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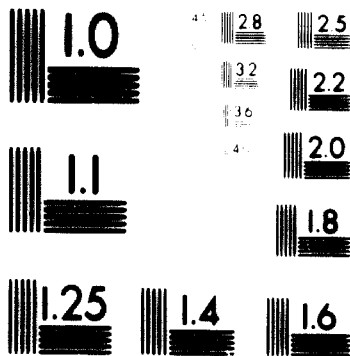
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# 1 OF 4



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Though small-scale units have shown impressive growth in the past, they are also facing a number of shortcomings, such as (a) absence of effective linkage among agencies concerned with small industry development; (b) the comparatively low priority accorded by National and Provincial governments; (c) lack of credit facilities; (d) insufficient attention to the development of a cadre of competent technical officers at the center and at the provinces and municipalities, etc.

The small-scale industries in the Philippines which cling to obsolete equipment are condemned to mediocrity and eventual elimination. This state of affairs can only be changed by adopting efficient methods of production through modernization at the earliest. Only then can the small-scale industries in the Philippines take advantage of the good opportunity it now has to serve the people and the nation at large and thereby lay the foundation of a strong small-scale industry sector.

At present the credit facilities for the small industries are not available in the country at the time when it is needed and therefore they cannot establish an industry on its proper footing nor can they be capable of providing more job opportunities to people in urban and rural areas. It looks as if the banking system in this country needs a thorough change particularly towards the

development of small-scale industries as it is being done in the developed and other developing countries.

Regional development could be achieved more quickly through small-scale units, as they need only a small amount of capital, and are labour intensive when compared to large-scale ones which are to a large extent capital extensive.

At present there is no systematic national plan for the improvement of the small-scale sector. It is therefore suggested that the National Government through the National Economic Council draw up a detailed programme and to take steps to implement it.

In view of solving unemployment and underemployment and promoting proper utilization of the available raw materials in the different regions and to supply parts and components at a cheaper rate to the large-scale ones, there is a necessity to implement a comprehensive and well-integrated small industry development programme in the Philippines. Keeping the above objectives in view, a Master Scheme for the Small-Scale Industry Development has been formulated. Part I of the report deals with the various aspects of the scheme discussed in detail under the following headings:

1. **Integrated Development Programme for Small and Medium Industries in the Philippines**
2. **Multi-Purpose Institute of Technology for Small Industries**
3. **Credit and Finance**
4. **Economic Investigation and Economic Information Service**
5. **Government Purchase Programme**
6. **Modernization of the Small Industry Sector**
7. **Ancillary Development**
8. **Small Industries Associations**
9. **Mobile Vans for Demonstration in Rural Areas**
10. **Regional Development Through Modern Small-Scale Industries**

It is hoped that the recommendations made in the above chapters will receive due consideration in the hands of the authorities concerned so that the Philippines will soon take its place among the nations which have made their names in the field of small-scale industry.

It may be mentioned that the money spent and efforts made will make all around effect in the country in building up an industrial economy, providing more jobs to unemployed and under-

employed and utilization of natural resources properly in the regions. Once again, I would like to express my sincere thanks to the Filipino people in helping me prepare this report.

*K. L. Nanjappa*

(K. L. NANJAPPA)

UNIDO Small Industry Development Expert

11-2-1972

### 3. SUMMARY OF RECOMMENDATIONS

1. **INTEGRATED DEVELOPMENT PROGRAMME FOR SMALL AND MEDIUM INDUSTRIES IN THE PHILIPPINES**
  - a. To create immediate and permanent employment opportunities, to meet a substantial part of the increased demand for consumer goods, to mobilize resources of capital skill, etc. which may otherwise remain unutilized, to develop regions and to increase the middle class sector of the economy, the government of the Philippines should pass an "Industrial Policy Resolution Act" in 1972, which will serve as a "Magna Carta of Social Justice and Economic Freedom", wherein the orientation of government policy in favour of small-scale industries should be clearly described.
  - b. To carry out the directions incorporated in the Industrial Policy Resolution, the Government of the Philippines should entrust the policy decision and the task of preparing a national plan for the development of small and medium-scale industries to the National Economic Council, which should become the supreme body in the field of small-scale sector development. All other

developing agencies should be made to look up to this council for guidance.

c. The National Economic Council may constitute different Standing Committees to consider the important aspects of small-scale industries such as:

1. Credit policy and liberal terms for getting loans by the small-scale industries;
2. Reservation of items to be manufactured by small-scale industries;
3. Regional development through small-scale enterprises; and
4. Export promotion, etc.

d. The existence of the UP ISSI mainly as a training center will not be able to produce the desired impact and lead to the acceleration of the process of development of small-scale industries in the country. It is, therefore, absolutely necessary to accept the Integrated Programme for the orderly and effective development of small-scale industries in the country. The present UP ISSI should be converted into a "Multi-Purpose Institute of Technology for Small Industry".



- e. The present definition of small-scale industry has to be changed. A P1 million investment should include only the value of plant and machinery, thereby excluding the cost of land and building. Such a modification will enable small-scale industries located in the greater Manila area to get benefits, as the cost of land and building alone constitutes a major portion of a P1 million investment. A change of definition, therefore, will enable the urban industrial units to obtain loan particularly for the purchase of machinery, etc. It may be noted that 80 per cent of existing small-scale industries are located in Greater Manila area.
- f. To help the Government of the Philippines in formulating an effective "Integrated Programme" for small-scale industries and to help in converting the present UP ISSI into a "Multi-Purpose Institute of Technology for Small Industry", it is very essential and absolutely necessary for UNIDO to send an adviser on small-scale industries to work with the UP ISSI for a period of two to three years. The Adviser should be the project manager on behalf of all the UNIDO and ILO experts. In order to advise the Executive Director of the UP ISSI, to give suggestions on matters pertaining to small-scale

industries to the National Economic Council and to discuss with other important organizations in the country, the adviser from UNIDO should have professional qualifications in small industry promotion and development with 15 to 20 years experience in various executive positions connected with small-scale industries. Since the UN programme on small-scale industries is going to be effective in the Philippine from 1973, it will be necessary for the UNIDO adviser to work out the details of various programmes for few months during 1972. Such an arrangement will promote smooth implementation of the UN programme in 1973.

- g. In view of the introduction of an Integrated Programme for Small-Scale Institute and converting the present UP ISSI into a "Multi-Purpose Institute of Technology for Small Industry", it will be necessary for the Director or the Deputy Director of the UP ISSI to visit U. S. A., Japan, and India to study various programmes in the field of small-scale industries. The duration of the study tour may be for three months. The UNIDO may arrange a fellowship for this purpose.

**2. MULTI-PURPOSE INSTITUTE OF TECHNOLOGY FOR SMALL INDUSTRY**

- a. The extension service of the present UP ISSI needs strengthening both in terms of number and in quality. There is an urgent need to convert the present Institute into a "Multi-Purpose Institute of Technology for Small Industry".
- b. In view of changes in technology and sophistication, there is a need to appoint competent officers in the fields of:--electronics, plastics, agro-based industries, manufacture of automobile parts, rubber-based industries, etc.
- c. The upward revision of scale will provide an incentive to the officers to put in their best and this in turn will inspire confidence among the users of the extension service.
- d. The system of charging fees for services rendered can be introduced from 1975 onward.
- e. The nomenclature of the technical personnel, below the rank of Assistant Directors, needs to be changed into "Industrial Promotion Officers".

- f. Out of four Regional Institutes suggested to be started in the country, at least two, i.e., one in the North and the other in the South of the Philippines have to be established immediately.
- g. All that has been described about the services of the Regional Institutes will, of course, take time to establish and put into full operation. However, it is not necessary to wait until all buildings, equipment and personnel are ready before taking action. Much can and should be done immediately by the recruitment of a Director and a nucleus to assist him.
- h. In order to look after the expanded central office and four Regional Institutes and to keep effective liaison with bankers, various departments and other national and regional bodies, the post of the Director (UP ISSI) has to be upgraded to that of Executive Director with adequate powers.
- i. **UNIDO's Assistance**

The development of modern small-scale industries in the Philippines depends mostly on the proper set-up and functioning of central and regional institutes in the country. If a proper organizational set-up starts

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche

functioning then it will be easier to facilitate the growth of small-scale industries in the country.

With a view of working out details of each extension service, equipment, recruitment of persons, the nature of extension service in the regions, and other types of assistance, it would be highly helpful if UNIDO provides the services of a "Small-Scale Industries Development Expert" for a period of 2 years. The expert should have considerable experience in setting-up and running central and regional small industries service institutes and extension centers. Two fellowships may be sanctioned by UNIDO for a period of 3 to 6 months to 2 senior officers of UP ISSI to study and gain experience on organized set-up available in the field of small-scale industries, at U. S. A., Japan, and India. One of the officers thus sent for such a training to foreign countries should be appointed as number two top officer in the central organization (UP ISSI) upon his return.

### 3. CREDIT AND FINANCE

- a. The present economic difficulties of the small-scale sector in the Philippines are such that very strong effort is needed if beneficial results are to be achieved. With the objective of enlarging the supply of institutional credit to small-scale units by ensuring a degree of protection to lending institutions against possible losses with respect to their advances, the Government of the Philippines may introduce the "Credit Guarantee Scheme" as instituted in India.
- b. Government and Commercial Banks should delegate more authority to branch offices to grant loans to small businesses up to P25,000 in each case. Local advisory boards in other countries have proven this to be very useful in order to gain better communication between banks and local industry and trade. It is in the interest of both banks and customers that these communications should become closer, and that the banks should have thorough knowledge of persons and enterprises in their sector of small business.
- c. In Japan, the bank rate for small business is 8%. In India, it varies from 7 to 8 3/4 per cent depending on

the type of loan given. The present practice in the Philippines of 12 per cent together with another extra 2 per cent for the insurance, etc. is too much. It is suggested that the present bank rate directed to small-scale units be reduced to 3 per cent.

- d. For giving technical appraisal of loan applications to banks, the UP ISSI should render free service, and it should not get 2 per cent commission from the banks or from the respective parties for at least the next 5 years. The security of each application should be limited to a period of one month.
- e. With the present rules and regulations, the Social Security System (SSS) is not in a position to render any useful help to small-scale units. It is suggested that in the future it should stop sanctioning loans to small-scale units. On the other hand, with the funds available, the SSS may start constructing small-sized Industrial Estates for provincial needs of small industries.
- f. If the banks do not have their own technical persons, then they should accept the advice given by the UP ISSI on technical matters.



- g. For the modernization of existing small-scale industries and for supplying imported and indigenous machines to new entrepreneurs, a separate small-scale industries corporation based on the Indian Model may be established by the Government of the Philippines with the government guarantee that the corporation may negotiate with foreign banks for getting long-term credit, thereby supplying imported machinery out of such loans secured. This system is practiced in India.
- h. Government banks and commercial banks may make it a point to invest at least 10 to 20% of their funds in providing long and short-term credit to small-scale industries. For this purpose, they should prepare a programme and the achievement should be watched.
- i. The National Economic Council may constitute a Standing Committee on credit to the small-scale sector. The membership should include representatives from government and leading commercial banks, the Chamber of Commerce plus the addition of a few private small-scale industries to review the work done by the banks as well as to suggest various improvements for the credit system.
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- j. **Periodical seminars may be arranged by the UP ISSI to brief the branch managers on various aspects of small-scale industries.**

**4. ECONOMIC INVESTIGATION AND ECONOMIC INFORMATION SERVICE**

- a. **In order to conduct various types of surveys and to guide the entrepreneurs in choosing suitable industries and their location, the UP ISSI should have a separate "Economic Investigation Division" with a team of economists.**
- b. **The Economic Investigation Division should conduct surveys in all the 10 regions of the Philippines.**
- c. **In conducting surveys, the existing Economic Investigation Division of the Department of Commerce and Industry must merged with the UP ISSI to avoid duplication of work. The DCI should take up the policy decisions about the area to be surveyed.**
- d. **Efforts must be made to improve the contents and quality of surveys to be conducted by the RIDE participants. The staff of the UP ISSI must guide them properly.**

- e. Important survey reports should be printed and circulated among all the people concerned, as this will provide an opportunity for the people to know the sources of raw materials and other relevant information to start industries.
- f. One separate officer in the UP ISSI should be entrusted to answer economic information regarding small-scale industries.
- g. An effective and aggressive publicity campaign is necessary to disseminate various information among the public. On developing countries dissemination of information will be purposeful and meaningful.
- h. To inform a large number of small-scale units about governmental office actions and other important news, the Small Industry Journal should be issued as a monthly rather than as a quarterly publication.
- i. To guide and train local officers of the Economic Investigation Division, it is suggested that UNIDO may select one economist who has considerable field experience in the line to work with the UP ISSI for 2 years.

- j. It will be desirable to send 2 young officers from the UP ISSI to observe and to receive training in countries where survey work in small-scale industry have been carried out considerably. If the local office personnel see what has been achieved elsewhere, then not only will they acquire the required knowledge, but also upon their return from training, they will work with zeal and devotion. It is suggested that UNIDO provide 2 fellowships to the UP ISSI for a period of six months each. Places of training should be decided later on.
- k. In the absence of a Statistical Act on small-scale industries, it will be difficult to obtain reliable information about the industry and therefore, it is suggested that a "System of Voluntary Registration" of small-scale units with the UP ISSI and its regional institutes be brought into effect immediately.
- l. By an Executive Order, it must be made clear that any small-scale unit which is in need of loans from banks, imported raw materials, supply of electric power, accommodation in industrial estates, training facilities for their workers, or any other help from any provincial or national Government that promote the industry, must

register with the UP ISSI or its Regional Institutes. By chance, if a unit fails to register and fulfill these requirements, then its application for any sort of help must be treated as invalid.

m. The present registration form of 6 pages should be reduced to a simple form to furnish information on the following:

1. name of the unit;
2. types of products produced;
3. number of workers engaged;
4. annual production;
5. location; and
6. types of machinery used and its value.

In no case should the UP ISSI ask the unit to produce a 3-year balance sheet.

- n. The present system of collecting ₱50.00 from each unit at the time of registration should be given up. Registration should be free of cost. For promotional work, fee should not be collected.
- o. In addition to the registration forms, a card index system should be introduced to secure various inform-

ation. At present, the UP ISSI has only 21 index cards and these too do not contain any useful information.

- p. Registration of a unit must be automatic and a serial registration number should be issued to each small-scale unit. All applications registered should find a place in the Master Register. If the UP ISSI doubts the information furnished by any party, then it could be verified through its field staff. In any case, verification should not take more than 15 days.
- q. Once these statistics are collected, classified information on each industry may be published for the benefit of small-scale units, as well as for the general public.
- r. The UP ISSI and its Regional Institutes should be recognized as the agency authorized to collect statistics on a voluntary basis.
- s. Whenever the surveys on manufacturing units to be conducted in the future, certain tables which will be of use to small units and the necessary collected by other national agencies should also be included.
- t. To popularize the voluntary registration system, the government of the Philippines should issue advertise-

ments in all the leading newspapers, radio and TV, pointing out the benefits to small units if they register their units with the UP ISSI and its Regional Institutes. The amount spent on this aspect will soon turn out to be a worthwhile long-term investment for the people.

The Government will also benefit from this registration as they would come to know the state of development of the small-scale industrial units in the country. Information, thus gathered will enable the government to plan the growth of this sector in a scientific way.

##### 5. GOVERNMENT PURCHASE PROGRAMME

It has been observed that there is an alarming rise of unemployment in the Philippines. Expansion of existing small and medium-scale industries, and the formation of new ones will create additional jobs for many in the country.

Government Stores Purchase Programme is an effective instrument to sustain small-scale industry growth. As long as the quality and prices of products from the small-scale industries are comparable with the large scale units, preference may be given in favour of the weaker sector. It is

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K. L. Nanjappa

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**PHILIPPINES  
FINAL REPORT**

**MASTER PLAN FOR A COMPREHENSIVE  
AND INTEGRATED DEVELOPMENT PROGRAMME  
OF ASSISTANCE TO SMALL AND MEDIUM INDUSTRIES**

**BY**

**K. L. NANJAPPA**

**AND**

**LIONEL CRESSON**

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therefore suggested, as in the case of purchase of cottage industry products, that the various departments of the government issue a Policy Memorandum Circular regarding the purchase of certain types of items from the small-scale industries.

It would be advisable for the UP ISSI to open a division in its office for dealing with two or three industries on an experimental basis and working with a few small plants in each industry. As experience is gained from proven procedures, the UP ISSI should be capable of rapid expansion to the necessary and desirable extent to properly serve small industries.

In case the UP ISSI cannot handle this type of work, then it is suggested that a Small Industry Corporation based on an Indian model be formed with the following functions:-

- 1) a procurement division with the power to preempt at least 25 per cent of government indents at prices substantially equal to those offered by the general business community. Where the items especially for the small business industries, and the small-scale sectors as a whole are technically backward, a higher percentage may be permitted. A few fields of government indents

are, of course, not subject to production by small industries even through means of sub-contracting;

- 2) A contracting division who would in turn sub-contract the indents it has taken with small industries;
- 3) An engineering division whose function would be to assist the small industry in the proper processing of the indents. They would help determine the proper machine tools for efficient production of goods. The UP ISSI will have to be strengthened with more technical hands; and
- 4) An inspection department to ensure that the goods are produced in complete accordance with their specifications.

The corporation should sub-contract only to those small industries which show the necessary managerial ability to operate efficiently, to those who are willing to modernize their methods, and who are willing and eager to pay high wages consistent with efficient production methods.

#### Price-Preference

Considering that the small units are not yet in a position to quote competitively along with large-scale units,

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a price preference up to 10% over the lowest acceptable tenders received from the large-scale units may be considered by the Director of Supplies on the merits of individual cases. The Government may appoint a committee consisting of representatives from the Bureau of Supply Coordination, the UP ISSI, the Chamber of Industries, the Pilipino Chamber of Small Business and Industry and other organizations to go through the various types of products produced by the small-scale units and prepare a list of products that could be reserved for government purchase. To start with, the reserve list may not exceed 20 items. With the experience gained, the list may be enlarged.

Small-scale units obtaining government contracts are sometimes facing serious difficulties in procuring raw materials of the required specifications and the necessary quantities. The Director of Supply should make special arrangements to release quantities of raw materials as soon as contracts have been awarded.

Efforts must be made to settle the payment to small units within 2 or 3 months.

#### Fellowships

Since the Government Purchase Programme in developing

countries play an important role, it is recommended that two persons from the UP ISSI and the Bureau of Supply Coordination be sent for training for six months under the UN Fellowship Programme to the United States and India. Care must be taken to ensure that the persons to be trained in these foreign countries are made to serve the country at least two years upon their return.

**6. MODERNIZATION OF THE SMALL INDUSTRY SECTOR**

- a. **With a view to removing the obsolescence of equipment in small-scale sector, it is suggested that the Government of the Philippines should introduce a programme that will modernize the existing small-scale units in the country. Without modernization, it is feared that the existing small units meet natural death in a couple of years.**
  
- b. **To start with, every year the Government can set up a programme of modernization on selective basis in four or five types of industries. If this is done, 20 or 25 different groups of small-scale industries can be brought under this programme of modernization.**

- c. In addition to the programme of equipment modernization, UP ISSI should undertake the responsibility of providing guidance and assistance in improving managerial efficiency through training programmes for owner-managers and workers. The technical officers of the UP ISSI should visit the units regularly to guide in production methods and in the proper use of machines. The Technical Extension Work of the Institute must be increased to meet this need effectively.
- d. Supply of modern machineries are very essential for the survival of small-scale units in the country. In the interest of existing and future entrepreneurs, it is suggested that a separate corporation patterned after the Indian National Small Industry Corporation be set up in the Philippines to supply imported and indigenous equipment on liberal terms. It may be noted that any concession given to small units will be toward present and future economic development and the subsequent solution of the unemployment problem in the country. In order to introduce the modernization of equipment in the small-scale sector in the Philippines as is practiced in Japan and India, UNIDO may make available an Expert for a period of one year. The expert must be

an Engineer, with considerable experience in extension work with small-scale units.

- e. UNIDO also may provide one fellowship to UP ISSI for a period of 3 months to study the systems prevailing in Japan and in India.
- f. For supplying imported machinery, the Philippines can seek Asian Development Bank's (ADB) or other agencies' assistance to get foreign exchange as it will be helping the cause of stimulating economic growth and increasing employment opportunities to many in the rural areas on a more permanent basis.

## 7. ANCILLARY DEVELOPMENT

- a. We have therefore established that it is possible for a small-scale unit, in the Philippines to produce parts/components cheaper than large-scale units for the following reasons:
  - 1. overhead costs of small-scale units are in most cases lower than those of a large unit;
  - 2. direct labour costs in small units are sometimes lower than in large units;

3. small units can often specialize in few components and can therefore concentrate on specialized skill and knowhow for production of those components; and
4. a small-scale unit may pool contracts from several large scale for any particular component or group of similar components and may thereby have a much larger production volume for that component than any of the large units, and can thereby reduce the production cost by using special tooling or special methods of production suited for large volume.

In view of the above, it is suggested that the government introduces the ancillary development concept among small-scale units.

- b. There are a large number of small units supplying parts/components to large-scale public and private sector undertakings. These units are by nature "jobbing shops" and undertake production according to the contracts received. Often they do not have a manufacturing programme of their own even for these components because, they depend mainly on the orders they receive. Comprehensive data on the extent of this activities and the problems faced by these units are not available. It is,

therefore, suggested that special surveys be undertaken by UP ISSI to study the position regularly, especially in Greater Manila and Cebu area where there is a concentration of such units at present.

- c. Small-scale ancillary units are often at a disadvantage in obtaining raw materials of the required specifications. It is suggested that in the future, a department in the UP ISSI be opened to help the ancillary units, particularly to deal with the import of raw materials. If a recommendation is received from UP ISSI, it should be accepted by the authorities concerned and import licenses be issued without further scrutiny.
- d. The technical officers of the UP ISSI should be associated with the licensing of large-scale units more closely from the time of the receipt of the application so that the applications might be scrutinized from the ancillaries' point of view. Such components/parts which could be made in the small-scale sector should not be licensed and it should be the responsibility of the large units to locate ancillaries. However, the UP ISSI should help the small-scale units so selected by rendering technical and managerial assistance to the required degree. Before finalizing agreements with



foreign collaborators in aiding the country, the items to be manufactured must be clearly specified by BOI.

- e. The UP ISSI should prepare list of standard parts/components that could be made in ancillary units. These lists should be made available to all Government Departments for use while preparing project studies of large-scale public sector undertakings. The lists should also be made available to the Bureau of Stores Purchases and members of the licensing committee. The lists may also be given wider publicity so that prospective entrepreneurs in the large-scale sector might plan their projects accordingly. It is, however, to be appreciated if these lists could only be illustrative.
- f. The UP ISSI should publish a quarterly bulletin containing details about the capacities available in the small-scale sector for manufacture of various components/parts, sub-assemblies required by large-scale units registered with them, as also data of the work that these large-scale units are willing to sub-contract. This bulletin will thus bring together the prospective large-scale and small-scale units, and stimulate their ancillary relationship.

- g. In the case of large-scale units proposed to be established in the public sector, the scope to develop ancillaries should be considered even while preparing the project study. The project report should contain definite recommendations regarding establishment of an ancillary industrial estate. The UP ISSI should be associated in preparing these project reports to the necessary extent.
- h. To look after the development of ancillaries, the National Economic Council should appoint a Standing Committee on ancillary development. Representatives of the chambers of commerce, various government departments, few people from large and small-scale sectors be suitably represented.

Regional Committees of the Standing Committee on Ancillaries might be established in few provinces.

1. Soon as the necessary climate has been created for the development of ancillaries, it will be best if the Chamber of Commerce and similar other associations should take the lead to bring the large-scale and small-scale units together to foster their ancillary relationships further. Once in a year, an Ancillary



**INSTITUTE FOR SMALL-SCALE INDUSTRIES**  
UNIVERSITY OF THE PHILIPPINES

*Karachur L. Nanjappa*  
**UNIDO Small Industry Development Expert**

Office:  
11th Floor, SSS Building  
East Ave., Diliman, Q. C.  
Tels. 97-21-11; 97-25-11  
97-28-11 Loc. 2

Residence:  
Development Commissioner  
Small-Scale Industries  
Ministry of Industrial  
Development  
New Delhi

Exhibition of Parts/Components made by small-scale units be held so that large units will know what is produced by the small-scale units, and even the small-scale units themselves will see the things produced by other small-scale units. This will also help in understanding improvements taking place in the field of product designs.

- j. UNIDO should make available an expert in ancillary development to help the UP ISSI and the small-scale units in the Philippines in the proper development of ancillaries. The expert should be an Engineer with considerable field experiences.

## 8. SMALL INDUSTRIES ASSOCIATIONS

According to the survey conducted by the U. P. Institute for Small-Scale Industries in 1966, there were 9,400 small-scale industries then existing in the Philippines, but hardly a small fraction of the total units have become members of the Philippine Chamber of Industries nor of the Pilipino Chamber of Small Business and Industry. It seems that the idea of joining these organizations has so far not been generally accepted by the small and medium-sized sectors as

they feel they have very little to gain by becoming members. In the interest of small-scale enterprises, trade associations should be made to perform and execute things of mutual interest to the members which each of them would not be able to do by himself. Keeping this end in view, the following measures are suggested for adoption:-

- 1) Formation of specific organizations to look after the interest of small and medium units -

There is a great need to look after the interest of the manufacturing units in small and medium-scale industries in the Philippines. If it is a composite organization of manufacturers and traders, it will not be able to give effective attention to the manufacturing problems of the small industries. It has also been proved elsewhere, that the small-scale units, by associating with other members, fail to get attention for their problems because the larger units, by virtue of their economic position, would try to dominate the affairs of the Federation. In case the existing organizations fail to give more attention to small units, then there is a need for a strong, separate Federation to come into existence.

- 2) In the developing countries, people generally do not come forward to meet the expenditures of small-scale industries/organizations. It is therefore recommended that the Government consider the plight of the small and medium sectors with more sympathy and give a grant of ₱50,000 every year, for a period of three years to meet a portion of the expenditures for the establishment and maintenance of the organization.
- 3) Publication of a Directory

At present, no detailed publication on small-scale industries is available in the Philippines despite the existence of 9,400 units. For effective planning, it is very essential to have a detailed book published in the country. It is, therefore, suggested that the Federation or any other suitable organization may be entrusted by the Government to compile and publish a "Directory of Small and Medium Scale Industries in the Philippines". The price of each copy should not be more than ₱5.00, otherwise many small units will not be interested in purchasing. Since the circulation of useful information to manufacturing units are essential from the country's point of view, it is suggested that the Government may give a suitable grant to the Federation to meet the print-

ing charges of the Directory. It may be mentioned here that the Small-Scale Industries Federation in India collected advertisements for the Directory from the members and from other government departments to meet major portions of the expenses. Through this method, the valuable Directory could be published at a nominal expenditure to the Government as well as the Federation. Of course, Government departments will have to make available various information from their files. Thus, the Directory will be able to serve the rapid development of small-scale industries in the backward areas.

4) Holding of an "All-Philippine Small-Scale Industries Exhibition"

In order to give the public an idea regarding the development that has taken place in the country and to promote its future growth, it is very essential to hold an "All-Philippine Small and Medium Scale Industries Exhibition" in the Greater Manila area. Arrangements may be made to give demonstrations of simple machines, so that people will know for what uses the machines could be utilized. Many developed countries will be glad to take part in such an exhibition as it will pro-

vide a golden opportunity for finding market for their equipment. At the same time, local people will have a chance to see the different types of equipment and their price ranges. Enough efforts will have to be made to collect the products produced in the different provinces, as it will give the planners an idea regarding the development that has taken place in the country.

If possible, products of each category item may be displayed in separate blocks. The Exhibition will stimulate the future growth of small-scale industries.

Possibly arranged by the Small-Scale Industries Federation with active government support in all respects, the duration of the Exhibition may last for a period of two months. Once the Exhibition proves successful, similar shows on a smaller scale may be arranged on important regions as it will give the people an opportunity to see the progress their country has made.

- 5) The Federation of Small-Scale Industries in the Philippines should assume the responsibility of sending the proprietor or the deputy of each unit to undergo various types of management training programmes given at the UP ISSI. Such training will benefit their members in running their units in a modern way.



- 6) **The Government of the Philippines may give proper representations to various bodies to the Federation so that it could effectively voice out the feelings of the small industry sector.**
- 7) **A delegation of 6 to 8 members of the Federation may be sent to Japan and India, under the sponsorship of the government, to see how the Small-Scale Industries Federations have been organized and functioning in those countries.**
- 8) **Regional Small-Scale trade associations should be formed, strengthened and developed.**
- 9) **That the national and provincial governments should take the initiative in organizing and promoting meetings to discuss these problems.**

**The above recommendations if implemented, will inculcate self-discipline, achievement of higher productivity, better quality, etc., among the small enterprises. Any financial assistance given to such activities will, therefore, be a profitable investment in the development of the small industry sector.**

9. **MOBILE VANS FOR DEMONSTRATION IN RURAL AREAS**

- a. **Out of 10 regions formed for the development of small-scale industries in rural areas of the Philippines, 2 or 4 regions may be selected at the pilot stage for giving demonstrations and training through mobile vans.**
- b. **Each region must be supplied with a group of 3 or 4 vans dealing with various trades.**
- c. **The administrative control of the vans should remain with the Regional Institute of UP ISSI, which will arrange suitable demonstration and training programmes in each region in consultation with other local agencies who are interested in the development of small-scale industries. The staff attached to these vans should be able to provide information about the specifications, prices, sources of availability of the machines, and the terms and conditions under which institutional credit can be handed for long-term and short-term credits.**

**10. REGIONAL DEVELOPMENT THROUGH MODERN SMALL-SCALE INDUSTRIES**

- a. While drawing up development plans in the provinces, efforts may be made to suggest suitable items to be developed by the small-scale sector. Detailed scheme on each item will have to be prepared. There must be perfect coordination between national and provincial plans.
- b. To attract entrepreneurs to start industries, a number of incentives must be offered, as are practiced in a number of Western countries (Appendix C).
- c. Since incentives cost money, two or three regions may be selected for intensive development of both large and small-scale industries. On the basis of the experience gained, other regions may be selected for development.
- d. The Development Bank of the Philippines and other financial institutions must take leadership to construct small-sized industrial estates on land between four to six hectares. To start with, 20 or 30 sheds may be constructed. Total costs for land and building may be limited to an amount below ₱250,000.

- e. **District surveys must be carried out by UP ISSI and BOI to find out the type of industries that could be started.**
  
- f. **Intensive campaigns patterned after that conducted in India must be carried out by all the Philippine agencies concerned with economic development of backward areas.**
  
- g. **UNIDO should provide an expert to start industries in the backward areas. The Expert must have considerable planning and practical experience in developing industries in the backward areas, particularly agro-industries and management of rural industrial estates, as well as conducting intensive campaigns in backward areas.**
  
- h. **UNIDO should provide one fellowship for six months to an officer from the Philippines to study the developmental efforts that have taken place in the United Kingdom, Denmark, Netherlands and India.**

CHAPTER I  
MASTER PLAN  
INTEGRATED DEVELOPMENT PROGRAMME  
FOR SMALL AND MEDIUM INDUSTRIES IN THE PHILIPPINES

**BACKGROUND**

**The Problem**

The emergence of the Philippines as an independent nation in 1946 brought about great transformations on the economic front -- both in industry as well as in agriculture. The cumulative effect of which was a rapid economic progress in the country, something which the country has never experienced before.

The development of the industrial sector from 1946 to 1960 was achieved by a conscious strategy of import substitution. The government adopted fiscal incentives such as tax exemptions for "new and necessary industries", import and foreign exchange controls and tariff protection. All these cumulatively resulted in an impressive increase in industrial output.

The share of the manufacturing sector in domestic product rose from 7.3% in 1950 to 18% in 1970. Despite the development in the industrial production, the fact that this sector could not accommodate more than 11% of the country's total labour force in more than a decade from 1957 to 1968 seems to be so surprising. Anyone who is socially conscious would like to reflect and re-analyze the situation which led to this amazing phenomenon.

03222

Distr.  
RESTRICTED  
UNIDO/ILO  
February 1972  
ENGLISH

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PHILIPPINES

FINAL REPORT

MASTER PLAN FOR A COMPREHENSIVE  
AND INTEGRATED DEVELOPMENT PROGRAMME  
OF ASSISTANCE TO SMALL AND MEDIUM INDUSTRIES ✓

by

K. L. NANJAPPA  
UNIDO Small Industry Development Expert

and

LIONEL CRESSON  
ILO Small Industry Management Development  
and  
Consultancy Expert

PHI-111-C (SIS)

✓  
The views and opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the secretariat of UNIDO/ILO.

Most of the large-scale industries are concentrated in Manila and suburbs. Thus, the Per Capita income in Metropolitan Manila is about 5 times more than that of the national figure.

According to the survey conducted in 1966, there are 9,400 modern small-scale units in the country. These units have given employment to 153,000 persons and contributed 20% of the total industrial production.

If only greater attention has been given to the small-scale units, the total contribution of the small-scale sector by now would have been more than the present 20% and a large number of persons could have been employed, as small units could be started at a lesser capital than large-scale ones. (Summary of findings can be seen at Appendix A).

#### Present Position of Handicrafts and Cottage Industries

When we talk of small-scale industries in the Philippines, we should clearly understand that modern small-scale industries are distinctly different from handicrafts and cottage industries which are existing in the country.

The term "Handicraft" or "Cottage Industry" pertains to economic activity in a small scale which is carried out mainly in the homes or in places where production is carried on mainly

through the help of the members of the family. According to the existing law, all cottage industries will have to be registered with the NACIDA (National Cottage Industries Development Authority). Units with a capital investment of ₱15,000 or less in machinery alone are entitled to be registered. Normally, each cottage unit helps support an average Filipino family consisting of a father, a mother and three (3) children. Thus, a total of 3.3 million Filipinos are directly or indirectly benefited from this industry.

There are 43,699 cottage industries which so far have registered with NACIDA. Capital invested in these units have been estimated at ₱95 million. Registered units have provided direct employment to 700,000 workers. Besides, the registered units of 43,699, it has been estimated that there are nearly 50,000 units unregistered in the country.

Cottage industries, apart from supplying the local market, are also exporting goods and earning valuable foreign exchange. An export earnings of ₱58 million accounted for in 1968 has gone up to ₱128 million in 1970. The progress is spectacular since the cottage industries are contributing to the growth of economy of the country. The government has created a number of specialized agencies in order to help the units in many ways. Cottage industries by virtue of their specialty will continue to play their role



in the future also.

### What is a Small-Scale Industry?

The official definition that has been in force since 1970 runs as follows: "Small-scale industries are those enterprises engaged in manufacturing or rendering services to the manufacturing sector of the economy with employment of not less than 5 and not more than 100 workers, with total value of assets not more than Pesos one million and managed directly by the owner or owners."

Every developed and developing country has adopted different definitions for their small-scale industries. The definition should be flexible, and if there is a need for change, they should be modified according to circumstances. In fact in India, the definition of small-scale industries was changed three times. The present definition in India runs as under:

"Small-scale industries will include all industrial units with capital investment of not more than \$100,000 irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only". (\$1.00 = Rs 7.50)

The Philippine definition of one million pesos on assets include cost of land, buildings, plant and machinery. Cost of

land and building alone, for example, in Manila and Greater Manila may cost much more than in the provinces. Therefore, if such a cost is deducted out of an asset of one million pesos then only the reduced amount will be available for the cost of the equipment. People who want to avail of loans in cities will therefore be subjected to more difficulties than the small units in the provinces. It is suggested that if the reference to one million pesos were to be confined to plant and machinery, then the cost of land and building irrespective of locations will not come in the way of classifying under the same category.

#### Need for Modern Small-Scale Units

Aside from geographical reasons like the country being composed of 7,100 islands spread in a vast area thereby causing problems of transportation and communication, there are other important reasons why small-scale industries are vital to the development of the Philippine economy. The development of small industries is supposed to facilitate effective mobilization of resources and of capital and skill particularly in the rural areas, which might otherwise remain unutilized. All these, in other words, means decentralization and dispersal of industry, which are necessary for national development and for preventing the concentration of wealth in the hands of a few. These industries offer a method of developing entrepreneurs and ensuing

more equitable distribution of national income. Besides, it is possible to economize the overhead capital expenditures on power, water, housing, etc. which is essential for the urbanized industry, (and its labour force), through establishment of small units in semi-urban and suitable rural areas. Unlike large industrial establishments, small industries have relatively shorter gestation period and also lesser dependence on imported equipment and raw materials. These industries also help large industries by meeting their requirements for parts and components in the manufacture of which large size operation or a high degree of mechanization has generally no pronounced impact on the economy. In this sense, they are reinforcing the large scale industries.

There are, of course, very great "economies of scale" as in the operation of a steel mill, shipbuilding or a paper mill. Small units in such fields are not economically feasible. But economies of scale are much less important in cutlery, hosiery, foundry products, some kinds of machine tools and many kinds of specialized components that can be made by small producers for sale to large-scale manufacturers, assemblers and distributors at a comparatively cheaper rate.

Certain kinds of products which are costly to transport (bricks, tiles) and other perishables (vegetable, fish and fresh

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dairy products) have to be produced or processed locally, which generally means in a small-scale. Also products the demand for which are highly specialized or individualized or changeable (plastic, fine furniture, fashionable goods) are likely to be better produced by small or medium units rather than by very large ones.

In almost all of the developed and developing countries, great importance is given to the development of small-scale enterprises. Employment provided by the small-scale sector in various countries (in terms of units) may be seen in the following table:

**Share of Small-Scale Industries in Employment and Value Added of the Manufacturing Sector in Selected Countries**

<u>Developing Countries</u>	<u>Year</u>	<u>Percentage of Employment</u>	<u>Percentage Value Added</u>	<u>Designation of Small-Scale Industries No. of Employees</u>
Iraq	1964	49.5	30.9	1-49
Jordan	1965	80.3	53.7	1-49
Kuwait	1965	54.4	-	1-49
Lebanon	1964	65.8	63.4	1-49
Saudi Arabia	1965	84.2	-	1-49
Brazil	1960	38.9	32.2	5-99
Chile	1957	42.8	25.4	5-99
Columbia	1962	45.9	29.4	5-99
Ghana	1959	8.4	36.5	6-100
India	1969	35.0	38.0	1-100

<b>Korea</b>	<b>1963</b>	<b>56.8</b>	<b>42.4</b>	<b>5-99</b>
<b>Pakistan</b>	<b>1958</b>	<b>22.2</b>	<b>24.8</b>	<b>1-99</b>
<b>Philippines</b>	<b>1966</b>	<b>21.3</b>	<b>20.0</b>	<b>5-99</b>
 <b><u>Developed</u></b> <b><u>Countries</u></b>				
<b>Canada</b>	<b>1961</b>	<b>34.5</b>	<b>27.7</b>	<b>1-99</b>
<b>Japan</b>	<b>1961</b>	<b>46.2</b>	<b>47.6</b>	<b>6-99</b>
<b>United</b>				
<b>Kingdom</b>	<b>1958</b>	<b>15.8</b>	<b>13.6</b>	<b>1-99</b>
<b>United States</b>	<b>1958</b>	<b>27.0</b>	<b>23.0</b>	<b>1-99</b>

### Government Efforts

The Government of the Philippines is now concentrating its attention in the development of modern small-scale industries in the country, since they realized that the sector has a great potential in creating jobs all over the country at a minimum capital investment. In order to determine the total number of small units existing and their problems, the Government of the Philippines conducted a detailed survey of small-scale enterprises in the country in 1960, jointly supported by the National Economic Council of the Philippines and the UNESCO Research Center (Calcutta).

According to the Survey Report, "there existed 987 modern small-scale units in the country". The survey pointed out that nearly 70% of the establishments surveyed reported difficulties in procuring raw materials necessary for their operations, because the cost of raw materials accounted for at least 40% of the gross receipts in the establishments. In spite of stiff competition from large-scale industries, fourfifths of the sample establishments reported marked demand for their products sufficient, if not more than sufficient at their operation.

Another interesting fact was that 501 units out of the total 820 establishments or 61% were owned by individual proprietors

189 establishments representing 23% of the total operated on a partnership basis, while the remaining 130 establishments or 16% were of the corporate type. Yet another important factor brought out by the survey was that 72% of the establishments had engaged between 5 to 19 workers and provided employment to 22% in the manufacturing side.

#### Birth of UP Institute for Small-Scale Industries

With a view to rectify the difficulties pointed out in the survey of the small-scale units, the Government of the Philippines started negotiating with the Royal Government of the Netherlands in 1963. Three years after, a bilateral agreement was concluded between the two governments which created the Institute for Small-Scale Industries under the University of the Philippines. Since then, the Institute has been engaged in training consultants and other types of management courses, as it is its main function.

Instead of solving the difficulties pointed out in the survey in 1960, the Institute took action to conduct another detailed survey among the small-scale industries. Probably, they wanted to know the changes that had taken place between 1960 and 1966.

According to the survey of 1966, there were nearly 9,400 modern small-scale industries in the Philippines. It is estimated that they were serving the nation by providing employment to

153,000 workers all over the country. The main features of the survey may be seen under Appendix A.

### National Council for Small and Medium Industries

The National Council for Small and Medium Industries was created in 1970 by a promulgation of the President of the Republic of the Philippines to serve as a dynamic administrative body that will integrate all government agencies for government policies and to ensure the stability and continuing growth of this vital sector in the developing economy. The Council is an ad interim body for the small enterprise board as proposed in the bill which is pending enactment in the Congress under the executive order. The Council shall assist and protect the interests of small and medium industries, encourage and develop their actual and potential capacities, safeguard their stable growth and secure their development.

It is fortunate that the Chairman of the National Economic Council, which is the highest body in-charge of planning, has agreed to become the chairman of the National Council for Small and Medium Industries too. The Director of the UP ISSI has become the action officer.

Membership of the council consists of heads of government financial institutions like the Social Security System (SSS),



February 1972

Mr. William M. Harding  
Resident Representative  
United Nations Development Programme  
Philamlife Building  
United Nations Avenue  
Manila

Dear Mr. Harding,

Subject: Assistance to the Small-Scale Industries:  
Small Industry Development (SIS-PHI-111-C)

We take pleasure in presenting herewith the Report of a Two - Member Team of UNIDO/ILO on a Master Plan For a Comprehensive and Integrated Development Programme of Assistance to Small and Medium Industries in the Philippines. In two parts, it discusses the current method of operation of the existing institutions assisting and supporting small industries and have made suggestions as to how improvements could be effected.

The Team wishes to express its grateful thanks to various heads of departments and other top officials of the National Government, Governors, Mayors, Chambers of Commerce, Private organizations and institutions and individuals throughout the country. The Team's special thanks are due to Mr. L. V. Chico, Director of the University of the Philippines Institute for Small-Scale Industries (UP ISSI), Mr. Paterno V. Vitoria, Deputy Director and concurrently Assistant Director for Finance and Development, Mrs. Herminia R. Fajardo, Chairman, Project Evaluation and Supervision Department, and all staff members of the UP ISSI without whose help and cooperation, it would not have been possible for the Team to complete its report in such a short time.

Sincerely yours,

(SGD) K. L. NANJAPPA  
UNIDO Small Industry Development Expert

(SGD) L. CRESSON  
ILO Small Industry Management Development  
and Consultancy Expert

Enclosures: 6 copies

**Development Bank of the Philippines (DBP), Government Service Insurance System (GSIS), and Philippine National Bank (PNB) plus the presidents of several chambers of industries like the Philippine Chamber of Industries (PCI), Chamber of Commerce of the Philippines (CCP), and the Filipino Chamber of Small Business and Industry (PCSBI). The secretary of commerce and industry is also a member of the council.**

**The council has the following functions:**

- 1. To conduct studies on small-scale industries and integrate the proposed measures relating to the promotion and development of small and medium enterprises;**
- 2. To propose and adopt policies, set objectives and priorities affecting small and medium industries;**
- 3. To formulate a credit programme for the small and medium sectors with the help of government financial institutions and to follow up the implementation programme of the said institutions;**
- 4. To coordinate and integrate the activities of all government agencies related to small and medium industries to the end that all efforts may be effectively channeled to the objective of attaining the promotion and development of small and medium industries; and**

5. To undertake such other measures as may be necessary from time to time to attain the objectives.

As far as the creation of the National Council for Small and Medium Industries and the tasks to be achieved are concerned, it seems a lot of hope on behalf of small units have been entrusted.

#### Indian Experience in the Field of Development of Small-Scale Industries

To achieve more or less the same functions entrusted to the Philippine National Council for Small and Medium Industries, the Government of India passed an "Industrial Policy Resolution" in 1956. The objectives of the Industrial Policy Resolution may be summarized as follows:

1. To create immediate and permanent employment opportunities on a large-scale at a relatively low cost;
2. To meet a substantial part of the increased demand for consumer goods;
3. To facilitate mobilization of resources, of capital and skill, which may otherwise remain unutilized;
4. To help in raising income and the standard of living of a large number of artisans, craftsmen and entrepreneurs;

5. To bring about an integration of the development of small industries within the rural economy on the one hand, and the large-scale enterprises on the other;
6. To ensure, by the above means, the growth of an efficient and progressive decentralized sector of the economy; and
7. To make the small-scale industries export-oriented and help in export promotion.

In order to carry out these objectives effectively, a high-powered "Small-Scale Industries Board" was created under the chairmanship of the Minister for Industrial Development. As in the case of the Philippines, ministers of other departments and 80 important non-officials, and officials have been made members. The Small-Scale Industries Board in India is not a statutory board, but once decisions have been taken in the board meetings, then all concerned do their best to implement the approved measures.

So far, the Board has met 29 times in different parts of the country. Very seldom are board meetings held in the headquarters in Delhi, the idea being that, if board meetings are held in backward areas, a certain amount of enthusiasm can be created in such places, which alone will become a motive force for other entrepreneurs to start new industries. In addition, it is hoped that these regional meetings will bring experts closer to these

regions' problems and potentialities which will help them in planning industries in these areas. Board meetings are held twice a year, generally attended by 200 to 250 important persons to carry out urgent matters. A number of Standing Committees have been formed, they are:

1. Raw Materials Committee
2. Credit Facilities Committee
3. Export Promotion Committee
4. Rural Industrialization Committee
5. Quality Marking and Standardization Committee

For non-officials who attend the Standing Committee and Board meetings, the government of India pays their air travel and other daily allowances.

In order to carry out the board's programme, a huge administration has been set up under the Development Commissioner, Small-Scale Industries. Eighteen (18) full-fledged Regional Small Industries Service Institutes, and 64 Extension Centers, spreading all over the country has been located both in urban and rural areas. At present, more than 900 highly qualified and experienced officers are serving in these organizations and helping the industry in all possible ways.

The Small-Scale Industries Programme in India is at present a comprehensive and integrated programme giving assistance to small-scale units in all directions, and not confined to one programme or two only.

#### Achievement in Indian Small-Scale Sector

As a result of the following comprehensive and integrated programme, small industries in India emerged as a powerful modern industrial sector of the national economy with a high potential for growth and expansion. The facilities and incentives provided by the government and other allied organizations have been in no small measure responsible for transforming small industries into modern and economically viable units of production capable of self-sustained growth. Small enterprises have not only been able to produce a wide range of consumer goods to meet the internal demand, but have also been able to enter, (though only in a small but sure way) into the international markets owing to the adoption of modern management techniques and continuous improvement in productivity. Many desirable socio-economic objectives such as the utilization of untapped resources, capital and skill, development of entrepreneurial ability, gradual integration of the large-scale and small-scale sectors of industry and equity distribution of industrial activity to reduce regional disparities, have been achieved to a greater or lesser extent

through the development of small industries. Though what remains to be achieved and is capable of achieving is, of course, greater than what has been attained in the last two decades, yet it demonstrates that given the will and the purposeful direction to developmental efforts it can create wonders. The invaluable experience and expertise gained are great assets which will surely go a long way in building up a dynamic, modern and self-reliant industrial economy. Since India and the Philippines have many things in common in this field, there is no reason to hesitate to adopt these suitable areas based upon the already experimented areas in India.

**Small Industry is a Big Partner in Indian Economy which may be in the following achievements :-**

1. Number of registered small units as on 31-3-71	190, 727
2. Total gross output in the small scale sector as on 31-3-71	₹34, 500 million
3. Total number of persons employed in the small-scale sector	6.3 million
4. Total investment in the small industry sector	₹4, 200 million
5. Fourth plan outlay on Small Industry Programme	₹1, 200 million
6. Number of items reserved exclusively for production in the small-scale sector	166

### Small Industry is a Resurgent National

#### Force in the Industrial Fields of Japan

Japan's small business sector carries a great weight in the national economy with its units accounting for 99 per cent of the country's total establishments and its economic growth and stabilization livelihood. Japan's aim is to achieve balanced growth of the national economy and the well-being of the nation as a whole. The most urgent requirement probably may be to increase the competitive power of their industries with other countries in an open economy. With this aim in view, the government lays major emphasis in its small business policies, which are being implemented through the expansion and intensification of these already brought into action and the arrangement of a structure for promoting cooperation and for technological development. As a result, 52 per cent of goods exported from Japan come from the small sector.

#### The Future of Small Units in the Philippines

If a developed country like Japan and a developing country like India could achieve success through small-scale industries, there is no reason why a country like the Philippines with vast resources of raw material, plenty of educated and intelligent labour with committed government backing cannot achieve pros-



perity through small-scale industries.

Considering the growth that has already taken place in the small-scale industries in the Philippines during the past, it can be safely assumed that the modern small-scale sector is going to be a powerful factor in the rapid, decentralized growth of a modern economy of the future Philippines. The small-scale industry which is by nature a labour-intensive and capital-saving industrial sector has to play a vital role in the overall economic development of a country like the Philippines, where millions of people are unemployed or underemployed; where most of the entrepreneurs are capable of investing small amount of capital and where there is a dearth of sophisticated machinery and modern technology. Other factors which weigh in favour of the small industry are its adaptability to semi-urban and rural environment where the infrastructure is underdeveloped and its capacity to attract rural savings and diverting them to productive channels.

**Industrial Policy Resolution for the Development  
of Small-Scale Industry in the Philippines**

In order to solve unemployment and develop the backward areas as well as to bring the middle class people in the main stream of industrialization in the country, the Government of

the Philippines should attach importance to the development of small-scale industries.

In 1970, a draft act was introduced in Congress in order to back up the development of small-scale industries in the Philippines, but the bill is yet to be passed. The draft of the proposed "Small Enterprise Act of 1970" seeks to implement House-Joint Resolution number 2, otherwise known as the "Magna Carta of Social Justice and Economic Freedom" which recognizes the importance of small enterprises not only in promoting industrialization of the country but also in achieving social justice, nationalism, and economic democracy.

If the Act is passed by Congress, then it is going to give sufficient backing for the development programme of small-scale industries, otherwise no progress can be expected.

Integrated Development Programme  
for Small-Scale Industries

In order to achieve the maximum success in a short span of time it is suggested that the following ideas be considered and incorporated in the proposed act which is now pending in Congress for enactment:

- (a) The production of all consumer goods which are being competently and economically manufactured by a small-scale sector have to be reserved for them. A list of such items may be prepared.
- (b) The general policy should be to restrict the production of specific consumer goods to the small-scale sector as soon as the competency of the small-scale sector to produce such items is established.
- (c) Large-scale industries, which are engaged in the production of consumer goods, should not be permitted to go beyond their future expansion limit (except 12% reasonable expansion rate per year) where items are technically and economically feasible to be produced in the small-scale sector. Such a policy would broaden the base of operation for small-scale units and help channel new investments in large-scale undertakings to the areas or fields requiring the use of sophisticated technology or relatively high level of mechanization and automation.
- (d) Industrial licenses granted by BOI to large-scale undertakings generally include manufacture of parts components, sub-assemblies, etc. which are being competently manufactured in the small-scale sector. It is, therefore, neces-

## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I.</b>	
<b>A. INTRODUCTION</b>	1
<b>B. SUMMARY OF RECOMMENDATIONS</b>	6
<b>CHAPTER</b>	
<b>I. Integrated Development Programme for Small         and Medium Industries in the Philippines</b>	41
<b>II. Multi-Purpose Institute of Technology for         Small Industries</b>	73
<b>III. Credit and Finance</b>	90
<b>IV. Economic Investigation and Economic         Information Service</b>	114
<b>V. Government Purchase Programme</b>	139
<b>VI. Modernization of the Small Industry Sector</b>	152
<b>VII. Ancillary Development</b>	167
<b>VIII. Small Industries Associations</b>	188
<b>IX. Mobile Vans for Demonstration in Rural Areas</b>	199

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sary to ensure that wherever sub-contracting and ancillary production is feasible, the industrial licenses to the large-scale units should be granted only after excluding facilities for the manufacture of such components, parts, sub-assemblies, etc., as can be competently produced by the small-scale units.

- (e) Large units should not be allowed to import raw materials for the production of parts and components which could be produced by the small-scale sector. Such an action will enable genuine and independent small-scale ancillary unit to expand their production.
  - (f) In view of the importance of small-scale industries in the national economy, it is necessary to ensure allocation of adequate resources for the sustained development of this sector. On the matter of distribution of foreign exchange, there has been a tendency to meet the requirements of large-scale industries almost in full while allocating resources in a limited scale to meet only fractional needs of the small-scale sector. It is absolutely necessary to treat small-scale industries as a "priority sector of the economy and allocate resources of foreign exchange to the small-scale sector, so that this sector will be able to contribute to
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total industrial production and employment in the country".

It has to be ensured that the small enterprises concerned will have the same facilities as large-scale units to produce the basic raw materials required for fulfilling their production target rates. While allocating foreign exchange to small-scale units, the opinion of the Director, UP ISSI, should be taken into consideration.

- (g) An analysis of the bank credit available to industries has revealed that the large-scale industries received the bulk of bank credit, whereas the small-scale industries could hardly get anything from this appropriation. It is, therefore, necessary to take necessary steps so that the capital base of the small-scale sector can be progressively strengthened.
- (h) Proper coordination among various agencies has to be established for the proper development of small-scale industries. There is an imperative need for the Director of the UP ISSI as executive head to play a close and effective role in this aspect.
- (i) It is extremely desirable to strengthen UP ISSI by hiring a sufficient number of technical people with due regard to the complexity of the work of development of small-scale

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industries and the extensive nature of the responsibilities involved.

- (j) The UP ISSI must open four Regional Offices to look after regional development. It will not be possible to manage this important work from Manila itself.
- (k) In view of the rapid development of the small sector and its growing importance to the economy of the country, it is necessary to collect key statistics about investment, employment, consumption of raw materials and production of goods, etc., on a regular and continuing basis.

There is a need for adopting a system of compulsory registration of all small-scale units for survey and evaluation of the industry as well as to provide financial assistance.

Recently, the Chairman of the National Economic Council called a special meeting to consider the draft suggestions made by UNIDO Small Industry Development Expert. The members who attended the meeting agreed that if small-scale industries in the Philippines were to have a greater impact and solve unemployment problems as well as to develop backward regions, then the suggestions made by the U.N. Expert should be included in the draft Act and efforts be made to have the Act passed by Congress. It may be mentioned clearly that without a clearout

Act giving authority to promulgate the aims and programmes, no progress could be expected from the small-scale industries sector.

#### Role of the National Economic Council (NEC)

The Industrial Policy Act, once passed by Congress, is expected to give enough powers to the National Economic Council to carry out the adopted policies. The NEC will have to draw a detailed programme on each of the items mentioned in the Act, and entrust different agencies to carry out the programme and produce results. The Council being the highest authority engaged in policy-making and guiding the different implementing agencies, should become a "Friend, Guide and Philosopher" of the small-scale units.

All the other government departments, banks, Chamber of Commerce and other agencies should fully cooperate and no "Cross-Purpose" activities should be allowed. For two or three years, to start with, the National Economic Council will have to meet at least 3 times annually. Efforts should also be made to hold one or two meetings yearly at different regions. Important persons or organizations who take interest in the development of small-scale industries in the regions should be invited to attend such council meetings as special members.



In order to give special attention to the important problems of small units, two or three Standing Committees of the council with fewer members should be formed. Standing Committees could consider certain aspects in depth and report back to the council for consideration and approval. It is also suggested that whenever a meeting of the National Economic Council is held at any region, efforts should be made to collect articles made by the small-scale units, so that the members will get an idea of the progress they have achieved. If progress has not been noted, then they will also know what special action is needed to improve their performance.

#### Dedicated and Committed Officers

The promotion of small-scale industries is an important economic activity. All new programmes and ideas require "dedicated and committed" officers to carry them out. In some countries, good programmes have met with failure because the officers connected with the implementation worked only in a routine way. Luckily, a good band of officers have been connected with the UP ISSI for the last few years, and if the Institute is further strengthened, then it can deliver the goods. As in the case of the Development Commissioner, Small-Scale Industries Organization in India, the UP ISSI should be recognized as the main executive agency to carry out the development of small-scale industries.

The UP ISSI which is mainly functioning as a "Training Institute" should immediately be converted into a "Multi-Purpose Technological Institute for Small-Scale Industries".

#### Piecemeal Action Produces Limited Results

Some countries feel that by starting an Industrial Estate or opening one Extension Centre or by doing any one particular "Input" activity, they are implementing a small-scale industries development programme. Unfortunately, it is not a correct approach. A comprehensive, integrated development programme should include assistance to the small-scale sector in the fields of :

- (1) finance
- (2) supply of imported and scarce raw materials
- (3) government purchase programme
- (4) supply of machinery to modernize the existing units
- (5) market and export promotion
- (6) development of ancillary around large-scale units
- (7) organizing small industries associations
- (8) rural industrialization and particularly agro-based industries
- (9) conducting economic and other types of surveys
- (10) starting small-sized industrial estates in urban and rural areas
- (11) setting up central and regional small industries service institutes

- (12) collecting of statistics, supply of economic information
- (13) consultancy service and training programmes, etc.

### National Planning

In all the available national planning, no suitable role has been given to the small-scale sector. Since small-scale industries are capable of contributing to the national economy in terms of providing job opportunities to many and in building national wealth, it is suggested that in the future, the National Economic Council may set up a separate committee to prepare a "Five-Year Development Plan for the Small-Scale Industries in the Philippines." Once the plan has been prepared and approved, then it should find a place in the general national plan. Even the provinces, while preparing their development plans, have not given much thought for the development of small-scale industries based on the locally available raw materials. This must be interpreted as due to lack of awareness rather than lack of interest on the part of the people. Awareness must be created through a systematic nationwide publicity.

### New Class of People have come to the Small-Scale Field

While travelling in the country and discussing with different people, it was noticed that those who came forward to set up small-scale units were from the trades and experienced craftsmen

categories. With their experience in marketing or in the production, they were quick to grasp the new opportunities. Furthermore, entrepreneurs from the other professional and landlord classes have also gradually entered the field. In the future, this sector is going to constitute a progressive, vigorous section of the industrial community of the Philippines. It is, however, to be stated that the policy objectives could be fully attained only when educated young men and experienced technicians in large numbers could be induced to set up independent units. Efforts must be directed vigorously in this direction.

#### Recommendations

1. To create immediate and permanent employment opportunities, to meet a substantial part of the increased demand for consumer goods to mobilize resources of capital skill, etc. which may otherwise remain unutilized, to develop regions and to increase the middle class sector of the economy, the government of the Philippines should pass an "Industrial Policy Resolution Act" in 1972, which will serve as a "Magna Carta of Social Justice and Economic Freedom", wherein the orientation of government policy in favour of small-scale industries should be clearly described.

2. To carry out the directions incorporated in the Industrial Policy Resolution, the Government of the Philippines should entrust the policy decision and the task of preparing a national plan for the development of small-and medium-scale industries to the National Economic Council, which should become the supreme body in the field of small-scale sector development. All other developing agencies should be made to look up to this council for guidance.
  
3. The National Economic Council may constitute different Standing Committees to consider the important aspects of small-scale industries such as :
  - a. Credit policy and liberal terms for getting loans by the small-scale industries;
  - b. Reservation of items to be manufactured by small-scale industries;
  - c. Regional development through small-scale enterprises;  
and
  - d. Export promotion, etc.
  
4. The existence of the UP ISSI mainly as a training center will not be able to produce the desired impact and lead to the acceleration of the process of development of small-scale industries in the country. It is, therefore, absolutely

necessary to accept the Integrated Programme for the orderly and effective development of small-scale industries in the country. The present UP ISSI should be converted into a "Multi-Purpose Institute of Technology for Small Industry".

5. The present definition of small-scale industry has to be changed. A P1 million investment should include only the value of plant and machinery, thereby excluding the cost of land and building. Such a modification will enable small-scale industries located in the greater Manila area to get benefits, as the cost of land and building alone constitutes a major portion of a P1 million investment. A change of definition, therefore, will enable the urban industrial units to obtain loan particularly for the purchase of machinery, etc. It may be noted that 80 per cent of existing small-scale industries are located in greater Manila area.
  6. To help the Government of the Philippines in formulating an effective "Integrated Programme" for small-scale industries and to help in converting the present UP ISSI into a "Multi-Purpose Institute of Technology for Small Industry", it is very essential and absolutely necessary for UNIDO to send an adviser on small-scale industries to work with the UP ISSI for a period of two to three years. The Adviser
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	<u>Page</u>
X. Regional Development Through Modern Small-Scale Industries	205
<b>PART II.</b>	
A. INTRODUCTION	223
B. SUMMARY OF RECOMMENDATIONS	234
<b>CHAPTER</b>	
XI. Aspects of Training in Industry	235
XII. Some Aspects of Standardization	254
<b>APPENDICES</b>	
A. Summary of the Findings of the Socio-Economic Survey of Small-Scale Industries in the Philip- pines	283
B. Social Control Over Commercial Banks and the Small-Scale Industries Sector in India	285
C. Incentives and Grants Given by Western Countries in Attracting Industries to Depressed Areas	290
D. Suggestive List of Agro-Industries Which Could be Started on Small-Scale	303
E. List of Contacts Made by <b>Shri K. L. Nanjappa</b> , UNIDO Expert of Small-Scale Industries	304

should be the project manager on behalf of all the UNIDO and ILO experts. In order to advise the Executive Director of the UP ISSI, to give suggestions on matters pertaining to small-scale industries to the National Economic Council and to discuss with other important organizations in the country, the adviser from UNIDO should have professional qualifications in small industry promotion and development with 15 to 20 years experience in various executive positions connected with small-scale industries. Since the UN programme on small-scale industries is going to be effective in the Philippines from 1973, it will be necessary for the UNIDO adviser to work out the details of various programmes for few months during 1972. Such an arrangement will promote smooth implementation of the UN programme in 1973.

7. In view of the introduction of an Integrated Programme for Small-Scale Institute and converting the present UP ISSI into a "Multi-Purpose Institute of Technology for Small Industry", it will be necessary for the Director or the Deputy Director of the UP ISSI to visit U. S. A., Japan, and India to study various programmes in the field of small-scale industries. The duration of the study tour may be for three months. The UNIDO may arrange a fellowship for this purpose.



## CHAPTER II

**MULTI-PURPOSE INSTITUTE OF TECHNOLOGY  
FOR SMALL INDUSTRY**

Recognizing the importance of small-scale industries for the economic development of the country, the Government of the Republic of the Philippines entered into a bilateral agreement with the Royal Kingdom of the Netherlands for the establishment of an Institute for Small-Scale Industries.

The principal objectives of the Institute are:

- 1) To train Philippine consultants who will improve the operation of existing industries and develop and promote small-scale industries in the Philippines (existing as well as new ones).
- 2) To provide research and consultancy to the small-scale industries sector.
- 3) To provide, if feasible, a special training course, and organize seminars, symposia, and workshops from the management, consultants and entrepreneurs of small-scale industries in the Philippines.

At present, 18 technically qualified persons together with 47 ministerial staff are working in the institute. The Government of the Philippines, through the University of the Philippines, is

spending a sum of ₱ one million in the Institute, 40 per cent of which is spent on the salary of officers and the staff.

Since 1966, the Institute has been doing extremely well in conducting consultancy courses and other types of management seminars. By judging the results, one feels that the Institute still remains as a strong "training institute" rather than a technical organization which can render its services to the development of small-scale sectors in other fields.

#### A Single Factor Approach

Productivity and efficiency of small manufacturing units do not merely depend on a single production factor, but on a combination and interaction of various "inputs". The single factor approach as a development programme is designed to improve only one of these inputs, that is, at its best this can only produce meager results that may not be commensurate with the efforts put in. On the other hand, a comprehensive programme is expected to prove highly effective to improve a selected set of inputs.

During 1971, the Department of Commerce and Industry of the Government of the Philippines conducted an economic survey of "Small-Scale Industries of Negros Occidental" which pointed out that due to difficulties, such as inadequacy of working capital, modern production methods, marketing assistance, supply of

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raw materials, and lack of statistical and economic information on the positions of demand and supply, the growth of small-scale industry has been restricted. It may safely be assumed that all the above-mentioned detrimental factors are also applicable to a large extent to the other 63 provinces in the Philippines.

In a developing country such as the Philippines, the small-scale industry units require various assistance at a time; otherwise, it will be difficult for them to produce quick results. In comparison with other developing countries, the Philippines is already at least 10 to 12 years late in the field of development of small-scale industries. The UP Institute for Small-Scale Industries (UP ISSI) therefore will have to act as a service agency by extending its services to the other areas such as importing machinery and equipment and providing the benefits of modern advances in science and technology along with the necessary information regarding the availability of credit facilities to the small industrialists who are interested in them for his immediate use. Valuable experience has been gained through travel, observation and consultation. Based on this experience, there follows, in general terms, some of the basic principles and functions that should be considered in establishing a programme of a Multi-Purpose Institute of Technology for Small Industries. Such a Multi-Purpose Institute should look after the following functions:

- 1) **Promote, primarily in the broad technical field, the use of quality materials, more efficient tools, better machinery and methods, and good design; look for the solution of technical problems and increased productivity on a sound economic basis.**
- 2) **Promote better marketing through continual market analysis of the effective and potential demands expressed in terms of the needs of the people. Determine how these demands can be most efficiently met by small industries.**
- 3) **Promote the organization of marketing channels and services.**
- 4) **Promote surveys to determine the availability of raw materials, proximity to markets, transport facilities, etc.**
- 5) **Promote and conduct a market news service to facilitate adjustments in management and production to meet the shifts in demand and supply. This information should discourage over-expansion in some industries, as well as point out the opportunities for expansion in others.**
- 6) **Aid credit facilities through analysis of credit and finance needs and help to develop methods for meeting these needs to investment capital, banks, cooperatives, associations, government loans, and other credit facilities.**

- 7) Promote businesslike and efficient management of small industries, e.g. procurement of materials, sales, promotion, accounting, advertising, etc.
- 8) Promote the formation of voluntary organizations, such as cooperatives, trade associations, etc.
- 9) Advise and assist, when appropriate, in quality control schemes.
- 10) Help the provincial authorities in starting small-size rural industrial estates.
- 11) Suggest suitable schemes on agro-based industries for the benefit of backward areas.
- 12) Advise the Board of Investments and other agencies concerned not to issue industrial licenses for large industries for the manufacture of simple items, which is capable of being manufactured by small-scale units.

In fact, the Multi-Purpose Institute should be a guide and a friend of small-scale industrialists in the country. The Philippines consists of 7,000 islands. 80 per cent of the total producers live in the rural areas. All the industrial development that has taken place in the country has been concentrated in the

**Greater Manila area.** Nearly 60 per cent of the factories registered in the country are found in Greater Manila.

UP ISSI itself, being a miniature organization, is not in a position to assist people in backward areas. If the natural resources are to be exploited for the benefit of the country and if employment is to be found for a large number of unemployed and underemployed, the UP ISSI should establish four Regional Institutes in different parts of the country. Opening a Regional Institute is a must programme without which it will not be possible to develop backward areas.

### Regional Institutes

The purpose of the four Regional Institutes is to render assistance in the solution of problems--technical as well as commercial-- of existing small industries as well as those of new industries that may be proposed or started. This purpose can be realized based upon two main lines:

- (1) Initiate and carry out investigations and surveys of existing methods as well as experimental and applied research, for promoting further development of small industries.

- (2) Dissemination of the methods and results thus obtained to the existing or potential industrialists (their deputies or skilled workers) or organizations.

The Multi-Purpose character of the UP ISSI and its Regional Institutes of Technology will have many advantages with regards to education, information service and the solution of complex problems. On the other hand, care should be taken to ensure that the activities in the different departments of the Regional Institutes do not disturb or interfere too much with each other. This is essential especially in the preparation of model schemes. This must be considered in planning the localities and the organization of the Institutes. The different departments should be independently organized and these different departments or activities must be properly defined.

#### Strengthening of UP ISSI

In India, the development of small-scale industries is an integrated total programme. The Development Commissioner's office at the centre and 18 Small Industries Service Institutes in different parts of the country have been designed to serve the small-scale industries.

In order to plan, guide and implement the schemes, 7 Directors, 18 Deputy Directors, 17 Assistant Directors and 50 junior technical officers have been helping the Development Commissioner, Small-Scale Industries at the headquarters, and the government of India is spending Rs2.3 Million annually on establishment charges of headquarters office alone. (\$1 = Rs7.50)

The UP ISSI consists of one Director, two Assistant Directors and 15 technical officers whose status is below that of the Assistant Directors. The expenditures of the Institute average about P400,000.00. For want of adequate technical officers and the necessary funds, the activities of the Institute has been restricted. Except in the training field, its activities are not extensive. It cannot serve the small-scale units in any other fields adequately. Due to less attractive pay scale and scope for future improvement, some technical people have left the Institute. The UP ISSI will have to be an industrial extension organization and its effectiveness in assisting the development and modernization of small-scale industries depends both in the strength and quality of the personnel employed by it.

Apart from small-scale industrial units, a number of agencies such as municipalities, cities, SSS, Chamber of Commerce, etc. are seeking technical expertise and guidance increasingly from the UP ISSI in the country. At present, for



want of suitable officers, the Institute is not in a position to render any assistance in such fields as plastics, ceramics, electronics, automobile parts manufacture, leather crafts, industrial estates, and agro-based industries. In the interest of the country, it is essential that suitable officers be appointed in the Institute without delay. In fact, when a need for expansion of the Development Commissioner, Small-Scale Industries office arose in India, the government readily agreed to strengthen the department with the adequate number of staff in accordance with the changing needs and circumstances.

The Estimate Committee of the Indian Parliament has made the following observation regarding this: "One can hardly stress the importance of Small Industries Service Institutes and Extension Centres in ensuring quick and effective technical assistance to small-scale units, as ultimately the success or failure of the industrial extension service of the Development Commissioner for Small-Scale Industries will be judged by the degree to which such technical assistance has actually been helpful to the small units". Finally, the Estimate Committee recognized the need for strengthening the department both in terms of its number and quality for the extension of its services to a wider area.

In a similar situation, there is a need for strengthening the number of technical officers at the UP ISSI. Any extra amount

## PART I

### A. INTRODUCTION

The UNIDO requested the Government of India to spare my services for three months, to advise and assist the Government of the Philippines in the formulation of a comprehensive and integrated development programme of assistance to small industries. Accordingly, the Government of India gave me the permission to accept the offer. The Philippines also accepted my nomination. I am grateful to the UNIDO and the Government of the Philippines for the confidence extended to me.

In the course of the last three and a half months, I have visited a cross section of cities, towns and villages of the country. I gathered and was supplied with information from various sources; much of it, I could verify personally.

I was offered full liberty of investigation and no attempt was ever made to influence my direction or to limit my choice of additional sources. I am happy to say that I had met with friendliness everywhere all the way from the small-scale entrepreneurs to cabinet ~~ministers~~ and with readiness for frank and open discussion of problems and opportunities.

spent on this aspect will be an investment for the future progress of the Philippines.

Strengthening the personnel of the UP ISSI "is very" important for the following reasons:--

- (a) The responsibility for providing extension service to the small industries sector has increased enormously since the inception of the programme. Thus from 9,400 units in 1966, the number of additional units that have come up during the last 6 years could easily be estimated at around 3,000. Thus, one could expect nearly 12,000 to 13,000 modern small-scale units existing in the Philippines today;
- (b) With the attainment of sophistication and a certain amount of maturity by the relatively better organized segment of the small-scale sector, the need for specialized services is being felt;
- (c) New industrial opportunities are being opened up in certain fields such as plastics, electronics, manufacture of automobile parts, rubber goods and agro-based industries; and
- (d) With the increased tempo of industrialization in the country, some of the technical officers of the UP ISSI have found opportunities for employment in large industrial undertakings and other agencies.

It is clear from the above, that the personnel of the Institute has to be strengthened by the recruitment of additional staff and also by developing new expertise to meet the emerging needs of small industries. It will be desirable for the technical officers of each division not only to give technical advice to entrepreneurs who may come to the Institute, but also to visit workshops and factories in their areas for giving on-the-spot technical assistance and guidance and personally demonstrating the correction of defects which may be brought to their notice in connection with the processes of production.

It is also necessary to elevate the status and emoluments of various types of personnel not only to attract competent people to serve the Institute but also to retain them. It may be mentioned in passing that one of the reasons why some of the highly experienced technical officers leave the organization in the past has been the somewhat unattractive emoluments offered to them. Therefore, the scales of pay offered to the various grades of officers in the Institute have to be revised.

The upward revision of scales will provide an incentive to the officers to put in their best and this will in turn inspire confidence among the clients of the extension service. If this happens, the system of charging fees for service rendered can also be introduced at an early date. Free services may be

continued till the end of 1975, after which reasonable charges may be recovered for the small-scale units for the services rendered by technical officers.

The junior staff members who are mostly in the technical cadre of the UP ISSI, shoulder heavy responsibility in rendering Industrial Extension Service and in a way he/she forms the backbone of the Institute. Though some of the junior officers are competent and qualified, they often do not evoke the required respect from the small industrialists, because the very designation they hold makes them low in the eyes of the entrepreneurs. His/her suggestions for improvement in technology as well as management are sometimes not valued or else taken lightly. While collecting information--economic and statistical--these officers also do not get sufficient response from the industrialists. The present title of junior technical officers itself is unlikely to attract the best candidates or inspire confidence in those served. It is therefore suggested that the present nomenclature of officers below the assistant directors be changed into "Industrial Promotion Officers".

#### Staff of the Regional Institutes

Two or four Regional Institutes to be started should each have a Director, one Deputy Director, 6 Assistant Directors

(Expert in different trades) assisted by junior technical and administrative staff. Since Regional Institutes are going to be established in less developed areas, the technical assistance should be available on-the-spot. This alone will inspire the local people to come forward in starting industries. People in rural areas will not be happy to wait for several months to get a reply to their request from Manila or Quezon City. If there is a Regional Office with qualified officers, parties will make it a point to visit them personally.

By way of illustration, it may be pointed out that in India, 18 full-fledged Small Industries Service Institutes and 64 Extension Centres are servicing the small-scale industrialists throughout the country including backward regions. Each Regional Institute consists of one Director, 7 Deputy Directors, 20 Assistant Directors and 25 junior officers in different trades. During 1970-1971, the Government of India spent Rs20 Million (\$1 = Rs7.50) on establishment charges of these 18 Regional Institutes and 64 Extension Centres. In addition, each Provincial Government also has set up a suitable agency with sufficient expenditure to serve the cause of small-scale industries.

Since a sufficient number of technical small industries had been set up with considerable expenditure in India, the small-scale sector has grown considerably during the last few years.

The total number of modern small-scale industries which were 36,000 in number has grown to 200,000 by the end of 1970. Small-scale units in India have provided employment to about 7 million people throughout the country and they have contributed 35% of the total industrial goods produced in the land.

With special efforts and additional money spent, many other developing countries are bound to produce extra results by way of providing job opportunities for people in the less developed areas and also in producing large number of consumer items.

#### Executive Director

In order to keep pace with the increasing tempo of developmental activities in the country and to manage full-fledged four Regional Small Industry Institutes, as well as to have effective liaison with various ministries and national organizations, it will be necessary to upgrade the present post of the Director of the UP ISSI into Executive Director. The Executive Director should have maximum authority in managing the central institute, the four Regional Institutes as well as any Extension Centre to be opened in the near future.

Recommendations

1. The extension service of the present UP-ISSI needs strengthening both in terms of number and in quality. There is an urgent need to convert the present Institute into a multi-purpose institute of technology.
2. In view of changes in technology and sophistication, there is a need to appoint competent officers in the fields of:-- electronics, plastics, agro-based industries, manufacture of automobile parts, rubber-based industries, etc.
3. The upward revision of scales will provide an incentive to the officers to put in their best and this in turn will inspire confidence among the users of the extension service.
4. The system of charging fees for services rendered can be introduced from 1975 onward.
5. The nomenclature of the technical personnel, below the rank of Assistant Directors, needs to be changed into "Industrial Promotions Officers".
6. Out of four Regional Institutes suggested to be started in the country, at least two, i.e., one in the North and the other in the South of the Philippines have to be established immediately.

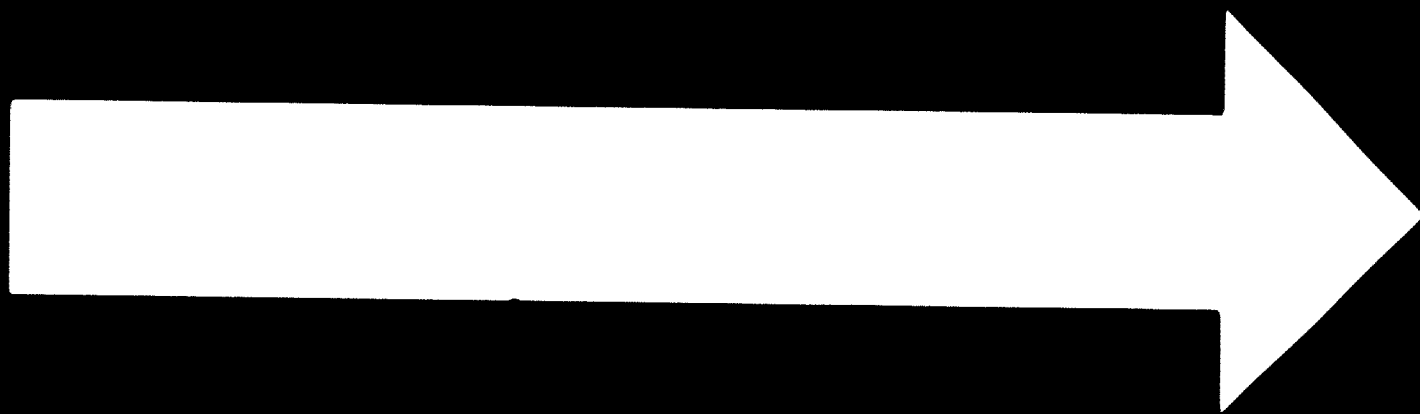


7. All that has been described about the services of the Regional Institutes will, of course, take time to establish and put into full operation. However, it is not necessary to wait until all buildings, equipment and personnel are ready before taking action. Much can and should be done immediately by the recruitment of a Director and a nucleus to assist him.
8. In order to look after the expanded central office and four Regional Institutes and to keep effective liaison with bankers, various departments and other national and regional bodies, the post of the Director (UP ISSI) has to be upgraded to that of Executive Director with adequate powers.
9. UNIDO's Assistance

The development of modern small-scale industries in the Philippines depends mostly on the proper set-up and functioning of central and regional institutes in the country. If a proper organizational set-up starts functioning then it will be easier to facilitate the growth of small-scale industries in the country.

With a view of working out details of each extension service, equipment, recruitment of persons, the nature of extension service in the regions, and other types of assistance, it

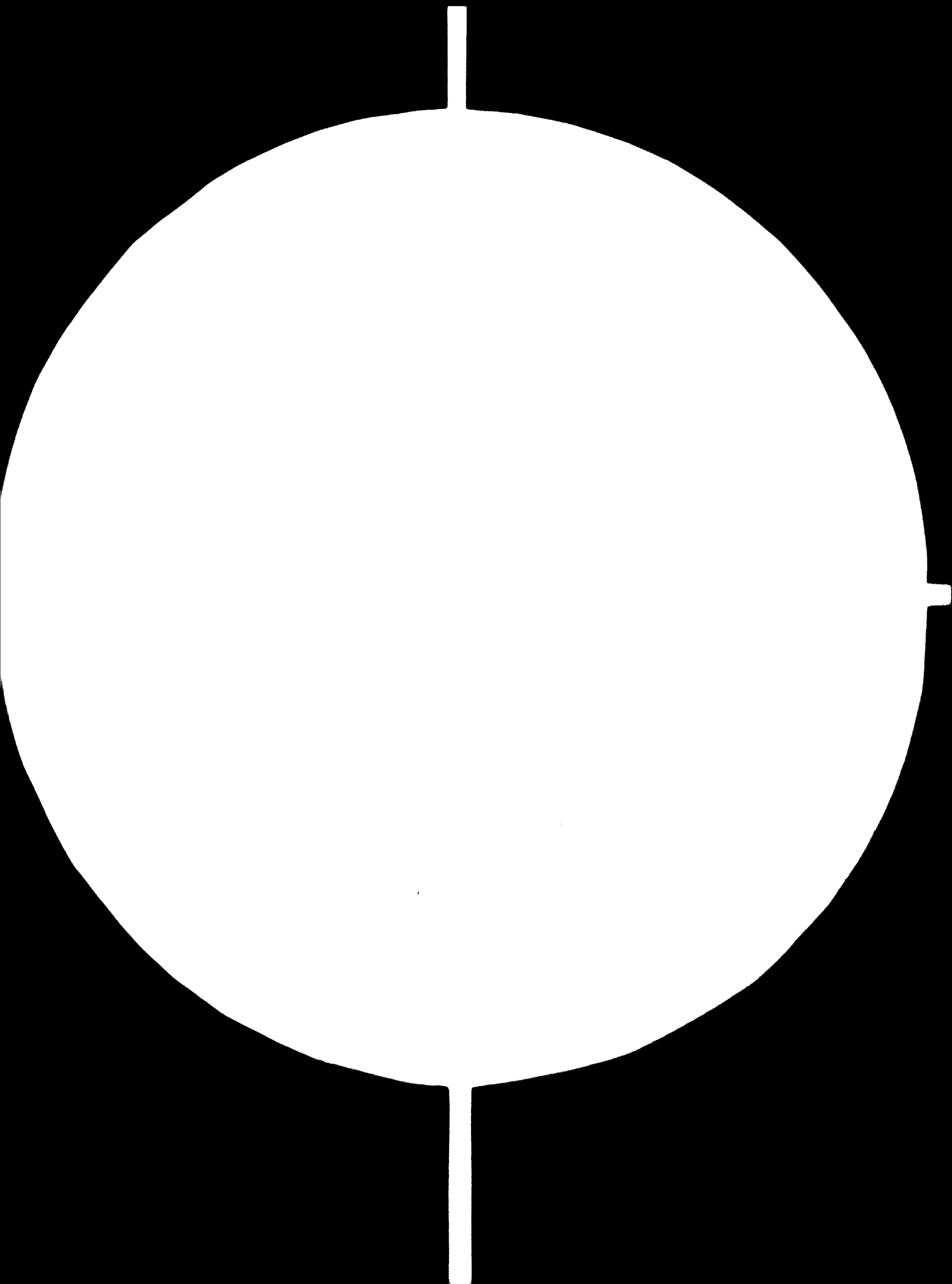
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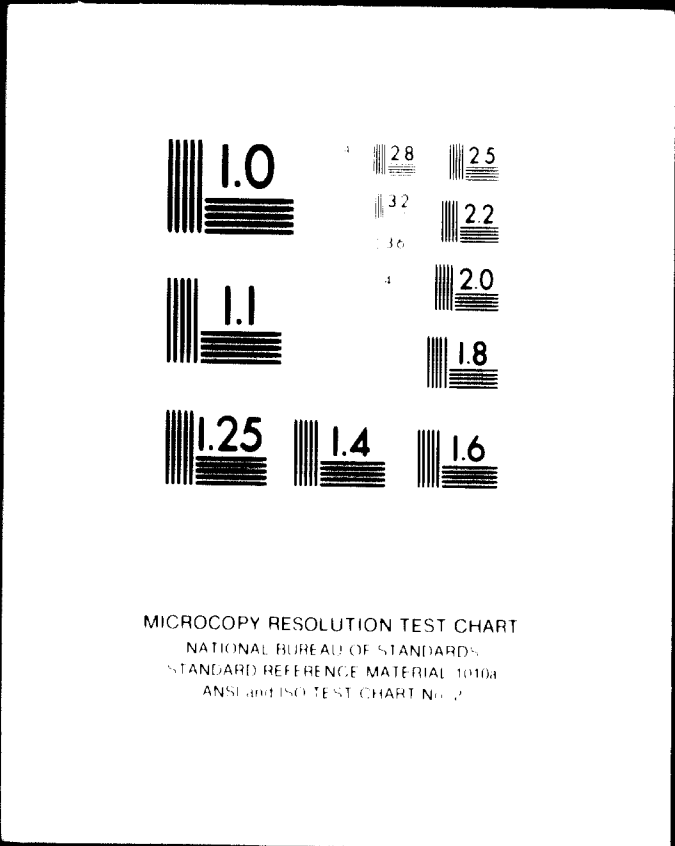
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their funds. Industrial Estates need not be big ones. To start with at a total cost of ₱2 million, the SSS may construct 4 or 5 small Industrial Estates in different regions. Each estate need not occupy more than 4 or 5 hectares and only 20 or 30 small sheds may be constructed to be given out on rental basis. Rent to be charged should be on "no profit, no loss basis". In fact, such small Industrial Estates may be constructed in a number of cities, including the greater Manila area. Investment in such a project will give them ample protection and at the same time the SSS will have the satisfaction of making factory working place available to middle class people on a reasonable rent basis, which itself will be a form of "social service".

Regarding loans given to small-scale units, it is felt that with the available rules and restrictions, the SSS cannot play its role well and therefore it is better if it gives up this type of activity.

#### UP ISSI Role

Loan applications received from the SSS are forwarded to the UP ISSI for evaluation. The UP ISSI takes nearly 2 or 3 months to prepare a project report. Since any loan given to a unit has to provide collateral, the Institute concentrates deeply on balance sheet and cash flow, rather than upon the technical soundness of

30

the scheme. For a loan application of P100,000, the UP ISSI normally prepares a 30 to 40 pages detailed project report. While going through some of these reports, one gets the idea that enough time has been devoted in the preparation of such studies. No wonder it takes 2 or 3 months to prepare each project report in view of the limited number of personnel in the Institute. Project reports prepared are too detailed and if the tempo of sanctioning loan applications were to be intensified, then the project reports have to be simplified. Every year the UP ISSI is preparing an average number of 22 Project Reports of small-scale units. Compared with the 18 Indian Small Scale Industry Service Institute units in the completion of technical appraisal, this is small for the SISI averages about 2,500 cases per year.

Since the UP ISSI is a service organization, it is meant to help small-scale units, therefore, it should not accept a 2% interest on loans as service charge. At the developing stage, at least during the next 5 years, the UP ISSI should render free service to small enterprises especially by recommending loan applications to banks.

#### Work Done by the Development Bank of the Philippines

The Development Bank of the Philippines is a government bank. Along with the Social Security System, it also wants to

help the small-scale sector. For handicrafts and cottage industries, the bank is helping people by providing them loans at low rates of interest. For small-scale industries, the bank charges a 12% interest. Unless the small unit gives an adequate security, they cannot obtain loans from this bank. The DBP has given considerable financial assistance to large-scale industries in the past rather than to small-scale units. Loans given during 1970-1971 may be seen as under:

Loans sanctioned by the bank from July 1970 to end of June 1971:

	<u>No. of units</u>	<u>Amount</u>
₱5,000 and below	69	₱ 201,750.00
₱5,000 to ₱10,000	2	16,400.00
₱10,000 to ₱20,000	2	31,000.00
₱20,000 to ₱50,000	2	75,000.00
₱50,000 to ₱100,000	1	70,000.00
Over ₱100,000.00	<u>9</u>	<u>32,921,502.00</u>
<b>TOTAL</b>	<b>85</b>	<b>₱33,315,652.00</b>

From the above figures of loans sanctioned, it could be seen that practically all the amount (more than ₱33 million) has gone to the large-scale units, whereas only ₱0.3 million has gone to handicrafts, cottage industries and modern small-scale industries put together.

In recent years, the DBP has told its branches to conduct surveys in different regions as to help the development of industries. In two or three regions, a good start has been made. If the DBP still sticks to the conservative idea of giving loans to small-scale industries on collateral, then the bank can give very little help to the development of small-scale industries in the country. Being a government bank, the DBP should play a vital role in the development of small-scale industries which involves taking a more reasonable risk in helping the small-scale sector. It should also shift its interest from security to "development". Since the DBP is managing a railway, in the same way it should invest at least a few million pesos in constructing small-size industrial estates thereby promoting small industries. Such industrial estates may be started in different cities, where there are development potentials.

At present, branch managers have the power to sanction loans up to ₱5,000 without the case being referred to the head office for approval. A small industry can get little benefit out of this meager amount of ₱5,000. If a bank manager could be trusted to sanction loans up to ₱5,000, then there is no reason why they are not allowed to grant loans up to ₱25,000 depending on the merit of the case and the business party. If such power is not given to bank managers, then the development of small industries



in the regions cannot be achieved for many years to come. The branch manager must be made to change their traditional habit of playing a "safe" role in giving loans. In order to develop the backward areas thereby serving the people and utilizing locally available raw materials, they should be tasked to function as "Development Officers" for which they should be given orientation trainings to carry out new duties. The ability of the branch manager should be judged by the number of units he was able to help and his future programme for the promotion of such units. It is necessary in the developing countries that banks should play a helpful role.

#### Rural Banks (Central Bank)

There are 532 rural banks in the Philippines. These banks are doing more in giving agricultural loans than helping small-scale industries. According to the existing rule which came into existence in 1952, a rural bank cannot sanction loans more than ₱25,000 to a small-scale unit. It may be alright when the money value was higher in 1952, but since then things have changed and the value of money has gone down. It is high time, therefore, for the rural banks to reconsider this and to increase the limit of loans from ₱25,000 to ₱100,000 to suit the present situation. The number of industrial loans given in rural areas by the rural banks in the year 1968 to 1969 went down to 156 as compared

to the previous years, whereas agricultural loans were increased to 787.

### Commercial Banks

Out of all the commercial banks in the country, one foreign bank has been found to be doing real good work for small-scale industries. It grants loans based on performance rather than sticks to the rule of "collateral". This helpful attitude has helped many small units in getting their loans (for expansion or factory modernization) sanctioned. This in turn leads them to a higher rate of production.

With the improvement brought about in agriculture, the banks are able to obtain a higher amount by way of regional deposits, which in turn are invested in greater Manila. If the deposits raised from the rural areas are not invested in projects within the same area, then it cannot be considered that the bank is doing any justice to the backward places. The Government of the Philippines should give directions to all commercial banks in the country to fulfill their role effectively particularly in reserving 10 to 15 per cent of their funds in giving loans to small-scale units. Small units are going to play an important role in building up the economy in rural areas and as such there is no reason why commercial banks does not take interest in this work by

themselves. The President of the Bankers Association of the Philippines informed that with the help of 40 commercial banks, it will be possible for them to earmark ₱20 million for giving out loans to the small-scale sector. In order to utilize this new source of funds, the UP ISSI and the other government departments should give advice to the commercial banks about the types of modern small-scale units that could be developed in each region. Seminars may be arranged to enlighten the branch managers and inform them about these new programmes.

Finance is a key factor in the development of small-scale industries. There is no priority assigned to this aspect in the Philippines. In most of the small-scale units visited, real finance did not seem to exist at all. The trend noticed during the investigation is the severe lack of capital as well as of credit facilities. Although importance has been given for industrial development in the regions, the state has not yet ensured the required flow of institutional finance to the small-scale sector by fixing targets of long term and short term finance to be made available by the existing financial institutions. It is unfortunate that all along large-scale industries have been getting a lot of major assistance from the banks although the banks are getting their deposits from rural areas.

### Assistance Rendered in Other Countries

In advanced countries like Japan and U.S.A. financial institutions, particularly those created to finance the small-scale sector, are sponsored and supported adequately by the government.

### Loans to Small Units in Japan

The Small Business Finance Corporation in Japan was set up in 1953 as a government fully-owned specialized institution for meeting the long term financial needs of small industries in that country. The need for this institution arose from the feeling that the small enterprises were victims of discriminatory practices by the banking institutions in view of the former's inferior status in management structure and practice. Even though a substantial amount of funds required by the small-scale sector has been provided for mainly by commercial banks and private financial institutions exclusively for the benefit of small industries (both together accounted for as much as 94.9 per cent of loans made to small industry) and government loans accounted for only 5.1 per cent for purposes of modernization and mechanization, funds were not available to the small-scale sector from the normal institutional sources. Before the establishment of the Small Business Finance Corporation, only 17.6 per cent of the loans

provided by banking and financial institutions for the purchase of equipment went to the small-scale sector. The Japanese Government assumed this policy for the following reasons: (a) in order to enable small industries to keep pace with the rapid economic development that was taking place and to modernize themselves, (b) to reduce the gap between the large and small-scale industries with regards to total value of fixed assets and the value added per worker, and (c) to enlarge the flow of institutional finance for meeting long term requirements in order to develop a corporation designed to specialize in long term lending.

At the end of March 1971, the corporations' loans outstanding to small industries amounted to about \$2,538 million, 48 per cent of which accounted for the direct loans while 56 per cent went to agency loans.

The standard interest rate is 8.2 per cent. In the head office of the corporation, there are 13 departments. As of March 31, 1971 the total organization included 37 branch offices and 7 detached offices with about 1,750 employees working under these offices. The corporation has concluded the contracts made with 834 private financial institutions for entrusting its agency loan business.

The **small business** in Japan has played an important role in the expansion of the Japanese economy.

Some of the principal types of loans made by the corporation are as follows:

- a. **Specialized machinery loan** particularly to assist the machine tool industry.
- b. **Specialized small business export promotion loan.**  
This is given to finance the purchase of equipment by industries designated by law which have obtained a year's export contract for their products under which 20 per cent of their sales must be directed to the export market.
- c. **Ordinary small business export promotion loan.** This is given to small industries to enable them to export at least 20 per cent of their production.
- d. **Small business settlement loan.** This is given to help industry organize production.
- e. **Small business modernization accelerating loan -**  
meant to facilitate the necessary modernization of industrial equipment of small enterprises.

would be highly helpful if UNIDO provides the services of a "Small Scale Industries Development Expert" for a period of 2 years. The expert should have considerable experience in setting-up and running central and regional small industries service institutes and extension centers. Two fellowships may be sanctioned by UNIDO for a period of 3 to 6 months to 2 senior officers of UP ISSI to study and gain experience on organized set-up available in the field of small-scale industries, at U. S. A., Japan, and India. One of the officers thus sent for such a training to foreign countries should be appointed as number two top officer in the central organization (UP ISSI) upon his return.

### Small Business in U.S.A.

In the U.S.A., the Small Business Investment Act of 1958, as amended laid down that "the Small Business Administration (SBA) could supply half of the total capital (of a small Business Investment Company) by purchasing 20 years, 5 per cent debentures of the SBA. The SBA was authorized to match the private capital of the company under this provision up to a maximum of \$700,000. In addition, the SBA can also loan operating funds to an SBIC equal to its private capital subject to a ceiling of \$4 million for 15 years at 5 1/2 per cent. An SBIC can also borrow from other sources subject to certain limitations."

### How Small-Scale Units Get Loans in India

Finance is such a key factor in the development of small-scale industries that a very high priority has been accorded to it in India and a special scheme for making institutional credit available to small-scale units on a liberal basis has been adopted by the State Bank of India at the recommendation of the Government. The State Bank of India is at present operating the liberalized credit scheme to make short-term and medium-term loans available to small-scale industries. The procedures have been liberalized to enable the Bank to extend credit facilities to small-scale industrialists against pledge of raw materials and/



or finished or semi-finished goods either under lock and key or the factory type basis. In appropriate cases, advances are also made against goods in transit. Clean advances are also granted against guarantees of suitable persons. The State Bank of India also provides medium-term loans for a period of three to ten years to small-scale enterprises for extension and renovation of factory buildings and purchase of machinery and plant. The Bank also provides installment credit loans for obtaining movable equipment to be purchased.

The rate of interest charged by Indian Banks to small-scale units varies with the type of accommodation between 7 1/2 and 8 3/4 per cent.

Apart from the State Bank of India, commercial banks are also extending loans to small-scale industries. The Government of India has been forced to introduce social control over banks so as to make them fall in line with the policy of the Government to extend liberal credit to the sectors of economic activity including small-scale industries which deserve priority of consideration not only from the economic but also the social point of view. It is hoped that the advances to be given by the commercial banks will increase substantially in view of the emphasis on the grant of institutional credit to the small-scale industries and related sectors. For providing medium and long-term

financing to medium and small-scale sectors there is a separate agency in each State (Governorate) known as the State Financial Corporation. Such corporations advance loans to small-scale industries from Rs25,000 to Rs1,000,000 against pledge of assets including those created out of the loans.

#### Credit Guarantee Scheme

The Government of India introduced a Credit Guarantee Scheme which came into force in July 1960, with the objective of enlarging the supply of institutional credit to small-scale units by ensuring a degree of protection to lending institutions against possible losses with respect to their advances. The Scheme provides for sharing such losses between the lending institutions and the Government of India, subject to the condition that the maximum amount recoverable against the guarantee with respect to any one advance will not exceed Rs 7 million in the case of term loans. The maximum compensation available from the guarantee organization is 75% of the amount guaranteed or the amount outstanding whichever is less. Applications for guarantees can be made before or after sanctioning an advance. In the first instance, the guarantee is valid for one year. The total duration, however, must not exceed ten years from the date when the guarantee was first availed of. The administration of the Scheme has been entrusted to the Reserve Bank of India. The working of the Scheme

has been simplified recently by waiving the condition of submission of financial statements of the borrowing concerns if the aggregate amount of the guarantee sought with respect to any one unit does not exceed Rs50,000 (\$1 = Rs7.50). It may be added that although the guarantee facilities have been availed of very liberally by the lending institutions, the loss incurred by the Government of India due to loans has been marginal and on the average, does not exceed 3% of the total amount guaranteed under the Scheme.

Loans Given to Small-Scale Industries in India as of Dec. 31, 1969:

	<u>Rs Million (\$1 = Rs7.50)</u>
1. Through State Aid to Industries Act Operated by the Provincial Governments	273.00
2. Commercial Banks	921.3
3. State Banks of India and its Subsidiaries	1,088.0
4. State Finance Corporations	<u>353.4</u>
<b>TOTAL</b>	<b>2,635.7 million</b>

In order to get more financial help from commercial banks to small-scale units, the Government of India introduced "Social Control over Commercial Banks" and as to how such a social control worked in India, maybe seen in Appendix B.

### Recommendations

1. The present economic difficulties of the small-scale sector in the Philippines are such that very strong effort is needed if beneficial results are to be achieved. With the objective of enlarging the supply of institutional credit to small-scale units by ensuring a degree of protection to lending institutions against possible losses with respect to their advances, the Government of the Philippines may introduce the "Credit Guarantee Scheme" as instituted in India.
2. Government and Commercial Banks should delegate more authority to branch offices to grant loans to small businesses up to ₱25,000 in each case. Local advisory boards in other countries have proven this to be very useful in order to gain better communication between banks and local industry and trade. It is in the interest of both banks and customers that these communications should become closer, and that the banks should have thorough knowledge of persons and enterprises in their sector of small business.
3. In Japan, the bank rate for small business is 8%. In India it varies from 7 to 8 3/4 per cent depending on the type of loan given. The present practice in the Philippines of 12

per cent together with another extra 2 per cent for the insurance, etc. is too much. It is suggested that the present bank rate directed to small-scale units be reduced to 8 per cent.

4. For giving technical appraisal of loan applications to banks, the UP ISSI should render free service, and it should not get 2 per cent commission from the banks or from the respective parties for at least the next 5 years. The security of each application should be limited to a period of one month.
5. With the present rules and regulations, the Social Security System (SSS) is not in a position to render any useful help to small-scale units. It is suggested that in the future it should stop sanctioning loans to small-scale units. On the other hand, with the funds available, the SSS may start constructing small-sized Industrial Estates for provincial needs of small industries.
6. If the banks do not have their own technical persons, then they should accept the advice given by the UP ISSI on technical matters.
7. For the modernization of existing small-scale industries and for supplying imported and indigenous machines to new

entrepreneurs, a separate small-scale industries corporation based on the Indian Model may be established by the Government of the Philippines with the government guarantee that the corporation may negotiate with foreign banks for getting long-term credit, thereby supplying imported machinery out of such loans secured. This system is practiced in India.

8. Government banks and commercial banks may make it a point to invest at least 10 to 12% of their funds in providing long and short-term credit to small-scale industries. For this purpose, they should prepare a programme and the achievement should be watched.
  9. The National Economic Council may constitute a Standing Committee on credit to the small-scale sector. The membership should include representatives from government and leading commercial banks, the Chamber of Commerce plus the addition of a few private small-scale industries to review the work done by the banks as well as to suggest various improvements for the credit system.
  10. Periodical seminars may be arranged by the UP ISSI to brief the branch managers on various aspects of small-scale industries.
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## CHAPTER IV

**ECONOMIC INVESTIGATION AND  
ECONOMIC INFORMATION SERVICE**

The small-scale entrepreneur in the Philippines does not know enough about what, where, and how to produce. He needs guidance in choosing profitable lines of production and in assessing relative prospects of different industries or of a particular industry at different locations. In order to decide for himself the scope for more small plants in a particular industry, he has to know the pattern of existing and future demand, the present production capacity, and actual production itself. He must decide on a suitable location for an industry considering various factors such as factory shed, availability of raw materials, power, trained labor, accessibility to market, etc.

Although inadequately equipped to meet these demands, the UP ISSI is doing its best to the cause of this country's progress. But in order to do full justice on these needs, the UP ISSI must have an Economic Investigation Division with a team of economists, who should conduct various types of surveys to guide the entrepreneurs in choosing suitable industries and their location. They should also carry out surveys on distribution of aids to guide the entrepreneurs in marketing their products, and conduct feasibility studies to provide guidance for getting optimum profit. The

Economic Division should carry out the following types of surveys:

- 1) Area Surveys
- 2) Industry Surveys and Preparation of Industry Prospect Sheets.
- 3) Distribution Aid Surveys
- 4) Feasibility Studies

The Institute has been receiving repeated requests from Governors, Mayors, Congressmen, Senators, Banks and the general public to carry out area surveys as well as seeking various information on production, financing, marketing, etc.

The work turned out by the UP-ISSI may be seen in the following tables:

**SUMMARY OF LCA COURSES CONDUCTED**  
**For the year 1970-1971**

<u>Description</u>	<u>Period Covered</u>	<u>No. of Participants</u>	<u>No. of Projects Submitted</u>
First LCA Course	Feb. 2-April 27, 1970	12	no projects required
Second LCA Course	June 15 to August 28, 1970	16	14
LCA For ECAFE	Sept. 7-30, 1970	6	no projects required
Third LCA Course	Jan. 4-March 12, 1971	17	7
Special Summer Course on LCA	May 7-31, 1971	9	5
Fourth LCA Course	Oct. 11 to December 17, 1971	<u>16</u>	<u>15</u>
	<b>TOTAL</b>	<u><u>76</u></u>	<u><u>41</u></u>



## REPORTS/STUDIES

Regional Industrial Development for Executives' Course

	<u>Fieldwork Reports</u>	<u>Project Feasi- bility Studies</u>	<u>Status Reports</u>	<u>Devt. Plans</u>	<u>Area Reports</u>	<u>Literature Research</u>	<u>Total</u>
First Course	2	5	0	1	1	0	9
Second Course	6	3	6	2	2	0	19
Third Course	13	0	0	0	2	13	<u>28</u>
							<u>TOTAL</u>
							<u>56</u>

## REPORTS/STUDIES

Management Consultancy Course

	<u>Fieldwork Reports</u>	<u>Literature Research</u>	<u>Industry Survey</u>	<u>Total</u>
First Course	32	17	0	49
Second Course	38	26	0	64
Third Course	23	12	0	35
Fourth Course	18	15	0	33
Fifth Course	19	19	0	38
Sixth Course	15	0	6	<u>21</u>
				<u>TOTAL</u>
				<u>240</u>

Out of the surveys conducted so far by the participants in the RIDE Courses, one would like to point out the high standard and quality that was maintained in the following reports:

- 1) Survey Report of the Municipality of Imus
- 2) Survey Report of Lanao del Sur

However, the other survey reports were not in depth and lacked suggestions as to the types of industries that could be set up

## CHAPTER III

CREDIT AND FINANCE

The two major problems of small-scale industries--Credit and Finance--together form a vast complex of other problems. For the problems regarding materials, production, quality control, marketing, etc. demand money and credit facilities. These two sets of problems have to be tackled as a part of the whole programme. For without proper finance, there will be no efficient planning in such matters as the purchase of materials, production, distribution and marketing. It has therefore, been recognized that finance is one of the major factors of inputs contributing to the progress of the business and industry, in this particular case, the small-scale industries.

Complaints from Small-Scale Industries

While investigating the problems of small industrialists in the different parts of the Philippines, complaints about the lack of finance were heard quite often as the first and foremost problem in this sector. To illustrate the financial difficulties felt by small units in the Philippines, the following instances are mentioned:

with the available resources and existing facilities necessary to start an industry.

In addition to the efforts that are being made by the UP-ISSI, the Department of Commerce and Industry has set up a Small-Scale Industries Unit in 1971 to carry out services of provincial surveys. So far, they have completed 3 surveys in the country.

The objectives of such studies are:-

- a) To identify medium and small-scale industries with export potentials and assists them in the establishment of foreign markets for their products;
- b) To assist small-scale industry proponents in securing financing for their projects and prepare promotional measures worthy of consideration in enhancing the growth of medium and small-scale enterprises;
- c) To identify industries best suited for medium and small-scale production so as to give lead and direction to potential entrepreneurs. From this, the office can endeavor to conduct industry surveys and prepare a directory of existing medium and small-scale industries;
- d) To bring to the attention of the medium and small-scale sectors especially those outside the Manila area and its surrounding provinces, the availability of assistance and programmes of the government and specialized

**UN agencies;**

- e) To assist the medium and small-scale industries in putting up cooperatives for the sole purpose of stabilizing their operations and finances; and
- f) To see to it that small-scale industries are advised and properly represented in International Fairs and Expositions.

**Magnitude of Economic Surveys**

The Philippines consists of 66 provinces, 63 cities, 1,375 municipalities and 30 marginal districts. The survey work done is negligible. When the financial resources are limited and the expertise needed to conduct surveys are meager, it is suggested that the Department of Commerce and Industry may transfer the Economic Survey Division to UP-ISSI or at least may give up the idea of coordinating surveys separately, so that with a given additional financial assistance, the Institute could set up a full-fledged Economic Investigation Division with a number of economists to carry out surveys in the provinces.

With a view to utilize the available raw materials and manpower to the maximum benefit of the country and at the same time to provide employment to a large number of people in the industrially backward rural areas these surveys must be conducted as early as possible. The importance of area survey needs no

further emphasis in view of the policy of the Government of the Philippines to develop industrially backward areas. Area survey is the best method of finding out the means of utilizing the raw materials and thereby solving the problem of unemployment.

The scope of an area survey may vary according to the objectives and purposes in view. Similarly, the area selected for the survey may vary from one village to a district or a group of districts or the province. Keeping in mind the present programme of small-scale industries development in the country, the following three types of area surveys are suggested:-

- 1) Regular area surveys
- 2) Area surveys for development
- 3) Special or ad-hoc area surveys

**Regular Area Surveys: -**

These surveys should form the major part of the regular work of the Economic Investigation Division of the UP-ISSI, the objective of which is to assess the industrial potentialities of the province and to suggest the relative priorities for different development possibilities.

**Area Survey for Intensive Development**

Though there is a difference from the practical point of

view in actual methodology, there is only little difference between the regular area surveys and the area surveys for intensive development. The latter, however, focuses its attention on intensive development of an area even after starting an industry or two. In that sense, it becomes a continuous process.

Special Ad-Hoc Surveys:-

The necessity for these surveys may arise due to some special problems facing the particular area or for implementation of some other scheme in a selected area. An area survey conducted in places where immediate rehabilitation work has to be carried out can serve as an example. Another would be the proposed development of an Industrial Estate or Industrial Extension Centre. In such cases, the extent of the area is marked for the development of existing or new industries appear to be the same with slightly more emphasis on the main objective.

While selecting an area for regular surveys or for intensive development, some attention should be given to its economic potentiality for development. The Economic Investigation Division of the UP-ISSI may assist in the preliminary selection of the areas in order to ensure that the area

selected is economically viable. In some cases, it might be necessary to widen these selected places to include principal markets in the region.

#### Time Required to Complete Area Surveys

The time required will depend primarily on the extent of the area to be covered and the objectives in view. The survey of a province generally requires the collection of data for its resources, economic facilities, demand and supply position of the existing industries. To carry out a provincial survey within a reasonable time, one economist assisted by two economic promotion officers are absolutely necessary. It will take about 2 weeks for fieldwork and another 3 weeks for analysis of the data and report writing. The time required for special ad-hoc area surveys will vary according to requirements.

#### Industry Survey

The UP-ISSI has carried out a few industry surveys. The Survey of Car Parts Manufacturers has brought out many of the difficulties faced by the small units. These are:

- a) In view of the dollar allocation, steel sheets and chemicals cannot be imported freely;
- b) The entrance of jeep parts as surplus goods;
- c) Loans from financing institutions are either difficult to

obtain or take a long time for processing;

- (d) **Tariff duties imposed in raw materials are sometimes higher than tariff duties on finished products so that local goods cost more than the imported ones.**

For instance, imported raw materials such as brass and copper strips for radiators have a duty rate of 20% as against the 10% duty imposed on the imported finished product. Similarly, in the case of pistons and bearings the prices of the local product are 10 to 20% higher than the imported ones, because the imported raw materials used in their production are heavily taxed while at the same time the job order values are low; and

- (e) **The capital is inadequate to finance present operations and expansion of project.**

Another interesting information revealed through this survey is that 60% of the units engaged in Car Parts Manufacturing are employing between 20 to 40 workers in each unit. This reveals how the modern small-scale industries are capable of producing job opportunities even in the manufacture of sophisticated parts and components.

### The Industry Prospect Sheets

The Industry Prospect Sheet covers in quick fashion such aspects which only pertain to the prospects of the industry. These surveys



are necessary for entrepreneurs and government policy makers who have to make decisions on the concerned industry. In India, the Development Commissioner, Small-Scale Industries has so far prepared 106 outlook reports, and 298 Prospect Sheets on industries. These cover a wide range of industries and yield a mine of information about the problems and prospects of these industries.

#### Market Surveys

This service will have to be elaborately dealt with by UP-ISSI. The types of market surveys which may be conducted are: (1) distribution Aid-Surveys; (2) Ad-hoc inquiries in market; and (3) Regional Market Surveys. The first one must be exclusively conducted for a small industrialist at a nominal charge; the second type of surveys are intended for a wider clientele consisting of entrepreneurs, industries associations and government agencies; and the third pertains to the industry and the region, and is not meant to cater to a particular group or brand as in the case of the earlier types.

#### Feasibility Studies

The UP-ISSI may start this type of work as this will be an extension service to the small-scale sector. Feasibility studies, as the very name indicates, study the feasibility of starting the

manufacture of items on small-scale or expand production of a particular item to the prospective industrialist. This study enables him to take an investment decision. The survey analyses the availability of raw materials, skills, capital markets, etc. To determine the most suitable scale of operation and the size of the unit, considering the market and resource position, The study also helps to work out the economies of production and the expected return of the venture, along with the break-even analysis.

#### INFORMATION SERVICE FOR SMALL-SCALE INDUSTRIES

Although there is no separate section for information, though there is no separate section for this services in the UP-ISSI, still they make earnest effort to serve the people in a limited way. During 1970 and 1971, it has received 297 mail inquiries from various parts of the country and 315 persons called at the head office to get information on various aspects.

The UP-ISSI makes the effort to supply the client with the required information within the least possible time. However, on important technical matters, efforts must be made to collect information from both inside and outside the country to help entrepreneurs. Informations, thus, furnished should be

related to the prospective industries, existing industry positions, markets in the area, skills available and list of other prospective industries in the area to help an industrialist select an appropriate line of manufacture. He should also be supplied technical schemes and basic information on management. An existing industrialist is given assistance to find out the competitive positions of his industry and markets and is sometimes helped to diversify his line. Market intelligence made available to him is of utmost importance. This service should also collect and furnish information on an ad-hoc basis on particular aspects of production, investment, employment, and market for a specific industry upon request. In India, this service attached to the Development Commissioner, Small-Scale Industries handles about 2,500 to 30,000 such inquiries annually. Helping persons who come from different walks of life to acquaint with small industry vocation and select an appropriate line of manufacture is of crucial importance in moulding enlightened entrepreneurs.

#### Publicity and Public Relations

It is very essential to have, as part of the development effort, an aggressive and effective programme for acquainting the existing and prospective entrepreneurs with the scope for the different lines of production, the facilities available, etc. As in the case of technical consultancy service, the public relations

drive has been gaining momentum from year to year. The publications must be widely circulated throughout the country.

#### Small Industry Journal

During the last 3 years, the UP ISSI has been bringing out a quarterly Small Industry Journal and distributing them freely among the members who have registered with the Institute and other agencies concerned. The number of small units who have registered with the Institute, being so small, full benefit of the journal is not availed of a large number of small-scale units. The content of the journal includes special features and articles on the developmental activities in the field of small-scale industries, and highlights the government policies and facilities offered to small-scale units from time to time. In view of the growing requirements for information by the small-scale sector, it has now become necessary to enlarge the size of the journal and also to publish monthly rather than quarterly. A regular editorial staff has to be appointed.

The technical officers should deliver lectures on radios and should appear on T. V. for the benefit of a large number of people. In Delhi, every Sunday, between 4:00 to 5:00 p.m., T.V. station arranges a special programme for the benefit of small-scale industrialists. The UP ISSI may carry on negotiations with any T. V.

- a. An enterprising young Filipino started the manufacture of dune buggys and sports cars in 1964. To start with, he was manufacturing only a few items while he purchased the rest from the other indigenous manufacturing firms. The buggys and sports cars were then assembled in his factory. As years went by, he increased the manufacture of components in his small plant. When the unit went into production, the sum of ₱150,000 was invested in the purchase of equipment and machinery. Work was started in a rented building in Manila. In the beginning, only 2 technical and 5 non-technical persons were employed. By dint of hard work, the unit was able to manufacture 24 fully assembled buggys and sports cars. Following this, the factory also got 14 skilled and 15 contract labour. It may be noticed that during the course of 5 years, the unit increased the labour force from 7 to 29 all with a capital investment of ₱150,000, in a modern small-scale unit. While examining the performance of the car, it was found quite satisfactory with regards to body design and workmanship. The demand for the car also went up but still the unit did not expand further. When asked as to why efforts were not being made to increase production, the reply came that, "There is a considerable demand for sports cars and I am in a position to manufacture 100 units per year, but finance has come in

company to carry out a similar programme. Efforts must be made to get successful small industrialists to appear before the television and explain how they succeeded in their efforts. This sort of success stories are bound to produce the desired effect on prospective entrepreneurs.

The UP-ISSI has to maintain effective public relations with various organizations, industries and the public. The present arrangement seems to be inadequate. There must be public relations department to look after all the publications and other P.R. programmes under an officer appointed within the Institute. Effective public relations has its own value, particularly, when a new or an expansion is to be launched.

#### Recommendation

- 1) In order to conduct various types of surveys and to guide the entrepreneurs in choosing suitable industries and their location, the UP-ISSI should have a separate "Economic Investigation Division" with a team of economists;
- 2) The Economic Investigation Division should conduct surveys in all the 10 regions of the Philippines;

- 3) In conducting surveys, the existing Economic Investigation Division of the Department of Commerce and Industry must merged with the UP-ISSI to avoid duplication of work. The DCI should take up the policy decisions about the area to be surveyed.
- 4) Efforts must be made to improve the contents and quality of surveys to be conducted by the RIDE participants. The staff of the UP-ISSI must guide them properly.
- 5) Important survey reports should be printed and circulated among all the people concerned, as this will provide an opportunity for the people to know the sources of raw materials and other relevant information to start industries.
- 6) One separate officer in the UP-ISSI should be entrusted to answer economic information regarding small-scale industries.
- 7) An effective and aggressive publicity campaign is necessary to disseminate various information among the public. On developing countries dissemination of information will be purposeful and meaningful.
- 8) To inform a large number of small-scale units about governmental office actions and other important news, the Small

**Industry Journal** should be issued as a monthly rather than as a quarterly publication.

- 9) To guide and train local officers of the Economic Investigation Division, it is suggested that UNIDO may select one economist who has considerable field experience in the line to work with the UP-ISSI for 2 years.
  
- 10) It will be desirable to send 2 young officers from the UP-ISSI to observe and to receive training in countries where survey work in small-scale industry have been carried out considerably. If the local office personnel see what has been achieved elsewhere, then not only will they acquire the required knowledge, but also upon their return from training, they will work with zeal and devotion. It is suggested that UNIDO provide 2 fellowships to the UP-ISSI for a period of six months each. Places of training could be decided later on.



## STATISTICS

In the Philippines, a comprehensive statistics for the entire small-scale sector has not been available and this has become one of the serious limitations in the proper assessment of the performance in this sector. However, it is gratifying to note that during 1960 and 1966, honest efforts were made to collect some vital data on a number of small and medium-scale industries in the country, the total number of persons employed in this sector, etc.

The survey conducted in 1960 came to the conclusion that while industrialization as a whole has strongly affected the family life, small-scale industries have not materially altered the age-old traditions and the living patterns of people who are dependent upon these industries. Despite the many advantages small industries have over the large-scale units as pointed out in the survey, no efforts were made to start modern small-scale enterprises in the country. The only substantial action taken by the Government was to set up the "Institute for Small-Scale Industries."

The Institute was responsible for conducting the survey of small-scale industries in the country. According to the survey conducted in 1966, there were 9,400 modern small-scale industries in the country.

It is difficult to find reliable, systematic data on small-scale industries in the country. The Bureau of Census and Statistics of the Department of Commerce and Industry conducted the B.S.C. Annual Survey of Manufacturers in 1968, but unfortunately, there was no information available on modern small-scale industries.

The UP-ISSI is in existence for the last 6 years, and during this period, they seem to have made enough efforts to collect statistics on small-scale industries from provinces, municipalities, government agencies, etc.; but unfortunately, they could not make much headway in this effort.

In order to collect information on important aspects of small-scale units, the UP-ISSI, 2 years ago, prepared a five-page questionnaire detailing 26 main items and several minor items dealing with small-scale units.

These questionnaires were sent to 206 small-scale units along with cover letter but only 31 firms have furnished the required information so far. Whenever conventions or seminars are held at the Institute, efforts were also made to collect these information personally from the participants who represent these units.

By furnishing the required information, small firms could get themselves registered as small-scale units at the UP-ISSI. Out of 31 units registered 2 years back, only 21 renewed their membership and the rest simply dropped out.

For the 21 firms registered, the index cards have been opened. Normally, it has been observed that the people who furnish information are doing so if it is obligatory on their part or if there is any chance of getting benefits, otherwise, they simply do not cooperate.

When the registration is voluntary, and they know that the Institute is not in a position to help them, in any way, it is only natural if they feel it unnecessary.

For effective planning, various information for the small-scale units, are very essential. Through passing an act as in the case of large-scale units, it will become possible to collect these statistics.

Passing a Statistical Act would take considerable time, therefore, in 1955 the Government of India introduced a "Voluntary Registration of Small-Scale Units" with the Director of Industries. This registration helped the units in obtaining financial assistance from the Department of Industries under the State

**Aid to Industries Act, short and long term loans from State Financial Corporations and the State Bank of India, machinery on hire purchase from the National Small Industries Corporations, etc. Besides, such registered small-scale units can get assistance in obtaining indigenously controlled imported raw materials, electric power, accommodation in industrial estates, training facilities for their workers in different training institutes, and so forth.**

Coupled with this, the whole procedure for registration was made very simple and actions were taken quickly. Application forms for registration were made available with all the local industries officers (District Industries Officer.) What the small-scale units were required to do was to fill in the required information in this application and send the same in duplicate to the District of Industries of their province through the local offices. The small-scale units are then given a registration number which is mentioned by them while seeking certain facilities or assistance from the province or central government.

The officers of the Small Industries Service Institute in India advise these units on the scope of the industry which they intend to set up. Besides, in the case of small-scale units which require scarce indigenous raw materials and components for use in the manufacture of their products, prior consultation with concerned

State Directors of Industries help them in ascertaining the state of availability of the imported or rare indigenous raw materials .

As a result of the above voluntary registration system which was brought into force, the department which could get information on 30,000 units in 1960, is now able to secure the relevant statistics from all over the country. Since the small units feel that by registering their unit and getting a registration number help them in approaching banks, getting raw materials, and other benefits, about 18,000 to 20,000 new small units are voluntarily registering themselves with authorities annually.

It must be borne in mind that without registering and getting a registration number with the Director of Industries, no bank nor any government agency will entertain application of a small unit for any help. Whether the small-scale unit gets any help or not, it will be necessary for it to get a registration number. No fee is charged. Information collected from small units are not passed on to Income Tax authorities. The benefits available to small-scale units under voluntary registration was advertised in newspapers by the government and all the small-scale units were asked to contact the Director of Industries for registration.

If a developing country like India with all its problems

such as the vast geographical region, the cultural and linguistic complexities and the resulting problems of communication could get all the required information about the industry from more than 2 lakhs of small-scale units through the "Voluntary Registration System"(without being enacted by law), one should not have to doubt about the feasibility of such a system and its efficiency in collecting the required information in the Philippines, where all these problems are not so acute.

#### Recommendation

- 1) In the absence of a Statistical Act on small-scale industries it will be difficult to obtain reliable information about the industry and therefore, it is suggested that a "System of Voluntary Registration" of small-scale units with the UP-ISSI and its regional institutes be brought into effect immediately.
- 2) By an Executive Order, it must be made clear that any small-scale unit which is in need of loans from Banks, imported raw materials, supply of electric power, accommodation in industrial estates, training facilities for their workers, or any other help from any provincial or national Government that promote the industry, must register with the UP-ISSI or its Regional Institutes. By chance, if a unit fails to

register and fulfill these requirements, then its application for any sort of help must be treated as invalid.

- 3) **The present registration form of 6 pages should be reduced to a simple form to furnish information on the following:**
- a) name of the unit;
  - b) types of products produced;
  - c) number of workers engaged;
  - d) annual production;
  - e) location; and
  - f) types of machinery used and its value.

In no case should the UP ISSI ask the unit to produce a 3-year balance sheet.

- 4) **The present system of collecting P50.00 from each unit at the time of registration should be given up. Registration should be free of cost. For promotional work, fee should not be collected.**
- 5) **In addition to the registration forms, a card index system should be introduced to secure various information. At present, the UP ISSI has only 21 index cards and these too do not contain any useful information.**

the way of increasing production." In order to get a loan of ₱100,000 towards the purchase of additional equipment and working capital for expansion, the unit approached the Social Security System and applied for the loan. But the loan was refused on the grounds that the required security for the loan was not forthcoming on the part of the unit. Since the unit was doing good business, First National City Bank came to its rescue by giving the loan on the same inadequate security.

- b. Another Filipino industrial engineer, who worked for 10 years in a big engineering factory, resigned from his job to set up a "Small-Scale Machine Shop." He started the industry in 1969 with one simple lathe costing ₱6,500. Being an experienced engineer, he could plan well. By the end of 1971, within a span of two years, he was able to purchase 7 different types of equipment in his workshop. At present, he has employed 13 workers in his factory and is able to produce ₱15,000 worth of products per month. His workshop is "incomplete for want of a milling machine". He complained that not only does he have to pay heavily for milling certain parts in other bigger factories, but he also has to wait for his turn to get the work done. This caused delay and affected his business, further aggravated



- 6) **Registration of a unit must be automatic and a serial registration number should be issued to each small-scale unit. All applications registered should find a place in the Master Register. If the UP-ISSI doubts the information furnished by any party, then it could be verified through its field staff. In any case, verification should not take more than 15 days.**
- 7) **Once these statistics are collected, classified information on each industry may be published for the benefit of small-scale units, as well as for the general public.**
- 8) **The UP-ISSI and its Regional Institutes should be recognized as the agency authorized to collect statistics on a voluntary basis.**
- 9) **Whenever the surveys on manufacturing units to be conducted in the future, certain tables which will be of use to small units and the necessary information collected by other national agencies should also be included.**
- 10) **To popularize the voluntary registration system, the government of the Philippines should issue advertisements in all the leading newspapers, radio and TV, pointing out the benefits to small units if they register their units with the**

**UP-ISSI and its Regional Institutes . The amount spent on this aspect will soon turn out to be a worthwhile long-term investments for the people .**

**The Government will also benefit from this registration as they would come to know the state of development of the small-scale industrial units in the country . Information thus gathered will enable the government to plan the growth of this sector in a scientific way .**

## CHAPTER V

GOVERNMENT PURCHASE PROGRAMME

The Government and its departments, corporations and other subsidiaries, their branches and dependencies, are the sources of a very large amount of business of every type and description, which to a large extent, can be served by small industries, either directly or through the medium of sub-contracting. For it is very difficult for a small industry to participate in this business because of its inherent organizational structure and heavy financial burden. It lacks the necessary engineering and sales organization to contact the Government properly. Furthermore, small industries could not afford the expenses of these business functions because of small income volume.

What has been done to cottage industries?

We have been informed that annually, the National Government purchases ₦20 million worth of goods for its various departments from the handicrafts and cottage industries in order to assist them. The National Government, in accordance with Memorandum Circular No. 484 dated July 20, 1971, has made it a policy that in order to assist the CIDE (Cottage Industries Development Enterprise) in its participation in the Programme for Rural Employment and thereby promote the development of cottage industries,

all departments, bureaus or offices including local subdivisions and government-owned or controlled corporations should purchase all their supplies and equipment from the CIDE's production units including NACIDA registered producers. In order to carry out the policy of the Government, a Bureau of Supply Coordination with a staff of 170 has been formed. Due to this effort, the Director of the Bureau of Supply Coordination is now purchasing nearly ₱20 million worth of goods from the cottage industries. The items reserved to be purchased are: (1) abaca twine, 3 ply, 350 gram ball; (2) husk, coconut shell; (3) nipa, first class seasoned; (4) scrubbing brush; (5) duster, chicken feather; (6) remitowel; (7) Philippine rag (3" X 5 1/2"); (8) broomstick; (9) canisate rag, pure cotton; (10) mop head, cotton white, 24 oz.; (11) floor mat, coco-coir (12" X 24" X 1/2"); (12) toilet brush, catonogro bristle; (13) floor wax; (14) dust pan, large G.I. sheet gauge; (15) water pail; (16) waste basket; (17) blackboard; (18) school desk; (19) eraser; (20) teacher's chair; (21) teacher's table; (22) book case; (23) gardener's tools; (24) shop tools; (25) long gown; (26) mattresses; (27) dental helper's apron; (28) dentist's gown; (29) baby's camisa; (30) baby's blanket, binds and diaper; (31) leggings for delivery room; (32) bed sheets, white bleached muslin; and (33) pillows and pillow cases.

The above-mentioned items produced by these cottage industries, before they were reserved for purchases from the Bureau of Supply Coordination, were bought by private middlemen who used to quote and get orders while in turn raking higher percentage of the profit. By directly purchasing from producers, the Government of the Philippines is now able to save nearly 15% of the commission, which otherwise would have benefited the traders. Through this policy, many cottage units are presently able to increase their production, thereby giving employment to a large number of unemployed men in the rural areas.

#### What is to be done for Small-Scale Industries?

In the Philippines, there are 9,400 modern small-scale industries presently engaged in the production of parts and components required by large-scale industries, as well as producing different consumer items. The present purchase policy of the Government does not extend to products produced by the small and medium-scale industries.

At present, the National Government alone makes purchases to the extent of more than ₱200 million per year. If the purchases made by the National Railways, National Power Corporation, banks, etc. are added, the total purchases may exceed more than ₱600 million. Assuming these organizations do buy certain sophisticated

products, the small and medium-scale industries could easily supply between P50 to P100 million worth of goods. After all, small-scale industries are using the same types of equipment and technology as the large-scale enterprises.

It has been recognized in the developed and other developing countries that the small-scale industries, if supported, could employ more people in production and could easily set up units in the backward areas.

#### What has been done in the United States and India?

With a view towards assisting the small industries sector, the Government of the United States has set up an organization known as the "Small Business Administration", whose main function is to see to it that the needs of the government are purchased from small-scale units. If the Administration certifies that certain types of goods are available from the small units, then, nobody is permitted to purchase from the larger industries. This system helped the United States considerably in establishing the small industry sector and at the same time, it discouraged the growth of monopolies by few large enterprises. After all, no democratic form of government should encourage the growth of monopoly at the expense of a large number of small middle class people.

The Government of India in 1957 recognized the importance of the participation of small enterprises in the Government's Stores Purchase Programme as an effective measure for stimulating and sustaining the growth of these industries in the country. The basic consideration behind this programme was that, if they qualify for admission by satisfying the requirements, such as quality control and timely supply of goods, then the small-scale units should be given a preference in price in the matter of purchases by the Government's stores department, so that the potential capacity of the existing as well as the new small enterprises could be utilized to the fullest possible extent.

Since the inception of the programme in 1957, over 18,000 small-scale units have participated in the programme through the agency of the National Small Industries Corporation, a government of India concern. These units have been able to secure about 25,000 contracts valued at over Rs1700 million during this whole period. The actual share of the sector in Government purchases is higher than this figure because several small-scale units also participate in the programme on their own. This programme is a positive assistance measures rendered by the Government to small-scale industries in the sphere of marketing their products. The items of store purchases are categorized into four groups:

- 1) The items in the first group are procured from large-scale units.
- 2) The items in group two are procured from large-scale firms which are prime contractors, providing substantial scope for purchase of components and parts from small-scale units. A part of such purchases are made from small-scale units with a price preference of a maximum limit to 15 per cent in favour of small-scale products.
- 3) Government purchases of items under group three is open to both the large and small-scale units on a competitive basis.
- 4) Items in group four are entirely reserved for procurement from small-scale units only.

#### How to Participate in the Programme

A small manufacturer can participate in the programme mentioned above either independently or through the NSIC in which case, he has to register himself with the latter. In that event, he need not register himself with the Directorate General of Supplies and Disposals (DGS&D), but a small manufacturer who chooses to deal directly with the DGS&D has to. For registration with the NSIC, he has to approach any of the following offices according to his conveniences:-



- i) The National Small Industries Corporation, Okhla Industrial Estate, New Delhi-20 or its Regional Offices at Bombay, Calcutta and Madras.
- ii) The SISI situated in the concerned State, any Branch Institute or Extension Centre.
- iii) The State Directorate of Industries.
- iv) The District Industries Officer.

The last three offices also forward the applications of small manufacturers to the concerned office of the NSIC for registration.

The small industrialist has to fill in a prescribed application form in triplicate and may submit the same to any of the offices mentioned above. The application includes general information about his unit, plant and machinery, installed capacity and production and the specific products for which he intends to register himself for participation in the programme.

Upon receiving the application, the SISI Technical Officer concerned would visit the factory of the applicant small manufacturer in order to study the latter's technical competency to manufacture the specified products. If the firm qualifies, the SISI forwards his application to the NSIC with its recommendation for necessary registration. The NSIC enlists the manufacturer for

participation in the programme and issues a Competency Certificate in his favour.

#### How Tenders are Supplied

Once a manufacturer is registered with the NSIC and has obtained a Competency Certificate, he is kept on the records of the corporation as a unit competent to supply the specific products to the Government. Furthermore, the DGS&D issues tenders free of charge for the specific product(s) for which he has registered himself.

He is required to submit the set of tender forms, duly filled in, to the Purchase Officer of the DGS&D. In case he faces any difficulty in filling up such forms, he can approach the NSIC or the SISI for necessary guidance. The enlisted unit need not deposit any security with the DGS&D unlike small manufacturers registered directly with the DGS&D.

#### Help intended in Execution of Government Order

Once a small manufacturer is able to procure supply orders under this programme, he is given added assistance towards this purpose. He gets preferential treatment from the State Directorate of Industries in the matter of procurement of raw materials which are distributed by them. He obtains necessary technical

by his having purchased 7 different kinds of machines on a security basis. The bank is therefore refusing to give additional loan for purchase of a milling machine though it is an essential equipment in the workshop.

- c. A third Filipino, who was a salesman in a big furniture factory started his own unit in 1967 with one machine costing ₱2,000 and a cash investment of ₱1,000. He is manufacturing quality wood grill panel and other decorative wood articles. By the end of 1971, the same factory could produce things to the tune of ₱300,000 per year and could employ 30 workers on a regular basis plus an additional 15 people as casual workers. In 1971, he exported ₱30,000 worth of goods to Australia. He has built his own factory, which may cost anything between ₱150,000 to ₱200,000. Now he is in need of ₱70,000 for the purchase of additional equipment, and has applied to a government controlled agency for a loan. The proprietor was expressing his difficulties that in spite of his repeated request and personal visits to the financial agency, the loan has not yet been sanctioned after one year of its application. He is continually being asked to furnish additional information. It seems that instead of asking all the required information at one time, the financial agency is asking information on

assistance and guidance from the office of the Small Industries Service Institute in the manufacture of the product as per specifications laid down by DGS&D. He can also avail of the credit facilities extended in particular by the State Bank of India at all its branches on preferential terms under the Credit Guarantee Scheme No. 2 operated by the NSIC. Under this scheme, he is entitled to financial assistance from the Bank and to execute any Government contract covering all stages of production from the purchase of raw materials to the discounting of bills.

When the products are ready for distribution, the small manufacturer has to get his goods inspected and approved by the offices of the DGS&D before dispatching. As soon as his goods are inspected and found to be in conformity with the specifications supplied, he can send out the products and obtain a written proof like the Railway Receipt, etc. On the basis of such a receipt, he is entitled to the payment of 95 per cent of the price of goods dispatched from the Government and he may get the balance after the goods are received and verified at their destination.

### Recommendations for Immediate Action

It has been observed that there is an alarming rise of unemployment in the Philippines. Expansion of existing small and medium-scale industries, and the formation of new ones will create additional jobs for many in the country.

Government Stores Purchase Programme is an effective instrument to sustain small-scale industry growth. As long as the quality and prices of products from the small-scale industries are comparable with the large scale units, preference may be given in favour of the weaker sector. It is therefore suggested, as in the case of purchase of cottage industry products, that the various departments of the government issue a Policy Memorandum Circular regarding the purchase of certain types of items from the small-scale industries.

It would be advisable for the UP ISSI to open a division in its office for dealing with two or three industries on an experimental basis and working with a few small plants in each industry. As experience is gained from proven procedures, the UP ISSI should be capable of rapid expansion to the necessary and desirable extent to properly serve small industries.

In case the UP ISSI cannot handle this type of work, then it is suggested that a Small Industry Corporation based on an Indian model be formed with the following functions:-

- 1) A procurement division with the power to preempt at least 25 per cent of government indents at prices substantially equal to those offered by the general business community. Where the items especially fit the small business industries, and the small-scale sectors as a whole are technically backward, a higher percentage may be permitted. A few fields of government indents are, of course, not subject to production by small industries even through means of sub-contracting;
- 2) A contracting division who would in turn sub-contract the indents it has taken with small industries;
- 3) An engineering division whose function would be to assist the small industry in the proper processing of the indents. They would help determine the proper machine tools for efficient production of goods. The UP ISSI will have to be strengthened with more technical hands; and
- 4) An inspection department to ensure that the goods are produced in complete accordance with their specifications.

The corporation should sub-contract only to those small industries which show the necessary managerial ability to operate efficiently, to those who are willing to modernize their methods, and who are willing and eager to pay high wages consistent with efficient production methods.

### Price-Preference

Considering that the small units are not yet in a position to quote competitively along with large-scale units, a price preference up to 10% over the lowest acceptable tenders received from the large-scale units may be considered by the Director of Supplies on the merits of individual cases. The Government may appoint a committee consisting of representatives from the Bureau of Supply Coordination, the UP ISSI, the Chamber of Industries, the Filipino Chamber of Small Business and Industry and other organizations to go through the various types of products produced by the small-scale units and prepare a list of products that could be reserved for government purchase. To start with, the reserve list may not exceed 20 items. With the experience gained, the list may be enlarged.

Small-scale units obtaining government contracts are sometimes facing serious difficulties in procuring raw materials of the required specifications and the necessary quantities. The

Director of Supply should make special arrangements to release quantities of raw materials as soon as contracts have been awarded.

Efforts must be made to settle the payment to small units within 2 or 3 months.

### Fellowships

Since the Government Purchase Programme in developing countries play an important role, it is recommended that two persons from the UP ISSI and the Bureau of Supply Coordination be sent for training for six months under the UN Fellowship Programme to the United States and India. Care must be taken to ensure that the persons to be trained in these foreign countries are made to serve the country at least two years upon their return.



## CHAPTER VI

MODERNIZATION OF THE  
SMALL INDUSTRY SECTORMachine Age in Small Units in the Philippines

According to the Economic Survey of Small-Scale Units conducted in the Philippines in 1966, among 9,400 small-scale units it has been brought out that the "AVERAGE AGE OF MACHINERY IN THE INDUSTRY WAS 7.4 YEARS AND 60 PER CENT WERE OVER 5 YEARS OLD". Such a revelation is still more alarming if we think of it now five years after the survey.

It is a deplorable fact that in the Philippines, the use of obsolete equipment will result in inefficient production of goods thereby ultimately rendering them less profitable.

In order to help the existing small-scale units, as well as to bring out a strong ancillary group, it will be necessary to modernize the industries by replacing old machinery. To begin with, such a programme of modernization of equipment will have to be planned and implemented in selected types of industries. An important aspect of modernization is the identification and use of technologies which are appropriate to the pattern of resources endowment of the Philippine economy as well as of individual units which are at the same time

consistent with efficiency, economy and equality. In the identification and selection of such technologies, the technical officers of the UP ISSI will have to provide sustained advice and assistance to small industrialists. Obviously in an economy such as that of the Philippines, wherein plentiful supplies of labour are available and capital is scarce, the use of low capital and high labour technologies is justified. However, the latter has to be determined within the context of scales and market consideration as well as the economics of quality. These are all important and relevant in a competitive market, both domestic and international.

#### How Japan Modernized its Small-Scale Units

In order to increase the competitiveness of small industries, the government of Japan passed an act in 1969, known as the "Law to Promote the Modernization of Small and Medium-Sized Enterprises". On the basis of the act, 118 industries were selected and given preferential treatment on an experimental basis. According to this bill, small enterprises which belong to the category designated by this law is entitled to obtain low interest national loans and accelerated depreciation while carrying out a modernization programme.

Another programme which is vital to the modernization of small industries is the establishment of industrial parks. In

Japan, such developmental efforts have begun in 1960 with the objective of:

- 1) obtaining higher productivity by means of grouping and joint operations;
- 2) shifting the industries from crowded urban centers; and
- 3) transferring industries to areas where comparatively cheaper labour is still available.

Considering the severe competition in the markets, it is not difficult to understand why Japanese enterprises, regardless of whether they are large or small, have continued their large-scale equipment investment and are constantly aiming at higher productivity. The labour productivity of value added is lower for Japanese small industries than for large industries, which make the investment for new equipment much more necessary for smaller industries. In fact, it is stated that the annual rate of increase for equipment investment by small industries is equal to that of the large enterprises. Actually, the annual amount invested in fixed assets per employee in Japanese small industries has come up to that of the American level. It is really gratifying to note that on machinery investment, smaller industries in Japan, since the sixties, were keeping the tempo to that of large industries.

Work Done in India to Remove Obsolescence  
of Equipment in the Small-Scale Sector

In order to study the problems of obsolescence of equipment in the small-scale sector and the need for modernization of equipment, the Government of India appointed a committee to go through all the problems and submit a report and suggestions. The committee, after studying the various problems, have come to the conclusion that the programme of modernization should be implemented on a selective basis during the 4th plan period. They have further suggested the selection of a group of five industries for this programme, viz, machine tools, domestic electrical appliances, foundry and rerolling automobile parts and accessories and hosiery. Approximately, 3,000 small units in these industries will be assisted in a suitable manner to obtain modern equipment. It is estimated that a total outlay of ₹150 million would be required for this purpose. Besides, a lump sum provision of ₹20 million per annum will be required to meet normal replacement needs of these 3,000 units alone.

In addition to the programme of equipment modernization, it has been proposed to provide guidance and assistance in improving managerial efficiency through training programmes for owner-managers and workers. The supply of management aids

and manuals for the use of small units through the field officers of the Development Commission on Small-Scale Industries were also proposed to supplement this training programme in India. It is necessary to motivate the small entrepreneurs for modernization, therefore, groups of entrepreneurs-managers in India were taken on study tours to better organized industrial units both in the large-scale and small-scale sectors within the country.

#### Supply of Machinery on Liberal Terms

The National Small Industry Corporation is a major help that the Government of India is giving to the industry, through which the supply of imported and indigenous machines are made available on very liberal terms to small-scale units. The Government of India has set up a "National Small Industry Corporation", a government agency which supplies equipment and machinery to interested small entrepreneurs. The process of obtaining "collateral" is being totally discarded. At present, if an entrepreneur who is interested in setting up a small-scale unit or any existing small unit, wants to acquire any imported or indigenous equipment, he has to pay only the 5 per cent value of imported machinery, and 10% value of indigenous machine as "earnest money" to the Government Corporation. Upon receipt of the above-mentioned earnest money, the corporation adds its own funds in placing

installment basis. The proprietor narrated in a disappointing tone that a file is being built on his application.

Instances of this type are many. But it is sufficient to know that in spite of the fact that they show their capabilities in providing employment at a less capital investment and creating economic stimulation in the country, they are not being helped in their efforts to increase production and give more job opportunities to the people. The banks and other financial institutions, based upon the existing rules, are not in a position to sanction loans.

#### Creating a Supervised Credit Programme

#### for Small and Medium Industries in the Philippines

In order to provide loans and other types of credit accommodations to small-scale units, the President of the Philippines proposed an Act known as the "Small Enterprise Act of 1970".

In order to carry out the programme, a sum of ₱50 million was to be supplied by the following government financial institutions as per the amount indicated:

- |    |                                     |             |
|----|-------------------------------------|-------------|
| 1. | Central Bank of the Philippines     | ₱10 million |
| 2. | Philippine National Bank            | ₱10 million |
| 3. | Development Bank of the Philippines | ₱10 million |
| 4. | Government Service Insurance System | ₱10 million |
| 5. | Social Security System              | ₱10 million |

order with manufacturer in foreign country as well as inside the country. The party has to pay an annual interest rate of 6 per cent, together with another 2 per cent administrative charges (2 per cent of interest is charged for the entire period of 7 years and not recovered every year, whereas 6% interest rate is recovered every year on the balance at the end of each year). From 1956 till the end of 1970, the National Small Industry Corporation has supplied nearly ₹450 million worth of imported and indigenous equipment to 14,000 entrepreneurs. But for this generous scheme, many enterprising skilled people, who are not in a position to give any collateral would not be able to get equipment, thereby becoming manufacturers. Such a generous help from the Government of India has resulted in an additional industrial goods to the extent of about ₹1,000 million, and provided employment (in this particular scheme alone) to 300,000 persons. So far 22,000 different types of equipment have been supplied.

#### Details of the Supply of Machinery on

##### Hire Purchase Scheme

An industrial unit requires both long and medium term finance for acquiring fixed assets like land and buildings, plant and machinery, etc. and short-term finance as working capital for holding stocks of raw materials, finished goods, etc. and for meeting the day to day needs of the unit. Various agencies are engaged in

providing different types of financial assistance. The Hire Purchase Scheme was introduced to meet the requirements of movable fixed assets of small entrepreneurs.

#### Hire Purchase Scheme

Early in 1956, the National Small Industries Corporation Limited introduced a scheme for supply of machinery on hire-purchase basis to small-scale industries. The procedure as well as the terms and conditions of this scheme are as follows:

#### Procedure

1. An application is made on the prescribed form (supplied by NSIC) through the Directorate of Industries of the concerned State. After making the necessary verifications, the State Directorate of Industries sends the application to the Head Office of the NSIC at Delhi with recommendations and comments.
2. Applications for indigenous machines that are complete in all aspects are placed for consideration before the Indigenous Machines Acceptance Committee which usually meets once in two weeks.
3. Applications for imported machines are placed before a different Committee for approval.



4. **Decisions of these Committees are conveyed to the parties concerned with copies to the concerned regional office of the Corporation and the Directorate of Industries. An applicant whose application has been rejected can have his case reviewed by a "Reviewing Committee".**
  
5. **After acceptance of an application, quotations are solicited from suppliers mentioned by the applicants in their application and also those known to the Corporation. As soon as the suppliers' quotations are received, they are sent to the parties with a request that they make their choice and to deposit the requisite earnest money with the concerned regional office of the corporation.**
  
6. **Upon hearing from the regional office that the earnest money has been deposited, the NSIC Head Office places its supply order on the selected supplier/suppliers. Copies of the Supply Order are also forwarded to the applicant as well as to the concerned regional office for completion of the remaining formalities. If the machines are imported, the Chief Controller of Imports and Exports is simultaneously approached by the Head Office for the necessary import licenses.**

Soon as Import Licenses are received by the Head Office, they are passed on to the regional office which, in turn, opens a letter of credit.

7. Upon receipt of a copy of the supply order, the regional office asks the supplier to send his proforma invoice, and on the basis of that invoice, prepares an agreement bond to be signed by the hirer. At this stage, the hirer is also called upon to complete other formalities relating to the insurance of the machine, deposit of the balance earnest money, if there is any, and other charges payable by him as per the suppliers' proforma invoice.
8. Once all these formalities are completed by the hirer, instructors are sent to the suppliers to dispatch the equipment (duly insured for transit risk) to the hirer and to send the Railway receipt or G/R, as the case may be, to the regional office. After ensuring that all the payments have been made by the hirer, the Corporation releases the R/R or the G/R to the hirer for taking delivery of the machines.
9. In case of imported machines, the procedure is slightly different in as much as the hire purchaser is asked to

complete the hire purchase formalities after the Corporation has received the shipping documents and, as soon as the formalities are completed by the hirer, the Corporation sends the shipping documents to the clearing agents for clearing the consignment from the Customs and dispatching it to the hire purchaser.

#### Terms and Conditions

A small-scale industrial unit with a capital investment of not more than P. 75 million can take advantage of the hire-purchase assistance. The capital investment here means investment in machinery and equipment only. This capital limit is relaxed further up to P1 million in case of industrial units producing ancillary items and components for supply to certain recognized large and medium-scale industries.

A unit accepted as a hire-purchase client is required to pay only 5 per cent of the value of machines in advance as earnest money. The balance of the principal together with the interest is payable in 7 years, the first installment being payable one year after the delivery of the machines and the subsequent installments every six months thereafter.

A uniform rate of interest of 6 per cent is charged and is payable along with periodic installments. In addition, an administrative charge of 2 per cent is levied. The terms of payment are fixed in such a way as to enable a small entrepreneur to run the industry smoothly and pool back finance for discharging hire-purchase commitments. Small industrial units having export potentialities are given first priority. Similarly, priority is given to units whose production results in import substitution or those that intend to modernize themselves, or those requiring indigenous raw materials or units producing ancillary parts and components for medium and large-scale industries and, in general, those units helping in the development of industrially backward regions.

The scheme has many advantages among which are the following:

1. Since the hire purchaser does not receive cash, any chance of the loan being misused is obviated.
2. The hire-purchaser is not required to furnish any security or surety for receiving equipment as is often the case in respect of cash credit accommodation. The hire-purchase system is all-embracing whereas the system of

cash loans benefits primarily those who can offer some tangible securities.

3. Ownership of the machines supplied to the hire-purchaser does not pass on to him until he has paid all the installments. In the event of default in repayment (by the hire-purchaser), the lending agency can repossess the equipment. Similarly, the hire-purchaser can return the machines during the period of hire-purchase agreement to the lending agency if he cannot make use of them.
4. Supply of machines on hire-purchase basis induces mobilization of both capital and entrepreneurial skill, because once one has got the machines, he is compelled to find the investment necessary for the installation and operation of the machines.
5. The hire-purchase system leads to capital formation in the sense that the hire-purchaser is bound to ensure sufficient savings at least to the extent of the repayment of installments during the years that follow the supply of machines.
6. Supply of machinery on hire-purchase basis affords some degree of control and orientation over the investment in the small-scale sector.

This makes possible the channeling of investment in the desired or priority industry groups, help the growth of viable and optimum size of small units, and establish a complimentary relationship between the large and small units.

For the last 12 years, the National Small Industries Corporation has been supplying machinery and equipment to small-scale units by offering them a long repayment period with a moderate rate of interest. No security is called for because the State Directorate of Industries has only to vouchsafe that the unit has growth potential and the industry needs encouragement. Not only are new units assisted but existing units are encouraged to modernize themselves by using the latest machines and using improved technology.

#### Recommendations

1. With a view to removing the obsolescence of equipment in the small-scale sector, it is suggested that the Government of the Philippines should introduce a programme that will modernize the existing small-scale units in the country. Without modernization, it is feared that the existing small units will meet a natural death in a couple of years.

2. To start with, every year the Government can set up a programme of modernization on selective basis in four or five types of industries. If this is done, 20 or 25 different groups of small-scale industries can be brought under this programme of modernization.
3. In addition to the programme of equipment modernization, UP ISSI should undertake the responsibility of providing guidance and assistance in improving managerial efficiency through training programmes for owner-managers and workers. The technical officers of the UP ISSI should visit the units regularly to guide in production methods and in the proper use of machines. The Technical Extension Work of the Institute must be increased to meet this need effectively.
4. Supply of modern machineries are very essential for the survival of small-scale units in the country. In the interest of existing and future entrepreneurs, it is suggested that a separate corporation patterned after the Indian National Small Industry Corporation be set up in the Philippines to supply imported and indigenous equipment on liberal terms. It may be noted that any concession given to small units will be toward present and future economic development and the subsequent solution of the unemployment problem

in the country. In order to introduce the modernization of equipment in the small-scale sector in the Philippines as is practiced in Japan and India, UNIDO may make available an Expert for a period of one year. The expert must be an Engineer, with considerable experience in extension work with small-scale units.

6. UNIDO also may provide one fellowship to UP ISSI for a period of 3 months to study the systems prevailing in Japan and in India.
7. For supplying imported machinery, the Philippines can seek Asian Development Bank's (ADB) or other agencies' assistance to get foreign exchange as it will be helping the cause of stimulating economic growth and increasing employment opportunities to many in the rural areas on a more permanent basis.



**What is a Supervised Credit Programme?**

The Supervised Credit Programme (SSS-UP ISSI) is a scheme entered into by the Social Security System to provide finance to small and medium industries. Consideration for a grant of credit facilities will be based upon the ability of the project to generate sufficient income and cash to repay the loan availed of, the inherent soundness of the finance structure, and management of the firm and the compliance of all priority requirements and other credit and collateral restrictions. The funds for the programme are to be provided by the SSS while evaluation of the project as to the feasibility of the financed project shall be handled by the UP ISSI. According to the programme, till the loan has been repaid, the UP ISSI has to supervise the unit.

For these services, the SSS will pay the UP ISSI 2% out of the 12% annual interest charged by the SSS to borrowing enterprises. The programme features:

- |    |                                      |          |
|----|--------------------------------------|----------|
| 1. | Maximum amount of loan to be granted | ₱100,000 |
| 2. | Maximum repayment period             | 10 years |
| 3. | Interest rate                        | 12%      |

One major qualifying condition for the unit to be able to acquire loans under the above scheme is that the unit or appli-

## CHAPTER VII

ANCILLARY DEVELOPMENT

In 1968, the UP ISSI conducted a survey in "Complementarity of Small and Large Industries in the Philippines". Out of 500 top large-scale manufacturing firms in the country, 200 of them were interviewed to find out the following:

- a) The extent and use of sub-contractual facilities in small and large industries; and
- b) The existence of industrial practice in future manufacturing arrangement; and
- c) The factors affecting the sub-contracting and further manufacturing arrangement.

The survey revealed that out of 200 large scale units grouped under 27 types of industries, namely: textile, garments, steel and heavy metals, chemicals, sugar, cigarettes and tobacco, paper pulp, cement and etc., only 23 large units encouraged ancillary units to supply some parts and components to them. The rest were making these parts themselves or importing them. Another 29 large scale units acknowledged the possibility of sub-contracting parts and components, but did not take any action in that direction. Unfortunately, from the beginning, the Philippine large enterprises

planned to produce every requirement in their own shops, thus spending foreign exchange on simple items which otherwise could have been purchased from within the country or they could have encouraged new small and medium units to produce such items.

On the whole, the two main conclusions borne out of the survey are revealing:

- a) There are very little complementarities existing between large and small-scale industries on the issue of sub-contracting; and
- b) There is an information gap existing between these two industrial sectors which in fact deter the development of complementarity for their mutual advantage.

#### Survey of Car Parts Manufacturing

Again in 1971, the UP ISSI conducted another survey on the manufacture of car parts to collect the following information:

- a) The capacities of local manufacturers
- b) Which car parts are locally manufactured
- c) The problems of car parts manufacturers and car assemblers
- d) The expansion capacities of these firms
- e) The existing and potential market for local parts

- f) How manufacturers and assemblers seek to improve the industry
- g) To find out the reactions of these firms concerning the possibility of a Philippine-manufactured car.

Out of 81 firms visited, only 65 units agree to furnish required information. The survey revealed that though many firms were listed as car parts manufacturers, many of them were in fact functioning as assemblers, importers and wholesalers and others were involved only in the production of tractors and their parts. Some of the firms listed as parts manufacturers had ceased operating for the time being due to the lack of raw materials, local and import competition, and inadequate capital to carry out the production.

#### Profile of the Industry

- a) 43% of manufacturing firms were owned by corporations;
- b) 36% of them were of single proprietorship; and
- c) the rest, 21%, were run on a partnership basis.

#### Entrepreneurs

- a) 59 per cent Chinese
- b) 38 per cent Filipino
- c) 3 per cent Americans

### Size of Employment

- a) 28 per cent of firms employed between 1 to 10 people
- b) 53 per cent of firms employed between 11 to 80 people
- c) 6 per cent of firms employed between 80 to 150 people.

The survey revealed that in the beginning, many started manufacturing imported parts but with the experience gained, they are now able to manufacture parts and components according to the specifications of customers. Though there is a good deal of demand for these parts outside the Philippines, it seems that many units are reluctant to export their products for the simple reason that they cannot even meet the local demand.

### Manufacturing Problems

The survey shed light on the many problems encountered by small-scale units engaged in the manufacture of parts and components, among which are the following:

- a) In view of the limited dollar allocation made to small units, the importation of vital raw materials such as steel sheets and certain chemical items, is severely affected.
- b) Entrance of jeep parts as surplus goods.
- c) Loans from financing institutions are difficult to obtain and normally take a long time to process them.

- d) **Tariff duties imposed on raw materials are sometimes higher than that of finished products, as such, local goods cost more than the imported ones. For instance, imported raw materials such as brass and copper strips for radiators have a duty rate of 20 per cent as against the 10% duty imposed in imported finished product. Similarly, locally made pistons and bearings are 10 to 20% higher than their imported counterpart because the imported raw materials used by the former are highly taxed.**

#### **Car Assemblers**

**It is very interesting to note that the bulk of units engaged in the car assembly is only a small one. 20 per cent of the units engaged in this type of work employed less than 20 workers in their units and 60 per cent of the units employed between 20 to 40 workers and the rest employed between 140 to 260 workers. 11% of locally manufactured car parts are used in the locally assembled vehicles and 50% of the parts of locally manufactured jeeps and jeepneys are locally made.**

#### **Why Ancillaries are Essential**

**An important feature of modern small industries development is its complementarity with the large-scale industry sector. It has**

been the experience all over the world that the growth of the large scale sector itself stimulates the growth of the small-scale sector as a matter of secondary growth. By planning the development of secondary growth suitably, it will accelerate the development of modern small industries in a manner beneficial to the economy as a whole. Small-scale units enjoy economies of scale of production and can effectively compete with large units in a certain product having restricted markets or requiring specialized technical skills. In these products small and large-scale units co-exist in the basis of economies of scale of production.

Small-scale units also spring up to make use of the basic raw materials/intermediate produce by large scale units because the fabrication of these end-products which have to cater to the taste of regional markets involve heavy transportation costs, etc. and can advantageously be decentralized. More significant gains will, however, accrue to the small-scale sector by working as ancillaries or sub-contracting units to large-scale units.

#### Ancillary Development in Japan and India

At present, there are approximately 70,000 enterprises in Japan engaged in the machinery industry of which some 70% are sub-contracting enterprise that have some relationship with the parent enterprises. It has thus been established in the

machinery industry in Japan that both large and small units depend upon each other and a happy "co-existence" prevails. This is also true in the field of chemical industries. Nearly 30% of parts and components required by large units in this sector are supplied by small-scale units. Large units find it more economical to purchase certain parts and components from small units, rather than manufacture them themselves at a high cost.

In order to give encouragement to the development of ancillaries around large-scale units in India, a "Standing Committee on Ancillary" was appointed. On the recommendations made by the Standing Committee, the Government of India has selected 16 large-scale industries for special encouragement. The selected 16 industries are: 1) Industrial machinery, 2) Agricultural and earth moving machinery, 3) Machine tools, 4) Industrial, scientific and mathematical instruments (mechanical), 5) Locomotive and rolling stocks, ships and aircraft, 6) Bicycles, 7) Boilers and steam-generating plants, 8) steam engines, turbines and internal combustion engines, 9) Automobiles, 10) Commercial office and household equipment, 11) Electrical machinery, equipment and appliances, 12) Telecommunication equipment, 13) Industrial instruments (electricals), 14) Radio and electronic equipment, 15) Air conditioning and cold storage equipment including refrigerators, and 16) Mineral oil and petro-



leum products. The above list, it is hoped, will give us an idea as to how we can use the scheme to develop the small industries in the Philippines. It is also recognized that the ancillary unit, which has to manufacture precision components to large-scale units in the above industries may need more capital than the .75 million fixed in the definition of a small-scale unit. Subsequently, it was raised to one million. Accordingly, an ancillary unit is redefined at present as:

"A unit which produces parts and components, sub-assemblies and tooling for supply against the known or anticipated demand of one or more large units manufacturing/assembling complete products and which is not a subsidiary to or controlled by any large unit in regard to the negotiation of contracts for supply of its goods to any large unit. This shall not, however, preclude an ancillary unit from entering into an agreement with a large unit giving it priority over all others."

Units which are set up primarily for the replacement market also fall within the scope of the above definition.

The vast scope to develop ancillaries in the public sector undertakings was recognized even at the outset. At the instance of the Standing Committee, the Ministry of Commerce and Industry

wrote to several public and private sector undertakings requesting them to encourage the development of ancillary units. This recommendation is being followed by the Ancillary Division of the Office of the Development Commissioner on Small-Scale Industries in requesting large-scale undertakings to explore the possibilities of ancillary development. Many of the public sector undertakings have also appointed their own ancillary development officials.

A special drive has also been launched to get the cooperation of the public sector industrial undertakings in encouraging small-scale ancillary units to cater to their needs. The large-scale enterprises in the private sector have also been requested to list down their requirements of parts and components which can be procured from small scale industries.

Meanwhile, intensive technical assistance is rendered by the Small Industries Service Institutes to ancillary units in standardizing their products. Special attention is also being given by the Small Industries Service Institutes to test the products manufactured by the small-scale ancillary units in order to help the units in producing quality products as per specifications laid down in the contracts.

### Purchase made in the Ancillary Units

The small-scale ancillary enterprise in India has played a significant role in supplying parts, components and sub-assemblies to large-scale industries both in the private and public undertakings during the year 1969-1970. Supplies worth ₹250 million were made by the small-scale units.

The Development Commissioner on Small-Scale Industries conducts seminars for the development of ancillary industries with public sector undertakings to discuss the various Parent-Ancillary relationship embracing facilities to be offered by the public sector undertakings to ancillary industries. The topics discussed include pricing policy, length of contracts, credit facilities, liberalization of terms and conditions in respect to supply of machinery and equipment on hire-purchase basis by the National Small Industries Corporation and guidelines for new undertakings. An appreciation seminar on the contribution of small-scale units towards import substitution are also held in different parts of the country.

### Ancillary Industrial Estates

Ancillary industrial estates are being located along with large-scale factories in different parts of the country. Eight

cant must have "adequate collateral consisting of real estate property and machines used in the business."

How Much Loans has been Sanctioned by SSS to Small-Scale Units?

The Social Security System derives its funds from workers, and naturally clear cut directions have been given for investment of its funds. One of the conditions of investment is that "any such investment shall be made with due diligence, and prudence to earn the highest possible interest consistent with safety." With such a condition, naturally no organization can act in a reasonable way.

During the entire period, the SSS has sanctioned 14 loans to small-scale units totalling ₱971,000. Thus, by playing "safe practice" the SSS has utilized only 1/10 of the funds allocated for giving loans to small-scale units.

When almost all of the small-scale units are in need of loans, funds meant for giving loans have not been utilized. An average of 60 days is taken by the SSS to sanction a loan. Since the SSS is trading the funds of poor people, it will not be able to take reasonable risk. It is, therefore, suggested that such funds which they can provide for small-scale units be utilized in constructing Industrial Estates, which will give ample protection for

ancillary industrial estates have already started functioning around big public sector undertakings.

Government of India's Licensing Policy

Towards the Development of Ancillary Units

At present, the technical officers from the Development Commission on Small-Scale Industries in India are associated with the licensing of large units more closely from the time of the receipt of the application so that the applications might be scrutinized from the ancillaries' point of view too. As a policy such components/parts which can be made in the small-scale sector are not being licensed and it is treated to be the responsibilities of the large-scale units to locate such ancillary units. The office of the Development Commissioner of Small-Scale Industries is also preparing a list of standard parts/components that could be made in ancillary units. These lists are made available to all government departments for their use while preparing project reports for large-scale public sector undertakings. The lists are given wider publicity so that prospective entrepreneurs in the large-scale sector might plan their projects accordingly.

Dynamic Action taken by BOITowards Ancillary Development

Recently, the Chairman of the Board of Investments stated that the increase in the rate of growth of the Gross National Product should not be the only objective of economic planners. He said that GNP growth rate is not a true measure of economic development because that growth may not be segmented. This is particularly true of the Philippines, he added, where about 60 per cent of the nation's wealth is concentrated in the hands of only 22 families. He made these remarks in "Planning and Implementation for Development", held on January 12, 1972 at the Intercontinental Hotel in Makati. The conference was sponsored by the Speaker of the House of Representatives, the Congressional Economic Planning Office and the Philippine Economic Society.

The Board of Investments Chairman called on economic planners to direct their efforts toward bringing about an equitable distribution of wealth among all income group to the country. This represents real socio-economic growth. The Chairman of the BOI said that unemployment is a serious problem affecting the country. At present there are one million unemployed and another million underemployed, which together constitute 18.5 per cent of the country's labour force. To solve the unemployment

problem, it is necessary to develop the small-scale industries. Small units could be started with less capital investment and can also be started in different parts of the country.

#### Ancillary Development in the Philippines

There are various instances of large-scale units in other countries fostering the development of ancillaries in their own interest. The pattern of industrial development in the Philippines has been that a large-scale unit would like to produce all components/parts required under its own roof. This had a historical justification since there were no reliable ancillaries for a long time. At present, there are more than 12,000 modern small-scale units (in 1966, there were 9,400 units) and many are ahead in producing quality parts/components. Therefore, it is in their interest that large-scale units will have to resort to such small-scale units for meeting their requirements. As cost consciousness develops, the process can be expected to take place but steps should be taken to hasten it. The small-scale units have now demonstrated their ability to produce parts/components of required specifications at reasonable cost within the stipulated time. The necessary climate having thus been created, it is for the large-scale units to take advantage of these facilities available.

### Increase of Duty in Imported Automobile Parts

By increasing the percentage of duties of various parts and components of automobiles, the GOI has helped the local manufacturers, particularly the small-scale units and has created a lasting impression in their minds. In fact, India adopted this measure several years back with the result that a large number of small-scale units came forward to produce complicated and precision equipment. At present, items like electric horns, brakes, and brake assembly, carburetors, suspension and steering gear tools, sheet metal and other miscellaneous items are being produced by small units in India. On these lines, new large-scale units are not given licenses to produce such things.

### Licensing Policy to Rescue Certain

#### Items for Small-Scale Units Only

In India, the considerable advantage of reserving certain items of products for the development of small-scale industries where competence of the sector to manufacture the items to acceptable quality and at reasonable prices has been fully established. Items which could technically be produced economically within the definition of small-scale sectors are reserved. To start with only few items were reserved and as the small units in improving



the quality and at reasonable prices, more and more items were reserved for them. At present, 23 items are reserved for small-scale units, however, large units producing such items before were allowed to carry on their production plus an annual 12 per cent expansion. In view of the reservation, large units cannot by themselves raise the price of articles, as small units are in the field to supply similar products at the same prices if not lower.

In India, for example, a number of industrial items such as clinical thermometers, ready-made garments, hearing aids, etc. are produced exclusively in the small-scale sector. Similarly in many other cases, 50 to 70% of the production are carried out in this sector. Of course, in key and basic industries small-scale units cannot do much except supplying a few parts or components.

Reserving certain items for small-scale units after all is not going to affect free enterprise. For even the large-scale industries have thrived under heavy tariff protection. It is absolutely clear that the if import duties had not been imposed, the local large units would not have come up. The imposition of tariff is in a way against the concept of "Free Enterprise". Left to himself, a consumer would naturally like to import any item when cheaper in price compared to an item manufactured in the

country by a large-scale unit. Therefore, if items which could be produced economically and technically by small-scale industries are reserved for them, then the "free enterprise" objection should not rightly be put forward. After all small units are being run by small private business too. If employment is to be provided to a large number of people with a profit, then reasonable items for manufacture of small industrialists will have to be suggested, otherwise new entrepreneurs will not venture to come forward leaving them to manufacture only "handicraft and cottage industry products". In an industrially developed country, deliberate action must be taken to bring up a new class of people known as "ancillary manufacturers" otherwise, a vacuum will be created between large-scale and cottage industry sector.

#### Scope of Future Development

Since BOI is raising import duties on a number of items, it gives an opportunity to new entrepreneurs to come forward and manufacture such items as higher rates of import duty will provide them a reasonable profit attraction. The UP ISSI in consultation with other technological agencies should study such possibilities and suggest items to prospective entrepreneurs.

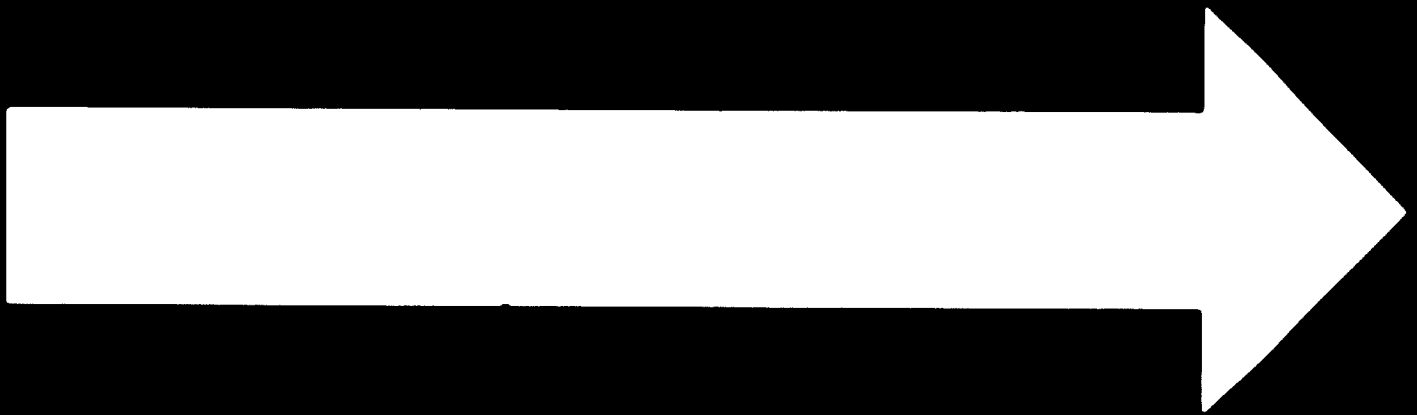
Recommendations for Immediate Action

1. We have therefore established that it is possible for a small-scale unit in the Philippines to produce parts/components cheaper than large-scale units for the following reasons:
  - a. overhead costs of small-scale units are in most cases lower than those of a large unit;
  - b. direct labour costs in small units are sometimes lower than in large units;
  - c. small units can often specialize in few components and can therefore concentrate on specialized skill and knowhow for production of these components; and
  - d. a small-scale unit may pool contracts from several large scale for any particular component or group of similar components and may thereby have a much larger production volume for that component than any of the large units, and can thereby reduce the production cost by using special tooling or special methods of production suited for large volume.

In view of the above, it is suggested that the government introduce the ancillary development concept among small-scale units.

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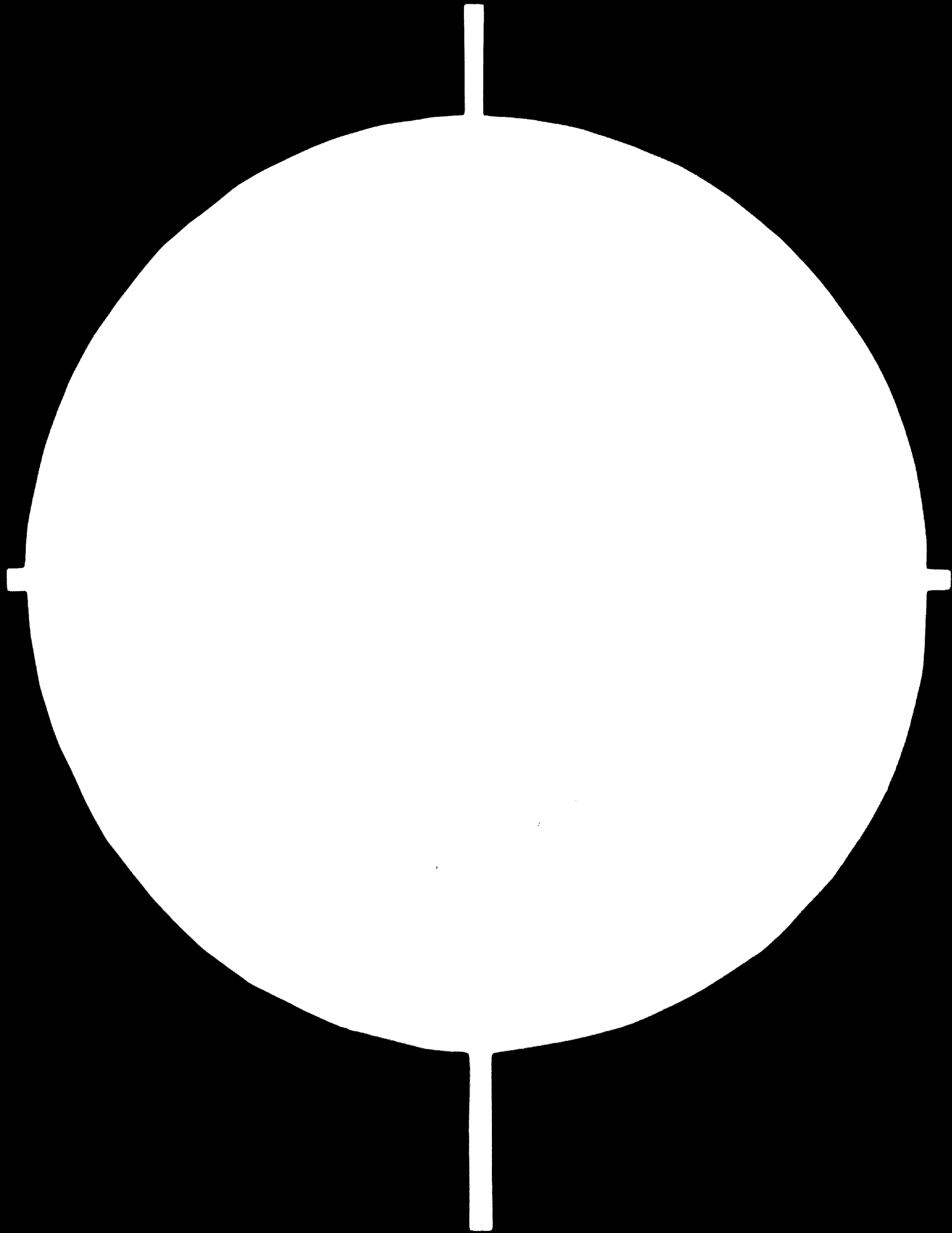
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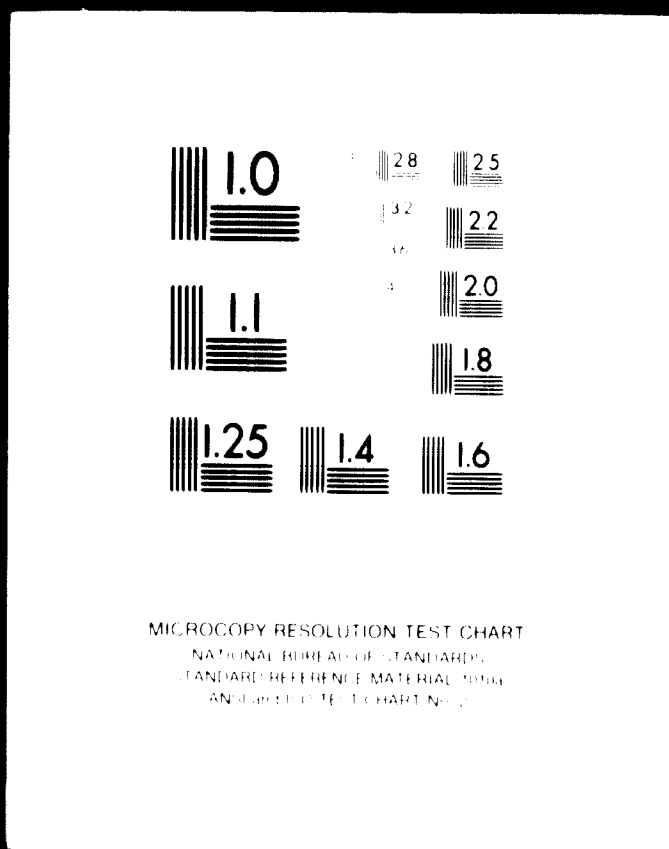
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The Federation is represented through various official and semi-official bodies interested in the development of small-scale industries. The Federation takes up the cases of individual members with respect to their applications to import raw materials and for the supply of machinery from Government agencies. The Federation also offers information services to its members and publishes a monthly bulletin supplied free of cost. Furthermore, it organizes sectional conferences to discuss problems of particular industries.

In view of the good work done in the cause of small-scale industries, the Government of India gave a grant of Rs27,000 to the Federation towards the publication of the Directory of Small Industries. To the Development Commissioner, Small-Scale Industries, Ministry of Industrial Development, Government of India, was entrusted the task of organizing an "All India Exhibition of Small-Scale Industry Products" as an adjunct of the Second Afro-Asian Conference on Small Industries meeting in New Delhi in April, 1971. The Government of India gave a grant of Rs200,000 to meet a portion of the expenditures. Furthermore, in order to carry out a detailed survey of small-scale industries, the Government of India has given a grant of Rs150,000 to the Federation and the survey work is now under progress. The

Federation has its own building and has opened branches in different parts of the country to serve its members.

### Recommendations

According to the survey conducted by the U.P. Institute for Small-Scale Industries in 1966, there were 9,400 small-scale industries then existing in the Philippines, but hardly a small fraction of the total units have become members of the Philippine Chamber of Industries nor of the Pilipino Chamber of Small Business and Industry. It seems that the idea of joining these organizations has so far not been generally accepted by the small and medium-sized sectors as they feel they have very little to gain by becoming members. In the interest of small-scale enterprises, trade associations should be made to perform and execute things of mutual interest to the members which each of them would not be able to do by himself. Keeping this end in view, the following measures are suggested for adoption:-

- 1) Formation of specific organizations to look after the interest of small and medium units -

There is a great need to look after the interest of the manufacturing units in small and medium scale industries in the Philippines. If it is a composite organization of



manufacturers and traders, it will not be able to give effective attention to the manufacturing problems of the small industries. It has also been proved elsewhere, that the small-scale units, by associating with other members, fail to get attention for their problems because the larger units, by virtue of their economic position, would try to dominate the affairs of the Federation. In case the existing organizations fail to give more attention to small units, then there is a need for a strong, separate Federation to come into existence.

- 2) In the developing countries, people generally do not come forward to meet the expenditures of small-scale industries/organizations. It is, therefore, recommended that the Government consider the plight of the small and medium sectors with more sympathy and give a grant of P50,000 every year, for a period of three years to meet a portion of the expenditures for the establishment and maintenance of the organization.

- 3) Publication of a Directory

At present, no detailed publication on small-scale industries is available in the Philippines despite the existence of 9,400 units. For effective planning, it is very essential to have a detailed book published in the

country. It is, therefore, suggested that the Federation or any other suitable organization may be entrusted by the Government to compile and publish a "Directory of Small and Medium Scale Industries in the Philippines". The price of each copy should not be more than ₱5.00, otherwise many small units will not be interested in purchasing. Since the circulation of useful information to manufacturing units are essential from the country's point of view, it is suggested that the Government may give a suitable grant to the Federation to meet the printing charges of the Directory. It may be mentioned here that the Small-Scale Industries Federation in India collected advertisements for the Directory from the members and from other government departments to meet major portions of the expenses. Through this method, the valuable Directory could be published at a nominal expenditure to the Government as well as the Federation. Of course, Government departments will have to make available various information from their files. Thus, the Directory will be able to serve the rapid development of small-scale industries in the backward areas.

4) Holding of an "All-Philippine Small-Scale Industries Exhibition"

In order to give the public an idea regarding the development that has taken place in the country and to promote

its future growth, it is very essential to hold an "All-Philippine Small and Medium Scale Industries Exhibition" in the Greater Manila area. Arrangements may be made to give demonstrations of simple machines, so that people will know for what uses the machines could be utilized. Many developed countries will be glad to take part in such an exhibition as it will provide a golden opportunity for finding market for their equipment. At the same time, local people will have a chance to see the different types of equipment and their price ranges. Enough efforts will have to be made to collect the products produced in the different provinces, as it will give the planners an idea regarding the development that has taken place in the country. If possible, products of each category item may be displayed in separate blocks. The Exhibition will stimulate the future growth of small-scale industries. Possibly arranged by the Small-Scale Industries Federation with active government support in all respects, the duration of the Exhibition may last for a period of two months. Once the Exhibition proves successful, similar shows on a smaller scale may be arranged on important regions as it will give the people an opportunity to see the progress their country has made.

- 5) **The Federation of Small-Scale Industries in the Philippines should assume the responsibility of sending the proprietor or the deputy of each unit to undergo various types of management training programmes given at the UP ISSI. Such training will benefit their members in running their units in a modern way.**
  
  - 6) **The Government of the Philippines may give proper representations to various bodies to the Federation so that it could effectively voice out the feelings of the small industry sector.**
  
  - 7) **A delegation of 6 to 8 members of the Federation may be sent to Japan and India, under the sponsorship of the government, to see how the Small-Scale Industries Federations have been organized and functioning in those countries.**
  
  - 8) **Regional Small-Scale Industries trade associations should be formed, strengthened and developed.**
  
  - 9) **That the national and provincial governments should take the initiative in organizing and promoting meetings to discuss these problems.**
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The above recommendations if implemented, will inculcate self-discipline, achievement of higher productivity, better quality, etc., among the small enterprises. Any financial assistance given to such activities will, therefore, be a profitable investment in the development of the small industry sector.

## CHAPTER IX

MOBILE VANS FOR DEMONSTRATION  
IN RURAL AREAS

The Mobile Demonstration Vans have an important role to play in the development of the rural and industrially backward regions of the Philippines. The Mobile Demonstration Workshops could be sent to the rural areas where there are concentrations of traditional artisans with a view to educate them through the demonstration of modern machinery and equipment. This will help them understand that the application of modern techniques in their production line by using simple power operated machines can save a lot of labour and money. Once they realize this, the mobile vans are sure to create a great enthusiasm among the artisans in the countryside. The artisans must be given a chance to operate the machines mounted on the vans if they so desire and be helped to repair their tools. The interested artisans could be given further practical training in their respective trades for a period of 4 to 6 weeks. The message of industrialization can thus be carried from door to door in the industrially backward areas throughout the Philippines by conducting on-the-spot demonstrations.

The vans may also participate in small industrial exhibitions or fairs to educate the people in the use of the improved

During the year 1969-1970, the Mobile Workshops attached to various Small Industry Service Institutes continued visiting rural areas for demonstration and training purposes. Training is imparted through such mobile vans by the staff to the interested artisans in trades like, blacksmithy, carpentry, sheet metal, pottery, leather, glass blowing, general engineering, etc. In the same year, according to the information, about 3,400 demonstrations were organized and 1,600 rural artisans were trained in different parts of the country through these mobile workshops.

By way of illustration, the type of equipment that are needed in carpentry, leather and blacksmith mobile vans are mentioned as under:

Black Smithy Mobile Van

		<u>Approximate Cost</u>
1)	Mobile van with body	P50,000
	<u>Machinery</u>	
2)	Lathe 1 unit	6,000
3)	Bench Milling machine 1 unit	4,000
4)	Bench Drilling machine 1 unit	500
5)	Bench Grinder 1 unit	350
6)	Spot Gun Welder 1 unit	300
7)	Diesel Generating Set	10,000
8)	Hand Lever Shearing 1 unit	150
9)	Hand Power Drilling machine 1 unit	200
10)	Anvil and other small items	<u>250</u>
	ABOUT	P71,750 vvvvvvv

2. Leather Mobile Workshop

		<u>Approximate Cost</u>
1 Van with body		P50,000
<u>Machines</u>		
1)	Punching and Eye Letting machine	1 unit 1,500
2)	Upper Leather Skiving machine	1 unit 2,800
3)	Skiving and Ranging machine	1 unit 400
4)	Bent needle outside stitching machine	1 unit 2,000
5)	Straps Cutting edge marking and embosing machine	1 unit 2,500
6)	Sole Stitching machine	1 unit 3,000
7)	Sole Splitting machine	1 unit 350
8)	Spindle Press	1 unit 300
9)	Heel Attaching machine	1 unit 650
10)	Upper Sewing machine	1 unit 600
11)	Hand Seam Rubbing instrument	1 unit 50
12)	Strap Holding machine	1 unit 400
13)	Combined Finishing machine	1 unit 2,500
14)	Diesel Generator	<u>10,000</u>
ABOUT		P77,250 vvvvvv



2. There are a large number of small units supplying parts/ components to large-scale public and private sector undertakings. These units are by nature "jobbing shops" and undertake production according to the contracts received. Often they do not have a manufacturing programme of their own even for these components because they depend mainly on the orders they receive. Comprehensive data on the extent of this activities and the problems faced by these units are not available. It is, therefore, suggested that special surveys be undertaken by UP ISSI to study the position regularly especially in greater Manila and Cebu area where there is a concentration of such units at present.
3. Small-scale ancillary units are often at a disadvantage in obtaining raw materials of the required specifications. It is suggested that in the future, a department in the UP ISSI be opened to help the ancillary units, particularly to deal with the import of raw materials. If a recommendation is received from UP ISSI, it should be accepted by the authorities concerned and import licenses be issued without further scrutiny.
4. The technical officers of the UP ISSI should be associated with the licensing of large-scale units more closely from the time of the receipt of the application so that the

tools and equipment and the application of modern techniques in their manufacturing line. These vans could easily create an industrial tempo in rural and industrially backward areas of the Philippines. In places where electricity is not available, one among 3 vans which normally constitute a group could be fitted with a generating set operated with diesel oil, thus supplying power to all the vans. Each van including equipment for demonstration will cost about ₱65,000.

In 1956, when the integrated development programme for small-scale industries was started in India, the programme of Mobile Vans was also deemed to develop small-scale industries in backward and less industrialized areas of the country.

Ford Foundation has donated 45 mobile vans filled with equipment on various trades such as shoe-making, sheet metal products, glass industry and enamelling, pottery, repair of oil engines and pumps, electroplating, electric wiring and winding, etc. The Government of India has agreed to meet the expenditure of the staff employed in each van, together with its running expenditure. Since 1956, these 45 mobile vans have been doing a useful work in bringing out a large number of entrepreneurs in backward areas.

3. Mobile Carpentry Van

		<u>Approximate Cost</u>
1 Van with body		P 50,000
<u>Machines</u>		
1)	Wood Turning Latho                    1 unit	600
2)	Zig Saw machine                        1 unit	800
3)	Spindle Moulder                        1 unit	600
4)	Bench Drilling machine                1 unit	500
5)	Circular Bench Saw                    1 unit	1,000
6)	Double ended Bench grinder        1 unit	300
7)	Wolf Hand Drill                        1 unit	600
8)	Jointer and planer                    1 unit	900
9)	Spray Painting machine               1 unit	700
10)	Band Saw Brazor                        1 unit	<u>250</u>
ABOUT		P56,250 vvvvvvv

Each van needs one technical supervisor, one driver and one cleaner.

Under the bilateral agreement, many developed countries are now helping the developing countries by way of supplying equipment and technical know-how. It is suggested that in case the Government of the Philippines agrees to have these mobile vans, then they may approach any country or any international agency

to request for a donation of 6 or 12 such vans with equipment under a bilateral agreement.

### Recommendations

1. Out of 10 regions formed for the development of small-scale industries in rural areas in the Philippines, 2 or 4 regions may be selected as the pilot stage for giving demonstrations and training through mobile vans.
2. Each region must be supplied with a group of 3 or 4 vans dealing with various trades.
3. The administrative control of the vans should remain with the Regional Institute of UP ISSI, which will arrange suitable demonstration and training programmes in each region in consultation with other local agencies who are interested in the development of small-scale industries. The staff attached to these vans should be able to provide information about the specifications, prices, sources of availability of the machines, and the terms and conditions under which institutional credit can be handed for long-term and short-term credits.

## CHAPTER 2

REGIONAL DEVELOPMENT  
THROUGH PROMOTING SMALL-SCALE INDUSTRIESAgricultural Economy

The Philippine economy is agriculturally-based. Since 1949, an annual average of more than 30% of the net domestic product (1955 prices) come from the agricultural sector. In terms of employment, it has provided jobs to an average of more than 58% of the total labour force during the period 1957-1969. Nearly 56% of the families in the Philippines are engaged in agriculture as their main occupation. An average of more than 85% of the country's 10 principal export-earning items since 1949 belong to the agricultural sector.

During the last ten years, considerable attention has been given to improve agricultural practices in the country. More and more of such improvements are underway in agriculture operations. A mechanized farm, however, will no longer be able to employ additional hands, rather, it will throw people out of employment. Hence, those that are thrown out of job in the rural areas must find alternate employment; otherwise, it will upset the economy and create several other problems.

### Unemployment and Underemployment

The Chairman of the Board of Investments made a statement last January 1972 that at present there are one million unemployed and another one million underemployed people in the Philippines, which together constitute 18.5 per cent of the country's labour force. To solve the unemployment problem in the country and to bring about social justice, he proposed an industrial development plan the main features of which are the encouragement of exports and a regional dispersal plan whereby manufacturing firms could be established in the different regions of the country.

He also called the economic planners to direct their efforts to bring about an equitable distribution of the national wealth among all income groups in the country as it represents real socio-economic growth. He also warned that peasant unrest might increase in the coming years in an even greater scale if steps to achieve a more equitable distribution of wealth are not considered in economic planning.

### What Has Been Done Towards Regional Development

Taking these facts into consideration a regional development strategy has been prepared by the Presidential Economic Staff in November 1971. While preparing the plan, it was generally agreed that one of the biggest drawbacks to the regional development planning in the Philippines has been the dearth of integrated and authoritative information about geographic regions, the present state of development and its potentials for further development.

According to the scheme drawn, of the \$55 million IBRD loans, \$57.11 million has been relent to 80 private investors of which \$44.01 million has been released. From the ADB loan of \$20 million, \$5.81 million was relent to 21 projects.

In all developed and developing countries, it has been recognized that on economic grounds, small-scale units could provide more job opportunities than large-scale ones. To provide more jobs, small units are most suitable because they don't have the disadvantages of large-scale industries, such as capital intensiveness, larger amount of imported machinery, transport and communication facilities. Besides certain types of limited resources could only be exploited in the rural areas

by small-scale units. In spite of the special advantages of this sector, however, they are not mentioned in the plan prepared by the Presidential Economic Staff. The Plan, therefore, needs early amendment because, along with the development of big industries, the smaller units must also be developed for various reasons. Since the concept of development include foreign exchange obtained from international organizations, several small units could be helped in obtaining imported capital goods.

#### Views of UNESCO National Commission

According to the survey conducted in 1960 by the UNESCO National Commission of the Philippines, in cooperation with the UNESCO Research Center: "While industrialization as a whole strongly affects the family life, small-scale industries have not materially altered the age-old traditions and patterns of living of those people who are dependent in these industries." For this particular reason, it is suggested that the Presidential Economic Staff should do some planning for the development of small-scale industries in various regions of the country.

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### Planning Made by Mindanao and Other Regions

For purposes of developmental planning, the 64 provinces in the Philippines have been divided into ten regions. In addition to the National Government efforts, several regions have also drawn economic plans. For example, the Mindanao region has drawn up a five-year plan for its development. According to the 1960 census, 20 % of the total population in the Philippines are staying in this region and this region contributes 22% towards national income.

According to the plan, it is estimated that the industrial sector will provide an additional employment to approximately 25,000 people a year and total employment of 125,000 for the entire five-year period (from 1971 to 1975). Though this region has enough potential, especially that of wood and food processing industries, the estimated employment to be generated is not much. This is because the 5-year plan aims only at developing capital-intensive industries.

### Efforts in the Provinces

Many of the provinces have taken interest in conducting surveys with the help of UP ISSI. When the UNIDO Small Industry Development Expert visited the Surigao province, he was very much impressed to see the efforts made by the Governor and Vice Governor towards the development of small-scale industries in that province. A Research and Development Centre has been set up and a useful booklet has been prepared to furnish various economic information to prospective entrepreneurs encouraging them to set up suitable small-scale industries. For want of facilities in the development centre, the Governor has supplied his own personal air conditioning unit and furniture. A group of enthusiastic young officers have been taking considerable interest in the promotion of small-scale industries.

### National Wealth is Burned or Wasted

The Philippines is the largest coconut producer of the world. In 1968, it supplied 53% of the world's copra trade and 23% of the world's coconut oil. In the course of his visit in one of the backward regions, the UNIDO expert saw tons of

coconut shells being burnt as fuel in one of the coconut oil producing factories. The dry wood available in the forest areas should have been used as fuel for the boiler instead of the coconut shells which could be profitably used in the manufacture of activated carbon. The authorities should prevent any manufacturer from wasting the nation's natural resources. It is true that in some areas coconut shells are being used in the manufacture of activated charcoal. If more of such units could be set up, they will not only earn badly needed foreign exchange but also provide additional employment.

In a visit to a government ice factory in Zamboanga, the UNIDO Expert on Small Industries found out that though the production capacity of the ice plant is 32 tons per day, only 15 tons are produced. Asked as to why he is not operating at full capacity, the General Manager reasoned that there is no demand for ice in local areas.

A survey conducted by the Food and Agricultural Organization revealed that the fish deposits in the Zamboanga area forms the second largest in the world. Yet, inspite of the availability of fishes, they cannot be properly exploited for lack of mechanized boats. It may be observed that on

applications might be scrutinized from the ancillaries point of view. Such components/parts which could be made in the small-scale sector should not be licensed and it should be the responsibility of the large units to locate ancillaries. However, the UP ISSI should help the small-scale units so selected by rendering technical and managerial assistance to the required degree. Before finalizing agreements with foreign collaborators in aiding the country, the items to be manufactured must be clearly specified by BOI.

5. The UP ISSI should prepare list of standard parts/components that could be made in ancillary units. These lists should be made available to all Government Departments for use while preparing project studies of large-scale public sector undertakings. The lists should also be made available to the Bureau of Stores Purchases and members of the licensing committee. The lists may also be given wider publicity so that prospective entrepreneurs in the large-scale sector might plan their projects accordingly. It is, however, to be appreciated if these lists could only be illustrative.
6. The UP ISSI should publish a quarterly bulletin containing details about the capacities available in the small-scale sector for manufacture of various components/parts, sub-

account of the existing systems of requiring "collateral" for loans, fishermen desirous to exploit the natural resources cannot get the desired loan from the banks. The government should do something about this as early as possible.

### A Bold Strategy

In view of the geographical position of the country and as the major portion of it is backward, it will not be possible to select too many regions for development. A suitable intensive development may be drawn up for a few areas in utilizing available resources. Since incentives cost money, these should be given only in selected areas in the backward regions. Having some basic potential for development, i.e., having some infrastructure facilities or availability of raw materials, so that they can bring forth maximum results. It would therefore be worthwhile to select only a few growth points in every province, say two or three to concentrate attention on them. Simultaneously, preference may be given in the provincial development programme to the construction of buildings, approach roads, erection of transmission materials, etc. to these selected backward areas. These areas should also get preference in the allocation of new industry according to the growth potential of the area. To begin with, industrial estates should be set up on a modest

scale between three to six hectares of land and as the demand increases, they may be expanded. Common facilities and common service workshops should also be set up at one or two places in the backward regions in each province.

#### Need to Carry Out Surveys and Feasibility Studies

Since it would be wasteful and ineffectual to spread resources too thinly, a scheme of priorities should be drawn up extending over a period of at least a decade and only areas having some potential in terms of basic infrastructure, raw materials, market entrepreneurship, availability of skilled labour, etc. should be selected. This is because monetary incentives alone will not bring about the desired effect.

#### Delicensing of Industries

Delicensing of industries, it is felt, is not an "incentive," but a strategy to be implemented in such a manner as to prevent urban agglomeration. It is no use for more industries to be started in Greater Manila. Delicensing should be favoured, particularly for a location in a backward area.

#### Preference in Licensing

So long as industrial licensing continues, the BOI should give preference to viable schemes proposed to be set up in the backward areas.

### Large Industries Based on Local Raw Materials

Though one favors the development of small and medium-scale industries in backward areas, development of large-scale industry need not be ruled out, all the more so when it is based on local raw materials.

### Preference for Import of Capital Requirement

Necessary preference may be given in the allotment of foreign exchange for the import of capital equipment, etc., for viable projects to be set up in backward areas. These industries, however, should not be allowed later to move to the more developed areas.

### Imported Raw Materials

As regards raw materials, it is better that an industry in a backward area should be based substantially on locally available materials. However, if a small percentage of imported scarce raw material is required, priority or more favorable treatment in the allocation of such material should be accepted, if the industry is located in a backward area. To avoid the possibility of any misuse, it is desirable that their requirements and the fact of their being located in a backward area should be certified by the officers of the Regional Industrial Development Department of the UP ISSI.

### Training Facilities

The personnel required for manning industries set up in the backward areas should get preferential treatment in the intake of the existing industrial training institutes and other technical institutions that may be set up in the future. The UP ISSI should conduct special training courses according to the particular need of those industries.

### Financial and Fiscal Concessions for Fixed Assets

In the normal course, it is unlikely that the backward areas would attract the attention of private entrepreneurs since the advantages of setting up industries in advanced regions are so alluring that entrepreneurs are tempted to set up units in the well-developed areas only. In order to create the desired situation and to provide attractions in favor of backward areas, it is necessary to offer certain special incentives to the entrepreneurs in the backward areas, inter alia, in the matter of fixed assets, i.e. supply of developed plots, built-up accommodation, machinery and equipment, etc.

### Fiscal Incentives

The following fiscal incentives are recommended for attracting entrepreneurs to set up industries in selected backward areas:



- a. Grant higher development rebates to industries located in the backward areas.
- b. Grant of exemption from income tax including corporate tax, for five years after providing for the development rebates.
- c. Exemption from the payment of import duties on plant and machinery, components, etc. imported by units set up in the backward areas.
- d. Supply of electricity at cheaper rate.

Incentives and grants given in Western countries for starting industries in the depressed areas may be seen in Appendix C.

**Incentives for Avoiding Overcrowding of Industries in  
Already Developed Areas**

Advantages of locating industries in areas already industrialized are so overwhelming that private investments tend to be attracted to these well-developed areas. This creates numerous social and economic problems like supply of water, electricity, transport, housing, maintenance of law and order, etc. Further development in Greater Manila, therefore, has to be discouraged.

### Role of Regional Offices of UP ISSI

Since the entrepreneurs in the backward areas are to be advised about the type of small-scale industries in the region to be started, it is most desirable that UP ISSI will have to open three or four regional offices to furnish them with various technical information. It is clear that without such a technical assistance, the rural entrepreneurs will be met with difficulties. Each regional office must have technical officers to guide the people at all stages. Care must be taken to see that proper people are appointed to man these regional offices to serve the needs of small industrialists.

The Regional Institutes of UP ISSI should coordinate the work of the National Provincial agencies when it comes to the development of small-scale industries.

### Intensive Development Campaigns to Develop New Entrepreneurs

In backward areas of the Philippines, special efforts are required to convince the people about the usefulness of starting small-scale industries. After all, people want to be convinced of the usefulness of starting a small-scale industry. It is therefore suggested, as is being practiced in India, that all the developmental agencies entrusted with development programmes, such as the Development Bank of the Philippines, Board of Investments, UP ISSI, the concerned provincial

government and others must carry out an "intensive campaign" in selected areas. In an intensive campaign programme, all the agencies of development mentioned above visit the entrepreneurs at his doorsteps. This is a deviation from the normal method of having entrepreneurs come up to Manila, incurring heavy expenses in the process.

Before campaign is launched in a particular area, a quick survey regarding the potentialities of developing small-scale industries has to be carried out. Wide publicity must be given to the findings of the survey. A group of technical officers then visits the area. Through lectures, demonstrations, visual displays and discussions, they create an intense desire among the local entrepreneurs to set up small-scale industries. The technical officers of the UP ISSI will have to provide on-the-spot technical information and specialized advice and help the entrepreneurs to make up their minds about setting up of industries.

Such an intensive campaign programme thus assists the entrepreneurs, who, if left to themselves are unlikely to set up industrial units. During intensive campaigns people are convinced of the rationality of setting up a small-scale industry and are prompted to take positive steps and give a practical shape to their dream of setting up an industry.

The usefulness of such a campaign was amply justified at the Fourth National Convention on Small and Medium Industries held in Pangasinan from February 3-5, 1972. About 300 delegates drawn in from different parts of the province expressed their surprise about the availability of facilities for starting an industry. Considering the results brought in India through such campaigns, the UNIDO Expert on Small Industries Development is fully convinced that if sincere efforts are made by the agencies of development in the Philippines, similar results could be achieved in other rural areas.

#### Agro-Industries

Conceptually agro-industries are the industries dependent not only on the output of agriculture and allied activities but also in the input in agriculture like agricultural machinery and implements, fertilizers, pesticides, etc. **Agro-industries include industries covered by the following three criteria:**

- a. those which encourage greater inputs into agriculture;
- b. those which lead to better processing and conversion of agricultural commodities; and
- c. those which increase agricultural production.

The importance of the role of agro-industries in the Philippines which is primarily agriculture-based is, therefore, quite obvious and needs no emphasis.

The UNIDO Expert on Small Industry Development was surprised to learn during his visits to various provinces that people believed that only large-sized units will have to be started as agro-industries. BOI must clarify to the people that according to scale of operations, a number of small units with capital investments between ₱20,000 to ₱100,000 could also be set up as agro-industries to utilize the locally available raw materials and whose production can be consumed by people in the locality. Having seen the countryside, the UNIDO Expert on Small Industries feels that a number of small units could be started as agro-industries in the Philippines. The list of suggested industries will be seen in Appendix D.

#### Recommendations

While drawing up development plans in the provinces, efforts may be made to suggest suitable items to be developed by the small-scale sector. Detailed scheme on each item will have to be prepared. There must be perfect coordination between national and provincial plans.

2. To attract entrepreneurs to start industries, a number of incentives must be offered, as is practiced in a number of Western countries (Appendix C).

3. Since incentives cost money, two or three regions may be selected for intensive development of both large and small-scale industries. On the basis of the experience gained, other regions may be selected for development.

4. The Development Bank of the Philippines and other financial institutions must take leadership to construct small-sized industrial estates on land between four to six hectares. To start with, 20 or 30 sheds may be constructed. Total cost for land and building may be limited to an amount below ₱250,000.

5. District surveys must be carried out by UP ISSI and BOI to find out the type of industries that could be started.

6. Intensive campaigns patterned after that conducted in India must be carried out by all the Philippine agencies concerned with economic development of backward areas.

7. UNIDC should provide an expert to start industries in the backward areas. The Expert must have considerable

assemblies required by large-scale units registered with them, as also data of the work that these large-scale units are willing to sub-contract. This bulletin will thus bring together the prospective large-scale and small-scale units, and stimulate their ancillary relationship.

7. In the case of large-scale units proposed to be established in the public sector, the scope to develop ancillaries should be considered even while preparing the project study. The project report should contain definite recommendations regarding establishment of an ancillary industrial estate. The UP ISSI should be associated in preparing these project reports to the necessary extent.
8. To look after the development of ancillaries, the National Economic Council should appoint a Standing Committee on ancillary development. Representatives of the chambers of commerce, various government departments, few people from large and small-scale sectors be suitably represented.  

Regional Committee of the Standing Committee on Ancillaries might be established in few provinces.
9. Soon as the necessary climate has been created for the development of ancillaries, it will be best if the Chamber of Commerce and similar other associations should take

planning and practical experience in developing industries in the backward areas, particularly agro-industries and management of rural industrial estates, as well as conducting intensive campaigns in backward areas.

8. UNIDO should provide one fellowship for six months to an officer from the Philippines to study the developmental efforts that have taken place in the United Kingdom, Denmark, Netherlands and India.



## **PART II**

### **A. INTRODUCTION**

#### **UNIDO-ILO Survey Team**

**Mr. Lionel Cresson - Charter Engineer, Industrial Consultant, former ILO Project Manager, Institute of Small Industries, Egypt, is the ILO member of a two-man team.**

**Mr. K. L. Nanjappa - Development Commissioner, Small-Scale Industries, New Delhi, India, is the UNIDO member of the team.**

**The UNIDO member arrived at duty station on November 5, 1971. The ILO member arrived at duty station on December 22, 1971.**

#### **Terms of Reference**

**To advise and assist the government of the Philippines in the formulation of a comprehensive and integrated development programme of assistance to small industries.**

**Mr. Cresson, to form the second member of the two-man team will lay emphasis on the needs for management development programme of assistance to small industries.**

Like the UNIDO member, the ILO member was given working accommodation at the UP Institute for Small-Scale Industries where all assistance was made available for which much appreciation is hereby expressed.

#### The UP ISSI

The University of the Philippines, by virtue of the bilateral agreement between the governments of the Philippines and the Netherlands signed on March 2, 1966, established the Institute for Small-Scale Industries for the purpose of training at post-graduate level qualified persons who will eventually assist in the promotion and development of small industrial enterprises. Through its five years of existence, the Institute has expanded its scope of activities towards technical assistance to small-scale, as well as medium-sized industries. The constitution of the Institute was fixed by Republic Act No. 6041, defining its functions and providing for its financing and for other purposes.

#### Objectives of the UP ISSI

1. To train competent persons at post-graduate level for specialization in assisting and promoting small and medium-sized industries.
2. To provide advice and guidance on productivity improvement to small and medium-sized industries.

3. To organize special courses, seminars and conferences for managers and executives of small and medium-size industries.

4. To conduct regional industry surveys for publication and distribution to small and medium-sized industries.

At present, it is estimated that there exists in the Philippines over 10,000 small-scale industries. There is a strongly felt need for adequately trained personnel to assist these small entrepreneurs in the field of management techniques, in-plant consultancy, training, extension and demonstration facilities. The Institute has at present not enough qualified personnel to activate to the full all its objectives.

#### Activities

The UP Institute for Small-Scale Industries has undertaken the following activities directed to small and medium-sized industries:

1. The ISSI conducts a consultancy course on a full-time basis for periods varying from four to eight months. It is intended for persons at post-graduate level and covers the field of increased productivity of existing industries and the promotion of new industries.

2. The ISSI conducts a continuous series of short-term special programmes through the year on such fields as work measurement, low cost automation, general supervisory management, management accounting, etc.

3. The ISSI provides a consultancy service which undertakes preliminary surveys of the business and recommends what specialistic advice is required.

4. Where possible, the ISSI gives advice on the installation of cost and budgetary control systems, inventory and production control system, and applications of methods of study and work measurement.

5. The ISSI also conducts area surveys of specific regions of the country along the field of potentials for industrial development.

It will be noticed that the training activities of the UP ISSI have been directed to competent persons at post-graduate level. It has also been observed that participation in the seminar courses organized by the ISSI has been principally by personnel of the medium-sized and medium-large enterprises. The participation by small-scale industries as such has averaged at about 10 per cent. It is evident that the small entrepreneurs

have benefited little from these courses and seminars. One reason for this may be because the type and calibre of training is taking him out of his depth. It will be necessary that the Institute tailor courses that will fit the small entrepreneurs and his workers.

The ISSI should also continue its courses as at present as this serving a useful purpose and several industrial personnel are benefitting therefrom.

A modern manufacturing economy in the large or small sector is not complete and not as efficient as it should be, unless it is supported with education and training.

It is also of importance in industry, large or small, that wherever goods and services are exchanged "standards" provide a common basis and criteria for judging the quality of goods and services.

In the Philippines, there exists a number of full-fledged universities and a number of institutions for higher technical education, vocational training centres, and over 100 trade schools spread over the whole country. The ISSI is also offering training courses for small and medium industries.

In the Philippines, there also exists a Bureau of Standards established under Republic Act No. 4109 in 1964 and is functioning as an authority for the establishment of National Standards.

The introduction of manufacturing activities that constitute a technological break with traditional handicraft has given rise to the emergence of small industrialists whose origin can be traced back to diversified entrepreneurial background.

The small industrialist has to assume many roles when establishing and operating his enterprise. He will require a degree of specific knowledge and skills related to production technology and an overall knowledge of general management, financial activities, administrative matters, marketing and other commercial practices. All these activities are closely inter-related with the entrepreneurial functions of the working proprietor and it will be necessary that he enters into some special training programme.

To meet a programme of development for small-scale industries training programmes have to be adjusted to manpower needs and wherever possible facilities provided for initiation into several kinds of manual work. It is important in small industry development to help a man perform a particular task more efficiently and to develop him to take added responsibilities.

The organization of training programmes for small industries faces a number of problems which are significantly different from those encountered in preparing and implementing training programmes for personnel employed in larger enterprises.

As far as possible training is organized for groups of small industrialists who are engaged in similar manufacturing activities. Otherwise, the training will have to be given direct to the small industrialist through consultancy and extension services.

Entrepreneurial training efforts are likely to be more successful if conceived and implemented as an intrinsic part of an overall plan of action to develop the small industry sector.

The concept of training the "small enterprise" will require the preparation and organization of special programmes to train small industrialists in entrepreneurial and managerial skills as well as in modern production techniques so that he can appreciate and adopt a standardization system in his manufacturing operations.

Standardization today bears an intimate relationship to industrial growth, particularly as an important factor in the development of small industries having an export orientation.

For small industries to develop on a stable basis it is most important that such industries adopt and implement a Standardization Programme so as to produce goods of regular standard quality, size and workmanship suitable and acceptable to the Home Market and Foreign Trade.

Without standardization, industrial development will progress slowly, with lack of disciplined efficiency and within a climate of uncertainty.

Only through the effective introduction of standards or some definite regulated form of control will it be possible to change an adhoc pre-industrial economy into a modern efficient industrial economy increasing its organizational and technical level by the use of proven techniques and management control. Standardization can be a short-cut to production efficiency and assist to offset the acute shortage of qualified and experienced personnel and also contribute towards just and fair transactions in trade and industry.

In this way, the small entrepreneur can be assisted to develop his business aptitudes along with his technical know-how through training in a live working situation.



Since it is the policy of the Government of the Philippines to stimulate development and promotion of small industries, it is then incumbent on the government to provide certain facilities, incentives and technical assistance to encourage the establishment and growth of small industrial enterprises throughout the country.

Among the very many spheres for government action needed mention is made here in respect to Chapter No. XI and Chapter No. XII for three arms of action:

a. Provide special training facilities for workers, technicians and management staff, including special training programmes for owners of small enterprises.

b. Technical assistance facilities to support the operation of individual small undertakings, such as technical research, testing facilities for quality control, implementation of standardization, development of processes and technological advisory services.

c. The establishment of small industries service institutes and management development centres which could undertake specialized training programmes, coupled with advisory and consultancy services.

the lead to bring the large-scale and small-scale units together to foster their ancillary relationships further.

Once in a year, an Ancillary Exhibition of Parts/Components made by small-scale units be held so that large units will know what is produced by the small-scale units, and even the small-scale units themselves will see the things produced by other small-scale units. This will also help in understanding improvements taking place in the field of product designs.

10. UNIDO should make available an expert in ancillary development to help the UP ISSI and the small-scale units in the Philippines in the proper development of ancillaries. The expert should be an Engineer with considerable field experiences.

From the discussions in Chapter No. XI on the process of skill formation for small manufacturing enterprises in its various aspects, the indication is that specialized training for small industries is a developing concept requiring special efforts to ensure that this training will fully meet the objectives for which it has been designed.

A follow-up system and extension service to ascertain that the small enterprise is benefitting from the proper implementation of the techniques and skills the working industrialist gained from this specialized training. In this way, the small enterprise would have the benefit of continued advice and guidance as well as other service facilities which would enhance the efficient operation of the enterprise.

In order to insure that funds spent and efforts made in the design and execution of the training programmes will fully attain the set of objectives, regular evaluation exercises should be carried out on the aims of training and its practical effect at the level of the enterprise. Such evaluation exercises should be a built-in activity of the authorities responsible for the training of small manufacturing enterprises.

Mention has been made of the necessity to have an authority responsible for specialized training for small-scale

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industries and of a service institute to render advisory service and technical assistance to small industries. It is recommended that the UP Institute for Small-Scale Industries which was originally set up as an organ for training in management techniques would make an excellent nucleus for a training and extension multi-purpose service authority for the development of small-scale industries.

As a logical consequence, the UP ISSI has to be expanded and reinforced to include abilities and facilities consisting of both manpower and equipment for extension of its multi-purpose services into the various regions of the small industry sector.

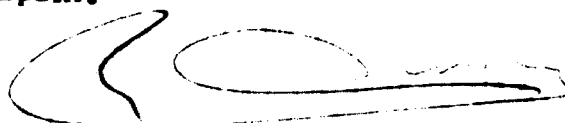
In the essence of what has been said, training and extension services to meet specific requirements of small industries related to the techniques and methods of management, administration, production planning, quality control, adoption of standards and marketing stand in the forefront of any action programme for the development of newly-promoted and also the existing small industries.

## B. SUMMARY OF RECOMMENDATIONS

Apart from the necessity of increasing the manpower of the ISSI with national personnel of the right calibre and status it is recommended that three or four International Consultants as indicated in Chapters XI and XII be assigned to the Institute for Small-Scale Industries for periods of 36 to 48 man-months each to advise, guide and train in the channels that will be most useful.

As the Institute will require testing facilities to maintain standardization and quality control, it is recommended that equipment necessary for these testing facilities be provided to an amount of \$150,000. The ISSI should provide the necessary accommodation to form laboratories for this equipment.

It is also recommended to award fellowships to National counterparts for three to four months each to make a study tour with small industry development in such countries as Japan, India, Holland and Spain.



L. CRESSON  
ILO Small Industries Expert

## CHAPTER XI

ASPECTS OF TRAINING IN INDUSTRY

A modern manufacturing economy is not complete and not as efficient as it should be, unless it is supported with Education and Training. Economic growth requires more and more men with personal qualities of initiative and leadership combined with knowledge and skills in production, organizing, management and commerce.

Education and Training channels are needed by which suitably trained, talented and motivated individuals can find their way to new and constructive types of achievement. To maximize this potential, educational and training contribution must be one of the foremost aims in a developing economy which is inclined towards the promotion and development of small industries which create an important source for employment. Special emphasis has to be given on adult level training but overall education of both young and adults alike is an important feature on planning any type of economy.

The question arises - are training measures being instituted to increase in fair measure, the number of local nationals in attaining knowledge, motivation, leadership, and skills in econo-

mic achievements in the sphere of entrepreneurs, managers, technologists, technicians and skilled workers.

Is there a spread of information and knowledge on available natural and indigenous resources which lend themselves to industrial use. Agricultural products, marine products, farm products, minerals, clays, stones of various kinds and many other industrial materials if properly exploited and developed provide resources for various avenues of industrial development.

The answer to these questions depends on opportunities for schooling, higher education, technical education, vocational training, specialized upgrade training for special functions and trade training opportunities for adult education in the broadest sense.

How will the technological, economic and social development demanded by the country progress. Success will pivot largely on its ability to secure a steady increase in industrial output, in productive investment and in the export of goods of the highest quality at competitive prices.

Every industry will be compelled to follow its competitors in modernizing its techniques, its search of new materials and to discover new methods to apply. All this will bring with it both the need and demand for training in industrial techniques

be it management, technology or production skills calling for training of vast numbers of workers of different types at all levels for a variety of trades.

If training programmes are to be effective, they must be based on precise knowledge of the needs of industry in the different areas, and on the establishment of efficiently organized, well-equipped and adequately staffed training institutions working with coordination and in cooperation with industry.

With the development of industry, there will be a rising demand for technological manpower but this does not mean only graduates of universities or technical colleges.

Every technologist relies on technicians and skilled artisans or craftsmen to translate his plans into products. It would be a grave mistake to increase the output of graduate technologists without adequately supporting them with a sufficiency of manpower at the lower levels. It is fair to say that the skilled laborer for the manufacturing industry accounts for more than 50 per cent of its manpower.

The range of technical training must go beyond the study of materials and the mechanics of processes. Economics, management, accountancy, costing, salesmanship, commercial skills,



and human relations are all equally important for a useful and successful performance in industry.

An understanding and appreciation of the breadth of training is of paramount importance. If a training scheme is to fulfill its purpose in giving an appreciation of the problems and organization required in industry, it must be broadly based and go into some depth. Beside the various technical subjects, the trainee must be made to realize the importance of costing when planning, designing and operating a plant process. He should be shown in detail, methods of capital and cost estimation and economic feasibility appraisal and given opportunities to carry out such work in practice under guidance.

Because of the importance of technology to modern industry, the industrial technologist must perforce play an important part in management and administration. His background training suits him for factory management particularly if the post embraces more than one technology. Shop and plant administration, interdepartment communication and coordination of work come within this category.

It is important that some definite formal treatment of these techniques is necessary to clarify the administrative and managerial practice that should be included in the training courses at

the universities and technical colleges. The function of the courses is to show the trainee the working of industry in all its phases, high-lighting its organization and practical limitations enabling the trainee to realize all the implications and consequences of his work.

The emphasis that has been made on higher technological education must not be allowed to overshadow the growing importance of technicians and skilled artisans or craftsmen and the urgent need to improve and extend their training. This is vital to the drive for higher productivity and the development of industry large or small.

The technician is the man in the middle occupying a position of strategic importance between the industrial executive on the one hand and the artisans or craftsmen on the other. He is a significant contributor to the overall technical accomplishments of an industrial enterprise and must be able to exercise judgment within his area of responsibility.

Plans for technical education must wherever possible start and be developed at the early school level, however, adult education must not be overlooked and provision for vocational training for adults should be introduced to suit the exigencies of occupational demand and with due regard to industrialization plans and

to the importance of any handicraft activities of the region.

Vocational training should be approached along two avenues, namely trade schools for training artisans and craftsmen and schools for training supervisory staff, and technicians for industry.

Technical education, essential as it is, is always regarded as an adjunct to and not a substitute for practical training on the job. A distinction should be made between merely placing men on-the-job and expecting them to absorb what they can as against placing them in well-planned training programmes under guidance of a qualified trainer and supervisor. Although on-the-job training is supplemented by formal instructions, it has an inherent limitation in that the trainee often receives instructions only in the narrow confines of the specific job without getting into other areas which are essential for a sound technical education.

Another traditional method of training technicians and artisans is by the apprenticeship system of which the characteristic feature is that the apprentice receives practical training in employment for a period of years. The chief virtue of an apprentice training programme is that the trainees are performing necessary work virtually all the time and can pick up the up-grading knowledge and skills in the exact situation in which they will sub-

sequently use them. The terms for apprenticeship training should be adjusted to suit prevailing and changing needs, versatility and grasp of principles are indispensable for enabling those who are being trained to keep up to date and play their part effectively in the conditions of the future. All things considered the apprenticeship system can be a highly satisfactory training method for manpower in industry.

Government must also be ready to contribute their share and effort in providing facilities for training in techniques needed in a programme for industrial development.

In fact, there should be planned patterns for technical training throughout the country based on the local demand dictated by the location of industry. A variety of courses can be organized at every level, both full-time and part-time training should be available, some held in the day and others in the evening. Some of these will be craft courses leading to skill qualifications prescribed by industry. Parallel to the craft courses or following them should come courses aimed at intermediate qualifications of technician level.

In this country, (Philippines) there has been over the past many years an upsurge in the provision of facilities and opportunities for schooling and higher education to the extent that the

## CHAPTER VIII

SMALL INDUSTRIES ASSOCIATIONS

Small Industries Associations can be an effective instrument not only for voicing out the grievances of their member units and getting them redress, but also for the voluntary regulation of the activities of small industries and assistance in the orderly development of the modernization of the latter.

In the Philippines, three organizations are functioning towards this end: (1) the Philippine Chamber of Industries (PCI), (2) the Filipino Chamber of Small Business and Industry (PCSSI), and (3) the Chamber of Commerce of the Philippines (CCP).

In the case of the Philippine Chamber of Industries, its membership is thrown open to nationals of the country and nearly 450 units have become members. Out of which, only 10% represent small-scale industries while the rest belong to larger units. In order to look after the interests of small units as well as to assist them, a separate wing has been opened in its office to assist the small industries. Free consultancy services are being extended to members whenever sought. The Chamber seems to have made efforts with concerned authorities in reducing security contents for small industries while getting loans from banks.

Philippines has a literacy status of 80 per cent, the highest of any country in Asia. This is a valuable asset towards planning industrial development.

Beside the ten full-fledged universities, there exists a number of various institutions for higher technical education, vocational training and about 100 trade schools spread over the whole country. All these institutions operate on conventional training methods whereby the fundamental knowledge and information on the sciences, technologies and crafts are conveyed to the trainee.

To meet a programme of development for small-scale industries training programmes have to be adjusted to manpower needs and wherever possible facilities provided for initiation into several kinds of manual work. It is important in small industry development to help a man perform a particular task more efficiently and to develop him to take on added responsibilities. This can be considered as a special form of training and could be provided as a service and assistance from the Institute for Small-Scale Industries, which has been established as a service center for the development of small-scale industries.

With each new technological break-through people in industry must learn new skills and be trained to adjust them-

selves to new circumstances. The Institute for Small-Scale Industries is well suited for this action and should be alert and must look into the future so as to assist small industries with the most effective training procedures to enable them to adopt the new skills for their development.

For an understanding of the subject of training small industrialists, one must get an appreciation of the person involved, the tasks he performs and the difficulties he encounters when operating his enterprise.

The introduction of manufacturing activities that constitute a technological break with traditional handicraft has given rise to the emergence of small industrialists whose origin can be traced back to a diversified entrepreneurial background.

A factor that complicates training arrangements for the small industrialists follow the fact that although the scale of manufacturing activities is small, functional specialization is difficult in the execution of the many tasks that have to be performed. The functions of the working proprietor in a small enterprise are not comparable with those of the manager of a large enterprise although the small industrialist too has to plan, organize and control operations. The small industrialist has to assume many roles when establishing and operating his enterprise.

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The working proprietor will require a degree of specific knowledge and skills related to production technology. There are other matters which he has to attend to that will require some specialized knowledge. These are dealing with commercial questions that require knowledge of materials and markets as well as skills to buy and sell in an effective manner; financial activities such as putting funds into optimum use in the enterprise; administrative matters, including maintenance and interpretations of records, etc. etc.

All these activities are closely interrelated with the entrepreneurial and managerial functions of the working proprietor and it will be necessary that he enters into some training programme. All these factors call for an imaginative and highly diversified and flexible training programme in the interest of the small industrialist. The organization of training programmes for small industries faces a number of problems which are significantly different from those encountered in preparing programmes for personnel employed in larger enterprises.

Training is generally institutional but in the case of the working proprietor, it becomes necessary to bring this training to him direct through provision of consultancy and extension services which should be available from the Institute for Small-



Scale Industries. This must naturally lead to the establishment of training programmes specially designed to meet the needs of small industrialists working under various circumstances. Training of this kind should be organized with an aim at rendering an integrated system of research, training and advisory and extension services to small industrialists.

Training courses for the small industrialist which should be established by the UP ISSI will be of short durations and frequently organized in the evening outside of working hours with the aim at giving the small industrialist a general understanding of the operation of his enterprise. As far as possible, training is organized for groups of small industrialists who are engaged in similar manufacturing activity, otherwise the training will be given direct to the small industrialist through consultancy and extension services.

Entrepreneurial training efforts are likely to be more successful if conceived and implemented as an intrinsic part of an overall plan of action to develop the small industry sector.

The most important input into any small enterprise would be in terms of human resources and institutional services related to arrangements to raise levels of skills of small industrialists and workers alike. While the process of skill formation itself

would be the major human input, the institutional input would refer to an organizational form within which training programmes would proceed. This training function is important and necessary to small enterprise promotion. The type of skill required to make effective use of specific physical inputs could be closely determined and implemented. For instance the most productive use of funds which in turn will require training in financial management and in making a rational selection of investment alternatives. Or, technical training preparatory to the purchase of improved equipment for which external financing will be necessary. Cases like these show the advantages that can be derived from the harmonization of technical training with training in financial management of an enterprise.

The concept of training the 'small enterprise' will require the organization of special programmes to train small industrialists in entrepreneurial and managerial skills as well as in modern production technology. This suggests a type of special institutional training arrangement, for which the UP ISSI is suitably geared whereby the small entrepreneur can be assisted to develop his business aptitudes along with his technical knowhow through training in a live working situation. In this way, he can also have the benefit of continued consultancy, advice and guidance with other service facilities given by the UP ISSI to help him operate his undertaking efficiently and with profit.

Since it is the government policy to stimulate small industries, then it is incumbent on the government to provide certain facilities, incentives and technical assistance to encourage the establishment and the growth of small industrial enterprises.

Among the very many spheres for government action needed, mention is only made here, relative to this chapter, for three arms of action:

- a) provide special training facilities for workers, technicians and management staff, including special training programmes for owners of small enterprises.
- b) technical assistance facilities to support the operation of individual small undertakings; such as technical research, testing facilities for quality control, implementation of standardization, development of processes and technological advisory services.
- c) the establishment of small industries service institutes and management development centres which could undertake specialized training programmes, coupled with advisory and consultancy services.

From the discussions in this chapter on the process of skill formation for small manufacturing enterprises in its various aspects, the indication is that specialized training for small

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industries is a developing concept requiring special efforts to ensure that it will fully meet the objectives for which the training has been designed.

Training of this kind is an expensive activity. This is obvious with regards to specialized technical training programmes covering various types of small industry since these training programmes require for their proper execution qualified and experienced instructors, some rather costly equipment and materials for the trainees to work on. This cost factor equally applies to training in entrepreneurial and managerial skills in view of the scattered dispersal of small industries and the variety of manufacturing process carried out on a small-scale. Also there is the expense involved in associating capable staff with such training programmes who in their turn have to be especially trained.

Experience shows that training programmes which do not meet the practical needs of the small industrialist invariably lead to disillusion with the concept of training itself and to rejection of the idea that the development of the enterprise can be accelerated through the acquisition of advanced knowledge and skills.

It becomes necessary to develop a follow-up system and extension service to ascertain that the small enterprise is benefiting from the proper implementation of the techniques and skills,

the working industrialist gained in this training. In this way, the small enterprise would have the benefit of continued advice and guidance as well as other service facilities which would enhance the efficient operation of the enterprise.

In order to ensure that funds spent and efforts made in the design and execution of training programmes will fully attain the set objectives, regular evaluation exercises should be carried out on the aims of training and its practical effect at the level of the enterprises. To be fully effective, such evaluation should be a built-in-activity of the authority responsible for the training for small manufacturing enterprises and should be supported by an appropriate administrative machinery. Evaluation carried out through the application of cost-performance analysis systems, is useful not only to correct defects and omissions as they become evident in programmes under review, but also as a means to collect the elements for the preparation of future training programmes.

Mention has been made above of the necessity to have an authority responsible for specialized training for small-scale industries and of a service institute to render advisory service and technical assistance to small industries. There exists here in the Philippines, the UP Institute for Small-Scale Industries which was originally set up as an organ for training in manage-

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ment techniques. This Institute makes an excellent nucleus for a service and training multi-purpose authority for the development of small-scale industries.

It is estimated that at the present time there exists over 10,000 small-scale and medium-size industries in the Philippines most of which are established in and around Greater Manila. The present intention is to encourage the promotion of more small industries particularly to be dispersed in the rural areas of the provinces rather than urban concentration as it now exists in Manila and Greater Manila.

It is beyond any doubt that this development in the provinces will require the assistance, guidance, and services from appropriate agencies or Service Institutes, such as the Institute for Small-Scale Industries, particularly geared to give guidance and working knowledge for the small industrialists and their rural workers.

As a logical consequence, the Institute for Small-Scale Industries should be expanded and reinforced to include abilities and facilities consisting both of manpower and equipment for extension of its multi-services into the various specially chosen regions.

In the essence of this chapter, training and extension services to meet the specific requirements of industry in the region related to technical knowhow for the required production skills and the techniques and methods of management, administration and marketing, loom in the forefront of any action programme for development of the newly promoted and also the existing small industries.

Apart from the necessity of increasing the manpower of the Institute for Small-Scale Industries with national personnel of the right calibre and status, it is considered not only useful but necessary that two to three international consultants, one an industrial engineer and the other, a training extension adviser be assigned for a period of three to four years to the Institute to advise, guide, and train in the channels that will be most useful both institutionally and in the field.

The industrial engineer should have wide experience in management consulting and management research. He should have had experience in teaching industrial engineering functional disciplines such as production planning and control, work study techniques, industrial financing and accounting, production costing, controlling and use of auditing, organizational theory, personnel administration, sales and distribution. His experience should have been gained in working in the small industry sector.

The **Pilipino Chamber of Small Business and Industry** accepts only natural born citizens of the country as its members. Membership is extended to manufacturers, trade and service units in the small-scale sector. Out of a membership of 400, only 30% represent the manufacturing side while the rest belong to the trade and service group. The Chamber collects a sum of ₱8 per month as membership fee. The members are drawn only from the Greater Manila area. This organization does not receive any financial help from the National Government for its activities. Furthermore, representatives of the PCSBI are not associated with important bodies, who influence government decisions. This organization is working for the passing of an Act for the development of small-scale industries, taking inspiration from the Small Business Act in the United States.

The **Chamber of Commerce of the Philippines**, the oldest trade organization in the country, has for its members both industrial and commercial firms. It also has a separate wing to look after small-scale industries plus a number of branches all over the country. Besides the above three Chambers, there are other associations existing based upon industry groupings like the **Philippine Chamber of Furniture Industry**, **Philippine Chamber of Handicraft Industries**, **Appliance Manufacturers' Association**, etc.



It may be difficult to find one man covering such a wide field of experience in which case two consultants might be appointed one for purely industrial engineering techniques and another for industrial accounting covering costing, auditing, principles of internal control, personnel administration, etc. Both consultants should have had some teaching experience and are capable in communicating their ideas and knowledge. The consultant must not only be the adviser but also the trainer particularly of his counterparts who will be the national consultants for the future.

The training and extension consultant has to be a person with experience in the preparation and presentation of programmes of courses and in the preparation of various facilities required for such purpose, e.g. visual aids and experiments for demonstration, etc. This consultant will create extension training services into the field and will require mobile equipment for audio-visual presentation and experiments for demonstration purposes.

It is recommended that at least four National personnel of the Institute be assigned to each Consultant to understudy and practice the methods and techniques required to implement the various training programmes for the entrepreneur and proprietor-manager and also the workers in the small industry sector.

It would be useful to award study tour fellowships for the counterparts who should be especially chosen on the merits of their progress and attainment of capabilities while serving with the International Consultants. The fellowships should consist each of a four-month study tour of small industry development in such countries as Japan, India, Holland, and Spain.

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## CHAPTER XII

**SOME ASPECTS OF STANDARDIZATION****Applicable for Small-Scale Industries****INTRODUCTION**

1. It is of the greatest importance that wherever goods and services are exchanged Standards provide a common basis and criteria for judging the value of goods and services.

In a highly industrialized country, National Standards are usually created from the work already carried out by individual firms, trade associations and government agencies with the primary purpose to coordinate and harmonize the existing industrial pattern. The implementation of Standards can be voluntary or mandatory.

In developing countries, the establishment of an official central "Standards Authority" is of paramount importance to draw up National Standards with a measure of official compulsion for the adoption and implementation of Standards which serve not only as an instrument of coordination but also of direction.

For small-scale industries to develop on a stable basis, it is most important that such industries implement a Standardization Programme so as to produce products of regular standard quality,

size and workmanship suitable and acceptable to the Home Market and Foreign Trade.

#### **HISTORICAL BACKGROUND**

2. Standardization can be described as an organized and planned development feature of our present day industrial civilization and has in fact existed in some form or other since prehistoric times. Organized industrial standardization is about seventy years old.

The British Standards Institution, the first of its kind in the world, was founded in 1901 and its counterparts in the United States of America, the American Standards Association, and France, the Association Francaise de Normalization, were established in 1918, followed by Japan's Standards Committee founded in 1921 and the Indian Standards Institute in 1947. Many other countries have established "National Standardization Procedures" including some of the newly developing countries. For instance, Egypt in 1957 by a Presidential Decree established the Egyptian Organization for Standards.

In the Philippines, there existed since 1947 a Division of Standards under the Department of Commerce and Industry. In 1964, Republic Act No. 4109 converted this Division of Standards into a Bureau of Standards which has become a member of the International Organization for Standardization (I. O. S.). Up to

date, the Philippines Bureau of Standards has established 270 standards which are internationally accepted.

There are two International Standards Organizations, namely the International Organization for Standardization (I.O.S.) and the International Electro-chemical Commission (I.E.C.), the latter which is the older of the two Organizations was established in 1904.

The objects of these "International Organizations" are to promote and coordinate overall development of "Standards" both on a National and International basis.

It aims at producing unified nomenclatures, testing methods, systems of weights and measures and standardizing of equipment, processing methods and products of universal interest coupled with the important functions of a clearing house for dissemination of information.

The United Nations has in recent years made available standardization technical expert assistance in this field for developing countries launching an industrialization economy.

3. Standardization today bears an intimate relationship to industrial growth as an important factor in the development of productivity. Developing countries planning any scale of indus-

trial expansion, as a means of raising their standard of living, must perforce introduce standardization as an essential prerequisite for successful achievement of their industrial development. Without standardization, industrial development will progress slowly with lack of disciplined efficiency and within a climate of uncertainty. If you desire to create confidence about your industries and the successful marketing of your products, then they must be maintained at a specific and at a regular standard.

4. The basic principles and purposes of Standardization remain the same whether Standardization is introduced in a developed country or in a developing country. The International Organization for Standardization makes this point very evident in detailed step-by-step definitions on the implications that involve "Standardization".

Nevertheless, the words "Standards" and "Standardization" have been and are being, too often, loosely used with extremely broad and misunderstood interpretations.

For the purpose of this paper, I offer as a guidance the following concise overall definition:-

A "Standard Specification" is a written formulation or a physical representation to define or specify certain positive features:-

- a) Of an Object or Unit
- b) Of a Process or Method
- c) Of a Function or Performance
- d) Of a Measure or Quantity
- e) Of a Duty or Responsibility
- f) Of a Concept or Conception
- g) Of a Combination of any of the above

All with the purpose of economy and efficiency in production, quality, disposal, utilization, and services by providing a common ground of understanding and control among producers, dealers and consumers.

#### SETTING STANDARDS

5. While the procedures for setting up Standards by various agencies may differ from country to country, a Standard in order to be of value to any group initiating its preparation should be given very careful and searching considerations. The complexity and scale of industrial production has stimulated the introduction of "Standardization" in various developed countries. These standards embody a wealth of knowledge and experience accumulated in the more highly industrialized countries which have established a well planned road to industrial development. This knowledge and experience can well be put to useful benefit for developing countries planning an industrial economy.

6. The problem of "Standardization" that especially affects small-scale industries is of crucial importance and calls for considerable research and detailed study.

Not all products of small-scale industries may lend themselves to standardization, hence it will be necessary that a study should first be made with the intention of determining which articles would and would not lend themselves to standardization. If there are articles, the production of which could not be standardized, it is recommended that at least a system of visual and factual inspection for quality control should be instituted concerning raw materials used and adherence to regulated dimensions and designs as well as to quality of workmanship.

Only through the effective introduction of standards or some definite regulated form of control will it be possible to change an ad-hoc pre-industrial economy into a modern efficient industrial economy increasing its organizational and technical level by the use of proved techniques and processes from the more advanced countries. Standardization can be a short cut to production efficiency and assist to off-set the acute shortage of qualified and experienced technical personnel.

Standards are an essential factor towards increasing productivity. They enable quality to be determined and controlled,



allow longer manufacturing runs and make important economies in storage, stocks, control, accounting procedures, administration, and management thus reducing tasks to routine performance so lessening the need for intensive supervision.

**STANDARDS IN PRACTICE - Adoption and Implementation**

7. The benefits of creating a "Standardization Climate" and adopting the use of standards in all avenues of economic life of a country can be best achieved under obligation of orders and regulations from effective high authority or by Government legislation or by a combination of both.

The social and economic structure of a country will to a very great extent determine the necessity or emphasis that has to be placed on mandatory enforcement for the implementation of "Standards".

The introduction of an "Industrial Standardization Law" will accelerate the implementation of industrial standardization through the dissemination of information, enforcement of appropriate and rational industrial standards which will promote quality improvement, production efficiency, simplification of methods and contribute towards just and fair transactions in trade and industry.

8. The question now arises as to how should a developing countries set about to introduce standardization. Obviously, the first step is to establish a high authoritative and executive body, such as a "National Standards Institute" which would have the responsibility to carry out research into possible creation and development of standards and their application. Such an Institute would serve as a centralization centre, to coordinate the work and findings of innumerable investigations by various specially appointed highly specialized technical committees.

Usually in a developing country, the Government establishes a National Standards body, stipulates its by-laws, its purpose, and assures the representation of all interested parties.

Standards should only be formulated after intensive investigation and searching consultations with all interests concerned. Standards must never be laid down arbitrarily as this could lead to possible confusion and disruption of economic productive progress and development with serious consequences on the National Economy.

The spreading of information regarding standards and ensuring their adoption and implementation will be one of the several important responsibilities of a "National Standards Institute".

### Trade Associations Needed in a Modern Society

During the last 2 years, trade associations have expanded rapidly in most industrialized countries. They are now playing an important role in the economic life of these nations. Oftentimes, they considerably influence the economic policy in their effort to protect the common interest of their members in relation to the government and local authorities. Trade associations therefore can be considered as an indispensable part of a democratic society.

Industrial associations in Japan have been playing a noteworthy role in various fields such as sharing of production facilities, pooling of resources for training purposes, export marketing, and so forth. An important factor which boosted this kind of development in that country is the official recognition accorded to industrialists' associations.

Since industrial associations have come to age in Japan, the responsibility of inspecting the goods before their dispatch to foreign countries have been entrusted to them. In some important industrial areas, trade associations have opened "Trade Centers" where products produced by the small industrialists are not only displayed but they also provide various information such as total production, prices, terms of delivery, etc., to the visitors. Such

In this respect, the Institute for Small-Scale Industries can play an important role in the small industries sector.

The principal "National Value" that evolves from the introduction of "Standardization" is a discipline factor in industrial productivity and progress coupled with an incentive for competition to produce the best possible in quality and workmanship.

9. A "Standards Institute" whether "Official or Semi-Official" provides an independent and impartial authority for introducing Standards. Such an Institute is an important and complex organization which needs a highly competent technical and scientific staff with technological and scientific laboratories where products can be tested, verified and methods evolved to improve upon their standards.

Laboratory facilities are an essential adjunct to the smooth and efficient working of a Standards Institute and these laboratories provide a scientific backing for the National Standards Authority and can be a nucleus for or be interrelated to a "National Research Centre" for the progressive application of Science and Technology to industrial development.

Activities in developing countries will no doubt in the early stages be limited due to the shortage of experience scientists, competent technologists and skilled technicians, but nevertheless

it is imperative that a Standards Institute should receive high priority in the allocation of experienced skilled and competent scientists, technologists and technicians. A developing country must not hesitate to enlarge and develop its avenues for higher practical, scientific and technical training.

In the small industries sector, the Institute for Small-Scale Industries can usefully introduce special training programmes for "Standards Engineers" who will be able to assist small industries in implementing a Standardization Programme.

#### Training of "Standards Engineers"

10. The term "Standards Engineer" does in a general sense include all technical personnel who have to deal with "Standardization" which being a specialized activity is confronted with the difficulty to find suitable personnel to work as "Standards Engineers". This is particularly so in developing countries which face a general shortage of all types of technical personnel.

Training of "Standards Engineers" assumes a special importance because of the fact that normal training facilities for "Standard Engineers" are not available as are for other engineering and technical professions because the subject of "Standardization" is not usually taught as a specialized subject in technical educa-

cation. Hence organized courses for training "Standards Engineers" for various functional levels become an urgent necessity, if standardization is to be implemented and effective.

Training courses for "Standards Engineer" should include three phases:

- (i) an Orientation phase
- (ii) a Study phase
- (iii) a Practical phase

Lectures for the study phase would include:

- (i) Principles of standardization and standards functions
- (ii) Organization, scope, techniques and tools for standardization
- (iii) Implementation of standards with management support for standardization
- (iv) Materials management, coding of stores, documentation and identification systems

In a developing country, the acceptance and implementation of a standardization programme is often a slow process requiring short and intensive training for specialized personnel right from the planning stages. It is important that the training of all "Standards Engineers" should combine theory and practice to enable them to utilize the knowledge gained in their respective functions.

However, the range of technical training goes far beyond the study of materials, chemistry, and mechanics. Such subjects as economics, business management, accountancy, costing, salesmanship, and foreign languages are equally important, particularly to a developing industrial and trading economy.

It is only through this wide circuit of technical training that the future progress and stability of any Standardization Programme can be assured.

11. The most important thing is that Standards, when set, should be implemented otherwise they will be ineffective. Whatever means and methods are used to induce and secure the adoption and implementation of Standards maximum publicity is particularly necessary regarding the existence and operations of such "Standards". With the introduction of Standardization, there will inevitably be some system of quality control and marking with the issue of certificates both for producers and consumers. But to maintain industrial standards as an instrument for national planning, there must be some obligatory imposition and penalties for non-compliance, which, if not adequately policed will deteriorate and fall into disrepute, seriously affecting the National Economy.

### CERTIFICATION MARKING

12. An effective means to implement and maintain the usefulness and advantages of Standardization is to provide an officially registered certification mark consisting of a seal of specific design to be placed on products and goods, conforming to specific accepted "Standards".

Products of small-scale industries often suffer from lack of uniformity in quality, size, and workmanship. "Standardization" is the key to inspiring confidence in the buyer and consumer or user who today are discriminating and extremely "brand conscious", hence they seek for such brands as are certified up to "Standard Specifications".

13. Official certification is equally applicable to goods produced by large efficiently organized manufacturers as well as products of small-scale and even handicraft industries. Such certification marks serve as a guarantee to the public that the goods have been inspected, tested and verified under the supervision of a competent official authority as to their compliance to specific accepted Standards.

The Institute for Small-Scale Industries can assist the small industries sector with guidance towards attaining the standards necessary for official standard certification of their goods.



14. The scope of such a scheme would certainly benefit small-scale industries and handicrafts production providing them with some means for achieving uniformity and standardization of quality and workmanship of their products.

An Institute for National Standards is undoubtedly the best suited agency to operate certification marking schemes. The authority to operate such schemes should be official and legislation must be enacted for the functioning of this activity which includes the registration of the official certification seal.

#### QUALITY CONTROL

15. Standardization at both "National" and "International" levels lays down specifications which determine the optimum quality or performance of materials and products. To ensure that the required material quality is attained in practice, "Standards" fixed for materials, designs, processes and equipment should be within the realms of the practical capabilities of the enterprises that are expected to implement production based on the specifications required.

The development of a system of Standards to be used within the levels of inplant implementation should not be restricted to technical and productive factors only, but should in various ways

be extended to include management policies and administrative procedures. This will simplify standardization practice and an organizational means by which the advantages of Quality Control of Production can be kept within practical and competitive limits.

16. "Quality Control" can be regarded as the main instrument and factor that is essential for implementation and achievement of the conditions required by a specification and to maintain a Standardization System in production. Quality Control is not merely installed in a plant, it must be carefully considered in order to decide on a plan of action to produce products up to Standards that will be acceptable for quality certification marking by the Institute of Standards. The Institute for Small-Scale Industries can render assistance to small entrepreneurs in preparing a plan of action to adopt standardization.

17. Another useful instrument for quality control which would also minimize the production of defective work is to install inspection during processing. Much would depend on the type of product, the process used and its variabilities, such as multi-dimensional operations, determination of degrees of accuracy, relation between tolerances and basic dimensions, etc.

There would be inspection at different production stages, such as inspection of incoming materials, partly finished items

and the end product. Methods for inspection during processing would not only vary for different products but would also vary from factory to factory producing the same type of products.

18. To control the quality of manufactured products, various methods of inspection can be introduced.

Samples should be selected in a truly random manner from different parts of a lot. Localizing choice of samples only from top or the bottom or the side layer of any lot must be avoided. In the long run truly random choice is the only method likely to minimize misleading results. Searching for defectives in the bottom corner of lots or any other such method will not only be ineffective, but will also defeat the purpose of lot sampling to represent the lot as a whole.

19. Once the sampling routine has been established, it is important that the inspector keeps daily a lot-by-lot inspection record of the lots inspected. Properly summarized, these records will give an overall picture of the daily production operations and will be of the greatest assistance to the Works Manager to pick out weak spots in the production line. These records will also serve as useful proof of routine check controls for the Government Officer of the "Certification Marking Scheme" mentioned earlier.

20. Up to now the plan for sampling has been based on production of units, however, there are such products as textiles, wire, tubing, etc. that are items of uninterrupted long-lengths of products in contrast to individual units. These long-length items require considerable close visual examination for defects.

It will be most costly to draw out at random long-lengths in rolls or coils for lot-by-lot inspection and testing, and it will be equally impractical to select at random, say 1 meter length from different parts of several long-length rolls.

A more practical approach for this inspection would have to be devised so that the method adopted would be acceptable to the "Standardization Institute" to permit quality "Certification Marking" of the material produced.

Several methods of inspection can be devised depending on the type of material, the continuous length of each roll, and the number of rolls that make up each lot.

21. Behind the routine of all this quality inspection stands the development and maintenance of "Standard Specifications" for the product. The function of the inspection engineer is to determine whether or not the product conforms to the specifications and tolerances allowed. These inspection records and data are valua-

ble not only to the production engineer but also facilitate the work of the official inspector for permitting quality certification marking.

One must not lose sight of the fact that the installation of quality control is not only a technical problem, it is also a problem that revolves around human elements and relations.

#### QUALITY CONTROL FOR EXPORT

22. In any developing country where an industrial economy will play an important role in National Progress and the raising of living standards, "Export" of products and manufactured goods will perforce have to be maintained at levels of such "Standards" that will meet the ever increasing discriminations and requirements of "World Markets".

Quality certification Marking already referred to earlier and pre-shipment inspection schemes will be among a number of measures that will be necessary to promote, develop, and maintain stability for the marketing of locally manufactured goods in foreign markets.

Pre-shipment inspection schemes are not unknown but a scheme incorporating a centralized system for assurance of standardized quality export has to be implemented and made obligatory, enacted under some official regulation, such as an "Export Ins-

trade centers are serving as miniature permanent exhibits to visitors.

Realizing the importance of trade associations, the Government of India organized the "Federation of Associations of Small Industries in India" as early as 1950. At the time of its formation, important small-scale industrialists from all over the country were invited to participate in the meeting. Travelling and daily allowances for the delegates were also paid by the Government to encourage participation. With a view to stabilize its formation, the Government of India met the necessary expenditures for running the office for a period of 3 years through a grant.

At present the membership of the Federation exceeds 3,000 and the subjects dealt with by the Federation are grouped under the following main headings:

- 1) Import and Export Policies
- 2) Supply of essential raw materials to small-scale industries
- 3) Taxation
- 4) Credit facilities to small-scale industries
- 5) Labour: Application of Provident Fund Act
- 6) Other items such as: dispersal of industries, supply of power at concessional rate to small-scale units, manufacture of stores for railway workshops, etc.

pection Law" under which certain Government Agencies conduct compulsory pre-shipment inspection covering quality certification, inspection of packing conditions, inspection of manufacturing processes and of materials used. The purpose and extent of inspection for any particular product or commodity is relative to its nature, to its end use and to the conditions required of the purchasing country.

23. When goods are found to conform to the prescribed standards, they are given certification marks denoting grades of "quality standards". Certain goods and commodities are not always amenable to inspection under the above-described conditions and provisions. It is, therefore, suggested that arrangements are made entrusting the manufacturer, the exporter, and the overseas buyer to come to an agreement between themselves on a basic specification and empowering the manufacturer to give a "quality standard" guarantee indicating that the goods satisfy the mutually agreed export specifications by marking the articles and the packaging containers as "Export Standard". However, there must always remain a provision for "spot checking" or "spot inspection" by the official agencies implementing the Export Inspection Law and any violation of the provisions of this law by either manufacturer or exporter or both should be liable to penalties.

In order to effect this direction and control, there should exist adequate provisions to implement certain measures of effective control. In such circumstances, the Institute for Small-Scale Industries can render assistance and guidance to small industries.

There can be every expectation that the implementation of an extended standardization system and adequate inspection control as described will stabilize the export of manufactured goods and promote trade with foreign countries which will, if properly planned, materially assist in the economic development of the country.

#### CONCLUDING REMARKS

24. Efficiency is of major importance to all aspects of economic development whether in industrial production or in the exploitation of raw materials or in agriculture or in public services. Standards are required for an efficient economy and the use of Standards as with the use of other tools in industry has to be learned. Stress has been directed to the importance of Standardization Schemes for developing countries even to the extent of making the implementation of Standards obligatory by law.

25. There are already some fifty countries who have their own National Standardization Authority and the rate of growth of



Standardization over the past seventy years provides evidence that the basic concepts and procedures evolved over these decades are sound and that the benefits of Standardization are well recognized.

This is the time when "National Standards" are important and urgently needed, hence it is of great importance for a developing country to introduce a system of Standardization from the early stages of its industrial planning. It is through such a Standardization system that the usually limited financial resources of a developing country, its indigenous materials, its existing productive capacity, capabilities and manpower could most effectively be put to work.

26. On the one hand, the transfer of technical knowledge from the highly industrialized developed countries brings with it a variety of standards and practices requiring large assortments of materials, machine parts and tools which have to be repeatedly imported to maintain production. If this range of variety is not reduced by National Standards, industrial growth of the developing country will be slowed down and a large proportion of its foreign exchange earnings dissipated in the importation of maintenance parts.

On the other hand in planning for Standardization, developing countries can learn from the accumulated wealth of experience of other countries. This vast store of knowledge and experience can be drawn upon by the developing countries to plan their industrial development with the least wastage and utmost expedition. To gain this objective, the existence of a National Standardization Authority is a prerequisite, for only through such an Authority can developing countries have the advantage of sharing in the multi-channel flow of information from outside sources for organizing and strengthening the National Standardization System.

27. Standardization undoubtedly will serve as a means of promoting a modern industrial structure in which smaller and larger enterprises are integrated suitably and in a rational manner and in which the constituent units complement rather than compete with one another. Such an industrial structure requires in particular close cooperation between industrial undertakings of different sizes in such matters as supply of raw materials and a common production programme for parts and components under sub-contracting arrangements.

Experience shows that especially because of lack of "Standardization" in manufacturing, the small-scale and hand-craft industries are unable to cooperate efficiently with the larger

factories in supplying them with processed materials. Further because of the lack of uniform quality of the products manufactured in small plants, larger undertakings are inclined to produce themselves parts and components which would lend themselves very well for manufacture in small units.

A Standardization policy which takes into account the particular needs of small enterprises would undoubtedly contribute to increasing opportunities for inter-industry cooperation and thereby help strengthen the small industry sector within the overall industrial structure.

28. The introduction of standards in small-scale and handicraft industries, in developing countries which to some extent operate in the traditional sector of the National Economy, should be preceded by or take place in conjunction with the establishment of uniform weights and measures and technical terminology. In many developing countries, traditional non-metric units are being used by the general populations besides the metric system. It is important and necessary to establish an officially sponsored unified system of weights and measures which would make it possible to implement a "Standardization" system even in the handicraft industries.

In establishing manufacturing "Standards" affecting the small industry sector, it is a matter of importance that special attention be paid to the creation of suitable machinery which will include in it representatives of small industries and managers of industrial cooperatives who should participate freely in the deliberations leading to the adoption of the "Standards". Further appropriate measures have to be taken to disseminate information on Standards among small enterprises and to assist them to implement and adhere to them. In this connection, the Institute for Small-Scale Industries would play a vital role in the development of a National Standards Policy by contributing its intimate knowledge of processes and work arrangements in the small industries sector.

29. The ISSI is a suitable action agency to guide and assist small and medium-size industries in adopting and implementing a Standardization Programme. This assistance could be in the form of various services rendered by ISSI, such as dissemination of information about standards, guidance in setting up a Standardization Programme, guidance in development and adjustment of processes to meet required standards, testing of materials and products, and guiding quality control systems. Training of personnel to function as Standards Engineers, Quality Control Ins-

pectors and Testing Technicians will be a useful and necessary service that can be given by the ISSI.

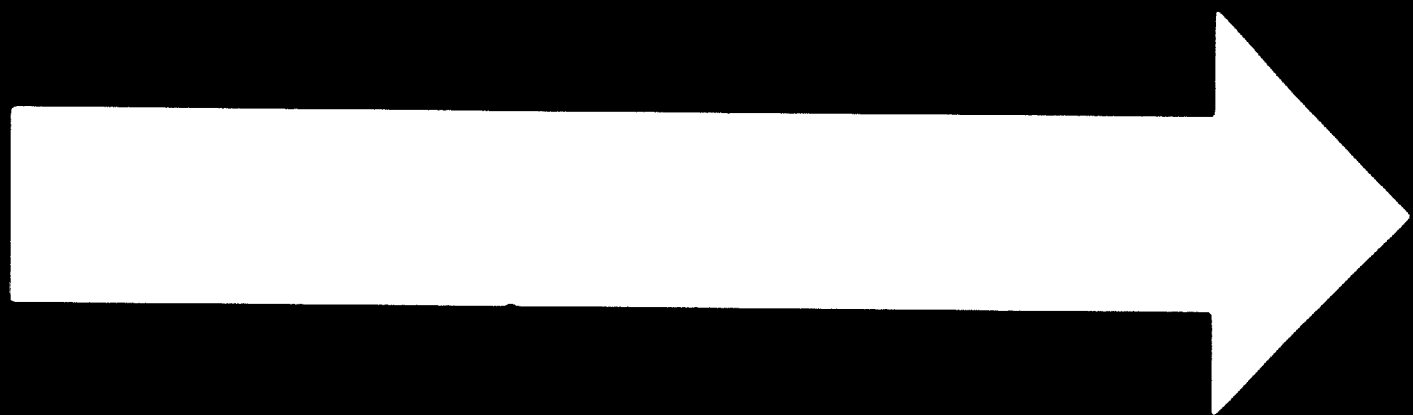
The need to implement a quality control system and efficient testing facilities is of particular importance in a developing country for gearing up small and medium industries to cater for the export trade which generally represents a buyers market and where goods to be competitive must strictly adhere to buyers' specifications and standards.

No less important are testing facilities for safeguarding the interests of a developing country in importing capital goods and consumer products. The value of standardization is greatly reduced when one cannot make sure by means of appropriate testing that the product fulfills the requirements.

Testing facilities are indispensable for the development of local industries along the right path and formulation of standards and specifications which take full account of the needs of the industries, the local conditions of supply, and quality of raw materials, the availability of labour and equipment and financial resources. The Institute for Small-Scale Industries should be geared to assist small industries with testing services.

As testing involves additional costs on the products manufactured choice of the most economical test methods should be

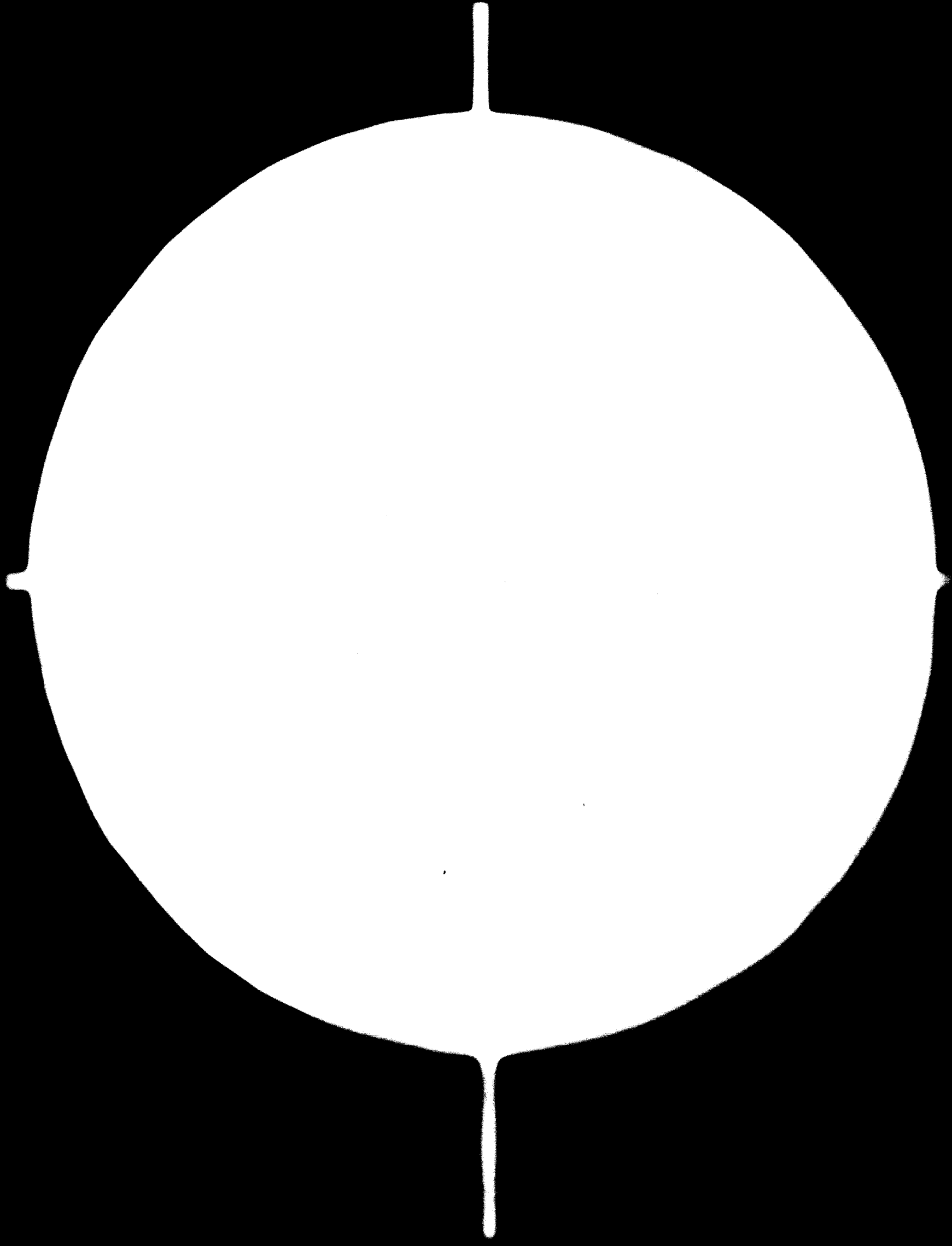
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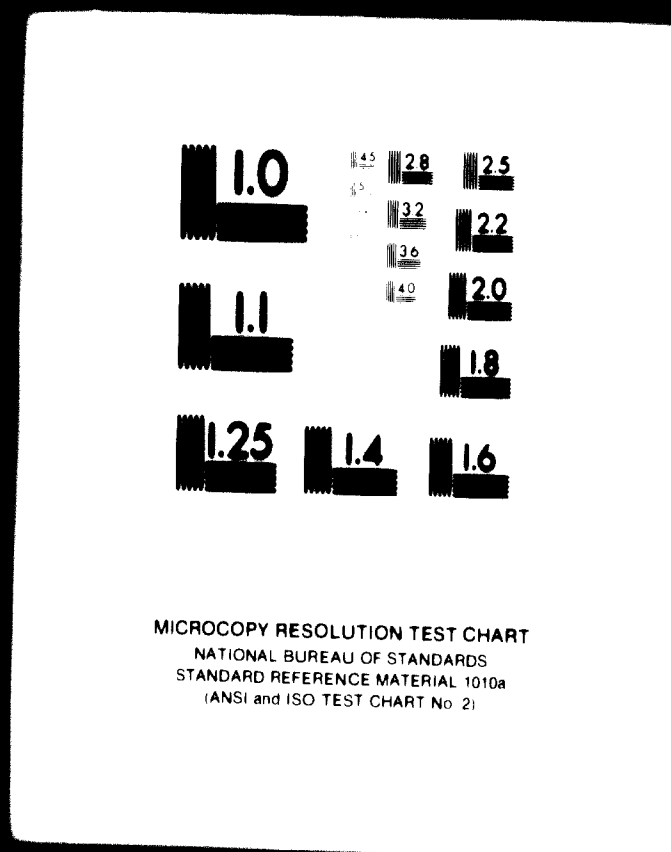
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- (c) Co-ordinate lending and investment policies as between commercial and cooperative banks and specialised agencies to ensure the optimum and efficient use of the overall resources and
- (d) Consider other allied issues as may be referred to it by the Chairman or the Vice-Chairman.

The other important aspects of the social control scheme relate to a constitution of bank management and prohibition of advances to Directors of Banks. According to the legislative amendments proposed in terms of the Banking Laws (Amendment) Bill every banking Company has to re-constitute its Board of Directors so that not less than 50% of the total number of Members of the Board of Directors are persons having special knowledge or practical experience in accountancy, agriculture, rural economy, small scale industries, cooperation, bank economics, finances, law and other matters which are useful to a banking company.

In the initial stages the power of social control would be exercised in respect of the major banks with deposits of over Rs. 25 crores. Over a period of time these would be extended to all banks.

It is heartening to note that the banks have already initiated action to fall in line with the objectives of the social

control outlined above. The major Indian banks have taken steps to reconstitute their Board of Directors and most of the foreign banks have set up Advisory Boards. A redeeming feature in case of small scale industries is the recognition regarding the critical importance of small scale industries in the economy of the country. Amongst the most important economic considerations in the development of small scale industries are its viable capital-output ratio, labour intensive character and diffusion of economic power over a large population of the country. Apart from these, another very important long-term consideration which adds to the significance of small scale enterprises is that entrepreneurial and managerial skills in a developing country like India are limited. The development of these skills is a key aspect of social and economic policy. Moreover, a small scale entrepreneur of today is a medium-scale entrepreneur of tomorrow and the large scale of the future. In other words, small scale industry becomes a useful deciding ground to discriminate between those who have the potential for growth and those who have not. Since the development of small scale industry will depend to the greatest extent upon the entrepreneur himself, the commercial banks are coming up with special schemes for craftsmen and entrepreneurs who are qualified engineers but lack adequate finance to take up the manufacture of various items

having a promising scope for exploitation in the country. The scheme of State Bank of India and its subsidiaries has been taken up with suitable modifications by other commercial banks and is likely to help thousands of entrepreneurs who are technically talented to manufacture but lack finance which is decidedly a key factor for setting up a unit.

## APPENDIX C

INCENTIVES AND GRANTS  
GIVEN BY WESTERN COUNTRIES IN ATTRACTING  
INDUSTRIES TO DEPRESSED AREASTax Incentives1. Belgium

Exemption up to 30 per cent of profits earned during the first three years. Capital gains tax, provided gains are reinvested in each estate or equipment in regional development areas.

Five-year real estate tax exemption for enterprises receiving grants and loans for purchase or construction of plants, and local tax concessions to enterprises not receiving loans and grants.

2. Canada

(a) 3-year Income-Tax exemption from the date of commencement of commercial operations.

(b) Development grant.

(c) The units can qualify further for special depreciation benefits as under: --

(i) Most of the new machinery and equipment can be written off at an annual

rate not in excess of 50% on a straight line basis.

- (i) New buildings and significant extensions during the specific period can be written off at an annual rate of 20% on a straight line basis.

### Sales Tax

The following are exempt from Federal Sales Tax:

- (a) dies, jigs, fixtures and moulds; and
- (b) patterns for dies, jigs, fixtures and moulds; and
- (c) tools for use in or attachment to production machinery.

The Federal Sales Tax of 11% is to be reduced to 5% and to Zero on machinery and apparatus sold to or imported by manufacturers for direct use in production.

### Duty Free Imports

Provision for the duty free entry of articles and materials to be used exclusively in the

manufacture of certain merchandise in Canada.

3. Federal Republic of Germany

Accelerated tax depreciation is granted to new industries in border development areas not to exceed \$25,000. The accelerated depreciation applies to 30% of the movable assets.

4. France

An exemption up to 50% of the Tax due on investment income is allowed. Slightly accelerated amortization on certain forms of plant and equipment is allowed and 50% accelerated amortization on plant and equipment acquired for research and development purposes.

Reduction in computing capital gains taxes in certain cases.

Reduction or elimination of local taxes.

5. Ireland

1. New manufacturing companies are not required to pay Irish Income Tax or Corporation Tax for 10 years on profits arising from exports of goods manufactured in Ireland.
2. Local tax is reduced by 2/3rd for new buildings

during the first 7 years after their construction. In development areas the period is 10 years.

3. Provision of interest free loan capital.
4. Exemption from import duties on machinery imported for manufacture and industrial raw materials for exports.

6. Italy

1. A 50% reduction of turn over tax on machinery and materials and consumption tax on power used for industrial purposes.
2. A 10 year income tax holiday exemption on profits earned in new investments and 50% exemption in taxes on investment in new additional facilities.
3. Exemption from payment of custom duties on imported machinery and materials.
4. Exemption from part or all municipal levies like octroi duty, etc.

7. Puerto Rico

1. Freedom from all federal taxes except for excise taxes on taxable goods shipped to U.K.
2. Ten, twelve, Seventeen years of exemption

from common-wealth income tax as well as real and personal property taxes and license fees, excises and other municipal taxes depending on the location of the plants.

4. 50% Tax exemption on income; municipal and property taxes for periods ranging from 20 to 24 years according to the geographical location of the factory.

## B. GRANTS

### 1. Belgium

Government grants are available for part of the cost of Plant construction and purchase of equipment as follows:

- (a) Construction grants up to 20% of the costs (30% during recession).
- (b) Equipment grants up to 7.5% of costs (10% during recession).

Grants normally are payable after completion of the completion of the investment but an advance up to 50% of construction grants may be made after the roof is raised in a new plant.

### 2. Canada

#### New Industries



- (i) Development grant is maximum up to 1/3rd of the approved capital costs, not exceeding \$250,000.
- (ii) For capital costs beyond \$250,000, 1/3rd of \$250,000 and 1/4th of the excess over \$250,000.

### 3. Ireland

- (1) Non repayable cash grants towards the cost of fixed assets of new industries are provided by an autonomous Grants Board. The maximum grants are:
  - (a) 2/3rd of the cost of fixed assets in Development Area.
  - (b) 1/2 of the cost of fixed assets in other areas. "Fixed Assets" comprise sites, buildings, machinery and equipment, excluding office equipment and transport vehicles. Only new machinery is considered for grants.
  - (c) Cash grants for training of workers in new industries.
- (2) Shannon Free Air Port Development Authority assists the establishment of new projects through payment

of cash grants as under:

- (a) 50% of the cost of new machinery.
- (b) Full cost of Training of Workers.
- (c) Full cost of buildings.
- (d) Total exemption from Income Tax and Corporation Tax profit tax on profits derived from exports until 1963.

4. Federal Republic of Germany

- 1. Grant up to 50% of the total cost of a project.
- 2. Special grants are made to firms located in border areas to equalize their freight costs.

5. France

Government grants are available up to 20% of the total investment cost, which includes, new plant construction, new machinery, extension or conversion of existing plants and transfer of equipment. One fifth of any grant is payable in advance, the balance semi-annually.

Government subsidies for enterprises anticipating only a comparatively low return on investment and borrowing from private sources.

given due consideration as to obtaining satisfactory results.

Testing equipment used in highly industrialized countries is not always suitable in developing countries, hence test methods for the specific needs and conditions should be developed and adapted from the beginning.

To render these testing services the ISSI will need to be equipped with testing laboratories which should be strictly functional and can be equipped and made operative with comparatively modest outlay. In the initial stages, it should be possible to install an efficient testing laboratories on a floor space of about 500 M<sup>2</sup> with an investment for equipment of about \$150,000.

In addition to these specialized testing laboratories which are necessary, the ISSI could make use of testing facilities available at the Universities, the National Institute of Science and Technology and other research laboratories.

The Bureau of Standards in the Philippines has requested the UNDP for technical assistance to reorganize the Bureau of Standards and in developing national standards and in the process for implementation and adoption of set standards. An international expert from UNIDO, Mr. Rao, has been assigned for one year to the Bureau of Standards to advise and assist them in planning and implementation of a National Standardization System.

### 6. Denmark

Grants covering costs of drainage, levelling road construction and utility installation are available for preparation of industrial sites and construction of industrial centres.

Grants are also available for cost of industrial project review and analyses for project preparation and for other types of consultation.

Local Governments offer grants in the form of low-cost building sites and reduced utility charges.

### 7. Great Britain

1. Government building grants are available up to 25% of the difference between the actual cost of plant construction and open market value upon completion.
2. Renting of Government industrial premises to industries at subsidized rates.
3. Grants for improving basic services like water, transportation in a development area, etc.

### 8. Italy

Federal Government grants cover up to 20% of the capital needed for establishing new plants or expansion of established plants in municipalities with less than 2,000,000 inhabitants.

Grants are also offered to cover 100 per cent of the cost

of public facilities needed for development of industry.

Reduction up to 50% is allowed in the freight rates applied for the transport of raw materials and machinery required for new or expanding plants.

8. Northern Ireland

Outright Government grants are available up to 33.33% of the cost of factory accommodation.

Government grants are also available to local authorities for improvement in basic services.

Government also grants up to 50% of the cost of training labour for new industrial operations.

C. LOANS

1. Belgium

- (a) The Government subsidy to lending institutions is equivalent to the difference between prevailing commercial rate and the rate charged from the borrower up to a maximum of 4 per cent. (During periods of recession, the interest rate charged may be reduced to a minimum of 1 per cent). Reduced rates are generally applicable for 5 years, exceptionally for 8 years.
- (b) Financing intangible investments like research,

2. Denmark

Loans & loan guarantees are available up to 90% of the cost of permanent installations and machinery in rented industrial sites.

Loans for factory buildings are repayable over 15 years and for machinery over 10 years.

3. Federal Republic of Germany

Two types of loans are available:

- (a) For new plants at  $3\frac{1}{2}\%$  for 15 years.
- (b) For expansion and modernization of established plant at  $5\%$  for 15 years.

4. Sweden

Government funds are lent to provincial industrial associations at  $3\frac{1}{2}\%$ . The rate of loans made by provincial industrial associations may not exceed  $3\frac{1}{2}\%$ , usually  $5\%$ . The repayment period is 10 years.

Government housing construction loans are available for areas of expanding industry.

5. Italy

Federal Government loans are available up to about 70 per cent of the total capital needed for new plants located in the development area of expanding

facilities:

If rich countries in Europe could give so much incentives for starting industries in backward regions, then there is no reason for the Government of the Philippines to consider some of these incentives favorably.

6. India

Different provinces are giving different types of incentives. Banks in India are also providing loans under liberalized terms than they give to units in urban areas. The type of assistance given by "Haryana State" in India is mentioned as under: --

Preference is given for development of industries by the State Government of Haryana in the comparatively backward areas in giving:

Financial assistance, approval of schemes and setting up of common facility units and other institutions, which, directly or indirectly, help in the uplift of the people.

The Haryana Government has also decided to give incentives for industrial growth in the focal points which may not essentially be located in the backward

regions as under:

- (i) Sale of plots on no-profit-no-loss basis and recovery of the price in easy instalments;
- (ii) Allotment of land on no-profit-no-loss basis and on easy instalments for construction of subsidised industrial houses and residential colonies for the workers;
- (iii) Exemption from the payment of State Duty of new generating capacities for next five years;
- (iv) Grant of special concessions to power based industries and to encourage self-generation of power;
- (v) Grant of suitable subsidy on the capital cost of the generation equipment;
- (vi) Refund of sales tax on raw materials purchased by the industry and on its finished products for initial period of 5 years;
- (vii) Exemption from the levy of new taxes in respect of the purchases of industrial raw materials for manufacturing processes in factories within Haryana for a period of 5 years;
- (viii) Contribution to the extent of 50% by the State



Governments towards the cost of preparation of feasibility reports in case of selected industrial projects;

- (i:) Grant of additional margin of  $2\frac{1}{2}\%$  in the rates of products purchased from the industries set up in growth points for a period of 10 years; and
- (x) Provision of controlled building materials on priority basis.

## APPENDIX D

SUGGESTIVE LIST OF AGRO-INDUSTRIES  
WHICH COULD BE STARTED ON  
SMALL SCALE

1. Absolute Alcohol from Molasses
2. Banana Figs - Processing
3. Banana Powder
4. Banana Pseudostem - Processing
5. Pineapple Fibre
6. Bakery Products (semi-mechanized)
7. Cattle Feed
8. Desiccated Coconut - Processing
9. Card Board from Bagasse
10. Corrugated Paper Board
11. Dehydrated Fruits, Vegetables and Soup Powders
12. Fruit and Vegetable Preservation (Orange and Tomato Products)
13. Fruit Preservation (General)
14. Ginger and Ginger Products
15. Crushing of Oil Seeds and Refining of Oils
16. Papain and Pectin from Raw Papaya
17. Dehydrated Potato Chips
18. Poultry Fee
19. Rice Bran Oil
20. Rope and Ban Making
21. Saw Dust Briquettes as Domestic & Industrial Fuel
22. Straw Boards
23. Surgical Bandages
24. Splints & Veneers
25. Starch from Tamarind Seeds
26. Potato Starch
27. Vermicelli
28. Vegetable Milk/Curd from Groundnuts

- 6 -

**Province of Surigao del Norte**

1. Mr. Marcos Cortez  
Vice Governor
2. Mr. Dick Eviota  
Board Member
3. Mr. Holman T. White  
Organizer  
Research and Development Center

**Province of Pangasinan**

1. Hon. Aguedo F. Agbayani  
Governor
2. Agericc S. Rosario  
Board Member
3. Arturo M. Padua  
Board Member

**B. PRIVATE SECTOR****Philippine Chamber of Industries (PCI)**

1. Mr. Julio B. Francia, Jr.  
President  
  
Atty. Froilan M. Bacuñgan  
Executive Secretary
2. Mr. Jose B. R. Policarpio  
Chairman, Small - Scale Industries Section
3. Mr. Jose Lumban  
Small-Scale Industries Section
4. Mr. Rodolfo Balingit

- 7 -

**Chamber of Commerce of the Philippines (CCP)**

1. Mr. Alfredo L. Lingad  
N.C. Mercado Industries

**Pilipino Chamber of Small Business and Industry (PCSMI)**

1. Mr. G. R. Timbol, Jr.  
President
2. Mr. Mer R. Reyes  
Industrial Engineer
3. Mr. Emmanuel O. Almonte  
Director

**Chamber of Commerce (Cebu City)**

1. Mr. Francisco Benedicto  
President
2. Mr. Bart Carillo  
Director and Secretary

**Philippine Business for Social Progress (PBSP)**

1. Mr. Rolando N. Quintos  
Assistant Executive Director
2. Mr. Rafael L. Chee Kee

**Private Development Corporation of the Philippines (PDCP)**

1. Mr. Vicente R. Jayme  
Executive Vice President

- 8 -

**First National City Bank (FNCB)**

1. Mr. Benjamin M. Catane  
Small Industry Loans Specialist
2. Mr. Jesus G. Tirona  
Assistant Manager

**Philippine International Development, Inc.**

1. Mr. Wee Bin  
President

**National Export Trading Corporation (NETRACOR)**

1. Mr. Jovito A. Rivera,  
General Manager
2. Atty. Geronimo M. Muriera  
Executive Assistant
3. Atty. Dionisio C. Gancia  
Technical Assistant and Head, Legal Dept.

**Barbers Association of the Philippines (BAP)**

1. Mr. Jose B. Fernandez, Jr.  
President

**Mindava Refrigeration Industries, Inc.**

1. Mr. Romeo M. Morelos  
General Manager

**Maryknoll College**

Group of Students

It would be useful for the ISSI to discuss and request advice from this international expert as to a planned action of approach for the introduction and implementation of a standardization system in small-scale industries.

30. The National Export Trading Corporation and the Foreign Trade Zone Authority and the National Cottage Industries Development Authority, all of whom are involved in one way or another in the export of goods manufactured by small enterprises in the Philippines have emphasized their interest and concern on the production of goods for export being based on the acceptable overall standard so as to avoid fluctuations in quality and workmanship of similar articles produced by different factories in the Philippines.

31. It is evident that the Institute for Small-Scale Industries will have to actively partake, not only in the dissemination of information, encouraging and advising small industries to adopt a Standardization System in their manufacturing production but also to actively indulge in the introduction and implementation of a Standardization Programme in small industries giving guidance and training as to functions that have to be carried out.

- 9 -

**C. INTERNATIONAL AGENCIES****United Nations Development Program (UNDP)**

1. **Mr. William M. Harding**  
**Resident Representative**
2. **Mr. T. M. Unwin**  
**Deputy Resident Representative**
3. **Mr. William R. Jones**  
**Senior Industrial Development Field Adviser**

**International Labour Organization (ILO)**

1. **Mr. Hugo C. Lane**  
**Director**

**Asian Development Bank (ADB)**

1. **Mr. Takeshi Watanabe**  
**Chairman**  
  
**Mr. N. Viswanathan**  
**Operations Officer**
2. **Mr. C. S. Krishna**  
**Vice Chairman**  
  
**Dr. M. S. Srinivasan**  
**Senior Operations Officer**
3. **Mr. Akihiko Tanenhi**  
**Operations Manager**

- 10 -

**ORGANIZATIONS ADDRESSED ON THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES**

1. National Council on Small-Scale Industries Special Meeting
2. DBP Eastern Visayas Regional Action Group, Cebu City
3. Research and Development Center, Surigao City
4. Discussion with Radio Broadcasting Officials, Surigao City
5. Discussion with the Press, Quezon City
6. Branch Managers Meeting, Development Bank of the Philippines, Makati, Rizal
7. Business Managers Seminar, Zamboanga City
8. Social Security System Officials on Financing of Small-Scale Industries
9. Pilipino Chamber of Small Business and Industry
10. The Fourth Convention on Small and Medium Industries, Calasiao

**FACTORIES VISITED**

1. Panacraft
2. Manufacturer of Wood Grill Panel Doors, Woodwork, Manila
3. Cherimel Manufacturing Corporation
4. Lobell's Company - Shoe Manufacturer, Marikina, Rizal
5. Valentino Shoe Manufacturing, Marikina, Rizal
6. Papa Food Products
7. Ebrada and Associates



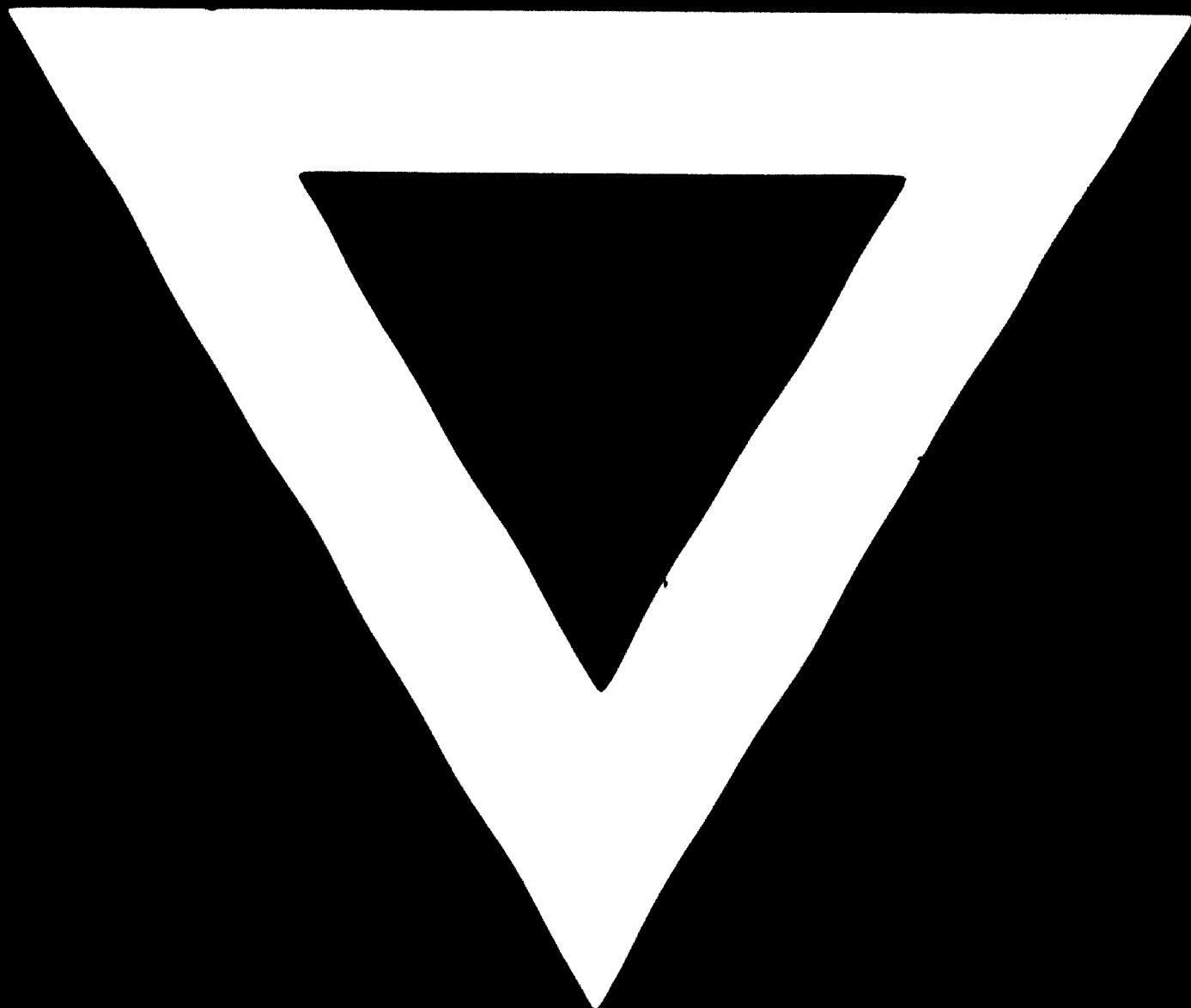
- 11 -

8. **Mindova Refrigeration Industries, Inc.**
9. **Philippine Ink Corporation**
10. **IVR Engine Rebuilders & Machine Shop**

**OTHER INSTITUTIONS VISITED**

1. **Productivity and Development Center**
2. **Philippine Inventors Commission**
3. **Marikina Shoe Center**
4. **Marikina School of Arts and Trades**

**B-582**



**84.12.12**

**AD.86.07**

**ILL5.5+10**

32. Planning and introducing quality control systems in small factories coupled with testing methods to meet standardization requirements will be important functions and disciplines which perforce will be the responsibility of the Institute to introduce and assist small factories to carry out.

33. Small industries generally are not in a position to invest in special equipment for testing their products, thus will have to be a service that the Institute renders to small industries. To render these testing services, the Institute will require two functional laboratories, one for chemical testing and analysis and another, for physical testing for strength of materials and fatigue factors, etc. These two laboratories would require approximately 500 to 600 M<sup>2</sup> floor space and the equipment needed in the initial stages would cost about \$150,000. It is recommended that assistance be given to the Institute to procure this equipment.

34. Further assistance to the Institute will be necessary by way of a Standards Engineer or a Quality Control Engineer. This Consultant will be a person fully knowledgeable of the principles of standardization and the functions of standards and quality control. He will necessarily be a person with experience in organization, scope, techniques, and tools for standardization and with the ability to implement a standardization system

coupled with quality control of materials and products manufactured by small industries.

This Consultant should also be able to communicate his knowledge in training a number of National personnel of the Institute assigned to him for the purpose of implementing standardisation and maintaining quality control systems in small factories.

APPENDIX A

**SUMMARY OF FINDINGS OF THE SOCIO-ECONOMIC  
SURVEY OF SMALL-SCALE INDUSTRIES IN THE PHILIPPINES  
(1966)**

**1.1. In 1966, there were an estimated 9,400 firms engaged in small-scale industries in the Philippines.**

7,800 firms with 5 to 19 employees  
1,200 firms with 20 to 49 employees  
400 firms with 50 to 99 employees

**1.2. 6,252 firms or 66% were engaged in non-durable goods manufacturing, and 3,156 firms or 33% were engaged in durable goods manufacturing.**

**1.3. Single proprietorship were the dominant type of business organization with 6,116 firms or 65%. Partnership constituted 22% or 2,024 firms, and corporations constituted 13% or 1,220 firms.**

**1.4. The average investments in fixed assets per firm was estimated at ₱ 67,920. Direct relationship between firm size and investments in fixed assets was evident as presented below:**

<u>Firm Size</u>	<u>Average Investment per Firm</u>
5-19 employees	₱ 49,000
20-49 employees	147,395
50-99 employees	202,400

**1.5. 56% of the firms were concentrated in Manila and Suburbs.**

**1.5.1 56% indirect selling  
43.6% sold direct to customers**

**1.5.2 Sub-contracting - 26% or 2,576 firms were engaged in sub-contracting sales and the average sale per firm was 10%.**

1.5.3 Annual gross sales per firm was ₹282,000 in 1966.

<u>Firm Size</u>	<u>Average Annual Gross Sales</u>
5-19 employees	₹ 110,000
20-49 employees	224,000
50-99 employees	1,722,000

1.6. Production:

48% of firm continuous production process  
 37% job order  
 14% combination of job order and cont. production

1.6.1. Machine Age

The average age of machinery in the industry was 7.4 years, 60% were over 5 years old.

25% of the firms serviced machinery only upon breakdown.

Economic Contribution of the Small-Scale Industries

Estimated Gross Value Added by Size of Employment

<u>Size of Employment :</u>	<u>Average per Firm :</u>	<u>Total Contribution :</u>	<u>per cent %</u>
5 to 19	₹ 40,610	₹316,578,000	42%
20 to 49	178,240	213,888,000	28%
50 to 99	537,660	215,064,000	28%
<b>All Firms</b>	<b>₹756,510</b>	<b>₹215,530,000</b>	<b>100%</b>

The estimated gross value added of 9,400 firms in small-scale industry amounted to 745 1/2 million in 1966. The average value added per firm amounted to 756,510.

7,800 firms with 5-19 employees contributed an estimated gross value added of 316 1/2 million or 42%. The estimated gross value per firm was 40,610.

1.7. 20% managers expressed difficulty in securing loan and other types of credit accommodation from Commercial Bank and other private financing institutions.

## APPENDIX E

SOCIAL CONTROL OVER COMMERCIAL BANKS  
AND THE SMALL-SCALE INDUSTRIES  
SECTOR IN INDIA

After independence the Indian banking system has made rapid strides both functionally and in terms of geographical coverage. Certain lacunae, the product of historical factors have, however, remained. The importance of banking system as an intermediary for channeling the saving of the community and its pivotal role in the economy made it necessary particularly in the context of an overall shortage of resources that the policies and practices of the banks are to be directed to the attaining of basic economic and social objectives such as adequate economic growth, wider diffusion of economic power and the channeling of available resources with due regard to the requirements of the priority sectors.

Time and again, there have been complaints that the bulk of advances tend to be directed to big and established business houses, while priority sectors such as agriculture, small scale industries and exports have not received their due share. The demand for bank credit has been growing rapidly, while the resources accruing to the banks have grown at a slower pace. As such a continuing effort is needed to stimulate savings and attract them into the banking system. At the same time, a purposeful and equitable

distribution of credit has to be ensured. To this end a periodical assessment of the demand for bank credit, determination of priorities for lending and investment among various sectors of the economy and adequate follow up of these by the banking system are needed. To bring about the necessary changes in the pattern of bank lending, it is necessary to evolve appropriate guidelines for bank managements and to promote a re-orientation of their decision making machinery so that the decision of the monetary and credit policy formulated by the Reserve Bank of India are effectively implemented.

#### **NATIONAL CREDIT COUNCIL**

With a view to providing a forum for discussing and assessing credit priorities on an all-India basis a high-level body called the National Credit Council was set up on December 22, 1967. The main functions of the Council are periodically to --

- (a) Assess the demand for bank credit from the various sectors of the economy.
- (b) Determine priorities for grant of loans and advances or for investment having regard to the availability of resources and requirements of the priority sectors particularly agriculture, small scale industries and exports.