



SME Development Plan 2004 - 2010

SMED
COUNCIL

MESSAGE



My warmest congratulations to the good people of the Department of Trade and Industry and the Small and Medium Enterprise Development Council for initiating the formulation of the *SME Development Plan 2004-2010*.

I am also very grateful to the Japan International Cooperation Agency (JICA) for their valuable support and generous assistance in the framing of this Plan.

The National SME Agenda, which I launched one and a half years ago, as my Administration's priority strategy for economic development, has contributed a great deal to the growth of many existing businesses and the creation of new ones. We shall build on these accomplishments, sustain them, and continue to move forward through a long-term program that should make the SME sector a driving force in the growth of Philippine economy.

It is my hope that through our continuing efforts, our SMEs, which comprise 99.7% of all firms in the country and employ 69% of the labor force, will emerge as a powerful engine for growth. SME development is so important that in my ten-point agenda for the next six years, three million entrepreneurs shall receive financial and other forms of assistance to enable them to contribute to the generation of six to ten million jobs. This shall give tremendous boost to the diversification of industries and the equitable distribution of wealth.

I now endorse the *SME Development Plan (2004-2010)* to the major stakeholders of SME development—the concerned government agencies, our partners in the private sector, and most of all, to the SMEs to whom all these efforts are directed. May the perspective and direction this Plan provides lead us to our shared vision of a strong and globally competitive Philippines.

Mabuhay kayong lahat!

GLORIA MACAPAGAL ARROYO
President of the Republic of the Philippines

MESSAGE



The SME sector's tremendous potential as a weapon in the fight against poverty, through job generation, equitable distribution of income, and dispersal of economic activities in the countryside, has guided the Arroyo Administration's development thrust from the beginning.

We at the Department of Trade and Industry (DTI), as the lead agency in the national effort to develop SMEs, breathe life into the government's SME development program, the National SME Agenda, through an integrated approach that addresses the various concerns of our entrepreneurs.

The program is directed at increasing the number of new SMEs and enhancing the competitiveness of existing ones, taking into consideration the challenges posed by world trade liberalization and fast technological changes.

In order to support and sustain the gains of the National SME Agenda in fulfilling its vision for SMEs in the long term, a six-year strategic development plan was crafted, geared towards achieving a sustainable and competitive growth of SMEs. This Plan is in line with President Gloria Macapagal Arroyo's ten-point agenda for the next six years, which includes assistance to three million entrepreneurs, and which in turn will contribute to the creation of six to ten million jobs.

The DTI now presents with pride the *SME Development Plan (2004-2010)*, a consolidated and comprehensive roadmap for SME support programs.

For this accomplishment, I would like to extend my gratitude to the SME Core Group and the Small and Medium Enterprise Development Council for their critical roles in seeing this initiative come to fruition. I am particularly grateful to the Japan International Cooperation Agency (JICA) for their support in the formulation of this Plan. I would also like to commend the key stakeholders—various government agencies, the private sector and the academe, whose inputs enriched the consultative discussions that went into the making of the Plan.

With the *SME Development Plan (2004-2010)*, we are on the road to a more vibrant SME sector and a more vigorous Philippine economy.

Sulong Pinoy!

A stylized, handwritten signature in black ink, consisting of several loops and flourishes.

CESAR V. PURISIMA

Secretary
Department of Trade and Industry

MESSAGE



When President Gloria Macapagal Arroyo launched the National SME Agenda one and a half years ago, it was in recognition of the sector's potential impact on poverty alleviation. It was also in recognition of the need to upgrade the SMEs' productivity in order to reach this potential.

The National SME Agenda, also known as *Sulong Pinoy*, is carried out through the orchestrated efforts of key players on the various components of SME development: human resource development and entrepreneurship training, market development, product development and technology intervention, advocacy for enabling environment, and financing.

Although our initial success in SME development has been encouraging, we are humbled by the sheer number of SMEs that we have to reach. In line with President Arroyo's ten-point agenda, we endeavor to reach three million entrepreneurs who, with government assistance, shall achieve success and thus contribute to the generation of six to ten million jobs in the next six years.

Thus, the *SME Development Plan (2004-2010)* was formulated to strengthen the SME support mechanism embodied in the Agenda. The Plan aims to build the capacities of SMEs and key organizations to enhance their competitiveness, thereby increasing their contribution to economic growth.

On behalf of the SMED Council and the DTI SME Core Group, I am honored to present the *SME Development Plan (2004-2010)*. The Plan identifies eight strategies towards producing globally competitive Philippine SMEs. Forty-eight specific programs will be implemented to pursue the strategies detailed in the Plan.

I wish to thank the Japan International Cooperation Agency (JICA) for having been so generous with their time and expertise in developing the Plan, and the various government agencies, private sector groups, and the academe for their insights which all went into the making of this Plan. I would also like to thank our SMEs, who share our vision and our efforts in building a nation that is worthy of the coming generations.

We are aware that the real success of an undertaking lies not only in its immediate result, but also in its endurance and sustainability. Like all builders, we are hoping that what we have built shall outlive us.

The *SME Development Plan (2004-2010)* is a map, which can help us in our journey to gain a sense of where we are, where we are going, and the best way of getting there.

May we all take this journey together with courage and abiding faith.

A handwritten signature in black ink, appearing to read 'Zorayda'.

ZORAYDA AMELIA C. ALONZO
Chair and CEO, SB Corporation
Coordinator, National SME Agenda

THE SME DEVELOPMENT PLAN 2004 - 2010

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Executive Summary

S**ME Development Plan 2004-2010** presents the integrated efforts to strengthen and stimulate the SME* sector so it can contribute significantly to the country's development. This Plan aims to make the SME sector a key factor in the country's economic growth by 2010.

The plan is designed to be carried out in three stages: roll-out, assessment of interim results, and re-programmed implementation. It projects to increase the SME sector's gross value added contribution to 40% of aggregate by 2010. It also intends to make the SME sector a major contributor to export growth, with exporting SMEs achieving a 16% annual growth rate in export sales. These are expected to come about mainly through the creation of globally competitive SMEs and assistance extended to them in aggressively seeking new market and product opportunities.

In order to meet the issues and challenges of the SME sector, the Plan sets down the following strategies:

To enhance operations of the individual SME

1. Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.
2. Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.

To assist priority industries

3. Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.
4. Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.

To improve the SME operational environment

5. Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.

* Includes "micro-enterprises"

6. Streamline the systems that provide support programs and incentives for SMEs.
7. Streamline the implementation of SME policies and regulations.
8. Strengthen and build the capabilities of institutions that generate and implement programs for SME development.

The process of carrying out the 48 specific programs to pursue the strategies is delineated in the Plan. Implementation matrices show the combinations of activities, performance indicators, time-frames, lead agencies, and resources involved.

Significance of SME Development

It is nationally significant to properly address Philippine SME development. It is widely accepted that small and medium enterprises play a very important and significant role in the economic and social development of a country. As a sector, SMEs account for 99 percent of total establishments in the country and employ 69 percent of the labor force.

From the economic development standpoint, the histories of advanced and developing economies (including Japan and the U.S.) clearly indicate the decisive roles that SMEs continue to play in economic growth. In fact, the gains attained by Asian and ASEAN “tiger” neighbors are the Plan’s performance benchmarks. From another standpoint, addressing SMEs – by their sheer overwhelming number and unavoidable presence alone – will certainly generate high socio-political returns.

The Planning Premises

Further, the Plan’s strategies and component programs were designed after thorough consideration of the status of the SME sector and of the policy and regulatory environment within which SMEs have to operate. These planning premises include:

- There are significant opportunities in some industries in which Philippine SMEs have competitive advantage that can be exploited. (Ten areas have been identified in the Plan.)
- Globalization, with its demand for excellence and efficiency, is an urgent reality.
- Technology is fast improving and increasing in its application in enterprise operational management.

- The regulatory guidelines and climate need to be updated and streamlined.

The SME Development Vision

The Plan may be summarized by its *National Vision for SME Development*:

The overall vision of the SME Plan 2004-2010 is to create globally competitive SMEs in the new industrial economic environment. These are SMEs that acquired distinctive competencies from harnessing efficient technologies and establishing strategic relationships with partners, market forces, suppliers (even competitor producers). The envisioned breed of dynamic SMEs shall propel the nation into the world-class business sphere. These priority SMEs shall also showcase the country as a people, its richness in resources, as well as the boundless possibilities available to create and offer products and services to seamless global markets.

The SMEs shall be a sector of excellently managed and globally competitive entities served through the pool of professionally managed and efficiently run partner organizations with superb capabilities to adopt new knowledge and technologies that will develop high value-added products.

SME DEVELOPMENT PLAN 2004-2010 AND THE ADMINISTRATION'S TEN-POINT AGENDA: CONGRUENCE OF OBJECTIVES

President Gloria Macapagal Arroyo has laid down her Ten-Point Agenda within her administration's six-year mandate. Particularly relevant in the context of the SME long term development plan is the creation of six to ten million jobs in six years via more opportunities given to entrepreneurs, the tripling of the amount of loans available to small and medium enterprises, and the development of one to two million hectares of land for agri-business.

With strategies focused on job generation, increased SME lending, and development of agri-business, the Plan is geared towards the fulfillment of this legacy. The SME Development Plan 2004-2010, with its overall vision of creating globally competitive SMEs in the new industrial economic environment, fully supports the Ten-Point Agenda.

The SME Development Plan 2004 - 2010

I. Background

A. The Plan in Brief

The SME Development Plan 2004-2010 aims to transform the SME sector into a significant contributor to national development by 2010. This vision shall be attained through clear and integrated strategies to attain global competitiveness for Philippine SMEs, within a supportive operating domestic climate.

The Plan details strategies and corresponding programs drawn up through extensive and joint efforts between the private business sector and the concerned government entities.

The implementation of SMED Plan 2004 - 2010 shall involve a three-year “roll-out” phase, an implementation assessment interval, and a re-programmed implementation stage.

B. Why Plan the Development of SMEs

Despite the overwhelming presence of Philippine SMEs (over 99% of all firms, nearly 70% of total workforce, and near $\frac{1}{3}$ of aggregate value added), their opportunities to improve are still enormous.

The productivity of SMEs has lagged behind in comparison with the performance of large Philippine establishments or of SMEs in nearby Asian countries. This is traced mainly to the interrelated factors of: (1) fierce competition in export markets that globalization has spawned, aggravated by the inability of Philippine SMEs to update themselves with fast changes on products and manufacturing methods, and (2) a domestic operating environment that is not sufficiently supportive or conducive to SMEs.

SMEs are thereby threatened from growing – or, from continuing to exist. SME products are vulnerable to imported equivalents even in the local market.

These challenges demand that resources be marshaled properly through well-crafted strategies and programs. It is imperative to encourage cooperation between private sector participants and government agencies – with the use of a clear long-term blueprint. Thus, “SME Development Plan 2004-2010” was designed on the joint efforts of the SMED Council, the DTI, and the various entities involved in Philippine SME development (including foreign donor organizations).

II. Status and Condition of Philippine SMEs

A. Role and Importance of SMEs

Many countries have advanced economically and socially through strategies of developing SMEs. This impact has been enhanced by ease in establishing SMEs, more flexible and affordable capitalization needed, and appropriate exploitation of niche products and services typically not viable for large-scale operations.

Since SMEs are important in the national agenda for economic growth and alleviation of poverty, significant efforts and policy support have been aimed over time for SME development.

Box No. 1

SMEs Defined

Philippine SMEs are categorized based on assets (excl. land) amount and number of employees. In January 2003, SMED Council defined the SME sector into:

<u>Category</u>	<u>Total Assets</u>	<u>No. of Employees</u>
<i>Micro-enterprises</i>	<i>₱3,000,000 or less</i>	<i>1 - 9</i>
<i>Small enterprises</i>	<i>₱3,000,001 - 15,000,000</i>	<i>10 - 99</i>
<i>Medium enterprises</i>	<i>₱15,000,001 - 100,000,000</i>	<i>100 - 199</i>

The definition does not involve industry classification (e.g., manufacturing or agriculture) or the type of organization. "SME" includes micro enterprises. Thus, the Philippine SME is identified as having either not more than ₱100 million assets or less than 200 employees.

BSP (through MB Resolution 328 in March 2003) adopted the above SMED Council definition to apply to SME programs of financial institutions.

The definition is being reviewed due to the need to define more aptly micro, small and medium enterprises, considering the distinctive characteristics of each category.

B. Structural Features of Philippine SMEs

Recognizing the features of SMEs is important to prepare meaningful strategies for their development.

1. SMEs are Overwhelming in Number

At latest (2001) count, SMEs were 99.7% of the national total of business firms. The statistics are summarized and identified by industry classification (subdivided by size) on the following table.

Table 1 Number of Establishments by Sector and Size Distribution

Unit: Establishment, (2001)

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

Source: NSO

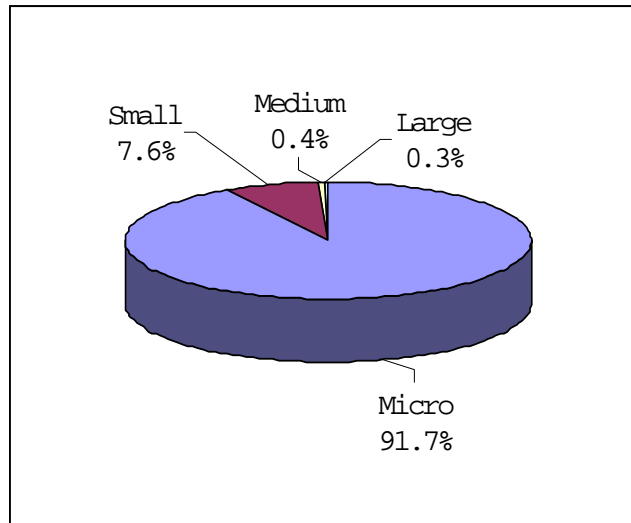


Figure 1 Enterprises Share by Size of Establishments

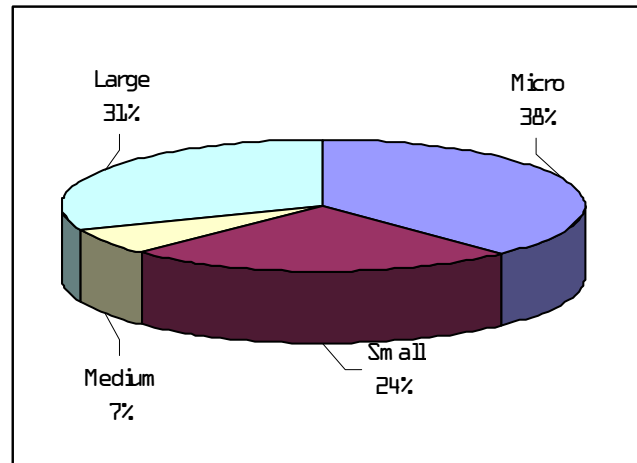


Figure 2 Employment Share by Size of Establishments

Micro-enterprises account for about 92% of enterprises. The small, medium and large enterprises have smaller contributions in terms of the number of establishments but reflect relatively the same magnitude in employment, and have a greater impact in terms of sales and value added.

The size distribution indicates the significant impact of developing micro and small enterprises.

2. Two of every 3 Employees Work in SMEs

SME sector employees are 69.1% of total establishment personnel, even as total number of employees has been declining recently.

The following table also shows the number of employees by industry type.

Table 2 Number of Employees by Sector and Size Distribution

Unit: men employed, (2001)

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

Source: NSO

The micro-enterprise subsector employs the most people, 38% of employment in all categories. But, small-enterprise employment is growing at a faster rate and has a very good impact in terms of “employment per establishment” and the “average cost per job,” indications of the small enterprises’ ability to enhance job creation and overall employment prospects. These further confirm the increased importance and emphasis on these two subsectors in terms of improved services and access.

3. SMEs Contribute Over 30% of Sales and Value Added

In terms of value added, large enterprises dominate with almost 70% of the total. This suggests very significant opportunities for improvement of SME sector contribution, even as this has already increased recently.

Table 3 Value Added (Census) by SMEs and Size Distribution

Unit: Million Pesos

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

Note: The total amount is for enterprises with more than 10 employees

Source: NSO, Census of Establishments (Manufacturing)

Table 4 Sales Generated by SMEs (Census) and Size Distribution

Unit: Million Peso

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

Note: The total amount is for enterprises with more than 10 employees

Source: NSO, Census of Establishments (Manufacturing)

4. SMEs are Concentrated in a few Areas, mainly NCR

The statistics indicate high concentration of SMEs in five regions, National Capital Region alone accounting for 23.9% of establishment number and 40.1% of employees. Again, for more balanced growth, this presents opportunities.

About 65% of SME establishments are located in NCR, Regions 3, 4, 7 and 11. Micro and small enterprises are more evenly distributed across all other regions while the medium and large enterprises are mainly in NCR. This overall structure has not changed significantly in the past ten years.

These five regions also account for 76.3% of total employees. In these regions, the medium and large establishments have relatively larger concentration.

This indicates that direct services to existing enterprises is more likely in NCR, Regions 3, 4, 7 and 11, inducing more competition in these areas.

On the other hand, the data suggest needs to identify business opportunities, promote forming or relocating SMEs in other regions outside NCR. Further, especially in manufacturing and in agri-business, there should be more room to provide assistance for SME development.

Table 5 Breakdown of Business Establishments by Size and Region (2000)

(Unit: No. of establishments)

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

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

Table 6 Breakdown of Employment by Size of Enterprise and Region

(Unit: No. of employees)

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

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

III. Development Issues in SME Subsectors

A. Strengths and Opportunities in the Growth or Priority Industries

While practically in all major manufacturing subsectors, SMEs are concentrated in fairly traditional product groups: the food industry, organic and marine groups, wearable industry (garments, fine and costume jewelries, footwear and accessories), leather goods, crafts and home furnishings (gifts, toys and house ware, and handicrafts), furniture and building materials, micro-electronics and automotive and machine parts and components.

These have been identified as very promising because of competitive potentials and global demand that can be served by Philippine SMEs. These growth industries are the “revenue stream industries” which are provided attention by the joint efforts of government agencies because of high export possibilities and strong domestic demand.

There is a significant development potential for SMEs in terms of production output. Employment is generated, contributing to poverty reduction.

The subsectoral structure of SMEs indicates strong participation in major groups of industries with continuing competitive and growth prospects. So as to increase the competitiveness of Philippine goods and upgrade the competence of local manufacturing, the diversification to less traditional subsectors such as electronics, chemicals, plastics and others should be promoted.

The following are briefs on the prospects of the priority industries.

1. Food Industry

Food-processing accounts for more than 40% of all manufacturing establishments, the bulk (more than 90%) are mainly micro-enterprises, and small enterprises comprise a further 5%. But it is the small and medium firms producing the specialty items (primarily tropical fruits and delicacy products) that find their way in export markets.

Fresh and processed food exports were US\$857 million in 2000. Fresh food (banana, mango, pineapple, asparagus, and onion accounted for \$378 million, while processed nuts/coconuts, sugar preparations and other processed foods posted \$480 million export sales. The Philippines ranked 4th in world production of bananas from 360,000 hectares of plantation mostly located in Mindanao. It ranked 5th in world production of mango from 130,000 hectares of mango plantation, and 5th in world exports. For pineapple, the country ranked 6th in world production with 1.5 million metric tons produced from 40,000 hectares. The top markets for mangoes are Hong Kong, Taiwan, Singapore, Ireland and Japan; the top markets for bananas are Japan, China, Korea, Taiwan and the Middle East; pineapple leading markets are Japan, Korea, China, Hong Kong, and New Zealand.

There are about 75 mango processing firms nationwide, mostly in Metro Manila and Metro Cebu. Total direct employment in this industry is about 17,500 workers and most producers in the industry are small in size averaging about 67 persons per company.

2. Organic and Natural Products

The organic industry refers to the cultivation and processing of agriculture-based items produced under conditions that conform to the standards for organic products. Organic farming takes into account minimum reliance on artificial inputs, food safety practices and non-use of hazardous chemicals, non-use of artificial growth promoting inputs, and non-use of genetically modified organisms. Organic farming requires high levels of farm management and puts emphasis on feeding nutrients to the soil and not to the plants.

The global retail market for organic products is estimated at US\$23 billion to US\$25 billion as of end-2003. The major markets include European countries (primarily Germany, United Kingdom and France), the United States, Canada and Japan. Organic production is well developed in the industrial countries. In Asia, the areas of organic farming are very limited (less than 1% of total). China, Korea, Sri Lanka and India have the larger areas devoted to organic production.

The organic production industry in the Philippines is still in its infancy, having exported about US\$8 million in 2002, consisting of organic muscovado sugar, green bananas, banana chips, coconut oil, and desiccated coconut. The domestic market for organic products is small at about US\$3 million.

The country's advantages in organic production include low labor cost among rural farm households, year-round tropical climate (highly suitable for organic farming), rich biodiversity, huge supply of trainable workforce, and the existence of producers willing to switch to organic production.

3. Marine Products

This group includes shrimps/prawns, seaweeds/carrageenan and tuna (fresh, chilled, frozen and canned). The world demand for shrimp and prawn is increasing. The Philippines is internationally accepted as a leading supplier in producing quality prawns. There is strong market acceptability of Philippine shrimp/prawn exports particularly in Japan, United States, South Korea and Canada.

Carrageenan (a colloidal substance derived from Eucheuma seaweeds) is an essential gelling agent, stabilizer, and emulsifier in various food, personal care, pharmaceutical and industrial products. The world demand is huge and growing to about US\$800 million for dried seaweeds and carrageenan. The Philippines is the world's largest producer of Eucheuma seaweeds and processed Eucheuma seaweeds (capacity of 10,942 metric tons per year).

The demand for fresh/chilled/frozen tuna in the United States grew at an average 10% annually in the past five years, 15% in Thailand and 8.0% in Hong Kong. The Philippines is a recognized supplier of fresh and canned tuna in the world market.

4. Wearables

The pattern for the wearables group is the same as the food industry; with the bulk being produced by micro-enterprises (more than 90%), but there is a good base (about 5%) of small and medium firms producing for exports. In the garments industry producing for exports, there is predominance of medium and large enterprises.

The wearables industry posted combined export sales of \$440 million in 2000 despite showing slow growth since 1996. The industry employs more than 500,000 direct and indirect workers employed by the 6,000 manufacturers mostly micro and SMEs with major sites located at PEZA Centers, Bulacan, Metro Manila, Laguna, Quezon, Bicol and Cebu. The wearables industry is composed of Costume Jewelry, Fine Jewelry, other Fashion Accessories, Hats and Head Gear, Footwear and Leathergoods. Firms from this industry reported an estimated 50-60% capacity utilization rate, available production capacity is significant.

a. Costume Jewelry

The costume jewelry group is estimated to consist of 2,000 firms in the manufacture, assembly, and export of fashion jewelry. These are for personal adornment using inexpensive materials such as plated base metals, synthetic gemstones, plastics and textiles that are sourced locally. Philippine exports of costume jewelry in 2002 were estimated at US\$37million, a 29% growth in five years. The United States and Japan were the leading markets accounting for 35% and 9%, respectively. The world's major exporters are China (40%) and Republic of Korea (12%) with 2001 sales of US\$861 million and \$268 million.

Seen as major advantages of the Philippines are design capability/excellence and handcrafting skills, availability of an expandable production capacity, extensive sub-contractor network, and abundance of indigenous raw materials.

b. Fine Jewelry

There are about 250 producers and exporters of fine jewelry employing about 100,000 skilled workers that supply both domestic and foreign markets. The global market was estimated at US\$42 billion in 2001. The biggest importers are the United States, Belgium, and the United Kingdom. The leading exporters are Israel (\$8 billion), India (\$5.5 billion), Belgium (\$5 billion) and United Kingdom (\$4 billion).

Philippine exports in 2002 were \$21 million. Pearls were the primary product (59%), and the leading markets were Hong Kong (\$12 million), Japan (\$4 million), and the United States (\$11 million).

The strong favorable factors are: abundant supply of gold and silver, edge on design and quality compared to other Asian suppliers, and availability of highly skilled and trained workers.

c. Footwear

The footwear group includes sports shoes, dress or casual shoes, slippers and sandals; these are made of leather, rubber, plastic, textile and other components. There were about 2,148 footwear manufacturers (in 2001) directly employing about 26,000 workers, and another 30,000 indirect workers. NCR had the largest number of firms (924) representing 43% of total with Marikina City hosting 682 firms. Some producers operated within the export processing zones, mostly manufacturers of sports shoes. Those operating outside the free trade zones were usually engaged in manufacture of leather and non-leather footwear and usually are micro and small size with some relying heavily on a network of subcontractors. About 47% of registered manufactures carried their own brand-names, the rest private-branded with the subcontractor using the client's brand name.

The global market is US\$49 billion with the United States as the biggest importer accounting for almost one-third (\$15.6 billion), followed by Hongkong with 12% share (\$5.6 billion), and Germany with 8% (\$3.9 billion). China is the world's leading supplier with total sales of US\$20.8 billion (about 44% of the world market), followed by Italy at 12% (\$5.8 billion) share, Vietnam nearly 5% (\$2.2 billion), Indonesia 4% (\$1.9 billion), and Brazil 3.7% (\$1.7 billion)

Philippine 2002 exports totaled US\$48 million. Sports shoes were more than half (52%). The Netherlands is the largest market for Philippine exports, accounting for 27% (\$12.9 million), followed by Japan (15%), Great Britain and Ireland (13%), Germany (7%), Mexico (6%), and the United States (5%).

The favorable factors for the industry include a stable local market for shoes, the availability of skilled manpower, highly flexible production system capable of supplying market niches, and a strong edge in designing skills.

5. Leathergoods

The leathergoods industry has three major product lines: handbags and belts, travel goods, and gloves. The industry sector uses leather and other materials like textile and indigenous fibers. There are about 1,000 registered manufacturers nationwide, employing some 40,000 workers. Most firms are in Metro Manila, Bulacan, Marikina, Laguna and Cebu. Some companies are at the export processing zones and are engaged in travel goods such as suitcases and golf bags.

The global market was estimated in 2001 at US\$25 billion. The United States is the biggest importer (29%), followed by Hong Kong (15%), Japan (14%), Germany (7%), France (6%), and United Kingdom (5%). China was the world's largest exporter, accounting for 52% (\$13.2 billion). Other suppliers, each with less than ten percent share, were Italy, France and India.

Philippine exports in 2002 were US\$169 million, mostly travel goods and leather/non-leather gloves. The leading export markets were the United States (\$131 million), Japan (\$18 million), United Kingdom (\$5 million), Canada (\$4 million) and France (\$3 million). Philippine exports have grown erratically during the last few years, peaking in 2001 with \$275 million.

The availability of skilled labor and superior design capability of local companies are the favorable factors for the industry.

6. Home Furnishings

Several product lines like home, furniture and garden accessories (from various materials) comprise this industry. Specific products include basketwork, wickerwork, shell craft, ceramics, stoneware, decorative glass items and lamp bases and shades. Depending on the particular products, this industry depends heavily on indigenous raw materials (that could be seasonal) like abaca fiber, bamboo, buri, seashells and other native plants. Most producers are dispersed in the provinces where the main raw materials are available. Production is highly labor-intensive and subcontracting at several production stages is common. There are about 5,000 firms in basket, wicker works and allied products, of which only about 150 are large, the

rest being micro and small family-based enterprises. The basket-making group employs about 40,000 workers and another 100,000 workers are in the sub-contracting network.

The United States was among the largest markets in 2002, importing US\$375 million. It was the top importer of Philippine-made houseware, accounting for 48% (\$91 million), followed by Japan (\$26 million), Great Britain (\$6 million), and Australia (\$2 million).

The key success factors for the house-ware industry are: available indigenous materials, available skilled labor, and local talent for design and product innovation.

The Philippine furniture industry is also a local materials-based and labor-intensive industry. As of end-2000, DTI estimated that there were 15,000 registered furniture manufacturers nationally, mostly (65%) being micro or small enterprises.

It is estimated that total direct employment among furniture manufacturers in 1999 was 500,000, aside from 300,000 indirect workers and about a million persons more among the sub-contractors and suppliers.

Available data on wooden furniture imports by developed countries indicate they purchased US\$25 billion in 2000, indicating a 1996-2000 average annual growth rate of 7%. The United States is the largest market, purchasing an estimated \$9.5 billion.

The Philippines is ranked seventh among the developing countries supplying wooden furniture to the first world, with China as the largest furniture exporter.

7. Construction Materials

The construction materials industry is huge, composed of various sub-industry groups like marble, ceramic tiles, builders' woodworks, sanitary wares, cement, iron and steel, glass, aluminum, plywood and veneer (PVCs/plastic/vinyl). There are large companies in the industry sector but SMEs are also prevalent particularly in marble, woodworks and PVC/plastic/vinyl veneer. The Philippines is a recognized supplier in the marble, sanitary wares, ceramic tiles and the wood and metal based products. The country's combined exports of construction materials in 1999 reached US\$337 million. The main contributors were builder's woodworks, cement, sanitary wares, glass, and iron and steel.

8. Micro-electronics

Microelectronics or semiconductors refer to discrete devices and integrated circuits that can control the flow of electrical signals. The 2001 world market was more than US\$141 billion. The industry is dominated by multinationals employing high levels of technology. SMEs in the industry are controlled/owned by European and American multinationals which do not purchase from local SMEs. Manufacturers of computer peripheral equipment like HDDs FDDs, printers, CDR/W drives and DVDs purchase most parts from overseas affiliates but locally purchase parts that are bulky such as stamped die casts. Dies, molds, and jigs are partly purchased from local sources; other metalworking jobs are contracted to qualified local SMEs.

9. IT Services

The Philippines is emerging as a specific alternative for the outsource services market. Among the services being provided are Customer Contact Centers, Backroom Operations, Content

Development and Core IT Services. For Backroom Operations, these include finance/accounting and HR services. Content Development services include those for animation, transcription, conversion, localization, data search, integration analysis, distance education, and engineering design services. Core IT services include Website services, Software/Applications development and System design.

10. Motor Vehicle Parts and Components

The automotive parts industry grew by taking advantage of local-content requirements. The 2000 exports of automotive parts of US\$1 billion was from US\$754 million in 1995. There were 194 automotive part manufacturers, employing about 40,000 workers. This industry is further divided into metalworking parts (93 companies, 45%), rubber parts (15%), interior parts (10%), plastics parts (9%), electrical and electronic parts (8%), and other automotive parts (10%).

Sources: PEARL2 State of the Sector Reports, 2003
DTI Brand Managers Reports

B. Key Issues and Challenges

1. Issues relating to competitiveness of the SME sector

Compared to other Asian economies, Philippine SMEs are generally below-average performers (See Table 8 below).

Table 8
SME Contributions of Selected ASIAN Economies

	RP	South Korea	Japan	China	Malaysia	Thailand	Indonesia
No. of Establishments	99.7%	99%	99%	99%	94%	98%	99.99 %
Employment	69.1%	78.7%	88.6%	75%	40%	55.8%	99.4%.
Value Added	32%	47%	56.7%	68%	26%	Not reported	63.11%

Issues that relate to the inferior competitiveness include:

- Fierce competition in export markets, influx of cheaper-priced competition
- Small domestic markets
- Need for imported parts/materials; limited industrial linkages
- Lack of basic operational management knowledge/expertise
- Barriers to form businesses: lack of support in funding and research and development (market and technical).
- Limited economic activities at the local level.

2. Productivity and structural limitations

Majority of the limitations SMEs face are productivity performance and structural weaknesses of services and the business environment, which include:

- Outmoded or less productive operational assets/methods
- Insufficient use of technology.
- Limited room for efficient operational levels
- Insufficient management and professional know-how
- Insufficient and inaccessible funding sources
- Unappreciated and inadequate professional services
- Insufficient incentives and inability to meet regulatory procedures
- Insufficient access to information

3. Limitations relating to funding sources

Limited access to sources to capitalize the enterprise

- Majority of SMEs had to mainly rely on owners' savings for funding. Next are personal loans (from family and friends), especially for initial/organizing needs.
- Institutional debt financing is used by only a small segment (less than 10%) mainly out of fear of loan exposure, inability to qualify because of lack of collateral, and lack of knowledge on credit sources and processes.
- This is aggravated by inaccessibility of trade/supplier credit and little possibilities of customer advances. Extended repayment terms exploited by supermarkets, malls and marketing service networks add to the funding pressure.

Low fixed assets and profitability

- The inaccessibility of external funding militates against acquiring efficient production capacity level, resulting in low or marginal profitability. This also explains the predominant use of low-technology manufacturing that restricts growth.
- Credit facilities are not easily available and carry terms burdensome to SMEs.
- Most formal credit facilities to SMEs have limited reach.
- Granting loans to SMEs on sustainable terms is not easy.

4. Issues on Access to Markets

Inadequate knowledge about market opportunities and their inaccessibility

- Most SMEs sell locally, to final consumers. Marketing outside the local markets is usually limited to trade fairs; very few selling to main and permanent outlets such as supermarkets, department stores and market services – because of the inability to meet volume requirements and the unfavorable terms exacted by these volume buyers (like 90 - 120 days credit).
- Individuals and households are the main users of SME products, mostly from the poor and middle classes; only few cater to volume buyers or can reach inter-regional, national and foreign markets.
- Generally, sub-contracting is not exploited. Many turn out similar products and are greatly affected by competition.
- Sub-contracting applications are restricted by limited knowledge on effective terms between contracting parties.
- Some marketing problems are linked to other weak points including scarcity of funding and low-technology levels, and unavailable market information and services, especially on good packaging, distribution and shipping.

- Limited knowledge by SMEs and potential investors on franchising limits opportunities.

See also Subsector Status on Appendices 1a to 1g –Value Chains, and Appendices 2a -2d Key issues relating to major SME subsectors.

C. Addressing the Challenges to Develop a Competitive and Sustainable SME Sector

Plan Convergence: Competitiveness and Sustainability

The SME Development Plan (2004-2010) lays down strategies and corresponding programs to be able to participate in global markets and stay on as a significant player. Plans were accordingly crafted:

- To deal with intense foreign competition

The demands of the export market must be met squarely due to its stringent requirements on competitiveness and sustainability, filtering into domestic markets.

- To improve the operating environment

The government recognizes it needs to act more in supporting SMEs by addressing critical issues to enhance the operating environment by: making markets more accessible and streamlining regulatory processes. However, these shall be undertaken conscious about the efficient use of limited resources available for SME development.

- To enhance joint efforts by government agencies and the private sector

The Plan will take on the challenges of harnessing available resources of government and private sector and of developing a strong partnership between them.

- To innovate in operational methods and systems

The new challenges are mostly due to rapid advances in technology, increased pace of improvement in information and communications, and radical changes in market trends. The non-traditional in the past has become conventional – the old industrial systems need to be transformed into new and more efficient production systems. Philippine SMEs must adapt quickly to maximum use of knowledge-based processes and methods. They need to innovate in all operational aspects.

- To create more business opportunities

More business opportunities are needed, with a supportive and conducive environment to exploit these opportunities by encouraging competitiveness of products and processes.

D. Creating the Road Map

- Building up on the achievements of previous programs

The SME Development Plan 2004 – 2010 recognizes the challenges and opportunities. It includes building up on the achievements and lessons of previous policies/programs in working out the road map for globally competitive Philippine SMEs in the 21st century.

- Recognizing market and technical needs of dynamic sectors

The more vital issues SMEs need to deal with are market and technically-focused matters, not general concerns. It is also important to incorporate some issues involving particular concerns of more promising sectors, especially those affected by technological changes. Their special concerns, like product quality and innovative approaches to marketing management, were key considerations in developing the strategies and programs in the Plan.

- Defining the development efforts and service improvements

Thus, development efforts and service improvements should:

- ✓ Directly and clearly enable SMEs to achieve improved productivity, to raise their contribution to value added and sales.
- ✓ Focus on the more promising and faster-growing in the SME-strong regions.
- ✓ Include a broad range of services to micro and small enterprises in view of their large numbers.
- ✓ Develop other regions, even if certain areas are currently emphasized.
- ✓ Increase the number of SMEs, especially those outside the growth regions.
- ✓ Promote diversified SMEs to (beyond creating employment) strengthen the country's industrial base.
- ✓ Facilitate access to formal funding sources, to improve productivity through appropriate equipment and adequate working funds.
- ✓ Improve the reach and pace of the Plan's implementation.
- ✓ Improve market assistance and services.

In specific terms, this involves strategies for SMEs to benefit through:

- Information on industry trends/developments
- New production technologies and processes
- Finding new markets/buyers
- Improving enterprise productivity
- Better quality control
- More access to funds
- Wider specialist business advice
- General training services
- Advanced training services

IV. The SME Development Framework in Perspective

A. The Policy Environment and Regulatory Framework

1. The Magna Carta for Small Enterprises and the Barangay Micro Business Enterprises Act

The statutory foundations for SME development are set by Republic Act No. 6977 (“Magna Carta for Small Enterprises”), as amended by RA No. 8289, and RA No. 9178 (“Barangay Micro Business Enterprises or BMBE Act”).

Box No. 2

Major SME Policies

Magna Carta for Small Enterprises (RA No. 6977 as amended by RA No. 8289)

This special law lays down the basic policies for SME promotion, provides the definition of SMEs, and directs the establishment of the institutional framework for the SME promotion system. The SMED Council and the Small Business Guarantee and Finance Corporation (SBGFC) were created under this Act.

The Magna Carta stipulates a mandatory lending quota for financial institutions at 6% of loanable funds to small enterprises, and 2% to medium enterprises, up to 2007.

Four guiding principles were set as key policies for SME development:

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

BMBE (RA No. 9178)

The Barangay Micro Business Enterprises Act of 2002 was enacted to support eligible micro-enterprises as well as the informal sector through incentives to local government registered barangay micro-enterprises (BMBE), exemption from income tax, reduction in local taxes, exemption from payment of minimum wages, financial support from government financial institutions, and technology assistance from government agencies.

The BMBE Act is a law to encourage the establishment of micro enterprises by extending fiscal incentives and simplified procedures. Towards its implementation, the implementing rules would benefit from the experience of a previous law (Kalakalan 20, Countryside Barangay Business Enterprises or CBBE) that had limited success primarily because most of the registrants were pre-existing enterprises and the implementation of the law was bestowed on the local government units (LGUs) that did not provide for centralized monitoring and promotion system. Many of the LGUs discouraged the Kalakalan 20’s implementation because it meant substantial losses of revenue without convincing economic benefits to accrue to them. On the other hand, enterprises were not aware of the procedural guidelines since relevant guidelines were not released publicly.

2. Incentives for Enterprises

Special incentives have been made available by legislation to promote business activities. These include:

- Exemption from corporate income taxes (4 - 8 years), national and local taxes, duties and taxes on machineries, spare parts, materials and supplies, tax credit for imports and import substitution of capital equipment and for breeding stock and genetic materials (RA 7916 and RA 7227, Special Economic Zones Act and Clark and Subic Special Economic and Freeport Zone)
- Exemption from value-added tax for certain exporting industries, excise taxes on locally produced products and lowered taxes on spirits made from indigenous materials (RA 8424, Tax Reform Act)
- Incentives under preferred areas of investment in the Investment Priorities Plan (IPP) (Executive Order 226, Omnibus Investment Code)
- Incentives for specified locations such as the Registered Economic Zones (RA 7916), Less Developed Areas, (RA 7844) and those granted by Local Government Units under the Local Government Code.
- Incentives for investors for tax and duty exemptions, loan assistance and technical support for starting-up and improved SME technologies (RA 7459 programs on science and technology, Investors and Invention Incentives Act)

See also Appendix 3, Incentives Provided to Enterprises

3. Relevance of Incentives to SMEs

The SMEs, however, are effectively unable to enjoy capital-related incentives because of funding constraints. Incentives like tax holidays and tax deductions are not relevant to micro and small enterprises due to their low earnings and capital investments. For similar reasons, export incentives are not accessible to smaller enterprises.

SMEs find the procedures for incentives too complex, if not impossible to fulfill. The documentation requirements (like feasibility studies the SMEs are expected to develop) are far beyond their technical competence. To be fair, however, many SMEs have grossly inadequate recordkeeping and accounting systems that are vital to documentation needs.

4. SMEs and the Regulatory Environment

Paperwork and unfamiliarity with regulations are addressed by attempts like the SME Center and Business One-Stop Shops. On-line systems, new systems, new laws and other developments continuously help untangle the complicated compliance and overlapping jurisdictions. The DTI, through the SMED Council, is studying and working out measures to ease registration and renewal compliance systems. Assistance to local units and development of systems at the national levels may help achieve the objectives. See Box No. 3.

Box No. 3

Regulatory Areas for Review

- *Simplification (computerization) and standardization of systems for LGUs (Registration and/or Mayor's Permit)*
- *Simplification of systems for compliance with BIR and SSS requirements*
- *Regulatory compliance with government agencies, especially for priority areas like food, organic food and supplements covered by BFAD and (for the related fertilizer and pesticides) by the Fertilizer and Pesticide Authority.*
- *Further simplification and possible integration of Business Name Registration (BNR) at DTI and the LGU compliance.*
- *Further simplification of compliance for rural based corporate and cooperative systems –possibly unified under BNR and LGU requirements.*

B. The Institutional Framework

1. Policy and Promotional Structure at the National Level

a. SMED Council

The SMED Council formulates SME promotion policies and provides guidance on implementing SME programs. It is a multi-agency group of eight persons who represent concerned government agencies, and four private sector representatives.

Government representatives are *ex officio* members: NEDA Director-General; Department Secretaries of Trade and Industry, Labor and Employment, Science and Technology, Agriculture, Environment and Natural Resources; Chairman of Small Business Guarantee and Finance Corporation; and Chairman of the BSP Monetary Board. The private sector members represent Luzon, Visayas, Mindanao and the private banking sector.

The DTI Secretary chairs the SMED Council. DTI's BSMED serves as Secretariat.

b. DTI and the SME Core Group

DTI is responsible for developing and regulating business enterprises, large and small.

DTI's four operating groups are: Industry and Investments, International Trade, Consumer Welfare and Trade Regulations and Regional Operations (supervising field offices in 16 regions and 79 provinces).

The SME Core Group coordinates SME services at DTI. The Core Group includes the: BSMED (lead on initiating/coordinating specific SME programs and projects), Small

Business Guarantee and Finance Corporation (financing services), Philippine Trade Training Center (development/implementation of SME training and learning activities), Product Development and Design Center of the Philippines (product development initiatives and design programs), and Cottage Industries Technology Center (technologies). The Core Group developed the 2002 National Development Agenda that responded to the immediate needs of SMEs and advocates for the unified lending facility through the SULONG Programs (See also Appendix 4, The Philippine SME Development Milestones in Perspective.)

Other DTI agencies that directly support SMEs are: Bureau of Product Standards, Bureau of Trade Regulations and Consumer Protection, Bureau of Export Trade Promotion, Board of Investments, Center for International Trade Expositions and Missions, and Philippine International Trading Corporation.

Box No. 4

Institutional Framework – SME Core Group

Composed of SBGFC, BS MED, PTTC, PDDCP, CITC and BDT as member agencies, the DTI SME Core Group is an ad hoc committee that defines and coordinates DTI programs for SMEs, and provide focus on SME development.

Department Order 20 designates it as a DTI Team to provide strategic guidance on the execution of the National SME Development Agenda to put together all key agencies to enhance SME capacity. The Regional Operations Group (ROG) serves as a member the group for regional implementation of the National SME Agenda (Department Order 33). Other departments participate within the framework of the SME Core Group.

2. SME Promotion at the Local Level

DTI regional and provincial offices provide extensive presence and reach, even as DTI coverage reaches the municipal/city level through satellite units of the provincial offices in selected areas.

While DTI is widely represented in the country, field staff members are relatively few, thereby not reaching most SMEs. Staff turnover has reduced the number of trained and experienced personnel to service the more complex needs of the SMEs, especially to be more competitive.

There are concerns that the attention to SMEs has declined due to the many other activities of DTI. This calls for refocusing some SME programs for the countryside. Currently, each province has an average of 15-20 personnel, of which a third is assigned for SME development. Thus, a typical DTI provincial office can only handle 500-1,000 enterprises per year (of the 10,000-40,000 firms) under best circumstances.

In view of the varied assigned thrusts of field offices, providing business services may often take a lesser priority. These many activities put considerable pressure on field operations.

DTI has recognized this difficulty and shifted efforts to local trade associations, NGOs, and local government units that directly serve SMEs. This approach has succeeded.

3. SME Partner Government Organizations with National and Local Structures

a. Department of Science and Technology

DOST implements programs that target SMEs, in addition to those for general national technology policies. These DOST SME-support programs are relatively numerous and mostly focus on technical concerns, even as they include some loan programs for upgrading equipment.

DOST operates Research and Development Institutes or RDIs (7), service institutes (6) and the Inter-Council Review Board. The Technology Application and Promotion Institute, RDIs, Metals Industry Research and Development Center, Industrial Technology Development Institute and other specialized agencies like Philippine Textile and Research Institute and Forest Products Research and Development Institute are some of the DOST agencies that deal directly with the concerns of the SMEs. This is achieved through varied technical training courses and the commercialization of research outputs.

The SME programs of DOST include:

Small Enterprise Technology Upgrading (SET-UP) which provides information and direct assistance in improving productivity in selected industries, through a holistic approach in improving the production set-up.

Technology Business Incubator Program. TBIs are common service facilities for main SME industries where DOST rents/sells equipment/utilities until the new firms are able to establish their own.

The Manufacturing Productivity Extension Program provides technical experts so that selected manufacturing enterprises can improve operations and productivity.

The DOST has regional offices and science and technology coordinators to promote DOST services and provide relevant services in cooperation with other agencies like DTI and Department of Agriculture.

DOST agencies charge subsidized fees for some services, like laboratory testing, even if these fees are remitted to the national government. However, some agencies are specially authorized to retain part of the income for specific uses.

b. Department of Labor and Employment

DOLE is responsible for general functions of policy-making, regulation and development on labor and employment, clustered as: worker protection and welfare, employment and manpower development, labor relations, and regional operations.

A part of its mandate, DOLE provides livelihood facilities oriented toward developing entrepreneurship (usually with funding as seed capital for successful graduates of the skills programs).

The Technical Education and Skills Development Authority is a special agency with high level authority from public and private institutions. It serves the need for skills

development programs and provides regional, provincial and municipal support for skills development activities whose targets are out of school youth, the unemployed and the underemployed, and SMEs.

The National Wage and Productivity Commission operates under the auspices of DOLE and provides programs on SME productivity (also called ISTIV Productivity Program) directed toward SMEs and their employees.

C. Department of Agriculture

The DA is responsible for the promotion of agricultural development by providing the policy framework, public investments and support services needed for agriculture sector enterprises. In line with RA No. 8435, its programs are anchored on a market-driven approach adopting the supply chain of agricultural and fisheries commodities. DA looks into the holistic view of agribusiness enterprise development considering the global arena of borderless economy. DA identifies gaps for possible intervention through commodity road map for selected competitive agricultural and fisheries commodities. The Agribusiness and Marketing Assistance Service in collaboration with all DA bureaus, regional field units and attached agencies together with the agribusiness industry stakeholders cooperate and participate in local/international agri-aqua fairs, food shows, trade and investment missions, and congresses. DA also provides technical assistance through training and marketing information to agribusiness entrepreneurs through access to the DA website. DA complements activities of other government agencies and private entities in implementing agribusiness activities.

d. Department of Environment and Natural Resources

DENR is responsible for environment protection and development services which cover policy formulation, regulations and developmental services to communities, protected areas and organized activities.

Two main programs relate to SME development: the environmental clearance and regulatory compliance program through Environmental Clearance Certificates, and livelihood and environment demonstration on key commodity development focusing on market-enterprise “movers” and suitable production areas with competitive attributes. A showcase project involves contract growing and tilapia fillet project.

Organic products and priority products promotion are introduced through nursery and seedling production pilot projects through Community Livelihood Assistance Program (CLASP) as demonstration projects for agrarian reform communities. They include the: essential oil production (Ilagan, Isabel), medicinal plantation (Peñablanca, Cagayan), community composting project (Quezon City), agroforestry, goat raising and charcoal briquette (Silang, Cavite), agroforestry (Magallanes, Cavite), integration of agro-forestry and mango in agro-forestry (Oriental Mindoro), coastal reforestation (beach forest) establishment and blue crab harvesting (Iloilo), bamboo plantation (La Union), seaweed, bee farming and eco-tourism, mangrove farming (Bohol), agroforestry and cutflower production (Claveria, Misamis Oriental), giant clam ocean nursery (Guinisilban, Camiguin).

e. Department of Interior and Local Governments and the LGUs

LGUs are directed by the Local Government Code to promote livelihood projects and local enterprises to spur development in their areas. The Local Development Council formulates local development plans for each LGU including socio-economic infrastructure and investment programs. DILG provides support to improve the capability to deliver basic services and to help LGUs take on new functions.

At present, most LGUs concentrate on infrastructure and public works and have minimal involvement in enterprise development and still have to take a significant role in implementing the BMBE Law. The significant LGU direct service to enterprises is some funding support given to some SME Centers and related programs and some funding assistance for livelihood projects.

LGUs promote SMEs indirectly by providing a conducive business environment through incentives and policies that favor SMEs. Some LGUs have initiated entrepreneurship and skills training and market support/linkages. So far, few LGUs (Bulacan, Bohol, Davao City and Marikina City) showcase support to SMEs.

Despite possible enhanced support for SME development, most LGUs still do not have the needed attitude, resources and expertise.

4. SME Sector Organizations: Private Sector Services

SME private sector entities consist of chambers of commerce, professional organizations, sector organizations, firms (large firms), associations of micro, small and medium enterprises, and cooperatives.

Some private sector organizations provide business services to their members and others. The more prominent activities are policy advocacy and information services to members. Below are some of the private sector groups that are active in SME promotion.

- The Philippine Chamber of Commerce and Industry has the most extensive number of chapters and affiliates and is the most diverse in membership that ranges (including affiliated associations and cooperatives) from large to small. Its thrust includes support to policy formulation, trade promotion, international relations, productivity improvement and labor-industrial relations.
- A related organization is the Employers Confederation of the Philippines that focuses on development of industrial relations and advocacy on improvement in employer-worker relations.
- More specialized-interest members compose organizations like Confederation of Philippine Exporters or PHILEXPORT in exports development. It has a network of affiliates in regional areas.
- Subsectoral focus organizations provide support to metals, food, furniture, crafts, footwear, electronics, and other fields. These groups include the Metals Industry

Association of the Philippines, Chamber of Furniture Industries of the Philippines, Philippine Food Processors and Exporters Organization, Integrated Food Manufacturers, Philippine Chamber of Handicraft Industries, Philippine Fine Jewelry Guild, Philippine Footwear Federation, Semiconductors and Electronic Industries of the Philippines. There are groups with local or regional focus (e.g., Cebu Furniture Industry, Cebu Fashion Accessories Manufacturers and Exporters) and many others that focus on advocacy and fostering the growth of each subsector and its members.

Support to members includes information dissemination on business opportunities, like local or international fairs, developments on relevant technology, new trends, and changes of policies or legislation. Some organizations provide training and limited consultancy. Some organizations operate common service facilities, on their own efforts or through support of the government. They had mixed results; the more successful operations are typified by PHILEXPORT's common bonded warehouses. Joint raw materials stockpiling facilities of metals, furniture, marble, jewelry, and crafts had varied ranges of success. Some are moribund, saddled with lack of operating capital, inability to replace parts and modules of old equipment, some rendered uncompetitive by changes in technology and other concerns such as ownership issues (who manages and who is responsible for the upkeep of government- (e.g., DTI, in some regional production centers) registered properties but managed by organization officials.

5. SME Non-Government Service Organizations

Some NGOs extend various support and assistance to rural area micro-enterprises. These NGOs mainly provide technical training and financing. Most NGOs are concerned with poverty alleviation, providing livelihood in depressed communities and raising incomes of micro-enterprises.

These NGOs provide services to the communities, enterprises and cooperatives, usually in the form of financing. Other services are marketing and entrepreneurship advisory programs, usually free of charge or offered at low subsidized rates (funding from institutional grants and government programs). However, NGOs themselves have limited training and have no resources to expand their present work.

6. Special Government Agencies

a. Institute for Small Scale Industries at the University of the Philippines

UP-ISSI provides support through training, research and information services on its own or through joint programs with government agencies or private groups. Training on entrepreneurship, enterprise management, and extension-oriented training for development workers are main activities, especially conducted with its affiliate Small Enterprise Research and Development Foundation.

b. Technology and Livelihood Resource Center

TLRC conducts livelihood and skills training courses on practical crafts, hobbies and livelihood opportunities. The courses are perceived to be useful by the clients and are financially sustainable from the fees collected (cost plus overhead). The positive results of the approach and programs may be extensively applied in the regions.

c. Development Academy of the Philippines

Through its Productivity Development Center and other related units, DAP provides training and management programs to improve the performance of SMEs and SME organizations. TLRC and DAP are specialized agencies under the Office of the President of the Philippines.

V. National Vision and Objectives of SME Development

A. National Vision of SME Development

Box No. 5

National Vision of SME Development

The overall vision of the SME Plan 2004-2010 is to create globally competitive SMEs in the new industrial economic environment. These are SMEs that acquired distinctive competencies from harnessing efficient technologies and establishing strategic relationships with partners, market forces, suppliers (even competitor producers). The envisioned breed of dynamic SMEs shall propel the nation into the world-class business sphere. These priority SMEs shall also showcase the country as a people, its richness in resources, as well as the boundless possibilities available to create and offer products and services to seamless global markets.

The SMEs shall be a sector of excellently managed and globally competitive entities served through the pool of professionally managed and efficiently run partner organizations with superb capabilities to adopt new knowledge and technologies that will develop high value-added products.

B. Strategic Development Goals

The long-term development goal is to increase the contribution of SMEs as an important engine of growth. In quantitative terms, this means Philippine SMEs shall keep pace with the performance levels of ASEAN/Asian counterparts and with the efficiency of large-scale firms in terms of value added, employment, establishments number, and export volume – contributing meaningfully to national economic growth.

1. Increased Productivity

To increase productivity as indicated by Gross Value Added (GVA). The SME sector's GVA contribution to the total is projected to increase (from 32%) to 40% by 2010, and be at par with the ASEAN SME sector GVA contributions (now averaging some 40%).

2. Increased Production Output and Sales

To attain increased productivity and sales for identified priority industries and lead enterprises within these industries, for which targets shall be set after benchmarking in the first year.

3. Contribution to Growth of Exports

The sector also aims to be a major contributor for growth in export sales, with SMEs surpassing Philippine Export Development Plan growth projections, with average year-on-year 16% overall targets for the identified priority industries.

4. New Creative Enterprises

A pool of new SMEs and progressive micro-enterprise entrants shall set up new creative business undertakings.

VI . The Development Strategies

A. Strategic Development Directions

Currently, many SMEs are constrained by handicaps in managerial, technological and financial resources. For these, government intervention is needed. Under the Plan, the government (in significant partnership with private sector) shall develop more effective policies, programs and projects to induce SMEs to progress into larger-scale operations.

Eight key strategies shall tackle the challenges and enable the SME sector to attain its goals and vision.

1. Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.
2. Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.
3. Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.
4. Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.
5. Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.
6. Streamline the systems that provide support programs and incentives for SMEs.
7. Streamline the implementation of SME policies and regulations.
8. Strengthen and build the capabilities of institutions that generate and implement programs for SME development.

B. A Three-Prong Approach

The Plan adopts a three-prong approach of organizing strategies, addressing the opportunities for (1) focused support to the individual *Enterprise*, (2) assistance to *Identified Growth* or *Priority* Industries, and (3) evolving an operational and regulatory environment making it more conducive for SMEs in general to set up, operate and succeed. Each facet has defined strategies that are relevant to the issues and the performance targets of the category.

The Plan supports approaches on aggressively finding markets, customers and business opportunities as key factors for SME development. The strategic directions set guidance to produce optimum results, using limited resources for SMEs to become globally competitive – considering the experience of prior and ongoing development efforts of government and of the private sector.

C. The Strategic Framework

STRATEGIES FOR THE INDIVIDUAL SME

STRATEGY 1: Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.

Component 1a: Developing Capacities of Entrepreneurs and Workers

- SME Information Support (Activity 1)
- SME Counseling and Advisory Program (Activity 2)
- Facilitating Partnerships, Market and Technical Support (Activity 3)
- IT-enabled SMEs through IT Appreciation and Application Courses (Activity 4)

Component 1b: Managing for Business Excellence and Competitiveness

- Assistance from SME Industry Centers (Activity 5)
- Management Advisory, Technology and Productivity Development Programs (Activity 6)
- Best Practice Modeling from Successful Productivity Applications (Activity 7)

Component 1c: Harnessing Knowledge and Technology for Growth

Technology Applications Promotions (Activity 8)

Component 1d: Designing Linkages and Business Models for Competitive Support

- Providing Linkages through SME Centers and Inter-regional Facilitation (Activity 9)
- Organizing Linkages for Competitive Support (Activity 10)

STRATEGY 2: Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.

Component 2a: Provision of Business Opportunities

- Strategic Business Planning, Training and Self-help Packages to Develop Strategic Business Plans (Activity 11)
- Product Development and Design Services (Activity 12)
- Support to Start-up Enterprises in Selected Areas (Activity 13)

Component 2b: Business Opportunity and Enterprise Creation Approaches

- Entrepreneurship Training Camps and Enterprise Development Programs (Activity 14)

- Business Opportunity Development and Investment Promotion for Innovative Ideas (Activity 15)
- Institutionalization of the SME Opportunities Caravan (Activity 16)
- Franchising Seminars (Activity 17)
- Cooperatives Business Development Program (Activity 18)
- Subcontracting Promotion Seminars for Electronics, Automotive Parts and other Foreign Technology Enterprises (Activity 19)

STRATEGIES FOR THE PRIORITY INDUSTRIES SUBSECTOR

STRATEGY 3: Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.

Strengthening/Establishment of Industry Centers - Industry Centers for key industries shall be strengthened or set up in strategic locations, tangible and virtual. These industries and main hubs for activities are:

- Center for Processed Food, with three centers initially (Activity 20):
- Center for Furniture Industry, with Pampanga and Cebu as Hubs (Activity 21)
- Center for the Craft Industry, with Cebu as initial hub (Activity 22)
- Center for Facilitating Partnerships and Strategic Inter-regional Alliances (Activity 23)
- Center for Supplier Development and Linkages for Supporting Industries in the Electronic and Electrical Industries, Automotive Parts, Metal Working Industries and Advanced Manufacturing Industries (Activity 24)
- Center for Packaging Development (Activity 25)
- Center for Agro-Fisheries and Marine Industry Development (Activity 26)

STRATEGY 4: Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.

Component 4a: Strengthening and Integrating Sector Support and Technical and Managerial Capacities of Enterprises, including Enhancement of Design, Creativity and Quality

- Product Development and Design Workshops (Activity 27)
- Design Competition (Activity 28)
- Market Intelligence Support (Activity 29)
- Packaging and Labeling Technology Development (Activity 30)
- Industry Productivity and Quality Improvement Programs (Activity 31)

Component 4b: Development of Communication Tools to Link Needs of the Leading Industries and Provide Comprehensive Support for Potential Local SMEs.

- Development of SME Data-bases and Information System (Activity 32)

- Enhanced Support for Trade Fairs & Access to Market Services (Activity 33)

STRATEGIES TO IMPROVE THE SME OPERATIONAL ENVIRONMENT

STRATEGY 5: Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.

- Promotion of Supplementary Measures to Reduce the Risk of SME Financing (Activity 34)
- Development of Personal Guarantee System (Activity 35)
- Fund for Start-up Businesses (Activity 36)
- Venture Capital Fund (Activity 37)

STRATEGY 6: Streamline the systems that provide support programs and incentives for SMEs.

Component 6a: Improving Structures so that SMEs are Identified, Effectively Provided the Services and Incentives, Monitored and Assessed

- SME Institutional Restructuring (Activity 38)
- SME Development Strategic Planning: Development, Implementation and Monitoring (Activity 39)

Component 6b: Strengthening and Diversifying Support to SMEs through Rationalization of the SME Service Delivery Structure to Regional and Provincial Areas – the SMED Regional Centers and SME Desks.

Upgrading of SME Development Network (Activity 40)

STRATEGY 7: Streamline the implementation of SME policies and regulations.

- Magna Carta for Small Enterprises (RA 6977, as amended): Government Procurement from SMEs, Systems and Rules (Activity 41)
- Magna Carta for Small Enterprises (RA 6977, as amended): Mandatory Allocation of Bank Resources (Activity 42)
- Development of Barangay Micro Business Enterprises Act (RA 9178): Development of Implementing Guidelines and Support Programs (Activity 43)
- Consumer Awareness Programs and Fair Trading Advocacy (Activity 44)
- Incentives/Policy Measures for Business Cooperatives (Activity 45)

STRATEGY 8: Strengthen and build the capabilities of institutions that generate and implement programs for SME development.

- National Business Registry (Activity 46)
- Data Base Build-up and Information Support on SME Status/SME White Paper (Activity 47)
- Streamlining of Registration Requirements (Activity 48)

D. Description of the Strategies

STRATEGIES FOR THE INDIVIDUAL SME

STRATEGY 1: Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.

This strategy shall groom innovative and high-growth SMEs to compete globally on a sustainable basis, to attain world-class status by the medium term. These SMEs shall produce pioneering products and services and, with appropriate support, develop brands (for distinctive identity) and efficient distribution channels.

The aim is to select SMEs to lead the sector in terms of growth and innovation to meet the demands of globalization (like fast and creative responses to business environment changes).

Component 1a: Developing Capacities of Entrepreneurs and Workers

In today's global economy, the SME needs the skills and capacity to manage productive resources in a fast-changing environment. Organizations need to harness knowledge to keep pace with, if not stay ahead of, competition. The Plan aims to assist entrepreneurs improve their ability to efficiently operate their firms. Learning is a continuous process and all individuals in the workplace should be exposed to it so that workers also become sources of new ideas and innovations. The measures shall induce the atmosphere of critical thinking and induce positive behavior towards change.

Activity 1: SME Information Support

The Plan is to establish the improved flow of information, more specifically in terms of market information and supportive market services that shall help individual firms develop strategies based on knowing market trends and demands. This involves providing SMEs appropriate information and services on:

- New trends in industry
- New production technologies and processes
- Finding new markets
- Increasing productivity
- Improving quality control
- Accessing funding sources
- Specialized business and technical advice
- General and progressive training
- Advanced programs to disseminate and access information

The Plan aims to efficiently gather, process and disseminate information that is relevant for SMEs to better compete in the market place.

Activity 2: SME Counseling and Advisory Program

This service shall be made available initially to selected growing SMEs to help demonstrate the merits of guided growth.

Seasoned business advisors shall help selected entrepreneurs manage growth and expansion. This shall give them greater confidence about their operations, help them appreciate business ideas, and acquire skills through focused one-on-one programs.

Two types of advisory support shall be available: through SME Counselors who are regular personnel within the SMED Network (See below, Activity 40) and Advisers who are experienced and successful managers, consultants or former entrepreneurs.

The Advisers shall be selected through a process of accreditation and a rating system based on feedback from assisted SMEs. A committee can be set-up to recruit Advisers and matched with promising SMEs. Advisers (local and foreign) may also be provided through related SME Advisory Programs (including the Canadian Executive Service Organization, the CIDA-PBSP Adviser Rosters, the German Cooperation Agency Program, Swiss Contact BDS Services).

Activity 3: Facilitating Partnerships, Market and Technical Support

There is great potential for establishing market links among SMEs in terms of products and markets. One-on-one matching services shall be provided through facilities to be established within the SMED Network. Within the region and the province, the facilities shall be accessed through the SME Centers. The SME Centers will play a vital role in the linking process by providing organizational support, facilities, database, etc.

Linkages will be created in terms of geographical reach such as: provinces to NCR, or cross-sector (like parts supply arrangements between SMEs and large manufacturers). (See also Activity 23: *Center for Facilitating Partnerships and Strategic Inter-regional Alliances*.)

Activity 4: IT-Enabled SMEs through IT Appreciation and Application Courses

Learning and exchanges through IT-enabled SMEs shall allow faster, wider and cost-effective diffusion of information and communication technology. Application courses and support services for entrepreneurs will be provided on topics of access to electronic data base, web-page development, computer software for tracking records and operations, market research, and pursuing e-commerce possibilities (such as business-to-business and business-to-consumers, and remote consultation using Internet network). Collaboration in developing the courses shall be fostered with good regional and local SME case studies.

IT-enabling programs shall also help initiate acquisition of software, hardware and other essentials to start applications.

Box No. 6

SME Counselors and Advisers

SME Counselors are full-time personnel of an SME agency within the SME Network; SME Advisers are specially contracted to provide guidance and specialist services for particular needs.

Qualifications and standards for counselors will be established based on the completion of a prescribed level of actual experience and of training. A well-rounded training and hands-on managerial experience will be required. (Consultant-experts with extensive experience, such as former CEOs and senior officers of established consulting organizations, will be tapped to periodically enhance the skills of the SME Counselors.)

Selected aspects of SBAC/SME Counseling experiences in private sector and in other countries will be adopted. Progressive fee-basis shall be applied. In the long run, an estimate of 30 Counselors and Advisers per growth province shall be needed to complete the SME support system.

- *SME Counselors serve inquiries at SME Desks/Centers and handle the needs of individual firms (about 10 firms per Counselor) to provide guidance for a period of three months or 40 firms per Counselor.*
- *To service a target of 1,000 SMEs annually, a Provincial SME Center should provide for about 20 - 30 Counselors within the system. These Counselors may come not only from DTI but also from other government and private agencies designated to serve full-time in the SME Network.*
- *The above estimates considered: 15 day-visits per month to enterprises, the remaining 10 days spent on obtaining information, preparing studies, administrative duties, etc.*

The Independent SME Advisers shall guide selected SMEs achieve excellence through a system to directly service and transfer knowledge and skill. Initial service shall be free – subsidized under government or donor sponsorship – while subsequent visits and assistance projects shall be on a progressive fee-basis (at 30%, 50% and 80% of professional costs) until the SMEs can afford full cost. Each engagement shall cover one to three months. An Adviser may serve two to four SMEs.

Box No. 7

Enhancing Business Information Services in Selected Sectors

This will deal with establishing an Information and Communication Technology (ICT)-based Business Information System for selected growth regions or sectors. This will support DTI, the SME agencies and partners in facilitating the delivery of business information services through private providers. DTI can also source relevant information and promote IT-based information as a distinct service. At the national level, the activity will improve existing IT-based information systems and databases (like DTI's business registry). The primary result of this component is improvement in the market for business information services in selected sectors.

Component 1b: Managing for Business Excellence and Competitiveness

The key factor for enterprise success is ability to continuously anticipate changes and stay ahead of others. The Plan endeavors to provide support to attain business excellence framework.

The business excellence framework places processes and systems to manage growing enterprises. Business excellence means quality and productivity. SMEs will be provided these characteristics through means like expert or professional advice. Best practice and successful experiences will be disseminated for reference.

Activity 5: Assistance from SME Industry Centers

Support for business excellence starts by making the appropriate facilities accessible to the SMEs. To attain this, SME Industry Centers will be strengthened or established in key areas where the target SMEs are located. Six industry regional centers will be so strengthened or established. The SME Industry Centers will provide extensive technical and management capacity building services to SMEs.

SME Industry Centers will be linked to the priority industries of: (1) food processing, (2) furniture, (3) craft industry, (4) support industries for electronic, automotive, metalworking and advanced manufacturing, (5) packaging development, (6) support industries for agro-processing and fisheries/marine products.

A Center shall be both real and virtual. Physically, it shall provide facilities to demonstrate and provide testing and technology applications for the firms and groups in the industry. Virtually, the Center shall link SMEs and suppliers, SMEs with other SMEs, or SMEs with buyers.

Regions where these industries are prominent shall be the location of the first Centers. (See also Activities 20 - 26 for details of SME Industry Centers.) Eventually, each region supporting the development of priority industries shall have its Industry Center.

Activity 6: Management Advisory, Technology and Productivity Development Programs

The Plan shall provide professionals and advisers to help develop SMEs into more competitive and transformed firms.

Over the six years, the Plan will emphasize attention to dynamic firms in key industries, for them to attain world class standards and productivity performance. These firms shall be provided Business Excellence Assessment using proven management and business assessment tools (e.g., In-Plant Survey and Management Audit).

“Management, Technology and Productivity Programs” (like ISTIV and SET-UP) shall be applied to maximize results and expand reach to individual firms. These are successfully used programs calculated to benefit many SMEs. Integration of implementation through the SMED Network shall help attain business excellence.

“Management, Technology and Productivity Programs” also represent the third stage of programmed assistance to individual firms, after Counseling and Adviser interventions that tackle specific enterprise needs (e.g., financing, brand name development, and distribution). On the other hand, these Programs pertain primarily to generic production, technology and industry-oriented needs.

In conjunction with the SME Centers/Network, professional managers and trained advisers and specialists will be made available to SMEs, at no charge initially (as demonstration) and later

on a cost recovery basis. The demonstration shall identify “good and best industry practices” to be available for replication. Considering the high cost of expert-adviser services, a pool of industry professionals will be organized, as an activity of the SME Plan.

Activity 7: Best Practice Modeling from Successful Productivity Applications

A very powerful approach is the transfer of best practices where SMEs shall compare themselves with high-level performance and the “good or best practices”.

Box No. 8

Productivity Program in the Workplace (ISTIV)

The concept of productivity is very difficult to explain and understand in the workplace, especially by workers. ISTIV is user-friendly, to which SME owners, managers and workers can easily relate. ISTIV is a values-driven human resource strategy for productivity and quality. It is an acronym for ideal attributes of a productive person: Industrious (I) Systematic (S) Time-conscious (T) Innovative (I) and Strong Value for Work (V).

There are three components: Executive Briefing, Integrated Course for Supervisors and Managers, and Orientation Course for Workers. Each component is described as follows:

- 1. Two-hour Executive Briefing - This encourages company owners to use the ISTIV approach to improve quality and productivity; and to guide them in setting productivity improvement measures /targets*
- 2. Two-day session on Integrated Productivity Course for Supervisors and Managers - This provides the knowledge and skills to measure and improve quality and productivity performance, and to set up productivity improvement programs based on improvement areas / targets of the owners.*
- 3. One-day Orientation Course for Workers - This introduces the ISTIV attributes to workers and makes them aware how they can improve their individual and team productivity, and encourage them to identify areas for specific productivity improvement in the workplace.*

The demonstration program shall identify these “good and best practices” and make them available for replication. (See Boxes 8, 9 and 10.)

Successful SME models among the local companies will be used as case studies. As much as possible, the support of successful entrepreneurs will be solicited to train the new breed of entrepreneurs. Documented modules, supplemented by photographs, videos and illustrations of cost reductions, increased volumes/sales, etc. shall be widely used. Site visits shall be conducted, as appropriate, to reinforce “classroom” learning.

Best practices underscore the need for improvement of operations – showing how to proceed based on real-life successes. The SME Industry Centers shall help create awareness of this activity. The work shall start from dissemination and appreciation programs to organized enterprises. Another way is to organize cell groups in the industry to set-up partnerships and take up and assess the changes to be adopted.

Box No. 9

Productivity Programs for BMBEs

This uses ISTIV, Work Improvement in Small Enterprises (WISE), ZAP, ILO-People and Productivity Module presented in Manual or a Manual plus Training.

The Productivity module shows that successful and productive businesses provide jobs where the workers: know what they should do, have the skills and are motivated to do the work, have an efficient and safe work place; feel that they are working for a business with good reputation and that the business is contributing positively to the community.

The NWPC, DOLE and ILO are collaborating to develop the Module that links people and productivity, influences productivity, recruits productive people, encourages staff productivity, promotes the safe and productive workplace, and enhances business relations and productivity.

There are already 65 ISTIV trainers and 45 consultants nationwide divided into 5 Teams and serve agri-business. Since its 1998 launching, it has served 1,132 SMEs (2003). Regional congresses in 2002 assessed program results. There were marked improvements in several agri-business firms, particularly in increased production, increased yield recovery, decreased electric power/fuel consumption, human resource-related improvements, introduction of reward scheme for workers, increased compliance with good manufacturing practices (GMP), increased subcontract toll fees as a result of GMP; decreased utilities consumption, improved and eliminated losses in cold storage, improved packaging technology, preventive maintenance that minimized production downtime and increased production, utilization of handling equipment, and active benchmarking.

Component 1c: Harnessing Knowledge and Technology for Growth: Technology Applications Promotions

The Internet revolutionized communications and information technologies and spawned market changes in consumer demands, supply and delivery/procurement chains, and transaction costs. The Internet will be harnessed to benefit existing and potential entrepreneurs to access information through the SME Centers.

Activity 8: Harnessing Knowledge and Technology for Growth: Technology Applications Promotions

Information about markets, management and industry trends abounds and is easily accessible through the Internet. SMEs will be assisted by providing them education and technical training on information access plus Internet access at the regional SME Centers. Individually and collectively, information shall be accessed by the Centers. The Center shall inform SMEs about the available information and create awareness on technology trends. The technologies identified and explained through forums and discussions. Comments and actions shall be documented for wider appreciation of existing or prospective SMEs.

A source of information and practices for the technology program is the collection of best practices. Cell groups in allied industries can also benefit from this program.

Box No. 10

Promoting Quality Management in SMEs

An activity to promote “total quality management” (improving quality and productivity of the firm) shall be implemented. Currently, the Philippine Quality Award (PQA), is more for large corporations. With a wider search, this Award will be opened to SMEs (in a separate category, to induce SMEs to improve. Specifically, assistance will be provided in preparing the SME’s operating plan, conducting of pilot testing, and designing implementation strategies.

The SME’s operating plan will be an initial step toward performance excellence. It will be the entry level for the Philippine Quality Award. It will be a self-assessment tool for SMEs to evaluate strengths and opportunities for improvement. It also ensures that a holistic view is taken of the firm’s activities. Finally, it will be an excellent tool for organizational change, growth, and improvement.

Another area is in the improvement of the accreditation and certification process in relation to international standards. A mechanism for global competitiveness is international standards certification such as ISO 9001 for Quality Management Systems and ISO 14001 for Environment Management Systems. While certification has been the trend among local organizations for some time, it has not really reached the majority of SMEs.

Training on ISO 9000 and ISO 14000 will be provided to DTI staff and selected SMEs not yet trained under this activity, entitled “Environmental Management Program for Industry Competitiveness (EPIC)” of the BOI, funded by UNDP. The trained persons will be the core group who will train others. A master plan will then be formulated to implement the standards in the identified SMEs in the priority industries. This group will also assist SMEs in setting up QMS/EMS.

Component 1d: Designing Linkages and Business Models for Competitive Support

Linkages and inter-regional complementation will be given top priority to transform the Philippines into a unified force in the global market. Government and private sector partnerships will be orchestrated to move towards this development goal.

Activity 9: Providing Linkages through SME Centers and Inter-regional Facilitation

The SME Industry Centers shall be priority components of the SME Plan. Target sectors, locations, organizations, and services to offer shall be identified for the early operation of these centers.

The great potential to establish inter-regional linkages for marketing, raw materials and other resources will be exploited by setting up the SME Industry Center with the National Capital Region (NCR) as hub. This NCR hub will be electronically linked to the other SME Centers creating a network of available services. The network will be developed to include the business entities like malls, department stores, supermarkets, grocery stores, trading houses, public markets, and others with established buying activities.

The NCR SME Center will mobilize and link advisory services for firms in different locations and manage the linkages of support services in the country.

Activity 10: Organizing Linkages for Competitive Support

The applications of organized support to enterprises shall make assistance more effective and highly successful. The SME Network and programs shall use practical organizational aids such as Quality and Productivity Circles: within small circles of related firms, formally or informally organized to discuss improvement programs; or a network of allied firms in the industry pursuing issues on competitiveness or establishing joint initiatives. Associations or organized groups may participate by forming several cells or circles to form “cooperation circles for competitiveness.”

Economic grouping is a strategy of firms forming alliances to improve their individual and combined operating efficiency and effectiveness. Through such linkages, the firms may benefit from joint activities such as those involving delivery, administrative facilities, bulk purchasing, advertising, promotions and distribution. Third party services may also be organized or sourced through such alliances. SMEs may form consortiums to bid for foreign or local projects. Value chain alliances may be formed within the industry to include retailers, financiers, customers, suppliers, distributors, etc.

STRATEGY 2: Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.

This strategy shall provide the framework to foster new business ideas and opportunities from existing or new enterprises.

Component 2a: Provision of Business Opportunities

Existing SMEs will be assisted to foster their growth and transformation into larger and more sustainable firms. Through business management seminars and SME promotions activities, emphasis will also be placed on creating new businesses.

Activity 11: Strategic Business Planning, Training and Self-help Packages to Develop Strategic Business Plans

Entrepreneurs must be agents of change.

SME owners and managers will be encouraged to train on business strategy formulation and planning. This will be incorporated in the training packages of the SME Centers.

Support will come from pre-business workshops for prospective entrepreneurs. Programs on creativity and entrepreneurship shall help prepare the new entrepreneur. In addition, there will be varied approaches to be encouraged. The basic enterprise preparatory program shall be promoted for general application. (See also Activities 14 to 19 on Alternative Business Opportunity and Enterprise Creation Approaches.)

Activity 12: Product Development and Design Services

Guidance and support to SMEs shall be extended through intensive, comprehensive and market-oriented programs on product development and production technology (emphasizing product quality and standards assurance).

Activity 13: Support to Start-up Enterprises in Selected Areas

The SME Center shall develop mechanisms to support the commercialization of business concepts/ideas of entrepreneurs. These mechanisms will include (i) identification of the concepts/ideas, (ii) support to study markets and demand levels, (iii) assistance on product development and feasibility analysis preparation, and (iv) support on project funding.

Focus shall be provided by the identified SME Industry Centers. The evaluation of ideas and pre-business support shall be extended through technology data, estimating project costs, and advice on general matters and project documentation.

By equipping them with information on industry fine points, prospective entrepreneurs will be more realistic about expectations and be encouraged to prepare thoroughly before venturing into business. Further, this preliminary process will enlighten those who perceive only the positive of proposed ventures.

Traditional industry-wide services shall be enhanced and continuously served within the SME framework. The development and implementation policies on training shall be institutionalized, guided by the National SMED Council, with a view of evolving a Philippine accreditation system (or within the ASEAN/ APEC training /trainers accreditation system) on training programs. Some training modules that may be standardized include:

- Accounting
- Financial Management
- Strategy Formulation
- General Business Management Course
- Basic Entrepreneurship
- Shop Management and Good Housekeeping
- Basic Productivity Courses
- Seminars on Registration and Regulatory Compliance
- Product Development and Evaluation of Market Trends

Box No. 11

Product Design Workshops in the Provinces

This activity shall expand/strengthen an existing PDDCP service, a part of the SME Caravan. The critical factors considered are availability of experts (local and foreign), consultations among SMEs, scientists and designers; top-level institutional support, market demand, enhancement of creativity, better information dissemination, and fuller commitment of SMEs (since SMEs often consider product design as an expense, not an investment).

The innovations to be adopted shall include:

- *More commercially applicable designs*
- *Fee-based (with subsidy) advisory services*
- *Market-derived design approaches*
- *Involving LGUs, schools, associations*
- *JICA-funded product development/design workshops in the provinces*
- *Geographical and industry-based programs*
- *Revival/Scholarship of local designers*
- *Advocacy of available programs*

Component 2b: Business Opportunity and Enterprise Creation Approaches

Varied approaches for enterprise creation (e.g., through franchising and subcontracting) will be encouraged. Support activities will be sponsored by government in partnership with the private sector.

Activity 14: Entrepreneurship Training Camps and Enterprise Development Programs

Entrepreneurship education and training shall be given greater attention. Aspiring entrepreneurs will be equipped with business management skills and be trained to draw the best from people and organizations. *Entrepreneurship Training Camps* will be launched for entrepreneurs to become innovators – daring to be different, and able to network and leverage his/her strengths and contacts.

An advanced and intensive course, *Enterprise Development Program*, shall be organized for budding entrepreneurs. Entrepreneurs with good business ideas shall be screened by a Program admission's committee. At the program, Mentors and a Panel of Advisers shall guide budding entrepreneurs through the process of conceptualizing and setting up business.

In addition, entrepreneurship shall be promoted through courses on enterprise development. Specifically, entrepreneurship shall be promoted as a subject or as a field of specialization in the universities and business schools.

Activity 15: Business Opportunity Development and Investment Promotion for innovative Ideas

This endeavor provides services on technical assessment, business modeling, pilot studies, pre-investment support and investment promotion, development of joint ventures among existing and prospective entrepreneurs. Through counseling, new SMEs will be assisted and

nurtured. Business-incubating services (like hands-on management assistance, and business and technical support) will be made available. Assistance in funding worthy projects shall be provided.

To participate in the program, applicants with innovative and growth-oriented businesses shall be selected and provided with intensive support. One such assistance involves services under the DOST - SET-UP and BOI investment services.

Activity 16: Institutionalization of the SME Opportunities Caravan

Active SME promotion in regions and provinces had been successfully undertaken through road-shows and the SME Opportunities Caravans. These activities produced strong adherents and active support from local agencies, especially the LGUs. These gains will be permanent and sustainable if the activities are regularized, through multi-agency coordination. By the medium term, LGUs shall absorb lead responsibilities and eventually be independent on this function.

Year-long programs shall be linked to major activities of LGUs, particularly supporting business/trade activities like fairs, festivals and tourism-oriented promotion. Media advocacy shall be part of these programs.

Activity 17: Franchising Seminars

Franchising shall be promoted in order that SMEs can accelerate their access to proven business models, management and operating systems, brand names and goodwill, and customer acceptance.

Actually, franchising developers have undertaken successful programs even without the support of SME development agencies. The proven successful models shall be used in the SME programs and be jointly promoted on co-sponsorship basis among the franchise program developer, SME agencies and (if applicable) the supporting donor.

Activity 18: Cooperative Business Development Program

The forming of alliances and cooperative business organizations will be encouraged, particularly in sectors and/or communities where (for example) access to common raw materials, markets and resources is advantageous. In some instances, access to financing and development assistance can also be accordingly enhanced.

Support for cooperative efforts in developing areas of business shall be through focused seminars and counseling. Successful and model projects shall be used for modeling.

Activity 19: Subcontracting Promotion Seminars for Electronics, Automotive Parts and other Foreign Technology Enterprises

Subcontracting arrangements will be adopted in order to expand markets and linkages between SMEs and large companies. Promotions seminars will be conducted for every sector with good potential for subcontracting, including established firms in electronics, automotive parts, and foreign technology business enterprises.

Box No. 12

Support for Identification and Development of Business Ideas

This activity shall develop mechanisms to support the commercialization of business ideas of entrepreneurs, using existing and planned supporting systems. The support mechanisms include:

- *Identification of business ideas*
- *Finding the market and projecting demand levels*
- *Product development and feasibility study preparation*
- *Funding of facilities and working capital*

Some overseas donors and institutions with programs assisting commercialization will be tapped. SMEs, cooperatives, and local industrial associations will be extended assistance by introducing them to overseas businessmen or institutions for potential joint venture or grants.

This program will be closely coordinated with the SMED Network and the National Anti-Poverty Commission (for the depressed areas) while the SME Counselors and Advisers may be tapped to facilitate some part of the process.

Box No. 13

Provincial Opportunities Caravans for SMEs

This activity involves integrated assistance to priority industry clusters where certain areas for improvement, solutions to problems identified in consultancy, training and technical assistance services and other areas of improvement shall be determined through dialogues and multi-sectoral consultations.

Specific services are provided on-site which include a range of services and training involving issues like product development, financing, skills development, entrepreneurship, costing, pricing, harnessing Filipino values for global competitiveness, food packaging and labeling, and good manufacturing practices.

Some features of the Caravan activity are:

- *Profile of participants is provided ahead of the event, to facilitate good preparation.*
- *A one-on-one session with prospective participant-beneficiaries.*
- *In-depth assistance is provided to attain greatest improvement. These beneficiaries shall be the core of model enterprises. Criteria for selection of beneficiaries shall be fine-tuned to include long-term commitment to institute improvement changes.*
- *Services shall be concentrated on improving the product development and design capability, production and productivity, and marketing capabilities.*
- *The series of Caravans shall progressively promote services by setting up target improvements before every Caravan, to have a basis to gauge actual results.*
- *The Caravan shall be supplemented by market activities like a trade fair or buyer matching.*

Box No. 14

Parts and Services Procurement Program

Seminars for assemblers and major parts suppliers in industries with high backward linkage potentials (such as electrical industries and automotive industries) will be regularly conducted. The objective is to give local SMEs information on these industries' procurement plans and requirements. The seminars will promote the understanding by SMEs about requirements for prospective subcontractors. The seminars will promote initial contacts and subcontracting relationships for SMEs to supply parts, including importation of advanced technologies. Production methods and resources to meet requirements for industrial linkage will be taken up. Participants will be those interested in sourcing from SMEs. The seminars will be venues to discuss specifications and thresh out details (such as manufacturer specifications, pricing, delivery) for sustainable long-term relations.

STRATEGIES FOR THE PRIORITY INDUSTRIES SUBSECTOR

STRATEGY 3: Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.

Strategies focused on identified sub-sectors shall supplement the enterprise-level strategies through the same institutional framework of the SMED Regional Network. The SMED Regional Centers will partner with trade/industry associations, Provincial SMED Councils and other SME organizations in order to provide industry-wide applications at the appropriate SME Industry Centers.

Such programs aim to provide information and advice to SMEs collectively in areas like business trends, technology, and new approaches in business upgrading.

A key initiative involves upgrading productivity of the selected industries to encourage enterprises across the industry or value chain to collaborate on projects that improve strategies, operations and practices.

The Priority Industries

On the basis of an assessment of productive resources, market potentials and anticipated growth, three types of industries were identified as the initial focus of promotional services. These industry types are:

- 1) exporting industries composed of (a) food, (b) furniture, (c) locally-based industries like gifts, fashion accessories, houseware, handicraft and holiday decor;
- 2) support industries to supply parts and services to the electronics, electrical, automotive, and metal and plastic-based industries;
- 3) those that contribute meaningfully to regional development like (a) agro-fisheries/marine development (including agro-processing, agri-business, organic and natural products, tourism), (b) packaging development, and (c) facilitating partnerships and strategic alliances.

Interventions may include:

- Organizing study missions to find new markets and technologies;
- Fostering partnerships and joint/collective programs;
- Conducting research on trends and market forecasting;
- Developing data bases;
- Learning “good/best” practices and developing replication programs;
- Organizing programs for business opportunities and investment-matching;
- Support for providing start-up technology facilities like testing, shared packaging;
- Support for projects that shall receive intensive assistance and those for setting up technology incubators;
- Support for financial information management, including access to common accounting services and developing relevant information systems.

- Development of industry-wide applications for management and production problems.

Industry-wide and sub-group alliances shall serve specific needs which may lead to initiatives such as development of joint ventures, market researches, group technology agreements, or market research and promotion.

Traditional Services

Traditional industry-wide services shall be enhanced and continuously served within the SME framework. The development and implementation policies on training shall be institutionalized, guided by the National SMED Council, with a view of evolving a Philippine accreditation system (or within the ASEAN/ APEC training /trainers accreditation system) on training programs. Some training modules that may be standardized include:

- Accounting
- Financial Management
- Strategy Formulation
- General Business Management Course
- Basic Entrepreneurship
- Shop Management and Good Housekeeping
- Basic Productivity Courses
- Seminars on Registration and Regulatory Compliance
- Product Development and Evaluation of Market Trends

Strengthening/Establishment of Industry Centers

Industry Centers for key industries shall be strengthened or set up in strategic locations, tangible and virtual.

[Activity 20](#): Center for Processed Food, with three centers initially

Processed Food sector (fruits and vegetables, including nuts) shall be served with Davao as the main hub, with Cebu and North Luzon as second tiers. These centers shall initially serve their respective regions and adjoining areas (i.e., Davao for Mindanao, Cebu for the Visayas, and Pangasinan or Nueva Ecija for North Luzon). Metro Manila and Southern Luzon shall be served through the national agencies. In the long run, all regions shall have their centers.

(The details are on Appendix 5a, Highlights of Sub-sector Program for Food Processing Industry).

[Activity 21](#): Center for Furniture Industry, with Pampanga and Cebu as Hubs

An SME Industry Center for Furniture will be established, with Pampanga and Cebu as Hubs. Pampanga is a traditional furniture center with good production and workforce bases. The Training and Productivity Center for the Furniture Industry is already in place at Mabalacat, Pampanga but needs upgrading.

Cebu is the center of mixed-media furniture that are internationally accepted. While medium-size Cebu manufacturers export successfully, their design and niche markets are facing intense competition from China. The Cebu-based furniture organization is successful in providing market and technical services to its members, but needs support for strengthening and sustaining them.

(The details are contained in Appendix 5b, Highlights of Sub-sector Program for the Furniture Industry).

Activity 22: Center for the Craft Industry, with Cebu as initial hub

The SME Industry Center for Craft (with Cebu as initial) hub will be established to enhance the competitiveness of this industry. Cebu has existing market services and a center for craft manufacturers. This Center shall be expanded to serve technological requirements and relate to the needs of nearby regions. The Center will provide design assistance services as a main activity, but will also extend support like those involving bulk purchasing of materials (particularly for finishing and packaging).

By its nature, the craft industry can be replicated easily. After the services of the Center had been established, centers for other regions shall be considered (using the experience of the pilot center). Over three years, a major craft exporting Center shall be established or other Craft Centers set up (e.g., in Bicol region, Negros region, Pampanga or Tarlac, Benguet or Mountain Province).

(The details of the services are on Appendix 5c, Highlights of Sub-sector Program for the Craft Industry.)

Activity 23: Center for Facilitating Partnerships and Strategic Inter-regional Alliances

Partnerships and collaboration are important to SMEs to enhance their access to information on technologies and to markets. These alliances will better enable leveraging individual capabilities and strengths, as well as improve operations through increased production capabilities, synergy, economies of scale, and lowered risks.

A Center shall be established to coordinate and facilitate services delivery linking the SMEs (typically at the countryside or rural areas) with the main/NCR markets (also the site of services availability).

This assistance shall be virtual and active. Virtual service shall be given in terms of coordination and matching services; active service indicates that service can be provided even on one-on-one basis, if desirable.

A Center at NCR or Metro Manila shall facilitate service delivery because of its location and readily available support facilities and infrastructure.

The details are contained in Appendix 5d, Highlights of Sub-sector Program for Facilitating Partnerships and Strategic Inter-regional Alliances.

[Activity 24](#): Center for Supplier Development and Linkages for Supporting Industries in the Electronic and Electrical, Automotive Parts, Metal-Working and Advanced Manufacturing Industries

There are many opportunities (mostly located at the economic zones) where electronic industries, IT related services and manufacturer-exporters operate. Their suitable supporting/supplier industries must be developed.

Assistance can be in the form of enabling linkage/access of local SMEs with established assembler-manufacturers and economic zone locators. Such access can be facilitated by inducing the manufacturers and locators to progressively raise their local-content levels, rather than source material requirements from abroad.

Support shall be in terms of improving the capacity of SMEs to meet stringent manufacturer requirements, mainly by adopting advanced technology. The activities can include implementing or participating in trade exhibits, technical assistance, technology transfer programs through contacts with established (usually foreign) parts manufacturers, and training programs directly relevant to capability upgrading.

The details are contained in Appendix 5e, Highlights of Sub-sector Program for Supplier Development and Linkages for Supporting Industries.

[Activity 25](#): Center for Packaging Development

Numerous studies and missions have recommended the establishment of a demonstration and common service facility for packaging for the food industry and a packaging station for crafts-based products and furniture.

Pilot Centers shall be set up in suitable locations to serve common core services needed in the areas involved. The facilities to be established shall consider complementing what already (including private sector's) are available.

The Program for the Centers shall target enhancement and strengthening of the existing National Packaging Research and Development Center at the DOST compound, that shall be the Hub for three support Centers. The latter shall be directly linked with the Center for Processed Food and be intended for the food sectors of Northern Luzon, Visayas and Mindanao. The Center for Packaging Development, like the Center for Processed Food, shall be attached to the SMED Network services.

The details are contained in Appendix 5f, Highlights of Sub-sector Program for Packaging Development.

[Activity 26](#): Center for Agro-Fisheries and Marine Industry Development

In agro-fisheries processing, the global trend favoring health products and organic/natural food is quite significant. To take advantage of this development, the growers should have access to good plant materials and technologies, correct techniques and improved productivity (through appropriate and efficient pest management, treatment processes, waste management, and

post handling). Growers and processors should have the facilities, information and business support to meet market demand with quality products at competitive prices.

The Center shall gather, process and disseminate information on products and industries for SMEs. It shall also be a venue to link with strategic partners and buyers, including developing strategic data bases, creating marketing strategies and promoting improved technologies.

The details are contained in Appendix 5g, Highlights of Sub-sector Program for Agro-Fisheries and Marine Industry Development.

STRATEGY 4: Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.

This strategy aims to connect SMEs to established industry groups in the country and, thereby, enhance the latter's sustained ability to significantly contribute to economic growth.

Component 4a: Strengthening and Integrating Support for the Sub-Sector, and Technical and Managerial Capacities of Enterprises, including enhancement of Design, Creativity, and Quality

The establishment of SMED Regional Centers will enhance and integrate the services and programs for SMEs on regional and sub-sector bases.

The priority industries require different services/programs and, thereby, different strategies and approaches. Common subsector-level strategies to improve competitiveness and enterprise applications are:

Development of value added products, through Product development programs and Design competition.

Activities here shall organize design workshops, periodically set development targets for particular commodities or markets, invite good designers from target markets (with the participation of in-house designers or product development people).

Activity 27: Product Development and Design Workshops

The program shall continue inviting foreign designers/product development experts, who have competent knowledge and experience in the target markets, for evaluation of Philippine products. This activity is similar to past workshops of PDDCP and CITEM.

The plan and management of workshops will be contracted to private companies or technical institutions which have the management capacity for these kinds of events. The function of the government agencies will be limited to help plan the design of the workshop, indicating the minimum requirements. The workshops will be on a fee-basis with the government providing subsidy to SME applications. The workshops will be held as part of major trade fairs in order that part of the cost may be subsidized from advertisements from the trade fairs. Foreign or local designers who cooperated with participants in the design would be paid design fees when the design is successfully commercialized.

(See also Box No. 15, Product Development and Design).

Box. No. 15

Product Development and Design Workshops

Design workshops or product development workshops shall analyze the trends of largest markets or consumers and develop products on the basis of the analysis, as a preliminary step towards domestic and international trade fairs.

- *These are to enhance support for exhibitors of national/international trade fairs.*
- *Design workshops are not to teach design method, or give instructions for better designs.*
- *The design workshop presumes analysis of trends of target markets and consumers, as basis to develop product designs. Therefore, the workshop is useful for the participants to understand the methods to analyze trends of markets and consumers, and product development reflecting the trends. The product development process also includes the process to examine the technical requirements from production standpoints.*
- *It is essential to invite foreign designers/product development experts, who have competent knowledge and experience in the target markets, to evaluate Philippine products.*

The concept of inviting foreign designers from the target markets is not a new concept since similar workshops were held in the past by PDDCP, but were discontinued for lack of funds.

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

Workshop elements include:

- *analysis of market trends and setting marketing concept;*
- *analysis of market trends of successful products in the target market, setting of concepts on use and consumers scene;*
- *design development, idea development, rough sketch and verification;*
- *technical review of designs;*
- *selection and finalization of designs; and*
- *evaluation of designs.*

The plan and management of workshops will be contracted to private companies or technical institutions which have the management capacity for these types of events. The function of the government agencies will be limited to planning the basic design of the workshop, indicating the minimum requirements. The workshops will be on a fee-basis with the government providing subsidy to SME applications. The workshops will be held as part of major trade fairs in order that part of the cost may be subsidized from advertisements from the trade fairs. Foreign or local designers who cooperated with participants in the design would be paid design fees when the design is successfully commercialized.

Activity 28: Design competitions

Competitions on industrial, interior- and craft-design for local designers (usually school-based) involving furniture, toys, stationeries, gift items, tableware, interior accessories shall be conducted to promote commercialization. The annual competitions will be held with the awarding ceremonies coinciding with major international or national trade fairs like Manila FAME and shows in Cebu. These competitions shall be initiated by industry associations. The emphasis shall be on product development for international markets, featuring Filipino designers and design concepts.

(See also Box No. 16, Design Competition)

Box No. 16
Design Competitions

Design competitions may take on concepts like:

- 1) *Theme: Industrial, interior and craft-design competition on furniture, toys, stationeries, gift items, tableware, interior accessories, etc. Annual sub-theme will be set for the competition according to the topics at that time, such as “Coloring of day-to-day life”, etc.*
- 2) *Qualification of applicants: none. Advertising for the entry will be made through the relevant industrial associations and designers’ associations in the Philippines, and through relevant designers’ associations abroad.*
- 3) *Members of selection committee: to be nominated from the relevant industrial associations, designers’ associations together with the representative of PDDCP.*
- 4) *Prizes: to be sponsored by the relevant industrial associations, buyers associations, and big firms. The sponsors may have the priority to negotiate with the awarded designers to commercialize the design. They can advertise their products and services on the advertising documents for the entry.*
- 5) *Implementation procedure: It will take almost 5 months from the start of entry advertisement until closing of entry, 1.5 months from closing entry to submission of designs, 1 week from submission of designs to exhibition of the designs brought in and selection for the award. The preparation will take 1.5 years before starting of entry advertisement for approval of Activity proposal, budget approval and allocation, invitation of the sponsors, and advance advertisement. The required time can be reduced to 3 months in and after the second year.*
- 6) *The marketing of the products developed in the Workshop and decided to be commercialized, will be supported for exhibition at trade fairs.*

Activity 29: Market intelligence support

Intensified and aggressive market intelligence support shall help achieve market penetration provided appropriate conditions (such as sufficient funding, commitment, involvement of industry associations, and efficient access to relevant data) are in place.

The Market Intelligence Support Program shall be enhanced by adopting key conditions like:

- Fee-sharing to promote commercial sustainability
- Engaging specialists to deliver the program
- Subsidizing participation in international trade fairs and missions
- Using the Internet and electronic information
- Improving information sharing through expanded network and support of LGUs, associations, and private and public developmental agencies
- Working in tandem with Philippine ambassadors and various attachés overseas and Philippine banks with overseas branches
- Encouraging OFWs to provide business opportunities information
- Developing studies on SME regulation in competitor countries
- Tapping linkages with institutions like PCCI, foreign business councils, etc.

Activity 30: Packaging and labeling technology development

Packaging is crucial in the highly competitive international market, especially in the processed food industry.

This activity focuses on developing consulting support on packaging, in particular, and overall production, in general.

The aim is to put in place a system that effectively disseminates packaging technology. This includes installing facilities and equipment, and training on the topic and related matters.

Current packaging practices shall be assessed in the areas of preservation, quality protection, and safety of products.

Manuals on packaging technology for counselors and advisers shall be produced and disseminated. This effort shall take off from available resources of PRDCP.

(See also Box No. 17 Packaging and Labeling Technology Development)

Box No. 17

Program for Packaging and Labeling Development

- *Enhancement and Strengthening of National Packaging R & D Center (PRDC as Hub with three supporting Centers, with three hubs for the food sector: one each for Northern Luzon, Visayas and Mindanao). Initially the Packaging Industry Center may be attached to the SME Industry Centers.*
- *As a Cross-sectoral Program – The Packaging Technology Upgrading Program shall be embodied for each sector strategy where standard designs of packaging for sector products shall be developed and promoted.*
- *Improvement of design of packaging and labels that will be:*
 - *Acceptable to consumers (sector-based and enterprise based).*
 - *Improve product shelf life and reach market destinations.*
- *Recommended Standard Packages: SMEs produce very similar products. It is important to provide guidelines for uniform quality, uniform containers for big orders and different labels. Packages and pouches should be recommended and promoted to consider better product protection and life, consumer marketing, durability, appearance, and means of disposal.*
- *Serve as a base for common marketing (one brand name for a cluster of SME producers (e.g. local delicacies, organic products)).*
- *Improved products and acknowledged merchandise by consolidation of marketing approaches.*

Activity 31: Industry Productivity and Quality Improvement Programs

The approaches for the priority industries were drawn from the studies on each industry, while common concerns across industries were considered in the overall sector strategies. Common concerns include:

- Productivity improvement
- Improvement of distribution and cost reduction in processing and shipping
- Mechanization of crucial processes
- Quality management
- Development of standards, testing and certification

(See also Box Nos. 8, 9, 10, Productivity Development Programs; and Appendices 4a to 4f, Highlights of the Programs on Growth Industries).

Component 4b: Development of Communication Tools to Link Needs of the Leading Industries and Provide Comprehensive Support for Potential Local SMEs.

Activity 32: Development of SME Databases and Information System

The SME Database and information system that shall be linked and maintained through the SMED Regional Centers will be the electronic communication backbone of the sub-sector. Training on Internet and IT business applications will be made accessible to and corresponding software will be accessible through private sector IT service providers.

Box No. 18

Development of SME Data Bases and Information Systems

Intensive use of IT in SME development is essential in making the development results efficient. The SME development plan will integrate/adopt the following IT communication aspects throughout all the Plan components:

- a. Database of SME for business matching and information dissemination*
- b. Database of SME support services extended by the relevant government agencies and organizations*
- c. Home page links of SME support organizations*
- d. Computer software to help track records of SMEs*
- e. Remote consultations using internet networks*

Activity 33: Enhanced Support for Trade Fairs & Access to Market Services

Some SME market services have significantly benefited their users. However, more beneficiaries can be reached by such facilities and programs. Difficulties in the past had been identified. First, subsidies could have been more widely available/used. Second, is the affordability to the intended beneficiaries. The third relates to the limitations of development organizations on staffing and competence to organize very many activities. Better service delivery is targeted by greater participation of private organizations, sectors leading program development and implementation, more support from LGUs, and maximization of results through partnerships.

Box No. 19 SME Market Services

The range of market services has to be enhanced and replicated location-wise, sector-wise, and should utilize product-enterprise progression to be successful. These services include:

- International Marketing Programs*
- Local International Fairs*
- Participation in International Trade Fairs*
- Special Market Programs with Overseas Filipinos*
- Identification of Product Trends*
- Product Development Workshops and Seminars*
- Redesign of Product Development Programs: from visual to other sensory aspects (mobile, touch, sound, smell); functional products for accessories; materials benchmarking*
- National Trade Fairs*
- Regional Trade Fairs (Manila-based)*
- Support to Provincial/ Local Trade Fairs*
- NGO Market Program Services Development*
- Permanent SME Display/Selling Corners in major malls and commercial locations*
- Program Support for SME Domestic Marketing: benchmarking, awareness seminars, selling missions*

STRATEGIES TO IMPROVE THE SME OPERATIONAL ENVIRONMENT

The main challenge for SMEs is to achieve sustainable growth in a global environment where competition is fierce and getting fiercer because of fast-changing conditions brought on by technology improvements. In this regard, SMEs need help for them to upgrade capabilities that circumstances require, even to just survive. Access to funds, market information, technology and advisory services are vital.

STRATEGY 5: Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.

Access to financing has been a continuing major concern. Past measures and strategies have not fully solved this problem. In formulating this Plan, the following issues were considered:

Overemphasis on collateral

Collateral coverage has been the primary condition of lenders, practically ignoring project feasibility. This has been cited as a major impediment to SME development.

Thus, more accessible and innovative credit guarantee system, through SBC is envisioned. Accessibility is foreseen in the form of lower guarantee fees and increased number of lending programs.

Lack of credit information and highly centralized examination system

Centralized and long processing of loan evaluation created project delays and backlogs.

Reinforcement of the guidance system to SMEs

Only a handful gets commercial bank credit because most SMEs cannot comply with borrowing conditions, like submission of financial statements and business plans. Further, assistance on loan applications is seldom provided by banks.

Financial institutions can provide assistance given their access to information on industries, markets, etc. However, banks do not have enough trained personnel to extend this service. Assistance to SMEs will be improved by exposing bank personnel handling SMEs to the same or related programs for SME Counselors.

Vulnerability of financial institutions

Many financial institutions are themselves small and do not have sufficient loan funds. Their consequent high costs are passed to borrowers. (GFIs mainly lend through these banks. GFI direct lending to SMEs suffers in comparison with "big ticket" lending or other investment opportunities of GFIs.)

Equity Venture Fund Establishment

Equity financing through the Philippine stock market is in its infancy, even as initial steps had been taken recently, thus:

- Reinforcement of SME Board in the Philippine Stock Exchange
The SME Board at the Philippine Stock Exchange (PSE) which was to introduce emerging SME companies did not have enough attractive listings: only two. New

listings must be followed through. Those with potential for listing should be provided incubation services that can move them to IPO stage.

- Fostering of investors and investment companies
The establishment of an investment company may be considered (perhaps an SBC affiliate). Since the investment business is substantially different from guarantee loan business in terms of risk management as well as fund management, the initial stage may be considered as a pilot project within SBC and should be spun off later.
- Simplifying IPO requirements
The IPO requirements and operation policy may be reviewed to induce companies to do IPOs. The current IPO requirements include authorized capital of ₱20-100 million, 25% paid up, net tangible asset of at least ₱5 million, and operational for at least two years with positive operating income.

These requirements are too formidable for SMEs.

Issues relating to SBC credit guarantee system

- Poor recognition by SMEs of financing facilities
The JICA study findings indicated that half of the SME managers from five commercial banks and 40 SMEs were unaware of the credit guarantee system.
- Lack of standard credit data
No organization provides reliable credit data. This significantly delays the evaluation of SME loan applications. According to SBC, it takes 2-3 weeks to examine an application for loan guarantees and, added to bank loan processing, takes three months for a loan to be released.

The SULONG Program

Launched in 2003 by GFIs, SULONG (SME Unified Lending Program for National Growth) accelerates lending to SMEs through the following features:

- A standard accreditation for (conduit) rural and thrift banks
- Common guidelines and rates
- Common loan application process

Being quite new, no evaluation has been conducted yet. However, early feedback indicates that the program had made significant inroads in promoting financing to the countryside, especially with the aggressive support of DTI field offices. It was indicated also that the program was not able to fund as much and as fast as intended to meet the huge demand for funding since the bulk of SME lending was primarily under the SBC program which limited the capacity of the system.

Activity 34: Promotion of Supplementary Measures to Reduce the Risk of SME financing

Financial institutions shall be assisted to better handle SME financing through adequate information and analysis of the past performance of SME loans.

Improved guarantee mechanisms shall be pursued using the experience of SBC and SME borrowers. Improvements in the credit guarantee system based on consultations with stakeholders will be undertaken under the government initiative. The initial move is to increase the contact points for loan guarantee applications by increasing the number of SBC personnel to service applications.

The SME Loan Program under SME Guidance shall be undertaken. This program is to be reinforced by the “SME Counselor and Adviser Training Program” (equivalent of “SME Shindan-shi” of Japan) that will be conducted twice a year for 40 trainees each time. This program to improve start-up managerial capabilities will be undertaken through banks and the SME Centers.

The service shall help enhance the capability of small and medium entrepreneurs in such areas of management like preparation of operating and financial reports. Through closer relationship and better knowledge, the financing institutions will extend acceptance of more SMEs and appreciate the real risks involved in providing loans to the SMEs.

The company that has received guidance by the SME Adviser for a prescribed period (two to four months) may borrow from GFIs or private banks under the program. To further qualify, the loan shall be endorsed or recommended by the SME Center or industry association.

Other loan requirements are: three-year financial reports, tax payments, one year in location/business, improved bookkeeping and managerial capability as attested by the Adviser. The appropriate loan amount under the program shall be determined based on the review to be made by SBC. Long-term prime rate and minimal collateral requirements shall be available to meritorious and industry recommended projects. (The loan program constitutes a major support program under the BMBE program.)

The project elements consist of trainer training, training facilities, development of curriculum and materials, operation of the training system and registration of qualified advisers.

Activity 35: Development of Personal Guarantee System

This activity aims to introduce a personal guarantee system as an alternative or supplement to traditional collaterals and guarantees to enable SMEs to get bank funding.

Many financial institutions require personal surety for SME loans, regardless of the collaterals already provided. This practice that is common even as banks apparently do not give it much weight since they can impose it with no extra effort. Through efforts led by government, a campaign will be launched to give “collateral-value” to sureties.

As an indication, through a personal guarantee system, a third-party guarantees a loan up to twice his annual income or one million pesos, whichever is lower, but not more than 25% of the loan. The guarantors of a loan shall not exceed four persons including the owner of the borrower enterprise.

Activity 36: Fund for Start-up Businesses

At present, SMEs at their beginning stage cannot get funds from formal sources. They are financed primarily by friends, family and other informal lenders. Most financial institutions (government and private) require a minimum year's good track record before considering SME loan applications.

Government recognizes the need to address the funding difficulties of blossoming SMEs to encourage their development as contributors to economic development.

The project aims to put up a fund for emerging ventures, assisting these new companies with their funding needs. The fund may bankroll a loan program for start-up SMEs. Guidelines will be drawn up and an experimental model set up. The guidelines will consider the risky nature of start-ups providing for the program's viability.

Activity 37: Venture Capital Fund

Experience teaches that government promotion is crucial in developing the venture capital industry, particularly for SMEs that require not only debt but equity as well. Major lessons in putting up a venture capital fund for SMEs include:

- Attract non-government venture capital to enlarge capacity to operate. This may be done through government programs increasing returns of non-government investors or reducing their risks.
- Small companies create new jobs in most countries and venture capital is critical to the development of high-growth companies. Some countries have thought of combining tax incentives and government participation in venture capital and investment funds to encourage venture capital investment.
- Government programs that encourage small enterprise development have dramatically affected national economy. A primary example is the US Small Business Investment Company (SBIC) program.
- Laws and regulations for the formation and operation of entities that make direct investments should be in place. It must be easy for companies to be established and investors must have a way to ultimately sell their investments.

The desirable program government can set up would encourage investment by non-governmental sources that becomes self-sustaining. Government can pilot such a program.

Forms of government support that may be considered in establishing a venture capital fund are:

- Direct participation or "seeding" of venture funds by government investment – together with private sector, to enhance creating a larger fund.

- Tax credit for capital investment provided the fund is invested in the target sectors. Alternatively, some governments have been known to reduce taxes on profits earned from investments in SMEs.
- Government loans or loan guarantees for venture capital funds that operate in accordance with appropriate guidelines.
- Leveraged equity participation by government in private equity funds. For example, the US SBIC program provides $\frac{2}{3}$ of equity in the venture fund but takes only interest plus 10% of the fund profits. Thus excess profits flow to the equity investors.
- Government provides guarantees against loss for investors.

STRATEGY 6: Streamline the systems that provide support programs and incentives for SMEs.

This strategy involves improving the business environment to accelerate the development of existing SMEs and promote industry diversification – strengthening the country’s industrial structure.

Component 6a: Improving Structures so that SMEs are Identified, Effectively Provided the Services and Incentives, Monitored and Assessed

Activity 38: SME Institutional Restructuring

This activity includes endorsing executive and legislative policies to enforce institutional changes like studies on functional mergers of agencies, budgetary allocations, personnel transfers and compensations, and transitions.

The factors that induced this initiative include:

- A directive of the SME Magna Carta to establish the SME Promotion Body that shall handle promotional and commercial services not actively and effectively pursued through the current structure.
- The move to institutionalize a coordinating structure is already available through the SME Core Group.
- Strong suggestions of the sector and SME officials.

An independent SME body is envisioned to be more effective in coordinating promotional and supervisory functions. It is projected that it shall:

- Have clearer authority to institute changes and to facilitate implementing policies;
- Foster closer relations with SMEs through a single institution rather than dealing with so many agencies;
- Rationalize existing programs and agencies;
- Reduce duplication of functions and promote efficiency in the execution of programs;

- Provide for means to generate ample funding with the needed appropriate flexibility to enhance efficiency in implementation;
- Provide more extensive professional services to pursue new mechanisms for resource generation; and
- Facilitate compliance by SMEs with respect to regulation by many agencies.

Several options are being considered to achieve the restructuring changes. These approaches are:

- Institutionalization of the SME Core Group within DTI, with coordination functions with other DTI organizations.
- Reorganization of SME development bureaus and agencies (like BSMED, BDT, CITC, PTTC, and BETP and CITEM units) into a Department-status Agency such as the “Small and Medium Enterprises Agency (SMEA).”
- Creation and attachment of related bureaus and agencies from various departments into an Authority with appropriate authority to implement policies and programs.
- Establishment of a private or quasi-private entity (like a “Small Business Promotion Corporation”) as a partner institution from private sector.

(See also Appendix 7 Concepts of Upgrading SME Development Network/ Institutional Restructuring).

Activity 39: SME Development Strategic Planning: Development, Implementation and Monitoring

DTI shall initiate and coordinate studies on the long-term development of SMEs. Among the possible areas to be examined are: policies/regulations and laws, developing markets, effectiveness of credit schemes, technology transfer, enterprise creation, etc.

Integral to this strategy is the management and coordination of programs identified and supported by ODA. In this regard, the strategy envisions regularizing discussions on programs and sharing of lessons and plans with partner foreign institutions, and cooperating with them through complementation of projects/programs.

Component 6b: Strengthening and Diversifying Support to SMEs through Rationalization of the SME Service Delivery Structure to Regional and Provincial Areas – the SMED Regional Centers and SME Desks.

Activity 40: Upgrading the SME Development Network

This Activity shall include rationalizing the SME Network to provide for regional and provincial SME Centers. The Provincial SMED Council shall give general direction to the SME Center.

SME Centers shall be established and structured to suit the requirements in their areas served. For example, in provinces with limited demand for SME services, an SME Desk within DTI, a private organization, or an LGU Center could be adequate. In areas requiring more attention, SME Centers shall be developed, providing a correspondingly wider range of services.

Table 9 **SME DEVELOPMENT NETWORK**

Industry Center	SMED Regional Center	SME Center	SME Desk
<ul style="list-style-type: none"> • Combination of Brand Manager and extension office concept • One-Stop window for advice in specific industries • Industry strategic planning and coordination • Information dissemination market revision • Extension service with the support of Industry Advisors • Buyer – supplier data base with business matching • Development programs and training – support to exhibitors of trade fairs product development and design • Permanent staff, industry advisors 	<ul style="list-style-type: none"> • 20-30 staff, 4-6 Advisors • Coordination and collaboration with other support organizations • Operating budget by the government, income from services • Consultancy • Regional branch of Industry Support Center • Training programs and other support programs not available at SME Center (local level) • Administrative support to SME Centers 	<ul style="list-style-type: none"> • Service area, organization and forms of operation determined by level of commitment and participation of LGUs and private organizations • At least 2 counselors per center • Basic services <ul style="list-style-type: none"> - initial step of consultation - operation of buyer- supplier database including business matching service - Referral to SMEDRC, Industry Support Center and other organizations - Provision of information of available SME support services - Seminar/workshops on basics of business for start up and early stage of business base on local needs • Guidance Center for a specific local industry • Center for regional economic development Activity 	<ul style="list-style-type: none"> • Attached to SMED RC • Located at DTI P.O. • Functions as an SME Center in areas where It is not feasible to establish an SME Center • One SME counselor to provide basic services

Box No. 20

Counselor Training Program

This program aims to increase the number of SME Counselors and to establish a training system for Counselors and Advisers at the SMED Regional Centers, SME Centers, SME Desks, and Industry Centers. The SME Counselor is a staff member responsible of extending first-stage counseling. SME Advisers are professionals registered and recognized by the SMED agency with a particular area of expertise. A qualification system is developed for SME Counselors while a system of registration will be observed for SME Advisers.

STRATEGY 7: Streamline the implementation of SME policies and regulations.

The creation of a conducive business environment for SMEs is of utmost importance to foster the sector's further development. Although policies are in place, their implementation (aside from even the bases of the policies) needs continuing assessment. Further, recent laws require fuller implementation.

This strategy aims to critically examine the effectiveness of regulatory and related promotional measures – to enable the SME sector to meaningfully contribute to national development.

Activity 41: Magna Carta for Small Enterprises (RA 6977, as amended): Government Procurement from SMEs, Systems and Rules

The law requires that government buy from SMEs. Particularly, under Section 4 of RA 6977: “Registered small enterprises shall be entitled to a share of at least ten percent of total procurement of goods and services supplied to the Government, its bureaus, offices and agencies annually: Provided, that prices and quality and goods offered by the registered small enterprises are competitive.”

Systems and procedures to implement this policy – and enable SMEs to benefit as intended by the law – shall be prepared by the SMED Council. As an indication, it is projected that assistance to SMEs can be by working for the simplification of stringent procurement requirements (e.g., complex documentation).

Activity 42: Magna Carta for Small Enterprises (RA 6977, as amended): Mandatory Allocation of Bank Resources

RA 6977, as amended, provides: “For a period of ten years from [July 1996] all lending institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, shall set aside at least six percent and at least two percent for small and medium enterprises, respectively, of their total loan portfolio ...”

Through the Bangko Sentral, the SMED Council shall pursue work for the appropriate implementation of the allocation provision. Monitoring shall be undertaken to help SMEs gain access to credit and to establish an incentive program for lending institutions to meet or even go beyond the mandatory requirement.

Activity 43: Development of Barangay Micro Business Enterprises Act (RA 9178): Development of Implementing Guidelines and Support Programs

Implementation of the law started in 2003.

Among the aspects that this strategy shall look into is the proper establishment of the guidelines and policies, in order to achieve the objectives of the law. Particularly significant are the standardization of systems, promotion programs, and the proper implementation by

LGUs. [The BMBE Law provides for incentives to registered BMBEs such as exemption from minimum wage law, exemption from income tax, special financing, and technical assistance.]

Activity 44: Consumer Awareness Programs and Fair Trading Advocacy

Consumer principles and awareness of issues (like product performance and reliability, support for community enterprises, promotion of markets) are ideals that are championed by consumer organizations. This strategy targets joint advocacy with SME sector groups and the consumers that may be through programs like BUY Pinoy, promotion of crafts and culture, popular notions and matching utility of products.

Very little is known about fair trade principles outside of their advocates and the directly affected parties. Philippine core principles are in line with global fair trade advocacies. The strategy aims to cooperate with others in promoting issues that include: protection of the environment, gender equality, employment, skills development, work conditions, political empowerment, global competition and its effect on ethical business practices, and providing business services to deliver fair trade assistance and support small enterprises in the countryside.

Main beneficiaries are the gifts and houseware industries. In partnership with each other, advocate groups, DTI and SME agencies shall help disseminate the concept of fair trade as integral to SME development and the SME agenda. A thrust is to refocus by giving proper importance to the development of the local market vis-à-vis exports.

Another aspect is to protect SMEs from unfair trade practices. The incidence of unfair trade practices is quite alarming; with problems that include: unpaid deliveries, payment delays, change orders at production midstream, and delivery rejections based on vaguely communicated requirements.

Activity 45: Incentives/Policy Measures for Business Cooperatives

Through the years, cooperatives had gained comparatively better knowledge and capabilities through their closer institutional collaboration.

To build a stronger cooperatives system, the strategy shall consider:

Mainstreaming. This envisions transforming cooperatives into large-scale, professionally managed business ventures fully competing with commercial firms, thereby requiring: (1) business consolidations of small- and medium-size cooperatives, and (2) business focusing on members' needs, products and services, and distinctive advantages.

Network-Building. As with other enterprise forms, sustainable cooperatives networks and operational structures shall be based on:

- Specialization; based on industry or sector interest formation
- Integration. Features a network code of ethics, as well as sharing the roles and responsibilities to govern the working relationships at different levels.
- Cost-efficiency. Although fair prices and returns are desirable, keeping the cost down is a strategic necessity to compete effectively

- Branding, globalization and national advantage - a common identity to promote cooperatives as a distinct sector. The approach is to combine the advantages of global marketing and local flexibility in global franchising.

Policy Advocacy work. Savings and credit cooperatives remain basically unregulated and unsupported by government despite their importance. The law should allow network self-regulation. Efforts shall be taken to strengthen government supervision to better enable cooperatives to lead in promotion, organization and development of cooperatives.

STRATEGY 8: Strengthen and build the capabilities of institutions that generate and implement programs for SMEs development.

Activity 46: National Business Registry

This Registry be a central information database that shall also be a communication tool between buyers, suppliers and customers. Selective restricted access to certain data shall be part of the system and a design is being initiated. Under a two-phase program, the first phase (Systems Designing) was implemented under DTI supervision. Funding for full implementation should include hardware acquisition.

Box No. 21 presents a brief background of the National Business Registry program.

Activity 47: Data Base Build-up and Information Support on SME Status/SME White Paper

The effective and continued gathering of information on various enterprises and industries, especially those not covered by the current system, shall be undertaken through a collaboration of the entities involved. The program shall produce an annual report (“SME White Paper”) on the SME status to be given to the SMED Council within the first quarter of the calendar year.

In addition, the program shall provide timely and processed data that are significant to SME programs and policies.

Some systems data (such as those relating to supplier and market promotion data) may be available for public access and may be instantaneously obtained from the system through the Internet or other convenient means.

The design of the system and integration of national information shall be centrally based for unified data management. Portals for data collection and information management shall be borne by the regional and provincial SME offices, dealing with a system for aggregation and decomposition for local and national data. Government statistics agencies such as the National Statistics Office and the DOLE (Bureau of Labor and Employment Statistics) shall assist in formulating data collection methods and in reviewing them.

The program is also linked with the SME databases promoting e-commerce and B-to-B matching. (See also, Activity 32, Box No 18, Development of SME Data Bases and Information Services)

Activity 48: Streamlining of Registration Requirements

A number of current regulations require streamlining and simplification. Very stringent rules and registration requirements were identified as impeding the establishing and smooth operations of SME projects with good potential. All systems can be improved.

Those that merit closer review include:

Fees and Procedures:

1. Reasonable fee imposition is acceptable provided efficient systems are in place. Improvements may be in the form of electronic and computer systems, on-line application and registration, or access through satellite offices or mobile personnel.
2. Business name registration renewal could be decentralized and combined with local business registration requirements.
3. Fees from the Business Name Registration are a potential fund source to augment funding for SME programs (increased possibility of higher fees). Percentages of Business Name – Local Government Fees (plus Local Development Fund) may be earmarked for SME programs.
4. Business Name Set-up Unified with Local Permits - Review of potentials for unified system for business name and the local business registration needs.

Streamlining complex registration requirements

Certain registration requirements are inappropriate and arduous, being meant for more complex products or activities. These requirements include:

- for food processing and organic products under the Food and Drugs Act;
- fertilizer and pesticide regulations for access of agriculture projects; and
- forms, procedures and requirements for business licensing.

Other opportunities for improvement include:

- Simplification and standardization of systems of LGUs on permits;
- Simplification of compliance with BIR and SSS requirements;
- Further simplification and possible integration of Business Name Registration (BNR) at DTI and the LGU.
- Further simplification of compliance for rural-based corporate and cooperative systems – possibly consolidated with BNR and LGU requirements.

Box No. 21

National Business Registry

Efforts to improve the business climate are hampered by the high cost of doing business and the unavailability of accurate data and information. The NBR will serve as a central database of information on business enterprises in the country. The system will be able to monitor the success rate of business enterprise by tracking their growth and status at any time.

The NBR is envisioned to help improve the policy-making, monitoring and marketing functions of government and private SME-related organizations by making all basic information readily available. An added facility of NBR is that business enterprises can expand their markets by using the Registry to find potential buyers, suppliers, or partners. It will also lessen the cost of doing business by relieving firms from the burden of repeatedly submitting the same information to the various government agencies and others.

The NBR has two phases: Phase 1 – the systems design; and Phase 2 – the infrastructure systems development and operation of the National Business Registry. Phase 1 was developed and initial design is available. Funding for Phase 2 is still to be sourced.

VII. Implementation of SMED Plan 2004-2010

The SME Development Plan 2004-2010 shall be jointly implemented by the government, private sector organizations and private sector development NGOs. The SMED Council shall oversee its implementation.

An assessment of results shall be done after the three-year roll-out and the Plan's subsequent implementation up to 2010 shall be based on the Plan's re-programming based on the assessment results.

Implementation Matrices

The following matrices are some implementing guidelines relating the activities, indicators, time frames, lead agencies and resources involved.

**ESTABLISHMENT OF INDUSTRY CENTERS
ACTIVITIES 5, 20-26**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
<p>To provide a comprehensive assistance to SMEs in the furniture and export general merchandise, processed food, and supporting industry sectors</p>	<p>A one-stop window for advice for SMEs will be established. The concept is a combination of the brand manager concept, and extension office of industrial know-how.</p> <p>Target Beneficiaries: SMEs in furniture, general merchandise, processed food, and supporting industry sectors</p>	<ol style="list-style-type: none"> 1. Establish the centers 2. Prepare a strategy for the selected industry sectors 3. Recruit Industrial advisors 4. Provide the following <ol style="list-style-type: none"> a. Advice on marketing and product development. b. Business matching service c. Guidance on production management d. Factory diagnosis and guidance e. Assistance in the proposing contracts with foreign firms 	<p>Number of SMEs assisted</p> <p>% increase in sales of SMEs after assistance</p> <p>No. of market linkages established</p>	<p>9 months until temporary operation</p>	<p>Industrial advisors US\$ 22,500</p> <p>Funds to operate the center US\$ 5,000</p> <p>Staff to extend advice to SMEs (to be transferred from existing institutions and agencies) US\$ 133,200</p>	<p>DTI- existing organization</p> <p>SMEDA-proposed organization</p>	<p>Willingness of the staff of concerned DTI agencies to be integrated in the proposed SMEDA</p> <p>Availability of funds and qualified advisors</p>

**PROMOTION OF QUALITY MANAGEMENT IN SMEs
ACTIVITY 6**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To improve quality and productivity of SMEs	<p>Total quality management will be implemented.</p> <p>The PQA will be open to SMEs.</p> <p>Accreditation and certification process regarding international norms will be improved.</p> <p>Target Beneficiaries: -SMEs -Staff of government agency in charge of product standards</p>	<p>PQA</p> <ol style="list-style-type: none"> 1. Prepare a template for SMEs 2. Conduct pilot testing 3. Design implementation strategies <p>ACCREDITATION Provide training to government staff and SMEs on international standards</p>	Number of SMEs who are qualified in the PQA	1 year	<p>Productivity and quality management experts</p> <p>Training funds US\$ 3,200</p>	DTI DAP	Willingness of SMEs to participate

DEVELOPMENT OF STANDARD CURRICULUM FOR TECHNICAL TRAINING

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To promote better understanding addressing the technical needs of the industry/SMEs	<p>Develop standard curriculum for technical training</p> <p>Provide the standard curriculum to vocational schools and organizations undertaking technical training</p> <p>Target Beneficiaries: SMEs</p>	<ol style="list-style-type: none"> 1. Identify fund source 2. Develop the curriculum 3. Promote/ present curriculum to industrial training schools 4. Conduct trainings 5. Evaluate the training programs 	<p>Number of curriculum developed</p> <p>Number of courses/technical training implemented</p> <p>Number of SMEs trained/benefited</p>	1 year and 3 months	<p>Funds to develop curriculum US\$ 9,100</p> <p>Local staff US\$900</p>	<p>MIRDC</p> <p>Industry Associations</p> <p>Academe</p> <p>Vocational Schools</p> <p>Industry Centers – proposed organization</p>	<p>Availability of funds</p> <p>Cooperation between government and private sectors</p> <p>Willingness of the vocational schools/ organizations to implement the program</p>

**DEVELOPMENT OF SME DATA BASES AND INFORMATION SYSTEM*
ACTIVITY 32**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To provide information useful in promoting business matching between buyers and suppliers	<p>A database to be used among government agencies to obtain information on buyers and suppliers will be established</p> <p>Target Beneficiaries:</p> <p>Buyers Suppliers</p>	<p>1. Consult with buyer and suppliers required information</p> <p>2. Prepare inventory of existing databases of BOI, CITEM, BDT, BETP, BSMED</p> <p>3. Promote to buyers and suppliers to participate in the unified database</p> <p>4. Maintain and update the database</p>	Number of enterprises who participated	6 months for preparation	<p>Computer hardware and software US\$ 30,400 (including US\$ 15,400 for hardware)</p> <p>Local contracted persons US\$ 500</p>	<p>BDT BSMED BETP BOI CITEM</p> <p>existing organizations</p> <p>SMEDA - proposed organization</p>	<p>Willingness of enterprises to provide accurate and updated information</p> <p>Availability of qualified personnel to maintain the database</p>

* To be used by the SME Centers

**UPGRADING OF SME DEVELOPMENT NETWORK
SME COUNSELING AND ADVISING PROGRAMS
ACTIVITIES 2, 40**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
<p>To train SME counselors who will provide advice and guidance to SMEs</p> <p>To develop a new training system for SME Counselors</p> <p>To develop registration system for SME advisors</p>	<p>A training and qualification system for SME counselors will be developed.</p> <p>A registration system will be developed for SME advisors</p> <p>Target Beneficiaries: SME counselors</p>	<ol style="list-style-type: none"> 1. Develop implementation plan for the training program 2. Prepare the training curriculum and training materials 3. Promote the programs 4. Identify and send 30 persons to the counselors training program 5. Identify and register SME advisors 	<p>Number of counselors trained</p> <p>Training system for SME counselors developed</p> <p>Registration system for SME advisors developed</p> <p>Number of SME advisors registered</p>	3 years	Training Funds US\$ 108,500 (including lecturers/instructors, training materials, transportation and accommodation for trainees from the regions, and development of training courses)	<p>PTTC</p> <p>BSMED</p> <p>PSMEDC</p> <p>- existing organizations</p> <p>SMEDA - proposed organization</p>	<p>Availability of funds for the training programs</p> <p>Willingness of SME advisors to provide their services</p> <p>Cooperation of the government, the private sector, and the academe.</p> <p>Availability of qualified SME counselors and advisors</p>

**TECHNOLOGY APPLICATION PROMOTIONS
ACTIVITY 8**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
<p>To improve production management of SMEs</p> <p>To narrow the technology gap between buyers and manufacturers/suppliers</p> <p>To promote better understanding of the buyers/customers requirements</p>	<p>Seminars and workshops for SME owner and production managers will be conducted</p> <p>Target Beneficiaries:</p> <p>SMEs Buyers</p>	<p>1. Develop training modules-lectures and in-plant diagnosis and guidance</p> <p>2. Promote the programs</p> <p>3. Conduct training programs</p>	<p>Number of SMEs trained</p> <p>Number of supply contracts developed</p>	<p>8 months for preparation</p>	<p>Resource persons/production experts</p> <p>Seminar materials</p> <p>For local resources-based industries US\$ 19,800</p> <p>For supporting industries US\$ 24,800 + US\$ 73,800 (for inviting foreign experts)</p> <p>Local staff US\$ 4,400</p>	<p>PTTC</p> <p>CITC</p> <p>UP-ISSI</p> <p>MIRDC</p> <p>Industry Center</p> <p>} Existing organizations</p> <p>} Proposed organization</p>	<p>Cooperation of the industry associations</p> <p>Willingness of SMEs to participate and adopt appropriate methods</p> <p>Availability of resource persons/production experts</p>

**PRODUCT DEVELOPMENT AND DESIGN SERVICES/ WORKSHOP
ACTIVITY 12**

OBJEC-TIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To enhance support for exhibitors of trade fairs	<p>Design workshops, which analyze trends of target markets and develop products based on the analysis, will be conducted</p> <p>Target Beneficiaries:</p> <ul style="list-style-type: none"> - Designers - Trade fair exhibitors 	<ol style="list-style-type: none"> 1. Prepare concept/ proposal 2. Identify fund source 3. Set the development target of the product or market 4. Identify local/foreign designers and exhibit events 5. Conduct workshops 6. Exhibit the workshop outputs 7. Evaluate the workshop 	<ul style="list-style-type: none"> • Number of designs commercialized • Number of SMEs benefited • Amount of sales generated 	1 ½ years for the preparation to conduct the first workshop	<p>Funds to pay for foreign designers US\$ 75,600</p> <p>Costs and expenses US\$ 32,800 (2 workshops at 2 locations each)</p> <p>Local staff and contracted persons US\$ 19,300</p>	<p>PDDCP Sectoral Industry Associations</p> <p>Industry Center SMED Regional Center</p> <p>Existing organizations</p> <p>Proposed organizations</p>	<p>Presence of private organization to plan and manage the workshops</p> <p>Willingness of local designers to pay participation fees</p> <p>Availability of funds</p> <p>Willingness of foreign designers to participate</p> <p>Cooperation between government and private sectors</p>

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BUSINESS SEEDS IDENTIFICATION AND DEVELOPMENT*
ACTIVITY 13

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To encourage / support new enterprises/ business start-ups	A mechanism will be developed to support business start-ups Target Beneficiaries: New enterprises	1. Identify start-ups 2. Provide consulting service 3. Introduce SME advisor 4. Build-up business opportunity database	Number of new enterprises / start-ups assisted	6 months to prepare the mechanism to support the business start-ups identification and development	SME counselors SME advisors Database Costs and expenses are those for the ordinary operation of the responsible agencies	Industry Centers SMED Regional Center SME Center SME Desk	Presence of qualified counselors and advisors Availability of updated information on business opportunities Willingness of institutions to provide required information

* One of the services of the SMED Network

**SUBCONTRACTING PROMOTIONS SEMINARS FOR ELECTRONICS,
AUTOMOTIVE PARTS AND SERVICES AND FOREIGN TECHNOLOGY ENTERPRISES
ACTIVITY 19**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
<p>To give SMEs information on procurement plan and requirements/ conditions</p> <p>To promote better understanding of the buyers/ customers requirements</p>	<p>Seminars for manufacturers who are interested in supply of parts and materials</p> <p>Target Beneficiaries: SMEs Multinational companies</p>	<p>1. Identify possible participants/ speakers</p> <p>2. Conduct training programs</p>	<p>Number of SMEs trained/ informed</p> <p>Amount of sales generated</p> <p>Number of SMEs and Multinational Corporations linked/matched</p>	<p>4 months for preparation</p>	<p>Resource persons</p> <p>Seminar materials US\$ 800</p> <p>Local staff US\$ 500</p>	<p>BOI } Existing organizations</p> <p>MIRDC }</p> <p>Industry Center } Proposed organizations</p>	<p>Willingness of SMEs to upgrade to global standards</p> <p>Willingness of large companies to partner with and develop small suppliers</p> <p>Availability of resource persons</p>

* one of the services of the proposed Support Industry Center

**DESIGN COMPETITION
ACTIVITY 28**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To give designers the incentives for their upgrading and opportunity to promote their designs to industries and buyers	Annual competition of designers will be held in time with major international trade fairs Target Beneficiaries: Design students in their senior year in college	1. Prepare concept/ project proposal 2. Identify fund source 3. Invite applicants and sponsors 4. Screen applicants	Number of designs commercialized Number of designers who participated	1 ½ years for the preparation to conduct the first competition	Funds for the prizes and promotion of the competition US\$ 23,000 Local staff and contracted persons US\$ 11,700	PDDCP Sectoral Industry Associations Industry Center SMED Regional Center	Willingness of private sector organizations to support the competition Active promotion of the competition Presence of qualified designers

**PACKAGING TECHNOLOGY DEVELOPMENT
ACTIVITY 30**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To develop institutional system for dissemination of packaging/ labeling technology in the processed food sector	<p>Packaging/ labeling technologies relevant to food processing SMEs will be made available through PRDCP and the SME Support Network</p> <p>Target Beneficiaries:</p> <ul style="list-style-type: none"> - Food processors - PRDCP staff/experts 	<ol style="list-style-type: none"> 1. Identify the problem of SMEs in packaging/ labeling and demand for services 2. Identify the appropriate facilities and human resources to support SMEs in the processed food sector 3. Develop a plan to nurture the advisory staff 4. Prepare guidelines for packaging labeling technology guidance 5. Disseminate packaging/labeling technology through workshops and mobile consultation 	<p>Number of SMEs assisted</p> <p>Increase in sales after the package improvement</p> <p>Number of PRDCP staff trained</p>	2 years until the dissemination system is developed	<p>Fund for survey and guidance, upgrading PRDCP facilities and training of the PRDCP staff by foreign experts US\$ 430,900</p> <p>PRDCP and SME Support Network (staff and testing equipment) US\$ 120,000</p> <p>Workshop and mobile consultation US\$ 27,600</p> <p>Local staff US\$ 5,400</p>	<p>PRDCP – existing organization</p> <p>Food Processing Industry Center - proposed organization (in collaboration with PRDCP)</p>	<p>Availability of appropriate packaging/ labeling technology for SMEs</p> <p>Willingness of SMEs to adopt the packaging/ labeling technology</p> <p>Availability of PRDCP and SME Support Network staff to provide consultation and guidance to SMEs</p> <p>Availability of funds to upgrade PRDCP facilities, testing facilities at SMED-RCs, and technical skills of staff</p>

**PROMOTION OF SUPPLEMENTARY MEASURES TO REDUCE RISKS OF SME FINANCING
ACTIVITY 34**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To facilitate access of small enterprises to loans	Loans of up to P2M without collateral will be made available to viable small enterprises under professional advice and guidance of an SME counselor for at least six months Target Beneficiaries: Collateral-short small enterprises	1. Identify small enterprises in need of advice and guidance 2. Provide company diagnosis to qualified small enterprises 3. Assist the enterprise to apply for financing with government financial institutions (SBC)	Number of enterprises assisted Amount of loans availed Repayment rate	1 year and 3 months	Loan funds – Php6M SME Counselors Counseling service fee – Php42M	SBC – existing organization SMEDA – proposed organization	Willingness of the enterprise to cooperate with the SME Counselor Availability of loan funds Availability of qualified SME Counselors

**PERSONAL GUARANTEE SYSTEM
ACTIVITY 35**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
<p>To expand the scope of the personal guarantee system</p> <p>To increase the flow of funds to SMEs</p> <p>To modify BSP's rediscount system</p>	<p>Design of a personal guarantee system to make up for the shortage of collateral of SME borrowers</p> <p>Target Beneficiaries:</p> <p>Collateral short SMEs</p>	<ol style="list-style-type: none"> 1. Conduct consultations regarding amendments to the BSP's rediscount system 2. Enact a law containing the amendments 3. Implement the personal guarantee system 4. Monitor the performance of the personal guarantee system 	<p>Number of SMEs guaranteed</p> <p>Amount of loans to SMEs</p>	<p>A year for amendment of BSP's lending regulation and circulation.</p> <p>(In case SBC will apply this system, it can be decided by themselves)</p>	<p>BSP and financial institutions have to increase a reserve fund for default cases, according to forecast from the past record and experiences.</p>	<p>BSP</p> <p>Financial institutions</p>	<p>Willingness of banks to adopt the personal guarantee system</p> <p>Cooperation of the legislative branch</p>

**LOCAL DEVELOPMENT PROJECT PROMOTION
ACTIVITY 43**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS				
<p>To support creation and growth of local micro and small enterprise</p>	<p>Promotion of local development projects in selected cities/ municipalities with initiative of the LGUs</p> <p>Target Beneficiaries: Micro and small enterprises</p>	<ol style="list-style-type: none"> 1. Identify the potential localities 2. Conduct workshops to identify local resources and develop product ideas 3. Assist LGUs and CCI in developing and evaluating project plans 4. Assist to organize business cooperative/s to implement the business ideas/plan 5. Provide support to the identified business idea through management and technical guidance, loan facilitation, and participation in the trade fairs 	<p>Number of projects implemented</p> <p>Number of employment created</p> <p>Amount of sales generated</p>	<p>2 years for project identification , evaluation, and planning</p>	<p>Funds for the workshops and trade fairs US\$ 330,000 (for foreign experts cost) US\$ 27,000 (for guidance for project planning)</p> <p>SME Counselors</p>	<table border="0"> <tr> <td data-bbox="1496 357 1615 523"> <p>SMED Council SME Center DILG PSMEDC</p> </td> <td data-bbox="1615 357 1818 523"> <p>} Existing Organizations</p> </td> </tr> <tr> <td data-bbox="1496 596 1615 762"> <p>SMEDA SMED Regional Center</p> </td> <td data-bbox="1615 596 1818 762"> <p>} Proposed organizations</p> </td> </tr> </table>	<p>SMED Council SME Center DILG PSMEDC</p>	<p>} Existing Organizations</p>	<p>SMEDA SMED Regional Center</p>	<p>} Proposed organizations</p>	<p>Willingness of LGUs to support local development through micro and small enterprise creation and growth</p> <p>Cooperation of local chambers and the local enterprises</p> <p>Presence of qualified SME counselors</p> <p>Availability of resource persons for the workshops</p>
<p>SMED Council SME Center DILG PSMEDC</p>	<p>} Existing Organizations</p>										
<p>SMEDA SMED Regional Center</p>	<p>} Proposed organizations</p>										

**NATIONAL BUSINESS REGISTRY
ACTIVITY 46**

OBJECTIVES	DESCRIPTION	MAJOR ACTIVITIES	INDICATORS	TIME FRAME	RESOURCES REQUIRED	COOPERATING AGENCIES	ASSUMPTIONS
To help improve the policy-making, monitoring and marketing functions of government and private SME related organizations	<p>A central database of information on business enterprises will be developed.</p> <p>The NBR will make available all basic information on all enterprises</p> <p>Target Beneficiaries: -SMEs -Institutions assisting SMEs</p>	<ol style="list-style-type: none"> 1. Systems design 2. Fund sourcing for hardware and software requirements 3. Software development 4. Hardware procurement 5. Actual NBR operations 	No. of SMEs included in the registry	<p>1 year for systems design (completed)</p> <p>1 year for systems development</p>	<p>Computer hardware and software US\$220,000</p> <p>IT experts</p> <p>Operating funds</p>	<p>SMED Council</p> <p>Government agencies</p> <p>LGUs</p> <p>Private Organizations</p>	<p>Willingness of agencies to share their databases</p> <p>Cooperation of SMEs to provide accurate and updated information</p> <p>Availability of funds to purchase the computer hardware and software</p> <p>Availability of funds and manpower to run and maintain the system</p>

APPENDICES

Appendix 1 Value Chain Diagrams for Selected Products

- a. Value Chain for Organic Products (Figure 3)
- b. Value Chain Chart for Costume Jewelry (Figure 4)
- c. Value Chain Chart for Fine Jewelry (Figure 5)
- d. Value Chain Chart for Footwear (Figure 6)
- e. Value Chain Chart for Leathergoods (Figure 7)
- f. Value Chain Chart for Houseware (Figure 8)
- g. Value Chain Chart for Furniture (Figure 9)

Appendix 2 Key Issues Relating to Major SME Sub-Sectors

- a. Table on Key Issues on Processed Food Industry
- b. Table on Key Issues on Furniture Industry
- c. Table on Key Issues on Gift wares, Wearables, Holiday Decorations, Handicrafts, and Houseware (GW3H) Industry
- d. Table on Key Issues on Supporting Industries

Appendix 3 Table of Incentives Provided to Enterprises

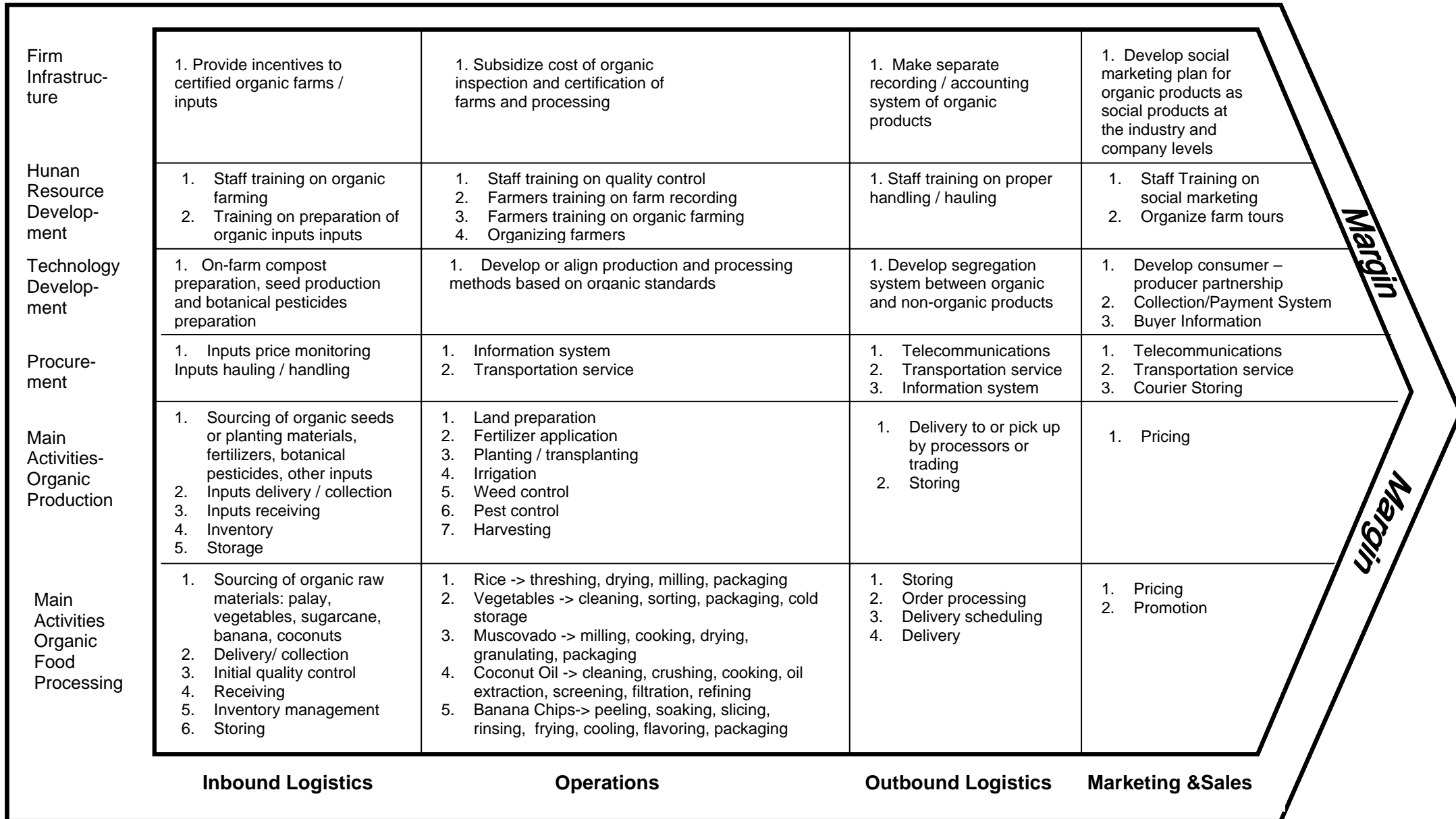
Appendix 4 The Philippine SME Development Milestones in Perspective

Appendix 5 Sub-sector Development Programs

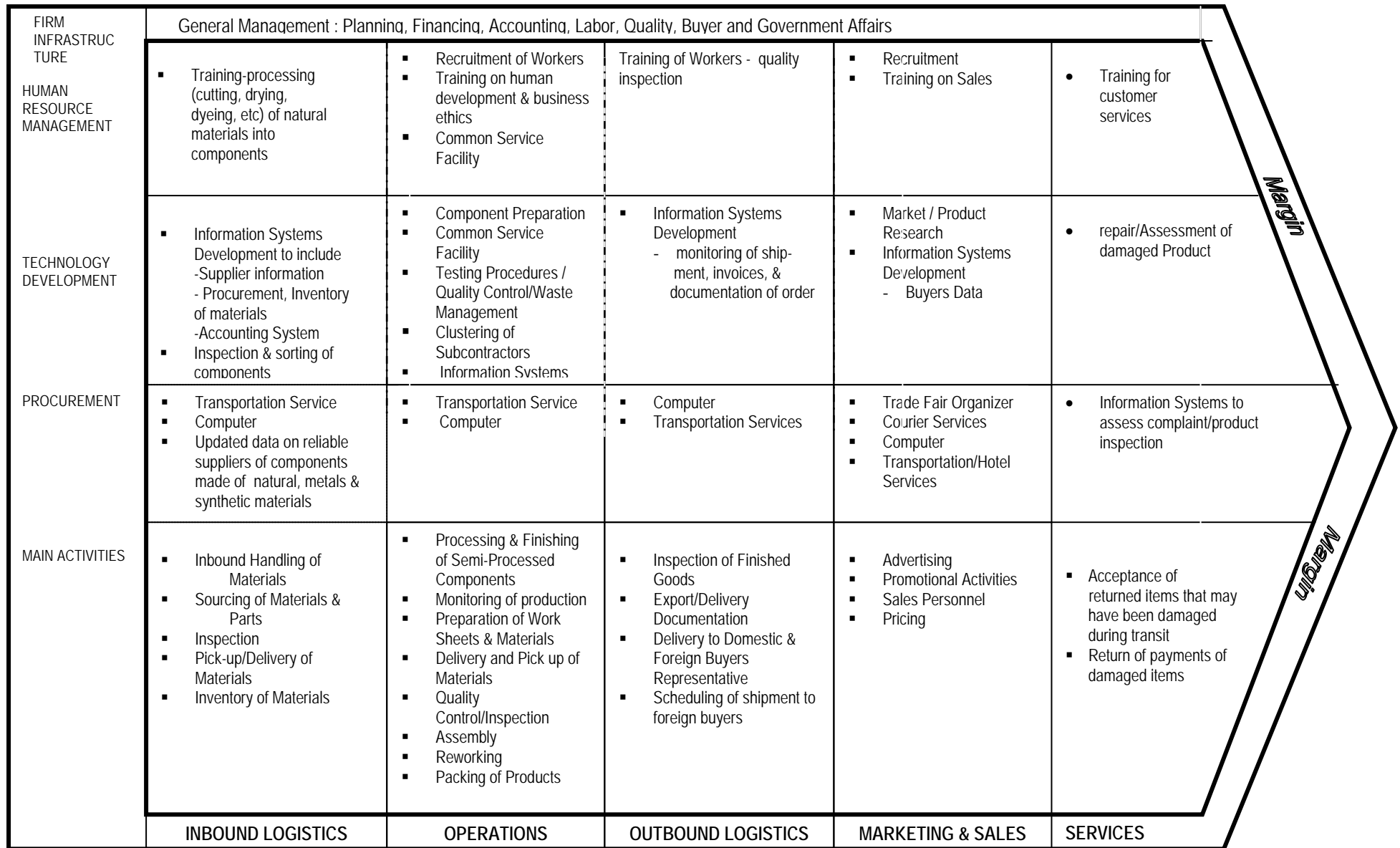
- a. Highlights of the Sub-sector Development Program for the Food Processing Industry
- b. Highlights of the Sub-sector Development Program for the Furniture Industry
- c. Highlights of the Sub-sector Development Program for the Gifts, Wearables, Holiday Decorations, Handicrafts, and Housewares
- d. Highlights of the Sub-sector Development Program for the Supporting Industries for Electronic and Electrical Industries, Automotive parts, Metalworking Industries and Advanced! Foreign Manufacturing Technology Industries
- e. Highlights of the Sub-sector Development Program for Packaging Development
- f. Highlights of the Sub-sector Development Program for the Agro-Processing and Fisheries/Marine Industry
- g. Highlights of the Support Center for Facilitating Partnerships and Interregional Alliances

Appendix 6 Concept Of Upgrading SME Development Network (SME Regional Centers and SME Desks)

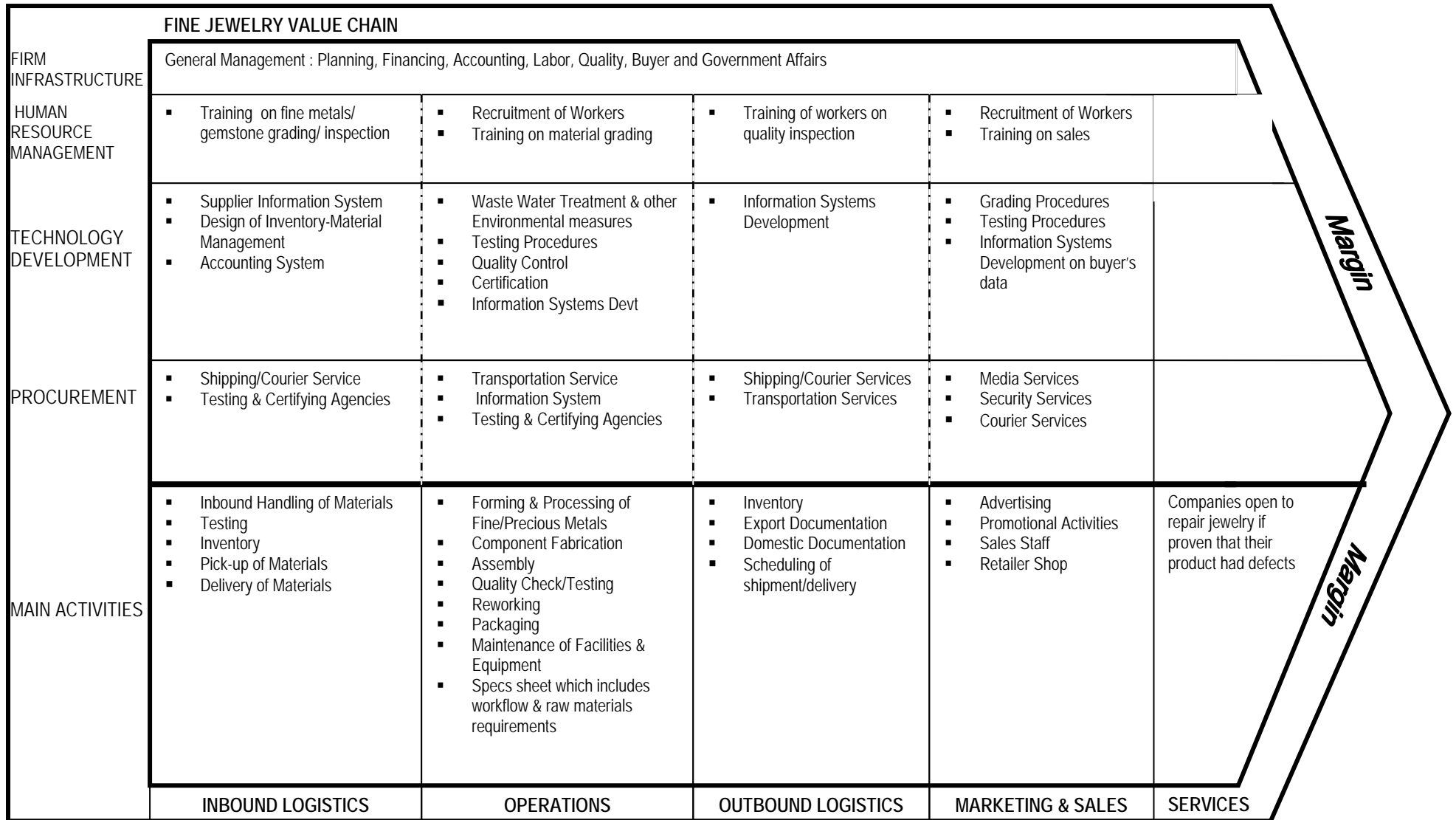
Appendix 1a. - Figure 3. Organic Products Value Chain



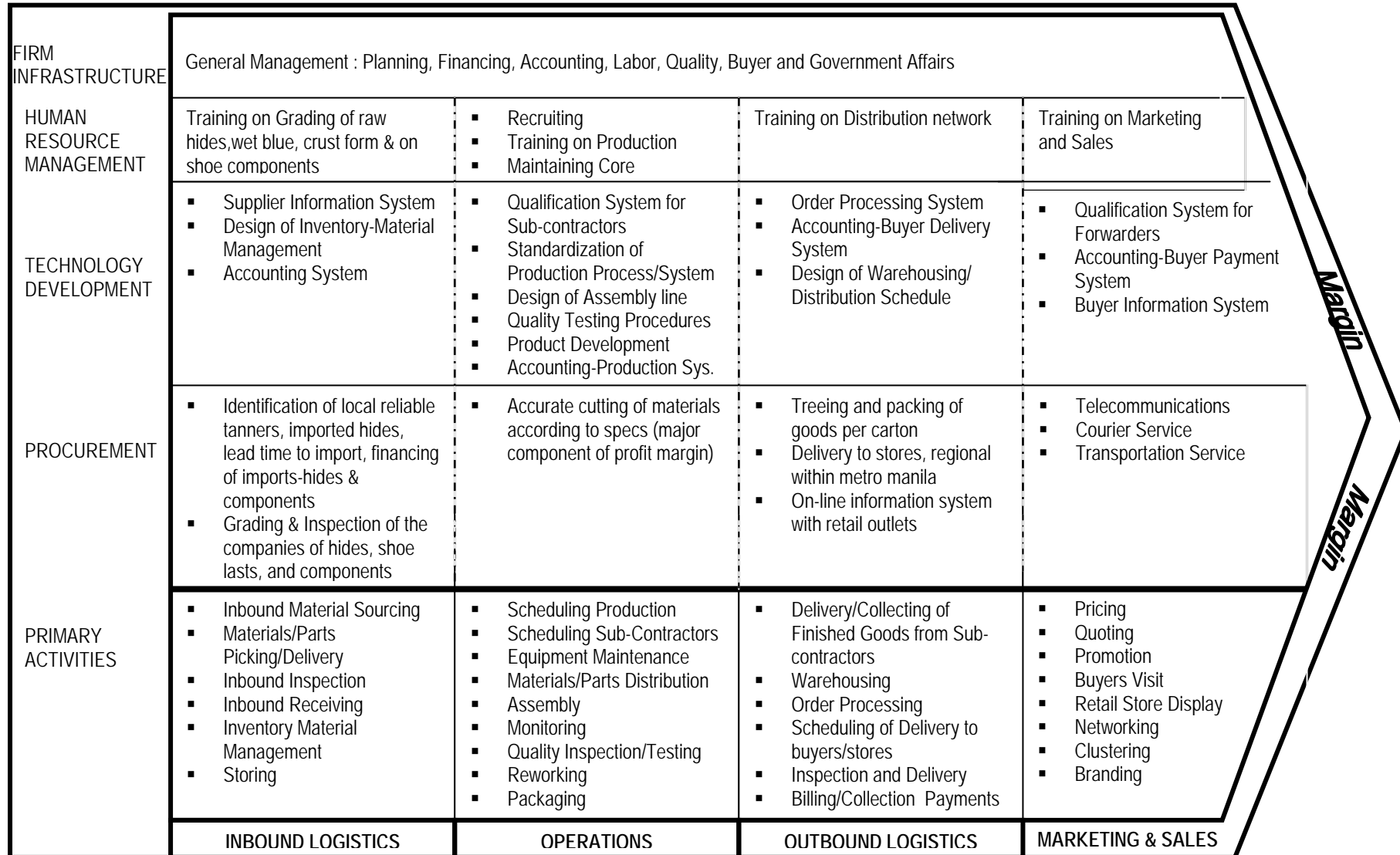
Appendix 1b. - Figure 4. Costume Jewelry Value Chain



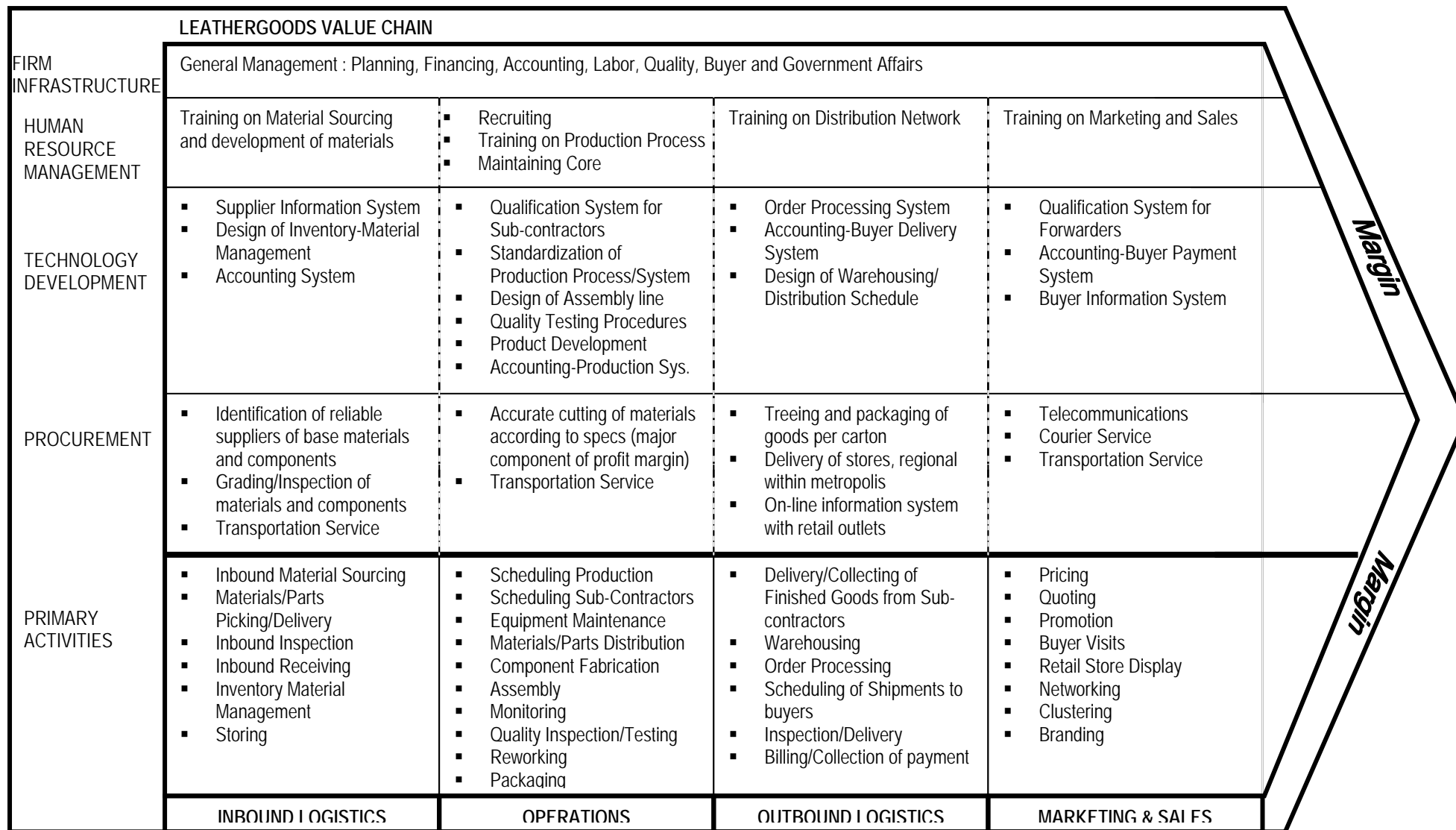
Appendix 1c. - Figure 5. Fine Jewelry Value Chain



Appendix 1d. - Figure 6. Footwear Value Chain



Appendix 1e. - Figure 7. Leathergoods Value Chain



HOUSEWARE VALUE CHAIN

<p>FIRM INFRASTRUCTURE</p> <p>HUMAN RESOURCE MANAGEMENT</p> <p>TECHNOLOGY DEVELOPMENT</p> <p>PROCUREMENT</p> <p>MAIN ACTIVITIES</p>	<ul style="list-style-type: none"> - Inventory control, material requirement, planning, material costing, purchases/job order forms, payment and invoice forms, etc: stand alone systems; pre-printed forms. - Quality standards/controls: working drawings and control samples as basis; inspector-based, wisdom from experience: not formally documented. 	<ul style="list-style-type: none"> - Production Planning and Scheduling: posted in visible areas. - Product policy: flexible - Quality standards/control: working drawings and control samples; inspector based; gut feel -based on years of experience 	<ul style="list-style-type: none"> - Shipment and delivery scheduling posted in visible areas - Quality control: 100% and/or random sampling 	<ul style="list-style-type: none"> - Files/Folders of buyers and transactions - Exhibition guidelines - Marketing policy 	<ul style="list-style-type: none"> - Reject/ Replacement policy 	<p>MARGIN</p>
	<ul style="list-style-type: none"> - Recruitment - referral, posting - Office staff: monthly salary - Employee Orientation/Apprenticeship - On-the-job training/in-house training 	<ul style="list-style-type: none"> - Workers: monthly; piece rate, contract, daily - On the job training/apprenticeship 	<ul style="list-style-type: none"> - On the job training - Employee orientation - Seminar on export documentation 	<ul style="list-style-type: none"> - Usually performed by owner - Training on basics of exporting/trade fair participation - On-the-job training 	<ul style="list-style-type: none"> - On-the-job training 	
	<ul style="list-style-type: none"> - Manual planning and calculation of material requirements - Manual processing of purchase orders and inbound invoices (usually pre-printed forms) - Perpetual inventory manually updated - Traditional material processing and production technology - Manual to semi-mechanized processing and components production/improvised technology 	<ul style="list-style-type: none"> - Production operations: combination of manual and semi-mechanization - Product development and design: in-house and external designers-designs are made manually - Relies on magazines and reports for product and market info - main sources are buyers, trade fairs, DTI and association 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to face meeting - Manual construction of boxes - Manual goods handling 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to-face meeting - Website promotion - Internet surfing - Magazines/publications:buyers and design/ market info 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to-face meeting 	
	<ul style="list-style-type: none"> - Manual listing of materials required for incoming orders - Visits to potential sources of info on materials and suppliers - Visits to potential suppliers/subcontractors to assess capability and capacity - Sampling and price negotiation - Manual order placement - Issuance of cash advances, tools and materials - Visits to monitor progress and delivery 	<ul style="list-style-type: none"> - Reactivate maintenance and repair of tools and equipment - Visit to monitor work progress 	<ul style="list-style-type: none"> - Manual packaging and loading - Paper-based manual processing of orders and documentation requirements 	<ul style="list-style-type: none"> - Info on trade fairs and bazaars - Purchase of exhibition supplies - Canvass on transportation and shipping 	<ul style="list-style-type: none"> - Coordination with suppliers re: replacements- 	
	<ul style="list-style-type: none"> - Pick-up and/or receipt of delivery from supplier: usually suppliers within the region consisting of micro and informal enterprises - Inspection of goods: 100% or random sampling - Manual sorting - Reject return to suppliers at suppliers' cost for rework or; done by in-house and charge to supplier or replacement at no added cost - Manual storage and warehousing - Physical inventory: practices just-in-time delivery - Manual to semi-mechanized cutting and sizing - Manual to semi-mechanized cutting and sizing 	<ul style="list-style-type: none"> - Production design - preparation of control samples - Work-in-process - Multi-parts assembly: manual - Finishing: airless and conventional spray guns; finishing spray booth - Retouch/Rework - In-between process and/of process inspection 	<ul style="list-style-type: none"> - Carton construction and marking on boxes 	<ul style="list-style-type: none"> - Trade fair participation 	<ul style="list-style-type: none"> - Repair of products with damages 	
	<ul style="list-style-type: none"> - Heavy dependence on suppliers - Low to medium quality inputs - Large volume not readily accessible 	<ul style="list-style-type: none"> - Flexible production; wide range of product with low to mid volume range - Low to medium quality products - Innovative designs:aesthetic 	<ul style="list-style-type: none"> - Manual fragmented processes - Low level of finished goods inventory 	<ul style="list-style-type: none"> - Concentration in key accounts - Niche marketing - Face-to-face marketing - 20-30% mark-up 	<ul style="list-style-type: none"> - Demand-led 	
	<p style="text-align: center;">INBOUND LOGISITCS</p>	<p style="text-align: center;">OPERATIONS</p>	<p style="text-align: center;">OUTBOUND LOGISTICS</p>	<p style="text-align: center;">MARKETING & SALES</p>	<p style="text-align: center;">SERVICE</p>	

Appendix 1f. Value Chain Chart for Houseware (Figure 8)

FURNITURE VALUE CHAIN

<p style="text-align: center;">FIRM INFRASTRUCTURE</p> <p style="text-align: center;">HUMAN RESOURCE MANAGEMENT</p> <p style="text-align: center;">TECHNOLOGY DEVELOPMENT</p> <p style="text-align: center;">PROCUREMENT</p> <p style="text-align: center;">MAIN ACTIVITIES</p>	<ul style="list-style-type: none"> - Non-integrated systems/pre- printed forms to be filled up manually: inventory control, material requirements planning, material costing, purchase/job order forms, payment and invoice forms, etc. - Quality standards/controls: working drawings and control samples as basis; PO/JO specifications, inspector-based, gut feel-experience. 	<ul style="list-style-type: none"> - Non-integrated systems - Production Planning and Scheduling: charts and blackboards - Product policy: flexible - Quality standards/control:working drawings and control samples; inspector-based; gut feel - experience. - Basic safety guidelines and policies - Cost reduction policies/some productivity initiatives 	<ul style="list-style-type: none"> - Delivery schedules: charts and black boards. - Quality standards: working drawings and control samples; inspector-based. 	<ul style="list-style-type: none"> - Manual records of buyers and transactions - Exhibition guidelines - Marketing policies 	<ul style="list-style-type: none"> - Replace ment policy
	<ul style="list-style-type: none"> - Clerical.adm/bookeeping skills; regular employees. - Purchasing/Sourcing: owner - somebody close to owner - experience - Material processing: on the-job experience - Micro subcontractors and suppliers: experience; intermittent training 	<ul style="list-style-type: none"> - Piece rate/daily workers - Regular/contractual workers - On-the-job training/apprenticeship - Finishing courses - Short training/workshops on production techniques. 	<ul style="list-style-type: none"> - Regular and contract workers - On-the-job training and apprenticeship 	<ul style="list-style-type: none"> - Usually with owner as lead person - On-the-job training and years of experience - Training on export marketing, trade fair participation and the like 	<ul style="list-style-type: none"> - On-the-job training/ years of experience
	<ul style="list-style-type: none"> - Phone, e-mail, fax, face-to-face meetings - Computer: typing and printing - Paper-based/manual processing - Manual routing/non-integrated; requisition-order placement-tracking-receiving-storage-inventory-distribution - Quality control: physical/visual inspection - Manual to semi-mechanized material processing 	<ul style="list-style-type: none"> - Semi-mechanized production - Single function machines, and at times locally fabricated and mini type - Product development: strong in aesthetic; some use CAD - Manual coordination of tasks - Quality control: physical/visual inspection - Physical testing - Dust collector/basic waste management 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to-face meeting - Crate - foam packaging - Manual goods handling 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to-face meeting - Website promotion - Internet surfing - Magazines/publications:buyers and design/market info 	<ul style="list-style-type: none"> - Communication: phone, e-mail, fax, face-to-face meeting
	<ul style="list-style-type: none"> - Info sourcing: formal & informal network - Selection and evaluation of suppliers: - Actual visits, trade fairs, DTI market matching - Negotiation and monitoring: actual visits - Cash advances and provision of tools to suppliers - Facilitation of reworks and replacements - Maintenance of inventory 	<ul style="list-style-type: none"> - Reactivate equipment maintenance - Monitoring of subcontractors: actual visits 	<ul style="list-style-type: none"> - Canvass and purchase of packaging materials - Manual coordination of shipping and consolidation 	<ul style="list-style-type: none"> -Info on trade fairs - Sourcing of exhibition supplies 	<ul style="list-style-type: none"> - Coordination with suppliers re: replacements-
	<ul style="list-style-type: none"> - Pick-up materials and/or delivery by suppliers; using mix of local and imported materials. - Quality checking: 100% or random sampling - Hand sorting and grading: rejects/returned to suppliers or repaired in-house - Kiln/Air/Sun Drying and other chemical treatment -Manual storage and warehousing-open air and/or enclosed room - Managing the inventory: just-in-time delivery - Manual to semi-mechanized cutting and sizing 	<ul style="list-style-type: none"> - Preparation of jigs, templates, and control samples - Semi-mechanized rough milling, machining, and sanding - Work-in-process: Carving, stone in-lay, - Assembly & carpentry: manual Fiberglass casting upholstery, metal works - Finishing: airless and conventional spray guns; finishing spray booth - Attachment of other components; Rework/Retouch - In-between process and/or end-of process inspection 	<ul style="list-style-type: none"> - Checking of finished good prior to packing - Packaging and labeling - Final inventory and checking - Manual product handling operations - Shipping and warehousing 	<ul style="list-style-type: none"> - Trade fair participation: primary tool - Selling missions/personal visits to buyers - Catalogues/Mailers/Websites/Referrals - Sampling and countersampling - Commissions to sales agents 	
	<ul style="list-style-type: none"> - Heavy dependence on suppliers - Low to medium quality inputs - Materials: 34-40% of the product cost - Large volume not readily accessible 	<ul style="list-style-type: none"> - Flexible production; wide range of product with low to mid volume range - 16.66 workers per container - Labor cost 8-10% of the product cost - Low to medium quality products - Innovative designs:aesthetic 	<ul style="list-style-type: none"> - Manual fragmented processes - Low level of finished goods inventory - Produce to order rather than for stock 	<ul style="list-style-type: none"> - Concentration in key accounts - Niche marketing - Face-to-face marketing 	<ul style="list-style-type: none"> - Reactive after sales service
	INBOUND	OPERATIONS	OUTBOUND LOGISTICS	MARKETING & SALES	SERVICE

MARGIN

MARGIN

Appendix 1g. Value Chain Chart for furniture (Figure 9)

Key Issues for Development		Required Measures	Possible Actions
Outgrow from businesses based on a limited local demand to those in the national/international market			
Enhancement of Marketing, Product Development, and technologies	Improvement of shelf lives of products to enable the products to be sold at more distant markets	Improvement of package to make the shelf life longer	Intensive and comprehensive packaging improvement support program with enhancement of consulting capacity of PRDCP
		Improvement of sanitation management	Small-scale loan program to encourage improvement of facilities required for appropriate sanitation management Intensive employee training on sanitation management
	Improvement of packaging to be acceptable to consumers in the national/international markets	Improvement of packaging design	Design competition of packaging to encourage design
Improvement of access of SMEs to financing	Difficulty of small-scale manufacturers to access financing to invest on improvement of sanitation facilities	Development of financing schemes to make funds available to small-scale manufacturers for their facility investment	Small-scale loan program to encourage the improvement of facilities required for appropriate sanitation management
Development of entrepreneurship	Need to learn about the basics of business management, including book keeping and record keeping	Development of basic entrepreneurship training courses for small enterprises, and to-be entrepreneurs	Establishment of management training courses of basic levels
			Consulting services through SME management and financial advisor system
	Need to understand the technical regulations related to sanitation, food additives, labeling, etc.		Development of comprehensive guidance system for food processing industry with the establishment of Food Industry Advisor Center

Key Issues for Development		Required Measures	Possible Actions
Improvement of international competitiveness both in the domestic and international markets. Increase in supply capacity of prospective products.			
Enhancement of Marketing, Product Development, and technologies	Need for enhancement of product development and market development through intensive production promotion activities	Enhancement of packaged support for trade fair participants	Intensive and comprehensive packaging improvement and support program with enhancement of consulting capacity of PRDCP. Intensive and comprehensive support for the participants of trade fairs, via the "Food Industry Adviser Center"
	Lack of appropriate channel to obtain market information, other than through participation in trade fairs	Establishment and development of the system to entertain foreign buyers other than through trade fairs	Establishment of database of potential manufacturers and receiving and arranging the inquiries with the potential suppliers
	Need for intensified market cultivation. No adequate actions against the competition with China	Intensive and comprehensive study of prospective markets and establishment of targets	Development of a system to support the food processing industry focusing on the collection of market information and technical information, with the establishment of the "Food Industry Adviser Center"
	Need for meeting internationally recognized technical regulations as a food processor	Collection and dissemination of technical regulations and standards applicable to the food processing industry, internationally.	Development of comprehensive guidance system or food processing industry with the establishment of the " Food Industry Adviser Center"
			Establishment of standard training program for employees in food processing industry with the establishment of the " Food Industry Adviser Center" Loan program to encourage investment on small scale facilities for factory sanitation

	Key Issues for Development	Required Measures	Possible Actions
		Establishment of testing facilities, which cater to the basic testing requirements of the food industry in areas where there is an accumulation of firms in the food industry	Receiving contract testing for food at branch offices of the Food Industry Adviser Center while developing the testing network using existing testing facilities of various organizations
		Ensuring the establishment of the infrastructure essential for the food industry including waste material treatment, and safety of water to be used for processing	Construction of small scale industrial estates for Food Processing Industry
	Weak competitiveness	Production cost reduction by decreasing the loss and damages caused in the process of raw material transport and storage	Intensive and comprehensive packaging improvement support program with the enhancement of the consulting capacity of PRDCP
		Encourage modernization of facilities	Loan program for those who plan to modernize their facilities Collection and dissemination of information on the advanced food processing machineries and equipment by the "Food Industry Adviser Centers"
		Acquisition of productivity improvement method, and production management	Establishment of management training courses at middle and higher levels
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facility	Encourage modernization of facilities with development of financing scheme to support it	Loan program for those who plan to modernize their facilities Development of installment buying system to encourage facility modernization Development of rental system of small equipment commonly used for improvement of food processing processes

	Key Issues for Development	Required Measures	Possible Actions
			Consulting services through SME management and financial advisor system
	Limited loan availability to prospective exporters and leading manufacturers, resulting in the limitation of supply capacity even if expansion potentials exist.	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	
		Development of direct financing available for prospective SMEs	
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision, resulting in bottlenecks to business development	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Consulting services through SME management and financial advisor system
			Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirements of customers due to the lack of knowledge and experience in advanced management techniques including productivity management, production management, etc.	Improvement of training course for SME management	Establishment of management training courses for middle and higher levels Consulting services through SME management and financial advisor system
	Need to understand the technical regulations related to sanitation, food additives, labeling etc.		Development of comprehensive guidance for food processing industry with the establishment of the Food Industry Adviser Center

Key Issues for Development		Required Measures	Possible Actions
Enhancement of Marketing, Product Development, and technologies	Need for enhancement of product development and market development through intensive product promotion activities	Enhancement of packaged support for trade fair participants	Intensive and comprehensive support for the participants of trade fairs with the establishment of the "Furniture Industry Adviser Center"
		Support for Cebu X as a national flagship project, including the potential development of peripheral marketing events	
	Lack of appropriate channel to obtain market information, other than through participation in trade fairs	Establishment and development of the system to entertain foreign buyers other than through trade fairs	Establishment of a database of potential manufacturers. Formulate a system to receive and address inquiries on potential suppliers
	Need for intensified market cultivation. No adequate actions to address the competition with China	Intensified and comprehensive study of prospective markets and establishment of targets	Development of a system to support the furniture industry focusing on the collection of market information and design research, with the establishment of the "Furniture Industry Adviser Center"
		Nurturing of furniture designers	Set up a product design course at universities
			Furniture design competitions
			Establishment of a system to provide designers with opportunities to participate in furniture shows abroad and/or study abroad
Research on material development	Research and development with the establishment of the "Furniture Industry Adviser Center"		

Key Issues for Development		Required Measures	Possible Actions
		Development of methods of productivity improvement and production management applicable to the Philippine furniture industry	Research on the productivity development and production management applicable to the Philippine Furniture Industry with the establishment of the Furniture Industry Adviser Center
	Need for improvement of management of sub-contractors	Dissemination of production management and quality management	Research on the productivity development and production management applicable to the Philippine Furniture Industry with the establishment of the Furniture Industry Adviser Center
	Improvement of furniture technician training course (technical training directly applicable factories)	Improved furniture technical training facilities which have machines and equipment advanced or applicable to current factories	
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facilities	Encourage the modernization of facilities with the development of a financing scheme to support it	Loan program for those who plan to modernize their facilities Development of installment buying system to encourage facility modernization
	Limited loan availability to prospective exporters and leading manufacturers, resulting in the limitation of supply capacity even if with expansion potentials.	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives Consulting services through SME management and financial advisor system

Key Issues for Development		Required Measures	Possible Actions
		Development of direct financing available for prospective SMEs	
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision resulting in bottlenecks to business development	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Consulting services through SME management and financial advisor system Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirements of customers due to the lack of knowledge and experience in advanced management techniques including productivity management, production management, etc.	Improvement of training course for SME management	Establishment of management training courses for middle and higher levels Consulting services through SME management and financial advisor system

Giftwares, Holiday Decorations, Handicrafts and Housewares (GW3H)

Key Issues for Development		Required Measures	Possible Actions
Enhancement of Marketing, Product Development, and technologies	Need for enhancement of product development and market development through intensive product promotion activities	Enhancement of packaged support for trade fair participants	Intensive and comprehensive support for the participants of trade fairs with the establishment of the "GW3H Industry Adviser Center"
		Organization of peripheral events relating to GW3H Industry at the time of the Cebu X	Establishment of a database of potential manufacturers. Formulate a system to receive and address inquiries on potential suppliers
	Lack of appropriate channel to obtain market information, other than through participation in trade fairs	Establishment and development of the system to entertain foreign buyers other than through trade fairs	
	Need for intensified market cultivation. No adequate actions to address the competition with China	Intensified and comprehensive study of prospective markets and establishment of targets	Development of a system to support the GW3H industry focusing on the collection of market information and design research, with the establishment of the "GW3H Industry Adviser Center"
			Invite foreign designers to advise and establishment of the "GW3H Industry Adviser Center"
		Nurturing of GW3H designers	Set up a product design course at universities GW3H design competitions

Appendix 2c. Table on Key Issues on Giftwares, Wearables, Holiday Decorations, Handicrafts, and Housewares (GW3H) Industry
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Key Issues for Development		Required Measures	Possible Actions
			Establishment of a system to provide designers with opportunities to participate in furniture shows abroad and/or study abroad
		Research on material development	Research and development with the establishment of the "Furniture Industry Adviser Center"
		Development of methods of productivity improvement and production management applicable to the Philippine GW3H industry	Research on the productivity development and production management applicable to the Philippine GW3H Industry with the establishment of the GW3H Industry Adviser Center
	Need for improvement of management of sub-contractors	Dissemination of sub-contractor management method among GW3H manufacturers and exporters.	Research on the sub-contractor management applicable to the Philippine GW3H Industry with the establishment of the GW3H Industry Adviser Center
	Lack of competitiveness partly because of the delay in modernization of production facilities	Upgrading and enhancement of CSF	Upgrading and enhancement of CSF at the GW3H Industry Adviser Center
	Limited loan availability to prospective exporters and leading manufacturers, resulting in the limitation of supply capacity even if with expansion potentials.	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives

Key Issues for Development		Required Measures	Possible Actions
		Development of direct financing available for prospective SMEs	Consulting services through SME management and financial advisor system
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision resulting in bottlenecks to business development	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives
			Consulting services through SME management and financial advisor system
Development of entrepreneurship	Need to learn about the basics of business management, including bookkeeping and record keeping	Development of basic entrepreneurship training courses for small enterprises	Establishment of management training courses at the basic levels
			Consulting services through SME management and financial advisor system
	Inefficiency of management, difficulty to meet the requirements of customers due to the lack of knowledge and experience in advanced management techniques including productivity management, production management, etc.	Improvement of training course for SME management	Establishment of management training courses at the middle and higher levels
Consulting services through SME management and financial advisor system			

Supporting Industries for Automotive and Electronics Industries

Key Issues for Development		Required Measures	Possible Actions
Enhancement of Marketing, Product Development, and technologies	Lack of information on potential customers	Intensive publicity work through undertaking of reverse trade fairs	Intensive and comprehensive support for the participants of the reverse trade fairs, establishment of the "Supporting Industry Adviser Center"
	Information on potential suppliers is not available to the potential customers	Establishment of a database of potential suppliers with their business features and other information	Establishment of a database of potential suppliers. Formulate a system to receive and address inquiries on potential suppliers
	Difficulty to meet the customers' request in terms of volume and quality	Establishment of diagnosis for those companies which wish to be suppliers to automotive and electronics manufacturers	Company diagnosis program focusing on production management and quality management
	Difficulty to meet the customers' request in terms of precision of product technology	Introduction and management of technical assistance contracts with companies with the appropriate technical know-how'	Help potential suppliers to receive technical assistance from those that have appropriate technical know-how
	Technician training system is not working at satisfactory levels (too much basic courses and not applicable directly to the actual production process	Technician training facilities which have machine and equipment to meet the market requirement	With the establishment of the Supporting Industry Adviser Center, develop a standard curriculum which offers production management and production technology focusing on factory supervisors. Implementation of the pilot training courses using the standard curriculum at MIRDC and TESDA, while improving them to fit the Philippine situation.
		Dissemination of the curriculum to technical colleges and other training organizations Organization of a technical committee to improve and update the standard curriculum	

Appendix 2d. Table on Key Issues on Supporting Industries
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Key Issues for Development		Required Measures	Possible Actions
Improvement of access of SMEs to financing	Lack of competitiveness partly because of the delay in modernization of production facilities	Encourage the modernization of facilities with the development of a financing scheme to support it	Loan program for those who plan to modernize their facilities
			Development of installment buying system to encourage facility modernization
		Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives
		Development of direct financing available for prospective SMEs	
	Lack of appropriate loan system to meet the needs of SMEs for their short-term operational capital in terms of loan size and timing of decision resulting in bottlenecks to business development	Improve/streamline loan application and appraisal procedure of the government financial institutions. Reexamine the loan appraisal system which insists on collaterals	Consulting services through SME management and financial advisor system
			Supplementation of credit guarantee by credit cooperatives, with guarantee by the credit guarantee institutes on the loan extended for the cooperatives
Development of entrepreneurship	Inefficiency of management, difficulty to meet the requirements of customers due to the lack of knowledge and experience in advanced management techniques including productivity management, production management, etc.	Improvement of training course for SME management	Establishment of management training courses for middle and higher levels
			Company diagnosis program focusing on production management and quality management with the establishment of "Supporting Industry Advisory Center"

Appendix 3. POLICY INCENTIVES GRANTED TO LOCAL SMEs

Nature of Incentives	Description	Remarks
<p>Tax</p> <p>a. Direct tax (income taxation)</p>	<ul style="list-style-type: none"> ▪ Provision of fiscal incentives to all registered Barangay Micro Business Enterprises (BMBEs) <ul style="list-style-type: none"> (a) Exemption from payment of income tax for income arising from the operations of the enterprise (The LGUs are encouraged to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges. ▪ Provision of fiscal incentives to direct and indirect exporters including export traders <ul style="list-style-type: none"> (a) Exemption from advance payment of customs duties and taxes; (b) Duty free importation of machinery and equipment, raw material inputs and packages; (c) Tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally; (d) A tax credit of 25 per cent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs; (e) A tax incentive. ▪ Export-oriented enterprises are also eligible to apply for incentives when locating in the Philippine Economic Zone Authority (PEZA), Clark Special Economic Zone Authority (CSEZ) and the Subic Special Economic and Freeport Zone (SSEFZ). <ul style="list-style-type: none"> (a) Corporate income tax exemption from four to eight years; (b) Exemption from duties and taxes on imported capital equipment, spare parts, materials and supplies; (c) Exemption from national and local taxes; (d) Tax credit from import substitution; (e) Tax credit on domestic capital equipment; (f) Tax-free and duty-free importation of breeding stocks and genetic materials; (g) Tax credit on domestic breeding stocks and genetic materials; ▪ Exemption from Value-Added Tax for certain exporting industries 	<ul style="list-style-type: none"> ▪ Provided under RA 9178 ▪ Provided under RA 7844 ▪ Provided under RA 7916 and RA 7227 ▪ Provided under RA 8424
<p>b. Indirect tax 2 (others)</p>	<ul style="list-style-type: none"> ▪ Investors may be given certain benefits and incentives provided he invests in preferred areas of investment found in the Investment Priorities Plan (IPP) <ul style="list-style-type: none"> (a) Exemption from wharfage dues and export tax, duty impost and fees (b) Additional deduction for labor expense (ADLE) (c) Additional deduction for necessary and major infrastructure works (This privilege is not granted to mining and forestry-related projects) ▪ Excise tax on exported goods that are locally produced or manufactured may be credited or refunded upon submission of the proof of actual exportation and upon receipt of the corresponding foreign exchange payment. ▪ Excise taxes on distilled spirits impose a lower tax on products made from materials that are indigenously available (e.g. coconut, palm, sugarcane) 	<ul style="list-style-type: none"> ▪ Provided under E.O. 226 ▪ Provided under RA 8424
<p>Non-tax</p>		
<p>a. Financial</p>	<ul style="list-style-type: none"> ▪ Mandatory Allocation of Credit Resources to Small Enterprises The whole banking system are required to set aside at least six percent (6%) and at least two percent (2%) for small and medium enterprises respectively, of their total loan portfolio. 	<ul style="list-style-type: none"> ▪ Provided under RA 6977 as amended by RA 8289

- SME Unified Lending Opportunities for National Growth

In support of the National SME Development Plan, the government financial institutions (GFIs) collaborated to design a uniform lending program, tailored fit to meet the funding needs of SMEs. Under the unified lending program, the participating GFIs shall apply simplified and standardized lending procedures and guidelines, e.g., loan purpose, fee structures, interest rates, application forms, financial ratios, and other lending parameters, for evaluating the loan applications of SMEs.

To adopt to the financing needs of SMEs, two types of loans are available under the program: short term loans payable in one year, and long term loans that are payable up to five years.

The unified lending scheme is in addition to the existing financial services of the participating GFIs.

- Guarantee and financial facilities

Small Business Guarantee Fund Corporation (SBGFC)

(a) SME Force – SME Financing for Organizationally competent and Excellent Franchise Businesses is a franchise development financing facility that will be implemented with the participation of the franchisors' organizations. Coupled with the "Captains of Industry", it will be used as a strategy to develop backward and forward linkages among and between leading businesses and SMEs in the domestic economy.

(b) FIRST LIGHT - A financing program for the best business ideas that will contribute to the development of the five (5) priority industries. The best ideas shall be competitively chosen from proposals endorsed by DTI through its regional/provincial offices.

(c) GUIDE - Guarantee Incubation for DTI Endorsed Enterprises is a P100 million direct lending facility of the Small Business Guarantee and Finance Corporation (SBGFC).

(d) Small Enterprise Financing Facility (SEFF) - SEFF was established to supplement the financial system's resources for small and medium enterprise development financing. Under the SEFF, accredited financial institutions (AFIs) which are in need of funds for small and medium enterprise financing may approach the SBGFC and apply for accreditation as lending conduits. Prospective SME borrowers may then directly apply with any of the AFIs under the SEFF. With SEFF, the SBGFC finances up to a maximum of 90% of the project cost, with the AFIs co-financing at least the remaining 10%.

(e) Rediscounting Facility for Small Enterprise Loans – It is a credit window where accredited financial institutions (AFIs) may negotiate their eligible SME loans/credit instruments with SBGFC. AFIs, which wish to avail of loans from the window, can rediscount their promissory notes by assigning/endorsing with recourse promissory

- SBGFC is a government body created by virtue of RA 6977.

	<p>notes in favor of the SBGFC together with its underlying securities.</p> <p>(f) Guarantee Program - This product was designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. Such a scheme is aimed at increasing the flow of funds from the formal lending institutions to the small and medium enterprise sector, especially those without collateral. The guarantee works as a collateral substitute or as a collateral supplement.</p> <p>(g) Transactional Direct Financing Facility – This is a stopgap program which immediately addresses the credit needs of SMEs, particularly in the export sector. Here, SBGFC coordinates with a network of industry associations to determine specific problem areas wherein SBGFC could directly intervene. SBGFC provides direct financing on a per transaction basis. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. A variant of this facility was later launched to assist SMEs with requirements of longer-term maturities up to a year for business expansion and other working capital/fixed asset requirements.</p> <ul style="list-style-type: none"> ▪ Wholesale Lending Facilities Development Bank of the Philippines (DBP) <ul style="list-style-type: none"> (a) Industrial Support Services Expansion Program (ISSEP) – promotes the construction, expansion or modernization of plant and related services, including land improvements related to these. It finances the acquisition of raw materials, equipment and parts, and environment-related projects on stand alone basis or part of plant construction or expansion. Target sectors are manufacturing like food, textile, wood, industrial machinery, chemicals and non-manufacturing sector like computer software, transport services and communication. (b) Industrial Guarantee and Loan Fund (IGLF) – This may be availed by enterprises engaged in the manufacture or processing of products on a commercial scale as well as the delivery of services supportive of manufacturing activities. It also provides credit supplementation support through the extension of guarantee schemes to stimulate the flow of credit to SMEs. The facility may be used for the purchase of factory site for new and expansion project, construction of factory building, purchase of equipment and permanent working capital. ▪ Retail Lending Facilities <ul style="list-style-type: none"> (a) Window III – the centerpiece of DBP’s retail lending operations. It finances innovative and socially desirable projects with high developmental impact. Below are some of the programs assisted under this: <ol style="list-style-type: none"> 1. Agricultural Production and Food Security Financing 2. Damayan Pangkabuhayan Program 3. Women Entrepreneurs Financing Program ▪ Funds to Non-Government Organizations (NGOs) for 	<ul style="list-style-type: none"> ▪ DBP, as an institution, took the strategy of utilizing ODA funds to sustain financing of SMEs. Through the Bank’s wholesale lending program, ODA funds are onlent to accredited participating financial institutions (PFIs) which in turn relends the same to project-oriented undertakings of targeted borrowers as qualified under agreements reached with ODA funders. ▪ DBP’s retail lending operations are geared towards specific development objectives which include exports, infrastructure development for strategic sectors such as water, transportation, telecommunications and housing, capital market development, as
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	<p>relending to eligible micro enterprises.</p> <ul style="list-style-type: none"> ▪ Set up of a private sector-led Export Financing Institution that will focus on the unique needs of the export sector. 	<p>well as credit support programs for LGUs, agricultural productivity and food security.</p> <ul style="list-style-type: none"> ▪ Provided by the People's Credit and Finance Corporation ▪ Provided under RA 7844
<p>b. facilitation of exports/imports</p>	<ul style="list-style-type: none"> ▪ Export assistance network <ul style="list-style-type: none"> (a) Export Assistance Network (EXPONET) – serves as a trade facilitation office that provides real and immediate assistance to existing and potential exporters. Below are its services: <ul style="list-style-type: none"> - Export Trade Information Dissemination - Export Procedures and Documentation - Buyer Linkages - Export Financing and Incentives and Raw Material Sourcing - Tax and Duty-Free Importation of Raw Materials for Re-export - Institutional Linkages - Handling of Export Trade Complaints - Exporters Accreditation (b) SME Centers <p>SME Centers are “one-stop-shops” located in various parts of the country that provide information, advisory and consulting services in the following areas: productivity, improvement, technology upgrading, market information, product and market development, trade promotion, credit, financing and entrepreneurial development.</p> ▪ Establishment of the Philippine trade centers which shall house the trade promotion offices and shall serve as permanent exhibit sites of the country's export products. ▪ Development, expansion and strengthening of trade linkages among and between the local manufacturing and trade sectors. ▪ Development of SME databases which provides easy access to buyers and suppliers. ▪ Availability of information on basics of importing, customs and tariff rates, import liberalization program and import monitoring of sensitive and liberalized commodities. 	<ul style="list-style-type: none"> ▪ EXPONET is a unit of the Bureau of Export Trade Promotion (BETP) within the Department of Trade and Industry (DTI). ▪ A project of the SMED Council –the highest policy-making body for SME development. ▪ Provided under RA 7844 ▪ This service is being provided by the Bureau of Domestic Trade (BDT) within the DTI. ▪ Bureaus within DTI such as the Bureau of Small and Medium Enterprise Development (BSMED), BETP and BDT developed their respective databases. ▪ Information is being provided by the Bureau of Import

		Services within the DTI.
c. subsidies for utilities	<ul style="list-style-type: none"> ▪ Exhibition halls are provided by government institutions (i.e. Philippine Trade Training Center and Philippine International Convention Center). ▪ Partial subsidy of exhibition areas in non-government owned buildings (e.g. shopping centers, parks, hotels, etc.). ▪ Establishment of Technology business incubators ▪ Establishment of Small Business Incubators (a common facility for SMEs). 	<ul style="list-style-type: none"> ▪ There is a pending bill in Congress seeking to provide for the establishment of small business incubators in pilot areas in the country.
d. incentives for given location	<ul style="list-style-type: none"> ▪ <u>Registered Economic Zone</u> Incentives in the form of export tax exemptions, income tax deductions due to operational losses, including loan and other financial credit assistance. Registered zone enterprises are likewise entitled to prior allocation of foreign currencies by the Bangko Sentral ng Pilipinas (BSP), or by any of its authorized agent banks. ▪ <u>Less developed Areas</u> Income tax holidays, tax credit for exporters with increase revenues, additional tax credits for exporters of non-traditional products, additional deduction for necessary and major infrastructure works Additional deduction from taxable income of 100% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year is observed. ▪ <u>Local Government Units (LGUs)</u> Under the LGU Code LGUs may provide fiscal and non-fiscal incentives to SMEs. 	<ul style="list-style-type: none"> ▪ Provided under RA 7916 ▪ Provided under RA 7844
e. Others	<ul style="list-style-type: none"> ▪ <u>Inventors</u> (a) Tax/Duty Exemptions Assistance, Loan Assistance Program, Testing Analyses, Travel Assistance and accreditation of inventor's organizations. (b) Financial Assistance for the preparation of pre-feasibility studies and business plans for selected technologies to establish not only the economic viability of adopting/using the technology but perhaps more importantly to guide our scientists in their R&D to further improve the technology. ▪ <u>R & D</u> fields consultancy teams composed of industrial engineers and experts to provide productivity consultancy services to various firms throughout the country. 	<ul style="list-style-type: none"> ▪ Provided under RA 7459 Programs are being implemented by the Department of Science and Technology (DOST) through the Technology Application and Promotions Institute (TAPI)

- RA 9178 – “An Act to promote the establishment of Barangay Micro Business Enterprises (BMBEs), providing incentives and benefits therefore, and for other purposes”
- RA 7844 otherwise known as the “Export Development Act” - “An Act to Develop Exports as key Towards the Achievement of the National Goals Towards the Year 2000”
- RA 8427 otherwise known as the “Tax Reform Act of 1997” – “An Act Amending the National Revenue Code”
- RA 6977 (as amended by RA 8289) otherwise known as the “Magna Carta for Small Enterprises” - “An Act to Promote, Develop, and Assist Small and Medium Scale Enterprises Through the Creation of A Small and Medium Enterprise Development (SMED) Council, and the Rationalization of Government Assistance, Programs and Agencies Concerned with the Development of Small and Medium Enterprises, and for Other Purposes”
- RA 7916 otherwise known as the “Special Economic Zone Act of 1995”.
- RA 7459 otherwise known as the “Inventors and Invention Incentives Act of the Philippines”
- Executive Order 226 – Omnibus Investment Code

Appendix 4. The Philippine SME Development Milestones in Perspective

Enterprise Development: A Policy Background

1935:

The first Philippine Constitution first recorded national commitment for economic success through industrial and technological growth.

1946 to mid 1960s:

Rapid industrialization with large scale capital and import intensive enterprises for domestic market.

Policies on:

- low-long term interest rates: Industrial Guarantee and Loan Fund (IGLF)
- specialized incentives to attract foreign investments: the Basic Industries Law, the Mining Act; the Textile Act
- quantitative import controls,
- overvalued exchange rates

In the 50s:

- The establishment of several R & D institutes.
- The Investment Incentives Act: fiscal and other incentives by Board of Investments-
- The creation Foreign Trade Zone Authority.

The latter half of the 60s:

the strategy shifted to export-oriented Industries

- Liberalization of the import controls and devaluation of exchange rates resorted to but had to be recalled when the manufacturing sector was adversely affected by the influx of manufactured imported goods.

In 1970:

Export Incentive Act complemented investment incentives policies:

- Additional incentives to rural locators for industrial dispersal.
- Further incentives for export-oriented industries.
- Export oriented industries bloomed but few locators to the countryside because of the lack of infrastructure to meet operations.

Development Policy for Small and Medium Enterprises (the 60's, the 70s, and early 80's)

In the 1960s:

Start of Small Industries programs

- The Cottage Industries Act - assistance and exemption from most taxes of firms registered with the National Cottage Development Authority.
- A bilateral agreement with the Netherlands led to a special project of University of the Philippines on training and other services for small scale industries.

In the 70s (oil crisis):

Small industries development as the primary strategy for growth:

- **SMI strategy**, along with sustained export consciousness and entrepreneurship helped relieved inflation and the pressure on energy intensive industries.
- **Formal planning** for the development of SMEs as a result of an International Labour Organization mission.
- For the first time SME was given emphasis in the Philippine Development Plan **(1972-1976)**.
- The growth era for SMEs had loan fund elements for the sector:
 - long-term supervised credit by the Social Security System,
 - loan fund from the World Bank-IBRD -IGLF for relending to SMEs
 - government SMI lending from the Development Bank of the Philippines
- Special program to link entrepreneurs and financing institutions: Medium and Small Industries Coordinated Action Program (MASICAP)
- The Department of Industry was created in 1974, took over the MASICAP and established the Small Business Assistance Centers (SBAC) in the regional areas.
- By the mid 70s, private industry groups were formed and took initiatives, mostly jointly with the government.
- The **Commission on Small and Medium Industries** governed the operation of agencies and implementation of programs until 1981 when functions assumed by the regular agencies.

1979 : the Countryside Development Policies:

- The Investment Promotion Act placed on pioneer enterprise incentive status "Less Developed Areas"
- Support to SME non-traditional export sectors to promote employment.
- Training and other services in SME programs.

Results of the 70's and early 80's:

- Institutions, programs and countryside services for SMIs were in place.
- Growth oriented SMIs were created in the countryside.
- Export incentives successful in non-traditional exports.
- Incentives and investments favored big enterprises. Very few made use of the incentives and services.
- SMIs grew but cottage industries did not grow as well
- Formal lending bodies had very little involvement in SMEs on perceived risks and the high processing and supervision costs

Democratic Reforms and the Changes in the Economic Programs:

(1986-1992) Aquino Government:

The 1987 Philippine Constitution reinforced commitment for the development of the private sector and provided for a wide range of government reforms and reorganization.

Major government reforms and restructuring programs:

- Foreign Direct Investments (FDIs) for industrialization.
- Access to foreign technology thru foreign investments.
- Structural adjustment programs to selected industries
- Unified the structure of industrial incentives, where most tax exemptions withdrawn, including those for cottage industries, and
- Incentives where small use same processing as the large firms - liberalization efforts had more pressure on SMEs.
- Integration and simplification in trade and industry services:
 - The field units of the Department Trade and Industry (DTI): enterprise assistance, product standards, trade and industry development, and regulatory services were housed in one center.
 - The provincial and regional DTI offices mirrored all private sector services in the countryside.

- Services moved from enterprise assistance to collective industry-level assistance (market programs, fairs and common service facilities).
- Development focus on SMEs and countryside development.
- Democratization of local governance and cooperative development.

Development principles.

- Industrial dispersal through countryside industries.
- Trade liberalization policies on accession to world and regional trade agreements: foreign exchange deregulation, reduced tariffs and duties, reduced export taxes and charges, the deregulation of interest rate, and the structural adjustment of selected industries.
- Balanced agro-industrial development towards efficiency of underdeveloped agro-industries with relative advantage.
- Decentralization and deregulation.
- Privatization principles.
- Clustering and Estate Development.
- Environmentally Sound Industries

The SME Development Strategies (1988-1992):

Financing:

- Access to financing: reduction of processing requirements; review of interest rates, and matching programs to SME needs.
- Development of specialized financing programs for SMEs, including non-traditional sources and conduits, guarantee programs.

Market:

- Market access and expansion of domestic markets of SME products: common market facilities, subcontracting linkages, market intelligence and information access, identification of local market centers, and rural transport facilities.
- Exports: exporter financing and guarantees, improved shipping services, training to exporters, and improvement of export procedures.

Technology and Production:

- Transfer of appropriate technology; technology centers and common service facilities; information on applied production systems, awards and incentives to outstanding entrepreneurs and designers; new product designs with greater indigenous values.
- Utilization of available local raw materials, improved access and identification of new uses and sources.

Entrepreneurship

- Micro industries as catalyst for entrepreneurship
- Micro-Credit Programs and various livelihood programs
- Social and agrarian reforms and micro-enterprises for the countryside.

Planning support and Delivery of Services

- Associations and NGOs as conduits for delivery of services.
- Creation of SME coordinating body for SME planning and programming;
- Sub-sector specialization and regional priority and investment areas.
- Government advocacy role in consultation with the private sector.
- Strong linkage with Congress and private sector on strategic planning;
- Data base and improved information dissemination.

The Magna Carta for Small Enterprises of 1991:

- Creation of the Small and Medium Enterprise Development Council for policy direction and rationalization of assistance programs and agencies.
- Mandatory allocation of bank funds for lending to SMEs,
- Establishment of the Small Business Guarantee and Finance Corporation.

Local Government Code of 1991:

Provision of enterprise services through LGUs;
Corporate personality of LGUs

Cooperative Code of 1991:

Sustained inter-coop trading and other business undertaking

Towards an NIC Status (1992-1998): Philippines 2000 of the Ramos Government

The thrust focused on Social Reform Agenda.

The goals set by the **1993-1998 Medium Term Philippine Development Plan:**

- To become a “newly industrializing country (NIC)” by the turn of the century.
- Philippines 2000 strategies and vision of improved quality of life for every Filipino through global excellence and people empowerment.
- Global excellence thru world-class products and services in both domestic and international markets, expanding markets and opportunities, thus ensuring the creation of

new jobs, labor skills, managerial techniques and other innovations.

- People empowerment by education, training, improved basic services in health and nutrition, increased access to productive resources and the diffusion of technology.

Investments

1. Inflow of foreign direct investment
2. Integrated development assistance for small scale enterprises.
 - Industrial estates or export zones: particularly: Calabarzon, Subic Bay, Cebu, Iloilo, and Cagayan de Oro –Iligan Corridor.
 - Intensive resource mobilization for the long-term.
 - Agro-industrial development program: productive and ecologically sound linkages, competitive industrial restructuring, and increases in income, productivity and access to resources of small entrepreneurs, farmers and fisherfolks.

Exports

Export Development Act of 1994:

“government and the private sector shall jointly transform the Philippines into an exporting nation”

The Philippine Export Development Plan 1993-1998:

1. Exports as major tool for economic survival and economic development;
2. Export promotion in tandem with promotion of foreign direct investments, trade-driven investments for acquiring technology, and shifting from labor to skills-intensive industries, and
3. Establishment of basic industries for raw materials base for exports.

The restructured DTI provincial offices focused on area-specific industries with competitive advantage in terms of market potential and available resources.

The market positioning and specific action plans for identified export winners:

1. agri-and resource based products: carrageenan and seaweeds, marble, processed tropical fruits, shrimps and prawns;
2. consumer products: garments, gifts and houseware- basketware and holiday décor, jewelry, ceramics, furniture;
3. industrial products- subcontracted electronic products, packaging of ICs and special plastics, other electronic components, electronics product assembly, and subcontracted metal components; and

4. international services - computer software, construction services and professional services, including consultancies in engineering, architecture and management.*

SME Development

The guiding principles for **SME Development (1992-1998)** were viability, sustainability and private sector-led initiatives.

Just like in the previous period, at the core were effective credit and market access; entrepreneurship and management programs, identification of specialization, and strengthening of conduit NGOS for financial and technical services. Lead programs were:

- Introduction of entrepreneurship courses or subjects in schools.
- Identified Regional Agro-Industrial Centers as focus for the countryside program.
- Industry associations, non-government organizations and professional groups to continue as conduits of services. Linkages to foreign private sector counterparts.
- Micro-lending with NGO and cooperative conduits and liberalized terms.
- Provision of direct services through a "Small Business Promotion Body." - to restructure the delivery systems through an apex organization that will be private sector driven led.
- Adoption of SME Centers or First-Stop/ Business-One-Stop Shops in major cities and provincial areas.

Results:

- Technology-based industries like electronics and automotive parts anchored transfer of technology and development of backward linkages and ancillary industries.
- Modest growth was experienced as more administrative, social and economic reforms took shape.
- Institutional strengthening was achieved, decentralization took place, and positive climate for exports experienced through strong political will of the administration.
- Telecommunications and a number of infrastructure projects were in place.
- Sustained development but Asian financial crisis aggravated budget deficits and balance of payments and hampered the comprehensive poverty reduction and social programs.
- Peace talks and initiatives for lasting peace in Mindanao took place.

Developing Rural Industries and Village Enterprises:DRIVE Program of ERAP Administration (1998-2001)

The **1998 SME Development Plan** worked on the principles of viability and competitiveness, private-sector initiatives and market driven responses and the complementarity of three governing bodies on enterprise development:

- 1) The Export Development Council oversees implementation of Philippine Export Development Plan on a three year rolling plan.
- 2) The Industry Development Council implements Philippine Industrial Development Plan and develops enterprises with high technology requirements.
- 3) The Small and Medium Enterprise Development Council oversees policies and programs on SMEs and coordinates with both EDC and IDC in drawing-up its priority industries.

The Export Development Plan of **1999-2001** anchored on global competitiveness, efficiency, innovation and entrepreneurship. Monetary targets were low and stable domestic inflation, competitive exchange rate, access to credit and growth of investments.

Strategies:

- Move to high value-added exports for global competitiveness and to educate firms on demands of the global environment.
- Market access and presence through accession to agreements such as AFTA, APEC, and the WTO, ASEAN brand-to brand complementation and the ASEAN Investment Agreement; access by Counter Trade and South-South Trade.
- The Privatization of the export promotion functions and the organization of a private trade and investment promotion corporate entity for high level Philippine trade and investment promotion activities.
- Strong and professional industry associations to lead advocacy, promote programs and organize efforts.
- National Communication Plan for Export Promotion
- Electronic Commerce
- The Eminent Persons Group (EPG), a top level committee of respected and accomplished Filipino experts was formed for economic advice.

Five strategic approaches under the SME Plan:

- 1) Narrowing focus on “vital few” that were competitive but underperforming products and therefore had room for growth, and those with high and increasing demand in the world market.
- 2) Promoting linkages among small and large firms by finding specializations and organizing viable industrial sub-contracting (DRIVE) to expand countryside projects and reinforce the cluster approach. **Clustering of industries** supports regional development by directed roles for each region and inter-intra regional business linkages. Take-off programs of 1997 identified the industry priorities of each region and models clusters.
- 3) Identifying anchors for promotion of technologies to benefit SMEs, to promote quality systems and standards, and to fast track SME resource centers for information networking, training, upgrading of technical know how and for organization of transfer projects.
- 4) Improved curricular training in entrepreneurship, management and technical skills; inclusion of values education in the programs and in basic education; industry associations in identifying HRD needs; SME training at special economic zones. Grassroots skills programs by curricular training, hands on approach, values formation, management, marketing and entrepreneurial skills.
- 5) Innovative financing such as equity venture capital and use of non-traditional sources such as cooperatives and associations; the compliance to the mandatory allocation of credit resources under the Magna Carta for Small Enterprises.

Results:

1. The well-conceived plans did not have a chance to take off. After more than two decades of attention, SMEs experienced highs and lows, the economic and political crisis aggravated the sector's capacity to live up to the promises as the primary engine of growth.
2. The top exports did not create the full promise:
 - Electronics, the biggest export, 67% of the total, had only 30% of the total value added.
 - Garment, the second with 7.6%, had declining contribution to total.
 - Others performers were automotive wiring harnesses, coconut oil, furniture, and food. Food export was slowing down.

- Industrial manufactures (electronics, machinery and transport equipment, chemicals, metal manufactures) were expected to make big but had segmented performances.
- Consumer manufactures (gifts, toys and house wares, furniture, fashion accessories, leathersgoods and garments) did not give substantial gains.
- Export winners of services were IT, construction, professional services in accounting, engineering and management and in film animation.

2. With exception of few export-oriented firms, the majority SMEs were characterized by low levels of productivity and efficiency, unable to attain economies of scale and the power to influence prices, volumes, distributions and markets.
3. SMEs remained challenged in the areas of human resource development, technology, access to financing, and in R&D.
4. Problems of political unrest and peace situation in Mindanao heightened created setbacks in the economic programs.

The Strong Republic of the Arroyo Administration Development Strategy (2001-2004)

The 2001-2004 MTPDP Development Strategy:

- **Employment generation, countryside development, and upgrading of living standards.**
- Enterprise development anchored on the **capacity to compete globally-in domestic industries, in exports and in support services:**
 - Increase the value-added in industries,
 - Diversify strategies in terms of products and markets,
 - Develop a strong local base and domestic linkages **firmly rooted in the various regions of the country.**
 - Promote **competitiveness, efficiency, innovation and entrepreneurship.**
 - Maintenance of low and stable domestic inflation rates.

The SME development strategies:

- Review of SME laws, national and local policies for a competitive environment.

- Improve the banks' capability to understand and service the special needs of small borrowers.
- Innovative alternative sources like capital markets.
- SMEs in the rural areas promoted through clustering.
- Full potentials of ICT and e-commerce for use of SMEs, including provision of distance learning modes.
- Franchising fairs and consulting caravans provided for on site consultations.
- A National Business Registry to track firms from start to closure and provide data on status, locations, and basic information on firms.
- SME Centers to become the coordination point for access to information, training, advisory and other services.
- Market Development: launching of SME Opportunities Caravan and enhanced support to trade fairs and missions, display corner, matching services and consolidation of production inputs for SMEs
- Product development/Technology Intervention: product clinics and advisory services for standards conformity; alternative uses of indigenous raw materials, training to sustain quality of raw material inputs; strengthening sharing of facilities.
- Advocacy for Enabling Environment: strengthening the monitoring and implementation of the BMBE Law; harmonizing and simplifying business registration; and reducing cost of doing business by rationalizing rules and regulations.

Enabling Laws:

- Magna Carta for Small Enterprises 1991 (amended 1997)
- BMBE Law 2003
- Export Development Act 1994
- Investment Incentives Act
- Cooperatives Code of 1991
- Local Government Code 1991

SME Development Plan 2003-2004 National SME Agenda

The goal of the **SME Plan 2003-2004** is to have a vibrant SME sector for a strong domestic supply base for globally competitive industries.

This shall be achieved through:

- 1) graduating micro and small enterprises to higher levels of business undertakings, and
- 2) upgrading their productivity and value-added capabilities,
- 3) strengthening of 20 accessible SME Centers nationwide,

Development modes:

- 4) comprehensive approach to SME development,
- 5) localized development plans, and
- 6) push of nationally directed projects.

Highlights of the Plan:

- Training/HRD: streamlining of training programs and standardizing fees and promotion; deployment of SME business counselors; review of academic curricula to promote entrepreneurship.

- Financing: acceleration of SME Unified Lending Program for National Growth (SULONG):
 - common lending guidelines and rates,
 - standardized accreditation of rural and thrift banks,
 - P10B infusions from Government Financial Institutions;
 - One Town -One Product- One Million Program;
 - credit bureau and credit scoring for SMEs.

LONG-TERM SME DEVELOPMENT PLAN (2004-2010)

Perspective and Basis of the Long-Term SME Plan:

- The Plan is intended to boost SME performance in the long-term and lay the ground work to develop sustainable and globally competitive SME sector well beyond the two-year program already in place.
- The Plan shall map out the synergy and complementation among the various programs and initiatives that have either been started, thought of before, and new practical ideas brought forth to create a unified and cohesive agenda.
- The Plan shall implement programs on the basis of what is available as resources and build on the basis of some realistic and potential support.
- The Plan shall use reports that evaluate efforts and programs. and key programs recommended by the Support Program for Long Term SME Development Plan"

- The Plan shall be framed on the basis of consensus-building and ownership of the various stakeholders involved.
- The Plan shall be developed on a frame of six-year long term program and evaluated and re-programmed on a three-year roll-out period.

Goals:

- To transform SMEs to globally competitive enterprises, medium to long-term.
- To increase the contribution of SMEs to the economy (employment, value added and exports) to be proportionate (as lead indicator) to the growth of the Gross Domestic Product (2004-2006), i.e, to situate SMEs as the economic engine of growth.
- To define and select specific and realistic strategies that shall fit the timeframe/s.
- To establish a more accurate information on SMEs. To have an up-to-date picture of SME status, with priorities on identified focus clusters/sectors.
- To develop specific Action Programs and a Framework for Implementation of the identified strategies.
- To build-in flexibility to allow emerging opportunities and challenges to be addressed in the Plan.

Specific Objectives:

- To develop specific directions for implementation of nationally directed programs on selected priority industries (on three-year roll-out).
- To develop program to assess, strengthen an implement provision of services through selected SME Centers.
- To identify local development plans and components of selected clusters.
- To provide program for assistance to dynamic group of SMEs in selected clusters.
- To aim to graduate (to next level) enterprises half of the key cluster enterprises every three years.
- To develop micro-enterprise development (micro-enterprises to be led to SME category) component program as integral to the Plan.
- To situate long-term initiatives of the private sector, the government, and various donors on more strategic directions.
- To develop safety net programs to sustain (arrest closure/ lay-offs) cluster enterprises in difficult situations.
- To develop program of action for capacity building in the provision of SME services by extension workers and agency staff in different posts.

Appendix 5a. Highlights of the Sub-sector Development Program for the Food Processing Industry

Industry Support Centers for selected industries will be set up in strategic areas where majority of the enterprises converge. The identified sites to serve as the hub for sector support programs and activities are:

Center for Processed Food (Fruits and Vegetables) in Davao as main hub, with Cebu and North Luzon as second tiers;

To provide assistance to the food processing sector, the government will undertake the establishment of Industry Center for Processed Food (Fruits and vegetable), in Davao as the Hub and in Cebu and North Luzon as second tiers. All the three centers will be interconnected as a network to serve all regions. The Centers will provide the following:

1. *Serve as hub for the following key services:*
 - *Advisory and Expert Services*
 - *Sector-Based Management and Technical Training Programs*
 - *Packaging Development*

- *Testing and laboratory facilities for shared or common use.*

2. *Improved compliance with regulations and practical applications on hygiene, food safety, and display labeling of nutrients, ingredients, and additives that shall involve:*

- *Sector-based Training Programs, with standard modules for entrepreneurs and workers. Basic and advanced modules; Special technical and product trends updating.*
- *Development and Dissemination of Information Packages (published materials, video documentation, references and promotion of DOST web-pages).*

3. *Improvement of design of packaging and labels that will result into:*
 - *Improvement of packaging acceptable to consumers of national/international markets (Sector-based and enterprise-based interventions).*

- Improved product shelf life and product reach for market destinations.
4. Desirable SME projection of products for common marketing (use of own brand name for a number of SME products, especially organic products) to help small firms in the countryside:
- Since SMEs in the food sector produce very similar products, they will be provided with a guide that would make it easy for them to conform to uniform quality, use of uniform containers for big orders and the use of relevant labels. Packages and pouches will be recommended and promoted to consider better product protection and life, consumer marketing, durability, appearance, and disposal means;
 - SMEs need to improve products and consolidate marketing approaches. A brand name will be carried by SME cluster products;
 - Design competition for packaging to evaluate and improve packaging applications;
 - Consolidation marketing strategies to approach local supermarkets for more stable supply of volume of SME products
5. Improvement of facilities, process equipment and technologies to enhance production and sanitation particularly on:
- Orientation on process technologies and available equipment co-sponsorship of suppliers;
 - Support and promotion of machinery and technologies expositions;
 - Quality control, selection and grading of materials and products;
 - Benchmarking and study missions to more advanced firms/ food laboratories;
 - Access to small loan packages and facilities, including promotion of lease-purchase programs of suppliers;
 - Advisory services based evaluation enterprise needs.
6. Intensified market program that will cover:
- Development of a system for collection and dissemination of market and technical information;
 - Development of a system for contacts to foreign buyers outside of trade fairs, including Manufacturer-data base and interactive inquiry posting.
 - Comprehensive support to selected enterprises (Criteria: range of marketable products, readiness to participate to market development programs, production potentials, etc.). Committee to administer program should be formed with participation of region-based clusters and local sectoral groups.
- Introduction and production of new food products.
 - Promotion of promising products for exports: (fruit products, fish products, delicacies, coffee, chocolate drink, pili nuts and other new products, chicharon, meat products, wine, local dishes, seasoning, dairy products, snacks, rice products, coco products).
 - Organizing and participating in Trade Fairs:
 - Improved Asian Ethnic Food
 - Expand and Link with Filipino trade contacts
 - Connect with good trading companies
7. Following on the Target Market leads:
- Local market: the best and most important market for SMEs. Need for outlet company and distribution network.
 - Tourists as entrance or new markets. Tourist could be voluntary promoters of native food to other countries.
 - Cebu-Manila markets: Cebu is an important market for regions within the Visayas . It is the second biggest city in the Philippines and some islands in the Philippines have easier access to Cebu than Manila because of cheaper freight.
 - Overseas Filipino markets: It is the best market for Filipino food exports but there is a need to meet standards and regulations of the target countries.
 - Singapore and Hong Kong are good markets for Philippine produce.
 - USA as the biggest trading partner of the Philippines. It is easy to access because of English language and consumers are easy to please.
 - Europe: Some food in the Philippines are European styled and SMEs have great possibilities.
 - Japan: It is a good market but very difficult to penetrate. There is a need for Japanese traders as counterparts. The consumers are concerned with high quality and there is a need for a big marketing campaign to enter the market.
8. Introduction of Technology and Management Systems needed to upgrade the industry, to include the following specifics:

- *Mobile Common Use Processing Centers*
 - *Gas Chromatography –to analyze nutrition facts, etc, as a basic facility for clustered food processors.*
 - *Introduction of Preservation Technology modules*
9. *Improving the image of made in the Philippines by linking up with various initiatives including:*
- *Quality Control- Post harvest Agro-products, Grading, Preservation, packaging, etc.*
 - *“Love Local, Buy Made in the Philippines” Campaign*
- *“WOW Philippines” Caravans All Over the World, to include promotion of food and other products.*
10. *Improving the shipping systems through a collective effort leading to:*
- *Organizing cooperative or common shipping schemes to save on freight fees for SMEs.*
 - *Taking advantage of the “Roll-on, Roll-off” facility as convenient and affordable shipping facility.*
11. *Conduct of research on health impact of local products and taking advantage of trend on high health consciousness and tie-up research programs with the academic sectors.*

Appendix 5b Highlights of the Sub-sector Development Program for the Furniture Industry

Support Center for Furniture in Pampanga and Cebu as Hubs;

Medium sized manufacturers especially those from Cebu are successful in exporting but their design and niche markets are facing intense competition from China. An SME Support Center for Furniture will be established in Pampanga and Cebu as Hubs - Pampanga since it is a traditional furniture base with good production and workforce base, and Cebu as the center of mixed materials furniture enjoying acceptance in the export market.

The furniture industry sector is beset by problems, the most common among them being related to small quantity produced, large number and type of products being manufactured, and difficulty in fulfilling delivery schedules. The priority sector program will address all these problems over the long term and specific interventions will be initially targeted to the following:

- *Production control and inspection during processing*
- *Monitoring many types of parts (through computer inventory)*
- *Subcontracting in-process /mid-process to avoid delays in delivery*
- *Funding support for subcontracted work advances*
- *Quality management*

Demand led training courses that address the needs of furniture manufacturers shall be provided through updated and relevant courses that are designed to fit the requirements of the sector. Courses would be reviewed at least once a year in order that revisions could be timely introduced when necessary. Sector Review Committee composed of private-sector participants, plant supervisors and government technical staff should be formed to review the technical curriculum.

Appendix 5c Highlights of the Sub-sector Development Program for the Gifts, Wearables, Holiday Decorations, Handicrafts, and Housewares

SME Support Center for Craft Industry in Cebu as Hub:

Crafts sector producing novelty and houseware items made from local materials need support to face stiff competition from other countries, particularly China. Even the local department stores carry very similar crafts items imported from China, Thailand, Malaysia, Indonesia and other Asian countries. In order to enhance the competitiveness of this sector, in the export and the local market as well, SME Support Center

based in Cebu as the main hub will be established. The Center will provide design assistance services as main product but will also support activities involving bulk purchase of materials particularly for finishing and packaging. The PDDCP will pursue design programs that will enhance the design capability and effectiveness of local designers involved in crafts manufacture. This will be done through training sponsorship and subsidy.

The Center will coordinate with other satellite centers located in other regions on all matters pertaining to design, raw materials, skilled trainers, raw materials build-up, packaging and shipping. It will maintain electronic link with the other SME Centers and the SME information network and harness information relating to markets, trends, production technology, financing, and other resources critical to the growth of the sector. The Center shall promote subcontracting linkages between household production units up to the exporter level and will strengthen the

system by promoting sustainable subcontracting/supply relationship among the many micro sized/home based crafts by tapping into the information system of the SME network. Among the specific fields to be attended by the Center are supply of indigenous raw materials, inter-regional complementation of raw materials, sustainable subcontracting arrangements, community specialization and pooled production systems, and enterprise growth through marketing participation in multi-level trade fairs.

Appendix 5d Highlights of the Sub-sector Development Program for the Supporting Industries for Electronic and Electrical Industries, Automotive Parts, Metalworking Industries and Advanced / Foreign Manufacturing Technologies Industries

The implementation of this program will address the following issues:

- The first tier SME suppliers are mostly foreign affiliated companies.(from among 256 local electronic and automotive manufacturers).
- Exports of automotive parts increased while domestic supply of parts decreased due to the decline of the local automotive production. The JCI Cebu’s electronic manufacturer members plan to connect data base with Cebu Investment Promotion Center and invite potential local manufacturers to supply parts to them.
- Government support in reverse exhibition were not fruitful because of limited capacity of SMEs in fulfilling requirements – limited in terms of advanced technologies and the constraints of the SMEs in upgrading. As a result, assemblers had invited other SMEs abroad to supply the parts needed.
- Based on evaluation, the sector requires packaged support in terms of:
 - Exhibitions: a collaboration of assemblers who would agree on procurement contracts with SMEs that may meet technology conditions – and the introduction to competent foreign source of technology.
 - Upgrading capability of selected local suppliers with potentials and strong interest in supplying -- along with a technical assistance contract for foreign parts manufacturer to supply technology and engineers under a technical assistance program.
 - A task force team of existing institutions to support effective technical transfer
 - Soft loan for investment on equipment
- It is critical to support and undertake needs-consistent system of training –with clearly identified targets on:
 - Technical skill applied in actual operations
 - Production management skill training that are applicable to direct situation
 - Middle management training to teach actual management
 - Enhancement of the training system with establishment of training modules to fit the real training requirement of the industry – set by training institution and the industry.

Appendix 5f Highlights of the Sub-sector Development Program for the Agro-Processing and Fisheries/Marine Industry

The adoption of organic and natural food production is advantageous for emerging international market requirements and the expanding local demand. The government’s thrust is to assist growers to have access to good planting materials and technologies,

correct techniques and improved productivity in terms of pest management, alternative treatments processes, waste management, and post handling technology. Under the combined support of the DA, DOST, DTI and the government’s technical institutes a priority-

sector program will be implemented to undertake a program on expanding the government's efforts to develop organic production as an export industry whereby SMEs will be included as major players. The program will cover the following activities:

1. Collecting market information/intelligence on agro-products and aquamarine /fisheries processing.
2. Linking-up with strategic partners, importers and retailers; including development of strategic data base.
3. Creating common marketing schemes and use of cluster brand name/s.
4. Promoting of food festivals and fairs jointly or independently of cultural and trade fairs, here and abroad and establishing awareness on new and traditional food
5. Ensuring sustainable supply through identification of raw material supply / cluster sites and participating/potential SME support industries.

6. Promoting of improved technologies to increase product shelf life and reach international market destinations.
7. Promoting of comprehensive support to identified strategic projects/project participants.
8. Promoting and participation to local events and international trade shows and missions for strategic project participants.
9. Providing technical training and values education for entrepreneurs and workers to improve managerial and quality control and conducting business development projects to improve sector efficiency by providing testing and common service facilities to serve the needs of the industry.

This program activity will also be closely linked with the SME Center's overall operation and will be made accessible to all SMEs through the Information System Network.

Appendix 5g Highlights of the Support Center for Facilitating Partnerships and Inter-regional Alliances

The National Capital Region (NCR/Metro Manila) would serve as a Service Infrastructure for SME Development. The use of NCR as hub is based on many positive factors identified like the central location, existing communication links, equipment, building/ office support, strong potentials for establishing market links to Metro markets for the regions through the malls, department stores, supermarkets, groceries, trade houses, public markets and the presence of specialized business support services.

The Main Center (physical) will be chosen from one of the existing Business One Stop Shops. Other NCR SME Centers shall serve as Satellite Service Unit areas to continue serving Business Registries and networks with the main Guidance Center.

Proposed Features:

- Using a Nerve Center and Satellite Centers structure: The Nerve Center shall serve as the site for SME Inter-Regional Support. Other existing NCR Business Centers shall serve as Satellite Centers.
- Satellite Centers or SME Centers/Desks will provide the secondary support, regular SME desk services, One-stop registration services and entrepreneurship micro-enterprise development
- Makati BN Registration Center is considered to be developed as the Nerve Center. NCR

SME Satellite units would be the ones in Manila, Quezon City. Pasig, Valenzuela.

- Services of the SME Support Center in NCR:
 - Metro Manila shall serve as transactional center and a service region. It shall be a facilitator/ trading resource center. It may also provide support in linking regional based SME producers to Market development programs for international markets, primarily to network with commercial / market offices/partners abroad.
 - Data-base, linking and subcontracting program (including banking information and market information services) shall be a core service. Other services shall include support for training, shipping, insurance, machine and equipment supply and maintenance services, transport, accounting services and inventory management.
 - Expert Matching Services would include support for Business Advisor Search and data base build-up. Two types of services maybe sought: 1) The Volunteer (Private, Donor or Government Advisor), or 2) Fee-based service of professionals/specialists, to serve regional clientele needing the services. A non-profit public service corporation if deemed necessary ("SME Corporation") may serve as conduit for the financial part of the service.

- *Suppliers and large manufacturers in NCR shall be linked to SMEs in other areas. This shall be supported by SME Data Base and Supplier/Market Data Bases.*
- *Services to local producers shall not be emphasized because in the long term NCR will not likely be a producer base due to higher wage rates and operational cost of factories.*
- *Center supports projects for Export Development. Brand Managers and Export Programs, including Tradeline – Exporter’s validation, Training and specific activities relating to broad export strategies, as well as Broad Industrial promotion strategies may be adapted by the Center.*
- *The NCR SME Center in the future may collaborate or choose to showcase model/examples of SME products that sell, project some successful business initiatives, stories of awardees and experiences in tapping certain markets, as well as document successful services made by the Center.*
- *Links for Feasibility Studies, Business Plan, ISO, Environment Studies, and Document preparation for Banks and Agency requirements may be accessed through the Business Advisory Services of the Center.*
- *Advisory and Productivity Programs including ISTIV/ MPEX/ CTEX program may be tapped using integrated into one System of Business Advisory Package and coordinated through the Center so as to provide synergies, maximize resources and avoid duplicated efforts and clientele.*
- *It shall also serve as an Information Center (physical and virtual). It shall process requests and provide information as required. It shall refer or develop contracts for specific services – through permanent staff, or by accredited professional or agencies. Trade associations/ chambers, service groups shall be linked-up.*
- *Counselors /Advisers should be selected on basis of high standards- through a system of accreditation and disaccreditation .Criteria includes: Advanced Knowledge on technologies and ICT, Educational background, Experience/expertise. Age and Health may be important for those serving the regional and countryside businesses.*

Development strategies to be adopted:

- *The region shall serve as SME trade and market support. The SME Center in the National Capital Region shall be provided with the capability to be a major market promoter and an organized marketer for SME products. It shall be known as the country promotion and trading hub, the “SME market promoter.”*
- *In addition to national market promotions, the campaigns will also be tied-up to organized export events and selling. The 2010 goal is a permanent infrastructure for SME market programs (for other regions produce) in the NCR. This reinforces market events and services promoting regional SME products. Future support include integration of services which may include showrooms, sample display, package services, transshipment, warehouse and distribution facilities, linkage support to allied services for entrepreneurs such as information activities, arrangement for meeting, training and conference sites, fair trade promotions, transient services to entrepreneurs and other support services to reinforce the service.*

Appendix 6 **CONCEPT OF UPGRADING SME DEVELOPMENT NETWORK (SME REGIONAL CENTERS AND SME DESKS)**

The concept of the **Enterprise Development / Business Center** emerged from the need to make services accessible. Apart from being an institutional tool to deliver services it offers a means to commercialize the offerings.

The goal of the service is to have a regular business relationship between the service providers and the users. The Enterprise/Development Business Center is to become a business entity whose **product is assistance** to enterprises and the clients are usually budding **entrepreneurs and the small firms**. Medium scale firms are not excluded because of the prospects of volume of business, the corresponding revenues they offer, and the credence of their patronage. Insofar as the larger ones do not crowd the others, general and wide patronage is encouraged.

This concept was used by a number of programs and donor projects to stimulate the service. Most of them did not make a mark. No such model exists. They failed to operate sustainably because the programs and services were characterized by:

- Inadequate service offers. They were often irrelevant, inefficient and had weak demand for the services by the SMEs. They are usually supported by non-sustainable subsidies from government or donors;
- The prevailing support (inconsistent, inadequate and unsustainable) for the Business Centers did not address the unmatched demand and supply which tended to weaken the long-term success and viability of its operations.

OPTION 1 AS DTI/ AGENCY (SMEDA) ADMINISTERED CENTERS

Context : Government coordinates and serve the needs of the sector. It has the mandate and facility (although limited) to serve the needs of the sector.

Principles:

- Staffing and personnel come from regular staff of DTI (or detailed/seconded personnel of other SME agencies) or those to be recruited to serve information, referral and service requirements of SMEs and sectors' activities.
- Funding is generally subsidized, or in some cases shared, in kind, by participating institutions or SME recipients.

Problem:

- Difficulty to find experienced professionals and staff with expertise to serve on full time basis.
- Program to serve a good volume of enterprises needing a wide range of support may not be sustainable.
- Revenues generation may not be applicable using the regular systems.
- Implementation may have to wait in view of approvals and disbursement of funds.

OPTION 2: FEE – BASED MODEL

Context: Business Centers are not attractive to SMEs' in general and is weak on long-term sustainability.

The Problem: Cause is inadequate service offers and weak demand from SMEs.

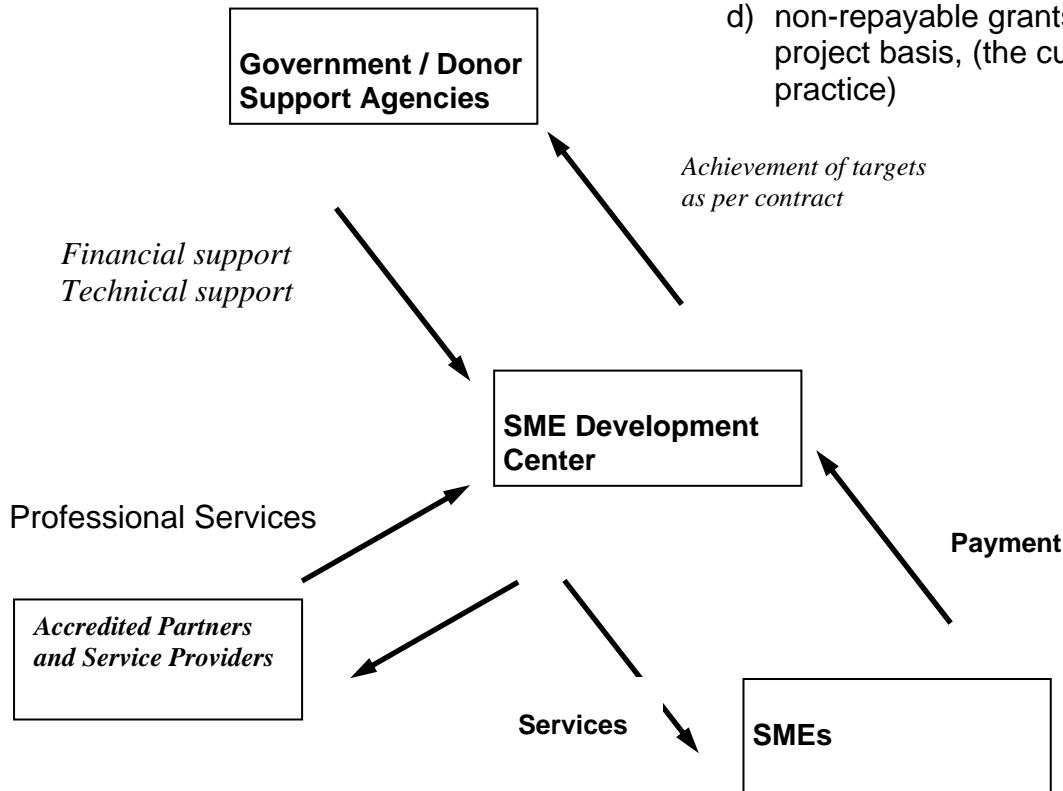
The Principles

- Marketable services are the best opportunity for sustainable and effective Business Center;
- Functioning markets can be stimulated by the development of more effective Business Centers;
- The best SME Centers are those closest to their clients and have a transactional, business-like relationship with them.
- SME Development/ Business Centers need to be entrepreneurial, demand-led and for-profit; and
- SME Development/ Business Centers are envisioned to develop by themselves. (in terms of their people, products and systems). Government-donors themselves

need to develop a business-like relationship with SME Development/ Business Centers.

- b) at institutional level (according to performance and approved targets of the Centers).
- c) for revolving funds: (according to amount recouped or repaid from the services)
- d) non-repayable grants: provided on project basis, (the current standard practice)

The SME Development Center Operational Concept



Contract -Operational Terms (Between the SME Development Center and the Government /Donors):

- A contract-based relationship

A detailed document, based on a business proposal by the SME Development Center/s; or it could be a brief Memorandum of Understanding supplemented by an Annual-agreed Work Plan.

- Financial incentives/ funding.

Subsidy/Incentives/ basic funding from the government and donor agency shall be drawn into a pool/fund. Some fund items are contracted for particular output.

Funding Schemes could be based on any of the following:

- a) Fee-based performance on services: according to gross profit for specific products/services;

- Other financial support:
The financial support may involve support by government and donors for initial investment and pre-operational costs, usually on a shared-basis (repayable or non-repayable grants).
- Timing and period of assistance: support is limited to a particular time period: Periods of 1-3 years for enterprise services and 3-6 years for institutional service shall be extended. There will be exit provisions if “the deal” is not working. This shall be consistent with the three year rolling period
- Financial limits: Financial support on annual basis where different types of support and relationships could be developed.
- Non-financial technical support: this may take the form of, for example, skills training, new product ideas or “one-to-one” counseling support. This includes business plan preparation, enterprise counseling and

training for Counselors. Payment is usually not required for these services.

Organization and Key Players:

SME Development Center Management:

The SME Development Center/s may serve one or more regions. It shall draw support from the national agencies (DTI SMED offices and others agencies) and designated National SME Industry Center/s (not necessarily Manila based). See also regional network scheme of JICA Proposal.

SMED Center Management shall be designated by/ or have the concurrence of the SMED Council, upon the recommendation/endorsement of local SMED Council and chosen from qualified professionals with minimum education and expertise requirements (say , a masteral degree and minimum 5 years experience of directly managing an SME program or unit with related services and professionals).

The highest professional shall be an Executive Director who shall be responsible for the running the center. The Executive Director may or may not be a civil servant.

The Partners, Service Providers, Advisers and Counselors

- The SME Development Centers shall be manned by both civil servants and private individuals.
- Staff members shall be regular appointed and screened officials
- Each partner is expected have a regular relationship (under a long-term Partnership Agreement) on Standing Offer and for on-going support.
- The SMED Center shall evolve an accreditation/rating and monitoring (as well as delisting/ dis-accreditation) system for service
- The partners /providers may be professional or academic organization, consulting firm or NGO, private organization or sector association with extensive experience in the target sectors for the region/s.

The government agencies or donors

- The government agencies, including DTI, DOST, DENR, DOLE and DA and other

agencies serving SMEs shall provide funding and support (in terms of linkages and administration of projects). Foreign (bilateral or multilateral) or local donors (NGOs, corporate, sector) support shall be in terms of pledge for funds, specialists or staff support, equipment and specific expenditure items (e.g. fees for trade fair, transport, etc.).

- Local Government Units are important resource provider, both financial and links for technical support.
- Donors shall provide resources, funding, staffing, specialist and operational support to establish the Center, to support specific programs/ projects, and provide expertise and management support to sustain programs. Staffing support could be on regular or short term capacity. Regular staffing support shall form part of the organizational structure of the SMED Center.

SME Development Center Services

Services: Example of services to be offered could include two areas:

1. **Packaged Services** are standard services offered by the Center.
 - Service modules should be developed to formalize each packaged service.
 - Services are contained on an Annual-agreed on Work Plan.
 - Financial Guidance Services (6 month program) leading to support and facilitation to obtain long term credit.
 - Market Development Services: Product Development Specialist services, Trade Fair Facilitation and management; Product Trends Seminars
 - Productivity and technical services: Productivity Guidance Services
 - Training programs, by modules:
Examples:
 - Entrepreneurship Appreciation: Business Plan Development.
 - Business management training modules on market, financial, production, etc.
2. **Specific Services** are specified requests made on request by sector groups or by entrepreneurs.

- These are specific interventions for an enterprise or group of enterprises that were not originally part of package service.
- Example of this service could include

Salient Features of the SME Development Center/s and Network:

- The SME Development Center is envisioned to be service and sector specific. Specific Industry Centers shall be established in selected regions to serve as national or satellite industry centers (see below). Industry Centers shall be multi –agency linked service.
- The Centers shall offer services which will best fit within the competencies of the Center and the partners and meet clients' demand.
- There shall be not prescriptive type of services to offer; however, the primary focus is on services that shall develop target sectors of the area. It shall also serve the development of sector institutions and provide market development services.
- Example of packaged services that may be offered could include Financial Guidance Services (6 months, with the offer linked to a particular financing package (SB, KB, LB, DBP, etc.)
- SMEs could access information and referral service without charge that should lead to buyers, suppliers or industry/trade associations' service referral.
- Business service and training support - with a particular emphasis on market access services (such as trade exhibitions).
- Trade business services (trade house, direct selling) could be a related function but should have a separate personality.
- The main context of the services recommended revolves around preferred services and the gaps in source of these assistance and services.
- Priority treatment is to be given to SMEs that have potentials to become “innovative” and have high growth.
- Targeted small enterprises plus higher tier micro enterprises and lower tier medium enterprises

The Operational Concepts:

- Pilot Regional Centers to eventually serve as National- Industry Guidance Centers or as model Regional SME Core Center

- Private sectors principles to commercially operate the Center projects/activities
- Joint ownership of assets at the start. If possible a lease agreement will have to be executed between the government (DTI, DOST, etc.) and the private groups (association, NGO) on ownership and use of assets.
- Satellite SME Centers to focus on some specific service or cluster enterprise.
- Satellite center/s maybe initiated based on the model of an existing successfully operating center (to be selected using criteria of: 1) dynamic use of SMEs; 2) impact of services; 3) support provided by agencies/institutions; 4) sustainability.

National Industry Centers:

National Industry Centers shall be

- **SME Packaging Center** – the **DOST based PRDC** shall become the core. It will report operationally to SMED and strategically to the Council. It shall develop three **Satellite Centers**; 1 in Luzon, 1 in Visayas and 1 in Mindanao.
 - Location for Luzon will be a toss-up between Pangasinan or Munoz, Nueva Ecija (attached to CLSU) to serve Central and Northern Luzon,
 - Visayas in Cebu - all sector and major food sub-sectors, for its central locations),
 - Davao in Mindanao
- **Support and Inter-Regional Facilitation Center for SMEs:** at the National Capital Region: It shall serve as the market arm (for domestic market support) and facilitator of administrative services for other regional areas.
- **Support Industries Linkage Development Center:** Calabarzon
- **Furniture Industry Center:** Region 3 and Satellite Center
- **Agro–Processing and Processed Food Industry Center:** all regions should eventually have a processed food center to serve one or more specific agro-food product/s (e.g. fisheries and marine products, fruit, vegetable, nuts, grains).

- The Center should be formed as one integral unit with Packaging Satellite
- Food Industry Center: Initial centers shall include 4 locations of different product specializations.
- By order of priorities they are: Region 11 – Davao based (to serve Mindanao locations; Region 3

- Gifts, Housewares, and Fashion Accessories Center

Region 11:

- Agro –processing and Food Processing Center (focusing on Fruit and Vegetables)

Services of SME Desks/Satellite Centers:

- LGU budget is important to sustain/operate the Satellite Centers. Allocation is recommended to be channeled to SME development.
- Regular support for cost effective services initiated should be continued, including that of entrepreneurship and skills trainings, Information/Training on Rules and Regulations of DOLE, BIR, and other supporting agencies, and on-site shows in Good Housekeeping, 5S, and distribution of printed and materials.
- Simplification of licensing and one-stop shop frontline services is an important service.
- Micro-enterprise services to poor communities in Metro Manila to include marketing, entrepreneurship training programs, trade fairs, skills training with support of PTTC, CITC, BSMED and the LGUs.
- Apart from regular Staff and Counselors, Student Apprenticeship Programs (similar to the MASICAP Program) may be used. This shall be made effective with pre-screened participants (qualifying honors) and Senior Team Leaders in the preparation of counseling referrals and inquiries.

Strategic Action for Satellite Services on SME Development

- Support to Micro-enterprise- cum Community Development Strategies for the Poor Communities
- Support to LGU community-based skills training programs
- Livelihood and employment programs by support of NGOs and charitable organizations and LGUs
- New Livelihood Courses based on the demand potentials of the communities

Summary of Regional Industry Development Focus

National Capital Region:

- Transaction Support (as trading hub) and Market Development Service Center for SMEs
- Satellite Centers to support the trade
- micro-enterprise development

Calabarzon

- Development of the Support Industries Linkage Development Center
- Rationalization of ACSTETSME and the Los Baños Handicraft Center
- Support/linkage Services for Agri- trade (Food Terminal Center in Batangas (future).

Region 3:

- Regional Center to Support Growth Corridor Programs (W and North Corridors)
- Rationalization of the Furniture Industry Center
- Rationalization of the Jewelry Training Center – concept to expand structure to include all Fashion Accessories, Gifts, Housewares- modeled and linked to Cebu FAME.
- Rationalization of the Marble Industry Center

Region 6:

- Development of Agro-processing/Business Support Services for Fisheries Products
- Techno/management services on Mango Production/process technologies

Region 7:

- Satellite Food Processing Center
- Furniture Center,

ACRONYMS

ACTETSME	APEC Center for Technology Exchange and Training for Small and Medium Enterprises	DBP	Development Bank of the Philippines
ADLE	Additional Deduction for Labor Expense	DENR	Department of Environment and Natural Resources
AFI	Accredited Financial Institutions	DFA	Department of Foreign Affairs
AFTA	ASEAN Free Trade Agreement	DILG	Department of Interior and Local Government
AMAS	Agribusiness and Marketing Assistance Service	DOF	Department of Finance
APEC	Asia-Pacific Economic Cooperation	DOLE	Department of Labor and Employment
ASEAN	Association of South East Asian Nation	DOST	Department of Science and Technology
BDS	Business Development Services	DRIVE	Developing Rural Industries and Village Enterprises
BDT	Bureau of Domestic Trade	DTI	Department of Trade and Industry
BETP	Bureau of Export Trade Promotion	DVD	Digital Video Disk
BMBE	Barangay Micro Business Enterprises	EDC	Export Development Council
BNR	Business Name Registration	EMS	Environmental Management System
BOI	Board of Investments	EPG	Eminent Persons Group
BSMED	Bureau of Small and Medium Enterprise Development	EPI C	Environmental Management Program for Industry Competitiveness
BSP	Bangko Sentral ng Pilipinas	EXPONET	Export Assistance Network
CAD	Computer Aided Design	FAME	Fashion Accessories Manufacturers and Exporters, Inc.
CALABARZON	Cavite, Laguna, Batangas, Rizal, Quezon	FDD	Floppy Disk Drive
CBBE	Countryside Barangay Business Enterprises	FDI	Foreign Direct Investments
CCIs	Chamber of Commerce and Industries	GFI	Government Financial Institution
CDPF	Country Development Policy Framework	GMP	Good Manufacturing Practices
CDR/W	Computer Disc Reader/Writer	GOP	Government of the Philippines
CEO	Chief Executive Officer	GTH	Gifts, Toys and Housewares
CIAs	Commercial Information Agents	GVA	Gross Value Added
CIDA	Canadian International Development Agency	GW3H	Giftwares, Wearables, Holiday Decorations, Handicrafts and Housewares
CITC	Cottage Industry Technology Center	HDD	Hard Disk Drive
CITEM	Center for International Trade Expositions and Missions	HR	Human Resource
CLASP	Community Livelihood Assistance Program	HRD	Human Resource Development
CLSU	Central Luzon State University	IBRD	International Bank for Reconstruction and Development
CSEZA	Clark Special Economic Zone Authority	ICs	Integrated Circuits
CSF	Common Service Facilities	ICT	Information and Communication Technology
DA	Department of Agriculture	IDC	Industry Development Council
DAP	Development Academy of the Philippines	IGLF	Industrial Guarantee and Loan Fund
		ILO	International Labor Organization
		IPO	Initial Public Offering
		IPP	Investment Priorities Plan
		ISO	International Standards Organization

ISSEP	Industrial Support Services Expansion Program	QMS	Quality Management System
ISTIV	Industrious, Systematic, Time-conscious, Innovative, Strong Value for Work	RA	Republic Act
IT	Information Technology	R&D	Research and Development
ITDI	Industrial Technology Development Institute	RDI	Research and Development Institute
JICA	Japan International Cooperation Agency	ROG	Regional Operations Group
JO	Job Order	SBAC	Small Business Assistance Center
LGU	Local Government Units	SBC	Small Business Corporation
MASICAP	Medium and Small Industries Coordinated Action Program	SBGFC	Small Business Guarantee and Finance Corporation
MIRDC	Metals Industry Research and Development Center	SEAPAT	South East Asia and the Pacific Multidisciplinary Advisory Team
MPEX	Manufacturing Productivity Extension for Export Promotion	SEFF	Small Enterprise Financing Facility
MTPEDP	Medium Term Philippine Export Development Plan	SET-UP	Small Enterprise Technology Upgrading
MTPDP	Medium Term Philippine Development Plan	SME	Small and Medium Enterprise
NATCCO	National Confederation of Cooperatives	SMEA	Small and Medium Enterprise Agency
NBR	National Business Registry	SMED	Small and Medium Enterprise Development
NCR	National Capital Region	SMEDA	Small and Medium Enterprise Development Agency
NEDA	National Economic and Development Authority	SMEDC	Small and Medium Enterprise Development Council
NGO	Non-Government Organization	SMED RC	Small and Medium Enterprise Development Regional Center
NIC	Newly Industrializing Country	SMI	Small and Medium Industries
NPRDC	National Packaging Research and Development Center	SSEFZ	Subic Special Economic and Freeport Zone
NSO	National Statistics Office	SULONG	SME Unified Lending Opportunities for National Growth
NWPC	National Wages and Productivity Commission	TAPI	Technology Application and Promotion Institute
ODA	Official Development Assistance	TBI	Technology Business Incubator
OFW	Overseas Filipino Workers	TESDA	Technical Education and Skills Development Authority
PBSP	Philippine Business for Social Progress	TLRC	Technology and Livelihood Resource Center
PCCI	Philippine Chamber of Commerce and Industry	UP-ISSI	University of the Philippines-Institute for Small Scale Industries
PDDCP	Product Development and Design Center of the Philippines	WISE	Work Improvement in Small Enterprises
PEZA	Philippine Economic Zone Authority	ZAP	Zero Accident Program
PFI	Participating Financial Institutions		
PHILEXPORT	Philippine Exporters Confederation, Inc.		
PO	Purchase Order		
PO	Provincial Office		
PQA	Philippine Quality Award		
PRDCP	Packaging Research and Development Center of the Philippines		
PSE	Philippine Stock Exchange		
PSMEDC	Philippine Small and Medium Enterprise Development Council		
PTTC	Philippine Trade Training Center		

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