

Pre PID Analysis  
for a  
Private Sector Support Services Project  
for SMEs

Done by:  
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## ABBREVIATIONS

### Agencies, Institutions, and Organizations

|       |   |
|-------|---|
| ADB   | Asian Development Bank  |
| ASEAN | Association of Southeast Asian Nations Industries             |
| BSMI  | Bureau of Small and Medium Industries                         |
| CB    | Central Bank  |
| CIGLF | Cottage Industry Guarantee Loan Fund                          |
| CRC   | Center for Research and Communication                         |
| DAP   | Development Academy of the Philippines                        |
| DBP   | Development Bank of the Philippines                           |
| DCP   | Design Center of the Philippines                              |
| EDF   | Economic Development Foundation                               |
| EISSI | Extension Institute of Small Scale Industries                 |
| FINEX | Financial Executives Institute of the Philippines             |
| FNRI  | Food and Nutrition Research Institute                         |
| FPRDI | Forest Products Research and Industries Development Institute |
| GETB  | Garment Export Trading Board                                  |
| GOP   | Government of the Philippines                                 |
| IESC  | International Executive Service Corps                         |
| IGLF  | Industrial Guarantee Loan Fund                                |
| ILO   | International Labour Organization                             |
| ISB   | Institute of Small Business                                   |
| JICA  | Japan International Cooperation Agency                        |
| KKK   | Kilusang Kabuhayan at Kaunlaran                               |

|        |   |
|--------|---|
| MIRDC  | Metals Industry Research and Development Center       |
| NACIDA | National Cottage Industries Development Authority     |
| NCSO   | National Censur and Statistic Office                  |
| NEDA   | National Economic and Development Authority           |
| NFA    | National Food Authority                               |
| NMYC   | National Manpower and Youth Council                   |
| NSTA   | National Science and Technology Authority             |
| PBSP   | Philippine Business for Social Progress               |
| PCCI   | Philippine Chamber of Commerce and Industry           |
| PDC    | Productivity Development Center                       |
| PDCP   | Private Development Corporation of the Philippines    |
| PEP    | Private Enterprise Promotion                          |
| PIDI   | Private Invention Development Institute               |
| PFP    | Partnership for Productivity International, Inc.      |
| PNB    | Philippine National Bank                              |
| PPA    | Philippine Port Authority                             |
| PSA    | Product Standard Agency                               |
| SBAC   | Small Business Assistance Center                      |
| SERDEF | Small Enterprises Research and Development Foundation |
| SGV    | Sycip, Gorres, Velayo and Company                     |
| SME    | Small and Medium Enterprise                           |
| SMED   | Small and Medium Enterprise Development               |
| SMI    | Small and Medium Industry                             |
| UNIDO  | United Nations Industrial Development Organization    |

UPISSI University of the Philippines Institute for Small Scale  
Industries

USAID United States Agency for International Development

VCC Venture Capital Corporation

WB World Bank

## 1. Introduction

USAID/Manila has set sustained and more productive employment for the rural poor as its overall assistance goal. Three supporting objectives are (1) job creation in rural areas; (2) the attainment of higher labor productivity; and (3) the reduction in the rate of growth in the labor force. One element of the Mission's private sector strategy is the development of discrete projects to promote private enterprise development and growth which will generate increased productive employment in areas outside of Manila. The current major activity under the Rural Enterprise Program is the Small and Medium Enterprise Development Project (SMED) which will accelerate SME growth through a package of technical assistance, training, research and demonstrations directed primarily at private associations, PVCs and their constituents to strengthen the institutions and policies supporting small and medium enterprises (SMEs).

It is expected that SMED will create demand for services that cannot be satisfied by the public sector due to chronic funding and personnel constraints. While the Mission knows that the private sector can provide some of these services, they do not know if the private sector currently has the capacity to provide them all (research and development, marketing, product development, training, financial, technology transfer, etc.). To compliment SMED and other activities in the Philippines the Mission felt it is important to ensure that this possible gap in provision of services to SMEs be filled. A new project component, Private Sector Service System (PSSS) is proposed to utilize information generated by SMED on SME needs for services and improve the capacity of relevant private entities to provide key services on a sustained basis.

Partnership for Productivity International, Inc. (PFI) was contracted to assist the Mission review SME needs in rural areas, consider the alternatives for meeting these needs and, if justified, develop a strategy for AID to assist in improving private institutional support for SMEs in selected areas outside of Manila. The contractor was to take the current economic crisis in the Philippines into consideration in all analyses. Rather than conduct an exhaustive study at this time the contractor was to review existing data to provide a basis for a preliminary assessment of the institutional environment for SME growth in rural areas. Based on this assessment, and considering the need for additional analysis the contractor was to advise on the need and feasibility of pursuing an AID project to strengthen the institutional support base for SME development, suggest alternative project approaches for addressing the needs and formulate a framework for a more detailed analysis to support a project. Specifically, PFI was to be responsible for:

1. Making a preliminary assessment of the short and long term needs of SMEs generally and by industry groupings with major emphasis on garments, handicrafts; and furniture;
2. Identifying through discussions with knowledgeable persons and review of the literature private profit and private not-for-profit entities that potentially have the desire, interest and capabilities to support SME development and growth in rural areas;
3. Investigating the need and feasibility of improving existing private institutions and/or developing new private sector institutions to provide SME support services on a sustainable basis;
4. Review existing/planned GOP/other donor programs in this area;
5. Suggesting alternate project strategies and approaches for developing the private sector institutional support system for SME's in rural areas, and provide order of magnitude cost estimates for each alternative; and
6. Identify major issues affecting project development and provide a time phased framework and terms of reference for the necessary feasibility analysis to complete project development to the PP level.

The following sections provide the findings on needs of rural SMEs, the existence, capabilities and interest of private sector entities to provide services to SMEs and related GOP and other donor programs. Also, a recommended strategy is discussed along with the pros and cons of alternative strategies. Suggestions for additional studies needed for project development are included. Because the SMED project is in very preliminary stages, it was agreed that Mission staff would differentiate between what of recommended activities would fall respectively under SMED and PSSS.

## II. Executive Summary

Somewhere between 500-800,000 new job seekers are entering the job market each year in the Philippines. Incomes in the rural areas are low in comparison to Manila resulting in significant migration there. The worldwide recession of 1980-82 combined with GOP policies and budget deficits have reached a watershed. The current economic are resulting in layoffs in the manufacturing sector and are swelling the already large ranks of the unemployment and underemployment. Also, over the last twenty years the manufacturing sector has not grown proportionately as an employer; it was still at somewhere around 12% as of 1982 and is

probably less now. The agricultural sector is unable to absorb the increases in the labor force without significant declines in productivity. Data indicates that overall productivity in the Philippines has been declining since 1978<sup>1/</sup>.

Less affected by the recent policy-shifts have been the more labor intensive cottage, small and medium-industries which use proportionately more local raw materials in their products e.g., handicrafts, weaving, and furniture. Under present economic and policy conditions these will continue to have the most potential for development and growth.

The needs of rural SMEs<sup>2/</sup> have been studied by many parties in recent years. Interviews with SME owner/managers within the last few weeks revealed that their concerns center around the needs for markets, access to finance, lower cost raw materials, more qualified/responsible and loyal workers. Talks with SME advisors, bankers and trainers indicated that SMEs have problems in management, marketing, production and creditworthiness. To attack the roots of these problems support services in training/assistance, organization and research are needed. There is also a significant need to integrate SME support services. Examples of specific needs are as follows. In the area of management needs are in planning, cost analysis, market development and control, while in the technical area needs are in product development, quality control, productivity and identification and development of efficient small-scale production technologies. In finance the needs are for training bankers in SME credit and entrepreneurs in creditworthiness (much of the management and technical training/assistance will impact on this, but awareness and attitudes need specific attention). SMEs need to organize into groups in order to increase economic efficiency (bulk purchasing, etc.) benefit from exchange of information, and gain the leverage needed to affect policy reform and their

<sup>1/</sup> Development Academy of the Philippines report presented at PCCI Productivity Conference, Nov. 1983.

<sup>2/</sup> SMEs in this report are the same target group as the SMED project, small, medium, cottage and micro industries. SMED calls for a primary focus on garments, furniture, and handicraft industries. The contractor feels that because of the differing resource bases in the five regions of the SMED project that consideration should be given to opening up the focus to include, for example, metal working and food processing in all the regions. In other words, the focus should be dictated by the resource base; material, financial and human (skills and propensity) wherever SME projects are being given support.

markets. In research there is a need to identify areas of SME long term growth potential in specific regions, develop improved technologies, the relative impacts of GOP policies on them and ways to improve telecommunications, power, transport and common facilities infrastructure.

The current status of the service system for SME in the five target regions is disjointed and inadequate. There have been some attempts by GOP, in particular thru SBAC regional offices, to rationalize and expand such SMI services as management and technical assistance, project feasibility studies and loan referrals. However, the repeated complaint of both SMEs and service providers is that the resources that are available do not reach the regions in sufficient quantities or regularity or with adequate coordination to meet even the minimal needs of SME. The resources available to local services are very limited, and thus, they have only been able to reach a small portion of SMEs needing assistance. Also they have been constrained in their ability to draw on outside technicians with relevant experience to assist them in improving the quality of their services. In summary, there is a need to upgrade and expand existing services, to initiate certain other services and to integrate the delivery of them.

USAID has recognized the employment problem and has decided, based on numerous studies, that the most effective intervention is support to the SME sector in five targeted areas (Regions I, II, VI, VII & XII) which have lower incomes and less industrial development. The SMED and the LRM projects and several PVO projects are aimed at improving the infrastructure of support to SMEs in these regions. ADB and WB programs have focused on SME credit.

This review of SME needs and the existing and planned support services indicates that there are certain gaps that need to be filled if dynamic rural SME development is to occur in the future. It is recommended that a Private Sector Support Service Project (PSSS) be developed and implemented. This project will compliment the activities of SMED. The purpose of the project is to institutionalize an effective process in the private sector to accelerate the growth of labor intensive SMEs outside of Metro Manila. The goal is to increase productive employment in private sector, non-farm SMEs outside of Metro Manila. The outputs of the project would be:

1. improved process of delivery of support services to rural SMEs, more integration between management, technical, financial and informational services;
2. systems in place for delivery of more effective services through private sector organizations;
3. systems in place for more efficient delivery of services through private sector organizations;

4. improved access of SMEs to raw materials, finance, training, technical assistance and markets;
5. increased local availability of support services.

The components of the project will be:

1. Institutional Development which will further develop and expand capacity of private sector SME services to reach more SMEs, more effectively and efficiently.
2. Common Facilities Development which will develop the infrastructure as well as the process for such facilities for bulk purchasing, storage, marketing, joint production or processing, management services (accounting, clerical, legal).

A possible third component is

3. Research and Development which will develop a system for SME technology identification, development and commercialization.

The recommended strategy for implementing this project is a three phased process. In the first phase effective methodologies are developed and effective institutional models are defined. The second phase will focus on expanding key services through networks of model private sector institutions and in selected other institutions and increasing the efficiencies of services. The third phase would focus on the diversification of services to meet the more sophisticated and specialized needs of the growing number of businesses graduating from cottage to small and medium scale.

Because the SMED project is in preliminary stages of implementation there is no attempt made to differentiate between what might be done under that project and what would be left to do under PSSS. The latter project looks exclusively at the service provision side of the demand-supply equation.

### III. Program Setting

The Philippine economy is currently in crisis. The most immediate cause is the continued excessive growth in the money supply and balance of trade deficits even while extreme measures are being taken to reduce liquidity in the banking sector and reduce import. This has stalled negotiations with the IMF for additional credit facility. Rumors are rampant about imminent Peso devaluations, there has been a rapid outflow of capital and a virtual cessation of new investment and external loans. Estimates of the current rate of inflation range from 30-40% annualized.

The crisis has been in the making for a long time. The peso has been overvalued, interest rates were kept low and major investments were financed externally because of easily available foreign commercial and international donor agency credits and because low interest rates discouraged domestic resource mobilization. Also, priority public investments were made in more visible urban and industrial infrastructure rather than in the potentially more productive rural agricultural areas. State like monopolies and monopsonies were created in important commodity sectors and favoritism allegedly influenced many economic decisions. These policies created a highly import-dependent economy built on foreign borrowings with an inefficient industrial sector in great need of protection in a competitive environment.

Recent programs to correct these created distortions in the economy were implemented too slowly to create a positive environment with long-run growth potential. The 1980-82 worldwide recession reduced export earning growth while the debt-financing burden was rapidly increasing. The Aquino assassination merely exacerbated the crisis.

In the midst of this economic uncertainty somewhere between 500-800,000 new job seekers are entering the job market each year in the Philippines. Incomes in rural areas continue to be low in comparison to Manila resulting in significant migration towards that metropolis. Employment in the manufacturing sector has remained constant at 10-12% of total employment for the last twenty years. Restrictions on imports, the overvalued peso and inefficiencies have resulted in large layoffs in the mining and manufacturing sectors swelling the already large ranks of unemployed.

Of the more labor-intensive micro, cottage and small industries those which use proportionately less imported raw materials in their products, e.g. handicrafts, weaving, and furniture, have been less adversely affected. In some cases others have actually benefited from the rising costs of imports because their products have become more competitive in the local markets.

While the general policy thrust has been to promote and support SMEs growth in the rural areas, a number of factors have actually slackened the process. Many GOP services still remain largely centralized in Metro Manila. Credit facilities geared toward SMEs, like IGLF, are still processed through Manila.

Industries located in other regions still suffer from a lack of a developed industrial infrastructure. Electrical power is usually more expensive than in Manila and/is also subject to frequent disruptions. Water is scarce in many areas and is often provided

at low pressure. Telephone service is poor and it is difficult for a new subscriber to obtain a telephone, while telex and other telecommunication facilities are frequently lacking. Roads are inadequate for access to many rural areas. And even where port facilities are adequate, problems with direct shipment to potential markets raise the cost of products.

The emphasis on SMEs doing processing activities in the countryside intends to provide employment opportunities in sites, where surplus labor exists, to stem the tide of migration toward urban centers. It is also meant to expand the rural consumer market, thereby widening the base for growth of other industries. SMEs are also expected to stimulate higher productivity from backward linkage to farm-based activities. But if there is no support for agriculture then there is little basis for development of SMEs for local consumption since rural purchasing power is so rooted in agricultural productivity.

Today, more needs to be done on behalf of SMEs. Employment in SMEs constitutes a large share of manufacturing employment (80%). There is potential for SME growth in rural areas. Certain needs of rural SMEs will have to be responded to for rural SME development to happen.

#### IV. SME Needs and Required Support Services

The contract required an identification of the constraints to SME growth and development that are common to specific SME groupings as well as "...constraints common to SMEs as a whole". The UNIDO representative in Manila indicated that they formerly did industry-specific needs assessments but do not do so anymore because they found the same needs common to many industries. Our findings were similar in the areas of management, finance and general technical inputs. But when it came down to raw materials and specific technical inputs certain differences between industries were found.

The most common responses of entrepreneurs on what assistance they wanted/needed were: (1) marketing, (2) access to finance, (3) raw materials, and (4) more qualified/skilled workers. When we talked with bankers, SBAC and others who work with SME owner/managers they suggested that SME had problems with: (1) management, (2) marketing, (3) production, and (4) credit worthiness.

A more detailed breakdown of needs is as follows:

|                           | Immediate   | Long Term   |
|---------------------------|---|---|
| Garments                  | Lower cost raw materials<br>Better equipment<br>Financing for raw materials<br>Mass production techniques<br>Management<br>Access to purchase order credit<br>Cost analysis                             | Information on potential markets<br>Better quality local raw materials at competitive prices<br>Productivity<br>Product development<br>Capital for expansion<br>Sub-contracting arrangements<br>Export Linkages   |
| Furniture                 | Access to raw materials<br>Availability of certain types of wood<br>Kiln dried wood<br>Lower cost finishes<br>Product design<br>Markets/Promotion<br>Quality control<br>Access to purchase order credit | Skilled manpower<br>Availability of Hardwoods<br>Kiln dried wood<br>Sub-contracting arrangements<br>Product development<br>Markets/Promotion<br>Production techniques/technologies<br>Different logging & reforestation policies<br>Export linkages<br>Vertical marketing links |
| Handicrafts               | Markets/promotion<br>Management<br>Credit Worthiness<br>Design Improvements   | Market development<br>Product development<br>Export linkages<br>Display centers<br>Better access to raw materials<br>Increased production of bamboo, rattan & abaca   |
| Other<br>Metal<br>Working | Engineering and design capabilities<br>Quality control  | Skilled manpower<br>Product development<br>Planning<br>Organization development   |
| Food<br>Processing        | Food preservation technologies<br>Continual raw material supply   | Marketing<br>Product Development<br>Technology Development  |

These findings are consistent with the needs/problems identified in earlier consultants reports, e.g., Finance - Brown and Adams, Marketing - Brown, Production and Technology - Wallenoer, Training - Fisseha and Thornton.

### Support Needed

Delving towards the roots of these needs and problems and the impact of the current economic conditions lead to the conclusion that the support services required to meet SME needs can be grouped under four headings: (1) Training/Assistance; (2) Organization; (3) Integration; and (4) Policy/Research.

### Training Assistance

#### Management and Technical

Training and direct assistance that focuses on two areas, behavior and techniques, is needed by all SMEs. Behavior pertains to skills that are very important to the firm and that are too often overlooked or unrecognized as being important. These skills include getting and giving information, communication, planning, negotiating, managing conflict, working in groups, and dealing with change. These behavioral skills apply equally to management and technical areas in SMEs. Techniques pertains to the specific tools that will be applied or adapted for application in the business. These techniques would include such things as simplified accounting systems, planning formats, industry specific cost analysis formats, how to do a market study, and feasibility/viability analysis in the management area and how to set standards of quality, train staff, measure productivity, do plant layout, use specific production processes; product design, etc. in the technical area.

A large cadre of management training/assistance extensionists and technical advisors, both industry specific and generalists who are willing to live outside of Manila are needed to provide these services. This cadre would need to combine these two general areas in whatever they are doing. For example, when someone is teaching a group about how to calculate costs, the activity should be set up in a way that models the behavioral skills, involves activities that give the participants the opportunity to apply them and reflect on them while learning and applying the technical materials or techniques being covered. It is important that advisors do tasks with clients and not for them. (See any of the works of Paulo Freire for a more detailed explanation).

We agree with what both the SMEs and their trainers felt, that there should be follow up and consulting provided after whatever training to ensure that the person trained has been able to effectively apply the subject matter of the course or seminar. That the increase in the effectiveness of the training more than offsets the decrease in efficiency as demonstrated in other projects.

In the area of skills training the need is in how SMI managers and supervisors can train their workers to be more consistent and productive. Other studies have found that small businesses cannot afford to hire skilled technical personnel and have no other choice than to train their own workers and technicians. Another training/assistance support needed by SMIs is in production supervision. Productivity and cost efficiency increases could be obtained with even minimal training and assistance in plant layout, production planning and control and supervision of workers. This need is common among the furniture, garment and handicraft industries as well as in others such as food processing and metal working.

#### Financial

Most SMEs mentioned "access to finance" as a major need. Many smaller businesses are undercapitalized and few hold assets in a form that can be used for collateral on loans from commercial banks. In addition, many firms are required to provide collateral with a value of as much as 165% or more of the amount of the loan. Many are caught in the position of being net financiers in that they pay cash for their raw materials and sell on 30-90 day terms to distributors, retailers or foreign buyers. What makes the situation even worse is that past experience of SME loan programs in the Philippines have only reinforced the notion that SMEs are a bad credit risk. Banks do not appear to know how nor to be at all willing to take the time to learn how to work constructively with small business, and loan delinquencies are serious obstacles to the efficient functioning of many banks.<sup>1/</sup> This is less of a problem for medium size businesses as they tend to have assets that qualify for collateral and appreciate the risks of credit.

The GOP's financial market reforms in recent years have created a more favorable environment for eliminating some of the problems of financial intermediation in rural areas. However, the soaking up of liquidity by the CB combined with the general economic conditions has been resulting in a shake out in the banking

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<sup>1/</sup> Glenn G. Brown, "Comments and Recommendations: SMED Project"

sector. Hopefully, the stronger commercial and rural banks will absorb the weaker ones rather than having a rash of bank failures which would reduce consumer confidence in the system and virtually eliminate the possibility of savings mobilization in the near term. Support is needed in training for bankers and bank staff in developing resources, determining strategies for lending those resources locally in developmentally optimal ways, business credit analysis, and how to best clean up existing loan portfolios (e.g., foreclosurers, payment holidays, additional loans, restructuring the businesses, etc.). The management training/assistance support service should also focus on developing debt capacity or credit-worthiness in SMEs. The magnitude of the need increases the smaller the business since they are less likely to have bank accounts and understand what a credit rating is, the large number of them, and, because of their lower income levels, they are less likely to have learned of the value of saving for investment or deferred consumption.

### Organization

One of the more commonly mentioned areas of SME need was raw materials, and within that area there were many complaints about the quality of local raw materials, availability or access to them and the rapidly rising costs. The specifics varied between industries as indicated above. Another commonly mentioned need was marketing; market information, product design assistance, etc. One category of support service which would respond to these needs is organizing SMEs to do more things collectively such as purchasing raw materials, marketing their products, finding information about suppliers and markets and technologies, etc. However, there appears to be a great deal of distrust among businesses in the Philippines and the potential dangers of collaboration often seem to outweigh the potential benefits in the minds of many SME owner/managers. Yet numerous small groups of businesses in specific industries have formed associations, chambers or informal groups. These groups in the urban areas of the seven regions we visited tended to be the larger small and medium sized enterprises while in the areas outside of the urban centers groups of cottage level producer groups were more common.

Support services are needed to strengthen the development of associations and other formal or informal groupings (co-ops, purchasing clubs, savings and credit unions, etc.) of micro, cottage, small and medium enterprises. The formation of most of these groups will center around satisfying one or more of the following needs; leverage, efficiency or information exchange. It should be remembered that in all cases the participants in these groups should realize monetary benefits; otherwise, the element of self-promote will be missing.

Leverage pertains to the fact that individually SMIs have little power or influence in the market place and with government policy makers. They are not individually able to affect product pricing structures nor are they able to take advantages of economies of scale in purchasing of raw materials and access to high volume markets. A small business person has little ability to make recommendations or give feedback to the government about policies that affect them, ultimately in the pocket book.

Efficiency pertains to the economies of scale that grouping of SMIs for bulk purchasing of raw materials and bulk shipping (a containerful) and marketing of products would bring. This is more important in some industries than in others. For example, in the garment industry it was mentioned that savings of more than 25% and up to 50% in the cost of raw materials could be achieved by bulk purchasing of raw materials. Cost savings do not appear to be as great in furniture and handicraft industries. This can be done informally or formally (e.g., a buyer's coop).

Common facilities are another option though different types of facilities would be appropriate for different industries. For example, the furniture and other woodworking industries have a need in most regions for common kiln drying facilities for upgrading the quality of their products, and it appears that it would only be cost effective if many SMEs shared the services of a single kiln drying facility. The same is true for small ceramics producers, while for the garment industry a warehouse for storing raw materials and finished products for larger orders would be appropriate. [(See Table 1 for Regional Listing of Needs)]. All of these activities would require support services in organizing and in the feasibility analysis.

The third purpose for organizing SMEs into groups is for information sharing. The SMED project covers this extensively in its discussion of how associations and chambers will serve as conduits for demand and supply of services. Associations and chambers also need to collect information about SMEs, analyze it and share it with the SMEs as well as with those who intend to support them, the GOP and the service providers. They need to be repositories of information about such things as standard product sizes, designs, sources of raw materials (suppliers indexes), lists of distributors or buyers, trends in the industry and other data or technical information or guides (e.g., Thomas' Registers) that their membership require. This is supported by the recommendation of several entrepreneurs that industry associations include businesses who supply and market their products as well as related services, and is consistent with the SMED strategy of strengthening chambers of commerce and industry, though at present they serve mainly commerce. It is important to remember that most

information available is not pertinent or in a form useful to small businesses and a network for exchanging information between groups is needed in the longer term.

### Integration

There has been a tendency on the part of international donors to prefer credit for SME with assistance in completing application requirements linked to it. These SMED projects have repeatedly run into difficulties in SME repayments on loans. The package of assistance SMEs received was not complete or adequate, particularly in the assistance they received prior to the loan, and that is one reason for the poor repayment record. Another significant factor is that the borrowers tended to perceive the loans as government money that did not have to be repaid, even if they did pledge collateral on it. The banks would be well advised to take more personal responsibility for the loans both internally in the bank and in the eyes of the SME borrower. But most importantly, management, technical and financial services need to be closely linked together and readily accessible so that they are made available as needed. The bankers need to know from whom their SME clients can obtain managerial, technical and informational services (that the bank itself cannot provide) so that as problems on loans reflect marketing, technical or other problems in the business they are dealt with.

### Support Service by Size of Business

For micro level businesses it is probable that most services will be provided by one institution, a PVO. It is likely that over time these PVOs will develop skills to handle cottage level businesses as some of the micros expand to that level. Other cottage industry groups need a higher level of technical and management expertise, and it is probable that more than one institution would be providing these support services. As one moves up the scale in size to small and medium enterprises the sophistication required of the personnel and services increases, and it is likely that institutional specialization will also increase, e.g., banks for financial services, universities and private consulting companies for management training/assistance, specialized technical consultants, etc.

There are several implications for the needs of SMI in the rural areas. The interviews of the contractors with SMI entrepreneurs and people in institutions confirmed as the SMED Project Paper, indicated that SMEs need technical and management training and assistance and access to finance, both in the short and long term. They also need more information about markets and new

products and technologies and ways to acquire raw material more economically. One could say that among the population of SMEs in Regions I, II, VI and XII, which were the focus of the contractor's investigation as well as being the focus of the SMED project, there is a need for many types of business assistance and the system for providing it should be well integrated.

### Research/Policy

There is great need for improvements in the policy environment in the Philippines and much of what is needed is only indirectly related to SMEs. The importance of agriculture in the economy in the Philippines particularly in the SMED target regions should not be overlooked. In the short term the industrial sector should perhaps not be seen as the primary focus of development in regions outside of Metro Manila. If there is not a more rational pricing policy for example<sup>1/</sup>, and support for agriculture, then there is little basis for SME development for the local market since purchasing power in the rural regions is rooted in returns to agricultural production and labor.

The 1982 reforms in GOP policies in the financial sector have opened the way for more realistic financial intermediation. Removing the ceiling on interest rates encouraged savings mobilization. But the present GOP policies of the official exchange rate of the Peso combined with the restrictions on imports and soaking up liquidity is resulting in reduced purchasing power, high inflation and increased economic uncertainty, thus discouraging investments, both foreign and domestic. The research on this has already been done; CRC regularly publishes its findings and projections. Without a set of policy shifts that will reduce speculation, flight of capital and worsen domestic inflation, the Philippine economy will continue to drift and the prospects for growth in SMEs would be limited more and more to those using local raw materials and substituting for imports.

In general it could be said that a lot more is known than what most people think is known about SMEs in the Philippines and still a lot more needs to be known in order for educated decisions to be made about what to do to accelerate the growth of SME at the micro, cottage, small and medium levels. For example, an estimate of manufacturing industries in the Philippines in 1982 indicated

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<sup>1/</sup> See OD/PE's paper on the Coconut Industry for an example of the effects of GOP policy in that sector.

that there were fewer medium sized industries (538) than large industries (588) with the bulk falling in the small, cottage and micro categories (30,558 altogether) (See Annex A). This is an unusual distribution in comparison to other ASEAN countries. One key question that needs to be answered is why more small enterprises have not grown to medium size in the Philippines. Areas to check into in this analysis are (1) GOP SME incentives which are disincentives to growth (so that many small businesses are established by one business person in order to continue receiving benefits rather than developing one medium or larger, and possibly more efficient business); (2) labor law; (3) covert barriers (takeovers by larger companies, monopolies/oligopolies/monopsonies/oligopsonies, harassment, both public sector and private); (4) management limitations; (5) technical limitations (technologies, skills, processes) and (6) others such as limited economies of scale, markets, naturally constrained supply of raw materials. Studies of this phenomena should identify regional variations<sup>1/</sup>.

An area that needs further research is in industrial prioritization. Current studies focus on a determination based on what exists. An assumption underlying this approach is that the market is an open one and its forces are accurately reflected in current businesses. For example, priority industries are determined by weighing the number of businesses, number employed, amount of investment and labor intensity. There is nothing in the analysis which looks at the current and future markets for products, nor that relates the resource (material, human and capital) base to trends in the market place both local and worldwide and looks for areas of real potential growth in which possibly Filipino industry is not at all or only marginally involved at present. The majority of responses to questions about industries in the regions which had potential for significant growth were the people's own line of business, but then perhaps that is not surprising given to whom we were talking.

Another area in which several studies need to be done is infrastructure. These studies would be more general in nature in that they would not pertain only to SMEs, but rather would apply to a given area in general. As needs expressed by SMEs they include: the availability and more importantly costs of power; transportation facilities (ports, roads, an airports), equipment (boats, trucks, aircraft) and regulations (in particular transshipping thru Manila); decentralization of government offices

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<sup>1/</sup> The SMED Project Paper Annex G - "Details Concerning the Research Component in the Project" refers to these and other areas in which research might be done.

(for necessary documentation approvals, etc.); better telecommunication system; and common facilities.

The cost of power in the five AID priority regions is on average (P1.50 - 1.76/kwh) 3-4 times the cost in Manila (P.50/kwh). Significant price increases for electrical power have occurred in the years since the Rural Electric Co-ops were established. Many people question whether the increased costs/rates are a result of mismanagement or if some integration of the power system would be possible to lower the average cost to users. Otherwise this represents a comparative disadvantage for rural industries even though electrical costs are generally less than five percent of their total costs.

There are a number of ports and airports which could serve for international shipments much more than they presently do, but till now there has been little done to decentralize customs facilities and rationalize shipping and airline schedules to more efficiently handle the flow of goods from the southern and northern regions. A study needs to be done on the capacity of the port facilities and the flow of goods thru those facilities to see if different traffic patterns would be more efficient (lower cost) and thereby make regional Philippine goods more competitive in various markets in Asia and elsewhere. Part of that study would look at how the operations of the port facilities could be improved for the safety of the goods, and for more efficient service. The present requirement of transshipping most goods through Manila both increases costs and causes in some instances substantial delays in delivery resulting in poor customer relations. Regional producers are often unable to tell their customers when an ordered shipment will arrive because they cannot track it through Manila to find out which boat it is on. The situation with airfreight appears to be similar and the focus of that study should be on traffic patterns and the potential for additional exports created by direct airfreighting of perishable products to foreign markets.

In the area of telecommunications there was interest expressed by SMEs in common telex facilities in certain provinces of Region 5 with high export potential. The feasibility of such facilities should be studied. Also, there were complaints from SME outside of the urban centers that because they had to go through local operators, they were losing orders because of the time (often 3-4 hours per call) to call buyers and suppliers in Manila. A study should look at viable communications options for scattered firms outside of regional urban centers comparing such alternatives as telephone, telex, cable, micro-modem and radio patch links in areas serving markets outside their region and with potential for growth.

Studies are needed of the feasibility/viability of certain common facilities which SME in the regions are saying they need. These facilities range from wood kiln dryers and common carpentry shops for furniture and wood carving to warehouses for raw materials bulk purchased and storage of goods prior to shipment. These studies should be on a case by case basis and actively involve the potential users as well as objective outsiders.

Beyond this, the need for a SME Technology Research and Development Center or System which could be private or public, should be looked into. A consultant should be brought in to study the viability for establishing such an institution, the approaches that should be taken, and the parties who should get involved. Existing Technology research and development facilities might need to be expanded and/or established probably in universities together with private business efforts to commercialize developed technologies should be supported technically as needed. AID would need to have someone specialized in this area define the scope of work necessary to study the feasibility of this possibility.

Lastly, a basic area for rationalization concerns economic data. The National Census and Statistics Office (NCSO) collects data throughout the country, but then does not make it available to NEDA regional planners except in aggregated form. Universities and colleges are collecting data locally as are the regional SBAC offices. But no one is pulling all this information together and analyzing it to a useful degree. What is needed is a longer term plan and contracts for doing the above mentioned research and other studies on provincial, regional and national and international levels. The roles of different institutions should be defined jointly and plans coordinated accordingly.

#### V. Private Institutions Assisting SMEs

##### Introduction

Small and medium entrepreneurs are the concern not only of government agencies but of private institutions as well. This is a simple fact that SMEs themselves often forget. To some SMEs, there is only "government assistance" when they look for outside assistance. In reality private hands are widely extended to private SMEs.

There are essentially six types of private institutions that provide services to SMEs:

- o business associations, industry groups and civic organizations;
- o academic institutions, training and research centers;
- o financial institutions;

- o foundations and private volunteer organizations;
- o private consultants and consulting firms;
- o private business firms.

While these institutions tend to be specialized in their delivery of services, it is common for them to provide several services. Thus, foundations and private volunteer organizations offer a versatile range of management services to enterprises of varying activities, though mostly to micro enterprises. While limited in number, private consulting companies serve SMEs with auditing, financial systems installation and management training. Financial institutions and academic institutions are relatively more specialized than the rest, but some of them have incorporated extra services into their operations. In the case of certain financial institutions, market referrals are available, while in the case of some academic institutions, management and technical consulting and credit has been provided.

These institutions also differ in whom they reach. PVOs have tended to work with micro and cottage level businesses in and outside of urban centers in various region while financial institutions have maintained a strategic presence in major towns and have restricted lending to medium and larger small businesses. Business associations outside of Manila tend to serve the local elite. There are universities in various regions most of which focus management education for large enterprise applications, which is seldom relevant to their local economy.

In general, private institutions assisting SMEs at the regional level have not developed strong ties within them and between them. Therefore, service delivery has been splintered and uncoordinated. For example, academic institutions maintain only minimal linkages with business associations and financial institutions where there could be more sustained efforts at maintaining on-going coordination of support services to SMEs. Even among academic or training institutions within a region, these ties are not cultivated and are, therefore, largely unproductive.

Table V-1 below summarizes the services currently available to SMEs through private institutions. "Primary Services" are those which the institutions view as central to their assistance efforts while "Secondary Services" are other services which they provide to SMEs.

Table V-1

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INSTITUTIONAL SERVICES AVAILABLE TO SMEs

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|                                   | <u>Primary Services</u>   | <u>Secondary Services</u>  |
|-----------------------------------|---|--|
| Business Associations             | Representative/Lobbying   | Technical Training<br>Seminars<br>Marketing Support<br>Information   |
| Academic/Training<br>Institutions | Management Training<br>Technical Training                         | Management Consultancy<br>Research<br>Technology<br>Micro Credit     |
| Financial Institutions            | Financial Assistance  | Management Consultancy   |
| Foundations/PVOs                  | Financial Assistance<br>Technical Training<br>Organizational Dev. | Management Consultancy<br>Management Training                        |
| Private Consultants               | Management Consultancy<br>Auditing/Accounting                     | Management Training<br>Technical Training/<br>Consulting<br>Research |
| Private Business                  | Supply Support<br>Marketing Support                               | Technical Support  |

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### Business Organizations

Four types of business organizations may be found all over the country. They have varying potentials for servicing SMEs locally:

- o chambers of commerce and industry
- o industry associations
- o professional associations
- o civic/social groups

Memberships in these organizations do not vary widely, especially in smaller cities and towns where multiple membership in such organizations is common and socially almost compulsory. As is characteristic of regional economies, membership in local chambers tends to be predominantly commercial establishments like wholesale/retail stores, restaurants, hotels, hospitals and the like. In the bigger cities, the Chinese component in the local chambers remain highly significant (up to 50%). Such chambers exist side by side with exclusive Filipino-Chinese chambers of commerce.

Local Chambers primarily provide business contacts across member organizations and individuals. Trade information comes via letters and printed matter from the Philippine Chamber of Commerce and Industry (PCCI), Ministry of Trade and Industry, or from other chambers and individuals in other regions. Occasionally, export contacts are made through the same channels. The involvement of local Chambers in discussions on regional and national issues affecting their business well-being depends on the dynamism of leadership in these Chambers. Davao City, for example is known to have a big and aggressive Chamber.

The PCCI, which has 70 affiliated Chambers, is working toward four major activities for local Chambers: (1) serve as lobby groups on local issues; (2) circuit membership in a national speakers' bureau; (3) sponsorship of training programs; and (4) involvement in trade information and foreign trade missions. They have a Committee on Small and Medium Enterprise which tries to study issues related to SMEs and promote activities in response.

On the whole, local chambers in regions covered by the study do not appear to be adequately prepared to carry out such activities. They lack full time staff, do not maintain permanent offices, and perhaps lack sufficiently experienced and active "businessmen-volunteers" who are behind much of PCCI counterpart activities.

Industry associations operate on a smaller scale, have very strong problem orientations, and are therefore have the potential for more specific impact. Provincial industry associations are

numerous. While they have affiliations with national industry associations (like the Chamber of Handicraft Producers and the Chamber of Furniture Manufacturers), they are rarely organized on a regional basis. Local associations generally depend on a core group of 5 to 15 members who are considered "generally active" and committed to their associations. Services provided depend on these core group's voluntary efforts quality and quantity varies accordingly. On the whole, such associations have a wider range of services and specific programs, but individually they tend to focus on one at a time. Among the more common services are: marketing assistance, raw material procurement assistance, manpower training programs, policy positioning, and technology sharing.

Over the last few years, industry associations have gained greater importance. In a few cases members have sought out collective action as a more coherent approach to problems as well as opportunities. On one hand, problems have come by way of raw material shortages (as in the case of wood products processors), legislations (as in the case of higher taxes) and higher input prices. The Cebu Garment Business Association was able to get WB funding for a common warehouse facility. On the other hand, opportunities have come by way of KKK loanable funds which were available to organized groups, or from sudden export prospects (as in a case of garment producers in Naga City organizing to meet an order).

These forces have conspired to make members of industry associations more aware of the possible importance of common facilities. This is certainly the case in Regions I, II and V where the need for modest scale kiln driers is strongly recognized. But like the chambers, they lack full-time staff, do not maintain permanent offices and lack the necessary experience to organize more dynamically.

Professional Associations of CPAs, (PICPA), engineers, fashion designers and financial executives (FINEX) are in some instances very dynamic. At least a couple (FINEX and PICPA) have established member committees to look at what they can do for SMEs. Services to date have focused on informing the public about SME issues and publishing instructional guides for SME management. Other activities are in the planning stages. Because of the breadth of their membership's experience they have great potential for providing specialized services to SME in many parts of the Philippines.

Civic/Social Groups like the Jaycees, Rotary, Lions and the Kiwanis usually represent a cross-section of professional groups within a city or major town. Like any social grouping, these organizations provide contacts. Their regular meetings are also

meant to provide vehicles for various experts to impart knowhow to the members. On the whole, however, these organizations have been short on SME related projects. Yet their wide memberships across professional groups which make them ideal pipeline for reaching out to professionals remains underutilized.

#### Academic, Training, and Research Institutions

There are also three major types of these institutions which may be considered:

- o universities or colleges with diploma courses in business;
- o institutes of technology, schools of arts and trades, and local state universities with trade orientations;
- o purely business and economic training and research institutions.

Local colleges and universities have been servicing SMEs on a limited scale thus far. Their interest in developing training programs for SMEs is still gathering momentum.

The entry point for some universities is their "outreach program" which usually consists of small training units for housewives in communities around these institutions. Such programs would typically include basic bookkeeping, handicraft skills, dressmaking, and cooking demonstrations. These programs eventually evolve into simple livelihood projects. Divine Word College (Laoag City) and Notre Dame University (Cotabato City) are examples of this first stage in SME servicing.

Certain universities opt for modest tie-ups with other national institutions in order to gain some footing in SME training programs. Such tie-ups could be (1) with the University of Life Home Study Program involving basic bookkeeping and skills training in basic backyard industries; or (2) with the UP Institute for Small Scale Industries (UPISSI) involving entrepreneurship studies. Both tie-ups, for example, are being pursued by St. Louis University (Baguio City). The first set-up is also followed by Aquinas University (Legaspi City). Another tie-up that is shaping up is that between NACIDA and Bicol University, involving a handicrafts research and skills training program.

Other universities plunge into SME training programs by organizing Institutes of Small Business (ISBs). The Association of Catholic Universities in the Philippines, for example, has been the conduit for German and Belgian funding and assistance in the formation of 8 such institutes. These include those in the University of San Carlos (Cebu City), St. Louis University (Baguio City), Angeles

University Foundation (Angeles City), University of Santo Tomas (Manila), Xavier University (Cagayan de Oro City), Ateneo de Davao (Davao City), Divine Word University (Tacloban City) and Aquinas University (Legaspi City). These ISBs provide off-campus seminars, workshops, consultancy and project feasibility study services to SMEs. The quality of their services appears to vary greatly.

In addition, there are state universities which have been organized out of various units offering so-called industrial arts and trades, and agriculture or fisheries courses in certain parts of the country. These universities have the technical staff and expertise to run well-meaning programs for local manpower in such areas as carpentry and woodworking, electronics, and metal working. Their inability to package such courses in order to attract local enrollees is a problem that cannot be solved without active support from SMEs which could simultaneously promote employment within the same region. The program of Brother Bob McGovern at Notre Dame College in General Santos is an example of this type of support working.

The other category is composed of primarily Metro Manila based institutions that have as their exclusive concern training in business management and economics. An institution which has SMEs as its special focus is the UPISSI. It offers short seminars on management issues affecting SMEs, training of trainers and does some research. On a higher level, the Asian Institute of Management (AIM) presents similar management courses placed within the framework of larger business organizations. A private not-for-profit economics-oriented institution, the Center for Research and Communication (CRC) has started to experiment on an integrated approach to teaching SME businessmen strategic planning and management. Meanwhile, the Executive Development Academy, a profit-oriented organization, continues to run short courses on "how-to's" of entrepreneurship, but its quality of instruction remains suspect among academicians.

These Manila-based institutions have limited regional training programs. While UPISSI is moving cautiously into regional tie-ups with private universities, the other institutions have yet to take concrete steps in making their presence felt on the regional level.

In general, the business management courses that are available in traditional universities and colleges, Schools of Business in the regions are characterized by a lack of market orientation. Their courses are also primarily presented in the context of big business situations. They lack practical on-the-job training content though presently there is an attempt to correct this by requiring all students to work for one semester in a business as a practicum. Their biggest inadequacy, however, is that they do not promote technical skills and management skills that are more relevant to regional businesses.

The Philippine Association of Colleges and Schools of Business (PACSB) is just beginning to look into how the courses could benefit from injections of new content and curriculum. They recognize the need to promote respect for SMEs and entrepreneurship. Their present preoccupation is budgetary; declining enrollments are necessitating restructuring in many universities and colleges. They mention the need for resources to develop SME case studies. Cases that deal with how and why SMEs start, develop and/or die would make a significant contribution at all levels of society for promoting successful SME development. Their courses could also be enriched by more experience sharing with actual entrepreneurs in the region. They could also have greater impact with the introduction of more entrepreneurial courses that do not dwell purely in "how-to's" but in the development of special attitudes and skills which promote more educated risk taking even within conditions of limited resources.

#### Financial Institutions

The financial institutions which are strategically situated close to where SMEs are include:

- o private development banks
- o commercial banks
- o rural banks
- o finance companies
- o credit cooperatives.

Regional private development banks are meant to channel long term financial resources to SMEs in the countryside. This function is severely limited by their small number, their lack of loan facilities, and their lack of aggressive policies and staff members. Traditionally dependent on rediscounting facilities through the Development Bank of the Philippines (DBP), these banks have been crippled as of late by dried up funding and high interest rates. Their limited lending activities have remained concentrated on lower-risk areas such as agricultural, commercial and construction loans which are backed up by real estate collaterals.

Local branches of commercial banks are often cited as the only viable sources of financing by regional SMEs. While remaining collateral-based, such lending activities are also done with more confidence on the part of local businessmen because of the more stable image of commercial banks among small entrepreneurs. This image may have been damaged lately by failures of some commercial banks, but on the whole they retain the confidence of their clients, especially those banks that have moved into universal banking. They are especially favored by regionally based exporters who must also depend on these banks for their letters of credit transactions. As can be expected, they tend to be more active at the upper end of the scale of small businesses.

The experience of DBP, private commercial banks, as well as private development banks in administering IGLF loans has exposed them to the SME market for financial services. This experience does not appear to be very solid, however. These financial institutions generally process a very limited number of loans per year and do not maintain an impressive local staff to adequately service their loans. Thus, in the case of regional operations of the Private Development Corporation of the Philippines (PDCP) for example, only 3 to 5 medium sized projects are funded annually. The latest default experience (up to 50% on loans to SMEs) have discouraged banks to consider further lending activities. Their collateral orientation has only become sharper. There appears to be little awareness of the dynamic role they could play in local economic development as local deposit resources tend to be funneled to Manila to support loan made by head offices there.

Rural bankers may be more strategically situated than most other bankers, however. Considering their wide network (over 1000), rural banks are located close to the market, could have close contacts with their prospective clientele, and are small enough for entrepreneurs to be at ease with them.

There are at least 30 rural banks widely dispersed in each region. They provide loans through Central Bank-administered agricultural loan programs and generally make 10% margins on such loans in order to cover their overhead costs. These costs include the services of up to 2 production technicians in each bank, who are generally agriculturists. They are assigned to go out and solicit clientele, while helping out in actual project supervision and collection efforts as well. They do not have any management training and often lack entrepreneurial insights to be able to help out their clients meaningfully. As mechanisms for seeking out and linking with agricultural borrowers, however, they represent a possible option for delivering financial and extra-financial assistance to SMEs; but only if the interest margins are increased considerably.

While 8 rural banks are accredited CIGLF outlets, other rural banks had been able to act as conduits for that and the IGLF financing facilities designed for cottage industries until those facilities were temporarily suspended in 1983. Few rural bankers have recognized the importance of diversifying their loan portfolios, except those who have recognized the importance of dealing with small manufacturers in the rural areas in order to support their agriculture loans. Their staffs need training, their systems (all manual at present) need upgrading, and their management need educating in general banking. We came across one province in which a program is being activated to accomplish this in fifteen rural banks (La Union-Region 1) and the intention is to extend it to the other provinces in the region in the future.

Another potential and interested institution with a nationwide network is the credit cooperative system. Cooperatives in the Philippines provide agricultural and consumer credit to their members and have not really dealt with SMEs. Their strategic presence in rural communities, as well as their experience in credit and non-credit assistance, present some bases for their subsequent entry into SME assistance. Some of them are actively looking for ways to channel their resources into more production activities, e.g., SMEs.

Meanwhile, in a tangential manner, finance companies have been financing SME vehicle and equipment acquisitions, but only in cases where such equipment may also be considered as personal effects, as in the case of refrigerators and sewing machines which may actually be utilized in home-based production activities. These institutions have been unstable over the last few years, however, owing to massive financial reversals. The rapid increase in equipment and vehicle prices over the last few months, together with bad repayment performance among installment buyers have seriously threatened their activities.

#### Foundations and Private Volunteer Organizations

There are over 700 foundations and over 2,000 private volunteer groups in the country. They cover various fields of assistance, from livelihood to health services to research to cultural development.

In 1982, from among the 73 members of the national Association of Foundations, over P26.4 million was spent on livelihood programs. This represented 8% of all members' program expenses. A "Baseline Study" done by MIDP identified 102 PVOs assisting micro enterprises. The biggest programs were concentrated in Social Science (P82.5 million), Education (P78.2 million) and Scientific Research (P65.1 million - including small farm technologies). Before program activities in SME technical research are finalized, AID should look further into what is being done with these foundations support for scientific research. We were unable to determine how much of it relates to SMEs.

Outside of financial help, foundations have extended various services to client entrepreneurs. These cover such areas as skills training, basic business skills training, and marketing referrals.

Some UPISSI research programs are funded through the Small Enterprises Research and Development Foundation (SERDF). A number of foundations are behind manpower skills training notably the following: Tala Foundation, Meralco Foundation and Kalahan

Educational Foundation. The Philippine Business for Social Progress (PBSP) is an umbrella organization placing particular emphasis on its Small Business Program covering community credit projects, cooperative small economic assistance projects and micro enterprise projects. They have developed what appears to be an effective program for training PVOs to manage small credit fund projects.

The Negros Economic Development Foundation may be cited as a foundation providing support services to the Bacolod Chamber of Commerce and 4 other business associations by acting as secretariat to these organizations. This activity is apart from its economic development projects covering crop farming and livestock production.

The experience of PVOs in the field of assistance to micro enterprises in the rural sector is wide. Apparently as a result of the SMED regional meetings of PVOs, they are on their own moving towards establishing regional PVO associations for exchanging information, training and other activities. This would strengthen them in their support of SMEs. PVOs demonstrate that service institutions addressed to SMEs can be based locally or regionally, operate nationally, and be as effective as Manila-based organizations.

#### Private Consultants

Private consulting companies utilize two focal services as entry points for providing extra services to SMEs: auditing and training. In the case of individual professionals and groups, the area of project feasibility study preparation is a major point of emphasis especially when they have tie-ups with financing and programs (e.g., KKK).

Among auditing firms in the country, Sycip, Gorres, Velayo (SGV), Carlos J. Valdez, and JCunanan/Price Waterhouse are considered to be majors in the field. They basically differ in terms of market segmentation and specialization, however. For example, while SGV operates as a giant nationally and internationally, attracting the biggest clientele, JCunanan/Price Waterhouse specializes in servicing a clientele composed (60%) primarily of SMEs. Their support services vary according to that market segment orientation. The latter, for example, maintains an Entrepreneurial Services unit which is addressed to the SME market. SGV has 108 CPAs who specialize in SME and they have developed at least one low-cost accounting assistance package for a particular type of SME firm. (For P2,000/year small gas stations can have their books done). These three major auditing firms maintain regional offices. SGV has 10 while Carlos Valdez

has 4 and JCunanan has only 2. Commonly, their regional staff size is confined to the range of 1-9 consisting of CPAs only. No specialized consultants are assigned regionally; they are called to regions to do consultancies as need arises.

In the field of management services, perhaps the most technology oriented is the private foundation EDF (Economic Development Foundation). Its Board of Trustees is composed of presidents of companies included in the country's top 1,000 firms. It focuses its activities around management training programs, engineering, technology research and project feasibility studies. Its staff includes accountants, economists, engineers and lawyers, providing a good capacity base for its service delivery to larger companies. Indeed, its handicap may be its greater concentration on bigger companies. Otherwise, its success suggests that a similar approach may be viable for SMEs as well.

#### Private Business Firms

In practice, business firms extend services to their smaller counterparts without realizing the "Big Brother" role playing that they do. Trading companies, down to their regional distributors, do not just sell equipment, raw materials and intermediate inputs; they also provide technical advice in the use of these products. Marketing firms do not just buy their goods from other firms; in many instances they actually provide marketing support to their suppliers. In other instances, producer firms provide on-the-job training for workers who later apply their skills in small subcontracting operations. These producer firms often channel supplies and designs and maintain quality control standards for their subcontractors.

Among those known to be providing more organized and more committed assistance to SMEs in the fields of actual business start-ups, product development, skills training and marketing are a medium scale weaving operation in Region 1.

Another example of a small operator helping her associates is a garments manufacturer in Region V (Ramir's) who solicits finishing jobs and passes on part of her load to other producers in the region.

A small producer of paints and finishing materials in Isabela is also helping out other woodworking shops by providing them cheaper indigenously based inputs as well as giving them advice on finishing technology.

A rattan manufacturer in Cebu City farms out piecework to up to 200 cottage or micro subcontractors and provides raw materials, designs, some production techniques and quality control training

and marketing. Manila-based retailers and exporters getting their supplies from sub-contractors in Dagupan and Legaspi also pass on new designs, quality control tips, and marketing contacts as well to small cottage producers in these areas. Rustan's is well known to be involved in this type of activity.

In most cases, however, these types of service assistance to SMEs remain informal and unrecognized. There is sufficient scope, given the large number of micro, cottage and small industries, for expanding such relationships between big and small or between similarly sized operations, within the same or different industries.

Annex D contains more detailed institutional assessments of ten organizations visited by the contractor. These assessments are meant to be exemplary of the types of institutions interviewed. Notes from interviews with other institutions are available in a Bulk File.

VI. Response to Needs: Programs of the Government of the Philippines and International Donor Agencies

For the past ten years or so, the Philippines government has made the promotion of SMEs an important policy objective. The major reasons for this policy are related to an increased rate of employment creation, an improvement in living standards and the equitable distribution of wealth through the benefits of industrialization, the development of regional areas, the utilization of indigenous resources, and the development of an efficient industrial structure. Little has actually reached rural areas. The promotion of small industries, however, has been implemented along with major industrial projects for large-scale industry. These large-scale projects have in turn been the beneficiaries of a larger amount of the government's funding resources.<sup>1/</sup>

As a result of the recent economic crisis, the current Philippine Development Plan is being revised. Preliminary indications are that a more balanced policy between agricultural and industrial development will channel a higher percentage of resources to agriculture and the establishment of industries in the countryside producing products related to the expenditure patterns of domestic households<sup>2/</sup>. The government is therefore expected to continue

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<sup>1/</sup> Arturo G. Villanueva, "Government and Financial Institutions Assistance to Philippine Industry", September 1983.

<sup>2/</sup> Filologo Pante, Jr., "Towards a Balanced Agro-Industrial Development", 1983.

to pursue its program of industrial expansion for SMEs. This program includes technical assistance to SMIs, finance capital at concessional rates, the promotion of subcontracting and other marketing assistance, entrepreneurship training, technological centers, and common facilities industrial parks for cottage, small and medium industries to improve production and consolidate marketing. Technical and vocational education will also be strengthened, but skills training will be gradually shifted to the private sector.

Even though there are numerous technical agencies with the potential to provide services for SMIs, the SBAC and NACIDA programs are the only ones with an active presence in the regions. The technical institutes doing product research, such as, the Metals Industry Research and Development Center (MIRDC), the Forest Products Research and Industries Development Institute (FPRDI), the Food and Nutrition Research Institute (FNRI), the Philippine Invention Development Institute (PIDI), National Science and Technical Authority (NSTA), Product Standards Agency (PSA), Productivity Development Center (PDC), and the Design Center of the Philippines (DCP), do not have an adequate regional delivery system.

The major sources of government-supplied credit to the SME sector have been the Development Bank of the Philippines (DBP) and the Industrial Guarantee Loan Fund (IGLF). Finance has also been supplied at low rates through the KKK program, the Cottage Industry Guarantee Loan Fund (CIGLF), Venture Capital Corporations (VCCs), and the Philippine National Bank (PNB). For the past year or so, the volume of funding for SMIs from these sources has been considerably reduced.

The major focus of other donor SME programs (World Bank and ADB) has been to providing finance to various Philippine government lending programs. In addition, the World Bank has provided support to BSMI in MTI for pilot projects related to SMIs and has provided research grants to organizations, such as UPISSI. The World Bank also plans to participate in commercial loans through new co-financing instruments. Funds have also been provided for training people in industrial subsectors which are related to major SMI activities. A large urban development loan to the Philippines includes some funds for livelihood projects, common facilities, and industrial estates, such as the one planned for Davao City which caters to SMIs.

The Asian Development Bank (ADB) has also made loans available for SBACs and to the Development Bank of the Philippines and other financial institutions. ADB is also presently providing technical assistance to institutions to provide loans for the development of industrial estates for SMIs. Yet its primary activity in support of SMIs has been through loans to develop finance institutions that support them.

While ADB sees its capabilities better related to playing a major role in the agricultural sector and a supportive role in the industrial sector,<sup>1/</sup> a plan of assistance to help evolve a better institutional framework for the development of export-oriented SMIs is being developed. Research on SMIs has been undertaken in the Philippines in recent years. ADB is now in the process of developing a more comprehensive program in regard to SMIs, which may include support for the training of potential entrepreneurs and the development of better quality control procedures. An ADB study team will be arriving June 7 for several weeks to look into capital markets and financial policies for all levels of business. USAID staff should use this report as soon as it is available.

The United Nations Industrial Development Organization (UNIDO) has also been active with SMIs. Their Technical Services Delivery System project has worked to deliver technical services from technical institutes through SBAC and NACIDA to recipient SMIs. UNIDO has also organized workshops, developed technical materials and conducted research on the problems of specific industries. While focusing on providing assistance to government agencies, local associations are sometimes utilized to contact members to ensure attendance at workshops and seminars.

The International Labor Organization (ILO) also has projects affecting SMIs in the Philippines. A recent visit by members of ILO should result in a mission report on ways to promote the development of small enterprises. An important concern is in regard to lowering the early attrition rate of small enterprises so that viable enterprises which can utilize their potential for growth can be identified sooner. The ILO is presently working with various employer and worker organizations throughout the Philippines and is providing trainings through them. Many of these organizations are linked to SMIs.

The Japan International Cooperation Agency also is concerned with small industry development and has a program to train teachers and technicians in new techniques which are applicable to cottage and light industries. The program is centered in Manila, but hopes to disseminate information to rural areas. The program is being developed with NACIDA as the lead Philippine agency.

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<sup>1/</sup> Asian Development Bank, "ADB's Operational Program 1984-86", August 1983.

While most donor agencies concentrate on improving the capabilities of the public sector to provide training and assistance to SMIs, the USAID SMED project together with the Marketing and Technology Access Project (MTAP) is directly aimed at involving both the public and private sectors at the local level. Few established models for assisting relatively small businesses on a cost effective basis have been developed to use as a guide. Yet specific programs with definite, clear objectives are needed to help overcome the current obstacles facing these businesses.

## VII. Proposed Program Strategy for Private Sector Support Services for SME Development (PSSS)

### Introduction

The following design is based on the premise given by USAID/Manila staff that the SMED project was going to handle the demand side of the SMED system equation and that a project was needed that would handle the support services side, providing assistance and support to private institutions who will provide the services to SMEs.

From our analysis of the needs of SMEs and from our contacts and discussions with various private and governmental institutions already providing or interested in providing services to SMEs, it is apparent that there is need and room for substantial development and expansion of services that are available to SMEs in the rural areas of the Philippines. As was discussed in a previous sections of this report the range of necessary services is wide and includes financial, technical, management and marketing. These categories in turn can be broken down further into information, training and assistance and organization.

The SMED Project is in the process of setting up the network or system for identifying and channeling services needed by SMEs in the above mentioned regions. This PSSS project proposes to compliment these efforts by developing and expanding services that have been identified in SMED as necessary. The strategy recommended herein would be a three phased program of support to primarily private sector institutions in their efforts to provide appropriate services to SMEs in rural areas on a timely and cost effective basis. The principal institutions in an integrated network of services would be the private universities, private consulting companies, associations, PVOs and private banks.

### Institutions

At present there are many more or less isolated private activities that are intended to assist SMEs in these regions. They range from university level business and engineering courses and

university or college sponsored seminars for SMEs to specialized assistance in management, technical and credit sourcing areas. They are provided by private for-profit as well as not-for-profit organizations. Most of them are in experimental stages of development and are limited by lack of funds and experienced personnel to upgrade and expand what they are doing. In most cases at least minimal fees are charged, and in a few cases charges cover the bulk or all of the costs of the services. In some instances the skill resources of private manufacturing companies have been tapped on a cost sharing basis. And finally there seems to be emerging an increased awareness on the part of previously intransigent traditionalists (i.e., a few enlightened bankers and larger business people) of the importance of SME to the stability and development of the country as well as to their own interests. Support is needed to improve existing services and expand them to reach a greater number of SMEs.

One alternative would be to set up private institutions in each of the target regions that would serve as one-stop service centers. These centers would have a core team of specialists in management training and assistance, industrial engineering, marketing and organizational development. Since the problems/questions/needs of SMEs can be expected to vary greatly between different sizes and types of business it is expected that there would have to be technicians "on-call" who would be capable of responding to specific SME needs. These centers would be the private sector counterpart to SBAC. They could draw on the technical resources of several GOP ministries programs and serve as the in-region offices for people coming from outside the region. They would also be continuously collecting information about local SME needs in order to adjust their own services and tap into other sources of assistance.

This alternative has all the advantages and drawbacks of the GOP regional centers approach mentioned below. (See Pg. 65-67)

The approach that we feel would be most dynamic and reliable would be an integrated service delivery system. Let SBAC regional centers continue to serve as regional service coordinators for the moment, and as regional CCIs or associations develop, shift some of the SBAC functions of linking to Manila and GOP agencies to them. In any given locale there would be several private institutions that would provide specific services and refer or arrange for the provision of other services. There would be some overlap between the services, but no duplication. For example, a university, a bank and a PVU in one locale could all be providing some management training/assistance. The bank's service might focus more on financial management of small and medium industries while the university's focuses on overall management of micro to

small industries and the PVO deals with micro and cottage traders and producers management needs. Probably one of these organizations will act in a more catalytic role in the early stages and this might be perceived as a "lead organization". However, the intention is not for this role of "leader" to be perpetuated nor expanded upon, but rather downplayed and dispersed among the other local service agencies.

It is important that the type of institution to play this pivotal role in a locale not be prescribed by the project. It became apparent from our field visits that in different places different types of organizations appeared to be appropriate for this role of catalyzer. For example, in one place the Chamber of Commerce and Industry appeared most ready and well positioned to advocate for change, in another in the same region the local university appeared to be serving the most in that position, while in yet another a rural banker was taking that responsibility. Nor should the project presume that the process would be lead by only one organization in a locale. On the contrary, that is to be minimized.

The criteria that the project would use for identifying such catalyzers would include:

- o They perceive need for private sector support in SME development (versus always looking to government)
- o They are considering/implementing changes in their own services to better respond to SME needs in their area.
- o They are actively pursuing ways to involve other local organizations or resources in supporting SME development.
- o They have begun considering ways that additional services to SMEs can be self-sustaining, or in other words they are assuming that such services do not have to be heavily subsidized, or if they do, that there is a way to do it locally.
- o They are open to learning from others' experiences in similar activities instead of wanting to figure it out from doing it themselves.

Because at any given time any SME's needs could be technical, managerial, financial or informational the institutions involved in any locale would need to be the closest universities or colleges, any technical training schools, commercial and/or rural banks and credit unions, and industry associations and chambers of commerce and industry. In addition, local or regional accounting/consulting firms, PVOs and cooperatives would be

included along with any key industries (the "big brothers" mentioned in Section V of this report) who are active in assisting smaller businesses. Each institution would establish active links with regional organizations as well as Manila-based and international agencies. These would include such organizations as university/college associations or networks, retired executive service corps (both Filipino and IESC), technical research institutes, national industry and professional associations and PCCI, trading companies and "key" industries, GOP agencies, and bankers associations, etc..

### The Strategy

It is assumed that the SMED project might accomplish some of what is described hereunder. But rather than conjecture what that will be, the following will outline the entire process and the conditions necessary before the system can be expanded to effectively and sustainably reach and serve the dispersed target population of SMEs. The process covers three phases over the next eight years. AID's involvement would phase out at the end of six years or Dec. 31, 1990. The entire process evolves from the results of the first phase and will be influenced by the conditions in the economy which can be expected to change significantly in either direction over the next few years, depending on policy decisions of the GOP.

### Phase I

Phase I is a period of intense experimentation with the methodologies of assisting small businesses in technical, management, financial and informational areas. It will also focus on testing different institutional mechanisms for delivering services and ways of integrating services in the field. The purpose of this first phase is to identify effective methods of technical, management, financial, and information assistance and effective organizational structures in the private sector for specific and integrated services. This phase would take about two years and would prepare the ground for the next phase. The temptation to go for the numbers should be resisted by all means during this stage as experience in similar USAID SME projects has shown that the administrative issues of larger operations tend to take precedence over effectiveness issues. Therefore, the pilot projects should be limited in number, though diverse, and in size in order to gain the most results. These projects should be started as soon as possible under SMED or under another funding facility in order to be synchronized with the other SMED activities. It is important to have this phase in the project because although many organizations are trying to assist SME it

appears that above the micro level no one has arrived at a consistently effective method and any methods brought in through TA would have to be adapted to the Philippine context. Further development of services will occur throughout the project.

The table on the following page summarizes the methodologies that could be improved/developed during Phase I. Not all of these methodologies will be tested in Phase I. For example, management training/assistance provided through an Institute for Small Business focusing on cottage and small industries, business skills, seminars and management consulting could be the one in that area supported in Phase I.

PSSS would use a pre-established evaluation system to determine when effective methodologies have been arrived at. The criteria for determining the completion of Phase I for any particular service method should include:<sup>1/</sup>

- o that there are consistent positive changes in business performance or management practices (production, income, employment, demonstrated problem solving, etc.)
- o that demand for service is rising and/or better defined by users
- o that there is use and/or development of other local, regional, national, and international resources. AID and project evaluators should bear in mind the effects of the overall economic situation and policy environment in their expectations of business performance. For example, in conditions of very low, no or negative macro-economic growth, that an SME is still in business while others have failed might indicate successful assistance to it.

## Phase II

Once the experimentation has progressed to the point of having some effective methodologies, then the expansion of the system can begin. This would be Phase II and would entail expanding the outreach of programs which have effective methodologies by expanding their staff

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<sup>1/</sup> See Susan Goldmark's, "Evaluation Plan for the SMED Project" for more details on impact and institutional criteria.

Potential Methodologies to be Tested in Phase I of PSSS

| <u>Support Service/<br/>Methodology</u>  | <u>Institutions</u>  | <u>Sub-sector to be Served</u>                 |
|--|--|--|
| Management Training/<br>Assistance - Management<br>Training Consortium   | ISBs   | micro, cottage, small<br>enterprise levels     |
|  | PVOs   | micro, cottage                                 |
|  | Banks  | cottage, small, medium                         |
|  | Co-op Training Centers   | micro, cottage, small                          |
|  | Associations/Chambers  | small, medium                                  |
|  | Consulting Companies   | cottage  |
|  | "Big Brother" Companies  | cottage, small                                 |
| Technical Training/<br>Assistance - Technical<br>and Service Centers   | State Universities   | cottage, small, medium                         |
|  | PVOs   | micro, cottage, small                          |
|  | Voc. Ed. Schools   | cottage, small, medium                         |
|  | Consulting Companies   | small, medium                                  |
|  | Professional Assoc.  | cottage, small, medium                         |
|  | Philippine Executive<br>Service Corp.                          | cottage, small, medium                         |
|  | "Big Brother" Companies  | cottage, small                                 |
| Organization - Core<br>Group Training, Regional<br>Business Conferences,<br>Common Facilities,<br>Buyer/Supplier Indexes | PVOs   | micro, cottage                                 |
|  | Co-op Training Centers   | micro, cottage, small                          |
|  | PCCI or Nat'l. Assoc.  | cottage, small, medium                         |
|  | Local Assoc.   | cottage, small, medium                         |
|  | ISBs   | micro, cottage, small                          |
| Finance - Banker Train-<br>ing - SME credit schemes  | Provincial Association of<br>Rural Bankers                     | cottage, small                                 |
|  | Provincial Association of<br>Bankers                           | cottage, small, medium                         |
|  | Co-op Training Center  | micro, cottage                                 |
|  | PVOs   | micro, cottage                                 |
| Infrastructure<br>Infrastructure Research<br>and Regional Comm.<br>Centers   | SBAC   | micro-medium                                   |
|  | Consulting Companies   | micro-medium                                   |
|  | Universities and ISBs  | micro-medium                                   |
|  | Local/Regional/Nat'l/Assoc.                                    | micro-medium                                   |
| Research/Policy - New<br>Resources, New Indus-<br>tries, Policy  | SMED Research Component  | micro-medium                                   |
| Integration of Services-<br>SME Service Institu-<br>tions Conferences  | PVOs, Associations, ISBs,<br>Banks, GOP, Universities,<br>etc. | micro-cottage, cottage-<br>small, small-medium |

and the area they cover and transferring the methodologies to other assistance agencies, mostly within existing networks and in a few cases outside of them. The focus of experimentation in this phase is on improving delivery efficiencies of financial, technical, management and information services; in other words, are there ways to streamline the delivery of services without reducing their effectiveness. Areas that would be considered for achieving this would include: the selection of clients; more accurate identification of needs as perceived by the beneficiary to avoid providing services in which (s)he is not interested and therefore, will not take full advantage of; optimal number of field staff to administrative staff or minimization of overhead; provision of training to groups versus individuals (though retaining individual follow-up appears to be necessary); use of non-staff volunteers for providing services or administering activities as MCSI does with barangay community leaders; sharing office facilities, with other programs to reduce overhead; and others. Integration among service providers should be more pronounced during this phase as more and more institutions become involved e.g., banks, universities, PVOs, etc.

Phase II will begin with the identification of 10-30 (depending on whether expansion occurs within Phase 1 institutions or through other private sector institutions) institutions through which services will be provided to SMEs. A preliminary identification of these institutions will have been done prior to the implementation of Phase 1 and a final determination should be made during the last six months of Phase 1. The criteria for selecting these institutions should be the same as for the Phase 1 institutions (see Annex G page 2 for details).

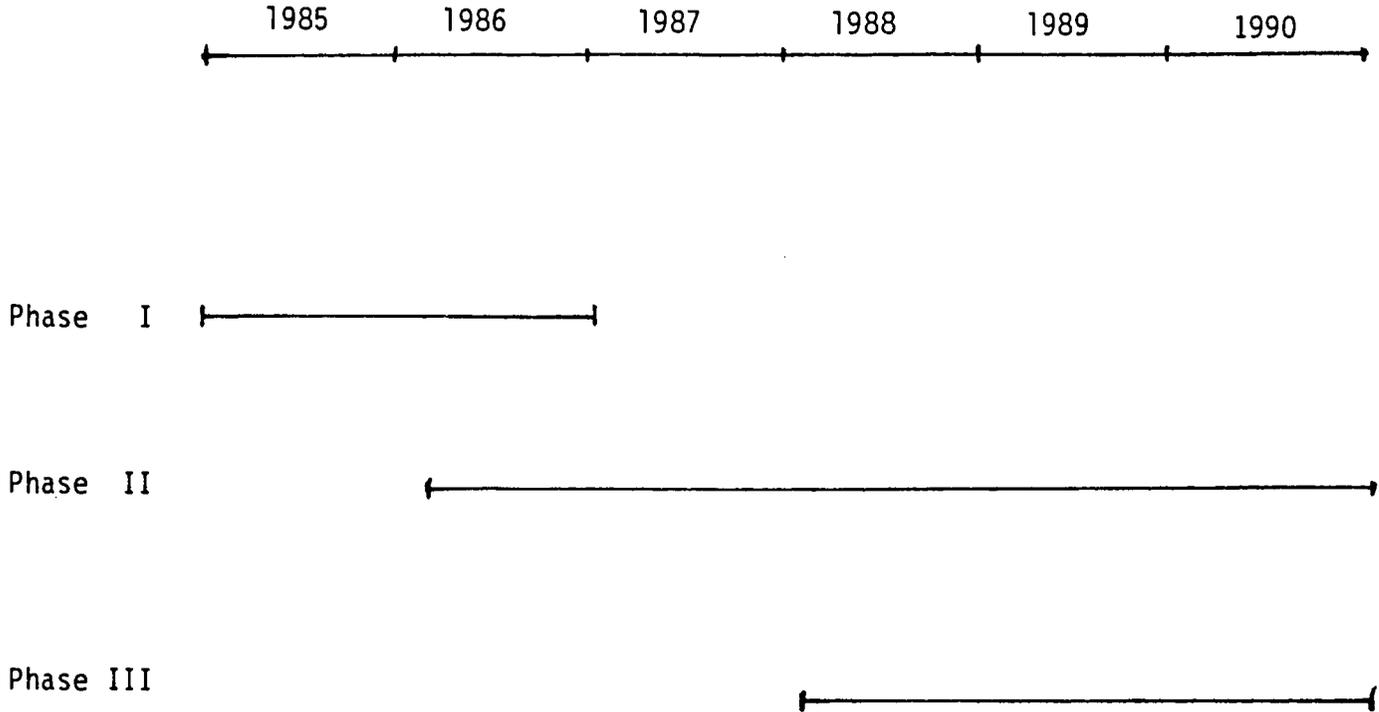
The purpose of this phase is to expand the SME service delivery system to reach a more significant portion of the SMEs in the targetted regions. A second purpose of this phase is to reduce the cost: e.g., per participant; per peso lent; per course; per information unit; as well as program costs per job sustained, upgraded or created; per peso increase in sales, profits, investment; per increment in family welfare (shift in use of income from consumption to house improvements, education, health care, etc); per improvement in business management; etc. It would take four years for the service system to be established in five or more places in each of the five regions of the SMED project. We feel that it is necessary to spread services to this extent in order to tap the potential for production, employment and income generation in rural areas. Building the system on already existing private institutions enhances the feasibility of the service system. A probable side-effect of this expansion would be that it would also extend to other regions through national networks, though without direct support from AID.

### Phase III

Only once the project has arrived at some degree of effectiveness and efficiency should the focus then shift to cost covering, sustainability and diversification of services. This project is intended to permanently involve the private sector in providing services to SMEs in at least the five SMED project regions. Past experience has not shown many examples of SME programs that are able to cover all of their costs from service revenues, fees and interest, and there are many arguments in favor of partial subsidies for certain kinds of services (R&D, technical and management training/assistance to name a few) particularly since larger businesses often enjoy such subsidies. It will be necessary to investigate ways of covering costs of efficient, effective services. Service providers should be thinking of costs, but they should not be forced into being preoccupied with it until they are efficient. That is what the third phase of this project should work out. It would cover a three year period starting in the third year of Phase II. The purpose is to develop a stable funding base for the SME private sector service system. Only at that point is it realistic to start adding more specialized or new services to the system as demand dictates.

The private sector in the Philippines has already demonstrated their philanthropic interest through the formation of numerous non-profit foundations, most of which serve related interests, such as their employees. Another sort of interest has been demonstrated in the formation of Philippine Business for Social Progress (PBSP). That interest is a more pragmatic one which combines social objectives with a sound business approach to assisting poor people involved in small economic activities, mostly micro and cottage level. Members of PBSP make regular contributions to support its activities. Herein is an example of a private sector subsidy to SMI development at the lower end of the scale. However, the bulk of the costs of on-going services should be covered by fees and interest and other charges.

Proposed Schedule of Project Phases



- \* The starting date of Phase I presumes that some of the methodologies identification and development can be started under SMED. We feel that it is important to develop the services in concert with the SMED activities. There is demand for services. (Talk with the loan officials at DBP and other banks who are experiencing loan defaults of 35% to 80% in their IGLF portfolios!!) It will take time to test out ways to respond to existing demand. Appropriate response to needs will create demand by itself.

If these Phase I activities cannot be initiated under SMED, then we recommend that some other funding mechanism be used to initiate this, applied research. Phase I could serve in part to do the research required to arrive at a PP which would cover part of Phase I and Phases II and III.

Suggested Activities

Support Services Needed and Responses

Seven general categories of SME support services needs have been highlighted. Current institutional capabilities in servicing those needs have been evaluated. Alternative institutional strategies in addressing these needs have been considered. The following specific activities will be implemented as part of the PSSS strategy. Phase I would involve developing or refining and testing the methodologies for each of these activities before extending them to and through a larger number of institutions in Phase II.

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LIST OF PROGRAM RESPONSES TO GENERAL NEEDS

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| <u>Categories of SME Support Needed</u> | <u>Responses: Activities to Meet Needs</u>  |
|---|---|
| 1. Organization                         | 1.a. Core Group Trainings for Associations<br>b. Regional Business Conference for SMEs<br>c. Buyers' and Suppliers' Indexes |
| 2. Management Training                  | 2.a. Management Training Consortium<br>b. Rural Entrepreneurship Outreach Program   |
| 3. Technical Training                   | 3. Technical and Service Centers  |
| 4. Financial Assistance                 | 4. Bankers' Training  |
| 5. Infrastructure                       | 5.a. Regional SMI Communication Centers<br>b. Regional SMI Infrastructure Research  |
| 6. Research/Policy                      | 6.a. New Resources for SMEs (Research)<br>b. New Industries (Promotions)<br>c. Policy                                       |
| 7. Integration of Services              | 7. SMI Service Institutions Conferences   |

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The responses outlined in the above table show that a wide range of activities could be done to shore up certain weak areas and fill up gaps in the service delivery system around SMEs.

The basic intentions, considerations, and magnitude of the suggested program responses follow.

### Core Group Training Sessions

In strengthening industry associations among SMIs, the most crucial element is the reinforcement of core groups of members who share a common commitment to the advancement of these associations. In many ways, the businessmen in any core group actually serve as "volunteers" who input their time and personal resources in order to serve a common good. Where the associations will go, and how such groupings shall attain their objectives, depend to a great extent on the basic orientation of the members belonging to that core group.

It is important that core group members be oriented toward the real roles their associations should play within SMED, in the development of SMEs in the country, and in economic development as a whole. Their leadership qualities should also be enriched by courses specially designed to improve group management and personal value formation. The content of these courses/sessions should be the planning and implementation of SME service activities.

These training sessions will be conducted within the context of the Management Training Consortium explained elsewhere in this report.

Sessions should be held 3-6 times for each association during the first year depending on the need with possible follow-up sessions for two subsequent years. Phase I of PSSS would test the Core Group Training Model selected at in the pre-project assessments. The effectiveness of this model would be evaluated at the end of 18-20 months in the same manner described by Sue Goldmark in her Evaluation and Monitoring Design and adjustments and broader dissemination made according to the results.

Phase II would consist of the extension of this activity to a larger number of interested groups.

First sessions for the initial year should target 5 associations; another 5 on the second year. Follow-up sessions would therefore be 12 during the second year, 17 on the third year, after which an evaluation of the entire process should be made.

Estimated Costs: Phase I-\$150,000; Phase II-\$190,000.  
Consultancy services are estimated at \$150,000 of the total \$340,000.

#### Regional SME Business Conferences

Regional annual business conferences should be held to serve as an informal monitoring mechanism to determine how the regional service delivery system for SMEs is working. Beyond this, the conferences would serve as opportunities for associations to exercise their policy lobby and interaction mechanisms. These would also provide feedback on the degree of integration among service institutions in the system.

Regional SME business conferences held once a year as a series culminating in a national businessmen's conference should also serve as a project identification exercise because it would review business prospects in the regions and determine just what business small entrepreneurs should go into.

These conferences should be managed by the PCCI Secretariat, with top to bottom support from existing associations.

Three such regional conferences may be held during the first year, and five by the second and third year with a national conference in the second year.

Fees should be charged all participants. Seed money may be provided by PSSS at a rate of ₱50,000 per regional conference and ₱100,000 for the national conference. Proceeds of all conferences go to sponsoring organizations. Estimated Costs: Phase I - \$12,500; Phase II - \$50,000.

#### Buyers' and Suppliers' Indexes

A nationwide listing by province and by product group must be made of all small to big businesses in the Philippines. Such indexes should be updated every year. This is an activity which could be tested in one or more local industry associations or chambers in Phase I before support is provided on a wider basis in Phase II.

Phase I research work is estimated to cost \$15,000. Printing and marketing could cost another \$15,000. Phase II is expected to cost \$300,000. Most of these Phase II costs could/should be covered by companies listed in the indexes.

#### Management Training Consortium

There are two options that are open to developing local management training programs for SMEs in various regions. One approach is to support a specific institution (as a university) or a group of institutions belonging to one association (like a Association of

Catholic Universities). The other approach is to support a consortium of complementary institutions (including a university, a small and medium enterprise institute and an industry association).

The first approach is a simplified one. It reduces dealings to a minimum. There is also greater probability for inner program coherence. On the other hand, a more democratic approach where more parties are brought into play would entail more negotiations, and this could invite imbalances to set in.

The first approach, by its very nature, is limiting, however. It confines capability and quality to the range of the selected institutional conduit. It is also critical in terms of reaction from excluded institutions, making the selection process rather touchy. On the other hand, the other approach would be richer because it would integrate the best elements of various approaches. It would increase flexibility because weaknesses of one party could easily be offset by other parties involved. It could build upon available pooled strengths.

On the whole, a consortium approach would have more attractions. It would require the marriage of the following elements:

- o a local university that can provide the facilities, the staff and the faculty;
- o UPISSI with its tested programs;
- o CRC with its integrated approach and "ex-ex" materials;
- o local industry associations with member enterprises that are willing to provide practical aspects of training;
- o PBSP with its own training programs for micro entrepreneurs.
- o local banks willing to lend to SMEs.

In the implementation of management training programs for SMEs using the consortium approach, Phase I of PSSS is a a piloting stage in which "lead" institutions are support to upgrade/develop specific services. They would, at the same time develop their local network of SME support services with other institutions. This could take two years, involving the setting up of a model operation in 2 selected regions. Region VI (Iloilo) may be selected on the basis of the presence of hospitable elements necessary to the program's success: it has 3 universities to choose from (one of them a UP unit), it has many industry associations to select from, it has a wide base of local

entrepreneurs, and it has a more diversified economy giving wider room for "ex-ex" sessions. The other suggested base is Region I (Baguio) with St. Louis University as the local university. Evaluation and readjustments are made after each of the first two years. All 5 regions should have some services by the third year.

The consortium should strive for a mix of out-of-town speakers and local faculty staff at the outset, but local capability should be enlarged progressively. Initially AID support would focus on one local institution (the "lead" organization referred to above) but support could be extended to other institutions as they come on-line. A large part of the consortium's work would be in the planning and materials preparation.

Estimated costs: Phase I - \$350,000; Phase II - \$150,000. Actual operating costs for a full scale program would be \$25,000 annually. Outside consultant's fees are estimated to reach \$0.5 million.

#### Rural Entrepreneurship Outreach Program

This is meant to be a program for getting volunteer entrepreneurs professionals and students out to the rural areas. The idea is not for them to impose their own ideas about SME management, but for them to just provide support in areas of management where their advice is sought. They are also meant to learn a lot from the rural SME entrepreneurs, and to document their learning experiences. This activity would support the long term integration of services and also will expose more people to rural business development opportunities.

Teams of three (a banker who has undergone some training with the Management Consortium, a volunteer entrepreneur, and a business student) are encouraged to spend a month at least in the rural areas. They coordinate with local sponsoring industry associations (2 or 3) or with a local SME service institutions. They are committed to spend some time with various enterprises (3 a week) belonging to those associations, discussing problems and solutions, aspirations, technology options, etc. Another version of this is the Philippine Executive Service Corps idea being developed by the PCCI-CSME.

Teams are given preliminary briefings by a group within the Management Training Consortium. This program could be managed by PCCI or UP-ISSI and it would be developed on a limited scale during Phase I and then expanding during Phase II.

Funding is provided for volunteer selections, training and 70% of actual on-site expenses. Applicant volunteers raise 30% of funding required for their field assignments. Estimated Costs: Phase I - \$75,000; Phase II - \$500,000.

### Regional Technical and Service Centers

Another approach which is important in answering local SME needs involves the setting up of new institutions where these are viable. One such institution could be a Woodworking and Furniture Center in Isabela (Region III). Isabela is recommended because it remains a good raw material supplier, it already has a number of medium sized woodworking facilities that can grow bigger, and its furniture-based activities are highly dominant in its economy. Another major reason why Isabela is an ideal location is that it has a state university which has woodworking experts. They can form the core management and training group in the institution. It may also tap woodwork training experts from the neighboring Cagayan State University. The province also has an active and large woodworking association. The association members are very important because they would be providing the facilities for on-the-job training. They will also be specifying the future skill requirements for their various operations.

There could be at least five essential components of that project:

- o a kiln drier
- o an advanced carpentry shop
- o a furniture design module
- o a carver's institute
- o an upholstery and finishing center

The kiln drier operation could be treated as the profit center which should be able to support all its training activities to a significant extent.

This activity may be developed in three stages. Phase I would focus on a common facility such as a kiln drier, which would be set up during the first year. Development of such facilities would draw upon the experience of the WB's Pilot Projects program in SBAC. Once the common facility was in stable operation then a carpentry shop, carver's institute and/or upholstery and finishing center could be developed progressively or together during the second and third years. By the third year, a design module should be set up, putting together experts in international furniture history and design under one roof.

The project could be replicated in Mindanao or in other industries. Estimated Costs: Phase I - \$350,000; Phase II - \$750,000. Foreign consultants' fees are estimated to reach \$200,000.

### Bankers' Training

In the area of finance the activity which AID should support is Banker's Training. In the first phase of the project AID support would be in developing and testing the testing process. It would entail working with someone like the Manager of the Rural Bank of Naguilian in designing, conducting and evaluating the effectiveness of the series of seminars, workshops, conferences and staff training to be conducted in the province of La Union. Other activities which the association of rural bankers could implement include quarterly Community Lectures for SMEs which would focus on relevant economic and legal issues, SME Business Clinics on technical and management subjects, a monthly or quarterly newsletter for bankers and business persons on economic trends and indicators and opportunities.

Phase II would then be taking those of the above mentioned activities and transferring them through, say, the Rural Bankers Association to other interested bankers in other provinces and other regions. At the recent annual meeting of Rural Bankers some interest was expressed in implementing these ideas.

Many of these activities could and should be undertaken in conjunction with other private sector support service institutions (University - ISBs, associations, commercial banks, PVOs, professional associations, etc) or GOP agencies (DCP, PDC, UP-ISSI, etc.). This collaboration is part of the integration process. It will serve to expose the rural bankers to other SME service providers and expose them to rural bankers. It will be important to emphasize this mutual familiarization at all levels from top management to clerical, and particularly at the level of personnel who have direct contact with SMEs e.g., the loan officers, management consultants and trainers, etc.

Estimated Costs - Phase I-\$50,000; Phase II-\$150,000.

### Regional SME Communication Centers

Regional secretarial and communication centers serving SMIs should be set up. These are meant to be self-liquidating. These should be managed by a professional group, perhaps a PVO like NEDF. Included in a standard regional facility would be Telex Machines, a computer, and 2 or 3 secretaries plus other standard office machines. Services should be made available to other institutions like schools and large private businesses at standard cost plus rates. Estimated Costs: Phase I - \$30,000; Phase II - \$220,000.

### Regional SME Infrastructure Research

As mentioned in the chapter on SME needs and support required more in-depth studies of regional infrastructure should be conducted. Some of this should be done prior to the project to determine if it is feasible to promote rural SMED. Such studies should pay particular attention to production and marketing-related facilities as trucking, shipping, packing and communication facilities. An on-going research function that will serve rural SMEs will be established to periodically do such analyses as of the most economical transport modes open to SMEs in various regions, or alternative sources of power, etc. Foreign and local consultants will be involved in the research.

### Research in New Raw Materials for SMIs

For some regions, the growth of SMEs is severely limited by the inavailability of raw materials. Given particular resource endowments, given market and product cycles, as well as transport economics vis-a-vis product source and final markets, research needs to be done on what resources should be developed in order to usher in new SMEs in a region.

Even in regions where raw materials are abundant, the prospect of depletion may be real. Thus, replanting or resource regeneration would be the practical strategy. Such materials as rattan, bamboo, buri, and others have to be studied so that actual supply magnitudes can be determined and industrial development strategies selected. Again, an on-going research mechanism will be established regionally and coordinated nationally. In Phase I a model will be developed and tested in a regional or local chamber of commerce and industry in a university in one or two regions. In Phase II such units would be established in all five regions. Estimated Costs: Phase I - \$150,000; Phase II - \$400,000.

### Promotions of New Industries

Studies of specific projects with different sizes (micro to medium) should be developed for various regions. Specific upward and downward ranges of profitability must be given. These would be applied feasibility studies showing the real rungs on the technological and scale ladder for efficient SMEs in particular industries.

A whole new body of newly identified projects must be promoted on a commercial scale (via seminars, TV, radio, video) in the rural areas, in order to keep entrepreneurs on their toes and to attract more people into the SME field.

These projects may be promoted within associations themselves, like new products from the same raw material like wood, in order to bring down unreasonable copying of product ideas and realign inefficient competitors.

Such promotions will also result from the selection of new resources or raw materials resulting from related research work.

#### Intra-Institutional Conferences

Seminars, workshops, conferences involving service institutions working with SMEs will be organized in order to formalize the integration objective.

These should be done on regional and national levels, with information and conclusions coming out of deliberations being disseminated to SMEs. Speakers from SME international service institutions should be actively involved and attempts to define standards of service and understand the dynamics of micro, cottage, small and medium enterprise.

Smaller get-togethers in provincial settings should be organized between universities, among associations, within banking communities, and between different types of institutions during Phase I to determine how best these activities can be organized. The experience of MIDP/MIDC and SBAC in such SME activities will be drawn upon.

FINANCIAL IMPLICATIONS OF SUGGESTED PROGRAMS

| <u>Suggested Program</u>                   | <u>Funding Duration</u> | <u>Estimated Cost</u>            |                                 |
|--|-------------------------|----------------------------------|---------------------------------|
|  |                         | <u>Phase I</u><br><u>(\$000)</u> | <u>Phase II</u><br><u>(000)</u> |
| Core Group Training for Associations       | 3 years                 | 150 million                      | \$190 million                   |
| Regional Business Conferences for SMIs     | 3 years                 | 12                               | 50                              |
| Buyers' and Suppliers' Inoexes             | 3 years                 | 30                               | 300                             |
| Management Training Consortium             | 5 years                 | 350                              | 1,500                           |
| Rural Entrepreneurship Outreach Program    | 5 years                 | 75                               | 500                             |
| Woodworking and Furniture Center           | 1 year                  | 350                              | 750                             |
| Bankers' Training Program                  | 5 years                 | 50                               | 150                             |
| Regional SMI Communications Centers        | 1 year                  | 30                               | 220                             |
| Regional SMI Infrastructure Research       | 1 year                  | 200                              | 200                             |
| Research on New Resources for SMIs         | 1 year                  | 150                              | 400                             |
| Promotions of New Industries               | 3 years                 | 100                              | 700                             |
| Intra-SMI Service Institutions Conferences | 5 years                 | 23                               | 100                             |
| TOTAL COST OF PROGRAMS                     |                         | @1,500                           | \$5,060                         |
| TOTAL PHASE I & II                         | =                       |                                  | \$6,580                         |

Foreign Exchange Rate Assumed: £20=\$1

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Recommended Institutions for Phase I of PSSS

University of San Carlos - ISB - Cebu City - because it already has nine years of experience; is partially self-financing from fees for services; it reaches out beyond city and province and region (claims to get to VI and XII); have experienced core staff that could be expanded or built upon; are part of ACUP-ISB network; have links to resources of university and have had at least many contacts with other SME service providers; focus would be on management and technical training/assistance. Interested in evaluation.

Naguilian Rural Bank - San Fernando and Naguilian, La Union - because manager is emerging leader in provincial Rural Bankers Association and is transforming the functioning of her bank and well other's; one of the largest (5th) rural banks; has problems/opportunities common to many other rural banks; has existing financial base; 9 years experience in lending to SMEs. (Training would be provided under SMED).

Cotabato Chamber of Commerce and Industry - Cotabato - Region 12 - because it has a dynamic leader who has demonstrated ability to catalyze activities that get something done.

NORLUDECO (Regions I & II) or VICTO (Regions VI, VII, VIII) - part of national network; are regional coop consortium themselves; more than ten years training experience in organizing and management; have experienced core staff; have built in feedback mechanism for services (clients and members); significant potential for creating mechanism for rural SME savings and credit in mobilization as well as training services; do some marketing assistance.

### VIII. Alternative Strategies

An alternative to the phase strategy approach would be a single phase program in which all the implementing agencies are identified prior to the project and support is given to all of them to develop simultaneously in all the regions. For this approach it would be preferable to use the network of universities and colleges which are spread out in many centers of the target regions. The focus would be to establish Institutes of Small Business (ISB) in as many as five schools in each region. Each ISB would serve as a Service Center (SC) for providing managerial, technical, informational and organizational development assistance to individual and groups of businesses. They would have a core staff of ten to twenty small business management trainers and consultants, technical advisors and an information system specialist. These core staff would be supported by specialists from the Schools of Business and engineering and others as well as specialists from private business needed to respond to particular needs of SMEs. The ISB would be part of a national network and would contract other specialized services which they could not obtain locally through this network. Their function would include:

1. Seminars/workshops/Courses - these would cover general and specific management and technical topics relevant to groups of SMEs.
2. Consultancy/Advisory Services - to individual businesses or groups of businesses working together on a common task in management, marketing and production areas.
3. Information/Research - about matters relevant to local SMEs such as the impact of GOP policies, efficacy of particular technologies, trends in SME development, the regional and national economy, local, national and international markets, etc.
4. Trade Markets/Fairs - local production promotion, expose foreign and national buyers to local products, link buyers and sellers, provide feedback to local producers on the saleability of their products in other markets.
5. Sponsor Business Conferences - to bring together a mix of commerce, service and industry to discuss issues relevant to all of them done provincially, regionally and nationally.

The ISBs would forge close working relationships with local and regional industry associations and CCIs in order to obtain external feedback on and additional information for planning their services. They would also establish close links with local and regional banks in order to ensure that financial services are available and accessible to SMEs.

To set up this support service system will require a considerable amount of outside technical assistance and support for services for five years.

An advantage of the single phase approach is that it would establish the service infrastructure more quickly. It could possibly be a more efficient use of T.A. resources by working from the beginning with a larger number of service providers. And finally it could get private sector services out into more regions sooner than the phased approach would.

But this approach has two assumptions. First, it assumes that effective methodologies for providing the support services needed have been identified, and second, it assumes that the needs are fairly homogenous between regions (otherwise the efficiency would be lost). There is good reason to question both of these assumptions. From the contractor's interviews it does not appear that methodologies proven effective at each of the levels (micro, cottage, small and medium) in the regions have been identified, and any Filipino will tell you that working with an Ilongo is very different than working with an Ifugao. The disadvantage is that AID would be risking spending considerable resources before it is assured that it will arrive at the projected outputs.

Another disadvantage of the one phase approach is that it tends to result in a mixed focus in the development of effectiveness, efficiency and sustainability which, as was mentioned before, tends to negatively impact on the medium and long term viability of the program. And finally, it is not certain that there are a sufficient number of interested and capable universities to reach all the target areas.

#### Other Alternative Strategies

For the past year the major source of support for SMI credit has been cut off completely. The flow of funds from IGLF and CIGLF rediscounting at the Central Bank (CB) dwindled to a trickle and at the same time CB was increasing deposit reserve requirements which constricted the commercial and other banks use of their own funds. The resulting "credit crunch" together with rising rates of inflation is reducing SMIs ability to produce at previous levels because of insufficient resources for purchasing raw materials and other working capital needs. One strategy which AID could consider would be to inject a large amount of funds, say \$20 million, into the credit system specifically targeted on those rural SMIs who have a market for their products but whose production and sales are constrained by lack of working capital. This strategy would result in the maintenance and possible expansion of jobs in these rural industries in a fairly short period of time and would contribute to the economic recovery of the country in that the majority of these SMIs are using local raw materials, are serving the local market in competition with imports or are exporting and thus generating much needed foreign exchanges. By restricting the use of this credit to rural areas, USAID could effect a shift in the traditional flow of loan funds to SMIs and larger businesses in Metro Manila, and thus reinforce or compliment its other projects (SMED and LRM).

On the other hand, this credit oriented strategy has several disadvantages. First, it is not likely the GOP would be interested in such a program since it is, with pressure from the IMF and other foreign lenders, trying to slow down the economy, and thereby inflation and improve the balance of trade; the credit program would contradict the GOP current policy. Second, it is apparent from the experience of the DBP, PNB, commercial banks and other participants in the IGLF and CIGLF programs that the system is not equipped at this time to be an effective conduit of credit funds to SMIs. The bankers lack the interest and skills needed to know their client's businesses at the SMI level. There is a general lack of skills in analyzing credits based on the business rather than the collateral. So there is a need to reorient and reeducate bankers which many of them are not ready for. Third, it appears that part of the reason so many of these businesses are needing additional working capital is that they have not managed what they have well enough to generate additional funds internally. (Which does not mean they are not profitable, but rather that they do not realize where their money is going, to their family, social activities and other non-business or non-productive uses). So there is a need for other kinds of assistance and training both before and while they have credit. And finally, any USAID credit program would have to go thru the CB. Given the past experience of GOP SMI credit support, it is unlikely that SMIs would see this program as any different than the previous ones, meaning that because of the government involvement it is not as important for them to pay it back or use it for what it was intended, a generally less responsible posture or attitude about it.

Another strategy would be to focus on the GOP providing more and a wider variety of services to meet SMI needs. USAID already has initiated a policy research dialogue with the GOP. The GOP already has many of the legal mechanisms and bureaucratic infrastructure to provide many services to SMI in the targeted regions. BSMI of the Ministry of Trade and Industry has several activities including management training and assistance, feasibility studies, marketing assistance and regional/local industry studies. There are the PDC, DCP, NMYC, GETB, NSTA and many others set up to assist different aspects of industrial development.

At present few of these services are reaching SMIs in the targeted regions. This is in part due to the limited resources allocated to them and the natural efficiencies of working in the Metro Manila, Central and Southern Luzon area as most technicians in these agencies are based in Manila. The GOP has stated that one of their priorities is the development of SMI in rural areas. USAID could provide support for decentralizing these services, for regional centers which would perhaps combine the technical resources of several ministries' programs, a kind of one-stop service center. This would facilitate the coordination of services and would be efficient for both the service providers (reduced travel getting to the region from Manila, more direct exposure to others' skills and programs, etc.) and the recipients (not having to go from place to place, even outside the region to talk with someone who has the background, knowledge and experience to assist them).

however, it is unlikely that given the present government retrenching that they are going to agree to what would necessarily be a significant increase in personnel and costs which would be necessary for this decentralization. Second, this decentralization would only be a relative one. One could not expect the government to set up more than one of these centers in each region, meaning twelve, because of the costs and the unproven demand for the wide range of services that would be needed, say, in any given province. So either the small business person or the service provider would in the majority of instances have to travel in some cases for many hours in order to be in contact. Certain technicians would never be in their offices because their work would tend to be at the SMIs place of business. The point is that the decentralized system would be an improvement over the current one, but it would not be pervasive enough to do what is needed everywhere it is needed.

And lastly, the GOP has not been known to be able to retain highly qualified persons primarily because salaries are not competitive with the private sector. It is important that service providers be current on the latest development in their fields. The GOP has tended to be very active in staff development, providing training and education to people at various levels. However, it is questionable if this is enough in this rapidly changing economic, technological and social environment.

ANNEX A  
 Number and Percent Distribution of SME Subsectors\*  
 by Employment Size

1982 Estimates

| <u>Number of Employees</u><br><u>Number of Enterprises</u><br><u>% Share</u> |            |            |
|--|------------|------------|
| 5 - 19   | 21,421     | 68.8%      |
| 20 - 49  | 8,006      | 25.7       |
| 50 - 99  | 1,131      | 3.5        |
| Ave 141 (medium)   | <u>568</u> | <u>2.0</u> |
|  | 31,126     | 100.0%     |

From UPISSI, SMI in the Philippines: An Overview, 1983

\* This does not include micro enterprise which have less than five employees.

- 56'

ANNEX B  
SAMPLING OF ENTERPRISES BY REGION, BY INDUSTRY, BY SIZE

| <u>Region/Industry</u> | <u>Size of Enterprise</u> |                |              |               | <u>All TO</u> |
|------------------------|---------------------------|----------------|--------------|---------------|---------------|
|                        | <u>Micro</u>              | <u>Cottage</u> | <u>Small</u> | <u>Medium</u> |               |
| <u>Region I</u>        | <u>2</u>                  | <u>3</u>       | <u>3</u>     | <u>2</u>      | <u>10</u>     |
| Furniture              | -                         | 2              | 1            | -             | 3             |
| Garments               | -                         | -              | 1            | -             | 1             |
| Handicrafts            | -                         | 1              | -            | 1             | 2             |
| Others                 | 2                         | -              | 1            | 1             | 4             |
| <u>Region II</u>       | <u>-</u>                  | <u>7</u>       | <u>2</u>     | <u>2</u>      | <u>11</u>     |
| Furniture              | -                         | 4              | 1            | 2             | 7             |
| Garments               | -                         | -              | 1            | -             | 1             |
| Handicrafts            | -                         | 3              | -            | -             | 3             |
| Others                 | -                         | -              | -            | -             | -             |
| <u>Region V</u>        | <u>-</u>                  | <u>1</u>       | <u>5</u>     | <u>1</u>      | <u>7</u>      |
| Furniture              | -                         | -              | 4            | -             | 4             |
| Garments               | -                         | 1              | 1            | -             | 2             |
| Handicrafts            | -                         | -              | -            | 1             | 1             |
| Others                 | -                         | -              | -            | -             | -             |
| <u>Region VI</u>       | <u>-</u>                  | <u>3</u>       | <u>3</u>     | <u>3</u>      | <u>9</u>      |
| Furniture              | -                         | 2              | -            | -             | 2             |
| Garments               | -                         | -              | -            | -             | -             |
| Handicrafts            | -                         | -              | -            | 1             | 1             |
| Others                 | -                         | 1              | 3            | 2             | 6             |
| <u>Region XI</u>       | <u>-</u>                  | <u>-</u>       | <u>1</u>     | <u>1</u>      | <u>2</u>      |
| Furniture              | -                         | -              | -            | 1             | 1             |
| Garments               | -                         | -              | -            | -             | -             |
| Handicrafts            | -                         | -              | 1            | -             | 1             |
| Others                 | -                         | -              | -            | -             | -             |
| <u>TOTAL</u>           | <u>2</u>                  | <u>14</u>      | <u>14</u>    | <u>9</u>      | <u>39</u>     |
| Furniture              | -                         | 8              | 6            | 3             | 17            |
| Garments               | -                         | 1              | 2            | -             | 3             |
| Handicrafts            | -                         | 4              | 1            | 3             | 8             |
| Others                 | 2                         | 1              | 4            | 3             | 10            |

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ANNEX C  
PRIVATE SECTOR INSTITUTIONS ASSISTING SMEs  
Region I - Ilocos

| Type of Institution               | Name of Institutions                                 | Location     | Range of SERVICES/ACTIVITIES |                    |                                |                   |                                       | Notes   |
|-----------------------------------|--|--------------|------------------------------|--------------------|--------------------------------|-------------------|---------------------------------------|---|
|                                   |  |              | Financial                    | Managerial         | Technical                      | Marketing         | Others                                |   |
| Business Association/civic groups | Chamber of Furniture Industries of Benguet           | Baguio       |                              |                    |                                |                   | Representation                        | 12 members; no budget; no staff; 3 years old                            |
|                                   | Association of Weavers                               | Baguio       |                              |                    | Training in Weaving            | Design Assistance | Raw Material Purchasing               | Members are producers affiliated with ATO Handicrafts                   |
|                                   | Ifugao Wood Carvers Association                      | Baguio       |                              |                    | Training in Quality Control    | Design Assistance | Bulk Purchasing Representation        | 1,500 members; focus is on developing common facilities; 10 years old   |
|                                   | Ilocos Association of Garment Producers              | Dagupan      |                              |                    |                                |                   | Representation                        | 10 members; effectively operating for only one year                     |
|                                   | Melgor Handicraft Association                        | Bangar       |                              |                    |                                |                   | Bulk Purchasing Production Facilities |   |
|                                   | Federation of Rural Banker's Association of Region I | San Fernando |                              |                    |                                |                   | Info Sharing Representation           | Some members are organizing training programs for staff of member banks |
|                                   | Women's Association of Vendors                       | Baralao      | Micro Loans                  |                    |                                |                   | Group Formation                       | 50 members; gives micro loans to members                                |
| Academic/Training Institutions    | St. Louis University - EISSI                         | Baguio       | Community Credit             | Management Courses | Skills Training in Handicrafts |                   | Consultancy                           | Assisted by UPISSI and Belgian government; 9 years in operation         |

|                       |   |              |                |                     |                                |                         |                                |   |
|-----------------------|---|--------------|----------------|---------------------|--------------------------------|-------------------------|--------------------------------|---|
|                       | Divine Word College   | Laog         |                | Management Courses  | Skills Training in Handicrafts |                         |                                | Runs a non-formal education center in community has business courses with practicum MASICAP involvement |
|                       | Northern Luzon Cooperative Education and Development Center | Trinidad     | Coop Lending   | Management Seminars | Technical Assistance           | Info Loop Inter-Trading | Coop Formation Info Sharing    | 9 years in operation  |
| Financial Institution |   |              |                |                     |                                |                         |                                |   |
|                       | Rural Bank of Naguilan                                      | San Fernando | Deposits/Loans |                     |                                |                         |                                | 17 years; dynamic management  |
|                       | PDCP  | Dagupan      | ILCF Loans     |                     |                                |                         |                                |   |
| Foundations/PVOs      |   |              |                |                     |                                |                         |                                |   |
|                       | Cristo Regis Center   | Baguio       | Micro Loans    | Management Seminars |                                |                         | Group Formation Social Dev.    | Working with St. Louis Univ. - EISSI on Community Credit Project  |
|                       | Harbin Foundation   | Dagupan      | Referrals      |                     |                                |                         | Medical Assistance Social Dev. | Micro enterprise assistance   |
| Private Consultants   |   |              |                |                     |                                |                         |                                |   |
| Private Enterprises   |   |              |                |                     |                                |                         |                                |   |
|                       | Narda's Handwoven Arts                                      | Baguio       |                |                     | On-the-job Training            | Acts as intermediary    | Supply of raw materials        |   |

PRIVATE SECTOR INSTITUTIONS ASSISTING SMES  
Region II- Cagayan

| Type of Institution               | Name of Institutions                                  | Location   | Range of Services/Activities      |                     |                         |           |                          | Notes  |
|-----------------------------------|---|------------|-----------------------------------|---------------------|-------------------------|-----------|--------------------------|--|
|                                   |   |            | Financial                         | Managerial          | Technical               | Marketing | Others                   |  |
| Business Association/Civic groups |   |            |                                   |                     |                         |           |                          |  |
|                                   | Nueva Ecija College Industries Producers' Association | Bayombong  |                                   | Management Seminars | Technology Sharing      | Referrals | Raw Material Sourcing    | Newly formed   |
|                                   | Isabela Wood Producers' Association                   | Isabela    |                                   |                     | Seminars                |           | Raw Material Sourcing    |  |
|                                   | Tabuk Chamber of Commerce and Industry                | Tabuk      |                                   |                     |                         | Info      | Contacts                 |  |
| Academic/Training Institutions    |   |            |                                   |                     |                         |           |                          |  |
|                                   | Cagayan State University                              | Tuguegaro  |                                   |                     | Wood-working Technology |           |                          | Good woodworking staff                               |
|                                   | Isabela State University                              | Iligan     |                                   |                     | Handicrafts Technology  |           |                          |  |
|                                   | St. Louis College                                     | Tuguegarao |                                   | Management Courses  |                         |           |                          |  |
|                                   | St. Paul University                                   | Tuguegarao |                                   | Management Courses  |                         |           | Research Consultancy     |  |
|                                   | Isabela College Development Center                    | Iligan     |                                   | Management Courses  |                         |           | Entrepreneurship Courses | Has outreach program                                 |
|                                   | St. Ferdinand College                                 | Iligan     |                                   | Management Courses  |                         |           |                          | Has 2 years non-degree small-scale management course |
| Financial Institution             |   |            |                                   |                     |                         |           |                          |  |
|                                   | Cauayan Rural Bank                                    | Iligan     | Agri-Loans<br>Commercial<br>Loans |                     |                         |           |                          | Only one project appraisal                           |

|                        |   |            |            |  |                              |                     |                       |  |
|------------------------|---|------------|------------|--|------------------------------|---------------------|-----------------------|--|
|                        | Cajayan NALIDA Producers and Marketing Coope- | Tuguegarao | Coop Loans |  | Seminars                     | Info Dis-semination | Raw Material Sourcing | 40 members; since 1980                                   |
| Foundations/<br>PVOs   |   |            |            |  |                              |                     |                       |  |
| Private<br>Consultants |   |            |            |  |                              |                     |                       |  |
| Private<br>Enterprises | Beautiful Homes                               | Bagabag    |            |  | Advice on design and quality |                     | Consultancy           | Acts as lead entrepreneur on wooden furniture for export |

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PRIVATE SECTOR INSTITUTIONS ASSISTING SMES  
Region V - Bicol

| Type of Institution               | Name of Institutions                         | Location | Range of Services/Activities |                    |                    |           |               | Notes                                      |  |
|-----------------------------------|--|----------|------------------------------|--------------------|--------------------|-----------|---------------|--|--|
|                                   |  |          | Financial                    | Managerial         | Technical          | Marketing | Others        |  |  |
| Business Association/civic groups |  |          |                              |                    |                    |           | Info          | Contacts                                   | No office; no staff                          |
|                                   | Albay Chamber of Commerce and Industry       | Legaspi  |                              |                    |                    |           |               |  |  |
|                                   | Confederation of Philippine Exporters        | Daraga   |                              |                    | Training Programs  |           | Info          | Representation                             |  |
|                                   | Bicol Woodworker's Association               | Nabua    |                              |                    | Training Programs  |           | Info          | Representation                             |  |
|                                   | Bicol Garment Manufacturers Association      | Maga     |                              |                    | Training           |           | Referrals     |  |  |
|                                   | Camarines Norte Woodwork Owners' Association | Daet     |                              |                    | Training Seminars  |           |               | Common Facilities<br>Raw Material Sourcing | 7 Core members organizing a carpentry center |
|                                   | Sorsogon Association of Wood Industries      | Sorsogon |                              |                    | Seminars           |           |               | Raw Material Sourcing                      |  |
|                                   | Camarines Sur Furniture Association          | Maga     |                              |                    | Training           |           |               |  |  |
|                                   | Cutlery Industry Association                 | Tabaco   |                              |                    |                    |           |               | Raw Material Sourcing                      |  |
|                                   | Albay Chamber of Furniture Manufacturers     | Legaspi  |                              |                    | Training           |           | Info/Contacts |  |  |
| Academic/Training Institutions    |  |          |                              |                    |                    |           |               |  |  |
|                                   | Aquinas University                           | Legaspi  |                              | Management Courses | ULife Program      |           |               | Research/Consultancy                       |  |
|                                   | Bicol University                             | Daraga   |                              |                    | Handicrafts Center |           |               | Handicrafts Research                       |  |

|                           |  |          |                          |                       |                      |                        |   |
|---------------------------|--|----------|--------------------------|-----------------------|----------------------|------------------------|---|
|                           | Albay School<br>Arts and Trades            | Legaspi  |                          |                       | Skills<br>Training   |                        |   |
|                           | Camarines Sur School<br>of Arts and Trades | Naga     |                          |                       | Skills<br>Training   |                        |   |
|                           | University of Nueva<br>Caceres             | Naga     |                          | Management<br>Courses |                      | Research               | MASICAP Involvement   |
| Financial<br>Institutions |  |          |                          |                       |                      |                        |   |
|                           | Naga Regional<br>Development Bank          | Naga     | Commercial<br>Agri-Loans |                       |                      |                        | No long term<br>facilities                                  |
|                           | PDCP                                       | Legaspi  | IGLF                     |                       |                      |                        |   |
| Foundations/<br>PVOs      |  |          |                          |                       |                      |                        |   |
|                           | LINGAP PANGKABATAAN                        | Legaspi  | Micro<br>Loans           |                       | Skills<br>Training   | Social<br>Development  | 56 centers nationwide<br>with income generating<br>projects |
| Private<br>Consultants    |  |          |                          |                       |                      |                        |   |
| Private<br>Enterprises    |  |          |                          |                       |                      |                        |   |
|                           | Wood Industry<br>Development Enterprise    | Sorsogon |                          |                       |                      | Kiln Drier<br>Facility | 70% SBAC; 30% associa-<br>tion owned kiln drier             |
|                           | Ramin's                                    |          |                          |                       | Sharing<br>of Skills | Contacts               | Solicits orders and<br>sub-contracts                        |

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PRIVATE SECTOR INSTITUTIONS ASSISTING SMES  
Region VI - Western Visayas

| Type of Institution               | Name of Institutions                                   | Location | Range of Services/Activities |                    |                             |           |                              | Notes  |
|-----------------------------------|--|----------|------------------------------|--------------------|-----------------------------|-----------|------------------------------|--|
|                                   |  |          | Financial                    | Managerial         | Technical                   | Marketing | Others                       |  |
| Business Association/civic groups | Negros Occidental Furniture Manufacturers' Association | Bacolod  |                              |                    | Training                    |           | Contacts                     | 12 members; just forming                           |
|                                   | MITRACCOR (Metal Craft)                                | Iloilo   |                              |                    | Quality Standards; Training |           |                              | 15 members; being formed                           |
|                                   | Filipino Chinese Chamber of Commerce of Iloilo         | Iloilo   |                              |                    |                             |           | Info/Lobbying                | 70 members   |
| Academic/Training Institutions    | Central Philippine University                          | Iloilo   |                              | Management Courses |                             |           |                              |  |
| Financial Institution             | PDCP   | Iloilo   | IGLF Loans                   |                    |                             |           | Feasibility Studies          |  |
| Foundations/PVOs                  | Negros Economic Development Foundation                 | Bacolod  |                              |                    | Research                    |           | Secretariat for Associations | Helped form local chamber and 4 other associations |
| Private Consultants               |  |          |                              |                    |                             |           |                              |  |
| Private Enterprises               | MPC Trading  | Iloilo   |                              |                    |                             |           | Sells for 2 producers        | One year in operation                              |

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PRIVATE SECTOR INSTITUTIONS ASSISTING SMEs  
Region XII - Southwestern Mindanao

| Type of Institution               | Name of Institutions                             | Location | Range of Services/Activities   |                    |                   |                         |        | Notes  |
|-----------------------------------|--|----------|--------------------------------|--------------------|-------------------|-------------------------|--------|--|
|                                   |  |          | Financial                      | Managerial         | Technical         | Marketing               | Others |  |
| Business Association/civic groups | Cotabato City Chamber of Commerce and Industry   | Cotabato |                                | Seminars           |                   |                         |        | Info/Dissemination;<br>Lobbying              |
|                                   | Association of Woodworking and Rattanmaking      | Cotabato |                                |                    |                   |                         |        | Lobbying                                     |
|                                   | Cotabato Technical Shop Operations Association   | Cotabato |                                |                    |                   |                         |        | Common Facilities                            |
|                                   | Shoe and Leathercraft Manufacturers' Association | Cotabato |                                |                    | Training Seminars |                         |        | 22 members; just organized                   |
| Academic/Training Institutions    | Notre Dame University                            | Cotabato |                                | Management Courses |                   |                         |        | Has computer facilities                      |
|                                   |  |          |                                |                    |                   |                         |        |  |
| Financial Institution             | Rural Bank of Cotabato                           | Cotabato | Agri-loans<br>Commercial Loans |                    |                   |                         |        | 23 years in operation                        |
| Foundations/PVOs                  |  |          |                                |                    |                   |                         |        |  |
| Private Consultants               |  |          |                                |                    |                   |                         |        |  |
| Private Enterprises               | Notre Dame Crafts                                |          |                                |                    | Trains Workers    | Marketing arm in Manila |        | Operated by diocese for 15 years; 20 workers |

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PRIVATE SECTOR INSTITUTIONS ASSISTING SMES  
Major Service Center - Metro Manila and Metro Cebu

| Type of Institution               | Name of Institutions                                | Location     | Range of Services/Activities |                   |                   |                 |   | Notes  |
|-----------------------------------|---|--------------|------------------------------|-------------------|-------------------|-----------------|---|--|
|                                   |   |              | Financial                    | Managerial        | Technical         | Marketing       | Others  |  |
| Business Association/civic groups | Philippine Chamber of Commerce and Industry         | Metro Manila |                              |                   | Speaker's Bureau  | Info            | Research Policy Discussions Business-men's Conference |  |
|                                   | Chamber of Furniture Industries of the Philippines  | Metro Manila |                              |                   | Training Seminars |                 | Policy Dialogue                                       |  |
|                                   | Garments Business Association of the Philippines    | Metro Manila |                              |                   | Training Seminars |                 | Policy Dialogues Info                                 | ₱500,000 annual budget ; 250 members             |
|                                   | Chamber of Cottage Industries of the Philippines    | Metro Manila |                              |                   | Training Seminars | Referrals; Info | Policy Dialogues                                      |  |
|                                   | Financial Executives Institute of the Philippines   | Metro Manila |                              |                   | Training Seminars |                 | Policy Updates  |  |
|                                   | Rural Bankers' Association                          | Metro Manila |                              | Training Seminars | Training Seminars |                 | CB Dialogues  | 1,033 members                                    |
|                                   | Philippine Institute of Certified Public Accountant | Metro Manila |                              |                   | Training Seminars |                 | Professional Standards                                | 35,000 members out of 55,000 CPAs in the country |
|                                   |   |              |                              |                   |                   |                 |   |  |
| Academic/Training Institutions    | Asian Institute of Management                       | Metro Manila |                              | Training Courses  |                   |                 | Management Consultancy                                |  |
|                                   | Center for Research and Communication               | Metro Manila |                              | Training Courses  |                   |                 | Regional Research Corporate Planning                  |  |

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|                       |  |                             |                                   |  |                     |                    |   |
|-----------------------|--|-----------------------------|-----------------------------------|--|---------------------|--------------------|---|
|                       | Executive Development Academy                        | Metro Manila                |                                   |  | "How-to" Seminars   |                    |   |
|                       | University of San Carlos Institute of Small Business | Metro Cebu                  |                                   |  | Management Training |                    | Consultancy                                     |
|                       | College of San Jose Recoletos                        | Metro Cebu                  |                                   |  |                     |                    |   |
|                       | National Association of Training Centers for         | Metro Manila/<br>Metro Cebu |                                   |  | Short Courses       |                    | 5 training centers nationwide                   |
|                       | Ateneo de Manila University                          | Metro Manila                |                                   |  | Management Courses  |                    |   |
|                       | De La Salle University                               | Metro Manila                |                                   |  | Management Courses  |                    |   |
|                       | Don Bosco Technical Schools                          | Metro Manila                |                                   |  |                     | Technical Training |   |
| Financial Institution |  |                             |                                   |  |                     |                    |   |
|                       | Private Development Corporation of the Philippine    | Metro Manila                | IGLF/Apex Loans                   |  |                     |                    | P39 million loans to SMEs in 1982               |
|                       | PISB Development Bank                                |                             | IGLF/Apex Loans                   |  |                     |                    |   |
|                       | Asiatrust Development Bank                           |                             | GFSME Loans                       |  |                     |                    |   |
|                       | Ventures in Industry and Business Enterprises, Inc.  |                             | Venture Capital                   |  |                     | Referrals          | Project Promotions<br>Management<br>Consultancy |
|                       | Metropolitan Bank and Trust Company                  |                             | Apex Loans<br>IGLF Loans<br>GFSME |  |                     |                    |   |
|                       | ANSCOR Capital and Investment Corporation            |                             | Apex Loans                        |  |                     |                    |   |
|                       | Manila Banking Corp.                                 |                             | Apex Loans                        |  |                     |                    |   |
|                       | Manhil Investment and Financing Corporation          |                             | IGLF/Apex<br>GFSME                |  |                     |                    |   |
|                       | Planters Development Bank                            |                             | IGLF/GFSME Loans                  |  |                     |                    |   |

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|                      |   |              |                 |                  |          |                         |   |  |
|----------------------|---|--------------|-----------------|------------------|----------|-------------------------|---|--|
|                      | Allied Bank, Far East Bank; Pacific Bank, Bank of America, China Bank, Producers Bank, Bank of the Philippine Islands, Insular Bank of Asia and America, Rizal Commercial Banking Corp., Land Bank, Union Bank, Republic Planters Bank, Prudential Bank, Quezon City Development Bank | Metro Manila | IGLF Loans      |                  |          |                         |   |  |
|                      | China Bank, Equitable Bank, Far East Bank, IBAA Inter Bank, MBTC, PBCom Philtrust, Philbanking Producers, Prudential RCBC, RPB  | Metro Manila | VCCs            |                  |          |                         |   |  |
|                      | IBAA/Premiere Dev. Bank, Allied Bank, Prudential Bank   | Metro Manila | GSME            |                  |          |                         |   |  |
| Foundations/<br>PYOs |   |              |                 |                  |          |                         |   |  |
|                      | Philippine Business for Social Progress   | Metro Manila | lending to PYOs | training of PYOs |          |                         |   |  |
|                      | Assis Development Foundation  | Metro Manila |                 |                  |          | Research                | Promotion of coco-based appropriate technology projects       |  |
|                      | Meralco Foundation  | Metro Manila |                 |                  | training | Work Attitudes Seminars | Manpower skills development including technician scholarships |  |

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|                            |                                 |              |  |                   |                   |  |                        |  |
|----------------------------|---------------------------------|--------------|--|-------------------|-------------------|--|------------------------|--|
| <b>PRIVATE Consultants</b> |                                 |              |  |                   |                   |  |                        |  |
|                            | Sycip, Gorres & Velayo          | Metro Manila |  |                   |                   |  | Management Consultancy |  |
|                            | Carlos J. Valdes                | Metro Manila |  |                   |                   |  | Management Consultancy |  |
|                            | Joaquin Cunanan/Price           | Metro Manila |  | Training Seminars |                   |  | Management Consultancy |  |
|                            | Economic Development Foundation | Metro Manila |  | Training Seminars | Training Seminars |  | Management Consultancy |  |
| <b>Private Enterprises</b> |                                 |              |  |                   |                   |  |                        |  |

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ADDENDUM TO ANNEX C  
Institutions in Iloilo City  
(Cooperatives and Credit Unions are Not Included)

Associations

Producers - Ten different associations were identified. They included two metalcraft associations, one food processors' association, and two furniture associations.

Retailers - Ten associations were found.

Local Organizations - Six were found. They included the Rotary, Kiwanis, Lions, and Jaycees organizations.

Bankers - Three separate associations are operating.

Total number of associations identified - 29.

Chambers of Commerce

Five The chambers are presently operating.

Schools and Universities with Commerce or Vocational Programs

Central Philippine University

University of the Philippines in the Visayas

University of San Augustine

University of Iloilo

Western Institute of Technology

Western Visayas College of Science & Technology

Filipino Private Consulting Firms

SGV

Asian Appraisal

Numerous private accounting firms

Banks, Finance, and Insurance Institution

Over 50 banks are currently operating (not counting multiple branches of the same bank).

Over 20 finance companies.

Over 70 insurance companies.

Marketing Firms

Eight importer-exporters (e.g. Ker & Co., Jardine Davies).

Government Agencies Related to SMEs

SBAC

NACIDA

NEDA

NCSO

BDT

PSA

NFA

NSTA

The purpose of this is to demonstrate the magnitude of the number of organizations in existence that are or potential that could provide support services to SMEs.

ANNEX D  
INSTITUTIONAL ASSESSMENTS OF PRIVATE SECTOR SERVICE PROGRAMS

Approach Used

Due to limited time and personnel only a preliminary institutional assessment of specific private sector SME support services. One to two hours were spent interviewing SME program staff or management in 34 institutions in Regions I, II, V, VI and XII. Several service providers were interviewed in Cebu City (Region VII) and Davao City (Region XII) because those locations actually serve or have the potential to serve SMEs in the SMED target regions.

The focus of the interviews was on soliciting information about the institution (# of staff, annual budget, services provided, years in operation, and sources of funding), the services (which, to whom, how long, how many served, etc.) and these strategies (why they are doing, what they are and they know if they are doing it). The interviews were open discussions which attempted to draw out information that would enable the contractors to assess both the capacity of the institution and their capabilities in responding to SME needs. In some instances feedback on specific services was provided by users; this was the only means for confirming the effectiveness of the services. The contractor relied on prior experience with SME service delivery in evaluating the available information.

Examples of the interview guides are attached.

Institutional Profile - Chamber of Furniture Industries of the Philippines

CFIP was organized in 1966. It is a nationwide organization of furniture manufacturers with 11 chapters. It has 400 members presently. Of these, 60% are in wood furniture, 25% are in rattan furniture, and 15% are in other types of furniture. CFIP members account for more than 90% of all Philippine furniture exports.

The Chamber keeps a permanent office with 4 staff members and operates on an annual budget of ₱175,000. Its members in Metro Manila pay a monthly fee of ₱100 while those in the provinces pay ₱10 monthly.

The Chamber's roles are described by the following: (1) as market referral system between local suppliers and foreign buyers; (2) as lobbyist with the government on national problems affecting the industry; (3) as a representative of local manufacturers in international industry associations; (4) as promoter of international exhibits and conferences; and (5) as provider of training and technical support to its members.

As a Chamber, it also serves as an internal contact point among its members. It conducts seminars on technical areas of expertise in furniture manufacturing. It also facilitates dealings with GOP agencies, with other Chambers and with other industries.

The Chamber has not been very active at the regional level. It should reverse its orientation, from being too centered in Metro Manila activities to being regionally service oriented. At the regional level, it should give regular programs in design, market trends in the local and export markets, finishing technology, etc. One area which it could concentrate on is materials productivity. Given the great amount of wastage in the furniture business, it should organize a program to reduce raw material wastage. It should constantly upgrade local (provincial) expertise in such areas as upholstery and varnishing through seminars, workshops, "big brother" training, etc.

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Institutional Profile - Camarines Norte Woodwork Owner's Association

The association was formed in 1980. Its present membership is 24, but only 7 of these are active members. A fee of ₱10 per month is charged per member. It has no permanent office or staff.

Leadership in the association is provided by a 60ish retired public school teacher. The association effectively serves as a forum for sharing problems among core members. The present problem is primarily in availability of raw materials. There is a ban on logging, especially of the narra species, and the available raw material supply is primarily smuggled. This is keeping wood prices artificially high. Thus, the association is petitioning the Bureau of Forest Development for an association permit to log.

The other problem in the province is the lack of kiln drying facilities. This would make locally manufactured furniture and furniture parts more competitive in Metro Manila, and possible export prospects could be explored. In response to this problem, the association has prepared a feasibility study (through SBAC) on the viability of putting up common facilities for the core members - a kiln drier and basic carpentry equipment worth over ₱2 million.

Another problem facing the provincial association is the low level of skills in furniture finishing, joinery, and design. In answer to these needs, the association has sponsored (with SBAC) specific seminars addressed to these needs.

The association is an example of a problem-oriented approach through productive teamwork within an Industry where each business would otherwise be each other's predator.

The association's carpentry and kiln drier project should be looked into. The association should also try to expand its core of committed members or group the rest into a separate committee and let them address specific projects on their own. The association should meet with other such associations in the region and explore regional projects. They lack contact with other woodworking associations and should correct this.

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Institutional Profile - Joaquin Cunanan/Price Waterhouse

The local accounting firm of Joaquin Cunanan & Co. started operations 60 years ago. It tied up with the US/UK firm of Price Waterhouse in 1946. They remain independent entities. PWaterhouse merely provide technical support and exchanges technical knowhow with the local company. All consultancies of PWaterhouse in Southeast Asia and in the Philippines also avail of JCunanan services.

JCunanan & Co. employs 300 staff members. It is estimated to be earning only about a fourth of the industry leader's (SGV's) total billings. It is considered as big as Carlos Valdez, although JCunanan may have more clients numerically speaking.

This is so because JCunanan specializes more in SMEs. While about 15% of top 1,000 corporations form part of its clientele, slightly over 60% its total clients are SMEs. Although it would want to gain more SMEs as clients, it has an image problem because SMEs think it is a big accounting firm and SMEs generally refuse to deal with "big" auditing firms; they would seem to be very expensive.

The company offers various services outside of auditing. It offers Tax Advisory Services, Management Consulting (Financial Systems, EDP, Organizational Counseling, Human Resources Development), and Entrepreneurial Services (Project Feasibility Preparation, etc.). Through its Professional Education Program, it has also conducted Business Consultancy Courses for the National Training Center for Cooperatives.

It has tied up with the American Chamber of Commerce on the computerization of compensation survey of American companies in the Philippines.

Because it is held unethical among auditing circles to be openly soliciting clientele, the company's seminars provide an avenue for marketing its other services. It believes that it is pretty strong in maintaining existing clients, and in adding new clients at a rate of 15% annually.

JCunanan is an example of a private consultancy company which has grown with SMEs as a client base. Its experiences in this field could be more widely shared.

The company's acquaintance with SMEs should make it a good agent for developing programs on financial systems and financial management addressed to SMEs. The international experience of Price Waterhouse in this regard must also be inputed. It should design a separate orientation seminar addressed exclusively to individual CPAs who are based in the province in order to upgrade their skills and expand their consultancy services to SMEs in the regions. This program could be run together with PICPA.

Institutional Profile - Negros Economic Development Foundation

NEDF was established in 1970 as a private, non-profit, non-stock service organization. It receives contributions from corporations and individuals in the province of Negros Occidental.

NEDF has assisted in the formation of the Bacolod Chamber of Commerce and four other associations. It presently acts as a Secretariat to these organizations.

Its major activities are centered around projects which would help the province diversify out of the sugar industry. It is involved in the financing and operation of mushroom culture, bamboo farming, ipil-ipil farming, goat raising, jackbeans production projects.

It maintains a demonstration farm and leases 60 hectares of farm land in behalf of 700 relocated squatter families.

It is involved in giving management training seminars and in the conduct of project studies and surveys.

NEDF is an innovative foundation. Its support activities to business organizations are novel. It approaches regional economic development as an agent of new farm technologies.

The foundation has the capability to serve as a regional agent for developing industry associations and business groups. It should also be helpful in developing research and farm-based experimental projects for SMEs in the region.

Institutional Profile - Philippine Business for Social Progress

PBSP was registered in 1971. It was formed by 120 private corporations who put up a fund to finance community development projects. Funds provided to the foundation are tax-exempt. It has 37 staff members in Manila.

PBSP operates a Small Business Program that is addressed to intermediary groups like cooperatives, social development institutions and community building project proponents.

The main service provided by PBSP in this regard is to help strengthen local small credit institutions with a package of credit, technical training and management training assistance.

The program assists financially in the form of (1) financial advance which may be revolving (where collected amortizations are continuously relent) or non-revolving (where advances are extended for proponents with small businesses), and (2) grants for training requirements of recipient institutions. Loans are made only (1) to projects with sponsoring organizations with a capability for planning; (2) to beneficiaries from a community which is interested in getting involved in the project planning and implementation; (3) to economic activities in either manufacturing, trading, or services.

PBSP is an example of an umbrella volunteer organization that constantly upgrades assistance programs to SMEs by providing support services to sponsoring organizations and client communities.

PBSP appears to be managed by a professional team, and therefore its role in strengthening PVOs and operating through them is well conceived. It has the capability to train other organizations in the area of management of programs, an expertise that should be passed on to industry associations and business groups.

Institutional Profile - Naga Regional Development Bank (Naga)

The bank was established 4 years ago with an initial asset base of P4 million. In 1984, it has a total assets worth P12 million and has 15 employees.

The bank's traditional sources of funds have been DBP rediscounting facilities and its deposit base.

The bank's loan portfolio has been primarily structured along the following lines: 35% going to housing loans and commercial construction loans; 35% to production loans for coconut, palay and fishing industries; 20% loans to trucking companies; 10% to other types of loans. All such loans have full real estate coverage. IGLF has never been considered as a possible service.

The bank's staff includes one project evaluation specialist (CPA), one civil engineer, and one agriculturist. The bank's President is a mechanical engineer and an MBA graduate. He belongs to a family of entrepreneurs, the family having been involved in the production of light agricultural implements in the 1970s, as well as in fishing and farming.

The bank does not lend long term money. The longest term that it offers is 5 years. It has no access presently to cheap long term funds. Current interest rates are at 25%.

The bank is an example of a regionally based development bank which is mandated by its nature to be lending long term funds to rural industries but has opted to stay within safer and more profitable lending lines in the business. It has the capability to evaluate local industrial projects but has emphasized its bottom line over its entrepreneurial and societal role as a development agent. This may be considered a practical and understandable approach given the absence of cheap long term funds for lending to SMEs in the countryside, the high cost of alternative sources of funding, higher overhead costs, and uncertain business conditions in the next five years.

Much like other development banks of its size, NRDB should move into project identification, project promotions, and project development functions. This strategy would involve its pinpointing of viable SMI projects in its area of operation, then looking for investors and funding institutions, and overseeing the initial implementation of the project. It should not wait for projects and project ideas to be brought to its attention by prospective borrowers. It could instead perform that entrepreneurial function.

Institutional Profile - St. Louis University (Baguio)

The University's Extension of Institute for Small Scale Industries (EISSI) has an annual budget of ₱150,000 financed primarily out of donations from private foundations and fees from its training courses and consultancy services. It has 4 full-time staff members and draws its faculty from the Colleges of Commerce and Engineering.

EISSI's activities addressed to SMEs include the following: 3-day courses on entrepreneurship, industry-wide dialogues; and short studies of operational problems of SMEs some of which are published as case studies.

The Institute is presently developing an entire curriculum on entrepreneurship for students who wish to have a business degree and who want to set up their own business. An integral part of that course would be the actual setting up and operation of small businesses by individuals or groups of students.

Since July 1983, the Institute has conducted 3 courses in conjunction with the University of Life Home Study Program: Basic Bookkeeping, Salesmanship and Financing a Small Business. These are non-formal non-degree courses using modular learning approaches for self study supplemented by clinics and learning sessions for 8 Saturdays (3 hours per session). The UL provides scholarships to participants in such courses.

The Institute also administers a ₱75,000 loan fund from PBSP. It has provided credit to 70 micro entrepreneurs in vending and weaving activities in 7 barangays of Baguio. The Institute provides project identification, orientation and skills training assistance to loan recipients.

The EISSI is an important pilot institution which can be duplicated in several institutions. It has to strengthen its case writing and small business consultancy programs, however. It should provide a mechanism that would monitor its graduates, continually working out problems with them, and documenting their unique experiences so that these may be shared with other entrepreneurs. It should prepare a five-year plan of its programs instead of doing ad-hoc seminars and training tie-ups. Those programs should tap resource persons from other regions, including Metro Manila, and should address entrepreneurs throughout Region I.

Considering the university's good image in the entire region, it should take the leadership in organizing a private sector initiated SME program in all provinces. Given the uneven resource distribution in the region, where Pangasinan/La Union have relatively more endowments than the Ilocos provinces, there should be special programs for the latter provinces.

Institutional Profile - Center for Research and Communication

CRC was established in 1967 to serve as a vehicle for interaction between government and private enterprises and professionals. It has three major units: Institute of Industrial Economics, Business Economics School, and Corporate Planning Services Division.

Within its Business Economics School is a training program called "Total Management of the Small Firm". It aims to put together all key functions of the SME into a purposeful whole, without losing the entrepreneurial spirit. A core element of the program is experience exchange ("ex-ex") among real-life entrepreneurs. Some faculty members of this program are lecturers at UPISSI.

The key concept behind the program is to improve the entrepreneurs' ability to think strategically or long term, and for them to cross the so-called Bermuda triangle existing between small to medium to large businesses.

CRC also keeps a regional development unit. It issues regular economic forecasts on the Philippine economy over the short, medium and long term. It trains both government planners and private corporate planners. It is an example of a working private sector institution with active private support and worldwide respect. It serves primarily as an alternative source of economic data and policy analyses, and is recognized as a "think tank" by the foreign press.

CRC's contacts with universities in the provinces is also wide. It used to run a training program for teachers of economics at the college level. This program produced a good number of MTI-MASICAP Program participants.

CRC's expertise in regional economic development and in area planning as a whole could be used to provide a good base for regional entrepreneurship programs. Its influence on some private businessmen could be tapped in order to bring more support from big business in terms of subcontracting and marketing arrangements for SMEs. It can also field big entrepreneurs who could act as advisers and resource persons. Its large role in keeping the Makati Business Club going could also be used to strengthen local business clubs and associations.

Institutional Profile - Naguilian Rural Bank (La Union)

The bank, which has branches in Naguilian and San Fernando, La Union, has been operating for 17 years. It is the fifth largest rural bank in the entire country.

The bank is managed by the owner's daughter, who has solid banking experience (12 years with Citibank). It has 18 credit staff.

An outlet of CIGLF for 2 years, the bank is presently not lending to SMEs because of the temporary suspension of the Loan Fund.

As with other rural banks, a majority of the loans are agricultural courtesy of the Central Bank Special Time Deposits for Agricultural Loans and CB-IBRD Rural Credit.

Rural Banks were mostly founded by professionals - doctors, dentists, lawyers, etc. - in the 1960s. They lacked banking experience but survived because the 1970s was a period of "easy" banking when competition was light, financing sources were many, and industry supervision was loose. Today, the situation is completely reversed, and rural bankers have to professionalize their ranks.

The bank is an example of a regionally based financial institution which is trying to be innovative given very difficult constraints. It is retraining its staff on credit analysis, strategic planning, and risk analysis. It is looking at restructuring its business, rather than merely rescheduling the overdue loans.

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Institutional Profile - Narda's Handwoven Arts

In nine years, Narda's business has grown from a small handweaving shop to a medium-sized operation. It employs 200 employees full-time and keeps 200 subcontractors. Monthly sales average at ₱250,000 to ₱300,000.

Narda's started as a beneficiary of the hotel boom in Metro Manila in the mid 1970s. Hotels helped set down quality standards and develop designs.

Through SBAC assistance, product development assistance was given through the services of a foreign handweaving expert. Similarly, export leads were given.

Narda's has actively encouraged employees to set up their own operations in their own homes. New employees are trained to maintain consistently high production standards. Subcontractors, who are all former employees, are provided with raw materials and designs.

Narda's has acted as a lead entrepreneur setting up designs and standards, organizing a satellite of small sub-producers, and productively translating service assistance from (1) a GOP institution and (2) from private buyers into inputs to a successful operation.

Institutional Profile - UP Institute of Small Scale Industries - SERDEF

The UPISSI was founded in 1969. It is considered an innovator, an initiator of several programs that have been institutionalized by other GOP agencies.

It is involved in Training/Assistance Programs (Entrepreneurship, Management, and Extension Service Delivery), Research (Policy, Technological, Training Oriented), as well as in Special Programs (Consultancy, Information Dissemination, Conferences, Industry Dialogues).

Among those that the Institute has trained, the following breakdown is recognized: 28% are entrepreneurs; 15% are employers of private firms; 13% are development officers; and 14% are government employees.

Employing a staff of 90, the Institute obtains support from GOP (P2.4 million in 1982) and some fees for its programs. In addition, the Small Enterprise Research and Development Foundation is a non profit NGO for channelling private monies for research into ISSI. It is affiliated with Ministry of Trade and Industry, RIM Science in Delft, Netherlands, and Technonet Asia in Singapore. It also draws upon the technical resources of the UP-Schools of Business and Engineering.

It has run an Appreciation Course for Entrepreneurs in various parts of the country under the sponsorship of the Philippine Jaycees, a program which has had no follow through, however, since grant funding expired.

It is presently involved in developing an Extension - ISSI at St. Louis University in Baguio. The Institute is also involved in designing entrepreneurship courses for high school students, and working for the integration of these courses into the curriculum.

UP-ISSI is an example of an effective training and research center which is exclusively devoted to SMEs. While it is primarily a GOP unit, it is rarely seen as one, and private involvement is a central component of its various activities. They see their role as innovators, discovering new techniques and training extensions in other institutions to use them.

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Enterprise Interview Guide

Profile

Date \_\_\_\_\_

Name of Organization: \_\_\_\_\_ Location: \_\_\_\_\_  
 Person Interviewed: \_\_\_\_\_ Position: \_\_\_\_\_  
 Product Lines: \_\_\_\_\_  
 Number of Employees: \_\_\_\_\_ Years in Operation \_\_\_\_\_ Average Monthly Sales \_\_\_\_\_  
 Number of Subcontractors \_\_\_\_\_ Sales this Year: Higher \_\_\_\_\_ Lower \_\_\_\_\_ By how much \_\_\_\_\_  
 Major Markets: Local \_\_\_\_\_ Regional \_\_\_\_\_ National \_\_\_\_\_ Export \_\_\_\_\_  
 Primary Production Method: Hand \_\_\_\_\_ Machine \_\_\_\_\_ Mixed \_\_\_\_\_  
 Primary Source of Machinery/Equipment: Local \_\_\_\_\_ Imported \_\_\_\_\_  
 Source of Raw Materials: Region \_\_\_\_\_ Other Regions \_\_\_\_\_ Imported \_\_\_\_\_

Needs/Problems/Preoccupations/Constraints to Growth

Key to Businessperson: \_\_\_\_\_ Apparent to Interviewer: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Suggestions for private sector services that would enable them to expand employment: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

How would cost of services be covered: Fees \_\_\_\_\_ Dues \_\_\_\_\_ Interest \_\_\_\_\_ Other \_\_\_\_\_  
 Specify \_\_\_\_\_

Services Known/Used

|  | <u>Institution</u> | <u>Specific Services</u> | <u>Accessibility</u> | <u>Adequacy of Services Used</u> |
|--|--------------------|--------------------------|----------------------|----------------------------------|
| Financial                                  | _____              | _____                    | _____                | _____                            |
| Technical                                  | _____              | _____                    | _____                | _____                            |
| Management                                 | _____              | _____                    | _____                | _____                            |
| Other<br>(Purchasing,<br>Storage,<br>etc.) | _____              | _____                    | _____                | _____                            |

Economic Environment

Impact of recent "economic crisis" on business: \_\_\_\_\_  
 \_\_\_\_\_

Impact of recent "economic crisis" on regional economy: \_\_\_\_\_  
 \_\_\_\_\_

What type(s) of business in this local/region have the greatest potential for growth: \_\_\_\_\_  
 \_\_\_\_\_

Why: \_\_\_\_\_  
 \_\_\_\_\_

Infrastructure

What infrastructure constrain business growth in this region and how: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Institution/Program Interview Guide

Profile

Date \_\_\_\_\_

Name of Organization/Program \_\_\_\_\_ Location: \_\_\_\_\_

Address: \_\_\_\_\_ Phone: \_\_\_\_\_

Other Offices: \_\_\_\_\_

Person Interviewed: \_\_\_\_\_ Position: \_\_\_\_\_

Type of Organization: Private; for profit \_\_\_\_\_ not for profit \_\_\_\_\_ Public \_\_\_\_\_ Ministry \_\_\_\_\_

Years of Operation: \_\_\_\_\_ No. of Employees \_\_\_\_\_ Annual Budget \_\_\_\_\_

Sources of Financing: \_\_\_\_\_

Perceived needs/problems/constraints of SMEs: \_\_\_\_\_

Small: \_\_\_\_\_

Medium: \_\_\_\_\_

Services Provided: \_\_\_\_\_

| Principal _____ | Years   |                   | Business/Persons Served |                     |
|-----------------|---------|-------------------|-------------------------|---------------------|
|                 | Offered | Available to Whom | Number (Last Year)      | Type(s) of Business |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| Secondary _____ | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |
| _____           | _____   | _____             | _____                   | _____               |

How are costs of services covered: \_\_\_\_\_

How do they determine services they will provide: Surveys \_\_\_\_\_ Demand \_\_\_\_\_  
Other Sources \_\_\_\_\_ GO? Plan \_\_\_\_\_

To what degree are they able to meet needs of SMI: Greatly \_\_\_\_\_ Moderately \_\_\_\_\_ Poorly \_\_\_\_\_

Why? (Resources, skills, methods, other) \_\_\_\_\_

What are major problems they have encountered in delivering services: \_\_\_\_\_

What would alleviate these problems: \_\_\_\_\_

\_\_\_\_\_

Do they evaluate their services? How? \_\_\_\_\_

\_\_\_\_\_

What other services are needed for SMI growth: \_\_\_\_\_

\_\_\_\_\_

Who does/could provide these services in this region, particularly in the private sector: \_\_\_\_\_

\_\_\_\_\_

What GOP policy changes would contribute to SMI growth? How? \_\_\_\_\_

\_\_\_\_\_

Impact of recent "economic crisis" on SMIs in the region: \_\_\_\_\_

\_\_\_\_\_

Impact of recent "economic crisis" on the regional economy: \_\_\_\_\_

\_\_\_\_\_

Infrastructure constraints to SMI expansion/improvements: \_\_\_\_\_

\_\_\_\_\_

(power, water, communications, roads, ports, transport, storage, etc.)

What business in this local/region have greatest potential for growth: \_\_\_\_\_

\_\_\_\_\_

Why: \_\_\_\_\_

\_\_\_\_\_

ANNEX E  
Inventory of GOP and Other Donor Programs Assisting SMI

Government of the Philippines Technical Assistance

Small Business Assistance Centers/Medium and Small Industries  
Coordinated Action Program

National Cottage Industries Development Authority

National Economic and Development Authority

National Census and Statistics Office

Bureau of Domestic Trade

Philippine Standards Agency

Bureau of Foreign Trade

Bureau of Small and Medium Industries

Metals Industry Research and Development Center

Forest Research Institute

Forest Products Research and Industries Development Commission

Cottage Industries Technology Center

Philippine Human Resources Development Center Project

Food Technology Research Department

Food and Nutrition Research Institute

Development Academy of the Philippines

Design Center of the Philippines

University of the Philippines Institute of Small Scale Industries

National Food Authority

Philippine Port Authority

Bureau of Technical and Vocational Education

Productivity and Development Center

Technology Research Center

NDC-NACIDA Raw Materials Corporation

Center for International Trade Exporters and Missions

National Manpower and Youth Center

Textile Research Center

National Science and Technology Authority

Philippine Invention Development Institute

Materials Science Research Institute

Philippine Council for Agriculture and Resources Research and Development

Garment and Textile Export Board

Confederation of Philippine Exporters

Appropriate Technology Center - UP, Los Banos

Bureau of Forest Development

Bicol River Basin Development Authority

Cooperative Union of the Philippines

Bureau of Cooperative Development

Cottage Industry Development Enterprise

Financial Assistance

Kilusang Kabuhayan at Kaunlaran (KKK)

Venture Capital Corporation (VCC)

Cottage Industry Guarantee Loan Fund (CIGLF)

Industrial Guarantee Loan Fund (IGLF)

Development Bank of the Philippines

Central Bank

Philippine Export and Foreign Loan Guarantee Corporation

Urban Livelihood Financing Program

Philippine National Bank

Land Bank of the Philippines

Guarantee Fund for Small and Medium Enterprises

Small and Medium Industry Lending Department, DBP

World Bank

Small and Medium Industries Development Projects

Educational Training

Urban Development Projects

Research on SMIs

Asian Development Bank

Industrial Estate/Export Processing Zone

Export Credit Facilities

Industrial Subsector Study

Philippine Investment Systems Organizations (PISO)

Private Development Corporation of the Philippines loan

United Nations Industrial Development Organization (UNIDO)

Technical Services Delivery System

Workshops, Seminars, technical assistance

Research on specific industries

International Labour Organisation (ILO)

Developing a Mission Report on Small Enterprise Development

Working with Employer and Worker Associations

Working with Small Contractors

Technical Assistance

Japan International Cooperation Agency (JICA)

Technical Assistance for Cottage and Light Industries

ANNEX F  
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ANNEX G  
ADDITIONAL ANALYSIS

Unlike for many projects, detailed information about the sector, the target population, their needs and support services required to meet them is already available from studies done for the SMED project. This should reduce considerably the time necessary between the preparation of the PID and the PP.

What will be left to be done after the PID is completed to complete project development to the PP level is a review of ~~GOP SME programs~~, the identification of the particular institutions who will initiate the project, ~~a more detailed~~ investigation of the feasibility of the proposed activities and identifying and negotiating the GOP channeling mechanism for project resources.

Review of GOP Programs

Another study that needs to be done prior to final development of the PP is of the GOP programs for assisting SMEs. As Annex E indicates there are many GOP programs/institutions providing assistance to SMEs, and as indicated in Chapter V of this report, very few of their services reach SMEs in the targetted regions. It is important that AID hire a consultant to look at two aspects of these GOP services to SMEs; (1) the extent to which they are reaching SMEs in the targetted regions, and (2) the effectiveness of their services when they do reach SMEs.

There exists the possibility that certain of these GOP or other donor programs have arrived at effective methodologies for responding to specific or general needs of SMEs. AID would not want to "reinvent the wheel" in Phase I of PSSS if it already exist here. Also, AID would want to confirm where geographically the gaps are in SME service delivery and that there is not a more viable alternative to the strategy recommended herein.

The study is in fact the same as one recommended by Sue Goldmark as part of the SMED Institutional development Operational Planning Studies, Review of Other SME Development Activities<sup>1/</sup>

Institutional Identification

The PID could be written within the month of June, approved in July and work begun on the institution identification shortly thereafter. However, there will be an independent evaluation done starting in August

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<sup>1/</sup> "An Evaluation Plan for SMED Project", Susan Goldmark, May 1984, see pg. 10-11 for details of Scope of Work.

1984 of the seven catholic university Institutes of Small Business which have been in operation for from 4 to 9 years. It is being done by a German, Dr. Liem, and is expected to be completed by Oct. 1984. It would be worthwhile to wait until that study is at least started before proceeding with the institutional identification for the PSSS project. That in fact would give the SMED project time to initiate several of its activities which would provide additional information relevant to the PSSS project development. However, AID should contact Dr. Liem and discuss with him the parameters of his study in order to determine how to collaborate on getting information needed to assess the effectiveness of methodologies presently being employed by ISBs.

Also the SMED project will be conducting baseline studies and operational planning studies over the next few months. Much of the information gathered and the analysis done will serve in the identification and more detailed analysis of institutions which could be support service implementors. Therefore, there should be close coordination between the SMED activities and any studies undertaken to bring the PSSS project to the PP level.

The Terms of Reference for completing the institutional identification should include the following:

1. Review private sector institutions with potential and interest to be SME service providers and recommend to AID 5-8 institutions to implement Phase 1 of PSSS project. The mix of institutions, if appropriate, should include: 1-2 universities or colleges; 1-2 banks (commercial and/or rural); 1 cooperative consortium training center; and possibly 1-2 associations (industry, or professional) or chambers (CCIs).

The criteria used to select these institutions should include:

- A. Experience - they have minimum two years working with SMEs.
- B. Network - they are active in regional or national grouping of similar institutions.
- C. Responsible leadership - dedicated, thorough.
- D. Leaders and/or staff are taking economic factors into consideration - viability of local industry, supplies, markets.

The next three criteria pertain to the geographic area in which the institution is working.

- E. That there are other potential participants in service delivery system in that area.

F. That there is short and long term potential for SME growth - economic base, physical and social infrastructure (e.g., parts of Region XII might not be realistic because of peace and order difficulties).

G. Majority of service needs can be responded to locally.

2. After AID has approved identified institutions the consultant will work with those institutions in developing project description and implementation plan for the Phase I methodology development. This project analysis will include a feasibility analysis of methodologies to be used by institutions which would include but not be limited to factors such as:

- o extent of demand for services
- o availability of human and financial resources
- o institutional capability
- o infrastructure needs
- o appropriateness of methods to local market for services
- o political
- o channel of resources to other private sector service providers

3. One section of the report should present project goal/purpose and objectives and project description according to PP format requirements. This should include how project will interface with SMED project. Based on the conclusions drawn from completing #1-3 above, input needs including but not limited to:

- a. technical assistance - with scopes of work
- b. financial - FX/LC, AID/other
- c. commodities
- d. counterpart contribution

4. Select and recommend 25-30 potential Phase II participants justifying their participation using the same criteria as in #2.

To do this institutional identification AID will need a consultant(s) with extensive background in SME service delivery systems, institutional evaluation and project planning assistance. It is recommended that AID hire one consultant for a period of twelve weeks to do this work. an option would be to bring in two consultants for eight weeks. However, the longer period of time is preferable in that it will provide a more realistic environment for the consultant to work with the implementing agencies on developing their strategies and plans, including the definition of hypotheses to be tested. It would also accelerate the start up of the project as the institutions would have already received some TA in advance through the consultant's work with them. This approach has been used in other AID Missions.

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### Institutional Constraints to Implementation

Another question that will have to be answered prior to the preparation of the PP is how USAID can work with the Private Sector in the Philippines. Some of this will undoubtedly be answered by the SMED project, as the relationship between PCCI, MTI and the general contract evolves. Mission personnel will need to negotiate with the GOP for the most streamlined pass through mechanism. Because of the inter-relatedness of the SMED and PSSS Projects it might make the most sense to have the PSSS coordinated together with SMED in the MTI. The contractor has no basis for evaluating the efficacy of this approach, and defers to the Mission's experience in this matter.

### Constraints to SEE Growth

One key question that needs to be answered is why more small enterprises have not grown to medium size in the Philippines. Areas to check into in this analysis are (1) GOP SME incentives which are disincentives to growth (so that many small businesses are established by one business person in order to continue receiving benefits rather than developing one medium or larger, and possibly more efficient business); (2) labor law; (3) covert barriers (takeovers by larger companies, monopolies/oligopolies/monopsonies/oligopsonies, harassment, both public sector and private); (4) management limitations; (5) technical limitations (technologies, skills, processes) and (6) others such as limited economies of scale, markets, naturally constrained supply of raw materials. Studies of this phenomena should identify regional variations<sup>1/</sup>. This study could be done as part of SMED or the PSSS projects and would probably require a team months to go. UP-ISSI together with an outside consultant could be considered for doing this since they already have significant amount of data and experience with SMEs.

Industrial Prioritization. The SMED project has chosen to focus on the garments, furniture and handicraft industries and it has been suggested that PSSS have the same focus. Current studies focus on a determination based on what exists. An assumption underlying this approach is that the market is an open one and its forces are accurately reflected in current businesses. For example, priority industries are determined by weighing the number of businesses, number employed, amount of investment and labor intensity. A study is needed which looks at the current and future markets for products, that relates the resource (material, human and capital) base to trends in the market place both local and worldwide and

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<sup>1/</sup> The SMED Project Paper Annex G - "Details Concerning the Research Component in the Project" refers to these and other areas in which research might be done.

looks for areas of real potential growth in which, possibly, Filipino industry is not at all or only marginally involved at present. Again, this study is of a longer term nature and should be done regionally as well as at the national level. A consultant specialized in industrial development with extensive international experience in small and medium industrial development should be brought in to assist in this study. However, AID might want to review the subsector focus before finalizing the PSSS Project Paper.

Infrastructure. Several studies in this area would be more general in nature in that they would not pertain only to SMEs, but rather would apply to a given geographical area in general. As needs expressed by SMEs they include: the availability and more importantly costs of power; transportation facilities (ports, roads, an airports), equipment (boats, trucks, aircraft) and regulations (in particular transshipping thru Manila); decentralization of government offices (for necessary documentation approvals, etc.); better telecommunication system; and common facilities. All of the following studies will focus on determining if adequate infrastructure exists to justify AID's investment in SMEs, and if it does not, recommend possible strategies for eliminating that inadequacy.

The cost of power in the five AID priority regions is on average (P1.50 - 1.76/kwh) 3-4 times the cost in Manila (P.50/kwh). Significant price increases for electrical power have occurred in the years since the Rural Electric Co-ops were established. The question of whether the increased costs/rates are a result of mismanagement or if some integration of the power system would be possible to lower the average cost to users should be investigated. Otherwise this represents a comparative disadvantage for rural industries even though electrical costs are generally less than five percent of their total costs.

There are a number of ports and airports which could serve for international shipments much more than they presently do, but till now there has been little done to decentralize customs facilities and rationalize shipping and airline schedules to more efficiently handle the flow of goods from the southern and northern regions. A study needs to be done on the capacity of the port facilities and the flow of goods thru those facilities to see if different traffic patterns would be more efficient (lower cost) and thereby make regional Philippine goods more competitive in various markets in Asia and elsewhere. Part of that study would look at how the operations of the port facilities could be improved for the safety of the goods, and for more efficient service. The present requirement of transshipping most goods through Manila both increases costs and causes in some instances substantial delays in delivery resulting in poor customer relations. Regional producers are often unable to tell their customers when an ordered shipment will arrive because they cannot track it through Manila to find out which boat it is on. The situation with airfreight appears to be similar and the focus of that study should be on traffic patterns and the potential for additional exports created by direct airfreighting of perishable products to foreign markets.

In the area of telecommunications there was interest expressed by SMEs in common telex facilities in certain provinces of Region 5 with high export potential. The feasibility of such facilities should be studied. Also, there were complaints from SME outside of the urban centers that because they had to go through local operators, they were losing orders because of the time (often 3-4 hours per call) to call buyers and suppliers in Manila. A study should look at viable communications options for scattered firms outside of regional urban centers comparing such alternatives as telephone, telex, cable, micro-modem and radio patch links in areas serving markets outside their region and with potential for growth. This would provide the basis for the Regional SME Communication Centers.

#### Common Facilities and Technical Research and Development

Studies are needed of the feasibility/viability of certain common facilities which SME in the regions are saying they need. For Phase I of PSSS a study is needed for the Technical Service Center to be tested which appears will be a facility with wood kiln dryers and common carpentry shops for furniture and wood carving and possibly warehouses for raw materials bulk purchased and storage of goods prior to shipment. These studies should be on a case by case basis and actively involve the potential users as well as objective outsiders. A consultant specialized in the wood working industry should be hired for 4-6 weeks to do this.

Beyond this, the need for a SME Technology Research and Development Center or System which could be private or public, which could be private or public, should be looked into. A consultant should be brought in to study the viability for establishing such an institution, the approaches that should be taken, and the parties who should get involved. Existing Technology research and development facilities might need to be expanded and/or established probably in universities together with private business efforts to commercialize developed technologies should be supported technically as needed. AID would need to have someone specialized in this area define the scope of work necessary to study the feasibility of this possibility.

## ANNEX H

The following is a specific example of an approach to dealing with the marketing needs of SMEs.

### Marketing

There are series of questions that can be asked of SMIs to determine where they stand on the marketing of their products. Several of the more successful (showing 30-100% growth in sales over last year or two) SMIs that we talked with indicated that there is a maturing growth process related to product development and marketing. Too many cottage and small producers (handicrafts, weavers, furniture, garments, etc.) think they should and could be exporting their products, if they merely had the contacts "over there" (in the U.S. or Europe). First they need to be able to compete in the national market before they should even attempt exporting. This means that they can sell their products locally and in Manila at prices which are competitive with other producers and/or imports. That means also that they can produce with consistent quality and in sufficient quantity to meet an order on a timely basis. More than one producer mentioned that the major hotels had done more than anyone else to upgrade the quality of Philippine products because not only had they bought them but also they worked with producers in selecting designs, testing materials for durability and insisting on quality workmanship and finishing, details that had generally been overlooked by Philippine producers or unappreciated for their importance in the market place. For handicrafts, weavers, or furniture one would ask: if they have ever sold to one of the large hotels or department stores (directly or indirectly); what their largest single order was and how long it took them to meet it (produce the number called for); what feedback their client gave them on their products/performance (rejects, observations about materials, quality and/or designs and colors, additional orders); do they have regular orders from particular clients (x per month or every quarter); what changes in their products have they made in the last year (color, shape, size, new line, material, price, production technique, etc.).

Once they have demonstrated a market awareness, either by responding to the instructions of a company to which they are a subcontractor or by direct response to the buyers, and that they have the capability to respond to a sizable order with a product of consistent and adequate quality, then they are in a position to seek entry in the export market. This is when they need the contacts, the referrals by PITC, GETA, CITEM, MAP (SBAC) and the PCCI and chambers and associations thru which buyers are going to look for producers or suppliers of goods for export.

One fact of which we were reminded by several export producers is that Philippine producers are generally going to be at least a half if not a whole step behind the professional buyers who distribute products to

several and sometimes many customers. One example used was the puka shell necklaces. Just as the Philippine producers were figuring out the seasonality of the foreign (US and Europe) market, smart buyers started coming in the off-season to buy the surplus production at cheaper prices to hold for the following year peak season. The buyers, because of their direct contacts with the market (both with the ultimate seller and the ultimate buyer - the public), have the added advantage of being able to recognize trends and test out new ideas, designs and products. Generally, only the medium scale and larger scale producers enjoy the luxury of being able to afford to travel and know their foreign markets and to possibly go beyond the buyers who come to the Philippines and deal directly with the ultimate sellers (department or a chain of specialty stores, etc.). The impact of one visit on the mind of the producer, seeing what is available to customers in foreign markets and talking with stores about what sells and when, can be immense. And it can be overwhelming; so it should not happen until the producers have been through a similar eye opening process here in the Philippines.

This education process can happen in a number of ways. Telling the producers what they should be doing is one way, alleviate a not very effective one, at least at the level of small and cottage industry. Some people have recommended video tapes or movies, but these are obsolete. Something associations or other central organizations could do would be to on a regular basis collect catalogues, from mail order houses as well as department and specialty stores in different countries. They are good for a start, for use in a seminar on product design and/or marketing as illustration of points being made. However, one of the common characteristics of small producers is their marked tendency to imitate what they perceive to be "successful" (saleable) products of others. So the danger in handing out catalogues to them is that they will with insufficient information about the construction of the article for wearability, etc., they will make something that pretty much looks like the picture, at least from the angle it was taken. And they will expect to be able to sell it. After all, look at the price there in the catalogue; they can make it for even less than half the cost! Dollar signs start dancing in front of their eyes thinking of the money they will be making. They might have forgotten the comment in the workshop about how they will only get paid an eighth or a tenth or less of the final sales price of their production in the foreign market. And then there is the fact to remember that what is in the catalogues is what has already been produced and is selling now. By the time they get around to producing it in any kind of volume, the market could change, depending on the product, in more than one way.

All this is not to discourage collecting and using relevant catalogues, but rather to be conscious of the limits of their usefulness and dangers. Again, this a role that the industry associations on a regional and local level can play.

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In addition, the associations, or pre-association groups can think of organizing two types of activities that would relate to marketing. The first one is exposing producers to a larger market than they are at present. That means that for micro or cottage producers, they go to the provincial or regional capital to see products being sold there, to observe the designs, workmanship, finishing, materials and talk with the sellers about the prices they pay for such products and the kinds of orders they place. Obviously there would need to be several sessions with the producers discussing with them these aspects of their own products in order to prepare them for these visits to retailers and/or wholesalers. It would be best if the retailers/wholesalers were also briefed on these visits and their collaboration sought. This could be done by talking with them directly or by going through the local Chamber of Commerce. In the event that the association encounters difficulty in finding retailers who will cooperate, then the activity becomes a game in which the producers are challenged to go individually or in small groups of 2-3 and find out whatever they can, however they can from retailers/wholesalers and/or people in the street about that market for their products. A checklist should be provided to orient them. They might even make a contest out of it. In any event, afterwards the organizer should make a point of going over with them their findings and the implications for their businesses. Follow-up should then be provided as needed to assist those interested in developing plans of action, finding needed TA, and implementing changes.

For producers familiar with the regional market the obvious next step would be to Manila and stores like Rustan's and Shoemart, or the large hotels and wholesale houses. Again, the groundwork for these visits could be laid by the national association offices or the Manila branches or Chambers of Commerce. On a very selective basis the associations might want to send producers to foreign markets.

Another educational or consciousness raising activity that associations could organize related to marketing is visits of smaller producers to larger producers and vice versa larger producers visiting smaller ones to advise them in plant. There are larger producers who would be willing to take smaller producers on a quick tour of their plants in order to expose the smaller producer to the reality of standardized products and production, a wider range of finishing and designs, materials being used and the rational organization of the production process in order to maximize (or at least optimize) productivity. As with the previous activity, one or more sessions with the small producers to prepare them for the visits and a debriefing afterwards to go over what was observed and learned will enhance their usefulness as well as promote the association.

The point of any of these types of visits is more to raise the questions than to provide ready answers, to encourage the producers to question who they are selling to, what they are selling and what else they might do to be able to make and sell more, if that's what they are inclined to do, and to realize that they can go out and find out what they need to know to answer those questions for themselves.

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