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STATUS OF THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES
IN THE PHILIPPINES ^{1/}

by

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AN OVERVIEW

The Philippines is basically an agricultural economy striving towards higher levels of development. Its development efforts are largely directed to employment generation strategies, increased food production and export promotion. Despite these efforts on the part of the government, 0.7 million or 5.2% are unemployed, excluding underemployment; some 27.5 million or 40% of the labor force are willing to work and looking for work as of 1973. Estimates show that 800,000 persons complete their education and become available for employment annually. By 1980 this number is estimated to reach 1 million, while annual turnover from the labor force is estimated at only around 300,000 persons. The creation of employment for at least 500,000 additional labor force each year becomes a critical task of government. The necessity of re-defining and re-directing its policies, where before, priorities and incentives were given to large industries, the small enterprises are being seriously promoted to constitute a dynamic segment of the national economy.

Initially, for operational purposes, enterprises with total assets of P1M or less are considered small-scale while those with total assets of more than P1M up to P4M are medium scale. Ninety-one per cent of the industrial enterprises in the Philippines belong to the small-scale industry category. They contribute 15% to the total value-added of all manufacturing enterprises and 4% to the national income.

Small scale industries play a vital role in the creation of job opportunities. In a span of 14 years from 1956 to 1970, the number of workers employed in small-scale firms increased from 206,000 in 1956 which is about 18% of total employment in manufacturing to 404,000 in 1970 or about 24% of the total employment in manufacturing sector. These figures apply to an estimated 10,000 small firms in the country.

By type of ownership 65% of small scale industries are single proprietorships while partnerships comprise 22%. The rest are corporations. By product line, 66.5% of the small firms are engaged in non-durable goods manufacturing with concentration on wearing apparel, food preservation, beverages, printing and printed materials, chemical and chemical products. On the other hand, 33.5% are engaged in durable goods manufacturing with concentration on furniture, metal products, transport equipment machinery and non-metallic minerals.

SELF-HELP PROGRAMS - PHILIPPINE EXPERIENCE

Self-Help in the Philippines means developing its capability for small-scale industry development. To create a climate conducive to the growth of small as well as medium scale industries, the government has drawn up the following measures:

1. Creation of the Commission of Small and Medium Industries.
2. Creation of Regional Technical Assistance Centers.
3. Creation of Trade Assistance Centers.
4. Institutionalization of the Entrepreneurship Development Program.
5. Establishment of Industrial Estates.
6. Fiscal Incentives.
7. Liberalized Financing Scheme.
8. Expanded Skills and Management Training Assistance.
9. Mobilization of Rural Credit.

while government initiated "Self-help" programs 2 decades ago, its limited resources and perhaps limited understanding of the operational meaning of self-help made it difficult to sustain self-sufficiency among the communities served by these programs.

The entry of the private sector notably the Philippine Business for Social Progress, a non-profit foundation composed of leading companies in the industrial sector into self-help programs revolutionized the traditional approaches to this scheme. Working behind the philosophy that "service institutions require a system whose essentials may not be too different from the essentials of performance in a business enterprise", it has demonstrated an efficient delivery system for self-help projects. The Foundation is largely committed to rural community development, urban community development, cooperatives development, agri-business, small scale industries, skills training and management development, action research, applied nutrition and low-cost housing.

Like the government, it recognizes that social development is an investment in people and places a premium on high social returnees; that community development begins with the development of human capability to build; and that the total problems of poverty, literacy and unemployment should be a joint undertaking of all relevant sectors.

GOVERNMENT ASSISTANCE TO SELF-HELP PROGRAMS

A wide range of government assistance has recently been made available to small scale industries.

Management consultancy services are made available by the UP-ISSI. Training assistance is extended by NMYC, UP-ISSI and DAP, the latter two agencies for a fee. Assistance in the preparation of project feasibility studies for small entrepreneurs as pre-requisite to loan financing is given free by the MASICAP project teams of the Department of Industry.

Technological research assistance is extended by the UP-ISSI through a bilateral agreement with the Asia Research Development Centre based in Singapore.

Export promotions on the other hand is extended by the Philippine International Trading Corporation, one of the most recently created government corporations as a result of the new thrusts in economic development.

These different kinds of assistance are operationalized by means of the following programs:

- 1) Skills Development Program - a massive nationwide skills training program which covers a wide range of trades and occupation made available to the unemployed and unskilled labor force. The program is largely training for employment.
- 2) Export Promotion - in line with the new policy of exporting semi-finished and finished products, an export promotion plan is currently being drawn up to ensure a competitive advantage for local manufactures. The export sector is being developed to generate foreign exchange and utilize idle manpower. To facilitate the exporting process, export procedures are continuously being simplified by the government.
- 3) Technical Assistance Program - local small scale industries are characterized by a low level of technology, a clear disadvantage when competing with large firms. The mechanism for this is being firmed up. The government has begun to establish Regional Technical Assistance Centers for small and medium scale industries in each of the eleven regions of the Philippines for financing by the World Bank - IBRD. The project aims to hasten rural industrialization and regional development by bringing critical support areas such as consultancy training and research and marketing facilities to the countryside.

- 4) **Entrepreneurship Development** - shortage of managerial manpower is one of the problems in small-scale industry development. Entrepreneurs or individuals willing to enter business by risking their own resources are essential to the growth of small-scale industries.

The entrepreneurship development program was launched in 1973 to promote entrepreneurial activities in the rural areas. The Entrepreneurship Development Program is a joint program of the Institute of Small-Scale Industries of the University of the Philippines (UP-ISSI) and the National Manpower and Youth Council (NMYC) in cooperation with Development Bank of the Philippines (DBP). It has graduated a total of 105 participants. Follow-ups are presently being conducted to check on the development and progress of their individual projects.

- 5) **Financing Program** - the difficulty of securing loans and other types of credit assistance by small entrepreneurs has been a nagging concern to development planners. To answer this need, the Industrial Guarantee Loan Fund (IGLF) was created to provide liberal credit and financing that is responsive to small and medium scale enterprises.
- 6) **Industrial Estate Programs** - these are to be situated in low income areas to support the government's social and economic programs in the countryside. Attraction policies directed at investors for small, light medium and heavy industries are currently being drawn up.
- 7) **Medium and Small Scale Industry Coordinated Action Programs (MASICAP)** - Project MASICAP fielded 50 teams to the provinces and cities outside the Greater Manila Area to assist the entrepreneurs in identifying viable projects conceptualizing and operationalizing these projects. One of the more significant outputs of Project MASICAP are the

project feasibility studies required by financing institutions for loan purposes. Supplementing the BASICAP are the Small Business Advisory Centers (SBAC's).

- 8) Technical Assistance Centers - these were created to provide the link between entrepreneurs seeking assistance and the pertinent assisting institutions. Technical, management and financial problems that may arise will be referred to these Centers as soon as they become operational.

PROBLEMS/DIFFICULTIES IN SMALL SCALE INDUSTRY DEVELOPMENT

The Philippines is encountering difficulties in the following general areas:

1. Personnel - Government sector findings show that out of the 9,400 small scale firms, only 46% of the managers were college-trained and only 10% were considered professional managers. From this, it could be deduced that only few of managers-owners are adequately trained in management.

Due to inadequate resources, small and medium scale firms cannot hire more technically competent men to man production operations, such as trained record keepers and accountants. They usually hire novices in these field at a considerable risk to sound management decision making.

On the other hand, the experience of the private sector points to personnel difficulties on a similar plane. There is a dearth of available professional managers who have the commitment, academic qualifications, experience and frame of thinking that are responsive to development work. In case they are available, the cost of hiring them is prohibitive.

Proponents of Self-help projects who are interested in pursuing long-term development objectives and are sufficiently motivated are difficult to come by. Many of the proponents are hardly aware of the need for the application of management techniques to project implementation.

2. Credit and Marketing - The government and private sectors are experiencing much difficulty in securing the necessary inputs for their operations. Credit and marketing facilities are woefully inadequate that even some prospective entrepreneurs entertain second thoughts in risking resources.

Much also remains to be desired in the areas of transport, storage, and refrigeration facilities.

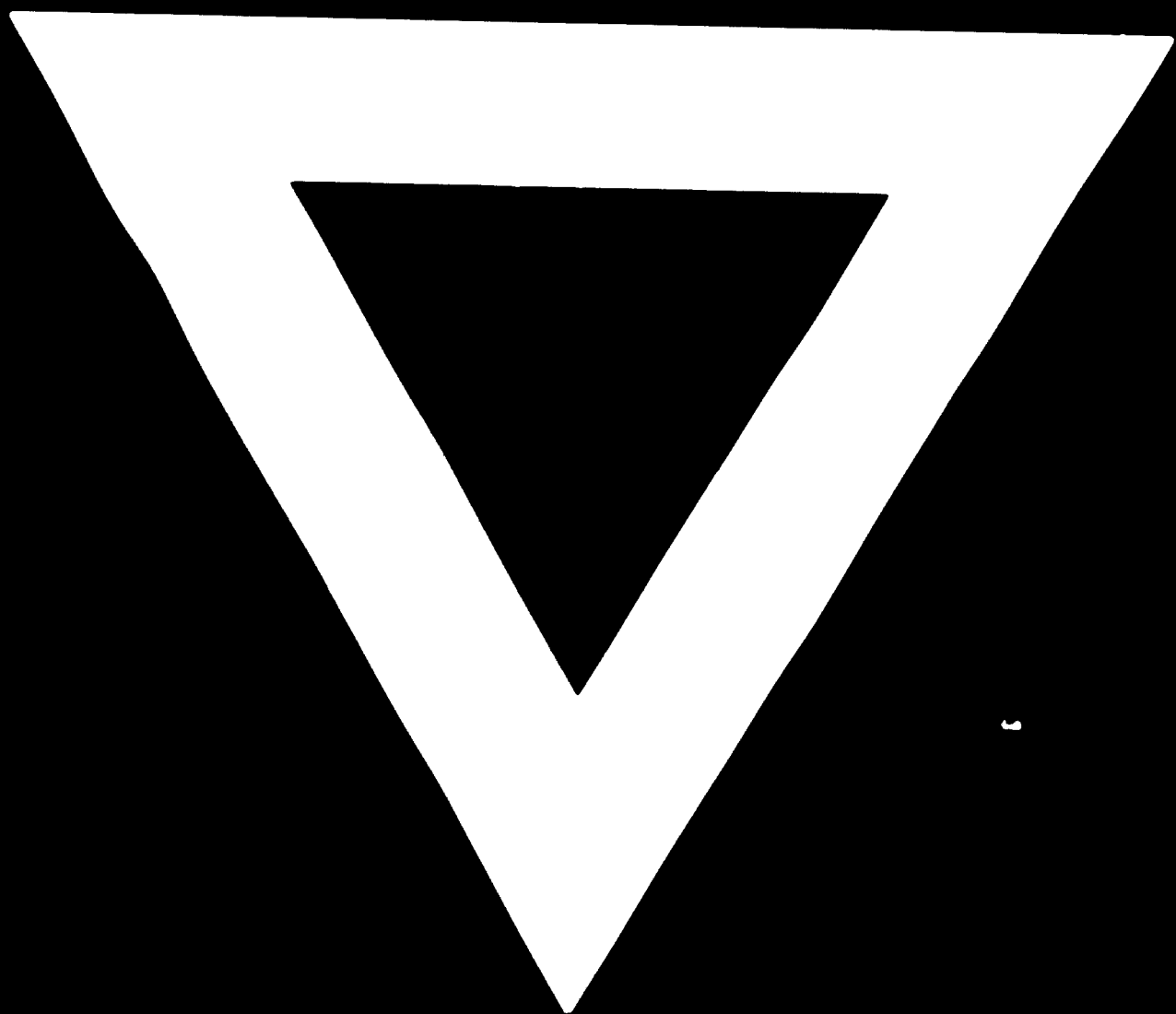
Relative to these, the government is filling out the gaps through a vigorous pursuit of its infrastructure and rural electrification programs.

A STEP TOWARDS FULLER USE OF RESOURCES

It has been observed by experts that one reason why certain sectors of the economy particularly the rural countryside have remained backwards is the absence of entrepreneurs and appropriate manpower who will be the stewards of our resources. It is worthwhile pursuing this direction to optimize the use of resources through the systematic development of entrepreneurship, training of supportive manpower and facilitating access to inputs and markets.

Current directions in government policies are clearly supportive of such a strategy. Fiscal measures have been drawn up to encourage the use of indigenous materials and promote manufacturing activities. Technological researches on increased productivity of inputs, both human and material, are being carried out. Government and the private sector are in better coordination and have become partners in a concerted effort to fully mobilize the country's potential for higher levels of development.





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