SMEs in the Philippines

A development agenda to sustain their growth

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Small and medium enterprises (SMEs) play a crucial role in the growth of the Philippine economy. The Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country. The strategy encompasses all critical factors - technology, product development, finance, training, marketing, etc. This article discusses the Philippine strategy.

Introduction

Small and medium enterprises (SMEs) play a crucial role in the development of the Philippine economy. They represent 99.6 per cent of all businesses registered in the country and employ 69.9 per cent of the total labour force. In addition, they account for 32 per cent of the country's gross domestic product (GDP).

Underscoring the importance of SMEs in the country’s economic growth and development, President Gloria Macapagal-Arroyo has included in her 10-point national development agenda the creation of 6-10 million jobs in six years, through more opportunities given to entrepreneurs, a tripling of the amount of loans available to SMEs, and the development of 1-2 million hectares of land for agri-business.

Prior to the 10-point agenda, President Arroyo had called on her previous administration to craft the SME Unified Lending Opportunities for National Growth (SULONG) programme. The programme is geared towards expanding the enterprise base by graduating micro, small and medium enterprises to higher levels of classification by providing them with more access to government assistance.

’Sulong’ is a Filipino word which means ‘move forward’, and is an appropriate rallying call by the present administration to make SMEs an even more productive sector.

Building on the previous administrations’ efforts to develop SMEs in the Philippines, the National SME Agenda has, as an essential ingredient, the greater communication and closer coordination among key agencies mandated to support SMEs, resulting in less duplication of efforts and in more complementarity of assistance programmes offered by various government agencies.
Figure 1: SME agenda: An integrated approach

Led by the Department of Trade and Industry (DTI), the programme calls for the concerted efforts of key players in its various elements, namely human resource development and entrepreneurship training, market development, product development and technology intervention, advocacy for enabling environment, and financing.

Overseeing all efforts in SME promotion, growth, and development is the Small and Medium Enterprise Development (SMED) Council. Chaired by the Secretary of Trade and Industry, the Council is composed of the Director General of the National Economic and Development Authority (NEDA), the Secretaries of Agriculture; Labour and Employment; Science and Technology; and Tourism. It also includes the Chairpersons of the Monetary Board and the Small Business Guarantee and Finance Corporation, three representatives from the private sector, and a representative from the private banking sector.

An integrated approach

The SMED Council members meet at least once a month to discuss issues, evaluate activities, and map out short-term to long-term plans for SME development. Being the chair of the SMED Council, DTI has reaffirmed its commitment to SME development by creating an SME Development Group composed of DTI-attached agencies and bureaus mandated to support SMEs. The SME Development Group is tasked to implement, coordinate, and monitor the various efforts that go into SME development, namely: Finance, Training/Human/Resource Development, Marketing, Product Development and Technology Intervention, and Advocacy for an Enabling Environment (Figure 1).

It is an increasing recognition of the important role played by SMEs in the economy that has led the government to support various policies and programmes to promote their growth.

Finance

SULONG is the brand name for the financing initiative under the Plan. This unified lending programme is the result of a collaboration among government financial institutions (GFIs). Under the SULONG Programme, GFIs apply simplified and standardized lending procedures and guidelines (e.g., standardized application procedures, requirements, fees and interest rates) to provide SMEs with greater access to capital. Participating GFIs include Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Small Business Corporation (SB Corp.), Quedan and Rural Credit Corporation (Quedancor), Philippine Export-Import Credit Agency (PHILEXIM), and the National Livelihood Support Fund (NLSF). Interest rates are pegged at 9 per cent per annum (p.a.) for short-term loans, 11.25 per cent p.a. for medium-term loans, and 12.75 per cent p.a. for long-term loans. More than PHP 35.3 billion (US$ 640 million) in loans have been released to some 368,000 SMEs nationwide since the launch of the Programme in February 2003.

One town, one product, one million pesos programme

This programme enhances and stimulates domestic demand through SME development on a countrywide basis.

Under the programme, the government allocates PHP 1 million (US$ 18,200) for lending to an SME in every locality, through identified funding sources. DTI, in coordination with local government units (LGUs), identifies a product or service cluster for funding support. An SME offering such a product or service in that locality is eligible to apply for a loan from a funding source. A funding source will grant the loans to eligible SMEs that have complied with loan requirements at a maximum effective interest rate of 10 per cent per annum.

Marketing

Trade fairs

Various DTI agencies have been tasked to design marketing programmes to increase the exposure of SME products in domestic and foreign markets, and to improve the distribution of SME products between local manufacturing and trade sectors as well as within each sector.

In line with the goal of expanding markets for SMEs, the DTI mounts local and international trade fairs. For local trade fairs, the DTI organizes the annual National Trade Fair (NTF), a five-day, order-taking, and retail selling fair. It showcases the best producers of the entire country and their finest products in one venue for the convenience of institutional buyers, exporters, and export traders.

NTF participants undergo a rigid screening process. The DTI provides assistance packages to the SMEs - from raw material identification to training, product design assistance, and market-
Case 1: Northlandia Enterprises  
**Products:** Wood furniture  
**Location:** Isabela  
**Assistance:** PHP 3 million (US$ 54,000)  

Paulino Tan, an engineer, was still managing a family-owned business when he discovered the possibilities of the woodworking industry from clients engaged in logging operations in Isabela and Quirino.

Wanting to have a business he could call his own, Tan, assisted by his wife, Amelia, forked out PHP 100,000 (US$ 1,800) and established Northlandia Enterprises in 1990. The firm initially produced wooden pallets and knockdown boxes.

Now, Northlandia’s assets are about PHP 17 million (US$ 309,000) and the enterprise employs from 50 to 150 workers, depending on the availability and size of contracted projects.

The Tans attribute their success to government support, extended through the DTI, its attached agencies, and the SMED Council. A PHP 3 million (US$ 54,000) loan from SB Corp. was extended for additional working capital.

Case 2: CARCAR United Footwear Manufacturers’ Association (CUFMAI)  
**Products:** Footwear products  
**Location:** Carcar, Cebu  
**Assistance:** Beneficiary of “One Town, One Product, One Million Peso” programme (financing), training in credit management and delinquency control, and technical assistance.

Shoemaking is part of the heritage of the people of Carcar, Cebu. It has been passed on from generation to generation and has become a major industry involving around 435 skilled workers.

A benchmark survey conducted by DTI identified the industry’s concerns, such as the need for financial literacy and management, sharing and cooperation, and LGU support. To address these issues, DTI initiated the Carcar Shoemakers Village Support Project, an integrated approach to the myriad needs of the town’s traditional shoemaking industry. Addressing the more urgent matter of credit management, a training programme on credit management and delinquency control was conducted for the shoemakers.

In 2003, Carcar town’s flourishing shoe-manufacturing industry was one of the beneficiaries of President Gloria Macapagal-Arroyo’s “One Town, One Product, One Million Peso” programme. Technical assistance, marketing assistance, training and entrepreneurship programmes as well as additional financial assistance were also being provided by the government.
Case 3: Jonald’s Home and Office Furnishings Enterprises

**Products:** Living room sets, dining sets, and other furnishings  
**Location:** Cauayan City, Isabela  
**Assistance:** Marketing assistance (regional trade fairs, NTF, international trade fairs and other DTI-organized trade fairs); assistance in product development, skills enhancement, and network linkages with government agencies.

Jonald’s Home and Office Furnishings Enterprises started its business by producing made-to-order sala sets, dining sets, and other furnishings. It was through Pagayaya ‘99, a DTI-organized regional trade fair, that the company was able to widen its business options. Taking note of the business opportunities that the trade fair brought, the company subsequently joined the NTF 2000 and two other DTI-organized trade fairs. It also ventured into the international market through the Fiera Del Levante, an international trade fair in Italy in September 2001.

Doors to opportunities continued to open and the company’s participation in trade fairs enabled it to appreciate the bigger market opportunities outside the province. Armed with DTI’s assistance in product development, skills enhancement and network linkages with government agencies, the company knew that it had the potential to address the market’s needs.

The company’s trade fair exposures both in the local and international markets have contributed to the growth of the business. From an asset size of PHP 2 million (US$ 36,000) in 2002, the firm has grown into a PHP 5 million (US$ 91,000) enterprise today. Sales have doubled from PHP 2.2 million (US$ 40,000) in 2002 to PHP 4.5 million (US$ 82,000) now. It plans to join other international trade fairs, particularly in Canada and Italy, to promote not only its products but the region’s as well.

The company has also committed itself to taking the lead in the establishment of a Provincial Trade House in Manila to promote Isabela’s indigenous products, thus providing better access to export traders and foreign buyers.

The following agencies provide a variety of product development services and technology intervention assistance to SMEs:  
- Product Development and Design Centre of the Philippines (PDDCP);  
- Industrial Technology Development Institute (ITDI);  
- Technology Application and Promotion Institute (TAPI);  
- Metals Industry Research and Development Centre (MIRDC);  
- Forest Products Research and Development Institute (FPRDI);  
- Philippine Textile Research Institute (PTRI);  
- Packaging Research and Design Centre of the Philippines (PRDCP);  
- Bureau of Food and Drugs (BFAD);  
- Bureau of Product Standards (BPS); and  
- Food Development Centre (FDC).

**Training and human resource development**

The training and entrepreneurship development programmes of the National SME Agenda seek to provide existing and potential entrepreneurs with the necessary skills and knowledge to become competitive players in the local or global market. It also seeks to create a pool of SME trainers, advisors, and counsellors who can effectively assist SMEs nationwide.

Business counsellors are assigned to SME Centres - focal points for SMEs seeking assistance or information on government and private sector programmes and services, at regional and provincial offices. Business counsellors are trained to assist existing entrepreneurs in their finance, marketing, technology, human resource development, and advocacy needs.

There are 25 selected SME Centres nationwide that have been given priority assistance and support under the National SME Development Agenda. Many of these priority SME Centres operate through close cooperation among the DTI, LGUs, local chambers of commerce, and provincial SMED Councils.

**Product development and technology intervention**

There are two main product development objectives under the Plan. The first is to create and sustain competitive advantage through product and package design and development, as well as through technology intervention. The second objective is to create an awareness and understanding of product development, its processes, and the ways in which a company can use it to advantage.

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- Food Development Centre (FDC).

**Advocacy for an enabling business environment**

The Philippine government has consistently extended support to SMEs by creating an enabling environment for them to realize their full potential in the blueprint for national development.
Case 4: Jiabong Mussel Producers and Vendors Multi-purpose Cooperative (JMPVMPC)

**Products:** Mussels, processed mussel meat, mussel shell crafts  
**Location:** Jiabong, Samar  
**Assistance:** Skills and management training; quality control and productivity seminars; technical assistance (i.e., study missions, technology training, etc.); marketing assistance; financial assistance from the Philippine Australian Community Assistance Program (PACAP)

The municipality of Jiabong supplies the biggest volume of mussels and serves as the central trading centre of mussel in Samar for shipment to Davao, Bicol, Cebu, Manila, and other parts of the country.

In 1998, the DTI created the Mussel Industry Task Force which aims to set up self-sustaining livelihood projects that would serve as an alternative employment opportunity and source of additional income when natural calamities strike.

Taking into consideration the mussel industry’s market potential and impact on income and employment, DTI enrolled the industry under the Developing Rural Industries and Village Enterprises (DRIVE) project.

The project provided various forms of assistance to the industry, namely skills and management training on shell craft production, quality control and productivity seminars, and other technical and marketing assistance.

In 2000, DTI focused its assistance on the operationalization of the shell craft centre through technology training, study missions, and organizational strengthening with the industry’s other stakeholders. It also facilitated the PHP 814,000 financial assistance extended by PACAP to fund the Integrated Mussel Industry Development Project.

With DTI assistance, the Mussel Shellcraft Centre was established and is now generating sales and additional income for its members and their dependents; and the Mussel Meat Processing Centre was constructed and started processing mussel meat into bottled adobo and smoked mussels.

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Case 5: Juboken Enterprises

**Products:** Bio-engineered products: erosion control nets, coconut fibre logs or fascines, coco fiber moulded pots in seedling production (Cocogreen); garden products  
**Location:** Albay, Bicol  
**Assistance:** Product development assistance from DTI and Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ); product clinic/consultation; business counselling services; financial assistance amounting to PHP 1.4 million (US$ 25,500) from SB Corp.; marketing assistance; and productivity improvement seminar.

Other government assistance include a PHP 1.4 million (US$ 25,500) loan from the SB Corp. for the installation of coco fibre motors as well as additional working capital; productivity improvement seminar; product clinic/consultation; and business counselling services.

Now with assets of about PHP 26 million (US$ 473,00), Juboken Enterprises has 46 production workers, and banks on the help of over 1,000 households in Albay, Sorsogon, Samar, and Misamis Oriental for its raw material requirements.

It counts among its clients the Department of Public Works and Highways (DPWH) as well as land and property developers for the supply of erosion control materials, and about 125 department stores nationwide, including SM and Robinsons, for its garden products.
Two major laws govern the promotion of SMEs - Republic Act (RA) 6977, or the Magna Carta for Small Enterprises, as amended by RA 8289, and RA 9178, better known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002.

RA 6977 mandates the government to help SMEs by creating a conducive business environment; improving access to financing; providing adequate business support; providing training on entrepreneurship and worker skills; providing linkages between SMEs and large firms; and strengthening government-private sector partnership in SME development.

RA 9178, on the other hand, encourages the formation and growth of BMBEs, or those with assets size of less than PHP 3 million (US$ 545,450), by granting them fiscal and non-fiscal incentives and other benefits. These incentives and benefits include, among others, income tax exemption, exemption from coverage of the minimum wage law, priority to a special window set up, technology transfer, production and management training, and marketing assistance programmes.

The road ahead
The various initiatives, programmes and incentives that the government has implemented under the National SME Agenda have resulted in varying degrees of success. Thousands of entrepreneurs have already benefited from the programmes and succeeded in their undertakings. But the search for more initiatives that would extend new forms of support to SMEs in an increasingly competitive globalized environment continues.

Realizing the need to sustain the accomplishments of the National SME Agenda, the government prepared the SME Development Plan 2004-2010, and formally launched it on 24 July 2004 during the celebration of the SME Development Week.

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

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

The Plan consists of a three-year roll-out period, an evaluation and re-programming process in between, followed by another three-year intensified programme. This sequence builds flexibility and helps enhance the process. It defines specific action programmes and a framework that will fit the 2010 timeframe of transformed SME systems, and allows the selected sectors to absorb assistance and show significant transformation.

Acronyms
BDT – Bureau of Domestic Trade
BETP – Bureau of Export Trade Promotion
BFAD – Bureau of Food and Drugs
BMBEs – Barangay Micro Business Enterprises
BPS – Bureau of Product Standards
BSMED – Bureau of Small and Medium Enterprise Development
CITC – Cottage Industry Technology Centre
CITEM – Centre for International Trade Expositions and Missions
CMDF – Construction Manpower Development Foundation
DOST – Department of Science and Technology
DTI – Department of Trade and Industry
FDC – Food Development Centre
FPRDI – Forest Products Research and Development Institute
GDP – Gross Domestic Product
GFls – Government Financial Institutions
GTZ – Deutsche Gesellschaft fur Technische Zusammenarbeit
IFEX – International Food Exhibition
ITDI – Industrial Technology Development Institute
LBP – Land Bank of the Philippines
LGUs – Local Government Units
MIRDC – Metals Industry Research and Development Centre
NEDA – National Economic and Development Authority
NLSF – National Livelihood Support Fund
NTF – National Trade Fair
PACAP – Philippine Australian Community Assistance Programme
PDDCP – Product Development and Design Centre of the Philippines
PHILEXIM – Philippine Export-Import Credit Agency
PRDCP – Packaging Research and Design Centre of the Philippines
PTRI – Philippine Textile Research Institute
PTTC – Philippine Trade Training Centre
Quedancor – Quedan and Rural Credit Corporation
RA – Republic Act
SB Corp – Small Business Corporation
SMED – Small and Medium Enterprise Development
SMEs – Small and Medium Enterprises
SULONG – SME Unified Lending Opportunities for National Growth
TAPI – Technology Application and Promotion Institute

Special Feature: Sustainable growth of SMEs
SMEs in the Philippines compared to APEC The SME sector of the Philippines remains underdeveloped by APEC region standards. This was in terms of both the number of enterprises and level of employment as compared to other APEC member economies. While in absolute terms it continues to lag behind other jurisdictions, in the period 2011-2015, it was noticeable that competition grew in the Philippines at a faster rate than in economies such as Indonesia and Viet Nam. During this period, policymakers achieved moderate improvement in increasing foreign and domestic competition performance, while achi... In several other instances, and in other geographies, SMEs also use Whatsapp for running business operations, managing inventory, running promotions, and for CRM. Other respondents also shared stories of using the platform to sell clothes, household items, and services.

i) Innovation as a tool for empowerment
The SME landscape is an interesting dyad of technical determinism and social constructionism where the existing digital tools have shaped and influenced user behaviour while the needs of SMEs have given rise to new digital tools. Let's look at some of the digital tools enabling the players in this landscape. Kiranas (or local grocery stores in India) are the backbone of the economy. Increasing the competitiveness of small firms in the Philippines is vital to build resilience to shocks while promoting sustainable and inclusive growth. Companies that were more competitive before the COVID-19 crisis were less affected by it, according to ITC's SME Competitiveness Survey. Firms with a greater capacity to change because of their skills, innovation and financial management were more likely to adopt resilient or agile responses. Finally, those with better connections to their business ecosystem were better able to access the information and support they needed to survive the... 

Promoting SME Competitiveness in the Philippines: Compete, Connect and Change to Build Resilience to Crises. ITC, Geneva.