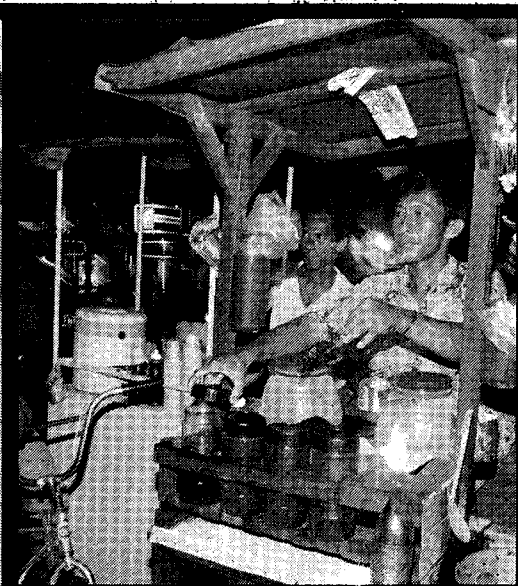
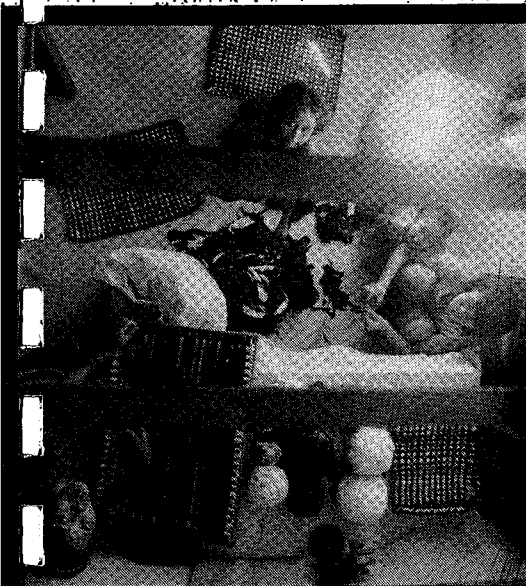


Interdepartmental Project on the Urban Informal Sector

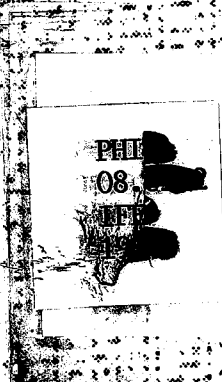
PHILIPPINES



Assessment Report Series No. 9

Feasibility Study for the Establishment of a Common Facility Center in Marikina

SEA Consultants



INTERNATIONAL LABOUR ORGANIZATION
South-East Asia and the Pacific
Multidisciplinary Advisory Team
(ILO/SEAPAT), Manila

1306
Interdepartmental Project on the Urban
Informal Sector

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Multidisciplinary Advisory Team
(ILO/SEAPAT), Manila

**ILO MANILA
DOCUMENTATION CENTER**

PREFACE

This report is part of a series of publications prepared in the context of the Interdepartmental Project on the Urban Informal Sector (INTERDEP) launched by the International Labour Organization in 1994. This is a pilot project which covers three major urban centers: Dar es Salaam (Tanzania) in Africa; Bogota (Colombia) in Latin America; and Manila (Philippines) in Asia.

The INTERDEP uses a comprehensive approach to informal sector development, covering all aspects of direct interest to informal sector promotion, e.g. basic statistics, policy and regulatory environment, access to productive resources, and informal sector associations. It further includes those concerns not usually taken into consideration in traditional informal sector development programmes; namely, improving working conditions, promoting the social protection of workers, reducing child labour, all with a view to progressively extending international labour standards to cover the informal sector.

The project has been designed in such a way as to ensure the full participation of local partners at every stage of the implementation. For this purpose, the Project Advisory Committee (PAC) was formed. It is made up of representatives of government agencies, local government units, employers' and workers' organizations, non-government organizations, financial institutions, and grassroots associations. The Department of Labor and Employment chairs the PAC.

It is hoped that the successful implementation of the INTERDEP would contribute to the growth of competitive and profitable informal sector enterprises, paving the way for their gradual integration into the formal and organized sector of the economy.

Visits made by INTERDEP Project staff members to small footwear manufacturers in Marikina indicated that the latter were facing an uncertain future as a result of stiff competition from larger firms and increasing imports. Their major weaknesses include low productivity; high cost of materials; difficulties faced in recruiting skilled workers; etc. A solution to these problems could be the establishment of a common facility centre (CFC) which will offer, on a commercial basis, the resources and services required by footwear manufacturers. This report provides a full assessment of the technical and financial feasibility of such a centre that will help determine whether it should be established. It contains three main parts. The first part describes a sample survey of leathersgoods and footwear manufacturers in Marikina. The purpose of this survey is to better assess the problems faced by the manufacturers and to obtain their views and suggestions on the establishment of the CFC. The second part summarizes discussions with a number of potential institutions which could provide financial and other support for the establishment of the CFC. The last part provides a full-fledged technical, economic and financial feasibility study of the proposed CFC.

The ILO is grateful to the SEA Consultants for its work. This report also would not have been made possible without the assistance and cooperation of the PAC members as well as of those working in the informal sector who have

accepted to participate in the preparation of this study. Lastly, the ILO is thankful to the Government of the Philippines and particularly to DOLE, for having accepted to host the INTERDEP and for their continuous and generous support.

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1. INTRODUCTION

1.1 Background

Marikina is one of the main footwear manufacturing centres in the Philippines comprising a large number of small footwear manufacturers with some larger manufacturers. A number of the small manufacturers are members of two local associations.

The small manufacturers face a number of problems and some have been forced to close down their businesses over the past few years. These problems include low productivity; inadequate output quality; difficulty in assessing profitable markets, especially the export market; difficulties in purchasing quality materials at fair prices; poor working conditions, often in workshops established within the household; and difficulties in recruiting and retaining qualified skilled workers.

One or both associations have established fully equipped and poorly managed common facility centres in inadequate premises. Little use is made of these centres by the members of the associations.

A training centre for footwear manufacturers was established by the Cottage Industry Technology Center (CITC) with assistance from the Municipal Government of Marikina, the Office of the Congressman of Marikina, the Department of Trade and Industry and the Marikina Footwear and Leathergoods Cooperative, and the National Manpower and Youth Council, now known as Technical Education and Skills Authority (TESDA). The training centre is located in one of the buildings within the CITC complex while the equipment was lent by TESDA. However, this centre may not be considered as a full-fledged common facility centre. For example, it does not keep stocks of materials for sale to footwear manufacturers, does not provide marketing facilities and does not rent the equipment to the manufacturers.

TESDA, on the other hand, has an extensive, fully-equipped footwear and leathergoods centre in Taguig, Metro Manila, which is far away from Marikina. Because of its distance, the centre is seldom used and is unsuited to serve the needs of the large majority of footwear manufacturers in Marikina.

It is in this context that this feasibility study was prepared to establish a full-fledged, well-equipped and well-managed common facility centre (CFC) in Marikina. Initially, it is envisioned that the proposed CFC will use equipment available at TESDA as well additional equipment required by the small footwear manufacturers. The study will also look into the possibility of expanding the present CITC or establishing the CFC in another location with assistance from the concerned local government unit.

1.2 Objective of the Study

The primary objective of the study is to determine whether there will be a clear demand as expressed by small footwear manufacturers in Marikina for the establishment of a common facility centre, and whether such a centre could be operated on a fully-financially autonomous basis.

1.3 Scope of the Study

There are three stages of the study each of which was conducted as a requisite of the other.

The first stage of the study was the conduct of the interview/survey of small footwear and leathersgoods manufacturers in order to assess their production capacity, the equipment they use, the appropriateness of physical infrastructure, and to get their views on the problems they face related to their operations such as: marketing, product quality, availability and qualification of manpower, capital/financial requirements, competition from larger firms, and availability of raw materials, to name a few. The study also hoped to obtain the views of the manufacturers on the following keys areas:

- benefits and costs associated to their eventual membership to a local footwear manufacturers' association;
- sources and types of assistance they may wish to receive from LGUs, NGOs, government agencies or other manufacturers; and
- their interest in using the services to be provided by the CFC.

During the conduct of the survey the following objectives of the CFC are to be explained to the respondents:

- possibility for the manufacturer to rent equipment they cannot afford;
- maintaining a stock of quality leather and accessories for sale at fair prices to members;
- profitable markets (e.g. through the parcelling of large orders among members);
- skills training to the staff of small manufacturers;
- organization of various promotional activities such as exhibits, fairs, etc.;
- access to credit by members (it could also run as a credit cooperative); and
- financial autonomy based on membership fees to be paid by members.

The second stage of the study was the conduct of interviews and discussions with institutions involved with the promotion of the leathersgoods and

footwear industry such as TESDA/FLIC (Footwear and Leathergoods Industry Center), and CITC, existing CFCs or cooperatives in Marikina, and LGUs.

On the basis of information from the first two stages of the study, a feasibility study will be prepared on the establishment of a CFC in Marikina, using either available premises (CITC or one of the existing CFCs) or new premises to be provided through the municipality. The objective of the exercise is to ensure that the proposed CFC will reach financial autonomy within three years of operations. The feasibility study will also provide information on the following:

- estimated number of footwear manufacturers who will use the CFC;
- cost of renovating an existing building or constructing a new one, taking into consideration an eventual grant by the municipality;
- cost of new equipment required, taking into consideration transfer of some or all of the equipment available at TESDA, CITC, and existing CFCs in Marikina;
- estimated revenues of the the CFC considering the services it will offer to its clients;
- estimate of total project cost and possible sources of funds; and
- estimated financial statements (profit and loss, cash flow and balance sheet).

The findings of the feasibility study will be presented in a Tripartite Meeting (to be attended by representatives of the association of footwear manufacturers, existing CFCs, TESDA, CITC, LGUs and NGOs) with the objective to obtain information on the following:

- whether the participants agree with the findings of the feasibility study or whether this should be revised on the basis of new information provided by the participants;
- whether there is a consensus on the need to establish the CFC;
- contributions that would be made by the various organizations for the establishment of the CFC; and
- action plan and schedule for the establishment of the CFC indicating the role to be played by each of the participants in this plan.

2. MARKETING STUDY

2.1 Survey of Footwear and Leathergoods Manufacturers

2.1.1 Number of Respondents

Based on data gathered from the Mayor's Office of Marikina, there are 665 registered footwear and leathergoods manufacturers in the municipality. Of this number, six are considered large firms with an average production capacity of

1,000 pairs per week and the rest are small manufacturers with production ranging from 150 pairs to 1,500 pairs per month.

For purposes of this study, the number of respondents was limited to 10 per cent of the total registered manufacturers or about 67 small scale manufacturers.

2.1.2 Major Findings of the Survey

The major findings of the survey based on the 67 small-scale manufacturers interviewed are as follows:

a. All respondents are interested to join and be members of a new CFC. They are willing to pay a membership fee and buy shares of stocks. All expect the new CFC to be a "one-stop centre" which will serve small manufacturers in areas such as marketing, use of machines, providing high quality raw materials at lower prices, making available skilled manpower, and providing financial assistance.

b. Twenty-one (21) or 31 per cent of those interviewed are presently members of a cooperative. Of this number, 16 or 76 per cent have availed the services of the cooperative through purchases of materials, financial loan and training. The other five (5) or 24 per cent of the respondents, on the other hand, are no longer active in their cooperative claiming that supplies and technical assistance are not being extended to them. They expect a fully sustainable, financially capable cooperative to answer and augment the needs of its members.

c. Sixty-two (62) or 94 per cent of the respondents need additional funding for additional working capital, expansion of production area, upgrading of machineries and tools, and for the purchase of transportation facilities. The other five (5) or 6 per cent have existing loans for working capital purposes.

d. All of the respondents also believe that their products have met quality requirements in terms of materials, design and craftsmanship. Fittings become a problem when shoes are sold to boutiques and department stores in Metro Manila. Major marketing problems include proper and competitive pricing, longer terms imposed by client, limited knowledge on marketing, and high cost of samples. The General Agreement on Tariffs and Trade (GATT) also threatens to reduce their market demand because of the entry of imported shoes.

e. All respondents produce according to job orders. Since production is based on job orders, materials, supplies and accessories are purchased according to requirements. The moment additional orders are placed, materials availability

becomes a problem. The stock of materials is usually replenished and made available in one week to a month.

f. Sixty-two (62) or 93 per cent of the respondents require new and or additional machines to improve their productivity and quality. They, however, cannot afford to acquire these machines because of lack of funds and fear of under-utilization because of an unstable market.

g. An average pair of shoes costs about P350 broken down as follows:

Cost Component	Amount	%
Cost of Materials	P250	71.42
Labour	50	14.49
Profit	50	14.29
Total	P350	100

Actual cost of materials, however, is only P125.00 per pair if the profit margin of the trader which is approximately 50 per cent is excluded.

Annex 1 provides a comprehensive report of the results of the survey conducted for selected footwear and leathersgoods manufacturers in Marikina.

2.2 Survey of Support Institutions and LGUs

2.2.1 Coverage of the Survey

This stage of the marketing study which involves interviews with support institutions, municipal authorities, and existing cooperatives was undertaken to determine their views on the establishment of the proposed CFC. The interviews covered the following sectors:

a. Support Institutions

1. Cottage Industry Technology Center (CITC)
2. Technical Educational Skills Development Authority (TESDA), formerly the National Manpower & Youth Council (NMYC)

b. Local Government Authorities(LGUs)

1. Office of the Mayor, Municipality of Marikina
 2. Office of Congressman Romeo Candazo
-

c. Existing Cooperatives

1. Marikina Footwear and Leathergoods Manufacturer's Credit Cooperative, Inc. (MFLMCC)
2. Marikina Footwear Development Cooperative (MAFODECO)
3. Marikina Footwear Federation, Inc. (MFFI)

2.2.2 Major Findings of the Survey

A summary of the major findings of the survey of support institutions, local government authorities and existing cooperatives is shown below (also see Annex 2 for details of the survey):

A. Interviews with key officers of CITC reveal the following:

1. The CITC Complex (with a land area of 4.6 hectares donated by the Municipality of Marikina) houses four cottage-based industry centres, namely: metal working, woodworking, bamboo/rattan making, ceramics manufacturing, and leathergoods processing.
 2. The leathergoods processing centre is also called the Marikina Footwear and Leathergoods Technology Center (MFLTC) and is housed in the Extension Services Building (ESB) of the CITC together with two other centres, namely: gifts and housewares and jewellery making. The ESB has a total area of about 1,500 sq.m. with the MFLTC occupying about 219 sq.m. of this building.
 3. The MFLTC was created on the strength of a Memorandum of Agreement duly signed by officials of CITC, the Marikina Footwear Federation, Inc. the TESDA/NMYC, the Municipal Government of Marikina, the Office of Congressman Romeo Candazo, and the Department of Trade and Industry. The Center is designed to address the training, technology transfer and product development needs of the footwear and leathergoods industry in Marikina.
 4. CITC's vision is to create a centre for the footwear and leathergoods industry which will cater to the needs of the industry in terms of marketing and promotion, training, sale of materials and supplies, financial aid and assistance, sourcing of new designs and ideas, technical information dissemination, etc.
 5. CITC has worked closely its activities, programmes and plans for the footwear and leathergoods sector with existing cooperatives, TESDA, Office of the Mayor, Office of the Congressman and the industry.
-

6. CITC was able to conduct training courses on leathersgoods processing with trainers and machineries (10 sewing machines and 1 skiving machine) provided/lent by TESDA.

7. CITC is a government corporation but its present management is proposing that it be privatized in order to make it a self-sustaining institution being managed and operated by the private sector.

8. The present equipment available at the CITC is still inadequate to meet the machineries and equipment requirements of the proposed CFC. It's management, however, is not agreeable to transferring or donating its equipment to the new CFC because of its agreement with TESDA.

9. The CITC has sufficient and available space for any expansion programme or for the planned CFC. In fact, Cong. Candazo initiated the construction of a 150 sq.m. building, beside the ESB, purposely to become the showroom or marketing centre where small footwear manufacturers can showcase their products. This building is also envisioned as a meeting place between local and foreign buyers. Unfortunately, the building is not yet finished and needs some P2 million to make it operational.

10. CITC welcomes any move to locate the CFC for footwear and leathersgoods within the complex. It has already the technical and managerial capability to be the CFC as it operates within the complex of CFC's for metalworking, woodworking, ceramics, jewellery, and bamboo-rattan. The MFLTC is also being managed by full-time staff of CITC.

11. The CITC management has committed that it will make available for the proposed CFC project the following:

- (i) the existing space now being used by the MFLTC;
- (ii) the unfinished building initiated by Cong. Candazo; and
- (iii) an area of about 2,000 sq.m. for any expansion plans for the CFC.

B. The results of the interview with TESDA/FLIC on its concerns and views relative to the footwear and leathersgoods industry are:

1. With the approval of GATT, TESDA is continuing its support to the footwear industry in terms of skills upgrading, capability build up, training for management and supervisory level and production. All these activities are channelled through and in cooperation with CITC and the cooperatives more specifically MFLMCC.

2. As far as equipment and machineries are concerned, TESDA has no further plans to transfer some or all of its existing machineries to other institutions (like when it lent 11 machines to CITC). This is because the Office of Manpower Skills Development (OMSD) and the Footwear and Leathergoods Industry Center (FLIC) also use these for their training programmes and related activities.

3. TESDA cannot make a categorical statement at the moment, with regard to donating/transferring or selling its equipment to the new CFC. Only their Board of Directors can decide on this issue if and when an order from higher government officials is received.

4. TESDA believes that CITC has the capability to manage and operate the proposed CFC.

C. The following concerns were voiced by the Municipal authorities:

1. The Municipality of Marikina is planning to get back the ownership and management of CITC and convert it into a Fashion Design Center for footwear and its allied industries (garments accessories, jewellery, hats, etc.). The objective of the Fashion Design Center, is to entice foreign companies to put up/establish their branches in Marikina. This would mean creating new jobs and training of Filipino counterparts in the areas of design, technology, and materials. Likewise, this will serve as the trading centre between foreign buyers and Filipino manufacturers.

2. The Municipality is planning to make the CITC more accessible to its clients by developing new roads and bridges linking the area to the nearby cities and suburbs. In the long run, the area will be converted into a commercial and industrial zone. Communication systems are now being installed and upgraded in the area.

3. The Municipality is likewise willing to take responsibility for undertaking the function of the new CFC in addition to the planned Fashion Design Center. The Municipality also indicated that it cannot support the financial needs of the CFC except perhaps contribute the facilities and structure of the existing CITC, if and when they can reacquire ownership and management of the centre.

D. The Office of Congressman Romeo Candazo indicated the following during the interviews:

1. His office confirmed that he had initiated the construction of a building at the CITC complex to be used as a showroom for locally produced footwear and leathergoods products. This is about 150 sq. m. costing P1 million.

However, additional funding of P2 million is needed to fully operationalize the building.

2. The Office of Cong. Candazo has been very supportive of the shoe industry in Marikina. It has continuously sent out-of-school youth to attend training programmes on shoe-making at the MFLTC training centre in coordination with CITC and NMYC/TESDA.

3. His office also expressed its full support for the establishment of the proposed CFC in Marikina. In fact, his Office committed to the project the use of the building (to be fully completed and furnished) it has constructed at the CITC complex.

E. The following are the views of the existing cooperatives in Marikina relative to the proposed CFC:

1. The cooperatives believe that "full mechanization" will be difficult for the industry to undertake. What they require, at the moment, is the support of the new CFC to "strengthen the hand-made" process of making shoes. The new CFC must offer a complete range of services in order to attract and encourage participation of prospective members.

2. At the moment, the entire footwear and leathergoods producers are in dire need of a continuous supply of raw materials at fair prices and easy financial/credit terms, financial support on working capital requirements, product development (access to new designs, materials, technical information and data) and training.

3. The new CFC must be an "industry led" institution which will serve as the service centre for the footwear and leathergoods industry to cater to their needs in terms of acquisition of raw materials, financial assistance, marketing and promotion, training, and rentals of machineries. It can also become a potent group for lobbying the interest of the industry with government.

4. The two CFCs or cooperatives are also willing to have the proposed CFC under their own "wing" and to manage and operate it. However, they do not have enough space for future expansion plans of the CFC.

5. The proposed CFC should complement and not compete with the operations of existing cooperatives in Marikina. This is because it could "kill" the cooperatives by offering low prices to member firms by virtue of the subsidies it can generate which the cooperatives cannot afford at the moment.

6. The cooperatives should be given the priority to operate the CFC in order to create unity and solidarity in the footwear and leathersgoods industry in Marikina. In this way, vested interest will be eliminated and thus really spur the growth and development of the industry.

2.3 Assessment of the Surveys

The first two stages of the study indicate that there is a clear demand for the establishment of a common facility centre for footwear and leathersgoods in Marikina. Both the manufacturers and support institutions (CITC, TESDA, and the Local Government Authorities) welcome the establishment of such a centre as this would greatly assist not only the small footwear and leathersgoods manufactures in particular but also the whole industry in general. The proposed CFC should have a clear mandate to provide the following services to its members:

1. continuous supply of raw materials, supplies and accessories at fair prices and easy/low credit terms;
2. financial aid/loan in addition to working capital requirements;
3. training, workers and additional manpower requirements;
4. rental of machineries and equipment which are not available at their factories and which they cannot afford to acquire at the moment;
5. product development as a source of new ideas and techniques, design, patterns and samples; and
6. parcelling of large orders whether in the domestic or export market to small manufacturers.

Based on the foregoing market surveys, it is proposed that the CFC facility to be established in Marikina be located at the present CITC Complex. This recommendation is based on the following:

1. CITC management has expressed its all-out support and commitment to assist the industry. It has committed to contribute existing infrastructure and space within the complex for use of the proposed CFC.
 2. The existing Marikina Footwear and Leathersgoods Technology Center (MFLTC), which is within the complex, can be used as the CFC. It is equipped with machineries provided/lent by TESDA, which according to industry sources, can already meet the needs of small manufacturers.
 3. There is another structure (unfinished) just beside the MFLTC which could be used as the CFC's showroom. This could also be utilized as a meeting room where foreign buyers and local producers can transact business.
 4. The complex has enough space which it could offer for further expansion plans of the CFC.
-

2.4 Target Clientele

The proposed CFC is targeting to service the needs of twenty per cent (20%) of the total registered manufacturers in Marikina numbering 665. This means that its marketing efforts, initially, will be directed towards 133 members. This number, however, will increase by ten per cent (10%) in the succeeding years:

Year	No. of Clients
1	133
2	146
3	161
4	177
5	195

2.5 Products/Services to be Offered by the CFC

It is proposed that the existing Marikina Footwear and Leathergoods Technology Center (MFLTC), which is part of the CITC, be the CFC facility to be established in consonance with ILO's objective of assisting small footwear manufacturers in Marikina. It is envisioned that the proposed CFC will be a "one-stop shop" for small footwear and leathergoods manufacturers. It will offer the following products/services to its clients:

2.5.1 Marketing

To serve as the marketing arm of the small manufacturers whereby it will parcel the volume of orders to its members to produce and manufacture. Corresponding cost of manufacturing will be paid to each member-producer according to the number of pairs produced.

2.5.2 Sale of Supplies and Materials

Stocks of materials and supplies will be made available for sale to members at fair prices and in easy payment/instalment schemes. Continuous updating of the type and kind of materials will be introduced in cooperation with the Product Development Unit to be established at the centre.

2.5.3 Working Capital Loans

In order to assist the industry, particularly small manufacturers who lack working capital, the centre will lend money to its members at an affordable interest rate and appropriate payment period.

2.5.4 Training and Seminars

As a means of continuing assistance to upgrade and update the skills and knowledge of the industry, training programmes and seminars will be conducted at the centre. Industry owners can sponsor their workers to attend such training.

2.5.5 Product Development

Continuous study and research for new design/ideas, materials, supplies and technology will also be provided to the industry for a fee. Sale of designs, patterns and samples will be provided to the industry. Policy on this aspect will be set to protect the interest of members.

2.5.6 Rental of Machines

Machines for rent can also be availed of within the centre. Rates on an hourly basis will be set for each type of machine. Fees will be computed according to the length of time a member uses the machine.

3. TECHNICAL ASPECTS

3.1 Location of the CFC

The proposed CFC will be located at the CITC complex at No. 20 Russet Street, SSS Village Marikina, Metro Manila. The area to be occupied by the proposed CFC facility is the existing space of the MFLTC at the Extension Services Building (ESB) of the CITC. The present land use plan of the CITC complex showing the ESB and other training centres is shown in Figure 9.1.

3.2 Floor Plan of the CFC

The MFLTC presently occupies about 219 sq.m. of the ESB which has a total floor area of 1,500 sq.m. However, an additional area of about 170 sq.m., which is not being utilized, can be used by the project if necessary. The mezzanine can also be expanded, with an additional space of some 440 sq.m., to make way for any expansion plans of the CFC. This will bring the total available area for the CFC to about 829 sq.m which is considered more than enough for the purposes of the CFC.

The existing Floor Plans of the Mezzanine and Proposed Second Floor of the MFLTC are shown in Figures 9.2 and 9.3 respectively.

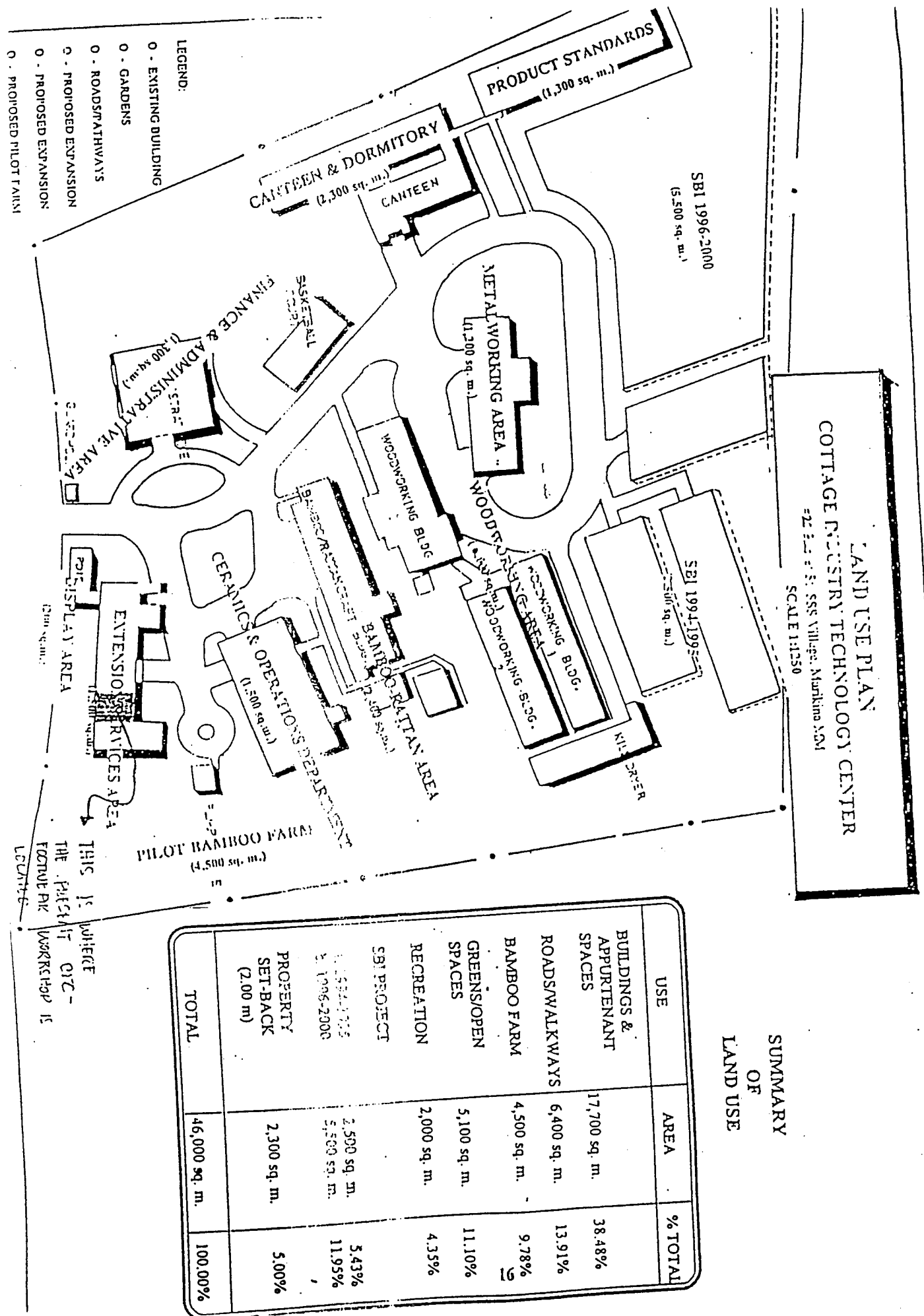
3.3 Machinery and Equipment

The MFLTC has at present ten (10) sewing machines and one (1) skiving machine which were lent to the centre by TESDA/NMYC. The centre has also three (3) preparation tables, five (5) cutting tables, and two (2) lasting stand tables.

The proposed arrangement of these shoe-making machineries and work benches together with the interior perspective of the work area can be seen in Figures 9.4 and 9.5 respectively.

It is also proposed that additional machineries (Heat Setting Machine, Clicking/Cutting Machine and a Roughing Machine) be acquired by MFLTC in order to complete its machinery and equipment complement needed for the manufacture of shoes.

Figure 1. Present Land Use Plan



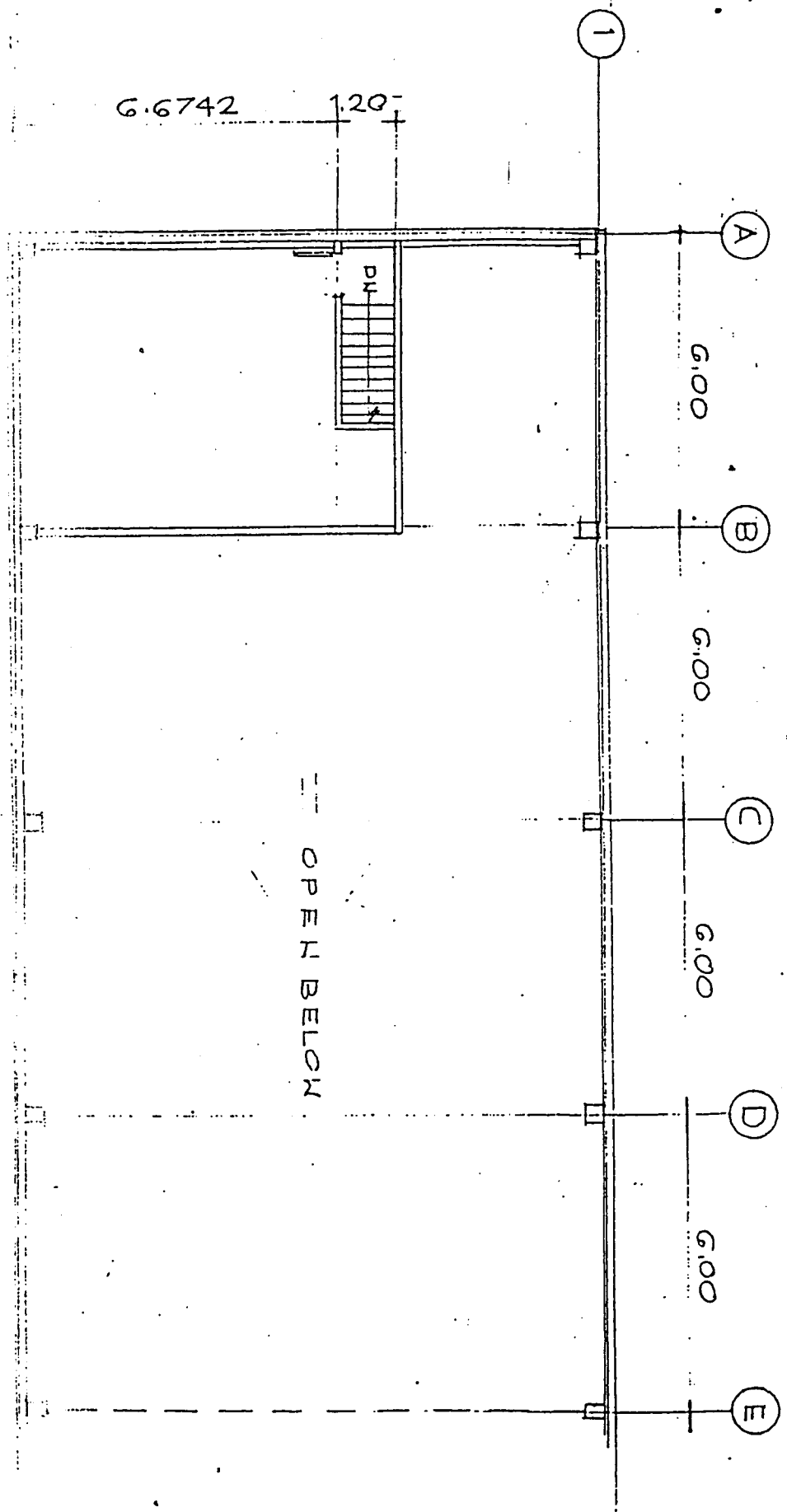
LAND USE PLAN
COTTAGE INDUSTRY TECHNOLOGY CENTER
#2225 St. SSS Village, Marikina City
SCALE 1:1250

SUMMARY
OF
LAND USE

USE	AREA	% TOTAL
BUILDINGS & APPURTENANT SPACES	17,700 sq. m.	38.48%
ROADS/WALKWAYS	6,400 sq. m.	13.91%
BAMBOO FARM	4,500 sq. m.	9.78%
GREENS/OPEN SPACES	5,100 sq. m.	11.10%
RECREATION	2,000 sq. m.	4.35%
SBI PROJECT	2,500 sq. m.	5.43%
PROPERTY SET-BACK (2.00 m)	2,300 sq. m.	5.00%
TOTAL	46,000 sq. m.	100.00%

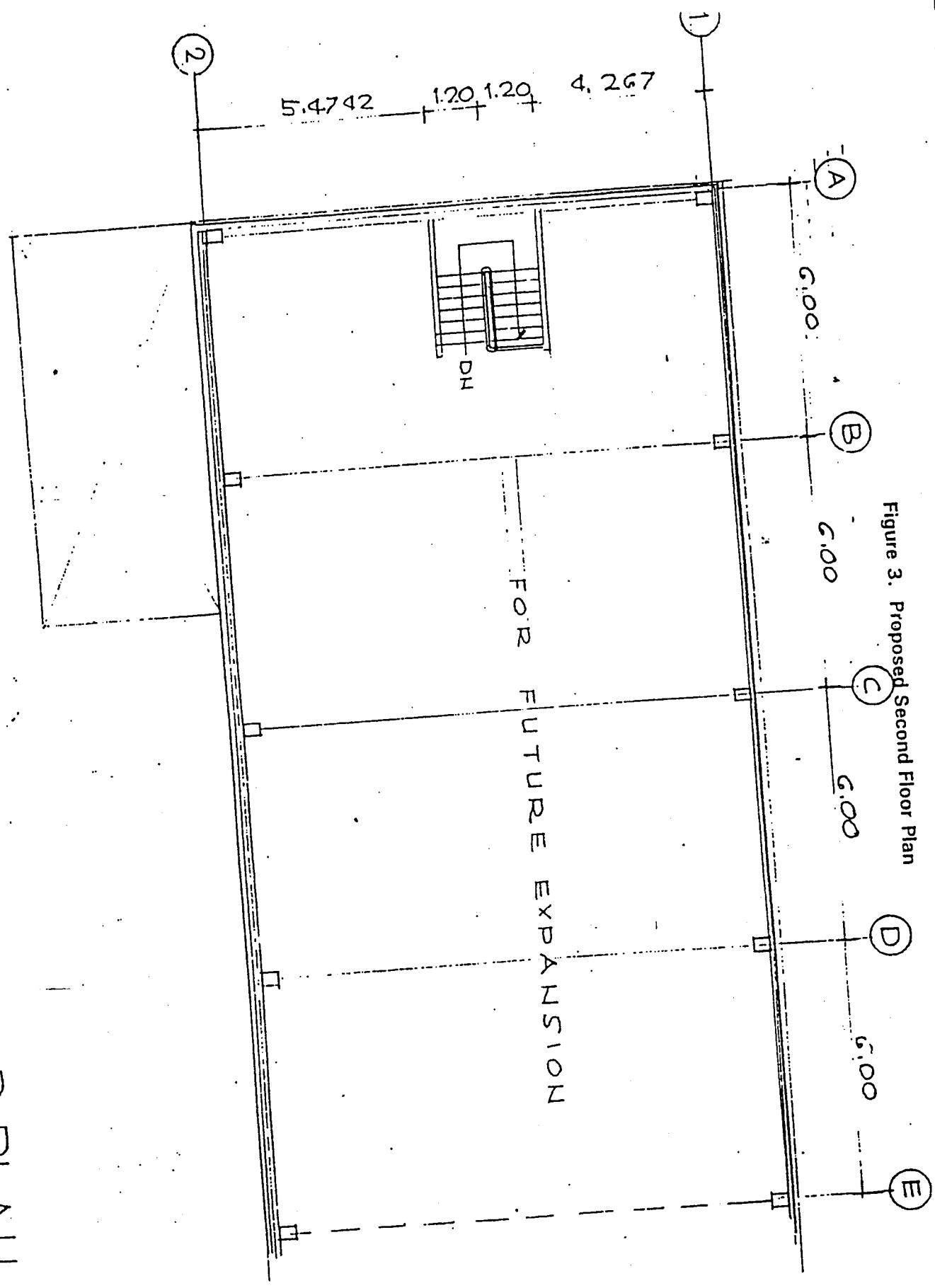
THIS IS WHERE THE FACILITY WORKSHOP IS LOCATED

Figure 2. Existing Mezzanine Floor Plan



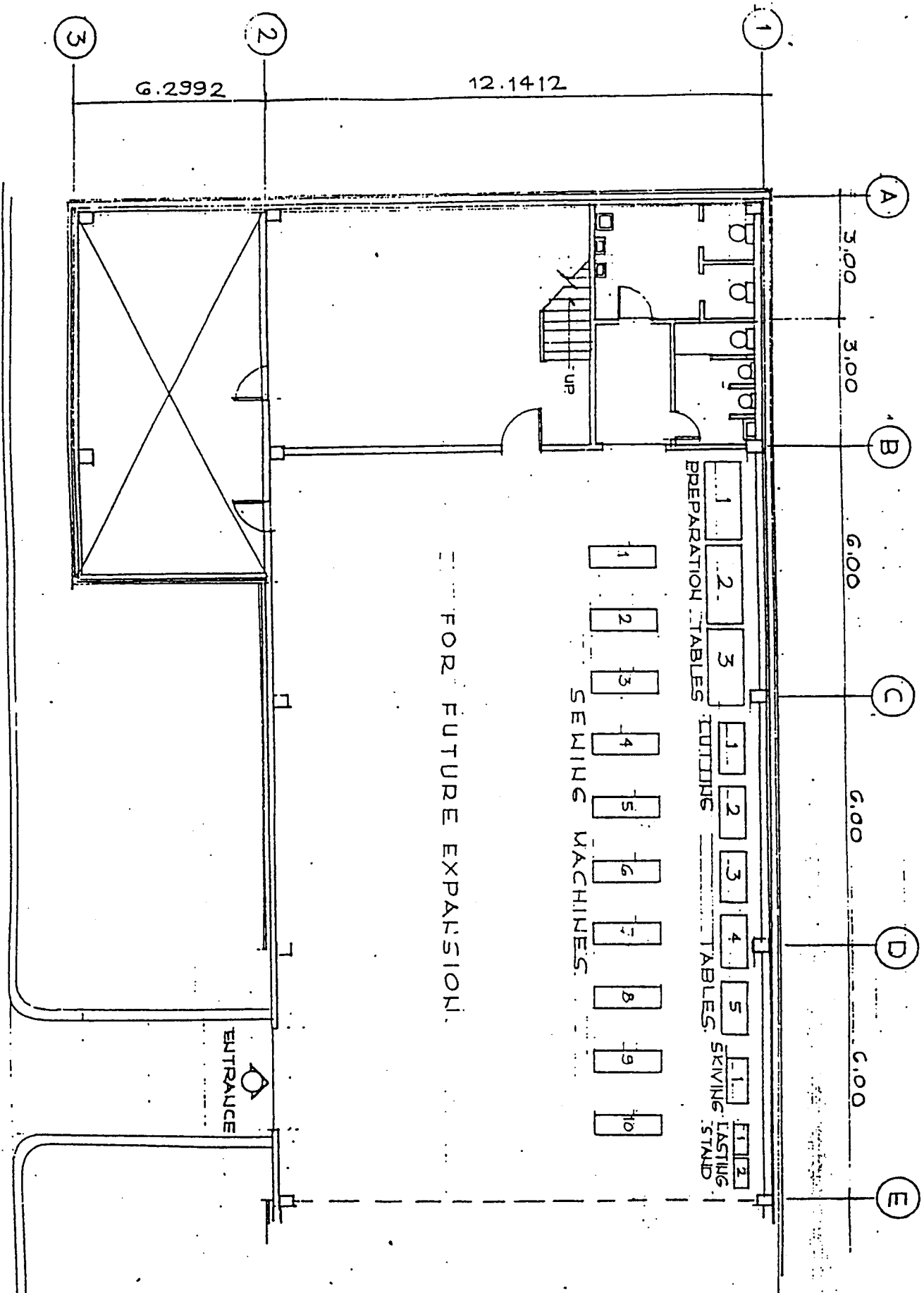
MEZZANINE FLOOR PLAN
SCALE 1/8" = 1'-0"

Figure 3. Proposed Second Floor Plan



PROPOSED SECOND FLOOR PLAN
SCALE 1:125

Figure 4. Existing Arrangement of Shoe Machineries



INTERIOR PERSPECTIVE

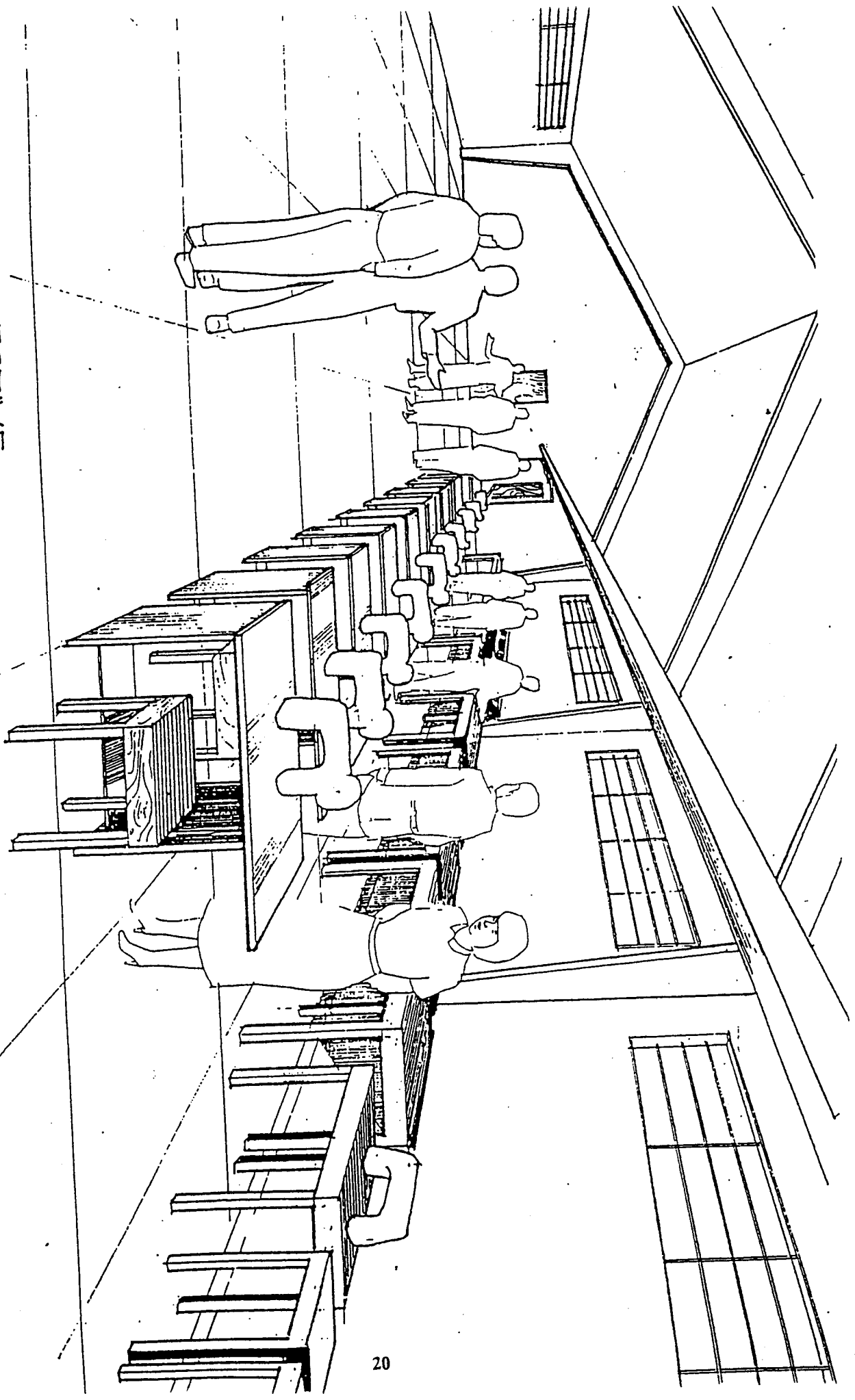


Figure 4a. Existing Interior Perspective of MFLTC

Figure 5. Proposed Arrangement of Shoe Machineries

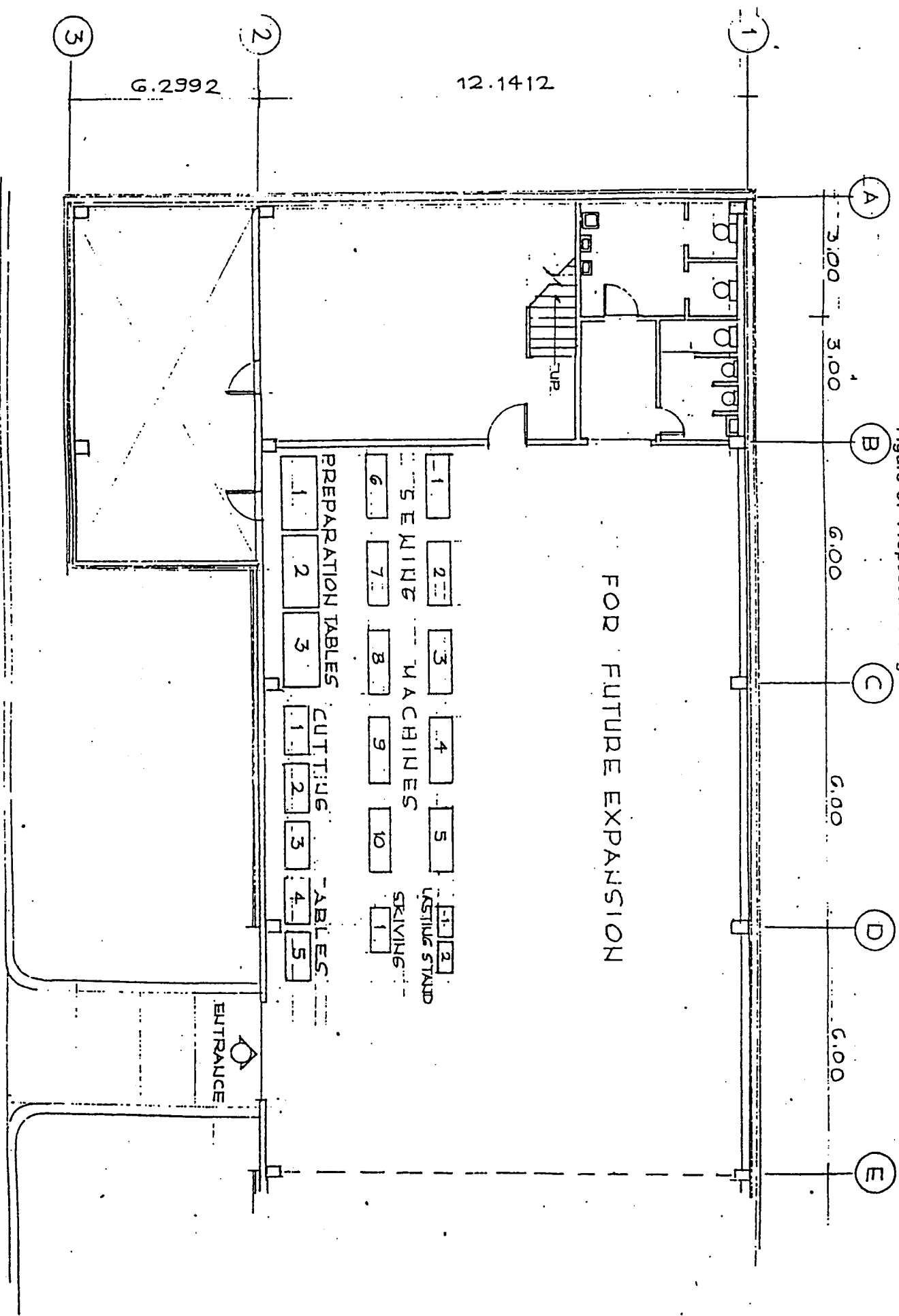
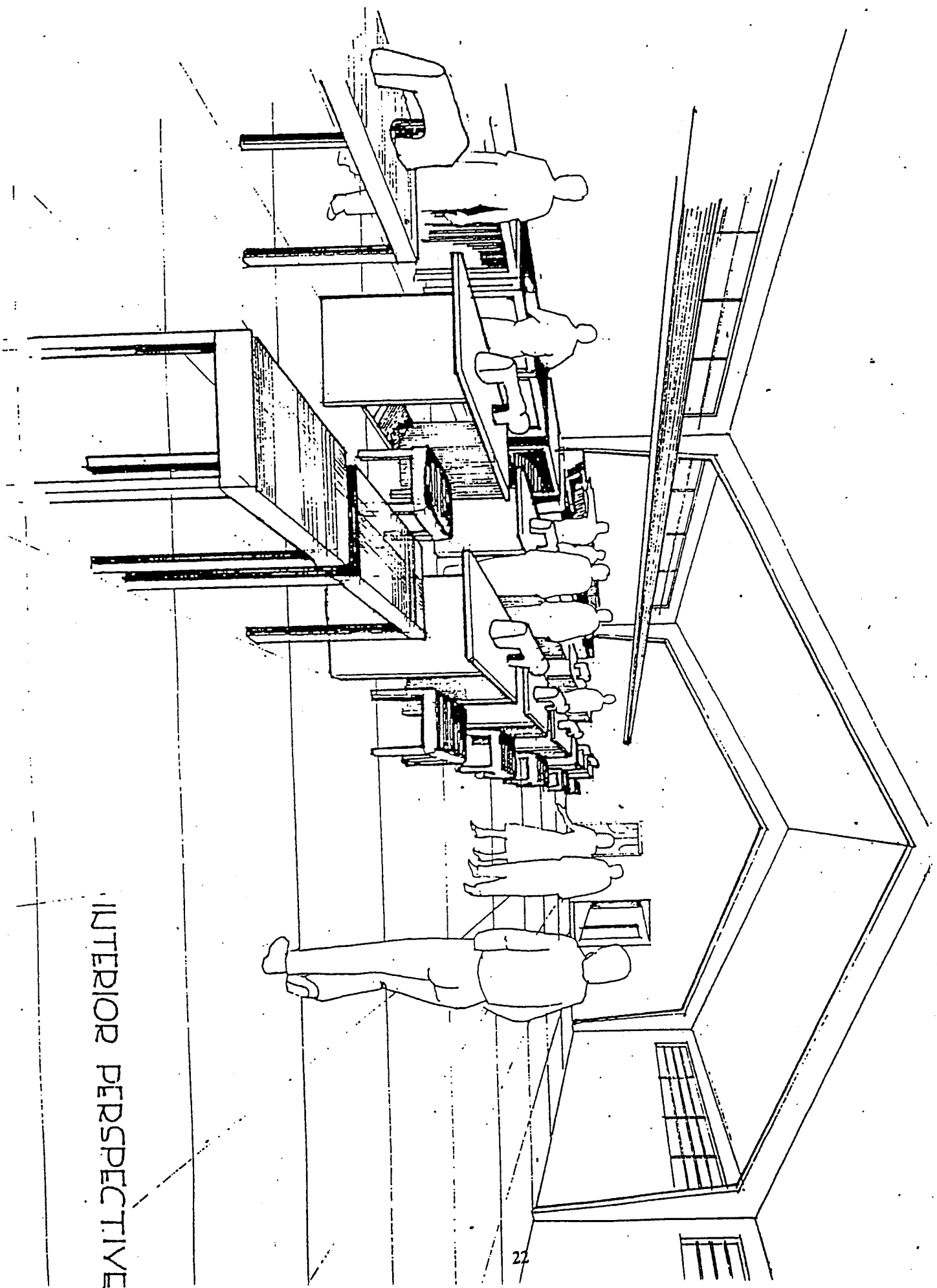


Figure 5a. Proposed Interior Perspective of Shoe Machinery



INTERIOR PERSPECTIVE

3.4 Manpower Complement

The CFC will need a total of 21 personnel to implement and undertake the total activity of the centre. The manpower complement required by the centre is shown in Table 9.1 (a more detailed discussion on this is presented in section 5):

Table 9.1 Proposed Manpower Complement

Position	No.	Mon. Salary(P)	Annual Salary(P)
Plant/General Manager	1	15,000	180,000
Finance & Admin. Officer	1	10,000	120,000
Marketing/Promotions Officer	1	10,000	120,000
Operations Officer	1	10,000	120,000
Cashier	1	7,500	90,000
Bookkeeper	1	7,000	84,000
Accounting Clerk	1	6,500	78,000
Purchaser	1	6,500	78,000
Collector/Messenger	1	5,500	66,000
Sales Assistant	3	7,000	252,000
Operations	6	7,000	504,000
Maintenance/Janitor	2	5,500	132,000
Secretary	1	7,000	84,000
Totals	21		1,908,000
Add: 13th Month Pay			159,000
Total Salaries and Wages			2,067,000

3.5 Components of Products/Services

3.5.1 Marketing and Parcelling of Orders

As discussed in the marketing aspects of this study, the CFC will serve as the marketing arm for the small manufacturers and thus will parcel out orders for the members to manufacture. Based on a production output of 200 pairs per week per member, this can be translated to a production order of at least 800 pairs per month or 9,600 pairs per year per member. For the initial target clientele of 133 members, this means a monthly production of 106,400 per month or 1,276,800 per year. With this service being offered by the CFC, each member firm is assured of a guaranteed production output of at least 200 pairs per week or 800 pairs per month.

The average production cost of producing a pair of shoes estimated at P350.00 will also be the transfer cost of the member firm to the CFC. The CFC, in

turn, will add-on a mark-up of twenty per cent (20%) to this transfer cost to arrive at a wholesale price of P438.00 per pair ($P350/.80 = P438.00$)

With the above volume, the CFC can generate sales of P46,603,200 per month or P559,238,400 annually of which P37,240,000 per month or P446,880,000 annually will be the transfer cost due to the member firms. A detailed breakdown of this turnover is given in Table 9.2.

Table 9.2 Breakdown of Turnover

	Per Month	Per Year
No. of Pairs to be parcelled to each member	800 pairs	9,600 pairs
Total Number of shoes to be parcelled to target clientele (133 members)	106,400 pairs	1,276,800 pairs
Average Production Cost/ Transfer Cost	x P350/ pair	x P350/ pair
Total Turnover of Members	37,240,000	446,880,000
Total Turnover of CFC	46,603,200	559,238,400

3.5.2 Sale of Supplies and Materials

Another service that the CFC will provide its members is the sale of supplies and materials at relatively low prices compared with the "over-the-counter" prices at shoe supply stores. This will be possible due to the position of the CFC to purchase supplies in bulk thus earning discounts for volume purchases.

The CFC will purchase supplies and materials worth P13,300,000 per month. This requirement is based on the assumption that cost of materials is about P125.00 per pair of the total cost of production (see section 2.1.2g). Supplies and materials will be resold to the members with a mark-up of 20 per cent or an average selling price of P156.00 per pair. With this, the CFC will be able to generate a turnover of P16,598,400 per month or P199.2 million in one year.

3.5.3 Working Capital Loans

The CFC will also provide loans for its members to finance their working capital requirements. A member can take a loan of up to P10,000 per week or P40,000 per month basically to cover the labour component of its production. This means that the CFC should have a revolving loan fund of P1,330,000 per week or P5,320,000 per month in order to meet the working capital requirements of its members.

Interest to be charged by the CFC to a member will be about 24 per cent per annum broken down as follows:

Interest Rate	14.00 %
Service Fee	2.50
Collection Fee	2.50
Capital Build-Up	2.00
Rediscounting	2.00
	24.00 %

With this interest rate, the CFC can generate a total revenue of P6,596,800 per month or P79,161,600 per year.

3.5.4 Training and Seminars

This component of the proposed project is designed to assist the footwear and leathergoods industry in Marikina to be competitive in the local and foreign markets. This can be done by providing continuous skills development and upgrading programmes to employees of member firms in the following areas:

- a. Footwear Design/Pattern Making - includes footwear designing and sketching, pattern making (pattern cutting and grading).
 - b. Upper Making - includes acquisition of skills and knowledge in cutting operation (synthetic and leather materials), upper preparation and sewing.
 - c. Bottom Making - includes acquisition of skills and knowledge in bottom preparation, lasting and finishing.
 - d. Leathergoods Design/Pattern Cutting - includes leathergoods designing and sketching and pattern making and pattern cutting.
 - e. Leathergoods Sample Making - includes preparation of leathergoods pattern for finished goods.
 - f. Cutting and Assembly - includes the complete process of leathergoods production.
 - g. Maintenance - includes acquisition of skills and knowledge in the maintenance of machineries and equipment used in the footwear and leathergoods industry.
-

Descriptions of these courses together with their objectives and entry requirements are given in Annex 3. The total number of trainees and an estimate of the training cost recovery can be seen in Tables 9.3 and 9.4 respectively.

Table 9.3 Number of Trainees Per Training Programme

Title	No. of Day/ Batch	No. of Batch/ Year	No. of Pax/ Batch	Total no. of Pax/Yr.
1. Footwear Design and Pattern Making	10	12	15	180
2. Upper Making	30	3	9	27
3. Bottom Making	30	3	15	45
4. Leathergoods Design & Pattern Making	10	11	15	165
5. Leathergoods Sample Making	15	3	15	45
6. LG Clicking & Assembly	30	2	9	18
7. Machine Maintenance	10	3	9	27

Table 9.4 Training Cost Recovery Estimate

Course	Duration	Pax/ Session	No. of Session	Total Pax	Pax Fee	Total Fee
1. FW Designing & Pattern Making	80 hr	15	12	180	1,200	216,000
2. Upper Making	240 hr	9	3	27	5,800	156,600
3. Bottom Making	240	15	3	45	4,500	202,500
4. Lg Designing P. Making	80	15	11	165	900	148,500
5. LG Sample Making	120	15	3	45	2,800	126,000
6. LG Comp. Cutting & Preparation	240	9	2	18	4,800	86,400
7. Machine Maintenance	80	9	3	27	2,600	70,200
Total				507	1,985*	1,006,200
Add: Mark-up (20%)				507	496*	251,550
Total Revenue				507	2,480*	1,257,750

* Average per capita

3.5.5 Product Development

This component of the CFC will assist members in the production of designs and samples. Each of the 133 members should be provided with samples

on a monthly basis or the equivalent of 1,596 samples on a yearly basis. The cost of a sample is the same as the cost of a pair of shoes (as discussed in section 3.5.1) which is P438 per pair. The three types of patterns and samples to be developed are: Mastern pattern, graded pattern and the shoe sample.

The estimated income to be generated by the CFC from this activity is P58,254 per month or P699,048 on a yearly basis.

3.5.6 Rental of Machines

Members that do not have a complete range of footwear and leathersgoods machineries in their workplaces, can now do so by using the machineries being offered by the CFC. A total of 32,448 machine hours per year (8 hours/day x 26 days/month x 12 months x 13 machines = 32,448 hours) is available for the members to utilize in their production operations.

The average rental cost of a machine is about P65 per hour. This is equivalent to a monthly income of P175,760 or P2,109,120 per year for the 13 machines if operated at full capacity (computed machine hours). However, it is proposed that any income generated from rental of machinery be treated as incremental income because of the uncertainty of such equipment being rented out to members as is the case with the existing cooperatives.

4. FINANCIAL ASPECTS

4.1 Total Project Cost

The proposed CFC will require a total project cost of P47,000,000 broken down as follows:

Cost Component	Amount(P)	%
Land and Building	2,435,000	5.18
Leasehold Improvements	3,525,000	7.50
Machinery and Equipment	2,000,000	4.26
Materials and Supply Inventory	26,820,000	57.06
Working Capital Loans	10,640,000	22.64
Pre-Operating Expenses	600,000	1.28
Transportation Equipment	500,000	1.06
Miscellaneous/Contingency	480,000	1.02
	P 47,000,000	100.00

Detailed computations on how the above-mentioned cost components were arrived at as well as other financial assumptions can be seen in Annex 4.

4.2 Sources of Funds

It is proposed that the project be financed based on a debt/equity ratio of 80/20, broken down as follows:

Sources	Amount (P)	%
Debt/Loan Component	37,600,000	80
Equity Contribution	9,400,000	20
	47,000,000	100

4.2.1 Debt/Loan Component

A long-term loan amounting to P37,600,000 will be obtained by the CFC payable in five (5) years at an interest rate of eight per cent (8%) per annum assuming that a soft loan is available to the project with the assistance of the International Labour Organization. Payment of interest charges will start in the first year.

4.2.2 Equity Component

The equity component amounting to P9,400,000 will be raised through a combination of contributions from identified support institutions (in the form of fixed assets), membership dues, and a grant from the International Labour Organization or United Nations Industrial Development Organization. A total of P4,895,500 will constitute contributions from support institutions while the International Labour Organization and members' contributions will be P375,000 and P266,000 respectively. A total of P3,863,500 must be negotiated as a grant from the United Nations Industrial Development Organization to complete the equity requirements of the project.

Contributor	Amount	% to Total Project Cost
CITC :		
Land, approx. 369 sq.m.	1,107,00	2.35
Building, approx. 150 sq.m.	328,500	0.70
Cong. Romeo Candazo :		
Office/Showroom, approx. 150 sq.m.	1,000,000	2.13
Leasehold Improvements	2,000,000	4.25
NMYC:		
Machinery and Equipment	460,000	0.98
Total Contribution of Support Institutions	P4,895,500	10.42
Add : Other Contributions		
ILO Grant (\$15,000)	375,000	0.80
Membership Fees (P2,000/m)	266,000	0.57
Sub-Total	P5,536,500	11.78
Less : Total Equity Contribution	9,400,000	20.00
Amount to be sourced as Grant from UNIDO	P3,863,500 or \$154,540	8.22

4.2.3 Financial Viability

The Project's financial viability were arrived at using the following scenarios:

Scenario	Description
A	Projections based on technical, marketing and revenue computations in the study.
B	Revenue less 30%; costs less 30%; operating expenses the same as Scenario A; and interest rate the same as Scenario A.
C	Revenue, costs, and interest rate the same as Scenario B but operating expenses is increased by 30%.

4.3 Pro-Forma Profit and Loss Statement

The proposed CFC project can generate in five years total revenues of P6.255 billion of which P1.243 billion or 19.87 per cent can be realized as gross profit. Net income (after deducting operating expenses, interest expense, and income tax) will amount to P.526 million or about 8.42 per cent of revenues. The yearly revenues and net income figures are:

Year	Revenue (P'000)	Gross Profit (P'000)	Net Income (P'000)
1	839,538	167,653	69,192
2	1,005,773	200,763	84,089
3	1,209,659	239,821	101,369
4	1,452,330	289,004	123,454
5	1,748,000	346,252	148,757
	6,255,300	1,243,493	526,861

4.4 Pro-Forma Cash Flow Statement

The project will be able to generate total cash inflows of P431.2 million over the five-year period. This is already net of the debt/service, for principal repayment and interest payments totalling P46.5 million. Annual breakdowns are as follows:

Year	Cash Receipts (P'000)	Cash Disbursement (P'000)	Ending Cash Balance (P'000)
0	44,105	43,625	480
1	629,679	488,461	31,170
2	964,245	882,425	103,089
3	1,158,719	1,061,380	191,122
4	1,391,698	1,274,750	299,360
5	1,674,083	1,534,046	431,282

4.5 Pro-Forma Balance Sheet

The CFC will have a total asset base of P906.8 million in five years, from a beginning figure of only P47 million, broken down as follows:

Year	Total Assets (P'000)	Total Liabilities (P'000)	Total Equity (P'000)
0	47,000	37,600	9,400
1	285,984	207,366	78,618
2	397,870	235,133	162,737
3	535,284	271,146	264,138
4	702,599	314,974	387,628
5	906,847	370,462	536,385

4.6 Financial Highlights

The financial highlights presented below show that the proposed CFC project is financially viable and feasible. It has a very high return on equity (ROE)

which is computed at 491.12 per cent and an average payback period of less than 1 year.

Financial Indicator	Formula	Computation
1. Current Ratio	Current Assets	905,742
	----- Current Liabilities	370,462
		= 2.44 times
2. Debt to Total Assets	Total Debt	370,462
	----- Total Assets	906,847
		= 40.85 %
3. Average Collection Period	Receivables	437,000
	----- Sales Per Day	4,855
		= 90 days
4. Total Assets Turnover	Sales	1,251,060
	----- Total Assets	906,847
		= 1.38 days
5. Profit Margin on Sales	Net Income After Tax	526,861
	----- Sales	6,255,300
		= 8.42%
6. Return on Total Assets	Net Income After Tax	526,861
	----- Total Assets	906,847
		= 58.10%
7. Return on Equity	Net Income After Tax	526,861
	----- Equity (Average)	107,277
		= 491.12%
8. Payback Period	Equity (Average)	107,277
	----- Net Income After Tax	526,861
		= 0.20 years

Table IV.1 (Scenario A)
PRO-FORMA P&L STATEMENT
In Thousands (P000)

	1	2	3	4	5	TOTALS
Revenue						
Parcelling of Orders	559,238	675,571	819,168	990,634	1,199,952	4,244,563
Sales of Supplies and Materials	199,181	241,075	292,118	353,434	428,688	1,514,496
Working Capital Loans	79,162	86,899	95,827	105,350	116,064	483,302
Training and Seminars	1,258	1,384	1,522	1,674	1,796	7,634
Product Development	699	844	1,024	1,238	1,500	5,305
Total Revenue	839,538	1,005,773	1,209,659	1,452,330	1,748,000	6,255,300
Cost of Sales						
Parcelling of Orders	446,880	539,616	655,334	791,827	960,336	3,393,993
Sales of Supplies and Materials	159,600	193,421	234,931	283,766	344,448	1,216,166
Working Capital Loans	63,840	70,080	77,280	84,960	93,600	389,760
Training and Seminars	1,006	1,218	1,474	1,783	2,164	7,645
Product Development	559	675	819	990	1,200	4,243
Total Cost of Sales	671,885	805,010	969,838	1,163,326	1,401,748	5,011,807
Gross Profit	167,653	200,763	239,821	289,004	346,252	1,243,493
Less: Operating Expenses						
Salaries and Wages	2,067	2,274	2,501	2,751	3,026	12,619
SSS & HDMF Contributions	210	227	250	275	303	1,265
Employees Welfare	310	341	375	413	454	1,893
Taxes and Licenses	16,765	20,076	23,982	28,900	34,625	124,348
Repairs and Maintenance	180	198	218	240	264	1,100
Depreciation	766	766	766	766	766	3,830
Amortization	825	825	825	825	825	4,125
Representation	20,988	25,144	30,241	36,308	43,700	156,381
Power, Light and Water	360	396	436	480	528	2,200
Communications	120	132	145	160	176	733
Transportation and Travel	240	264	290	320	351	1,465
Advertising and Promotions	12,593	15,086	18,145	21,785	26,220	93,829
Miscellaneous	2,771	3,286	3,909	4,661	5,562	20,189
Total Operating Expenses	58,195	69,015	82,083	97,884	116,800	423,977
Net Income before Interest Expense	109,458	131,748	157,738	191,120	229,452	819,516
Less: Interest Expense	3,008	2,381	1,786	1,190	595	8,960
Net Operating Income	106,450	129,367	155,952	189,930	228,857	810,556
Less: Income Tax	37,258	45,278	54,583	66,476	80,100	283,695
NET INCOME	69,192	84,089	101,369	123,454	148,757	526,861

Table IV.2 (Scenario B)
PRO-FORMA P&L STATEMENT
In Thousands (P000)

	1	2	3	4	5	TOTALS
Revenue						
Parcelling of Orders	391,467	472,900	573,418	693,444	839,966	2,971,194
Sales of Supplies and Materials	139,427	168,753	204,483	247,404	300,082	1,060,147
Working Capital Loans	55,413	60,829	67,079	73,745	81,245	338,311
Training and Seminars	881	969	1,065	1,172	1,257	5,344
Product Development	489	591	717	867	1,050	3,714
Total Revenue	587,677	704,041	846,761	1,016,631	1,223,600	4,378,710
Cost of Sales						
Parcelling of Orders	312,816	377,731	458,734	554,279	672,235	2,375,795
Sales of Supplies and Materials	111,720	135,395	164,452	198,636	241,114	851,316
Working Capital Loans	44,688	49,056	54,096	59,472	65,520	272,832
Training and Seminars	704	853	1,032	1,248	1,515	5,352
Product Development	391	472	573	693	840	2,970
Total Cost of Sales	470,320	563,507	678,887	814,328	981,224	3,508,265
Gross Profit	117,357	140,534	167,875	202,303	242,376	870,445
Less: Operating Expenses						
Salaries and Wages	2,067	2,274	2,501	2,751	3,026	12,619
SSS & HDMF Contributions	210	227	250	275	303	1,265
Employees Welfare	310	341	375	413	454	1,893
Taxes and Licenses	16,765	20,076	23,982	28,900	34,625	124,348
Repairs and Maintenance	180	198	218	240	264	1,100
Depreciation	766	766	766	766	766	3,830
Amortization	825	825	825	825	825	4,125
Representation	20,988	25,144	30,241	36,308	43,700	156,381
Power, Light and Water	360	396	436	480	528	2,200
Communications	120	132	145	160	176	733
Transportation and Travel	240	264	290	320	351	1,465
Advertising and Promotions	12,593	15,086	18,145	21,785	26,220	93,829
Miscellaneous	2,771	3,286	3,909	4,661	5,562	20,189
Total Operating Expenses	58,195	69,015	82,083	97,884	116,800	423,977
Net Income before Interest Expense	59,162	71,519	85,792	104,419	125,576	446,468
Less: Interest Expense	3,008	2,381	1,786	1,190	595	8,960
Net Operating Income	56,154	69,138	84,006	103,229	124,981	437,508
Less: Income Tax	19,654	24,198	29,402	36,130	43,743	153,128
NET INCOME	36,500	44,940	54,604	67,099	81,238	284,380

PRO-FORMA P&L STATEMENT
In Thousands (P000)

	1	2	3	4	5	TOTALS
Revenue						
Parcelling of Orders	391,467	472,900	573,418	693,444	839,966	2,971,194
Sales of Supplies and Materials	139,427	168,753	204,483	247,404	300,082	1,060,147
Working Capital Loans	55,413	60,829	67,079	73,745	81,245	338,311
Training and Seminars	881	969	1,065	1,172	1,257	5,344
Product Development	489	591	717	867	1,050	3,714
Total Revenue	587,677	704,041	846,761	1,016,631	1,223,600	4,378,710
Cost of Sales						
Parcelling of Orders	312,816	377,731	458,734	554,279	672,235	2,375,795
Sales of Supplies and Materials	111,720	135,395	164,452	198,636	241,114	851,316
Working Capital Loans	44,688	49,056	54,096	59,472	65,520	272,832
Training and Seminars	704	853	1,032	1,248	1,515	5,352
Product Development	391	472	573	693	840	2,970
Total Cost of Sales	470,320	563,507	678,887	814,328	981,224	3,508,265
Gross Profit	117,357	140,534	167,875	202,303	242,376	870,445
Less: Operating Expenses						
Salaries and Wages	2,687	2,956	3,251	3,576	3,934	16,405
SSS & HDMF Contributions	273	295	325	358	394	1,645
Employees Welfare	403	443	488	537	590	2,461
Taxes and Licenses	21,795	26,099	31,177	37,570	45,013	161,652
Repairs and Maintenance	234	257	283	312	343	1,430
Depreciation	996	996	996	996	996	4,979
Amortization	1,073	1,073	1,073	1,073	1,073	5,363
Representation	27,284	32,687	39,313	47,200	56,810	203,295
Power, Light and Water	468	515	567	624	686	2,860
Communications	156	172	189	208	229	953
Transportation and Travel	312	343	377	416	456	1,905
Advertising and Promotions	16,371	19,612	23,589	28,321	34,086	121,978
Miscellaneous	3,602	4,272	5,082	6,059	7,231	26,246
Total Operating Expenses	75,654	89,720	106,708	127,249	151,840	551,170
Net Income before Interest Expense	41,704	50,815	61,167	75,054	90,536	319,275
Less: Interest Expense	3,008	2,381	1,786	1,190	595	8,960
Net Operating Income	38,696	48,434	59,381	73,864	89,941	310,315
Less: Income Tax	13,543	16,952	20,783	25,852	31,479	108,610
NET INCOME	25,152	31,482	38,598	48,011	58,462	201,705

Table IV.4 (Scenario A)
PRO-FORMA CASH FLOW STATEMENT
In Thousands (P000)

	0	1	2	3	4	5
Cash Receipts						
Availment of Loan	37,600	-	-	-	-	-
Equity Contributions						
Support Institutions	2,000	-	-	-	-	-
ILO Grant	375	-	-	-	-	-
Membership Fees	266	26	30	32	36	-
UNIDO Grant	3,864	-	-	-	-	-
Collections from Sales	-	629,653	964,215	1,158,687	1,391,662	1,674,083
Total Cash Receipts	44,105	629,679	964,245	1,158,719	1,391,698	1,674,083
Cash Disbursements						
Leasehold Improvements	3,525	-	-	-	-	-
Machineries & Equipment	1,540	-	-	-	-	-
Materials and Supply Inventory	26,820	-	-	-	-	-
Working Capital Loans	10,640	-	-	-	-	-
Pre-Operating Expenses	600	-	-	-	-	-
Transportation Equipment	500	-	-	-	-	-
Cost of Sales	-	503,914	771,728	928,631	1,114,954	1,342,143
Operating Expenses	-	56,604	67,424	80,492	96,293	115,209
Income Tax	-	27,943	43,273	52,257	63,503	76,694
Total Cash Disbursements	43,625	588,461	882,425	1,061,380	1,274,750	1,534,046
Net Cash Inflow before Debt Service	480	41,218	81,820	97,339	116,948	140,037
Less: Debt Service						
Principal Payment	-	7,520	7,520	7,520	7,520	7,520
Interest Payment	-	3,008	2,381	1,786	1,190	595
Total Debt Service	-	10,528	9,901	9,306	8,710	8,115
Net Operating Cash Inflow	480	30,690	71,919	88,033	108,238	131,922
Add: Beginning Cash Balance	-	480	31,170	103,089	191,122	299,360
CASH BALANCE, END	480	31,170	103,089	191,122	299,360	431,282

Table IV.5 (Scenario B)
PRO-FORMA CASH FLOW STATEMENT
In Thousands (P000)

	0	1	2	3	4	5
Cash Receipts						
Availment of Loan	37,600	-	-	-	-	-
Equity Contributions						
Support Institutions	2,000	-	-	-	-	-
ILO Grant	375	-	-	-	-	-
Membership Fees	266	26	30	32	36	-
UNIDO Grant	3,864	-	-	-	-	-
Collections from Sales	-	440,758	674,950	811,081	974,164	1,171,858
Total Cash Receipts	44,105	440,784	674,980	811,113	974,200	1,171,858
Cash Disbursements						
Leasehold Improvements	3,525	-	-	-	-	-
Machineries & Equipment	1,540	-	-	-	-	-
Materials and Supply Inventory	26,820	-	-	-	-	-
Working Capital Loans	10,640	-	-	-	-	-
Pre-Operating Expenses	600	-	-	-	-	-
Transportation Equipment	500	-	-	-	-	-
Cost of Sales	-	352,740	540,210	650,042	780,468	939,500
Operating Expenses	-	56,604	67,424	80,492	96,293	115,209
Income Tax	-	14,741	23,062	28,101	34,448	41,840
Total Cash Disbursements	43,625	424,085	630,696	758,635	911,209	1,096,549
Net Cash Inflow before Debt Service	480	16,699	44,284	52,478	62,991	75,309
Less: Debt Service						
Principal Payment	-	7,520	7,520	7,520	7,520	7,520
Interest Payment	-	3,008	2,381	1,786	1,190	595
Total Debt Service	-	10,528	9,901	9,306	8,710	8,115
Net Operating Cash Inflow	480	6,171	34,383	43,172	54,281	67,194
Add: Beginning Cash Balance	-	480	6,651	41,034	84,206	138,487
CASH BALANCE, END	480	6,651	41,034	84,206	138,487	205,681

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Table IV.6 (Scenario C)
PRO-FORMA CASH FLOW STATEMENT
In Thousands (P000)

	0	1	2	3	4	5
Cash Receipts						
Availment of Loan	37,600	--	--	--	--	--
Equity Contributions						
Support Institutions	2,000	--	--	--	--	--
ILO Grant	375	--	--	--	--	--
Membership Fees	266	26	30	32	36	--
UNIDO Grant	3,864	--	--	--	--	--
Collections from Sales	--	440,758	674,950	811,081	974,164	1,171,858
Total Cash Receipts	44,105	440,784	674,980	811,113	974,200	1,171,858
Cash Disbursements						
Leasehold Improvements	3,525	--	--	--	--	--
Machineries & Equipment	1,540	--	--	--	--	--
Materials and Supply Inventory	26,820	--	--	--	--	--
Working Capital Loans	10,640	--	--	--	--	--
Pre-Operating Expenses	600	--	--	--	--	--
Transportation Equipment	500	--	--	--	--	--
Cost of Sales	--	352,740	540,210	650,042	780,468	939,500
Operating Expenses	--	73,585	87,651	104,639	125,180	149,771
Income Tax	--	10,157	16,100	19,825	24,585	30,072
Total Cash Disbursements	43,625	436,482	643,961	774,506	930,233	1,119,343
Net Cash Inflow before Debt Service	480	4,302	31,019	36,607	43,967	52,515
Less: Debt Service						
Principal Payment	--	7,520	7,520	7,520	7,520	7,520
Interest Payment	--	3,008	2,381	1,786	1,190	595
Total Debt Service	--	10,528	9,901	9,306	8,710	8,115
Net Operating Cash Inflow	480	(6,227)	21,118	27,301	35,257	44,400
Add: Beginning Cash Balance	--	480	(5,747)	15,372	42,672	77,929
CASH BALANCE, END	480	(5,747)	15,372	42,672	77,929	122,329

PRO - FORMA BALANCE SHEET
In Thousands (P000)

	0	1	2	3	4	5
<u>ASSETS</u>						
Current Assets						
Cash	480	31,170	103,089	191,122	299,360	431,282
Accounts Receivable	-	209,885	251,443	302,415	363,083	437,000
Inventory	26,820	26,820	26,820	26,820	26,820	26,820
Working Capital Loan Fund	10,640	10,640	10,640	10,640	10,640	10,640
Total Current Assets	37,940	278,515	391,992	530,997	699,903	905,742
Property, Plant and Equipment						
Land and Building	2,435	2,435	2,435	2,435	2,435	2,435
Machineries and Equipment	2,000	2,000	2,000	2,000	2,000	2,000
Transportation Equipment	500	500	500	500	500	500
Total Property Plant & Equipment	4,935	4,935	4,935	4,935	4,935	4,935
Less: Accum. Depreciation	-	766	1,532	2,298	3,064	3,830
Net Book Value	4,935	4,169	3,403	2,637	1,871	1,105
Other Assets						
Leasehold Improvements	3,525	3,525	3,525	3,525	3,525	3,525
Pre-Operating Expenses	600	600	600	600	600	600
Total Other Assets	4,125	4,125	4,125	4,125	4,125	4,125
Less: Accum. Amortization	-	825	1,650	2,475	3,300	4,125
Net Book Value	4,125	3,300	2,475	1,650	825	0
TOTAL ASSETS	47,000	285,984	397,870	535,284	702,599	906,847
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>						
Current Liabilities						
Accounts Payable	-	167,971	201,253	242,460	290,832	350,437
Income Tax Payable	-	9,315	11,320	13,646	16,619	20,025
Total Current Liabilities	-	177,286	212,573	256,106	307,451	370,462
Long-Term Liabilities						
Notes Payable	37,600	30,080	22,560	15,040	7,520	-
Stockholders' Equity						
Beginning	9,400	9,400	78,618	162,737	264,138	387,628
Add: Income for the Period	-	69,192	84,089	101,369	123,454	148,757
Equity Contributions	-	26	30	32	36	-
Ending	9,400	78,618	162,737	264,138	387,628	536,385
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	47,000	285,984	397,870	535,284	702,599	906,847

Table IV.8 (Scenario B)
PRO-FORMA BALANCE SHEET
In Thousands (P000)

	0	1	2	3	4	5
ASSETS						
Current Assets						
Cash	480	6,651	41,034	84,206	138,487	205,681
Accounts Receivable	-	146,920	176,011	211,691	254,159	305,901
Inventory	26,820	26,820	26,820	26,820	26,820	26,820
Working Capital Loan Fund	10,640	10,640	10,640	10,640	10,640	10,640
Total Current Assets	37,940	191,031	254,505	333,357	430,106	549,042
Property, Plant and Equipment						
Land and Building	2,435	2,435	2,435	2,435	2,435	2,435
Machineries and Equipment	2,000	2,000	2,000	2,000	2,000	2,000
Transportation Equipment	500	500	500	500	500	500
Total Property Plant & Equipment	4,935	4,935	4,935	4,935	4,935	4,935
Less: Accum. Depreciation	-	766	1,532	2,298	3,064	3,830
Net Book Value	4,935	4,169	3,403	2,637	1,871	1,105
Other Assets						
Leasehold Improvements	3,525	3,525	3,525	3,525	3,525	3,525
Pre-Operating Expenses	600	600	600	600	600	600
Total Other Assets	4,125	4,125	4,125	4,125	4,125	4,125
Less: Accum. Amortization	-	825	1,650	2,475	3,300	4,125
Net Book Value	4,125	3,300	2,475	1,650	825	0
TOTAL ASSETS	47,000	198,500	260,383	337,644	432,802	550,147
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable	-	117,580	140,877	169,722	203,582	245,306
Income Tax Payable	-	4,914	6,050	7,351	9,033	10,936
Total Current Liabilities	-	122,494	146,927	177,073	212,615	256,242
Long-Term Liabilities						
Notes Payable	37,600	30,080	22,560	15,040	7,520	-
Stockholders' Equity						
Beginning	9,400	9,400	45,926	90,896	145,532	212,667
Add: Income for the Period	-	36,500	44,940	54,604	67,099	81,238
Equity Contributions	-	26	30	32	36	-
Ending	9,400	45,926	90,896	145,532	212,667	293,905
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	47,000	198,500	260,383	337,645	432,802	550,147

PRO-FORMA BALANCE SHEET
In Thousands (P000)

	0	1	2	3	4	5
ASSETS						
Current Assets						
Cash	480	(5,747)	15,372	42,672	77,929	122,329
Accounts Receivable	-	146,920	176,011	211,691	254,159	305,901
Inventory	26,820	26,820	26,820	26,820	26,820	26,820
Working Capital Loan Fund	10,640	10,640	10,640	10,640	10,640	10,640
Total Current Assets	37,940	178,633	228,843	291,823	369,548	465,690
Property, Plant and Equipment						
Land and Building	2,435	2,435	2,435	2,435	2,435	2,435
Machineries and Equipment	2,000	2,000	2,000	2,000	2,000	2,000
Transportation Equipment	500	500	500	500	500	500
Total Property Plant & Equipment	4,935	4,935	4,935	4,935	4,935	4,935
Less: Accum. Depreciation	-	996	1,992	2,988	3,984	4,980
Net Book Value	4,935	3,939	2,943	1,947	951	(45)
Other Assets						
Leasehold Improvements	3,525	3,525	3,525	3,525	3,525	3,525
Pre-Operating Expenses	600	600	600	600	600	600
Total Other Assets	4,125	4,125	4,125	4,125	4,125	4,125
Less: Accum. Amortization	-	1,073	2,146	3,219	4,292	5,365
Net Book Value	4,125	3,052	1,979	906	(167)	(1,240)
TOTAL ASSETS	47,000	185,624	233,765	294,676	370,332	464,405
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable	-	117,580	140,877	169,722	203,582	245,306
Income Tax Payable	-	3,386	4,238	5,196	6,463	7,870
Total Current Liabilities	-	120,966	145,115	174,918	210,045	253,176
Long-Term Liabilities						
Notes Payable	37,600	30,080	22,560	15,040	7,520	-
Stockholders' Equity						
Beginning	9,400	9,400	34,578	66,090	104,720	152,767
Add: Income for the Period	-	25,152	31,482	38,598	48,011	58,462
Equity Contributions	-	26	30	32	36	-
Ending	9,400	34,578	66,090	104,720	152,767	211,229
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	47,000	185,624	233,765	294,678	370,332	464,405

Table IV.10 (Scenario A)
COMPUTATION OF FINANCIAL HIGHLIGHTS

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{905,742}{370,462}$	2.44
Debt to Total Assets	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$\frac{370,462}{906,847}$	40.85
Average Collection Period	$\frac{\text{Receivables}}{\text{Sales Per Day}}$	$\frac{437,000}{4,855}$	90
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	$\frac{1,251,060}{906,847}$	1.38
Profit Margin on Sales	$\frac{\text{NIAT}}{\text{Sales}}$	$\frac{526,861}{6,255,300}$	8.42
Return on Total Assets	$\frac{\text{NIAT}}{\text{Total Assets}}$	$\frac{526,861}{906,847}$	58.10
Return on Equity	$\frac{\text{NIAT}}{\text{Equity (Average)}}$	$\frac{526,861}{107,277}$	491.12
Payback Period	$\frac{\text{Equity (Average)}}{\text{NIAT}}$	$\frac{107,277}{526,861}$	0.20

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Table IV.11 (Scenario B)
COMPUTATIONS OF FINANCIAL HIGHLIGHTS

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{549,042}{256,242}$	2.14
Debt to Total Assets	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$\frac{256,242}{550,147}$	46.58
Average Collection Period	$\frac{\text{Receivables}}{\text{Sales Per Day}}$	$\frac{305,901}{3,399}$	90.00
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	$\frac{875,742}{550,147}$	1.59
Profit Margin on Sales	$\frac{\text{NIAT}}{\text{Sales}}$	$\frac{284,380}{4,378,710}$	6.49
Return on Total Assets	$\frac{\text{NIAT}}{\text{Total Assets}}$	$\frac{284,380}{550,147}$	51.69
Return on Equity	$\frac{\text{NIAT}}{\text{Equity (Average)}}$	$\frac{284,380}{58,781}$	483.80
Payback Period	$\frac{\text{Equity (Average)}}{\text{NIAT}}$	$\frac{58,781}{284,380}$	0.21

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Table IV.12 (Scenario C)
COMPUTATIONS OF FINANCIAL HIGHLIGHTS

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{465,690}{253,176}$	1.84
Debt to Total Assets	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$\frac{253,176}{464,405}$	54.52
Average Collection Period	$\frac{\text{Receivables}}{\text{Sales Per Day}}$	$\frac{305,901}{3,399}$	90.00
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	$\frac{875,742}{464,405}$	1.89
Profit Margin on Sales	$\frac{\text{NIAT}}{\text{Sales}}$	$\frac{201,705}{4,378,710}$	4.61
Return on Total Assets	$\frac{\text{NIAT}}{\text{Total Assets}}$	$\frac{201,705}{464,405}$	43.43
Return on Equity	$\frac{\text{NIAT}}{\text{Equity (Average)}}$	$\frac{201,705}{42,246}$	477.45
Payback Period	$\frac{\text{Equity (Average)}}{\text{NIAT}}$	$\frac{42,246}{201,705}$	0.21

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5. ORGANIZATION AND MANAGEMENT ASPECTS

5.1 Proposed CFC Organization

The proposed Organizational Chart for the CFC can be seen in Figure 9.6. The CFC will be under the control of the Board of Directors. The day-to-day operations of the CFC will be the duty of the Plant Manager/General Manager. The key operating units/departments of the organization will be:

- Finance and Administration Department
 - Marketing and Promotions Department
 - Operations Department
-

5.2 Functions of the CFC Organization

The main functions of the CFC will be as follows:

- Play an advocacy role for the Footwear and Leathersgoods Industry;
- Fund R&D activities and various studies;
- Supervise the CFC operations (policy and auditing functions);
- Fund/Organize promotional activities, partly through the CFC;
- Promote linkages/dialogue between the industry and local/national government agencies and private sector organizations/bodies;
- Contribute to improved working conditions and the social welfare/protection of workers in the industry;
- Help secure funding from the foundations own resources, local and national governments, and donors for infrastructural development projects required by the industry; and
- Help regulate the industry.

The functions of the various elements and units of the proposed CFC organization will be as follows:

Board of Directors

The Board of Directors shall exercise overall control of the CFC. They shall be responsible for solving policy issues and providing policy guidance related to the development, operation, and management of the CFC. Members to the CFC Board of Directors will be nominated/elected and chosen from both government and private organizations who are instrumental to the creation of the proposed CFC. These organizations include:

- Cottage Industry Technology Center/Department of Trade and Industry
- National Manpower & Youth Council/Technical Education and Skills Development Authority
- Office of Congressman Romeo Candazo
- Marikina Footwear Federation, Inc.
- Municipality of Marikina
- Bank/financial institution or funding agency
- Philippine Export Corporation

Office of the Plant/General Manager

The Office of the Plant/General Manager shall be responsible for overseeing all activities of the CFC. These shall include planning of the overall development strategy as well as deciding day-to-day operational policies. The Plant/General

Manager shall be directly responsible to and report to the CFC Board of Directors. The Office of the Plant/General Manager shall, likewise, liaise and work closely with the CITC Management as well as the respective Center Managers of the other training centres within the CITC complex. The Plant/General Manager shall also act as the Secretary of the Board of Directors.

Finance and Administration Department

This Department shall be responsible for all personnel activities; budgeting and accounting functions; materials and supplies inventory and record control; collection; disbursements; and maintenance/proper upkeep of the CFC premises.

Marketing and Promotions Department

This Department shall be mainly responsible for the marketing functions of the CFC. It shall look for institutional clients and look for orders to be parcelled to each of the individual members. It shall also be responsible for keeping the Showroom Area attractive for both foreign and local buyers by stocking it with latest models of shoes and leathersgoods products produced by the CFC's members. It shall also be responsible for selling raw materials and supplies to members.

This Department shall also have responsibility for promoting and marketing the CFC's services as well as public relations activities, which shall include both interaction with the local community and liaison with government and concerned institutional accounts.

Operations Department

This Department shall be responsible for the following operations of the CFC: conduct of training and seminars; re-lending/loan activities; product development; and, the rental and use of machineries and equipment by the CFC's members.

5.3 Staffing Requirements

As discussed earlier, the staffing requirements for the proposed CFC are as follows:

	Number
Board of Directors:	
CITC/DTI Representative	1
NMYC/TESDA	1
Office of Cong. Romeo Candazo	1

Marikina Footwear Federation	1
Municipality of Marikina	1
Plant/General Manager of CFC	1
ILO/UNIDO Representative	1
Bank/Funding Agency	2
Elected representatives of the small leathergoods and Footwear Manufacturers of Marikina	3
Plant/General Manager	1
Executive Secretary	1
Finance and Administrative Manager	1
Bookkeeper	1
Accounting Clerk	1
Cashier	1
Purchaser	1
Personnel/Admin. Clerk	1
Collector/Messenger	1
Maintenance/Janitor	1
Marketing and Promotion Department Manager	1
Sales/Showroom Assistant	2
Materials and Supplies Assistant	1
Operations Department Manager	1
Training Assistants	2
Loans Assistant	1
Product Development	2
Technical Assistant	1

5.4 Ownership and Management Structure

It is proposed that the ownership and management structure of the CFC be a partnership between the government and the private sector. Foreign funding and donor agencies such as the International Labour Organization and the United Nations Industrial Development Organization can be tapped and encouraged to contribute equity funds for the development of the CFC. Since this is a development oriented activity in the locality, both the municipal and congressional offices should fully support the establishment of the CFC.

It is important to put into writing the specific responsibilities of each agency that will be involved in the management of the CFC in order to avoid confusion and redundancy or duplication of functions. Regular dialogues must evolve in the

course of developing and operationalizing the project to determine any possible areas of improvement.

5.5 Legal and Institutional Framework

As a business entity, the CFC should register its organization with the Securities and Exchange Commission (SEC), the Bureau of Domestic Trade, the Bureau of Internal Revenue, and the Municipality of Marikina in order that its operations be considered legal.

To effectively implement the CFC, a Project Management Team should be created and authorized to undertake and/or subcontract the improvement of the existing MFLTC area to suit the requirements of the CFC. The proposed timetable for operationalizing the CFC can be seen in Figure 9.7.

As a first step, the ILO should initiate the formulation of a Memorandum of Agreement embodying the specific functions and responsibilities of all concerned parties and agencies that are interested in the creation of the CFC.

FIGURE 6
PROPOSED ORGANIZATIONAL CHART

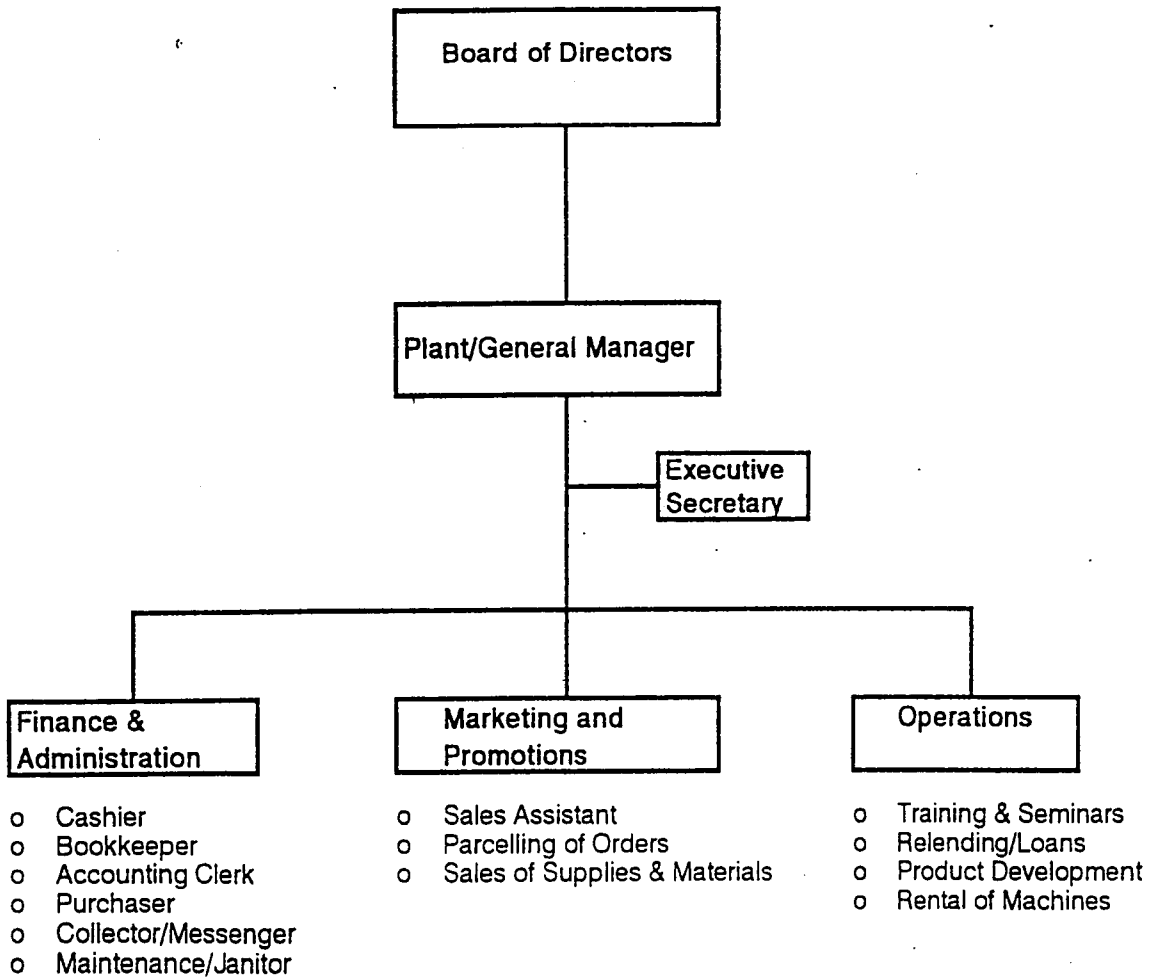


FIGURE 7

TIMETABLE (Pre-operation to year one)

ACTIVITY	Year 0					Year 1											
	-4	-3	-2	-1		1	2	3	4	5	6	7	8	9	10	11	12
1. Expansion and construction of building																	
2. Recruitment and Hiring of Personnel & Staff																	
a. Project Manager																	
b. Supervisors/Head																	
c. Administrative																	
d. Marketing																	
e. Sales																	
f. Accounting/Finance																	
g. Training																	
h. Product Development																	
3. Registration and Licensing																	
4. Canvassing/sourcing of machines, equipments, materials & supplies																	
5. Purchasing of machines & equipments																	
6. Purchasing of materials & supplies																	
7. Installation and setting up machines and equipments																	
8. Test Run																	
9. Conduct of training/seminars																	
10. Machine rental																	
11. Production cum training																	
12. Product Development																	
13. Sales of materials																	
14. Marketing (Parcelling of Orders)																	

6. CONCLUSION AND RECOMMENDATIONS

Based on the foregoing study, there is a need to establish a Common Facility Center for small manufacturers of footwear and leathersgoods products in Marikina. The proposed CFC should be mandated to provide the following services to its members:

1. Continuous supply of raw materials, supplies and accessories at fair prices and low/easy credit terms to its members;
2. Financial assistance to its members through the extension of working capital loans;
3. Training of industry workers and out-school-youth on footwear and leathersgoods manufacture;
4. Make available machineries and equipment to be rented by its members;
5. Provide new designs, patterns and samples through its continuous product development and research activities; and
6. Parcel large orders whether for the domestic or export market to small manufacturers.

As the proposed CFC is financially viable and feasible, with a return on equity of 491.12 per cent and payback period of less than a year, it is highly recommended to pursue the project. The CFC can be located at present in Marikina.

The project can be operated by the Marikina Footwear Foundation. At present, commitments from both government support institutions and the private sector for the establishment and operationalization of the CFC have come in the form of the following:

1. CITC. Use of the existing MFLTC as training cum production area for the CFC including additional land with an area of about 2,000 - 2,500 sq. m. for expansion purposes, if necessary.
 2. NMYC/TESDA. Use of machinery and equipment which were lent to the MFLTC including additional equipment with the proper approval and endorsement of its Board. This government agency will also provide continuous
-

technical assistance in the form of regular conduct of training programmes and seminars particularly for footwear and leathers goods processing.

3. Office of Congressman Romeo Candazo. The use of the "Showroom Building" it has constructed, as the CFC's main office and showroom area. This same building will be fully completed and furnished and financed out of the Congressman's CDF funds.

4. International Labour Organization. Extending a grant amounting US\$15,000 for the equity requirements of the project.

5. Marikina Footwear Federation. Assist in the management of the CFC particularly on functions related to extension of credit/loans and sales of raw materials and supplies to members. This group will also assist in the screening of future members to the CFC.

At this stage, a meeting of all concerned agencies must be worked out in order to plan and schedule the operationalization of the proposed CFC project. Likewise, a Memorandum of Agreement must be formulated to delineate the specific tasks and responsibilities of all concerned groups in order not to create confusion and duplication of functions for the establishment of the CFC.

Annexes

ANNEX 1

**REPORT ON THE SURVEY OF FOOTWEAR AND LEATHERGOODS
MANUFACTURERS**

1. Based on data gathered from the Mayor's Office, there are 665 manufacturers of footwear and leathersgoods products in Marikina. Of this number, six are considered big firms (with an average production capacity of 1,000 pairs/week and having at least 50 workers) and the rest are considered as small manufacturers.

For purpose of this survey, we have limited the number of respondents to ten per cent (10 per cent) of the universe or a total of 67 small-scale manufacturers.

The survey proper was conducted from February 17 - March 10, 1995 covering ten (10) barangays as follows:

Area/Barangay	Registered Mftrs.	Big Company	No. of Respondents	%
Calumpang	112	1	11	16
San Roque	131	-	13	19
Sto. Niño	84	1	8	12
Sta. Elena	13	1	4	6
Malanday Concepcion	88	1	9	14
Nangka	121	1	11	16
Barangka	38	-	2	3
Marikina Heights	11	-	4	6
J. dela Peña	8	-	-	-
Parang	21	-	2	3
Tañong	29	1	3	5
	9	-	-	-
	665	6	67	100 %

2. The breakdown of the 67 manufacturers based on product categorization is as follows:

	No. of Respondents	%
Footwear	53	79
Leathersgoods	14	21
	----	----
	67	100

3. There are three (3) major product lines for footwear and three (3) major product lines for leathergoods.

	No. of Respondents	%
Mens' Shoes	21	40
Ladies' Shoes	30	56
Childrens' Shoes	2	4
	----	----
	53	100

4. The products being manufactured under the leathergoods category are:

	No. of Respondents	%
Ladies Bags	11	79
School Bags	2	14
Small Leathergoods	1	7
	----	-----
	14	100

5. Mens' shoes can be broken down as:

	No. of Respondents	%
Casual	15	71
Dress	3	14
Slippers/Sandals	2	10
Safety Shoes	1	5
	----	-----
	21	100

6. Ladies' shoes can be classified as:

	No. of Respondents	%
Casual	10	33
High Fashion	18	60
Slipper	2	7
	----	-----
	32	100

7. Geographically, Barangays Malanday, Concepcion, Nangka, and Sto. Niño concentrate on the production of mens' shoes while Barangays Calumpang, San Roque, Sta. Elena and Barangka specialize in ladies' shoes.

8. Thirty-one (31) or 46 per cent of the respondents get their ideas from magazines and catalogues while twenty-eight (28) of 42 per cent buy their designs/patterns from a designer in Marikina. The other five (5) or 7 per cent get their designs from clients/buyers, and two (2) or 3 per cent got their design ideas from fashion fairs and exhibits. A design/pattern costs about P25 while graded patterns range from P50 to 70/set. All respondents fear that their designs are being sold to their competitors either in Marikina, Biñan or San Mateo.

9. The average production output of a footwear manufacturer and a leathersgoods manufacturer ranges from 150 pairs to 1500 pairs/month and 50 to 200 pieces per month respectively.

10. An average production area ranges from 15 to 150 sq. m. Forty-three (43) or 64 per cent of the respondents have production areas as part of their houses and 24 or 36 per cent have separate workshops elsewhere.

11. All respondents produce according to job orders. Twenty-five (25) or 39 per cent claim to have sufficient space/area for production, six (6) or 9 per cent have enough space for sales and receiving clients and buyers, three (3) or 4 per cent have showrooms to display samples, four (4) or 6 per cent have stockrooms for finished goods and five (5) or 7 per cent have storage rooms for supplies and materials.

12. Thirty-three (33) or 50 per cent of the respondents wanted to improve their working spaces by moving to another place, seven (7) or 10 per cent wanted to build new workshops within their backyards and twenty-seven (27) or 40 per cent wanted to build a separate workshops.

13. An average footwear manufacturer employs about seven (7) workers (4 female, 3 male) who work on a regular basis. The number of workers usually doubles during peak seasons, especially during school opening (April, May and June) and Christmas (October, November and December). For a leathersgoods manufacturer, an average 4-5 workers compose its workforce. It is normal practice in the industry that family members also work in the business including husband/wife and adult children.

14. Formal training of workers/operators has not been the priority at the moment for all the respondents since their concern is to hire workers who are already skilled. Not one of the respondents would like to spend to send workers for training because of the risk of not retaining them after training. Skilled workers are difficult to find especially during peak seasons of production. For the rest of the year, skilled workers work extra moving from one factory to another.

15. All respondents believe their workers are motivated since the latter tend to return to work with them after doing extra jobs with other producers or when they are recalled for the job. Most often, workers leave their jobs because of irregular production schedule.

16. The typical process/production flow of footwear manufacturing including the average number of workers required and the average piece-rate paid to the workers are as follows:

	Ave. No.	Average	Rate/Pair
synthetic leather			
Upper Making			
A. Upper Clicking	1	P1.50	P2.50
B. Upper Closing	4	P7.50	P9.00
Bottom Making	3	P12.00	P15.00
A. Cutting & Preparation			
B. Lasting			
C. Finishing			

17. The equipment and machines currently being used are as follows:

Name/Description	% Ownership	New Brand	Second- Hand	Fabricated
Sewing machine	100	54	46	-
Skiving	61	68	32	-
Clicking	6	-	100	-
Oven/dryer	43	-	-	100
Polishing	1	100	-	-
Grading	1	100	-	-
Roughing	72	2	15	83
Trimming	3	100	-	-
Shoe last duplicating	1	100	-	-
Sole Press	3	-	100	-
Embossing	4	33	-	-
Strap cutting	1	-	-	100
Sole stitching	15	-	100	-
Lasting	1	100	-	-

18. Sixty-two (62) or 93 per cent of the respondents require new and or additional machines to improve their productivity/quality. However, 91 per cent cannot afford to acquire these machines because of lack of funds and fear of under-utilization because of the unstable market. The following list of machines can support and increase a manufacturers' productivity.

- clicking machine
- sewing machine attachments
- sole stitching
- embossing
- roughing with exhaust system
- splitting machine
- stripping machine
- edge burnishing
- sole attaching
- strap cutting
- lasting (toe, side, seat)
- vulcanizing

19. The survey also revealed that owners do not provide tools to their workers. It is the individual workers themselves who bring their own tools.

20. Fifty-five (55) or 82 per cent of the respondents acquired their machines from local agents or distributors, ten (10) or 15 per cent from second-hand dealers, and the other two (2) or 3 per cent from an importer.

21. Thirty (30) or 46 per cent of the respondents use synthetic materials as shoe uppers, twenty-seven (27) or 41 per cent use leather, while four (4) or 6 per cent use indigenous materials. The other six (6) or 7 per cent use a combination of fabric and synthetic materials in their shoe operation.

Materials and supplies are availed by 94 per cent of the manufacturers from local retail outlets. These they can purchase "over the counter" either with cash or credit (at 30-60 days credit terms).

22. Since production is based on job orders, materials, supplies and accessories are purchased according to requirements. The moment additional orders are placed, materials availability becomes a problem. Stock of materials are usually replenished and are made available in one week to a month.

23. All respondents sell their products locally. Fifty-two (52) or 78 per cent of the total respondents have marketing agents, thirteen (13) or 20 per cent

sell directly to department stores and boutiques and the other 2 per cent manufacture exclusively for one brand of shoe.

24. Fifty-two (52) or 78 per cent of the respondents sell their products to the regions through agents while the other fifteen (15) or 22 per cent sell their products in Metro Manila stores, retail outlets and wholesalers.

25. Four (4) or 6 per cent of the manufacturers accept subcontract jobs. Common problems they encounter include low prices being offered and no advances in terms of labour and materials. Payments are made upon the delivery of goods. In comparative terms, this is better than selling to department stores and boutiques which offer payment terms of 90-120 days.

26. No one deals with middlemen for subcontract arrangements. Manufacturers which use synthetic materials particularly for ladies' shoes identify Biñan manufacturers as their major competitors. Manufacturers of mens' shoes which use leather materials identify manufacturers from San Mateo as their major competitors. All claim quality as their advantage over their competitors.

27. Fifty (50) per cent of the respondents want to export their products. However, they are aware that problems on fittings, sizing and quality of materials have to be settled first in order to succeed. Twenty-two (22) per cent of those interviewed have apprehensions about exporting their goods because they believe they do not have the capability and capacity to meet the export market's needs because of their present resources.

28. Major marketing problems include proper and competitive pricing, longer terms imposed by clients, limited knowledge of marketing, and high cost of sampling. GATT also threatens to reduce their market demand because of the entry of imported shoes.

29. All of the respondents also believe that their products have met quality requirements in terms of materials, design and craftsmanship. Fittings become a problem when shoes are sold to boutiques and department stores in Metro Manila.

30. Sixty-two (62) or 94 per cent of the respondents need additional funding for additional working capital, expansion of workshop, upgrading of machineries and tools, and to acquire transportation services. The other five (5) or 6 per cent have existing loans for working capital purposes.

31. Twenty-one (21) or 31 per cent of the respondents are members of a cooperative. Of this number, 16 or 76 per cent have availed of its services

basically through purchases of materials, financial loan and training. Majority of the active members expect the cooperative to have sufficient and complete stocks of materials and supplies they need for production and more financial assistance and promotional activities to assist in the marketing of their goods.

32. Five (5) or 24 per cent of the respondents are no longer active in cooperatives claiming limited supplies and technical assistance are not being extended to them. They expect a fully sustainable, financially capable cooperative to answer and augment the needs of its members.

33. Twenty-three (23) or 21 per cent of the respondents have heard or learned about CITC. Only one firm has availed of its training programme. No other services are made available to the manufacturers. Thirty-one (31) per cent have learned about NMYC/TESDA with only 4 per cent availing of its services like training and use of facilities. All respondents complain of the distance of the centre to Marikina considering the traffic condition in the locality. None of the respondents are aware of any existing CFC in Marikina although all claim they can also use machines of some manufacturers (usually skiving and sole stitching) for a fee. The average rental for skiving machine is P25/set and sole stitching P12/pr.

34. All of the respondents are interested to join and be members of a new CFC. They are willing to pay a membership fee and buy some shares of stocks. However, they want to be fully informed of its functions and objectives. About 17 per cent or 25 per cent of the respondents showed their interest and willingness to be a Board Member. The new CFC must be located within Marikina and in particular near the town proper where the municipal hall is. All believe that the municipality or the local government must extend its share by providing land to build the new CFC. It must be a private entity managed by its Board Members. All expect the new CFC to be a one-stop centre which can serve small manufacturers in such areas as marketing, use of machines, making available high quality raw materials at low prices, skilled manpower, and financial assistance.

35. All respondents are legitimate manufacturers but are disappointed with no assistance being provided by the local government.

36. Workers are being paid based on a piece-rate system with only three (3) of the respondents paying its regular workers a daily rate averaging from P130-P140/day. Working conditions pose a major problem particularly regarding ventilation and lighting. No one employs an underage worker.

Recommendation

37. Based on the results of the survey, it was found out that 100 per cent of the respondents are interested in having a CFC in Marikina. They expect this to be a service centre for small manufacturers which will cater to their following needs:

- sale of materials, supplies and accessories
- marketing assistance
- financial aid/assistance
- rent of machinery and equipment
- training
- source of new ideas/designs and data and information
- Product Research and Development

38. Small manufacturers in Marikina showed interest to support the establishment of the CFC and with the completion of the survey, it is further recommended to proceed with the second phase which is the conduct of interviews with the following associations /cooperative institutions:

a. Cooperatives

- Marikina Footwear and Leathersgoods Manufacturers Credit Cooperative
- Marikina Footwear Development Council
- Assembly of Footwear Manufacturers

b. Association

- Marikina Expo
- Marikina Trade Fair

c. Local Government Unit

- Office of the Major
- Congressman of Marikina

d. Institution

- Cottage Industry Technology Center (CITC)
 - National Manpower and Youth Council (NMYC)
 - Department of Trade and Industry
-

ANNEX 1A

LIST OF MANUFACTURERS INTERVIEWED

1. Manolito Espiritu
3 Fatima Dr. Sta. Teresita, Barangka
 2. Bayani de Guzman
#76 Bonifacio, Barangka
 3. Bong Santo/Joel Dicen
#62 A. Bonifacio, Barangka (Via Venetto)
 4. Carlito Salvado
86 G, D. Avelino St., Barangka
 5. Imelda Fulgencio
55 C. Cruz St., Sta. Elena
 6. Rizalina Cruz
5 Dancel St., Sta. Elena
 7. Edgardo Santos
39 Cruz St., Sta. Elena
 8. Amado Isidro
40 M. Cruz St., Sta. Elena
 9. Miguel Jocson/Amelia
#157 Malaya St., Malanday
 10. Nestor Lamson
73 Malaya St, Malanday
 11. Ricardo Joson
86 Malaya St. Malanday
 12. Emerita Fernando
39 Malaya St., Malanday
 13. Angelo Ramin
59 Malaya St., Malanday
-

14. Ester San Andress
123 Malay St. Malanday
 15. Isagani Torres
201 Malaya St., Malanday
 16. Danilo B. Valentino
83 Malaya St., Malanday, Marikina, Metro Manila
 17. Dolores dela Cruz
182 Malaya St., Malanday
 18. Segundo Gonzales
36 Sta. Ana St., Roxas, Malanday
 19. Rodolfo Francisco
170 Malaya St., Malanday
 20. Danilo Buenaventura
98 Mabini St., San Roque
 21. Carmelita G. Riofrio
55 E. dela Paz St., San Roque, Marikina, Metro Manila
 22. Felipa Legaspi
#211 J.P. Rizal, San Roque
 23. Ma. Carmela B. Marquez
67 E. dela Paz St., San Roque, Marikina, Metro Manila
 24. Myrna M. Santos
#69 E. dela Paz St., San Roque, Marikina, Metro Manila
 25. Allen dela Paz
37 E. dela Paz, San Roque
 26. Rogelio Cruz
32 A. Mabini, San Roque
 27. Dolores Capuno
183 Chestnut St., San Roque
-

-
28. Jaime Lazaro
#228 Chestnut St., San Roque
 29. Reynaldo Angco
#34 Midtown Subd., San Roque
 30. Teresita Medina
#37 M. Roxas St., San Roque
 31. Celestino Javier
#21 H. Roxas St., San Roque
 32. Marlon Buenaventura
San Roque, Marikina
 33. Erlinda Santos
8 Sylvia St., Paliparan, Sto. Niño
 34. Zenaida de Guzman
24 Exequel St., Sto. Niño
 35. Jerry Anastacio
575 1st St., Paliparan, Sto. Niño
 36. Ramil Sto. Domingo
88 Jacinto St., Sto. Niño
 37. Hilda Esquejo
8 B. Santos St., Sto. Niño
 38. Magdalena Jocson
606 Oval St., Sto. Niño
 39. Fernando Hernandez
612 Oval St., Sto. Niño
 40. Ariel Javier
24 Exequel St., Sto. Niño
 41. Danilo Gomez
8 Agrictures St., Sto. Niño
 42. Ruperto Garde
707 Aquilina St., Munding, Sto. Niño
-

43. Gloria Cruz
3rd St., Paliparan, Sto. Niño
 44. Dulcisimo Ayag
244 Bagong Silang, Nangka
 45. Dolores Guillermo
22 Mabuhay St., Nangka
 46. Gaspar Cuevas
D. Mariano St. Conc.
 47. Gerardo Candazo
458 Daang Bakal Conc.
 48. Cesar Martin
77 Bautista St. Conc.
 49. Pedro Reyes
446 Shoe Ave., Conc.
 50. Ernesto Martin
36 Bantayog St. Conc.
 51. Leonor Andres
707 5P Rizal St., Conc. 1
 52. Gerardo Candazo
458 Shoe Ave., Daang Bakal, Conc.
 53. Rolando Cruz
474 Shoe Ave., Conc.
 54. Alex dela Paz
474 A. de Guzman St., Conc.
 55. Ogie Francisco
436 Shoe Ave., Conc.
 56. Leandro Gocon
286 Exequel St., Conc.
-

-
57. Luzviminda Mendoza
83 J.P. Rizal Tayug Calumpang
 58. Marcelo Magno
49 Roxas St., Calumpang
 59. Carmelletes Shoes Inc.
73 dela Paz St., Calumpang, Marikina
 60. Rudy Santos
#72 M. Basa St., Calumpang, Marikina
 61. Leona Penbre
#70 JM Basa St., Calumpang
 62. Luz Mendoza
83 J.P. Rizal, Calumpang
 63. Herman Caballes
72 M.A. Roxas St., Calumpang
 64. Danny Buenaventura
139 M.H del Pilar St., Calumpang
 65. Salome Javier
13 J.M. Basa St., Calumpang
 66. Belen Estaquio
59 J.P. Rizal, Calumpang
-

ANNEX 1B

**SURVEY FORM FOR FOOTWEAR AND LEATHERGOODS
MANUFACTURERS IN MARIKINA**

Name: _____ Age: _____ Status: _____

Address: _____ Tel No.: _____

Product Lines:

1. Footwear

Ladies' Shoes
Mens' Shoes
Childrens Shoes

2. Leathergoods

Type of Footwear Produced: _____ Type of Leathergoods Produced: _____

Casual Shoe	_____	Small Leathergoods
High Fashion/Dress Shoe	_____	Ladies Bags
School Shoe	_____	School Bags
Others (Please specify):	_____	Travelling Bags
		Others (Please specify):

Source of your product design/idea:

Magazine/catalogues
Market/Fashion Fairs
Design Center
Others (Please specify)

Approximate production output:

No. of
(Regular) Workers: Part Time Workers: Family Workers Outside Workers

Female _____
Male _____

Total area of production operations (in square metres) _____

Is your production area:

- Separate Workshop
- Part of the house

Do you have sufficient space

- For production
- For sales/contacts with suppliers/clients
- For samples (showroom)
- For stock (finish goods)
- For supplies/materials

How do you wish to improve your working space

- Move to another place _____
- Build a new workshop within the backyard
- Build a new workshop separate from the house

What is your problem with your present workshop as regards

- Neighbours _____
- Working conditions

Type/kind of machine/ Equipment Available	No.	How Acquired (brand new/ second hand)	Status
--	-----	---	--------

- 1. _____
- 2. _____
- 3. _____
- 4. _____

List of Tools/Benches Available:

- 1. _____
 - 2. _____
 - 3. _____
 - 4. _____
-

What other machines/tools do you still need for your production operations?

Are new/additional equipments and tools needed to improve productivity/quality _____

Can you afford to acquire new equipments and tools? ___

Why?

- Because of lack of funds
- Too low capacity utilization
- Limited market

Sources of Equipment/Tools

- Importer
- Direct Import
- Local Agent/Distributor
- Second hand Dealers

No. of workers/operators with Formal Training:

What is your common problem encountered with your workers?

What type of training does your workers need?

Would you like to send your workers for a short training?

Why?

Do they have sufficiently good skills?

Have they been sent out for training?

If yes, which training facilities have been used?

Who paid for the training? _____ How much?

Is it difficult to find skilled workers in your area?

If yes, for which of the following reasons:

- Not available locally
 - Requires too high salaries
-

Cannot be retained because they are offered better paying jobs by large enterprises

Leave once trained for better paying jobs

Are workers motivated?

Give reasons,

for being motivated:

for not being motivated:

Type/kind of Materials Being Used:

1. Leather _____
2. Synthetic _____
3. Fabric/Yarn _____
4. Indigenous (local materials) _____
5. Others (Please specify) _____

Source of Materials/Accessories

1. Importer _____
2. Local retail outlet _____
3. Wholesaler _____
4. NGO _____
5. Government Agency _____
6. Common facility centre _____

How long do you get your raw materials/accessories?

1. Imported
2. Local retail outlet
3. Wholesaler

Is quality generally good?

If not, why?

Are prices fair?

If not, why?

Do you pay Import Duties/Taxes?

If yes, why?

Terms of Payment:

- Cash
- Credit
- Others (Please specify)

Do you have any problems on the availability of the materials used?

What problems do you usually encounter?

Where do you sell your product?

Local % : _____
Export % : _____

How do you sell your product?

Direct Selling
through Agent _____

Who are your clients:

- Consumers (local people)
- Retailers (small shops/ shopping centres)
- Wholesalers
- Exporters
- Subcontractors
- Immediate vicinity (Marikina)
- Metro Manila
- Other regions (please indicate)
- Direct exports to foreign countries (please indicate)

If you are a subcontractor, are you satisfied with subcontracting arrangements?

If not, why:

- Low prices offered
- High fraction of rejects
- No advance payment in the form of cash, supplies
- No additional benefits in the form of design ideas, information on new markets for own use, assistance in improving technology/quality, etc.
- Others (Please specify)

Do you deal with middlemen for subcontracts?

If yes, why?

Any dissatisfaction with having to depend on middlemen?

Why?

Please indicate who are your three major competitors?

- 1.
- 2.
- 3.

Give your advantage/edge over your competitor in terms of:

- Design
- Productivity
- Quality
- Materials
- Workers
- Machine

List at least three of your marketing problems

- 1.
- 2.
- 3.

Do you want to export your product? Yes_____ No

If no, what are your apprehensions on export market?

Product Quality:

	Poor	Fairly Good	Good	Better	Best
Materials	_____				
Design	_____				
Fittings	_____				
Craftsmanship	_____				

Is your product of export quality:

What is the common problem you identify with the quality of your product?

Do you have any existing loan from a bank/financial institution?

If yes, how much?



For what purpose was the loan availed of?

Do you require/additional funding?

For what purpose do you need additional funding?

Are you a member of any association/cooperative?

If yes, what is the name of the association/cooperative?

Do you pay any membership fee?

How much?

Is your membership renewable?

How far is the association from the workshop?_____ Is distance a problem?

Does the association operate a CFC?

If yes, what kind of services does it provide?

Training

Sale of materials

Rent of equipment

Loan

Marketing assistance, which?

Financial aid, conditions?

Do you use the association CFC often?_____ As need arises?

Are you satisfied with the services offered by the association (CFC)?

If not, give reasons:

Poor facilities (CFC)

Ineffective management

Too far

High membership fees

Not democratically run

Non-competitive services

What do you expect from your association?

What can you say about the association where you are presently a member?

Have you learned/heard about CITC?

Were you able to avail of the services of CITC?

If yes, what kind of services does it provide?

- Training
- Sale of materials
- Rent of equipment
- Loan
- Marketing assistance, which?
- Financial aid, conditions?

Do you use the CITC's CFC often? _____ As need arises?

Are you satisfied with the services offered by CITC's (CFC)?

If not, give reasons:

- Poor facilities (CFC)
- Ineffective management
- Too far
- High membership fees
- Not democratically run
- Non-competitive services

Do you pay any fee for the services?

If yes, are these appropriate? _____ How often do you use CITC services?

If CITC's services not used, why?

What do you expect from CITC?

Have you learned/heard about FLIC/NMYC (TESDA)?

Were you able to avail of the services of FLIC/NMYC?

If yes, what kind of services does it provide?

- Training
- Sale of materials
- Rent of equipment
- Loan
- Marketing assistance, which?
- Financial aid, conditions?

Do you use the FLIC/NMYC CFC often? _____ As need arises?

Are you satisfied with the services offered by FLIC/NMYC (CFC)?

If not, give reasons:

Poor facilities (CFC)
 Ineffective management
 Too far
 High membership fees
 Not democratically run
 Non-competitive services

Do you pay any fee for the services?

If yes, are these appropriate?

If FLIC/NMYC services not used, why?

How far is FLIC/NMYC from your place?

Is this a problem? _____ Means of transportation to get there?

Approximate travel time?

Do you know of any existing CFC?

Did you benefit from any of its project?

What assistance have you availed from the CFC?

Do you pay (an amount of money) for the assistance you availed from it?

How much, _____ If a new CFC will be created, will you be interested to join and be a member in it?

Which services are of particular interest to you:

_____ Training of workers
 _____ Rent of equipment you cannot afford
 _____ Purchase of good-quality materials at fair prices
 _____ Marketing assistance; seek new markets, organization of fairs, parcelling orders among members, improve subcontracting arrangements, etc.
 _____ Financial assistance
 _____ Source of new designs

_____ Others _____

What would be the furthest distance (in Marikina) from your workshop in order to induce you to use the CFC?

What should be the legal status of CFC and its characteristics:

- _____ NGO
- _____ Cooperative
- _____ Private commercial body
- _____ Government institution
- _____ Open only to members or others
- _____ Should be financially sustainable
- _____ Should it have a board of directors with representatives from members only/from other organizations

If CFC funded party through shares, will you buy some shares?

Do have suggestions for the location of CFC?

- Existing association CFC to be expanded
- New building to be provided by the municipality, which?
- To build a new one on land offered by the municipality, where?
- Should the CFC board of directors select the management and training staff?

Will you be interested in becoming a board member?

Are you willing to pay a membership fee?

What will you expect from the CFC in terms of:

	Yes	No
a. Manpower		
- Provide skills training to staff of small manufacturers	_____	_____
b. Machines		
- Rent equipment small manufacturer cannot afford	_____	_____
c. Materials		
- CFC to maintain a stock of quality leather and accessories for sale at fair prices to members	_____	_____

- d. Marketing
 - Parcelling of large orders among members _____
 - CFC to organize promotional activities
(fairs, exhibits, etc.) _____
- e. Financial
 - CFC to be a cooperative _____
 - CFC to provide loans to members _____

Whom would you like this CFC to be manage by:

- a. Local Government
- b. NGOs
- c. Others (Please specify)
- d. Government agency

Is your production unit registered?

If not, why?

Do you know about government incentive programmes?

If yes, which?

Did you avail of such programme?

If not, why?

Do you apply local regulations?

If yes, which:

- Salaries (minimum wage)
- Working conditions (safety and health of workers)
- Minimum working age

Do you have problems with the local authorities?

If yes, which?

How did you solve this problem?

ANNEX 2

REPORT ON THE INTERVIEWS WITH SUPPORT INSTITUTIONS AND MUNICIPAL AUTHORITIES

Background

1. This second phase of the study was undertaken based on the results of Phase I which showed that 100 per cent of the respondents were interested in having a Common Facility Center (CFC) in Marikina. In accordance with the project's Terms of Reference (TOR), Phase II of the study involves the conduct of interviews with support institutions, municipal authorities, and existing CFCs to determine their views on the proposed establishment of a CFC.

2. The interviews were conducted from 13-24 March 1995 covering the following sectors:

- a. Support Institutions
 - Cottage Industry Training Center (CITC)
 - Technical Educational Skills Development Authority (TESDA), formerly the National Manpower & Youth Council (NMYC)
- b. Municipal Authorities
 - Office of the Mayor, Municipality of Marikina
- c. Existing CFCs/Cooperatives
 - Marikina Footwear and Leathergoods Manufacturer's Credit Cooperative, Inc. (MFLMCC)
 - Marikina Footwear Development Cooperative (MAFODECO)

Summary of Findings

A. Interview with CITC

1. CITC, is located at SSS Village, Marikina. It has a total area of about 4,000 sq. m where three (3) cottage-based industry centres (i.e., wood products processing, food processing, and leather goods processing) are located. The leathergoods processing centre is also called the Marikina Footwear Center. This building, however, is not yet completed. Although it was started through the initiative of Congressman Candazo, it still needs about P1 million to be fully

complete. Another P5 million is also needed for the construction of a new building to meet expansion plans for the centre.

2. CITC was able to avail of some machineries (10 units sewing machines and 1 unit skiving machine) donated by TESDA. Initially, together with available tables and benches, training programmes have been conducted.

3. CITC was able to generate funds for training programmes through revenues derived from training fees amounting to P500/participant. The fee covers cost of materials and supplies, transportation and the trainer's honorarium.

4. CITC envisions the creation of a centre for the footwear and leathergoods industry which will cater to the needs of the industry in terms of marketing and promotion, training, sale of materials and supplies, financial aid and assistance, sourcing of new designs and ideas, technical information dissemination, etc.

5. CITC's activities, programmes and plans for the footwear and leathergoods sector are closely knit with that of the cooperatives, TESDA, Office of the Mayor, Office of the Congressman and the industry.

6. CITC is a government corporation but its present management is proposing that it be privatized in order to make it a self-sustaining institution managed and operated by the private sector.

7. CITC is willing to assume responsibility and accountability for the new CFC. However, it needs and expects support in terms of marketing and promotional activities and functions, training and upgrading of trainers, and organizational strengthening.

8. The present equipment available at the CITC is still inadequate to meet the machinery and equipment requirements of the proposed CFC. Its management, however, is not agreeable to transferring or donating its equipment to the new CFC.

9. The CITC has sufficient and available space for any expansion programme or for the planned CFC.

B. Interview with TESDA

1. TESDA receives assistance from the World Bank. However, this does not include an outlay for equipment and machineries.

2. With the approval of GATT, TESDA is continuing its support to the footwear industry in terms of skills upgrading, capability build up, training at management and supervisory level and production. All these activities are channelled through and in cooperation with CITC and the cooperatives more specifically MFLMCC.

3. As far as equipment and machineries are concerned, TESDA has no further plans to transfer some or all of its existing machineries to other institutions (like when it donated 10 machines to CITC). This is because the Office of Manpower Skills Development (OMSD) and the Footwear and Leathersgoods Industry Center (FLIC) also use these for their training programmes and related activities.

4. TESDA also rents out its equipment to interested industry members particularly those who have no capability to purchase or acquire additional and/or new machineries. Payment is made on an hourly basis.

5. TESDA believes that CITC has the capability to manage and operate the proposed CFC. Unless the strengthening of the federation for footwear is worked out by all sectors relating to the industry, CITC can direct its functions towards the common goal. In the long run, the new CFC will be fully managed by the industry and as such CITC will be around to check and balance its operations.

6. TESDA cannot make a categorical statement at the moment, with regard to donating/transferring or selling its equipment to the new CFC. Only their Board of Directors can decide on this issue if and when an order from higher government officials is received.

C. Interview with Municipal Authorities

1. The Municipality of Marikina is planning to get back the ownership and management of CITC from the Department of Trade and Industry (DTI) for the purpose of converting it into a Fashion Design Center for footwear and its allied industry (garments accessories, jewellery, hats, etc.)

2. The objective of the Fashion Design Center, is to entice foreign companies to put up/establish their branches in Marikina. This would mean creating new jobs and training of Filipino counterparts in the areas of design, technology, and materials. Likewise, this will serve as the trading centre between foreign buyers and Filipino manufacturers.

3. The Municipality is planning to make the CITC more accessible to its clients by developing new roads and bridges linking the area to the nearby cities

and suburbs. In the long run, the area will be converted into a commercial and industrial zone of Marikina. Also, communication systems are now being installed and upgraded in the area.

4. The Municipality also believes that with the entry of foreign companies, it will encourage manufacturers and producers in the locality to adopt the automated methods of production. This is one way to boost the industry to be more competitive and productive.

5. The Municipality is likewise willing to take responsibility for functioning of the new CFC in addition to the planned Fashion Design Center.

6. The Municipality also indicated that it cannot support the financial needs of the CFC except perhaps contribute the facilities and structure of the existing CITC, if and when this will be given to them by DTI.

D. Interview with Cooperatives

1. The cooperatives believe that "full mechanization" will be difficult for the industry to undertake. What they require at the moment, is the support of the new CFC to "strengthen the hand-made" process of making shoes.

2. The new CFC must offer a complete range of services in order to attract and encourage participation of prospective members.

3. At the moment, the entire footwear and leathersgoods producers are in dire need of a continuous supply of raw materials at fair prices and easy financial/credit terms, financial support on working capital requirements, product development (access to new designs, materials, technical information and data) and training.

4. The new CFC must be an "industry led" institution which will serve as the service centre for the footwear and leathersgoods industry to cater to their needs in terms of acquisition of raw materials, financial assistance, marketing and promotion, training, and rentals of machinery. It can also become a potent group for lobbying the interest of the industry with government.

5. The two CFC's or cooperatives are also willing to have the proposed CFC under their own "wings" and to manage and operate it. They can be also improved and expanded as the new CFC.

6. It is only the MFLMCC who has some machinery and equipment for use by its members. However, these are not enough for a full pledged CFC. It's

management does not agree of transferring its equipment to the new CFC since these are intended for use by its own members.

7. The MFLMCC has limited effective working space. It's management has plans to acquire a new site as part of its expansion plan.

Recommendation

Based on the results of the survey for Phases I and II of this project, we recommend that a feasibility study on the establishment of a CFC in Marikina be prepared to assess its feasibility and viability. This proposed CFC can either be housed in the existing CITC or within an already existing CFC.

ANNEX 2A**LIST OF PERSONS INTERVIEWED****CITC**

1. Dr. Emeline R. Navera
Executive Director
2. Ma. Lani M. Macasinag
Trade and Industry Development Specialist
3. Mr. Dominador T. Villanueva
Administrative Officer
4. Mr. Onofre T. Vicencio
Extension Services Division

NMYC/TESDA

5. Mr. Arturo M. Orticio
Executive Director, OMSD
6. Mr. Alfredo Regondola
Chief, Manpower Development Officer
Office of Manpower Skills Development

Office of Congressman Candazo

7. Atty. Meynard Carreon
Officer in Charge
 8. Ms. Marlyn Mercado
Financial and Administrative Officer
 9. Mr. Victor Valdellon
Special Projects Officer
 10. Mr. Benjamin Molina
Consultant
-

Marikina Footwear Federation, Inc

11. Mr. Tereso Pasco
President

Marikina Footwear and Leathergoods Manufacturers Credit Cooperative

12. Mr. Tereso V. Pasco
Chairman
13. Francisco Medina
Director
14. Renato Cagasca
Manager

Municipality of Marikina/Marikina Footwear Development Office

15. Atty. Rodolfo Flores
Municipal Administrator
16. Ms. Susan Ferrer
Acting Cooperative Officer

Marikina Footwear Development Cooperative, Inc.

17. Mr. Glicerio T. Ladera
Administrative Officer
-

ANNEX 3
Course Description of Training and Seminars

FOOTWEAR PATTERN MAKING

Entry Requirement:

- At least high school graduate;
- Artistic aptitude and interest in the craft; and
- Physically and mentally fit.

Course duration: 20 half days (80 hours)

Course Description:

This course is designed to provide the participants with the basic theoretical and manual skills in Footwear Pattern Making. It covers essential topics on design interpretation, pattern development procedure and related information about shoe production and pattern making principle.

Course Objectives:

Upon completion of the course, the participants will be able to:

1. Discuss/explain the importance of pattern making in shoe production;
2. Interpret a given design and develop it into a set of patterns;
3. Produce a clean and neatly cut shoe pattern that fits accurately on the intended size of the last; and
4. Explain and differentiate the different sizing system applied in shoe manufacturing.

Course Content:

1. Cutting and Drawing Skills Development
 2. Sizing System (e.g. American, English, Paris Point)
 3. Basic Shoe Design (e.g. Derby, Oxford Casual, Ladies Court Shoe)
 4. Identification of Upper Parts/Sections
 5. Stages in Pattern Cutting
-

- a. Last Copy
 - b. Forme
 - c. Standard Plan
 - d. Model Plan
 - e. Sectional Part
 - f. Pull Over
6. Production of Shoe Pattern
- a. Design Interpretation
 - b. Pattern Developments Upper Pattern, Paper Mock Up

FOOTWEAR UPPER CLOSING

Minimum Entry Requirement:

- At least high school graduate;
- Artistic aptitude and interest in the craft; and
- Physically and mentally fit.

Course Duration: 1 month (160 hours)

1. The purpose of this course is to make the participants familiar with all aspects of practical upper making procedure and the importance of correct components preparation and techniques of stitching.
2. To understand the practical and economic implications associated with closing uppers. The course also has the intention of developing forward thinking among the participants when originating design.

Course Content:

- I. Sewing Exercises
- II. Closing Technology

A. Machinery

- basic types and specialist stitching machines
 - operational sequence for basic styles
 - skiving, backing, stitch marking, perforation folding and auxiliary machinery
-

- B. Methods of upper reinforcements, edge and decorative treatments
- C. Types of seams
- D. Welding treatment for upper assembly, decoration and ornaments
- E. Needles and threads
- F. Jig assembly of upper components
- G. Departmental management of work loading
- H. Types and advantages of transport systems
- I. Random and final inspection

FOOTWEAR UPPER CLICKING

Minimum Entry Requirement:

- At least high school graduate
- Artistic aptitude and interest in the craft; and
- Physically and mentally fit

Course Duration: 20 Half Days (80 Hours)

Objectives:

1. To provide the participants with an appreciation of the requirements of a clicking department;
2. To understand the importance of material economy; and
3. To obtain practical experience of cutting a wide range of upper and lining materials.

Course Content:

1. Clicking Technology

- a. Cutting or Clicking Operation Definition
 - b. The upper components (Upper, Lining, Reinforcement)
 - c. Materials used in footwear upper making
 - man made materials
 - leather (basic characteristics)
 - d. Cutting operation analysis
-

- cutting operation proper
- materials exploitation/utilization
- e. Handcutting and related tools equipment
- f. Machine cutting and related equipment and dies
- g. The quality concept (aspect-resistance wear)
- h. The material economy concept
- l. The various waste causes
- j. Pattern layout on planned materials
- k. Pattern layout of patterned materials
- l. Pattern layout of fabric materials
- m. Characteristics of leather from the view point of upper making
- n. The leather material quality variations in relation to different parts of the skin/hide (stretch-resistant-color-grain-texture)
- o. The upper components specific quality requirements (vamp-quarters-inside-outside, etc.)
- p. Practical

FOOTWEAR COMPONENTS PREPARATION AND ASSEMBLY

Minimum Entry Requirement:

- At least high school graduate
- Artistic aptitude and interest in the craft; and
- Physically and mentally fit

Course Duration:

The course is designed to develop the participants in the preparation and assembling of footwear articles. It includes preparation processes for footwear, i.e. folding, glueing, skiving, perforating, embossing, etc. It covers the use of handtools and equipment operation of basic machines and the identification of basic materials used for the above course.

Upon completion of the course, the participants will be able to

1. Observe safety rules;
 2. Acquire desirable work habits and attitudes
 3. Identify the different preparation and assembling operations;
 4. Identify the different materials used;
 5. Select appropriate tools, equipment and machines to be used in performing a given operation;
-

6. Operate the basic machines use in preparation and assembling (skiving, M/C, folding M/C, edge staining, treatment M/C);
7. Undertake practical preparation and assembling of footwear product component;
8. Explain and identify the required quality and time standard for each preparation.

Course Outline :

A. Orientation

B. Supplies and Materials

- Identification of leather, lining, stiffeners.
- Identification of accessories and grinding materials. properties and characteristics of each material.

C. Tools and Equipment

- Identification of handtools
- Identification of different machines and its use
- Proper use and maintenance of handtools, equipment, apparatus and machines

D. Identification of the different parts of the shoe

E. Components Preparation

- Skiving, splitting staining of edges, burnishing, glueing, folding and other types of edge treatment

F. Assembling of Prepared Components

- Attaching of upper component
- Attaching of stiffeners and reinforcement
- Attaching of lining
- Attaching of metal accessories

G. Quality control/Evaluation

- Evaluation of work
 - Identification of defects
 - Causes and remedy
-

ANNEX 4

ASSUMPTIONS TO FINANCIAL STATEMENTS

A. Total Project Cost

1. **Land and Building.** It is assumed that the land and building to be utilized by the proposed CFC will consist of the area now occupied by the MFLTC together with the "showroom" constructed by the Office of Cong. Candazo. The costs of these assets are computed as follows:

Land:

MFLTC Area (219 sq.m x P3,000/sq.m)	P657,000
Showroom Area (150 sq.m x P3,000/sq.m)	450,000

Building:

MFLTC Area 219 sq.m x P1,500/sq.m)	328,500
Showroom Area (150 sq.m x P6,666.66)	1,000,000
Total	<u>P2,435,500</u>

2. **Leasehold Improvements.** Both the MFLTC and Showroom areas need to be improved to function properly as a CFC. The MFLTC will be the CFC's training, production and warehouse area while the Showroom Area will serve as the Office and Marketing area. Total cost of improvements is P3,525,000 computed as follows:

MFLTC Area: 610 sq.m x P2,500	P1,525,000
Showroom Area:	2,000,000

	P3,525,000

3. **Machinery and Equipment.** The proposed CFC will utilize the existing machinery and equipment lent by NMYC/TESDA to the MFLTC. Additional machinery will be purchased in order to make and/or complete the equipment required for the manufacture of shoes. A breakdown of machinery available at the CFC will then be as follows:

Type of Equipment	Units	No. of Unit Cost(P)	Cost (P)
Flat Bed Sewing Machine	5*	35,000	175,000
Cylinder Sewing Machine	5*	50,000	250,000
Skiving Machine	1*	35,000	35,000
Heat Setting Machine	1	250,000	250,000
Clicking/Cutting Machine	1	300,000	300,000
Roughing Machine	1	65,000	65,000
Other tools and Auxiliary Equipment	1 lot	625,000	625,000
Training Equipment and Tools	1 lot	300,000	300,000
			P2,000,000

*This Machinery was lent by NMYC/TESDA with a total value of P460,000.

4. **Materials and Supply Inventory.** The CFC will make available to its members an aggregate inventory of about P26,820,000 which is equivalent to two months stocking level. With this, the members are assured of a continuous supply of raw materials to meet their production requirements.

	Monthly	2 Months
Average Production Per Member	800 pairs	1,600 pairs
Multiply by Total No. of Members	x 133	x 133
- Total Production	106,400 pairs	212,800 pairs
Multiply by Cost of Direct Materials	x P125	x P125
- Total Stock Level	P13,300,000	P26,600,000
Add: Materials for:		
1. Training	90,000	180,000
2. Product Development	20,000	40,000
- Total	P13,410,000	P26,820,000

5. **Working Capital Loans.** The CFC will provide working capital loans to its members at the rate of P10,000 per week per member to cover the labour component of their production (200 pairs per week x P50.00 per pair = P10,000). On a monthly basis, this is equivalent to P40,000 per member or a total of P5,320,000 for the 133 members. It is projected that the CFC will have a loan fund of P10,640,000 which is enough to cover the working capital requirements of its members for at least two (2) months.

6. **Pre-Operating Expenses.** This pertains to expenses to be incurred during the pre-operating phase of the project as follows:

	Monthly Cost(P)	No. of Months	Total Cost (P)
a. Salaries and Wages			
- Project Manager (1)		15,000	4
- Supervisors (3)		10,000	4
- Executive Secretary (1)		7,500	3
- Bookkeeper (1)		7,000	3
- Accounting Clerk (1)		6,500	3
- Purchaser (1)		6,500	3
- Cashier (1)		7,500	3
- Collector/Messenger (1)		5,500	2
- Sales Assistant (1)		7,000	2
- Operations Staff (8)		7,000	2
- Maintenance (2)		5,500	3

			453,500
b. Cost of Registration and Licensing			25,000
c. Others			121,500

			600,000

7. **Transportation Equipment.** A transportation vehicle costing P500,000 will be purchased for use by the CFC especially to transport members from the town proper to the CITC site.

8. **Miscellaneous/Contingency.** This is equivalent to one per cent (1%) of Items 1-6 of total project cost or P480,000.

9. **Long-term Loan.** A soft loan of P37,600,000 will be availed and/or arranged by ILO/UNIDO payable in 5 years with interest at 8 per cent per annum based on diminishing balance. The amortization schedule is as follows:

Year	Balance	Payments		Balance
		Principal	Interest	
1	37,600,000	7,520,000	3,008,000	30,080,000
2	30,080,000	7,520,000	2,380,800	22,560,000
3	22,560,000	7,520,000	1,785,600	15,040,000
4	15,040,000	7,520,000	1,190,400	7,520,000
5	7,520,000	7,520,000	595,200	-
	Totals	37,600,000	8,960,000	

B. Profit and Loss Statement

1. Revenue

a. **Target Clientele.** The CFC will service an initial of 20 per cent of the total registered manufacturers in Marikina or 133 clients for the first year. A 10 per cent increase will be added to this number each year or about 146 in year 2; 161 (year 3); 177 (year 4); and 195 (year 5).

b. **Selling Prices Per Unit.** It is estimated that selling prices particularly for Parcelling of Orders (POO) and Sales of Supplies and Materials (SSM) will increase by 10 per cent annually. With this, unit selling prices for the next five years will be as follows:

Year	POO (P)	SSM (P)
1	438/pair	156/pair
2	482	172
3	530	189
4	583	208
5	641	229

c. Based on the above, corresponding sales figures for both POO and SSMs are as follows:

Year	No. Of Pairs	POO	SSM
1	1,276,800	559,238,400	199,180,800
2	1,401,600	675,571,200	241,075,200
3	1,545,600	819,168,000	292,118,400
4	1,699,200	990,633,600	353,433,600
5	1,872,000	1,199,952,000	428,688,000

d. For Working Capital Loans, appropriate revenues were arrived at as follows:

Year	No. of Clients	Loan Ceiling Per Client (P)	Total Loans Per Year (P)	Interest Factor	Total Revenue (P)
1	1,596	40,000/mo	63,840,000	1.24	79,161,600
2	1,752	40,000	70,080,000	1.24	86,899,200
3	1,932	40,000	77,280,000	1.24	95,827,200
4	2,124	40,000	84,960,000	1.24	105,350,400
5	2,340	40,000	93,600,000	1.24	116,064,000

e. For Training and Seminars, it is projected that the CFC will be able to generate on Year 1 total revenues of P1,257,750 from 507 trainees. It is projected that the number of trainees as well as the average fee per trainee will both increase by 10 per cent annually.

Year	No. of Trainees	Average Fee/Trainee	Total Revenue
1	507	P2,481	P1,257,750
2	558	2,730	1,523,340
3	614	3,000	1,842,000
4	675	3,300	2,227,500
5	745	3,630	2,704,350

f. Revenues to be derived from Product Development for the five-year period are as follows:

Year	No. of Samples	Unit Selling Price	Total Revenue
1	1,596	P438/pair	P699,048
2	1,752	482	844,646
3	1,932	530	1,023,960
4	2,124	583	1,238,292
5	2,340	641	1,499,940

2. Cost of Sales

a. **Parcelling of Orders.** The breakdown of costs for this activity is as follows:

Year	No. of Pairs	Cost Per Unit	Annual Costs
1	1,276,800	P 350	P446,880,000
2	1,401,600	385	539,616,000
3	1,545,600	424	655,334,000
4	1,699,200	466	791,827,200
5	1,872,000	513	960,336,000

b. **Sales of Supplies and Materials.** The related costs for this item on a yearly basis are:

Year	No. of Pairs	Cost Per Unit	Annual Costs
1	1,276,800	P125	P159,600,000
2	1,401,600	138	193,420,800
3	1,545,600	152	234,931,200
4	1,699,200	167	283,766,400
5	1,872,000	184	344,448,000

c. **Working Capital Loans.** Costs associated with this re-lending activity of the CFC is equivalent to the total loans extended to members (this is also discussed in Section B.1.d above).

Year	No. of Clients	Loan Costing Per Month	Annual Costs
1	1,596	P40,000	P63,840,000
2	1,752	40,000	70,080,000
3	1,935	40,000	77,080,000
4	2,124	40,000	84,960,000
5	2,340	40,000	93,600,000

d. **Training and Seminars.** Direct costs related to training and seminars are as follows:

Year	No. of Trainees	Average Fee/Trainee	Total Revenue
1	507	P1,985	P1,006,200
2	558	2,183	1,218,114
3	614	2,401	1,474,214
4	675	2,641	1,782,675
5	745	2,905	2,164,225

e. **Product Development.** Direct costs to be incurred for this activity are as follows:

Year	No. of Samples	Unit Selling Price	Total Revenue
1	1,596	P350.00/pair	P558,600
2	1,752	385.00	674,520
3	1,932	424.00	819,168
4	2,124	466.00	989,784
5	2,340	513.00	1,200,420

3. Operating Expenses

- a. **Salaries and Wages.** This is based on the proposed manning schedule as discussed in section 3.4. It is projected that the annual increase in personnel costs is 10 per cent per annum.
- b. **SSS and HDMF Contributions.** This is equivalent to 10 per cent of Salaries and Wages.
- c. **Employees Welfare.** This is estimated at 15 per cent of Salaries and Wages to take care of vacation and sick leave, and other employee related benefits.
- d. **Taxes and Licenses.** This is computed at 10 per cent of gross profit.
- e. **Repairs and Maintenance.** This is estimated at P15,000 per month to increase by 10 per cent annually.
- f. **Depreciation.** For the following assets:

Description	Cost	Estimated Life	Annual Depreciation
Building	1,328,500	5	265,700
Machinery/Equipment	2,000,000	5	400,000
Transportation Equipment	500,000	5	100,000
	-----		-----
	3,828,500		765,700

- g. **Amortization.** Allocation for leasehold improvements and pre-operating expenses.

Description	Cost	Estimated Life	Annual Amortization
Leasehold Improvements	3,525,000	5	705,000
Pre-Operating Expenses	600,000	5	120,000
	-----		-----
	4,125,000		825,000

- h. **Depresentation.** This is equivalent to 2.5 per cent of total sales/revenues.
- i. **Power, Light and Water.** This is estimated at P30,000 per month to increase annually by 10 per cent.
- j. **Communications.** This is estimated at P10,000 per month to increase by 10 per cent annually.
- k. **Transportation and Travel.** This is estimated at P20,000 per month to increase by 10 per cent annually.
- l. **Advertisements and Promotions.** This is equivalent to 1.5 per cent of sales.
- m. **Miscellaneous.** This is equivalent to 5 per cent of above cost items (a-l).

C. Cash Flow Statement

1. Cash Receipts

a. **Availment of Loan.** A soft loan amounting to P37,600 million will be availed/arranged by ILO/UNIDO.

b. **Equity Contributions.** This represents cash contributions of parties involved in the operationalization of the CFC as follows:

Contribution	Amount
Office of Cong. Romeo Candazo	P2,000,000
ILO Grant	375,000
Membership Fees from Participating Members	266,000
Grant from UNIDO*	3,863,500

	P6,504,500

* To be arranged

c. **Collections from Sales.** It is estimated that the average collection period is 90 days.

2. Cash Disbursements

a. Disbursement for Year 0 will amount to P43.625 million to be used to purchase/acquire the following:

	Amount
Leasehold Improvements	P3,525,000
Machinery and Equipment	1,540,000
Materials and Supplies Inventory	26,820,000
Working Capital Loan	10,640,000
Pre-Operating Expenses	600,000
Transportation Equipment	500,000

	P43,625,000

b. **Cost of Sales.** It is estimated that suppliers will be paid based on a credit terms of 90 days.

c. **Operating Expenses.** This represents cash expenses excluding non-cash charges such as depreciation and amortization.

d. **Income Tax Payments.** It is projected that fourth quarter income taxes will be paid in the first month of the succeeding year.

e. **Debt/Service Payment.** This represents payments for principal and interest based on the amortization schedule as computed in section A.9.

D. Balance Sheet

1. Assets

a. **Cash.** This represents ending cash balance as reflected in the Pro-Forma Cash Flow Statement.

b. **Accounts Receivable.** Representing amounts due from trade clients based on a credit term of 90 days.

c. **Inventory.** Represents value of materials and supplies to be sold to the CFC's members on credit.

d. **Working Capital Loan Fund.** This represents the amount available as working capital loans to members.

e. **Property, Plant and Equipment and Other Assets.** Reported at acquisition cost less appropriate depreciation and/or amortization costs.

2. Liabilities and Stockholder's Equity

a. **Accounts Payable.** Represents amount due to suppliers based on credit terms of 90 days.

b. **Income Tax Payable.** This represents the last quarter income tax which is projected to be paid on the first month of the succeeding year.

c. **Notes Payable.** Represents ending balances of loan as per Amortization Schedule.

d. **Stockholders' Equity.** This represents beginning equity (contributions of parties to the proposed CFC project) plus corresponding net income for the period (as computed in the Profit and Loss Statement) and additional contributions of new members to the CFC.

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