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COMPARATIVE ANALYSIS OF APPROACHES AND MECHANISMS FOR  
DEVELOPING SMALL-SCALE INDUSTRIES IN RURAL AREAS\*

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## INTRODUCTION

In developing countries, there are earnest efforts to improve the quality of life in the countryside, where the bulk of the population live in abject poverty. The conditions in the rural area had forced many to migrate and swell the urban centers, depriving the countryside of needed human resources and at the same time taxing the social infrastructure in the cities to the breaking point. Thus, the urgent desire to bring about progress and prosperity in the rural areas.

The initial attempts were directed to attracting the large, urban-based enterprises to locate to the regions through a package of financial incentives and infrastructure support. The firms that remained in the urban areas increasingly experienced higher tax burdens and stricter government regulations pertaining to zoning and environmental concerns. Yet the efforts to disperse industries through this method was only partly successful. The large companies required a level of infrastructure support (transportation, communications and government services) that the national government, more often than not, could ill afford. With inadequate infrastructure support, the large firms could not operate. Even in the instances where the infrastructure was in place and the venture successful, the transformation of the community did not attain the original expectations. While income increased, the full development of the area did not occur as the large firm still remitted its surplus earnings back to the urban centres where they were reinvested rather than plowed back in ventures within the rural areas. It seemed that dispersal of industries in this fashion could not achieve the ideals of regional development.

It was in this respect that the interest in developing small-scale enterprises in the countryside began. It was postulated that small-scale firms contributed to the national development through:<sup>1/</sup>

- (a) Capital saving and creation of economic opportunities. In the context of the low rate of capital formation and the existence of surplus labour in most developing countries, the small-scale industry which is fairly labour-intensive provides the means of creating employment opportunities at relatively low capital cost.
- (b) Utilization and mobilization of resources. Small-scale industries (SSI) permit the tapping of resources which otherwise would remain idle like family savings in the countryside since start-up capital is not large. The forward and backward linkages created by the SSI also create a multiplier effect on the use of human and material resources.
- (c) As a nursery of entrepreneurial talent. SSIs enable risk-taking and motivated individuals to find avenues to new types of enterprises and through such involvements, the small entrepreneurs can gradually build their competence in organizing and managing larger undertakings in the future.

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<sup>1/</sup> Small and Medium Industries in the Philippines - An overview, UP ISSI, 1983.

- (d) Regional dispersal of industrial development. SSIs become an important source of non-agricultural activities in the rural areas leading to increased domestic production that redounds as higher household income to the entrepreneurs and their employees. By the nature of the low investments required and their utilization of local resources, location in the regions is viable.
- (e) Equitable distribution of income. SSIs help distribute income by creating a strong middle class of entrepreneurs. Likewise, employment in rural enterprises either augments family income or provides income, sometimes higher than that from an agricultural activity.
- (f) Conservation and generation of foreign exchange. SSI can produce substantial foreign exchange savings and earnings. A wide range of normally imported and producer goods can be economically produced as long as the factors of products are adequate. Resource-based SSIs which rely on raw materials and skills found in specific regions include many that are and can be expected to earn foreign exchange in the overseas market.

More importantly it was seen that small industry services are complementary to the growth of agricultural incomes. Rural small industry produces mainly goods that are not competitive with those produced in the cities, either because the quality is different from the urban-produced items, or transport costs put the rural zone out of effective reach of the urban producer or because the product is a repair type. Small-scale manufacturing can play an important role in the processing of agricultural products, machinery, tools and their repairs and in producing a variety of consumer goods for relatively small and remote markets. Thus, the promotion of small scale industries in the countryside by the government of developing countries became a major concern.

#### STRATEGIES AND APPROACHES TOWARDS SSIs DEVELOPMENT IN RURAL AREAS

The literature is quite extensive in terms of strategies to develop SSIs in the rural areas. All of the approaches consider the creation of entrepreneurs from the rural population but the mechanisms by which this is achieved differ. Some provide the perceived necessary infrastructure and assume that individuals who are risk-takers by nature will then identify and exploit opportunities while others go through elaborate schemes of identifying, selecting and training potential entrepreneurs. All of the strategies aim for the development of SSIs in the rural areas but entry strategies differ. Some would attempt to stimulate the development of SSIs nationally, in every town and village while others would concentrate initial efforts on growth poles from where they provide a raiding effect or influence on the outlying areas in the long-term. All of the mechanisms indicate a realization of the need for infrastructure support to the entrepreneurs but the nature and magnitude differ. Some will consider that a legal-political environment where:<sup>1/</sup>

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<sup>1/</sup> The Entrepreneurial Element in Economic Development, E. Hoselitz.

- (a) government action short of complete non-intervention but so designed that it does not deny to private persons, explicitly or implicitly, any kind of autonomy in decision-making in the economic field;
- (b) a minimum provision of legal, and legally enforceable institutional rules according to which private economic decisions can be made and implemented;
- (c) protection of the assets owned by an enterprise against expropriation by others, and protection of the contractual relationships entered into by business leaders with one another or with outsiders

exist is sufficient, while others would require the full range of support, including legislation specifying pertinent products as the sole domain of SSIs as in India, training, consultancy, financing at mostly concessionary rates and provision of common facilities in production and transportation as in Japan and the Republic of Korea, among others. Even in these support structures, differences could be observed in the choice of lead factors in initiating the SSI development process. The roles of the government and the private sector also differ. In some countries, it is a total government approach even to the extent of fully financing and setting up enterprises for eventual turnover to local entrepreneurs while in others the private sector takes the lead and in a number, there is mutual collaboration by the government and the private sector as in Japan, where government sets the overall policies for the sector and the private associations undertake the promotional role through employees paid for by the government but under private sector supervision. Where the government sector is involved, some countries would have a host of agencies involved in assisting the SSI sector, each one "doing his own thing". Other countries would attempt to co-ordinate and integrate the efforts of various government organizations in a council or by setting up one "super" agency to handle all aspects of operational support to the sector. As most developing countries have rather centralized authority structures, it can be observed that national rather than local agencies spearhead most of the efforts. However, the recent years have shown an encouraging attempt to provide relevant service to the rural small enterprises by locating services and the corresponding authority at a fairly accessible level. In Egypt, the Organizations for Reconstruction and Development of Egyptian Villages (ORDEV), which is under the management of the village councils integrate the activities required to meet the needs of the community. The activities include sewing, cattle fattening, honey production, mechanical services, etc.<sup>1/</sup>

The features of the strategies and approaches can best be appreciated by examining three case studies: The Tanzanian Rural Development Strategy and Program which emphasized government-led economic projects in a socialist economy, the Korean Small Industry Development which had strong government and private sector collaboration and the Philippine experience which initially was a total government effort and only fairly recently involved the private sector. In each of these countries small enterprises were defined differently. In Tanzania, it meant a project which did not exceed 50,000 shillings (US \$7,000). In the Republic of Korea, small industry is statutorily defined as follows:

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<sup>1/</sup> A supplementary Study to the Project Proposal, S.T. Aquino.

1. natural or juridical persons engaged in the business of manufacturing, mining or transportation; either with five or more but no more than 300 regular employees with total assets of no more than 500 million won (US \$1,000,000),
2. natural or juridical persons engaged in the business of construction, either with five or more but no more than 50 regular employees or with total assets of no more than 500 million won,
3. natural or juridical persons engaged in the business of commerce and other services, either with five or more but no more than 20 regular employees or with total assets of no more than 50 million won (in case of wholesale business with no more than 200 million won), and
4. small industry co-operatives, their federations and members of the Korea Federation of Small Business, established in accordance with the Small and Medium Industry Co-operatives Act and entities organized by small entrepreneurs.

In the Philippines, small industry is defined qualitatively, in terms of employment or asset size. Qualitatively, small-scale industry are manufacturing and/or industrial service enterprises in which the owner-managers are not actively engaged in production but perform the varied range of tasks involved in guidance and leadership without the help of specialized staff. The employment size is 5 to 99 employees and the asset size is ₱250,000 to less than ₱2.5 million (US \$12,500 to less than US \$125,000). In February 1986 the definition was drastically changed to cover all enterprises except agricultural farms, which have assets of ₱500,000 to ₱5 million (US \$25,000 to \$250,000). The strategies and approaches to development that will now be described should be considered in relation to the target beneficiary, which ranges from US \$7,000 to US \$1,000,000 depending on the country.

#### TANZANIA<sup>1/</sup>

The underlying philosophy of the rural development strategy in Tanzania was the basic needs approach. One implication of such an approach was the promotion of non-agricultural rural activities (integrated rural development): the expansion and improvement of small-scale processing and manufacturing and greater investments in roads, storage facilities and rural housing. This approach was pursued within the guidelines of a strong socialist bias as expressed in the following declarations:

- (a) A call for an end to peasant exploitation by urban workers and the political and administrative elite.
- (b) A curb on the elite consumption and accumulation of wealth and an increase in public resources being planned and budgetted for rural development as well as efforts to reduce urban bias.

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<sup>1/</sup> The Institutionalization of Basic Needs for Rural Development: Lessons from an African Experience, Paul Collins, 1981.

- (c) A preference for the "transformation" rather than "improvement" approach which regarded the continued encouragement of the individual "progressive" farmer or entrepreneur as inconsistent with the overarching goal of meeting basic needs of the rural majority.
- (d) A stress on the primacy of rural development through co-operation, particularly 'self-reliant' and communal forms of socio-economic organization.
- (e) An attempt to keep co-operatives from increasingly becoming capitalist institutions by (a) formation of production-based, multi-purpose societies 'de novo' or Ujamaa Villagers or agricultural associations; and/or (b) orienting marketing-based societies towards additional activities more directly affecting production (including the establishment of farming units).

The government provided a close linkage between the strategy and actual public expenditure policy, particularly patterns of state provision of basic rural works, amenities and productive infrastructure. The leading factor utilized by the Tanzanian government was the funding of economic projects through the creation of a decentralized Rural Development Fund (RDF) whose objectives, indicating the type of economic activity which may be founded, are:

1. to produce more, diversify production or improve the quality of the produce;
2. to provide better storage facilities;
3. to facilitate the marketing of produce;
4. to improve transportation;
5. to induce co-operative production efforts;
6. to encourage the establishment of cottage industries.

#### REPUBLIC OF KOREA<sup>1/</sup>

The strategy for the development of small scale industry in the Republic of Korea has undergone four major stages - the formative stage (1961-1963), the selective development stage (1964-1965), the systematic development stage (1966-1967) and the structural modernization stage (1968-onward). But consistent throughout is the strong regional development bias as indicated by the setting up of a "Small Industry Centre" in each province in the formative stage to help and guide small enterprises to improve their management and production activities and promotion of rural industries in the structural modernization stage by organizing "Home Industry Centres", creating local industrial estates, introducing the factory lease system whereby model plants were created in industrial estates which were leased or sold to small entrepreneurs and promoting "Saemaul Factories" (Rural Village Small Industries) utilizing rural labour. Noteworthy in the Korean strategy were

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<sup>1/</sup> International Research Project of Korean Small Industry Development, Integrated Development Centre.

the use of legislation as the leading factor and the strong export orientation even during the formative stage through such legal statutes as the Extraordinary Law for Grant of Export-Subsidies, Export-Co-operatives Act and the Export Promotion Law. The major policies during the four stages are indicated in Annex A.

The Korean strategy utilized a variety of government organizations and a strong private organization, the Korea Federation of Small Business, to directly promote small-scale industry development. However, through legislation and other government directives it ensured that all other elements of Korean society (especially other government agencies, financial system) contributed favourably to the growth of the sector.

### PHILIPPINES<sup>1/</sup>

The Philippines Development Plan 1974-1977, 1978-1982, 1983-1987 and the more recent Aquino Administration's economy recovery programme continuously and consistently reflect the government's recognition of the importance of the promotion of small and medium industries in the Philippine socio-economic strategy (Annex B). The policies under these plans focus on building up a data base to assist entrepreneurs in identifying investment opportunities; pilot-testing and operationalizing both traditional and innovative approaches to financing, promotion of entrepreneurship development through training; providing technical and other extension services to the sector; encouraging tie-ups between small and large enterprises; and encouraging the participation of the private sector in all aspects of SSI promotion. One other major policy was based on the rural orientation of SSI promotion, which was reflected by the increasing decentralization of services and the setting up of regional integrated area development programmes with a strong rural enterprises development component, as in the Palawan Integrated Area Development Programme.<sup>2/</sup> The programme which considered all the aspects affecting a holistic development such as environment, soils and erosions, climate, cultural minorities and migration, agriculture, livestock, forestry, agriculture research, land tenure, settlements, marine fishery, inland fishery, among others, focused on integrating the efforts of various government and private sector organizations in planning and implementing a development plan geared to increase the standards of living of the rural population. Its primary concern was to ensure that the different infrastructure projects were consistent with the enterprise development potentials of the area and that the phasing of the project ensured the availability of the appropriate support when and where required. The government infrastructure for the development of the SSI sector includes virtually all the important instrumentalities, with the Department of Trade and Industry taking the lead. The government support for the sector has covered all the areas needed for development and growth, such as research, training, consultancy, financing, marketing and products/technology. In recent years, private sector participation has intensified especially in the area of micro-enterprise development. More than 15,000 private voluntary

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<sup>1/</sup> Small Scale Industry Development in the Philippines, Melito Salazar, Jr., 1985.

<sup>2/</sup> Promotion of Small-Scale and Rural Industries in Palawan Province, Melito Salazar, Jr., 1987.



organizations, ranging from Church groups to business based foundations are involved in financing and assisting a variety of economic projects. Yet, despite all these organizations actively promoting the sector's development, growth has not been proportionate to the resources directed to the sector due to an unco-ordinated and non-integrated efforts except in such cases as the Palawan Integrated Development Program.

#### Programme in support of SSIs

The paper has so far taken the approach of identifying the national policies and efforts to promote small-scale industry in the rural areas rather than focus only on pilot rural enterprise development projects in the countryside. This is necessary because regional or provincial enterprise development efforts can not exist in isolation of national policies and programmes. Attempts to isolate special areas of the country for special programmes all too often find a conflict between the area-specific needs for appropriate policies and programmes with material or central government initiatives and concerns. Yet this does not imply that such type of endeavours should stop but rather than they are facilitated by consistent national policies on the development of small-scale industry in the rural areas parallel with a committed policy on regional autonomy or government decentralization.

These policies in support of the sector have to be translated into specific programmes. These programmes are usually in the areas of enterprise development, financing, production/technology, raw materials and marketing services. A review of the activities in three country cases in each category at the national and regional or local level may reveal the necessity of the national and local linkage specified earlier:

#### Enterprise Development

In the Tanzanian experience there was a strong government bias against the individual entrepreneur in favour of commercial and co-operative endeavours while in the Republic of Korea, the co-operatives were based on entrepreneur members who had their own individual firms. In the Philippines, there was no attempt to indicate a preference for a particular form of enterprise.

The Philippines and the Republic of Korea identified specific industries to be promoted based on export potential and national or local resource availability. However, the Republic of Korea by classifying its SSIs into three groups, A - to be developed as small scale, B - with evident potential to grow into large concern and C - should alter their line of business provided a more directed development of the sector.

In the Philippines, as contrasted to the Republic of Korea and Tanzania, concern was placed on identifying, screening and training potential entrepreneurs to increase the supply of entrepreneurs while the Republic of Korea took the view that the 'proper' environment will bring forth the entrepreneurs and Tanzania discouraged individual entrepreneurship in favour of community-based ones.

At the rural level, enterprise development in the Philippines was facilitated by stimulating potential entrepreneurs, training them and providing support package from an integrated network of government agencies. In the Republic of Korea, priority was directed at providing "home industry centres" to undertake:

- (a) training of skilled workers;
- (b) joint purchase and sale;
- (c) development of markets;
- (d) management and technical guidance;
- (e) inspection of product quality;
- (f) collection and dissemination of information and data

for existing entrepreneurs. In Tanzania, the Area Commissioner and the District Planning Team provided aid, usually financing and extension, to communal projects.

### Financing

In Tanzania, the Rural Development Fund (RDF) a totally government resource, decentralized to subnational administrative levels an annual amount of development finance for allocation to small locally-initiated projects for basic rural impact - particularly those aimed at increasing production and involving an element of self-help or collective activity. The specific machinery charged with the discretionary spending of these funds (within a broad policy framework) was the development committee system with a regional, a pyramidal structure based on Village Development Committees up to the District and Regional Development Committees (RDC). Later the RDF was completely decentralized to the RDC. With respect to the basic policy, the Regional Development Committees distributed the RDF amongst districts. A tendency was for the regions to divide their funds on a simple basis, that is, in accordance with population distribution.

In the Philippines, formal sources of funds come from the private banks. Government financing schemes began in the 70s with the Small and Medium Industries Lending programme (SMILE) of the Development Bank of the Philippines and are now continuing, mainly through the Industrial Loan Fund (IGLF) and the Guarantee Fund for Small and Medium Enterprises (GFSME) which utilizes accredited government and private financial institutions as conduits. However, a review of the schemes shows that most of the loans are still directed to the urban areas.<sup>1/</sup> This is due to the concentration of the banking system in the areas, the limited staff based in the urban centres to implement these schemes and the urban orientation of banks. A new financing scheme 'Tulong Sa Mga Taong Bata (People) has been launched by the Department of Trade and Industry. It is open to entrepreneurs and subcontractors utilizing private financial organizations as conduits. With initial funds of P100 million (P100 million), the fund is directed by a national council with members from government and private sector. At the regional or

<sup>1/</sup> Financial Factors and Small and Medium Enterprise Development in the Philippines, Melito S. Salazar, Jr., et.al., Small and Medium Enterprise Improvement in the ASEAN Region: Financial Factors, Narongchai Akrasanee, 1986.

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- (a) A national policy and programme with definite objectives in support of SSI development in the rural areas.
- (b) The setting up of 'small industry centres' in each province to help and guide small enterprises to improve their management and production activities and of 'home industry centres' throughout the country to carry out the functions of
- training of skilled workers;
  - joint purchase and sales; development of markets;
  - management and technical advice;
  - inspection of product quality;
  - collection and dissemination of information and data
- which assured the availability of services where required.
- (c) A financing package delivered by the Medium Industry Bank with 80 branches nationwide and the Citizens National Bank which also had an extensive network.
- (d) A strong private association, the Korea Federation of Small Business which acts as the spokesman for the industry and carries out the following functions:
- works for the protection of rights and interests of members and carries out business for sound development of the economy in co-operation with the government;
  - offers managerial and technical assistance to members extending educational training and information through its Technical Extension Service Centre;
  - seeks to channel government subsidies generated to co-operatives
- and with its system of co-operatives:
- (i) Nation-wide co-operative - where business activities covers the country as a whole
  - (ii) Federation - organized by local co-operatives of the same type as industrial groups where business activity area covers only the specified local district
  - (iii) Provincial co-operatives - where business activities is limited to one administrative areas.

The co-operatives perform the following activities:

- operate common facilities
- co-ordinate the business activities
- promote standardization of products manufactured or processed by member firms
- inspect above products

- arrange bank credit for member firms
- collect and disseminate economic and business information
- perform buffer stock operation of raw materials
- arrange collective contracts with public procurement agencies
- sponsor industrial estates.

(e) legislation operating special privileges and benefits to the SSI sector.

The Tanzanian experience did not succeed as well because the encouragement of the co-operative was directed to weaken individual entrepreneurship rather than strengthen it. Thus, co-operatives in a way competed with the individual businessman. The allocation of resources on the basis of population rather than definite programmes of actions also resulted in inadequate resources for full development in certain areas. Finally, the government officials led the process according to their perceptions rather than to have the private sector be the one to indicate needs and types of programme and service. The Philippine experience had moderate success considering the various innovative services and programmes. But results were hampered by the lack of a total government commitment to SSI. For example, other government line agencies would come up with regulations hindering operation of SSI at the local level. Even if the provincial officials or government officers at the rural areas were against the regulations, nothing could be done. Also it was only recently when the Department of Trade and Industry began to decentralize operation to the provincial level. Thus, in the past small businessmen had to go to urban regional centres for assistance. The use of an information network of local radios and the involvement of the producers associations were strong facilitating factors.

#### INSIGHTS FOR THE PENGKALAN CHEPA PROJECT

Drawing from the three country experiences with special reference to the Korean and Philippine situations, the following insights can be drawn for possible consideration in the "Nursery Factory Scheme" in Pengkalan Chepa, Kelantan, Malaysia.

#### Holistic perspective

The Nursery Factory Scheme can not be viewed in isolation from the developments in the State of Kelantan and beyond. It should not just be considered as an important element in the development of Kelantan. The project's role, linkages with other aspects of Kelantan's development process and distinctive contribution to the development objectives of the State must be identified.

This means at the outset that a development plan for the State of Kelantan is formulated having industry as the leading factor. This implies that after a thorough resource analysis matched by market studies, a list of investment opportunities for the State can be generated. This list can be further subdivided according to the appropriate firm size - small, medium or

large. It must be noted that such an investment list could result in another list of ancillary investment opportunities and so on, until one has a fairly integrated and linked pattern of industrial and investment opportunities. Thus at the start, one is able to identify the necessary linkages between large and small, small and medium and small and small industries and consciously plan out the establishment and strengthening of such relationships through subcontracting and other mechanisms.

It is from such a list that target industries for the nursery factory scheme can be identified and projection of the length of stay in the nursery made and eventual dispersal to the appropriate location among the already established firms in the economic centres of Kelantan.

#### Broader participation

Within the context of a holistic perspective, the planning and management of the Nursery Factory Scheme may require the involvement of people other than from BPMP and SED of the Ministry of Trade and Industry. Among the probable necessary co-operators would be officials of the local government, other government ministries responsible for infrastructure support (transportation, communication, peace and order, etc.) and the private sector (existing chambers of commerce, trade associations or bumiputra associations). Such a grouping would ensure a planning approach that could bring together a fuller range of information and concern. It could also mobilize the essential support at the implementation stage.

#### Joint activities

The choice of entrepreneurs and the type of training programme further should emphasize collaborative behaviour. The existing situation in Pengkalan Chepa, indicates the need for the entrepreneurs to undertake joint activities - purchasing, sales and even sharing of equipment (transportation, etc.). Yet entrepreneurs that are individualistic in nature may rather have their enterprises fail than group together. Thus the need for a co-operative attitude among them all.

#### Cocoon of support

Any pilot project to have a good chance of success must have more than the immediate resources required. This is because the future can not be foreseen and there must be resources available to meet any contingencies. In the case of the Nursery Factory Scheme, the requirements for success of each firm should have been identified and the collective needs should determine the features of the scheme. Among others, the cocoon of support or features of the programme could include such innovations from other country experiences as:

1. Market Encounter Programmes - a Filipino programme that brings together buyers and the local entrepreneurs could be adopted for Pengkalan Chepa by arranging for buyers from Kuala Lumpur, Kelantan's neighbouring states and even abroad to visit the area and see the products of the firms. Besides encouraging sales, the market encounter could be an opportunity for entrepreneurs to share ideas with each other or be updated on the latest markets information and product design.



2. **Legislated Market** - in the case of the Republic of Korea and also, India, the government is mandated to buy a certain percentage of purchases from small firms or to purchase specified products only from the Republic of Korea. Such an approach maybe utilized to ensure a market especially for those beginning enterprises.
3. **Joint Purchasing and Sales** - a Korean approach to lower the costs of raw materials, purchasing and marketing. Pengkalan Chepa entrepreneurs in the nursery factory could combine purchase requirements to take advantage of bulk discounts. They could also group together to meet sales demands greater than the individual plant/firm capacity or utilize joint marketing units and lower individual firm costs.
4. **Financing** - more liberalized credit scheme should be provided. The participation of local trade associations could be explored, maybe following the Philippine experience where local chambers established a guarantee fund for loan by a local banker. However, it was the chamber that made the initial assessment of the project's character and business viability while the banks appraised collaterals and other assets.

#### Accessibility of support and local autonomy

The assistance and services must be located within reach of the entrepreneurs. There were instances where the entrepreneurs made decisions as to purchases of machinery and equipment without consulting the appropriate government institution. Rather than call the entrepreneur to task for this, the question to be asked is why was the service not available to them?

It may be necessary to identify the type of business decisions to be made and the kind of assistance or advice required. Then institutions within the Kelantan State could be identified and prior arrangements made with them to be available on an "on call" basis. Where the expertise is not within the state, arrangements should still be made even if the institutions are in Kuala Lumpur. There must be a person who acts as the general or all around facilitator. The Scheme Manager is in charge of this activity but his work would be greatly facilitated by a planning or management committee which had representations from these support agencies.

Annex AMAJOR POLICIES OF THE GOVERNMENT OF THE REPUBLIC OF KOREA ON SMALL BUSINESS**(a) Policy under the formative stage**

1. Recognition of the Small Industry Division within the Ministry of Commerce and Industry as the key organization with authority and responsibility to formulate and execute policies for growth and development of small industry;
2. Creation of the Medium Industry Bank (MIB) to help small enterprises start, grow, expand and prosper;
3. Setting up 'small industry centre' in each province;
4. Enactment of laws to give incentives for export, prevent unhealthy competition between small industries or small and large industries and promote co-operatives for joint enterprise activities.

**(b) Policy under the selective development state**

1. Classification of Small Industries to establish development priority;
2. Working out a three phase programme to foster small export-oriented enterprises;
3. Initiating a specialized export industry development programme for 13 major products;
4. Establishment of the Industrial Estate Programme to foster small industries as export industries and to disperse small enterprises to economically backward and rural areas;
5. Provision of special loans to specialized indigenous industries and increasing coverage of MIB loans to firms with larger employment;
6. Establishment of 'Home Industry Centres'; and
7. Legislation requiring commercial banks to have 30 per cent of loans advanced to small enterprises and enabling small industries to make collective supply contracts with government agencies on a preferential basis.

**(c) Policy under the systematic development stage**

1. Enactment of the Small Industry Basic Act mandating government to attain certain objectives and provide specific support to the sector;
2. Setting up of the Council of Small Industry Policy to recommend policies for the sector;

3. Formation of the Committee on Financial Assistance to Small Industry to strive for co-operation among banking institutions for small industry financing;
4. Establishment of a Small Industry Credit Guarantee Act;
5. Initiation of the Machinery Industry Development Programme to phase out import of machines requiring foreign exchange;
6. Modernization of production facilities using foreign loans; and
7. Provision of management and technical extension service from international agencies.

(d) Policy under the structural modernization stage

1. Promoting of specialization and subcontracting relationship between small and large industries;
2. Promotion of mergers among small enterprises in order to have optimum plant size, prevent keen competition and obtain better efficiency profits;
3. Promotion of rural industries through resources indicated above;
4. Promotion of industrial co-operatives;
5. Enactment of the Regulations on Procurement of Small Industry Products by government departments, government-owned and controlled corporations; and
6. Promulgation of Decrees to reduce interest rates of bank loans, to grant special financial aid, to stabilize prices and foreign exchange prices during emergencies.

Annex BSUMMARY OF SMALL-SCALE INDUSTRY DEVELOPMENT ASPECTS IN  
THE PHILIPPINE DEVELOPMENT PLANS1974-1977

- Conduction of surveys and studies on techno-economic possibilities of SMIs in specific areas
- Preparation of a subcontracting programme - national and international levels
- Creation of a multi-purpose institute of technology for SMI
- Enlargement of the supply of institutional credit via a reorientation of government and commercial bank lending
- Formation of specific organization to look after interest of SMIs
- Development of economically advantageous ancillary units
- Conduction of an intensive campaign for regional development

1978-1982

- Establishment of cottage, small and medium industries outside Metro Manila
- Development of the SMIs particularly in the less developed regions of the country
- Encouragement of SMIs to manufacture simple consumer goods and farm implements to supply among others, the needs of large-scale industries within the areas
- Promotion of entrepreneurship for SMI projects on a regional approach to be further supplemented by programmes that will upgrade skills to meet the needs of industrial development.

1983-1987

- Increased financing to CSMs including Kilusang Kabuhayan and Kaunlaran (KKK) projects
- Government assistance to entrepreneurial development
- Development of technological centres and common facilities in the different regions of the country
  - (a) improvement of production facilities
  - (b) marketing
- Promotion of subcontracting between CSMs and industries under KKK livelihood programme and large-scale industries.

Updated 1984-1987

- Increased financing to CSMEs
  - (a) through traditional and collateral bearing loans, venture capital concept
  - (b) by tapping non-tradingal sources and introducing innovative schemes
- Provision of support for start-up operations, technical and marketing assistance
- Enhancing private sector participation in the development effort
- Establishment of more private associations throughout the country to provide more effective linkages between small entrepreneurs and the rest of the business world
- development of indigenous raw materials to ensure adequate supply.

Annex CMARKETING FACTORS IN SMALL AND MEDIUM INDUSTRIES  
IMPROVEMENT IN THE PHILIPPINES

Following are the marketing assistance programmes of the Ministry of Trade and Industry :

1. Marketing Assistance Programme (MAP)

The Marketing Assistance Programme caters to the information needs of both buyers and small-scale producers. Its assistance ranges from product development to market analysis and product presentation.

The objective of the programme is to promote and develop markets for products of small and medium industries by identifying markets, matching the buyers with local producers, facilitating trade transactions, and assisting the manufacturers in bringing their products to the market at a competitive price and at a competitive quality.

Services offered under the MAP include:

Marketing information

Information on verified buyers, producers and raw material suppliers; distribution channels, trade trends and opportunities; profiles of different countries and foreign markets and other information available in the data banks are given to interested parties.

Under the MAP of the Bureau of Small and Medium Industries (BSMI), 1,982 market inquiries were attended to while 283 product and company profiles were gathered. The Bureau of Foreign Trade (BFT) has provided information to 12,980 clients, while NACIDA serviced 7,187 individual firms and 138 industry associations.

Marketing consultancy

Consultancy services on pricing, export marketing and procedures in joining trade fairs missions are also provided to small and medium enterprises. A total of 5,114 parties have been given advisory and referral service by the BSMI.

To extend assistance to business wanting to go into exports, the BFT established a division of How to Get Started in Exports. The office has assisted 662 would-be exporters in 1984. The BFT also assisted 565 walk-in buyers at the MIA-MIT Buyers Assistance Centre and at the Philtrade.

Trade opportunities

The Bureau of Foreign Trade (BFT) through its Corps of Commercial Attaches can assist in developing the export potential of products aimed at an identified target market abroad. The Bureau compiles trade opportunities generated from inquiries by interested foreign buyers. Through the Trade Opportunities publications, 3,803 export trade opportunities have been

disseminated to more than 2,000 Philippine exporters, manufacturers and trade chambers and associations.

#### Trade fairs/exhibits

Philippine products are presented in selected international trade fairs to provide foreign buyers a good look at Philippine-made goods. Through the Centre for International Trade Expositions and Missions, Inc. (CITEM), the Ministry of Trade and Industry has already organized 56 trade promotional activities. These activities showcased 600 Filipino exhibitors and generated sales amount to US \$243.5 million. Four market weeks, were also organized in other countries and registered a total of US \$165.17 million in negotiated and projected sales for 341 exhibitees. Items promoted in these projects were predominantly belonging to seven priority products. The promotion of Golden Shell products, an activity of the PITO, has been implemented through this programme.

Exporters are dispatched to specific overseas markets to develop and negotiate export trade arrangements. This provides the participating firms with a better appreciation of the support market for their products. In 1984, the Ministry sent 64 Filipino exporters to business trips abroad, and arranged business meetings in the Philippines between 507 local exporters and 461 foreign buyers.

#### Trade complaints mediation

The MTI through BFT assists Philippine exporters settle their difference with the trading partners in case of trade conflicts or disputes. The offices of the commercial attaches overseas are utilized for this purpose. The Ministry has settled 71 trade disputes between foreign buyers and Philippine exporters.

#### Trade arrangements

To strengthen trade relations with other countries, the Philippines continues to work for the negotiation and conclusion of more trade agreements. Such agreements concluded in 1984 included:

- sales of fertilizer to the Philippines an agent of P.T. ASEAN Aceh Fertilizer Company in Indonesia;
- sales of copper cathodes to China as exclusive agent for the Philippine Associated Smelting and Refining Corporation;
- sale of abaca rope to the USSR; and
- sale of cavendish bananas to the Republic of Korea.

To futher boost its marketing efforts, the Ministry entered into special marketing and trading arrangements with international trading and merchandising firms such as Sears World Trade (USA), Elder International Ltd. (Australia), Hugonet (France), Metalgesellschaft International Ltd. (USA, Hong Kong), and GLS (Germany).

### Display centers

Due to increasing demand for cottage products not only in the export market but also in the domestic front, the MTI accelerated the promotion and development of cottage industries through the NACIDA which extended not only financial but also marketing and technical assistance to cottage industry producers. The NACIDA operates a number of emporia and display centres nationwide to promote and sell cottage products.

Through these regional centres, NACIDA made a gross sale of ₱820,50 in 1984, or 84.1 per cent over the amount generated the previous year. The increase was attributed to the opening of additional centres during the year in Regions II, IV, V and VI.

### 2. Market Encounter Programme

The promotion of small and medium enterprises was given a boost by the Market Encounter Programme launched in 1983 by the Bureau of Small and Medium Industries and the Centre for International Trade Expositions and Missions, Inc. in co-ordination with other MTI agencies.

The programme is essentially a sales fair held monthly in various regions of the country which focuses on thriving industries and those with potential for development. It brings together in an area cottage, small and medium entrepreneurs and the local consumers. It aims to expand the local merchandise market in response to the changing Philippine economy.

The Market Encounter Programme has three components, namely, an exhibit of products produced in the region; a dialogue between the producers and invited buyers; and a product development clinic conducted by international specialists. As of 1984, the Market Encounter Programme events were attended by 746 buyers and generated ₱14.8 million in booked orders for 1,286 producers all over the country.

### 3. Best in the World Programme

The Best in the World Programme is aimed at improving SME products from indigenous raw materials. Each specialist will develop at least 250 new designs which will be entrusted to qualified manufacturers for commercial production. They will also conduct seminars, workshops, and one-on-one consultancy clinics on the needs of Filipino manufacturers. In 1984, these specialists rendered one-on-one consultancies to 394 firms, conducted 18 seminars throughout the country which attracted 760 participants, undertook 154 product clinics with 236 participants, and developed 1,132 prototype products from which a total sale of US \$3,355 million has already been made.

### 4. Design Mobile

The Design Mobile, a design centre on wheels, is a specially designed vehicle for exhibition of commercial and industrial products, the showing of audio-visual materials including films, slides and videotape programmes, or a venue for small meetings and workshops with local producers.

The Design Mobile provides on-the-spot product and package evaluation, design and adaptation with its extensive library of design aids, such as product slides, trade information, technical studies and design publications.



#### 5. Manila FAME Furnishings and Apparel Manufacturers Exchange

Filipino entrepreneurs in co-operation with the MTI organize and schedule market weeks under that theme of Manila FAME (Furnishings and Apparel Manufacturers Exchange). The objective of the programme is to show buyers the finest goods produced in the country currently available for export.

#### 6. Top Lines in Motion (TLM)

TLM is a travelling exhibition showcasing a fine selection of Philippine-manufactured goods (e.g. garments, fashion accessories footwear and leather goods). These products are chosen based on world-wide consumer demands, quality of goods and the product's reflection of Philippine design and manufacturing capabilities.

TLM also introduces top Filipino designers to the international fashion scene. Designers with tie-ups with local garment manufacturers offer a wide range of new and innovative designs for large volume purchases at competitive prices. For the designers not affiliated with a garments producer, TLM seeks to develop new markets in the low-volume but high-priced exclusive boutiques and fashion houses here and abroad.

#### 7. Golden Shell Showcase

The Philippines is now promoting a special line of products with innovative designs, utilizing indigenous raw materials. Marketed through the Philippine International, these products bear the symbol "Golden Shell" which indicate that the goods have been manufactured according to the highest standards.

Golden Shell products are promoted in various ways such as participation in international fairs and exhibitions, establishment of Golden Shell showcases and representative showrooms in key cities around the world, and selective advertisements and special features in prestigious trade publications. Through these promotion channels, buyers are provided with accessible and continuing supply sources. Manufacturers, in turn, enjoy effective exposure for their products and feedback from the market place.

#### 8. Export assistances network (EXPONET)

The EXPONET is a special project under the MTI. It has forged linkages with various government and private agencies which are concerned with the development of export products.

Services offered to exporters include:

- facilitation service which extends assistance to exporters who have problems related to documentation procedures, raw materials sourcing and other export-related matters;
- inquiry - reply service or export and/or export-related problems;
- referral service which serves as a link between exporters, key government and private agencies concerned with exports; and

- information dissemination service in locating vital trade information such as marketing guides, market access information, trade opportunities, international standards and the like.

ORGANIZATION FUNCTIONS RELATED TO SMALL ENTREPRENEURIAL  
DEVELOPMENT IN THE PHILIPPINES

Table 3(a). Mapping of organizational functions related to small  
entrepreneurial development

(Stimulatory activities)

| Activity                                 | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | Total involment<br>score y x no. of<br>cells in row of<br>average score |
|--|-----|-----|-----|-----|-----|-----|-----|-----|---|
| Organizations                            |     |     |     |     |     |     |     |     |   |
| 1. Bureau of Small Ind.' M.C.I.          | X   |     |     | X   | X   | X   | X   |     |   |
| 2. Korea Rural Ind. Dev. Ctr.            | X   | X   |     | X   | X   |     |     | X   |   |
| 3. Korea Federation of Small<br>Business | X   | X   |     | X   | X   | X   | X   | X   |   |
| 4. Medium Industry Bank                  | X   |     | X   | X   | X   |     |     | X   |   |
| 5. Citizens National Bank                | X   |     |     | X   |     |     |     |     |   |
| 6. Korea Credit Guarantee Fund           | X   |     | X   |     | X   |     | X   | X   |   |

- (1) Entrepreneurial production and planned publicity of entrepreneurial opportunities.
- (2) Identification of potential entrepreneurs from within.
- (3) Motivational and inplant training to new entrepreneurs.
- (4) Help and guidance in selecting products and preparing project reports.
- (5) Arranging techno-economic information and feasible product profiles.
- (6) Evolving locally suitable new products and processes.
- (7) Training officers and creating local agencies for entrepreneurial counselling and promotion.
- (8) Organizing entrepreneurial forums.

Source: International Research Project on Korean Small Industry Development, Soon Jun University, Seoul, Republic of Korea.

Table 3(b). Mapping of organizational functions related to small entrepreneurial development

(Support activities)

| Organizations                         | Activity |     |     |     |     |     |     |     |     | Total involment score y x no. of cells in row of average score |
|---------------------------------------|----------|-----|-----|-----|-----|-----|-----|-----|-----|--|
|                                       |          | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |  |
| 1. Bureau of Small Ind., M.C.I.       |          |     | X   | X   | X   |     | X   | X   | X   |  |
| 2. Korea Rural Ind. Dev. Ctr.         |          |     | X   |     |     |     |     |     |     | X  |
| 3. Korea Federation of Small Business |          |     |     |     | X   | X   |     |     |     | X  |
| 4. Medium Industry Bank               |          |     | X   | X   |     |     |     |     |     | X  |
| 5. Citizens National Bank             |          |     | X   |     |     |     |     |     |     |  |
| 6. Korea Credit Guarantee Fund        |          |     | X   |     | X   |     |     |     |     | X  |

- (1) Registration of the unit.
- (2) Arranging finance for working and fixed capital for plant and equipment.
- (3) Providing land, shed, power, water etc.
- (4) Help and guidance of selecting and obtaining plant and machinery.
- (5) Supplying scarce raw materials and/or import licences etc.
- (6) Providing common facility centres.
- (7) Granting tax relief and other types of subsidy.
- (8) Other management consultancy, including help in marketing the product.

Source: International Research Project on Korean Small Industry Development, Soon Jun University, Seoul, Republic of Korea.

Table 3(c). Mapping of organizational functions related to small entrepreneurial development

(Sustaining activities)

| Activity<br>Organizations                | (1)                             | (2) | (3) | (4) | (5) | (6) | (7) | (8) | Total involment<br>score y x no. of<br>cells in row of<br>average score |
|--|---------------------------------|-----|-----|-----|-----|-----|-----|-----|---|
|  | 1. Bureau of Small Ind., M.C.I. | X   |     | X   |     |     | X   | X   |   |
| 2. Korea Rural Ind. Dev. Ctr.            |                                 |     |     |     |     |     |     |     |   |
| 3. Korea Federation of Small<br>Business | X                               |     | X   |     |     | X   |     |     |   |
| 4. Medium Industry Bank                  | X                               |     | X   |     |     |     |     |     |   |
| 5. Citizens National Bank                |                                 |     | X   |     |     |     |     |     |   |
| 6. Korea Credit Guarantee Fund           | X                               |     |     |     |     |     |     |     |   |

- (1) Modernization.
- (2) Diversification.
- (3) Expansion.
- (4) Additional financing for full capacity utilization.
- (5) Differing repayment/interest.
- (6) Diagnostic industrial extension/consultancy activities.
- (7) Legislative/policy/protection/recognition.
- (8) Creating new avenues for marketing.

Source: International Research Project on Korean Small Industry Development, Soon Jun University, Seoul, Republic of Korea.

**SUMMARY OF VARIOUS ASSISTANCE ACTIVITIES TO THE SMALL INDUSTRY BY GOVERNMENT AGENCIES IN THE PHILIPPINES**

| Agencies  | Research | Training | Consultancy | Financing | Marketing | Production/<br>Technology |
|---|----------|----------|-------------|-----------|-----------|---------------------------|
| 1. NSTA-National Science and Technology Activity                        |          | X        | X           | X         |           | X                         |
| 2. MIST-National Institute of Science and Technology                    | X        | X        | X           |           |           | X                         |
| 3. PIDI-Philippine Inventors Development Institute                      | X        | X        | X           |           |           | X                         |
| 4. FNRI-Food and Nutrition Research Institute                           | X        | X        | X           |           |           | X                         |
| 5. FPRIDI-Forest Products Research and Industries Development Institute | X        | X        | X           |           |           | X                         |
| 6. NFA-National Food Authority  | X        |          | X           | X         | X         | X                         |
| 7. DFST-Department of Food Science and Technology                       | X        | X        |             |           |           | X                         |
| 8. MIRDC-Metals Industry Research and Development Centre                | X        | X        | X           |           |           | X                         |
| 9. PTRI-Philippine Textile Research Institute                           | X        |          |             |           |           | X                         |
| 10. NACIDA-National Cottage Industries Development Authority            | X        | X        | X           |           | X         | X                         |

Continued

| Agencies  | Research | Training | Consultancy | Financing | Marketing | Production/<br>Technology |
|---|----------|----------|-------------|-----------|-----------|---------------------------|
| 11. TRC-Technology Resource Centre                                | X        | X        | X           | X         | X         | X                         |
| 12. TTB-Technology Transfer Board                                 |          | X        |             |           |           | X                         |
| 13. DBP-Development Bank of the<br>Philippines                    |          | X        |             | X         |           |                           |
| 14. PNB-Philippine National Bank                                  |          |          |             | X         |           |                           |
| 15. CB-Central Bank   |          | X        |             | X         |           |                           |
| 16. IGLF-Industrial Guarantee and<br>Loan Fund                    |          |          |             | X         |           |                           |
| 17. LBP-Land Bank of the Philippines                              |          |          | X           | X         |           |                           |
| 18. PDCCP-Private Development Corpora-<br>tion of the Philippines |          |          | X           | X         |           |                           |
| 19. PBSP-Philippine Business for<br>Social Progress               |          | X        | X           | X         |           | X                         |
| 20. KKK-Kilusang Kabuhayan at Kaunlaran                           |          |          |             | X         | X         |                           |
| 21. IGF-Invention Guarantee Fund                                  |          |          |             | X         |           |                           |
| 22. CIGLF-Cottage Industry Guarantee<br>and Loan Fund             |          |          |             | X         |           |                           |
| 23. VIBES-Venture in Industry and<br>Business Enterprises, Inc.   |          |          | X           | X         |           |                           |

Continued

| Agencies  | Research | Training | Consultancy | Financing | Marketing | Production/<br>Technology |
|---|----------|----------|-------------|-----------|-----------|---------------------------|
| 24. EIMP-Export Industry Modernization programme                      |          |          |             | X         |           |                           |
| 25. PHILGUARANTEE-Philippine Export and Foreign Guarantee Corporation |          |          |             | X         |           |                           |
| 26. NDC-National Development Company                                  |          |          |             | X         |           |                           |
| 27. BSMI-Bureau of Small and Medium Industries                        |          | X        | X           |           | X         | X                         |
| 28. DCP-Design Centre Philippines                                     | X        | X        | X           |           | X         | X                         |
| 29. PDC-Productivity Development Centre                               | X        | X        | X           |           | X         | X                         |
| 30. MNR-Ministry of Natural Resources                                 | X        |          | X           |           | X         | X                         |
| 31. MAF-Ministry of Agriculture and Food                              | X        | X        |             |           | X         | X                         |
| 32. BAI-Bureau of Animal Industry                                     | X        | X        | X           |           |           | X                         |
| 33. BAE-Bureau of Agriculture Extension                               | X        | X        |             |           |           | X                         |
| 34. FDA-Fibre Development Authority                                   | X        | X        |             |           | X         | X                         |
| 35. PSA-Product Standard Agency                                       | X        | X        | X           |           |           | X                         |
| 36. NCC-National Computer Centre                                      | X        | X        |             |           |           | X                         |



Continued

| Agencies  | Research | Training | Consultancy | Financing | Marketing | Production/<br>Technology |
|---|----------|----------|-------------|-----------|-----------|---------------------------|
| 37. CESO-Canadian Executive Service Overseas                                  |          | X        | X           |           |           | X                         |
| 38. BFT-Bureau of Foreign Trade   | X        |          | X           |           | X         |                           |
| 39. PITC-Philippine International Trading Corporation                         |          |          |             | X         | X         |                           |
| 40. BDT-Bureau of Domestic Trade  | X        |          | X           |           | X         |                           |
| 41. FTI-Food Terminal Incorporated  |          |          |             |           | X         |                           |
| 42. SHIPPERCON-Philippine Shippers Council                                    |          |          |             |           | X         |                           |
| 43. PSC-Price Stabilization Council   | X        |          |             |           | X         |                           |
| 44. UPISSI-University of the Philippines Institute for Small-Scale Industries | X        | X        | X           |           |           | X                         |
| 45. NMYC-National Manpower and Youth Council                                  | X        | X        | X           |           |           |                           |
| 46. CRC-Centre for Research and Communication                                 | X        | X        | X           |           |           |                           |
| 47. BOI-Board of Investments  | X        | X        | X           |           |           |                           |
| 48. GTEB-Garments and Textile Export Board                                    | X        |          |             |           | X         |                           |