



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



D02708



United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.61/CP.9
11 October 1970

ORIGINAL: ENGLISH

Seminar on the Organization and Administration of
Industrial Services (for Asia and the Middle East)

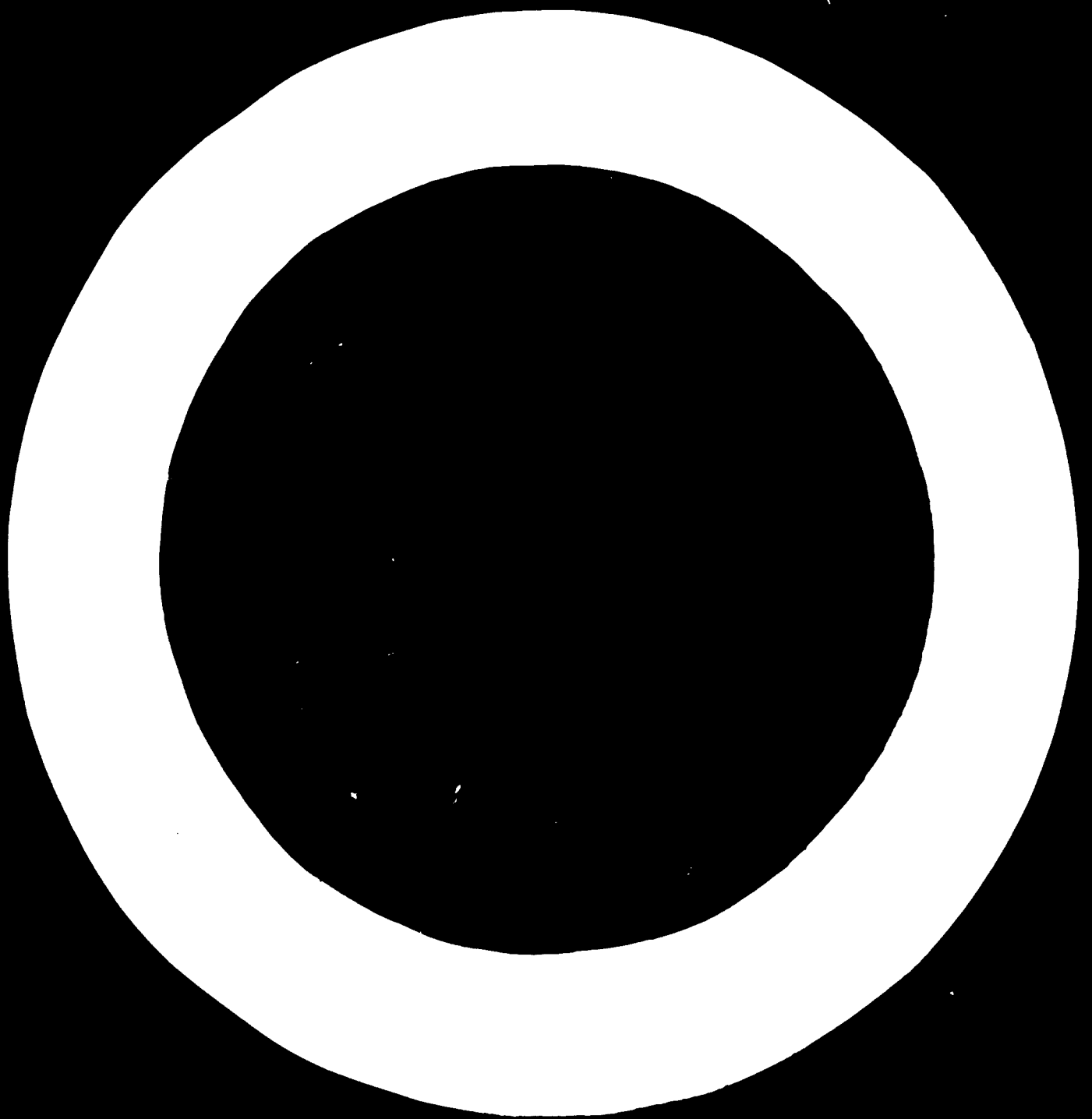
Tashkent, USSR, 12 - 26 October 1970

SMALL BUSINESSES IN THE PHILIPPINES ^{1/}

by

Emmanuel O. Almonte
Director and Treasurer
Pilipino Chamber of Small Businesses and Industry
Quezon City, Philippines

^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.



The Filipino Chamber of Small Business and Industry has long realized the great importance and necessity of looking after the welfare of small business and the need of a programme that will give an entirely different approach than any other programme to promote and protect the interests of the small business enterprises. The Chamber of Commerce of the Philippines, the Philippine Chamber of Industries and the Philippine Chamber of Handicraft Industries share the same feeling and it is precisely for this reason that they have banded together to thresh out the problems and needs of small business and to draft a proposal for legislation for the creation of a Small Business Administration to provide technical and financial assistance to small business.

Based on the definition of "Small" as business enterprises with less than 100 employees, the survey made shows that 9,400 firms or 92 per cent of the whole manufacturing sector belongs to the small-scale bracket. In terms of actual gross value, their total contribution is approximately P745.6 million. About 55 per cent of our 9 million or more employed labour force is employed by small firms and about 40-55 per cent of the volume of commerce and industry in the Philippines is in the hands of small firms.

From these statistics, it is evident that small business plays a vital role in our economy and shows great potential. They are therefore worth saving. Small firms make many products and perform many services more efficiently and more economically than large corporations do, simply by the fact of their being smaller, more flexible and closer to the consumer. Small business is also an important reservoir of job opportunities specially today when large corporations are giving way to automation. According to the survey made by the Bureau of Census in 1965, more than 1,000,000 of our labour force are unemployed and 3,400,000 conservatively estimated are under-employed; while there is a yearly accretion into our labour force of more than 600,000.

The great importance of small and medium business in the continuing economic development of the country cannot be over-emphasized. Small industries are inseparably connected with the industrialization of any country and they are indispensable efficient partners of large industry in the developed countries. Their role in the economic growth of the country is one of major significance in terms of contribution to the gross national product, employment and foreign exchange earning. They, likewise, provide the needed services and products complementing the produce of large business firms. For this reason, they need the support and continued assistance of the Government. The

creation of the National Cottage Industry Development Authority (NACIDA), Board of Investments (BOI), University of the Philippines - Institute for Small-scale Industries (UP-ISSI), is indeed a significant boast towards the development of small business; however, one significant ingredient is lacking. This is the presence of a financing and administrative agency, a centre or a government institution that will insure the continued growth of this sector of the economy.

It is a sad commentary that present conditions in the Philippines indicate that small and medium businesses, if left alone to fend for themselves, are and will be at the mercy of large industrial and commercial combines, mergers, monopolies, and cartels in terms of competition, financing, and scale of operation.

In the areas of financing, scientific research, statistical data gathering and importation of basic machineries, equipment and raw materials and marketing the small businesses are at a serious disadvantage compared to their bigger counterparts. It is in these areas whereby the assistance and supervision of the government is most needed. While it is true that various government institutions are probably concerned with the above functions, there is no denying the fact that such instrumentalities do not have the small business exclusively in view, except to a certain extent whereby the NACIDA looks after the cottage industries, Rural Banks after our farm producers and the UP-ISSI that conducts management training, surveys, research, consultancy and extension services for small-scale industries. This is not sufficient to guarantee the survival of the small industries. A basic legislation that shall integrate all the problems of small business and provide necessary counter-measures and remedies must be envisioned. A centralized integrated approach towards alleviating the lot of the small business is necessary if we are to insure growth and greater contribution to the national economy.

The proposal for a Small Business Administration

The most serious problems of small business in the Philippines today is the lack of financing and the need for technical guidance. To solve these problems, the creation of a Small Business Administration is proposed which would be adequately provided with funds to provide technical and financial assistance to small business.

A. Functions of Small Business Administration

Specifically, the proposed Small Business Administration would assist small business in the following areas:

- (1) Financial assistance and credit supervision;
- (2) Scientific research and technological development;
- (3) Statistical data gathering, compilation, publication and dissemination of subjects of interest to small and medium industries;
- (4) Managerial and technical training;
- (5) Consultancy and extension services;
- (6) Preparation of project and feasibility studies;
- (7) Production and marketing assistance to include export marketing;
- (8) Importation of basic machineries, equipment and raw materials which are not locally produced with adequate allowances for taxes, duties, and tariff deductions;
- (9) Proportional sharing in government contracts for goods and services;
- (10) Protection against unfair competition.

1. Financing - On the financing aspect, it is proposed that various schemes of financing shall be extended to small industries, namely:

- (1) Direct loans on liberalized terms of small-scale industrial or business firms including industrial co-operatives;
- (2) Medium and long-term loans for capital goods;
- (3) Credit facilities for working capital, etc.;
- (4) Scheme of guaranteeing loans to small-scale industrial units;
- (5) Providing incentives for the creation of small investments companies that shall be exclusively for helping small business by direct equity assistance to each company.

2. Training and technical guidance - In the field of training and technical guidance, the proposed agency would help small businessmen in strengthening and improving their management. It should provide specialists on hand to counsel small businessmen on problems of production methods, research and development, marketing, accounting, and production analysis, etc. They will also advise and assist prospective small businessmen who want information on management, or on specific types of business enterprise. It would also conduct researches for the service and knowledge of small business regarding problems and factors governing business success.

3. Other assistance - Other assistance of course, would include preparation of project and feasibility studies and production and marketing assistance to include export marketing, importation of basic machineries equipment and raw materials which are not locally produced in securing proportion sharing governing contracts for small business and providing protection against unfair competition.

B. Structure of administration

The Small Business Administration should operate under a simple, flexible organizational structure. It is proposed that the agency be headed by an Executive Director and two (2) Deputy Directors which shall have full management and administrative responsibility of its operation. It shall, however, be governed by a small board which shall be policy-making in nature. It is supposed to be an independent permanent agency established by Congress to serve exclusively small business without much red tape.

C. Funding

The Small Business Administration must be given an appropriation of at least P50 million if it is to perform its function efficiently. To multiply the effectiveness of its financing functions, it should concentrate in the guaranteeing scheme so as to draw other financing institutions to allocate portions of their investible or loanable funds for small business. In order to mobilize other savings and draw capital from investors who would otherwise be investing their funds in real estate and jewellery, it should also devote much of its funds to providing counterpart equity funds for small investment companies.

D. The need

Arguments have been raised against the creation of another government agency that would extend financing and technical assistance. The reasons being that there are already a proliferation of financing institutions but also a duplication of offices rendering the same functions. However, the nature of small business is such that without direct assistance they would not grow and prosper considering the resources, the influence, and the capabilities that big business wields in a free enterprise society. It is felt that there is need for a specialized institution that will cater to the financing and technical needs of small business for the following reasons:

(1) Most banks for reasons of security and by specific provisions of the General Banking Act are of the "pawnshop mentality". Therefore, the borrower who has the less collateral, which is usually the small businessmen, have the less chance of borrowing. On top of this, they have adopted a very conservative way of appraising collaterals such that they practically give only 35 per cent value of one's properties thus requiring one to need more collaterals than is necessary.

(2) Banks feel that it takes as much time, energy, and paperwork and even more problems to service a P1 million loan than a P10,000 loan. With this attitude, is it a wonder that the small businessmen have less chances of borrowing?

(3) Because of unpleasant experience in certain areas where some banks were left holding fake titles, most banks have taken more resistance in granting loans to small businessmen whose capacity to pay and/or whose real property is unverified or untitled.

(4) The Central Bank, the Philippine National Bank, the Development Bank of the Philippines and the Rural Banks are not staffed with technical expertise on a wide range of small businesses who could assess the true and potential worth of a small business borrower as to place faith in the capacity or potential of every borrower. With a new agency especially organized to know the peculiarities of small business, its expertise could service as many borrowers as possible and, therefore, maximize assistance to small businessmen. As a guaranteeing institution the Small Business Administration could encourage rural banks and other banks to extend loans to small business.

(5) It is advanced that training schools for management like UP-ISSI exists who could evaluate projects and handle supervisory work. The UP-ISSI is basically an academic unit. It surely can be the training ground for technical men but it plays a role that is distinct from functions of the agency contemplated.

The decade of the seventies has placed a far greater burden on small industries than any era in the past. The growing clamour for economic stability necessarily calls for the creation and development of small industries within the economy. With the shift of the labour force from agricultural to industrial production, this economic group is given its own share in manpower development. This requires the formulation of programmes to achieve significant changes in worker attitudes and orientation, acquisition of industrial skills and expansion of personnel management.

Equally significant is the task of industrializing at a local level which requires the creation of greater employment opportunities of non-agricultural character in the rural areas. Small industries, by their very nature, are in a suitable position to undertake the task of rural industrialization for they have relative advantages in processing dispersed raw materials and manufacturing products with local markets.

To develop and expand Philippine participation in the world market is another major responsibility of our small industries. Our monetary, fiscal and economic planners agree that the solution to our current foreign exchange problems is not a drastic cutback in imports - for to do so would mean economic stagnation - but an expansion of our export market through the introduction of the country's other traditional products in foreign markets.

These, therefore, are the primary tasks of our small industries today: to develop manpower, to industrialize the rural areas and to develop and expand Philippine exports. To this call, our small entrepreneurs and their respective factories and firms have responded with unstinting determination and dedication. All other sectors of the economy are also called upon to do their share in assisting small industries to accomplish their missions.





14. 3. 72