

The Present State of Small-Scale Enterprises in the Philippines under the Framework of the National SME Development Agenda: A Case Study in Zamboanga City

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Abstract

This paper is an attempt to analyze the ways government's *bureaucratic system* in the service delivery to SME sector affects the day-to-day operations of small enterprises, along with other related issues such as the central-local government relations, decentralization, partnership and networking approach, and the demand-supply driven public services. It looked at the experience of the Philippine government's policies and programs aim at SMEs' growth, dubbed as the National SME Development Agenda. The agenda incorporates a comprehensive and integrated approach to SME development, under the national government's direction. Apparently, the agenda is centrally planned, designed and implemented. At the lowest level of the government hierarchy, the local government unit is entirely left only to monitor and coordinate the implementation of central government actions. Hence, the role and accountability of local stakeholders are not well defined (especially the local government's). Citing the case of Zamboanga City, the economic center of Western Mindanao region, the local government is lacking ownership, involvement, and commitment to this national initiative. Despite this national government-led support scheme, SMEs are continually facing some problems and pressures pertaining to their business operations. Analysis on the effect of national government's support scheme at the firm level is presented, with some implications toward the end.

I. Introduction

It is now widely accepted that a conducive and enabling policy and regulatory environment is crucial to the growth and expansion of micro, small and medium enterprises (SMEs)¹ in the developing nations. Tolentino (ILO 1996) provides that SME promotion is one of the viable strategies for achieving national development goals such as economic development, poverty alleviation, democratization of economic participation, employment creation, strengthening the industrial base and local production structure, depressed area development, balanced development among economic sectors and sub-sectors, and a host of other social, economic and political objectives of national development. That is why it is often an integral part of national development plans. However, despite the fact that in recent years most governments have launched a variety of policies,

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programs and projects geared to promoting the small firm sector, in most developing countries, small firms continue to have an inferior status (Spath 1993: 22-23). This is partly brought about by the issues pertaining to bureaucratic² government services, which are more supply-driven rather than demand driven, poor central-local government relations³, lack of commitment and diverse priorities of local governments under the decentralization⁴ regime, and the limited partnership and networking of governments with non-governmental and private sector organizations to enhance the effectiveness of policies and programs. All these issues have serious implications in the growth and competitiveness of the SME sector of the country in the long run.

II. Purpose, Methodology and the Area of Study

Basically, this paper supports the claims on the growing positive relationship of a competitive SME sector to economic growth and poverty reduction. Though, this is not the focus of the discussion. Because of this widely recognized causal effect, I examined some relevant policies intended for SME development, and analyzed in what way this has affected small enterprises, within the framework of strong governmental support. Citing the case of the Philippines, the support scheme is dubbed as the National SME Development Plan/Agenda. Furthermore, this paper examines the business operation aspects of a small enterprise in the areas of marketing, technology, finance, skills and human resource, and information that affect their growth and competitiveness. As a case study in Zamboanga City, face-to-face interview was made in July 2004, with semi-structured and open-ended questionnaires, to entrepreneurs, national government agencies with SME mandate under the agenda, private sector and selected industry representatives, three government banking and financing institutions, and local government officials (Vice-mayor and city councilor). The City was chosen for the study, being the premier capital and economic center of Western Mindanao region. It has likewise the highest concentration of micro and small-scale enterprises, among the five major cities and four provinces comprising the region. Enterprises selected for the study were done so on the basis of their asset size and export potential. Most of these interviewees are members of the Zamboanga City Small and Medium Enterprise Development Council (SMEDC), a local counterpart of the national SMEDC⁵.

III. Why SME Promotion and the Philippine Government's Strategy

In the past decade, Sengenberger and Loveman (quoted in Spath 1993: 93) provide that SMEs have not only shown considerable economic dynamism and ability to adapt to changed market conditions, but have even gained in importance to large firms as sources of employment. Although, Vargas (1989) and Escandon (1981) argued that conditions might be very different depending on whether a small firm exists purely for subsistence purposes, or possibly as an alternative to unemployment, or for the utilization and accumulation of capital (Spath 1993: 93-107), in many

countries the SME sector has substantially contributed to exports that eventually added to the economic growth, though. This, however, complements the important role of large firms. In Malaysia, for instance, the SME sector collectively accounted for 41.4 percent of the total employment and 36.2 percent of the total valued added in manufacturing establishments, surveyed in 1988, and in Singapore, the sector constituted 90 percent of the total number of manufacturing establishments, 44 percent of employment, 24 percent of value added, and 16 percent of direct exports in 1987 (Meyanathan 1994: 26-27, 68-72).

Although, there is a common understanding that the development of the SME sector is also crucial for poverty alleviation in the developing nations, small-scale enterprises continually face many impediments to succeed. This is compounded by the fact that the over-all policy environment is skewed against them. This is a basic reason why many of the enterprises and entrepreneurs are driven to the underground economy. To remedy this unfavorable situation and in promoting this sector, a change in the government's strategy is necessary. In particular, in rural areas where the economy is often characterized by micro and small-sized activities, there is much need to provide a satisfactory platform for stable economic progress. JICA (2002: 21-22) underpins this view, by outlining the multiple functions of SMEs for the society and the economy of a country: *first*, SMEs represent a large weight of the economic activity of a country, since they account for an overwhelming number of business establishments and employees, and are a major player in economic activity; *second*, the SME labor market performs a stabilizing function in society, since they provide many people, including unskilled workers, with employment opportunities, thereby distributing income from a macroeconomic perspective; and *third*, SMEs are key players in the pursuit of regional economic development, if they prove to be dynamic, competitive and growing. The OECD (1996: 11-17) also provides that, under special circumstances, a region dominated by an independent network of small firms may prosper, even in competitive international markets, when the right combination of government policies, local institutions, and cooperative productive arrangements are in place. Yet, until recently, the environment in which small firms operate has been neglected in most studies. The premise is due to the isolation and powerlessness of individual small firms, particularly in the socio-political setting. Conversely, in cases where the policy of the state is SME-friendly, the government is constrained to effectively implement those policies and its programs. Issues on this aspect include government bureaucracy, poor central-local governments relationship, decentralized local government is less functional (partly because local government lacks the capabilities, initiative and less accountable), poor networking and partnership of governments with non-government and the private sector organizations, programs and services available are either inappropriate or create dependency in the long-run, among others. These mounting issues have implications in the growth and competitiveness of the SME sector, which has substantial contribution to the economic growth and social development. It is in this presupposition

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that this study was undertaken to analyze the ways these conditions affect small enterprises and the environment they operate now under the growing so-called *globalization*.

3.1. The Philippine SMEs

The Philippine SME⁶ sector is composed of micro, small and medium enterprises engage in industry, trading, agribusiness and services, whether single proprietorship, cooperative, partnership or corporation. In light of their increasing role in the Philippine economy, the revitalization of SMEs remains a primary area of concern for the government. The promotion and development efforts of the government for small-scale enterprises form an essential part of any integrated strategy. These efforts are becoming increasingly important in the field of development, because they are seen as important sources of employment for both rural and urban forces (International Institute of Rural Reconstruction: 1991). Their development increases their competitiveness and can also help achieve a more equitable distribution of the benefits of economic growth and, thereby, help alleviate some of the problems associated with the uneven distribution of income. A concrete step in realizing this objective is the implementation of the National SME Development Agenda that sets a priority strategy to develop the SME sector that comprises 99.7% of the total 820,960 establishments, contributing 32% of the total Gross Domestic Product, and 69% of the total 6 million employment of all Philippine enterprises (DTI 2004). Given their economic and social importance, the Philippine SMEs are considered to be vital in the recovery of the national economy, therefore.

3.2. The National SME Development Agenda

The RA 6977 stipulates that the state will “promote, support, strengthen and encourage the growth and development of small and medium enterprises in all productive sectors of the economy, particularly rural/agriculture-based enterprises”. This legislation is backed by an action plan for SMEs in the Philippine Agenda 21. This agenda integrates the efforts of all stakeholders in the development of a national action agenda and a legislative agenda that will lead to efforts towards sustainable development. The policies and programs outlined are centrally planned and locally implemented. The function of the LGU, as chair of the local SMEDC, is only monitoring and coordination of national government’s local level implementation.

Mandatory Allocation of Credit Resources to SMEs. In the Philippine banking system, as mandated by RA 6977, all lending institutions, regardless of type and as defined under the BSP rules, were required to set aside a certain portion of their loan portfolio and make this available for small enterprise credit. The portion mandated to be set aside under the law was at least 5% by end of 1991, 10% by end of 1992 until 1995, 5% by end of 1996, and may come down to zero by the end of 1997. In 1997, RA 8289 amended RA 6977. The effect of the mandatory allocation provision feature of the law was extended for another ten years, from 1997-2007. All lending institutions, whether

public or private, were mandated to set aside and make available to SMEs at least 6% for small-sized and at least 2% for medium-sized, of their total loan portfolio based on their balance sheet, ending the previous quarter (BSMED 2000).

Government Policies on Government Financing. The Executive Order (EO) Number 138 in 1999 embodies the current government policy to pursue a liberalized and market-oriented economy, where the private sector plays a major role and the government provides the enabling environment for the efficient functioning of markets and private sector participation. It also implements the government's directive, Administrative Order (AO) 86 issued in 1994, to rationalize the directed credit programs in all sectors of the economy. Two basic principles prescribed in the order are the non-participation of government non-financing agencies and government-owned and controlled corporations in the implementation of credit programs, and government financing institutions (GFIs) as the main vehicle for the delivery of wholesale funds to private financial institutions engage in retail lending. GFIs are usually government-controlled banks and financing institutions. Retail lending of GFIs shall only be allowed in areas where there is no operating accredited financial conduit.

SME Capital Market. The SME capital market, an initiative of the Philippine Stock Exchange (PSE), is a market for small and young companies, with high growth potential. It is a market devoted specifically to address SME needs. Efforts to set up the SME capital market began in June 1999, following the approval of the first set of rules by the SEC in 1998. The listing requirements for SMEs include the following: authorized capital of PhP20-100 million (US\$363,636-US\$1,818,182), with paid-up capital of at least 25% of the said authorized capital, a two-year positive net operating income, existing owners retain 51% of capital control and ownership of the business, and the number of shareholders in starting up should be at least 50 (PSE 2000). To join the SME capital market, an SME must undergo a nomination and a listing process. From the perspective of the SME, Vilorio (quoted in Alfonso 2001: 135-159) identifies some crucial issues that hinder the effectiveness of this capital market: apprehensiveness to go public; over-dependence on debt and lack of knowledge of the capital markets; and, ill preparedness of SMEs structurally.

Marketing Development Program. The marketing development programs of the agenda seek to increase exposure of SME products in domestic and foreign markets. They also seek to improve distribution of SME products among and between the local manufacturing and trade sectors. Direct programs and assistance to qualified enterprises include trade fairs, buying and selling missions, mini SME trade houses, buyer-supplier matching and trade-line Philippines. All these activities are implemented by the national government agencies involved. At the local level, any assistance relating to marketing development of an enterprise can be brought to the attention of the DTI local office before it is forwarded to other bureaus/offices, should this office be incapable of performing. On the other hand, the role of the local government unit is very minimal and oftentimes

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collaboration in nature, with the local offices of national government agencies, non-governmental organizations, foreign donors and industry associations. A good example of LGUs' immediate role on SME market promotion is co-sponsoring a regional or national market fair for local SME products.

Product Development and Technological Intervention. The product development program seeks to provide existing and potential entrepreneurs services that include product and package design and development, to create and sustain a competitive edge in the domestic and export markets. Product development encompasses all activities, from generating ideas to applied research on materials, processes, and technologies, to full-scale introduction of a product to the market. This enterprise-level activity is important to a company to sustain growth and improve profit margins. It also seeks to create awareness and understanding of product development and its process, and how a company can use it to its advantage. The services and programs include product design and development, package design and development, product technology research, design and technical information, and a design library.

Training and Entrepreneurship. The government highlights the need to develop the entrepreneurial character of the people through training and entrepreneurship education. The training and entrepreneurship development programs, under the agenda, seek to provide existing and potential entrepreneurs with the necessary skills and knowledge to become competitive players in local or global markets. It also seeks to create a pool of SME trainers, advisors and counselors who can effectively assist SMEs nationwide. The program contains entrepreneurship and skills training for potential entrepreneurs, training on specific skills and knowledge, skills upgrading for SME service providers, and business management competency courses. At the national level, there is a committee assigned in the National SMED Council, which is replicated at the local level. DTI, as the lead agency, coordinates all training programs of the government, academe and private institutions. It is obvious that the training program of each region or city may differ depending on the need of SMEs, the priorities of LGU, and the existing local industries.

Advocacy and Enabling Environment. This component aims to create an environment conducive for SME growth and expansion, by rationalizing all regulatory procedures and development and promotion efforts expressed in the form of policies informing entrepreneurs, business community, media, and other stakeholders on available government services for SMEs; building up awareness in the general public on the important economic roles of entrepreneurs and SMEs; and, advocate for improvements in the business environment so that SMEs can emerge and grow. The national SMEDC monitors the implementation of the Barangay Micro-Business Enterprise Law, harmonize/simplify/standardize government business forms and fees under the National Anti-Red Tape Program launched in 2001, and review of government rules and regulations that impede the efficient conduct of business. Parallel to the latter strategy, there is an on-going review on the laws, policies, rules, and regulations that work against business, especially to SMEs, through the national

SMEDC. It is also looking into other factors that raise the cost of doing business, such as high freight rates and poor infrastructure.

Information and Communication Technology Development. In recognition of the vital role of information and communications technology (ICT) in nation building and the need to create an information-friendly environment, which supports and ensures the availability, diversity and affordability of ICT products and services, the Electronic Commerce Act of 2000 (RA 8792) was enacted and implemented by the DTI, in coordination with the National Computer Center and DOST. This law has the aim of facilitating domestic and international dealings, transactions, agreements, contracts and exchanges, and storage of information, through the use of electronic medium and technology. It also promotes the universal use of electronic transactions in the government and among the general public. The SME- Information Technology Plan seeks to accelerate the e-competency among SMEs for increased competitiveness in the global environment. The plan includes: direct services to traditional SMEs, like awareness seminars and training; matchmaking business promotion; development support and incentives for IT-service SMEs; provision of incentives on IT projects; and, program support services, which include survey to SME competence and preparedness, workshops, and organization of SMEs.

Barangay Micro Business Enterprise. To expand the players in government's commitment on SME promotion, the local government units are instructed to be involved in micro enterprise development at the local level, through the passage of RA 9178, otherwise known as the "*Barangay Micro Business Enterprise*", approved in November 1992. The passage of this law was aimed at providing assistance and incentives and other support services to the micro enterprise sector. The incentives and benefits include exemption from taxes and fees from local government, exemption from the coverage of the minimum wage law, credit delivery, technology transfer, production and management training, and marketing assistance, and trade and investment promotion.

IV. Small-scale Enterprises in Zamboanga City under the National SME Development Agenda

4.1. Zamboanga City Profile and Its People

The city of Zamboanga is on the southernmost tip of the Zamboanga Peninsula and within the Southwestern Mindanao region. The total land area of the city is 1,420.9 square kilometers, with generally sloping terrain. It is 852 kilometers south of Manila, less than two hours flying time. It is geographically proximate to the countries that comprise the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area. In the 2000 census, the total population of the city was 601,794, with an annual growth rate of 2.74 percent. Moreover, given the rate of population increase, the present population level of Zamboanga City is expected to double in 25 years. This acceleration is due

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primarily to immigration in short-term and improved income and health leading to increased fertility in the long-term. Population is heavily concentrated in the urban area and its vicinity leaving a relatively sparsely populated hinterland. Since 1970, the concentration of people has been in the city proper, but it is currently showing evidence of spreading towards the northeast. The concept of population concentration is the function of the distance from the city center - that is, those *barangays* located nearest to the center where the City Hall is, are likely to be the most densely populated. These urban *barangays* have the highest population concentration in terms of inhabitants per hectare, ranging from 200 to as high as ten thousand. Whereas, *barangays* located beyond the 5-kilometer radius posted a density of not more than 20 people per hectare in 1995. With mostly Spanish and Malay influence, local people are composed of native Zamboangueños, Visayan, Tausugs, Badjaos, Yakans, Samals, Subanen, Chinese and people from Luzon areas. The literacy rate of the school-age population (between 82% and 88%) and adult population (79%) has been relatively low.

4.2. The City's Economy

Its vast land area is subdivided into 98 *barangays*, and the wide variety of natural characteristics poses many possibilities for growth and development. Zamboanga city's land area is 8% of the total land area of Western Mindanao, but it accounts for the bulk of economic activity in the region. It is also the major location for investment coming into the region. The small-scale sector continues to be the backbone of the city's economy. As characterized at the regional level, the city's economy is highly concentrated in agriculture and fishery. There is a forestry sector and industry (that includes mining and quarrying, manufacturing, construction, and electricity and water), and the service sector (e.g., transport, commerce, finance, real estate, among others) that sustain the local economic activities. It has vast tracts of agricultural land and borders rich fishing grounds, which make agriculture and fishing the main sources of livelihood.

Agriculture, fishery and forestry and its related industries accounted more than 70 per cent of the total economic output (export) from 1989-1997 (ZCMDP 1998). Fifty-six thousand hectares of city territory are arable lands, and seventy thousand hectares are planted with permanent crops, mainly coconut, while others are rubber, rice, fruit bearing trees, and banana, among others. The city still maintains relatively average number of hectares of forests. The local farmers produce 86 thousand metric tons of coconuts a year, 26 thousand metric tons of rice and 11 thousand metric tons of corn. The average annual production of fish, caught from the sea or raised in fishponds inland, is about 1,600 metric tons. The City has emerged in recent years as a principal producer of seaweed. Four hundred seven hectares of offshore area is devoted to seaweed farming, with an average annual production of 14 thousand metric tons.

For 2003, Table 1 presents the foreign trade export performance of the city. The top export items

are coconut oil, marine products and processed foods. Coconut crude oil and canned tuna are the area's top dollar earners. Agricultural crops include rice and corn, cassava, bananas, vegetables, and coconuts. Livestock and poultry production has accelerated through the years along with the commercial, municipal and inland fishing. Major sea products include tuna, herring, sardines, anchovies and mackerel, as well as shrimps, prawns, squid, crabs, lobsters and cuttlefish.

The export performance of traditional agricultural products in 2003 increased by US\$ 3.04 million, or 0.11% from the previous year. On the other hand, there is a slight decrease for non-traditional products of 2.38 million, or 0.02% in the same year. However, these non-traditional products are the major dollar earners of the city, which amounted to US\$ 102 million, or 77% of the total foreign trade performance in 2003 alone. These exports include shipments to other countries (e.g., USA, Japan and Europe).

Table 1 2003 Foreign Trade Export Performance of Zamboanga City (FOB Value in US\$)

Products	2002		2003	
	Weight (kg)	FOB	Weight	FOB
<i>Traditional Products</i>				
Coconut oil	65,820,000	23,187,080	75,800,000	27,850,570
Cochin oil	7,000,000	2,305,000	2,000,000	830,000
Coco solvent/Pellets	44,900,000	2,547,006	42,351,001	2,394,936
Rubber	506	1,263	NDA	NDA
Coffee	NDA	NDA	NDA	NDA
<i>Total</i>	<i>117,720,506</i>	<i>28,040,349</i>	<i>120,151,001</i>	<i>31,075,506</i>
<i>Non-Traditional Products</i>				
Marine/Aquaculture	13,137,792	54,169,825	9,547,319	49,058,095
Processed Food	28,338,113	38,499,446	26,830,787	39,344,591
Gifts and Housewares	251,780	686,638	331,005	538,268
Seaweeds/Carrageenan	15,680,210	9,704,142	16,620,060	11,433,802
Tropical Fruits	134,925	69,396	216,350	108,974
Furniture	188,183	374,000	11,182	123,000
Charcoal	0	0	16,000	850
Others	395,629	521,320	805,955	1,034,362
<i>Total</i>	<i>58,126,632</i>	<i>104,024,767</i>	<i>54,378,658</i>	<i>101,641,942</i>
Grand Total	175,847,138	132,065,116	174,529,659	132,717,448

NDA – No data available

Source: The Zamboanga City Profile in Figures. June 2004 Edition. Zamboanga City. 2004

4.3. Employed Persons by Industry and Employment Status

There are three types of industries in Zamboanga City where labor can be well accounted for: agriculture, industry (includes manufacturing, building construction and etc.) and services. Table 2 compares the types of employment and industries between urban and rural in 2002. In short, total

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employment during this period is 197,000 with the service sector accounting for 70% of the total, followed by the industrial sector with 16% and agriculture 14%.

Table 2 2002 Employed Persons by Type of Industry, Urban-Rural in Zamboanga City (In Thousands)

Major Industries	Urban as of Oct., 2002	Rural as of Oct., 2002	Total
Agriculture	14	14	28
Industry	14	17	31
Services	97	41	138
Total	125	72	197

Source: National Statistics Coordinating Board, Zamboanga City. 2004

4.4. Small-scale Enterprises in Zamboanga City and Its Contribution

In terms of business classification, micro type enterprises dominate the economic activity in the city, as shown in Table 3. This reveals further that the micro and small enterprises account for 99.7% of the total registered establishments in the city, though this figure might be somewhat lower than the actual number, because some micro enterprises do not register their business to the appropriate offices⁸. The reasons can be: the *petty-type* in nature of the business and the financial cost accompanying the regulation/registration.

Table 3 2000-2003 Number of SMEs and Large Enterprises in Zamboanga City

Category	2000	2001	2002	2003	Total	% Share
Micro/Cottage	975	1,071	767	1,150	3,963	96.7
Small	23	32	45	21	23	3
Medium	1	1	3	2	7	0.2
Large	0	0	3	1	4	0.2
Total					4,095	100

Source: Department of Trade and Industry, Zamboanga City Office. 2004

Table 4 provides the value of investment in the city for the last four years (2000-2003). Of the total cumulative investment generated by the city, half is derived from SMEs.

Table 4 2000-2003 Investment Value of SME and Large Enterprises in Zamboanga City (In Millions)

Category	2000	2001	2002	2003	Total	% Share
Micro/Cottage	136.182 (US\$ 2.476)	155.827 (US\$ 2.833)	171.029 (US\$ 3.109)	257.663 (US\$ 4.684)	720.701 (US\$ 13.103)	26
Small	91.439 (US\$ 1.662)	119.607 (US\$ 2.174)	156.4 (US\$ 2.843)	120.865 (US\$ 2.197)	488.311 (US\$ 8.878)	18
Medium	20 (US\$.364)	50 (US\$.909)	86 (US\$ 1.564)	34.45 (US\$.626)	190.45 (US\$ 3.463)	7
Large			845 US\$ 15.364)	500 (US\$ 9.091)	1,345.00 (US\$ 24.455)	49
Total					2,744.462 (US\$ 49.899)	100

Note: Conversion rate to dollar is 55 pesos for every one dollar, as the average current exchange rate.

Source: Department of Trade and Industry, Zamboanga City Office. 2004

In terms of employment generation among these different types of enterprises, Table 5 shows that high number of employment are recorded for micro and small type, with fewer in medium and large sized enterprises in 2000-2003. Each year's figure indicates the reported number of newly created jobs^a.

Table 5 2000-2003 Employment Generated by SME and Large Enterprises in Zamboanga City

Category	2000	2001	2002	2003	Total (Cumulative)	% Share
Micro/Cottage	5,322	4,546	3,059	4,740	17,667	76.4
Small	387	2,614	853	384	4,238	18.3
Medium	60	40	150	8	258	1.1
Large	0	0	954	20	974	4.2
Total					23,137	100

Source: Department of Trade and Industry, Zamboanga City Office. 2004.

4.5. The Present State of Small-scale Enterprises in Zamboanga City

This section presents the existing issues and problems facing small enterprises that receive immediate support under the agenda in the areas of finance, technology, marketing, human resource development, information technology, and other aspects of business operations.

Case 1 - Alavar Food Products

General Information: Alavar Food Products is a single proprietorship-type of micro enterprise, with an asset size of Php2. 5 million (US\$45,454), and annual average sales of more than Php1

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million (US\$18,181). The company has seven full-time workers employed in the production section. It was established in 1978, as a producer of processed and bottled foods. Much assistance was received from national government agencies relating to technology introduction and upgrading of production system, regulatory compliance in meeting business registration and product certification to government agencies, business/product promotion, selling techniques, skills training, and business advisory services. An example of this help is when the entrepreneur wanted to improve packaging and labeling of product in the past, DTI provided technical service. Nutritional value of some products were also analyzed by DOST, in its effort to acquire a certificate of product registration (CPR) at a cheaper, or sometimes, free of charge.

Issues and Problems: It has no certificate of product registration (CPR) for all products to certify that it meets the national standards. Since many of the products are manually cooked, with unsophisticated pressure cooker and sealer, the food-contained-organism value is not clearly assessed. Health Analysis and Critical Control Point (HACCP) accreditation from BFAD (for food) and BFAR (for marine products) takes considerable time, due to bureaucratic ways of processing. As a consequence, the plant re-construction to install the HCCP system cannot be started immediately. The accreditation on *halal*⁰, to be able to sell in Muslim countries like Indonesia and Malaysia, is also problematic. However, there is a delay on the company's application for *halal* certification¹¹.

Case 2 - Zamboanga City Tropical Fruits

General Information: Zamboanga City Tropical Fruits is under a single ownership. It has a total asset size of PhP3.15 million (US\$57,272) at present, from PhP2.9 million (US\$52,727) in 2000 when the company was established. It sells pet bottled *kalamansi* (citrus/lime fruit variety) juice and *kalamansi* concentrate juice in Zamboanga City, Jolo province, and Manila. It has 14 workers. It has received assistance from the government agencies in relation to its different enterprise-level activities on product quality improvement, provided the business the appropriate and acceptable product packaging and labeling, helped to promote the product through regional and national trade exhibits, and facilitated the sourcing of packaging materials. Enough help is also being provided to the owner in its plan to install HACCP system. Although started as one manufacturer in the city, now, there are five competitors producing the same product lines in the local market. The owner and the new competitors are not thinking of organizing themselves into a group at the moment, since they consider themselves more as competitors in the local market.

Issues and Problems: The immediate problem is the technical aspect of the appropriate use of a cooking tank to meet the zero microbe substance present in the finished product. There is no established minimum acceptable standard of raw material to meet the desired quality and standardized product. The cost of packaging is high and it is not available in the city. The consumers' taste preference varies, according to the market area, which resulted in difficulty in

organizing the production operations. Current competitors that are gradually gaining market share are imitating the existing product label making difficult to distinguish differences. The need to improve the waste disposal system is another problem pointed out by the local DOST office. This will create a serious environmental problem and community disruption if not solved soon.

Case 3 - SR Foods International Incorporated

General Information: SR Foods is engaged in the buying of marine products, particularly frozen octopus, and selling of these in the U.S.A., Portugal, Taiwan and Hongkong. The corporation is registered with the BOI, SEC, BSP, and DTI. It began its operation in 1990. With a total asset size of PhP18.7 million (US\$340,000) in 2001, it has an annual average sale of about PhP45 million (US\$818,181), depending on the world market situation. The company is categorized as a small-type business, with 70 employees. During peak season, the company hires 30 extra workers. To qualify for the international market, the company's strategies include: implementation of HCCP to sell in the US market and installing good manufacturing practices and hygiene standards. In all these efforts, the workers were highly involved through training and orientation.

Issues and Problems: The enterprise is facing a problem of the quality of octopus from the local suppliers (fishermen and traders), because of injection of water to artificially increase the weight, since this is being sold based on size and weight. Complaints from foreign buyers concerning unacceptable level of moisture content of the packaged product have become a problem recently. This also relates to how to obtain the allowable moisture content that is based on international standards, which the management is not familiar with. Emerging stiff competition with Indonesian exporters is another growing problem. The uncertain shipping system in the country, that seriously affects timely delivery, is another problem. Another pressing issue at present is the requirement of the national government to comply with the Bio-Terrorism Act, since this entails a financial burden to the enterprise. Negligence/Misconduct of other octopus producers affecting the product quality, and thereby damaging the image of the other exporters, is another problem.

Case 4 - RDV Food Industries

General Information and Management: The business was established in 1986, as a trading company of dried fish. It is a sole proprietorship. It had a total asset size of PhP1.5 million (US\$27,272), as an initial investment during that time. Because of high profit potential of dried fish production, the enterprise started to engage in dried fish processing. This signaled the growth and expansion of the enterprise. Today, the company has a total estimated asset size of PhP21.3 million (US\$387,272), with annual sales of PhP60 million (US\$1,090,909), and an average of 5% growth in sales every year. It has a total employment of 49 workers, 29 workers directly engage in the production and 20 workers in the trading section and as office staff. The main products are dried

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fish and salted fish of many varieties. 40% of the entire operation is devoted to production and 60% in trading of dried fish. It took some time to refine the dried fish processing, due to some intricate technical requirements. The business used to be a non-profitable enterprise, because of poor quality, unsteady supply of raw materials, and unfair practices of many big-time traders.

Issues and Problems: Because of its plan to export, the government is pushing the company to fully accomplish/install the HACCP system and acquisition of CPR for each product (or variety of dried fish). The CPR application of some products is on going, while others are still being assessed for their need to acquire CPR. There is no quality standard for dried fish, except for the specific production process demands of the buyers (traders, department stores). High cost of regulation and meeting the quality standard imposed by the government regulatory offices (like HACCP installation cost), and the bureaucratic procedure of improving quality and productivity discourage them to pursue the registration/certification. Since they have many products that need CPR, the owner is worried that this may delay their plan to export. Local foods are not protected from unknown substances that will reduce its quality, unlike other countries that have stricter standards on food items. The company is spending much money on branding and packaging, but retailers and traders do not want to use them, because they prefer their own brand name to be used in labeling the product.

V. Re-emerging Issues and Problems of Small-scale Enterprises

From the accounts above regarding the existing conditions of small enterprises in the city, which receive support under the national SME development agenda, it is obvious that they continue to face problems in their business operations. There is a strong intervention/involvement of government in the business operations in the areas of R&D, technology upgrading and transfer, marketing and selling, assisting in regulatory compliance, among others. Below is a summary of the collective issues and problems of SMEs obtained during interview.

Inaccessible Financial Help: Much has been done on the financing at the national policy level that even led to the active involvement of the private banking sector and financial institutions. However, as always the perennial problem of SMEs in accessing financial help, micro enterprises face the same start-up problems of exclusion from banks' service, in comparison with the medium-sized enterprises, which are more established and have a track record of profitability and paying back their debts on time. They shy away from banks and financing institutions, because of problems on documents and collaterals. Another important barrier is the attitude of banks towards small value of loan, since they are more concerned with the economic cost and benefit of a loan package. This thinking is highly detrimental to small borrowers in availing financial help. They are in a bind between staying small and trying to grow. They cannot afford to expand without additional capital. Furthermore, small entrepreneurs are not clear about the loan interest rate they can afford. It

appears that, within reasons, they are willing to shoulder loans, as long as financial assistance will be made available.

Issues on Production Technology and Inferior Product Quality: The government finds it difficult to be actively involved in promoting technology consciousness among small entrepreneurs, and the transfer of it from the different government bureaus for such a variety of products. This subsequently creates dependency and hopes for free assistance among small-scale enterprises. It is apparent that the effects of the R&D program of the government cannot be sustained in the long run, beyond start up assistance. One problem related to this, though benefiting small enterprises, is the time and effort required for the technology to be transferred from the government agencies to SMEs. Because of much dependency, SMEs cannot improve production systems, productivity or quality, by themselves, which likely traps them in an uncompetitive position. Another issue is that only two institutions (local state college and non-governmental organization) are engaged in R&D, concentrating on marine and agriculture-based industries in the city. Partly, this R&D helps some food manufacturers. But there is no really specialized or private institution engaged in any R&D projects to enhance technology and product competitiveness of local industries. An equally important factor is that the entrepreneurs lack information on the latest technology to improve the outdated production system and practices, which primarily hinders them in meeting international standards. Even though they have the necessary information, access and cost are significant issues. With all these barriers, small entrepreneurs can hardly cope up with the pressures to achieve global standards.

Inadequate Marketing Strategy and Market Coverage: In the field of marketing and product promotion, both for domestic and international market, there is no doubt the government exerting much effort in bringing local SME products to the markets like trade exhibits in Manila and promotion abroad through the trade attaché, business matching, facilitating buyer-client relationships by way of referrals and advice, and other trade facilitation. For markets abroad, with a variety of trade exhibits in close coordination with the different industry groups and the Philippine embassies and attaché, the SME products are gradually making their entry. However, not all small enterprises, especially those in the countryside, have the chance to participate in these events, because of priorities and conditions set by the government. At the firm level, when small enterprises join the trade fairs, they often lack the necessary preparations (volume and quality of products). As a consequence, participation becomes useless. Some specific marketing activities are done by the owners, with the help of government agencies, through technical and professional consultancy, product sampling and catalogue making, business training, etc. However, they are confronted with issues of transaction costs and the bureaucratic system of the government. There is also a lack of intellectual property rights protection, poor costing and pricing techniques/knowledge, limited market coverage and negotiation skills, and no institutionalized market research activity by the

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government and within the enterprise itself at the local level.

Lack of Networking with Large Enterprises: Although many of the small-scale enterprises are into finished product activity, establishing a linkage with large enterprises, as suppliers of finished product, can be a potential source of revenue and assure a stable business relationship in the long run. However, this may not be an easy task, since SMEs into finished food products also compete with these large enterprises. The small manufacturing enterprises surveyed, which produce and directly sell their own products, face this kind of problem and have to find their own niche in the (domestic) market at the same time competing with other enterprises. Nevertheless, this remains an issue at the local level. For some small enterprises that have the potential to link with large enterprises (like the dried fish sector), this area has great potential.

Poor Networking with Other Industry Groups and Associations. Networking is very weak in the city, despite the existence of many *sectoral* groups or councils. Many lack the proper direction and understanding of their role and importance as a group, except on *political grounds*. This would have been a potential source of political bargaining and a source of business strength of small enterprises. Some areas where networking has been helpful are in seeking help and support from the local and national government, and in dealing with other players in the business sector. This is a potential venue wherein issues and problems can be addressed. The fish processors group in the city is a good step akin to this; however, it falls short of resources and manpower to achieve its purpose and in maintaining members' commitment. And governmental help to this kind of group is very limited, since its role is just to assist in organizing, a bit of organizational development and strengthening through training, and for collective representation in the political arena. There is still a need for the local entrepreneurs to discern the importance, benefits and real essence of group organization.

Shortage of Capabilities and Skills in Management: It is often the case that the owner is also the over-all manager, production supervisor, quality controller, marketing officer, financial keeper, selling officer and among other crucial functions of an enterprise. Though, these can be attributed to lack of capital to employ qualified staff, this is also because the owner lacks the wisdom to delegate functions to other workers. For micro entrepreneurs, formal organizational structure and work/function delegation is lacking, in comparison to the small enterprises where there is more formal organizational structure. Though small business owners attend training and seminars, these are insufficient to make them competent in managing day-by-day operations. There is doubt if their own experience is enough to sustain the enterprise in the long run. It was observed during the survey interview that many workers in the food processing section lack the appropriate protection and safety measures, and have poor hygiene and working environment, which are all part of good manufacturing practices, despite the training given.

Lack of Appreciation/Application on IT (E-Commerce): While there are notable opportunities created by e-commerce, the traditional mode of doing business still prevails among small-scale

enterprises engaged in the domestic market. Entrepreneurs lack the appreciation of the importance and benefits of ICT. This is partly because of some existing barriers like the lack of personal computers and limited internet service providers, and payment systems, like credit cards, are limited and not in place in many areas. There is also an inadequate physical infrastructure. Interestingly, if small firms want to pursue business in the international market, with low cost and speedy transactions, this is the only way. Advocacy is not enough. SMEs need a well-developed physical infrastructure that will reach areas where SMEs mushroom. Provision of incentives must be part of the enabling environment. SMEs also need the macro-level induced e-commerce advancement, like the use of credit cards. It may not be possible for all micro and small enterprises to set up e-commerce systems at this point in time, but at least the environment should be available to create motivation and facilitation.

Environmental Issues: The growing concern to save the environment has put emphasis on compliance with the new environmental rules and regulations all over the world. And many small enterprises are not prepared for this. The globally imposed standards induce them to comply with these regulations to be able to export. They struggle to meet this global standard considering the financial requirements, which are a great burden to the struggling small enterprises. The government, which is pressuring entrepreneurs to comply with these environmental standards, has limited support, too, both technical and financial, that compounded SME incapability. As a consequence, the small enterprises are most likely to suffer from this global directive with national/local implications. And international markets may remain an elusive hope for micro and small enterprises.

Lack of Support from the Local Government Unit: The main concern of the local government unit in the city is to earn income through taxes, vis-à-vis the regulatory power it asserts on local enterprises (like licensing and business permit compliance). The local government has also no complementary programs on its own to help local enterprises, except monitoring and coordinating those activities implemented by the national government, through the local SMEDC¹². Obviously, bulk of the efforts to help local SMEs comes from the national government. Even the grant of benefits to local SMEs by the local government, under the BMBE promotion, is not clearly outlined. Hence, we can see that SME development agenda is a national initiative, lacking support from the local government administration. It is peculiar that despite the valuable contribution of SMEs in the local economy, entrepreneurs rely much from the central government's support and nothing from the local government. Perhaps, part of the reason can be that the central government has the availability of resources, manpower and capabilities. However, if support is available from LGU, this is typically coupled with political motives¹³, as another issue. The present Local Development Council is far from achieving the idea of a collaborative, effective, efficient, dependable, and development-oriented group for Zamboanga. This may be due to the understanding that SMEs must

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be able to stand on their own feet to compete in the business arena, and that government cannot appear to favor in one sector over another.

Red tape and Bureaucracy in the Government: “Red tape” is a perpetual problem in dealing with government offices worldwide. While some government agencies promote SME development, others (public employees) harass them with their personal agenda or motives that impede the growth potential of small enterprises. As disclosed by some entrepreneurs, some people in the government bureaucracy lack appreciation and knowledge of the importance of SMEs in the economy. For this reason, they are perceived as continually imposing some problems in the form of regulations that sometimes appears as harassment.

VI. Conclusion and Implications

The paper has just presented the *bureaucratic* mechanism of service delivery, under the so-called governmental help and intervention, and its effects to small enterprises' day-to-day operations. In so doing, the discussion also pointed out how the relations of the central and local governments are crucial in achieving the goals of the development agenda. Likewise, under the decentralization regime, we cannot deny the fact that local government plays a very important role in the promotion of domestic SMEs. However, they are constrained in their capabilities. They also execute limited accountability, partly because the central government is taking a strong lead. LGU's function is confined to monitoring and coordination of activities by the national government agencies. Networking and partnership with non-governmental and private sector organizations is also missing out in the program/project. And these programs or services to enterprises are still supply-driven, rather than demand-driven, as the case has shown. Despite these issues and given the predominant number of SMEs, the government can still mediate and improve the present scenario to foster SME growth and competitiveness.

In this study, I found out that the effectiveness of government interventions to promote the development of small-scale enterprises has had less impact, as large enterprises continue to account for the larger share of the industries and value added at the national level. However, given the increase in number of SMEs that provide employment and contributing to export, especially those in the regional economic centers (like Zamboanga), it is clear that the government policies and programs to promote SMEs have had some degree of success. I have shown that support to SMEs does not necessarily yield immediate results; thus, need to be sustained over a longer period. The sustainability of the policies, programs, and projects, especially in the face of increasing competition brought about by the closer integration of global economy, is essential in making the Philippine SMEs more competitive. The problems and issues facing small enterprises discussed are just some of the consequences of this accelerating global economic integration that require government action. The on-going trade liberalization, pressures to export, and meeting established international product

or production system standards, are giving them some predicament on how to overcome their vulnerable position. Global competition has become more rigid for small-scale enterprises than before, given all these conditions. This presupposes, in the long run, the need to overhaul the entire businesses, as entrepreneurs hope to reach out to international markets. On the other hand, the government has a very critical role to moderate the severe impact of this global market trend, by helping to make the domestic environment more conducive for small industries to grow and competitive.

Obviously, the firms studied are receiving much help under the national government support system, particularly those demonstrating export potential. As a result, it was clear that governmental help made these small companies successful. However, as pointed out, it is most likely impossible that they can survive in the long run, unless they receive continued support. This creates a dilemma for SMEs: how to balance dependence on the government, vulnerability to global changes (e. g. , international standards), and difficulties to grow by themselves.

Going back to the national SME development agenda, there is a call to review and evaluate its fundamentals and direction, along its relevant policies and programs. The issues and problems raised here will serve as a basis in examining the timely and appropriate response of the government to this changing environment facing SMEs. It is also high time for the government to seriously consider the private sector, LGU and other stakeholders in its developmental goal. Equally important, this plan should reflect the local SME development agenda as well, to be more profound and reflective of local context. Above all, public services/support should be *demand-driven* rather than *supply-driven*. Of course, this also requires concrete help from the LGU, given its *political power*, under the decentralization regime. There is also a necessity for serious partnership and networking among actors involve in the implementation, and necessary examination of the ways bureaucracy is impeding the enterprise operation. Lastly, the relationship of SME growth to economic development and poverty reduction needs to be further investigated to guide policy makers and the government in improving the public efforts to help SMEs in the future.

Acronyms

AO	Administrative Order
BDT	Bureau of Domestic Trade
BFAD	Bureau of Food and Drug
BFAR	Bureau of Fishery and Aquatic Resources
BMBE	Barangay Micro Business Enterprise
BPS	Bureau of Product Standards
BSMED	Bureau of Small and Medium Enterprise Development
BSP	Bangko Sentral ng Pilipinas

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CPR	Certificate of Product Registration
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
EO	Executive Order
GFI	Government Financing Institutions
HACCP	Hazard Analysis and Critical Control Point
ILO	International Labor Organization
JICA	Japan International Cooperation Agency
LGU	Local Government Unit
OECD	Organisation for Economic Co-operation and Development
PhP	Philippine Peso
PSE	Philippine Stock Exchange
RA	Republic Act
SEC	Securities and Exchange Commission
SMEDC	Small and Medium Enterprise Development Council
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
US\$	United States Dollar
ZCMDP	Zamboanga City Medium Term Development Plan

Notes:

1. There is no generally accepted definition of micro, small and medium-sized enterprises or SMEs. The distinction between micro, craft, cottage, small, and informal sector is often blurred. In this paper, therefore, SMEs refers to micro, small and medium enterprises. Charmes and Haan (quoted in Spath 1993: 5) provide that in spite of almost 20 years of debate and research on the small firm sector, definition is not very well established in statistical terms. The term "micro, small and medium enterprise" is not commonly used as more frequent reference is made to the designation of SMEs. The classification of enterprises requires the adoption of selected quantitative and/or qualitative classification criteria. Qualitative criteria are not often used, because they are less precise and more difficult to collect and apply. Thus, the large majority of countries use only quantitative criteria. The most commonly used ones are: the number of workers, the value of fixed assets and the turnover.
2. Bureaucracy, according to Max Weber (Turner and Hulme: 1997: 84), is characterized by a clear defined division of labour, an impersonal authority structure, a hierarchy of offices, dependence on formal rules, employment based on merit, the availability of career and the distinct separation of members' organizational and personal lives. Turner and Hulme (1997) conclude that this concept is understood as the rule of the bureau, with professional administration, and another way of saying it as a public administration. Crozier

(Turner and Hulme: 1997) provides the negative characteristics of bureaucracy- that it evokes the slowness, the ponderousness, the routine, the compilation of procedures, and the maladapted responses of 'bureaucratic' organizations to the needs, which they should satisfy, and the frustrations, which their members, clients, or subjects consequently endure.

3. Turner (1999:1) explains that the technical impossibility of total centralization, and the political pressures for decentralization, entails a situation in which all systems of government involve in a combination of both centralized and decentralized authority. However, finding a combination of central control and local autonomy that satisfies regime requirements and popular demands is a persistent dilemma of governments (Turner 1999: 1).
4. In the work of Rondinelli and Cheema (1983: 9-34), decentralization is defined quite broadly to mean the transfer of planning, decision-making, or administrative authority from the central government to its field organizations, local administrative units, semi-autonomous and *parastatal* organizations, local governments, or nongovernmental organizations. The forms of decentralization are de-concentration, delegation, devolution, and transfer of functions from public to nongovernmental institutions.
5. RA 6977 (1991), otherwise known as the *Magna Carta* for SMEs, and as amended by RA 8289 (1997), provides for the creation of the Small and Medium Enterprise Development Council. The Council is the primary agency responsible for the promotion, growth and development of small and medium enterprises in country, by way of facilitating and closely coordinating national efforts to promote the viability and growth of small and medium enterprises, including assisting relevant agencies in the tapping of local and foreign funds for small and medium enterprise development, as well as seeking ways to maximize the use of our labor resources (Section 6). This council is also set up at the city/municipal level in which the local government unit is the chair and monitors and coordinates the activities of the national government agencies.
6. RA 6977 defines Philippine SMEs into asset size (excludes the value of land) and number of employees. As amended by RA 8289, the present definition of SMEs are: for asset size (with 1US dollar equivalent to 55 pesos as the current average exchange rate): micro-1. 5 million pesos (US\$27,272) and below, small - 1.5 million (US\$27,272) to 15 million pesos (US\$272,727), and medium 15 million (US\$272,727) to 100 million pesos (US\$1,818,182). For number of employees: micro 1-9 employees, small-10-99 employees, and medium 100 -200 employees.
7. A barangay is the smallest local government unit in the Philippines.
8. All businesses, whatever the legal form, are required to secure a permit/license from the municipality or city where they are located. Moreover, RA 3883, as amended, otherwise known as the Business Name Law, mandates all forms of enterprises to register with the Bureau of Domestic Trade under the Department of Trade and Industry.
9. The erratic record is dependent upon the ability of DTI and LGU to enforce RA 3883 to newly created or expanded business enterprise, and the willingness of the entrepreneur to register such activity (especially for the micro-type). This happens to those business enterprises located outside the center of the city, where

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monitoring by government agencies is less likely to happen.

10. Halal is an Arabic word meaning lawful or permitted.
11. There is an on-going conflict between the Islamic Philippines and the local Mufti (Council of Ulama) in Zamboanga on who has the legitimate authority to accredit and issue a license certifying that the product meets the *halal* standard. This has yet to be settled by the relevant legal court in the country. As a consequence, application is temporarily stopped at the local level.
12. The council even rarely holds meeting, because the present local government leadership does not prioritize SME development. The present administration is more concerned of physical infrastructure development.
13. A good example is the financial assistance (from the internal revenue allotment) given only to organized cooperatives in which final approval comes from the mayor.

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