

THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES IN THE PHILIPPINES

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I

RATIONALE OF SMALL INDUSTRY DEVELOPMENT

As in most newly industrializing countries, the influx of population to urban areas is a major characteristic of the Philippine economy. People flock to the cities as they invariably believe that the city is the proverbial land of promise where one can easily obtain a lucrative job—in a manufacturing firm, perhaps—and altogether find escape from the crudeness, inconvenience and humdrum of rural living. The consequences, however, are economically disastrous. Human resources which can otherwise be utilized in fruitful endeavor are wasted because the labor force that becomes concentrated in the cities exceeds the number of workers that can be absorbed by industrial firms. A large proportion of the migrating manpower therefore, ends up unemployed, while local resources that abound in outlying regions are left untapped.

At no other stage is the development of small-scale industries more opportune and imperative. Owing partly to the limited capital requirements for the setting up of a small firm and partly to the limited markets usually found in rural or semi-rural regions, small-scale industries assume a multifarious role as they provide greater employment opportunities for places outside the cities and thereby minimize the inflow of population to already congested conurbations of industrial centers. Moreover, they help reduce traditionalism in these areas by serving as channels through which modern and scientific approaches can be introduced, creating a generally favorable industrial climate. Small industries, in short, constitute a valuable tool for regional development and industrial decentralization.

The economic benefits that can be derived from the development of small industries are by no means small. They train entrepreneurial managers for larger business ventures and in some cases do serve as a seedbed for large industry. The fact that they provide a wider base for

flexible economic activity is likewise an argument in favor of the development of small industries. As ancillaries and subcontractors, they complement large industries; as import substitution vehicles for parts, components and other consumption items, they reduce the outflow of foreign exchange.

The quantitative role of small-scale industries in developing countries can be gauged from their impressive contribution to national income and employment. Even in highly industrialized countries, the size and other characteristics of the market of certain products require that they be produced in small-scale firms. Hence, small-scale manufacturing is not transitory and fits in in the economy not only of developing regions but of advanced countries as well. In Japan, for instance, as much as 97% of the total number of manufacturing firms had less than 100 employees as of 1962, and out of the total number of industrial workers, 52% belonged to small-scale establishments.¹

DEFINITION AND CHARACTERISTICS OF SMALL INDUSTRY

The University of the Philippines Institute for Small-scale Industries defines a small-scale industry as a manufacturing or industrial service enterprise in which the manager is not actively engaged in production but performs the varied range of tasks involved in guidance and leadership without the help of specialized staff officers. This functional characteristic is generally found in Philippine firms which have less than 100 employees.² Other characteristics of small industries: (1) simple organizational structure; (2) close personal contact between the manager and the workers; (3) lack of access to capital through organized securities market and handicaps in obtaining capital and credit from lending institutions; and (4) close integration with raw material sources and markets in the local community.³

It is to be noted that the U.P. ISSI definition does not attempt to make any distinction between cottage industry and small industry. No doubt some cottage industries also possess some or possibly all of the characteristics of small industry. The U.P. ISSI, however, does not cover cottage industries in general because the primary functional characteristic stressed in its definition of small industry is not found in a majority of cottage industries where the manager usually participates in actual production. The National Cottage Industries Development Authority defines

¹ Figures taken from the *Report on the Symposium on Small Business Development*, Asian Productivity Organization, 1966.

² From the files of the U.P. Institute for Small-Scale Industries.

³ Eugene Staley and Richard Morse, *Modern Small Industry For Developing Countries* (New York: McGraw-Hill Book Company, 1965), p. 3.

cottage industry as "an economic activity in a small scale carried on mainly in the home or in other places for profit and which is mainly done with the help of members of the family."⁴ On the other hand, the U.P. ISSI refers to a small-scale industry as a modern small factory, as opposed to traditional non-factory industry which includes handicraft, artisan home work or workshop and industrial homework.

PROFILE OF SMALL-SCALE INDUSTRY IN THE PHILIPPINES

According to the 1966 *Annual Survey of Manufacturers* of the Bureau of Census and Statistics, there were 10,315 establishments engaged in manufacturing, as of 1966. Small-scale industries constitute a major portion of the Philippines' industrial sector. The Socio-economic Survey of Small-scale Industries⁵ conducted by the U.P. Institute for Small-scale Industries in 1966 shows that, in 1966, the estimated number of small-scale firms was 9,400—that is, 91% of the whole manufacturing sector.

EMPLOYMENT

There can be no doubt that job opportunities accrue with the establishment of small-scale industries. In a span of seven years, the number of workers employed in small-scale firms leaped from 29,980 (which was 13.4% of total manufacturing employment) in 1959⁶ to 147,850 (or 21.3% of the 702,800 salaried employees in the manufacturing sector) in 1966. A breakdown of the number of small-scale industries according to size of employment follows:⁷

<i>No. firms</i>	<i>Size of employment</i>
7,800 firms	5-19 employees
1,200 firms	20-49 employees
400 firms	50-99 employees

TYPE OF PRODUCT

Although the Philippines has gained much headway in its effort to industrialize, it nevertheless suffers from lack of sufficient capital and technical know-how necessary to establish basic industries. As a result, the manufacturing industry is still characterized by a high dependence on

⁴ Republic of the Philippines, Republic Act 3470, creating the National Cottage Industries Development Authority.

⁵ This survey is by far the most up-to-date source of data on Philippine small industry. It will be subsequently referred to in this paper as "the Socio-economic Survey" or "the Survey."

⁶ *Annual Survey of Manufacturers*, Bureau of Census and Statistics, 1959.

⁷ Republic of the Philippines Bureau of Census and Statistics, *The Annual Survey of Manufacturers*, 1966.

imports of semi-finished products. Consequently, industries concentrate on the production of non-durable goods and engage in processing and assembly.

The Survey shows that, of the 9,400 small-scale firms 6,252 or 66.5% produce non-durable goods such as food and food preparations, beverages, wearing apparel, printed materials, chemicals and chemical products, and wood and cork products. Among the durable goods produced by the remaining 3,156 or 33.5% of all the firms are: furniture, metal products, transport equipment, basic metals, electric equipment, machinery and non-metallic minerals.

TYPE OF OWNERSHIP

The Survey reveals that the most common type of business organization is single proprietorship which is found in 65% of all the firms. This result reflects the low level of capitalization that characterizes small industries. Partnerships comprise 22% and corporations only 13%. Forty-seven per cent of all the firms operate under a simple organizational structure consisting of a manager-owner, a few supervisors, and workers. Direct supervision of the workers by the manager is practiced in 53% of the total number of small firms.

VALUE-ADDED

The manufacturing sector contributed ₱3,691 million or 20% of the national income in 1966. The estimated gross value added of the 9,400 firms amounted to ₱746 million or 20% of the total value added of all manufacturing enterprises. The small-scale firms, therefore, contributed 4% to the national income in 1966.

II

It is evident that small-scale industries play a vital role in any economy—developed, developing or underdeveloped—and display too great a potential to be ignored or overlooked. While it is true that the number, the employment figures and the value added of small-scale industries have increased tremendously over the past decade, the sorry fact remains that, in the Philippines, little attention has been paid to small-scale manufacturing. Consequently, small-scale industries continue to suffer from a multitude of problems particularly in marketing, production, financing and management—problems that must be minimized if the economic contribution of small-scale industries is to be maximized.

MARKETING

The modern marketing concept requires that a programmed approach be adopted in the planning of all the factors involved in marketing—product design, quality, utility value and cost, market research, promotion and distribution. Such a method, however, is understandably beyond the normal reach of small-scale industries for a number of reasons. In the Philippines, cost consciousness in the small industry sector has hardly improved due to the lack of trained men in the field of cost accounting and the ignorance of small industry entrepreneurs of its latent benefits. This situation led some of the country's business institutions to incorporate cost accounting in their curricula, and agencies like the Programs Implementation Agency (now the Presidential Economic Staff) and the Economic Development Foundation to help spread information through seminars and workshops.

The unfavorable attitude of managers toward quality control accounts for the fact that, with regard to the upgrading of quality, much remains to be desired in the country's small industry sector. Small industry managers tend to believe that quality control would do their enterprises more harm than good, so to speak, as it would entail additional expenses in production. As a result, they sacrifice quality for profit, apparently indifferent to the fact that quality in the long run would bring more profit. In spite of the Bureau of Standards, lack of standardization remains a problem because, although the Bureau sets standard specifications, it lacks the needed facilities to enforce them adequately.

The Socio-economic Survey reveals that an underlying marketing problem exists in the concentration of the market in the greater Manila area and the local markets. Conversely, coverage of the regional and nationwide markets is inadequate. Other marketing problems cited by the managers and owners are: collection and getting cash sales, seasonal demand, poor market customer relations, keen competition, shipping and delivery. Transportation difficulties are not so acute in Luzon where the bulk of the country's road network is found, but for the country's other islands, air and water transport has to be depended on. Air transport rates, however, are prohibitive and runways and forecasting services are inadequate. Shipping space and domestic ports are limited and vessels are slow, outmoded and costly. As regards communication, facilities are available but small enterprises usually cannot afford them. Likewise, they cannot avail themselves of the mass media for product promotion because of high advertising rates.

SUBCONTRACTING

The complementarity of large and small firms lies in subcontracting. Large industries can give out part of their manufacturing operations—usually the making of parts and components—to small firms. In the process, the bigger firm, known as the prime contractor, offers a market outlet, defines the scope of manufacturing services, rationalizes specifications, imposes standardization, interprets the quality of product, imposes inspection procedures and industrial disciplinary actions regarding delivery schedules, and assists in the supply of material, in financing capital equipment, and in providing technical assistance and gages. On the other hand, it is the subcontractor's task to meet the demands of the parent firm. The extension of manufacturing activities of larger enterprises by means of organizing small industries as subcontractors presupposes, therefore, that the latter possess the desired level of mechanization and skilled personnel.

In most newly industrializing countries, large-scale entrepreneurs tend to favor integration of their production facilities and, more often than not, they are cynical about the small enterprise's capacity to meet their specifications and quality requirements. In the Philippines, lack of necessary skills, equipment, selling ability and reliability as supplier explains the limited sub-contracting activities of small industries. According to the Survey, only 26% of total firms got subcontracting orders from big industries in 1966.

PRODUCTION

Small-scale industries are characterized by a low rate of production often explained in terms of poor management, lack of skilled personnel and lack of finance, as well as in terms of environmental factors many of which are sometimes beyond the control of small industry managers. The small industry manager is often unreceptive to, if not ignorant of, modern industrial techniques and management methods. Among the main problems faced by manager-owners are inefficient machinery, difficulty in acquiring replacement parts, lack and high prices of raw materials, quality control, and recruitment and motivation of plant personnel.

Underlying the problem of inefficient machinery is lack of preventive maintenance caused by the prevalent practice of small industry managers of servicing machinery only upon breakdown. In some cases, low and seasonal production results in difficulties in controlling and minimizing raw material wastage. In the Philippines, 30% of all the firms report a high rate of raw material wastage, as pointed out by the Survey. It is to be noted that small-scale industries complain about lack and high prices of

indigenous raw materials because they cluster in the Greater Manila area and other urban centers.

FINANCING

A chronic problem that appears inherent in small-scale industries is financing. The Socio-economic Survey of Small-scale Industries shows that out of 9,400 firms, 4,984 rely primarily on cash from sales and profit, 1,380 on personal funds of owners, and 2,851 on bank borrowings, overdrafts, credit lines and loans from private financial institutions. This is in spite of the tremendous growth of financing resources in the country. The number of commercial banks rose from 27 head-offices in 1962 to 39 in 1964, with aggregate resources of ₱5.92 billion, an increment of ₱2.2 billion over total resources in 1962. As of the same year, there were 24 development banks with resources of about ₱1,109 million, a far cry from the situation in 1957 when there were only two development banks. Added to these major financial institutions are the present 283 rural banks with aggregate resources of ₱245 million, insurance companies, savings banks and government institutions like the Government Service Insurance System, the Philippine National Bank, the Social Security System and the National Investment Development Corporation. Aside from the private rural and commercial banks, other agencies like the Private Development Corporation of the Philippines and the Bancom Development Corporation add to the whole array of financing institutions in the country.

The financing problems of small-scale industries are mostly due to the concentration of these financing institutions on large industries and to the collateral requirements which the small industries understandably lack. The Survey reveals that the financing problems of small industry managers are: difficulty in securing loans and other types of credit accommodations from financing institutions and commercial banks, and a shortage of working owners. Handicaps in securing loans are caused by their lack of bank collateral and by high interest and other service charges of commercial banks. Cost control is also cited by many owners and more than 30% of the total number of firms admit difficulties in controlling cost and the absence of any systematic method of cost control.

The Development Bank of the Philippines caters to the credit needs of both agricultural and industrial development projects and it grants loans in accordance with its financing program to assist basically high priority industries. It also services cottage and small industries but, apparently it has not assisted the majority of the country's small industries.

MANAGEMENT

It is in the small-scale firm, more than in any other enterprise, where so many tasks have to be undertaken by a manager. This is because small-scale industries are usually characterized by a one-man management. The small industry manager has to cope with a gamut of responsibilities from planning and administration to control and supervision. He is, among other things, marketing man, raw materials buyer, book-keeper, taskmaster, collector of accounts, and personnel chief, all in one. It is, therefore, not surprising why much of the success—or failure—of the small enterprise depends on its manager.

The small-scale entrepreneur usually ventures into manufacturing without the benefit of thorough and clearcut planning. Although profit-motivated, he does not have in mind specific measures by which he can maximize profit, nor is he seriously aware of particular problem areas. Unwise expansion is another pitfall of the small industry manager. He is easily swayed by inquisitive suppliers into making rash decisions. These instances betray the inadequacy of the educational background and training of small industry managers and the lack of consultancy services. They therefore spell the need for a program to provide more consultants, if not qualified managers, for small industry.

According to the Socio-economic Survey, managers of Philippine small enterprises are, if they are not the owners in most cases, a relative or a townmate of the owner. Only 46% are college graduates or have had some years of college training. A majority of these graduates majored in the arts, and business administration, but most of those who majored in the latter came from inferior institutions. Manager-owners who are high school graduates or have some high school training comprise 22%. The rest have gone only as far as the elementary grades. Of all the managers, only 11% are professional managers.

It can be concluded that in the Philippines, only a few manager-owners of small-scale firms are adequately trained in management and actually none are trained in small industry management. This is largely attributable to the following reasons. First, there are only a few existing educational institutions that turn out management experts. Secondly, the current output of management graduates from these institutions, if checked against the number of small industry managers, is lamentably low. The situation is aggravated by the fact that a great majority of these graduates who may well constitute the only supply of qualified management in the Philippines is employed in large industrial firms. Ninety-two per cent of the whole industrial sector—the small-scale industries—are therefore neg-

lected and left to whatever managerial resources the untrained and adequately educated small industry entrepreneur can avail himself

III

GUIDELINES FOR A DEVELOPMENT PROGRAM FOR SMALL-SCALE INDUSTRIES

In view of the importance of small-scale industries in economic development on one hand, and the innumerable problems that hamper their improvement on the other, there is an urgent need for the *implementation* of a development program that will not only promote the growth of existing small-scale enterprises, but also stimulate the establishment of new ones. At this point, it is obvious that the problems of small-scale industries are caused by interrelated factors involved in the different aspects of small-scale industrial operation and organization. For instance, poor management engenders difficulties in production and marketing and, in general, inadequate financing gravely limits the small industry's capacity for improvement and expansion. For this reason, any approach that aims to minimize the problems posed by only one area is likely to prove futile. In other words, only a "package deal," a program that will work on all the interlocking factors that affect small-scale industries in the Philippines, would be acceptable. It is, in fact, the absence of such a program that virtually undermines the effectiveness of the government's piecemeal attempts to overcome some of the problems of the small industry sector.

There have been governmental moves to assess small-scale industry problems and to draw up a coordinated development program, but, for one reason or another, they have not gone beyond the initial stage of planning. In 1965, the United Nations sent a mission, at the request of the Philippines, to determine the status of small-scale industries in the Philippines, to draw up a comprehensive development program, and to map out plans for the establishment of industrial estates in the country's regions. Before the arrival of the mission, the Philippines formed an Industrial Estates Development Project whose objectives are similar to those of the UN mission. At about the same time, a Japanese group examined the feasibility of industrial estates as ancillaries to oil refineries, while the Stanford Research Institute conducted studies on the setting up of industrial estates in Mindanao. Each team submitted reports and recommendations but, since the completion of reports, there hardly have been any substantial improvements.

The United Nations Small-Scale Industries mission to the Philippines cited problems similar to those already discussed. It stressed the ne-

the institutional support for small industry but, recognizing the long period detailed in establishing a new agency, it recommended that the NACIDA be reorganized into a National Small Industries Development Authority (NASIDA) to take care of the technological and training aspect of small industry development. The NAMARCO would provide logistical and marketing assistance. At present, steps are being taken to include small-scale industries within the periphery of the NACIDA's program. The Mission also recommended specific guidelines by which the extension services for small-scale industries may be set up within the framework of the proposed NASIDA. Those services would be responsible for the organization and operation of common facilities. The Mission, furthermore, provided measures for the establishment of industrial estates in the following provinces: Cebu, Rizal, Davao, Iloilo, Pangasinan, Batangas and Bulacan.

The Administration's economic plan underscores the need for an industrial development program particularly along the lines of providing remedy for the temporary credit shortages of essentially viable industries as well as creating job opportunities through the promotion of cottage industries, but nowhere is mention made of any specific plans for small industry. Small-scale industries, however, may be partially and indirectly assisted by the Plan, particularly in the administration's efforts to improve the infrastructure. Small-scale firms, in turn can help realize the objectives of the Plan by employment generation, industrial dispersal, and, in general, the promotion of the industrial sector in the Philippines.

In the light of the problems and potentialities of small-scale industries in the Philippines, a development program must include the following:

- A. Creation of a policy-making and top-level coordinating body
- B. Provision of Basic Facilities
 1. Developmental finance
 2. Production facilities
 3. Industrial estates
 4. Research services
- C. Management Improvement
 1. Management training
 2. Consultancy services
- D. Special Marketing and Export Promotion Measures
- E. Promotion of Ancillary Services
- F. Regional Development

UNEP Report of the United Nations Industrial Estates Mission to the Philippines (Manila: 1965), Item 10.5.

A. Creation of a policy-making and top-level coordinating body

A government institution, similar to the Small Enterprise Agency of Japan or the Central Small Industries Organization in India, may be established if a coordinated and comprehensive small industry development program is to be properly implemented. Such an institution would act as a switchboard, delegating and coordinating the functions of training institutes, extension services, credit agencies, corporate associations and other agencies engaged in the promotion of the small industry sector. Aside from coordination work, it would be charged with the task of formulating policy and devising ways and means by which legislative measures may be translated into action.

B. Provision of Basic Facilities

1. Developmental finance

It is a well-known fact that in most instances small industry entrepreneurs depend on borrowings from relatives and friends, if not on their personal savings, for working capital. As pointed out earlier, institutional financing is a basic problem of small enterprises and, for this reason, must be given overriding priority in any small industry program. Measures being taken by other countries may be emulated. The Indian experience attests to the fact that, given the needed stimulation in the form of guaranty systems and different forms of subsidies, commercial institutions may be encouraged to liberalize the terms and conditions of loans for small-scale firms. The State Bank of India, as well as private banks, have revolutionized their lending procedures, so to speak, in favor of small-scale enterprises. Moreover, the Indian government supplements its small industry financing program with the provision of machinery on a hire-purchase basis and factory space through industrial estate leases. In Japan, small-scale industries enjoy a developed financial base backed by policy legislation pertaining to the administration of loans for industrial modernization. Japan's Small Business Finance Corporation grants one-to-five-year loans to small firms. In the Netherlands, cash as well as equipment loans may be obtained from the Netherlands Bank for Middle Classes which coordinates with the Netherlands Technical Consulting Services in the case of equipment loan applications.

2. Production facilities

The problems encountered by small industrialists in production have

already been discussed. To meet these drawbacks requires the provision not only of machinery but also of such related services as research on new materials and product design, standardization, and inspection and testing facilities. If the proper tools, production aids, and process equipment cannot be procured from commercial sources at a cost small industrialists can afford, such assistance can be channeled only through an organization that would specifically aim at providing technical information as well as production tools and equipment. This function may be undertaken by extension services that must be located in places that would allow them to reach the largest number of small-scale firms possible.

3. Industrial estates

An industrial estate is defined as a tract of land which is subdivided for the use of a community of industrial enterprises and developed according to a comprehensive plan that makes detailed provisions for streets, roads, transportation facilities and the installation of facilities as well as the construction of factory buildings in advance for sale or lease to small industrialists. Industrial estates offer various advantages which generally favor inter-firm relationship and make for facilitated implementation of a small industry program. The concentration of firms in one area counteracts the individualism that often characterizes small industry managers. Industrial estates are beneficial to both small industry entrepreneurs as well as representatives of government agencies responsible for the implementation of a program for small industry. They relieve small-scale entrepreneurs of the difficulties often attendant to getting titles of land, having buildings designed and constructed, and arranging for road, power and water connections. They also facilitate the purchase and shipment of machinery and equipment which the firms can procure in bulk. Furthermore, industrial estates make ideal locations for advisory, research, training and financing services.

The Philippines recognizes these benefits that can be derived from the establishment of industrial estates, particularly in places outside the cities, and has taken serious steps to incorporate projects for the setting up of industrial estates in its regional development programs. At present, however, plans for the establishment of industrial estates remain to be implemented by the government. Meanwhile, plans to build industrial estates in Rizal, Quezon City, Cagayan de Oro, Batangas and Iligan are being finalized by private entities.

4. Research services

In small industry development, as in any other development area, research is an indispensable tool for planning because it gathers needed information on the various aspects of small-scale industry through which progress may be assessed and problems determined, and on which remedial measures may be based. As Staley and Morse point out, research has two clients: the small industry entrepreneur who needs information on the market—competitive conditions, cost factors, breakeven projections and opportunities in particular regions and locations—and the government which needs data for planning and review.⁹ Small industry research may focus on market prospects, costs and location factors, known technology for adaptation to local resources, labor-capital costs, and management studies to integrate technical and economic factors and to adapt accounting, marketing and other internal functions to the needs of small industry. Data on these would likewise be of great value to extension services.

C. Management Improvement

A breakthrough in the attempt to improve the management of small scale industries in the Philippines was the creation of the U.P. Institute for Small-Scale Industries. In recognition of the need for the promotion of small industries in the Philippines, particularly the training of small industry consultants, the Philippines and the Netherlands entered into a bilateral agreement on March 2, 1966, establishing the U.P. Institute for Small-Scale Industries. The implementation of the project was delegated to the University of the Philippines.

The primary objective of the Institute is to train Filipino consultants who will improve the operation of existing small-scale industries and give guidance in the establishment and growth of new small-scale industrial ventures. The U.P. ISSI carries out a well-thought out program intended to explore the different areas related to the development of small industry. Its functions are systematically divided into three fields: a regular nine-month consultancy course, research aid development, and direct assistance. Research projects are conducted to determine the direction of the Institute's activities, particularly in its effort to provide direct consultancy services to small industries and to study the present problems that beset them. As part of its direct assistance function, the Institute conducts seminars on different topics relevant to small industry development.

So far, the Institute has graduated 16 consultants and 26 are expected to graduate in June this year. The consultancy course is divided into three areas: (1) industrial management and plant survey, (2) manufactur-

⁹ Staley and Morse, *op. cit.*, p. 367.

ing operations and processes, and (3) industrial promotion and regional development. Under the personal supervision of Filipino and Netherlands consultants, the consultancy participants undergo individual practice training which includes plant visits needed to acquire a realistic approach to the complexity of small industry problems.

The creation of the U.P. ISSI was indeed a significant step towards management improvement but it certainly does not constitute a cure-all even to small industry management problems alone. Other such training institutes must be established by other educational institutions in order to accommodate more consultancy trainees, a great number of which is needed to assist the 9,400 small-scale firms in the Philippines.

2) Special marketing and export promotion measures

Handicaps of small industrialists in marketing are often caused by lack of training on marketing functions, lack or even absence of market information, and production shortcomings with respect to product design, quality control and standardization. Any attempt to reduce the small industry manager's marketing problems must, therefore, be focused on training or extension work in these production aspects as well as on market research to reveal trends in consumer demands and outlets for new and old products.

Since most small-scale enterprises cannot possibly finance their own research surveys, a government agency must take the initiative to conduct market analyses and to disseminate market information to small-scale firms. Such an agency may also adopt steps to encourage market research activity by industrial associations and consulting firms. Productive efficiency is a *sine qua non* to marketing efficiency, and techno-managerial and productive aspects of small-scale industries must be looked after by such government agency or extension services which should be located in industrial estates or, in the absence of such estates, in areas that provide access to as many small-scale firms as possible.

Industrial cooperatives that assist small firms not only by taking over their marketing functions but also by helping them in the procurement of raw materials are a great boon to small-scale firms in Japan. Arrangements with such cooperatives allow small-scale industries to concentrate on improving production efficiency.

Likewise, export measures must include market research, registration and inspection of units and selection of export products, process control and acceptance sampling, and commercial establishments that would follow a

scheme to help small manufacturers establish export contacts and acquaint them with the details of export transactions, such as the dispatch of samples, freight insurance and shipment.

E. Promotion of ancillary and sub-contracting activities

Before sub-contracting work can be given out to small firms, it is necessary that they meet the standard requirements of their prime contractor. The same measures in improving production quality for marketing purposes may be adopted by small firms, except that they must maintain liaison with large firms in order to meet their specifications. The government's role lies where it can provide loans with which the small firms may purchase specialized machines needed to cope with the large firms' standards. Moreover, the government may meet part of the costs of service promotion in the form of advertisements in newspapers, technical journals, regular bulletins, or on television.

An advisory service to act as intermediary between large and small firms would be very useful in improving communication between large and small firms. It may also undertake the task of teaching the former to find the opportunities for advantageous division of tasks with the latter.

REGIONAL DEVELOPMENT

Inspired by successful regional development programs like the Southern Development Project of Italy, the Reclamation Development Project of the United States, and the Tennessee Valley Project also of the United States, the Philippines initiated its own scheme for the industrialization of its underdeveloped areas with the enactment of laws establishing the Mindanao Development Authority. Subsequently, the government created other development authorities for the different regional districts of the country. Private entities, in addition, have launched their own development projects in selected points in the country.

It is unfortunate however that, in spite of the numerous development authorities established by the government, nothing much can be noted in terms of progress. This is caused by the fact that the government has too many plans, very few of which are ever implemented. It is in the area of implementation that regional development in the Philippines greatly lags and this is where the gap has to be filled.

The role of small industry in regional development has already been discussed in the introduction of this paper. It is important to note, however, that small industry can only contribute in the promotion of regional dev-

and in combination with other developmental measures. In the first place, it is highly improbable that small industries would realize their potential as development tools in rural regions if these places are completely devoid of signs of development.

In view of the dependence of small industry on other development facilities, promotion of small industry can only be drawn up as part of the whole regional development program. The basic factors contributing to the regional development of industries are, among other things, the availability of mineral resources and other sources of raw materials, fuel and power resources, and transportation facilities. That small firms should cluster in urban areas appears inevitable because small-scale entrepreneurs want to utilize urban facilities such as power and fuel resources, skilled manpower, developed means of transport and communications, proximity to distributing or consuming centers, banks, post offices, housing, medical and educational facilities. To encourage the establishment of industries in the country's rural regions, it is necessary to fill in these areas industrial needs which entrepreneurs look for in the cities. For this reason, any scheme of assistance to industries in these regions must contain these two elements: (1) provision of the basic economic and social overheads in the problem areas necessary to successful industrial operations; and (2) incentives to overcome the entrepreneur's reluctance to settle down in less well-known areas.

In the eighth session of the Working Party on Small-Scale Industries of the ECAFE held in Manila in 1966, the ECAFE Secretariat presented the following suggestion pertaining to the regional development of small industries: ". . . one of the best means, therefore, of encouraging industry in a locality which has industrial potentials but is not far along in developing them is to induce one or several large or medium scale plants to locate there and simultaneously to foster diversified growth in the form of smaller enterprises around the nucleus thus created. . . ." ¹⁰

In conclusion, the contribution of small-scale industries in regional development may be maximized by the implementation of the following measures:

- (1) Provision of basic economic and social overheads in regions concerned;
- (2) Establishment of industrial estates;
- (3) Creation of training facilities and extension services in the areas concerned; and
- (4) Support of local initiative.

¹⁰ *The Role of Small Industries in the Decentralization of Industry or Industrial Dispersal and Regional Balance*, I & NR/CIWP 8/9, 20, May 1966.

TABLE 1

Contribution of Small-Scale Industries and Other Industries to National Income, 1966 *

INDUSTRIES	CONTRIBUTION <i>million pesos</i>	PER CENT
Agriculture	6,364	34
Mining	240	2
Construction	754	4
Trade	2,114	11
Transportation and Communications	758	4
Services:		
Rental value of owner-occupied dwellings	656	4
Government services	1,618	9
Professional, Educational, Personal, and other services	2,106	12
All Manufacturing	3,691	20
Total	18,301	100.0

Note: Small-scale industries' total gross value added of P746 million comprised 4 per cent of national income in 1966 or 20 per cent of all manufacturing.

* Computation based on current prices.

TABLE 2

Nature of Government Assistance Extended to the Firm
by Size of Employment

NATURE OF GOVERNMENT ASSISTANCE	SIZE OF EMPLOYMENT						ALL FIRMS	
	5-19		20-49		50-99		No.	%
	No.	%	No.	%	No.	%		
Legal assistance	156	2.0	—	—	—	—	156	1.7
Nacida member—tax exemption	312	4.0	48	4.0	8	2.0	368	3.3
Reparations	—	—	24	2.0	8	2.0	32	0.3
Loan from DBP, PNE, GSIS	468	6.0	24	2.0	16	4.0	508	5.4
Apprenticeship program training at NIDC	—	—	—	—	24	6.0	24	0.2
Tax exemption	—	—	48	4.0	24	6.0	72	0.7
Not applicable	6864	88.0	1003	84.0	320	80.0	8192	87.1
No response	—	—	48	4.0	—	—	48	0.5
Total	7800	100.0	1200	100.0	400	100.0	9400	100.0

TABLE 3
Basic Problems in Production by Size of Employment

Problems	SIZE OF EMPLOYMENT						ALL FIRMS	
	5-19		20-49		50-99		No.	%
	No.	%	No.	%	No.	%		
Personnel:								
Recruitment	468	6.0	72	6.0	64	16.0	604	6.4
Motivation	624	8.0	—	—	24	6.0	648	6.9
Absenteeism/sickness	312	4.0	48	4.0	24	6.0	384	4.1
Machinery:								
Inefficient machinery	624	8.0	144	12.0	64	16.0	832	8.9
Replacement/spare parts	312	4.0	48	14.0	—	—	360	3.8
Raw Materials:								
Cost of raw materials	780	10.0	216	18.0	64	16.0	1060	11.3
Prices of raw materials	624	8.0	48	4.0	16	4.0	688	7.3
Low quality	312	4.0	72	6.0	24	6.0	408	4.3
Delay in delivery of raw materials	156	2.0	48	4.0	40	10.0	244	2.6
Quality Control:	624	8.0	48	4.0	48	12.0	720	7.7
Production:								
Low seasonal	936	12.0	96	8.0	48	12.0	1080	11.5
Standards/specification/ no standards	312	4.0	120	10.0	—	—	432	4.6
Waste	—	—	24	2.0	8	2.0	32	0.3

TABLE 4
Estimated Distribution of Firm by Market Area and by Size of Employment

MARKET AREA	SIZE OF EMPLOYMENT						ALL FIRMS	
	5-19		20-49		50-99		No.	%
	No.	%	No.	%	No.	%		
Local	1404	18.0	240	20.0	24	6.0	1668	17.7
Woods and Suburbs	4524	58.0	552	46.0	208	52.0	5284	56.2
Urban	156	2.0	24	2.0	40	10.0	220	2.3
Nonurban	1560	20.0	336	28.0	112	28.0	2008	21.4
Foreign	312	4.0	24	2.0	48	12.0	384	4.1
No response	—	—	24	2.0	8	2.0	32	0.3

Base: 5 to 19—7800, 20 to 49—1200, 50 to 99—400, All Firms—9400

Note: Non-additive due to multiple responses.

TABLE 5
Basic Marketing Problems Experienced by Manager-Owner Broken Down by Size of Employment

PROBLEMS	SIZE OF EMPLOYMENT						ALL FIRMS
	5-19		20-49		50-99		
	No.	%	No.	%	No.	%	
Keen competition	624	8.0	120	10.0	24	6.0	768
Collection/getting cash sales	936	12.0	168	14.0	24	6.0	1128
Seasonal demand/poor market	1092	14.0	72	6.0	72	18.0	1236
Low prices	—	—	—	—	24	6.0	24
Nationwide distribution	—	—	72	6.0	24	6.0	96
Shipping/delivery	156	2.0	96	8.0	16	4.0	268
Customer problems	312	4.0	48	4.0	8	2.0	368
Miscellaneous	156	2.0	48	4.0	8	2.0	212
No response	624	8.0	168	14.0	40	10.0	832
No apparent problem	4212	54.0	456	38.0	184	46.0	4852

Bases: 5 to 19—7800, 20 to 49—1200, 50 to 99—400, All Firms—9400
 Note: Non-additive due to multiple responses.

TABLE 6
Estimated Distribution of Firm by Source of Financing Their Operation by Size of Employment

SOURCES OF FINANCING	SIZE OF EMPLOYMENT						ALL FIRMS
	5-19		20-49		50-99		
	No.	%	No.	%	No.	%	
Borrowing from banks/overdraft, credit line/private financial institutions	1560	20.0	408	34.0	216	54.0	2184
Borrow from relatives	312	4.0	—	—	—	—	312
Own capital	1092	14.0	240	20.0	48	12.0	1380
Cash from sales & profit	4056	52.0	720	60.0	208	32.0	4984
Partial payments of customers	156	2.0	48	4.0	8	2.0	212
Capital investment	2340	30.0	360	30.0	152	38.0	2852
From mother company	—	—	—	—	16	4.0	16
Borrow from government financial institution	468	6.0	48	4.0	8	2.0	524
Trade credit	312	4.0	—	—	16	4.0	328
No response	312	4.0	—	—	8	2.0	320

Bases: 5 to 19—7800, 20 to 49—1200, 50 to 99—400, All Firms—9400
 Note: Non-additive due to multiple responses.

TABLE 7

Basic Problems in Finance Experienced by Manager-Owner Broken Down
by Size of Employment

Problems	SIZE OF EMPLOYMENT						ALL FIRMS	
	5-19		20-49		50-99		No.	%
	No.	%	No.	%	No.	%		
Difficulty in getting loan	936	12.0	240	20.0	64	16.0	1240	13.2
High interest of bank	156	2.0	24	2.0	32	8.0	212	2.3
Shortage of cash	936	12.0	120	10.0	48	12.0	1104	11.7
Will. high credit extension	624	8.0	48	4.0	40	10.0	712	7.6
Suppliers require								
high interest	—	—	24	2.0	—	—	24	0.3
Cannot borrow from bank								
in absence of collateral	312	4.0	192	16.0	32	8.0	536	5.7
Collecting	2340	30.0	312	26.0	136	34.0	2788	29.7
Payment of loan	156	2.0	72	6.0	16	4.0	244	2.6
Suppliers require cash								
payments	312	4.0	72	6.0	—	—	384	4.1
Cannot pay raw materials	312	4.0	24	2.0	24	6.0	360	73.8
No problem	—	—	168	14.0	—	—	168	1.8
No response	2184	28.0	144	12.0	80	20.0	2408	25.6

Source: 5 to 19—7800, 20 to 49—1200, 50 to 99—400, All Firms—9400

Note: Non-additive due to multiple responses.