



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

ASEAN Economic Community 2015 SME Development: Narrowing Development Gap Measure

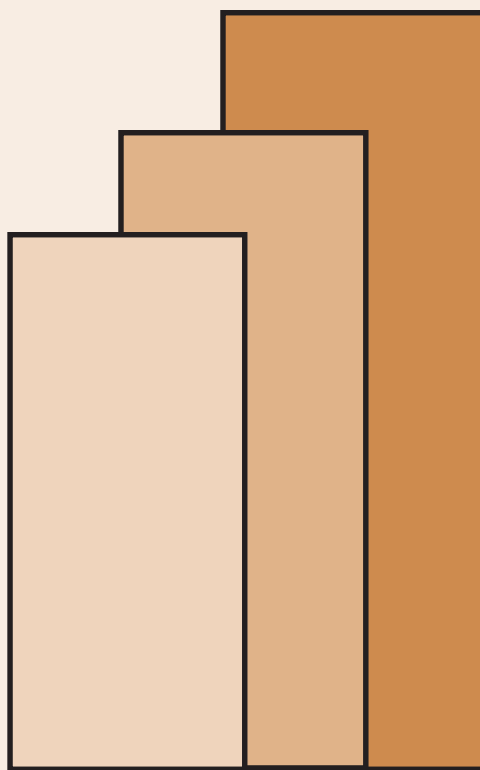
Rafaelita M. Aldaba

DISCUSSION PAPER SERIES NO. 2013-05

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



January 2013

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies

5th Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines

Tel Nos: (63-2) 8942584 and 8935705; Fax No: (63-2) 8939589; E-mail: publications@pids.gov.ph

Or visit our website at <http://www.pids.gov.ph>

Abstract

This paper evaluates the implementation of the 2010-2015 ASEAN Strategic Action Plan for SME Development and the 2004-2009 ASEAN Policy Blueprint for SME Development. The initial interviews and survey results yielded low average effectiveness scores for the ASEAN Strategic Action Plan for SME Development. The scores ranged from without- to no- or little concrete impacts on the implementation of various programs on access to financing, facilitation, technology development, promotion, human resource development and other regional SME initiatives. Results for the ASEAN Policy Blueprint for SME Development also indicated low average effectiveness scores on the implementation of programs on human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating conducive policy environment.

In the last decade, manufacturing SMEs have not substantially generated sufficient value added and employment to increase the country's overall manufacturing growth. This weak performance of SMEs has been largely attributed to barriers particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Within this light, the government could facilitate SMEs' gainful participation in ASEAN by designing a coherent set of policies and programs; addressing financing issues; improving the technological capabilities and strengthening supply chains (to enable SMEs to move up the technology scale) and creating an enabling environment for SMEs to survive and realize their potentials to grow.

Keywords: Philippine Small and Medium Enterprises (SMEs), ASEAN Strategic Action Plan for SME Development, ASEAN Policy Blueprint for SME Development

ASEAN ECONOMIC COMMUNITY 2015
SME Development: Narrowing Development Gap Measure
Rafaelita M. Aldaba¹

I. Introduction

The Philippines has two operational definitions of small and medium enterprises. Based on employment which is the most commonly used definition in the country, the different size categories are classified as follows:² Micro enterprises: 1-9 employees; Small enterprises: 10-99 employees; Medium: 100-199 employees; and Large: 200 or more employees. In terms of the assets, small and medium enterprises (SMEs) are defined as: Micro enterprises: P3 million or less; Small enterprises: P3-15 million; Medium: P15-100 million; and Large: P100 or more.

The ASEAN Policy Blueprint for SME Development for SME Development (APBSD) 2004-2014 provides the framework for SME development in the ASEAN region in order to narrow the development gap in the region. It aims to accelerate the pace of SME development and enhance the competitiveness and dynamism of ASEAN SMEs by facilitating their access to information, market, human resource development and skills, finance, and technology. It also aims to strengthen the resilience of SMEs to withstand adverse macroeconomic and financial conditions along with challenges arising from a more liberalized trading environment and improve SME contribution to overall growth and development of the ASEAN region. By 2015, the APBSD envisions ASEAN SMEs as competitive, innovative, and world-class enterprises that perform major roles in regional and global supply chains and are able to take advantage of the opportunities from ASEAN economic integration. Its major programs consist of the following: Human Resource Development and Capacity Building; Enhancing SME Marketing Capabilities; Access to Financing; Access to Technology; and Creating Conducive Environment. Table 1 summarizes the major activities in each program.

Table 1: ASEAN Policy Blueprint for SME Development

Program Area	Activities
Human Resource Development and Capacity Building	-Entrepreneurship development program -Enhancing SME sector skills in management & organization on a self-reliant basis -Fostering SME capabilities for inter-firm networking & linkages -Tracking & benchmarking SME capabilities, dynamism & competitiveness
Enhancing SME	-Setting up regional & subregional networks of interlinked, online

¹ Senior Research Fellow, PIDS. The author is grateful for the excellent research assistance of Donald Yasay and Jocelyn Almeda. The technical and financial assistance of the Economic Research Institute for ASEAN and East Asia (ERIA) to PIDS is gratefully acknowledged.

² National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003.

Marketing Capabilities	clearing points or trading houses for SME businesses -Enhancing SME capabilities in & reliance on ICT & e-commerce -Tracking & benchmarking SME readiness as subcontractors & compliance to non-negotiable subcontracting preconditions or compliance requirements on the demand side
Access to Financing	-Capacity building for improved SME access to financing -Financial institutional capacity building for improved SME financing -Widening & deepening SME access to credit
Access to Technology	-SME technology upgrading & transfer of innovative technologies
Creating Conducive Environment	-Simplification, streamlining & rationalization of procedures for SME registration & process for SME support services -Fine-tune policy & regulatory framework for SME development -Promotion of public-private synergies & partnerships for SME development & integration

Building on the progressive work under the APBSD, the ASEAN Strategic Action Plan for SME Development aims to further enhance the competitiveness and flexibility of SMEs in moving towards a single market and production base in ASEAN. The key policy measures and activities are summarized in Table 2. These cover access to financing, facilitation, technology development, promotion and human resource development.

Table 2: ASEAN Strategic Action Plan for SME Development

Program area	Activities
Access to Financing	-SME Financial Facility in each Member Country -Feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantee in ASEAN -Regional SME Development Fund
Facilitation	-Multi-media self-reliant system toolkit package -Technology transfers and licensing within SME sector through dissemination of concrete good practices -Hyperlink national SME Portals -SME service center with regional and sub-regional linkages in AMSs -Dissemination of information on regional & international opportunities in trade & investment to SMEs
Technology Development	-Sharing of information on technology availability for SMEs in AMSs -Developing key performance indicators (KPIs) on SME Innovation -Development of technology incubators to nurture & support techno-entrepreneurs from infancy to take-off & commercialization stages
Promotion	-Identification of top 1000 ASEAN SMEs -ASEAN SME Innovation Awards -Promoting ASEAN SMEs to the international market -Dissemination of information on SMEs trade fairs & festivals & facilitate SMEs' participation in these events
Human Resource Development	-Common curriculum for entrepreneurship in ASEAN -Regional program for promotion of internship scheme for staff exchanges & visits for skills trainings

This paper evaluates the implementation of the 2010-2015 ASEAN Strategic Action Plan for SME Development and the 2004-2009 ASEAN Policy Blueprint for SME Development. A survey of both SMEs and government member of the Technical Working Group is conducted to gather insights on the status of the implementation of the ASEAN Strategic Action Plan and the Blueprint for SME Development. After the introduction, section II reviews government policies and programs on small and medium enterprises. Section III discusses the economic performance of SMEs in terms of contribution to value added and employment. Section IV presents the survey results while Section V summarizes the major findings and recommendations.

II. SME Policies and Programs: 1990s-2000s

A. Policies

Like many developing countries and transition economies, the Philippines opened up its domestic economy to international trade starting in the 1980s. After more than three decades of protectionism and import-substitution policy, the government implemented several trade liberalization programs through unilateral reforms that reduced tariff and non-tariff barriers in the 1980s. In the 1990s, trade reforms were continued in line with the country's commitments under the General Agreement on Tariffs and Trade-World Trade Organization (GATT-WTO) and the Association of South East Asian Nations Free Trade Area Common Effective Preferential Tariff Scheme (AFTA-CEPT). Under the ASEAN Trade in Goods Agreement (ATIGA) which came into force in 2010), the Philippines reduced all tariffs to 0-10% range except for highly sensitive agriculture products such as rice.

Similarly, SME policies and programs have evolved with the focus shifting from inward-looking towards a more external-oriented approach. In the 1990s, government policy on SMEs concentrated on improving market access, export expansion, and increasing competitiveness. In 1991, the Magna Carta for Small Enterprises was passed to consolidate all government programs for the promotion and development of SMEs into a unified framework. It is highlighted by the following provisions: (i) creation of the Small and Medium Enterprise Development (SMED) Council to consolidate incentives available for SMEs; (ii) creation of the Small Business Guarantee and Finance Corporation (SBGFC) to address SME financing needs; and (iii) allocation of credit resources to SMEs by mandating all lending institutions to set aside 8% of their total loan portfolio to SMEs (6% for small and 2% for medium enterprises). RA 6977 was amended by RA 8289 in 1997 to further strengthen the promotion and development of and assistance to small and medium enterprises.

In 2001, the SBGFC was merged with the Guarantee Fund for Small and Medium Enterprises (GFSME³) through EO 28 and became known as the Small Business

³ GFSME was a guarantee fund operated independently by a Management Committee and professional staff under the Livelihood Corporation, a corporation attached to the Office of the President of the Philippines. The services of GFSME were restricted to offering of guarantee services to participating financial institutions lending to SMEs from the time it started commercial operations in 1984.

Corporation (SBC). It registered a total of P728 million in loan approvals in 2002, exceeding the highest approval level of P180 million in 1999. The SBC is considered as the National Government's largest provider of SME financing, with a lending portfolio of over P3 billion. It has more than 3,000 clients and 71 partner financial institutions serving 57 (out of 75) provinces in the country.⁴

In 2002, RA 6977 was amended by RA 9178 or Barangay Micro Business Enterprises or BMBE Act. The latter provides support to microenterprises and the informal sector through incentives to local government registered barangay micro enterprises, exemption from income tax, reduction in local taxes, exemption from payment of minimum wages, financial support from government financial institutions and technological assistance from government agencies.

The 2004-2010 Medium Term Philippine Development Plan (MTPDP) focused on providing credit, technology and marketing support for three million micro, small and medium enterprises (MSMEs). The MTPDP also highlights credit provision, product development and promotion of clusters for SME development. A "One Town-One Product" (OTOP) Program was planned to stimulate economic activities of SMEs with every city or municipality in the country developing a product where it has competitive advantage. Industry clustering was also targeted. The Plan highlighted the creation of globally competitive SMEs and strengthening government assistance in seeking new market and product opportunities. It also identified the following strategies: increase access to managerial and technological support, support to export-oriented growth industries, increase support to improve industrial linkages with Philippine industries, increase SME financing support programs and strengthen institutions that provide SME support programs and incentives, streamline implementation of SME policies and regulations, and strengthen institutions that implement SME programs.

The Micro, Small, and Medium Enterprise (MSME) Development Plan for 2010-2016 aims to improve the business and investment enabling environment for MSMEs, increase their access to finance, allow them to penetrate new markets and maintain and expand existing ones and raise their level of productivity and efficiency. The Plan identified poor business conditions, access to finance, inability to penetrate export markets, and low level of productivity as the critical constraints to the growth and development of the MSME sector.

B. Programs

(i) Overall SME Development

The Department of Trade and Industry (DTI) is responsible for the development and regulation of Philippine SMEs including micro and large enterprises. There are various DTI-attached agencies set up with 14 offices and 20 line bureaus mandated to support SMEs and SME exporters. The Small and Medium Enterprise Development (SMED) Council formulates SME promotion policies and provides guidance and direction in implementing SME programs. It is a multi-agency group chaired by the DTI Secretary.

⁴ <http://www.sbgfc.org.ph/about-history.htm> (accessed on 30 July 2010).

The Bureau of Micro, Small and Medium Enterprises Development (BMSMED) leads DTI's SME Core Group and coordinates SME policies, programs and projects. It acts as a "one-stop-shop" to guide SMEs to specialized support agencies. The BMSMED is also the secretariat to the SMED Council tasked to review policies and strategies for SME development.

The other member agencies of the SME Core Group are the following: Small Business Guarantee and Finance Corporation responsible for finance services; Philippine Trade Training Center (PTTC) for development and implementation of SME training and learning activities; Product Development and Design Center (PDDC) for product development initiatives and design programs; and Cottage Industry Technology Center for technologies. Other DTI agencies that support SMEs include the Center for International Trade Expositions and Missions (CITEM), Bureau of Export Trade Promotion (BETP), Board of Investments (BOI), and Philippine International Trading Corporation (PITC).

(ii) Finance

In order to provide SMEs greater access to capital, the Small Business Guarantee and Finance Corporation developed a lending program in 2003, known as SME Unified Lending Opportunities for National Growth (SULONG). The Program is a collaboration among government financial institutions consisting of the Land Bank of the Philippines, Development Bank of the Philippines, Small Business Corporation, Quedan and Rural Credit Corporation, Philippine Export-Import Credit Agency, and the National Livelihood Support Fund. Interest rates are fixed at 9% per annum for short-term loans, 11.25% per annum for medium-term loans and 12.75% per annum for long-term loans. The program funds export financing and temporary working capital for short-term loans as well as permanent working capital, equipment or lot purchase or building/warehouse construction for long-term loans. More than PHP 35.3 billion (US\$640 million) in loans have been released to 368,000 SMEs since 2003.

Under the one town, one product (OTOP) Program, 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, identifies a product or service cluster for funding support. SMEs that offer such product or service are eligible to apply for a loan with a maximum effective interest rate of 10% per annum. The OTOP Program offers a comprehensive assistance package through local government units (LGUs), national government agencies and the private sector covering business counseling, appropriate technologies, skills and entrepreneurial training, marketing, and product designs and development.

(iii) Marketing

The DTI-Center for International Trade Expositions and Missions (CITEM) assists exporters develop their core competencies in marketing, promotion, and capability-building. CITEM organizes local and international trade fairs; it holds an annual National Trade Fair (NTF), a five-day, order-taking and retail selling fair showcasing the best producers in the country. Participants are provided with assistance such as raw material

identification, product design, training, marketing, information dissemination, and promotion.

CITEM also organizes international trade fairs like the Manila F.A.M.E. International, an international exhibition for furniture, gifts and housewares, holiday decor, and fashion accessories. It also organizes the International Food Exhibition Philippines, a trade event that features the competitiveness of Filipino food products; Bio Search, Industry Link and E-Services Philippines, an exhibition that focuses on IT and IT-enabled services industry.

Apart from trade fairs, CITEM also organizes trade missions and other promotional activities, business matching, technical and export marketing assistance, and administers the biennial Golden Shell Awards for outstanding exporters in manufacturing, marketing, and design.

(iv) Training and Human Resource Development

The DTI also has training and entrepreneurship development programs to provide existing and potential entrepreneurs with the necessary skill and knowledge to become competitive players in both the domestic and international markets. Business counselors are assigned in SME Centers which are located in regional and provincial offices to provide assistance and information on government and private sector programs for SMEs. Business counselors are trained to assist entrepreneurs in their finance, marketing, technology, and HRD needs.

The DTI-Philippine Trade Training Center (PTTC) designs and develops training curricula and instructional materials and conducts training programs for MSMEs. Its programs and services include entrepreneurship development, business management, export management, IT and webpage development, quality and productivity, and international standard seminars like ISO 9000 quality management system.

(v) Technology and Product Development

The Department of Science and Technology (DOST) is the main agency responsible for providing technology support. It launched the Small Enterprises Technology Upgrading Program (SET-UP) to improve the viability of SMEs and enhance their competitiveness through the infusion of technology, technical assistance and manpower development.⁵ The Program provides support to SMEs in the following areas: (i) technology needs assessment and technology sourcing; (ii) provision of seed funds for technology acquisition; (iii) technical training on hazard analysis and critical control points, good manufacturing practices, quality and environment management systems and other specific skills; (iv) technical and productivity consultancy services to participating firms; (v) establishment of product standards; (vi) development of networks of accredited regional product-testing laboratories; (vii) establishment of a packaging R&D center; and (viii) design and fabrication of cost-reducing equipment. The Program covers the following sectors: food processing, furniture, fashion accessories, gift, housewares, decors, handicrafts, natural dyes and fibers, marine and aquatic resources, horticulture, and metals and engineering.

⁵ <http://setup.dost.gov.ph/index.php> (accessed on 30 July 2010).

Between 2002 and 2006, the Program funded a total of 328 projects. It was able to provide assistance to 727 firms in acquiring modern production equipment and upgrading the quality and marketability of their products. A total of 30,885 testing/calibration services was provided by DOST laboratories to 9,546 clients. SET-UP also supported 415 trainings with 9,818 participants. Trainings focused on key production issues such as hazard analysis and critical control points for food processing, good manufacturing practices, and quality and environment management systems. Technical and consultancy services were provided to 3,616 firms. To further support the services of the Program, an Inter-Agency Design and Engineering Assessment (IDEA) Team was created in 2005. This is composed of 8 DOST R&D agencies tasked to assist in the development, assessment and standardization of efficiency and performance indicators of various equipment, tools, jigs and fixtures associated with DOST technologies that can be used by SMEs.

The DTI-Product Development and Design Center of the Philippines is mandated to promote design as a tool for improving the quality and competitiveness of Philippine products and is geared towards the design needs and requirements of SMEs. There are other agencies involved in providing product and package design development services and technology intervention. These include the Industrial Technology and Development Institute, Technology Application and Promotion Institute, Metals Industry Research and Development Center, Forest Products Research and Development Institute, Philippine Textile Research Institute, Packaging Research and Design Center of the Philippines, Bureau of Food and Drugs, Bureau of Product Standards, and Food Development Center.

III. Performance

In terms of number of establishments; micro, small, and medium enterprises (MSMEs) dominate the economy and account for almost 99.6% of the total number of establishments in 2006. In terms of employment and value added contribution, MSMEs accounted for 61.2% of the country's total employment and 35.7% of total value added (Table 3). The growth of the MSME sector, however, has not been vigorous enough to propel the economy. Firm size distribution has not changed much in the past two decades as the proportion of medium sized enterprises has remained small. As a result, the country's industry structure is often characterized by a missing or hollowed middle. The share of medium enterprises has remained miniscule at 0.4% while that of small enterprises was almost unchanged at 7.7%. Micro enterprises meanwhile formed the bulk of enterprises with a share of 91.6%.

Table 3 also shows that in terms of employment contribution, SMEs registered a modest share of 32% while micro enterprises contributed 31.2%. SME value added contribution was moderate at 30.3% while micro enterprises accounted for a share of 4.9%. In terms of labor productivity measured by value added per worker, micro enterprises registered the lowest as expected with their labor productivity being only about 10% of the labor productivity of large enterprises. The labor productivity of small enterprises was 52% of

large enterprises' labor productivity while for medium enterprises, it was about 82% of large enterprises' productivity.

Table 3: MSMEs: Structure and economic contribution

	Total	Micro	Small	Medium	Large	MSMEs
2008 Number of Enterprises	761,409	697,077	58,292	3,067	2,973	758,436
% Distribution		91.6	7.7	0.4	0.4	99.6
2008 Employment	5,544,590	1,663,382	1,314,065	418,058	2,149,085	3,395,505
% Distribution		30.0	23.7	7.5	38.8	61.2
2006 Value Added (in million pesos)	2,108,546	103,918	431,340	216,685	1,356,603	751,943
% Distribution	100	4.9	20.5	10.3	64.3	35.7
2006 Value added per worker (in pesos) % of large enterprises	380,289	62,474	328,248	518,313	631,247	221,452
		9.9	52.0	82.1		

Source: MSMED Plan 2010-2016.

Table 4: Number of manufacturing establishments by size, 1999-2006

Year	MICRO	%	SMEs	%	LARGE	%	TOTAL
1999	113861	87.0	15748	12.0	1322	1.0	130931
2000	108998	86.9	15231	12.1	1238	1.0	125467
2001	108986	88.0	13615	11.0	1194	1.0	123795
2002	108847	88.5	13148	10.7	982	0.8	122977
2003	107398	88.6	12763	10.5	1024	0.8	121184
2004	103926	88.0	13081	11.1	1120	0.9	118127
2005	103982	88.6	12392	10.6	1008	0.9	117382
2006	105083	89.5	11278	9.6	985	0.8	117346

Table 5: Manufacturing employment by size, 1999-2006

Year	MICRO	%	SMEs	%	LARGE	%	TOTAL
1999	366689	21.9	516506	30.8	791277	47.3	1674472
2000	354025	22.3	505062	31.8	730127	45.9	1589214
2001	353415	23.0	446600	29.1	734088	47.9	1534103
2002	353255	24.1	437490	29.8	676443	46.1	1467188
2003	360576	24.7	403923	27.6	698173	47.7	1462672
2004	327112	21.3	432869	28.2	775969	50.5	1535950
2005	323510	22.1	408100	27.9	731736	50.0	1463346
2006	259664	18.9	385263	28.1	727984	53.0	1372911

Table 4 shows that from 1999 up to 2006, the total number of SMEs in manufacturing declined from 15,748 to 11,278 with the share decreasing from 12% in 1999 to only 9.6% in 2006. Table 5 indicates that in terms of employment contribution, the number of

workers in SMEs also declined from 516,506 workers to 385,263 with its corresponding share falling from 31% in 1999 to 28% in 2006.

Table 6 shows that in terms of manufacturing value added, the share of SMEs dropped to 21% in 2003 from 28 percent in 1998. Large firms contributed 79 percent of the total, an increase from its level of 72 percent contribution in 1998.

Table 6 Manufacturing value added contribution by size: 1994, 1998, 2003 and 2006

Year	1994		1998		2003		2006*	
Size	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Total	23	77	28	72	21	79	20	80
Value Added current prices (in billion PhP)	324.2		664.2		738.95		688.06	

*2006 covers only the formal sector of the economy.

Though an increase in the manufacturing labor productivity of both SMEs and large enterprises was registered between the 1994 and 1998, the same fell in 2003 (Table 7). For SMEs, labor productivity dropped from P139,000 to P97,000 while for large enterprises, the same measure declined from P227,000 to P211,000. According to the FIAS, World Bank and IFC (2005), the value added per worker relative to all firms was approximately 46% in the Philippines as compared to 64% in Indonesia, 65% in Malaysia, and 84% in Thailand.

Table 7: Labor productivity: 1994, 1998, 2003 and 2006

Year	1994		1998		2003		2006*	
Establishment Size	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Labor Productivity In PhP million at 1985 prices	0.11	0.196	0.139	0.227	0.097	0.211	0.064	0.118

*2006 figures are not comparable with the rest of the years, the 2006 Annual Survey of Establishments covers only the formal sector of the economy.

While some notable improvements in terms of number of enterprises, value added, and employment contribution were registered between 1994 and 1998, the overall economic performance of SMEs in the last decade has been subdued. Thus, they have not substantially generated sufficient value added and employment to increase competition, improve industrial structure and increase the country's overall manufacturing growth. The weak performance of SMEs has been largely attributed to the large number of barriers that SMEs must face particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making

small and medium manufacturers internationally competitive is a major challenge that would require government support and close coordination between the government and the SME sector. This requires a coherent set of policies and programs designed with the direct involvement of SMEs.

Access to finance has remained one of most critical factors affecting the competitiveness of MSMEs. Studies focusing on the growth constraints faced by SMEs in the Philippines have continued to highlight the difficulties of MSMEs in accessing finance. Based on the PEP survey, Nangia and Vaillancourt (2006) indicated that funds obtained from the banking sector accounted for only 11 to 21% of capital raised by SMEs. This is lower than the 30% international benchmark seen in other developing countries like India and Thailand. Furthermore, banks are generally reluctant to lend large loans particularly those ranging from P150,000 to P5 million (US\$3,450-115,000) which is the normal range of funding required by SMEs.⁶

Studies (FINEX and ACERD 2006; Nangia and Vaillancourt 2006; Aldaba et al 2010; Aldaba 2011) have shown that despite the availability of funds for lending, SMEs particularly the smaller ones have been unable to access funds due to their limited track record, limited acceptable collateral, and inadequate financial statements and business plans. In these studies, the lack of access to financing is highlighted as the most difficult constraint to SME growth. The problem seems to lie not in the supply of funds potentially available for SME lending but the difficulty of access to these funds. In theory, there should be sufficient funds for SME financing since banks are required by law to allocate 8 percent of their loan portfolios to SME financing. At the same time, government financial institutions have their own SME financing programs. Private banks, however, are reluctant to lend to SMEs because of their general aversion to dealing with a larger number of smaller accounts. Moreover, many banks are still not aware of lending to small businesses. Many SMEs cannot access available funds due to their limited track record, limited acceptable collateral, and inadequate financial statements and business plans.

Banks have continuously pointed out that the lack of credit information has deterred them from lending to SMEs. Without the necessary credit information, it is difficult to determine creditworthiness of borrower firms. Banks are also concerned about the bankability of MSMEs and high risks involved in MSME lending given that many MSMEs have limited management and financial capability. Thus, financial institutions have continued to impose collateral requirements and other stringent conditions such as minimum loan requirement. Other issues include slow loan processing, short repayment period, difficulties in loan restructuring, high interest rates, and lack of start-up funds for SMEs.

SME financing in the country is to a large extent driven by government policy covering targeted interventions through government financial institutions using private banks as conduits, direct lending by government agencies and corporations, along with the mandatory credit requirements for banks. However, despite these programs and policies,

⁶ Citing an IFC Study, Bangko Sentral ng Pilipinas Deputy Governor Nestor Espenilla in a speech delivered in an SME forum. (Michelle V. Remo, Sept 27, 2010. "SMEs' loan access still limited". Philippine Daily Inquirer.

the volume of funds for SME lending has remained inadequate for their needs. Estimates of the financial gap ranged from Philexport's P67 billion (US\$1.6 billion) to the Department of Trade and Industry's P180 billion (US\$4.2 billion). Nangia and Vaillancourt came up with a finance gap that ranged from P76 billion (US\$1.8 billion) to P170 billion (US\$3.9 billion) gap. Applying the same procedure of Nangia and Vaillancourt, Aldaba (2011) obtained an estimated gap of around P130 billion.

IV. SME Development: Analysis of Survey Results

A. Overall Findings

The survey aims to evaluate the implementation of the ASEAN Policy Blueprint for SME Development for SME Development (APBSD) 2004-2014 and the ASEAN Strategic Action Plan for SME Development. As described in section 1, the APBSD provides the framework for SME development in the ASEAN region. It aims to narrow the development gap in the region by facilitating SME access to information, market, human resource development and skills, finance, and technology. The major programs consist of the following: Human Resource Development and Capacity Building; Enhancing SME Marketing Capabilities; Access to Financing; Access to Technology; and Creating Conducive Environment. (see Table 1 for the major activities in each program).

The ASEAN Strategic Action Plan aims to further enhance the competitiveness and flexibility of SMEs in moving towards a single market and production base in ASEAN. The policy measures and activities consist of access to financing, facilitation, technology development, promotion and human resource development (refer to Table 2).

Four SMEs and one government-member of the SME Working Group were surveyed in order to evaluate the current status of the Philippine implementation of the ASEAN Strategic Action Plan for SME Development and the ASEAN Policy Blueprint for SME Development for SME Development.

Overall, the assessment of the ASEAN Strategic Action Plan for SME Development showed low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs covering access to financing, facilitation, technology development, promotion, human resource development and other regional SME initiatives. However, it is important to note that according to 4 respondents, financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. 4 of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts.

In general, the assessment of the ASEAN Policy Blueprint for SME Development also indicated low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs on human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating conducive policy environment.

The detailed results of the survey on the status and effectiveness of the ASEAN Strategic Action Plan for SME Development and the ASEAN Policy Blueprint for SME Development for SME Development are summarized in the following subsections.

B. ASEAN Strategic Action Plan for SME Development

(i) Access to Financing

According to three of the respondents, the following were implemented: establishment of SME financial facility; feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantees in ASEAN; and innovative financing support systems. On the average, their implementation did not have or have little identifiable impacts. Only two said that the ASEAN SME Web Portal; virtual ASEAN agencies linking up all SME-related agencies; SME service provider; and ASEAN Credit Bureau were implemented without any concrete identifiable impacts. Four of the respondents indicated that financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. Three indicated that SME investment like improving SME access to finance; getting SMEs listed in growing stock market; and national and regional SME credit guarantee scheme were implemented but with no or little identifiable impacts.

(ii) Facilitation

Four of the respondents said that the following were implemented but with no or little identifiable impacts: improving technology transfers and licensing within the SME sector; dissemination of information on regional and international opportunities. According to three of the respondents, improving the operation of the National Service Desk and Framework for the ASEAN SME Service Center at National and Regional Level were implemented but with no or little impacts. Only two said that the development of a multi-media self-reliant system toolkit and feasibility study for the establishment of the SME Service Center was implemented without concrete identifiable impacts.

(iii) Technology Development

Four of the respondents said that sharing of information on technology availability for SMEs and development of technology incubators were implemented with moderate

impacts. Meanwhile, only two said that developing KPIs on SME innovation were implemented with no or little any concrete impacts.

(iv) Promotion

Four of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. Three said that the ASEAN SME Innovation Awards was implemented with no or little impacts. Only two indicated that identification of the Directory of Outstanding ASEAN SMEs was implemented but without concrete impacts.

(v) Human Resource Development

Two of the respondents indicated that a regional program for the promotion of internship scheme for staff exchanges and visits for skills training was implemented without concrete impacts. Only one indicated that a common curriculum for entrepreneurship in ASEAN was implemented but without concrete impacts. In terms of other regional SME initiatives, three respondents said that the establishment of the ASEAN SME Advisory Board was implemented with no or little impacts. Two said that the establishment of the expert panel on ASEAN SME access to finance was implemented without concrete impacts. For the rest of the initiatives, only one said that these were implemented without concrete impacts.

C. ASEAN Policy Blueprint for SME Development

(i) Human Resource Development and Capacity Building.

According to one-three survey respondents, the implementation of entrepreneurship development program; enhancing SME-sector skills in management and organization on a self-reliant basis; fostering SME capabilities for inter-firm networking; and tracking and benchmarking SME capabilities, dynamism, and competitiveness had average effectiveness scores ranging from without to no or little concrete impacts.

(ii) Enhancing SME Marketing Capabilities

According to two-three survey respondents, the implementation of regional and sub-regional networks of interlinked, online clearing points, or trading houses for SME businesses as well as programs enhancing SME capabilities in and reliance on ICT and e-commerce and tracking and benchmarking SME readiness as subcontractors had average effectiveness scores that ranged from without to nor or little concrete impacts.

(iii) Access to Financing

Based on two respondents, the implementation of capacity building for improved SME access to financing and financial institutional capacity building for improved SME financing had average effectiveness score of no or little concrete impacts. Meanwhile, only 1 of the respondents said that widening and deepening SME access to credit was implemented without concrete impacts.

(iv) Access to Technology

According to two-three survey respondents, the implementation of SME technology upgrading and transfer of innovative technologies had average effectiveness scores that ranged from without to no or little concrete impacts.

(v) Creating Conducive Policy Environment

Based on 3-4 survey respondents, the implementation of simplification, streamlining and rationalization of the procedures for SME registration, and the process for SME support services had no or little concrete impacts. With respect to the implementation of fine-tune policy and regulatory frameworks for SME development, the average effectiveness scores ranged from without to no or little concrete impacts based on 1-3 respondents. In terms of promotion of public-private synergies and partnership for SME development and integration, the implementation had an average effectiveness score that ranged from without to no or little concrete impacts based on 2-3 respondents.

Overall, the assessment of the ASEAN Strategic Action Plan for SME Development showed low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs covering access to financing, facilitation, technology development, promotion, human resource development and other regional SME initiatives. However, it is important to note that according to 4 respondents, financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. 4 of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. 4 of the respondents also indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts.

In general, the assessment of the ASEAN Policy Blueprint for SME Development for SME Development also indicated low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs on human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating conducive policy environment.

V. Conclusions and Recommendations

In the last decade, manufacturing SMEs have not substantially generated sufficient value added and employment to increase competition, improve industrial structure and increase the country's overall manufacturing growth. The weak performance of SMEs has been largely attributed to the large number of barriers that they must face particularly access to

finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that would require strong government support and close coordination between the government and the SME sector. In addition, SME programs and policy measures at the ASEAN level must also be implemented in such a way that they complement domestic policy reforms and programs. All these would require an integrated approach and a coherent set of domestic and regional policies and programs designed with the direct involvement of SMEs.

To boost SME competitiveness, pursuing promotion and development of outsourcing arrangements would be important. Given the potential opportunities arising from the growth of GPN industries through subcontracting and outsourcing, policies aimed at improving these relationships between SMEs and large corporations and MNCs are crucial for SME development. Subcontracting and outsourcing arrangements can be promoted by linking up or matching up companies, providing subcontracting and outsourcing advice to SMEs, and organizing fairs for subcontractors.

The experiences of South Korea, Singapore, and Taiwan show that the successful implementation of technology upgrading, human resource development and training, and finance support programs are crucial for SME growth and development. Industrial upgrading would require a strong base of domestic knowledge. This would need the development of specialized skills and technological capabilities. The government also needs to implement substantial reforms in all stages of the education and training system to cope with rising competition from lower wage countries. The quality and completion rates need to be improved and the length of the schooling be brought in line with international norms. Moreover, technical training schools should reorient their curricula to serve employer needs and requirements; to address specific skills needed by both traditional industries.

Equally important particularly for the global/regional production network operations of multinational enterprises is the presence of good infrastructure and logistics that lower production cost and facilitate the easy supply chain management from the procurement of inputs to the export of outputs. This implies reducing power and communication costs, providing sufficient port systems, reducing travel time and offering travel and shipment options.

Within this light, the government could facilitate SMEs' gainful participation in ASEAN through: (1) designing a coherent set of policies and programs; (2) raising awareness of the potential of participation in international/global production networks and good understanding of the advantages and potential of sub-contracting; (3) addressing financing issues including inadequate working capital, insufficient equity, difficulties of credit finding and expensive credit cost; (4) improving the technological capabilities and strengthening supply chains to enable SMEs to move up the technology scale as well as to create and enhance existing linkages with production networks; and (5) creating an enabling environment for firms to survive and realize their potentials to grow, a crucial precondition for both foreign and domestic investment.

To improve MSMEs access to finance, the paper suggests the following: (1) implementation of the Central Credit Information Corporation to improve the overall availability of credit particularly for MSMEs, provide mechanisms to make credit more cost-effective, and reduce the excessive dependence on collateral to secure credit facilities; (2) changing the traditional mindsets of banks and encourage the adoption of non-traditional approach to SME lending. Traditionally, lending to SMEs is seen to entail higher risks and higher costs and the tendency is to over guarantee the loan; (3) trainings and capability building programs for SMEs to improve their financial literacy and management capacity are also necessary; and (4) improve data collection and statistics on SMEs particularly on financing indicators.

References:

- Aldaba, R. 2011. SMEs Access to Finance: Philippines. Paper submitted to ERIA.
- Aldaba, R., Erlinda Medalla, Fatima del Prado, and Donald Yasay. 2010. Integrating SMEs into the East Asian Region: The Philippines.
- FINEX and ACERD (2006). “Making SMEs Work, Making SMEs Create Work: Job Creation Through Small and Medium Enterprise Development”. A joint paper by the Ateneo Center for Research and Development (ACERD) and the Financial Executives Institute of the Philippines (FINEX)
- Nangia, R. and Luc Vaillancourt. 2006. “Small and Medium Enterprise Financing in the Philippines”. International Finance Corporation. 2006.