

SME Development: Narrowing the Development Gap in the ASEAN Economic Community

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ABSTRACT

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

In the last decade, manufacturing SMEs have not substantially generated sufficient value added and employment to increase the country's overall manufacturing growth. This weak performance of SMEs has been largely attributed to barriers particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Within this light, the government can facilitate SMEs' gainful participation in the ASEAN

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by designing a coherent set of policies and programs that are aligned with regional SME development initiatives to address financing issues; improve the technological capabilities and strengthen supply chains (to enable SMEs to move up the technology scale); and create an enabling environment for SMEs to survive and realize their potentials to grow. To improve the effectiveness of SME program initiatives at the ASEAN level, it is important to complement the implementation of these regional initiatives with domestic or within-the-country policy reforms and programs.

INTRODUCTION

The Philippines has two operational definitions of small and medium enterprises (SMEs). Based on employment which is the most commonly used definition in the country, the different size categories are as follows:² microenterprises: 1–9 employees; small enterprises: 10–99 employees; medium enterprises: 100–199 employees; and large enterprises: 200 or more employees. In terms of the assets, SMEs are classified as follows: microenterprises: PHP 3 million or less; small enterprises: PHP 3–15 million; medium: PHP 15–100 million; and large: PHP 100 million or more.

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

Building on the progressive work under the APBSD, the ASEAN Strategic Action Plan for SME Development aims to further enhance the competitiveness and flexibility of SMEs in moving toward a single market and production base

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

Table 1. ASEAN Policy Blueprint for SME Development

Program Area	Activities
Human resource development and capacity building	<ul style="list-style-type: none"> - Entrepreneurship development program - Enhancing SME sector skills in management and organization on a self-reliant basis - Fostering SME capabilities for interfirm networking and linkages - Tracking and benchmarking SME capabilities, dynamism, and competitiveness
Enhancing SME marketing capabilities	<ul style="list-style-type: none"> - Setting up regional and subregional networks of interlinked, online clearing points or trading houses for SME businesses - Enhancing SME capabilities in and reliance on information and communications technology (ICT) and e-commerce - Tracking and benchmarking SME readiness as subcontractors and compliance with non-negotiable subcontracting preconditions or compliance with requirements on the demand side
Access to financing	<ul style="list-style-type: none"> - Capacity building for improved SME access to financing - Financial institutional capacity building for improved SME financing - Widening and deepening SME access to credit
Access to technology	<ul style="list-style-type: none"> - SME technology upgrading and transfer of innovative technologies
Creating a conducive environment	<ul style="list-style-type: none"> - Simplification, streamlining, and rationalization of procedures for SME registration and process for SME support services - Fine-tune policy and regulatory framework for SME development - Promotion of public-private synergies and partnerships for SME development and integration

in ASEAN. The key policy measures and activities are summarized in Table 2. These cover access to financing, facilitation, technology development, promotion, and human resource development.

This paper evaluates the implementation of the 2010–2015 ASEAN Strategic Action Plan for SME Development and the 2004–2009 ASEAN Policy Blueprint for SME Development. A survey of both SMEs and the government member of the Technical Working Group was conducted to gather insights on the status of the implementation of the ASEAN Strategic Action Plan and the Blueprint for SME Development. After the introduction, the next section reviews government policies and programs on SMEs. The third section discusses the economic performance of SMEs in terms of contribution to value added and employment. The fourth section presents the survey results while the last section summarizes the major findings, policy implications, and recommendations of the paper.

SME POLICIES AND PROGRAMS: 1990S–2000S

Policies

Like many developing countries and transition economies, the Philippines opened up its domestic economy to international trade starting in the 1980s. After

Table 2. ASEAN Strategic Action Plan for SME Development

Program Area	Activities
Access to financing	<ul style="list-style-type: none"> - SME financial facility in each member-country - Feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantee in ASEAN - Regional SME Development Fund
Facilitation	<ul style="list-style-type: none"> - Multimedia self-reliant system toolkit package - Technology transfers and licensing within SME sector through dissemination of concrete good practices - Hyperlink national SME portals - SME service center with regional and subregional linkages in AMSs - Dissemination of information on regional and international opportunities in trade and investment to SMEs
Technology development	<ul style="list-style-type: none"> - Sharing of information on technology availability for SMEs in AMSs - Developing key performance indicators (KPIs) on SME innovation - Development of technology incubators to nurture and support techno-entrepreneurs from infancy to takeoff and commercialization stages
Promotion	<ul style="list-style-type: none"> - Identification of top 1,000 ASEAN SMEs - ASEAN SME Innovation Awards - Promoting ASEAN SMEs to the international market - Dissemination of information on SME trade fairs and festivals, and facilitating SMEs' participation in these events
Human resource development	<ul style="list-style-type: none"> - Common curriculum for entrepreneurship in ASEAN - Regional program for promotion of an internship scheme for staff exchanges and visits for skills trainings

more than three decades of protectionism and an import-substitution policy, the government implemented several trade liberalization programs through unilateral reforms that reduced tariff and nontariff barriers in the 1980s. In the 1990s, trade reforms were continued in line with the country's commitments under the General Agreement on Tariffs and Trade-World Trade Organization (GATT-WTO) and the ASEAN Free Trade Area-Common Effective Preferential Tariff Scheme (AFTA-CEPT). Under the ASEAN Trade in Goods Agreement (ATIGA) which came into force in 2010, the Philippines reduced all tariffs to the 0–10 percent range except for highly sensitive agriculture products such as rice.

Similarly, SME policies and programs have evolved, with the focus shifting from inward-looking toward a more external-oriented approach. In the 1990s, government policy on SMEs concentrated on improving market access, export expansion, and increasing competitiveness. In 1991, Republic Act (RA) 6977 or the Magna Carta for Small Enterprises was passed to consolidate all government programs for the promotion and development of SMEs into a unified framework. It is highlighted by the following provisions: (i) creation of the Small and Medium Enterprise Development (SMED) Council to consolidate incentives available for SMEs; (ii) creation of the Small Business Guarantee and Finance Corp. (SBGFC)

to address SME financing needs; and (iii) allocation of credit resources to SMEs by mandating all lending institutions to set aside 8 percent of their total loan portfolio to SMEs (6% for small and 2% for medium enterprises). RA 6977 was amended by RA 8289 in 1997 and RA 9501 to further strengthen the promotion and development of and assistance to micro, small, and medium enterprises (MSMEs).

In 2001, the SBGFC was merged with the Guarantee Fund for Small and Medium Enterprises (GFSME³) through Executive Order (EO) No. 28 and became known as the Small Business Corp. (SBC). It registered a total of PHP 728 million in loan approvals in 2002, exceeding the highest approval level of PHP 180 million in 1999. The SBC is considered the national government's largest provider of SME financing, with a lending portfolio of over PHP 3 billion. It has more than 3,000 clients and 71 partner financial institutions serving 57 (out of 75) provinces in the country.⁴

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

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

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

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

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

Programs

Overall SME development

The Department of Trade and Industry (DTI) is responsible for the development and regulation of Philippine SMEs including micro and large enterprises. There are various DTI-attached agencies set up, with 14 offices and 20 line bureaus mandated to support SMEs and SME exporters. The SMED Council formulates SME promotion policies and provides guidance and direction in implementing SME programs. It is a multiagency group chaired by the DTI secretary. The Bureau of Micro, Small, and Medium Enterprises Development (BMSMED) leads DTI's SME Core Group and coordinates SME policies, programs, and projects. It acts as a “one-stop shop” to guide SMEs to specialized support agencies. The BMSMED is also the secretariat to the SMED Council tasked to review policies and strategies for SME development.

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

Finance

To provide SMEs greater access to capital, the SBGFC developed a lending program in 2003, known as SME Unified Lending Opportunities for National Growth (SULONG). The program is a collaboration among government financial institutions consisting of the Land Bank of the Philippines, Development Bank of the Philippines, SBC, Quedan and Rural Credit Corp., Philippine Export-Import Credit Agency, and the National Livelihood Support Fund. Interest rates are fixed at 9 percent per annum for short-term loans, 11.25 percent per annum for medium-

term loans, and 12.75 percent per annum for long-term loans. The program funds export financing and temporary working capital for short-term loans, as well as permanent working capital, and equipment or lot purchase or building/warehouse construction for long-term loans. More than PHP 35.3 billion (USD 640 million) in loans have been released to 368,000 SMEs since 2003.

Under the OTOP program, the government allocates PHP 1 million (USD 18,200) for lending to an SME in every locality through identified funding sources. DTI, in coordination with local government units (LGUs), identifies a product or service cluster for funding support. SMEs that offer such product or service are eligible to apply for a loan with a maximum effective interest rate of 10 percent per annum. The OTOP program offers a comprehensive assistance package through LGUs, national government agencies, and the private sector, covering business counseling, appropriate technologies, skills and entrepreneurial training, marketing, and product designs and development.

Marketing

CITEM assists exporters in developing their core competencies in marketing, promotion, and capability building. It organizes local and international trade fairs and holds an annual National Trade Fair (NTF), a five-day, order-taking and retail-selling fair showcasing the best producers in the country. Participants are provided with assistance such as raw material identification, product design, training, marketing, information dissemination, and promotion.

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

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

Training and human resource development

The DTI also has training and entrepreneurship development programs to provide existing and potential entrepreneurs with the necessary skills and knowledge to become competitive players in both the domestic and international markets. Business counselors are assigned to SME Centers located in regional and provincial offices to provide assistance and information on government and private sector

programs for SMEs. Business counselors are trained to assist entrepreneurs in their finance, marketing, technology, and HRD needs.

PTTC designs and develops training curricula and instructional materials and conducts training programs for MSMEs. Its programs and services include entrepreneurship development, business management, export management, IT and webpage development, quality and productivity, and international standard seminars like ISO 9000 quality management system.

Technology and product development

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

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

⁵ DOST SET-UP website: <http://setup.dost.gov.ph/index.php> (accessed July 30, 2010).

Table 3. MSMEs: Structure and economic contribution

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

Source: MSMED Plan 2010–2016

tools, jigs, and fixtures associated with DOST technologies that can be used by SMEs.

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

PERFORMANCE

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

Table 3 also shows that in terms of employment contribution, SMEs registered a modest share of 32 percent, while microenterprises contributed 31.2 percent. SME value-added contribution was moderate at 30.3 percent while microenterprises accounted for a share of 4.9 percent. In terms of labor productivity measured by value added per worker, microenterprises registered the lowest, as expected, with labor productivity of only about 10 percent of that of large enterprises. The labor productivity of small enterprises was at 52 percent of large enterprises' labor productivity, while for medium enterprises, the ratio was 82 percent.

Table 4 shows that from 1999 up to 2006, the total number of SMEs in manufacturing declined to 11,278 from 15,748, with the share decreasing to 9.6 percent in 2006 from 12 percent in 1999. Table 5 indicates that in terms of employment contribution, the number of workers in SMEs also declined to 385,263 workers from 516,506, with the corresponding share falling to 28 percent in 2006 from 31 percent in 1999.

Table 4. Number of manufacturing establishments by size, 1999–2006

Year	Micro	Percent	SMEs	Percent	Large	Percent	Total
1999	113,861	87.0	15,748	12.0	1,322	1.0	130,931
2000	108,998	86.9	15,231	12.1	1,238	1.0	125,467
2001	108,986	88.0	13,615	11.0	1,194	1.0	123,795
2002	108,847	88.5	13,148	10.7	982	0.8	122,977
2003	107,398	88.6	12,763	10.5	1,024	0.8	121,184
2004	103,926	88.0	13,081	11.1	1,120	0.9	118,127
2005	103,982	88.6	12,392	10.6	1,008	0.9	117,382
2006	105,083	89.5	11,278	9.6	985	0.8	117,346

Source: National Statistics Office (NSO)

Table 5. Manufacturing employment by size, 1999–2006

Year	Micro	Percent	SMEs	Percent	Large	Percent	Total
1999	366,689	21.9	516,506	30.8	791,277	47.3	1,674,472
2000	354,025	22.3	505,062	31.8	730,127	45.9	1,589,214
2001	353,415	23.0	446,600	29.1	734,088	47.9	1,534,103
2002	353,255	24.1	437,490	29.8	676,443	46.1	1,467,188
2003	360,576	24.7	403,923	27.6	698,173	47.7	1,462,672
2004	327,112	21.3	432,869	28.2	775,969	50.5	1,535,950
2005	323,510	22.1	408,100	27.9	731,736	50.0	1,463,346
2006	259,664	18.9	385,263	28.1	727,984	53.0	1,372,911

Source: NSO

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

Though an increase in the manufacturing labor productivity of both SMEs and large enterprises was registered between 1994 and 1998, the same fell in 2003 (Table 7). For SMEs, labor productivity dropped to PHP 97,000 from PHP 139,000, while for large enterprises the same measure declined to PHP 211,000 from PHP 227,000. According to the FIAS, World Bank, and IFC (2005), the value added per worker relative to all firms was approximately 46 percent in the Philippines, as compared with 64 percent in Indonesia, 65 percent in Malaysia, and 84 percent in Thailand.

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

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

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

* 2006 covers only the formal sector of the economy.

Source of basic data: NSO

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

Year	1994		1998		2003		2006*	
	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Labor productivity in PHP million at 1985 prices	0.11	0.196	0.139	0.227	0.097	0.211	0.064	0.118

* 2006 figures are not comparable with the rest of the years. The 2006 *Annual survey of establishments* covers only the formal sector of the economy.

Source of basic data: NSO

trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that requires government support and close coordination between the government and the SME sector. This requires a coherent set of policies and programs designed with the direct involvement of SMEs.

Access to finance has remained one of the most critical factors affecting the competitiveness of MSMEs. Studies focusing on the growth constraints faced by SMEs in the Philippines have continued to highlight the difficulties of MSMEs in accessing finance. Based on the International Finance Corporation-Private Enterprise Partnership (IFC-PEP) SME Finance Survey (2007), Nangia and Vaillancourt (2006) indicated that funds obtained from the banking sector accounted for only 11 percent–21 percent of capital raised by SMEs. This was lower than the 30 percent international benchmark seen in other developing countries like India and Thailand. Furthermore, banks are generally reluctant to lend large loans particularly those ranging from PHP 150,000 to PHP 5 million (USD 3,450–USD 115,000), which is the normal range of funding required by SMEs.⁶

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

Banks have continuously pointed out that the lack of credit information has deterred them from lending to SMEs. Without the necessary credit information, it is difficult to determine creditworthiness of borrower-firms. Banks are also concerned about the bankability of MSMEs and high risks involved in MSME lending given

⁶ From an IFC study cited by Bangko Sentral ng Pilipinas Deputy Governor Nestor Espenilla in a speech delivered in an SME forum. Michelle V. Remo, "SMEs' loan access still limited," *Philippine Daily Inquirer*, 27 September 2010.

that many MSMEs have limited management and financial capability. Thus, financial institutions have continued to impose collateral requirements and other stringent conditions such as the minimum loan requirement. Other issues include slow loan processing, short repayment period, difficulties in loan restructuring, high interest rates, and lack of start-up funds for SMEs.

SME financing in the country is to a large extent driven by government policy covering targeted interventions, through government financial institutions using private banks as conduits, and direct lending by government agencies and corporations along with the mandatory credit requirements for banks. However, despite these programs and policies, the volume of funds for SME lending has remained inadequate for their needs. Estimates of the financial gap ranged from the PHP 67 billion (USD 1.6 billion) of the Philippine Exporters Confederation (Philexport) to the DTI's PHP 180 billion (USD 4.2 billion). Nangia and Vaillancourt came up with a finance gap that ranged from PHP 76 billion (USD 1.8 billion) to PHP 170 billion (USD 3.9 billion). Applying the same procedure of Nangia and Vaillancourt, Aldaba (2011) obtained an estimated gap of around PHP 130 billion.

SME DEVELOPMENT: ANALYSIS OF SURVEY RESULTS

Description of the survey approach

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

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

The survey respondents consisted of four firms that participated in ASEAN SME capacity-building programs and a representative from the DTI's Bureau of Micro, Small, and Medium Enterprise Development and who is also a member of the ASEAN SME Working Group. Getting a larger sample size was difficult because

there were not too many SME recipients of the ASEAN Economic Community SME capacity-building activities. Most SMEs were not also familiar with the ASEAN Policy Blueprint and the ASEAN Strategic Action Plan for SME Development.

Using a questionnaire, a perception survey was conducted to gather stakeholders' impression and overall assessment of the policies and actions affecting SMEs. The scale of effectiveness was based on the following:

- 1: if actions or policies were/have not been implemented or implemented without any concrete impacts identifiable
- 2: if actions or policies were/have been implemented partially or in full but with no or little impact identifiable
- 3: if actions or policies were/have been implemented fully with moderate impacts identifiable
- 4: if actions or policies were/have been implemented fully with satisfactory impacts identifiable
- 5: if actions or policies were/have been implemented fully with greater impacts identifiable.

The results of the survey on the status and effectiveness of the ASEAN Strategic Action Plan for SME Development and the APBSD are summarized in the following subsections. The tabulation of results is presented in Table 8 for the ASEAN Strategic Action Plan and Table 9 for the ASEAN Policy Blueprint.

ASEAN Strategic Action Plan for SME Development

Access to financing

According to 60 percent of the respondents, the following were implemented: establishment of SME financial facility; feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantees in ASEAN; and innovative financing support systems. On the average, implementation did not have or had little identifiable impacts. Only 40 percent said that SME-related regional infrastructure such as the ASEAN SME Web Portal; virtual ASEAN agencies linking up all SME-related agencies; SME service provider; and ASEAN Credit Bureau were implemented without concrete identifiable impacts. Eighty percent of the respondents indicated that financing activities such as improved financial products and developing a regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in the growing stock market; and national and regional SME credit guarantee schemes were implemented with some moderate identifiable impacts. Sixty percent indicated that SME investment like improving SME access to finance; getting SMEs listed in the growing stock market; and national and regional SME credit guarantee schemes were implemented but with no or little identifiable impacts.

Table 8. ASEAN Strategic Action Plan for SME Development

Programs/Activities	Total Response (in percent)		Total Rating (average)	Description
	Yes	Don't Know	Effectiveness	
I. Access to Financing				
1.1 Establishment of SME financial facility in each ASEAN member-country	60	40	1.8	No or little impact
1.2 Feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantee in ASEAN	60	40	2	No or little impact
1.3.1 Innovative financing support systems (besides financial grants, tax concessions and fiscal incentives, interest-free or low-cost loans, venture capital and FDI, etc.) for technoentrepreneurs—including those based on many newly developed financing concepts and schemes to value knowledge as intangible capital and to fund ventures based on new and innovative ideas	60	40	1.8	No or little impact
1.3.2 SME-related regional infrastructure, such as:				
1.3.2.a. ASEAN SME Web Portal (information and education)	40	60	1.4	Without concrete impacts
1.3.2.b. virtual ASEAN agencies linking up all SME-related agencies	40	60	1.4	Without concrete impacts
1.3.2.c. SME service provider	40	60	1.4	Without concrete impacts
1.3.2.d. ASEAN Credit Bureau	40	60	1.4	Without concrete impacts
1.3.3 Financing, such as:				
1.3.3.a. improved financial products for SMEs	80	20	2.6	Moderate impacts
1.3.3.b. developing regional capital market for SMEs	80	20	2.6	Moderate impacts
1.3.3.c. expanding mutual SME investment	80	20	2.6	Moderate impacts
1.3.3.d. improving SME access to finance	80	20	2.6	Moderate impacts
1.3.3.e. getting SMEs listed in the growing stock market	80	20	2.6	Moderate impacts
1.3.3.f. national and regional SME credit guarantee scheme	80	20	2.6	Moderate impacts
1.3.4 SME investment:				
1.3.4.a. improving SME access to finance	60	40	1.8	No or little impact
1.3.4.b. getting SMEs listed in growing stock market	60	40	1.8	No or little impact

Table 8. (Cont'd.)

Programs/Activities	Total Response (in percent)		Total Rating (average)	Description
	Yes	Don't Know		
1.3.4.c. national and regional SME credit guarantee scheme	60	40	1.8	No or little impact
II. Facilitation				
2.1 Development of a multimedia self-reliant system toolkit package	40	40	1.4	Without concrete impacts
2.2 Improving technology transfers and licensing within the SME sector through the dissemination of concrete good practices and replicable success stories within and outside ASEAN	80	20	2.4	No or little impact
2.3 Hyperlink national SME Portals				
2.3.1 Improve the operation of the National Service Desk	60	40	2.2	No or little impact
2.4 Establishing a comprehensive SME service center with regional and subregional linkages in AMSs				
2.4.1 Feasibility Study for the Establishment of the SME Service Center	40	60	1.4	Without concrete impacts
2.4.2 Framework for the ASEAN SME Service Center at National and Regional Levels	60	40	2	No or little impact
2.5 Dissemination of information on regional and international opportunities in trade and investment to SMEs, including FTA-related information on the liberalization of trade and investment within ASEAN (e.g., AFTA-CEPT/ATIGA, priority integration sectors, ACIA, etc.) and outside ASEAN (e.g., FTAs with Australia and New Zealand, China, Japan, and Republic of Korea, and other emerging markets)	80	20	2.4	No or little impact
III. Technology Development				
3.1 Sharing of information on technology availability for SMEs in AMSs	80	20	2.6	Moderate impacts
3.2 Developing KPIs on SME innovations	40	60	1.6	No or little impact
3.3 Development of technology incubators so as to nurture and support (through low-cost training programs for continuous upgrading and improvement) of technoentrepreneurs from infancy to takeoff and commercialization stages	80	20	3	Moderate impacts

Table 8. (Cont'd.)

Programs/Activities	Total Response (in percent)		Total Rating (average)	Description
	Yes	Don't Know	Effectiveness	
IV. Promotion				
4.1 Identification of the Directory of Outstanding ASEAN SMEs 2011 (Formerly known as the Top 1000 ASEAN SMEs)	20	80	0.4	Without concrete impacts
4.2 Establishing the ASEAN SME Innovation Awards (convened as ASEAN Business Awards 2011)	60	40	2.4	No or little impact
4.3 Promoting ASEAN SMEs to the international market	80	20	3.2	Moderate impacts
4.4 Wider dissemination of information on SME trade fairs and festivals in each AMSs, and facilitating SMEs to participate in these events	80	20	3	Moderate impacts
V. Human Resource Development				
5.1 Established a common curriculum for entrepreneurship in ASEAN	20	80	0.8	Without concrete impacts
5.2 Established a regional program for the promotion of internship scheme for staff exchanges and visits for skills training	40	40	1.4	Without concrete impacts
VI. Other Regional SME Initiatives				
6.1 Establishment of the ASEAN SME Advisory Board	60	40	1.8	No or little impact
6.2 Establishment of the Expert Panel on ASEAN SME Access to Finance	40	40	1.2	Without concrete impacts
6.3 The development of the ASEAN White Paper and Statistics on SMEs, and the SME Development Policies in four AMSs	20	80	0.6	Without concrete impacts
6.5 Workshop on Financing for ASEAN MSME in the 21st Century, 25–27 July 2011, Bali, Indonesia	20	80	0.6	Without concrete impacts
6.5 Workshop on SME Development Through Increasing SME Access to Finance, 5 November 2010, Jakarta, Indonesia	20	80	0.6	Without concrete impacts
6.6 SME Business and Technology Incubator Workshop, 4 November 2010, Jakarta, Indonesia	20	80	0.6	Without concrete impacts

Source: Author's compilation based on survey results

Table 9. ASEAN Policy Blueprint for SME Development for SME Development

	Total Response (In percent) Yes	Don't Know	Total Rating (average) Effectiveness	Description
I. Human Resource Development and Capacity Building				
1. Entrepreneurship development program				
1.1 Regional training program in SME entrepreneurship development during the period of APBSD	60	40	2.2	No or little impact
1.2 Regional pilot project in entrepreneurship development in ASEAN	40	60	1.6	No or little impact
1.3 Subregional pilot project in entrepreneurship development for ASEAN-6 (or ASEAN-4)	20	80	0.6	Without concrete impacts
2. Enhancing SME sector skills in management and organization on a self-reliant basis				
2.1 Regional program in developing system packages in 31 areas of enterprise management and organizational skill requirements during the period of APBSD	60	40	1.8	No or little impact
2.2 Regional program for the promotion of internship schemes, workers' and entrepreneurs exchanges, and study visits for skill training and enhancement, and interfirm linkages during the period of APBSD	20	60	1.2	Without concrete impacts
3. Fostering SME Capabilities for Interfirm Networking and Linkages				
3.1 Regional tracking of SME readiness and compliance as subcontractors in domestic, regional, and global production networks and supply chains during the period of APBSD	20	60	1	Without concrete impacts
3.2 Regional pilot project in compiling compliance requirements for SME subcontracting	40	60	1.2	Without concrete impacts
3.3 Regional research study on the key drivers and processes of enterprise clustering, and on related policy issues, implications, and options.	60	40	1.6	No or little impact
4. Tracking and benchmarking SME capabilities, dynamism, and competitiveness				
4.1 Regional program on surveying, monitoring, and benchmarking the evolution of SME capacities, dynamism and competitiveness in various priority sectors and industries within ASEAN during the period of APBSD.	20	80	0.2	Without concrete impacts

Table 9. (Cont'd.)

	Total Response (in percent)		Total Rating (average)	Description
	Yes	Don't Know	Effectiveness	
4.2 Regional pilot project in surveying and benchmarking SME capabilities, dynamism, and competitiveness in selected priority industries and sectors within ASEAN.	40	60	1	Without concrete impacts
II. Enhancing SME Marketing Capabilities				
5. Setting up regional and subregional networks of interlinked, online clearing points or trading houses for SME businesses				
5.1 Regional program in establishing interlinked, online networks for SME products and services during the period of APBSD.	40	60	1	Without concrete impacts
6. Enhancing SME capabilities in and reliance on ICTs and e-commerce				
6.1 Regional program to promote SME e-commerce during the period of APBSD.	60	40	1.8	No or little impact
6.2 Regional and subregional programs to build basic skills and capabilities for internet-based e-commerce during the period of APBSD.	60	40	1.8	No or little impact
6.3 Research on an enabling regional or subregional framework of policies and regulations for ICTs and e-commerce.	40	60	1.2	Without concrete impacts
7. Tracking and benchmarking SME readiness as subcontractors and compliance with non-negotiable subcontracting preconditions or compliance requirements on the demand side				
7.1 Regional tracking of SME readiness and compliance as subcontractors in domestic, regional, and global production networks and supply chains during the period of APBSD.	20	80	0.8	Without concrete impacts
7.2 Regional pilot project in compiling compliance requirements for SME subcontracting.	20	80	0.8	Without concrete impacts
III. Access to Financing				
8. Capacity building for improved SME access to financing				
8.1 Regional and subregional capacity building in the proper maintenance and reporting of accounting and financial information by SMEs during the period of APBSD.	60	40	1.6	No or little impact

Table 9. (Cont'd.)

	Total Response (in percent) Yes	Don't Know	Total Rating (average) Effectiveness	Description
8.2 Regional and subregional capacity building in the preparations of business plans to the bankable stage by SMEs during the period of APBSD.	60	40	1.6	No or little impact
9. Financial institutional capacity building for improved SME financing				
9.1 Regional and subregional capacity building in credit rating system for SMEs within the financial sector.	60	40	1.8	No or little impact
9.2 Regional and subregional capacity building in the establishment and maintenance of credit information reference and referral systems with a focus on the special needs of SMEs.	60	40	2	No or little impact
10. Widening and deepening SME access to credit				
10.1 Regionalization and subregionalization of financial schemes and alternative financial sources (credit guarantee scheme, seed and venture capital, inventory financing, equipment leasing, etc.), and external investor base during the period of APBSD.	20	60	0.8	Without concrete impacts
IV. Access to Technology				
11. SME technology upgrading and transfers of innovative technologies				
11.1 Collection and dissemination of best practices at the enterprise and policy levels in technology upgrading and transfers, and intellectual property matters involving SMEs within and outside the region during the period of APBSD.	60	40	2	No or little impact
11.2 Regional pilot project on system development for technological upgrading to enhance quality control and certification.	40	60	1.4	Without concrete impacts
11.3 Regional pilot project on system development for technological upgrading to enhance quality, cost, and delivery.	40	60	1.4	Without concrete impacts
V. Creating Conducive Policy Environment				
12. Simplification, streamlining, and rationalization of the procedures for SME registration, and the process for SME support services				
12.1 Collection and dissemination of best practices in SME registration and support services within and outside the region during the period of APBSD.	80	20	2.2	No or little impact

Table 9. (Cont'd.)

	Total Response (in percent)		Total Rating (average)	Description
	Yes	Don't Know	Effectiveness	
12.2 Regional or subregional research study on ways and means to simplify procedures, and reduce costs and delays in the formal registration of SMEs.	80	20	2.2	No or little impact
12.3 Establishment of a one-stop SME office in the respective countries emphasizing on seven functional areas: facilitation, monitoring and evaluation, outreach, advocacy, research, information systems, and liaisons.	60	20	2.2	No or little impact
13. Fine-tune policy and regulatory frameworks for SME development				
13.1 Collection and dissemination of best practices in policy and regulatory framework for SME development within ASEAN and outside the region during the period of APBSD.	60	40	1.8	No or little impact
13.2 Regional or subregional research study to review and fine-tune existing policies and regulatory framework for ASEAN SMEs.	20	80	0.6	Without concrete impacts
14. Promotion of public-private synergies and partnership for SME development and integration				
14.1 Collection and dissemination of best practices in the promotion of :				
14.1.a. public-private synergies and partnership	40	60	1.2	Without concrete impacts
14.1.b. closer interaction and more frequent dialogues between the public and private sectors for SME development and integration within and outside the region during the period of APBSD	40	60	1.2	Without concrete impacts
14.2 Regional or subregional research study in the promotion of public-private synergies in providing business development services and extension activities.	60	40	1.8	No or little impact

Source: Author's compilation based on survey results

Facilitation

Eighty percent of respondents said the following were implemented but with no or little identifiable impacts: improving technology transfers and licensing within the SME sector; and dissemination of information on regional and international

opportunities. According to 60 percent of the respondents, improving the operation of the National Service Desk and Framework for the ASEAN SME Service Center at the national and regional levels were implemented but with no or little impacts. Only 40 percent said the development of a multimedia self-reliant system toolkit and feasibility study for the establishment of the SME Service Center were implemented without concrete identifiable impacts.

Technology development

Eighty percent of respondents said sharing of information on technology availability for SMEs and the development of technology incubators were implemented with moderate impacts. Meanwhile, only 40 percent said developing key performance indicators (KPIs) on SME innovation were implemented with no or little concrete impact.

Promotion

Eighty percent of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. Sixty percent said the ASEAN SME Innovation Awards was implemented with no or little impact. Only 20 percent indicated that identification of the Directory of Outstanding ASEAN SMEs was implemented without concrete impacts.

Human resource development

Forty percent of the respondents indicated that a regional program for the promotion of an internship scheme for staff exchanges and visits for skills training was implemented without concrete impacts. Only 20 percent indicated that a common curriculum for entrepreneurship in ASEAN was implemented without concrete impacts. In terms of other regional SME initiatives, 60 percent said the establishment of the ASEAN SME Advisory Board was implemented with no or little impact. Forty percent said the establishment of the expert panel on ASEAN SME access to finance was implemented without concrete impacts. For the rest of the initiatives, only 20 percent said these were implemented without concrete impacts.

Overall, the review of the ASEAN Strategic Action Plan for SME Development showed low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs covering access to financing, facilitation, technology development, promotion, human resource development, and other regional SME initiatives. However, 80 percent of the respondents indicated that financing activities such as improved financial products and developing a regional capital market for SMEs; expanding

mutual SME investment; improving SME access to finance; getting SMEs listed in the growing stock market; and national and regional SME credit guarantee schemes were implemented with some moderate identifiable impacts. Eighty percent of the respondents also indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts.

ASEAN Policy Blueprint for SME Development

Human resource development and capacity building

As reported by 20 percent–60 percent of survey respondents, the implementation of an entrepreneurship development program; enhancing SME sector skills in management and organization on a self-reliant basis; fostering SME capabilities for interfirm networking; and tracking and benchmarking SME capabilities, dynamism, and competitiveness had average effectiveness scores ranging from without to no or little concrete impact.

Enhancing SME marketing capabilities

According to 40 percent–60 percent of survey respondents, the implementation of regional and subregional networks of interlinked, online clearing points or trading houses for SME businesses as well as programs enhancing SME capabilities in and reliance on information and communication technology (ICT) and e-commerce, and tracking and benchmarking SME readiness as subcontractors had average effectiveness scores that ranged from without to no or little concrete impact.

Access to financing

As reported by 60 percent of respondents, the implementation of capacity building for improved SME access to financing and financial institutional capacity building for improved SME financing had an average effectiveness score of no or little concrete impact. Meanwhile, only 20 percent of the respondents said widening and deepening SME access to credit was implemented without concrete impact.

Access to technology

According to 40 percent–60 percent of survey respondents, the implementation of SME technology upgrading and the transfer of innovative technologies had average effectiveness scores that ranged from without to no or little concrete impact.

Creating a conducive policy environment

As reported by 60 percent–80 percent of survey respondents, the implementation of simplification, streamlining, and rationalization of the procedures for SME

registration, and the process for SME support services had no or little concrete impact. With respect to the implementation of fine-tuned policy and regulatory frameworks for SME development, the average effectiveness scores ranged from without to no or little concrete impact, based on the responses of 20 percent–60 percent of survey respondents. In terms of promotion of public-private synergies and partnership for SME development and integration, the implementation had an average effectiveness score that ranged from without to no or little concrete impact as reported by 40 percent–60 percent of the respondents.

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

CONCLUSIONS, POLICY IMPLICATIONS, AND RECOMMENDATIONS

Survey findings

The results showed low average effectiveness scores ranging from without to no or little concrete impact as regards various programs covering access to financing, facilitation, technology development, promotion, human resource development, and other regional SME initiatives. However, most of the respondents indicated that financing activities covering improved financial products; developing a regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in the growing stock market and national and regional SME credit guarantee schemes were implemented with some moderate identifiable impacts. They also indicated that activities such as promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. In general, the results also showed that the implementation of the ASEAN Policy Blueprint for SME Development covering human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating a conducive policy environment had low average effectiveness scores ranging from without to no or little concrete impact.

SME performance and competitiveness

In the last decade, manufacturing SMEs have not substantially generated sufficient value added and employment to increase competition, improve the industrial structure, and increase the country's overall manufacturing growth. The weak

performance of SMEs has been largely attributed to the large number of barriers that they must deal with, particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that will require strong government support and close coordination between the government and the SME sector.

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

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

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

To improve MSMEs' access to finance, the paper suggests the following: (1) implementation of the Central Credit Information Corp. to improve the overall availability of credit particularly for MSMEs, provide mechanisms to make credit more cost effective, and reduce the excessive dependence on collateral to secure credit facilities; (2) changing the traditional mindsets of banks and encouraging the adoption of nontraditional approach to SME lending. Traditionally, lending to SMEs is seen to entail higher risks and higher costs and the tendency is to

overguarantee the loan; (3) conducting trainings and capability-building programs for SMEs to improve their financial literacy and management capacity; and (4) improving data collection and statistics on SMEs particularly on financing indicators.

Implications and recommendations

The government can facilitate SMEs' gainful participation in ASEAN by designing a coherent set of policies and programs that are aligned with regional SME development initiatives covering the following: (1) raising awareness of the potential of participation in international/global production networks and good understanding of the advantages and potential of subcontracting; (2) addressing financing issues including inadequate working capital, insufficient equity, difficulties of finding credit and expensive credit cost; (3) improving the technological capabilities and strengthening supply chains to enable SMEs to move up the technology scale as well as to create and enhance existing linkages with production networks; and (4) creating an enabling environment for firms to survive and realize their potentials to grow—a crucial precondition for both foreign and domestic investment.

The above results also suggest that to improve the effectiveness of the SME program initiatives and other policy measures carried out at the ASEAN level, the implementation of these regional initiatives must be complemented with domestic policy reforms and programs. All this will require an integrated approach and a coherent set of domestic and regional policies and programs designed with the direct involvement of SMEs.

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