

REVISITING THE SMEs IN THE PHILIPPINES: CHALLENGES AND ISSUES

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The MSMEs have become the backbone of Philippine economy contributing to employment and generating output for the economy. Threats of an unfavorable global environment create an atmosphere of high risk and doubt in a borderless economy with high competition as inevitable. With overall fiscal condition looming because of global financial breakdown, the challenges and issues are numerous for the MSMEs. Foremost, MSME statistics would be vital to plan out, allocate resources, and provide capability building, among others. Also, stakeholders should bind themselves together to minimize adverse impacts of changing climate and natural hazards, including economic barriers. Creative solutions and technopreneurship are some of the challenges of the time.

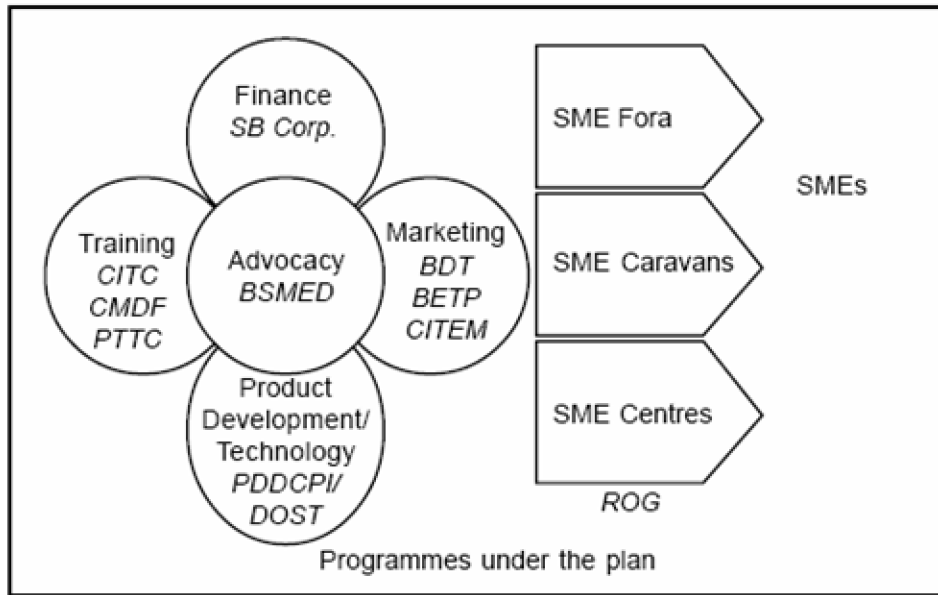
INTRODUCTION

Small and medium enterprises (SMEs) have gained increasing recognition in national and international discussions. In the Philippines, its importance paved the way for the passage to two major laws that govern the promotion of SMEs: Republic Act (RA) 6977, or the Magna Carta for Small Enterprises, as amended by RA 8289, and RA 9178, better known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002.

RA 6977 mandates the government to help SMEs by creating a conducive business environment; improving access to financing; providing adequate business support; providing training on entrepreneurship and worker skills; providing linkages between SMEs and large firms; and strengthening government-private sector partnership in SME development. RA 9178, on the other hand, encourages the formation and growth of BMBEs, or those with assets size of less than PHP 3 million, by granting them fiscal and non-fiscal incentives and other benefits.

The crucial role in the growth of the Philippine economy is discussed by Leano (2006). Accordingly, the Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country. The Philippine strategy encompasses all critical factors - technology, product development, finance, training, and marketing, among others (Figure 1).

Figure 1. SME Agenda: An Integrated approach (Leano, 2006)



Admittedly from the Bureau of Small and Medium Enterprise Development of the Department of Trade and Industry, the Philippine government has consistently extended support to SMEs by creating an enabling environment for them to realize their full potential in the blueprint for national development.

The importance of micro enterprises in the Philippine economy cannot be understated. The role of micro enterprises vis-a-vis the SMEs is discussed in this paper to constitute the MSMEs. This paper presents the MSMEs in the Philippines in the light of the most recent available data. Also, the paper presents the challenges and issues faced by them on account of emerging environmental issues.

THE PHILIPPINE MSMEs

Micro, Small and Medium Enterprises Defined

Philippine businesses are categorized by asset size and by number of employees. The micro, small, and medium enterprises (MSMEs) refers to any business activity/enterprise engaged in industry, agri-business/services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

1. By asset size:
 - Micro: Up to PhP3,000,000 (about US\$60,000)
 - Small: PhP3,000,001 - PhP15,000,000
 - Medium: PhP15,000,001 - PhP100,000,000
 - Large: above PhP100,000,000 (>US\$2,000,000)

2. By number of employees:

Micro:	1 - 9 employees
Small:	10 -- 99 employees
Medium:	100 -- 199 employees
Large:	More than 200 employees

Role of MSMEs

The important economic role of MSMEs is well recognized in the country as embodied in the following documents:

- a. Medium Term Philippine Development Plan (MTPDP) 2004-2010
- b. SME Development Plan 2004-2010

In the MTPDP, it is the policy of the state to promote entrepreneurship and SME development. Specifically, the SME Development Plan presents the integrated efforts to strengthen and stimulate the SME sector so it can contribute significantly to the country's development. The Plan aims to make the SME sector a key factor in the country's economic growth by 2010.

On the other hand, the Philippine Business Agenda 21(BA 21): Business Strategies for Sustainable Development directs the businesses towards the important role of SMES towards environmental sustainability. The BA 21 is the blue print for the private sector participation in managing the environment referred as PRIME in this document where 73 industry associations participated in the shaping of BA 21.

The above documents point to the major role of MSMEs in the country's economic development through their contributions in the following areas:

- a. rural industrialization
- b. rural development and decentralization of industries
- c. creation of employment opportunities
- d. use of indigenous resources
- e. earning of foreign exchange (forex) resources
- f. creation of backward and forward linkages with existing industries, and
- g. entrepreneurial development.

MSMEs are vital in dispersing new industries to the countryside and providing gainful employment. With the abundance of labor in the Philippines, much is to gain from entrepreneurial activities particularly those that are labor-intensive. Thus, the MSMEs generate jobs in the locality of operation that extends to the immediate environs, as the case may be. Thus, MSMEs bring about a more balanced economic growth and equity in income distribution.

MSMEs contribute in setting new design trends, developing contemporary products, and bringing them to the marketplace ahead of the competition. They become channels for innovation to develop indigenous or appropriate technology, which may be developed into pioneering technological breakthroughs.

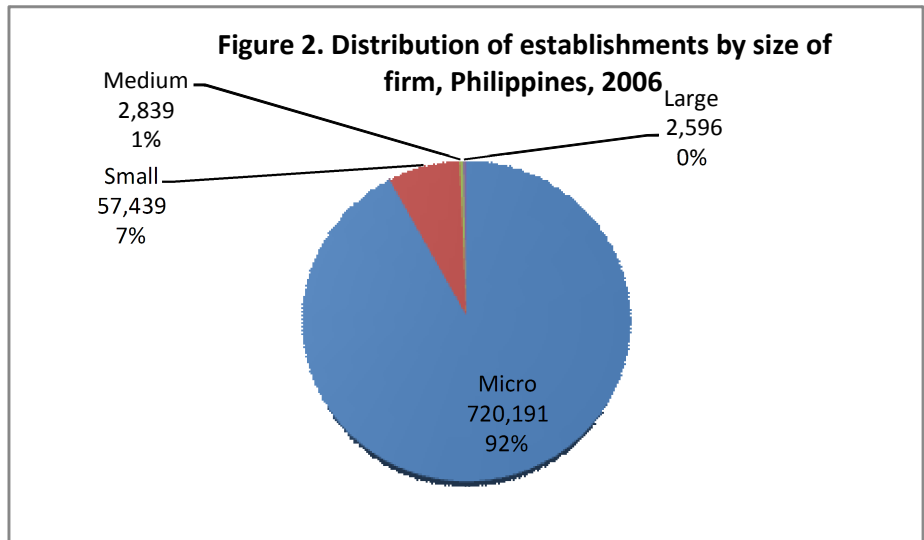
The MSMEs are agents for effective increase of the value added in final goods that are processed and marketed by large manufacturing firms.

MSMEs promote maximization in the use of scarce capital resources and are able to partner with large firms by supplying locally available raw materials in unprocessed or semi-processed forms.

Also, MSMEs can act as the seedbed for the development of entrepreneurial skills and innovation. They contribute in the provision of services to the community. Collectively, they can make an important contribution to regional development programs.

Economic Contributions

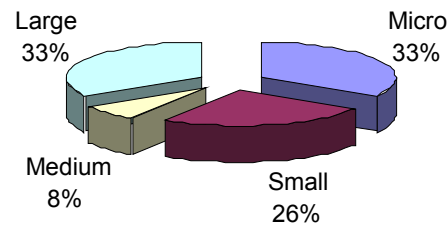
From the 2006 census, the Philippines has a 783,066 establishments spread across the archipelago. Figure 2 provides the percentage distribution of establishments by size of establishments. Notably, the micro enterprises made up 92 percent with SME consisting of about 8 percent while the large enterprises, 0.3 percent only. Although very small in terms of asset size and employment, the micro-enterprises are too numerous to ignore.



The employment generation from all enterprises reached 4,984,883. Of which, MSMEs generated a total of 3,327,855 jobs representing 67 percent of the total employment generation (Figure 3). Among them, the micro enterprises had employed 33 percent comparable to the employment generation of large industries. In particular the SME had an employment share of 34 percent.

Together with the huge number of micro enterprises throughout the nation, the small and medium businesses also produced a third of the country's economic output and accounted for a fourth of all export revenues in 2006 so that the MSME sector is referred as the backbone of the economy (Gulle, 2009).

Figure 3. Employment share by size of establishments, Philippines, 2006



Sectoral Employment

The distribution of establishments by size of firm and by industry classification is provided in Table 1. On the other hand, the sectoral contribution of MSMEs to employment generation is shown in Figure 4. The following are the Philippine Standard Industry Classification (PSIC) by sector:

- A - Agriculture, hunting and forestry
- B - Fishery
- C - Mining and quarrying
- D - Manufacturing
- E - Electricity, gas and water
- F - Construction
- G - Wholesale and retail trade
- H - Hotels and restaurants
- I - Transport, storage and communications
- J - Financial intermediation
- K - Real estate, renting and business activities
- M - Education
- N - Health and social work
- O - Other commodity, social and personal service activities

Table 1. Distribution of Establishments by firm size and by industry, Philippines, 2006

PSIC	Size of Establishments				Total	MSME	%
	Micro	Small	Medium	Large			
A	2,631	1,322	125	121	4,199	4,078	0.5
B	890	499	30	28	1,447	1,419	0.2
C	217	82	5	15	319	304	0.0
D	105,083	10,274	1,004	985	117,346	116,361	14.9
E	558	630	106	104	1,399	1,294	0.2
F	1,352	979	84	73	2,488	2,415	0.3
G	373,721	17,110	384	233	391,448	391,215	50.1
H	90,121	7,677	128	49	97,975	97,926	12.5
I	7,035	2,133	123	114	9,405	9,291	1.2
J	18,679	4,434	90	109	23,312	23,203	3.0
K	40,936	3,985	372	429	45,722	45,293	5.8
M	6,699	4,712	240	206	11,857	11,651	1.5
N	29,996	1,266	98	83	31,443	31,360	4.0
O	42,272	2,336	50	47	44,705	44,658	5.7
TOTAL	720,191	57,439	2,839	2,596	783,065	780,469	100.0

Source of basic data: NSO

Figure 4. Employment by size of firm and by sector, Philippines, 2006

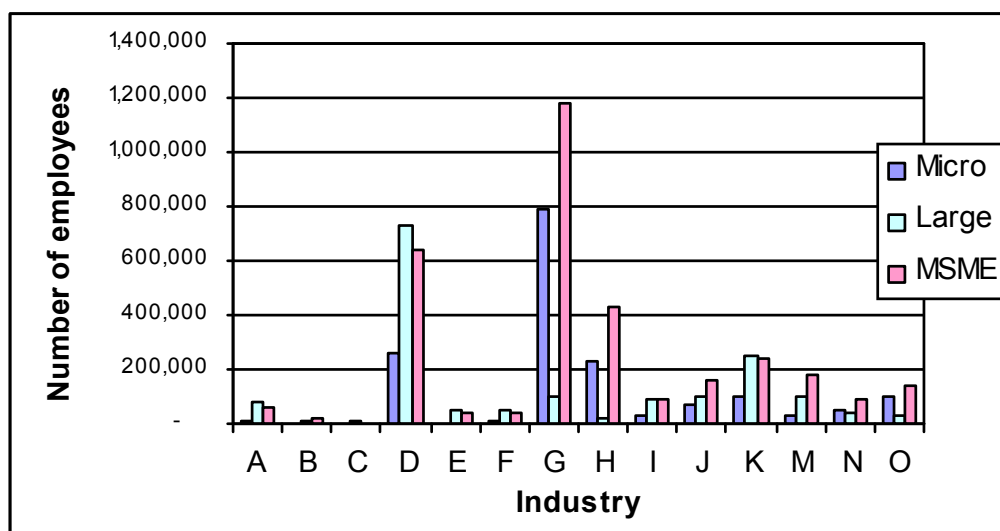


Table 2. Average employment generation by sector of MSME, Philippines, 2006

PSIC	Size of Establishment		
	ALL	MSME	Large
A	34	15	691
B	21	12	498
C	47	12	755
D	12	6	739
E	60	28	452
F	38	18	707
G	3	3	438
H	5	4	441
I	20	10	809
J	11	7	895
K	11	5	586
M	23	15	437
N	4	3	486
O	4	3	563
TOTAL	6	4	638

enterprises.

Source of basic data: NSO

Rural industrialization

Across the archipelago, the distribution of establishments is depicted in Figure 5. By island group, 68 percent of the MSMEs are located in Luzon, 14 percent in Visayas and 18 percent in Mindanao. Regardless of the size of the establishment, micro, small, medium and large enterprises are concentrated in the metropolitan areas and the adjoining environs. In Figure 5, MSMEs representing 25 percent were located in the National Capital Region. Adjoining the NCR is the Calabarzon (Region IV-A) and Central Luzon (Region III) with 15 and 11 percent of the MSMEs, respectively. The remaining MSMEs representing 18 percent are spatially distributed in the rest of Luzon Island (northern side and southern part).

MSMEs located in the Visayas regions (Western, Central and Eastern) constituted 15 percent and Mindanao with its vast natural resources had 18 percent.

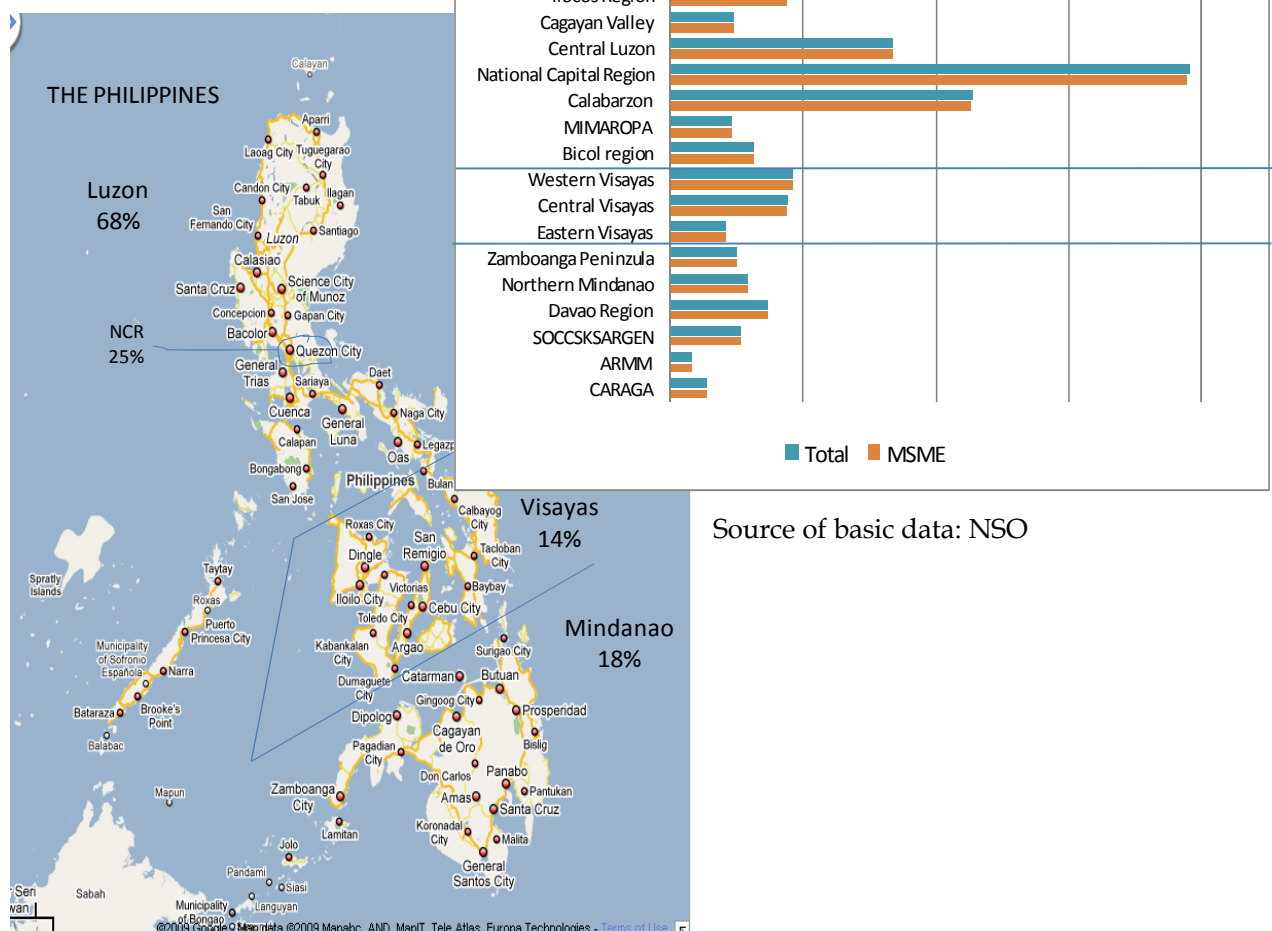
Value adding Contribution

The sector that contributes most to value adding activities is the manufacturing sector. This sector which constitutes 15 percent of MSMEs provides about 19 percent of the MSME employment generation. The top five (5) sub-industries in the manufacturing sector in terms of MSME establishments in 2006 are: (1) manufacture of food products and beverages with 55,007 establishments; (2) manufacture of wearing apparel with 15,623; (3) manufacture of fabricated metal products except machinery and equipment with 12,986; (4) manufacture and repair of furniture with 7,188; and (5) manufacture of other non-metallic mineral products with 5,143. These sub-industries accounted for 82% of the total number of MSMEs in the manufacturing sector.

By industry sector, MSMEs that generated the most number of jobs are the wholesale and retail trade (G- 1,181,525) followed by MSMEs in manufacturing (D- 644,927), hotels and restaurants (H- 427,153), real estate, renting and business activities (K-242,122) and education (M-180,265). The substantial contribution to employment by the micro enterprises is noted in the wholesale and retailing sector and in the hotel and restaurant businesses. On the other hand, a substantial contribution by the large enterprises is noted in the manufacturing sector, real state, renting and business activities and in the agriculture, hunting and forestry.

The average employment generation by sector of the MSME, relative to the large enterprises and to all industries is shown in Table 2. Because of the numerous numbers of micro enterprises, their collective contribution to employment almost equals the large

Figure 5. Geographical distribution of MSMEs by region and island group, Philippines, 2006



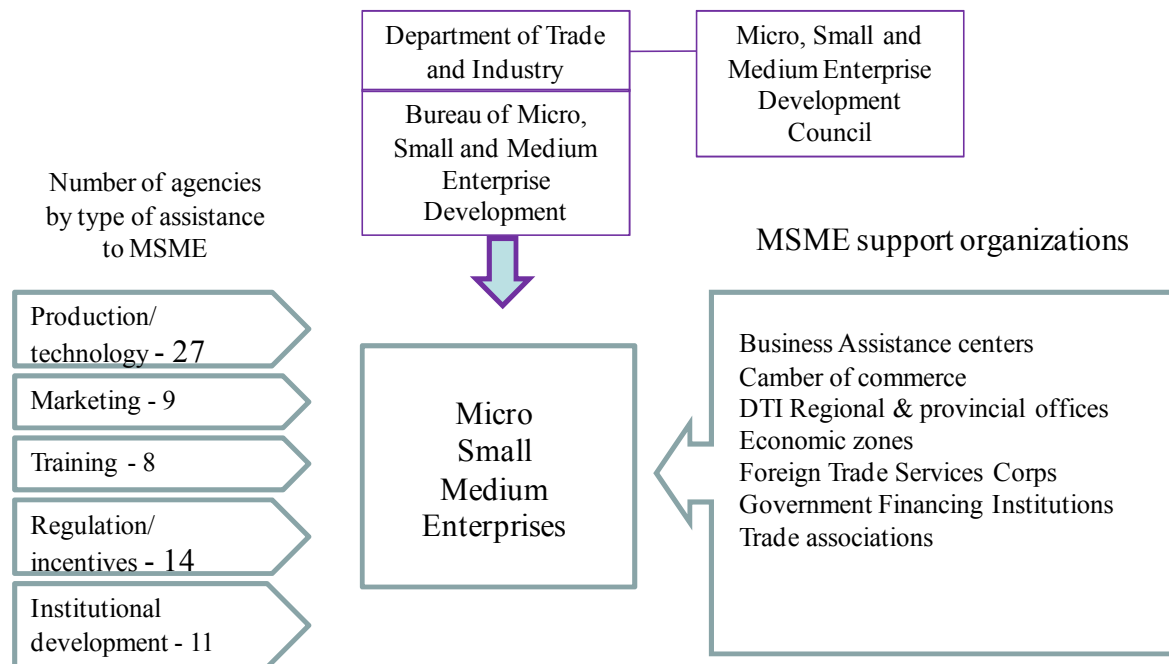
Source of basic data: NSO

The Institutional Environment to MSMEs Development

The Philippine administration has given utmost policy attention to MSME development and hopes that through new and better development initiatives, Philippine economy can move forward despite the threats of an unfavorable global environment.

The comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country is reflected in the consolidated groupings of the various government institutions that provide support to MSMEs in terms of five thematic areas: technology/ production, marketing, training, regulation/ incentives and institutional development, as contained in the 2009 edition of Programs and Services for MSMEs as published by the Bureau of Micro, Small and Medium Enterprise Development. The number of agencies by type of assistance is enumerated below (Figure 6).

Figure 6. Institutional support to MSME development



The DTI is the key agency of the Philippine Government charged with creating a business friendly environment conducive to the growth of enterprises and supportive of fair and robust trade in goods and services, both within and outside the Philippines. The Regional Operations and Development Group of DTI is the implementing arm that foster countrywide development through various programs and services in the areas of business development and consumer welfare. It operates in 16 regions and 79 provinces nationwide which serves as DTI front liners in providing assistance to investors, exporters, micro, small and medium-scale entrepreneurs (MSME) businessmen in general and consumers.

Attached to the DTI is the Micro, Small and Medium Enterprise Development (MSMED) Council, an inter-agency body established in 1991. It is responsible to promotion, growth and development of MSMEs in the country by facilitating and closely coordinating national efforts in MSME development. The Bureau of Micro, Small and Medium Enterprise Development (BMSMED) of the DTI serve as Council Secretariat. Among others, it recommends all policy matters affecting MSMEs, and formulates a six-year MSMED plan in consultation with the private sector to be integrated into the Medium Term Philippine Development Plan.

Programs and Services for MSMEs

The MSMEs programs are: business development and the one town one product (OTOP) program.

On Business Development Program, the services include:

- Business Information – provides accessible, relevant and timely MSME information (e.g. cost of doing business, industry profiles, market profiles, MSME profiles, supplier profiles/ directories, number of business name registration/ repair shop accreditation/ business license issued)

Tradeline Philippines – It is an online database service that provides product search listing thousands of manufactured exported Philippine products complete with product specifications and is a business search allowing users to contact Philippine exporters, suppliers and local/foreign buyer details and the products/services they manufacture / provide and export

Exponet - The Bureau of Export and Trade Promotion's (BETP) Export Assistance Network (EXPONET) helps exporters and prospective exporters' access information and resolve specific problems related to exporting. It provides information on export seminar schedules, export organizing, export procedures and documentation, import facilities for exporters, buyer linkages, export financing and incentives, product raw material sourcing and other statistical information. The agency also assists exporters in export-related problems / trade complaints.

- MSME Development and Promotion – strengthens support to MSME through operation of SME Centers and support to MSME Council; conducts information technology-related seminars for MSMEs.
- Business Name Registration – reduces processing time of business name registration. For NCR, the processing time is 24 hours. For other areas, processing time for online application is 3 days and 5 days for those provinces not online.

The One town One product (OTOP) programme enhances and stimulates domestic demand through SME development on a countrywide basis. The program aims to promote entrepreneurship and create jobs. The OTOP-Philippines encourages the country's MSME to produce and market distinct products or services using indigenous raw materials and manpower.

Financing programs for MSMEs - To increase the Filipino entrepreneur's awareness on sources of funding available from government and private sectors institutions for his business and encourage him to access these facilities, the BMSMD came out with a handbook on Financing Programs for MSMEs. The implementation of micro-financing and SME lending programs by various institutions is recognized as an essential tool in stimulating entrepreneurial activities.

CHALLENGES AND ISSUES ON PHILIPPINE MSMEs

MSME statistics

Lagua (undated) provided a critical evaluation of the deficiencies in the present system of MSME statistics, as follows:

1. Timeliness

Statistics on the census of establishments (done every 5 years) and the annual survey of establishments are usually released 15-24 months after the year. This makes the data more or less an imprecise tool for analysis and decision-making.

In the same manner, **BSP** collects information on the loans lent to MSMEs (in compliance with the Magna Carta for Small and Medium Enterprise) every quarter. The data gathered is usually released only after 3 months.

2. Cross compatibility with other countries for cross country comparisons

The major classification used by most countries to define SMEs is through assets and employment size. However, the size ranges of their classification differ, since developed countries have large industries than the less developed ones.

Hence, what might be considered as “small” by developed countries will already fall into the “medium” or “large” category for developing countries like the Philippines. Thus, cross compatibility with other countries for cross country comparison, is sometimes inappropriate or could not be used as basis for a policy recommendation.

3. Inadequateness

The scope and coverage of SME statistics are limited to a) the number of establishments, b) employment contribution, and c) regional distribution. More important data which will help policy makers and businesses to react quickly in a competitive environment are usually not available.

4. Coverage

The Philippines has a large section of small business constituting the so-called underground or informal economy. This refers to the small scale units in the national economy, which produce and distribute goods and services without the benefit of official sanction or control.

They don't register, don't keep books and don't pay taxes. They operate beyond the reach of the law. They have little or no access to organized markets, credit institutions, educational or training centers or public services. Although efforts are being made by the government to bring the underground economy to the surface, the nature of this sector makes it very difficult to gather and process statistics on them.

Financial risks for startup business

In the United States, two out of 10 startups succeed over five year period (Santos, 2009). With the global financial slowdown, banks and financial institutions are becoming extremely careful to give loans to businesses with little or no track record, insufficient collateral or a murky long-term plan.

The government makes sure that banks make funds available to small business owners even without collateral (Santos, 2009). Nonetheless, the reality is that the world can be very indifferent to startup ventures so that preference goes for short term and quick processing offered by private intermediaries even at relatively higher interests.

The challenge is for the government-owned Small Business Corporation to steer away from being a collateral-based lending agent. It encourages risk-based lending in the country through the use of risk assessment tools developed by the Asian Development Bank.

Environmental compliance of business operations

While the BA 21 provides the guide for MSME to adopt appropriate waste disposal and a lot of environmental measures, compliance remains an issue. Improper waste disposal have caused pollution of water ways and has clogged many small water bodies. The Philippines is one of the countries known for having degraded water bodies particularly in Luzon, example of which is the Meycauyan River that releases foul odor.

The plastics and packaging industries have the social responsibilities towards creative solutions of promoting environment friendly/ organics/ degradable products and transforming solid waste into useful products.

Creative solutions towards social enterprises remain a challenge to minimize wastes and to utilize indigenous materials. Building of more sustainable, cost-efficient and catastrophic-resistant structures is a challenge to the architectural and construction enterprises (Francisco, 2009). A serial social entrepreneur helps save environment one structure at a time.

Technopreneurship

More than services, animation biz puts premium on content and clever marketing spells difference for web-based load service to reach a wider market (Cartalaba, 2009; Santos, 2009; and Medina, 2009). On line advertising while in the infancy stage is increasingly becoming popular. Most advertisers still invest most of their money in traditional media but with more Filipinos going online, the advertising picture is about to change. The use of ICT in selling and advertising is a challenge to existing and new entrepreneurs.

Business/ Trade Partnerships

The BSMED had compiled a directory of trade associations in the Philippines. A 141 trade associations were identified grouped as follows:

1. Agricultural products - 10
2. Automotive parts and accessories - 6
3. Chemical and chemical products - 3
4. Construction - 4
5. Fashion accessories - 9
6. Franchise - 2
7. Fresh and processed food - 25
8. Furniture and furnishings - 9
9. Garments, textiles and similar products - 5
10. Gifts, toys and housewares - 9
11. Hotel and restaurants - 2
12. IT, electronics and electrical products - 13
13. Metal products - 9
14. Non-metal - 2
15. Packaging - 1
16. Paper products - 2
17. Petroleum - 2

18. Pharmaceuticals – 2
19. Resource based – 3
20. Retail – 5
21. Services - 18
22. Others - 12

Partnership or forming into trade associations has a number of advantages for the member MSME. Resources sharing would bring about cost efficiency for the business. Also, competition can be minimized. Micro enterprises would benefit more from joining trade associations.

MSMEs Vulnerability to changing climate and other natural hazards

The Philippine experiences of recent typhoons Ondoy and Peping that struck the country brought about heavy downpour that resulted to flooding in Metro Manila, Central and Northern Luzon. These have not spared many MSMEs. The extent of total damages is yet unofficial on account of extensive damages to lives and properties including businesses. Certainly many micro enterprises would need rehabilitation. Business insurance plays a vital role in cushioning negative impacts of changing climate and natural hazards.

Risks and vulnerability mapping for MSMEs might be difficult to undertake considering the wide coverage of businesses. Nonetheless, grouping them according to resources requirement, market orientation, target group are among the possibilities.

Changing climate due to sea level rise would affect water-based industries and those located along the coast. Similarly, agri-based businesses are likely to be affected by typhoon, drought, land degradation and flooding. Resource-based industries like mining, pottery, jewelry making are sensitive to earthquake.

Changing lifestyle

With the changing environment come changing fashion and preferences for green products; fast and convenient services; retail rather than wholesale packages; and intelligent solutions. The traditional businesses need transformation from conventional processes to ICT-driven and technology-based processed where competitiveness beyond border is now the challenge. Rural- based enterprises needs to shape up to changing human patterns.

SUMMARY

The MSMEs have become the backbone of Philippine economy contributing to employment and generating output for the economy. Threats of an unfavorable global environment create an atmosphere of high risk and doubt in a borderless economy with high competition as inevitable. With overall fiscal condition looming because of global financial breakdown, the challenges and issues are numerous for the MSMEs. Development programs have been laid out but resources are not readily available because of competing demands for

government support. Stakeholders should bind themselves together to minimize adverse impacts of changing climate and natural hazards, among others. MSME statistics would be vital to plan out, allocate resources, and provide capability building, among others. Creative solutions and technopreneurship are some of the challenges of the time.

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