

**GROWTH AND DYNAMICS
OF SMALL AND MICROENTERPRISES
DOES FINANCE MATTER?**

Ma Lucila A. Lapa

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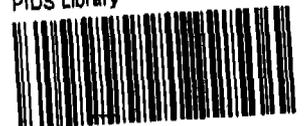


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GROWTH AND DYNAMICS OF SMALL AND MICROENTERPRISES DOES FINANCE MATTER?*

*Ma Lucila A Lapar***

I INTRODUCTION

A *Background and Objectives of the Study*

There has been renewed interest in the role of small and microenterprises in development. Development theories have shifted focus from medium and large scale enterprises which can absorb large amounts of growth capital and be amenable to technological adaptation from industrialized countries to small and microenterprises which can satisfy basic human needs and growth in terms of employment and income generation. The emergence of the educated unemployed, the increase in unemployment in urban areas, and the structural imbalance between rural and urban areas are now leading to a new interest in rural nonfarm activities (CIDA 1989). In the context of developing countries where absorption of excess labor seeking employment is a problem where rural urban migration occurs as a response to disparities in income earning opportunities and standards of living, small and microenterprises have a major role to play in an alternative development strategy with more desirable employment and distributive characteristics than concentrated industrialization and modern agriculture could give.

A large body of literature has emerged that provides justification for supporting the development of small and microenterprises. Suffice it to say that there is indeed merit in promoting this sector, be it for poverty alleviation or growth through its income and employment effects. Of utmost significance at this stage, therefore, is the formulation of some research agenda that will facilitate the introduction of new insights into the development of the small and microenterprise sector as economies undergo structural adjustments. An understanding of the patterns of evolution of small and microenterprises

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**Research Associate PIDS

will contribute to the development of strategies for the optimal use of scarce resources as well as policies programs and projects that will have a large impact on the development process of the sector

This study provides a background to the bigger objective of investigating the small and microenterprise sector. Specifically the study aims to

- 1 Review the existing literature on small and microenterprises with particular focus on microenterprise finance and determine research gaps and issues
- 2 Develop some research agenda for analyzing the growth and dynamics of microenterprise behavior particularly the role of finance in such a process taking into account the research gaps and issues

B *Rural Nonfarm Enterprises and Microenterprises*

Recent development efforts to promote the development of rural nonfarm enterprises can be traced to the belief that rural nonfarm activities are essential elements in the process of economic development and structural change from rural agricultural to urban industrial economies. Their extent and importance can be largely explained in terms of their contribution to the tasks of modernizing and servicing agriculture and their catering to the non food needs of the rural population (Anderson 1978). A recent review of the role of nonfarm activities in the rural economy concludes that rural nonfarm enterprises productively absorb a large quantity of rural labor and provide a major source of income to a majority of rural households (UNDP 1988). Because they are the source of a particularly large share of sustenance to the rural poor they have a substantial impact on reducing income inequality. Nonfarm enterprises are not only efficient contributors to gross domestic product (GDP) they also stimulate agricultural growth through effects on income farm productivity and marketing costs (Kilby and Liedholm 1986).

There is a wide range of activities in the rural nonfarm sector in which rural nonfarm enterprises are engaged. These activities which are directly or indirectly related to agriculture include handloom weaving processing of agricultural commodities transport of agricultural outputs and inputs extraction of forest fisheries and mineral resources, village artisanship like blacksmithing pottery repairing construction activities handicrafts and services among others.

Rural nonfarm enterprises may be classified under microenterprises i.e. small largely household based types of enterprises with very little capital and dependent on household members for labor. A detailed definition of microenterprises is presented in the next section. Microenterprises may either be urban or rural based. Obviously microenterprises that are considered rural nonfarm enterprises are concentrated in rural areas. While microenterprises may be classified as rural nonfarm enterprises the reverse need not hold for all rural nonfarm enterprises. Some rural nonfarm enterprises may be of a bigger scale than small and microenterprises i.e. within the medium and large scale category. Thus rural nonfarm microenterprises represent an intersection of two sectors namely the rural nonfarm enterprises and microenterprises.

In the Philippines it can be surmised that rural nonfarm enterprises are mostly within the category of small and microenterprises. This study is particularly interested in rural nonfarm small and microenterprises that have potential for generating growth in the rural sector.

C *Definition of Microenterprises*

Microenterprises are unincorporated income generating activities undertaken by individuals, households, and tiny operations in the urban and rural areas. Such activities include nonfarm primary activities, manufacturing, commerce, and services (CIDA 1986). Since these economic activities are usually family based, unregistered with any government institution, and have inadequate assets or collateral, they are generally considered non-bankable (Belandres 1987). Other types of productive units that can be considered as microenterprises are traditional family and cottage industries or artisanal units and the self-employed. Here the entrepreneur or owner derives his livelihood and provides for his family directly from the activity. Capital employed is very low, and in general only family members comprise the labor employed (Levitsky 1988).

Rural nonfarm microenterprises in the traditional sector constitute all income generating activities carried out by individuals, households, and partnerships in rural settings, excluding agriculture and modern sector activities like agro industry, mining, commercial services, and infrastructure and government services. Such activities provide primary income to at least 30 percent of the rural work force of least developing countries (LDCs), and part-time or seasonal nonfarm activity provides vital secondary income to 20 percent of household incomes in most developing countries (CIDA 1988).

Operational definitions of microenterprises are generally based on number of employees, assets (or equity after financing), or capital (or equity before financing). Such arbitrary limits are used by governments for regulatory or statistical purposes and for establishing eligibility for official assistance. Elsewhere, other definitions are used for analytical purposes to measure performance, etc. with reference to functional characteristics like type of management, ownership, product specialization, production techniques, or even market orientation (UNDP 1988). The choice of which criteria to use in coming up with a working definition will depend on the purpose or objective of the undertaking to which the definition will be used. If the objective is to achieve a realistic assessment of the microenterprise sector for possible financing assistance programs, then the most logical basis for grouping would be capital size or asset size. On the other hand, employment size may be used as a grouping rule for other purposes, such as for employment promotion policy and productivity studies. In any case, each of these grouping rules has been found to result in broadly similar firm groupings (Haggblade *et al* 1986). Employment size is the most commonly used grouping rule because of the availability of statistics in this form, and the ease and simplicity of using such a criterion in research, especially when doing comparisons across countries (Haggblade *et al* [1988], Little [1988], Page and Steel [1984], and Suhartono [1988]).

For purposes of the present study, microenterprises are defined qualitatively as very small income generating units owned and managed by entrepreneurs who work in it themselves, from which they derive most of their livelihood, which employ very few people, if any, mainly relying on family members, and using very little capital. Operationally, microenterprises are any economic activity engaged in by a family, an individual, or a group employing a maximum of ten workers and with an investment ranging from P50,000 in assets before a new loan or equity infusion. A National Economic and Development Authority-University of the Philippines Institute of Small Scale Industries (NEDA-UPISSI) survey of small firms

in rural areas showed that approximately 36 percent of small firms in the rural areas are operating as microenterprises (Lamberte 1990a)

D *Organization of the Study*

This study is organized thus Section II presents the review of literature Section III discusses the research gaps and issues based on the review of the literature and Section IV presents the proposed research agenda for analyzing the behavior of microenterprises with focus on issues on finance

II REVIEW OF LITERATURE

The review of literature on small and microenterprises is divided into theoretical literature empirical literature and the experience of the Philippines in the small and microenterprise sector development The theoretical literature review focuses on the existing theoretical models that describe the dynamics of small and microenterprise behavior as well as models applicable to the analysis of the demand for and supply of microenterprise finance The empirical literature review looks at the various empirical studies that validate some of the results in the theoretical works Particular attention is given to studies on the financing aspects of small and microenterprises The review of Philippine experience in small and microenterprise development traces the policies instituted by the government for the micro and small enterprise sector The various financial and technical assistance programs are also reviewed and problems encountered in their implementation presented

A *Theoretical Literature*

Microenterprise Dynamics A comprehensive and analytical discussion of the state of the art on small and microenterprises is found in Liedholm and Mead (1990) The analysis concentrates on dynamic issues relating to patterns of change among micro and small enterprises The subsequent discussion draws heavily from this work

Microenterprise dynamics can be examined in four different levels namely micro micro or the individual (with particular attention to the entrepreneur) firm level or the enterprise subsector and intersectoral linkages and the macro or the economy as a whole Micro micro analysis looks at the behavior of individuals and how it affects the observed patterns of enterprise performance Intra firm and the entrepreneurial aspects are very important to microenterprise dynamics

The analysis looks at the Austrian school of economics where competition is viewed as a process of dynamic change and the entrepreneur as its prime mover Schumpeter (1934) and his followers in the Austrian school contend that the entrepreneur is the innovator who introduces new products new technologies new markets or new sources of supply Knight (1921) on the other hand defines the entrepreneur as anyone who has control of the operation of the business and bears the risk a concept which is in line with neoclassical thinking This places management at the core of the entrepreneur's task in contrast to Schumpeter's idea that management of the firm is simply a routine activity

But entrepreneurship or the lack of it is not a constraint to growth according to Leff (1979) He argues that the various functions performed by the entrepreneur are in excess supply that they can be

considered as slack variables. It is the demand for entrepreneurship that is the dominant force determining the extent of observed entrepreneurship and that any lack of entrepreneurial response is due to market imperfections or defective policies. However, deficiencies in the routine management functions performed by the entrepreneur—a supply side variable—constitute the crucial constraint to the evolution of firms and industries in developing countries (Kilby 1988). This is referred to as a form of technical “X inefficiency” that prevents firms from realizing their full potential (Leibenstein 1979). Such functions, which are more important than the innovative investment and risk-bearing functions, do not constitute a bottleneck in developing countries where they are in excess supply (Kilby 1988).

Recent dynamic theories of firm growth have incorporated the entrepreneur as a key variable. The Lucas model assumes that individuals have differing endowments of managerial ability and persons with more of this attribute become entrepreneurs while those with less become workers (Lucas 1978). Firm formation and disappearance over time is thus a function of the movement of those with managerial ability between being entrepreneurs and being workers. This was subsequently improved by Kihlstrom and Laffont (1979) by incorporating risk into the analysis. Entrepreneurs have a taste for risk so that relatively less risk-averse persons become entrepreneurs while more risk-averse ones become workers.

Motivations that underlie the actions of the entrepreneur are discussed in more recent literature (Downing 1990). Differences in experience between female and male entrepreneurs may be explained by differences in goals or motivation with the primary motivation evolving from security to growth. A security-oriented entrepreneur will use any profits gained to diversify into other economic activities aimed at raising the security of the household. A growth-oriented entrepreneur, on the other hand, is more likely to reinvest any profits hoping to improve productivity and income through a higher degree of specialization. As entrepreneurs' motivations evolve along this continuum, systematic patterns of change may occur.

Entrepreneurship is thus a significant factor that needs to be incorporated into the analysis of firm dynamics as shown in the aforementioned discussion.

The second level of dynamics analysis—firm level—is anchored on various theories of the firm. However, the limited theoretical literature on firm dynamics does not allow for much progress in this area (Liedholm and Mead 1990).

In the classical theory of the firm, the formation, growth, and dissolution of individual firms are not analyzed mainly because it is a static equilibrium theory with no implications for the rate of entry, exit, or speed of adjustment. It further assumes that the supply of entrepreneurs is perfectly elastic and that no learning occurs within the firm.

More recent theories of the firm have emphasized the random or stochastic nature of enterprise growth. This line of thinking developed from Gibrat's Law, which states that firm growth is independent of firm size and is reflected in the works of Scherer (1980), Simon and Bonini (1958), and Ijiri and Simon (1977). These theories assume that entrepreneurs are merely passive actors in this mechanistic game of chance and hence have no role in enterprise growth.

Jovanovic (1982) developed a model on the life cycle patterns of firm growth based on the models of Lucas and Kihlstrom and Laffont. It assumes that the entrepreneurs' managerial abilities

differ that entrepreneurial activity is risky and that this risk arises from the inherently risky nature of the business and the uncertainty of entrepreneurs about their management skills. Self-employed persons gradually learn about their managerial abilities by engaging in the rough and tumble business world and observing how well they perform. As they gain more expertise over time, these entrepreneurs modify their behavior. This dynamic learning model predicts that both the firm's failure rates and growth rates will be inversely related to the age and initial size of the individual firm.

The Jovanovic and other dynamic models did not specify the key determinants of managerial ability nor did they indicate how it can be improved. Thus, a need to go beyond these dynamic models in determining the key determinants of firm birth, expansion, contraction, and dissolution arises (Liedholm and Mead 1990).

The third level of analysis is the subsector analysis whereby the scope of examination is not limited to micro, small, or informal producers but includes enterprises of all types and sizes engaged in the production of a particular group of commodities. The analysis includes suppliers of raw materials and intermediate products, producers of finished products, and the marketing and distribution systems that link the various stages in the production process. Vertical linkage mechanisms are given particular attention in this type of analysis.

Subsector analysis has its origins in agricultural economics. The concept of verticality along with the associated approach that views input suppliers, farmers, processors, and traders in a systems perspective has come to be widely used throughout the profession. Since then, subsector analysis has been widely used in the field of industrial organization in business schools and graduate programs in economics, specifically in analyzing issues of vertical coordination among different stages in production and distribution systems. This is reflected in the works of Coase (1937), Porter (1980), and Nelson and Winter (1982) that explore the issues of industrial organization and firm structure with particular attention to alternative mechanisms for linking different stages in production and distribution systems. Polar cases of coordination through market-based contracts vs. integration within firms are recognized, although intermediate cases may hold where some are of particular significance for small enterprises in developing countries, e.g., various types of subcontracting arrangements in Mead (1984) and Davies (1988).

Interactions between the national policy environment and enterprise strategy are explored by Porter (1990) to find out why some firms based in certain countries have been successful in global competition. The analysis focuses on enterprises seen in the context of an industry rather than as traditionally defined. Recent developments in industrial organization, e.g., focus on production technologies and management information and control systems, have not gone far in terms of their implications on micro and small enterprises.

Schmitz (1982) developed an approach termed branch-specific studies, built around an analysis of particular branches of economic activity which is entirely consistent with the subsector approach. A branch is defined as the collection of productive units and its relevant linkage units.

According to Liedholm and Mead (1990), a Commodity Systems Perspective that is similar in many ways to the subsector approach has been adopted by regional planners and geographers. They

assert that this commodity focused approach is the most effective means of giving precision to the analysis of linkages between rural and urban development in a regional perspective

The work of microenterprise promotion agencies that is consistent with subsector reasoning is exemplified in the sector/systems approach adopted by Technoserve (Bowman and Reiling [1989] as cited in Liedholm and Mead [1990]) It includes in the analysis inputs and markets (i.e. forward and backward linkages) and direct and indirect competition as well as the economic political and social environment. Although this approach works and is consistent with subsector reasoning when applied to commodity groups its application to other activities like credit programs is much less plausible (Liedholm and Mead 1990)

Subsector analysis has a principal contribution in the study of microenterprise dynamics in that it looks at the supply side of the environment in which the enterprise operates It takes into account the backward and forward linkages and the marketing system in the channel as well as the competitive position of the channel relative to others It focuses attention on the position of the microenterprise in its channel the competition between whole channels and the patterns of change in the subsector It is an approach that is both prescriptive and diagnostic aiming to provide operational direction for small enterprise promotion By identifying system blockages pressures and dynamics it pinpoints potential project interventions to minimize or eliminate bottlenecks and realize opportunities Moreover subsector analysis is an effective tool for identifying cost effective interventions in small enterprise development However it is less effective in analyzing constraints internal to the firm unlike other diagnostics like credit market studies or detailed management assessments because it focuses on system linkages and bottlenecks (Boomgard *et al* 1990)

The last level of analysis of microenterprise dynamics is on the inter sectoral or macro level Theoretical studies on this area have been few in developing countries focusing on how changes in the size type or location of enterprises are affected either by changes in the aggregate level of economic activity or by changes in other major sectors of the economy Among the available theoretical literature only Anderson (1982) has tackled the issue of how broad categories of microenterprises are influenced by changes in the aggregate level of economic activity by using a form of stage theory In stage 1 household enterprises being the smallest units comprise the majority in stage 2 modern small and medium enterprises emerge and increase at a rapid rate displacing some of the household activities in stage 3 large scale enterprises predominate

On the other hand little attention has been paid to issues of firm size among the literature that examined the standard patterns of structural change that accompany economic growth (Syrquin [1988] and Chenery Robinson and Syrquin [1986]) Biggs and Oppenheim (1986) made an initial attempt at examining firm size in a patterns approach Demand factors like systematic changes in the pattern of final demand as per capita income rises and supply factors such as changes in human and physical capital and in technology all play a role in determining firm size

Theories that focus on inter sectoral linkages consider demand factors as the key variable The agricultural sector is considered as the engine of growth and the nature and strength of the linkages from this sector to the other sectors have implications on economic growth Models with inter sectoral linkages as their foundation include Mellor's (1976) model of a rurally led strategy of growth Johnston and Kilby's (1975) agricultural and structural industrialization model and Adelman's (1989)

agriculture led industrialization model. Each of these models provides some insights on how firm size might be affected by alternative patterns of agricultural growth with consumption and forward and backward linkages playing crucial roles. Johnston and Kilby advance the hypothesis that increases in output from small scale farms generate a greater increase in microenterprise employment than corresponding increases from large scale farms.

The four levels of analysis previously discussed systematically organize the analytical approaches in studying microenterprise dynamics. Each approach presents a different perspective for analyzing microenterprise dynamics and provides options from which researchers can choose the approach to be used in the research. The choice of which level of analysis to use will largely be determined by the objective of the study and the policy issues that it aims to address. Although each level of analysis can be done independently they are not mutually exclusive. Rather they can be complementary that is results of analysis at one level may be used as inputs into the analysis at another level. For example micro level analysis can give results about entrepreneur characteristics that in turn can be used in micro level analysis. Different insights can be gleaned from each perspective arising from the differences in the focus of the analysis. Nonetheless such insights can contribute to an improved understanding of microenterprise dynamics at different levels thereby enabling researchers to develop more appropriate policy recommendations for the promotion of small and microenterprises.

Microenterprise Finance Theoretical models that deal specifically with microenterprise finance are scarce. Models of microenterprise behavior as previously discussed have not given particular attention to the role of finance in the dynamics of small and microenterprise development. This apparent gap in the existing literature can be attributed to the relatively unexplored and inadequate research done in this area. The growing interest in microenterprise finance that prevails in the profession could give the impetus for more theoretical work in this area.

In the absence of theoretical models specific to microenterprises alternative models that can be used to analyze microenterprise finance are looked into. Two existing bodies of literature on rural credit are considered in the review. Braverman and Guasch (1989) present a comprehensive discussion of these literatures which are grouped into the incentives and organizational design or supply side theories and the developments in cooperatives and group lending or demand side theories. The following discussions draw heavily from the work of Braverman and Guasch.

The supply side literature draws from the theory of organizations particularly on principal/agent theories. Credit institutions act as intermediaries between several parties. The principal (either a government or lending agency) defines the objectives to be accomplished and designs a reward structure with the intermediary which is the financial institution. The reward structure is designed such that it is sensitive to the desired objectives. The financial institution in turn designs a subcontract with the agent (or the borrower) wherein the nature of the contract is influenced by the structure of the previous contract between the principal and the intermediary and the information available to all parties. The system that results from these relationships is a three or more tiered structure or a sequence of nested principal/agent relationships whereby each layer in the hierarchy of an organization can be regarded as the agent for the level just above it and the principal for the layer below it.

The principal concerns of the theory are organizational structure and the design of incentive mechanisms to minimize inefficiencies in achieving objectives. Incentive design is implemented on

at least two levels the institution itself (i.e. managers supervisors and loan officers) and the loan recipients. At the institutional level incentives are designed to induce the managers supervisors and loan officers to contribute the desired or optimal amount of effort reduce leakages from the system eliminate or minimize patronage screen loan applications according to bona fide economic principles and comply with stated loan portfolio targets. For loan recipients incentives are aimed at inducing the borrowers to select the desired use for the loan and adhere to the repayment schedule.

Nested relationships have been used in the context of the theory of the firm and its internal organization as seen in Calvo and Wellisz (1979) Stiglitz (1975) Rosen (1982) Milgrom and Geneakopoulos (1984) and Guasch (1985). Shirking and inefficiency are shown to trickle down a hierarchy and conclusions are drawn on the optimal span of control and size of the vertical structure and on wage differentials and its implications for income distribution.

Principal/agent models offer a theoretical paradigm within which managerial incentive problems can be studied. They have contributed substantially to understanding the nature of the managerial relationships and the type of contracts that should be used given the informational constraints (Holmstrom and Tirole 1988). When there are more than two layers or nested principal/agent relationships and each element in the structure can take an active role in issuing commands designing reward structures and conveying information the possibility of collusion among adjacent parties in the structure cannot be ruled out.

Tirole (1986) has analyzed the factors likely to induce reciprocity and sharing of favors a type of collusion. He considers mechanisms with built in disincentives providing a basis for control of such behavior and establishes the tradeoffs of a centralized reward structure relative to a delegated or overlapping reward structure or a mixture of both types. Collusion contracts are also characterized. This research into the incentive and informational structure in nested relationships can shed light on the subject of institutional reform.

Contests or tournaments as incentive schemes have been studied by Lazear and Rosen (1981) Holmstrom (1982 1983) Nalebuff and Stiglitz (1983) Green and Stokey (1983) Bhattacharya and Guasch (1988) and Guasch (1985). These incentive schemes apply when there is more than one agent associated with a given principal or when the principal has access to performance data on other agents in analogous situations. Under a contest scheme the reward of any agent is based on how well he or she has done relative to other agents in similar positions. Contests are advantageous over a more general scheme in that they have less informational requirements i.e., based on ordinality rather than cardinality and can compensate automatically for common risks or shocks or changes in conditions or risks common to all agents. These schemes can often approximate the first best allocation especially when the number of agents is large. Rural credit markets seem to possess many of the characteristics that make contests effective.

A complementary approach that considers the architectural design of organizations and the quality of decisionmaking has been developed by Sah and Stiglitz (1986). Presuming honesty but human error they characterize the optimal architecture in terms of minimizing a function of Type I and Type II errors.¹ Their

¹ Type I error is the probability of rejecting the null hypothesis when it is true. Type II error is the probability of accepting the null hypothesis when it is false.

framework can easily be adapted to include strategic behavior and multiple layers. For example, a loan or project processing framework based on this model can control for arbitrary decisions which are very common in credit lending activities since the design of the organizational structure can affect the frequency of those decisions. Similar studies are generally concerned with the design of the internal organization of the institutions disbursing funds or selecting projects (Guasch [1985] and Rosen [1982]). They consider the size and architecture of the system, height of the hierarchy, span of control, assignment of responsibilities, and ratio of supervisors to supervisees.

The determination of which sets of instruments or variables, i.e., input vs. output incentive scheme the principal should use is also part of the incentive design problem. The more instruments the principal uses, the more effective will be the incentive scheme, albeit with high monitoring costs. The choice will depend on the nature of information flows, accounting procedures, and the organizational structure of the institution.

Repeated interactions also have effects on incentive schemes. The incentive effects of long term vs. a vs. short term relationships are discussed in repeated moral hazard and trigger point strategies. Several rules for assessing the relative and absolute performance of different layers in the structure could be compared and evaluated in regard to the environmental constraints. Along these lines, in a long term relationship (the length of which is derived endogenously), an incentive scheme can be designed to approximate an efficient allocation. This does not imply, however, that short term credit should be eliminated, nor does it rule out the lending institution's use of discretionary power to use short term credit as a screening or information gathering device. In effect, long term relationships can be viewed as a sequence of short term contracts. The argument based on efficiency grounds is that long term relationships generate desirable incentives, and that long term credit contracts ought to be an option available to rural borrowers.

The literature on the demand side has identified the principal constraints faced by small borrowers in obtaining credit, namely, much higher transaction costs per dollar lent for small loans (Saito and Villanueva [1978] and Braverman and Guasch [1986]), lack of collateral and the belief, real or perceived, that small agents are riskier in lending than larger ones (Gonzales Vega [1983] and Braverman and Guasch [1986]), and the patronage and arbitrary decisions of some lending agents/institutions in favor of larger borrowers (Ladman and Tinnermeier [1981] and Robert [1979]).

In response to these obstacles, small borrowers have organized themselves into credit groups or cooperatives. Many types of credit groups and cooperatives range from the purely nominal or umbrella organizations without much member interaction to those fully coordinated in all aspects of their operations, including production decisions among members. Motivation behind their inception, organizational structure, incentive schemes, enforcement procedures, tradition, and cultural legacy are important factors in determining their effectiveness. Credit groups are usually smaller in size and formed for purely borrowing purposes, and for reducing transaction costs, the risk of default, and income variability, while cooperatives are larger in size and more encompassing with credit as one of their activities.

The advantages of credit groups and cooperatives have been well discussed, resulting in the establishment of a great number of such organizations (Von Pischke *et al.* [1983], Braverman and Guasch [1988], and Bratton [1986]). Yet the overwhelming number of failures over successes can be traced to the wrong incentive scheme and design. Joint liability and the fact that some of the actions taken by group

members are not observable by the group and thus cannot be contracted for give rise to moral hazard problems encouraging free riding and resulting in inefficiencies. These concerns are addressed in recent results in the theory of incentives and teams whereby allocation and incentive mechanisms have been developed which when implemented reduce or eliminate those inefficiencies (Holmstrom [1982] and Braverman and Guasch [1988]). Such schemes usually require the setting of specific sharing rules and penalties for the members if team output is below a specified level. These schemes are more likely to reduce or eliminate failures in credit groups or cooperatives.

B *Empirical Literature*

Key Characteristics of Microenterprises Microenterprises are usually characterized by the family nature of their organizations. These enterprises are generally family owned and operated and employment is restricted to the owners and members of their families (BIE 1981). Their reliance on unpaid family labor is both a result of their home based locations as well as their need to minimize cash outlays (Downing 1990). More often written records do not exist nor separate family from business accounts. When savings margins are low families can draw upon resources of the enterprise in times of need (Mann *et al* [1989] and Kilby *et al* [1984]).

It is commonly observed that micro and small enterprises provide much of the consumer goods demanded by the lower income population whereas modern sector products are disproportionately directed toward the upper income population (Page and Steel 1984). Because of this such enterprises use technologies that are less modern than in large firms and which are more appropriate to factor proportions and local conditions (Page and Steel [1984] and CIDA [1986]).

Microenterprises generally do not need complex infrastructure facilities (CIDA 1986). Very small and artisanal establishments generally provide their own power (mechanical hand or generator) and can adapt to different types of physical location and shelter. As such a much higher proportion of these enterprises are found in small towns and villages (Page and Steel 1984).

The microenterprise sector is characterized by duality in its composition and growth pattern. Indeed most studies seem to point to the existence of a duality among microenterprises i.e. while many of them are capable of contributing to capital accumulation there is a sizeable section which is unable to do better than subsist (Hallgren *et al* 1990). Empirical evidence from Thailand indicates the more dynamic characteristics of its enterprises in the manufacturing sector while recent experience in the Philippines tends to support the contention of an evolutionary expansion of urban microenterprises i.e. merely subsisting in their present activities with little prospect for capital accumulation (Hallgren *et al* 1990).

Demand for Finance The effective demand for finance on the part of small and microenterprises would at first glance appear to be quite sizeable. The proprietors themselves typically perceive capital to be their most pressing input constraint and one of their greatest assistance needs (Liedholm and Mead 1987). The bulk of perceived demand on the other hand is typically for working capital rather than fixed capital. The demand for working capital however varies significantly by industry group and even by type of enterprise within such groups (Liedholm and Mead 1987). The true need for finance particularly working capital is lower than the proprietor's perceived demand for it. The reason is that working capital shortages are often the symptom of some other problem like raw material delivery bottleneck.

Similarly managerial inefficiencies such as those that slow throughout waste material or siphon off funds to non business activities can appear as a working capital shortage (Liedholm and Mead 1987)

A study by Lamberte and Jose (1988) dealt specifically with one type of financing instrument trade credit used in the footwear industry A model of the demand for trade credit by footwear manufacturers was estimated and formal and informal credit arrangements used in the industry documented An important finding of the study is that the demand for trade credit by footwear manufacturers is positively correlated with the extent of trade credit given to customers

Supply of Finance Microenterprises have limited access to finance particularly from financial institutions (Anderson [1978] Anderson and Khambata [1982] Liedholm and Mead [1987] Salazar [1987] Krongkaew [1988] Meyer [1988] and Lamberte [1990b] among others) Liedholm and Mead (1987) have found that the vast majority of small entrepreneurs have never applied for funds from formal financial institutions Moreover the number of financial schemes focusing on small enterprises is small in relation to the number of such firms Many of the specialized lending institutions themselves operate on a small scale generally reaching fewer than 1 000 clients In Blaney and Otero s review of 19 small enterprise finance projects only four had made more than 1 000 loans while in the World Bank s Cameroon small enterprise project only 31 loans were made over a five year period (Liedholm and Mead [1987]) Financial institutions have been reluctant to expand their lending to small and micro enterprises partly because of institutional inertia and partly due to the frequently held notion that the administrative costs and risks of lending to them are markedly higher than those associated with the regular larger borrowers (Levitsky and Prasad 1989) Selective credit policies limit the access of small and micro enterprises to formal credit so that it is not uncommon among these enterprises to resort to their own internal funds or the informal credit market for finance (Suhartono 1988) Anderson and Khambata (1982) suggest a relaxation of administrative controls combined with interventions to address shortcomings especially of an institutional nature in the capital markets to improve the flow of funds to small and microenterprises They also suggest lending by the development banks at non concessionary rates and publicly backed risk sharing schemes available to the private sector

On the other hand McLeod (1984) contends that it is misleading to view small firms as being forced to rely on either very limited self finance or exorbitantly expensive moneylender loans He believes that the financing options of small firms steadily widen over time as they build up their assets and their reputation so that cost of finance to them tends to decline as they become older Hence the restricted access to finance by firms in the early phase of their financial evolution is clearly much less cause for concern if at all when viewed in this light according to McLeod

The lack of access to formal credit market has forced small and micro enterprises to look at informal sources of funds This trend has resulted in a number of studies empirically validating the performance of informal credit markets in supplying credit to the small and micro enterprises (Sour [1984] Gimenez [1985] Ghate [1988] Braverman and Guasch [1989] and Adams and Sandoval [1989] among others) In the Philippines more than three fourths of the loan volume of farmers and small borrowers is provided by informal sources (Adams and Sandoval 1989) The informal sources commonly encountered in rural areas are friends relatives and neighbors input dealers output traders storekeepers processors (e.g. ricemillers) equipment suppliers and itinerant traders professional moneylenders pawnshops, and rotating savings and credit associations (ROSCAs)

Informal credit sources are usually tapped for microenterprise start ups and in providing working capital (Seibel 1988) The availability of institutional finance seems to be a problem only when the volume of operations of a microenterprise increases The cost of finance is less of a problem rather the availability and speed of delivery when needed is more important Informal credit lenders are likewise more flexible and can make quick decisions based on personal appraisal of the borrower characteristics which need to be developed by institutional lenders that deal with microenterprises

Aside from the aforementioned advantages informal lenders are able to be more creative in coming up with loan contracts that allow for collateral substitutes in the absence of land collateral (Llanto 1989) The collateral substitute makes loan contracting easier because it circumvents the information gap between borrower and lender through signals about the borrower's willingness and capability to repay the loan Collateral substitutes identified in a survey by the Agricultural Credit Policy Council in 1988 include third party guarantees tied contracts and the mortgaging of tenancy or cultivation rights (Llanto 1989)

Another way in which lending to small and microenterprises can be increased is through the credit guarantee schemes which are set up with the purpose of covering some portion of the losses incurred when borrowers default on the loan (Levitsky and Prasad 1989) Since this is a form of risk sharing it aims to encourage financial institutions particularly the commercial banks to lend to small and micro enterprises with viable projects and good prospects of success but which are unable to provide adequate collateral or which do not have a suitable record of financial transactions to prove their creditworthiness Experience from developed countries shows that lending covered by guarantees indicates a significant increase of amounts available for business start ups by individuals who lacked collateral and any record of creditworthiness and are specifically helpful in providing long term lending to small and microenterprises (Levitsky and Prasad 1989) Studies in the Philippines however demonstrate that credit guarantee schemes failed to attain their objective of increasing loans to small and microenterprises largely because of defective designs of the guarantee programs (Tecson *et al* [1989] and Lamberte [1990a])

C *The Philippine Experience in Microenterprise Development*

Government Policies and Programs The Philippine government's efforts to develop the small industry sector including the microenterprises started to intensify in the 1960s with the creation of the Institute for Small Scale Industries within the University of the Philippines (UP ISSI) in 1966 The UP ISSI has been engaged in extending assistance to small and medium sized industries In 1969 the Philippine government's commitment to the development of small scale industries was explicitly articulated in the document entitled *Magna Carta for Social Justice and Economic Democracy* However other than the recognition of the importance of small industries not only in the promotion of the paramount objectives of industrialization and maximum employment but also as a requisite step toward social justice and economic democracy the document provided for a limited form of assistance to the sector (Itao 1985) It had paid attention only to the financial needs of small industries

In 1970 the National Council for Small and Medium Industries was created to serve as a dynamic administrative body that would integrate all government agencies servicing small and medium scale industries and establish guidelines for government policies to ensure the stability and continued growth of this economic sector (Itao 1985) Despite its short lived existence the council worked to maintain a constant flow of information among the government agencies involved in small industry assistance thus preventing duplication and overlapping of functions

It was also in 1970 when the UP ISSI and the Social Security System (SSS) started providing long term financing for small industries through the Supervised Credit Programme. This was followed by similar financing schemes in both the government and private sectors with the Development Bank of the Philippines (DBP) becoming the primary agency in the financing of small and medium scale industries in the rural areas with terms and conditions among the most attractive and liberal of financing schemes for small industries (Itao 1985). The Industrial Guarantee and Loan Fund (IGLF) of the Central Bank (CB) and the National Economic Development Authority (NEDA) was reoriented in 1973 to cater exclusively to the credit requirements of small and medium industries starting in 1980.

The campaign for small industry sector development made a significant turn in 1974 with the creation of the Commission on Small and Medium Scale Industries (CSMI) later renamed the Council on Small and Medium Scale Industries. It is charged with bringing together dispersed and diverse facilities and resources directed to the small entrepreneurs and through which the national programme on small industries will coordinate and integrate the policies and programmes of the agencies involved and make them more responsive to the needs of small and medium sized industries (Itao 1985). The CSMI was abolished in 1981.

Under the Aquino administration the Department of Trade and Industry (DTI) acts as both the normative and operations organization that attempts to coordinate the supportive action to promote and develop the micro small and medium industries specifically through the Bureau of Small and Medium Business Development (BSMBD) and the Micro Industries Development Programme (MIDP). A more recent government initiative is the Small and Micro Enterprise Development Programme which is now integrating most government actions in favor of micro and small enterprises including the MIDP and a series of program and project agencies of the parastatal and private sector including Ventures in Industry and Business Enterprises (VIBES) the Philippine Business for Social Progress (PBSP) and other non government organizations (NGOs) as well as research and training centers like the UP ISSI and the Ateneo Small Business Programs among others (CIDA 1986).

On December 14 1989 President Corazon Aquino signed into law R.A. 6810 otherwise known as Kalakalan 20 or the law on Countryside Barangay Business Enterprises to release the energies of our people to achieve rapid development of our rural areas. Patterned after the Italian Law of 20 which spurred Italy's industrial development Kalakalan 20 aims to remove bureaucratic restrictions on and grant incentives to countryside barangay business enterprises to encourage them to grow and be more productive and efficient (Cintura 1990). This law has a sound case for letting small business grow in as free an economic environment as possible and in the process encourages the informal sector to come out in the open promotes the sector's transition to bigness at its own pace and facilitates the removal of some distortions and imbalances in the economy for greater efficiency and equity (Cintura 1990).

The government's commitment to promote small enterprises as a policy for growth is formally made explicit in the recently approved Magna Carta for Small Enterprises which seeks to promote develop and assist small and medium scale enterprises through the creation of a small and medium enterprise development (SMED) council and the rationalization of government assistance programs and agencies concerned with the development of small and medium enterprises and for other purposes.

Financial and Technical Assistance There are at least 25 financial assistance and 12 technical assistance programs available to micro small and medium enterprises (the Appendix has a list of these programs)

Financing programs currently available cater to the needs of micro small and medium enterprises in their various stages of activities i.e. for pre investment and project development of technology application financing of fixed assets (e.g. machinery equipment factories site improvement etc.) financing of working capital requirements export finance and packing credit. Such programs are classified into two groups straight lending programs and credit guarantee programs (Lamberte 1990a). Recently interest rates on these programs have been made competitive. While most of them still rely on land as collateral there are some innovative programs that accept unencumbered project assets or personal property as part of collateral requirements. The credit guarantee schemes have been drawn up to persuade lending agencies to reduce their collateral requirements. However these schemes have not been very effective (Tecson *et al* 1989).

In a similar study it was shown that government special credit and guarantee programs for small and medium enterprises do not reach the smallest clientele (Lamberte 1990a).

While government banks and international lending institutions remain the major proponents of lending programs for micro small and medium enterprises a number of NGOs and private voluntary organizations (PVOs) have emerged and taken the initiative to address the financing needs of these enterprises. These include the PBSP and Tulay sa Pag unlad (TSP). Among the government sponsored lending programs the most important are the IGLF the DBP's Small and Medium Industries Lending Program (SMILE) and the various lending programs under the Technology and Livelihood Resource Center (TLRC) (Tecson *et al* [1989] and Lamberte [1990b]).

Alternative sources of credit for small and micro enterprises have also been presented in Belandres (1987) among them the Self Employment Program (SELP) and moneyshops. SELP uses alternative means of measuring creditworthiness i.e. applicants reputation in the community trustworthiness good business sense and word of honor. The moneyshop concept was first introduced by the Philippine Commercial and Industrial Bank (PCIB) in 1973 to cater to the capital requirements of the small and micro entrepreneurs and the market vendors. The PCIB operates 35 moneyshops all over the country.

A comprehensive discussion and analysis of financing schemes available to small and medium enterprises is found in Tecson *et al* (1989) and Lamberte (1990). Several problems pertaining to financial assistance were likewise identified

- 1 Slow delivery or non delivery of service to intended beneficiaries especially to microenterprises due to (a) commercial and other bank's minimum loan package which is usually higher than micro and small enterprises financial requirements (b) interest rate ceiling requirement of primary fund sources like the Overseas Economic Cooperation Fund (OECF) which discourages banks from lending to small borrowers due to higher transaction cost (c) floating rates imposed by primary fund sources resulting in the same practice by lending institutions and encouraging the enterprises to borrow short term even for capital requirement and (d) centralization of loan approval in the bank's head offices

or the government agency's head office in Metro Manila prolonging processing time and increasing cost of borrowing

- 2 An almost exclusive use of the commercial bank as conduit of funds
- 3 Reluctance of banks to use guarantee fund of lending institutions like IGLF resorting to higher collateral requirement to secure the loans
- 4 Strict collateral requirements for the financial institution's own funds
- 5 Concentration of loan granting in Metro Manila drying up the funds in the provinces or even diverting funds from the provinces for lending in Metro Manila
- 6 Lack of long term financing for long term capital needs in the form of both loan and equity
- 7 High interest rates of bank loans
- 8 Interest rate ceiling on loans of some special aid funds
- 9 Lack of information on the availability of lending programs

Technical assistance to micro and small enterprises is provided by both the public and private sectors. The DTI is the government agency mainly tasked with helping these enterprises through the BSMBD. Other departments and bureaus that provide technical assistance are listed in the Appendix. Aside from government agencies, PVOs have also provided technical assistance to micro and small enterprises. Technical assistance extended includes the introduction of alternative production technology transferable to the countryside, provision of foreign and local experts in the design and upgrading of quality, extension of technical training and consultancy and assistance in marketing and trade promotion.

The UP ISSI conducts training programs for entrepreneurs and employees of small enterprises. Training activities include entrepreneurship, managerial and extension oriented training and special programs. The institute also offers consultancy and rural enterprise development activities to develop self-reliant rural communities.

Among the non-government organizations that provide technical assistance to micro and small enterprises, the PBSP is the one that concentrates on microenterprises. PBSP aims to generate employment and entrepreneurial opportunities to increase income of poverty groups. It has also encouraged selected business firms to perform direct community relations projects which provide technical assistance, training, development, education and consultancy. Some of the microenterprises receiving assistance from PBSP are being prepared to become small and medium enterprises in the future and hopefully graduate to large and very large enterprises (Tecson *et al* 1989).

A description of the various technical assistance programs available from both the public and the private sectors is found in Tecson *et al* (1989). A list of the shortcomings of such programs is likewise presented.

- 1 Lack of information on the different programs offering technical assistance to small and medium enterprises. These enterprises often do not seek help due to their ignorance of the help available.
- 2 Lack of coordination among the different agencies offering related or similar services resulting in duplication and dissipation of limited resources.
- 3 Shortage of skills on the part of the people who are supposed to give the service.

- 4 Lack of reliable statistical data needed for policy formulation
- 5 Lack of initiative on the part of government agencies to seek out their clients and offer their services instead of waiting for them to come and ask for help

III RESEARCH ISSUES

The preceding review of literature has highlighted major gaps in research on small and microenterprises. The theoretical literature on small and microenterprise dynamics has left a void in modelling the key determinants of firm both expansion contraction and dissolution. Existing models of firm growth are static in nature and provide very little insight on the growth process of small and microenterprises. Moreover, these models have not rigorously analyzed the issue of finance in the dynamics of small and microenterprise behavior. In the existing empirical literature, research has mostly been done within a static framework. Studies that touch on the issues of finance for small and microenterprises do not go beyond the descriptive. There has been little attempt at investigating the issue of finance within the context of the growth of small and microenterprises.

Studies on small and microenterprises consistently conclude that personal and family savings are the primary sources of finance for these enterprises and that finance is a major constraint often cited by entrepreneurs. However, these studies do not have an analytical framework within which issues of financial constraints are well integrated and analyzed. There is a need for research that goes beyond the descriptive and much deeper in the analysis of financial issues. Does finance matter in the growth and survival of small and microenterprises? If so, at what points in the life cycle of these enterprises is finance a critical constraint to growth and survival? Where do small and microenterprises obtain finance to supplement their savings and retained earnings? At what stage in the life cycle of the microenterprise is external finance most likely to be productive? How can such external finance be made available and in what form suitable to the needs of these enterprises? Would increased external supply of finance displace personal savings for investment? What is the impact of increased access to finance on the performance of small and microenterprises? These are some of the financial issues that have yet to be closely looked into in the study of the growth and dynamics of small and microenterprises.

Several other research issues that came out of the review of literature include the need for research directed at analyzing the specific characteristics of the rural nonfarm small and microenterprise sector, paying particular attention to needs, potentials, constraints, and opportunities for growth, as well as linkages with agriculture and urban microenterprises and markets. Of related concern is the issue of how integrated rural nonfarm small and microenterprises are in the mainstream economy and what subsectors respond best to capacity building efforts and assistance.

Another issue that needs empirical research is whether small and microenterprises are receiving the appropriate level and form of financial services needed, given the competing demands by other sectors of the economy. Of equal significance is the issue of how efficient the financial system is in responding to these needs, i.e., whether the services needed are being offered in the market and are accessible to microenterprises. This will subsequently reveal if there is a need for financial innovations and the extent of such innovations to respond to demand.

Gender issues in microenterprise studies have recently received much attention. Of significance in this study is the effect of gender on the demand for financial services by small and microenterprises, i.e. whether male operated enterprises exhibit different financial needs from female operated enterprises arising from perceived differences in management style, nature of operation, productivity, gender related constraints, and the like.

The regulatory environment within which small and microenterprises operate to put the analysis in perspective must also be looked into.

By taking these issues into consideration in the study of small and microenterprises, the existing knowledge about this sector will be enhanced. More insights will be uncovered that will hopefully be translated into better and more effective policies and programs to promote small and microenterprise development. The resolution of such issues via empirical results will likewise establish facts about small and microenterprise behavior and subsequently help minimize if not eliminate the prevailing biases against this sector. As such, development efforts that include small and microenterprise promotion as an impetus for economic development will be placed in the proper perspective, i.e. objectively and more efficiently.

IV PROPOSED RESEARCH AGENDA

The proposed research agenda is developed on the notion of small and microenterprise promotion as a strategic approach to rural development. In a policy perspective, the key issue is whether small and microenterprises prevail as a result of the tight economic situation arising from the world recession of the 1970s and 1980s and hence are expected to disappear as economic conditions improve, or whether these enterprises reflect major structural changes taking place in the economy. If the former explanation holds, then policies to promote small and microenterprises should be confined to short term palliatives designed to minimize the negative effects of unemployment. However, if the latter explanation is true, then policies to promote the small and microenterprise sector should be of a long term and fundamental nature.

Evidence from empirical research shows that both situations can prevail on a per sector basis. That is, there are certain types of small and microenterprises that arise from the need to eke out a living for subsistence. These are the marginal enterprises which are usually at the lower end of the microenterprise distribution and whose prospects for growth are nil. Furthermore, there are also the so called dynamic enterprises which are responsive to economic stimulus and have the potential to become winners given the appropriate environment. These are the enterprises likely to promote economic growth.

In the context of the dynamics of rural development, the proposed research will focus on small and microenterprises that have potential for generating growth in the rural areas. These are the enterprises that facilitate increases in production and income in the rural sector. The research will study the dynamics of rural nonfarm small and microenterprises. A key priority is the generation of new insights concerning the life cycles of individual enterprises. Firm level studies are needed to describe typical patterns and to relate the birth, growth, and disappearance/survival of enterprises to causal factors, both within the firm and in the external environment. The central working hypothesis is that there are regularities in

the patterns of birth and evolution of individual firms that are related to such factors as the firm's age, size, subsector, nature of financing, location, and entrepreneur's characteristics. An understanding of the pattern of change in these variables can help identify target groups and design interventions to assist them.

An important empirical issue is whether small and microenterprises face financial constraints that could be alleviated to improve their supply responses. Is finance the most critical constraint on small and microenterprises, and if so, what mechanisms could effectively improve their access to traditional or new sources of finance? At what points in the life cycle of a small and microenterprise are external sources of finance most likely to be productive, and what are the most suitable mechanisms for making such finance available? Does increased access to external finance have an impact on the performance of small and microenterprises? Is the existing financial system responsive to the needs of small and microenterprises? Is the regulatory environment designed to favor larger firms in a way that inhibits the entry or growth of small and microenterprises?

Taking into account the various issues presented, the proposed research agenda will have the following objectives:

- 1 To understand the evolutionary patterns for individual enterprises and the internal and external constraints which they face at various stages in their evolution.
- 2 To examine how the nature and extent of these constraints vary as the enterprises evolve.
- 3 To analyze the role of finance in the growth process of small and microenterprises.
- 4 To isolate the most important determinants of successful enterprise development that can be addressed through policy reforms, institution building, training, direct assistance, or other forms of support.
- 5 To determine the demand for financial services by small and microenterprises at various stages of their life cycle and the most appropriate way of responding to such a demand.

To achieve these objectives, specific activities are identified to be undertaken for the duration of the proposed research. These activities will include the development of a framework for analyzing the growth process of small and microenterprises that incorporates the dynamic nature of the process and role of finance in such a process. On the basis of the model, testable hypotheses will be identified for empirical validation, notably those pertaining to key determinants of growth. A survey of rural nonfarm small and microenterprises will be conducted to develop a data base that will be used for estimating the model and for the empirical tests of hypotheses. Retrospective histories of successful enterprises will also be taken for a more detailed analysis of the process of evolution and hopefully provide adequate information to develop stylized firm profiles that will illustrate the process of growth.

Appendix
PROGRAMS AND SERVICES
FOR MICRO SMALL AND MEDIUM ENTERPRISES

Financial Assistance

- 1 Industrial Guarantee and Loan Fund (IGLF)
- 2 Guarantee Fund for Small and Medium Enterprises (GFSME)
- 3 Export Industry Modernization Program (EIMP)
- 4 Agro Industrial Technology Transfer Program (AITTP)
- 5 Urban Livelihood Financing Program Enterprise
Development Financing Scheme (ULFP EDFS)
- 6 Technology Utilization Financing Program (TUFP)
- 7 Balikatan sa Kabuhayan Program (BSKP)
- 8 Livelihood Corporation Transactional Financing Assistance (LIVECOR TLA)
- 9 Agricultural Loan Fund (ALF)
- 10 Philippine International Trading Corporation Financing Facility (PITF)
- 11 Small Enterprise Loan Fund (SELF)
- 12 Small and Medium Industries Loan Program
- 13 International Trade Financing Program (FXT Fund Loan Facility)
- 14 Small Business Term Lending Program
- 15 Development Bank of the Philippines Department of Science and Technology
(DBP DOST) Special Financing Program
- 16 Kabalikat sa Pagpapaunlad ng Industriya Lending Program (KASAPI)
- 17 Financial Advance for Income Generating Project
- 18 *Tulong Sa Tao* Program (TST)
- 19 Philippine Export and Foreign Loan Guarantee (PHILGUARANTEE)
- 20 Export Credit Guarantee Program for Small and Medium Industries (ECGP SMI)
- 21 Venture Capital Corporation (VCC)
- 22 PMAP IGLF Micro Financing Program
- 23 USAID Guarantee Facility
- 24 Micro Enterprises Lending Programs
- 25 DBP Financing Programs for SMEs

Technology Assistance

- 1 Technology and Livelihood Resource Center (TLRC)
- 2 Department of Science and Technology (DOST)

Training Assistance

- 1 UP Institute for Small Scale Industries (UP ISSI)
- 2 National Manpower and Youth Council (NMYC)
- 3 Department of Trade and Industry (DTI)
- 4 Technology and Livelihood Resources Center (TLRC)
- 5 Private Institutions

Marketing Assistance

- 1 Bureau of Domestic Trade Promotions (BDTP)
(Market Information & Development and Product Promotion)
- 2 Bureau of Export Trade Promotion (BETP)
(Trade Information and Export Publicity)
- 3 Center for International Trade Expositions and Missions (CITEM)
- 4 Philippine International Trading Corporation (PITC)
- 5 Other Department of Trade and Industry Development Programs and Services
 - a Market Encounter Program (MEP)
 - b Manila Furnishings and Apparel Manufacturers Exchange (F A M E)
 - c Top Lines in Motion (TLM)
 - d Golden Shell Showcase
 - e Design Mobile
 - f One Export Documentation Center
 - g National Subcontractors Exchange (SUBCONEX)
 - h Regional Permanent Display Center
 - i Trade Fairs and Missions
 - j Product Clinics
 - k Bulk Trading Project
 - l Market/Trade Information
 - m Export Assistance Network (EXPONET)

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