
Thematic Paper Four:

**LEGAL MECHANISMS TO EMPOWER INFORMAL
BUSINESSES¹**

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Executive summary

Although early literature on the informal economy often focused on its members' ability to survive despite the absence of access to formal resources and services, current studies and researches now focus on the informal economy's potential as an anti-poverty and development tool, and in finding ways and means that "enhance [the] productivity in the informal [economy] in a way that would increase outputs and incomes, create jobs, and possibly *graduate* a fraction of its members into the formal sector."² Sadly, within the Philippine setting, current legal mechanisms have not been sufficiently effective in providing the necessary protection and incentives in enhancing informal economy productivity.

This paper looks into existing and available literature and information on the extent and nature of legal exclusion of informal businesses in the Philippines. In particular, it looks into the following: 1) the existing legal mechanisms as provided for by Philippine laws that affect or impact on informal businesses; 2) the inadequacies and deficiencies of such legal mechanisms to empower informal businesses; and 3) the primary issues and challenges to improving legal mechanisms that presumably target informal businesses.

A review of the literature shows that the informal business sector is mostly made up of household based enterprises, concentrated mostly in the urban areas, and engaged largely in wholesale and retail services and small manufacturing activities. They constitute nearly 99% of the total number of business establishments in the country and account for nearly 60% of the Philippines employed labor force. Sadly, despite their large numbers and the amount of employment they provide, informal businesses are crippled by low economic productivity.

Informal businesses represent a very large cross-section of economic enterprises operating in the country. However, these businesses do not necessarily exhibit common and identical motivations, needs and concerns. On the contrary, depending on their level and potential for economic growth, informal businesses exhibit varying income conditions, paying capabilities, and needs.

Informal businesses may be classified as either the *livelihood/ survival type* or the *entrepreneurial/ growth-oriented type*. Livelihood enterprises are those which show very limited potential for growth in both income and employment generation. Entrepreneurial enterprises, meanwhile, are those which show potential in increasing productivity, in hiring workers from outside the household, in developing new competencies in areas of production and operations, and in graduating to formal status. These are enterprises that show promise in "graduating" to formal status.

The Philippine government, in an effort to capture these nuances between and among informal economy units, defines informal economy units as comprising of "*household unincorporated enterprises that are market and non-market producers of goods as well as market producers of services*". These household unincorporated enterprises are identified as either being *informal*

² Yu (1998).

own-account enterprises or *enterprises of informal employers*. The former employs own-account and unpaid family labor, while the latter employs outside workers on a regular and continued basis.

Over the past twenty years, the Philippine government has passed numerous laws and programs that directly and/ or indirectly offer legal measures in improving informal economy units' access to resources, technology, social legislation and social protection. In 2003, it launched its National SME Development Plan, with the goal of improving sales and output of MSMEs, increase MSME's contribution in the country's GVA from 32% to 40%, register MSME export sales growth of 16% per year, and spur the emergence of new creative entrepreneurs especially in identified priority growth industries.

A major element in the Philippines government's efforts to improve informal business productivity is through the provision of microfinance. In this area, it has made significant headways, primarily by adopting a market-oriented approach to microfinance servicing. As a result, in the past five years the microfinance sector saw a rapid increase in the number of service providers and improved access to formal capital funds.

Local governments have also been implementing their own enterprise development programs. Examples of these include: working to provide secure workspace for street vendors (as experienced by the Intramuros' street vendors) and simplifying business registration procedures to encourage business registration and licensing (as experienced in Bacolod and Ormoc cities). These examples highlight the very important role that local governments play in crafting, programming and implementing legal mechanism that empower informal businesses.

What is clear is that there are existing policies, programs and services that directly or indirectly provide some form of legal protection to informal businesses. However, there are some key issues and challenges that limit the impact of current legal mechanisms in empowering informal businesses.

The impact of these legal mechanisms seem to have been fairly limited to growth-oriented informal businesses, falling short in addressing most of the growth constraints faced by livelihood and small-growth informal businesses and in assisting these types of enterprises expand their business and be more profitable.

The reason may be because informal businesses are not categorically defined and included in current business enterprise laws and in the National SME Development Plan, thus, their specific issues and concerns are not properly reflected in this legal mechanism. An example is the limitation of current legal mechanisms in addressing workspace issues. Policies, programs and services relating to MSME enterprise development often focus on providing credit and training which are less "contentious" and less "politically charged".

Another key challenge is getting local governments and informal business groups to be more discerning and active in enterprise development. The literature has been consistent in stating the invariably important role that the local government plays in addressing informal business needs and concerns. This is because the first line of engagement for informal businesses is the local government which has the power to issue business permits, impose taxes and fees, and regulate

the use of commercial and public spaces. It may even be argued that city-level policies are more important than national-level policies, especially if these refer to land use and access to infrastructure. If this is the case, then it is at this level of governance where changes and improvements in regulatory policies must be implemented.

Another key challenge is sustaining the growth of the microfinance sector. The last five to seven years saw the emergence of a very vibrant and promising microfinance sector. But these accomplishments and successes may be put into peril if the sector remains highly fragmented and deeply unregulated. The challenge is further reducing the regulatory restrictions on formal financial institutions in “downscaling” their operations in order to be more viable microfinance providers, while at the same time establishing systems that would effectively monitor and supervise the activities of microfinance NGOs and credit cooperatives. An equally important issue related to microfinance is sustaining efforts at keeping the sector market-oriented, but without compromising the social objectives of attending to poverty issues and economic and social inclusion.

Addressing these issues and challenges generally involve rearticulating or reformulating the existing legal and regulatory prescriptions and adapting these into the local milieu in order to create the right enabling environment to create such a linkage. Those who are in the best position to do this are LGUs and their constituencies.

Informal businesses undoubtedly play a vital role in poverty alleviation, employment creation and economic growth. Enhancing their productivity and supporting their integration into the modern sector lead to a more vibrant and flourishing macro-economy. But in the final analysis, the primary goal is not simply the growth and development of economic enterprises and activities, but the advancement in the quality of life of people within this sector. It is mostly for them that legal empowerment of informal businesses is being pursued.

Introduction

Early literature on the informal economy often focused on its members' ability to survive despite the absence of access to formal resources and services. And understandably, pioneering studies on the informal economy construed its existence as merely a coping strategy of the poor.

Succeeding studies, however, later shifted their focus towards the relationship of the informal economy to poverty alleviation and employment generation, abandoning previous notions of the sector as being a mere survival mechanism. A new understanding emerged that highlighted the enormous contribution of informal economy units in not only alleviating poverty and unemployment problems, but promoting economic growth. Further, there similarly emerged a consensus among development thinkers and practitioners that the informal economy was not an exclusive economic domain as previously assumed. Rather, informal economy units manifested varied forms of economic linkages and relationships with formal economy units.

Informal economy units help link formal enterprises with low-income markets and low-cost production inputs.³ They do this in two ways: (1) by purchasing goods and inputs produced by formal business enterprises (e.g. basic utility services, raw materials and finished goods such as soap, cigarettes, food products) and retailing or processing them for low-income markets; and (2) by providing formal business enterprises with low-cost labor as subcontractors or homeworkers, which translates into lower cost of production. The result is lower prices of goods.

By linking formal business enterprises with low-income groups, informal economy units are able to do two things: broaden the market to include low-income groups and stimulate demand and greater production. Thus, it became clear that there was no economic dichotomy between formal and informal economies. Moreover, it became apparent that enhancing the productivity of informal economy units can actually translate in overall economic growth.

In more recent years, the focus of research has shifted again, this time towards meeting “the challenge of transferring the vitality, determination and hopes of this emerging [informal] business class to the rest of the country”⁴ and identifying strategies and mechanisms that “enhance [the] productivity in the informal [economy] in a way that would increase outputs and incomes, create jobs, and possibly *graduate* a fraction of its members into the formal [economy].”⁵ This new interest materialized as a result of not only a growing appreciation of informal economy units' contribution to modern society, but also of an emerging consensus in pushing for interventions that specifically enhance the productive capabilities of business enterprises found within the informal economy. Sadly, current legal mechanisms are inadequate insofar as providing the necessary protection and incentives in enhancing the productivity of informal economy units.

³ Lanzona (1998).

⁴ Maldonado (1995).

⁵ Yu (1998).

This paper looks into existing and available literature and information on the extent and nature of legal exclusion of informal businesses in the Philippines. In particular, it will look into the following: 1) a general overview of the existing legal mechanisms as provided for by Philippine laws that affect or have impact on informal businesses; 2) the inadequacies and deficiencies of such legal mechanisms to empower informal businesses; and 3) the primary issues and challenges to improving legal mechanisms that presumably target informal businesses.

Note that this paper, because of time and space constraints, does not intend to provide an exhaustive identification and detailed analysis of laws and programs' bearing on informal businesses.

In the past twenty years, the Philippine government has passed numerous laws and programs that directly and/ or indirectly offer legal measures in improving informal economy units' access to resources, technology, social legislation and social protection. This paper means only to provide a snapshot of some of the more pertinent national laws and programs that provide the legal mechanisms through which informal businesses may be empowered, and thus aims to paint a general picture of how the Philippines has dealt with issues relating to informal businesses.

For purposes of this paper, informal businesses shall refer mainly to micro-business enterprises. This is neither to generalize that all micro-business enterprises operate informally, nor to state that all informal businesses are limited to micro-scale operations and transactions. Rather, what is propounded is that the *majority* of micro-businesses operate informally and vice versa. Further, most micro-businesses, whether informal or formal, operate at very similar levels of production and operation—often at subsistence or very low levels of growth—and therefore exhibit virtually the same motivations, needs and problems.

It must be qualified, however, that a microenterprise as defined by Philippine laws is one that has total assets of PhP3 million or less and which employs 1 to 9 workers. This is a very large aggragation considering that there are degrees or levels of informality, ranging from the survivalist to the entrepreneurial to the growth-oriented types of informal businesses. As will be further discussed in the subsequent sections of this paper, this official definition of a microenterprise poses a problem as it conflates the issues, needs and concerns of formal businesses with informal ones, disregarding in effect distinctive nuances that exist not only between formal and informal businesses, but nuances that also exist within and among informal businesses.

Overview of informal businesses in the Philippines

Features of informal businesses in the Philippines

Household-based

Majority of informal businesses are household-based, that is, the business enterprise is operated by a social unit that shares the same sleeping and eating quarters. Further, many of these informal businesses are home-based and are operated solely by the owner-proprietor.⁶

Increasing feminization

Although majority of informal businesses are still dominated by men, the percentage of female-headed informal businesses has been increasing. In 1996, the National Statistics Office reported that there were close to 10.30 million own-account workers in the country, 31.2 percent of whom were women. By 2001, the NSO reported the number of own-account workers in the country to have increased to 11.26 million with close to 35 percent represented by women. (See Table 1.) During this five-year period, the number of female-lead informal businesses grew by as much as 22.1 percent, while the number of male-lead informal businesses grew only by 3.4 percent. In other words, more and more women are finding their way into the informal economy to set up and manage their own businesses.

Business establishments owned and operated by women are mostly food and beverage retail and service enterprises, variety (*sari-sari*) stores; personal and household services; and textile, wearing apparel, and leather manufacturing. Women micro-entrepreneurs prefer these sorts of enterprises because these allow them to stay close to home. Unfortunately, many of women-led enterprises operate at subsistence or survival levels (i.e. profit income is used for household needs instead of being reinvested into the business), and therefore offer little in terms of reaching economies of scale.

Overwhelming number

Close to 92 percent of business establishments in the country are the microenterprise type, most of which are engaged in wholesale and retail trade services and in manufacturing sub-industries (e.g food products and beverages, wearing apparel, fabricated metal products, furniture, and non-metallic mineral products). (See Table 2.)

Concentrated in urban centers, particularly in NCR

By geographical location, nearly seven of ten micro and small enterprises are located in Luzon, concentrated mostly in the National Capital Region, CALABARZON, and Central Luzon. (See Table 3.)

Low productivity

Despite their large numbers and the amount of employment they generate, Philippine micro and small enterprises lag behind in terms of output and productivity compared to their counterparts in other Asian economies. Micro and small enterprises account for less than 30% of the Philippine economy's gross value added (GVA), while large enterprises, which represent a mere 0.3% of all establishments in the country, accounts for the remaining 70%.

⁶ ILO (1995)

Classifying informal businesses: Livelihood versus entrepreneurial

As evidenced by the data, informal businesses represent a very large cross-section of economic enterprises operating in the country. Indeed, enhancing the income- and employment-generating capacities of these enterprises will lead not only to poverty and unemployment alleviation, but more so towards general economic growth.

Informal businesses, however, do not necessarily exhibit common and identical motivations, needs and concerns. On the contrary, depending on their level and potential for economic growth, informal businesses exhibit varying income conditions, paying capabilities, and needs. Understanding the distinct nuances between and among informal businesses is paramount, especially when viewed from a development point of view. *Survival* or *livelihood* types of enterprises, for instance, differ significantly from *entrepreneurial* or *growth-oriented* enterprises.

Livelihood enterprises are those which show very limited potential for growth in both income and employment generation. They rarely make use of hired labor, relying instead of unpaid family labor during peak seasons of the enterprise. Profit earnings are hardly plowed back into the business, and are instead spent on household requirements. These are enterprises mostly dominated by women who are engaged in economic activities such as livestock/ backyard/ poultry raising, food processing, and petty trading. Growth is often hampered by constraints on demand, resource and physical space.

Entrepreneurial enterprises, meanwhile, are those which show potential in increasing productivity, in hiring workers from outside the household, in developing new competencies in areas of production and operations, and in graduating to formal status. These are enterprises involved mainly in manufacturing and service-related activities, and are often operated and owned by skilled and educated entrepreneurs. Profit earnings are often reinvested into the business to expand operations and production.⁷

Entrepreneurial enterprises can be further subcategorized into two types: *small-growth types and potential graduates*.⁸ Small-growth enterprises are those which experience some form of growth, although at minimal levels. Potential graduate enterprises are those which have experienced sustained growths and have taken on characteristics similar to formal enterprises.

The exercise of capturing typologies and categories of informal businesses is a requisite to gaining a clearer and practical understanding of the varied nuances, challenges, and issues affecting this highly heterogeneous sector of modern society. Indeed, “a deeper understanding of the different types of enterprises in the informal sector and their patterns of growth will allow decision makers to identify their target group, set realistic objectives, and design appropriate strategies to assist their clients.”⁹

For example, intervention aimed at raising the productivity of livelihood and small-growth enterprises may only involve *expanding the business while remaining informal*. Note also that the motivation for expanding the business may not necessarily be to graduate the enterprise to

⁷ Yu (1998).

⁸ Liedlholm and Mead (1995)

⁹ Yu (1998)

higher levels of business operation and production, but may only be to enable it to reach income levels where it is able to sufficiently provide for the basic requirements of the household.

However, for those livelihood and small-growth enterprises that are motivated by entrepreneurial ambitions, expanding the business may mean pursuing economies of scale beyond what is needed for basic household needs. If and when such business enterprises do expand to a point where they already exhibit characteristics and needs similar to formal small and medium enterprises, then the objective shifts to *supporting the transition and full integration of these business enterprises into the formal economy*. (See Table 4.)

Government's definition of informal businesses

Although the concept of the informal economy has long been recognized among development practitioners and duty-holders in the Philippines, it was only in 1994 during the Ramos administration that the concept and reality of the informal economy was formally recognized by the government. Further, the informal economy units have been identified as a priority sector in the country's development agenda. Since then, the Philippine government has continually adopted an evolving definition of the informal sector.

In November 2002, the National Census and Statistical Board (NSCB), following a series of discussions and workshops organized by the International Labour Organization (ILO) and United Nations Development Programme (UNDP), came out with the following definition:¹⁰

“The informal sector consists of ‘units’ engaged in the production of goods and services with the primary objective of generating employment and incomes to persons concerned in order to earn a living.

“These units typically operate at a low level of organization, with little or no division between labour and capital factors of production. It consists of household unincorporated enterprises that are market and non-market producers of goods as well as market producers of services.

“Labor relations, where they exist, are based on casual employment, kinship or personal and social relations rather than formal or contractual arrangements.”

The same NSCB Resolution clarifies that the term *household unincorporated enterprises* are operationally defined as *informal own-account enterprises* and *enterprises of informal employers*. The former refers to business enterprises “owned and operated by own-account workers, either alone or in partnership with members of the same or other households which may employ unpaid family workers as well as occasionally/ seasonally-hired workers but do not employ employees on a continuous basis,” while the latter refers to business enterprises “owned and operated by own-account workers, either alone or in partnership with members of the same or other households which employ one or more employees on a continuous basis.”

¹⁰ NSCB Resolution No. 15, Series of 2002: “Adoption of an Official Definition of the Informal Sector”

The following year, the NSCB came out with a follow-up Board Resolution¹¹ that provided the criteria for identifying whether an economic unit or activity falls under the informal sector. Table 5 summarizes the criteria set by the NSCB.

Economic units and activities not covered by the definition are: single proprietorships, partnerships and corporations (including corporate farms, commercial livestock raising, commercial fishing and similar units), quasi-corporations, units with ten or more employees (unless they satisfy all the criteria), domestic helpers hired by households, units engaged in professional services (unless they satisfy all the criteria), farms managed by cooperatives, and farms, regardless of size, keeping sets of accounts separate from the households.

Looking at this definition of informal economy units, it is clear that the Philippine government is aware that there are nuances to consider when talking about informal businesses. It astutely differentiates those informal businesses that show little growth potentials with those that exhibit potential for employment and productivity growth. But as will be shown in the succeeding sections of this paper, many of these nuances are not reflected in the legal mechanisms that purportedly cover informal businesses.

Empowering informal businesses through legal policies, programs and services

There is wide consensus in the literature that there are two basic intervention objectives insofar as informal economy units are concerned: 1) ensure higher and equitable individual income and social protection for informal economy workers; and 2) improve and sustain informal businesses' productive and employment generation capabilities.

Providing legal measures that protect and ensure the economic and social rights of informal businesses and workers is a key element in spurring productivity and growth within the informal economy. Protection by the law not only legitimizes the economic activities of informal businesses and workers, but also provides an enabling business environment in which informal businesses and workers are considered integral economic entities, thus both deserving public and private sector support.

Laws impacting on informal businesses

For purposes of style and organization, this paper categorizes these laws as follows: non-sector specific laws, sector-specific laws, and informal economy specific laws.

Non-sector specific Laws

R.A. 6938/ R.A. 6939: Act Ordaining a Cooperative Code of the Philippines/ Act Creating the Cooperative Development Authority

R.A. 6938 and R.A. 6939 provide an alternative form of organization for informal sector players through the formation of cooperatives. These two laws provide specific legal basis for informal

¹¹ NSCB Resoluition No.16, Series of 2003: "Adopting a Set of Criteria for Identifying the Informal Sector"

workers and businesses to organize and be recognized as legitimate economic entities. It affords informal workers and businesses the economic and political leverage to transact business directly with public and private entities.

The provision in the formation, regulation and supervision of savings and credit cooperatives—whose general function is to provide microfinance services to its members—is mandated and covered by these two laws.

R.A. 6977: Magna Carta for Small Enterprises

R.A. 6977 is a very important piece of legislation given that provides the general legal framework through which informal businesses may be able to improve their access to formal resources. The provisions contained in the Magna Carta for Small Enterprises follows four guiding principles: 1) minimize the sets of rules and simplify the procedures and requirements for MSMEs, 2) harness private sector participation in implementing MSME policies and programs, 3) coordinate government efforts at MSME development, and 4) decentralize MSME development efforts by establishing regional and provincial offices and working with local government units and other local partners.

A very important provision of the Magna Carta is the Small and Medium Enterprise Development Council (SMEDC). This is especially relevant given that the SMEDC is charged with providing policy recommendations to the President and to Congress on MSME matters and with facilitating and coordinating national efforts in MSME development. Its specific powers and functions are the following:

- *Recommend to the President and Congress policy matters beneficial for small and medium scale enterprises;*
- *Foster an environment conducive to the growth and development of the SME sector;*
- *Formulate a comprehensive SMED Plan to be integrated into the National Economic Development Authority Development Plans;*
- *Coordinate and integrate various government and private sector activities significant to SME development;*
- *Monitor and determine the progress of various agencies geared towards SME development;*
- *Provide the appropriate policy and framework to help relevant government agencies tap local and foreign funds for SME development;*
- *Promote SME productivity and viability by way of directing and assisting relevant government agencies and institutions at the national, regional and provincial levels;*
- *Assist in the establishment of modern industrial estates outside urban centers;*

- *Review government agencies' existing policies affecting the growth and development of SMEs and recommend necessary changes to the President; and*
- *Promulgate implementing guidelines, programs and operating principles in support of government policies and objectives of the Act.*¹²

The Council is composed of ten representatives from the national government, three from the private sector, and one from the private banking sector.

R.A. 7160: Local Government Code

Local governments are in the best position to propose and adapt legal mechanisms and strategies that truly empower informal businesses. For one, the code empowers local authorities to form local development councils and other local special bodies to strengthen people participation in policy planning and agenda setting. This very important provision of the Local Government Code affords local leaders, policy makers and informal sector advocates the opportunity to work together in directly and actively pushing for the adoption of changes in the legal framework towards the legal empowerment of informal businesses at the local levels.

Furthermore, the Code expands the authority and mandate of Local Chief Executives to becoming local economic managers of their localities. It also provides the necessary enabling mechanisms (e.g. through which Local Chief Executives can design, programatize, and implement their own economic development plans).

R.A. 7941: Party-List System Act

This law mandates the election of representatives to the House of Representatives through a party-list system of registered sectoral parties or organizations or coalitions. Under this law, marginalized and underrepresented sectors, organizations and parties who lack well-defined political constituencies but who could contribute to the formulation and enactment of appropriate legislation can be elected into the House of Representatives. The law, therefore, opens up political space for organized sectoral groups to directly engage government in policy and decision-making at the national legislative level, thereby mainstreaming sectoral issues and concerns of the sectors.

The National SME Development Plan: 2004-2010

In 2003, the Philippine government launched its National SME Development Plan for 2004-2010. The goal of the plan is to improve sales and output of MSMEs, increase MSME's contribution in the country's GVA from 32% to 40%, register MSME export sales growth of 16% per year, and spur the emergence of new creative entrepreneurs especially in identified priority growth industries. Its vision is:

“to create globally competitive SMEs (including microenterprises) in the new industrial economic environment. These are SMEs that acquired distinctive competencies from harnessing efficient technologies and establishing strategic

¹² BSMED and JICA (2004)

relations with partners, market forces, suppliers (even competitor producers). The envisioned breed of dynamic SMEs shall propel the nation into the world-class business sphere. These priority SMEs shall also showcase the country as a people, its richness in resources, as well as the boundless possibilities available to create and offer products and services to seamless global markets.

The SME shall be a sector of excellently managed and globally competitive entities served through the pool of professionally managed and efficiently run partner organizations with superb capabilities to adopt new knowledge and technologies that will develop high value-added products.”¹³

The SME Plan adopts an integrated approach to MSME development taking into account five key elements that go into MSME development: 1) finance, 2) training/human/resource development, 3) marketing, 4) product development and technology intervention, and 5) advocacy for an enabling environment.

The SME plan employs a three-pronged approach: 1) enhance the operations of individual MSMEs (enterprise level), 2) assist priority growth industries (sector level), and 3) improve the MSME operational environment (broad-based level). Under each approach, key strategies and programs have been identified.

At the enterprise level

- Provide MSME access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.
- Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country’s industrial structure.

At the sectoral level

- Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve access to the domestic market.
- Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country’s industrial structure.

At the broad-based level

- Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.
- Streamline the systems that provide support programs and incentives for SMEs.

¹³ SME Development Plan 2004-2010.

- Streamline the implementation of SME policies and regulations.
- Strengthen and build the capabilities of institutions that generate and implement programs for SME development.

The finance side of the SME Plan, meanwhile, is called SULONG (SME Unified Lending Opportunities for National Growth) Program which was previously launched by the Arroyo administration prior to the SME Plan. Under the SULONG program, GFIs will simplify and standardize their lending procedures and guidelines to make it easier for MSME to access formal credit. As of 2005, MSME lending through the SULONG Program reached over Php95 billion,¹⁴ with the government set to allocate another Php310 billion for the next five years.

Complementing the SULONG Program is the 'One Town, One Product, One Million Pesos' Program of President Arroyo. Through an executive order¹⁵ issued by the President in 2006, government financial institutions are now mandated to initially allocate for micro-lending lending the amount of Php1 Million for each town in the country's ten poorest provinces. The fund will be channeled through the DSWD's Self-Employment Assistance-Kaunlaran (SEA-K) program in the provinces of Zamboanga Del Norte, Maguindanao, Masbate, Surigao del Norte and Sur, Agusan del Sur, Mt. Province, Lanao del Norte, Misamis Occidental, and Biliran.

A total of 48 specific programs have been designed and prioritized by the government to put into effect the SME Plan's three-pronged approach. The Department of Trade and Industry (DTI) has been mandated to lead the implementation of the National SME Plan by coordinating the various efforts of the other government bureaus and offices.¹⁶ Table 6 summarizes the strategies and the specific programs as defined by the Plan.

Self-Employment Assistance Kaunlaran (SEA-K) Program

Began in the early 1990s, SEA-K is a capability building program of the Department of Social Welfare and Development (DSWD) that targets poor households. The aim is to enhance the socio-economic skills of poor families through the organization of community-based associations for entrepreneurial development. It offers financial services such as micro-saving and credit, packaging this together with business skill training such as simple accounting and bookkeeping, basic business management, and business proposal-making.

It has two components, the SEA-Kaunlaran Level I and the SEA-Kabayan Level II. Under Level I, target clients are formed into an association and are trained in business management and livelihood skills. An interest-free capital assistance worth P5,000 (payable in two years) is provided for each by the association, channeled via the association which manages the collection of savings, deposits and repayments. Microenterprises at this level are mostly involved in trade and commerce, buying and selling, vegetable farming, fishing and fish culture, food processing, sewing craft, and handicraft.

¹⁴ Philippine Information Agency (November 2006)

¹⁵ Executive Orders 558 and 558-A.

¹⁶ These government agencies are: Bureau of Domestic Trade Promotion (BDTP), Bureau of Small and Medium Enterprises Development (BSMED), Philippine International Trading Corporation (PITC), Philippine Trade and Training Center (PTTC), Product Development and Design Center of the Philippines (PDDCP), Regional Operations Group (ROG), Small Business Guarantee Finance Corporation (SBGFC), and Trade and Industry Information Center (TIIC).

Once target clients graduate into Level II, they are entitled to bigger loans which they can use for expansion of their livelihood projects, home improvement and shelter construction. The loan is payable within three years. As of June 2006, SEA-K has released more than PhP1 billion in capital assistance, funding more than 12,000 projects and benefiting over 272,000 families.

One Town One Product (OTOP) Program

The OTOP is a program managed and spearheaded by the Department of Trade and Industry (DTI) in close partnership with municipal local government units. Its key feature is the identification, development, and promotion of a specific product or service over which a particular municipality has a competitive advantage. Municipal LGUs take the lead in implementing the OTOP program in their localities and in providing the proper enabling environment for identified businesses to grow and develop. The DTI and the other partner government agencies assist the LGUs in delivering the necessary support services to the identified businesses such as product design and development; skills and entrepreneurial training; marketing assistance; and introduction of appropriate technologies. Financing assistance is also provided via the SULONG program.

Sector-specific laws/ programs

R.A. 7192: Women in Development and Nation Building Act

This law seeks to provide among others the provision of more funds to support programs and activities targeting women, including those found in the informal sector.

R.A. 7607: Magna Carta for Small Farmers

The Magna Carta for Small Farmers recognizes the rights of small farmers' organization and the need to enhance agricultural productivity. The law also provides incentives and rewards systems to small farmers.

R.A. 7882: An Act Providing Assistance to Women Engaging in Micro and Cottage Business Enterprises

This law is intended "to provide all possible assistance to Filipino women in their pursuit of owning, operating, and managing businesses/enterprises." It specifically targets women entrepreneurs engaged in micro and cottage scale businesses, and provides credit and training facilities to such female-led business enterprises.

R.A. 8435: Agriculture and Fisheries Modernization Act

More popularly known as AFMA, R.A. 8435 seeks to modernize the agriculture and fisheries sector through adequate, focused and rational delivery of necessary support services which include among others the provision for credit, access to information and marketing services, and infrastructure services.

Informal economy specific laws/ programs

R.A. 8425: Social Reform and Poverty Alleviation Act

An important provision contained in R.A. 8425 is the creation of the Workers in the Informal Sector Council. The WISC serves as the advisory body of the government on issues pertaining to workers in the informal economy, institutionalizing representation of informal economy units and mainstreaming informal economy issues and concerns at the national level. These concerns include: protection by labor laws, security at the workplace, protection against harassment and abuse, access to programs and services catering to special needs, and organization and capacity building. The law likewise emphasizes the need to enhance workers' productivity and facilitating their access to resources, most particularly microfinance services.

R.A. 9178: Barangay Micro Business Enterprise Act

The BMBE Law is essentially a modified version of R.A. 6810 (Magna Carta for Countryside and Barangay Business Enterprises) and P.D. 817 (National Cottage Industries Development Authority Law)—two laws that provide tax incentives for community-based enterprises. Basically, the BMBE law provides a host of benefits and incentives namely: tax exemptions and reduced local taxes, fees and charges; speedy registration and processing of licenses/permits; exemption from the coverage of the Minimum Wage Law; access to credit; technology transfer, production and management training, marketing assistance; and trade and investment promotion. Although these types of services are nothing really new, what is revolutionary about the BMBE Law is that it clearly and categorically identifies the informal sector as the target sector. Through this law, it becomes the State's policy to:

...hasten the country's economic development by encouraging the formation and growth of barangay micro business enterprises which effectively serve as seedbeds of Filipino entrepreneurial talents, and integrating those in the informal sector with the mainstream economy, through the rationalization of bureaucratic restrictions, the active intervention of the government specially in the local level, and the granting of incentives and benefits to generate much-needed employment and alleviate poverty.

Furthermore, the law re-emphasizes the importance of local level intervention as a means towards integrating informal businesses into the mainstream economy.

Unfortunately, since being signed into law in 2002, the BMBE law has yet to be effectively and properly implemented. This is due to a number of issues and challenges foremost of which are: the BMBE law does not offer any substantial benefit or incentive for informal business owners to register; national government agencies (e.g. BIR) and local government units are not keen in implementing the provisions of the law because they stand to lose in terms of forgone tax revenue; and very low awareness of the BMBE Law across public and private sectors. As a result, only a handful of business enterprises have actually registered under the BMBE.

Unlad-Kabuhayan Program Laban sa Kahirapan (Worktrep Program)

This program of the Department of Labor and Employment (DOLE) is part of the National SME Development Plan pursued by the National Government. Essentially, the program is meant to effectively transform informal economy workers into real, trained, and productively networked "worktrepreneurs".

The program offers four primary services for its target clientele: training services consisting of five training modules including production skills training, business management, productivity, occupational safety and health, human relations and confidence building; business advisory services in accessing market, technology, and credit; social protection services to facilitate access to formal government social protection (e.g. Social Security System and PhilHealth) and alternative, non-conventional social protection schemes; and networking services paving the way for participation and community support through business alliances, association, partnership, cooperative, or corporation.

Under the program, DOLE will be partnering with LGUs to ensure convenient delivery of basic services to target clients; facilitate the efficient registration and licensing of IS Worktreps' businesses; ensure the representation of informal economy units in the Local Development Councils of LGUs; establish a one-stop shop for business counseling support; and designate terminal or market areas for IS Worktreps' products or services.

The clients targeted by the program include the following: ambulant vendors or peddlers in the sidewalk, markets and buses; alternative transport service workers like drivers and operators of pedicabs, tricycles and other means of transport; home-based and home service workers such as weavers, carpenters, plumbers, laundry workers and others; scrap collector workers who recycle scraps into useful products; landless farmers; marginal fishery workers; and others deemed to be covered by the DOLE and LGUs.

Financing informal businesses: overview and assessment of the policy and regulatory framework

Policy framework

The Philippines has a well-defined policy and regulatory framework for microfinance. This is borne partly by the country's long tradition in cooperative development, the high volume and evolving role of NGOs operating in the country, and government's adherence to microfinance as a development tool for the poor.

In 1997, the National Credit Council, an interagency body under the Department of Finance, came out with the National Strategy for Microfinance which adhered to the following guiding principles:

- *Greater role of the private sector (MFIs) in the provision of financial services;*
- *An enabling policy environment that will facilitate the increased participation of the private sector in microfinance;*

- *Market-oriented financial and credit policies, e.g. market-oriented interest rates on loan and deposits;*
- *Non-participation of government line agencies in the implementation of credit and guarantee programs.*¹⁷

Executive Order 138 was issued later in 1999 which directed government entities involved in government's credit programs to implement the guidelines set by the National Credit Council. A year later, R.A. 8791 or otherwise known as the General Banking Law of 2000 was enacted, providing the legal mechanism for the microfinance sector to tap formal capital resources and expand their breadth of services. Succeeding circulars issued by the *Bangko Sentral ng Pilipinas* (BSP), the regulatory authority over all banking institutions in the country, provided the policy directives in implementing provisions contained in RA 8791.

All these policy developments relating to microfinance have led to the emergence of a very vibrant and highly functioning microfinance sector in the country.

Regulatory and supervisory framework

Microfinance institutions in the Philippines operate under a tiered regulatory structure. There are those that are regulated and licensed and there are those which are virtually unregulated and/ or unlicensed. (See Table 7.) Thrift, rural and cooperative banks are formally regulated and supervised by the Central Bank, and operate following the set of rules and guidelines as prescribed by the General Banking Law and the various circulars issued by the Central Bank.

MFIs such as credit unions, savings and credit cooperatives and microfinance-NGOs, meanwhile, although virtually unregulated, do not necessarily operate outside the purview of the law. These MFIs are generally registered legal entities. However, for lack of effective regulatory institutions that provide supervisory and monitoring services, these types of MFIs are often forced to practice self-regulation and autonomous supervision of their savings and loan portfolios.

In order to provide some level of regulatory and supervisory support for unregulated/ unlicensed MFIs, microfinance practitioners have pushed for the establishment and adoption of a set of performance standards for savings and credit cooperatives and NGOs.

The creation of the Microfinance Council of the Philippines, Inc. (MCPI) has provided some degree of supervisory and monitoring facility for NGOs engaged in microfinance activities. Apart from setting operational and financial standards to help guide microfinance-NGOs attend to their savings and loans portfolios, the MCPI has also helped elevate the standard of competency and professionalism in the microfinance-NGO community. It has taken the lead in ensuring that microfinance-NGOs remain rooted in their social objectives without sacrificing financial sustainability.

¹⁷ National Strategy for Microfinance.

Major microfinance providers: MFIs and GFIs

Although there are various types of MFIs, the unregulated MFIs have proven to be the more effective conduits in terms of actually reaching informal businesses and providing badly needed financing services. Commercial and thrift banks lack the expertise in handling small loans without collateral, and thus are ill-prepared to transact with informal businesses.

NGOs

There are around 500 NGOs in the Philippines which are engaged in some form of microfinance servicing. But because there is no regulatory body overseeing their operations, there is hardly any data available on NGO operations and performance. Thus, there are no definitive estimates on the number of clients served and the amount of savings and loans generated by microfinance NGOs.

NGOs normally charge interest on loans at rates ranging from 24 to 40 percent per annum, and collect compulsory savings from clients as a form of compensating balance for clients' outstanding loans. Although NGOs are free to increase the number of branches they operate and expand their operations in different areas, this is usually constrained by factors such as lack of capital, limited organizational manpower, and scarcity of middle management personnel.

Savings and credit cooperatives

Savings and credit cooperatives form the bulk of microfinance institutions in the Philippines with over 4,500 operating across the country. The Cooperative Development Authority (CDA) is the regulatory agency tasked to supervise and monitor savings and credit cooperatives. But because the CDA is mostly involved in promoting development programs for cooperatives, it has not been able to effectively perform its regulatory functions. To compensate for the lack of regulations and supervision, the CDA has issued a circular asking all savings and credit cooperatives to use a prescribed performance standard to guide them in their microfinance operations.

Savings and credit cooperatives charge 18 to 24 percent interest on loans availed by their members, and collect savings to serve as the fixed capital of the members with the cooperative. Similar to NGOs, savings and credit cooperatives are free to expand the number of their branches in other areas.

Rural banks

The enactment of the General Banking Law paved the way for the growth in the number of rural banks engaged in microfinance. In 2000, only 55 rural banks were directly engaged in microfinance. By 2005, there were 187 rural banks operating across the country offering microfinance services.¹⁸

¹⁸ Speech by Amando Tetangco Jr., Governor of the Banko Sentral ng Pilipinas, at the National Capital Region Stakeholders' Forum on Microfinance, Manila, 19 September 2005.

The relaxing of regulations pertaining to opening new bank branches and handling non-collateralized loans allowed rural banks to expand their operations and services and to reach even small-scale borrowers. Rural banks cater mostly to the entrepreneurial poor, providing small loans with interest rates ranging 24 to 36 percent per annum. In the first quarter of 2006, the total loan portfolio of rural banks was estimated at more than PhP2.6 billion.

People's Credit and Finance Corporation (PCFC)

PCFC is a government-owned finance company that offers wholesale funds to MFIs for retail lending to poor clients. It is the only government agency mandated by law to engage in direct lending. Its gross loan portfolio is estimated at close to PhP3 billion.

Land Bank of the Philippines

Land Bank is mandated by two laws, RA 8425 (Social Reform and Poverty Alleviation Act) and RA 9178 (Barangay Micro Business Enterprise Act) to set up special credit windows for microfinance programs for the poor and for microenterprise lending. And though it does not generally engage in retail lending to MFIs, Land Bank is currently providing wholesale funds to rural banks, cooperatives and microfinance-NGOs.

Development Bank of the Philippines (DBP)

Although the principal mandate of DBP is to provide banking services to small and medium enterprises, it was only in 2002 with the enactment of the BMBE Law that DBP began to formally engage in direct microenterprise lending. DBP also has a special credit window that provides wholesale loans to MFIs for retail lending.

Small Business Corporation

In 2001, two major government agencies involved in small and medium enterprise financing were merged to form the Small Business Corporation. The Small Business Guarantee and Finance Corporation (SBGFC) and the Guarantee Fund for Small and Medium Enterprises (GFSME) were merged to become the National Government's third largest provider of SME financing. Small Business Corporation offers wholesale and retail lending and credit guarantees to target banks engaged in MSME lending.

Local efforts to empower informal businesses: two case samples

As mentioned earlier, the Local Government Code of 1991 is a very important piece of legislation for informal businesses. This is rooted in the fact that the LGC not only decentralized power down to the local government thereby expanding the governmental and corporate powers of LGUs, but it also provides for mechanisms that institutionalize and operationalize civil society and private sector participation in local governance. In effect, the LGC opens new political space for local stakeholders, including informal economy units, to influence policy and decision-making processes.

There have been many documented cases wherein local government units—mostly in partnership with civil society and private sector groups—were able to successfully provide some form of economic and social intervention that helped informal business growth. Many of these documented cases involve provision for microcredit and training—interventions which seem to have become the conventional approach to supporting informal business growth.

The following two case studies are not necessarily exceptional examples of local efforts to empower informal businesses. But what makes them stand out is that they feature more innovative approaches to legally empowering informal businesses. The first case study features a model in legalizing and regulating street vending in urban areas, while the second case study features a model in simplifying requirements and procedures for informal business registration. Both case studies look at ways through which informal businesses can be *physically* and *operationally* integrated in the mainstream economy, expanding in effect informal business' access to formal services, resources and institutions.

Legalizing street vending in Intramuros¹⁹

Advocating for legal protection and recognition

Like in many parts of the Philippines, informal businesses are staple features in Intramuros. Street vendors are among the more visible forms of informal businesses in Intramuros. And as with other informal businesses, Intramuros' street vendors suffer from the same problems and challenges that confront present-day informal businesses—lack of access to resources, limited income, minimal social security, etc. But some years back, the most pressing concern that confronted the street vendors were harassment and abuse perpetuated by a few errant legal authorities. Street vendors normally shelled out as much as P500 to P600 daily to these unscrupulous officials to avoid arrest or the confiscation of sold goods.

To address this problem, several street vendors formed themselves into an organization called the *Samahan ng mga Nagkakaisang Manininda sa Intramuros* (SANAMAI). During its initial years, SANAMAI worked closely with non-government organizations on areas such as advocacy and leadership training, basic bookkeeping, and organizational development. Alongside efforts to solidify their ranks and build their organizational capability, SANAMAI also began advocating for street vendors' rights in Intramuros. It linked with media people to help bring attention to the plight of vendors in Intramuros.

In 1997, President Fidel Ramos passed Executive Order 452 (Security of Registered Vendors in the Workplace) and signed into law Republic Act 8425 (The Social Reform and Poverty Alleviation Act). These two national laws provided the legal basis for recognizing the rights of informal workers in the country, and which provided SANAMAI the legal leverage to aggressively pursue the legalization of street vending in Intramuros.

SANAMAI, with the help of KATINIG (*Katipunan ng Maraming Tinig ng mga Manggagawang Impormal*), a nation-wide organization of informal sector associations, spearheaded the effort to

¹⁹ Indon (2006); part of a forthcoming publication of the Economic, Social and Cultural Rights Asia, Inc.

persuade the Intramuros administration²⁰ and the five barangays in Intramuros to pass local ordinances legalizing street vending in Intramuros.

Because the street vendors were all residents of Intramuros, it was not difficult convincing their barangay officials to pass local ordinances that legalized the use of sidewalks and open spaces within Intramuros for purposes of vending. However, it proved more difficult and cumbersome dealing with the Intramuros administration. Nonetheless, in 2004, the Intramuros administration eventually agreed to provide a set of rules and regulations on how street vendors may conduct their business in Intramuros.

Features of the local ordinance

For a number of reasons, it was deemed necessary to limit the number of vendors to only twenty per barangay. For one, there is very little available space in Intramuros. Also, by keeping the number limited, competition not only between the big businesses and the vendors but also among the vendors are kept at manageable levels. Likewise, it makes it easier for local authorities to regulate and monitor the activities of the vendors.

Permits are issued by the Intramuros administration upon payment of P1,480 to cover the cost of registration and issuance of *locational* clearances and official Intramuros administration stickers. The business permit is good for one year. The vendor also pays P300 to the barangay for the business clearance. Only those who are both registered voters and residents of Intramuros are qualified to apply for vending permits.

In the conduct of their businesses, the registered street vendor needs to abide by the following conditions:

- Vendors shall adopt the standard stall design prepared by the Intramuros administration; the stalls shall not be permanent in nature.
- Vendors are required to display at all times within their place of business their business permits, clearances, and official Intramuros administration stickers.
- Ambulant vendors shall wear at all times the prescribed uniform for vendors.
- Vendors shall conduct their business strictly within their designated areas as specified in their *locational* clearances.
- Vendors shall maintain order and cleanliness within their areas of business.

Lessons and insights

Laws are specific and localized

²⁰ The Intramuros administration is the local governing body in Intramuros. It is tasked to “initiate, plan, undertake and supervise the restoration, upkeep and maintenance of [the whole of] Intramuros” and to “prepare, adopt, revise and enforce such rules and regulations, implementing guidelines and standards as are necessary for the effective regulation of the land use and development activities in Intramuros of both the Government and private entities and for the implementation of the Intramuros Plan.”

It is much easier to implement laws when they are specific and localized. The Intramuros administration explains that each type of enterprise has its own set of business procedures, needs and capabilities, and it is important that the laws enacted which regulate these entities take into consideration these peculiarities as was the case with SANAMAI's members.²¹ Also, local government units, particularly those in the barangay level, are in the best position to enact such laws since they are more familiar not only with the types of informal businesses that operate in their locality, but also the individuals and groups who operate these informal businesses.

The importance of collaborative advocacy

The passage of said local ordinances to legalize street vending in Intramuros would not have been possible without the collaborative efforts of various stakeholders and duty-holders. Since 1999, SANAMAI has worked closely with the local barangays, the Intramuros administration, other concerned government agencies (e.g. Department of Labor and Employment), non-government organizations (e.g. KATINIG), and media people in its advocacy efforts.

SANAMAI was also very clear about its needs and demands, which are freedom from harassment and legal identity to operate in Intramuros. It also made it clear that they were not looking for government handouts. They were willing to pay for the cost of registration and to cooperate with government authorities in the conduct of vending operations. And because these needs and demands were clearly articulated and advocated, it was not very difficult for local government authorities to identify specific legislative and program actions that would cater to these needs and demands.

Streamlining business registration procedures in Bacolod and Ormoc²²

Profile of Bacolod and Ormoc Cities

Ormoc City has population of over 168,000, two-thirds of which reside in rural areas. The city's economy is predominantly agricultural with more than 70% of the city's employment found in the agricultural and fisheries sector. From 2001 to 2004, the city experienced an increase in the number of new businesses, mostly micro-scale enterprises engaged in wholesale and retail trade and contractor/ manpower services.

Bacolod City, meanwhile, is a bit more cosmopolitan. Contractor/ service enterprises account for 40% of all business establishments in the city, while wholesale and retail trade enterprises accounts for nearly 34% of all business establishments. In terms of employment, wholesale and retail account for 43% of the city's total employed labor force, while public eating places and the public market accounts for another 32%.

Documenting business registration and licensing procedures

In January 2005, the Deutsche Gesellschaft Fur Technishe Zusammenarbeit (GTZ) commissioned a study under its Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) to document the business registration and licensing

²¹ Interview with Vic Reyes, Intramuros administration, 4 October 2005.

²² The case study is based on the works of Lijauco and Manlangit (2005 and 2006) published by the GTZ.

procedures in the cities of Bacolod and Ormoc. The study, which is part of SMEDSEP's wider effort at promoting an enabling business environment through local business reform, employed a time and motion approach to gathering data, tracking and observing 33 business applications filed in January and February of 2005. To validate the study's findings, key informant interviews and validation workshops were also conducted.

Based on the results of the study, it took 21 steps to complete a business licensing cycle in Bacolod, while in Ormoc it took 14-17 steps. What is interesting about the study's findings is that it revealed the inconsistency between what is prescribed by the local government and what is actually being implemented insofar as business licensing and registration procedures are concerned. In Bacolod, it supposedly took only 9 steps to complete a full cycle of business licensing, while for Ormoc it supposedly took only 5 steps. The study traced the inefficiency to the following: too many unnecessary steps, business registration and related offices were located and segmented far from each other, inadequate guidelines on procedures and requirements, and rude city personnel.

Designing, monitoring and evaluating action plans

Actions plans were drawn up and later revised in an attempt to improve the business licensing procedures in Bacolod and Ormoc. These actions plans focused on physical, procedural, material, and personnel variables. The plan involved setting up Business One-Stop Shop (BOSS) facilities, streamlining procedures and requirements, simplifying workflows, broadening and enhancing information dissemination, improving the physical layout of the business registration offices and integrating these with other relevant offices, improving system of updating records through the use of computers and information technology, and re-orienting and retraining city personnel to be more "customer-friendly." Interestingly, most of the action points identified did not require the issuances of new local ordinances for these to be implemented. Rather, simple executive orders and issuances from the city mayors were sufficient for the action plans to take effect.

From October to December 2005, national and local government executives and officials began implementing most of the identified steps and activities in the action plans, while GTZ monitored how the plan was being carried out in both cities. By January 2006, Bacolod City and Ormoc City both began implementing new business licensing systems.

To test whether the new business licensing procedures had resulted in greater efficiency, another time and motion study was conducted in January 2006. Complementing the time and motion study was a random sampling survey that gathered customer feedback on improvements made into the business licensing systems. A validation workshop was later conducted to confirm data that had been gathered.

Based on the results of the second study, the changes in the business licensing systems of both Bacolod City and Ormoc City resulted in a drastic reduction in the amount of steps and the time it took to obtain a business license. In Bacolod City, the process was reduced from 19-21 steps to only 15 steps, while in Ormoc City the process was reduced from 14-17 steps to only 5-10 steps. Further, it now only took 2 days in both cities to obtain a business license. As a result, the

number of business permits approved in January and February increased by 9.5% in Bacolod City and by 25% in Ormoc City. Table 8 summarizes the findings of the study.

Good practices

The streamlining of business registration procedures in Bacolod City and Ormoc City highlight six good practices that may be adopted by other LGUs interested in pursuing similar initiatives or activities:²³

Process improvement

Process improvement not only involves reducing the number of steps, requirements and signatures needed to facilitate the registration of the business, but reducing as well the time it takes for clients to move from one office to another to facilitate their business licenses and permits. The basic idea is to cut down the whole registration process to its most essential and simplest form.

Business One-Stop Shop (BOSS)

BOSS essentially means bringing together the different departments and offices involved in acquiring a business license in one location, thereby cutting down time, money and energy in processing business license and permits applications.

Computerization

The use of computers and other information technologies greatly facilitates the processing of business license and permits applications. Interconnectivity, sharing of database and information resources and the use of appropriate information technologies and software greatly complements process improvement efforts.

Partnership and participation

Generating participation and multi-sectoral involvement is crucial to instituting changes and sustaining efforts at streamlining business registration systems. Public, private and civil society actors all have something to contribute in areas such as research, planning, implementation and monitoring and evaluation.

Information, education and communication (IEC)

This involves the use of multi-media promotional materials to assist both service providers and clients on requirements, procedures and other information (e.g. fees, taxes, charges) involved in business licensing.

Customer satisfaction

²³ “Streamlining Business Registration in LGUs: Good Practices” published by the Bureau of Small and Medium Enterprise Development in cooperation with the German Technical Cooperation – Small and Medium Enterprise Development for Sustainable Employment Program (GTZ-SMEDSEP) and the Asia Foundation, 2006.

People who are applying for or renewing business licenses are essentially customers, and therefore deserve to be treated accordingly. Regular and systematic feedback mechanisms help evaluate customer satisfaction and identify areas in service delivery that needs change or improvement.

Key issues and challenges

What is clear is that there are existing policies, programs and services that directly or indirectly provide some form of legal protection to informal businesses. Likewise, efforts and initiatives in improving the state of informal businesses in the country have not been limited at the national level, but have also taken place in the local communities. The question is whether these policies, programs and services are indeed making a positive impact on the productivity of informal businesses.

Existing literature reveal that significant impact has been achieved, especially in the area of enterprise finance. However, the impact seems to have been fairly limited to growth-oriented informal businesses, falling short in addressing most of the growth constraints faced by livelihood and small-growth informal businesses.

Expanding the business of livelihood and small-growth informal enterprises

Although it is not categorically stated in the National SME Development Plan, it seems that the National Government gives priority in providing support to growth-oriented enterprises, particularly those belonging in industry sectors that exhibit tremendous export potentials. This is understandably so because the government must make full use of its limited resources by investing more in enterprises that would yield maximum economic returns.

As mentioned earlier, growth-oriented informal businesses, especially those which are in the verge of graduating or transitioning to more formal levels of production and operation, play an important role in alleviating poverty and unemployment and in promoting economic growth. Indeed, measures that raise the productivity of these types of informal businesses help set off multiplier-effects that ultimately enhance the over-all economic climate.

However, the larger segment of informal businesses comprises the livelihood and small-growth types. It is in these types of businesses where the poor are mostly found.

The issue, therefore, is integrating the growth needs of livelihood and small-growth informal businesses in order for them to be able to expand their businesses while remaining in the informal economy. This involves, for the most part, enhancing access to land and workspace for these types of informal businesses. According to one study:

Unless the physical environment is conducive the supply-side interventions currently being pursued yield only limited results. This is because physical location and access to proper premises, both closely related to legal recognition, determine the income prospects and opportunities for investment. Failure to recognize these inter-relationships has contributed to marginalization of the

*sector in both economic and physical terms... A serious effort must be made to **physically integrate** the units in this sector by recognizing the existence of this sector and adapting the city plans as necessary. This would call for significant departures from the conventional approaches to city and urban regional planning. It would involve trade-off between efficiency and equity since allocation of space for the informal sector in inner cities (where informal producers and traders realize higher incomes owing to a variety of linkages) could mean less efficient use of land but would result in improved incomes for the poor. Besides making land accessible the urban authorities must consider improving the urban infrastructure and making them accessible to micro-producers. Implementing these ideas would however call for appropriate changes in certain legislations (e.g., land ownership and tenure), in the land use planning, in pricing of infrastructure related services, etc.*²⁴

In the case of Intramuros, for example, the decision of local officials to allow street food vendors to use the sidewalks and other public spaces for their business activities encouraged the street food vendors to register their business and be regulated and supervised by the local government. Note, too, that in this particular case, the local government did not even have to come up with additional funds or resources to support the business needs of the street vendors. On the contrary, as a result of the new land use arrangement, the local government was even able to generate some revenue from the registration fees and other miscellaneous fees that were paid for by the street vendors.

In reformulating existing legal mechanisms to suit the business and growth needs of livelihood and small-growth informal businesses, it is also important to consider gender issues and concerns. In the hierarchy of informal businesses, those who are in the lower rungs are dominated by women. Gender-specific constraints (e.g. role, occupational, educational, legal barriers) experienced by women prevent them from graduating into more growth-oriented business enterprises. Intervention strategies that legally empower informal businesses must be able to attend to these gender-specific constraints if they are to have any meaningful impact on livelihood and small-growth informal businesses.

Part of making legal empowerment of informal businesses more gender sensitive is coming out with more precise and updated statistics on informal businesses. Official statistics, for example, place the number of micro-business firms in the country at 743,628. But it must be noted that this estimate is based on government's classification of a microenterprise, that is, business firms with total assets PhP3 million or less and which employ 1 to 9 workers. As mentioned in the introductory section of this paper, this represents a very large aggrupation of business establishments, lumping together formal businesses with informal ones. It is highly recommended that this initial estimate be disaggregated further according to assets' size and gender.

The National Government's effort to provide informal economy specific laws, programs and activities and linking these to national and mainstream economic and social development policies and plans is highly commendable. DOLE's Workpreneurs program, DTI's OTOP program, and

²⁴ Sethuraman (1997).

the DILG's SEA-K Program are some of the ways through which nationally-initiated existing enterprise development interventions can be extended to informal business units, particularly the survivalist and small-growth types. A growing challenge is getting LGUs to effectively and efficiently implement, enforce and improve on the provisions of these laws, programs and activities bearing on informal businesses' empowerment.

Expanding and deepening the role of LGUs

The literature has been consistent in stating the invariably important role that local government plays in addressing informal economy needs and concerns. This is because the public sector's first line of engagement with informal businesses is the local government. As mandated by the LGC, LGUs have the power to issue business permits, impose taxes and fees, and regulate the use of commercial and public spaces. It may even be argued that city-level policies are more important than national-level policies, especially if these refer to land use and access to infrastructure. This being the case, it is therefore in the level of local governance where changes and improvements in regulatory policies must be re-analyzed, reformulated and implemented.²⁵

The legal mandate for LGUs to pursue policies, programs and services for informal businesses can be found in the Local Government Code, the Social Reform and Poverty Alleviation Act, the Magna Carta for Small Enterprises, the Barangay Micro Business Enterprise Act and the various DILG memorandum circulars. Three particular DILG memorandum that are of extreme relevance to informal businesses are: MC 2001-172, which instructs Local Chief Executives to formulate their respective Local Poverty Reduction Programs; MC 2002-48, which articulates the economic philosophy and development approach being taken by the National Government; and MC 2002-107, which directs all city and municipal mayors to establish and strengthen local small and medium enterprise development councils.

The relevance of these three memorandum circulars is that they expand the role of Local Chief Executives from being political and administrative officers to being "entrepreneurial development managers" as well. Moreover, the memorandum circulars prescribe "institutional reforms to strengthen linkages and coordination" among government and the private sector and "localizing consensus building" through formation and strengthening of local councils and special bodies. These memorandum circulars, therefore, provide the legal mechanism for individuals and groups representing informal businesses to engage local government in pursuing policies and programs for the sector.

The Galing Pook Foundation and the Asian Institute of Management Policy Center have researched on numerous "best practice" cases of LGUs successfully implementing local economic and enterprise development programs. And the conclusion is that LGUs are in the best position to provide an enabling environment for business enterprises to develop.

Need for greater informal business participation

Informal business groups have yet to take full advantage of existing legal mechanisms that afford them political representation at the national and local levels. Informal business groups, for

²⁵ Yu (1998).

instance, have yet to maximize the potential of the NAPC-WISC as a venue for articulating their specific issues and concerns and mainstreaming these in national plans and programs. Similarly, informal business groups also have not been able to capitalize on the opportunities afforded by the Party-List System Act and the Local Government Code for more active participation in governance. This is largely because informal business groups remain unorganized and fragmented, which is unfortunate given that the Cooperative Code of the Philippines already provides the legal mechanism through which informal business groups can organize themselves and pursue legal representation in private and public enterprise.

At the local community levels where informal business groups can be more effective in pushing for legislation on economic and social inclusion, informal business groups face the following constraints to participating in local governance: restrictive and unclear guidelines on representation, inappropriate and under-utilization of existing mechanism for participation, limited stakeholders' capabilities and resources, inadequate support, political interference, negative Filipino traits, adverse external factors.²⁶

Sustaining the growth of the microfinance sector

Regulatory weaknesses

The regulatory framework for MFIs is highly fragmented, with one group (GFIs, commercial, thrift, rural banks) being strictly regulated by the BSP and the other group (microfinance NGOs and credit cooperatives) virtually left to self-regulation and self-supervision. The challenge is further reducing the regulatory restrictions on formal financial institutions in “downscaling” their operations in order to be more viable microfinance providers, while at the same time establishing systems that would effectively monitor and supervise the activities of microfinance-NGOs and credit cooperatives.

Since the passage of the General Banking Law of 2000, the Central Bank has continually promoted a “microfinance-friendly” policy and regulatory environment, paving the way for the entry of more banks going into microfinancing.

The more urgent issue is providing a transparent monitoring mechanism for microfinance-NGO and credit cooperatives. A huge amount of financial resources are handled by these institutions—financial resources that are beyond the purview of government regulation and monitoring, and are therefore generally left unsecured. This is very risky business.

Efforts are continually being made by the Central Bank, the National Credit Council, the Cooperative Development Authority, and the Microfinance Council of the Philippines to establish a Credit Information Bureau and a set of performance standards that would monitor and guide microfinance-NGOs and credit cooperatives in their handling of deposits and loans. But definitely, more regulation and supervision is needed to make sure that microfinance-NGOs and credit cooperatives not only operate above board, but also function in a sustainable manner.

²⁶ Development Research Initiatives (2005).

Expanding MFIs' access to capital funds

The potential demand for microfinance loans is estimated at PhP26 billion. However, the microfinance sector is only capable of supplying PhP8.8 billion.²⁷ Increasing the supply of microfinance loans is contingent on the ability of the microfinance sector to attract investments from the commercial banking sector, which corner the bulk of money supplies.

Sadly, commercial bank loans to MFIs have been dismal, primarily because of the perceived high risk posed by the lack of transparency in the operational and financial performance of microfinance-NGOs and cooperatives.

To date, the PCFC is the single biggest wholesale provider to MFIs. However, its funds normally go to Grameen types of MFIs, excluding in the process those MFIs which offer other types and models of microfinancing. Further, the PCFC's has a weak capital base and is vulnerable to political risk because of its governance structure.²⁸ Both issues threaten PCFC's ability to sustain its microfinance activities.²⁹

Re-orienting microfinance thinking

Linking MFIs with commercial banking institutions cannot be done simply through policy intervention and regulatory changes. *A priori* is to reorient the thinking of individuals and groups in these institutions. For microfinance-NGOs and credit cooperatives, they need to develop an appreciation of banking principles and standards and the workings of the financial market, and to professionalize their organizational and managerial operations. They also need to move beyond their social agendas and to try balancing these with clearly defined and realistic economic objectives.

As for banking institutions, especially the commercial types, reorientation begins with gaining a deeper understanding and appreciation of the target clients, that is, the entrepreneurial poor. There are over 740,000 microenterprise establishments in the country—a huge market that has relatively been left untapped by commercial capital.

Advocacy efforts by the National Government and the Central Bank to promote microfinance have resulted in some paradigmatic changes in some quarters of the private banking industry. But beyond advocacy, there is a definite need to establish and strengthen more microfinance training centers that can help build the technical capabilities of microfinance practitioners.

Sustaining microfinance commercialization

In August 2006, President Arroyo signed EO 558 which repealed EO 138, thereby again allowing government non-financial agencies (GNFAs) to engage in directly providing credit services. Many from the microfinance community are worried that this might lead to a reversal of previous commitment by the National Government to promote a market-oriented microfinance

²⁷ Espenilla (2004) citing Lamberte (2002).

²⁸ The PCFC is not regulated by the Central Bank nor by the SEC.

²⁹ ADB (2006).

sector, which puts into serious jeopardy the gains realized by the microfinance sector in the past seven years.

But even with EO 138, it should be noted that many government agencies continued to provide direct credit disguised in the form of interest-free grants as part of their development programs and services. Now with the repeal of EO 138, the microfinance sector is concerned that government will once again begin offering subsidized microcredit programs which ultimately “crowd out” the private sector. The result is a less economically attractive microfinance sector that reduces the capacity for MFIs to access commercial funds, that in turn limits the capability of MFIs to expand and deepen their services to a broader segment of the entrepreneurial poor.

Conclusion

There are a number of conclusions that may be extracted from the materials just reviewed. And these are:

There are existing policies, program and services that directly/ indirectly cover informal businesses

It is clear that there are existing legal mechanisms that promote empowerment of informal businesses. These legal mechanisms can be classified as non-sector specific, sector-specific or informal economy specific. The emergence of informal economy-specific laws such as R.A. 8425 and R.A. 9178 and informal economy-specific programs such as DOLE’s Worktrepreneur Program give credence to the fact that the government is beginning to not only appreciate and understand the economic importance of the informal economy, but also develop an awareness of the needs and demands of informal businesses and to introduce intervention packages for the latter.

Variety of support programs, services and information are currently being offered by different institutions

Furthermore, there is a wealth of programs, services and information offered by public, private, development, and civil society institutions which can be made available to informal businesses. As mentioned earlier, national government sponsored programs such as DOLE’s Worktrepreneur Program, DSWD’s SEA-K Program, and the DTI-DILG’s Anti-Red Tape/ One-Stop Shop Program are just some of the government-initiated programs meant to provide a friendly and supportive business climate for micro- and informal businesses.

In fact, most national government agencies are providing or are involved in some form or type of microenterprise or livelihood support program or project. These include 34 national government agencies whose specific mandates are to provide support and services to MSMEs. Such support and services include provision and implementation of financing programs, training and education, marketing support, institutional development, technology and production, and infrastructure development.

The issue is linking support institutions with informal businesses

Sadly, these programs and support services fail to reach or remain inaccessible to informal business operators and owners. This is borne out of and perpetuated by lopsided economic policies and poor governance that inadvertently encumber informal businesses from accessing mainstream resources and services. Therefore, a major challenge is developing and utilizing the proper set of delivery mechanisms that would link these support institutions with informal businesses. It must be underscored that such delivery mechanisms should be able to re-articulate and reformulate policies, programs and services, adapt these to the local milieu, and simplify existing legal and regulatory framework.

A vital element and objective of any linking or delivery mechanism is expanding active participation of stakeholders and building strategic partnerships and alliances. Working with the private sector makes it easier for public duty-holders to articulate the specific needs and demands of informal business owners and operators, design responsive and effective intervention strategies, and implement development projects and activities. Moreover, by undertaking cooperative and collaborative activities with private stakeholders, public duty-holders are able to forge strategic partnerships and alliances that are essential in sustaining development efforts and initiatives.

Local governance is key

Those who are in the best position to design and implement such delivery mechanisms are LGUs and their constituencies. Apart from the two case studies that were featured in this paper, there are numerous other cases where legal mechanisms to empower informal businesses were facilitated through effective local governance. And generally, these LGUs began with formulating and implementing their respective local enterprise development plans.

Local enterprise development plans are basically blue prints through which the local community can pursue business enterprise development and investment and business promotion. The plan may involve pursuing strategies such as: simplifying local business registration, permits and licensing procedures; encouraging the growth of new enterprises and supporting local business growth; promoting inward investment; and investing in strategic social and physical infrastructures.

Because planning is carried out at the local level, local informal business groups and associations have more political leverage to engage government, and therefore are better able to influence and participate in local project planning, implementation, monitoring and evaluation. In engaging the local government, informal business groups and associations force public duty-holders to seriously address the negative factors of informality and pursue development strategies that attend to the specific needs and requirements of informal businesses to become more profitable and productive economic units.

The primary goal is the improvement in the quality of life of the entrepreneurial poor

Informal businesses undoubtedly play a vital role in poverty-alleviation, employment creation and economic growth. Enhancing their productivity and supporting their integration into the

modern sector lead to a more vibrant and flourishing macro-economy. But in the final analysis, the primary goal is not simply the growth and development of economic enterprises and activities, but the advancement in the quality of life of people within this sector.

Tables

Table 1
Sample estimates of the size of the formal and informal economy
based on employment (class of workers), 1996 and 2001

Class of worker	1996			2001		
	Number (in 000)	% to total workers	% female	Number (in 000)	% to total workers	% female
Formal: Wage and salary workers	13,096	47.7	35.8	14,751	49.0	38.2
Private sector	11,010	40.1	33.4	12,385	41.1	35.7
Government	2,086	7.6	48.5	2,366	7.9	51.1
Informal	14,346	52.3	37.8	15,334	51.0	39.9
Own-account workers	10,297	37.5	31.2	11,257	37.4	34.8
Unpaid family workers	4,049	14.8	55.0	4,077	13.6	54.0
Total number of workers	27,442	100.0	37.6	30,085	100.0	39.1

Source: Philippine Yearbook, NSO (2002)

Table 2
Number of micro and small business establishments by type of industry

Type of industry	Micro		Small		All establishments
	Number	% of total establishments	Number	% of total establishments	Total number
Agriculture	1,985	46.5	2,004	46.9	4,270
<i>Agriculture, hunting, forestry</i>	1,468	47.0	1,434	45.9	3,125
<i>Fishery</i>	517	45.2	570	49.8	1,145
Industry	111,074	87.0	13,783	10.8	127,650
<i>Mining and quarrying</i>	198	60.4	105	32.0	328
<i>Manufacturing</i>	108,898	88.2	12,163	9.9	123,406
<i>Electricity, gas and water</i>	492	39.6	540	43.5	1,241
<i>Construction</i>	1,486	55.6	975	36.4	2,675
Services	630,569	92.9	44,998	6.6	678,442
<i>Wholesale and retail trade</i>	415,753	95.7	18,220	4.2	434,650
<i>Hotels and restaurants</i>	81,563	92.0	6,856	7.7	88,624
<i>Transport, storage and communications</i>	10,768	75.2	3,204	22.4	14,318
<i>Financial intermediation</i>	18,438	76.6	5,459	22.7	24,061
<i>Real estate, renting, and business activities</i>	34,427	88.4	3,875	10.0	38,940
<i>Education</i>	4,928	52.8	3,898	41.7	9,338
<i>Health and social work</i>	26,697	94.7	1,287	4.6	28,201
<i>Other community, social and personal service activities</i>	37,995	94.3	2,199	5.5	40,310
All industries	743,628	91.8	60,785	7.5	810,362

Source: BSMED (2005)

Table 3
Number of micro and small business establishments by region

Region	Micro		Small		All establishments
	Number	% of total establishments	Number	% of total establishments	Total number
Luzon	497,077	91.1	43,980	8.1	545,534
<i>Region 1: Ilocos</i>	45,949	95.5	2,071	4.3	48,116
<i>Region 2: Cagayan Valley</i>	23,980	96.2	906	3.6	24,931
<i>Region 3: Central Luzon</i>	83,370	93.8	5,119	5.8	88,877
<i>Region 4A: CALABARZON</i>	109,177	93.3	6,679	5.7	116,973
<i>Region 4B: MIMAROPA</i>	24,952	95.2	1,212	4.6	26,200
<i>Region 5: Bicol Region</i>	29,313	94.9	1,495	4.8	30,899
<i>Cordillera Administrative Region</i>	13,472	94.8	694	4.9	14,218
<i>National Capital Region</i>	166,864	85.4	25,804	13.2	195,320
Visayas	106,939	92.1	8,355	7.2	116,129
<i>Region 6: Western Visayas</i>	42,462	92.8	3,040	6.6	45,757
<i>Region 7: Central Visayas</i>	44,526	90.4	4,226	8.6	49,263
<i>Region 8: Eastern Visayas</i>	19,951	94.5	1,089	5.2	21,109
Mindanao	139,162	93.9	8,450	5.7	148,699
<i>Region 9: Zamboanga Peninsula</i>	26,073	95.0	1,297	4.7	27,451
<i>Region 10: Northern Mindanao</i>	30,794	93.2	2,114	6.4	33,057
<i>Region 11: Davao</i>	32,815	91.6	2,751	7.7	35,810
<i>Region 12: SOCCSKSARGEN</i>	26,935	95.1	1,289	4.6	28,316
<i>Region 13: CARAGA</i>	15,102	95.0	755	4.7	15,902
<i>Autonomous Region of Muslim Mindanao</i>	7,893	96.7	244	3.0	8,163
All industries	743,628	91.8	60,785	7.5	810,362

Source: BSMED (2005)

Table 4
Matrix on livelihood and growth oriented microenterprises

	Livelihood enterprises	Growth-oriented microenterprises	
	No-growth	Small-growth	Potential graduate
Economic role	<ul style="list-style-type: none"> • Poverty and unemployment alleviation 	<ul style="list-style-type: none"> • Poverty alleviation • Employment creation • Economic growth 	<ul style="list-style-type: none"> • Poverty alleviation • Employment creation • Economic growth
Objectives in promoting productivity	Expand the business; operate more profitably within the informal economy	Expand the business; operate more profitably within the informal economy	Support transition and full integration into formal economy

Source: Yu (1998)

Table 5
Criteria for Identifying the Informal Sector

Criterion	Description
Enterprise ownership	Household
Legal organization	Household enterprises, which refer to unincorporated enterprises owned by households, are units engaged in the production of goods and/ or services that are not constituted as legal entities independent of the households or household members that own them.
Type of accounts	No complete set of accounts that will distinguish production activities, flows of income and capital between the households and the enterprises
Characteristics relative to employment	<p><i>Informal own-account enterprise</i> – household enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis.</p> <p><i>Enterprises of informal employers</i> – household enterprises owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis.</p>
Product destination	At least some market output, hence, not entirely for own consumption.

Source: NSCB

Table 6
Key strategies and programs of the SME Development Plan

Approach	Strategies	Programs
Enterprise level	Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.	<ul style="list-style-type: none"> ▪ SME information support ▪ SME counseling and advisory program ▪ Facilitating partnerships, market and technical support ▪ IT-enabled SMEs through IT appreciation and application courses ▪ Assistance from SME industry Centers ▪ Management advisory, technology and productivity development programs ▪ Best practices modeling from successful productivity application ▪ Technology applications promotion ▪ Providing linkages through SME Centers and inter-regional facilitation ▪ Organizing linkages for competitive support
	Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.	<ul style="list-style-type: none"> ▪ Strategic business planning, training and self-help packages to develop strategic business plans ▪ Product development and design services ▪ Support to start-up enterprises in selected areas ▪ Entrepreneurship training camps and enterprise development programs ▪ Business opportunity development and investment promotion for innovative ideas ▪ Institutionalizing of the SME Opportunities Caravan ▪ Franchising seminars ▪ Cooperative business development program ▪ Subcontracting promotion seminars for electronics, automotive parts and other foreign technology enterprises
Sectoral Level	Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve access to the domestic market.	<p>Strengthening/ Establishment of industry centers³⁰:</p> <ul style="list-style-type: none"> ▪ Center for Processed Food ▪ Center for Furniture Industry ▪ Center for Craft Industry ▪ Center for facilitating partnerships and strategic inter-regional alliances ▪ Center for supplier development and linkages for support industries in the electronic and electrical industries, automotive parts, metal working industries and advanced manufacturing industries ▪ Center for packaging development ▪ Center for agro-fisheries and marine industry development

³⁰ These centers, either tangible or virtual, are located in strategic regions in the country.

	Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.	<ul style="list-style-type: none"> ▪ Product development and design workshops ▪ Design competition ▪ Market intelligence support ▪ Packaging and labeling technology development ▪ Industry productivity and quality improvement programs ▪ Development of SME data-bases and information system
Operational Environment Level	Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.	<ul style="list-style-type: none"> ▪ Promotion of supplementary measures to reduce the risk of SME financing ▪ Development of personal guarantee system ▪ Fund for start-up businesses ▪ Venture capital fund
	Streamline the systems that provide support programs and incentives for SMEs.	<ul style="list-style-type: none"> ▪ SME institutional restructuring ▪ SME development strategic planning: development, implementation and monitoring ▪ Upgrading of SME development network
	Streamline the implementation of SME policies and regulations.	<ul style="list-style-type: none"> ▪ Magna Carta for Small Enterprises: Government procurement for SMEs, systems and rules ▪ Magna Carta for Small Enterprises: Mandatory allocation of bank resources ▪ Development of Barangay Micro Business Enterprises Act: Development of implementing guidelines and support programs ▪ Consumer awareness programs and fair trading advocacy ▪ Incentives/ policy measures for business cooperatives
	Strengthen and build the capabilities of institutions that generate and implement programs for SME development	<ul style="list-style-type: none"> ▪ National business registry ▪ Database build-up and information support on SME status/ SME white paper ▪ Streamlining of registration requirements

Source: SME Development Plan, 2004-2010

Table 7
List of microfinance providers in the Philippines by type of regulation

Type of regulation	Microfinance Provider
Regulated/ Licensed	<ul style="list-style-type: none"> • People’s Credit and Finance Corporation • Commercial Banks • Thrift banks • Rural Banks • Cooperative Banks • Private Lending Investors • Pawnshops
Unregulated/ Unlicensed	<ul style="list-style-type: none"> • NGOs • Credit Unions/ Savings and Credit Units of Cooperatives • Village “banks”/ Solidarity Groups • ROSCAs and ASCAs

Source: Gallardo (2002).

Figure 1
Regulatory framework of MFIs

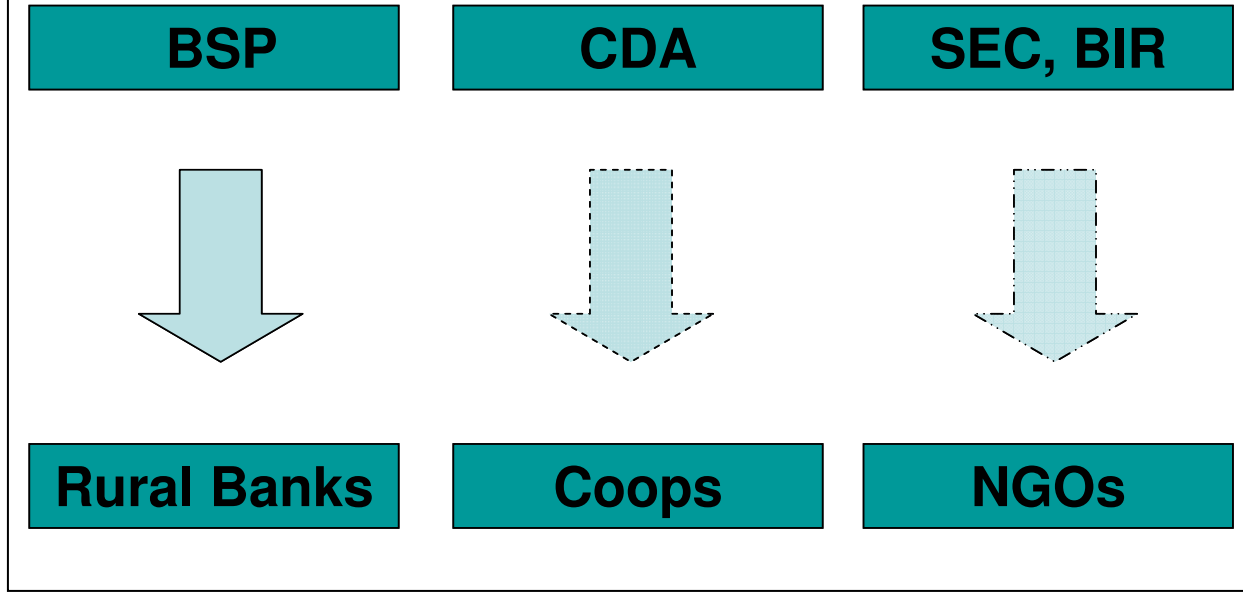


Table 8
Results of BRPL streamlining in Bacolod and Ormoc City

	Bacolod City		Ormoc City	
	2005	2006	2005	2006
Number of business permits approved during the period	12,861	14,010	2,013	2,681
Number of steps				
• New	19	15	14	5
• Renewal	21	15	17	10
Business licensing tracking time	128 hours	17 hours	Not observed	26 hours
Number of days to complete business licensing cycle	9	2	17	2
Number of documents and forms required	19	10 7 (for transport)	12	6
Number of	25	24	Renewal – 14 New – 17	Renewal – 1 New – 4
• Clearances			21	4
• Signatures				
Accessibility of required forms	Not accessible/ not free	Accessible/ not free	Not accessible/ free	Accessible and free
Frequency of backtracking	75	Not observed	Not observed	39
Transparency in computing fees	No	No	No	Yes
Process flowcharts and schedule of fees posted	No	Yes	No	Yes
Information, education and communication campaign	No	Yes	No	Yes
Customer satisfaction	Not satisfied	Satisfied	Not satisfied	Satisfied

Source: Lijauco and Manlangit (2006)

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