may be categorized into two: general or basic policy targeting SMEs in general, and specific policy, which targets, specific size of SMEs (for example, microenterprises) or SMEs in a specific industrial sector.

Many countries including Japan, have implemented development policy targeting development of SMEs in specific sub-sectors (namely, sectoral development approach). One example of such a program observed in Japan is the program based on the SME Modernization Promotion Law.

It is difficult to define the government agency responsible for programs under sectoral approach in general; an agency responsible for industrial policy or that of SME policy. Nevertheless, if the policy is selecting the target enterprises by size, in other words, the policy focuses attention on SMEs' weakness, or has the goal of coping with that weakness; then the

Government agency responsible for SME development should be in charge of the policy program.

In the case of SME development in the Philippines, there are many cases wherein the sector-focused policy programs including market development and technology development, are deemed effective in achieving the policy goal. These include the cases of SMEs in local-resource-based industry active in the export markets, and SMEs in the supporting industries of the leading industries.

On the other hand, there are some cases where a policy or program relating to the development of SMEs may not be suitable for implementation by an agency in charge of SME policy. Such policies and programs are roughly divided into two types: those that affect not only SMEs but also a large number of large enterprises, and those that require a specific or technical consideration other than SME development.

The former type includes export promotion, promotion of foreign investment, and price controls on public service. For instance, an export promotion program should be implemented by an agency in charge of export promotion policy, considering the fact that it is closely linked to tariff and other trade related policies, even if the majority of beneficiaries are SMEs.

Examples of the latter include unavailability of wood resources for furniture manufacturing, and environmental regulation on food processing companies. As these are related to forestry resource management, and environmental policy, respectively, they cannot be suitably or effectively handled by an agency responsible for SME policy alone.

The SME development support system, nevertheless, should have a mechanism to identify the issues relating to the business environment of SMEs, and propose a solution (program) from the standpoint of SME development. More specifically, it should have a mechanism to grasp the problems of SMEs through the field contacts with SMEs or industrial associations, to analyze the problems, and to generate proposals of measures to solve the problems, and be coordinated with appropriate agencies in the problem solving process. Establishment of a central government agency, which is responsible for SME policymaking, program development, and implementation, is urgently needed also in this point of view, as discussed later.

1.5 Limitation of Current Policy, System and Measures for SME Development

Based on the growing awareness of the importance of SME development, the government has implemented various policies and measures in the past few years under the current short-term SME Development Plan. The policies and measures have been diversified but they have

been implemented in a needs-oriented way, with the major focus being placed on the strategic actions. The organized coordination among the relevant government agencies and technical institutions is one of the features of the implementation, together with the active involvement of private sectors through SMED Council at the national level.

However, there are some critical constraints in implementation, as follows:

- (1) The most serious constraint is limited resources, particularly insufficient funding and lack of required staff. As a result, the scope of programs implemented has been limited and the impacts of the programs were often found unsatisfactory. Since the availability of funds and human resources are expected to continue to be limited, it will be necessary to concentrate the limited funds and human resources on the measures of strategic importance, and make them effective.
- (2) Another issue is lack of adequate training of staff, which can extend the appropriate counseling and advice to SMEs. The training given to the staff of DTI is not sufficient, due to the budgetary constraints. The training given to the staff comprises a two-week course at present, while it was more than a few months in duration in the past.
- (3) Further, the contact windows for the support services are limited to metropolitan areas. Most of technical institutions are concentrated in the metropolitan area, and do not have branch offices.
- (4) Also addressed was insufficient involvement of LGUs. The central government alone cannot cover all the details of the diverse problems of SMEs. The involvement of LGUs will be useful particularly in administering and coordinating the regional development projects because of their local knowledge for development.
- (5) Finally, there is a lack of a single central agency, which is responsible for coordination among the relevant government agencies and organizations, making implementation of the measures coordinated and effective. At present, coordination of the relevant government agencies and private sectors is undertaken by the SMED Council, while the coordination within DTI is done by the SME Core Group. However, both organizations are run by periodical meetings, and lack permanent organizations of their own staff; rather they are ad-hoc organizations, though each has a secretariat organization. There is a need to establish an agency, which is responsible for SME policy planning, administration and monitoring of implementation in a totalized manner.

Chapter 2 Recommended SME Development Plan

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This chapter recommends an SME development plan that has been developed on the basis of Part II, “Current State and Development Issues of SMEs”, and Chapter 1, Part III, “Basic Direction and Policy Framework of SME Development Plan.”

Below, 2.1 confirms the major challenges of SME development based on the discussions in 1.1.2. After this, 2.2 gives development strategies to translate the policy framework presented in 1.1.3 into concrete form, in line with the concept of concentrating the limited funds and human resources at strategic points, together with policy measures and programs which support the development strategy. And 2.3 recommends the implementation system of the development plan including some important considerations required for successful implementation. The following section, 2.4, discusses implementation priorities and the time frame of implementation. The details of the proposed actions and recommendations are compiled in Chapter 3.

2.1 SME Development Strategy

2.1.1 Confirmation of Development Strategy

In Part II, it was recognized that, on the basis of the analysis of the current state of SMEs and the key issues relating to their development, that SMEs in the Philippines face not one overarching problem but a wide variety of problems and a diversity of needs for development, depending upon the environment where they operate. From this recognition, we proceed to roughly divide SMEs into three types and set forth development goals that are designed to address the needs facing each type, as described below (see 1.1 of Part III).

- 1) SMEs requiring (a) strengthening of their international competitiveness, and typically local-resource based industries as furniture, export general merchandise, and food processing firms, which are active in the international markets and (b) stabilizing of operations and promoting of growth
- 2) SMEs with existing or potential relations with the leading industries in the Philippines, such as the electronics and electrical, and automotive industries, whereby there is high potential to form backward linkages, and therefore where promotion of industrial linkages with the local SMEs and entrepreneurs having potential of forming the supporting industries is desirable policy
- 3) SMEs that need assistance to secure their growth; these SMEs are active in local markets in many areas of the nation, and potential SME entrepreneurs that need support for starting up of new businesses, support that can be through provision of business opportunities and support for development of business seeds.

2.1.2 SME Development Strategies

At the same time as need exists for Government support over a broad range of policy aspects, the funds and resources available for such support is limited. Under such conditions, use of available funds and resources should be concentrated in the strategically most-important policy areas, so that the policy measures and actions to be taken will be effective and efficient.

Access to markets, customers, and/or business opportunities is the key factor for SME development, but at the same time the markets, customers, and business opportunities will become accessible to SMEs, only when the SMEs can utilize these opportunities. Taking this into consideration, provision of business opportunities, and support to SMEs so as to enable them to utilize these business opportunities, are the proposed strategic focus for each of three SME sectors. Adding the improvement of accessibility to finance as the fourth strategic focus common to all the three SME sectors, four basic strategies and seven derivative strategies are recommended as the points on which to concentrate the limited funds and resources available, as follows:

Strategy 1: Enhance the international competitiveness of SMEs of local resource-based industries active in the international markets (including furniture, export general merchandise, processed food industries, etc.),

- 1.1 Strengthen support for creative product development and marketing
- 1.2 Improve business management and production management capability of SMEs

Strategy 2: Promote industrial linkages with the leading industries in the Philippines (such as electronic and electrical industries, and automotive industries), which are believed to have high backward linkage potential,

- 2.1 Provide comprehensive and concentrated support for selected local SMEs having high potential for development of capability at parts and service supply to the leading industries
- 2.2 Increase the number of SMEs having potentials for development of the linkages in the future

Strategy 3: Facilitate various forms of support vis-a-vis the diversified needs of SMEs serving local markets, nurture SME Counselors and SME Advisors, and assign them to local-contact window networks to be developed

Strategy 4: Improve accessibility of SMEs to finance,

- 4.1 Develop SME financing programs which do not depend heavily on posting of collateral, devise reduction of risk of SME financing, and introduce

supplementary credit enhancing measures focusing on cash-flow of business and personal guarantee of management

- 4.2 Develop a system(s) enabling the implementation of financing programs in line with the policy needs of SME financing

Strategies 1 through 3 focus on development challenges of the three key sectors of SMEs in the Philippines, which are given in 2.1.1.

Strategy 4 focuses on improvement of accessibility of SMEs to finance, which is a critical issue applicable to all the SMEs regardless of the sectors where they operate.

By deploying and implementing programs that are designed in line with these four strategies, the goal of SME development will be aggressively pursued.

The Action Plan presented in 2.2 is the plan to implement the programs in line with these four strategies. It should be noted that these programs, as described hereunder, include a number of programs that are being implemented or planned under the ongoing SME development plan as the National SME Agenda Key Components. Also, some of them are or have been implemented by various SME support organizations. Some of them need to be continued as proved effective measures, while some are need to be further enhanced or supplemented by other measures. The recommended action plan includes these programs in addition to the newly proposed programs.

See Chapter 3 for details of the programs and policy recommendations composing the strategies. The development challenge, and overall system of the strategies and programs are shown in Figure III-2-1, while the list of programs is shown in Table III-2-1. The number shown with (#) in the following sections and chapters refer to the program numbers in this table. The examination process of development issues and possible measures/programs in the industrial sub-sectors studied, are shown in Attachment III-2-1, and the summary of discussions in a workshop with participation of SMED Council members are presented in Attachment III-2-2, which include the discussions on do ability, suggestions on key factors for effective implementation, and organization for implementation, etc.

Figure III-2-1 Development Challenges, Goals, and Major Considerations in Developing the Programs (Summary)

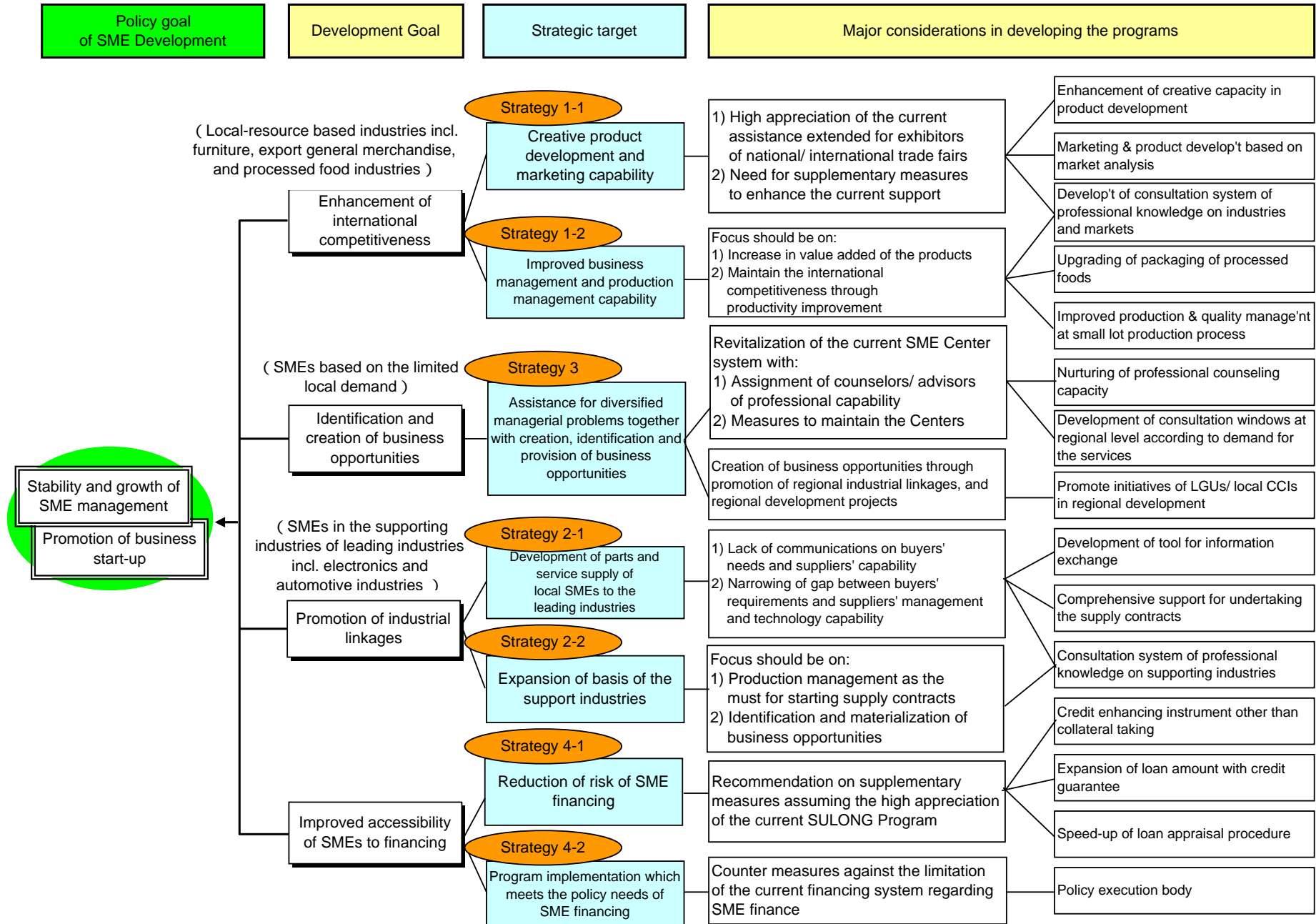


Figure III-2-2 Outline of Development Challenges, Strategies and Measures for SME Development

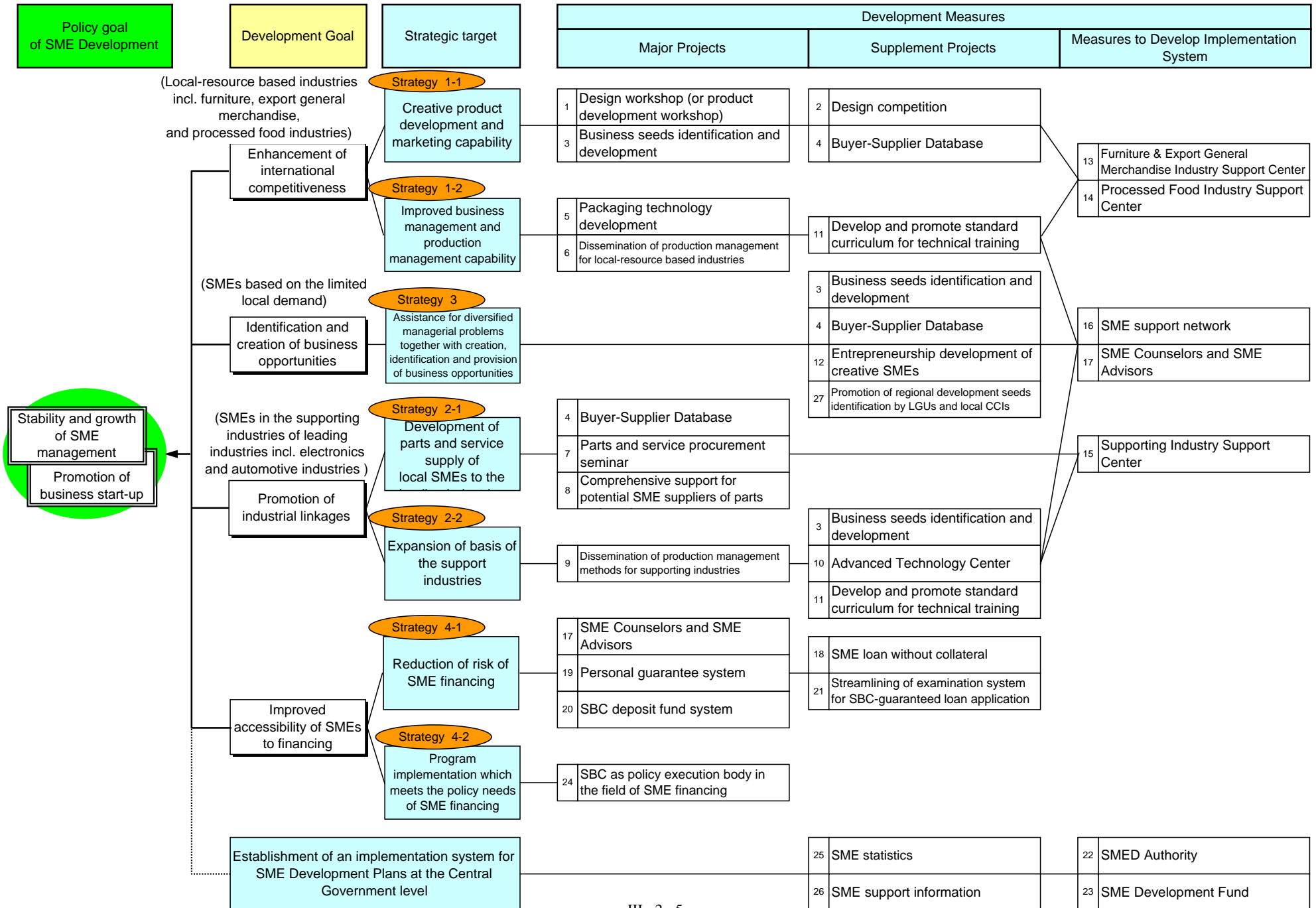


Table III-2-1 List of Measures Supporting Development Strategies

Measures		Related activity areas					Strategy 1:		Strategy 2:		Strategy 3:	Strategy 4:		Central organization for implementation of the SME Development Plan
		Marketing	Product development/ technology intervention	Training/ HRD	Finance	Institutional development/	Support local resource-based industries for enhancement of international competitiveness		Promote industrial linkages between leading industries in the Philippines and local SMEs in the supporting industries		Facilitate support for diversified needs of SMEs in the local markets, with nurturing of SME Counselors and SME Advisors	Develop SME financing programs, not dependent on collateral, centering on SBC as policy execution body of SME financing		
							1-1	1-2	2-1	2-2	3	4-1	4-2	
1	Design workshop (or product development workshop)	X	X				XXX							
2	Design competition	X	X				X							
(*)	Market intelligence support	X					XXX							
(*)	Enhanced support for trade fairs	X	X				XXX							
3	Business seeds identification and development	X	X				XXX			X	X			
4	Buyer-Supplier Database	X					X		XXX		X			
5	Packaging technology development	X	X					XXX			X			
6	Dissemination of production management for local-resource based industries		X	X				XXX						
7	Parts and service procurement seminar	X							XXX					
8	Comprehensive support for potential SME suppliers of parts and services	X	X	X					XXX					
9	Dissemination of production management methods for supporting industries		X	X						XXX				

Measures	Related activity areas					Strategy 1:		Strategy 2:		Strategy 3:	Strategy 4:		Central organization for implementation of the SME Development Plan
	Marketing	Product development/ technology intervention	Training/HRD	Finance	Institutional development/	Support local resource-based industries for enhancement of international competitiveness		Promote industrial linkages between leading industries in the Philippines and local SMEs in the supporting industries		Facilitate support for diversified needs of SMEs in the local markets, with nurturing of SME Counselors and SME Advisors	Develop SME financing programs, not dependent on collateral, centering on SBC as policy execution body of SME financing		
						1-1	1-2	2-1	2-2	3	4-1	4-2	
10	Advanced Technology Center		X	X					X				
(*)	Reverse trade fairs	X							X	X			
11	Develop and promote standard curriculum for technical training			X			X		X				
12	Entrepreneurship development of creative SMEs			X			X		X	X			
13	Furniture & Export General Merchandise Industry Support Center					X							XXX
14	Processed Food Industry Support Center					X							XXX
15	Supporting Industry Support Center					X							XXX
16	SME support network					X				XXX	XXX		
17	SME Counselors and SME Advisors					X				XXX	XXX		
(*)	SULONG Program				X						XXX		
18	SME loan without collateral			X	X						X		
19	Personal guarantee system				X						XXX		

Measures	Related activity areas					Strategy 1:		Strategy 2:		Strategy 3:	Strategy 4:		Central organization for implementation of the SME Development Plan
	Marketing	Product development/ technology intervention	Training/HRD	Finance	Institutional development/	Support local resource-based industries for enhancement of international competitiveness		Promote industrial linkages between leading industries in the Philippines and local SMEs in the supporting industries		Facilitate support for diversified needs of SMEs in the local markets, with nurturing of SME Counselors and SME Advisors	Develop SME financing programs, not dependent on collateral, centering on SBC as policy execution body of SME financing		
						1-1	1-2	2-1	2-2	3	4-1	4-2	
20	SBC deposit fund system				X							XXX	
21	Streamlining of examination system for SBC-guaranteed loan application				X							X	
22	SMED Authority					X							XXX
23	SME Development Fund					X							XXX
24	SBC as policy execution body in the field of SME financing				X							XXX	
25	SME statistics					X							X
26	SME support information					X							X
27	Promotion of regional development seeds identification by LGUs and local CCIs					X							X

Notes: **XXX** Main measures, **X** Supplemental measures, Measures to ensure the required system for implementation, Relevant measures to ensure the required system for implementation, (*) Current National SME Agenda key components

2.1.3 Policy Measures and Programs of Priority

Among the programs proposed in 2.2, the most urgent one is nurturing of SME Counselors (#17)¹, who are expected to play the key role in revitalizing the SME support network. As presented in 2.2, Industrial Support Centers and SMED Regional Centers will be the key organization in implementing most of the proposed programs, and these organizations are expected to provide professional consultation and guidance services. The SME Counselors are the professionals in these organizations. Nurturing of the SME Counselors takes considerable time, and therefore, there is need to start as soon as possible.

The priority next to the above is to secure the fund for program implementation. For this purpose, the Government should exert every effort possible for this purpose (see 2.3.2), including establishment of the SME Development Fund (#23).

Among the proposed programs and projects, the following should be given of priority:

- 1) Those that would be directly effective on market creation and exploration; and
- 2) Those designed for upgrading of management and technology capabilities, which would be required in penetrating the markets created in 1) above.

In 2.2, the proposed programs and projects are classified into “Major programs/projects” and “Programs/projects to supplement the major programs/ projects.” The major programs and projects are listed below (next two pages), which are selected with the above priority criteria. Note that those marked by an asterisk (*) are the programs/projects under implementation under the current SME Development Plan, including the programs need to be strengthened.

Strategy 1: Strengthening of support for SMEs of local resource-based industries active in international markets (including furniture, export general merchandise, processed food industries, etc.), in the area of creative product development and marketing

1-1 Programs to support enhancement of creativity and product development capability of local-resource based, and export-oriented industries

- (1) Provision of comprehensive support for participants at national and international trade fairs (*)
- (2) Support for enhancement of design development capability through design workshops (or product development workshops) (#1)
- (3) Market study support (*)
- (4) Support for identification and development of new business seeds and opportunities (#3)

¹ The numbers with (#) in this section and following sections mean the reference numbers of projects/programs shown in Figure III-2-2 and listed in Table III-2-1.

1-2 Provision of measures by the Industry Support Centers to support SMEs of the local-resource based industries, in upgrading their managerial and technological capabilities

- (1) Dissemination of packaging technology, with focus on the processed food industry (#5)
- (2) Seminars, workshops, training courses, factory diagnosis and guidance, focusing on dissemination of modern production management, quality management, and in the case of the processed food industry hygienic management (#6)

Strategy 2: Provision of comprehensive and concentrated support for selected SMEs of high potentials to supply parts or services to the leading industries in the Philippines (such as electronic and electrical industries, and automotive industries), which are estimated to have high backward linkage potential, to promote industrial linkages between them

2-1 Program to develop communication tools on linkage needs of the leading industries, and provide comprehensive support for the potential local SMEs in the supporting industries for the linkage promotion

- (1) Development of a buyer-supplier database, and provision of service for business matching (#3)
- (2) Procurement seminars to be held by potential buyers of parts and services (#7)
- (3) Comprehensive support for SMEs that receive order from the leading industries in the areas of finance, management, and introduction of advanced technology required for order fulfillment (#8, #15, and #16)

2-2 Provision of measures by the Supporting Industry Support Center together with its regional operation arms, for expansion of potential supporting industries to form linkages with the leading industries, assisting the SMEs in improvement of enterprise management, production management, and production technology

- (1) Dissemination of production management through seminars, training courses, factory diagnosis and guidance (#9)

Strategy 3: Facilitation of various types of support for the diversified needs of SMEs in the local markets, through nurturing of SME Counselors and SME Advisors, and assignment of them to local-contact window networks to be developed

- (1) Nurturing of SME Counselors, and development of the training system (#17)
- (2) Revitalization of the SME support network consisting of SMED Regional Centers, SME Centers, SME Desks, and Industrial Support Centers; and provision of support for management and financial aspects at the one-stop service windows in the support network with assignment of SME Counselors and Advisors (#16)

2.2 Recommended Action Plans for SME Development

Strategy 1: Strengthening of support for SMEs of local resource-based industries active in international markets (including furniture, export general merchandise, processed food industries, etc.), in the area of creative product development and marketing

A Background and Outline of the Strategy

Development challenge

Among SMEs in the Philippines, those exporting products using local resources (furniture, merchandise, and food) are expected to be the greatest beneficiaries of the development programs. While these industries are relatively small in terms of output and export, particularly in comparison to the electronics and other industries in which large enterprises play a central role, they are composed of leading medium-size enterprises in the Philippines, and account for a major share of employment, and therefore promise to yield the highest impact from the programs.

These industries are facing strong competitive pressure from foreign products in both export and domestic markets, especially Chinese products, except for processed food products in the domestic market, where local large manufacturers have the strong position. Most Chinese products are produced at large plants at low cost, with good quality control and improved packaging and designs.

As China is the world-leading exporter of products for mass consumption, a capability backed by the gigantic domestic market, Philippine industries have had to maintain their unique position in the competitive environment by offering niche products that appeal to specific consumer groups. Continued efforts to maintain their unique product positioning and customer base are essential in ensuring their sustainable growth.

In addition, SMEs in these sectors are dominated by those that are characterized by family or one-person operation, and mostly lack modern management knowledge and skills, while some have gained knowledge on international trade practices through exports. Furthermore, many SMEs that make export products are contracting the bulk of their production process to subcontractors. To meet quality, delivery and cost requirements for competitiveness in export markets, therefore, manufacturers must control subcontractors and their operations, while for their part subcontractors are required to modernize their production and management. Further, SMEs in some industries have suffered from undue costs and burdens in training skilled workers after having to rely on their own resources, due to the absence of properly designed public training programs.

Current development plan and suggestions for its enhancement

The support programs focusing on this challenge of SMEs in this sub-sector account for the major part of the current development plan. Many relevant programs are included in the National SME Agenda Key Components (II-5.2).

The support programs for exhibitors at national and international trade fairs constitute the important part among the programs, and have been found effective. These programs should be continued, and enhanced further to make them more effective.

The program for exhibition of SME products at showrooms could be effective depending on the situation, though all the relevant programs have not necessarily been implemented. These programs, however, will not be effective, unless the appropriate preparation process is undertaken including analysis of target consumers, evaluation of the location and season of exhibit, and advertising methods at the venue, etc.

Most of other current programs focus on promotion of awareness of managerial and technological improvement. In these programs, SMEs have to shoulder the burden of the costs and expenses required for improvement of their management and technologies, but stability and growth of operations are not necessarily assured only by the investment in the improvement made possible by the programs. Further, since the interests and motivations of participants are not uniform, programs that match all the participants are difficult to design. Since the programs have been conducted free of charge, many SMEs who have participated in the programs, have not necessarily been those in urgent need of the benefits the programs can yield. Thus, this type of programs is often found inefficient.

Recommended strategy

Figure III-2-3 shows the way schematically to achieve the goal targeted with the Strategy 1 through implementation of the proposed projects and programs.

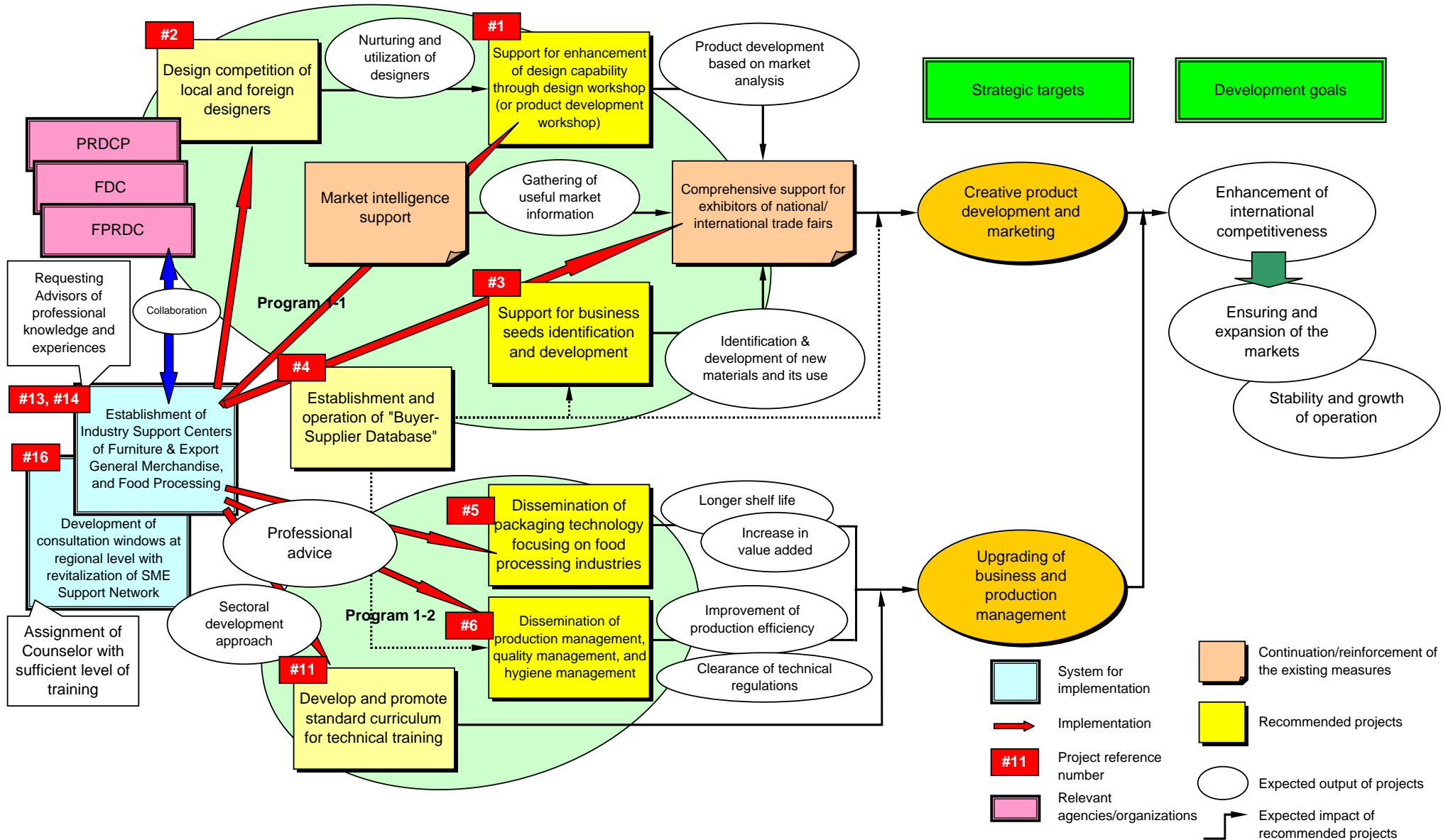
The major programs should focus on the SMEs which want to improve and grow. The support should be concentrated on the points directly related to their business activities. Although the promotion of SMEs' awareness of the need for improvement in general, will also be an important agenda item, showing a good example of success will be more effective way for this aim.

Thus, the support for these industries should be concentrated on the coherent, unified approach to maintenance and expansion of their shares in the markets. For precisely those SMEs who have realized that they need to improve their management and production capability through these processes, comprehensive support should be provided.

Given the situation, Strategy I gives priority to a development program (1-1 below) that provides support for individual companies to upgrade their creativity in product development and marketing, followed by another program (1-2) that is designed to improve the management and production capabilities of individual companies and industries through development of a system for extending the appropriate supports.

This strategy focuses on SMEs in such priority industries as furniture, export general merchandise, and food processing. The group of aggressive SMEs in other sectors in diverse fields, are to be given attention by Strategy 3.

Figure III-2-3 Strengthening of support for SMEs of local resource-based industries active in the international markets (including furniture, export general merchandise, processed food industries, etc.), in the area of creative product development and marketing to enhance their international competitiveness



B Development Programs for Strategy I

1-1 Programs to support enhancement of creativity and product development capability of local-resource based, and export-oriented industries

This program focuses on the enhancement of the ongoing measures to support SMEs that participate in national and international trade fairs, which have been implemented with BSMED and CITEM, respectively. The program consists of support measures for (1) the upgrading of design and product development capabilities, (2) information gathering and analysis of target markets and consumer groups (by stepping up the CITEM program), and (3) initiatives to identify and promote business seeds including development of new materials.

The ongoing support measures for marketing and product development have focused on consultation and guidance relating to participation in trade fairs. In fact, trade fairs have led directly to actual order inquiries, negotiations and sales, and therefore provided great incentive for the participants to engage in vigorous marketing and product development efforts.

The recommended supplementary measures to enhance the current program, which provides assistance to trade fair exhibitors, should be in the following directions:

- 1) Facilitation of consultation and participation of regional SMEs, and make information available for them;
- 2) Assistance to SME exhibitors to upgrade to or maintain their exhibits at the level of international fairs; and
- 3) Focusing on more pro-active market development, including analysis of target markets, product development and marketing on the basis of the market analysis; considering the fact that the support extended so far has mostly been confined to guidance on product display, packaging, and promotional materials for the products which the exhibitors selected and brought in by themselves.

Major projects

- (1) Provision of comprehensive support for participants in trade fairs

This is a continuation and enhancement of the ongoing support program. The current support program for exhibitors has been provided mostly in the areas of product display, packaging, and promotional materials, by CITEM, for international trade fairs and BSMED for domestic ones with the cooperation of other technical support organizations.

This project recommends that this assistance be continued, and improved in effectiveness in collaboration with Projects (2) and (3) below. In particular:

- Linkage with Design Workshops (Product Development Workshops) in product selection
- Linkage with the project to support market study and analysis
- The development of a system to provide regional SMEs with information and consultation on trade fairs (through the Industry Support Centers and SME Regional Centers)

(2) Design Workshop (or Product Development Workshop) to support the upgrading of design development capability (#1)

The Design Workshop, as proposed here, is not merely a tool for teaching design techniques or introducing good designs, but a tool for learning a design and product development process that is based on the detailed analysis of new target markets and customer groups. It will help participants to understand techniques for analyzing market and customer trends as well as product development techniques that incorporate the results of market and consumer analyses (including due consideration given to production technology).

Design workshops have previously been conducted by PDDCP (or in collaboration with CITEM) and have been terminated due to the lack of financial support. To ensure that the sustainability of the proposed design workshop, the program will be implemented, among other things, in the following manner.

- The workshop should be operated and managed by an external organization (e.g., private enterprises, universities, technical institutions) on a contract basis. A fixed fee will be collected from participants, with some government subsidy available upon application. The workshop should be held as part of a trade fair and will be partially funded from advertisement revenues for the fair, while the government will cover any final deficit.
- The workshop should be led by a designer and/or an expert, who is familiar with the target market for which a new product is developed, and the designer or the expert will allow objective evaluation of Philippine products from the customer (market) point of view.

At present, similar efforts have been made by some industries, which invite (or plan to invite) designers who are familiar with the target foreign markets, in the short or long term and with the support of foreign donors. While such efforts aim to achieve the same or similar goal as the proposed workshop intends, the latter is less costly because it uses a foreign designer for a relatively short period of time, while covering more products and markets.

(3) Market study support project

The project is a continuation and enhancement of the ongoing program. The project calls for provision of subsidies to the participants to cover part of their costs for such market studies as trade missions and market study missions, which will be conducted by relevant industrial organizations or groups. The project is to enhance the ongoing program implemented by CITEM in collaboration with the Philippine embassies abroad, and the chamber of commerce and industry, in the following points:

- 1) To secure the funds required for the market study, and expand the scope and target of the study;
- 2) To digitize data and information obtained from the market studies, and make it available to related parties who do not participate in the mission; and

- 3) To build up a system to make the market information owned by CITEM and BETP accessible from regions, with networking for information exchange among the Industry Support Centers and SMED Regional Centers.

The subsidy system is recommended in order to maximize the effectiveness of the market study, in that trade associations and industrial organizations are capable of collecting the most useful information because they benefit directly from them, and that a market study by government agencies or public institutions, even if they use a marketing research firm as a contractor, does not necessarily address the needs of a particular industry and has a risk of producing results that are not up to expectations.

Similarly, reliance on market surveys conducted by foreign embassies is not recommendable as the embassies usually lack profound knowledge of a specific industry or market. However, support by the embassies in preparing and implementing surveys through foreign research firms would be feasible, provided that the trade associations design the market research method and provide proper assistance.

- (4) Support for development and commercialization of business seeds and new materials (#3)

The project is intended to build a mechanism to refer entrepreneurs, who have business ideas or technologies, to qualified consultants or technical institutions, thereby to facilitate support for commercialization. The project will provide the service also for industrial organizations and business cooperatives. The mechanism should include that of collaboration with systems or programs operated by foreign organizations, which support development of various business seeds.

Since the project must be implemented flexibly according to the type and nature of seeds SMEs bring in, it is important to build an appropriate mechanism by combining resources and programs of the existing organizations. Counselors of the SME Support Network will provide the first-step support. To prevent business seeds from being left on the shelf due to insufficient knowledge and experiences of the counselors, the following mechanism should be established for the Support Network to take responsibility for:

- The counselor will record each case including requests for and content of consultation. Then he will report it to a senior counselor for review. The senior counselor will issue instructions as required.
- Each case will be recorded in an electronic file, which will form a business opportunity database.
- SMED Authority will have regular meetings to consider any cases that are difficult for a counselor to deal with and which are better if handled by the support system as a whole. As CITEM has a similar program, coordinated support should be provided with CITEM, for development of products that shows sales potential in the international markets.

- A business seed that is considered to have high development potential will be reviewed in the Business Development Workshop (#27) to examine its development process. Coordination with foreign donors will also be made if they have appropriate projects to assist the business seed development.

Projects that supplement the major projects

(1) Design competition for domestic and foreign designers (#2)

As pointed out earlier, furniture and export general merchandise industries in the Philippines have been competing with Chinese competitors that are showing their strength in mass production capability, and have made efforts to maintain their international competitiveness through their unique marketing and product development strategy focusing on niche markets. An important element of this strategy is designers, who contribute greatly to the product development process. This program is designed to hold design competitions for the purpose of encouraging designers to improve their design capability, and work with product development in these sectors.

While the furniture and jewelry industries have held design competitions of their own, they were small in scale and were not recognized widely. The program will organize a competition open to designers active domestically or internationally, with the following three objectives:

1. To obtain ideas, from designers all over the world, concerning designs of furniture and export general merchandise that show a high prospect for commercialization;
2. To provide local designers with opportunities for product development, thereby giving incentive for design improvement; and
3. To create an opportunity for local designers to demonstrate their ability to the world.

Thus the focus should be placed on a high-level design competition that meets the above objectives. It will be held with an award ceremony to be scheduled concurrently with a major international trade fair, such as Cebu X and Manila FAME, so as to draw the attention of international buyers and obtain their evaluation. To ensure the high-level competition, it may be held biannually, instead of annually, to encourage participation of premier designers.

(2) Development and operation of a buyer-supplier database that can be used as a unified database among SME support activities including the business matchmaking service (#4)

This project builds a database that includes information on buyers and suppliers, and will be used by government agencies and technical support organizations engaged in SME support. In particular, the database will be used primarily by Industrial Support Centers, SME Centers, and SMED Regional Centers for business matchmaking and other support service purposes. Possible applications include:

- 1) To provide information on producers for foreign buyers who come to the Philippines at times other than when a trade fair is being held;
- 2) To search and find a partner or a subcontractor for a manufacturer who receives an inquiry for a large order that exceeds his own capacity;
- 3) To find a manufacturer of a prototype for product development; and
- 4) To find a supplier of parts or services for a large manufacturer.

At present, BOI and CITEM maintain their own databases that are made available to the public. Also, BSMED publishes a list of companies that are members of trade associations. The buyer/supplier matchmaking is positioned as one of the National SME Agenda Key Components under the current SME development plan, but it has still to be materialized.

The existing databases can be used as the basis of developing the proposed database. In developing the new database, however, the following points should be taken into consideration.

- 1) The database should be developed primarily for use by SME Centers and SMED Regional Centers to serve their users. Although it can be made accessible by the general public, the database per se does not produce any meaningful result. It is recommended to establish an ad-hoc board to coordinate operation of the database by organizations that have access to it and define the rules for database maintenance and updating.
- 2) The database should contain information sufficient enough to serve the above purpose.
- 3) Companies that have registered their information in the database should be responsible to provide and update their data. This means registration is made on a voluntary basis. The database should be developed apart from the list of companies that is made for statistical purposes.

1-2 Provision of measures by the Industry Support Centers to support SMEs of the local-resource based industries, in upgrading their managerial and technological capability

In addition to the ongoing support focusing on trade fairs, various assistance programs have been provided by a number of organizations, including PDDCP, PRDCP, FRDCP, CITC, FDC, and PTTC, but they have not been very active recently due to the limited funds and human resources. In addition, their support concentrates on technical aspects and is not market- or industry-focused, because they are not mandated to provide support on the sectoral viewpoints. Furthermore, their services focus attention to the specific fields of their duties, and no organization is capable of providing integrated support to comprehensively address the diverse needs of SMEs. SMEs, therefore, have to find more than one organization that meets their issues. Further, most organizations are located in Manila, making their service less accessible to SMEs operating in other regions.

To provide better service for SMEs that face a variety of problems, and to meet the needs for professional support focusing on a specific industry or market, Industrial Support Centers are recommended to be established within SMED Authority to serve key industries. Initially there should be three centers - Furniture and Export General Merchandise Industry Support Center (#13), Processed Food Industry Support Center (#14), and Supporting Industry Support Center (#15). Also, local offices will be established within selected SMED Regional Centers, in consideration of industrial concentration.

In addition to most of the programs described in 1-1, the Industrial Support Centers and their local branches will play an essential role in implementing the following support programs as part of their day-to-day activities. These programs focus on upgrading of business management as well as production management capabilities, and require professional skills relating to each target industry and market in extending the services.

Major projects

- (1) Dissemination of packaging technology that focuses on the processed food industry (#5)

Generally, SMEs in the processed food industry have poor knowledge on product packaging, despite it being known that proper packaging can significantly improve shelf life of food products and/or improve consumer confidence. Many of them do not understand sufficiently the current regulations concerning labeling of food products. Furthermore, the improvement of packaging is expected to reduce the present high levels of loss and damages of products occurring in the handling, transportation and storage processes; the levels range as high as 20% to 40%.

However, the system for provision of consultation on packaging technology for SMEs is very limited, especially in regions. Technical assistance has been provided mainly by PRDCP, DOST. PRDCP has received companies that look for consultation, from Metro Manila and beyond, including, for example, Mindanao. PRDCP do not necessarily have sufficient resources – both in terms of equipment and personnel - to meet the demand.

The improvement of product packaging (including design) is adopted in the current development plan as one of National SME Agenda Key Components, but no action has been taken, except for PRDCP's program. There is a plan to establish Toll Packaging Centers in Visayas region with assistance from foreign donors, but it has not been materialized at present.

The project proposes a nationwide system to provide technical guidance on packaging, including a system to provide this service to regional SMEs. Its primary purpose is to enhance the capacity of PRDCP in terms of both equipment and personnel and to develop local contact points using the SME Support Networks. The project will start with the establishment of a plan to enhance the support delivery system by identifying the specific needs for improvement of packaging technology among SMEs, while dissemination of modern

packaging technology should be promoted at the same time using the existing organizations and resources. In particular, it is urgent to upgrade the consulting service function for regions where the demand is strong. Upgrading should be implemented using the proposed SME Support Networks, which is considered a more efficient method than establishing new contact points of PRDCP in the regions, in terms of fund allocation and manpower mobilization.

- (2) Dissemination of production management, quality management, and hygienic management (for the processed food industry) through coordinated training and guidance programs including seminars, workshops, and training courses (#6)

As pointed out earlier, SMEs in the Philippines rely on a flexible production strategy (characterized by large variety/small lots) in order to compete with foreign products, especially those made by Chinese manufacturers. It should be noted, however, that flexible production is, by its nature, inferior in efficiency and is susceptible to cost increase without careful production management. The high cost offsets the product's advantage in serving a niche market. Also, many of the SMEs that make export products are contracting the bulk of the production process to outside subcontractors. To meet quality, delivery and cost requirements for competitiveness in export markets, therefore, manufacturers must be able to control subcontractors and their operations, while subcontractors are required to modernize their production as well as management. However, most SMEs in these sectors do not realize the importance of production management, which is a vital element in the effort to secure and maintain competitiveness.

In addition, SMEs in the processed food industry, especially small enterprises, do not have necessary knowledge on modern hygienic management and fail to incorporate such knowledge in their production system or employment education. Meanwhile, export markets and major distribution channels in the country (e.g., fast food and franchise chains, and large supermarkets) are increasingly demanding adoption of and compliance with strict standards (such as HACCP and GMP).

Furthermore, some foreign buyers tend to select suppliers who can comply with the operational conditions set by the latter, such as working conditions (including the working environment) and waste treatment practice. Thus, SMEs intending export are increasingly required to keep abreast of relevant regulations and requirements and to apply them to their production system properly.

The current SME development plan states that the increase in awareness of HACCP is one of the National SME Agenda Key Components related to production technology. At present, dissemination of knowledge is promoted in the form of the "National Caravan," but a system is required to provide proper training on a permanent basis.

At present, HACCP is being promoted by PHILFOODDEX in response to extensive campaigns by FDC and FDA, and the service is widely used by SMEs.

Regarding production management, there have been some organizations, which engaged in the dissemination of knowledge as part of efforts to promote productivity improvement. However, this promotion focuses on large enterprises and a system is required to disseminate necessary knowledge to SMEs. Also, emphasis should be placed on on-the-spot guidance, in addition to classroom education.

The proposed project focuses on guidance as the activities by Industrial Support Centers to raise awareness of SMEs in their day-to-day operation, and the development of a training program on production management, which takes into consideration SMEs' prevailing conditions such as available time after work, etc. While it is feasible to use human resources of the existing organizations for the production management training program, Industrial Support Centers should play a catalytic role in formulating the programs applicable to SMEs of varying production practices.

Projects that supplement the major projects

- (1) Development of a standard training curriculum for specific industries by reflecting the needs of each industry in cooperation with industrial organizations, establishing training program applicable to the actual operation, and dissemination of the standard curriculum to TESDA and vocational training organizations for their use (#11)

At present, a large number of training courses for technicians are offered at vocational schools and other technical training organizations. However, since most courses are intended to teach general skills and do not address industry-specific needs, many companies have to conduct in-house training in order to develop their human resources. This creates a heavy burden for SMEs that cannot afford to maintain an organization or personnel dedicated to human resource development. CFIF has created its own training curriculum and furnished it to vocational training schools for customized training of skilled workers. This should be applied to other industries that face a similar problem.

While the development of an industry-specific training curriculum is included in the SME development plan as one of National SME Agenda Key Components, no specific program has been carried out to achieve the goal. The program will not go forward without making an organization involved in it. Such an organization would be those, which are active in undertaking development programs from sector development perspectives, a situation that would enable them to take the initiatives in proceeding. The proposed Industrial Support Centers will be the most appropriate to take such initiatives.

In addition to the above, the programs to provide management guidance through SME Support Network (#16 and #17) will be implemented under this strategy.

C Institutional Framework for Implementation of the Strategy

Furniture and Export General Merchandise Industry Support Center (#13), and Food Processing Industry Support Center (#14) will play a critical role in implementation of Strategy 1. Both centers should hire advisors who have expertise in the respective industries, and in markets, to meet the needs of SMEs. At the same time, they should upgrade their expertise by inviting foreign experts as required.

So far, a number of similar programs have been carried out under the assistance of foreign aid organizations, whereby experts from foreign countries have been hired and sent to local companies for guidance. However, they were relatively short in duration and their beneficiaries were limited to individual companies, because technical support organizations in the Philippines themselves are not ready to absorb and accumulate knowledge and know-how transferred by foreign experts. This is one of the reasons why establishment of Industrial Support Centers is urgently recommended. The Centers, which hire advisors in cooperation with the beneficiary industries, can learn from the foreign experts invited, accumulate the relevant knowledge and know-how, and transfer it to SMEs.

In addition to Industrial Support Centers, SME Centers as well as SME Desks (#16) will function as contact points for SMEs interested in the programs under Strategy 1. To ensure that the needs (and business seeds) of SMEs are identified accurately and they are referred to appropriate support organizations as required, the training of SME Counselors and registration of SME Advisors should be promoted as they constitute a core element of the new support system (#17).

Strategy 2: Provision of comprehensive and concentrated support for selected SMEs of high potentials to supply parts or services to the leading industries in the Philippines (such as electronic and electrical industries, and automotive industries), which are estimated to have high backward linkage potentials, to promote industrial linkages between them

A Background and Outline of the Strategy

This strategy focuses on the formation and expansion of an effective linkage between local SMEs and the electronics/electrical and automotive industries, which are the leading industries in the Philippines. For this purpose, integrated support consisting of the following measures will be directed to select SMEs that have a high potential for forming the assembler/supplier linkage.

Challenges

The electronics/electrical and automotive industries use a large number of components and parts and require a variety of machining and other services, all the way up to the final assembly step. They can provide numerous business opportunities for suppliers and contract manufacturers. In the Philippines, however, only the electrical appliance industry has been fostering supporting industries. This is in part due to relatively long history of the industry in the Philippines. On the other hand, the electronics and automotive industries import most of their parts, or purchase some from foreign suppliers operating in the country. The foreign suppliers, in turn, import parts and materials, or buy them from other foreign suppliers operating in the country. As a result, few local SMEs could have participated in the procurement process, and most of them are excluded from the supplier base for the country's key industries.

In the electric appliance industry, assemblers have been nurturing local suppliers over a long period of time. Today, local SMEs satisfy large portions of demand. In contrast, in the case of the automotive parts industry, foreign suppliers dominate the industry. For instance, Company A uses 14 first-tier suppliers and 45 second-tier suppliers, and all of them are foreign companies. While third-tier suppliers are mostly local companies, the supply to these industries represents a small portion of their businesses. Similarly, Company B makes a majority of its procurement (in terms of value) from foreign suppliers, because local suppliers can furnish low-value added products only, even while they account for slightly over half of the supplier base in number (over 30 out of 60 suppliers in total). In the case of the electronics industry, their local procurement accounts for only 20% of the total and is mostly made from foreign suppliers operating in the country (in the case of Company C). In fact, local SMEs supply packaging materials and some jigs and tools only.

While the situation is unfavorable, efforts to foster SMEs that can serve the electronics and automotive industries are highly critical for the upgrading of local SMEs in the manufacturing

sector in terms of their levels of management and production. The government should give priority in supporting the SMEs in these, even if such support benefits only a limited number of companies in the short-term.

In particular, an emphasis should be placed on the automotive industry. Compared to the electronics industry, for which the establishment of a linkage with local SMEs seems to be difficult to achieve in the short run, some automakers are interested in improving their international competitiveness by nurturing local suppliers. In fact, one automobile assembler is selecting local suppliers, who have potentiality to supply parts, for the next model change. These moves will create a lot of linkage opportunities for local SMES.

Suggestions to enhance the current development plan

The importance of committed efforts to foster support industries has already been recognized and various support programs have been implemented, mainly by BOI and DOST. The current SME Development Agenda Key Components also include some programs relevant to this agenda.

However, most of the programs implemented in the past have broadly covered a large number of SMEs, including those with low prospects for becoming competitive suppliers, and their scope and content was limited to general and basic training, not to mention their limitations in funds and human resources. As a result, these programs have produced few cases of building linkages between local suppliers and assembly manufacturers.

We can find examples of success along these lines in Malaysia and Thailand. In these countries, continued efforts to foster local suppliers have resulted in a notable increase in local SMEs that can supply parts and services to the electronics and automotive industries, as well as the electric appliance industry. The efforts in the two countries are characterized by concentration of support for companies that have a high potential to become competent suppliers, together with multi-faceted support to promote actual deals between local SMEs and assemblers.

Recommended strategy

Figure III-2-4 shows the way schematically to achieve the goal targeted with the Strategy 2 through implementation of the proposed projects and programs.

Under the strategy, focusing on the approach observed in Thailand and Malaysia, Program 2-1 will be firstly deployed to provide intensive support for selected SMEs with a high “linkage” potential. An emphasis will be placed on the strengthening of communication between the leading industries and supporting ones to allow them to understand each other well, i.e., the former will be able to learn of the supply capability of the latter and the latter the actual needs of the former. For those suppliers who could receive contracts from the above, or those who could obtain inquiries from the buyers, integrated support will be provided in order to

ensure the relationship. Support covers a wide range of areas including management, technology and financing.

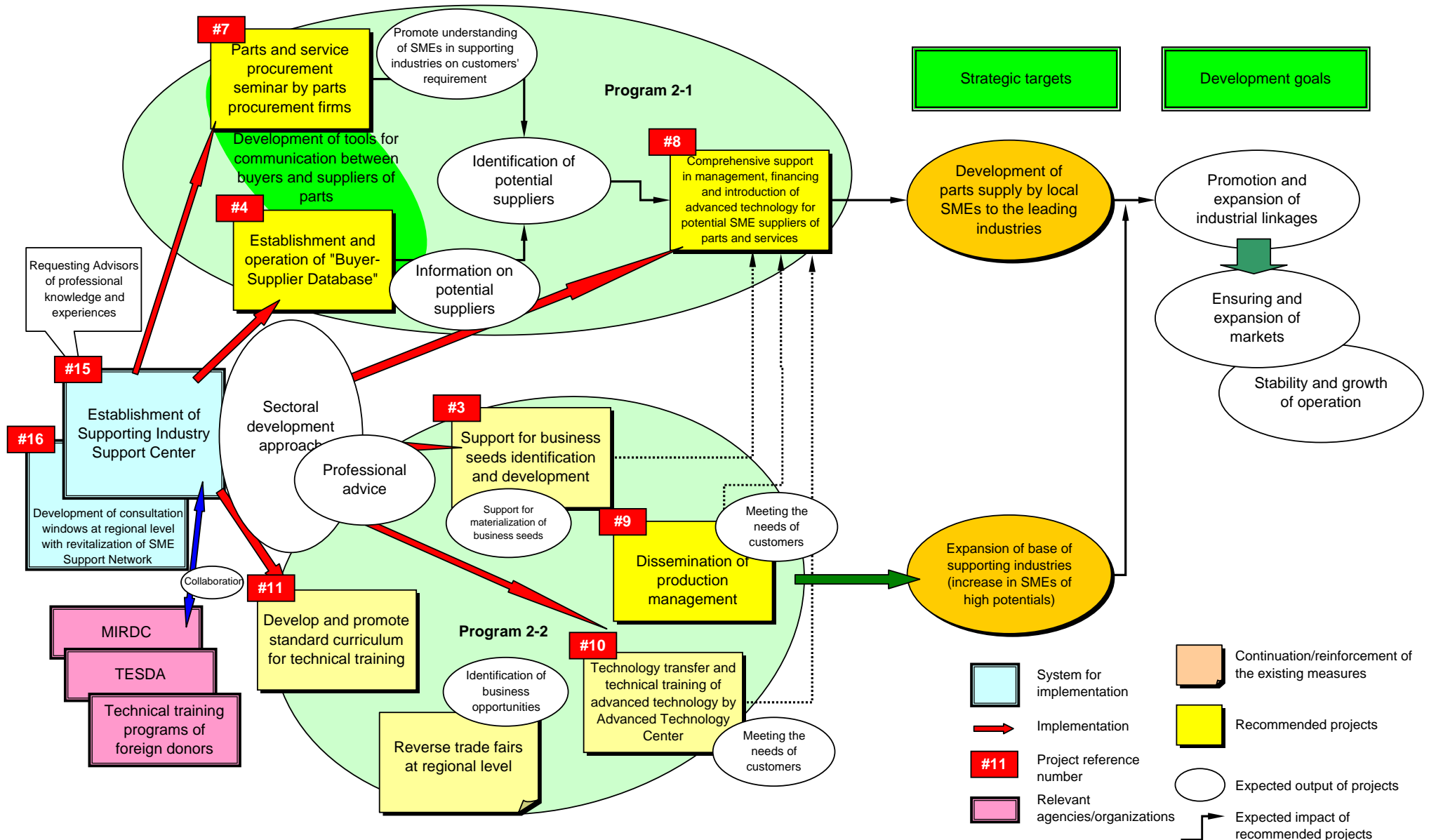
At the same time, the focus of Program 2-2 should be placed on expansion of the supplier base by disseminating modern production management, which is one of the basic requirements for SMEs that supply parts and services to the leading industries. The efforts will be led by the Supporting Industry Support Center. Other projects under this program include that of building the infrastructure for dissemination and promotion of advanced technologies and skills, in collaboration with other technical support organizations and skills training institutes.

The successful parts suppliers to the automotive manufacturer in the Philippines might have a possibility to extend supply opportunities to electronics manufacturers. In addition, they can expect to go beyond the domestic electronics and automotive industries. Once they gain an international competitive edge, there could be a possibility to export parts to group companies abroad through international or global procurement networks of the group.

Further, the parts production technology may be used for manufacturing of other products, contributing greatly to industrial diversification. From the macroeconomic point of view, development of the local supplier base means substitution for currently imported parts and an increase in value added for local production.

For electronics and automotive manufacturers, availability of competitive parts from local sources offers significant advantages in inventory management and reduction of lead-time in product development and/or change in production lines, even if price competitiveness remains same.

Figure III-2-4 Provision of comprehensive and concentrated support for selected SMEs of high potentials to supply parts or services to the leading industries in the Philippines (such as electronic and electrical industries, and automotive industries), which are estimated to have high backward linkage potentials, to promote industrial linkages between them



B Development Programs for Strategy 2

2-1 Program to develop communication tools for linkage needs of the leading industries, and to provide comprehensive support for promotion of linkages for the high-potential local SMEs in the supporting industries

Development of measures to communicate the needs of the leading industries (potential customers) to SMEs is of primary importance in promoting the assembler/supplier linkages. Actually, most local SMEs do not have contact with foreign manufacturers in the Philippines, and lack understanding of their needs. On the other hand, the leading industries do not have sufficient information on local suppliers and supply capabilities.

Reverse trade fairs have been held almost every year as the means to promote communication between buyers and suppliers. Although the reverse trade fairs have been producing a certain degree of results as shown by the number of contracts that have been concluded, there were few cases that led to supply contracts when it comes to the leading industries. The reverse trade fairs might have been effective in forming linkages between the local machinery industries and local SMEs, but not with the leading industries. Despite the fact that a large number of SMEs have participated in the reverse trade fairs, very few of them can meet the strict requirements of the leading industries, and as a result, few contracts have been concluded.

Next to the establishment of the communication channel, integrated support also must be provided for SMEs with a high potential for linkages with the leading industries, including support in financial and technical fields. Most of the support measures provided in the past might have been useful in broadening the supplier base, but they have not helped much to upgrade management and production technology to levels that meet strict customer requirements. As for the advanced technology, which is the most critical element in establishing a business relationship with the leading industries, it can only be acquired through licensing or an alliance. To make the support effective, therefore, it is recommended to focus on specific support measures concentrated on prospective SMEs to import latest technology.

Major projects

(1) Development of a buyer-supplier database, and support for business matchmaking (#3)

This program is intended to build a unified buyer-supplier database that can be used by government agencies and technical support organizations involved in SME support, allowing them to use it for responding to the inquiries from buyers and suppliers.

At present, DTI is proposing an integrated database, which is included in the current SME development plan, but there has been no significant progress so far. BOI and CITEM have their own databases on companies, and publish them on the Internet where a search function can be used, but the data items are fairly limited (company name, contact person, etc., only).

For a database to be really useful for business matchmaking it should include more detailed information (e.g., type of business and major characteristics) and should be updated on a periodical and as-needed basis.

To ensure the effective use of the database, it must be operated and maintained by an organization with the proper personnel. As for supporting industries, the Supporting Industry Support Center should be responsible for database maintenance and updating.

(Also, see Project (2) of supplementary projects, 1-2, Strategy 1.)

(2) Parts and service procurement seminars by parts procurement firms (#7)

Seminars are to be held to help potential parts (and services) suppliers find requirements of automakers and parts suppliers (who are the buyers of parts and services at the same time), who intend to procure parts locally. Automakers and the parts suppliers (buyers) will be invited to the seminars, with participation of potential suppliers. The buyers are expected to present procurement requirements including product specifications, price, delivery schedule, and requirements relating to production management and specific technology to be used by the potential suppliers.

The seminars will help the SMEs to obtain specific information that they must have, and will help them to realize what they need to improve to become qualified as a supplier. This arrangement is much more effective and efficient than the reverse trade fair, and improve effectiveness of the support.

Seminars on production management will be effective, if held simultaneously (see (1) of Strategy 2-2).

(3) Integrated support for SMEs who have won contracts from the leading industries, in the areas required to perform their contract such as finance, management, and introduction of advanced technology (#8; also #15 Supporting Industry Support Center; and #16 SME Support Network)

The project is intended to provide consulting service for SMEs that have been awarded or are expected to be awarded a contract from manufacturers in the leading industries. The service will range from evaluation of project feasibility to preparation of loan application.

For consultation in the areas of management and finance, including the development of a business plan and the support for making loan applications, SME Centers, SME Desks and/or SMED Regional Centers will provide consultation. For SMEs that have a high prospect for landing a contract, venture capital could be referred to provide funds for business expansion and capital investment.

For problems peculiar to supporting industries, the Supporting Industry Support Center will provide the services. Counselors at SME Center, SME Desk or SMED Regional Center

will refer cases to the Supporting Industry Support Center, and the Center will provide the service either in Manila or in a region depending on the needs.

If production of the parts requires special technology or know-how, and the customer can introduce the supplier to the company that has such technology, the project will assist the supplier in licensing negotiation and technology transfer.

2-2 Provision of measures by the Supporting Industry Support Center together with their regional operation arms, for expansion of potential supporting industries to form linkages with the leading industries, assisting the SMEs in improvement of enterprise management, production management, and production technology

The program is intended to provide measures for expanding the base of supporting industries, including dissemination of production management, which is a minimal requirement for formation of a linkage with an advanced industry, and formulation of the technological and skill base relating to advanced technology.

What are needed first and foremost for the sake of securing transactions with the leading industries are good quality, competitive prices and strict management to meet the requirements for delivery. However, since SMEs in the Philippines do not understand the need for that, most of the foreign enterprises in these industries are reluctant to start doing business with local SMEs. It is considered that a long time and strenuous business efforts will be needed for them to understand the requirements of the leading industry on production management, and put that understanding into practice. Further, it is hard to expect individual enterprises in the leading industries to furnish local SMEs with technical guidance in this regard. (Some electric appliance manufacturers in the Philippine have assisted the local SMEs so as to make them into their parts suppliers, by providing technical guidance service from a long-term perspective, and as a result, there are several local medium-sized enterprises that have come to be recognized for their outstanding production management.)

Next to production management, advanced (and sometimes high-precision) technology is required for the parts or service vendors to do business with upstream companies in the leading industries. However, in many cases advanced technology is technology that can be utilized only in particular areas. In the Philippines in particular, where the scale of industry is small, there is little demand for such technologies, and there is insignificant incentives for SMEs to acquire such technologies. The advanced technologies for which there is limited demand, therefore, are difficult to transfer to local SMEs, if a program similar to that of general technical transfer is applied. The medium-size enterprises having the outstanding production management, as mentioned above, have imported the advanced technologies, instead of relying on a public program for general technical transfer. This program will focus on advanced technology that is comparatively generalized and for which a certain level of demand can be expected.

Further, for expansion of the base of supporting industry, the program will promote the linkages also with other industries, which have the potential of a backward linkage effect. The measures comprising the program include holding reverse trade fairs in the regions, providing support for identification and development of business “seeds” of individual enterprises, and, third, development of skill training courses with higher degree of practical usefulness.

Major projects

- (1) Dissemination of production management through a combination of seminars, training courses and factory diagnosis and guidance (#9)

In procurement of the parts and services, manufacturers/assemblers in the leading industries such as electronics, and automobiles require that their suppliers have the same level of production management as they themselves. That includes delivery time management required for their parts inventory management, and quality management in production process for prevention of shipment and receipt of defective products. This is for the assemblers to streamline their production process so as to succeed in tough international competition. They have been trying to achieve rationalization of their production not only in their assembly processes but also at the production process of parts suppliers. Because of that most procuring enterprises provide a certain level of technical guidance to their parts suppliers. Further, they might switch from one supplier to another when what is required cannot be met within a certain period of time. However, the technical guidance provided by the assemblers to parts vendors is mostly limited to first-tier suppliers. In practice, the technical guidance to the second-tier suppliers has been difficult to accomplish. Nevertheless, the second-tier suppliers that are not able to meet requirements will be removed from the procurement lists of the assemblers. Thus, understanding of production management, and putting it into practice is the minimum requirement for those who are intending to supply parts and services to the leading industries.

For understanding and application of production management, learning the theory of production management is not enough. Guidance for application on the shop floor is also necessary. In this project, dissemination of production management is to be achieved through various methods of dissemination. The Supporting Industry Support Center is to organize and operate the project in collaboration with technical personnel of the leading industries, technical institutions, etc.

In the Philippines there is quite a long history of dissemination of production management ideas and practices, through the Productivity Centers. However, the focus of activities has been on dissemination among large enterprises, resulting in inadequate creation of awareness of the need for it among local SMEs.

Further, local SMEs could have opportunities to learn the actual practice of production management, if they had contacts with the leading industries, since well-based, well-controlled production management has been carried out in enterprises in the leading industries and their

parts suppliers. However, in actuality, local SMEs in the Philippines could have only limited opportunities to learn it.

It is most desirable that transfer of the technology of production management be accomplished by technical personnel with actual experience in production management. However, at present in the Philippines outside large enterprises there are few technical personnel with experience in practical application of production management. (In a few advanced medium-size enterprises, which form the current supporting industries for the leading industries in the Philippines, there are technical personnel or owners with such experience.) Therefore, it would be hard to find appropriate instructors locally, and it is recommended to request foreign donors to assist in finding the appropriate instructors (for example, JETRO has dispatched such technical personnel often, though the period of their assignment is short.).

Projects to supplement the major projects

- (1) Advanced Technology Transfer Center for promotion of linkages between local SMEs and the leading industries and their parts supply industries (#10)

Up to now a considerable number of measures have been tried to support the entry of local SMEs into the supporting industry area. Most of them have been technology transfer and skilled worker training efforts aimed at raising the level of technical capacity. In the case of a project to transfer plastic mold technology, which was carried out by MIRDC, it was effective. However, in most cases the technology transferred does not go beyond the general level, and there is a big gap between it and the technology that advanced industry requires. Because of that such technology transfer has not been effective as regards promotion of linkage.

There are various kinds of advanced technology required by the leading industries, but if it is too specialized, there will not be any enterprises wanting to acquire it since there will be only limited application for it. Therefore the companies that could be interested in acquiring the advanced technology are likely to doubt whether orders for products that the technology is used for can be received after acquiring it. It is therefore necessary to set up a system to transfer advanced technology, selecting the object technology, on the basis of consultation with the leading industries, in order to select technology which has demand sufficient for actual utilization in the Philippines.

Nevertheless, even at this point the following technologies can be considered to be likely candidates:

- Metal surface treatment technology
- Precision metal processing technology
- Press die technology
- Die cast technology
- Powder metallurgy technology

For implementation of the project, it is necessary to install facilities and equipment that will make the technology transfer possible. However, since the facilities and equipment in every case are costly, they should be prepared in descending order of importance, on the basis of consultation with the leading industries. The possible methods of technical transfer include not only training, but also temporary supply with guidance on its utilization (equipment open for use by the public).

Most skill training available so far has been for general skills, and there was no skill training offered with respect to advanced technology. The training course should be designed also on the basis of consultation with the leading industry side regarding the skills which the leading industry expects at the supporting industries in the Philippines.

Since there are no personnel presently in the Philippines capable of carrying out such technology transfer, it will be necessary to invite instructors from abroad for implementation of such training programs. Besides implementation of the training, it will also be necessary to train future training personnel.

(2) Reverse Trade Fairs in Regions

This project is the continuation and reinforcement of the project currently under implementation.

Reverse trade fairs are already listed as one of the action plan items in present development plans. However, if the aim is formation of linkages with advanced enterprises as already mentioned, reverse trade fairs cannot be expected to bear much fruit in comparison to the expenditure that they require. Nevertheless, as regards linkage with enterprises other than advanced enterprises (mining machinery, woodworking machinery, textile machinery, food processing machinery, etc.) one can expect a fair amount of new transactions from them judging from what has been accomplished with them up to now.

Therefore, trade fairs should be prepared targeting the linkages with enterprises other than in the advanced industries, and according to the conditions of the regions, with initiatives taken by SMED Regional Centers, LGUs, and private sector.

Even now quite a few provincial reverse trade fairs are being planned chiefly with involvement of the provincial offices of the DTI. But they are not being implemented according to plans because of fund constraints. It might be difficult to run them only with the revenue from participants. In such case, the efforts to form linkages should be pursued utilizing supplier-buyer databases as a substitute method.

(3) Support for identification and development of business seeds (#3)

This is to build a mechanism capable of providing support for the whole process of business seeds development, including consultation on business ideas originating at SMEs, and introduction of the originators to parties having the appropriate expertise, as well as help all the way to starting up such new businesses (see (1) of Major Projects, Strategy 1-1).

Particularly, in the supporting industry field, collaborative efforts by SMEs each with different type of expertise will be useful in starting new parts production that requires a development process, since it requires a variety of kinds of technical know-how in solving problems, or making developmental production.

In the present stage, the supporting industries in the Philippines will not go beyond producing according to the specifications provided by customers, and under such circumstances there will be hardly any significant, new development processes. However, in view of the fact that in the electronic and electrical equipment industry and the automobile industry the direction of change is from the pattern seen up to now in which local production is carried out on the basis of models planned for universal, international marketing by parent companies to the newer pattern of production of new models that incorporates a degree of local development (particularly in the automobile industry), one cannot rule out possibilities such as joint accomplishment of part of such development work with the supporting industry side in the future.

- (4) Formulation of standard training curricula in collaboration with industrial organizations, the curricula to reflect the need for effective and practical skill training; and dissemination of the curricula to TESDA and other vocational training organizations for implementation (#11)

Although there are many vocational training schools and skilled worker training courses, few of them meet the real needs of industries. Most SMEs have no alternative other than to train their skilled workers in-house. It is therefore proposed to formulate standard training curricula in collaboration with the relevant industrial organizations reflecting the organizations' needs for effective and practical skill training, and then to disseminate the curricula to TESDA and other vocational training organizations for implementation (see (4) of Supplementary Projects, Strategy 1-2).

In addition to the above proposed projects, there will be provision of measures particularly related to business management guidance, through the SME Center Network besides the supporting industry support center (this is discussed further in #16 and #17).

C System for Strategy Implementation

Fostering of supporting industry is an important task in terms of industrial policy, and several departments of the government have been working on it. In DTI, BOI is working on this from the viewpoint of industrial policy. CITEM is in charge of reverse trade fairs. DOST is providing support from the viewpoint of technology upgrading, particularly MRIDC for metal working industries.

In this strategy, which focuses on SMEs, the Supporting Industry Support Center is to play a center role in carrying out the projects. The Center is an organization within the SMED

Authority, and has local branches at SMED Regional Centers as places that SMEs can contact for first-stage consultations. Technical advisors with experience in the supporting industries and capability for providing SMEs with guidance will be appointed at the headquarters and regional branches for providing the consultation services. Technical guidance will be carried out in close collaboration with MIRDC.

Strategy 3: Facilitation of supports for diversified needs of SMEs active in local markets, through nurturing of SME Counselors and SME Advisors, and assignment of them to local contact window networks to be developed

A Strategy Background and Summary

Development Challenge

In the Philippines most SMEs are concerned with the market formed by local demand, which consequently is limited to a number of small geographical scopes. Such local demand is very diverse, including demand concerning the clothing, food and housing needs of the local residents, demand concerning other everyday needs, education and transportation and demand concerning supply of services and goods to local industries.

The main obstacles to development are that those SMEs have only limited business opportunities, and that they are limited in capability for market and customer expansion in terms of business management, production technology, and financial capacities, etc. However, the situation varies greatly from enterprise to enterprise, and it is therefore not possible to apply a sector-wise approach in providing support intended to solve their difficulties.

Present Development Plans and Suggestions for Enhancement

The current development plan uses the same method of assistance as that for SMEs in such local resource-based industries as furniture, export general merchandise and food processing industries, etc. The current SME centers are assumed to play the central role in supporting the SMEs in this sector. However, only a limited number of Centers are functioning.

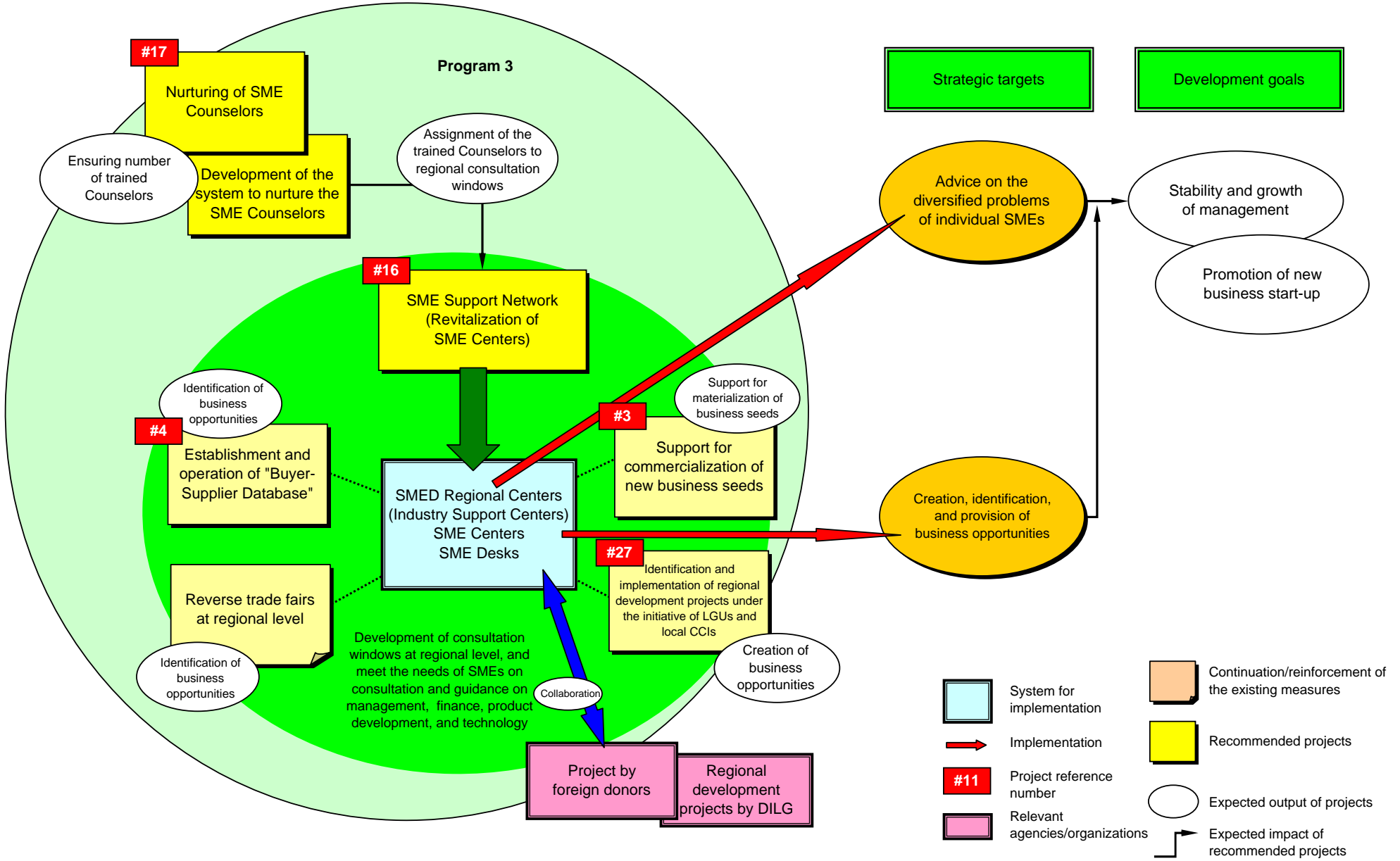
The SME caravans, which are implemented from the viewpoint of mobile utilization of personnel, seem to be well-worked-out programs in view of their 3-stage modules followed by follow-up modules, etc. The program, however, has a limitation, in that it is to give instruction from the government side, instead of responding to the problems raised by SMEs. In the case of support for a specific industry, the support may be provided in line with a goal set in advance, but in the case of this SME sector, the support will be effective and efficient if it is provided by responding to the problems raised by individual SMEs, since their problems vary enterprise by enterprise.

Strategy Recommendation

Figure III-2-5 shows the way schematically to achieve the goal targeted with the Strategy 3 through implementation of the proposed projects and programs.

Considering the situation described above, the first component of the strategy is to establish a system for assisting SMEs to achieve stable operation and growth. This system should respond to the specific management problems faced by individual enterprises. The second component is support focusing on creation of business opportunities for local SMEs with full utilization of the potential of local governments and local private sectors.

Figure III-2-5 Facilitation of supports for diversified support needs of SMEs in the local markets, through nurturing of SME Counselors and SME Advisors, and assignment of them to local contact window networks to be developed



To provide assistance to individual enterprises to help them adequately respond to the problems they face, there is an urgent need for training of personnel capable of providing local SMEs with management, marketing, financial and other guidance. It is firstly proposed that such training be undertaken, together with assignment of the trained personnel to local contact windows.

Next to the above, SMED Regional Centers should be established according to the needs in the region, as the core of the SME Network, which provides SMEs with the local contact windows. The SMED Regional Centers are expected to be the key for revitalization of the existing SME Centers, by means of concentrated use of the limited funds and personnel available. Under the SMED Regional Centers, SME Centers will be newly developed or revitalized at the initiative of LGUs and local CCIs, thus enhancing the guidance for SMEs on management.

The Network will provide guidance for enhancement of competitiveness to the SMEs engaged in export business, and those active in the nationwide markets (Strategy 1), and guidance to help ensure management stability for small-scale enterprises catering to limited local demand. At the same time there will be provision of appropriate advice to SMEs regarding finance and tax payment obligations so as to enhance their capability to furnish financial institutions with appropriate credit information for improvement of their access to financing (Strategy 4).

Specifically, the strategy comprises of the following measures:

1. Ensuring availability of SME Counselors by providing adequate training for candidates selected mainly from among the DTI staff, chamber of commerce and industry staff, etc. for assignment at local consultation windows. Also, appointment of SME Advisors who have business experience, and are capable of providing guidance on management, financing, marketing, product development, production control or manufacturing technology.
2. Establishment of a system for training of candidate SME counselors.
3. Assignment of the SME Counselors after appropriate training.
4. Promotion of establishment of SME centers and SME desks for assignment of the SME counselors, and as the local contact windows for SMEs.
5. Setting up of SMED Regional Centers that are matched to local needs, to support activities of the SME centers and the SME desks.

The second major component is to establish a support system for identification and development of business “seeds” that individual SMEs have. Also important is to encourage and assist LGUs and local private sectors to provide business opportunities for SMEs when they plan and launch regional development projects.

B Development Measures for Strategy 3

Major projects

- (1) Nurturing of SME Counselors and establishment of a system for SME Counselor training (#17)

The SME Support Center Network to be discussed next assumes the active presence of SME counselors and SME Advisors. The SME Counselors are expected to provide consultation services to SMEs at the Centers in the field of management and finance, and introduce them to appropriate institutions when needed. The SME advisors are characterized by having business experience, and provide guidance in specialized areas such as marketing, technology and product development.

Since so far almost no staff members are available to provide such advice, it is necessary to create a group of persons who are capable of providing such guidance. This must be done on an urgent basis, and by using the existing system, while also establishing a new system to nurture the Counselors.

Nurturing of SME counselors and assigning them to SME Centers already constitutes an important part of present development plan. But because of the lack of counselors who have received appropriate training, SME Centers are not able to provide the kind of support that SMEs really need. Presently counselors are appointed after a training period of only about one week. Basically most of them are DTI staff and lack any experience in businesses. With only such short training, they are not really capable of providing SMEs with the kind of guidance that is needed.

The training programs that are being used are PTTC and UP-ISSI programs. There used to be long-term UP-ISSI training programs, but they have been stopped because of DTI budget shortages.

- (2) Development of an SME Support Network consisting of SMED Regional Centers, SME Centers, SME Desks and Industry Support Centers; Assignment of SME Counselors and SME Advisors to the Network; and provision of support on management and finance through One-Stop Service Windows at the Support Network (#16)

The project is to revitalize the SME Support Network following the basic concept of SME support system based on SME Centers, but with concentrated allocation of limited personnel and funds to the strategic points. Namely, SMED Regional Centers, which constitute the core of SME support, will be set up in a few places where the demand for the support is great. It is assumed that eventually 16 Centers will be established, in as many Regions. As for the SME Centers, only the Centers that are active will be retained, while other centers that are operated by DTI provincial offices only with their own staff will be converted to SME desks. The SME guidance system will be enhanced by nurturing and assigning the SME Counselors. Guidance personnel will be SME counselors and SME advisors.

Following are the points to be enhanced in the proposed system in comparison with the current SME center system:

- Assignment of counselors who have received adequate training
- Establishment of a system of appointment and registration of SME advisors capable of providing professional consultations
- Promotion of setting up of local SME centers at different administrative levels of local government and chambers of commerce and industry, and guidance for SME Centers by SMED Regional Centers
- Setting up of SME desks in DTI provincial offices for provinces where there is no SME center
- Provision of professional support to contribute to industrial development, with establishment of Industry Support Centers at the national level, and setting up of regional contact windows at the SMED Regional Centers.

Projects that Supplement the Major Projects

- (1) Establishment of a buyer-supplier database for broad utilization in SME support activities, together with business matching support (#4)

Building of a buyer-supplier database that can be used by government agencies, technical institutions and others engaged in SME support and utilization thereof at SME Centers, SMED Regional Centers and elsewhere for business matching and other purposes.

(For further details, see aforementioned description; Supplementary Projects (2) of Strategy 1-2.)

- (2) Support for identification and development of new materials and business “seeds”, and development for commercialization of it (#3)

The project is intended to establish a mechanism for provision of support for the complete process of identification, development and commercialization of new materials and business seeds of high potential for development, including acceptance of individual requests for consultation from SMEs and entrepreneurs thinking of starting up new businesses on the basis of “seeds”, development of methods of utilization of materials that can be used in local industries, etc., and referencing them to institutions with the necessary appropriate experience and know-how all the way to starting up of those new businesses. The project will handle problems of the same kind that cooperatives, and industrial organizations, have. Some foreign organizations provide systems for support to develop such “seeds”, like programs for promotion of cooperation between different geographical production areas, and the project will also include a mechanism to utilize these systems.

(For further details, see aforementioned description.)

- (3) Local Reverse Trade Fairs

This is a continuation and reinforcement of the current project.

Reverse trade fairs will be held targeting large companies, food product chains, etc. in the provinces, taking into account the conditions special to each region. The SMED Regional

Centers, LGUs, and local private sector players should take the initiative in planning and implementing the fairs.

If trouble is encountered regarding lack of the necessary funds for the fairs, utilization of supplier-buyer databases should be adopted as a substitute method.

- (4) Encouragement and support for regional development projects based on identification and development of business seeds with initiatives by LGUs and local CCIs (#27)

The project is intended to support local SMEs for creation and growth of small businesses through identification and utilization of regional resources to serve as business opportunities for them.

One possibility is to support for reviewing and redrafting of plans of presently advocated “1 Municipality, 1 Product, 1 Million Projects” that has run aground because of business planning and organization difficulties. Coordination with regional promotion projects being carried out by the DILG would be also useful, and projects provided by foreign donors should be coordinated also from the standpoint of making most of them.

One can expect the above-mentioned SME centers that are to be operated chiefly under the direction of local governments and the local private sector to play a central role in promotion of such projects.

C Strategy Implementation System

The SME support network consisting of the SMED Regional Centers, SME Centers, SME Desks and SMED Authority (including the Industry Support Centers) will play a central role. Since one of the keys for succeeding with the strategy is the consultation personnel, an important requirement is securing of SME counselors, who have received appropriate training, and appointment of SME advisors.

Here, the requirement is detailed support with providing diverse business opportunities and assisting development of business “seeds”. Since it is difficult or even impossible to cope with such diversity on the basis of central efforts alone, it is necessary to promote a system for coping on the basis mainly of regional and local government and private sector efforts as in the case of SME Centers. However, in the present situation LGUs do not have the personnel needed to satisfy such expectations. Furthermore, the activities of regional governments depend to a great extent on how enthusiastic the heads of such governments are regarding them. Since in such a situation it is not entirely realistic to put too much trust in adequate functionality on the LGUs, the SMED Regional Centers are assumed to take core responsibility, while they continue to encourage the initiatives of LGUs in planning and implementation.

Strategy 4: Development of SME financing programs which depend not on collateral heavily, but on cash flow of the project and personal credit of entrepreneurs, centering on SB Corporation as the policy execution body for SME financing

A Strategy Background and Outline

Development Challenges

Improvement of access of SMEs to finance is one of the most important challenges, which all the SMEs face, though the levels and urgencies of such needs vary depending on the conditions of each.

There are two main factors making such access difficult. One is inability of lenders to obtain reliable credit information on borrowers. That means that lack of adequate credit information has to be compensated by strict collateral requirements and cautious screening that takes a great deal of time. The other is a factor caused by the financial system itself. Each bank is subject to strict controls by the central bank regarding strengthening of its financial soundness, and because of that large banks are not happy about directly handling financing of SMEs, instead preferring to engage only in wholesale financing of them in view of the fact that financing of them is more costly due to the necessary procedures than other sources of finance as well as being more risky. At the same time banks and organizations that engage in retail financing of SMEs have to start from scratch in collecting credit information on applicants since they do not have any daily dealings with SMEs. That increases their operating costs, which in turn influence the interest rate required, thereby making the interest burden high for SMEs.

Suggestions Regarding Present Development Plans and How to Reinforce Them

In view of the above-mentioned circumstances the SULONG Program, the elements of which are easier procedures, less severe collateral requirements and lower interest rates than before, was introduced at the beginning of 2003. Although it is still too early to make a definitive assessment of it, it so far enjoys a rather good reputation in spite of certain limitations.

Nevertheless, the above-mentioned problem of improving capability to furnish credit information on SMEs has not yet been addressed. Nor have there been any particular new efforts regarding credit guarantees, personal guarantees and the like as supplementary credit instruments for avoiding excessive dependence on collateral.

Strategy Recommendations

Figure III-2-6 shows the way schematically to achieve the goal targeted with the Strategy 4 through implementation of the proposed projects and programs.

The problem of the fragility of the banks of the Philippines, which goes a long way toward explaining the financing problems of the country's SMEs, will not be discussed here. This strategy recommendation is based on continuation of present measures for strengthening the SULONG Program as the main existing SME financing program and improvement of ease of

access on the part of SMEs to financing, and at the same time it assumes development of the following measures that are presently in the preparatory stage for implementation or that have just started to be implemented:

- Unified accreditation for rural and thrift banks
- Improved SME lending rules by the Money Board
- Credit Bureau development
- Equity venture fund establishment

The strategy is composed of measures and proposals for promotion of short-term procedural improvements, and proposals regarding medium-term improvement of the SME financing system.

The short-term, procedural, aspect consists of measures to promote introduction of supplementary means for alleviation of the high risk of SME financing by financial institutions, including furnishing of reliable credit information, and preparation of credit guarantee instruments that can replace physical collateral, and proposals for improvement of efficiency of SME-loan application screening. As for the medium-term, the program proposes clear definition and positioning of SBC as a core policy institution responsible for SME financing and enhancing the SME financing system.

Figure III-2-6 Development of SME financing programs which do not depend heavily on collateral, centering on SB Corporation as the policy execution body of SME financing



B Development Measures for Strategy 4

4-1: Promotion of supplementary measures to reduce the risk of SME financing

Major projects

- (1) Guidance for management and making applications for financing, as means to enhance capability of SMEs in furnishing credit information (#16)

Inaccuracy and lack of reliability of information on business plans and company financial soundness submitted by SMEs in support of their applications for financing by financial institutions has resulted in delay in screening of the applications, and heavy dependence on physical collateral for them to compensate for risk. The project is intended to increase the confidence of financing institutions in credit information prepared by SMEs, providing management guidance (introduction of standardized forms and entries, and assistance for preparing business plans, etc.) and guidance in preparing applications for financing.

At the same time, the program provides a scheme of financing without collateral for SMEs that make use of this program, as an incentive to use this program (#18, to be described later).

- (2) Supplementation of physical collateral by promotion of a credit guarantee system (#19)

This program aims to make SME financing easier through promotion of credit supplementation by personal guarantees as opposed to the present system of financing of SMEs that relies too heavily on physical collateral. Namely, insufficiency of physical collateral is supplemented by guaranteeing of the credit standing (credit debts) of SMEs by personal guarantees furnished by corporate representatives and third parties. In promotion of the system it will be necessary to have means of limiting the scope of responsibility of the guarantor to a certain degree and avoids excessive guaranteed debt. This project includes preparation of the legal structure for that and promotion of guaranteed debt.

- (3) Increase in the available amount of loans which are guaranteed with a credit-guarantee issued by the SBC, through introduction of a deposit fund system (#20)

This is a complementary scheme to the present SME financing using the credit guarantee system to encourage financial institutions to increase the amounts of loans. The government makes a contribution to the SBC at an amount equivalent to a guarantee target. Then, the SBC deposits that contribution at financial institutions that have concluded guarantee contracts with the SBC, and at the same time the SBC requests those financial institutions to increase the granting of loans using SBC's credit guarantee to an amount approximately three times of the deposit received.

That increases the amount of financing to SMEs under the credit guarantee system. Further, it also serves to create new funds, since the additional funds come from private funds held by the private financial institutions.

From the stand point of view of deposit-taking private financial institutions, there will be an advantage in that funds can be obtained at lower cost, while 15-40% of the rate of risk in providing finance using the credit guarantee will remain unchanged.

Projects supplementing the major programs

- (1) Provision of collateral-free finance to SMEs that receive management and financial guidance from the SME Support Network (#18)

This program aims to that provides financing without collateral and without guarantees to SMEs that have received guidance on management for at least 6 months and guidance on loan applications through the above-mentioned SME support network (#16), provided that they meet the other conditions required for loan application. The project is intended to promote supplementary credit by methods other than physical collateral, and also serves making SMEs more aware of the importance of actively working for improvement of their management methods.

- (2) Improvement of loan application appraisal systems for loans which use a credit guarantee (#21)

This is a project to shorten the time required for loan appraisal, which is a problem point in SME financing. In particular, financing with a credit guarantee involves a great deal of time for appraisal, since after the loan appraisal, each case has to be sent back to the branch that received the application, and further, SBC takes a certain duration of time for evaluation for their credit guarantee. Screening of applications for loans in excess of 10 million pesos takes even more time since they have to be approved by the board of directors, which meets only once a month.

The project is intended to enable SBC to increase the number of loan appraisals to be handled, by changing the appraisal practice from the current group screening to the screening to be performed by individuals who are delegated the appraisal work according to their positions.

4-2: Increased presence of the Government in SBC to ensure its position as the policy execution body in the field of SME finance

The Magna Carta sets forth the SBC as the primary agency in the field of SME finance. This recommendation is to increase the presence of Government in SBC, to enable the SBC to implement programs and measures in line with the policy needs of the Government.

The SME financing is understood to be a system that supplies funds stably, regardless of business fluctuations and the condition of financing institutions, to SMEs, which are regarded as intrinsically weak as objectives for financing, and not attractive as a customer to ordinary private financial institutions. The interest rates charged to SMEs for loans is generally lower than the prevailing interest rate level, considering the managerial weakness of SMEs.

In the case of SME financing in the Philippines, however, they are significantly affected by the prevailing business conditions of the financial sector, and many factors impede the improvement of the system. These include the application of the same regulatory rules as private banks to GFIs, the tendency of banks to tack the loan processing costs on the interest in addition to applying the market rate of interest, and the immaturity of retail financing institutes

as such. Thus, the SME financing system in the Philippines is yet to show significant effects as a tool of policy implementation in the areas where the market mechanism does not function freely. As a result, the existing SME financing system is unable to provide loans at preferential conditions, contrary to the policy objective.

The SULONG financing program is in the implementation stage, and several measures under the SME Agenda have been put into practice. These might be considered the implementation process of policy and measures in accordance with the above concept of SME financing. The effectiveness of these measures, however, are not known at this stage, because some of them have just been put into implementation, and others are still being planned. Therefore, there might be a better time, later, to call for the programs according to the policy direction set.

In such case, there will be a need to establish a financial institution to undertake the measures according to the concept of SME financing as discussed in the above. The Magna Carta has designated the SBC as the primary agency in the field of SME financing. But number of the Board members representing SME policy is two out of total members. Thus, the Government is recommended to increase its influence on the SBC to guide the SBC as the policy-directed financing institute, increasing the number of Board members representing SME policy.

2.3 Implementation System of SME Development Plan

The present SME development system and organization assumes that individual development plans are implemented by responsible organizations, i.e., each plan is assigned to a specific agency or organization that has a budget allocation and mandate for work on the plans. Implementation at a local level is made by the ROG through DTI's regional or provincial office.

On the other hand, the recommendations on the development plan propose the following implementation bodies:

- 1) Industrial support centers that provide professional support and guidance, representing industry's interests; and
- 2) An SME support network consisting of SMED Regional Centers, SME Centers, and SME Desks, which will be formed by reorganizing and revitalizing SME Centers.

As the present system appears to be weak in ability to control implementation of individual development plans at the central government level, a plan to reinforce the key system component is proposed, in 2.3.1.

Also proposed is a system to secure funds for program implementation (2.4.2). Under the present system, a program budget is approved only after the revenue is secured. This may prevent smooth implementation of the program due to budget constraint, as seen in the past.

2.3.1 Establishment of an Implementation System for SME Development Plans at the Central Government Level

The central government system is weak with regard to work on the formulation and administration of SME development plans, including monitoring, reviewing, and revision after a certain time of implementation, together with supporting implementation of the Plan.

The Magna Carta, the basic law regarding accomplishment of SME development, assumes the existence of an organization to implement the Plan in coordination with the different agencies involved, but this has not yet been realized in practice. That being the case, the SMED Council presently coordinates the different departments and agencies concerned. However, it is not a standing body and accomplishes its role only on the basis of holding periodical meetings, though it does have a secretariat.

At the same time the organization under the DTI relating to promotion of SMEs undertakes coordination of liaison between the different entities as the SME Core Group. The BSMED is responsible for that secretariat, but that does not change the fact of dependence on periodical sessions. Since the organizations participating in that SME Core Group each have different organizations above them and that tends to cause confusion in accomplishment of its work, there is now a movement evident toward concentration of those organizations under a single organization (Group). However, the individual organizations are independent of one another, and the fact remains that together they have the nature merely of a liaison conference.

The following sections recommend implementation of integrated SME policy and measures under the SMED Authority, which will be established by integrating the related entities and technical organizations under the DTI, and securing of funds for implementation, which is decisively important for implementation of the development plans. Also proposed are supplementary measures necessary for efficient implementation of the policies and measures, monitoring of such implementation and review and improvement of the plans.

- **Establishment of the SMED Authority as the central organization for support of SMEs (#22)**

The concept of this recommendation is to establish a government organization (SMED Authority) capable of taking responsibility in implementing the National SME Development Plan, which is now being formulated, making the administration of SME development under DTI unified and strategic manner by concentrating the available funds and resources at strategic points, and making the SME support comprehensive and competent, consolidating the fragmental efforts.

The early establishment of SMED Authority is highly required for the following reasons.

- 1) Need for coordinated control of SME development policies and programs
 1. There is no core organization to monitor the program implementation status, and modify the plan according to the actual progress, in line with a basic direction of the development plan.
 2. Coordination made by the regular SME Core Group meeting takes a relatively long period of time, and it is difficult to have consistent decision making because the meeting is not always attended by all of its formal members.
 3. No organization is in charge of coordinating implementation of programs provided by foreign donor organizations within the framework of the overall development plan, including negotiation with donor organizations to initiate programs in line with the development plan. So far, individual agencies responsible for program implementation have contacted and negotiated with foreign donor organizations.
- 2) Need for integrated management of the SME development budgets that are currently owned and disbursed by individual responsible agencies according to their own policies
- 3) Need for accumulation of knowledge and experience through implementation of programs provided by foreign donor organizations by allowing personnel of Industrial Support Centers or SMED Regional Centers to directly witness the implementation process.

The Project proposes to create a government agency responsible for overall SME development, reorganizing and integrating the BSMED and other Government agencies and institutions extending SME support under DTI, including those for regional operations. The agency is to be:

- Responsible for all the administrative matters on SME Development currently under the DTI.
- Responsible to undertake coordination among the relevant departments on the SMED related administration, representing the DTI's position of the lead agency in implementing the government programs of SME development.

In the past there have already been moves toward establishment of a government entity in charge of SME development, but they have always come to naught after running up against difficulties concerning coordination between different departments and agencies. What is proposed here is limitation of the scope of integration to the government entities and technical organizations under the DTI, for full or partial integration of the BSMED and the CITC, PDDCP, PTTC, BDT and others.

The function of the SMED Authority assumes:

- Policy planning, administration and monitoring of financial and non-financial matters related to SME development within the jurisdiction of DTI

- Implementation of the non-financial matters; SBC is assumed to be responsible for implementation of the financial matters

Furthermore, in connection with implementation of policy and measures regarding SME development the following functions are to be accomplished on the basis of cooperation with other departments and agencies concerned rather than being functions of the SMED Authority. However, should functions such as the following of other departments and agencies that are extremely important for adoption of a sector development approach in SME development not sufficiently focus on SME support, the SMED Authority should undertake a part of such functions. Coordination regarding them is to be accomplished in the SMED Council.

- Items concerning industry development policy
- Items concerning research and development and industrial technology guidance
- Vocational training and general skills training
- Implementation of measures concerning SME financing

The plan to reorganize the agencies and institutions, which currently form the SME Core Group, into a permanent organization (Group) under the DTI will be discussed in 3.22 in comparison with the above recommendation.

2.3.2 Securing of Funds Required for SME Development

Up to now the biggest impediment to government leadership in SME development has been lack of sufficient funds for implementation of measures. Because of that planned measures have remained unimplemented or been scaled down. On the basis of awareness of the importance of SME development to the country's socioeconomic development the government needs to make every possible effort to secure the necessary funds for implementation of this SME development plan.

The required inputs in implementing the projects are shown in Table III-2-2 in terms of value. The details by project are given in Chapter 3.

A major financial source for program implementation is the annual government budget. As the budget is constrained by revenues, however, it is proposed to establish a development fund as a supplemental source in addition to the ordinary budget. While efforts should be made to increase budget allocations, the establishment of the SME Development Fund is recommended to serve as a stable basis of program implementation.

Table III-2-2 Summary of Input Requirement

(Unit: US\$)

		Manpower			Equipments/ facilities (Investment)	Additional costs & expenses (annual basis)	Remarks
		Foreign	Local				
		Foreign Experts (Incl. remunerations, transportations, accommodation and per diem expenses)	Local staff (Staff of Government agencies; annual basis)	Outside sources			
1	Design workshop (or product development workshop)	75,600	6,300	13,000		32,800	2 Workshops at 2 different locations each.
2	Design competition		3,200	8,500		23,000	To be held once a year.
3	Business seeds identification and development						As a part of ordinary operation.
4	Buyer-Supplier Database			500	(*) 30,400		(*) Computers to be installed at SMED Regional Centers and Industrial Support Centers.
5	Packaging technology development	(*) 430,900	5,400		120,000	27,600	(*) Including 14,500 as costs for local staff.
6	Dissemination of production management for local-resource based industries		2,200			19,800	3 sessions a year.
7	Parts and service procurement seminar		500			800	1 session a year.
8	Comprehensive support for potential SME suppliers of parts and services						As a part of ordinary operation.
9	Dissemination of production management methods for supporting industries	73,800	2,200			24,800	Including a half-day seminar, factory diagnosis program, and training course.

		Manpower			Equipments/ facilities (Investment)	Additional costs & expenses (annual basis)	Remarks
		Foreign	Local				
		Foreign Experts (Incl. remunerations, transportations, accommodation and per diem expenses)	Local staff (Staff of Government agencies; annual basis)	Outside sources			
10	Advanced Technology Center	330,000	32,400		1,800,000	34,200	
11	Develop and promote standard curriculum for technical training		900	7,600		1,500	
12	Entrepreneurship development of creative SMEs		7,900	3,200		6,000	
13 14 15	3 Industrial Support Centers		133,200	22,500		5,000	3 Centers.
16	SME support network			(*) 64,800	12,500	58,000	(*) Increase in salaries of local staffs.
17	SME Counselors and SME Advisors			9,000	(*) 68,000	31,500	(*) Plan and preparation of the training courses.
27	Local development project promotion	330,000	36,000			75,000	

Notes:

- 1) 30% of the above should be added as contingencies to obtain the total costs and expenses.
- 2) US\$ 1.00= 55 Pesos.

In addition to the direct funding, there are several ways to finance the development program, which are recommended for consideration.

- 1) Pay for service: It does not necessarily mean that every service should be financially balanced. (See III-1.1.2.) Instead, it is important to charge a fee for each service, while a special discount (including exemption) or subsidy should be allowed for SMEs and entrepreneurs who cannot afford to pay the fee.
- 2) Effective use of programs implemented by foreign donor organizations: Efforts should be made to encourage foreign donor programs to be implemented within the framework of the SME development plan by requesting foreign donor organizations to modify program content or focus accordingly. At present, coordination is made by individual government agencies that are responsible for the areas that are covered by respective foreign donor programs. (It is subject to NEDA's approval, but negotiation is virtually left to each agency.) Similarly, foreign donor organizations are not clear about what type of project is needed and which agency is in charge of coordination. The coordination process should be improved by establishing an agency that is responsible for coordinated implementation of SME development programs, namely SMED Authority.
- 3) Centralized control of development budget execution: At present, the SME Core Group largely coordinates activities of related authorities, but each authority is authorized to execute the development budget on its own.
- 4) Contribution from LGU budgets: LGUs manage sizable budgets and are expected to promote local development under the LGU Code. Furthermore, for most LGUs and their development initiatives, SMEs should play a crucial role. LGUs are therefore expected to contribute their funds and resources to SME development programs in a number of ways. They may, together with local private enterprises, lead initiatives by implementing local development projects or identifying and fostering business seeds (Project #27), or they may finance activities of SMED local centers by contributing a specific percentage of their budget to the proposed development fund.
- 5) Generation of event-related advertisement and sponsorship revenues: SME development projects include trade fairs, design competitions and other events, which can attract advertisers and sponsors. Also, advertisements can be placed in program pamphlets and other handouts. While government authorities are restricted from gaining revenues other than fees, advertisement revenues appear to be acceptable under general business practice. It is recommended to seek such opportunities by using an outside organization (private enterprise).

- Establishment of SME Development Fund (#23)

The development measures should be reassessed as to importance in view of the fund secured for implementation. For that purpose as well it is necessary to get a good idea beforehand of the funds that can be secured. Although the annual government budget

allocation to this plan is the basis of the implementation funds, it is also necessary to consider securing other funds as well, including the following:

The establishment of an SME Development Fund is proposed to receive and disburse these funds.

- Fees for registration of business name
- Fees for business license
- A certain percentage of the LGU's budget

2.3.3 Recommendation of Measures for Efficient Implementation of SME Development

(1) Utilization of IT in SME support programs (#26)

It is important to utilize IT in SME development for the sake of more efficient and effective attainment of development results. The Philippines is lagging considerably behind Malaysia, Thailand and other neighboring countries in that respect. The following are areas in which utilization of IT can be considered to be particularly effective:

- Operation of an SME database for the purpose of business matching and diffusion of information
- Furnishing of information on SME support services provided by government agencies and organizations concerned
- Furnishing of technical information and market information by SME support entities
- Provision of standard computer software for the business records of SMEs
- Web-based remote consultation services
- Provision of remote training

The proposed recommendation focuses particularly on business matching, provision of support information, and remote consultation services, as the first step of IT utilization.

(2) Development and utilization of SME statistical data (#25)

Statistics provide a basis for quantitative evaluation that is indispensable in policy formulation and monitoring. The existing statistics system can hardly be said to adequately meet the need for creation of data relating to SME development policy. The following are minimal practical methods of collection of necessary data regarding SME development policy:

- Periodical surveys for collection of related data (sample surveys for identification of general trends and problem points)
- Processing of existing statistical data into data relating to SME development
- Unified application of standard classification of SMEs to existing industrial and economic surveys on establishments and employees

2.3.4 Efforts for Change in Policies and Measures for Improvement of the Business Environment of SMEs

Authorities engaged in SME development should address the issues listed below by analyzing them, including analysis of their impacts on SMEs, developing and proposing improvement measures to related authorities, and evaluating their effects.

Under the present system, authorities participating in the SMED Council can negotiate directly among them for coordination. However, there is no formal mechanism to grasp the actual situation and problems, and develop improvement measures.

Establishment of the SMED Authority, particularly creation of a mechanism to examine issues raised by related authorities and propose solutions and programs, is expected to fulfill such role (See “Executive Director for Policy & Planning” of Project #22)

(1) Review of public service charge and taxation in view of SME development

Current industrial policy has emphasized promotion of foreign investment and exports. Such policy deserves recognition as having been effective from the standpoint of succeeding in creation of export industry as the driving industry of the Philippines' economy. However, the country's industrial structure lacks diversity and depth, and its brittleness is evident. Considering that, one can see the need to make some adjustment regarding the emphasis of industrial policy, aiming at improvement of the business environment of local industry and promotion of industrial diversification and deepening.

During this study the following problems were raised by SMEs:

- High price of electric power
- Tax on input materials and machinery and equipment used in production by local enterprises is equal to that of imported final products
- Taxation of input materials and machinery and equipment used in production by local enterprises is equal to that of enterprises located in export processing zones and that of key industry enterprises
- High taxation of raw material sugar used by processed food enterprises

(2) Review of measures for encouragement of business cooperatives

When small and microenterprises have tried to extend their businesses to the nationwide market or export market, they have run into problems particularly of marketing and distribution, procurement of input materials and investment in machinery and equipment. It is likely that such problems can be resolved to a considerable extent by joint efforts based on formation of business cooperatives. Such joint business efforts are also effective in terms of gaining customer confidence through things like improvement of quality control and packing and stabilization of supply capacity.

That being the case consideration should be given to revision of current laws concerning cooperatives in order to be able to provide incentives for promotion of business cooperatives.

2.4 Timeframe for SME Development Plan Implementation

The timeframe set for implementation of the SME Development Plan is 7 years starting from 2004 up to 2010. All the recommended measures are assumed to be implemented within the first 3 years. The mid-term review is scheduled to be made at 2.5 years after the implementation, and revised and enhanced measures will be implemented on the basis of the mid-term review.

Aside from securing of funds needed to ensure the implementation, the keys to success in the implementation are vitalization of SME support networks, and the nurturing of SME Counselors and hiring of SME advisors who will perform the actual work of operation of the support network.

Nurturing of counselors should be addressed first of all. In this case, counselors to assigned to the SMED Authority and SMED Regional Centers should be first secured for them to take a central role in implementing the plan. At the same time, a few persons who will take charge of formulating the counselor-training program should be secured. With these staff as the core, staff will be gradually increased while supporting the present staff in charge of DTI. Securing of the counselor personnel will be completed by the end of September 2004 and policies relating to consulting and guidance will be developed based on the work of these persons after October (the follow-up instruction for these counselors at actual work sites will be concurrently continued).

Next to nurturing of Counselors, development of Industry Support Centers and of SMED Regional Centers are essential. The nucleus for implementing Strategies 1 and 2 are the Industrial Support Centers (Industrial Support Centers for Processed Food, Furniture/Export General Merchandise, and Supporting Industry). The time frame for implementing the strategies will closely relate to the establishment time of these centers. Since the establishment time for these centers will be October 2005 in consideration of various procedural processes, provisional alternative organizations utilizing existing organizations within the range of current laws, regulations etc. should be established at the time of October 2004, by which time the plans should be implemented provisionally.

With regard to the SME support networks, SMED Regional Centers will be first established within the DTI local offices in Cebu and Davao. At the same time, a center with functions both of being a future base for SMED Authority and of the regional center in the Luzon area will be established as the Manila Regional Center within BSMED or DTI-NCR (the organization which is the base of future Industry Support Centers should be included). In this regard, the proposed organization need to have internal organizations which are clearly separated between that of policy planning, and administration, and that of implementation, to avoid a heavily lopsided burden on the plan implementation.

Taking into consideration that it takes time for implementation in a perfect form in either case, the base for future organization will be planned within 6 months in such a manner that existing organizations are used and the above mentioned provisional organizations will be completed by the end of September 2004 (implemented within the range of current laws, ordinances, regulations, etc.)

These are provisional organizations and the formal organizations will be established as soon as detailed plans are formulated and required approval procedures are completed relating to functions of organizations, organizations to be integrated, and personnel assignment, etc.

In addition, for important policies in the development plan, the activities will be started by utilizing the aforementioned organization scheme and existing organization scheme (within the scope of the SMED Council).

In implementing the measures, those measures which require no special budget and can be implemented basically by internal personnel, should be implemented ahead of the others.

Among projects supporting strategies, some assume financial backing or invitation of professionals. Consultation on these projects for requesting cooperation to overseas donors needs to be launched at an early stage.

Table III-2-2 shows the outline of implementation time frame, while Table III-2-3 and III-2-4 estimate time frames for implementing strategies by strategy and individual measures respectively. For projects expected to be implemented every year, only the preparatory works for the first round are shown in the tables.

Table III-2-3 Outline of Implementation Time Framework

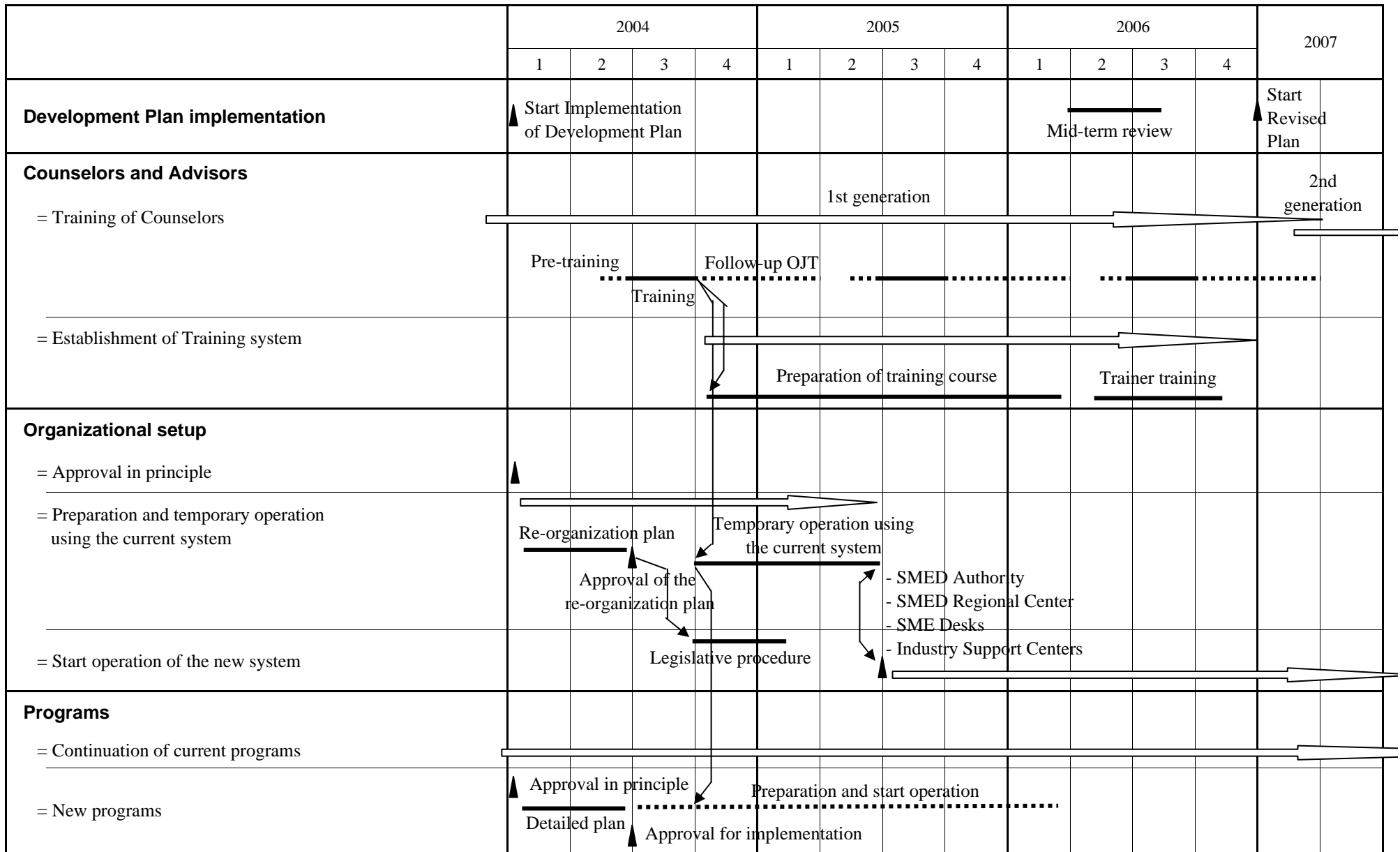


Table III-2-4 Time Framework for Implementation by Strategy

Year:	2004				2005				2006				2007	2008	2009
	Quarter:	1	2	3	4	1	2	3	4	1	2	3				4
Temporary setup for transition															
- 1st Counselor training	▲														
- Selection of trainees	—														
- Training		—	—	—											
- Start operation while continuing the follow-up training				▲											
- SMED-RC at NCR, Cebu, Davao															
- Temporary re-organization planning	—	—													
- Temporary re-organization				▲											
Central organization setup															
- Approval in principle	▲														
- Finalization of organizational plan	—	—													
- Approval of the plan by the SMED Council				▲											
- Legislative procedure				—	—										
- Approval									▲						
- Preparation (incl. budget proposal)								—							
- Start operation									▲						
Strategy 1: Enhancement of international competitiveness of local resource-based industries															
- Approval in principle	▲														
- Setup of temporary organization of SMED-RC, Industrial Support Centers (Food Processing & Furniture-Export General Merchandize)				▲											
1 Design workshop				—	—	—	—	—	—	—	—	—	—	—	—
2 Design competition				—	—	—	—	—	—	—	—	—	—	—	—
Market intelligence support	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒
Enhanced support for trade fairs	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒	⇒
3 Business seeds identification & development				—	—	—	—	—	—	—	—	—	—	—	—
4 Buyer-Supplier Database				—	—	—	—	—	—	—	—	—	—	—	—
5 Packaging technology development				—	—	—	—	—	—	—	—	—	—	—	—
6 Dissemination of production management for local resource-based industries															
11 Develop and promote standard curriculum for technical training				—	—	—	—	—	—	—	—	—	—	—	—

Year:		2004				2005				2006				2007	2008	2009	
		Quarter:				Quarter:				Quarter:							
		1	2	3	4	1	2	3	4	1	2	3	4				
Strategy 2: Promotion of industrial linkages with the leading industries in the Philippines																	
- Approval in principle		▲															
- Setup of temporary organization of SMED-RC, Supporting Industry Support Center				▲													
3	Business seeds identification & development		.....	▲												
4	Buyer-Supplier Database	.....	▲													
7	Parts and service procurement seminar			.....	▲											
	Reverse trade fair	⇐	→	Program under implementation													
8	Comprehensive support for potential suppliers of parts and services			.....	▲											
9	Dissemination of production management for supporting industries		.....	▲												
10	Advanced Technology Center	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
11	Develop and promote standard curriculum for technical training			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Strategy 3: Facilitate support for diversified needs of SMEs in the local markets																	
- Approval in principle		▲															
- Setup of temporary organization of SMED-RC				▲													
16	SME Support Network	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
17	SME Counselors and SME Advisors & establishment of the training system	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
3	Business seeds identification & development		.....	▲												
4	Buyer-Supplier Database	.....	▲													
	Reverse trade fair	⇐	→	Program under implementation													
5	Packaging technology development		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
12	Entrepreneurship development for creative SMEs			.....	▲											
Strategy 4: Develop SME financing programs not dependent on collateral																	
- Approval in principle		▲															
- Setup of temporary organization of SMED-RC				▲													
16	SME Support Network	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
17	SME Counselors and SME Advisors & establishment of the training system	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
	SULONG Program	⇐	→	Program under implementation													
18	SME loan without collateral			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

Notes: ▲ Start of 1st operation. ▲ Start of temporary operation. Preparation

Table III-2-5 Time Framework for Implementation by Project

Ref. No.	Year: Quarter:	2004				2005				2006				2007	2008	2009
		1	2	3	4	1	2	3	4	1	2	3	4			
1	Design Workshop															
	- Approval		▲													
	- Preparation		—	—	—											
	- Start of 1st workshop							▲								
	- Preparation of 2nd workshop							—	—							
	- 2nd workshop															
2	Design Competition															
	- Approval		▲													
	- Preparation		—	—	—											
	- Announcement of 2006 competition							▲								
	- Entry due															
	- Awarding ceremony 2006															
3	Business seeds identification & development															
	- Approval		▲													
	- Preparation		—	—												
	- Start operation w/temporary organization setup															
4	Buyer-Supplier Database															
	- Approval/ Coordination Committee	▲														
	- Database plan	—														
	- Announcement/ start of data entry		▲													
	- Start of operation															
5	Packaging technology development															
	- Approval in principle		▲													
	- Preparation		—	—	—	—										
	- Needs study and development plan															
	- Temporary operation plan		—													
	- Start of temporary operation															
	- Start of system development															

Ref. No.	Year: Quarter:	2004				2005				2006				2007	2008	2009
		1	2	3	4	1	2	3	4	1	2	3	4			
6	Dissemination of production management for local resource-based industries															
	- Approval				▲											
	- Preparation				—	—	—	—	—							
	- Start of operation															
7	Parts and service procurement seminar															
	- Preparation				—											
	- 1st seminar															
8	Comprehensive support for potential suppliers of parts and services															
	- Preparation				—											
	- Start of operation															
9	Dissemination of production management for supporting industries															
	- Approval		▲													
	- Preparation		—	—	—	—	—	—	—							
	- Start of operation															
10	Advanced Technology Center															
	- Draft plan preparation	—														
	- Approval		▲													
	- Preparation		—	—	—	—	—	—	—							
	- Implementation															
11	Develop and promote standard curriculum for technical training															
	- Coordination and preparation				—											
	- Standard curriculum development															
12	Entrepreneurship development for creative SMEs															
	- Coordination and preparation				—											
	- Start of operation															
13	Furniture & G. Merchandise Center															
	- Decision for establishment	▲														
	- Reorganization plan	—	—													
	- Start of temporary operation				▲											
	- Legislative procedure				—	—	—	—	—							
	- Establishment															

Ref. No.	Year: Quarter:	2004				2005				2006				2007	2008	2009
		1	2	3	4	1	2	3	4	1	2	3	4			
14	Processed Food Ind. Support Center															
	- Decision for establishment	▲														
	- Reorganization plan	—	—													
	- Start of temporary operation			▲												
	- Legislative procedure				—	—										
	- Establishment							▲								
15	Supporting Ind. Support Center															
	- Decision for establishment	▲														
	- Reorganization plan	—	—													
	- Start of temporary operation			▲												
	- Legislative procedure				—	—										
	- Establishment							▲								
16	SME Support Network															
	- Decision for establishment	▲														
	- Reorganization plan	—	—													
	- Start of temporary operation			▲												
	- Legislative procedure				—	—										
	- Establishment							▲								
17	SME Counselors and SME Advisors															
	- Selection of trainees	—														
	- Counselor training		..	—			..	—			..	—				
	- Start operation while continuing the follow-up training			▲												
	- Establishment of new training system				—	—	—	—	—							
	- Trainer training									—	—					
	- Start of the new training system												▲			
18	SME loan without collateral															
	- Start of temporary operation of SMED-RC			▲												
	- Preparation of management counseling service				—	—										
	- Start of management counseling service					▲										
	- Ready for management counseling required for the program								▲							
	- Start of the loan program								▲							

Ref. No.	Year: Quarter:	2004				2005				2006				2007	2008	2009
		1	2	3	4	1	2	3	4	1	2	3	4			
22	SMED Authority															
	- Approval in principle	▲														
	- Finalization of organizational plan	—	—													
	- Approval of the plan by the SMED Council			▲												
	- Legislative procedure				—	—										
	- Approval							▲								
	- Preparation (incl. budget proposal)							—								
	- Start operation								▲							
25	SME statistics															
	- Approval in principle	▲														
	- Preparation & coordination	—														
	- Approval by statistical agency		▲													
	- Preparation by the statistical agency			—	—											
	- 1st output from the statistical agency												▲			
	- Approval for the sampling survey		▲													
	- Implementation			—	—											
	- 1st output from the sampling survey								▲							
26	SME support information															
	- Temporary operation of SME Support Network				▲											
	- Preparation & coordination				—	—	—	—								
	- Start operation of SMED Authority															
	- Start operation															

Annex (III-2)

1. Development Issues, Possible Measures, and Discussions on the SMEs in Selected Industries
 - Furniture Industry AIII-2-1
 - Giftwares, Wearables, Holiday Decorations, Handicrafts, and Houseware (GW3H) Industry AIII-2-4
 - Processed Food Industry AIII-2-7
 - Supporting Industries of Automotive and Electronics Industries AIII-2-12

2. Discussion on the Purposed Action Programs at Workshop with SMED Council Members, SME Core Group Members, and DTI-Regional Directors
 - Strategy 1: Support Local Resource-Based Industries for Enhancement of Their International Competitiveness and Market Development AIII-2-15
 - Strategy 2: Promote Industrial Linkages Between Leading Industries in the Philippines and Local SMEs in the Supporting Industries AIII-2-20
 - Strategy 3: Facilitate Support for Diversified Needs of SMEs in the Local Markets with Nurturing of SME Counselors and SME Advisers AIII-2-23
 - Strategy 4: Develop SME Financing Programs, Not Dependent on Collateral, Centering on SBC as Policy Execution Body of SME Financing AIII-2-25

Furniture Industry

Key issues for development		Required measures	Possible actions	Discussions
Enhancement of Marketing, Product Development, and production technologies	Need for enhancement of product development, and market development through intensive product promotion activities.	Enhancement of packaged support for trade fair participants.	Intensive and comprehensive support for the participants of trade fairs, establishing "Furniture Industry Adviser Center"	The current program has highly appreciated. Necessary to supplement for further enhancement.
		Support for Cebu X as a national flagship project, including the potential development of peripheral marketing events.		Need for further study on cost-benefit of the proposal
	Lack of appropriate channel to obtain market information, except for participation to trade fairs.	Establishment and development of the system to entertain foreign buyers who contact other than trade fairs.	Establishment of database of potential manufacturers. Receiving and arranging system of the inquiry on the potential suppliers.	Need for consultation window, which can provide the professional advise with experience and expertise on industry and market. Buyer-supplier database.
	Need for intensified market cultivation. No adequate actions against the competition with China.	Intensive and comprehensive study of prospective markets with establishing target.	Development of system to support the furniture industry focusing on collection of market information, and design research, with establishing the "Furniture Industry Advisor Center".	Design workshop, etc. Gathering of market information should be done with the initiative of industrial associations (Government initiative is questionable).
		Nurturing of furniture designers.	Set up a product design course at universities.	Nurturing of designers is urgent and critical. No designers available in regions. Design competition is under implementation by various organizations, but the competition targeting higher level is necessary.
			Furniture design competitions.	
	Establishment of a system to provide designers with opportunities to participate furniture show abroad, and/or study abroad.			

Key issues for development		Required measures	Possible actions	Discussions
		Research on material development.	Research and development with establishing the Furniture Industry Advisor Center.	Technical guidance is available from FPRDC, but no contact windows for SMEs.
		Development of method of productivity improvement and production management applicable to Philippine furniture industry.	Research on the productivity development and production management applicable to Philippine furniture industry, with establishing the Furniture Industry Advisor Center.	Need for consultation window, which can provide the professional advise with experience and expertise on industry and market. Sectoral approach is necessary.
	Need for improvement of management of sub-contractors.	Dissemination of production management and quality management.	Research on the productivity development and production management applicable to Philippine furniture industry, with establishing the Furniture Industry Advisor Center.	
		Improvement of furniture technician training course (to train the technical directly applicable to the factories.	Improved furniture technical training facilities, which have machines and equipments advanced or applicable to the current factories.	
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facility	Encourage modernization of facilities with development of financing scheme to support it	Loan program for those who plan to modernize their facilities.	
			Development of installment buying system to encourage facility modernization	Installment buying is already practiced for procurement of machineries from dealers.
	Limited loan availability to prospective exporters and leading manufacturers, resulting in limitation of supply capacity even with expansion potentiality.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Reexamination of the loan appraisal system, which insists on collateral.	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	Strong interest in loan program, which is not heavily dependent on collateral.
			Consulting services through SME management and financial advisor system.	

Key issues for development		Required measures	Possible actions	Discussions
		Development of direct financing available for prospective SMEs.		
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision, resulting in bottleneck of their business development.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Reexamination of the loan appraisal system, which insists collateral.	Consulting services through SME management and financial advisor system. Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirement of customers due to lack of knowledge and experiences in advanced management techniques including productivity management, production management, etc.	Improvement of training courses for SME management.	Establishment of management training courses of middle and higher levels.	Nurturing of Counselors of appropriate counseling capacity is urgently needed is to .

Giftwares, Wearables, Holiday Decorations, Handicrafts, and Houseware (GW3H) Industry

Key issues for development		Required measures	Possible actions	Discussions
Enhancement of Marketing, Product Development, and production technologies	Need for enhancement of product development, and market development through intensive product promotion activities.	Enhancement of packaged support for trade fair participants.	Intensive and comprehensive support for the participants of trade fairs, establishing "GW3H Industry Adviser Center"	The current program has highly appreciated. Necessary to supplement for further enhancement.
		Organization of peripheral events relating to GW3H industry at the time of Cebu X.		The trade fairs are organized by category of commodities according to a schedule in connection with other trade fairs in Asian region.
	Lack of appropriate channel to obtain market information, except for participation to trade fairs.	Establishment and development of the system to entertain foreign buyers who contact at the time other than trade fairs.		Establishment of database of potential manufacturers. Development of consulting windows having professional knowledge on the industry and markets, is urgently needed.
	Need for intensified market cultivation. No adequate actions against the competition with China.	Intensive and comprehensive study of prospective markets with establishing target.	Development of system to support the industry focusing on collection of market information, and design research, with establishing the "GW3H Industry Advisor Center".	Gathering of market information should be done with the initiative of industrial associations (Government initiative is questionable). Subsidy on the market research missions, which are under implementation, is necessary.
			Invite foreign designers to receive advise, with establishing the GW3H Industry Adviser Center.	PDDCP had design workshops of this concept. It was discontinued since no more fund assistance from the foreign donors. It was effective and resume of the workshop is desirable.
			Nurturing of GW3H designers.	Set up a product design course at universities.	Designers are not available especially in regions.

Key issues for development		Required measures	Possible actions	Discussions
			GW3H design competitions.	Expectation for nurturing of designers is high. The concept of the proposed design competition need to be defined to differentiate it from that of regional level.
			Establishment of a system to provide designers with opportunities to participate furniture show abroad, and/or study abroad.	
		Research on material development.	Research and development with establishing the GW3H Industry Advisor Center.	DTI has a plan to develop a database of local materials. Base data has been gathered from regions already.
	Development of method of productivity improvement and production management applicable to Philippine GW3H industry.	Research on the productivity development and production management applicable to Philippine GW3H industry, with establishing the GW3H Industry Advisor Center.	Improvement of productivity of sub-contractors, and management of them, are the agenda, which exporters already noticed its importance.	
Need for improvement of management of sub-contractors.	Dissemination of sub-contractor management method among the GW3H manufacturers and exporters.	Research on the sub-contractor management method applicable to Philippine GW3H industry, with establishing the GW3H Industry Advisor Center.		
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facility	Upgrading and enhancement of CSF.	Upgrading and enhancement of CSF at the GW3H Industry Advisor Center.	Assessment on needs of CSF is not uniform. There is an opinion that it should be replaced by sub-contracting. Needs of CSF should be evaluated according to the local conditions.

Key issues for development		Required measures	Possible actions	Discussions
	Limited loan availability to prospective exporters and leading manufacturers, resulting in limitation of supply capacity even with expansion potentiality.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Re-examination of the loan appraisal system, which insists on collateral.	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	
			Consulting services through SME management and financial advisor system.	
		Development of direct financing available for prospective SMEs.		
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision, resulting in bottleneck of their business development.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Reexamination of the loan appraisal system, which insists collateral.	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.		Strong desire exists on loan program, which is not heavily dependent on collateral.
	Consulting services through SME management and financial advisor system.			
Development of entrepreneurship	Need to learn about the basics of business management, including book keeping and track records.	Development of basic entrepreneurship training courses for small enterprises.	Establishment of management training courses of basic levels.	Lack of Counselors of appropriate counseling capability. There is a strong need to develop consulting windows at regional level.
			Consulting services through SME management and financial advisor system.	
	Inefficiency of management, difficulty to meet the requirement of customers due to lack of knowledge and experiences in advanced management techniques including productivity management, production management, etc.	Improvement of training courses for SME management.	Establishment of management training courses of middle and higher levels.	
			Consulting services through SME management and financial advisor system.	

Processed Food Industry

Key issues for development	Required measures	Possible actions	Discussions	
Outgrow from businesses based on a limited local demand to those on national/international market				
Enhancement of Marketing, Product Development, and production technologies	Improvement of shelf lives of products to enable the products to be sold at the more distance markets.	Improvement of package to make the shelf life longer.	Intensive and comprehensive packaging improvement support program with enhancement of consulting capacity of PRDCP.	Urgently needed. Prompt implementation desirable. No progress with the PRDCP's "Toll Packaging Center" project.
		Improvement of sanitation management.	Small-scale loan program to encourage improvement of facilities required for appropriate sanitation management. Intensive employee training on sanitation management.	FDA and FDC have similar programs. Better to avoid duplication, limiting the scope to awareness improvement only.
	Improvement of packaging to be acceptable to consumers in the national/international markets.	Improvement of packaging design.	Design competition of packaging to encourage designers.	Implement as a part of Design Copetition and Design Workshops.
Improvement of access of SMEs to financing	Difficulty of small-scale manufacturers to access to financing to invest on improvement of sanitation facilities.	Development of financing scheme to make fund available to small-scale manufacturers for their facility investment.	Small-scale loan program to encourage improvement of facilities required for appropriate sanitation management.	See recommendation on improvement of access to SME financing.
Development of entrepreneurship	Need to learn about the basics of business management, including book keeping and track records.	Development of basic entrepreneurship training courses for small enterprises, and to-be entrepreneurs.	Establishment of management training courses of basic levels. Consulting services through SME management and financial advisor system.	Lack of Counselors of appropriate counseling capability. There is a strong need to develop consulting windows at regional level.

Key issues for development		Required measures	Possible actions	Discussions
	Need to understand the technical regulations related to sanitation, food additives, labeling, etc.		Development of comprehensive guidance system for food processing industry with establishing the "Food Industry Advisor Center".	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions.
Improvement of international competitiveness both in the domestic and international markets. Increase in supply capacity of prospective products.				
Enhancement of Marketing, Product Development, and production technologies	Need for enhancement of product development, and market development through intensive product promotion activities.	Enhancement of packaged support for trade fair participants.	Intensive and comprehensive packaging improvement support program with enhancement of consulting capacity of PRDCP. Intensive and comprehensive support for the participants of trade fairs, establishing "Processed Food Industry Adviser Center"	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions. For further advise, introduce to FDC, FDA, and PRDCP, etc., depending on the agenda.
	Lack of appropriate channel to obtain market information, except for participation to trade fairs.	Establishment and development of the system to entertain foreign buyers who contact other than trade fairs.	Establishment of database of potential manufacturers, and receiving and arranging the inquiry to the potential suppliers.	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions.
	Need for intensified market cultivation. No adequate actions against the competition with China.	Intensive and comprehensive study of prospective markets with establishing target.	Development of system to support the food processing industry focusing on collection of market information, and technical information, with establishing the "Processed Food Industry Advisor Center".	Development of market information database will be also useful.

Key issues for development		Required measures	Possible actions	Discussions
	Need for meeting the internationally recognized technical regulations as a food processor.	Collection and dissemination of technical regulations and standards applicable to food processing industry, internationally.	Development of comprehensive guidance system for food processing industry with establishing the "Food Processing Industry Advisor Center".	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions.
			Establishment of standard training program for employees in food processing industry, with establishing the "Food Processing Industry Advisor Center".	
			Loan program to encourage investment on small scale facilities for factory sanitation.	See recommendations on improvement of accessibility of SMEs to financing.
		Establishment of testing facilities, which cater for the basic testing requirement, at the major accumulation areas of food processing industry.	Receiving contract testing of food at branch offices of the "Food Processing Industry Advisor Center", while developing the testing network using existing testing facilities of various organizations.	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions. For further advise, introduce to FDC, FDA, and PRDCP, etc., depending on the agenda. The project of PRDCP on "Toll Packaging Center" is still in planning stage.
			Ensuring of infrastructure essential for food processing industry including waste material treatment, and safety of water to be used for processing.		Construction of small scale industrial estates specialized for Food Processing Industry.
	Weak cost competitiveness.	Production cost reduction by decreasing the loss and damages caused in the process of raw material transport and storage.	Intensive and comprehensive packaging improvement support program with enhancement of consulting capacity of PRDCP.	Urgently needed. Prompt implementation desirable.

Key issues for development		Required measures	Possible actions	Discussions
		Encourage modernization of facilities.	Loan program for those who plan to modernize their facilities.	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions. For further advise, introduce to FDC, FDA, and PRDCP, etc., depending on the agenda. The project of PRDCP on "Toll Packaging Center" is still in planning stage.
			Collection and dissemination of information on the advanced food processing machineries and equipments by the "Food Processing Industry Advisor Center".	
		Acquisition of productivity improvement method, and production management	Establishment of management training courses of middle and higher levels.	
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facility	Encourage modernization of facilities with development of financing scheme to support it	Loan program for those who plan to modernize their facilities.	Installment buying is already practiced for procurement of machineries from dealers. Rental system is hard to apply for equipment which are not so popular.
			Development of installment buying system to encourage facility modernization	
			Development of rental system of small equipment commonly used for improvement of food processing process.	
			Consulting services through SME management and financial advisor system.	
	Limited loan availability to prospective exporters and leading manufacturers, resulting in limitation of supply capacity even with expansion potentiality.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Reexamination of the loan appraisal system, which insists on collateral.		

Key issues for development		Required measures	Possible actions	Discussions
		Development of direct financing available for prospective SMEs.		
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision, resulting in bottleneck of their business development.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Re-examination of the loan appraisal system, which insists on collateral.	Consulting services through SME management and financial advisor system. Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirement of customers due to lack of knowledge and experiences in advanced management techniques including productivity management, production management, etc.	Improvement of training courses for SME management.	Establishment of management training courses of middle and higher levels.	Management guidance, consultation windows, and trained counselors are necessary.
			Consulting services through SME management and financial advisor system.	
	Need to understand the technical regulations related to sanitation, food additives, labeling, etc.		Development of comprehensive guidance system for food processing industry with establishing the "Food Processing Industry Advisor Center".	There is a need to establish a consultation window of professional advise having knowledge of the industry and markets, together with the regional development of the consultation windows for SMEs to contact in regions. For further advise, introduce to FDC, FDA, and PRDCP, etc., depending on the agenda. The project of PRDCP on "Toll Packaging Center" is still in planning stage.

Supporting Industries of Automotive and Electronics Industries

Key issues for development		Required measures	Possible actions	Discussions
Enhancement of Marketing, Product Development, and production technologies	Lack of information on the potential customers	Intensive publicity work through undertaking of reverse trade fair	Intensive and comprehensive support for the participants of the reverse trade fair, establishing "Supporting Industry Adviser Center"	Participants of Reverse Trade Fairs have not necessarily understood the objective of the fair. Reverse trade fairs are not effective for promotion of linkage with the leading industries.
	Information of potential suppliers is not available to the potential customers	Establishment of database of potential suppliers with their business features	Establishment of database of potential suppliers. Receiving and arranging system of the inquiry on the potential suppliers.	Databases are planned in various agencies and organizations. The concept is not unified among them. The data entered in the existing database are mostly that of micro enterprises.
	Difficulty to meet the customers' request in production management and quality management	Enterprise diagnosis for those companies which wish to be suppliers to automotive and electronics manufacturers	Company diagnosis program focusing on production management and quality management	Quite a few number of assistance program has been conducted in the past. The key is how the leading industries can increase parts procurement locally.
	Difficulty to meet the customers' request in precision of product technology	Introduction and arrangement of technical assistance contract with company with appropriate technical know-how.	Help potential supplier to receive technical assistance from those that have appropriate technical know-how.	

Key issues for development		Required measures	Possible actions	Discussions
	Technician training system is not working satisfactory level (too much basic courses, and not applicable directly to the actual production process)	Technician training facilities which have machine and equipment to meet the market requirement	<p>With establishing the "Supporting Industry Advisor Center, develop standard curriculum which offer production management and production technology focusing on factory supervisors.</p> <p>Implementation of the pilot training courses using the standard curriculum at MIRDC and TESDA, while improving them to fit to the Philippine situation.</p> <p>Dissemination of the curriculum to technical collages and other training organizations.</p> <p>Organization of the technical committee to improve and update the standard curriculum.</p>	
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facility	Encourage modernization of facilities with development of financing scheme to support it	Loan program for those who plan to modernize their facilities with intention to supply parts to automotive or electronics industries.	
			Development of installment buying system to encourage facility modernization	
		Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Re-examination of the loan appraisal system, which insists on collateral.	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	

Key issues for development		Required measures	Possible actions	Discussions
		Development of direct financing available for prospective SMEs.		
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision, resulting in bottleneck of their business development.	Improvement/streamline of the loan application and appraisal procedure at the Government financing institutes. Reexamination of the loan appraisal system, which insists collateral.	Consulting services through SME management and financial advisor system. Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives.	
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirement of customers due to lack of knowledge and experiences in advanced management techniques including productivity management, production management, etc.	Improvement of training courses for SME management.	Establishment of management training courses of middle and higher levels. Company diagnosis program focusing on production management and quality management with establishment of "supporting Industry Advisory Center".	Despite the fact that there are some organizations which have long history of dissemination activities, the production management is not popular among SMEs. The consultation windows having professional knowledge and experience is necessary.

Strategy 1: Support Local Resource-Based Industries for Enhancement of Their International Competitiveness and Market Development

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Design workshop	<ul style="list-style-type: none"> Is already being done by PDDCP, the design workshop is part of the SME Caravan. Need Strengthening 	<ul style="list-style-type: none"> Funding (JICA) Availability of Experts (local and foreign) Consultations among SMEs, Scientists and designers Support of management (Secretary) Should be market driven Enhance creativity of Filipinos Better Info dissemination Commitment of SMEs (SMEs think as product design as an expense not investment) 	<ul style="list-style-type: none"> More commercially applicable designs Fee Based (Partly subsidized by government) Market Driven Involve LGUs, schools, Associations JICA Funded workshops on provinces Make it industry based (Geographical) Revival/Scholarship of local designers Advocacy of Available Programs 	<ul style="list-style-type: none"> Cooperation and continuous dialogue with clusters, business Associations. LGUs and JICA Put SME Provincial centers in place More design experts DTI should identify SMEs ready for design workshops 	<ul style="list-style-type: none"> Venue for workshop (BSP) Empowering of Associations Information on current trends Discussions with clusters, DTI and PCCI to develop Design Programs
Market intelligence support	<ul style="list-style-type: none"> Doable, urgently needed and should be aggressively enhanced 	<ul style="list-style-type: none"> Funding Political Will Participation of Industry Associations Fast Access to domestic/foreign data 	<ul style="list-style-type: none"> Fee Based Hire Market Specialists Subsidized participation to international trade fairs and missions for SMEs Internet Better Info sharing/networking among LGUs, Associations and Agencies Tap Commercial / Government (DTI, DA, DOLE, DOF, DFA) attaches and banks with branches abroad Encourage OFWs as CIAs Studies on SME regulatory framework of Competitor countries 	<ul style="list-style-type: none"> Support of LGUs Organized trade missions Leadership and cooperation of Ambassadors Subsidy by government 	<ul style="list-style-type: none"> Teamwork with DTI Commercial Attache Missions and trade fairs can be organized by PCCI Database Tap PCCI Foreign Business Councils

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Packaging technology development	<ul style="list-style-type: none"> ▪ Much needed/ Necessary 	<ul style="list-style-type: none"> ▪ Fund Support for Center ▪ Emphasis on environment friendly technology ▪ Update testing equipment ▪ Decentralization ▪ Affordability ▪ Availability of Packaging materials ▪ Access to technology ▪ Strengthened Assistance by DOST ▪ More Consultants ▪ Experts knowledge 	<ul style="list-style-type: none"> ▪ An efficient recycling program for packaging materials ▪ Repository of available packaging Technology ▪ Duty Free Importation of Packaging Materials ▪ Adequate awareness/promotion center ▪ Reasonable/affordable fees ▪ Easier access to technology ▪ Bulk buying of standard container/ packaging materials ▪ Involvement/cooperation partnership of large corporations ▪ Cluster based support ▪ Implementation with industry association 	<ul style="list-style-type: none"> ▪ LGU participation in putting up local centers ▪ Need to assess market demand for packaging ▪ Directory on manufacturers for packaging services ▪ Dissemination of Packaging technology ▪ Compliance with government requirements ▪ Consciousness of importance/value of packaging for effective marketing ▪ Continuous R&D training ▪ Promotion of services of Phil Packaging Research and Dev Inst. ▪ Include packaging in design workshops ▪ Regular dispatch of foreign experts to transfer technology ▪ Coordination between DOST and concerned agencies dealing with SMEs ▪ Briefing tour on BCs on services of Packaging Centers and how SME Clients can benefit 	<ul style="list-style-type: none"> ▪ PCCI is assisting DOST in Improving Packaging ▪ Toll Packaging Centers ▪ Partner/Promote observation/in plant ▪ DTI/SMEDC can help info dissemination of packaging initiatives

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Business seeds identification & development	<ul style="list-style-type: none"> ▪ Much needed ▪ Yes 	<ul style="list-style-type: none"> ▪ Who will do the Biz Identification? ▪ SME Awareness of the BIZ SEED Program ▪ Need venture Capitalists “angel financiers” like Henry Sy, Lucio Tan ▪ Incentives and support services for new business ideas ▪ Create funds to support the commercialization new business ideas ▪ Access to data base of other countries needed ▪ Cooperation among private sector, LGU and national government 	<ul style="list-style-type: none"> ▪ Exposure/market intelligence ▪ Improve the Business environment ▪ Research must be market driven ▪ Establish linkages with international govt SME Agencies to source data on needs of foreign SMEs ▪ Business Plan ▪ Preparation of utility models ▪ Waves of Seminars to promote awareness of significant researches that can be transacted into business projects ▪ Search for viable business in coordination with academe, industry ▪ More affordable/efficient IP System. 	<ul style="list-style-type: none"> ▪ Market ▪ Revive Programs which give awards and incentives to new business ideas among students/schools like BIDA ▪ Regular Publication of Business Opportunities ▪ Support Program (Financing/consulting) for new business ideas ▪ Commercial Translation of Biz Ideas ▪ Funding for Biz ideas of indigenous Filipinos (Muslims, Igorots) ▪ More incubation Centers ▪ Active Relationship with Intl SME Assns for sharing of info on Biz Opportunities ▪ Collaboration of Scientists and inventors to commercialize ideas (TAPI) 	<ul style="list-style-type: none"> ▪ Biz Consultancy Services ▪ PCCI can offer network of market and raw materials ▪ Database of SME Support Network

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Dissemination of prod. mgnt. for local resource-based industries	Much needed	<p>Need Awareness</p> <p>Funding</p> <p>More experts/consultancy</p> <p>Initiatives of line agencies ie. ISTIV</p> <p>Productivity should be expanded</p> <p>Integrated Plant Survey/Study (IPS/IPE)</p> <p>Productivity based education of SMEs</p> <p>Top management support to establish/adopt/productivity tools/program in the company</p> <p>Inventory of other govt production programs</p> <p>Dissemination of update</p>	<p>Conduct In-plant Consultancies</p> <p>Conduct of Small Biz Consultancy Course</p> <p>Awards/Incentives for SME Q and P Practitioners</p> <p>Devt of Policy makers and consultants to be development oriented</p> <p>Awareness of Similar Programs in various agencies/inventory</p> <p>Expand ISTIV Program in coop with private sector</p>	<p>Documentation and dissemination of info on Best Practices</p> <p>Re/Activate RPCs role in promoting Best Practices/SME Centers</p> <p>SME Center/RPCs to link/network/Partner</p> <p>Focus on SME Direct immediate needs</p> <p>Need to identify Practitioners/Promoters</p> <p>Collaboration with PCP,CIC, PQPM</p> <p>Need to develop a comprehensive Q and P Programs for SMEs</p> <p>Coordinate with the production Management Association of the Phils</p> <p>Use of IT for info dissemination</p> <p>Capture "Key" Group and link with SME Centers</p> <p>Delineation of functions among government agencies</p> <p>Develop graduated curriculum of Pod Man.</p>	<p>Directory/Database of productivity experts by sector and all government private production Programs</p>

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Furniture Industry Support Center	<ul style="list-style-type: none"> ▪ Much Needed 	<ul style="list-style-type: none"> ▪ Funding ▪ Exposition Hall ▪ Needs over-all reorganization ▪ Acceptance of sector concerned ▪ Presence and availability of Experts ▪ Timely/Accurate repository of info on furniture etc. GTA ▪ Info Sharing active among/with industry centers in real time ▪ Willingness of SMEs 	<ul style="list-style-type: none"> ▪ Strengthen existing structures (CITC, PDDCP, FPRDI, FDC, SME Centers) ▪ JICA can again author brochure data on furniture and EGMs for dissemination by agencies ▪ Training for people who will man the center ▪ Promote awareness of the services offered by center ▪ Even without enabling law-use existing facilities in SME Centers by building up data on furniture and EGM ▪ Practice of E-commerce for the sector 	<ul style="list-style-type: none"> ▪ R and D ▪ Timely and accurate info ▪ Clear traffic of information ▪ Need an enabling law to operationalize concept ▪ Hardware and software for e-commerce 	

Strategy 2: Promote Industrial Linkages Between Leading Industries in the Philippines and Local SMEs in the Supporting Industries

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Buyer-Supplier Database	Yes Being done by auto industry in ASEAN But must assess need to consolidate if several are already existing	Regular updating of the database Data reqts. Useful to all users agreed by all users Sufficient logistics Database must be accessible to all (internet based) Work as E-marketplace Adequate communication Methods, technology. Agency cooperation Institutionalized updating/maintenance Accurate info. Focused on sectors being served. There shld. Be coordination among agencies. There must be unselfish exchange of data. Estb.effective networking. Internet update and access. Cooperation of associations. Coop. Of existing Dbowner managers. Internet submission. Assign a pt. Org. to lead/govern the harmonization of existing databases. Networking all existing databases. Should get the cooperation of the LGUs (municipal level) & industry associations.	Should be managed by one body; in charge of monitoring linkages, inquiries and impact. Upgrading of communication technology. Equal focus on technical information (license, standards, etc.) Suggested measure: include market intelligence to S.I. esp. auto parts mfrs./electronics. Follow similar international databases. Monitor matches (buyer-supplier) if successful. Survey/assess existing trade directories/databases as starting point. Improve or consolidate rather than start all over. Appoint single agency to gather data both local and international. Allow access for that agency to be able to gather data. Assign region heads to send data. Strong LGU/industry support.	DTI - Funding for the survey/profiling. DOLE- Info. Sharing of supply data. BOI - Link/hyperlink with existing database/Buyer supplier project in ASEAN. INFOMAPP- Follow up data from that org. IEEE- Assistance from SEIPI (semi-conductors) DOST- Put up incentives to share data. SBC- Knowledge sharing.	INFOMAPP-Disseminate buyer-supplier of products. DTI- Info. Dissemination to industries in the region. DTI-Existing database: BETP-trade line BDT-resource mapping CITEM- trade inquiries BOI – inquiries DOLE - Use info. To prioritize/align program. DOST- Use of Preginet (broadband network) on cost-sharing scheme. IEEE, EIAP -Will disseminate the program & availability of the database to other associations in the electronics industry.

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Parts and service procurement seminar	Doable May implicate MNCs supplier programs. Question is seminars best approach?	How can we ask manufacturers to open up & increase local content. Willingness of large companies to partner with and develop small suppliers. Willingness to SMEs to upgrade to global standards. Accreditation of suppliers. Willingness of MNCs to accommodate requests. Needs for regularity/maintenance/institutionalization Of efforts Technology Upgrade Awareness Needs cooperation from buyers for their immediate requirements Should get cooperation from key industry players for the reverse trade fair Coverage (MNC participation) No. of SME-MNC linkages quality Technology level of the suppliers to meet customers' needs.	Assist SMEs to negotiate with MNCs. * Identify existing suppliers programs of MNCs, categorize seminars- 1 st tier/2 nd tier/RMS. * Marketing/promotion of the project. Availability of support-industry directory. * Access to advanced technology center to upgrade to global standards. Continuing dialogue among key players. Info should go beyond info exchange and extend to actual matching of buyer and provider. Incentives to mftrs. To train SMEs and increase local purchase. Industry center to identify market areas. Give incentives to buyers if they place their orders through this procedure. Clarify policies a part of foreign investment promotion efforts of BOI Come up with an integrated approach in developing/ assisting both sellers & buyers Combine/collapse measures 7&8	DTI - List of requirements of Big buyers –DTI EIAP - DTI needs more participants from industry & private sector in these sessions. DOST- Need to assess technological content of foreign investors to redound to local/SMEs. Cooperation of gov't. agencies/depts. in convincing manufacturers to open up under coordination by SMEDA. INFOMAPP- BOI-DTI-DOF cooperation.	DOLE- supplement system with manpower requirements matching if necessary. DOST's five councils have capacity to make technical assessment in collaboration with BOI.

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
Comprehensive support for potential SME suppliers of parts & services	Doable	<p>Must include assistance in understanding /meeting global quality standards, acquiring ISO certification.</p> <p>Determine the viability of the business venture being endorsed.</p> <p>Accreditation program for both suppliers and buyers.</p> <p>Intensive trainers' training-knowledge of loan facilities.</p> <p>Involvement of key industry associations.</p> <p>Capability of SMEDA to harness technical resources of other agencies.</p>	<p>Advanced Technology Center should be considered as a priority xxx to bring up technical capability.</p> <p>Strengthen existing agencies/resources.</p> <p>Regular collection & analysis of SME statistics.</p> <p>Follow up companies who availed of services. Strict implementation of what has been determined needed by company.</p> <p>Include provisions on awarding of incentives to successful buyer-seller partnership.</p> <p>Better technical capability of SMEs.</p> <p>Enable SMEDA to become facilitator/orchestrator and veer away from providing support services already available from both public/private institution.</p>	<p>INFOMAPP Estb. Of criteria for qualifications of no-collateral loans.</p> <p>SBC- Recommendations/endorsement of qualified loan applicants.</p> <p>DOST- Define clearly areas of cooperation as well as barriers/obstacles to cooperation.</p>	<p>DTI – Inventory of suppliers.</p> <p>Managerial trainings; expertise in installation of QMS, ISO, etc.</p> <p>SB- Liberal guidelines re loan application.</p> <p>SBC- Loans to qualified applicants.</p> <p>DOST – Willing to define institutional arrangements for initial priority sectors.</p>

Strategy 3 Facilitate Support for Diversified Needs of SMEs in the Local Markets with Nurturing of SME Counselors and SME Advisers

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
SME Support Network	Do-able	<p>Proper staffing/facilities for the SME desks & centers.</p> <p>Minimize overlapping of activities & functions.</p> <p>Advisers must be technologically aware/trained.</p> <p>Identify starting point & target in terms of SME statistics to determine growth of SME support network.</p> <p>Adequate funding to implement high impact projects.</p> <p>Funds for setting up the regional SME centers.</p> <p>In-depth training/coaching/mentoring for SME counselors.</p> <p>Provision of equipment.</p> <p>Organizational flexibility for SME to address changing conditions.</p> <p>Cost-recovery scheme for services rendered.</p>	<p>Active support from private sector & LGUs.</p> <p>Function of SMEDRC should be well-defined not duplicating agencies' services instead provide support to existing set-up.</p> <p>Look at a self-sustaining SMC support network.</p> <p>Centers must be private sector run to ensure sustainability of project.</p> <p>Additional SME counselors.</p> <p>May be no need to set up centers/desks in all provinces/cities immediately. Selected sites initially.</p> <p>Operational structure/guidelines must be included in the plan.</p> <p>Give free consultation if company is still struggling.</p> <p>If consultation is a continuing process, there must be a "fee" agreed by both parties.</p> <p>Close coordination among strategic partners.</p> <p>Adopt free charging/cost-recovery schemes.</p>	<p>DOST – Define clearly institutional arrangement at SMEDRC level.</p> <p>INFOMAPP – Full support & acknowledgment by the gov't. in its projects.</p> <p>A mechanism for coordination of activities; harmonization of policies.</p> <p>SBC - Feedback/information re financial assistance needed.</p> <p>EIAPI - Cooperation from other govt. offices, depts., etc. so that SME network can orchestrate.</p> <p>INFOMAPP- There must be networking among training centers & financing establishments.</p> <p>DTI – Policy guidelines in operating SMEDCs (regl & provl.)</p> <p>BSMED - Support in terms of funds from LGUs.</p>	<p>SBC – Loan consultancy/assistance</p> <p>DOST – All technology resources at regional levels.</p>

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
SME Counselors and Advisers	Doable	<p>Continuous upgrading of counselors/advisers capabilities thru training.</p> <p>Appropriate services provided to the needs of the SMEs.</p> <p>No. of effective trainers/counselors.</p> <p>Well-trained counselors.</p> <p>Establish qualification standard for counselors.</p> <p>Number & distribution of Trained counselors</p>	<p>Accreditation of business counselors.</p> <p>Area of expertise must include quality mgt.</p> <p>Make use of existing resources like ACTETSME</p> <p>Tap volunteer business counselors to Augment services of SME Counselors</p>	<p>Relevant Training Programs</p> <p>DOST- coordination with public and private institution.</p>	<p>SBC – SME Counselors’ training on financial loan application/ management</p> <p>DOST – will make available training and some training resources.</p>

Strategy 4: Develop SME Financing Programs, Not Dependent on Collateral, Centering on SBC as Policy Execution Body of SME Financing

Measures	Is this do-able	Critical Success Factors	Suggestions to Improve Implementation	Cooperation/Collaboration	
				Needed from other agencies	Can offer to other agencies
SME support network	Yes	<p>Funds</p> <p>Well rounded training of counselors/advisors</p> <p>Highly capable SME Counselors/advisors</p> <p>Full time Counseling</p> <p>Technology based</p> <p>Let's tap volunteers who can serve as consultants (ex. Partners of SGV, etc)</p> <p>Promotion of SME Centers</p> <p>Mobilize operators of SME Centers – Private and government sector reps activated</p> <p>Availability of support facilities for SME Counselors (Computers, Libraries, Training)</p> <p>Strengthen support network in rural areas</p>	<p>Revive successful aspects of SBAC</p> <p>Regular Training SBAC</p> <p>Promote APEC TRACE Program</p> <p>Updated Information on trends, technology, financing, training programs</p> <p>Accreditation system for SME Counselors</p> <p>Get LGU Cooperation</p> <p>Adapt Shindan training ASAP</p>	<p>Collaboration between Private, government and academe</p> <p>Prioritize Regional Applications of Support Program</p> <p>Exposure of SME Counselors to Services of Research and Development Institutions and Industry Development Centers</p>	<p>PCCI-ECOP Phil Export Network</p> <p>UPISSI to provide-venue/training/Expertise</p> <p>Delivery of training program through Distance Mode</p> <p>Training on framework of SME Registrations</p> <p>Technology updates.</p>

III Recommendation on SME Development Plan

Chapter 3 Details of Proposed Actions and Recommendations

Chapter 3 Details of Proposed Actions and Recommendations

Program 1: Industrial Design Workshop (Product Development Workshop)

Reference No. 1:

Industrial design workshops (or product development workshops) inviting designers (or product development experts) having competent knowledge on trends in target markets

1. Objective and Project Outline

The project recommends implementation of design workshops (or, product development workshops), which analyze the trends of target markets or consumers and develop products/commodities on the basis of the analysis, as a preliminary step towards domestic and international trade fairs.

- As a measure to enhance the support for exhibitors of national/ international trade fairs.
- Design workshops are not the workshops to teach the method of design, or give instruction for better designs.
- The design workshop presumes analysis of the trend of target markets and consumers, as the basis to develop product designs. Therefore, the workshop is useful for the participants to understand the methods to analyze trends of markets and consumers, and product development reflecting the trends. The product development process also includes the process to examine the technical requirements from the production stand points.
- Inviting foreign designers/product development experts, who have competent knowledge and experiences in the target markets, for evaluation of the Philippine products, is essential.

The concept of design workshops inviting foreign designers from the target markets, are not necessarily the new concept. The similar workshops were held in the past by PDDCP, but they were discontinued due to lack of funds to operate.

Strategic goal

- To secure and expand the market for the local resource-based industry in order to ensure stability and growth of operation.

Project target

- To improve the ability to develop creative products that meet the niche needs in the local resource-based industry, on the basis of market analysis.

Expected benefits

- Increase in export sales for workshop participants

- Dissemination of knowledge on the need for creative product development based on market analysis to workshop participants and related parties

2. Proposed Responsible Agencies/Organizations

- PDDCP (under the current system)

Under the proposed system:

- Furniture & Export General Merchandise Industry Support Center
- Processed Food Industry Support Center
- SMED Regional Centers

Supporting agencies/organizations

- PHILEXPORT, PHILFOODEX
- Industrial associations
- Buyers associations, associations of department stores, etc.

3. Background, Rationale and Discussions

The US market is the major export market for the Philippine products of such local resource-based industries as furniture and export general merchandise, etc. The share of the Philippine products in the US market, however, is not large for all of these products. Penetration to the markets other than US is the future challenge to the Philippine products, since the shares in these markets are still insignificant.

In the case of processed food exports, the products targeting overseas Pilipino, are the main product line. Actually, the overseas Pilipino account for more than 8 million, forming a huge market. The export competition with the products from Thailand and Vietnam, in this particular market has become fierce in these days. The efforts to expand the target consumers to those other than the Pilipino is getting indispensable.

Thus, for the successful export of Philippine products, further efforts to penetrate into new markets and customers are needed.

The trade fairs both at the domestic and international scenes have been the major and almost only one marketing activity of SMEs, which do not have market intelligence capacity, and marketing organization of their own. The majority of participants highly appreciated the effectiveness of the support for exhibitors, which has been extended to them by the Government.

The products which the exhibitors have brought in, have been limited to those products, which buyers have shown interest. So far almost no survey on demand size and competing status has been carried out at sufficient level to determine the products to be exhibited. Products developed on the basis of the results of such survey and analysis, once it is undertaken, will be more effective for the exhibition.

Design workshop is a quite effective tool for the exhibitors to understand the method to analyze the potential markets and customers, and the methods of product development including technological consideration.

Features/key factors for successful implementation

Fees

The concept of design workshop inviting foreign designers is not new to the Philippines. The similar workshops were held by PDDCP, but these were discontinued due to termination of foreign fund assistance. The sustainability is one of the important factors for continued implementation of the workshops.

- The plan and management of workshops are recommended to be contracted out to private companies, academes, or technical institutions, which has the management capacity of this kind of events. The function of the government agencies should be limited to plan the basic design of the workshops, indicating minimum requirements. The workshop should be held on a fee basis basically, while the Government provides subsidy to SMEs on application. The workshops should be held as a part of major international trade fairs, with a part of costs and expenses of the workshops being burden by the revenue from advertisement at the trade fairs.
- Either the foreign designer who was invited to the workshop, or local designers who cooperated with the participants in creating designs, should be paid design fees, when the design is successfully commercialized. With this, the costs for inviting designer may be reduced.

Invitation of foreign designers

Invitation of foreign designers who are familiar with the target market is essential. In case of use of local designers, designers not only of PDDCP, but also those who are active either in domestic or international scene is also important.

4. Project Description

(1) Project description

The project is to organize design workshops, setting development targets of particular commodities or markets periodically, inviting capable designers from the target markets, with participation of in-house designers or those who are in charge of product development, of the relevant enterprises, and local designers active in the relevant fields.

The workshop requires the participation of a number of designers, who can propose draft designs at the workshop. Therefore, encouraging the participation of local designers, including students of design courses, is essential. The in-advance contract between the participated SMEs and the designers on the fee for the designs, when the design is successfully commercialized, could be one of the solutions.

Main process of the workshop includes the following:

1. Analysis of the market trends, and setting of the marketing concept
 - Analysis of the market trends of products successful in the target market
 - Setting of concept on use and consumers' scene
2. Design development
 - Idea development
 - Rough sketch and verification
3. Technical review of the design
4. Selection and finalization of the design
5. Evaluation of the design

The marketing of the products developed in the Workshop and decided to be commercialized, will be supported for exhibition at trade fairs.

(2) Required time period for preparation

1.5 years from the approval of the program to implementation at the first time of implementation. However, it may be implemented periodically, once the implementation mechanism is established.

(3) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-1. The workshop is assumed to be held twice per year, with each workshop to be held in two locations (totaling four workshops per year. 5 companies will attend at each workshop, totaling 20 companies for 4 workshops).

The cost for hiring foreign designers accounts for the largest portion of the program cost, amounting to approximately \$128,000¹. The total disbursement, except for the hiring of foreign designers and the labor cost for DTI staff (preparation and implementation), will reach \$45,800 per year.

On the other hand, the economic benefit of the workshop can be calculated, assuming that 20 companies participating in the workshop are able to boost annual sales by 5% each², as follows:

- Total increase in sales (export): \$350,000 per year³
- Total value added: \$140,000 per year⁴

¹ No contingency cost is allowed. (The same principle applies to the rest of the calculation process.)

² Each company is assumed to achieve annual sales of \$350,000 (P17.5 million) and valued added of \$140,000 (P7 million), and to hire 50 employees. (These assumptions will be applied to all other projects and local resource-based SMEs, such as furniture, export merchandise, and processed food.)

³ Note that the foreign currency to be spent for imports of materials for production should be taken into account when assessing the effect on foreign currency earning.

⁴ To calculate the cost/benefit ratio, materials costs for production and depreciation of production facilities and equipment should be added to the total project cost.

- Job creation: 50 employees per year (5% growth assumed)

As these benefits are directly produced from the workshop in a single year when it is held, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be included as the total benefit that would represent a significant economic effect.

Table III-3-1 Estimate of Required Inputs for Implementation (#1)

Project No. 1: Industrial Design Workshop (Product Development Workshop)

Item	Required Inputs			Remarks	
	<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)		
Manpower	1) Foreign designer	2.00	2	75,600	@37,800/person (Remuneration 13,500/MM x 2 MM; Transportation 3,000; Accommodation & per diem 140/day x 56 days) @700/MM @200/MM. 2 for each group. Staff of DTI. @450
	2) Local manpower				
	Local designers/ instructors	1.20	4	3,400	
	Design students	1.20	40	9,600	
	Coordinator	3.50	4	6,300	
	Local manpower total			19,300	
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	1) Venue			0	Use of venue under DTI (eg. PTTC)
	2) Materials			8,000	@2,000/workshop x 4 workshops (Sketching tools and supplies, and costs for proto-type development).
	3) Miscellaneous			21,200	@5,300/wprkshop (Meals for participants (@6.5x26x18days), computer rentals (@350x5), other expenses (500))
	4) Preparation			3,600	@900/workshop (Communication etc. (200), advertisement (500), others (200))

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

- Total period required: 1.5 months including 18 days for workshop, and 2 weeks for prototype development.
(10days WS - 2 weeks for prototype development - 8 days WS)
- Participants: 5 Groups/workshop
- 2 workshops every year, with one each to be repeated in other locations (total 4 workshops/year).
- Costs for foreign designer is not included since the foreign designer is assumed to be invited with foreign donor assistance.

Program 2: Design Competition

Reference No. 2:

Design competition of local and foreign designers

1. Objective and Project Outline

Industrial, interior and craft-design competition of local and international designers on furniture, toys, stationeries, gift items, tableware, interior accessories, etc.

Main objectives are:

1. To get suggestions on designs of high potential for commercialization in the field of furniture and export general merchandises
2. To give opportunity to local designers to commercialize their designs
3. To give opportunity to local designers to impress with their designs at the international scene

The Competition will be held annually with the awarding ceremony being in time with the major international trade fairs such as Cebu X and Manila FAME, to expose the results to foreign buyers participating to the fairs for their evaluation.

Strategic goal

- To nurture and encourage use of designers who work in the local resource-based industry

Project target

- To hold design competitions on a permanent basis by increasing the number of participants (both local and foreign designers).

Expected benefits

- To upgrade local design skills for local resource-based products.
- To promote product design contracts awarded to local designers by manufacturers in the local resource-based industry.
- To increase exports due to commercialization of product designs presented at the competition.

2. Proposed Responsible Agencies/Organizations

- PDDCP (under the current system)

Under the proposed system:

- Furniture & Export General Merchandise Industry Support Center
- Processed Food Industry Support Center
- SMED Regional Centers

Supporting agencies/organizations

- PHILEXPORT, PHILFOODEX
- Industrial associations
- Buyers associations, associations of department stores, etc.

3. Background, Rationale and Discussions

Filipino designers are quite popular in all the commodity areas in the US markets, which is the biggest market in the world. Some Chinese firms have contracted the Filipino designers because of this, but very few Philippine firms use the Filipino designers.

Design competition has been held locally in the Philippines by such industrial associations as furniture and jewelry. These design competitions, however, are generally small in scale and among those designers of limited coverage. They are not popular at the national or international scenes. The design competition proposed here, is different from those seen in the past locally. Its emphasis is on the product development for international markets, and enlightening of local designers at the international level of designs.

4. Project Description

(1) Project description

An examples of design competition is shown as follows:

- 1) Theme: Industrial, interior and craft-design competition on furniture, toys, stationeries, gift items, tableware, interior accessories, etc. Annual sub-theme will be set for the competition according to the topics at that time, such as "Coloring of day-to-day life", etc.
- 2) Qualification of applicants: none. Advertising for the entry will be made through the relevant industrial associations and designers' associations in the Philippines, and through relevant designers' associations abroad.
- 3) Members of selection committee: to be nominated from the relevant industrial associations, designers' associations together with the representative of PDDCP.
- 4) Prizes: to be sponsored by the relevant industrial associations, buyers associations, and big firms. The sponsors may have the priority to negotiate with the awarded designers to commercialize the design. They can advertise their products and services on the advertising documents for the entry.

(2) Required time period for preparation

Implementation procedure: It will take almost 5 months from the start of entry advertisement until closing of entry, 1.5 months form closing entry to submission of designs, 1 week from submission of designs to exhibition of the designs brought in and selection for the award. The preparation will take 1.5 years before starting of entry advertisement for approval of the project proposal, budget approval and allocation, invitation of the sponsors,

and advance advertisement. The required time can be reduced to 3 months in and after the second year.

(3) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-2. It is assumed that the design competition is held once per year and two foreign designers receive the prize and are invited to the awarding ceremony. The total project cost, including the hiring of jury and the prize awarded to winners (including their traveling and accommodation expenses), is estimated at around \$35,000.

On the other hand, the economic benefit of the design competition is calculated on the basis of the assumption that 4 companies commercialize product designs presented at the competition each year and boost annual sales by 10% each, as follows:

- Total increase in sales (or export): \$140,000 per year
- Total value added: \$56,000 per year
- Job creation: 10 employees per year (5% growth in each company is assumed)

As these benefits are directly produced from the competition in a single year when it is held, additional benefits from exports of the same product in subsequent years and indirect effects (dissemination to other companies and industries) should be included as the total benefit that would represent a significant economic effect.

(4) Others

The marketing of the products developed in the Workshop and decided to be commercialized, will be supported for exhibition at trade fairs.

Table III-3-2 Estimate of Required Inputs for Implementation (#2)

Project No. 2: Design Competition

Item	Required Inputs			Remarks
	Period (months)	Number (Persons)	Costs (US\$)	
Manpower	1) Foreign designer	2	5,000	@2,500/person incl. traveling costs and accommodation.
	2) Local manpower			
	Judges	5	3,500	@700/person
	Coordinator	3.50	2	3,200	@450. Staff of DTI.
	Total		6,700	
Equipment / facility	- None			
Building/ offices	- None			
Other major expenses	1) Venue for the ceremony		0	Use of venue under DTI (eg. PTTC)
	2) Venue for the exhibition		0	To be included in the costs of trade fairs
	3) Awards		20,000	
	4) Advertisement, communication, miscellaneous expenses		3,000	

- Notes:
1. Costs and expenses in US dollars in rounded figure without contingency.
 2. A part of costs and expenses may be compensated with the revenue from advertisement.

Assumptions

- To be held once a year.

Program 3: Business seeds identification and development

Reference No. 3:

Support for identification and development of business seeds and new usage of new/existing materials

1. Objective and Project Outline

The Project is intended to develop a mechanism to support development and commercialization process of various business seeds of SMEs and entrepreneurs who have business ideas, using the existing and planned supporting system. The project also give assistance to cooperatives and industrial associations, which have business seeds.

The support mechanism includes the following:

- Identification of business seeds
- Support for finding out the markets and estimating the demand
- Support for product development and feasibility study
- Support for loan application for investment and working capital

Some foreign donors or institutions have programs to assist commercialization of business seeds, including the program mechanism to introduce appropriate organizations of similar experiences. The project will assist the SMEs, cooperatives, and local industrial associations with introducing them to such organizations.

Strategic goal

- To secure and expand the market for the local resource-based industry in order to ensure stability and growth of operation.

Project target

- To provide a formal mechanism to allow entrepreneurs and corporate managers who have a business plan to gain access to consultation for commercialization or business development, followed by proper advice and support.

Expected benefits

- Increase in the number of business seeds commercialized, accompanied by sales growth

2. Proposed Responsible Agencies/Organizations

- SME Support Network (SMED Regional Centers, Industrial Support Centers, SME Centers, and SME Desks)

3. Project Description

(1) Project description

The project requires to setup an effective mechanism to process the business seeds in response to the various themes and conditions, utilizing the capacity of existing institutions.

Among the mechanism, however, the counseling by the SME Counselor at the contact windows in SME Support Network (SMED Regional Center, SME Center or SME Desk) plays first-step and critical role for successful processing.

Contents of the project are as follows:

- Step 1: Identification of business seeds
 - Consulting service at the one-stop window at SME Center, SME Desk, or SMED Regional Center by a SME Counselor
 - The Counselor introduces a SME Advisor to the customer in consultation with the staff at Industry Support Centers, or the SME Counselors/SME Advisors at the SMED Regional Centers
 - The SME Advisor contacts the customer and understands the potentials of the business seeds, contacting the technical institutions in the Philippines, and abroad
- Step 2: Support in finding out the markets and estimating the demand
- Step 3: Support for product development and feasibility study
- Step 4: Support for loan application for investment and working capital
- Tools to support the program:
 - Business Opportunity Database: Database, which accumulates the information on business seeds reported from the SME Counselors, information on potential materials for development, etc. developed with cooperation with the relevant technical institutions
 - List of contact points at the major markets abroad

(2) Key factors for effective implementation

In order to avoid the unnecessary mistakes caused by lack of knowledge and experiences of Counselors, and to support the seeds development in a systematic way, the following mechanism is recommended to be established within the SME Support Network.

- A Counselor, who contacted the SME, will record the topic brought in by the SME and his/her response in a report, regardless of his/her judgment on the importance/viability of the topic. The report is reviewed by the senior counselor, or a Counselor in the SMED Regional Center, and processed further, if necessary.
- The above report will be recorded in the Business Opportunity Database.
- Periodical review meetings will be held by SMED Agency to process the topics further, which are difficult to be handled by individual counselors.

- The business seeds, which are deemed to have high potentials, but difficult to support under a single organization, may be taken up by the Business Development Workshop (see #27) for further study and development.

CITEM has a similar program to support development of business seeds. The project is required to coordinate the program of CITEM, if the topic is found to have a potential to sell in the international markets.

Various programs of foreign donors may also be utilized not only as a source of technical and market information, but also as a scheme to commercialize the business seeds.

In such way, the SME Support Network can be utilized as an effective channel to find out and process the business seeds, unless they might remain without processing.

(3) Required time period for preparation

Prior to the start of the program, sufficient numbers of SME Counselors and Advisors must be available, and information on consultation service provided by related organizations is available to meet the needs. Based on these assumptions, a plan to establish the formal mechanism should be developed and executed.

While SMED-RC will become a core organization of the project, consultation service should start, including necessary support, as soon as it is ready, not necessarily waiting for the establishment of SMED-RC. Preparation will take around 4.5 months.

(4) Input requirements and estimated economic effects of the program implementation

As the project will be implemented as part of ordinary service provided by SME support organizations, led by the SME support network, implementation of the project will not incur any cost or expense proper to the project.

The economic benefit of the project is calculated on the basis of assumption that 10 companies commercialize their business plans each year and boost annual sales by 5% each (including exports 20%), as follows⁵:

- Total increase in sales (export): \$100,000 per year
- Total value added: \$200,000 per year
- Job creation: 40 employees per year (5% growth in each company is assumed)

As these benefits are directly produced from the project in a single year when it is implemented, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be included as the total benefit that would represent a significant economic effect.

⁵ Each company is assumed to achieve annual sales of \$1 million (P50 million) and valued added of \$400,000 (P20million), and to hire 80 employees. (These assumptions will be applied to all other projects and SMEs in general.)

Program 4: Buyer-Supplier Database

Reference No. 4:

Establishment, operation, and maintenance of a Buyer-Supplier Database that can be used as a unified database among the government agencies and technical institutions relating to SME development, to promote industrial linkages

1. Objective, and Project Outline

The Project proposes to establish a Buyer-Supplier Database to be used as a unified database among the relevant government agencies and technical institutions for the purpose of providing information useful for promoting business matching.

Strategic goal

- To secure and expand the market for the local resource-based industry in order to ensure stability and growth of operation.

Project target

- To make SME information available to prompt search.

Expected benefits

- To create and stimulate business opportunities by providing supplier information in a timely manner.

2. Background, Rationale, and Discussions

Possible cases to utilize the database may be as follows:

- 1) For business-matching service, in providing information on potential buyers to foreign buyers, who come to Philippines at times other than when a trade fair is being held.
- 2) For a supplier who receives an order which exceeds the supply capacity of the supplier, in seeking for manufacturers who can share the big-size order.
- 3) For manufacturers in a product development stage, in seeking for prototype manufacturers.
- 4) For assemblers or large scale parts suppliers, when looking for suppliers of parts and services.

At present, under DTI, two Databases are operated by BOI and CITEM separately. In addition, BSMED has prepared a business directory containing the name of member enterprises of major industrial associations, in hard copy.

The buyer-supplier matching service is one of the current National SME Agenda Key Components. However, so far no action has been taken to materialize it.

3. Proposed Responsible Agency/Organization

- A coordination committee to be organized among the organizations interested in operation of the Database with the SMED Authority (under the proposed system, or BSMED under the current system) as the secretariat

4. Project Description

Since the Database is used for information exchange among those who are interested in formulating linkages among them, there is no need to include those who have no interest in the information exchange.

- The Database is mainly used for buyers to find out potential suppliers. Therefore, it is necessary to include the enough information to give buyers about potentiality of the suppliers, in addition to the information on contact methods.
- Maintenance of the Database to update the information is essential. The users will not use the Database, once they found the information available in the Database is not updated. The enterprises entered their data should be responsible for updating of their information. Those who fail to update their information in time should be deleted from the Database to maintain the information updated.
- The information contained in the Database will be limited due to the unified database format is used. In order to supplement the information, home page of entry enterprises should be linked from the Database.

(1) Contents to be included

Following are the basic contents to be included in the Database:

- Company name
- Contact person & position
- Address, telephone number, fax, e-mail address
- Products and the features of the products
- Production facilities, machineries with feature of them if any
- Production technology used, awards received, and others features relating to the technical operation
- URL, if any for link to the home page
- Date, when the information is updated

A certain level of compatibility and expandability should be ensured in designing the database, considering the future expansion of the scope of the Database.

(2) Key factors for successful implementation

The Database to be used for the statistical purpose, if necessary, should be developed separately, since such database requires massive efforts for data maintenance and updating, which will not be applicable to the database of the present concept.

Data already entered in the databases currently in operation by BOI and CITEM, may be used as the base data in building the new Database. Following should be taken into consideration in building and operation of the proposed database.

- The Database should be designed basically for use at SME Centers and proposed SMED Regional Centers in their consultation services. The Database may be open to the public, but it should not be the main purpose. Also, it should be noted that a database itself will not create any effect. A coordination committee should be established among the government agencies and organizations, which use the database, and rules and agreements on data updating and maintenance should be established.
- The Database should include the sufficient information on the firm in question in view of the above.
- The firms which entered their information into the Database, should take responsibility in providing and updating their information. In this context, the information entered in the Databases should be limited to that of firms which showed their interest in data entry.

(3) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-3. Computers will be installed at four SMED Regional Centers and three Industrial Support Centers (two units at each location) to create access points for data search. At the same time, a software program for effective use of the database will be developed. The total cost is estimated at around \$31,000.

Direct economic benefits from the development of the database system are difficult to assess. Indirect benefits are calculated on the basis of the assumption that 20 companies increase their sales by 5% each as they use the database:

- Increase in value added: \$400,000 per year
- Job creation: Approx. 50 persons per year (3% growth in employment is assumed)

As these benefits are expected to produce in the first year of the supplier information service, additional benefits in subsequent years should be included as the total benefit that would represent a significant economic effect.

Table III-3-3 Estimate of Required Inputs for Implementation (#4)

Project No. 4: Buyer-supplier database

Item	Required Inputs			Remarks
Manpower		<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)
Equipment/ facility	- Computers	14	15,400	As a part of the ordinary operation. 2 each for 4 SMED-RCs, and 3 Industry Support Centers
Building/ offices	- None			
Other major expenses	1) Computer system development		15,000	Including initial data entry
	2) Miscellaneous		500	Expenses for Coordination Committee (20persons x 4 times)

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Program 5: Packaging Technology Development

Reference No. 5:

Dissemination of packaging technologies particularly for food industries

1. Objective, and Project Outline

This is a project to disseminate packaging technology especially to food processing industry, for which improvement of packaging is expected to be effective in the product development and market development.

The project focuses particularly on development of consulting capacity on packaging for SMEs, including development of its local contacting points. The capacity development centers on that of required facilities and staff of PRDCP at the central level, while it will be development of consulting windows of SME Support Network. The first step of the project should be the study on the needs for packaging improvement defining the type of problems SME are facing, and the demand for the services from the quantitative point of view. Dissemination activities and consulting services should be carried out at the same time using the organizations and facilities currently available.

Strategic goal

- To secure and expand the market for SMEs in the processed food industry in order to ensure stability and growth of operation.

Project target

- Upgrading of packaging technology of SMEs in the processed food industry with the following;
 - Improvement of marketability of processed food products made by local SMEs
 - Extension of markets in terms of distance, for processed food products
 - Reduction of loss of material (product) in the handling, transportation and storage processes

Expected benefits

- Establishment of consultation service points for SMEs (including first-step testing service)
 - Nurturing and securing of personnel with knowledge on packaging technology
 - Provision of first-step testing equipment at local level
- Increase in consultation service on packaging

2. Proposed Responsible Agencies/Organizations

- PRDCP jointly with Food Processing Industry Support Center (with realization of the proposed system)

- (Under the current system) PRDCP

3. Background, Rationale and Discussions

Most of SMEs in the food processing industries are not aware that improvement of packaging is expected to contribute significantly in increasing product development and market development potentials with making the shelf-life of the products longer, improving the product image of consumers. Many of them do not understand the labeling requirements. In addition, improvement of packaging can contribute to reduction 20 to 40% of loss and damages currently observed in the process of handling, transportation, and storage of materials.

Mainly PRDCP of DOST has provided the technical guidance on the packaging technology. Quite a few number of SME has visited the PRDCP even from Mindanao for consultation, in addition to those from Manila areas. Both facilities and staffs of PRDCP are not sufficient enough to meet the every need of the SMEs. In addition, there is almost no point at regional levels for SME to contact for testing and consultation.

As for the assistance provided by foreign donors, JICA has dispatched packaging experts for technical guidance to SMEs in the food processing industry. JBIC also provided a similar assistance as a part of technical assistance program to DBP. These programs were effective in promoting awareness of importance of packaging among SMEs. These were, however, the short-term programs making guidance directly to SMEs, and finished without formulating succeeding programs, since there has been no institutional setup to absorb and accumulate the experiences obtained through the programs for future guidance.

The improvement of product packaging, including improvement of packaging design, is one of the National SME Agenda Key Components, but so far no action has been taken except for some programs proper to PRDCP. There is a plan to develop Toll Packaging Centers in Visayas Region with assistance from a foreign donor. The plan, however, is not in progress at present.

4. Project Description

(1) Project description

The proposed project consists of two components:

- Needs study and system development planning
- Operation of SME support

1) Development of institutional system for dissemination of packaging technology (planning and implementation)

This is to plan and implement the institutional system development for dissemination of packaging technology, including organization, facility and equipment, and human resources,

on the basis of a survey to be conducted to identify and quantify the needs and demand for packaging improvement. The focus of needs survey should be on the following:

- Evaluation of the current packaging practice of SMEs in the Philippines from the following view points:
 1. Packaging for preservation, quality protection (longer shelf life in the case of processed foods), and increased hygienic safety of products,
 2. Packaging to reduce the damages and losses in the process of handling, transportation and storage, and
 3. Packaging design and printing technology
- Study on current situation of the following related to dissemination of packaging technology
 1. Local capacity on production technology of packaging materials and its development
 2. Possibility to import packaging materials, which are not available locally, and cost competitiveness of use of the imported packaging materials, taking into consideration of the local demand size of the packaging materials in question
 3. Industrial standards related to packaging and packaging materials
 4. Regulations related to labeling requirement of contents, ingredients, additives used and nutrients, etc.
 5. Environmental regulations and considerations related to packaging materials
 6. Available facilities, equipments, and human resources for packaging testing
 7. System available for dissemination of packaging technology
- Analysis of needs for improving packaging, focusing on SMEs
 1. Current situation of consumer industries of packaging
 2. Demand for consultation services relating to packaging improvement

Following are indispensable for the system to disseminate packaging technology, in addition to the above:

- Preparation of guidelines for packaging technology guidance, which will be used as a standard manual for counselors and advisors, based on the present situation of technological environment of packaging and local supply capability of packaging materials
 - Development of local contacting points of SMEs for consultation and guidance
 - Development of a plan to nurture the advisory staff in line with the development plan of the system for packaging technology dissemination at national and regional levels
- 2) Implementation of packaging technology dissemination using currently available resources

Considering the urgent nature of the problems, the project should start with the commencement of consulting services using the existing service facilities and consulting staff. The service should be concentrated to the packaging of food processing industries, instead of covering the wide range of packaging, to make the extension activities fruitful.

SME Center Network will be used as the contact windows of SMEs for processing their consultation to appropriate institutions, once it is established. The results of the consultation will be reflected to the above study on the needs and system development planning.

Main scope of the dissemination activities is as follows:

- Implementation of roving workshop for packaging improvement
 - A workshop composed of exhibition of good packaging practices, consultation on packaging, and packaging tests
 - The roving technical team will be organized with participation of engineers of relevant technical institutions and packaging firms, centering on PRDCP
 - The workshops will be held only at the request from local industrial associations, group of firms, etc. No workshop will be held without such request.
 - The requests will be processed through SME Centers, SMED Regional Centers, or Food Processing Industry Support Center.
- Establishment of mobile consultation windows on packaging technologies
 - The mobile consultation windows will be established at the locations where the demand for consultation service is estimated big, as a result of the above workshop.
 - The mobile consultation services will be held periodically (for example, once a month) at SME Centers, SMED Regional Centers, or Food Processing Industry Support Center (or Regional/Provincial Offices of DTI under the current system), with a roving technical team, which will consist mainly of staff of PRDCP.
 - The consultation service will be limited to consultation and guidance only, and further assistance will be provided by PRDCP.

(3) Required preparation period

It will take approximately two years until a formal system to promote and disseminate packaging technology is established, including the needs survey and the development of an implementation plan to build up the system. In light of the urgent need for dissemination of packaging technology to SMEs in the processed food industry, it is important to start dissemination activities using existing equipment and personnel (PRDCP, FDC, packaging-related companies, etc.).

(4) Input requirements and estimated economic effects of the program implementation

Cost estimation is summarized in Table III-3-4. The purchase cost for simple testing equipment and the cost relating to technical support by foreign experts (including transportation and accommodation) are estimated at around \$585,000. Notably, the costs for testing equipment, foreign experts and staffs of government authorities account for major portions, and other costs amount to around \$34,000.

Direct benefits

Direct benefits from the needs survey and the development of the plan for the technology dissemination system cannot be measured. Direct benefits from the dissemination activities are calculated on the basis of the assumption that 40 companies are able to increase their product value by 10% (e.g., while sales price is up 30%, the packaging cost increases 20%):

- Increase in value added: \$560,000 per year

Indirect benefits

The direct benefits from the dissemination activities will continue and expand year after year. Assuming that 80 companies enjoy the increase in their product value by 5%:

- Increase in value added: \$560,000 per year

Furthermore, if dissemination of packaging technology results in a 3% decrease in loss of raw materials incurred by the food industry in the transportation and storage process:

- Reduction of loss: \$3.5 million per year⁶

⁶ The processed food industry is estimated to make P260 billion (\$4,700 million) worth of products, of which raw materials account for 15%, of which 40% are subject to 25% loss.

Table III-3-4 Estimate of Required Inputs for Implementation (#5)

Project No. 5: Packaging Technology Development

Item	Required Inputs			Remarks	
	Period (months)	Number (Persons)	Costs (US\$)		
Manpower	1) Foreign	3.50	6	416,400	@69,400/person (Remuneration 13,500/MM x 3.50MM; Transportation 3,000; Accommodation & per diem 140/day x 105 days)
	2) Local				@450/MM. Including roving workshops. Staff of PRDCP and DTI.
	1. Needs study & planning	6.00	3	8,100	@450/MM. Staff of PRDCP and DTI.
	2. Mobile consultation	6.00	2	5,400	@450/MM. Staff of PRDCP and DTI.
Equipment/ facility	- Testing equipments (6 sets)			120,000	For roving workshops as a part of needs study (@20,000 x 6 sets).
Building/ offices	- None				
Other major expenses	1) Needs study and system development planning			6,400	Transportation, accommodation, per diem for local staffs, while out of Manila (@400x8timesx2persons).
	2) Roving workshops (8 locations)			9,600	Venues, meals, communications, supplies, etc. (@1,200; Costs & expenses for local staffs are included in the above)
	3) Mobile consultation windows (12 times for each of 6 locations)			18,000	Transportation, accommodation, per diem for local staffs (@250x12 times x 6 locations), while out of Manila, and miscellaneous costs and expenses.

- Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.
2. Detail of required manpower is as follows:

	Period (M/M)	Number (Person)	Costs (US\$)	
1) Needs study and system development planning (Implementation with foreign assistance)				
1. Evaluation of current packaging practice in the Philippines	3.50	2		Including M/M for roving workshops stated below.
2. Study on the current level/ availability/ capacity of factors required for packaging technology dissemination	3.50	1		
3. Survey on SMEs regarding their needs for packaging improvement	3.50	2		
4. System development planning	3.50	1		
5. Local counterparts	6.00	3	0	Staff of PRDCP and/or DTI.
2) SME support programs for packaging improvement using the currently available resources				
1. Roving workshops	0	0	0	Included in the above 1)-5.
2. Mobile consultation windows			0	Staff of PRDCP and/or DTI

Program 6: Dissemination of Production Management Method for Local-Resource based Industries

Reference No. 6:

Organize seminars, workshops, training courses and/or guidance on technical and management improvement

1. Objective, and Project Outline

The program is to disseminate the knowledge and method of production management for local-resource based industries, such as furniture, export general merchandise, and food processing industries, which are active in the international markets. The dissemination requires mixture of training methods to make it effective in addition to lectures.

Strategic goal

- To improve international competitiveness of the local resource-based industry.

Project target

- To improve quality and efficiency of management of companies in the local resource-based industry.

Expected benefits

- A significant decrease in defect through better quality control and the improvement of productivity to promote cost reduction in the flexible production (large varieties/small lot) process, as well as the compliance with delivery schedule.
- Increase in purchase order through the compliance with technical standards and the improvement of reliability on management capability.

2. Background, Rationale and Discussions

These industries in the Philippines are characterized with small volume production of diversified products, to cope with products from such countries as China, which are featured with the mass production items at cheap prices. The small volume production of diversified products, however, is the production mode of low productivity, unless it is managed properly. The low productivity may countervail the feature of niche products with big gap in the prices.

Further, many SMEs exporting these products heavily depends their manufacturing process on subcontractors. Therefore, to fulfill the requirements of customers particularly on costs, quality and delivery timing of the products, they have to manage the operation of the subcontractors, and the subcontractors have to improve their managerial capability.

Despite the importance of production management in enhancing their competitiveness, most of the SMEs are not aware of the necessity to improve their production management yet.

Small and micro enterprises are not familiar with the regulations on hygienic management, both in terms facilities and worker training. Buyers in the export markets and such major local distributors as fast food franchises and major super markets have increasingly requested the food manufacturers to clear HACCP or GMP.

Some foreign buyers has recently advised suppliers that they will buy goods only from the suppliers who can fulfill requirements set by the buyers, on working conditions of employees, and consideration on waste disposal, etc. The SMEs targeting export will be increasingly required to understand and apply the requisition of buyers and regulations.

The improvement of awareness of SMEs on HACCP is one of the National Agenda Key Components, and dissemination of HACCP has been undertaken through the National Caravan. However, such dissemination activities relating production management are necessary to be undertaken on a permanent basis, instead of temporary basis.

3. Proposed Responsible Agencies/Organizations

(Under the proposed new system)

- Food Processing Industry Support Center
- Furniture and Export General Merchandise Industry Support Center

(Under the current system)

- PTTC, CITC, or UP-ISSI

4. Project Description

The dissemination program will include the following:

- Seminars and workshops particularly designed for owners and managements
- Training courses for production managers

The program should be organized in collaboration with the industrial associations.

(1) Key factors for successful implementation

Regarding the dissemination of HACCP, FDC and FDA have carried out the dissemination activities with strong support of PHILFOODEX, and many SMEs have participated the programs. In this connection, there will be no need to develop a new system for the HACCP dissemination activities; instead, development of coordination with these existing systems should be considered.

As for the dissemination of production management, there are some organizations active in production management training in the Philippines particularly in view of productivity improvement. Most of these programs have focused on large enterprises, and thus, there is a need to develop a system to disseminate production management among SMEs. The dissemination activities should include not only lectures and seminars, but also on-the-spot guidance at factories.

The dissemination activities need to be consisting of regular activities of Industry Support Centers on awareness improvement, and training programs organized to be acceptable for SMEs with consideration on training schedule and time.

In conducting the training programs, the resources of the above existing organizations may be utilized, but the Industry Support Centers should play a catalytic role in modifying the existing training programs to fit the production practice of SMEs.

(2) Required preparation period

In the preparation stage, key activities are the recruitment of qualified instructors and campaign/education on importance of production management through trade associations. The preparation period will be slightly over six months.

(3) Input requirements and estimated economic effects of the program implementation

Assuming that workshops and training courses are held three times each annually, the total cost is estimated at around \$22,000 per year (Table III-3-5).

Economic benefits expected from implementation of the program are calculated on the basis of the assumption that 20 companies succeed in improving their value added by 5%:

- Increase in value added: \$140,000 per year

While the increase is the direct result of better production management, the increase in value added due to new orders and job creation are expected. Then, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be taken into account and would represent a significant economic effect.

Table III-3-5 Estimate of Required Inputs for Implementation (#6)

Project No. 6: Dissemination of production management for local-resource based industries

Item	Required Inputs			Remarks	
		<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)	
Manpower	- Coordinator	0.9	2	800	For seminar & workshops (3 times), including preparation (@450/MM)
		1.5	2	1,400	For training courses (5 day course; 3 courses), including preparation (@450/MM)
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	1) Seminars/ workshops (3 times)			6,300	1) Venues, materials, meals, equipment rentals, communications (@1,200) 2) Transportation (@250) 3) Honoraria (@650)
	2) Training courses (5days course; 3 courses)			13,500	1) Venues, materials, meals, equipment rentals, communications (@2,000) 2) Transportation (@500) 3) Honoraria (@2,000)

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

- To be conducted 2 times in Manila, and 1 time out of Manila (according to needs (the arrangement made by industrial associations))

Program 7: Parts and Services Procurement Seminar

Reference No. 7:

Parts and service procurement seminar by leading industries in the Philippines

1. Objective and Project Outline

The Project is to conduct seminars requesting assemblers and major parts suppliers (who are the buyers of parts and services at the same time) in the industries with high backward linkage potentials, such as electrical industries and automotive industries to give the local SMEs information on their procurement plan and requirements/conditions.

This type of seminars will be effective in promoting understanding of SMEs on the requirement of customers, since the agenda of seminars can be narrow down to the points. Thus, this method may fill up the deficiency of cost-performance of reverse trade fairs.

- The seminars will be held as one of set of linkage promotion programs of:
 - Project No. 8: Comprehensive support for SMEs of high potentials to supply parts or services to leading industries, including import of advanced technologies, and
 - Project No. 9: Dissemination of production management methods to meet the minimum requirement for the industrial linkage development

Strategic goal

- To promote sound operation of supporting industries by creating business opportunities.

Project target

- To help local SMEs to understand procurement requirements for the advanced industries.

Expected results

- Increase in supply contracts awarded by the advanced industries to local SMEs

2. Proposed Responsible Agencies/Organizations

- Supporting Industry Support Center (Under the proposed new system)
- BOI and MIRDC (Under the current system)

3. Background, Rationale, and Discussions

The reverse trade fairs have been held by CITEM, but the manufacturers in the leading industries in the Philippines have increasingly not shown their interest in participating to the fair as the exhibitors. It is because of the fact that most of visitors are still behind in terms of their technology level, being unable to meet the customers' requirements for the parts supply, and thus, the participation to the fair has shown very minor outputs. The reverse trade fairs may be useful for providing information on potential buyers in the local markets, but seem to be costly for the linkage promotion with the leading industries at this stage in the Philippines.

4. Project Description

(1) Project description

Seminars will be held with participation of manufactures, as lectures, who have plans to procure parts and materials locally (or internationally including suppliers in the Philippines).

Participants are those manufactures who are interesting in supply of the parts and materials.

In the seminars, the manufacturers will give information on their procurement plan, the specifications of the parts and materials, procurement conditions such as price and delivery, and other requirements in production management and production technologies, etc.

(2) Required preparation period

It will take approximately three months to find companies in the advanced industries, which are willing to send their staffs as the seminar lecturers.

(3) Input requirements and estimated economic effects of the program implementation

The estimated cost and expenses to have a seminar will be around \$1,300 each (Table III-3-6).

Economic benefits from program implementation cannot be directly measured. Indirect benefits can be estimated on the basis of the assumption that 5 companies receive orders as a result of the seminar per year and succeed in increasing value added by 5%:

- Increase in value added: \$100,000 per year

As the increase occurs in a single year, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should added to obtain the total benefit that would represent a significant economic effect.

Table III-3-6 Estimate of Required Inputs for Implementation (#7)

Project No. 7: Parts and services procurement seminar

Item	Required Inputs			Remarks	
		<u>Period</u> (months)	<u>Number</u> (Persons)		<u>Costs</u> (US\$)
Manpower	- Coordinator (DTI staff)	0.5	2	500	For seminar (1 time), including preparation (@450/MM)
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	- Seminar			800	Venue at DTI. 1) Materials, equipment rentals, communications (@550) 2) Honoraria (@250)

Notes: - Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

- Once a year in Manila.

Program 8: Comprehensive Support for Potential SME Suppliers of Parts and Services

Reference No. 8:

Comprehensive support program for potential SME suppliers of parts and services, including consulting services on management, loan application, production management improvement, and support for transfer of advanced technologies necessary for the supply contract

1. Objective, and Project Outline

The project is to provide comprehensive support for SMEs, which have potentials to supply parts and services to the leading industries in the Philippines (such as electrical and electronics industries, and automotive industries), in solving the problems they might face when they will go into the supply contract with the leading industries.

Strategic goal

- Growth and stable operation of SMEs in the supporting industries

Project target

- Increase in receiving orders of SMEs in the supporting industries from the leading industries in the Philippines

Expected benefits

- Increased local supply of parts and services to the leading industries in the Philippines

2. Proposed Responsible Agencies/Organizations

- (Under the proposed new system) Support Industry Support Center
- (Under the current system) BOI or BSMED

3. Background, Rationale, and Discussions

The most serious impediment factors for the local SMEs in obtaining the supply contract from the leading industries, are, firstly, lack of understanding and actual implementation of production management, and secondly, lack of advanced or specific technology required in supplying the parts or services. Quite a few number of support programs to promote industrial linkages among them have been carried out so far, focusing mostly on technology transfer. The advanced technologies and technologies specific to a certain parts manufacturing or services, are difficult to be transferred under the programs provided by the Government or public institutions, because of:

- Difficulty to find out organizations offering the transfer of such technologies.

- No SME has the machinery and equipment required for the technology transfer and they are reluctant to invest on them without order potentials
- Even if a public institution provides such machinery and equipment, the trainee will not have chance to use the technology after coming back to their factories.
- Thus, there is few demand for the training of such technologies.

The situation above will not change significantly in the near future. Therefore, the technical transfer of the advanced or specific technologies is necessary to be made direct to SMEs of high potentials for receiving order, with technology import on a commercial basis.

This program includes the assistance service to SMEs, which have potentials to go into contract with the leading industries, regarding the technology import.

(As for production management, see Project No.9.)

4. Project Description

(1) Project description

The comprehensive support includes:

- Business plan development relating to the supply contract
- Loan application assistance, and/ or introduction to venture capital if appropriate
- Factory diagnosis and guidance in terms of production management
- Assistance in making contract with foreign firms for technical assistance, or technology import of the technologies required in supplying the parts or services, if the contract requires such technologies, and the buyer is able to introduce a firm which has the know-how of the technology.

The support is a coordinated support among the relevant Government agencies and technical institutions, to be coordinated by the Support Industry Support Center, which is proposed to be established as an internal organization of the SMED Authority.

The counseling functions of SME Centers, SME Desks, and SMED Regional Centers will be fully utilized for consultancy services on managerial and financial counseling of SMEs, including assistance for business plan development and loan application.

Problems of SMEs proper to the supporting industries will be handled by the Supporting Industry Support Center. Counselors at SME Centers, SME Desks, and SMED Regional Centers will undertake the first step consultation, and SME Advisors or staff of the Supporting Industry Support Center will provide the consultation and guidance at Manila, or regions depending on the necessity.

(2) Required preparation period

Approximately three months will be required to prepare for the establishment of a mutual-support mechanism among related authorities.

(3) Input requirements and estimated economic effects of the program implementation

As the project will be carried out as part of ordinary activities of SME support organizations, as led by Support Industry Support Center, no additional cost proper for project implementation will be incurred.

Assuming that 5 companies success in receiving orders as a result of the project and increasing value added by 5%, the following benefit will be realized:

- Increase in value added: \$100,00 per year

As the above estimation is limited to the direct benefit in a single year, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be taken into account and will together amount to the total benefit that would represent a significant economic effect.

Program 9: Dissemination of Production Management Methods for Supporting Industries

Reference No. 9:

Dissemination of production management methods through a combination of seminars, training courses and factory diagnosis and guidance

1. Objective, and Project Outline

This program is to narrow the technology and managerial gap between the requirements of manufactures intending to procure their parts and materials, and understanding of local SMEs on the requirements. Knowledge on production management will help SMEs understand the requirements of the customers, and the well-managed production is the minimum requirement of the customers to start the business with the new suppliers.

For the understanding and implementation of appropriate production management, on the spot guidance at factories is effective, in addition to the lecture on theories and methods. This program is to disseminate the production management methods for SMEs in the supporting industries, through a set of programs. The program will be organized and managed by the Support Industry Support Center with coordinated support from engineers of the leading industries and relevant technical institutions.

Strategic goal

- To promote growth and stability of SMEs in the supporting industries.

Project target

- To improve quality and efficiency of management of SMEs in the supporting industries.

Expected benefits

- A significant decrease in defect through better quality control and the improvement of productivity to promote cost reduction in the flexible production (large varieties/small lot) process, as well as the compliance with delivery schedule
- Development of new customers and increase in order through the improvement of reliability on the management

2. Proposed Responsible Agencies/Organizations

- Supporting Industry Support Center (Under the proposed new system)
- MIRDC or PTTC (Under the current system)

3. Background, Rationale, and Discussions

In addition to establishing the close communication between the customer industries and the supporting industries, one of the essential factors to promote the linkages is improvement of local SMEs' understanding on the customers' requirements. There is a significant gap between the customers' requirements and the SMEs' understandings regarding the importance of quality management, precision tolerance, and adherence to agreed delivery time, etc. This gap has been one of the most serious factors preventing the leading industries from procuring parts from the local SMEs. Dissemination of production management is the most effective way to narrow the gap.

Leading firms in the electronic industries and automotive industries, ask their parts suppliers to undertake the stringent production management as they do in-house. It includes product delivery management to meet the needs of parts inventory control by the leading firms, and quality management in the production process to avoid shipment of substandard parts. This is because of the needs to streamline the total production process not only of their own, but also of the parts suppliers' process, to maintain their international competitiveness. In this connection, most of the leading firms have provided the technical assistance, dispatching their engineers to the parts suppliers. At the same time, the suppliers who failed to meet the customers' requirements within an agreed time period, the leading firms have changed the supply source to other supplier. Such technical assistance by the leading firms has been limited to the major and first-tier parts suppliers. Nevertheless, the parts suppliers, either the first-tier suppliers or the second-tier suppliers, will be disqualified, once they are found unable to meet the customers' requirements. Understanding and implementation of production management is the must for local SMEs to be successful parts suppliers to these leading firms.

4. Project Descriptions

(1) Project descriptions

For understanding and successful implementation of the production management at the factory, the practical guidance at the factory is essential in addition to understanding on production management theory and methods. This program is to disseminate the production management through a set of programs as follows:

1) A half-day seminar

The seminar will be held to promote understanding of managements and senior-level engineers of manufactures, who are interested in starting business with the manufactures in the leading industries, promoting understanding of the necessity of production management and some case studies on it. The seminar will be held at the time of the procurement seminar (Project No. 7).

2) Factory diagnosis and guidance

For those manufactures who participated in the above seminar, and wish to learn and implement the production management, the factory diagnosis and guidance will be made in view of production management. The program consists of the following:

- Preliminary diagnosis program: Undertake the diagnosis and point out the problems and methods and requirements to improve. The appropriate level of the training courses, which are shown below, will be recommended as a base to understand the production management.
- Guidance program: The participant company prepares a improvement plan by themselves, and a review and guidance on the plan will be made to make the plan more practical and efficient.
- Follow-up program: After some period for implementation of the above improvement plan by the participant company, the program reviews the results of the plan implementation. On the basis of the review, the program gives further guidance. The follow-up program will be carried out more than one time according to the request from the participant company.

3) Training course on production management

The course will be held in lecture type.

(2) Key factors for successful implementation

The Philippines has a long history of dissemination of production management, with Productivity Center playing the central role in dissemination activities. The dissemination activities, however, have mostly focused on large firms. The awareness of needs of production management is insufficient among the local SMEs.

If the linkages between the leading firms and local SMEs had progressed, the SMEs could have chances to learn the importance of production management from them who have implemented the strict production management for their production process. The opportunities for local SMEs to understand the production management are very limited in the Philippines, due to the lack of the linkages.

The engineers, who have experiences of production management in the actual production scenes, are the best resources to undertake the technical guidance on production management. It is difficult, however, to find out the appropriate instructors for the production management trainings in the Philippines, since most of the experienced engineers in the Philippines are still working in large firms⁷. For the qualified resource instructors, foreign donors' assistance will

⁷ Owners or engineers of some SMEs are those having such experiences in their job before starting/joining to the SME, or through the contract with leading firms. These advanced SMEs form the supporting industries in the Philippines, though the number of these SMEs is still small in number.

be useful. JETRO has dispatched the engineers for assistance on production management of individual firms, though most of the programs are short-term programs.

The assistance programs of foreign donors have mostly been those of technical guidance directly to individual manufacturers. Assignment of trainee instructors from technical institutions, which are expected to be in charge of the functions in the future, is important to receive technical transfer from these foreign experts in parallel with the direct technical transfer to the individual firms, in view of making the programs sustainable after the foreign assistance is completed. The establishment of Supporting Industry Support Center is strongly recommended from this viewpoint also.

(3) Required preparation period

Over seven months and a half will be required for preparation, including recruitment and hiring of qualified instructors as well as campaign/education on importance of production management through trade associations.

(4) Input requirements and estimated economic effects of the program implementation

The total project cost is estimated at around \$101,000 per year, including the cost for hiring foreign experts as well as the costs for seminars, corporate diagnosis, and training courses (to be held twice per year each). (Table III-3-7) Notably, the costs for the hiring of foreign experts and DTI staff account for major portions, and other costs amount to around \$25,000.

Economic benefits from program implementation are calculated on the basis of the assumption that 5 companies succeed in boosting sales by 10% due to the program, as follows:

- Increase in value added: \$200,000 per year
- Job creation: 12 employees (3% growth assumed for each company)

While they are the direct result of increased orders in a single year, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be taken into account and would represent a significant economic effect.

Table III-3-7 Estimate of Required Inputs for Implementation (#9)

Project No. 9: Dissemination of production management for supporting industries

Item	Required Inputs			Remarks	
	Period (months)	Number (Persons)	Costs (US\$)		
Manpower	1) Foreign experts	4.00	1	73,800	Remuneration 13,500/MM x 4 MM; Transportation 3,000; Accommodation & per diem 140/day x 120 days)
	2) Coordinator (DTI staff)	0.9	2	800	For seminar & workshops (3 times), including preparation (@450/MM)
	Coordinator (DTI staff)	1.5	2	1,400	For training courses (5 day course; 3 courses), including preparation (@450/MM)
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	1) Half-day seminars (2 times/year)			6,300	1) Venues, materials, meals, equipment rentals, communications (@1,200) 2) Transportation (@250) 3) Honoraria (@650)
	2) Factory diagnosis program (2 programs)			5,000	Preparation of training materials, communications, transportation (@2,500)
	2) Training courses (5days course; 2 courses)			13,500	1) Venues, materials, meals, equipment rentals, communications (@2,000) 2) Transportation (@500) 3) Honoraria (@2,000)

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

1. A half-day seminar
A lecturer to be invited from a firm or organization in the Philippines.
2. Factory diagnosis program
5 factories/2 months x 2 sets
 - 1) Initial diagnosis & guidance: 3.5days/factory
 - 2) Guidance: 2 days/factory
 - 3) Follow-up guidance: 2 days/factory
3. Training course
Main lecturer to be invited from a firm or organization in the Philippines.
Special a half-day lecture by the foreign expert.

Program 10: Advanced Technology Center

Reference No. 10:

Advanced Technology Center for supporting industries of advanced technologies indispensable for promoting industrial linkages

1. Objective and Project Outline

This project is to establish a center, which will be equipped with the machineries for advanced production technologies relating to supporting industries for electrical and electronics industries and automotive industries. The Center will undertake the technology transfer and technical training of the advanced technologies, which are indispensable for promotion of industrial linkages with the leading industries in the Philippines and the local SMEs.

Strategic goal

- To promote growth and stability of SMEs in the supporting industries.

Project target

- To upgrade production technology of SMEs in the supporting industries.

Expected benefits

- Securing of new customers and the increase in order from existing customers, with improvement of their confidence in technical capability

2. Background, Rationale, and Discussions

Quite a few numbers of programs have been carried out to assist local SMEs to go into parts or service supply contracts with the leading industries in the Philippines. Most of the programs have focused on technical transfer and technician trainings intending to improve technological capability of SMEs. Most of the programs, however, are limited to those of general or introductory technology levels, though there are few exceptional cases, like a program to transfer the plastic molding technology, which has shown effects to a certain extent. There is a big gap between these technologies and the technologies, which the leading industries require for the SMEs to supply parts and services, resulting in insufficient effects in linkage promotion.

3. Proposed Responsible Agencies/Organizations

MIRDC

4. Project Description

(1) Project description

- 1) The Center is necessary to be equipped with the appropriate machineries and equipments for transfer of thus selected technologies.

Most of the machineries and equipments required for the technology transfer are quite expensive. They should be determined according to the needs of transfer in consultation with the leading industries. With these machineries and equipments, the Center can undertake programs of technical training, and programs to make available to the public of the machineries and equipments with the operation guidance.

- 2) Transfer of technology will be made through:

- Workshops for engineers
- Use of the machineries by hours

- 3) Technician trainings: All the available technician training programs so far, have been limited to those general and basic ones, for which training demand is high, and training on the advanced technologies was not available. The Center should study the advanced technological fields, which the leading industries expect the technician training, in consultation with the leading industries.

- 4) The appropriate resource instructors on these technologies are not available in the Philippines. Invitation of experienced instructors from abroad is necessary to implement the program. Nurturing of local instructors in parallel with implementation of the program is also essential.

(2) Key factors for successful implementation

The advanced technologies, which the leading industries require for the parts and service supply, are diversified. In the case of technologies, which are applicable to a specific parts production only, there will be no SME who wants to learn the technology, since they are uncertain to get the order to produce this particular parts, and if the contract is not successful, then this particular technology will be in vain. Thus, it is important to select the technologies appropriate for transfer, which demand for transfer is estimated high, in consultation with the leading industries, and develop the system for technology transfer.

Although the type of technologies to be introduced to the Center is necessary to be studied and finalized in collaboration with the leading industries, following are the technologies assumed appropriate at present:

- Metal surface treatment technology
- Precision metal-working technology
- Press-die making technology

- Die casting technology
- Powdered metallurgical technology

(3) Required preparation period

As the project requires a variety of preparatory activities, including the establishment of a detailed implementation plan, financing, and the hiring of instructors, it takes at least two years to implement the project even if the activities proceed smoothly.

(4) Input requirements and estimated economic effects of the program implementation

Assuming that the project is implemented by focusing on a specific type of advanced technology, the total cost will be around \$2.2 million (Table III-3-8). Initial investment and the running cost in the initial year (including the purchase of equipment and the hiring of foreign instructors) will account for major portions, and other costs will total \$34,000.

Direct benefits from the project cannot be measured. Indirect benefits can be calculated on the basis of the assumption that four companies are able to increase their sales by 40% as a result of the project:

- Increase in value added: \$640,000 per year
- Job creation: 64 (20% growth assumed for each company)

If equipment investment is amortized over ten years, the total economic benefit will exceed the project cost. However, it is difficult to assume that there is sufficient demand to produce the above benefits continuously.

It is strongly recommended to conduct detailed market study for each technology prior to the start of the project, including the prospect for development of export as well as local markets.

At the same time, decision should not be made on the basis of the cost/benefit ratio alone because the project would accompany an indirect (immeasurable) benefit of disseminating the advanced technology. If the feasibility study shows a certain level of effectiveness, project implementation should be seriously considered.

Table III-3-8 Estimate of Required Inputs for Implementation (#10)

Project No. 10: Advanced technology center

Item	Required Inputs			Remarks	
	Period (months)	Number (Persons)	Costs (US\$)		
Manpower	1) Foreign experts	36.00	2	990,000	For 3 years of technology transfer period. Remuneration 13,500/MM x 36 MM; Transportation 3,000 x 3 times. MIRDC staffs.
	2) Local staff				
	- Center manager	36.00	1	36,000	
	- Officer	36.00	2	36,000	
	- Administrative staff	36.00	2	25,200	
Equipment/ facility	- Machine & equipment			1,800,000	
Building/ offices	- None				The spaces available at MIRDC is used.
Other major expenses	1) Operation costs & expenses (Annually)			7,200	Traveling expenses (1,200), supplies (450), utilities (3,300), communications (450), furniture & fixtures (1,800)
	2) Maintenance and spare parts (Annually)			27,000	1.5% of costs of machine and equipments

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

1. The Center is attached to MIRDC. The 1st Phase will focus on the technology of metal surface treatment. The technology transfer project is assumed to be continued for 3 years.
The Center will be operated by MIRDC after the technology transfer project is completed.
2. 2 foreign experts are assumed to be invited with assistance of foreign donors.
3. All the local staffs are assumed to be newly recruited. However, actually, some of them may be transferred from MIRDC, while some might be newly recruited.

- Center Manager	@P.	55,000	/Mo.	(US\$1,000)
- Officer/ engineer		27,000		(US\$500)
- Administrative staff		17,000		(US\$350)

Program 11: Development and Dissemination of Standard Curriculum for Technical Training

Reference No. 11:

Develop and promote standard curriculum for more practical and effective technical training, reflecting the needs of industries, in collaboration with the industries

1. Objective and Project Outline

There are many courses available for technical training either at vocational schools and technical training institutes. Most of the training courses are not prepared reflecting the needs of industry, and SMEs have no other choices except for undertaking in-house training. The in-house training is a big burden for SMEs, which have no organization, specialized for training like big enterprises. There is an advanced case of industrial association, CFIF, which has prepared their own training curriculum for technicians reflecting their needs, and provide it to vocational school for implementation.

This project is to promote this concept to industrial associations, which have similar problems, with the assistance of Industry Support Centers in collaboration with academe.

Strategic goal

- To upgrade production technology of SMEs in the supporting industries.

Project target

- To establish workers' training courses that focus on practical skills.

Expected results

- Improvement of quality of skills training
- Improvement of production efficiency

2. Background, Rationale, and Discussions

This project is included in the current SME Agenda Key Components, but so far no progress has been reported. Since collaborated work with the relevant industrial associations is the key factor to proceed the project, there is a need to involve an organization, like the proposed Supporting Industry Support Center, which can take initiative to promote the project from the stand point of sector development.

3. Proposed Responsible Agencies/Organizations

The proposed Support Industry Support Center, or MIRDC under the current system, in collaboration with the relevant industrial associations.

4. Project Descriptions

- 1) Develop standard curriculums for technical training in collaboration with the relevant industrial associations
- 2) Provide the standard curriculum to vocational training schools and organizations undertaking technician trainings to use the curriculum in their trainings

(1) Required preparation period

It will take around three months to prepare for the development of the standard curriculum (promotion of participation by individual companies, and selection of members of the curriculum committee) and one year to develop the curriculum (actual work requiring around four months).

(2) Input requirements and estimated economic effects of the program implementation

The total cost required for preparation of a standard curriculum for a specific field is estimated at around \$10,000 (Table III-3-9).

Direct benefits from implementation of the project are not measurable. Indirect benefits based on the assumption that 10 companies improve production efficiency (or cost reduction) by 3% are estimated as follows:

- Increase in value added: \$120,000 per year

Table III-3-9 Estimate of Required Inputs for Implementation (#11)

Project No. 11: Development of standard curriculum for technical training

Item	Required Inputs			Remarks	
	<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)		
Manpower	- Curriculum development committee members				
	Consultant	4.00	2	6,000	@ 750
	Honoraria		8	1,600	@ 50 x 4 times
	- Coordinator	1.00	2	900	@450/MM. DTI staff.
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	- Project operation costs & expenses		1,500	Documentation (1,000), miscellaneous (500)	

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

1. Working committee will be organized among those from industrial associations concerned, academe, and Industrial Support Center.
2. The program development is assumed to take 4 months.
3. 2 local consultants will be engaged for the actual work.

Program 12: Entrepreneurship Development of Creative SMEs

Reference No. 12:

Entrepreneurship development of creative SMEs

1. Objective and Project Outline

This project is to provide the programs to nurture the creative entrepreneurs. The programs will be implemented mainly by the SMED Regional Centers or SME Centers. Some of the effective tools for nurturing the creative entrepreneurs include:

- Super seminar inviting SMEs of success story
- Exchange program of SMEs among the different industry sectors

Strategic goal

- To promote growth and stability of SMEs by expanding business opportunities.

Project target

- To raise awareness of SME entrepreneurs about creative management.

Expected results

- Improvement of SME management
- Exploration of business opportunities

2. Background, Rationale, and Discussions

Entrepreneurs program can be provided according to the level of trainees, as follows:

- 1) For those who have no experience in enterprise management;
- 2) For those who have experience in management of SMEs in their own management way;
- 3) For those who provide consultation and guidance for SMEs;
- 4) For those who have experiences as a corporate manager, but not an enterprise management; and
- 5) For those who are expected to be instructors for entrepreneurship training.

Many SME managers in the Philippines (especially small enterprises and microenterprises) have not learned modern management methods and techniques. It is important to teach them fundamental knowledge on business management and provide proper consulting service.

In fact, under the ongoing development plan, manager education has been conducted in the form of SME Caravan. It should be continued through SMED-RCs, SME Centers and Desks (#16 and 17).

On the other hand, there are many innovative SME managements who have made continuous efforts to improve their business operation, but they often fail to find an actual opportunity to improve their management. In this case, the interaction with other experienced managers would give useful hints to the SME managers and create an opportunity for business alliance and expansion.

3. Proposed Responsible Agencies/Organizations

SMED Regional Centers

4. Project Descriptions

(1) Project description

The following programs will be conducted as part of ordinary activities of SMED Regional Centers.

1) Super Seminar

1. A seminar introducing a SME manager(s) in the Philippines, who have built successful business
2. Twice per year at each SMED-RC

2) Interactive meeting for SME managers in different industries

Each SMED Regional Center will organize and coordinate periodical meetings for SME managers in various different industries (10 – 30 participants per each meeting) to exchange information and opinion on technology and market in order to create an opportunity for collaboration and mutual assistance. A field tour on participants' factories will also be arranged. In particular, the following activities are considered to be useful:

1. Discussion on issues relating to technology or market facing a specific industry to which participants belong;
2. Discussion on technical problems for which a participating company needs to find a solution;
3. Learning of specific knowledge from out-side experts inviting as lecturers for seminars or workshops; and
4. Field experience in the form of a special tour on factories of participants or model factories in a specific industry.

These activities will also create an opportunity to find business opportunities, while helping participants to expand their business through joint development and the establishment of an association or a joint venture.

(2) Required preparation period

Around three months should be allowed for preparation, including promotion of each meeting and recruitment of participating companies.

(3) Input requirements and estimated economic effects of the program implementation

The total running cost is estimated at around \$17,000 per year (Table III-3-10).

Direct benefits from program implementation are not measurable. Indirect benefits based on the assumption that 10 companies are able to increase sales by 3% are as follows:

- Increase in value added: \$120,000 per year

Table III-3-10 Estimate of Required Inputs for Implementation (#12)

Project No. 12: Entrepreneurship development of creative SMEs

Item	Required Inputs			Remarks
	<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)	
Manpower	1) Super seminars			Honoraria @ 100/seminar/lecturer @450/MM. Staff of DTI.
	- Resource persons	16	1,600	
	- Coordinator	0.80	700	
	2) Exchange program			Honoraria @ 100/program @450/MM. Staff of DTI.
- Facilitator	16	1,600		
- Coordinator	2.00	7,200		
Equipment/ facility	- None			
Building/ offices	- None			
Other major expenses	1) Super seminars		2,400	Transportation (@75/seminar for lecturers), meals, materials, miscellaneous (@150/seminar)
	2) Exchange programs		3,600	Transportation (@75/program for facilitator), meals, materials, miscellaneous (@150/program)

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

1. Super seminar is held 2 times a year at 4 locations, inviting 2 success SMEs each as the lecturers.
Preparation 0.1 M/M/seminar by coordinators.
2. Exchange programs will be held every 3 months at 4 SMED Regional Centers.
Preparation and proceedings by coordinator: 0.5 M/M/program.

Program 13: Furniture & Export General Merchandise Industry Support Center

Reference No. 13:

Establishment of Furniture & Export General Merchandise Industry Support Center, and development of local contact points for the services

1. Objective and Project Outline

- Establish Furniture & Export General Merchandise Industry Support Center within SMED Authority, integrating and reorganizing CITC, PDDCP, etc.
- Attach branch centers to SMED Regional Centers, where the furniture or export general merchandise industries are accumulated.
- The concept of the Industry Support Center is the combination of the concept of Brand Manager, and extension office of industrial know-how.
- It is featured by “One-stop window for advice for SMEs” with “Advisors of competent knowledge” regarding the business operation and development specialized in the designated industries.

Strategic goal

- To upgrade technology and management of SMEs in the furniture and export merchandise industries.
- To explore, secure and expand the markets for SMEs in the furniture and export merchandise industries.
- To promote stability and growth of SMEs by achieving the above goals.

Project target

- To build a SME support system to provide consultation and advice in the fields of marketing, management and technology relating to the furniture and export merchandise industries.

Expected benefits

- Effective coordination and focused implementation of various SME support programs for the furniture and export merchandise industries including programs to be provided by government agencies and foreign donor organizations
- Development of expertise in the fields of marketing, management and technology through program implementation
- Upgrading of marketing, management and technological capabilities of SMEs
- Exploration and development of business seeds of SMEs

2. Proposed Responsible Agencies/Organizations

Project planning at the national level

- SMED Authority with SMED Council (Under the proposed new system)
- DTI (Under the current system)

3. Project Description

(1) Organization

- To be organized as one of the Divisions of SMED Authority, integrating the organizations of relevant Government agencies and technical institutions under DTI: PDDCP, CITC, a part of BETP, BOI and CITEM.
- Branch offices are established as one of the Units of SMED Regional Centers, where the designated industries are accumulated.

(2) Internal Organization and Main Functions

- Industry Strategy Planning and Coordination Unit (Work out the development strategy of the designated industries, and make coordination among the relevant industrial associations, Government Agencies and technical institutions for realization of the strategy. Gather and disseminate the information on products, markets and technologies. Conduct market research periodically in target markets, or markets/products of special concern as the basis for strategy planning.)
- Extension Service Unit (Operation of consulting windows at the head quarter and branch offices, extending advices on marketing and product development with support by the assigned Industrial Advisors. Construction, operation and maintenance of the Buyer-Supplier Database (Project No. 4) together with other Industry Support Centers (Project No. 14 & 15), including business matching service. Guidance for the SMEs based on factory diagnosis, particularly on production management, sanitation management in the case of processed Food Industry Support Center.)
- Program and Training Unit (Plan and implement the development programs. The major activities include the comprehensive and coordinated support for the exhibitors of international and national trade fairs, design workshops (product development workshops) (Project No.1), and design competition (Project No.2).

(3) Staffing

- In addition to the permanent staff, the Center will recruit Industrial Advisors who have competent knowledge and experiences of the designated industries, on a temporary basis, among those engaged in the relevant businesses, technical institutions, and academes.

(4) Required preparation period

It will take approximately one year and six months to establish the center, including legal procedures. As the center is expected to play a crucial role in SME support, related agencies

should coordinate their activities to provide the center's function as early as possible. It is therefore recommended to develop a reorganization plan (covering manpower assignment and budget) once the establishment of the center is decided, and to start activities by the related agencies immediately after the plan has been approved.

(5) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-11. The annual operation cost for the center is estimated at around \$53,000. If all staffs are transferred from technical support organizations and government agencies, a net cost increase will be limited to the hiring of advisors (assumed to be 12m/m per year) and activity-related costs, totaling slightly over \$9,000.

Direct benefits expected from the center's activity are largely overlapped with those expected from other programs. Assuming that 40 companies are able to boost their sales by 2% due to the use of the one-stop consultation and guidance service, which is not overlapped with other programs, the following benefits are expected:

- Increase in sales (export): \$280,000 per year⁸
- Increase in value added: \$112,000 per year⁹
- Job creation: 20 employees per year (1% increase assumed for each company)

As these benefits are directly produced in a single year when the consultation and guidance service is provided, additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be included as the total benefit that would represent a significant economic effect.

⁸ Note that the foreign currency to be spent for imports of materials for production should be taken into account when assessing the effect on foreign currency reserve.

⁹ To calculate the cost/benefit ratio, materials costs for production and depreciation of production facilities and equipment should be added to the total project cost.

Table III-3-11 Estimate of Required Inputs for Implementation
(#13, 14 and 15)

Project No. 13, 14, 15: Establishment of Industry Support Centers

Item	Required Inputs			Remarks	
		<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)	
Manpower	- Advisors	3.00	12	22,500	@ 750/MM
	- Center staffs			133,200	See Assumption 2, below.
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	- Cost & expenses for the ordinary activities by Advisors			5,000	Transportation (@ 300/Advisor), materials, miscellaneous (@ 200/Advisor)

- Notes:
1. Costs and expenses in US dollars in rounded figure without contingency.
 2. Annual costs.

Assumptions:

1. Industry Support Centers will be established using a part of offices of the existing technical institutions/ government agencies.
2. Staffs are mostly transferred from the existing technical institutions/ government agencies.

- Center Manager	@ 1,000/mo.	1 person	3,000 for 3 Centers
- Engineer/ Officer	@ 500	4 persons	6,000 for 3 Centers
- Administrative Staff	@ 350	2 persons	2,100 for 3 Centers

Total/month			11,100
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In addition, Centers will employ SME Advisors at temporary basis (12 Advisors for the three Centers).

3. The daily activities will be covered by the budget currently allocated to the existing technical institutions/ government agencies.

The costs and expenses required for implementation of the new projects/ programs are estimated under the estimate for the respective projects.

Program 14: Processed Food Industry Support Center

Reference No. 14:

Establishment of Processed Food Industry Support Center, and development of local contact points for the services

1. Objective and Project Outline

- Establish Processed Food Industry Support Center within SMED Authority.
- Attach branch centers to SMED Regional Centers, where the processed food industry is accumulated.
- The concept of the Industry Support Center is the combination of the concept of Brand Manager, and extension office of industrial know-how.
- It is featured by “One-stop window for advice for SMEs” with “Advisors of competent knowledge” regarding the business operation and development specialized in the processed food industries.

Strategic goal

- To upgrade technology and management of SMEs in the processed food industry.
- To explore, secure and expand the markets for SMEs in the processed food industry.
- To promote stability and growth of SMEs by achieving the above goals.

Project target

- To build a SME support system to provide consultation and advice in the fields of marketing, management and technology relating to the processed food industry.

Expected benefits

- Effective coordination and focused implementation of various SME support programs for the processed food industry including projects to be provided by government agencies and foreign donor organizations
- Development of expertise in the fields of marketing, management and technology through program implementation
- Upgrading of marketing, management and technological capabilities of SMEs
- Exploration and development of business needs of SMEs

2. Proposed Responsible Agencies/Organizations

Project planning at the national level

- SMED Authority with SMED Council (Under the proposed new system)
- DTI (Under the current system)

3. Project Description

(1) Organization

- To be organized as one of the Divisions of SMED Agency, integrating the organizations of relevant Government agencies and technical institutions under DTI: A part of BETP and CITEM.
- Branch offices are established as one of the Units of SMED Regional Centers, where the processed food industries are accumulated.

(2) Internal Organization and Main Functions

(Same as the Project No.13, Furniture and Export General Merchandise Industry Support Center)

(3) Staffing

(Same as the Project No.13, Furniture and Export General Merchandise Industry Support Center)

(4) Required preparation period

The establishment of the center will take approximately one year and six months, including legal procedures. As the center is expected to play a crucial role in SME support, related agencies should coordinate their activities to provide the center's function as early as possible. It is therefore recommended to develop a reorganization plan (covering manpower assignment and budget) once the establishment of the center is decided, and to start activities by the related agencies immediately after the plan has been approved.

(5) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-11. The annual operation cost will be around \$53,000. If all staffs are transferred from technical support organizations and government agencies, new costs required for the project consist of the hiring of advisors (assumed to be 12m/m per year) and activity-related costs, totaling slightly over \$9,000.

Direct benefits expected from the center's activity are largely overlapped with those expected from other programs. Assuming that 40 companies are able to boost their sales by 2% due to the use of the one-stop consultation and guidance service, which is not overlapped with other programs, the following benefits are expected:

- Increase in value added: \$112,000 per year¹⁰
- Job creation: 20 employees per year (1% increase assumed for each company)

¹⁰ To calculate the cost/benefit ratio, materials costs for production and depreciation of production facilities and equipment should be added to the total project cost.

Note that the benefits are derived from the one-stop consultation and guidance service only, although the center is expected to play the core role in implementation of various support programs. Also, the benefits are directly produced in a single year when the consultation and guidance service is provided, and additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be taken into account in estimating the total benefit that would represent a significant economic effect.

Program 15: Supporting Industry Support Center

Reference No. 15:

Establishment of Supporting Industry Support Center, and development of local contact points for the services

1. Objective and Project Outline

- Establish Supporting Industry Support Center within SMED Authority.
- Attach branch centers to SMED Regional Centers, where the supporting industries are accumulated.
- The concept of the Industry Support Center is the combination of the concept of Brand Manager, and extension office of industrial know-how.
- It is featured by “One-stop window for advice for SMEs” with “Advisors of competent knowledge” regarding the business operation and development specialized in the supporting industries.

Strategic goal

- To upgrade technology and management of SMEs in the supporting industry.
- To explore, secure and expand the markets for SMEs in the supporting industry.
- To promote stability and growth of SMEs by achieving the above goals.

Project target

- To build a SME support system to provide consultation and advice in the fields of marketing, management and technology relating to the supporting industry.

Expected benefits

- Effective coordination and focused implementation of various SME support programs for the supporting industry including projects to be provided by government agencies and foreign donor organizations
- Development of expertise in the fields of marketing, management and technology through program implementation
- Upgrading of marketing, management and technological capabilities of SMEs
- Exploration and development of business needs of SMEs

2. Proposed Responsible Agencies/Organizations

Project planning at the national level

- SMED Authority with SMED Council (Under the proposed new system)
- DTI (Under the current system)

3. Project Description

(1) Organization

- To be organized as one of the Divisions of SMED Authority.
- Branch offices are established as one of the Units of SMED Regional Centers, where the supporting industries are accumulated.

(2) Internal Organization and Main Functions

- Industry Strategy Planning and Coordination Unit (Work out the development strategy of the designated industries, and make coordination among the relevant industrial associations, Government Agencies and technical institutions for realization of the strategy. Gather and disseminate the information on products, markets and technologies. Conduct market research periodically in target markets, or markets/products of special concern as the basis for strategy planning.)
- Extension Service Unit (Operation of consulting windows at the head quarter and branch offices, extending advices on marketing and product development with support by the assigned Industrial Advisors, including the implementation of Projects No. 8 and 9. Construction, operation and maintenance of the Buyer-Supplier Database (Project No. 4) together with other Industry Support Centers (Project No. 13 & 14), including business matching service. Guidance for the SMEs based on factory diagnosis, particularly on production management. Extend support for those who want to start business in the supporting industry, in finding potential customers, and R&D works for product development and commercialization, under the coordination with the technical institutions of competent technologies.)
- Program Coordination Unit (Plan and coordinate the development programs. The major programs include the Parts and Services Procurement Seminars (Project No. 7).)

(3) Staffing

- In addition to the permanent staff, the Center will recruit Industrial Advisors who have competent knowledge and experiences of the supporting industries, on a temporary basis, among those engaged in the relevant businesses, technical institutions, and academes.

(4) Required preparation period

It will take approximately one year and six months to establish the center, including legal procedures. As the center is expected to play a crucial role in SME support, related agencies should coordinate their activities to provide the center's function as early as possible. It is therefore recommended to develop a reorganization plan (covering manpower assignment and budget) once the establishment of the center is decided, and to start activities by the related agencies immediately after the plan has been approved.

(5) Input requirements and estimated economic effects of the program implementation

Input requirements are summarized in Table III-3-11. The center will require an annual operation cost of around \$53,000. However, if all staffs are transferred from technical support organizations and government agencies, new costs required for the project consist of the hiring of advisors (assumed to be 12m/m per year) and activity-related costs, totaling slightly over \$9,000.

Direct benefits expected from the center's activity are largely overlapped with those expected from other programs. Assuming that 40 companies are able to boost their sales by 2% due to the use of the one-stop consultation and guidance service, which is not overlapped with other programs, the following benefits are expected:

- Increase in value added: \$160,000 per year¹¹
- Job creation: 16 employees per year (1% increase assumed for each company)

Note that the benefits will be produced from the one-stop consultation and guidance service only, although the center is expected to play the core role in implementation of various support programs. Also, the benefits are directly produced in a single year when the consultation and guidance service is provided, so that additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be taken into account in estimating the total benefit that would represent a significant economic effect.

¹¹ To calculate the cost/benefit ratio, materials costs for production and depreciation of production facilities and equipment should be added to the total project cost.

Program 16: SME Support Network

Reference No. 16:

Restructuring of Network of Local SME Centers with establishing SMED Regional Centers, SME Centers, SME Desks, and Industry Support Centers; assignment of SME Counselors and Advisors to the Network; and SME support in the field of management and financing at the one-stop service windows of the Network

1. Objective and Project Outline

The proposed project is designed to restructure a local-level SME support network by taking over DTI's basic development concept that is centering on existing SME Centers in local-level network, with strategic allocation of limited number of staffs and funds to the selected Centers. On the assumption that SMED Regional Center (SMED-RC) that is supposed to be key organization in SME support activities will be established 16 regions all over the country in the future, while some SMED-RCs will be established at the beginning in the selected regions where are strong needs for support from local SMEs. Existing SME Centers except active one will be reorganized as SME Desk at DTI provincial office. SME Counselors are also trained under the other proposed program (Reference No. 17), so that local SME support (guidance) network is able to expand services through concentrated and strategic deployment of them. By this way, the proposed SME support network will be developed especially following aspects to enhance providing supporting services to SMEs compared with the present SME Center Development Plan.

- Assignment of well-trained SME Counselors.
- Institutionalization of SME Advisors and SME Counselors who can give more professional advice to SMEs.
- SME Center can cope with various development needs by SMEs under the full-fledged participation of LGUs and the chamber of commerce and industry, and also full support by SMED-RCs.
- Establishment of SME Desk at DTI provincial offices, in case of having some difficulties to establish SME Center.
- Industry Support Centers (ISC) shall be established at the central level and provide sub-sector oriented development support through SMED-RCs as a window of ISCs.

Strategic goal

- To upgrade technology and management of SMEs in general.
- To explore, secure and expand the markets for SMEs.
- To promote stability and growth of SMEs by achieving the above goals.

Project target

- To build a SME support system to provide consultation and advice in the fields of marketing, management and technology.

Expected benefits

- Effective coordination and focused implementation of various SME support programs provided by government agencies and foreign donor organizations
- Development of expertise in the fields of marketing, management and technology through program implementation
- Mitigation of difficulty for SMEs in the fields of general management and loan application
- Dissemination of modern management techniques to SMEs
- Exploration and development of business seeds of SMEs

2. Proposed Responsible Agencies/Organizations

Implementation planning at the national level

- SMED Authority (under the proposed new system), or SMED Council (under the current system)

Implementation/promotion at regional/local level

- SMED Regional Centers and SME Desks: SMED Authority (under the proposed new system), or DTI (under the current system)
- SME Centers: SMED Regional Centers with coordination with LGUs and local CCIs

3. Background, Rationale, and Discussions

At present, DTI has 16 regional offices and 83 provincial offices (79 provinces and 4 NCR). As discussed in the sections analyzing the current state of SME promotion, these offices perform all duties and services of DTI, not necessarily concentrate in SME promotion, and they represent DTI in local areas. On the other hand, SME Centers are ostensibly a sole public organization specialized in their support, despite of the fact that most enterprises operating in rural regions and areas are SMEs and microenterprise. (They are positioned as a public SME support organization at a local level).

Historically, the establishment of SME Centers in all provinces was decided under the President Ramos administration, in an attempt to create a new organization of DTI specialized in SME support activities separate from DTI Provincial Offices. Their mission was to serve as a local support base (one-stop service center) for SMEs. They were mandated to provide the following services.

- Provision of business consultancy and advisory services
- Provision of SME information brochures, newsprints, business report
- Preparation of feasibility studies and business plan
- Facilitation of business linkages between buyers and suppliers

- Facilitation of business name registration
- Coordination of entrepreneurship and management training programs

According to DTI, SME Centers are currently operated in 79 locations, reflecting the fact that they are supposedly accommodated within DTI's provincial offices. In reality, however, most centers are virtually dormant and only a handful of them conduct activities as originally mandated and planned. In fact, the active centers receive strong support from local government units (LGUs) as well as local chambers of commerce and industry. DTI's involvement is rather limited to subordinate roles, such as the provision of desks and chairs for the center staff within their provincial offices, and assignment of DTI staff to support the center's service. DTI provides no financial support for operation and management of SME Centers.

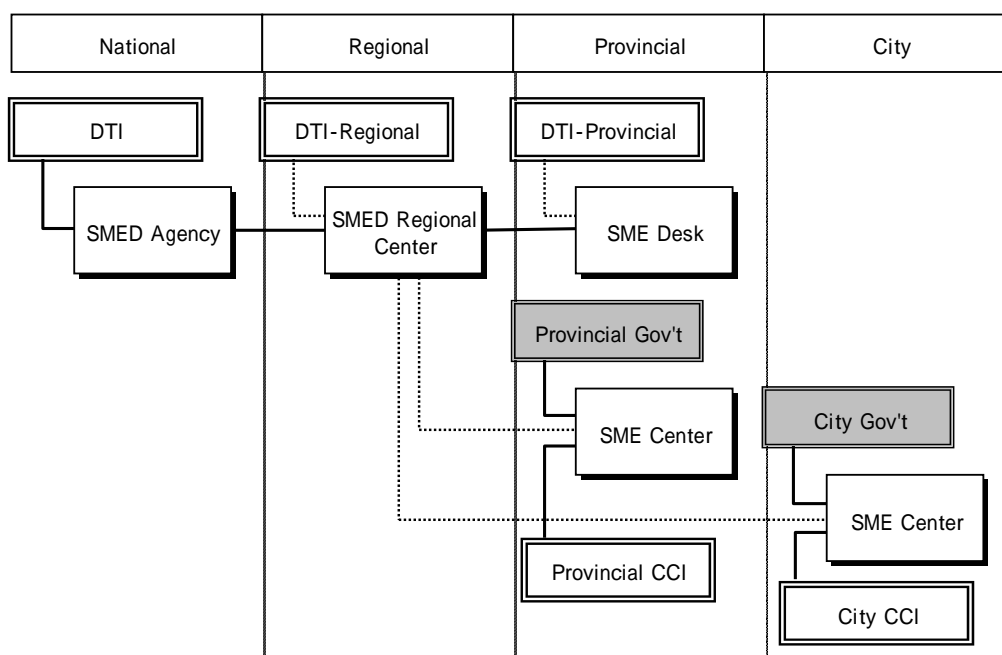
To reinvigorate the inactive SME Centers, DTI has proposed to allocate a total budget of P8 million to the Congress, and consequently DTI decided as well as manpower to upgrade the functioning of 24 selected centers in 2003, including the training of SME counselors who will be assigned to the centers. However, there are uncertainties about the budget approval (as of August 2003). Clearly, it is important to remove the bottleneck to the SME support system, which is trapped in a typical problem under which most SME Centers cannot perform their function due to the shortage of money and manpower, although their important role is recognized by the government.

Focal points of the proposed local-level SME support network are placed on "the development of an organization sensitive and responsive to local SME needs" and "the improvement of efficiency and effectiveness of SME support through the enhancement of linkage between the central and local organizations.

4. Program Description

(1) General

The project consists of two elements, the creation of the SME support system at regional level (SMED-RCs), and revitalization/ streamlining of the SME support system at a town (provincial or municipality) level (SME Centers). SME Centers can receive support from SMED-RC whenever necessary, thus forming an integrated support system together with the SMED-RCs. SMED-RCs and SME Centers will perform their functions with collaboration with other existing technical institutions. As for establishment of SME Centers, however, the initiative of LGUs and the local CCIs is the must, including heri involvement as one of the financial source. If there will be no initiative of them, SME Desk will be set up at DTI Provincial Office as the substitute and supplementary purpose.



(2) SMED Regional Centers

Sixteen SMED-RCs will be established as the core government organization in charge of local-level SME promotion. Conceptually, they are positioned to the administrative level equivalent to DTI’s regional offices, and are expected to perform duties and services of the SMED Authority in the designated regions. At the same time, they will act as an implementation body SME promotion programs. In particular, they will play an important role in bridging and coordinating the central and local support organizations in terms of human resources, information, budget, and program implementation. The SMED-RCs will be established as follows.

1) Development of a plan for establishment of SMED-RCs

This task will start with the establishment of a schedule to establish 16 core centers. Needless to say, it is not feasible, both physically and financially, to launch the establishment of all the centers simultaneously. Instead, the schedule will set a timetable for their phased opening according to priority in terms of SME development. Under the SME Development Plan that will be implemented up to 2010, it seems to be reasonable to establish around 10 regional centers by 2010. Until the SMED-RCs have been established, the SME group of each DTI Regional Office will assume the function.

Region 3, 4, 7 and 11 are the target regions to establish their SMED-RCs in the initial year. The SMED-RCs in NCR will be planned in the 2nd Phase of development. The establishment schedule covers the plan up to the year 2010. The RCs should be established to function as the core center of SME development.

- 2) Establishment of the high priority SMED-RC
 1. Based on the plan, each SMED-RC will be staffed by 20-30 people, led by staff of DTI's regional office in charge of SME promotion. Most of them will be transferred from DTI Regional Offices or other agencies which will be integrated into SMED-RC. In particular, the SMED-RCs will be responsible for, among others, coordination and collaboration with other support organizations in terms of division of responsibilities, which will ensure their close relations with DTI's bureaus and related organizations.
 2. SMED-RCs will be located within DTI Regional Office buildings, unless there is not enough space available.

3) Standard module of SMED-RC

Functions as the core support center of the region

- Consulting Unit (Operation of the consultancy service window)
- Industry Service Unit (Regional branch of Industry Support Centers. Provide information and advices on market and technical matters of the specific industries. Plan and prepare programs for the industries (Projects No. 1 - 11, etc. (for detail see Projects 13 - 15).)
- Coordination Unit (Support coordination among SME Centers, SME Desks, relevant Government agencies, LGUs, etc., collecting and accumulating information for use by Consulting Unit. Maintenance and operation of "Buyer-Supplier Database", with extending assistance for business matching.)
- Program & Training Unit (Plan, prepare and operate training programs and other SME support programs other than those under Industry Service Unit)
- Administration Unit (Administration of the Regional Center and SME Desk under the Regional Center. Extend administrative support for SME Centers.)

Functions as a direct contact windows of SMEs

(Basically same as the modules of SME Center/SME Desk)

Minimum staff assignment

- Around 20 full-time staff including 4 SME Counselors at least
- 4 to 6 SME Advisors on temporary basis

- 4) The SMED-RC staffs, including the head, may be employed from the private sector (other than those transferred on a secondment basis).
- 5) The operating budget of each SMED-RC will be financed by the government (SMED Authority), as opposed to SME Centers. The SMED-RCs are expected to secure their own source of income by providing services on a fee basis.
The annual budget will amount to P25 - 30 million, including the program budget, more or less the same as the current budget of DTI's regional office.

(3) Revitalization of SME Centers

Selected SME Centers will be revitalized under the support from local government units and private organizations. These centers are managed jointly by the local government units and local private organizations, and the central government only in case of necessary.

The SME Centers may organized at varying levels of administrative levels, ranging from province to municipality, according to the service demand. Each service area will be determined according to the level of commitment and participation by LGUs and private organizations concerned. The existing SME Centers supposedly cover an entire province, but in reality the active centers largely serve individual cities or municipalities. Under these circumstances, the service area should be determined in consideration of local needs and intent, and the rule or definition should be left flexible.

The LGUs and local CCIs are necessary to take initiatives for establishment of SME Centers, while SMED Authority, through SMED-RC will promote and make guidance for the establishment and operation.

Regarding the participation of the central government to the SME Centers, there will be options of partly involvement or non-involvement, depending on the needs and budget limitation.

- 1) DTI will develop a scheme for revitalization of SME Centers (as drafted by BSMED) to be implemented by the central government, local government units, and local private organizations and will confirm the intent of participation with local government units and chambers of commerce and industry, including financial assistance. The scheme will specify, among other things, the service area of a Service Center, its organization and form of operation, and the scope of service. It will be jointly developed by the LGU and the chamber of commerce and industry and will be submitted to DTI (or SMED Authority).
- 2) DTI (or SMED Authority) will accredit the SME Center, if it is deemed to serve the SMEs in the target locality. The accredited Centers may receive the support from the SMED-RCs.
- 3) Each SME Center will have at least six staffs including at least two SME Counselors, with the minimum program budget of P400,000 annually (FY2004).
- 4) A part of the annual budget may be borne by the central government, according to the application from the Centers, stating the objective of the use.
- 5) Basic service module assumed for the SME Centers include the following functions:
 - Initial step of consultation on business management, financing, marketing and technologies (one-stop type service), including assistance/advisory services for loan application, feasibility studies and business plans (*).

- Operation of a buyer-supplier database, which will be established by the SMED Authority, including business-matching service (*).
- Introduction of SMEs to SMED-RC, Industry Support Centers, technical institutions, or other relevant organizations of expertise, when necessary.
- Provision of information on the available SME support services, which are extended by the Government, technical institutes, and other organizations (*).
- Seminars and workshops on the basics of businesses required for start-up and early stage of businesses, based on the local needs (*). Dissemination of information on other training courses, seminars, and workshops for the same purpose, which will be provided by SMED-RC.

Notes: Items with (*) indicate the functions planned for the current SME Centers. The function of business name registration, which is planned to be undertaken by the current SME Centers are assumed to be transferred to ROG, DTI.

- 6) Examples of additional modules¹² assumed for SME Centers include:
- Guidance center for a specific local industry, in the case of the region where an accumulation of a specific industry exist.
 - Center for regional economic-development project, which is expected to contribute to the creation of business opportunity for SMEs.
- 7) Others aspects
- Minimum staff assignment*
- 2 SME Counselors (but start with one counselor)

Budgetary Requirements for the Establishment and Operation of SME Centers

Annual government subsidy will amount to 6.75 million pesos, assuming 50 SME Centers which are subsidized at 135,000 pesos each.

Importance of involvement of local government

While many countries have similar organizations supporting local SMEs, as in the case of the SME Center, they vary greatly in terms of the form of operation and other factors. For instance, in Japan, a SME promotion center is installed in each prefecture and provides SME support service under the budgets of the central and prefectural governments as well as private organizations. In Thailand, the Regional Industrial Promotion Office - a local organ of MOI's Department of Industrial Promotion - serves as a core organization of local SME promotion (In addition, MOI has its prefectural offices.) In both Japan and Thailand,

¹² The additional module may be designed according to the needs of the locality and policy of the LGUs and the CCIs.

prefectural governments are actively involved in local SME promotion by contributing major portions of human and other resources, including funds.

SME Desks

Establishment of SME Center in various provinces (or municipalities) is encouraged by taking over DTI's idea that is to reinvigorate SME Center all over the country. It is, however, enough to reflect local development needs to form each SME Center such as its scale, administration system and activities, so that SME Center can be established more flexible. It is not feasible to launch the establishment of all the centers simultaneously in every province. Therefore in case of no SME Centers in province, DTI will establish SME Desk at DTI Province Office and function as a SME Center. SME Desk affiliated to SMED Authority and SMED-RC. There is one qualified SME Counselors at least, and counselor provides initial stage consulting service in accordance with basic service module.

(4) Development plan of SMED Regional Centers

- 4 SMED Regional Centers (SMED-RCs) (Regions 3, 4, 7 & 11) in the first year
- 3 additional SMED-RCs in the third year, according to the demand for the service
- 3 additional SMED-RCs in the fifth year, according to the demand for the service
- 16 SMEDRC as the final target of development
- Within 3 years, SME Desks for all the provinces where no SME Center exists, except for the provinces where the SMED-RC is established

(5) Required preparation period

It will take approximately one year and six months to establish the network, including legal procedures. As the network is expected to play a crucial role in SME support, related agencies should coordinate their activities to provide the network's function as early as possible. It is therefore recommended to develop a reorganization plan (covering manpower assignment and budget) once the establishment of the center is decided, and to start activities by the related agencies immediately after the plan has been approved.

(6) Input requirements and estimated economic effects of the program implementation

Input requirements are shown in Table III-3-11. The annual cost for network development and operation is estimated at around \$135,300. It is assumed that all staffs working for the network are transferred from technical support organizations and government agencies, while SMED-RCs will use DTI Regional Office and SME Desks will be accommodated in DTI's staff offices. It is further assumed that most activity costs are included in cost estimation for other programs.

An additional cost incurred by the project is the labor cost for SME Counselors, whose salary will be increased by 40% in order to maintain their service quality by providing incentive. New cost items are summarized below:

- Increase in salary of SME Counselors: \$64,800 per year (covering 30 persons; the amount will increase with an increase in the number of counselors)
- Purchase of equipment required for the consultation and guidance service: \$12,500 per year (initial investment)
- Activity costs for consultation and guidance services other than those provided under the program: \$8,000 (to be increased according to actual demand)
- Subsidy for operation of SME Centers: \$50,000 per year (\$2,500 per center; covering 20 centers)

Direct benefits expected from the network are largely overlapped with those expected from other programs. Assuming that 80 companies are able to boost their value added by 2% due to the use of the one-stop consultation and guidance service, which is not overlapped with other programs, the following benefits are expected:

- Increase in value added: \$224,000 per year
- Job creation: 40 employees per year (1% increase assumed for each company)

Note that the benefits will be produced from the one-stop consultation and guidance service only, although the network is expected to play a central role in implementation of various support programs. Also, the benefits are directly produced in a single year when the consultation and guidance service is provided, so that additional benefits in subsequent years and indirect effects (dissemination to other companies and industries) should be added to the total benefit that would represent a significant economic effect.

(7) Others

- The network will not function without qualified counseling/advisory staff and training system to nurture the staff (see Project No. 17).
- The function of existing SME Centers will be enhanced with the support from the SMED-RC.

Table III-3-12 Estimate of Required Inputs for Implementation (#16)

Project No. 16: SME Support Network

Item	Required Inputs			Remarks
	Period (months)	Number (Persons)	Costs (US\$)	
Manpower	- Increase in salaries of Counselors		64,800	Increase at @180/Counselor-month; 30 Counselors at the 1st year.
Equipment/ facility	- Additional office equipments		12,500	LCD projector, PC and furnitures and fixtures, etc.
Building/ offices	- None			
Other major expenses	1) Additional costs & expenses for undertaking counseling services by SMED-RC		8,000	Transportation (@1,000), materials, miscellaneous (@1,000) for each SMED-RC
	2) Subsidy for SME Centers		50,000	@2,500/Center x 20 Cneters

- Notes:
1. Costs and expenses in US dollars in rounded figure without contingency.
 2. Annual costs.

Assumptions:

1. SMED-Regional Centers are assumed to be established in the offices of DTI-Regional Office. Most of staffs are transferred from the DTI-Regional Offices. No additional staff is assumed.
2. The costs and expenses of the daily activities are assumed to be covered by the budget currently allocated to the Regional Offices of DTI.
The costs and expenses required for implementation of the new projects/ programs are estimated under the estimate for the respective projects.
3. The monthly salaries of Counselors are assumed to be increased by 40% when they can successfully complete the training courses.
4. The costs and expenses estimated in the above table are those for counseling program, and the subsidies for the cost of operation of SME Centers.
5. SME Centers are assumed to be operated with budget allocated from LGUs and the contribution by local Chamber of Commerce and Industry. 1/3 of their operation costs are burden by the DTI.

Program 17: SME Counselors and SME Advisors

Reference No. 17:

Nurturing of SME Counselors and SME Advisors, and establishment of training system of the Counselors

1. Objective and Project Outline

The project No.16 (SME Support Network) aims to give advice to SMEs at SME Center by experts (“SME Counselor”) who are capable of providing advice and guidance for SMEs in finance and business management, and in case of SMEs need more specific consultation, a counselor introduce other suitable counselors (or institutions) who have more expertise in the specific field, and also to give advice by SME Advisor who have management experience for certain period and capable of providing specific advices on marketing, technology and product development.

At present, there are only few experts who having such capability, therefore to train required number of staffs by applying the existing training system immediately, and also to establish new training system for SME Counselor to meet the needs of SME support in the Philippines.

Strategic goal

- To upgrade technology and management of SMEs in general.
- To explore, secure and expand the markets for SMEs.
- To promote stability and growth of SMEs by achieving the above goals.

Project target

- To build a SME support system to provide consultation and advice in the fields of management and finance.

Expected benefits

- Development of expertise in the fields of management and finance
- Mitigation of difficulty for SMEs in the fields of enterprise management and preparation of loan application
- Dissemination of modern management techniques to SMEs
- Exploration and development of business seeds of SMEs

2. Proposed Responsible Agencies/Organizations

Project planning at the national level, and implementation

- SMED Authority (Under the proposed system)
- BSMED (Under the current system)

Supporting agencies/organizations

- UP-ISSI

3. Background, Rationale, and Discussions

DTI has been establishing SME Centers in each province as a window of SME support activities under the SME Development Plan. SME Centers are finally established in 79 provinces, however, most of centers are virtually dormant and only a handful of them conduct activities for SME support. Insufficient number of experts who can provide professional advice and consultation is an important matter for establishing and operating of SME Center, with lack of funds.

In fact, some active centers receive staffs who have experienced in business management and dispatched from local chamber of commerce and industry, but in most of cases, DTI's staffs are assigned as advisers at SME Centers. They have taken a staff training program for short period, but it is not specific training program to be SME Counselors. Furthermore, most of them have not practical business experiences, so that they cannot properly cope with business consultation from SME.

Training of SME Counselors and deployment of counselors to SME Centers are most critical part in the present SME Development Plan. The present training program is, however, only one week program to be a counselor. It is difficult for DTI's staffs who don't have enough experience in business to become a professional counselor with such short course program. The present training program for this purpose is provided by PTTC or UP-ISSI. Formerly, UP-ISSI has been provided a long-term training program, but it is suspended now due to lack of DTI's budget.

In Japan, the problem has been recognized by the government fairly early, and extensive efforts have been made by SME support organizations under local government, the chamber of commerce and industry, and private financial institutions to provide management guidance for small enterprises through special consultation desks. One of major initiatives is called the "Management Upgrading and Dissemination Project." It is actually conducted by the local chamber of commerce and industry and the association of commerce and industry, which use "Business Counselors (Keieishidou-in)" as a core element of the program. Business Counselors provide attentive consultation service and guidance for small enterprise owners in a variety of areas including finance, taxation, labor management, contract administration, and accounting, in an attempt to help them strengthen their management base, including management skills and creditworthiness. In fact, a large number of small enterprises benefited from the program and have grown to a major pillar of local economies in Japan.

4. Project Description

(1) Definition

Local level SME support network in this proposal suppose the following experts.

1. SME Counselor who serve directly to SME as a consulting staff at SMED-RC, SME Center and SME Desk, and who are capable of providing advice and guidance for SMEs in finance and business management, and in case of SMEs need more specific consultation, a counselor introduce other suitable counselors (or institutions) who have more expertise in the specific field.
2. SME Advisor who have experience in business management and capable of providing more specific advices. They are registered at SMED Authority, and provide consultation service at SMED-RCs by the request of SME Center and SME Desk, and also go to SMEs if necessary. They are requested by SMED Authority among well-experienced businessmen, certified public accountant, and lawyer, and registered in specific field.

(2) Training and Qualification System

Since securing the sufficient number of Counselors and Advisors to provide qualified services is the urgent matter, the training will be undertaken without waiting for the completion of the training system, while the training system will be developed at the same time.

Qualification system is developed for SME Counselors, but the SME Advisor System uses registration system instead of qualification system.

The qualification of the SME Counselors is certified at two levels, namely, Ordinary Level and Temporary Level.

1. The Ordinary Level of certificate is issued for those who completed the Ordinary Counselor Training Course, after the training course is developed.
2. The Temporary Level Certificate is issued for those who completed the training course using the existing ones (Temporary Training Course). They can obtain a certificate of Ordinary Level qualification when they complete the Follow-up Training Course, which will give the supplementary training to cover the difference between the Temporary Training course and Ordinary Training Course.
3. The SME Advisors, who have expertise of particular areas, are registered at the SMED Authority after short training program on SME counseling, which includes the SME promotion policy and measures, and counseling method, etc. SMED-RC will assign the Advisor among the registered Advisors and according to their field of expertise. The Advisors will be categorized into the Marketing & Product Development Advisor, Business Management Advisor, and Financial Advisor. A training course for the Advisor will be developed in the future for those who want to be an Advisor. Those who completed this training course are exempted from the training course for SME counseling.

Formal counselor training course consist of three courses (I, II and III), total of 160 hours per course. Each course has lecture and field/practical training program. Course III, among others, particularly prances its focus on SMEs diagnosis in the Philippines.

Although the SME Counselor training course proposed here does not offer the same curriculum required for APEC’s Small Business Counselor or Japanese SME Shindanshi (certified business counselor), those who completed this SME Counselor training course will be certified to have finished a part of these certification program.

(3) Plan to nurture the SME Counselors

Following number of staff of DTI, CCI, or LGUs will be trained with the Temporary Training Course using the exiting ones, for qualified Counselors:

	SMED-RC	SME Centers/ Desks	For development of training course	Total
1 st Year	12	24	2	38
2 nd Year	4	24	2	30
3 rd Year	6	24	0	30

Notes: For SMED-RC, 4 Counselors each for 4 SMED-RCs in the first 2 years, and 2 Counselors each for 3 additional SMED-RCs in the 3rd year. For SME Centers and Desks, 24 Centers and Desks will be targeted to assign 3 qualified Counselors each in 3 years. Starting from the 4th year, the new Training Course is assumed to be implemented.

(4) Implementation Process

1) Development of an implementation plan for the “SME Counselor Training Program.”

An implementation plan for the “SME Counselor Training Program” in the Philippines will be developed and proposed. It will set forth the objective of the program, its implementation body and schedule, program content, qualification for trainees, and allocation of program costs. The Planning Committee on the SME Support Counselor Training Program will be organized within DTI to develop the plan. It is proposed that the committee members will be representatives of SMED Authority (BSMED before the establishment of SMED Authority), SMEDC, UP-ISSI, PCCI and ROG-DTI.

2) Training of the first generation of the counselors

To ensure the adequate training of SME Counselors within the country, those who are expected to achieve the leadership role both in extending services and teaching the following generations, will be sent to the course. They are also expected to be instructors of the training system to be established. Candidates for instructor training include staffs of DTI, government financial institutions, universities, provincial governments and chambers

of commerce and industry, as well as private consultants, who have more than ten years of work experience¹³.

Around 30 persons will be appointed annually by the planning committee and sent to the course for three-month training. Preparation period for reviewing the existing curriculum, and preparation of text books is required before starting the training.

3) Training of SME Counselors

At present, Asia Pacific Economic Cooperation (APEC) attempts to promote the training of Small Business Counselors under the “Training and Certification Program for Small Business Counselors.” The Small Business Counselor is required to have the ability to provide consultation service, which is equivalent or similar to that required for “SME Shindan-shi” trained in Japan and Thailand. The Philippines plans to introduce the program as an APEC member nation and an implementation plan is under preparation.

The SME Support Counselor proposed here is not required to have the same knowledge and skills required for APEC’s Small Business Counselor. Instead, he/she is required to have basic knowledge and skills to provide advice and guidance relating to SME management, including financial management. The training curriculum is outlined as follows. (As for the curriculums for APEC’s Small Business Counselor training program and UPISSI’s two-month training program, see attachments at the end of this project description.)

- Duration: One month x three courses (I, II and III), eight hours per day
- Total of 160 hours per course (120 hours for lecture and 40 hours for field/practical training, although varying with courses)
 - Courses I and II will cover basic training and Course III special training. All the three courses must be completed to obtain certification as the SME Counselor. Each course will be held three to four times per year.
- Potential trainees: Employees of government offices and agencies, local governments, the chambers of commerce and industry, SME Centers, and financial institutions (based on recommendation from a respective organization), or other persons who meet a set of criteria. Each course will consist of 40 persons. Participation from commercial banks should be encouraged.
- Eligibility: A college (university) graduate having three or more years of work experience
- A candidate who does not have recommendation from his employer will be required to submit a paper and take an interview.

¹³ Those who have received SBCC at UPISSI, are preferable.

Curriculum:	<p>Course I</p> <ol style="list-style-type: none"> 1) SME policies and programs, including support measures for small enterprises 2) Business environment and management basics 3) Accounting 4) Financial analysis (including exercises) 5) Income and consumption taxes 6) Understanding management of small enterprises <p>Course II</p> <ol style="list-style-type: none"> 1) Sales analysis and planning 2) Financial analysis (including exercises) 3) Key points in use of IT 4) Marketing 5) Key points in preparation of a business plan 6) Practical training <p>Course III</p> <ol style="list-style-type: none"> 1) Understanding and preparation of an income tax return form 2) Key points in collecting management information 3) Case study 4) Field work
Instructors:	<p>University professors, consultants, businessmen, government employees, and others. During the startup period, foreign support may be sought for development of the curriculum and textbooks, knowledge transfer on the management method, and provision of facilities and equipment.</p>
Others:	<ol style="list-style-type: none"> 1) Trainees will take a certification test upon completion of the training program. 2) Those who have passed the test will be registered with DTI as SME Counselor. 3) A certificate of registration (valid for five years) will be issued.

4) Provision of training facilities

Training in the Philippines is assumed to be held at UP-ISSI, and its facilities will be used as far as possible, including accommodation and library. It should be noted that UP-ISSI has sufficient space but audiovisual equipment is in short supply. Also, PCs should be purchased in consideration of the use resources as well as the preparation for future distance education.

5) Preparation of the training curriculum and textbooks

The training curriculum and textbooks will be developed by a committee to be organized for this aim. It is recommended to update the training curriculum and textbooks on the

basis of those used in the instructor training, while reflecting local conditions peculiar to the Philippines.

6) Registration of SME Counselors

Those who have completed the training program will be registered with DTI. SMED Authority will be responsible for administration and management of the registration system.

(5) Required preparation period

It will take around three years to build up the new system, including the training of instructors. Meanwhile, it is recommended to start the training program using existing courses to issue provisional certification, while efforts should be taken to establish the new system.

(6) Input requirements and estimated economic effects of the program implementation

Input requirements are summarized in Table III-3-13. The cost required for building the network is estimated at around \$68,000 and the operation cost at \$41,000.

The project is considered to be most important among the programs/projects to be implemented under the SME development plan. Nevertheless, its direct benefits are difficult to measure in quantitative terms. Activities of SME Counselors are positioned as the core of many programs and their benefits are accounted for by those programs. Benefits from the one-stop consultation and guidance service, which are not overlapped with other programs, are also included in #16.

Small Business Counselor General Areas of Competence (GACs) & Skills - APEC

"A" Conduct Business Analyses & Planning	Conduct situation analysis A-1	Conduct marketing analysis A-2	Conduct financial analysis A-3	Access & apply statistical data A-4	Negotiate A-5	Analyze organizational behavior A-6	Analyze organizational & operational procedures A-7	Demonstrate selling skills A-8
	Evaluate & apply strategic planning A-9	Perform location planning A-10	Develop a business plan A-11	Interpret credit procedures A-12	Source financing A-13	Recognize need for record keeping & accounting systems A-14	Recognize stages of business development & its implications A-15	Maintain awareness of socio-economic climate A-16
	Interpret political climate A-17	Develop awareness of govt. legal & regulations A-18	Recognize existence of economic development plans A-19	Explain role of small business counseling in eco. devt. A-20	Explain role of entrepreneurship & eco. devt. A-21			
"B" Exercise Personal Competencies	Recognize limitations &/or need to refer client B-1	Manage time B-2	Empower client B-3	Demonstrate organizational skills B-4	Apply analytical skills B-5	Demonstrate creative thinking B-6	Demonstrate professionalism B-7	Maintain currency in profession B-8
	Assume responsibility & accountability B-9	Demonstrate problem-solving approaches B-10	Demonstrate leadership facilitation B-11	Perform primary & secondary research B-12	Manage information B-13	Develop & maintain inventory of resources B-14	Develop & maintain network of expertise & support B-15	Maintain currency in technology B-16
	Develop network of information brokering skills B-17	Manage meetings B-18						
"C" Communicate	Listen C-1	Demonstrate confidentiality C-2	Develop rapport C-3	Apply interview techniques C-4	Identify biases C-5	Identify cultural differences C-6	Identify personality types C-7	Demonstrate empathy C-8
	Deal with sensitive issues C-9	Demonstrate positive attitude C-10	Interpret & apply non-verbal communications C-11	Interpret & apply verbal communications C-12	Communicate in writing C-13	Demonstrate telephone techniques C-14	Identify channels of communication & authority C-15	Deal with resistance & manage conflict C-16
	Employ summarization techniques C-17	Use audio-visual aids C-18						

"D" Assess Client Competencies	Assist client in self-assessment D-1	Assess previous experience D-2	Assess risk-taking potential D-3	Assess client's commitment D-4	Assess client's expectations D-5	Assess family support D-6	Assess business knowledge D-7	Assess interpersonal skills D-8
	Assess financial & human resources D-9	Assess technical competency D-10	Assess client's critical & creative thinking D-11	Assess client's willingness to learn D-12	Assess client's management ability D-13	Assess client's decision-making skills D-14	Assess client's leadership skills D-15	Assess client's knowledge of local region D-16
	Assess client's knowledge of global market place & issues D-17	Assess client's research skills D-18	Assess client's legal & credit status D-19	Assess client's negotiating skills D-20	Assess client's educational background D-21	Assess client's ability to communicate D-22		
"E" Facilitate Client Development & Competencies	Explain value of business planning E-1	Introduce client to business planning tools E-2	Identify learning opportunities E-3	Apply discovery learning methods E-4	Employ coaching techniques E-5	Counsel client in presenting proposals/applications E-6	Transfer business information & techniques to client E-7	
"F" Assist in the Identification of Client & Project Needs/Solutions	Assist client to conduct situational analysis F-1	Assist client to assess client preparedness F-2	Assist client in goal setting F-3	Assist client in identifying alternatives F-4	Assist client in developing an action plan F-5	Assist client in identifying time frames F-6	Advocate with/for client F-7	Perform site observation visits F-8
	Diagnose client's business problems F-9	Diagnose emerging opportunities & potential problems F-10						
"G" Assist Client in Facilitating & Interpreting Business Plan	Assist client in identification of opportunities G-1	Assist client in product development G-2	Assist client in marketing strategies G-3	Interpret & facilitate market research G-4	Assist client in location planning G-5	Assist client in financial analysis G-6	Identify sources & types of financing G-7	Assist client in planning of operations G-8
	Assist client in identification of human resources G-9							

**Small Business Consultancy
Course Schedule - UPISSI
6-Weeks Schedule**

Week No./ Sessions	Week 1	Week 2	Week 3
Monday	Opening Ceremonies Course Briefing Unfreezing Session	- Project Appraisal and Evaluation - Overview of Enterprise Mgt. - Into to Marketing Management	- Plant Location and Layout - Case in Production - Nature & Scope of Financial Management
Tuesday	- Overview of SME - Role of Consultants	- Supply-Demand Analysis and Market Segmentation - Product Planning and Dev. - Channel Management	- Cost Accounting - Cost-Volume Profit Analysis - Financial Analysis
Wednesday	- Intro to Enterprise Planning & Dev. - Environmental Analysis and Project Id. - Market Study	- Promotion Strategies - Pricing Techniques - Formulating of a Marketing Plan (FMP I)	- Capital Budgeting - Cash Management - Credit Management
Thursday	- Technical Study - Organization and Management Study - Financial Study 2	- FMP II - Production Functions and System - Materials Management & Inventory Control	- Case; Financial Management - An Intro to Small Business Consulting - Consulting in Marketing Management
Friday	- Financial Study - Social Desirability of a Project	- Quality Management - Cost Control/Techniques - Production Planning and Control	- Consulting in Production Management
Saturday	-	-	-

Week No./ Sessions	Week 4	Week 5	Week 6
Monday	- Consulting in Financial Management - Consulting in Organization Management - Introduction to BSF	Practicum	Fieldwork
Tuesday	Practicum	Practicum	Agency Visit
Wednesday	Practicum	Practicum	Evaluation of BSF Report do
Thursday	Practicum	Practicum	Evaluation of BSF Report do
Friday	Practicum		Closing Ceremonies

Table III-3-13 Estimate of Required Inputs for Implementation (#17)

Project No. 17: SME Counselors & Advisors

Item	Required Inputs			Remarks	
		<u>Period</u> (months)	<u>Number</u> (Persons)		<u>Costs</u> (US\$)
Manpower	- Lecturers/ Instructors	2.5	-	9,000	@4,000; including implementation of examinations.
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	1) Training pack (For 35 trainees x 21days)			14,000	Including venue (@150/day), equipment (@50/day), meals (@10/person-day), and materials, etc., with 20% of administration fee
	2) Transportation and accommodation for those who come from regions			17,500	6 times and 15 nights for 20 trainees; transportation (@70/person-time), accommodation @30/person-night)
	3) Plan and preparation of the training courses			68,000	Including preparation of textbook, etc. (4M/M x 4 persons x @2,500/MM, with 20% of administration fee, and 20,000 for textbook printing)

Notes: 1. Costs and expenses in US dollars in rounded figure without contingency.

Assumptions:

1. The training course consists of the following 4 courses. Each course is composed of base lecture, self-study, follow-up workshop, and final examination, except for Course III, which will be conducted as an OJT.
 - 1) Pre-course (SMEs in the Philippines; History & Current Government support for SME in the Philippines): Base lecture 3 days, and follow-up workshop 2 days.
 - 2) Course I (Basics): Base lecture 5days, and follow-up workshop 3 days
 - 3) Course II (Advanced): Base lecture 5days, and follow-up workshop 3 days
 - 4) Course III (Practical training): 1 months of OJT
2. Training is assumed to be contracted out to an institution, which has capability to undertake the course.
3. Target number of trainees: 35/year
4. Design of training course and preparation of curriculum is assumed to be contracted out to a capable institution to undertake the work.
5. For practical training, invitation of foreign experts as the instructors is recommended.

Program 18: Loan for Small Enterprises without Collateral

Reference No. 18:

Loan program without collateral for small enterprises receiving management advice from SME Counselor

1. Objective and Project Outline

This project is designed to facilitate small enterprises to improve their financial access and management at the same time. Essentially, the project will create a public loan program to provide non-collateral loans for small enterprises that strive to upgrade their business under professional advice and guidance for a specific period of time.

By creating a mechanism (program) to provide no collateral loans up to P2 million for small enterprises that have received management guidance from a SME Support Counselor (especially the upgrading of management through the maintenance of adequate books as well as proper accounting and financial management) for over six months, subject to specific eligibility requirements. Note that the eligibility is extended to small enterprises who have received guidance from SME Support Counselors who are assigned to SME Centers, and those who work at financial institutions or the chamber of commerce and industry, so far as they receive management guidance for over six months.

2. Implementing agencies:

Government agencies:

SMED Authority and MOF

Implementation bodies:

SBC and local chambers of commerce and industry

3. Background, Rationale, and Discussions

Financing is one of the most difficult problems facing SMEs in the Philippines. In particular, while SMEs feel that strict collateral requirements are a major obstacle, they often restrict financial access due to the general lack of the ability to deal with financial institutions and obtain loans - notably to keep complete and accurate books or develop a proper business plan and/or a repayment schedule as required by the lender. The problem is more serious and widely observed among smaller enterprises. Yet, financial assistance for “not bankable but viable projects” should be justified to promote the steady flow of funds to small enterprises that have the potential to expand business steadily but do not have collateral to secure loans.

Development of SMEs constitutes an integral part of the country’s industrial policy. To promote steady development of SMEs in the country, technical advisers who can evaluate operating conditions of SMEs accurately and provide proper guidance should play a critical role,

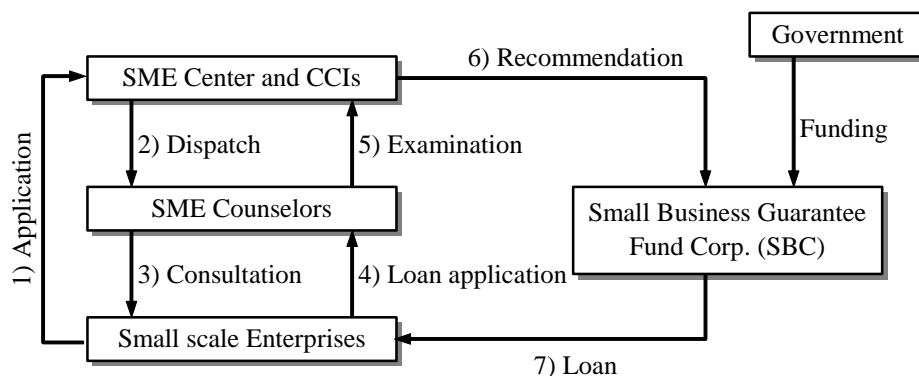
and an official program to train and certify the SME Counselor is considered to be essential in serving a large number of SMEs. In particular, SMEs urgently require experts who can teach proper bookkeeping and accounting practices and standards so that they can improve access to commercial loans, while learning modern management techniques. For this purpose, Project No.17 “The Establishment of the SME Support Counselor Training Program” is recommended.

This proposal is to develop a financial assistance program for small enterprises, which should be linked to the SME Support Counselor program under which their services will be available at SME Centers and financial institutions throughout the country.

4. Program Description

The SME Support Counselor Training Program (Action Plan No.17) will be the prerequisite to the implementation of this program, which success will depend entirely upon availability of qualified counselors. In consideration of the dependency relationship between the two programs, this program should be implemented according to the following steps.

- (1) SMED Authority will establish a formal plan for the Small Enterprise Management Upgrading Program and make a draft proposal for the “SME Financial Support Law (tentatively named)” that will serve as legal authority and ground for the program.
- (2) The program budget will be made and approved by the Congress. The budget will consist of two parts; the management upgrading project by SME Support Counselors, and the establishment of the fund for the loan program. The former will be conducted through SME Centers, and chambers of commerce and industry throughout the country, while the latter will be implemented by SBC. As the program is continued and expanded in the future, various government financial institutions (GFIs) will participate in the loan scheme with SBC. The program’s structure and mechanism is illustrated below.



(3) SME diagnosis and guidance by SME Counselors

Small enterprises that receive corporate diagnosis will be recruited in an area where a SME Support Counselor(s) is available. In the initial stage, when a relatively small number of counselors are appointed, the program will be fairly limited in number of diagnosis to be implemented.

<Corporate diagnosis and guidance procedures>

- 1) An enterprise that wishes to receive corporate diagnosis will make an application at a nearby SEM Center, the chamber of commerce and industry or a financial institution by submitting financial statements for the past three years (those for the previous fiscal year only from enterprises that have been founded in less than three years).
- 2) Preliminary examination will be conducted (the tax payment status, the history of operation, i.e., whether the enterprise conducts the same business in the same area for more than one year.).
- 3) The simplified diagnosis will be conducted on the basis of the financial statements submitted and the SME Support Counselor will interview the manager. (The detailed diagnosis will not be conducted for an enterprise that has no or little growth potential or shows no prospect for improvement.)
- 4) The SME Support Counselor will visit the company for corporate analysis to analyze its current state, including operational characteristics, and identify problems facing it.
- 5) A management upgrading plan focusing on bookkeeping and accounting practices (to teach an appropriate method for journal entry and bookkeeping, as well as the preparation of a business plan, a cash flow statement, and other financial statements) will be prepared and proposed, followed by field guidance.
- 6) The advisor's guidance and its results will be reviewed and the upgrading plan and the content of guidance will be revised as required. (This step will be repeated.)
- 7) Effectiveness of the upgrading plan and guidance will be assessed.

<Obligations of the enterprise receiving corporate diagnosis and guidance>

- 1) The enterprise is required to fully cooperate with the SME Counselor by making financial and other statements available for review in order to maximize the effect of improving its management.
- 2) The enterprise is expected to comply with recommendations for improvement that are made on the basis of corporate diagnosis and to make reasonable efforts to accomplish the goal set in the upgrading plan and guidance.

(Reference) Management indices

From financial statements that report the operating results of a company, management analysis can be made to determine, among other things, whether: 1) the company earns sufficient profits (profitability); 2) the company is operated efficiently (productivity); and 3) the company is stable and sound (stability). The management indices can be used for a variety of

purposes: the manager can understand the relative position of his company within the industry; the bank can make a decision on whether it should lend money to the company.

Note that management analysis is limited to financial aspects and it does not tell everything about the company. Nevertheless, it provides useful information, including the company's relative position within the industry and financial data of its trade partners.

They will also form the basis of accurate business statistics of this type in the country and it is therefore desirable to build an official data collection system.

(4) Loans by SBC

A company that has received guidance from the SME Support Counselor for at least six months is entitled to borrow funds from a government financial institution, provided that it meets the following conditions.

<Eligible companies>

Micro- and small enterprises

<Loan conditions>

- 1) The company must pay all the taxes due.
- 2) The company operates in the same area and industry for at least one year.

<Loan term>

- 1) Use of fund: Equipment investment or working capital
- 2) Upper limit for loan: P2 million
- 3) Loan period: Seven years or less for equipment investment fund and five years or less for working capital (with a grace period of six months or less)
- 4) Interest rate: Long-term prime rate
- 5) Collateral: None

<Loan application procedure>

- 1) Application for corporate diagnosis and guidance to a local SME Center or the chamber of commerce and industry;
- 2) Guidance by the SME Counselor in the areas of accounting and financial management;
- 3) Recommendation for loan by the SME Center or the chamber of commerce and industry to the government financial institution; and
- 4) Examination by the government financial institution, followed by approval.

In this program, SME Counselors as well as SME Centers and local chambers of commerce and industry, which send the counselors to individual enterprises, will play a critical role. Once the program has started, the loan program should be closely monitored, including the

repayment status and the performance of loaned projects, in order to create the basis of evaluating the counselor training project.

(5) SME Financial Support Law

<Purpose>

Article 1 The primary purpose of this law is to promote SME programs implemented by the government in a planned and efficient manner by primarily assisting and supporting finance and account of small enterprises, thereby contributing to promotion of SMEs.

<Definition>

Article 2 In this law, “small enterprises” are defined as a company or a person who meets any of the following criteria in terms of total asset value (excluding land) and the number of employees:

1. Having a total asset of less than 1.5 million pesos and nine or less employees; or
2. Having a total asset of 1.5 million pesos or more and 10 to 99 employees.

<SME Financial Support Project>

Article 3 Head of the Small and Medium Enterprise Development Council (SMEDC) will draw out and decide on plans annually for the following projects that are designed to provide assistance and support for SMEs in the areas of finance and accounting:

- i. A project that, upon request of a SME, provides advice on finance and accounting for SME managers and employees; and
- ii. A project that trains SME Counselors or provides follow-up education for SME Counselors.

2. Head of SMED Authority shall, in drawing out any of the above plans, give due consideration to its feasibility in order to ensure that the SME Financial Support Project is properly and effectively implemented.
3. Head of SMED Authority shall, when deciding on a plan for any of the above projects, promptly make it known to the public.

<Development of the Implementation Standard>

Article 4 To ensure efficient implementation of the SME Financial Support Project, Head of SMED Authority shall, in consultation with the SMEDC, establish a standard for advice on finance and accounting to be provided as part of the SME Financial Support Project, under the decree issued by the Department of Trade and Industry.

(6) Program budget

The program is expected to become fully operational in the third year, providing 140 cases of counseling service and 100 loans annually.

The counseling service will cost P30,000 per case (over six months), totaling P42 million for 140 cases. On the other hand, a fund for the loan program will be provided by the government in the form of a revolving fund. The original fund will be P6 million (P2 million per loan x 100 loans x 3 years).

Note that the program budget does not include the budget for the SME Counselor training project.

Program 19: Personal Guarantee System

Reference No. 19:

Introduction of personal guarantee system

1. Objective and Project Outline

This project is designed to promote the use of a personal guarantee system for SME loans in order to increase the flow of funds to SMEs that generally face difficulty in obtaining loans due to the lack of a real property in a sufficient value as a collateral. As the personal guarantee system is already used in a limited scope (accepting personal guarantee by borrowers or executives of borrowers' company) in the Philippines, the project aims to expand the scope of the personal guarantee system to third parties so that it can be used for SME loans that use the funds raised by BSP's rediscounting. At the same time, the guarantor's liability will be limited to protect him from being subject to an undue financial burden.

2. Implementing Agencies

Leading agencies:

Bangko Sentral ng Philipinas (BSP) and SMEDC

Implementation bodies:

Financial institutions

3. Rationale

Most SMEs in the Philippines rely heavily on indirect finance (both formal and informal) but often have difficulty in meeting strict collateral requirements. Financial institutions in the country try to secure repayment of their loans (plus interest) by requiring the borrower to pledge a collateral that can easily be liquidated, such as land, building or vehicle. Non-collateral loans relying on the company's intangible creditworthiness (e.g., business performance or future growth potential) are rarely made. As a result, it is very difficult for SMEs with insufficient collateral to borrow from commercial banks and other financial institutions.

To promote SME loans, the Philippine government implemented the SULONG program in 2003 to provide loans, mainly via government financial institutions, for SMEs that cannot pledge a sufficient collateral but meet specific conditions. While it is too early to assess effectiveness of the program, which has started less than one year, many point out that financial institutions continue to demand collaterals (impersonal security) to SMEs. Nevertheless it is also the fact that the SULONG program has improved the SME loan situation in terms of collateral assessment and interest rate

While it is difficult to change the collateral-based loan practice drastically in a short period of time, this project proposes the improvement of credit rating of SMEs by introducing the personal guarantee system¹⁴, thereby supporting business activities of SMEs. The system is designed to make up for the shortage of collateral in the form of personal security by the SME owner (personal guarantee) and/or a third party (joint surety).

In the Philippines, personal guarantee is also used for SME loans on a very limited scale. It is usually demanded by financial institutions to the borrower (a SME owner) or an officer of the SME in addition to a real property that is pledged as a collateral. Thus, personal security (guarantee) is subordinate to impersonal security and cannot serve as a sole basis of obtaining loans. Also, local financial institutions secure portions of loanable funds by using BSP's rediscount system and are required by BSP to obtain impersonal security for loans made out of such funds. In fact, the requirement has led to the ongoing lending practice relying on real property as collateral. To promote the personal guarantee system proposed under the project, therefore, it is imperative to modify BSP's rediscount system.

4. Program Description

As explained in the beginning, the project proposes the modification of BSP's system, rather than the creation of a new financial mechanism. In particular, it will consist of an agreement on the system modification and an amendment to the law that backs it up. The proposed system modification is outlined below.

(General outline of the personal guarantee system)

To promote the wide public acceptance of the personal guarantee system, the government will enact a law on the loan guarantee. (Note that the guarantor (surety) proposed here has limited liabilities (not a joint surety) to relieve him from excessive burdens.) Major provisions to be included in the law are as follows.

(Purpose)

The law should require commercial banks to provide adequate loans for SMEs in consideration of the bank's role in serving public interest as well as the interest of securing sound management of SMEs.

¹⁴ Personal guarantee relies on a specific person or company and his or its creditworthiness (formal credit rating, asset value, solvency, etc.). Instead of a collateral (impersonal security), personal guarantee is offered to guarantee repayment of loans. This is widely used in Japan, where "non-collateral loans" are backed by personal guarantee and constitute major portions of SME loans.

(The bank's obligations relating to lending activity, including collateral requirements)

1. Disclosure of loan conditions

The law should require the bank to disclose loan terms and conditions to the borrower (principal obligor) and his guarantor (surety).

2. Delivery of loan documents

The law should require the bank to deliver loan documents, including a copy of a loan agreement and other documents describing the content of the loan agreement, to the borrower and his surety upon conclusion of the loan agreement.

3. Determination of loan conditions

The bank should be required to determine loan terms and conditions (including interest rate and collateral) in overall consideration of the borrower's operating status, nature of business, future potential and other relevant factors.

4. Security requirements

- a. The bank should not demand personal security when a collateral pledged by the borrower is sufficient to guarantee the amount of loan.
- b. The bank should limit the collateral to business assets and a house or personal assets should be excluded as far as possible.
- c. Personal security should be obtained from the owner of the borrowing company or other third party surety, while personal guarantee by the owner's family should be avoided as far as possible.
- d. For personal security, information required in items 1) through 8) below should be specified.

Basic principles of the personal guarantee system are described as follows.

1) Scope of personal guarantee

The personal guarantee under the proposed system should cover only portions of the loan and personal assets including a house should not be pledged as the collateral.

2) Limitation

- a. The amount of personal guarantee assumed by each person should be limited to twice his annual income and one million pesos, whichever is lower, and 25% or less of the amount borrowed by the company (principal).
- b. The number of guarantors per loan should be limited to four persons including the owner of the borrowing company who provides personal guarantee.

3) Personal guarantee agreement

- a. The guarantor agrees to give a loan guarantee upon request of the borrower.

- b. The loan guarantee becomes effective when the guarantor agrees with the lender (bank). (While a guarantee is given upon request of the borrower, it becomes legally binding only when a guarantee agreement is concluded.)
 - c. Although the guarantee agreement is created on the basis of oral agreement between the parties, it is customary to execute a document that specifies the intent, scope and conditions of the guarantee.
 - d. The written guarantee agreement is made to ensure preservation of credit.
 - e. The guarantee agreement is executed in by the guarantor in a specific form that is either separate from or included in the loan agreement.
- 4) Legal effects of the guaranteed loan on the guarantee
- a. No loan guarantee is created unless a loan is executed.
 - b. The loan guarantee becomes void when the loan is canceled.
 - c. The loan guarantee terminates when the loan is repaid and terminated.
 - d. The amount of loan guarantee decreases with partial repayment of the loan. (The guarantee should cover 25% of the outstanding loan.)
 - e. The duration of the loan guarantee extends when the loan period is extended.
 - f. The effect of interruption of prescription on the loan is extended to the obligation under the loan guarantee.
 - g. The effect of waiver of benefit of prescription by the borrower is not extended to the obligation under the loan guarantee.
 - h. The obligation under the loan guarantee is transferred with the loan, as the latter is transferred by the creditor (lender).
 - i. When the guarantor dies, the obligation under the loan guarantee terminates and is not inherited by his heir.
- 5) The guarantor's rights to defend
- a. When the lender demands repayment of the loan to the guarantor, the guarantor may protest and demand the lender to give a preemptory notice to the borrower, unless the borrower becomes bankrupt or is unable to be located.
 - b. When the lender gives a preemptory notice demanding repayment to the borrower and demands the guarantor to make repayment, the guarantor may reject repayment and demand the lender to serve a writ of compulsory execution on the borrower.
- 6) Right to indemnify
- When the guarantor makes repayment of the loan to the lender, he may demand the borrower to indemnify the amount equivalent to the actual amount repaid, interest after the date of repayment at a legally permitted rate, costs and expenses incurred by the guarantor in connection with repayment, and damage suffered by the guarantor.

7) Indemnification between guarantors

In principle, each guarantor is required to repay the amount that he is liable under the guarantee agreement. However, if there are two or more guarantors for the same loan and a guarantor repay the entire amount, the guarantor may demand other guarantors to indemnify the amount they are liable under the respective guarantee agreements, subject to the scope defined in 7).

8) Relief

The guarantor may be relieved from the obligation under the loan guarantee upon approval of the lender.

Special notes to the lender (bank): As the guarantee agreement is made between the lender and the guarantor, the following precautions are required on the lender side: 1) the lender should meet the guarantor to confirm that he is willing to give a guarantee and have his signature on a long guarantee agreement or other format; 2) the lender should ask the guarantor to submit his photo to check his identity; and 3) if possible, the lender should request the guarantor to write down the amount of guarantee, the repayment period and other critical information for verification purposes.

Sample Form of Loan Guarantee Agreement

Article 1

The undersigned, _____ (the "Guarantor") hereby guarantee the repayment of the loan amounting to _____ pesos, which is borrowed by _____ (the "Principal Obligor") from _____ (the "Lender") on _____, and in the event the Principal Obligor fails to repay it according to the term of the loan, the Guarantor shall be liable for repayment of a specific amount of the loan according to the Law Concerning the Loan Guarantee.

Article 2

In the event the Principal Obligor fails to repay the loan and the Guarantor receives demand for repayment from the Lender, the Guarantor shall make repayment according to the repayment method and period, and other terms and conditions agreed in consultation with the Lender.

Article 3

Notwithstanding the prevision in Article 2, the Guarantor retains the right to demand the lender to give a peremptory notice to the borrower and to serve a writ of compulsory execution on the borrower.

Article 4

In the event the Guarantor fails to meet the obligation under the loan guarantee hereunder within the period specified in Article 2, he shall pay a liquidated damage at the rate of _____% per annum.

To witness whereof, the parties have executed this Agreement in duplicate on this ____ day of _____, and each party shall hold one copy hereof each.

Lender

Guarantor

Program 20: SBC Deposit Fund Program

Reference No. 20:

Establishment of SBC Deposit Fund Program

1. Objective and Project Outline

This project is designed to promote the use of the funds of financial institutions and SBC's credit guarantee program to meet financial needs of SMEs.

The project starts with the government's contribution of the "SBC deposit fund" to SBC in the form of financial assistance, which will allow SBC to deposit the amount equivalent to its target level of SBC-guaranteed loans with each financial institution that have signed a loan guarantee agreement and will request them to extend SBC-backed loans equivalent to three times the amount of deposit, thereby to increase SME loans as well as SBC's loan guarantee

2. Implementing Agencies:

Leading agencies:

SMED Authority and MOF

Program implementation organizations:

SBC and its lending financial institutions providing SME loans under SBC's guarantee program

3. Background, Rationale, and Discussion

Major issues in SME financing in the Philippines can be summarized as follows:

- 1) How to make sufficient loanable funds available to SMEs; and
- 2) How to reinforce creditworthiness of SMEs for smooth supply of funds.

1) is primarily concerned with the volume of funds to be supplied to SMEs and public assistance should aim to increase funds of banks available to SME loans by supplying public money. For this purpose, the Philippine government implemented the SULONG program in 2003 under participation of government financial institutions.

On the other hand, 2) is related to quality of SME support. It focuses on reinforcement of the ability of SMEs to gain financial access. As SMEs face difficulty in obtaining loans partly due to the general lack of creditworthiness and collateral, public support can play a key role in helping them to improve credit rating to the level attractive enough for commercial loans. And SBC's credit guarantee program serves the purpose.

The credit guarantee system in the Philippines is expected to function as, among other things, a bridge between commercial banks and SMEs by diverting limited commercial funds to SMEs, while addressing the quality issue. This project proposes the creation of public funds that induce private funds to SME loans (tentatively called the “inducement fund”), thereby boosting loans guaranteed by SBC and promoting smooth flow of funds to SMEs.

Under the project, the government will contribute the amount of fund equivalent to SBC’s target level of loan guarantee and will request commercial banks that use the loan guarantee service to provide SBC-backed loans in total amount equivalent to three times the contribution made by the government. The credit guarantee system in Japan has incorporated this arrangement since 1957, which is proven to be effective in diverting private funds to SME finance.

4. Program Description

(1) A general outline of the SBC Deposit Program

- 1) Commercial banks are generally cautious about diverting their limited funds to SME loans in consideration of cost and risk. While SBC’s loan guarantee does not affect high interest burdens on commercial banks (15-30%), introduction of low-cost funds by way of deposit will increase loanable funds and promote SME loans.
- 2) The government will provide financial assistance in the following areas with an aim to divert private funds to SME loans: 1) the government will contribute the amount of fund required for SBGFC to achieve its target level of credit guarantee; 2) SBC will deposit the fund with financial institutions that have signed the guarantee agreement and request them to divert the fund equivalent to three times the deposited amount to SBC-guaranteed loans (SME loans); 3) SBC will increase the deposit with a financial institution that has extended the loans in the target amount, while decreasing the deposit if the target is not cleared; and 4) the government will provide financial assistance according to the annual target of SBC’s loan guarantee by increasing its contribution.

Note: At present, the government may deposit its funds with the Land Bank only. If the regulation prevents SBC from depositing the government funds directly with lending institutions, an arrangement should be made with Land Bank to receive deposits from SBC and redeposit them with banks. A final arrangement should be determined by taking into account a factor as to which method (channel) can start up the proposed system most quickly.

(2) The amount of the government’s financial assistance

The amount of the government’s contribution (financial assistance) will be determined according to the SBC’s target amount of its guaranteed loans. For instance, if SBC targets P600 million of loan guarantee, the government’s contribution will be P200 million (SBC’s deposited amount multiplied by three times).

- (3) Introduction of SBC's divisional accounting practice and rules
 - 1) As SBC receives the "deposit fund to increase SBC-guaranteed loans, it will have to adopt an accounting practice to manage the fund separately by the guarantee and the loan portion, with the account of the credit department to be managed in two segments, the "reserve for guarantee" and the "contribution."
 - 2) SBC will establish rules for management of the deposit fund to increase SBC-guaranteed loans.

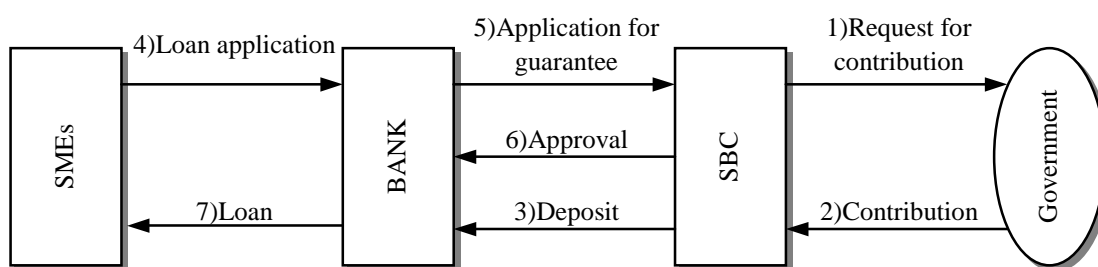
- (4) Terms and conditions relating to SBC's deposit with financial institutions (development of standards)

SBC will deposit the fund for the inducement of SBC-guaranteed loans with commercial banks for one year (two years under a special circumstance), which amount will be increased or decreased according to the actual amount of SME loan made by each bank. The deposit will accrue interest at the rate applied to the bank's one-year (or two-year if applicable) time deposit.

- (5) SBC's budget request for deficit coverage

When SBC establishes an annual target of loan guarantee for the subsequent year, on the basis of the actual results of SBC-guaranteed loans, and if it requires an additional contribution to meet the target, it will request the contribution under the government budget.

- (6) A mechanism of the SBC Deposit Fund Program



According to the government rule with Land Bank, it might be two-step deposit system.

<Implementation procedure>

- 1) To develop the SBC Deposit Fund Program (government, SBC and financial institutions);
- 2) To adopt rules for management of the deposit fund (SBC);
- 3) To request the government to contribute the fund according to its target amount of guarantee for the subsequent year (SBC);

- 4) To deposit the contributed fund with each financial institution according to its target amount of SBC-guaranteed loans (SBC) (the two-step system involving Land Bank may be adopted); and
- 5) To increase or decrease the deposit with each financial institution according to the actual amount of SBC-guaranteed loans extended in the previous year, request an additional contribution from the government, as required, and make additional deposit.

Program 21: Streamlining of Examination System for SBC-Guaranteed Loan Application

Reference No. 21:

Streamlining of the Examination System for SBC-Guaranteed Loan Application

1. Objective and Project Outline

This project aims to streamline the examination system at SBC for SBC-guaranteed loan applications so as to reduce the time required for the loan and/or loan guarantee process, thereby ensuring the quick and timely provision of funds for SMEs.

This will be accomplished by creating an examination process that will minimize duplication of work, especially examination, at SBC and lending financial institutions. In particular, SBC's examination system will be streamlined by delegating authority to loan offices and reducing the burdens of the Credit Committee.

2. Implementing Agencies:

Implementation body:

SBC in close collaboration of lending financial institutions that provide SBC-guaranteed loans for SMEs

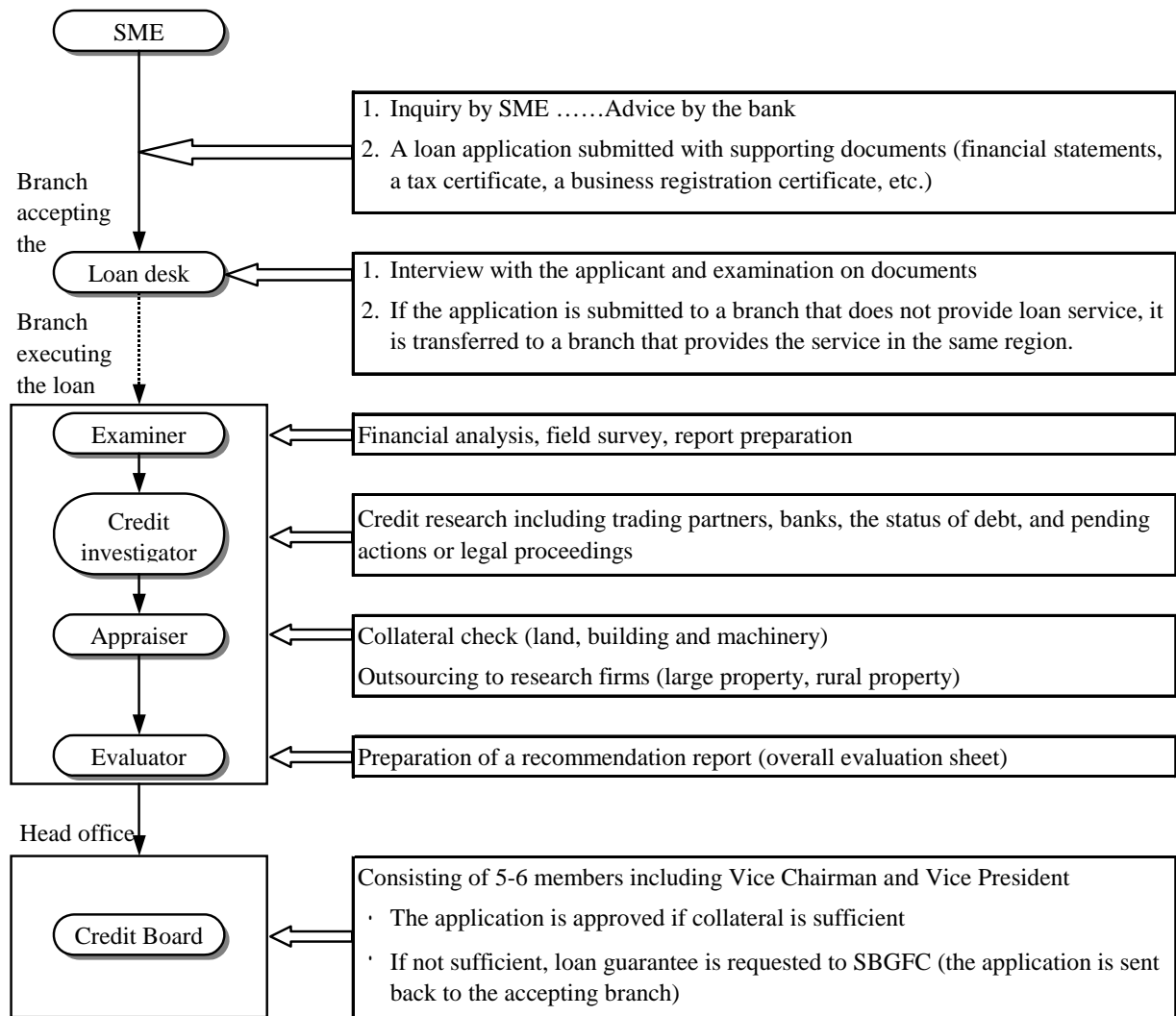
3. Background, Rationale, and Discussions

In the Philippines, most SMEs depend upon indirect finance as a major source of capital raise. In practice, however, they usually face difficulty in obtain loans from commercial banks due to the lack of collateral and strict documentation requirements. In addition, it requires considerable time in the examination process. Generally, SMEs are expected to allow for a few months before a bank approves (or rejects) loans. For SBC-guaranteed loans, it takes an additional month at SBC for its examination.

The present bank examination system of financial institutions in the country, regardless of their size, consists of several steps that involve detailed research and study, evaluation, and assessment by examiners specialized in specific fields, followed by centralized decision making at their headquarters. The process is elaborately designed but also contains certain redundancies, e.g., field investigation on the same application is conducted repeatedly by the loan officer and the appraiser in different stages of the examination process. Also, there is no mechanism to share knowledge possessed by loan officers who are familiar with different fields and it is difficult to develop the skill to evaluate and analyze loan applications from wider perspectives (future business opportunity, etc.) Furthermore, the examination process is highly centralized to approve or reject most loan applications at the credit committee of the head office (for leading banks having branches throughout the country, usually Manila)

In addition, banks often demand guarantee from SBC when their credit committee finds uncertainty about the applicant's business or collateral. The decision is then notified to the applicant for consent. Loan documents are returned to a bank branch that has accepted the application, where a SBC application form is filled out. Finally, it is sent to the lending branch (branch that executes loans) and SBC. The process is highly complicated and time consuming. (See the diagram showing the typical examination process of commercial banks.)

(The Examination Process at Commercial Banks in the Philippines)



Generally, as an organization grows, it is departmentalized to create the horizontal division of responsibilities, while it grows vertically to develop a hierarchical structure. To ensure the efficient and effective functioning of such organization, power and authority should be clearly defined for each department as well as the level of responsibility. This basic principle of organization management should apply to financial institutions and their examination system.

Also, the examination system of Philippine banks is divided into four phases, namely financial analysis, credit investigation, collateral appraisal, and overall evaluation. While the system allows in-depth study in a specific field, it cannot evaluate the local application from overall perspectives and often takes considerable time. The project is proposed to speed up the examination process by creating a system to share internal information among each bank's related departments, while upgrading the skill of the loan officers and delegating more authority to them for efficient and effective decision making.

After SBC has accepted a loan application for which a commercial bank requests credit guarantee, its staff interviews the applicant if the amount of loan is less than one million pesos and conducts field investigation (confirmation and appraisal of collateral) in the case of one million pesos or over. Then, the loan application worth five million pesos or less is evaluated by a group head and is finally approved or rejected by the credit committee, while the application over five million pesos will be determined at the board meeting.

SBC holds the credit committee once per week, which takes around 30 minutes to examine each application. At present, the credit committee is able to handle applications without many backlogs due to a relatively small number of cases brought to it. However, once the number of applications increases as anticipated, the committee's capacity will soon come to limits. At present, it takes about two weeks from SBC's acceptance of an application to its final decision on loan guarantee. It will take longer if SBC increases guaranteed loans to meet demand.

Many SME borrowers want to obtain loans in a timely manner to take advantage of a business opportunity. To meet such needs, the examination process should be streamlined by improving the examination systems of both lending financial institutions and SBC. The project proposes a new examination system for SBC, which focuses on the sharing of information among departments, and delegation of authority to loan officers.

(While delegation of authority to loan officers is recommended for any other financial institutions as it is effective in speeding up the examination period, the project does not include financial institutions in consideration of difference in business practices and other conditions among them. Furthermore, the project focuses on the examination system for SBC's guaranteed loan applications.)

4. Program Description

It is proposed to upgrade SBC's examination system in the following three areas.

- 1) The examination standard will be revised to eliminate the interview and field investigation requirements for small loan applications, which will be examined through document review.

- 2) The group heads will be delegated with authority to approve or reject applications at their discretion.
 - 3) The lower limits for approval/rejection by the credit committee and the chairperson will be raised.
- (1) Elimination of the interview and field investigation requirements for small loan applications

For small loan applications (P3 million or less), the interview with the applicant and field investigation will be abolished and a final decision will be made on the basis of document review. SBC will request specific investigation to a financial institution as the need arises. Its examination will focus on validation of each loan application, check on guarantee requirements (business profiles, type of guarantee, an intended use of funds to be loaned, type of business, the amount and period of guarantee, repayment conditions, the guarantee fee, and collateral), as well as the examination of documents attached to the application.

If a lending financial institution which has conducted investigation upon SBC's request makes a false report, SBC should be able to impose penalty on the bank, such as the waiver (whole or partial) of loan guarantee. By incorporating such safeguard into the examination system, duplication of work at SBC and commercial banks will be minimized. Finally, SBC may conduct the interview and the field investigation for small loan applications if it finds any doubt about the bank's investigation, provided that the interview will be limited to loan applications worth P3 million – P5 million and the field investigation over P5 million.

- (2) Delegation of authority to approve/reject small loan applications to the group heads

At present, all loan applications, regardless of their amount, will be reviewed and approved or rejected by the credit committee. As the number of applications is expected to increase in the future, the credit committee will not be able to handle them within a reasonable period of time. To reduce the workloads of the credit committee, the group heads will be delegated with authority to approve or reject small loan applications (P3 million or less).

In addition, the group head may refer special cases (which are to reject the request for guarantee or which are difficult to decide) to the credit committee.

Loan applications decided by the group heads will be reported weekly to the credit committee for approval, specifying the following items, in order to allow the committee to review the decisions on small loan applications.

Items to be reported on small loan applications decided by the group head

- 1) Company name (borrower name) and address
- 2) Business profiles (brief description of business, including major characteristics)
- 3) Type of guarantee

- 4) Amount of guarantee approved
- 5) Intended use of funds loaned (equipment investment/working capital)
- 6) Guarantee period
- 7) Repayment conditions
- 8) Availability of collateral
- 9) The applicant's interview and field investigation, if any
- 10) Remarks

(3) Higher limits for approval/rejection by the credit committee and the chairperson

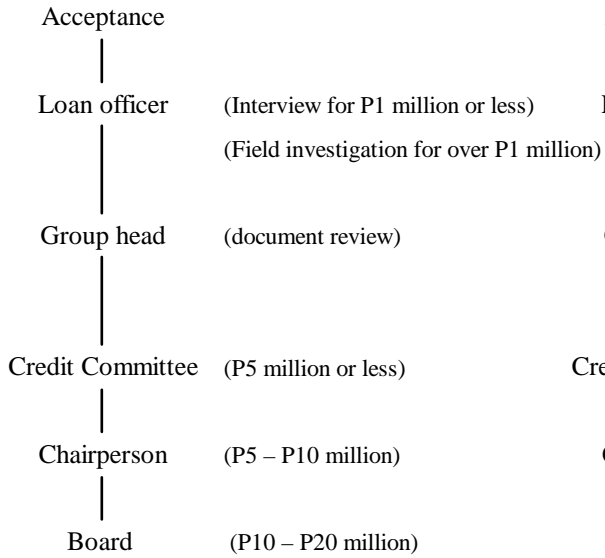
The credit committee will examine loan applications over P3 million and approve or reject those worth P8 million or less. The chairperson will examine and decide on loan applications between P8 million and P20 million (SBC's upper limit for guarantee). As the decision by the board will be discontinued, the chairperson will report loan applications over P10 million to the board (reporting the same items as those reported by the group head).

By limiting loan applications decided by the credit committee to over P3 million, the committee will be able to handle future applications within its capacity, even if the number of applications increases significantly. At the same time, leaving large loan applications to the chairperson will further speed up the examination process, thereby benefiting both SBC and SMEs.

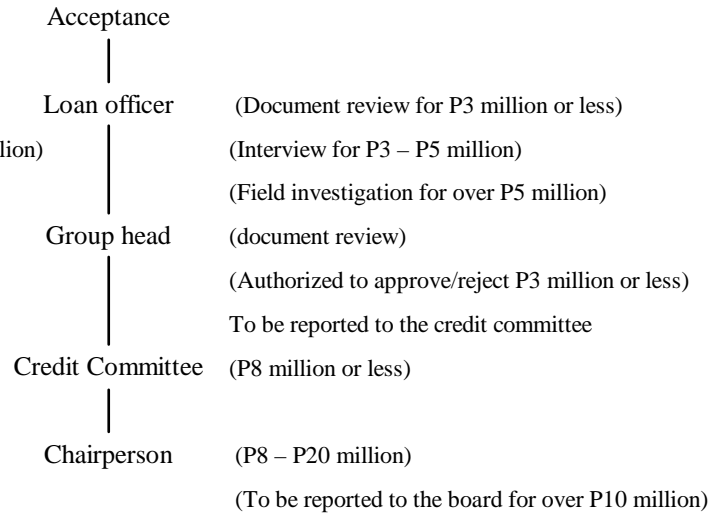
If the amount of loans to be examined increases in the future, the lower limit for the committee's approval will be raised to P10 million, while the chairperson will be responsible for P10 - P20 million loans.

Upgrading of SBC's Examination System

(The present examination system)



(The proposed examination system)



Proposed amendment to internal rules

Partial revision of the examination standard)
(Examination by loan officer)

Article __ The loan officer shall conduct a detailed examination on the loan application according to the examination guideline by checking the appropriateness of the loan, bank loan and guarantee procedures, guarantee requirements, the payment status of the guarantee fee, and documents attached to the application, and will report the results with his opinion. For loan applications worth P3-P5 million, the loan officer shall interview the applicant. For those over P5 million, filed investigation will be conducted to check the current status of the applicant's business, business profiles, background for loan application, availability of collateral and surety, and possibility of repayment.

(Examination by the group head)

Article __ The group head shall conduct a detailed examination on the application for loan guarantee according to the examination guideline and will report the results with his opinion. He may, upon delegation of authority from the chairperson, approve or reject an application worth P3 million or less at his direction. He shall report the applications approved or rejected at his discretion to the credit committee for approval. He shall also refer to the credit committee the applications that are to be rejected or that are difficult to decide.

(Credit Committee)

Article __ The credit committee shall consist of the president and the vice president and shall be convened one per week. Related parties may attend at the committee as required. The credit committee may conduct a detailed examination on each application for loan guarantee and approve or reject the application worth P8 million or less, upon delegation of authority from the chairperson.

(Chairperson)

Article __ Applications for loan guarantee decided by the chairperson and valued at over P10 million shall be reported to the board meeting that is held monthly.

(Implementation procedure)

- 1) Discussion by the planning, guarantee and loan sections
- 2) Partial amendment of internal rules (examination standard)
- 3) Notification (report) to DTI
- 4) Dissemination and education to officers and staffs
- 5) Implementation

- (4) In addition, examination items which are to be executed by loan officers at SBC and commercial banks for the purpose of reducing the examination period are listed below.

(Examples of Examination Items)

A preliminary report (proposal) is prepared by a front-line examiner to allow preliminary examination on a loan application and serves as the basis of detailed examination.

- Items covered by the preliminary report
 - a. General profiles of the company that applies for loans
 - Nature of business, history, key products, and others
 - b. Business performance..... Analysis of financial statements in the recent three years as well as the most recent trial balance
 - c. Nature and content of the proposed loan
 - Type and period of loan, the method for repayment, and justification for proposed loan terms
 - d. Use of funds to be loaned Working capital or equipment investment, and its rationale
 - e. Interest rate A proposed lending rate, fixed or variable, and a reason for setting an interest rate that is deviated from standard interest rates established according to credit rating (financial status) of companies
 - f. Credibility of repayment Whether the annual amount of repayment will fall below the cash flow (usually profits in the current year plus depreciation expenses)?
 - g. Collateral and surety What portions of the amount of loan will be covered by the total value of collateral (real estate, securities, bank deposit, golf course membership, etc.)? If not fully covered, is a surety available or is credit guarantee required?
 - h. Latest profit and loss Valuation of securities at market price, and recoverability of loans and receivables
 - i. Management capabilities Educational and other backgrounds, family connections, personality, management knowledge and skills
 - j. Other items Position in the industry, successor, R&D capabilities and assets
 - k. Opinion of the preliminary examiner
 - Including the objective of the applicant to obtain funds, benefits expected from the proposed loan (fee, handling of the borrower's banking service, etc.)

Program 22: SMED Authority

Reference No. 22:

Establishment of SMED Authority as the central authority of SME support system

1. Objective and Project Outline

This project aims to establish the SMED Authority (SMEDA) that will be sole government agency taking charge of implementation of under-planning SME Development Plan. With this, DTI will concentrate available funds and staffs in new organization, and implement uniformly and selectively SME policies and measures so that fragmentary activities in SME development can be comprehensive and proper way.

That is to establish a new government authority including local supporting network as part of efforts to reorganize and unify government organization and technical support institutions for SMEs under the jurisdiction of DTI and BSMED, and having responsibility of overall SME development in the country including the following items.

- New authority has jurisdiction over all administration works that is concerned in SME development under DTI.
- On behalf of DTI, new authority will be in charge of collaboration and coordination work with government agencies concerned for SME development administration.

So far extensive discussion on establishment of new SME development body has been made but no reorganization has been produced due to difficulties to reach consensus among government agencies. Therefore, it focuses on the unification of a part or whole function of the existing government agencies and technical supporting institutions attached to the DTI such as BSMED, CITC, PDDCP, PTTC and BDT.

The SMED Authority will have at least the following functions.

- Formulation and management of SME development policies and measures (including financial and non-financial) within DTI, and monitoring of implementation.
- Implementation of SME development measures except for financial supports (Financial programs are suppose to be implemented by SBC)

Regarding to SME development policies and measures, SMED Authority will coordinate the following functions with other government bodies (implementing agencies). In case of other government bodies don't focus on SME development so much although it is important for SME development or sector development, SMED Authority will implement a part of the following functions. These are coordinate at SMED Council.

- Matters for industry development policies
- Matters for research and development and technical guidance

- Vocational training and skill development in general
- Implementation of any measures for SME financing

2. Proposed Responsible Agencies/Organizations

Undersecretary Office of DTI, and SMED Council (SMEDC)

Consensus building: SME Core Group

3. Background, Rationale and Discussions

A government office that plays a central role in SME promotion in the Philippines is the Bureau of Small and Medium Enterprises Development (BSMED) of DTI. BSMED consists of four divisions: a) Policy, Planning & Research; b) Program Development and Coordination; c) Resource Generation; and d) Management Service. It has slightly less than 30 staffs (as of March 2003), which is fairly small compared to its wide area of responsibility. In addition, DTI has several organizations specialized in SME promotion-related tasks, including the Cottage Industry Technology Center (CITC) responsible for development of local (cottage) industries, the Product Development & Design Center of the Philippines (PDDCP) that supports design development, and the Philippine Trade Training Center (PTTC) responsible for human resource development. Furthermore, DTI has branch offices in 16 regions and all provinces, which are under jurisdiction of the Undersecretary of Regional Operation Group (ROG). While all these organizations are supposed to work together under the umbrella of DTI, they virtually work independently under their own policy.

On the other hand, the bureaus, the offices, and the centers have fairly limited power and authority as government agencies under DTI. For instance, BSMED is not authorized to establish its own local office as a bureau. By the same token, DTI's provincial offices perform duty and service on behalf of DTI and are not delegated of responsibility for SME promotion. They simply provide a variety of services under DTI's jurisdiction in each administrative unit, including consumer protection, regulatory function, export promotion, and investment promotion. Thus, the current institutional framework does not clearly define a core organization leading SME promotion on a regional and local basis.

This makes a sharp contrast to Thailand that is reportedly in a comparable situation to the Philippines in terms of the number of SMEs and the level of their development. In Thailand, SME promotion is led by the Department of Industrial Promotion (DIP) of the Ministry of Industry (MOI). DIP has a total of 1,360 staffs including part-time employees and local office staffs (as of February 2003). In addition, Thailand established a new organization responsible for formulation of SME policy, coordination of policies and activities of SME development organizations, and SME-related budget management, in 2000, called the Office of SME Promotion (OSMEP). Although direct comparison is difficult in consideration of different history, background and other factors between two countries, it is clear that the present

government organization relating to SME promotion in the Philippines is fairly small and very limited resources compared to the important role that it is expected to play.

In the Philippines, the Magna Carta for Small Enterprises (RA6977) provides for the establishment of SMEDC as an organization responsible for formulation of SME policy and coordination of related offices and organizations, and SMEDC has been functioning well to this date. The act also calls for the reorganization of the SME promotion organization and institution (including policy formulation and budget control) (Chapter III, Section 10). So far extensive discussion has been made but no reorganization plan has been produced.

The major problem identified during the discussion is to reach consensus among Departments and bureaus concerned that have different intents and interests. Little progress has been made partly due to political moves and SMEDC has suspended the discussion on the establishment of the promotion body. Nevertheless, the fact remains that SME promotion must be led by core organizations at central and local government levels, which are delegated of strong power and authority to formulate and implement effective policies and programs. In fact, general understanding is that the amended Magna Carta for Small Enterprises of 1997 still contains the provision to call for the rationalization of the existing programs and agencies.

The proposed project is designed to help achieve the objective of the mandate set forth in the Magna Carta for Small Enterprises, while it focuses on the prompt establishment of the SME Development Authority attached to the DTI in order to enable it to establish itself as a leading agency responsible for implementation of SME development plans.

Need for establishment

It has been a consensus among the Government agencies and organizations related to SME development that the coordinated work among them is indispensable in providing effective support for SME development.

The Magna Carta has also recognized the necessity of it, and thus, created the SMED Council. Within DTI, the DTI SME Core Group was established as an ad hoc team to provide strategic guidance in the execution of the National SME Development Agenda, and to represent DTI Secretary to the SMED Council, while ROG was designated for regional implementation of the Agenda.

Despite the above, there are significant weaknesses relating to the organizational setup in view of effective and efficient administration of SME development, as follows:

- 1) Time consuming process of decision making because of the ad-hoc nature of the SME Core Group without one exclusive executive officer and permanent staff covering all the aspects of SME development.
- 2) Difficulty in execution of the programs decided by the Core Group in a coordinated manner, since each agency or institution has functions which are not covered by the

functions of the SME Core Group, and the staff are assigned basically according to the functions original to the agency/institution. Activities, therefore, are fragmental and less impact because of the lack of budget and resources under one agency/institution.

- 3) Difficulty in allocating the budget according to the decision made by the SME Core Group, without institutionalized budget for the Group. The budget for each agency/institution is allocated according to the planned duty original to them.

Therefore, following are the key points to be considered:

- 1) To establish the Authority as an attached agency to DTI to exercise authority and responsibility having permanent staff
- 2) To organize regional operation offices (SMED Regional Centers at Regional level and SME Desks at Provincial level) within the Authority
- 3) The budget for the Authority is executed under a single execution plan
- 4) The assignment/allocation, and reshuffling of staff should be planned and implemented throughout the Authority regardless of the organizational boundary of the merged government offices and institutions, and under a single responsibility of the head of the Authority

Government agency or corporation

The Proposed Authority is assumed not only to cover the function of policy planning, administration and monitoring, but also covers the function of implementation. Many countries assigns these two functions into 2 different agencies/organizations. For example, in the case of Japan, the SME Authority is responsible for the former function, while the implementation is the function of JASMEC, SME Promotion Corporations of prefecture government, etc. The case in Thailand is also the same.

However, in the case of Philippines, one agency responsible for the two functions is recommended under the prevailing severe limitation of funds and resources, though there would be the time to reconsider the assignment of these functions to different agencies/organizations in the future.

Also there is a possibility to create the “Authority” as a corporation. In this case, the corporation will be responsible for implementation only, and the function of policy planning, administration, and monitoring is necessary to be assigned to other government agency.

There will be some cases, where corporations or private sector involvement are advised in implementing some programs, to generate potential income from the management of programs. In such case, however, the Authority may contract out the preparation and operation of the programs to the service providers on bid basis.

Functions and relations with other government agencies and institutions

- 1) Industrial development policy is not the responsibility of the Authority, but the Authority will take sectoral approach focusing on sector development in guiding SMEs for their development.
- 2) Research and development, even the industrial technology research and development and guidance is not the responsibility of the Authority. The Authority, however, should include the function to extend the technical guidance to certain sectors in specific areas of industrial accumulation as a part of its sectoral approach. The current SME Production Center will be used only as the technical guidance center focusing on the locality.
- 3) Vocational training and general technician training is not the responsibility of the Authority. The Authority, however, will make advice to TESDA and other agencies and institutions in charge of such training, regarding the improvement of the curriculum in view of sectoral development in cooperation with the relevant industrial associations.
- 4) Implementation of the SME financing program is not the responsibility of the Authority. The Authority is responsible only in policy planning, administration and monitoring in the area of SME financing. SBC is assumed as the responsive implementation agency of SME financing programs.

As for the actions essential for the SME development, which are in the areas where the Authority is not responsible, it will be coordinated among the responsible agencies at the SMED Council.

Functions of merged agencies/institutions, which will not be covered by the Authority

Some of the functions, which has been assigned to the agencies/institutions to be merged to the Authority, might not be covered by the Authority. These functions should be included in the functions of the Authority provisionally, and transferred to other agency or institution later, if the transfer is found necessary and appropriate.

Internal organization set-up

In order to make the reorganization less complicated, it is recommended to transfer the minimum unit (Division or Unit) of current internal organization to the Authority without being dissolved or merged. The rationalization should be undertaken after a certain period of operation.

BSMED vs. SMEDA

BSMED and the proposed SMEDA differ in several important aspects. First of all, administrative power and authority vested to them; the head of SMEDA will be appointed by the President and will attend the Cabinet Meeting upon request from the President. SMEDA will be an independent agency responsible for planning and implementation of SME polices and

programs. It will have own regional operation arms. The budget will be the one designated to the SMEDA, though under that of DTI.

The second difference is found in the size of organization and the scope of service. In addition to the functions of BSMED, SMEDA will incorporate the agencies specialized in promotion of local industries, design development, and human resource development, thereby to expand not only its size but its scope of service, both depth and width. The enhanced power and authority of SMEDA is expected to promote more efficient and effective SME policy management and budget control within the government.

Comparison to the proposed institutionalization of the SME Core Group

At present, the SME Core Group is developing a plan to reinforce the group and resources. While the plan is similar to the SMEDA concept in terms of objective and functional division, the two plans differ in several areas. First of all, SMEDA will be a fully independent government agency that will dismantle and integrate the existing bureaus and agencies. On the other hand, the SME Core Group will be reinforced while each agency that constitutes it will remain intact. SMEDA will have its own power and authority accordingly. Secondly, SMEDA will leave implementation of financial support policies and programs to SBC and other financial institutions and will only be responsible for policy formulation in SME financing. More precisely, SMEDA will not be involved in financial assistance as well as technical support that include research and development (under jurisdiction of DOST). Thus, SMEDA will concentrate on policy formulation and program development, together with coordination of implementation bodies.

4. Program Description

General concept of the proposed SME Development Authority

- Attached agency of DTI
- The leading agency in formulation and implementation of SME policy
- To have own regional operation arm for program implementation
- Budget is designated to SMEDA in stead of a part of budget of DTI
- Head will be appointed by the President
- The head will attend the Cabinet Meeting upon request by the President
- SMEDC will become an advisory council for the Head of SMEDA

Major duties of the SME Development Authority (SMEDA)

- Planning of basic programs designed for the development of SMEs
- Examination and notification of proposed decrees and regulations
- Drafting of a SME-related budget proposal and submission to the Congress
- Normalization of commercial transactions involving SMEs
- Evaluation, advice and guidance relating to SME management
- Creation of new businesses for SMEs and technology upgrading

- Collaboration and coordination with SME support organizations
- Supervision and control of the SME promotion system and organization
- Coordination relating to international cooperation in the SMEDA's areas of responsibility
Development Authority

Budgeting

The budget for the SME Development Authority should primarily be based on the current budgets allocated to organizations that will be integrated to form the new agency. However, a total approved budget for the five candidate organizations (as listed above) in FY2003 amounts to P121,590,000. As the personal expenses takes up one half of the total budget, the remaining amount is not sufficient to implement or support action plans to be implemented under the new SME development plan. As an additional budget is required to reinforce the new organization and its resources, it should be directly requested by SMEDA to the Budget Bureau. While it is difficult to estimate a proposed amount of budget at this stage when a long-term development plan has not been specified, it should be equivalent to at least 1% of the national government (350 million pesos in 2003) so as to demonstrate the government's commitment to SME promotion.

In addition to the Government budget, it is strongly recommended to create the proposed SME Development Fund (Project No.23) with devising certain funds to be earmarked for ensuring implementation of the National SME Development Plan.

Organizations to be merged

The agencies and organizations to be merged should be studied at the Re-organization Preparation Committee after obtaining the approval in principle on the establishment. Following are some suggestions on agencies and organizations to be merged.

- Following agencies and institutions are recommended to be included: BSMED, PDDCP and CITC
- Following agencies and institutions are recommended to be included (but subject to study on the functions other than SME development): BDT and PTTC
- SBC should be operated separately under the supervision of the same Undersecretary, as the responsible agency for implementing the SME financing programs
- Some Divisions or Sections of the following agencies and institutions are recommended to be transferred to the Authority (but subject to study on the functions other than SME development): BETP, PITC and CITEM
- The Division or Section of Regional DTI and Provincial DTI in charge of SME support are also recommended to be transferred to the Authority.

Proposed internal organization set-up

Group & Divisions	Agencies/institutions to be merged
Office of Undersecretary	
General Administration	
Executive Director for Policy & Planning	
Policy Planning and Coordination	BSMED, (BDTP)
Research & Statistics	BSMED
International Coordination	BSMED
SMED Council Secretariat	BSMED
Executive Director for Industrial Operation	
Furniture & Export Merchandise Industries Support Center	PDDCP, CITC, (BOI)
Food Processing Industry Support Center	(PTTC), (BETP), (BOI)
Supporting Industry Support Center	BSMED, (CITEM), (BOI)
Market Research & Product Development Service	BSMED, PDDCP, CITC, (CITEM), (PITC), (BETP)
Executive Director for Regional Operation	
Management Guidance & Entrepreneurship Development Service	BSMED, (PTTC)
Counselor Training	(PTTC)
Administrative Support for Regional Operation	
SMED Regional Centers (Regional Offices)	
SME Desks (Provincial Offices)	

There will be two distinct way of organization set-up of the Authority; one is by function, and another is by SME category (i.e. SME and Micro, or industrial and commercial, etc.). Considering the current organizational set-up of the agencies and institutions to be merged, function-based set-up will be less complicated as the initial set-up.

Others

This project forms a set of recommendations to strengthen the SME development support system, together with:

- Project No.13 through 15 (Establishment and local window development of Industry Support Centers)
- Project No.16 (Restructuring and revitalization of local network of SME support centers)
- Project No.17 (Nurturing of SME Counselors and SME Advisors, and establishment of training system of the Counselors), and
- Project No.23 (Establishment of SME Development Fund to secure the fund for implementation of the National SME Development Plan)

Program 23: SME Development Fund

Reference No. 23:

Establishment of SME Development Fund for ensuring the funds required for implementation of the National SME Development Plan

1. Objective and Project Outline

One of the biggest impediment for SME development under government's leadership is lack of necessary funds for program implementation. For this reason, SME development measures couldn't materialize as planned or scale down in some cases. Government has to make all possible efforts to secure necessary funds for implementing of SME Development Plan by being aware of importance of SME development for national economic and social development. Development measures have also to be reviewed their importance on secured fund plan, and implement selectively. Therefore, it is necessary to prospect available funds (and sources) in advance.

For these purposes, SME Development Fund will establish for the purpose of securing funds from the following sources. The financial resources for implementation of National SME Development Plan will be secured constantly by disbursement from government annual budget and the SME Development Fund.

- Business Name Registration Fees
- Business License Fees
- ODA Funds

2. Implementing agencies:

DTI and DOF

- After the establishment of SMED Authority, SMED Authority in collaboration with DOF

3. Rationale

In the Philippines, the government faces severe financial constraint, which makes it difficult to allocate a new or special budget for SME promotion, although its importance is recognized and voiced. While the government gives priority to revenue growth and a balanced budget under its medium-term national development plan (MTPDP2001 - 2004), many programs as well as activities of public support organizations are suspended, scaled down or postponed due to budget restraint. Clearly, focused efforts should be made to achieve the goals set forth in the new SME development plan within the planned period and on the basis of efficient budget allocation. For this purpose, it is proposed to establish a SME development fund as a special budget item and to secure an additional budget for SME promotion from new financial sources, namely ODA funds and a special allocation from the Business Name Registration Fee revenues collected by DTI local offices.

In the past, the Philippine government has rarely established special funds to achieve specific policy objectives, partly because it is difficult to reach consensus in the methods of finding a financial source and/or managing a fund, and partly because there are few successful cases using a special fund. However, this approach is proven to be highly effective so far as a budget of sufficient size is allocated for implementation of a specific policy and under appropriate management. As the SME Development Plan will be implemented for a specific period, it is good chance to show a success model using a development fund..

Meanwhile, the Business Name Registration Fee (BNRF) constitutes an important source of government revenues. As it is collected in exchange for government service to protect business names of newly established companies, however, it should be treated as an object tax and should be used for trademark protection and/or industrial promotion. This project therefore proposes to use it for SME promotion purposes. To avoid the adverse effect on the agencies and organizations that are benefiting from budget allocation from the BNRF revenues, however, it is also proposed to increase the BNRF and apply an incremental amount to SME promotion.

According to a newspaper (Philippine Daily Inquirer, May 20, 2003), President Gloria Macapagal-Arroyo visited the United States in May this year and requested the U.S Government for an official aid for SME promotion totaling US95 million. Unfortunately, the two governments did not reach an agreement but it is important for the Philippine government should continue such effort. The requested aid package consisted of \$30 million for the reinforcement of SB Corporation, \$25 million for the development of venture capitals, \$25 million for the development of a credit-scoring system, and \$15 million for the construction or improvement of 20 SME centers.

4. Program Description

The fund will be jointly managed by DOF and SMEDC. The Business Name Registration Fee is expected to be the major source of the Fund.

Establishment of the SME Development Fund

According to an implementation schedule of the SME Development Plan up to 2010, a special fund for promotion of SMEs will be established and used as a financial source for implementation of programs under the SME Development Plan. The fund will amount to around US\$50 million. (The fund requirement should be figured out in detail when the SME Development Plan is defined.)

The SME Development Fund is established on the basis of ODA funds and government revenue, and it will be increased by other sources of fund such as Business Name Registration Fees.

The FY2003 DTI budget, for instance, amounts to 1.6 billion pesos that account for only 0.46% of the total government budget. Of the total DTI budget, approximately 41% are allocated as labor cost and a budget allocated to SME promotion programs does not appear to be very large. The following table summarizes the FY2003 budgets of DTI's divisions closely engaged in SME promotion. BSMED, which has the closest relationship with SMEs and their promotion, spends an annual budget of only 21,460,000 pesos. It should be noted that DTI's regional offices are funded by a separate budget and spend an average of 35 million pesos, which are larger than the budget allocated to BSMED.

(Unit: 1,000 Pesos)

	Personal Services	Maintenance &. Operating	Total
BSMED	8,877	12,580	21,457
NIMTC	2,043	989	3,032
CIC	3,972	2,275	6,247
BEMB	3,244	2,160	5,404
CMDF	10,419	7,954	18,373
PTTC	12,876	15,298	28,174
CITC		13,000	13,000
PDDCP	18,606	26,640	45,246
BDTP	5,269	8,443	13,712

Source: DTI Financial Management

As the apparent budget constraint stems from the difficult financial situation facing the Philippine government, it is practically impossible to increase the SME promotion budget alone unless government finance improves significantly. The program proposes innovative ways to create a new financial source for SME promotion within the framework of the present system, particularly the Business Name Registration Fee (BNRF). At present, the BNRF is collected by DTI's provincial offices and is kept by the National Treasury for being used as part of the government budget. Under the program, the BNRF revenue will be partially earmarked for SME promotion.

Program 24: SBC as the Policy Execution Body in the Field of SME Financing

Reference No. 24:

SBC as the Policy Execution Body in the Field of SME Financing

1. Background, Rationale, and Discussions

The Magna Carta sets forth the SBC as the primary agency in the field of SME financing. This is the recommendation to increase the presence of Government in SBC, to enable the SBC to implement programs and measures in line with the policy needs of the Government.

The SME financing is understood to be a system to supply funds stably, regardless of the business fluctuation and the condition of financing institutions, to SMEs, which are regarded weak in its nature in view of financing object, and not attractive for the ordinary private financing sector as their customers. The interest rates applied to SMEs by the SME financing is generally lower than the prevailing interest rate level, considering the managerial weakness of SMEs.

In the case of SME financing in the Philippines, however, they are significantly affected by the prevailing business conditions of financing sector, and many factors impede the improvement of the system. These include, application of the same regulatory rule as private banks to GFIs, tendency of banks to tack the loan processing costs on the interest in addition to application of the market rate of interests, and immaturity of retail financing institutes. Thus, the SME financing system in the Philippines is yet to show significant effects as a tool of policy implementation in the areas where the market mechanism does not fit, with the existing SME financing system unable to provide loans at preferential conditions even to the funds demand which fits the policy objective.

SULONG financing program is in the implementation stage, and several measures under the SME Agenda have been put into practice. These might be the implementation process of policy and measures in accordance with the above concept of SME financing. The effectiveness of these measures, however, are not known at this stage, because some of them has just put into implementation, and others are still under planning. Therefore, there might be another timing to call for the programs according to the policy direction set.

In such case, there will be a need to create financing institute to undertake the measures according to the concept of SME financing as discussed in the above. The magna Cart has designated the SBC as the primary agency in the field of SME financing. But number of the Board members representing SME policy is two out of total members. Thus, the Government is recommended to increase its influence on the SBC to guide management as the policy-directed institute.

Program 25: SME Statistics

Reference No. 25:

Development of SME statistics for planning and monitoring of SME development

1. Objective and Project Outline

In planning any SME policies and programs, statistics are indispensable in estimating their effectiveness. They also form the basis of evaluating the results of each policy or program by providing data representing the actual state of SMEs. As building up an entire system to develop and update SME statistics requires considerable time and cost, the project proposes a simplified method for collection of SME data, although their use is limited.

- Periodical surveys to collect relevant data (sample surveys to identify general trends and problems)
- Processing of available statistical data to produce data relevant to SME development
- Introduction of a standard survey on business establishment and employment to the existing industrial and economic surveys, using uniform standard classifications

Strategic goal

- To develop effective SME development policies and programs.

Project target

- To build a formal system to collect data representing the current state of SMEs.

Expected benefits

- Accurate assessment of effectiveness of a SME development policy/program in the planning stage
- Accurate assessment of effectiveness of a SME development policy/program in the post-implementation stage

2. Background, Rationale and Discussion

At present, there is no adequate method to assess effectiveness of a SME policy or program in its planning stage. (See II-6.2 for the current state and limitation of industrial statistics in the Philippines.)

From the viewpoint of SME policy making and the need for monitoring the results of program implementation, SME statistics should, among other things, contain or help reveal the following data and information:

- 1) The current state of SMEs and their changes from the macroeconomic standpoint, such as the number of establishments, employment, geographical distribution, and distribution by industry type;

- 2) The relationships between SME-related indices and the actual state of operation and management, which are required for policymaking; and
- 3) The influence and effect on a specific policy objective or program.

As the first step, the government authority responsible for SME policy (DTI or SMED Council) is expected to set forth standard definitions relating to SMEs, such as the size of enterprise and the number of employees, in cooperation with NSO, in order to form the basis of assortment and tabulation of SME statistics. This will enable the government to determine (or estimate) the macro data in 1) and 2).

In addition to the formal statistics, the SME authority should conduct its own sample surveys to collect the data in 2) and 3) on a periodical basis. The surveys should preferably consist of quantitative surveys to collect data on the enterprise size and the current state of operation, and policy effect surveys to understand the effects of a specific policy or an economic change (before and after policy implementation).

3. Proposed Responsible Agencies/Organizations

- Under the current system: BSMED and SMED Council
- Under the proposed system: SMED Authority

4. Project Description

(1) Project description

- 1) Compilation of data relating to SME development from currently available statistical data

Data showing the actual state of SMEs will be extracted and compiled from currently available statistics collected by NSO and other government authorities, such as industrial statistics, labor statistics, and business statistics, and they will be edited in a specific form. They will allow policymakers to grasp the key changes in the number of SMEs, employment, geographic distribution, and distribution by industry type.

Prior to data compilation, it is recommended to develop standard classifications of SMEs in terms of enterprise size, region, and industry type, which will be used uniformly in related statistics to help understand the correct state of SMEs.

2) Sample surveys

Periodical surveys will be conducted each year by the SME authority, on the basis of the following two types of samples.

1. Random samples to be obtained from the business registration data with LGUs as population: First of all, LGUs will be selected to represent SMEs in terms of enterprise size distribution, urban/rural distribution, and distribution by industry type, on the basis

of the above NSO data. The selected LGUs will be used for the subsequent surveys. Then, SMEs will be selected randomly from each LGU. Survey questions will consist of basic questions that will not change over years and specific questions that are made according to the policy agenda from time to time. The survey will be able to understand the changes in enterprise size, employment and profitability, as well as any change or dissolution of business establishments.

2. Random samples to be obtained from SMEs that are members of trade associations as population: The sample data should be designed to allow evaluation of a specific policy/program (before and after implementation. Note that the sample represents enterprises that belong to a upper layer of SMEs as a general.

(2) Preparation period

It takes considerable time to develop and introduce standard classifications applicable to other statistics (including coordination among related agencies and organizations, and actual statistical surveys). It should be noted, however, that manipulation and compilation of currently available data – accompanying data compilation for the results of new surveys - can be started as soon as the data tabulation system is designed.

The sampling surveys can be ready for data collection in a year and six months, including survey design, coordination, and implementation. In this connection, the first survey should be designed carefully to avoid inconsistency with the subsequent surveys.

Program 26: SME Support Information

Reference No. 26:

Development of SME support program information system

1. Objective and Project Outline

While IT has great potential and is expected to play a very important role in SME development activity, the Philippines is lagged far behind neighboring countries, especially Malaysia and Thailand, in use of IT in the area.

It is therefore proposed to launch the following activities as the first step of IT use for SME development purposes.

- 1) To provide information on SME support services provided by related government agencies and organizations and promote their effective use.
- 2) To provide data and information owned by related government agencies and organizations for SMEs.

Strategic goal

- To promote new business startups and stability growth of SMEs.

Project target

- To promote the effective use of support service by SMEs.

Expected benefits

- Increased awareness and use of available support service by SMEs
- Increased access to the SME support network by SMEs

2. Background, Rationale, and Discussion

IT brings significant innovations, comparable to those in the Industrial Revolution, to business administration and management. The use of IT creates the following impacts on society:

1. To allow collection and transmission of information within a short period of time and over a long distance.
2. To achieve the economical costs for collection, transmission and processing of information.
3. To allow transmission, search and exchange of information to and with a large number of parties.

In the Philippines, an increasing number of enterprises are using or will use IT effectively, but SMEs, in particular small enterprises and microenterprises in rural areas, have still to enjoy benefits due to resource restraints including availability of computers and communication lines.

IT is already having significant impacts on SMEs in the areas of marketing, manufacturing and management. From the viewpoint of SME support, an emphasis should be placed on the following activities.

1. To raise awareness of SMEs about importance of IT use.
2. To provide information on the effective use of IT and support development of IT resources.
3. To provide support to facilitate IT use in terms of infrastructure development and pervasiveness of hardware and software.

This project proposes to start with the transmission of information from support organizations (information on support service and other information useful to SME management), followed by expansion into other areas.

3. Proposed Responsible Agencies/Organizations

- Under the current system: BSMED
- Under the proposed system: SMED Authority

4. Project Description

(1) Project description

The project is designed to provide the following services. SMEs will receive and use information via the support network consisting of SMED-RCs, SME Centers, and SME Desks.

- Operation and maintenance of the SME database (see #4) and the Web site for the purposes of business matching and transmission of business information (including the link to other Web sites)
- Provision of information on SME support service rendered by related government agencies and organizations
- Provision of technology and market information by SME support organizations and the establishment of the link to related information sources
- Remote consultation service using e-mail

(2) Preparation period

Immediately after the start of the preliminary SME support network using existing agencies and organizations, project preparation will be commenced and commercial operation of the formal network will start with the establishment of SMED Authority. The preparation period is expected to be around one year.

Program 27: Local Development Project Promotion with Initiatives of LGUs and Local CCIs

Reference No. 27:

Provide supports in promoting local development projects under the LGU's/local CCI's leadership

1. Objective, and Project Outline

The goal of this project is to support creation and growth of local small and micro enterprises in the diversified fields, with providing business opportunities through identifying, exploring, and utilizing local resources.

Support for review and development of the currently proposed "1 Municipality, 1 product, 1 Million Project" could be an idea along this line, if the project is not in progress. The linked development with the currently undergoing regional development projects under DILG could be another idea. The projects proposed by foreign donors may also be utilized.

Main activities

- 1) Implementation of workshops for local industries promotion, which include identification and exploration of local resources potential for development, and its market study and analysis, with involvement of local people and enterprises
- 2) Organization of business cooperative for materialization of the business idea
- 3) Participation to national or international trade fairs for market development

Major component of the project is, firstly, to provide local people and enterprises with an opportunity to review the local resources in view of marketing, and propose the way to utilize the resources, through workshops applying "Design Process". Second component is to support materialization of the business plan thus proposed through organization of cooperative as an execution body.

Development of support system

- 1) In addition to the 1 million Pesos provided by the above "1 Municipality, 1 Product" project; utilize the small-scale loan program which is based on personal guarantee.
- 2) Provision of managerial guidance, technical guidance including research and development assistance, and comprehensive support for participation to the trade fairs, by SME Center and SMED Regional Center

Strategic goal

- To promote new business startups and stability and growth of local SMEs.

Project target

- To materialize regional development projects.

Expected benefits

- Exploration and development of business seeds of SMEs
- Creation of opportunities for new business development and existing business expansion

2. Proposed Responsible Agencies/Organizations

- Program planning at the National level: SMED Authority and SMED Regional Center (under the proposed system), or SMED Council (under the current system)
- Support for implementation of individual projects: SME Centers with initiative of LGU and local CCI
- Major supporting institutions: PDDCP, DILG and other technical institutions where necessary

3. Background, Rationale, and Discussions

Small and micro enterprises, which are based on the local demand, and make up the majority of SMEs in terms of number of establishments and employees, are important both as a "seed bed" of businesses, and source of employment creation.

These small and micro enterprises are characterized with private operation or family operation, financial status which can cover almost their living expenses only with weak capital reproduction capability, and mixture of business and owner's livelihood. Their businesses are diversified, and difficult to be covered by development policy or strategy of a specific industry. Thus, the support for them should be focused on their gradual modernization and market development, assisting their ingenious business plans. At the same time, provision of business opportunities will be useful in assisting their business start up, and therefore, the promotion of regional development projects will be important in this connection.

Efforts to identify the potentials of regional development and explore it to a project, has been undertaken at individual project level and in small scale (including livelihood development projects by foreign donors and NGOs, etc. The regional promotion projects under DILG, which are under implementation in recent years, are mainly that of rural areas.

So far there was almost no regional development project in urban areas, focusing on trade and industry sectors, with professional and coordinated manner.

4. Project Description

(1) Project description

1) Seminars to identify the potential localities to implement the program

To promote application of candidate regional development plans, seminars will be held inviting resource persons who can make presentation of the case studies of regional

development projects, explaining the process of project identification, formulation and commercialization.

At the same time, public invitation is made for designers, including foreign designers, who have experiences of regional development projects, for the design workshop.

The selected designers will choose a plan, which they are interested in for materialization, among the plans for regional development project applied from various localities. Then, SMED Regional Center will select some projects of high materialization potential. Thus, both the designers, who will undertake the regional development design workshop, and the plans, are selected at the same time.

2) Design workshops for local resources development

The design workshop will be held at the selected locality of regional development plan, for identification, exploration and commercialization of local resources. The workshop will cover analysis of market of the target resources, and examine and develop the product ideas.

3) Evaluation of feasibility of commercialization

The workshop participants, LGU, and the local CCI will make evaluation of the results of the above workshop, with support of SMED Regional Center, and decide proceeding for commercialization. Once the proceeding for commercialization is confirmed, an Implementation Committee will be established in the SME Center. There may be some possible business types for the project implementation, including:

1. Form a business cooperative among the participants.
2. Break down the project process into such business processes as material supply, production/processing, distribution, transportation, etc., and share them among the participants and other firms who are interested in the project.
3. Leave final decision to individual firms including the implementation

4) Support commercialization

Provide following support relating to commercialization of the project:

1. Assist formulation of business plan, and guidance on managerial aspects by SME Counselor of SME Center and SMED Regional Center
2. Provide small-scale loan program without requiring collateral, assuming the guidance by SMED Regional Center on the project implementation. For the prospective projects, venture capital may be introduced.
3. Technical assistance including research and development works at the commercialization evaluation stage by Industry Support Centers of the SMED Authority, or other existing technical institutions.

(2) Project period

The project will require approximately two years to implement, consisting of solicitation and selection of project proposals, and implementation of regional development projects. Note that the project represents preparation of development projects.

(3) Input requirements and estimated economic effects of the program implementation

Input requirements are estimated as shown in Table III-3-14. The local industry promotion workshop will be held at 24 locations that are selected on the basis of project proposals made in response to solicitation. The total cost is estimated at around \$441,000. The cost for hiring foreign experts and the labor cost relating to DTI staff account for major portions, and other costs amount to \$75,000.

As the project consists of selection and materialization of prospective development projects, its direct benefits are not measurable. By the same token, indirect benefits cannot be estimated at present as they vary with the number and nature of projects to be actually implemented.

Table III-3-13 Estimate of Required Inputs for Implementation (#27)

Project No. 27: Local development project promotion

Item	Required Inputs			Remarks	
		<u>Period</u> (months)	<u>Number</u> (Persons)	<u>Costs</u> (US\$)	
Manpower	1) Foreign experts	12.00	2	330,000	Remuneration 13,500/MM x 24 MM; Transportation 3,000 x 2 times. Staff of DTI
	2) Local staff	24.00	2	36,000	
Equipment/ facility	- None				
Building/ offices	- None				
Other major expenses	1) Workshop costs			48,000	Traveling expenses, accommodations & per diem (1000), supplies (250), meals (500), communications & miscellaneous (250)
	2) Guidance for project planning			27,000	Travelling costs, communications, accommodations & per diem, etc. (350)

- Notes:
1. Costs and expenses in US dollars in rounded figure without contingency.
 2. Costs and expenses for promotion activities only. The costs and expenses for project implementation are not included.

Assumptions:

1. 24 locations are assumed to be selected for undertaking workshops to identify and develop the project ideas.
2. Assistance for project planning and implementation is assumed to be undertaken within the ordinary work of SMED-RCs, and Industrial Support Centers. Only additional requirements are estimated in the above.