

# **Socio economic impact of One-Town-One-Product (OTOP) Entrepreneurial program in Region 1 Philippines**

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## **Abstract**

One-town-one-product (OTOP) is a program of the Department of Trade and Industry that envisions having a product for each town and making it known to the market locally and internationally. This study described the socio-economic impact of OTOP entrepreneurial program as perceived by the entrepreneurs. The descriptive design was used in this study with survey questionnaire as research instrument. Most of the respondents are female, married, middle adult, and completed high school. They earned minimal profit, with few numbers of workers and started business using credit and personal money. They are prepared on creating new product standardization, regional production networks including sub-contracting process, and export procedures. Most of them agree that the OTOP program conducted activities like entrepreneurship development program of the province, and tracking of small medium readiness. When it comes to the impact of OTOP to the entrepreneurs, OTOP Region 1 provides average impact on the conduct of marketing endeavours, and better conducive business environment. The OTOP-Philippines program, in spite of its limitations, offers opportunities to thousands of rural enterprises to become viable and competitive. Therefore, it is imperative that reforms are instituted to make the program truly unleash and harness the entrepreneurship that is needed to move the Philippines forward and be readily competitive in positioning its niche for the global market penetration. In order to make the OTOP program more responsive to the needs of the entrepreneurs in Panagsinan, it is recommended that equal attention must be given in improving the production efficiencies of rural enterprises, investment in research and development, provide room for improvement in the processed food sector, accessible financing to rural micro and small enterprises, and provision of structural reforms to make sure that the business enabling environment is conducive to the creation and growth of rural enterprises.

*Keywords: Socio-economic profile; one-town-one-product; entrepreneur; impact; Region 1*

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## 1.Introduction

Enterprise development in the context of competitiveness not only entails the ability to produce products that can be accepted globally but also the level of support given to enterprises to help them produce, innovate, and gain market access. The challenges are found within the context of pillars identified by the United Nations Development Programme [1]. If the challenges remain unresolved, gaps in enterprise development have the potential to thwart the country's competitiveness and ability to effectively function within global production networks.

One of the primary measures to boost economic development and hence economic well-being in rural areas is by enhancing rural entrepreneurship [2] [3]. Rural entrepreneurship is the creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment. [4]

The distribution of Philippine business establishments is largely skewed to rural micro and small enterprises. While these types of enterprises confront many difficulties from inefficiencies in production, limited capital and lack of access to financing, inferior products, and limited access to mainstream markets, we have seen from the foregoing discussions that OTOP-Philippines provides tremendous opportunity for these enterprises to become viable and competitive in the long run.

Given the number of micro and small enterprises and the very important role that they play in making the local economy vibrant, the government's policy to promote and support these enterprises is really necessary and crucial to the overall economic growth and development. The regulatory framework and structural mechanisms are rightly in place to make the OTOP-Philippines successful. This program adopts a policy to realize a society where the citizens' lives and the community's benefits come first. Such strategy is based on endogenous development theory where people can develop their areas by promoting the semi-secondary industries, while making full use of their potential resources and capital and also preserving the environment [5].

The trade and industry committee of the House of Representatives has promised its full support to the OTOP program of the Department of Trade and Industry (DTI). After careful deliberations the House passed the 2012 budget of the DTI under next year's proposed General Appropriations Act or GAA of which for SME development alone, the House approved a total budget of P402 million which shall be used for, among others, entrepreneurship and skills training, policy studies formulation, and MSME development advocacy.

Moreover, there are deliberations on the Anti-Trust or Fair Competition Act of 2011. When finally passed, this law is expected not only to protect consumers from unfair trade, anti-competitive conduct and combinations in restraint of trade, but it is also aimed at leveling the playing field for micro, small and medium enterprises by preventing the concentration of economic power who threaten to control production, trade or industry in order to stifle competition, distort, manipulate or constrict the discipline of free markets, and increase market prices in the Philippines.

On a local view, Region 1 is one of the largest provinces in the Philippines and known for its vast natural resources and competent skilled workforce, the province is also well-known with its unique, quality and exotic products that are being marketed locally and globally. In line with its acknowledgement of the vast need for business investments and poverty alleviation, Region 1 Investment Code of 2003 was formulated by the Provincial Development Council pursuant to Section 109 of Republic Act 7160, otherwise known as the Local Government Code of 1991, to further enhance the competitiveness of Region 1 in terms of luring investors to do business in the province; this will identify investment priority areas consistent with the provincial development thrusts and in parallel with the national priorities, taking into consideration the province's natural and manpower resources including OTOP Program implementation.

OTOP Program was assessed to have been significantly catalytic with its strategies in promoting the creation and growth of MSMEs. After six years of implementing the program, it has generated positive results in terms of investments, sales, enterprises assisted and jobs generated [6]. This study assessed the contribution of OTOPT to the local community of Region 1.

## 2.Methodology

The descriptive design was used in this study with survey questionnaire as research instrument. The researcher also interviewed the Department of Trade and Industry officers and the Local Government Unit officers. Comments and suggestions from the officials of the Philippine Chamber of Commerce and Industry, University of the Philippines – Institute for Small Scale Industries and Department of Trade and Industry were obtained.

The sources of data were 105 entrepreneurs under the OTOPT program. Simple tools like frequency count, percentage and ranking were used. On the global preparedness of OTOPT Region 1, the following scale was used: 5, very prepared (scale from 4.36-5.00); 4, prepared (3.52-4.35); 3, moderately prepared (2.68-3.51), 2, slightly prepared (1.84-2.67); 1, not prepared (1.00-1.83). For the OTOPT activities in the province, the following scale was used: 5, strongly agree (scale from 4.36-5.00); 4, agree (3.52-4.35); 3, either agree or disagree (2.68-3.51), 2, disagree (1.84-2.67); 1, strongly disagree (1.00-1.83). The following scale was used in rating the impact of OTOPT implementation: 5, very high (scale from 4.36-5.00); 4, high (3.52-4.35); 3, average (2.68-3.51), 2, low (1.84-2.67); 1, very low (1.00-1.83).

## 3.Results and Discussion

Table 1. Profile of Entrepreneurs (N=105)

Profile	Frequency	Percentage
Age		
18-30	6	5.7
31-43	46	43.8
44-56	20	19.0
57-69	27	25.7
70-82	6	5.7
Sex		
Male	48	45.7
Female	57	54.3
Civil Status		
Single	26	24.8
Married	71	67.6
Widowed	8	7.6
Highest educational attainment		
Elementary	15	14.3
High school	51	48.6
College	32	30.5
Masteral	5	4.8
Doctoral	2	1.9
Average monthly profit		
P5,001 and below	48	45.7

P10,001-5,000	21	20.0
P20,001-10,000	13	12.4
P30,001-20,000	15	14.3
P50,001-30,000	4	3.8
P75,001-50,000	1	1.0
P100,001-75,000	2	1.9
P140,000-100,000	1	1.0
Number of employees		
0-5	45	42.9
6-10	38	36.2
11-20	14	13.3
21-40	6	5.7
41-60	1	1.0
101-120	1	1.0
Source of capital		
Credit	37	35.2
Donor	1	1.0
Personal	9	8.6
Credit/donor	5	4.8
Credit/personal	48	45.7
Credit/donor/personal	3	2.9
Donor/personal	2	1.9

There are 46 or 43.8 per cent entrepreneurs aged 31-43 and 27 or 25.7 per cent are 57-69 years old. In terms of sex, 48 or 45.7 per cent are male and 57 or 54.3 per cent are female. On civil status, 71 or 67.65 respondents are married, 26 or 24.8 per cent are single, and 8 or 7.6 per cent are widowed. For highest educational attainment, 51 or 48.6 per cent are high school graduates, and 32 or 30.5 per cent are college graduates. With regards to number of employees, 45 or 42.9 per cent respondents have 0-5 employees and 38 or 36.2 per cent have 6-10 employees. For source of capital, 48 or 45.7 per cent of respondents have credit/personal as source of capital, and 37 or 35.2 per cent use credit as source of capital.

Table 2. OTOP global preparedness

Global preparedness indicators on OTOP	Weighted mean	Descriptive equivalent
1.Single market and production base preparedness and assessment of the province in allowing Free flow of goods, services, investment, capital and skilled labor	3.57	Very prepared
2.A highly competitive economic region highlighting Consumer Rights, Infrastructure Development, Taxation and E-Commerce	3.41	Prepared
3.Preparedness to equitable economic development introducing global supply networks and external economic relations of the Province	3.40	Prepared
4.Preparedness of the province for a fully integrated global economy improving resource production and communication efforts initiated	3.61	Very prepared
5.Direct support for development of SME through capacity development	3.57	Very prepared
6.Indirect support in creating a conducive business environment for SME Development	3.43	Prepared

7. Formulating policies that match Asian regulation to support the implementation of effective policies	3.67	Very prepared
8. Formulation of coherent and multi-sector policies by the province supporting OTOP	3.56	Very prepared
9. Efforts in increasing the awareness of OTOP Entrepreneur to be involved in Regional Production Networks including providing an understanding about the sub-contracting process if necessary	3.76	Very prepared
10. Efforts in resolving problems related to capital access by changing the mindset of financial institutions. Rationally, the mindset of financial institutions is stuck in the view that SME have a low rate of loan repayment	3.52	Very prepared
11. Creation of specific training to enhance the managerial and financial capabilities especially for export capacity	3.61	Very prepared
12. Preparedness for the entry of new competitors	3.43	Prepared
13. Creation of new product standardization	3.80	Very prepared
14. Creation of new export procedures	3.71	Very prepared
15. Preparedness for the constant change of Consumer's preferences	3.57	Very prepared
Average weighted mean	3.57	Very prepared

The entrepreneur-respondents perceived that are very prepared on creating new product standardization (mean=3.80), regional production networks including sub-contracting process (3.76), and export procedures (3.71). Indicators like preparedness for the entry of new competitors (3.43), equitable economic development introducing global supply networks and external economic relations of the Province (3.43), and highly competitive economic region highlighting Consumer Rights, Infrastructure Development, Taxation and E-Commerce (3.41).

Table 3. OTOP activities

OTOP activities	Weighted mean	Descriptive rating
1. Effective Entrepreneurship development program of the Province	3.77	Agree
2. The Province is Enhancing small and medium enterprise (SME) sector skills in management & organization on a self-reliant basis	3.38	Either agree or disagree
3. The province is fostering SME capabilities for inter-firm networking and linkages	3.44	Either agree or disagree
4. Effective tracking and benchmarking SME capabilities	3.14	Either agree or disagree
5. Effective Simplification, streamlining & rationalization of procedures for SME registration & process for SME support services	3.21	Either agree or disagree
6. Effective Fine-tune policy & regulatory framework for OTOP development	3.15	Either agree or disagree
7. Promotion efforts of public-private synergies & partnerships for SME development & integration	3.24	Either agree or disagree
8. Capacity building for improved SME access to financing efforts of the Province	3.09	Either agree or disagree

9.Financial institutional capacity building for improved SME financing programs	3.45	Either agree or disagree
10.Widening & deepening SME access to credit	3.40	Either agree or disagree
11.Effective Access to Technology - SME technology upgrading & transfer of innovative technologies	3.04	Either agree or disagree
12.Setting up regional & sub-regional networks of interlinked, online clearing points or trading houses for SME businesses	3.45	Either agree or disagree
13.Enhancing SME capabilities and reliance on ICT & e-commerce efforts of the province	3.12	Either agree or disagree
14.Effective Tracking & benchmarking SME readiness	3.44	Agree
Average weighted mean	3.31	Either agree or disagree

The entrepreneurs agree that OTOP activities like entrepreneurship development program of the province (3.77), and tracking of small medium readiness (3.44) are being conducted. The OTOP activities with either agree or disagree responses from the entrepreneurs are enhancing SME capabilities and reliance on ICT and e-commerce (3.12), capability building for SME access to financing efforts of the province (3.09), and access to technology specifically on upgrading and transfer of innovative technology (3.04).

The OTOP exhibitions and trade fairs have likewise benefited the participating enterprises through (1) sales promotion, (2) understanding consumers' needs, (3) improving the quality of the products, (4) appropriate pricing, and (5) having knowledge about the competitors' products. Those trade fairs were organized by the government in collaboration with the sector associations at the provincial, regional and national levels primarily to provide venue where OTOP enterprises can showcase their products. Those events also provided the entrepreneurs to meet buyers and talk to consumers about their perceptions of the products, their preferences and consuming habits.

The respondents articulated their insights on how the OTOP program and policies can be further enhanced. The majority of the enterprises suggested that financing should be made more accessible to MSMEs to allow them better opportunities to improve their products, upgrade their plant, machineries and equipment, and to augment their working capital. They also suggested that a more permanent place in Region 1 could be provided for OTOP products to be sold throughout the year and not only during trade fairs or exhibits. An OTOP shop in central commercial areas in Metro Manila will give the products continued market presence and will be more accessible to the consumers.

Table 4. Impact of OTOP to the entrepreneurs

Impact of OTOP	Weighted mean	Descriptive equivalent
1.Guided business counseling efforts	2.22	Low
2.Guided on skills and entrepreneurial initiatives	1.52	Very low
3.Product design and development	1.47	Very low
4.Use of appropriate technologies	2.26	Low
5.Conduct of marketing endeavors	2.92	Average
6.Conduct of human resource development and capacity building activities	1.59	Very low
7.Expansion of small and medium enterprises	2.30	Low
8.Focus on marketing capabilities	1.51	Very low
9.Access to Financing	2.23	Low
10.Access to Technology	1.52	Very low

11. Better conducive business environment	2.90	Average
Average weighted mean	2.04	Low

Based on the data gathered, OTOP Region 1 provides average impact on the conduct of marketing endeavors (2.92) and better conducive business environment (2.90). It has very low impact when it comes to guide on skills and entrepreneurial initiatives (1.52), product design and development (1.47), conduct of human resource development and capacity building activities (1.59), focus on marketing capabilities (1.51), and access to technology (1.52).

#### 4. Conclusions and Recommendations

SMEs are indeed the backbone of Philippine economy. They are the engines of economic activity and job creation especially in the countryside where large companies hardly exist. The fact that the Philippines largely agricultural, supporting the development of rural agro-enterprises will ensure that the poor benefits from economic growth. The OTOP-Philippines program, in spite of its limitations, offers opportunities to thousands of rural enterprises to become viable and competitive. Therefore, it is imperative that reforms are instituted to make the program truly unleash and harness the entrepreneurship that is needed to move the Philippines forward and be readily competitive in positioning its niche for the global market penetration.

In order to make the OTOP program more responsive to the needs of the entrepreneurs in Panagsinan, it is recommended that equal attention must be given in improving the production efficiencies of rural enterprises to increase their competitiveness. Investment in research and development must be intensified to develop new and better products that have high market potential. There is a lot of room for improvement in the processed food sector to produce foodstuff that will cater to the global market.

Also, financing should be made more accessible to rural micro and small enterprises for without it they would not be able to scale-up production, invest in modern technology, or undertake serious research and development activities. As many of those surveyed agreed, access to financing remains elusive for various reasons. One of such reasons is the lack of or insufficient collateral needed to borrow money from formal financing institutions. Another compelling reason is the entrepreneurs' inability to comply with the documentary requirements of banks. Access to financing is crucial to growing SMEs is also needed. Finally, structural reforms are needed to make sure that the business enabling environment is conducive to the creation and growth of rural enterprises. This includes streamlining of the business registration process, reducing the barriers to entry and growth, and making the regulatory regime more predictable.

#### 5. Acknowledgements

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