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INFORMAL SECTOR INITIATIVES PROGRAM
492-0453

PROGRAM ASSISTANCE INITIAL PROPOSAL

USAID/PHILIPPINES
JUNE, 1991

2. COUNTRY/ENTITY
 Philippines

3. PROGRAM NUMBER
 492-0453

4. BUREAU/OFFICE
 EUROPE/NEAR EAST

A. Symbol ENE
 B. Code 04

5. PROGRAM TITLE (maximum 40 characters)
 INFORMAL SECTOR INITIATIVES PROGRAM

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

A. Initial FY 9 | 1
 B. Final FY 9 | 3
 C. PACD 9 | 5

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)

FUNDING SOURCE		LIFE OF PROGRAM
A. AID		25,000
B. Other U.S.	1.	
	2.	
C. Host Country		8,334
D. Other Donor(s)		
TOTAL		33,334

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 91		E. LIFE OF PROGRAM	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) MAI				1,000		25,000	
(2)							
(3)							
(4)							
TOTALS				1,000		25,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code
 B. Amount

12. PROGRAM PURPOSE (maximum 480 characters)

The purpose of the program is to eliminate, or reduce the impact of, laws, policies, and regulations unnecessarily constraining the efficiency of the informal sector.

13. RESOURCES REQUIRED FOR PROGRAM DEVELOPMENT

Staff: A four-person technical assistance team for approximately 6 weeks is proposed for completion of detailed design study.

Funds PD&S funds of approximately \$100,000

14. ORIGINATING OFFICE CLEARANCE

Signature: Malcolm Butler
 Title: Director USAID/Philippines

Date Signed: MM DD YY 06 04 91

15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

16. PROGRAM DOCUMENT ACTION TAKEN

S = Suspended
 A = Approved
 D = Disapproved

CA = Conditionally Approved
 DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY

Signature
 Title

19. ACTION REFERENCE

20. ACTION DATE

MM DD YY

THE INFORMAL SECTOR INITIATIVES PROGRAM
IN THE PHILIPPINES

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THE INFORMAL SECTOR INITIATIVES PROGRAM
IN THE PHILIPPINES

I. PROGRAM SUMMARY

The informal sector plays a key role in the economic structure of the Philippines. According to some estimates, nearly 50% of the nation's domestic output is generated by the informal sector. Though this estimate may be high, it is certain that a considerable portion of the labor force derive their incomes from informal activities. Changes in laws, regulations, and policies that increase the efficiency of resource use within the informal sector and eliminate the incentives for informality and by implication the costs of inappropriate regulation will have a beneficial impact on economic growth and on the welfare of those in this sector and the economy as a whole.

The goal of the Informal Sector Initiatives Program (ISIP - the acronym in Tagalog means "think") in the Philippines is to increase the efficiency and productivity of the informal sector, so that this sector can make a greater contribution to the economic development of the Philippines.

The purpose of the program is to eliminate, or reduce the impact of, laws, policies, and regulations unnecessarily constraining the efficiency of the informal sector.

The assistance vehicle proposed is a combined program/project mechanism. The project components, funded at \$5 million, will consist of four principal activities including applied research, advocacy, technical assistance, and training. Included in this amount is \$500,000 which will be set aside for project monitoring, evaluation, and audit. This will include a baseline survey of the informal sector in specific locations and sectors, and periodic surveys throughout the period of project implementation.

The program component will be funded at a level of at least \$20 million and support specific policy and regulatory changes. Such changes will reduce the regulatory burden, improve the welfare of people in the informal sector, promote entrepreneurship, and facilitate improvements in the efficiency and productivity of informals. The Mission's ongoing research efforts in this subject have preliminarily identified five areas that should provide the basis for an initial policy agenda. They include urban transportation, ports and water transportation, informal banking and credit, and two government-sponsored legislative bills designed to assist informals.

The Mission currently envisions utilizing the services of a non-governmental organization located in the Philippines for administration of project components. This organization will (1) facilitate research activities, (2) coordinate advocacy programs, (3) monitor legislative proceedings, (4) serve as a clearinghouse for information on the informal sector, (5) support monitoring and evaluation, and (6) assist in project management.

Program success will be measured in terms of research and advocacy activities resulting in institutional and policy changes that (1) raise the efficiency of resource use within the sector, enhance productivity, and contribute to the growth of output and (2) reduce government imposed burdens, which limit opportunities for workers and enterprises.

The Mission seeks redelegation from AID/W to authorize the program for the entire \$25 million. However, the Mission will seek AID/W approval of a policy reform matrix before entering into a program agreement with the GOP.

II. BACKGROUND AND RATIONALE

A. The Macroeconomic Setting and Trends

During the 1980s the Philippine economy experienced erratic growth. An underlying robustness was offset by domestic turmoil and severe shocks. High interest rates on the country's international obligations, weak markets for its principal export commodities, and a sizeable oil import bill created chronic balance of payments problems. Unrest and an economic slump in the early half of the decade were followed by rapid economic recovery in the 1986-1988 period. Subsequently, an attempted coup, a typhoon, a drought, and an earthquake weakened the economy and undermined confidence. In late 1990 and early 1991 the effects of the Middle Eastern disturbance on worker remittances and oil prices further depressed the growth rate.

Because of this recent mixed economic record, the expansion of employment opportunities has been uneven. With over 750,000 labor force entrants each year, broad-based generation of jobs across agricultural, industrial, and service occupations is required to reduce unemployment. In addition to the continuing flow of young men into the labor force, the female labor-force participation rate has risen sharply since 1970, adding further to the incremental supply of labor.

Not surprisingly, the combination of unsteady economic performance and accelerating labor force growth has led to an imbalance between demand and supply in the national labor market. Between 1975 and 1985, labor force growth averaged just over 4.0 percent a year, while employment grew at only about 3.5

percent. Visible unemployment reached 11 percent in 1986 and underemployment was estimated to be 30 percent. These rates have dropped slightly in the early 1990s but remain high. Despite GOP commitment to improve employment opportunities during the Medium-Term Development Plan for 1987-1992, job creation has fallen behind official targets.

The reasons for the failure of the economy to generate enough jobs are complex, however, and trace much further back. Agricultural employment opportunities have been growing only slowly and the modern industrial sector has not created an export capability across broad sectors to absorb surplus labor from agriculture. As a result of this sluggish rate of aggregate job creation, the structure of the Philippine labor force is changing very slowly. Compounding this is the country's inability to create jobs for the more than one million new entrants to the labor force each year.

B. Origin of the Informal Sector

The failure of the three major productive sectors of the formal economy (i.e., agricultural, industrial and service) to absorb all new entrants to the labor force has led to the expansion of the Philippines' informal sector. Some estimates attribute about one-half of the nation's current domestic output to the informal sector, up from about 40 percent in 1980. In addition, it is plausible that as many as one-third of all workers derive all or much of their income from informal activities. Since informal activities are largely unregistered, untaxed, and uncounted, no one knows the exact size of the sector.

The informal sector arises when economies begin the transition from agriculture to industry and employment growth is inadequate in the formal sector. Employment is self-generated in the informal sector by individuals, families, and microenterprises, drawing largely on their own labor, skills, and funds. Social connections such as kinship or a common place of origin help bring labor and other resources into production; management, where required, is often predicated on personal relationships rather than professional hierarchy. Sidewalks and streets provide space to sell or work. In these ways informals make something out of nothing and subtract little from resources available to the formal sectors.

Typically, informal enterprises are small: a survey of Metro Manila found two-thirds of them had only one or two employees. (Alonzo 1990) Those with more than two workers still depend heavily on family members although a large number do hire workers. The range of products and service is wide: tailoring, metal working, sewing, hardware, car parts, soft drinks, video rental, vehicle repair, jeepney driving, carpentry, and many others.

C. Policy Formulation and the Political Setting

A feature of informal enterprises is that they have little interaction with government. Alonzo's study (1990) of Metro Manila reported that 87 percent had no dealing with any level of government. Of those few that had dealt with government, two-thirds had interacted only with their local city halls. Only fourteen percent of all respondents said they were in any way affected by governmental regulations and only two percent reported any governmental assistance.

From a policy point of view the informal sector presents a dilemma. From one perspective, many millions of people are more-or-less successfully coping with a difficult economic environment in the absence of governmental regulation or assistance. There is a case for not intervening rather than risking the imposition of unneeded regulations or controls that would worsen their lot. There is no point in trying to impose formality merely for the sake of formality. Even a well-intentioned law that seeks to register or "assist" informals may simply expose them to more harassment, graft, or inconvenience.

From an alternative viewpoint, many informals are seen to work in low-wage occupations, are very poor, and do not have socially adequate levels of food or housing. Children may not have access to education and there are health problems in crowded slums lacking sewers and fresh water. In a democratic society, a growing cleavage between legitimated "haves" in the formal sectors and ostracized "have-nots" in the informal sector is not tolerable. Furthermore, it is legitimately troublesome to authorities that the larger, profitable enterprises in the sector do not pay taxes and evade minimum-wage and work place regulations. Informals may tap illegally into power or water lines. The congestion caused by street hawking, the encroachment on private and public lands, and undesirable criminal behavior associated with informal activities create problems in Metro Manila and other cities.

Overall, then, a policy approach to the informal sector calls first for "doing no harm"; second, undertaking measures that will actively encourage increased contributions from the informal sector to production and employment; third, improving informal's equal access to housing and social amenities, and finally, gradually integrating informal activities into formal networks of input supply, credit, transport, and marketing. As the Philippine economy moves to higher levels of per capita income, development experience indicates that the share of the informal sector in output and employment will fall. More workers will be employed in fewer enterprises as firm size grows. Meanwhile, informals can make important contributions to employment and production, and these contributions should be allowed to increase

whenever possible. The chief task, then, is to reduce impediments to these developmental processes and to facilitate them with effective policy interventions.

The political environment in the Philippines is currently favorable for an initiative to debate and adopt policies that would improve working and living conditions for informals and strengthen linkages between the informal and formal sectors. With elections pending in 1992, political leaders and politicians have recently realized the importance of adding informal constituencies to their support bases. Two important measures that directly affect informal enterprises have been championed. Kalakalan 20 was designed to allow rural microenterprises having fewer than 20 workers to register with government and secure limited legitimacy. The second, the Magna Carta for Small and Medium Enterprises (Annex 5) amounts to a White Paper on the government's view of desirable formal relations between itself and informal and small firms. Its scope and potential impact are much greater than those of Kalakalan 20. (More information regarding these two bills is provided in Annex 1, Preliminary Research Agenda.)

Informals are typically not organized into occupational interest groups or trade associations. Except for some NGOs and PVOs there are few pathways through which they can convey their concerns to officials or politicians. A few occupational categories have given rise to representative organizations. Still, informals have no access to committee hearings on legislation that may affect them, nor if they did would they have the knowledge or skills to prepare oral and written testimony. It follows from analysis of these conditions that closer linkages between informal constituents, the political process, and political leadership must be forged as a prerequisite to formulating policies that will lead to meaningful reforms.

D. The Informal Sector in the Development Process

At the microeconomic level, informal activities are an appropriate and effective response by individuals and families to the severe and unpredictable economic conditions they face. At worst, the deployment of family labor across a range of occupations reduces risks and secures a minimally adequate subsistence standard of living. Some families do considerably better than this and raise themselves into the middle-income range. A very few enterprises grow large enough to graduate into the ranks of formalized small businesses. Persons, families, and firms of different sizes in the sector appear to use resources efficiently within the constraints they face.

On the supply side, informal units provide competitive prices and desired products and services. The interlocking demand of informal enterprises for each others' goods helps them remain in

business. At the macroeconomic level, the informal sector creates much-needed residual employment and generates a large volume of goods and services. The sector thus cushions families and firms from shocks to the national economy, offsets weak macroeconomic performance, and compensates for employment policy failures that might otherwise create widespread hardship and catalyze political unrest.

Despite these desirable functional attributes, the long-term contribution of informal employment and enterprise to the economy has limits. Small firms do not enjoy economies of scale. Significant technological innovation is unlikely since small firms cannot absorb state-of-the-art methods. Wages and most family incomes are low in the sector. The scope for human capital creation is constrained. Time and energy are wasted in avoiding detection or escaping harassment. Labor and health conditions in the sector are often substandard. The ability of the government to delineate and suppress illegal economic behaviors, including smuggling or the drug trade, is weakened by informality.

E. Rationale for the Informal Sector Initiatives Program

As the world development community enters the 1990s a set of new ideas has begun to receive serious attention and adds to the options and potentials available to policy-makers. These concepts may be drawn together under the rubric, "The New Institutional Economics." (Important contributors are Mancur Olson, Douglass North, and Oliver Williamson.) A pathbreaking practitioner in the field has been Hernando de Soto, whose Institute for Liberty and Democracy (ILD) in Peru has successfully mobilized informals to change burdensome rules and regulations and secure homestead property rights.

The chief premise of this way of looking at economic development is that the institutional context of customs, laws, and regulations sets a framework within which individual economic actors--farmers, firms, consumers, public enterprise officials, informals--make decisions. Such decisions allocate labor and resources and ultimately affect the efficiency and growth of the economy. A substantial part of the institutional environment is set by government through executive and administrative decisions, legislation, and judicial processes or may be reshaped or influenced by such processes. For instance, steep license fees on informal street vendors may lead them to opt out of registration and expose them to police extortion.

The lack of property rights is an important area that has been little examined: squatters in settlements in urban areas essentially create weak private property rights via occupancy of public or private lands. Since such rights are not formally recognized, however, homes cannot be mortgaged to gain capital

for small businesses. Informal neighborhood governments--criminal syndicates in another view--may exact rents and act as if they had property rights. Settlement of secure property rights on the squatters not only relieves them of this burden but may induce them to invest more heavily in their housing.

Since the institutional environment is the web within which economic agents act, it is at once a source of constraints and opportunities. Institutions may block behavior: shops must be closed on Sundays. They may channel decisions: private firms may invest in any of 20 industries, but not in 10 reserved for the public sector. They may open opportunities: microenterprises willing to locate in rural areas are exempt from taxes for 10 years. It follows that institutional reform is one means of influencing the allocation of resources, raising efficiency, and stimulating capital accumulation and technological change. For those in the informal sector the rules of the game are crucial. An effect of excessive regulation is that attempting to play by the rules and become formal is often expensive and burdensome. Long queues for building permits or to license jeepneys waste time and impose unnecessary burdens. In order to register a small business, many offices may have to be visited, some more than once. De Soto's famous account of the many steps and 289 days needed to legitimize a small business in Peru is illustrative.

Changes in key rules of the game will elevate the efficiency of resource use within the informal sector and enhance productivity and growth. Also, the reduction of the number of unnecessary regulations and the simplification and expedition of bureaucratic procedures will in and of itself contribute to the welfare of informals. One may say that the welfare of informals depends directly upon their output (and income) and inversely upon the weight of the regulatory burden imposed by needless procedures and regulations. They are better off with more output (and income) and less regulation; they are worse off with less output (and income) and more regulation. Such analysis aimed initially at the private sector may extend benefits to the economy as a whole.

III. PROGRAM STRATEGY AND DESCRIPTION

A. Statement of Goal and Purpose

The goal of the Informal Sector Initiatives Program in the Philippines is to increase the efficiency and productivity of the informal sector, so that this sector can make a greater contribution to the economic development of the Philippines.

The purpose of the program is to eliminate, or reduce the impact of, laws, policies, and regulations unnecessarily constraining the efficiency of the informal sector. This will be achieved

through support to Filipino research and academic institutions to conduct applied research on, and advocacy on behalf of, the informal sector, and through support to the Government of the Philippines for improvements in the legal, policy, and regulatory environment.

This program will provide for: policy dialogue with the GOP and performance-based disbursements; support for applied research and advocacy by Filipino organizations; and technical assistance and training. The program will build upon and complement existing Mission programs in the areas of private sector promotion, decentralization, deregulation, and promotion of open markets and open societies. Details of these linkages will be demonstrated in the PAAD.

B. Program Approach

1. Type of Assistance Vehicles Proposed: Program with Project Elements

A program intervention with project elements will be the most effective means for bringing about the objectives of this activity. An informal sector program focusing only on policy dialogue with GOP officials would be inadequate insofar as it would approach the reform process from the "top down." The policy dialogue process must be complemented by project activities that will link informals to the decision-making processes that affect them. Ultimately the informal sector should be strengthened to influence policy directly through the democratic process.

Research and advocacy activities will serve to identify specific policies, laws, and regulations that adversely affect informals. Other project elements, such as technical assistance and training, will enable the implementing body to work with different constituencies that advocate changes beneficial to the informal sector, and expand their capacity to continue such efforts on their own.

Implementation of the program, however, will also require close consultation with high-level policy makers in the GOP, as well as the identification of "champions" in the GOP and the private sector. Collaboration and constituency building between the GOP and the private sector will be required to effect meaningful changes. Combining the project elements with a significant program element for policy change will support this effort.

The program element will provide funds to the GOP to support meaningful reform in laws, regulations and policies, and corresponding changes in the institutions that carry these out. It will also support efforts of the GOP to shift its attention to the problems of the informals, and to set in place a process for

effective interaction between government and private sector action groups.

2. Limits of Direct Assistance Programs and Need for Policy and Institutional Reform Approach

Direct assistance programs by donor agencies can bring benefits to informals; for instance, credit assistance programs can provide needed inputs for the production of commodities, assist in establishing an enterprise, enable small producers to purchase homes, and so forth. However, there are limitations to the effectiveness of such donor programs. One immediate limitation is the magnitude and diversity of the informal sector itself. Resources available under direct assistance programs are finite and can in no way meet the capital requirements of the large Philippine informal sector. Furthermore, there are often restrictions governing the basis on which direct assistance is made available, such as the size, collateral, location, or activity of an enterprise. In such cases the opportunities for informals to avail themselves of these programs are limited.

Efficiency can be improved, and capital, productivity and output increased, by appropriate changes in the legal, regulatory, and policy environment. The resulting increase in efficiency can make available to the informal sector many more resources than otherwise would be available through direct assistance programs.

C. Principal Components

1. Policy and Institutional Reform Component

Under the Informal Sector Initiatives Program, USAID will support policy and institutional reforms that contribute to reductions in the regulatory burden, improve the welfare of people in the informal sector, promote entrepreneurship, and facilitate improvements in the efficiency and productivity of this sector.

During the course of PAIP preparation, the design team identified five specific subject areas for further research and analysis, on the basis of the potential of each to form part of a program assistance policy agenda. Filipino research institutions have subsequently been contracted to conduct preliminary research in these areas, and to provide analytical and survey data for eventual incorporation into the PAAD. These subject areas currently being studied are:

- Informal banking and credit practices. The informals are creating "near-monies" through pawnshops or informal lenders to finance working capital requirements. These financial intermediaries impose high transaction costs, yet the informal system provides a less-costly mechanism to channel the remittances of overseas workers. More formal means of converting

monetary instruments into cash are being studied. Moreover, appropriate policy changes will be proposed for the financing of working capital and the formalization of remittances; thereby reducing transactional costs to the borrowing informals.

- Port and water transport. Draft legislation intended to reorganize the Philippine Port Authority is being examined with a view to clarifying its implications for the informal shipping sector.

- Registration of informal enterprises. Research is focused on the size and structure of enterprises and how size differentials impact enterprise compliance with regulations and taxation. Ongoing research is also examining factors determining enterprise responses to initiatives such as the Kalakalan 20 and the Magna Carta for Medium and Small Scale Businesses. The roles of these pieces of legislation in encouraging business registration is uncertain and the response of enterprises will be analyzed from the view of the informals themselves.

- Identifying informal sector concerns. Open-ended surveys that permit the articulation of key issues constraining informal sector activities are being conducted and will be updated on a regular basis. The results of these periodic surveys will be used to formulate an action and reform program. They will also be used to field test and revalidate research results and to provide time series data to help evaluate the impact of the policy changes leveraged by the program.

- Interest and advocacy groups. With a few exceptions, NGOs have not yet begun to address the range of concerns specific to informal sector enterprises. Little is known about the process of interest group development in this context. Research will serve to identify the most effective means to facilitate communications between informal enterprises and public sector policy making bodies.

The Mission has also identified other issues that will be analyzed during program development and implementation, including the following:

- Jeepneys and urban transportation. The current system of jeepney registration requiring a minimum fleet of five or more has created problems for informal sector enterprises that cannot raise the capital required to operate at that scale. Informal sub-leasing arrangements have led to disputes and ambiguity in areas such as insurance responsibilities and liability claims. Further adjustments in the regulatory environment appear necessary to balance competing interests.

- Housing. Informal housing practices raise issues related to property rights enforcement, urban rent control, financing, and incentives for private sector developers.

- Decentralization and devolution. The spatial distribution of the informal sector across provinces is not well understood. The net effects of the shift of government services to provincial and municipal governments are not clear and suggest a fertile field for analysis of the implications for informal sector enterprises.

- Formal labor, management, and the informal sector. The complex relationships between the formal and the informal sectors will be investigated in areas such as subcontracting, informal labor arrangements, and growth of unions.

- Contracts and adjudication. Research will focus on the mechanisms for enforcement of contracts and dispute resolution for informals who lack access to the judicial system.

Disbursements under the program will be based on demonstrated acceptable performance on agreed policy adjustments or performance benchmarks. The mechanics of this policy support component will be completely fleshed out during PAAD design. The Mission envisions working closely with the GOP and advocacy groups to develop the policy or regulatory agenda for change. The resulting matrix, which will be updated at least annually, will be forwarded to AID/W for review and approval.

2. Support Services Component

The project components described below encompass a process of research and advocacy that seeks to expand the capabilities of Filipino think tanks, research and academic groups, non-governmental organizations, and action/pressure groups to influence the decision-making process.

- Applied Research

The Informal Sector Initiatives Program will support research efforts by Filipino research and action organizations on the informal sector and institutional reform. Initially, research efforts will focus on identifying key gaps in information, as well as bolstering the understanding of topics on the policy reform agenda that are timely and have political momentum.

Support will be given primarily to research activities that serve to back policy changes reducing the regulatory burden and facilitating greater efficiency and productivity in the informal sector. A collaborative approach among Filipino organizations, and perhaps between them and specialized U.S. academic institutions, will be stressed. Filipinos, however, should take

the lead role in setting and carrying out the research agenda in the Philippines. The main role of research and technical assistance centers will be to provide research guidance and technical support in response to the perceived needs of these Filipino groups.

Pre-PAAD research (as discussed in C.2 above) will focus on identifying both problems and potential constituencies for reform in the informal sector which will, in turn, point toward potential policy reforms. The results of these preliminary research efforts will feed into the PAAD and the initial policy matrix. Additional research areas will be conducted during program implementation.

- Advocacy

The purposes of the advocacy component are: (1) to devise and pursue action programs identified in research; (2) to coordinate the activities of identified action groups; (3) to facilitate the empowerment of informal sector groupings; and (4) to enhance working relations between government and advocates of the informals. Advocacy will be driven, in part, by research results, and it will seek to influence the way officials and political leaders think about the informal sector. The action program will help identify constraints, propose solutions, and develop strategies for mobilizing constituencies in support of policy changes. This "bottom-up" approach is central to this initiative. The applied research component (component 2.a above) will sharpen the analytical basis and provide the ammunition for the action program. This will enable action/pressure groups to participate in the policy dialogue and advocate for reform more effectively. Discussions held between the GOP and action groups should lead to agreement on areas of policy change. The policy support component will facilitate GOP efforts in establishing a process for policy review and effecting identified reforms.

Central to this advocacy component is the development of communications programs that will reach out and bind together different constituencies, disseminate information to various audiences, and facilitate dialogue among private actors in the formal and informal sectors and between decision-makers at the highest levels of the political process and these actors. These programs should include organization of seminars and conferences, production and dissemination of a newsletter and other appropriate publications, and conduct of mass media campaigns (e.g., television, radio).

- Technical Assistance

As local individuals and organizations undertake research and action programs, they will require assistance from specialists. Technical assistance will be required to assist local research

institutions and individuals with specific questions on research methodology, organizational design, constituency building, and other research and advocacy issues.

- Training

Because many of the concepts and approaches of institutional economics are relatively new and specialized, few organizations and individuals in the Philippines have the experience or depth of knowledge required to undertake effective research and action programs focusing on the informal sector and institutional reform. Indeed, expertise in this area is relatively scarce worldwide. In this context, training is a crucial component of interventions within the informal sector that seeks to expand the capacity of Filipinos and local organizations to undertake their own research and action programs.

One important aim of this component is to facilitate dialogue on the informal sector and contribute to a cross-fertilization of ideas among Filipinos, and between Filipinos and their counterparts in other parts of the world. It is therefore important to provide funding for Filipinos to participate in domestic as well as international conferences and workshops. Moreover, because a central objective of the Informal Sector Initiatives Program is to enhance the capabilities of local individuals to undertake their own research and action programs, funding will be provided for internships at specialized centers in the United States or at other sites.

3. Monitoring, Evaluation, and Audit Component

Agreement on monitoring and evaluation procedures to determine compliance with program conditionalities will be reached between the Mission and the GOP at the time of PAAD development. Due to the nature of the program, however, wherein project components will drive specific reform agendas, discrete, performance-based disbursements cannot be determined until project-related research and action are underway. Performance benchmarks established at the beginning and during the course of the program, and mutually agreed upon by the GOP, relevant advocacy groups, and AID, will be used to monitor progress towards attainment of program objectives and will determine the pace of disbursements.

- Policy Change Monitoring

At first glance it might appear difficult to assess the effects of policy and institutional reforms on informal sector interest groups. This is not so, however, as there are straightforward means to identify and measure two types of impact. Employment gains, higher wage and income levels, movement of families over the poverty line threshold, and micro-level productivity growth can all be empirically verified. The second benefit of policy

and institutional reform is the reduction of the regulatory burden on informal workers and enterprises. These results are quantifiable: fewer bureaucratic steps, less time spent in lines, and a reduction in fines or "squeeze."

Annual progress reviews are envisioned to examine program performance, establish future indicators and critique technical assistance and training services provided. A formal evaluation, with an external evaluation team, will be conducted at program completion to assess progress toward the Informal Sector Initiatives Program's goal achievement, the role of the program as an instrument of policy change, adequacy and appropriateness of monitoring plans, and other issues.

- Financial Monitoring

The GOP will set up a separate special dollar account to be used for purposes agreed upon by USAID and the GOP. Monitoring of the special dollar account and peso account, if any, will follow usual USAID procedures. Determination of the need for peso generations and special accounts will be made during PAAD design.

IV. FACTORS AFFECTING PROGRAM SELECTION

A. GOP Support of Program

Kalakalan 20 and the Magna Carta are two of the most salient examples of GOP support for small and medium enterprises in the informal sector. Despite the weaknesses inherent in both pieces of legislation, they are clear indications of the growing concern among senior policy-makers about the need to address the conditions that foster widespread informal sector participation in the economy. Both Kalakalan 20 and the Magna Carta seek to invite small and medium sized firms in the informal sector to register. Whereas Kalakalan offers the promise of a tax holiday, the Magna Carta goes further in providing incentives such as training and access to credit. More important, the Magna Carta recognizes the need to foster institutional changes that will reduce the regulatory burden on such enterprises and promote greater efficiency and productivity.

The Aquino government, since the beginning of its administration, has indicated its commitment to liberalizing the economy and has worked closely with USAID in a number of areas of relevance to this program, such as deregulation and decentralization. Senior policy-makers in the GOP have indicated their commitments to the informal sector and to institutional reforms that will improve the welfare of this vast segment of the Filipino population. In its Medium-term Development Plan, for instance, the GOP recognized the crucial role of the informal sector in employment generation and the actual and potential contributions of this sector to economic development.

B. Relationship to Philippine Assistance Strategy

The Informal Sector Initiatives Program, as proposed, fits in well with the Mission's Philippine Assistance Strategy Statement (PASS). As one of the most dynamic elements of the private sector, the informal sector plays a key role in the economic development of the Philippines. This program will give the Mission an opportunity to explore in depth some of the key conditions that foster informality and that, in turn, inhibit economic growth. It will also pinpoint fundamental reforms for creating a policy and institutional framework that stimulates private sector-led growth and open and competitive markets. Moreover, the applied research that will be conducted under the project component in a number of policy areas will feed important and relevant information to other programs in the Mission's portfolio including, but not limited to, the proposed Democratic Pluralism Initiative Project. In addition, because of the key role that family and family relationships play in the informal sector, this program also addresses the family initiative recently introduced by the A.I.D. Administrator.

The program component will provide an opportunity for policy dialogue in a number of areas of interest to the Mission, including de-regulation and decentralization. In addition, the project's research and advocacy components will complement and strengthen this dialogue not only by providing information to back-up USAID's position on these and other policy issues, but also by demonstrating to policy-makers which areas are of most interest to constituencies.

C. Relevant USAID Experience

Policy and institutional reform initiatives have been an integral part of USAID portfolio. For this reason, lessons learned from this experience will be very relevant to the development and implementation of the Informal Sector Initiatives Program. Particularly relevant will be the lessons learned from the Mission's assistance to microenterprises and its knowledge of and experience with NGOs and PVOs that represent different interest groups. Also relevant, however, are the Mission's activities in such areas as decentralization, trade liberalization, deregulation, and privatization. Ongoing research on shipping deregulation, for example, may provide important input into the area of informal water transport, which is one of the topics proposed for research under this program.

Typically, the Mission's support of the informal sector has taken the form of direct assistance programs through NGOs to microenterprises by provision of credit, training, and technical assistance. These types of activities provide a good complement to the Informal Sector Initiatives Program. This program, however, recognizes that there are limits to how many people can

be reached through direct assistance programs and that, therefore, the Mission must apply the same concern for the policy and regulatory framework that it applies to agriculture and other sectoral programs. This approach will tackle directly the causes of informality, not just the symptoms.

D. Other International Donors

The International Labor Organization was one of the first international donor agencies to focus attention on the informal sector. Its assistance programs typically have focused on provision of direct credit, training, and technical assistance. Currently, the ILO is pilot testing a new approach in several regions of the Philippines that will promote self-employment through audio-visual communication training.

The Asian Development Bank's work on the informal credit consists of an \$8 million credit assistance program for microenterprises. It is currently developing a follow-on activity of \$20 million.

Information gathered thus far on the activities of other donors provides no evidence that other agencies are undertaking an informal sector program that utilizes the same approach proposed by the Mission.

V. PRELIMINARY IMPLEMENTATION PLAN

A. Possible Organizational Mechanisms

The program elements of the informal sector initiative will be handled according to customary USAID and GOP procedures whereby USAID funds will be disbursed to the GOP upon satisfaction of specific performance benchmarks listed in the policy matrix. Initial discussions with NEDA and the Office of the President indicate that the Presidential Management Office may be the appropriate GOP entity for program coordination between advocacy groups and GOP line agencies.

The mechanism selected by the Mission for implementation of the project components is vital to the success of the overall program. The management approach must bring together in a workable alliance three key sets of actors: Filipino advocacy and research specialists, technical support centers, and USAID.

During the PAAD stage of design the Mission will examine a number of options for implementation and select the one that best suits the needs of this program. Preliminary design efforts have identified a few options. Among them include:

- a three-tier structure in which research and advocacy groups coordinate their efforts through and seek approval and funding from a secretariat. The secretariat would be an organization created by USAID for the purpose of project management. The coordinating "secretariat" would determine which proposals merit funding. Above the secretariat board would be a steering committee or governing board (comprised of members from USAID, GOP, and possibly a U.S.-based research institution) providing overall guidance on research and advocacy.

- a variation of the proposal above, but instead of creating a secretariat, this function would be absorbed by an existing NGO with proven management capability.

- an alternative where funds flow through a U.S. university or institution rather than a Filipino NGO.

The precise workings of any management arrangement, including the role of USAID, and in particular, the Private Enterprise Support Office (PESO), will be defined more fully in the PAAD. Moreover, the PAAD will contain an assessment of any organization, be it local or U.S., selected to manage this portion of the program.

B. Funding Requirements

1. LOP Costs

The table below summarizes the estimated allocation of program funds of \$25 million over the four-year LOP.

Illustrative Budget (U.S. \$ Millions)

Components	Amount
Program Support	20.0
Project Assistance	4.5
Monitoring/Evaluation & Audit*.	.5

*includes \$50,000 for non-federal audit services

2. Financial Plan

Dollar disbursements for policy reform will be released directly to the GOP in tranches yet to be determined over the four-year life of the program. USAID will directly administer and disburse funds for support services and monitoring/evaluation/audit. Funds will be set aside for non-federal audit of program disbursements and/or financial review to be conducted in the course of program implementation and/or close out.

Disbursement of program funds will be conditional on satisfactory GOP compliance with agreed upon policy changes. The PAAD will explore in greater detail the required close linkages between projectized and program components.

VI. PAAD PREPARATION AND DESIGN

A. Specific Design Issues

1. Organizational Issues

Organizational questions that need to be addressed further during PAAD design are the following:

- If a secretariat body proves to be most advantageous, where will it be housed in light of such important considerations as neutrality of institution, ability to comply with USAID requirements and difficulties in moving around Manila? What about sustainability of such an organization after AID's involvement?

- Who will be the Executive Officer and to whom will that person be directly responsible?

- What organizations and/or individuals will make up a potential Board of Advisors?

- Will funding be channeled directly to an NGO housing a "secretariat" function or through a technical assistance center in the U.S.?

3. Scope of Activity

The PAAD design team must consider further the regionalization of the program. Questions include:

- Should pilot programs in different regions be implemented and, if so, what criteria should be used to select the regions?

- How much of the project activities should focus on the Metro Manila area?

4. Coordination

The PAAD design team should consider means for coordinating activities with other international donor agencies, as well as with other Mission programs.

5. Timeliness

Given the upcoming elections and current economic and political conditions, the PAAD design team should consider further whether this is an appropriate time to initiate the program and how this may affect the feasibility of program objectives.

6. Conditionality

The PAAD design team must consider how the distribution of program funds will be linked to specific items on the project's policy reform agenda.

B. Design Schedule

Assuming USAID/W approval of the PAIP in May/June 1991, and redelegation of authority to approve the Program in the field, the Mission plans to finalize the PAAD by August 1991. During PAAD preparation, ongoing discussions with a GOP lead-agency (yet to be determined), the private sector, and other public entities including the Department of Finance will either be initiated or continued; policy agenda items and benchmarks for the first year's tranche (and an illustrative list of potential reforms for the subsequent years) will be finalized; and final tranching arrangements will be made.

DESIGN SCHEDULE

ACTION	DATE
5 PIO/T's for supporting interim research	March 1991
Interim research conducted	April-June 1991
PAIP forwarded to AID/W for review approval	May 1991
PIO/T for PAAD Design Services finalized	May 1991
AID/W review/approval of PAIP	May/June 1991
Design Services contracted	May 1991
Congressional Notification submitted	June 1991
Design Team mobilized	June 1991
Congressional Notification cleared	July 1991
Preparation of PAAD	July/August
Mission review/approval of PAAD	August 1991
Program Authorization	August 1991
Grant Agreement (to NGO or other organization)	September 1991
Program Grant Agreement executed	September 1991

VII. ADDITIONAL CONSIDERATIONS

A. Social Considerations

The Informal Sector Initiatives Program is designed to encourage the GOP to support policy, institutional, and other reforms that

will enable the informal sector to participate more efficiently and productively in the economic and political life of the country. In addition, it will have a direct impact on the informal sector in the form of increased welfare resulting from reductions in the regulatory burden.

The informal sector, through the Informal Sector Initiatives Program, will become an agent of change. As the vast proportion of informals are poor, the beneficiaries and promoters of change will be poor people. And, specifically, since women constitute more than 50 percent of the informal sector, the project will benefit them by: (1) focusing more attention on the productive potential of women in the informal sector; (2) supporting reforms that will enable women, and the informal sector in general, to participate more fully in economic and political processes; and (3) reducing the regulatory burden and thus enhancing the welfare of people in this sector. Social issues arising from design research will be discussed in the PAAD.

B. Economic Considerations

The Informal Sector Initiatives Program will yield important and measurable economic benefits. These may be separated into three clusters: economic gains, structural changes, and improvements in welfare.

The program attempts to improve the economic performance of the informal sector by changes in the policy and regulatory environment. In addition, some of these reforms may be accompanied by minor additions to the sector's resources and skills; such additions could take the form of training, management advice and marketing assistance. On the input side, then, the monitoring of the program would quantify success by looking at the number and significance of the reforms and by the provision and absorption of quantities of new inputs: how many people trained, increased volumes of goods moved through marketing cooperatives, and so on.

An input-oriented approach to measuring the program's effectiveness is useful but quite partial. Fortunately, there are a number of micro-level, output-oriented measures that can be applied. The workers and enterprises in the sector will have higher incomes or revenues. These will be based on gains in labor and enterprise productivity and earnings. Where relevant, improved skills and adoption of new, more productive technologies will be visible. Measures of poverty--e.g. the proportion of families in the sector below the poverty line--should show declines. Health and nutrition will improve. Lastly, rising incomes and regulatory changes such as recognition of housing property rights should contribute to a rise in measures of wealth and capital formation in the sector.

The sector will, over time, exhibit structural or developmental changes. The share of employment and output in the sector will decline as informality is reduced following regulatory changes and the growth of linkages to and participation in the formal sectors of the economy. The average size of productive economic units in the economy should rise.

Policy and regulatory reform will directly affect the welfare or quality of life of informals. It is possible to monitor the amount of time wasted in conforming to regulations or in obtaining licenses or permits. This regulatory burden should fall. Measures of "criminal" informality such as citations, fines, or imprisonments should decline. Opinion surveys can demonstrate increased satisfaction on the part of informals with local and national government officials and service.

By examining and quantifying inputs, measures of incomes and productivity, structural changes, and weight of the regulatory burden, the benefits of the informal sector in the short- and long-run can be ascertained. The costs are limited to the amount the Mission commits to the program, plus any GOP real resource contribution. Thus, because of the unusual nature of this reform-driven program its benefit/cost ratio will prove to be exceptionally favorable.

C. Gender Considerations

Gender-specific issues may arise in PAAD design, as well as in the course of conducting the research and action project components of the program. These issues will be treated when they are identified.

D. Gray Amendment Alert

USAID will fully consider the potential involvement in this program of small and/or economically disadvantaged U.S. firms and report on this at the PAAD stage.

E. Environmental Threshold Decision

Since the program is one of research and policy change, the Mission requests a categorical exclusion. During implementation, however, the Mission may identify policy/administrative reforms that when implemented will impact adversely on the environment. Because of this potential, the Mission will review each prospective administrative or policy reform from an environmental standpoint and conduct when necessary a full Environmental Assessment.

GLOSSARY OF TERMS

Informal Sector: The informal sector is made up of very small enterprises (VSEs) or microenterprises. These typically have the following characteristics:

- * they employ fewer than 10-15 employees; most are in fact single-worker units;
- * they do not register with authorities and do not comply with minimum-wage or other labor-protective laws;
- * most rely upon self-finance or family finance, as well as family labor; they are in this sense "domestic" or "household" firms; indeed, many sales and manufacturing units operate out of private houses;
- * they enter and leave their industry easily.

Informality: Informality is a pervasive feature in third-world countries, common in second-world (Eastern Bloc) countries, and not unknown in rich industrial nations. Informality occurs when small business or individuals evade governmental and other legal types of control. Tax evasion, avoidance of regulations, and not fully reporting income or profits are examples.

Informal Sector Characteristics: The informal sector is diverse. It is increasingly common to differentiate between service firms and manufacturing firms. Services include hawking, driving a pedicab, or pushing a pushcart for hire. Manufacturing could include garment manufacturing, toy-making, or metalworking. Generally, service incomes are low--at the poverty line, while manufacturing incomes are relatively higher.

Unemployment and underemployment (partial employment) are thought to contribute to informal employment. Informal firms and workers are found in both urban and rural locations; in some cases incomes are comparable to those in the formal sectors of the economy, but many informals are poor.

At all levels, informal businesses and workers are affected by governmental regulations. Large firms tend to abide by regulations whereas the smaller informal enterprises do not. This implies that the small and medium firms are affected by regulatory burdens such as licensing fees, time lost in registration lines, police harassment, and so forth.

Linkages between informal firms and formal firms are usually weak. This means that informal firms do not buy much from formal firms and vice versa. Nor do they share common technologies or skills. Where linkages are relatively strong, as between formal firms and subcontractors and ancillaries, informality is reduced.

Informal housing: Informal housing is housing constructed by people who cannot afford or gain access to homes or apartments. Such housing is put on lands for which informals hold no title or formal property rights. They are usually victimized by local gangs, or syndicates that collect rents and provide some protective services. These groups, along with associations which promote special interests, can be called informal governments.

Institutions: Institutions are patterns of behavior; that is, they are structured, oft-repeated behaviors to which people generally conform. Institutions include formal rules of conduct such as laws or governmental regulations and established organizations that enforce such laws and regulations. Individuals make economic calculations and decisions within the matrix of institutions and thus their incomes, efficiency, and willingness to invest and innovate are sensitive to institutions. Changing the pattern of laws and regulations may therefore yield large individual and social economic benefits.

ANNEX 1

PRELIMINARY LOGICAL FRAMEWORK

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

Life of Project:

From FY 1991 to FY 1995

Total U. S. Funding \$25 MILLION

Date Prepared: April 9, 1991

Project Title & Number: INFORMAL SECTOR INITIATIVES PROGRAM - 492-0453

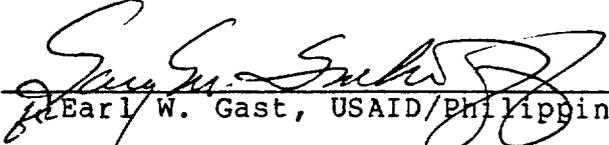
NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>The goal of the Informal Sector Initiatives Program (ISIP - the acronym in Tagalog means "think") in the Philippines is to increase the efficiency and productivity of the informal sector, so that this sector can make a greater contribution to the economic development of the Philippines.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>Policy changes improve efficiency of the informal sector.</p>	<p>(A-3)</p> <p>GDP statistics</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <ul style="list-style-type: none"> - GOP acts upon research recommendations - Policy changes will improve efficiency
<p>Project Purpose: (B-1)</p> <p>The purpose of the program is to eliminate, or reduce the impact of laws, policies, and regulations unnecessarily constraining the efficiency of the informal sector. This will be achieved through support to Filipino research and academic institutions to conduct applied research on, and advocacy on behalf of, the informal sector, and through support to the Government of the Philippines for improvements in the legal, policy, and regulatory environment.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</p> <ol style="list-style-type: none"> 1. Increased information on the Philippines informal sector. 2. Informal sector input to the economic and decision making process with resulting decrease in the regulatory burden. 	<p>(B-3)</p> <ol style="list-style-type: none"> 1. Research reports and empowered constituencies 2. Initiatives undertaken 	<p>Assumptions for achieving purpose: (B-4)</p> <ol style="list-style-type: none"> 1. Effective coordination of research and constituency building efforts. 2. Interested and informed constituencies.
<p>Project Outputs: (C-1)</p> <ol style="list-style-type: none"> 1. Policy dialogue with the GOP designed to effect policy change regarding the informal sector. 2. Applied research and advocacy by Filipino organizations. 3. Technical assistance to Filipino organizations in identifying specific constraints to the productivity of the informal sector. 4. Training of qualified Filipinos to carry out applied and action research on the effects of policies, laws, regulations, and codes on the productivity of the informal sector; and, training informal sector constituencies to conduct advocacy programs to initiate change. 	<p>Magnitude of outputs: (C-2)</p> <ol style="list-style-type: none"> 1. Meetings, draft reforms, hearings on issues of concern to the informal sector are discussed with policy makers. 2. a. increased data on informal sector and clearinghouse on advocacy proponents <li style="padding-left: 20px;">b. stronger linkages between research organizations and advocacy proponents 3. improved capacity of local organizations and interest groups to undertake research and action 4. a. increased capacity to identify and analyze research needs and develop these into broader policy reform agendas <li style="padding-left: 20px;">b. improved capacity to articulate interests and link these to policy making processes 	<p>(C-3)</p> <ol style="list-style-type: none"> 1. Laws enacted, policies reformed 2. Database on research, legislative monitoring, interest groups, reform targets 3. Evaluations of research, surveys, media reports 4. Training conducted 	<p>Assumptions for achieving outputs: (C-4)</p> <ol style="list-style-type: none"> 1. Political will to undertake changes 2. Secretariat capable of coordinating associated activities 3. Resources sufficient, local interest and initiatives 4. Trainees who are interested in achieving action-oriented results
<p>Project Inputs: (D-1)</p> <ol style="list-style-type: none"> 1. Policy dialogue in the areas of informal sector productivity and efficiency and changes which can be undertaken to address these needs. 2. Program support and project assistance. 3. Program monitoring, evaluation and audit services. 	<p>Implementation Target (Type and Quantity) (D-2)</p> <p><u>AID GRANT (\$000)</u></p> <p>\$20,000</p> <p>\$ 4,500</p> <p>\$ 500</p> <p>\$25,000</p> <p>*****</p>	<p>(D-3)</p> <ol style="list-style-type: none"> 1. COA audit reports 2. Reports of TA contractors 	<p>Assumptions for providing inputs: (D-4)</p> <p>Availability of AID funding over the life of the program</p>

25

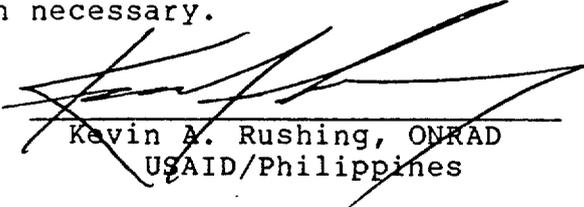
ANNEX 2

INITIAL ENVIRONMENTAL EXAMINATION

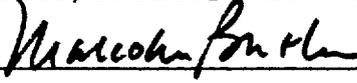
INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROGRAM COUNTRY: Philippines
- (B) PROGRAM TITLE:: Informal Sector Initiatives Program , 492-0453
- (C) A.I.D. FUNDING: \$25 million
- (D) PERIOD OF FUNDING: FY 1991 - FY 1993
- (E) STATEMENT PREPARED BY: 
Earl W. Gast, USAID/Philippines
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Negative Determination

AID environmental procedures (22 CFR 216) will be carried out to ensure environmental soundness of each prospective policy/administrative reform. This will require an Initial Environmental Examination (IEE) for each reform and an Environmental Assessment (EA) when necessary.

- (G) ENVIRONMENTAL OFFICER CLEARANCE: 
Kevin A. Rushing, ONRAD
USAID/Philippines

- (H) DECISION OF USAID/PHILIPPINES DIRECTOR:

APPROVED: 

DISAPPROVED: _____

DATE: JUN 4 1991

- (I) DECISION OF ASIA BUREAU ENVIRONMENTAL COORDINATOR:

APPROVED: _____

DISAPPROVED: _____

DATE: _____

ANNEX 3

COPY OF MAGNA CARTA

S. No. 1258
H. No. 30723

Republic of the Philippines
Congress of the Philippines
Metro Manila
Fourth Regular Session

Begun and held in Metro Manila, on Monday, the twenty-third day
of July, nineteen hundred and ninety.

[REPUBLIC ACT NO. 6977]

AN ACT TO PROMOTE, DEVELOP AND ASSIST SMALL
AND MEDIUM SCALE ENTERPRISES THROUGH
THE CREATION OF A SMALL AND MEDIUM
ENTERPRISE DEVELOPMENT (SMED) COUNCIL,
AND THE RATIONALIZATION OF GOVERNMENT
ASSISTANCE PROGRAMS AND AGENCIES
CONCERNED WITH THE DEVELOPMENT OF
SMALL AND MEDIUM ENTERPRISES, AND FOR
OTHER PURPOSES

*Be it enacted by the Senate and House of Representatives of the
Philippines in Congress assembled:*

CHAPTER I

SECTION 1. *Title.* - This Act shall be known as the "Magna
Carta for Small Enterprises."

SEC. 2. *Declaration of Policy.* - Recognizing that small and medium scale enterprises have the potential for more employment generation and economic growth and therefore can help provide a self-sufficient industrial foundation for the country, it is hereby declared the policy of the State to promote, support, strengthen and encourage the growth and development of small and medium enterprises in all productive sectors of the economy particularly rural/agri-based enterprises. To this end, the State shall undertake to spur the growth and development of small and medium enterprises throughout the country and thereby attain countryside industrialization:

a) by assuring, through the establishment of adequate support structure, and the creation and promotion of an environment conducive to the viability of these enterprises, establishment of mechanisms, the access and transfer of appropriate technology needed by small and medium enterprises;

b) by intensifying and expanding programs for training in entrepreneurship and for skills development for labor;

c) by facilitating their access to sources of funds;

d) by assuring to them access to a fair share of government contracts and related incentives and preferences;

e) by complementing and supplementing financing programs for small and medium enterprises and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;

f) by instituting safeguards for the protection and stability of the credit delivery system;

g) by raising government efficiency and effectiveness in providing assistance to small and medium enterprises throughout the country, at the least cost;

j) by promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;

k) by making the private sector a partner in the task of building up small and medium enterprises through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and

l) by assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of small and medium scale enterprises.

SEC. 3. *Small and Medium Enterprises as Beneficiaries.* - "Small and medium enterprise" shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

micro	:	less than	P50,000
cottage	:	P 50,001	- P 500,000
small	:	P 500,001	- P 5,000,000
medium	:	P 5,000,001	- P 20,000,000

In a generic sense, all enterprises with total assets of Five million pesos (P 5,000,000) and below shall be called small enterprises.

The above definitions shall be subject to review and adjustment by the said Council as deemed necessary, taking into account inflation and other economic factors.

SEC. 4. *Eligibility for Government Assistance.* - To qualify for

assistance, counseling, incentives and promotion under this Act, businesses falling under the above definition must be:

a) duly registered with the appropriate agencies as presently provided by law: *Provided*, That, in the case of micro enterprises as defined herein, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;

b) one hundred percent (100%) owned and capitalized by Filipino citizens if single proprietorship or partnership. If the enterprise is a juridical entity at least 60% of its capital or outstanding stocks must be owned by Filipino citizens;

c) primarily engaged in manufacturing, processing, and/or production excluding farm level agricultural/crop production; and

d) it must not be a branch, subsidiary or division of a large scale enterprise nor may its policies be determined by a large scale enterprise or by persons who are not owners or employees of the enterprise.

However, this requirement shall not preclude a small and medium enterprise from accepting subcontracts from large enterprises or firms joining in cooperative activities with other small and medium enterprises.

Programs of the financing corporation as provided in subsequent Sections of this Act shall be exclusively targeted to small, cottage and micro-sized enterprises. Financing from the Philippine National Bank, Development Bank of the Philippines, Land Bank of the Philippines and other financial institutions shall be made available to medium enterprises.

Medium enterprises, however, shall be entitled to avail of the other incentives, programs and services as provided for in this Act.

SEC. 5. Guiding Principles. - To set the pace for small and medium enterprise development, the State shall be guided by the following principles:

a) *Minimal set of rules and simplification of procedures and requirements.* All government agencies having to do with small enterprises shall pursue the principles of minimum regulation to ensure stability of rules and to encourage entrepreneurial spirit among the citizenry. The agencies shall see to it that procedural rules and requirements, within their respective offices and in coordination with other agencies, are minimized in the act of registration, availing of financing and accessing other government services and assistance.

b) *Role of the private sector.* In order to hasten growth and expansion of small and medium enterprises, the private sector throughout the country shall be encouraged to assist in the effective implementation of this Act by constantly policing their ranks; and by participating in government programs for small and medium enterprises strictly in accordance with law, and consistent with the attainment of the purposes hereof. The government shall encourage the organization and establishment of small and medium enterprise industry associations at the local and regional levels preferably unified under a national federation/association.

c) *Coordination of government efforts.* Government efforts shall be coordinated to achieve coherence in objectives. All appropriate offices, particularly those under the Departments of Trade and Industry, Finance, Budget and Management, Agriculture, Agrarian Reform, Environment and Natural Resources, Labor and Employment, Transportation and Communication, Public Works and Highways, Science and Technology, and Local Government as well as the National Economic and Development Authority and the Central Bank of the Philippines, through their national, regional and provincial offices, shall to the best of their effort and in coordination with local government units, provide the necessary support and assistance to small and medium enterprises.

d) *Decentralization.* The State shall accelerate the decentralization process by establishing regional and provincial offices in order to enhance and attain greater efficiency in the provision of services to the countryside and the implementation of this Act, in coordination with local government units. To this end, the Government Agencies

shall effect a substantial delegation of authority their regional and provincial offices to make decisions, particularly in the registration of beneficiaries of this law, qualification for availment of benefits, accreditation of private voluntary organizations, industry associations and cooperatives, and to resolve complaints for violation of applicable laws.

CHAPTER II

SEC. 6. Creation of a Small and Medium Enterprise Development Council. - To effectively spur the growth and development of small and medium enterprises throughout the country, and to carry out the policy declared in this Act, a Small and Medium Enterprise Development (SMED) Council is hereby created. The Council shall be attached to the Department of Trade and Industry and shall be duly constituted within sixty (60) days after the approval of this Act.

The Council shall be the primary agency responsible for the promotion, growth and development of small and medium enterprises in the country by way of facilitating and closely coordinating national efforts to promote the viability and growth of small and medium enterprises, including assisting relevant agencies in the tapping of local and foreign funds for small and medium enterprise development, as well as promoting the use of existing guarantee programs.

SEC. 7. Composition. - The Council shall be headed by the Secretary of Trade and Industry as Chairman. The members shall be the following:

- a) Director General of the National Economic and Development Authority;
- b) Secretary of Agriculture;
- c) Secretary of Labor and Employment;
- d) Secretary of Environment and Natural Resources;
- e) Secretary of Science and Technology;

- f) Chairman of Small Business Finance and Guarantee Corporation;
- g) Chairman of the small and medium enterprises promotion body which the President shall undertake to establish under this Act; and
- h) Three (3) representatives from the private sector, all Filipino citizens, to represent Luzon, Visayas and Mindanao to be appointed by the President, one of whom shall come from the banking industry.

Cabinet-rank ex officio members of the Council shall designate an undersecretary or assistant secretary as their permanent representative in case they fail to attend meetings of the Council.

The private sector members of the Council shall initially receive *per diem* of One thousand pesos (P1,000.00) per meeting.

The Department of Trade and Industry shall allocate Five million pesos (P5,000,000.00) out of its savings for the initial operating expenses of the Council, after which the Council's budget shall be included in the annual appropriation of the Department of Trade and Industry.

The Council may, from time to time, call upon the participation of any government agency or association of local government officials in its deliberations especially when such agency is directly or indirectly concerned with and/or affecting the growth and development of small and medium enterprises in any particular area or manner.

SEC. 8. Powers and Functions. - The Small and Medium Enterprise Development (SMED) Council shall have the following powers, duties and functions:

- a) to help establish the needed environment and opportunities conducive to the growth and development of the small and medium enterprise sector;

b) to recommend to the President and the Congress all policy matters affecting small and medium scale enterprises;

c) to formulate a comprehensive small and medium enterprise development plan to be integrated into the National Economic and Development Authority Development Plans;

d) to coordinate and integrate various government and private sector activities relating to small and medium enterprise development;

e) to review existing policies of government agencies that would affect the growth and development of small and medium enterprises and recommend changes to the President and/or to the Congress whenever deemed necessary. This shall include efforts to simplify rules and regulations as well as procedural and documentary requirements in the registration, financing, and other activities relevant to small and medium enterprises;

f) to monitor and determine the progress of various agencies geared towards the development of the sector. This shall include overseeing, in coordination with local government units and the Department of Local Government as well as private sector groups/associations, the developments among small and medium enterprises, particularly the cottage and micro-sized firms;

g) to promulgate implementing guidelines, programs, and operating principles as may be deemed proper and necessary in the light of government policies and objectives of this Act;

h) to provide the appropriate policy and coordinative framework in assisting relevant government agencies, in coordination with the National Economic and Development Authority and the Coordinating Council for the Philippine Assistance Program, as may be necessary, in the tapping of local and foreign funds for small and medium enterprise development;

i) to promote the productivity and viability of small and medium enterprises by way of directing and/or assisting relevant government agencies and institutions at the national, regional and provincial levels towards the:

- 1) provision of business training courses, technical training for technicians and skilled laborers and continuing skills upgrading programs,
- 2) provision of labor-management guidance, assistance and improvement of the working conditions of employees in small and medium-sized firms;
- 3) provision of guidance and assistance regarding product quality/product development and product diversification;
- 4) provision of guidance and assistance for the adoption of improved production techniques and commercialization of appropriate technologies for the product development and for increased utilization of indigenous raw materials;
- 5) provision of assistance in marketing and distribution of products of small and medium scale enterprises through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic-market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants, refrigerated storage, cooperative trucking facilities, etc.;
- 6) intensification of assistance and guidance to enable greater access to credit through a simplified multi-agency financing program; to encourage development of other modes of financing such as leasing and venture capital activities; to provide effective credit guarantee systems, and encourage the formation of credit guarantee associations, including setting up of credit records and information systems and to decentralize loan approval mechanisms;
- 7) provision of concessional interest rates, lower financing fees, which may include incentives for prompt credit

payments, arrangements tying amortizations to business cash flows, effective substitution of government guarantee cover on loans for the borrower's lack of collateral;

- 8) provision of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises; and the establishment of measures such as insurance against extraordinary disasters;
 - 9) intensification of information dissemination campaigns and entrepreneurship education activities;
 - 10) easier access to and availment of tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws;
 - 11) provision of support for product experimentation and research and development activities as well as access to information on commercialized technologies; and
 - 12) provision of more infrastructure facilities and public utilities to support operations of small and medium enterprises;
- j) to submit to the President and the Congress a yearly report on the status of small and medium enterprises in the country, including the progress and impact of all relevant government policies, programs and legislation as well as private sector activities;
- k) to assist in the establishment of modern industrial estates outside urban centers; and
- l) generally, to exercise all powers and functions necessary for the objectives and purposes of this Act.

SEC. 9. Designation of the Bureau of Small and Medium Business Development as Council Secretariat. - The Bureau of Small and Medium Business Development of the Department of Trade and Industry, in addition to its current activities and functions, is

hereby designated to act as the Council Secretariat. The Secretariat shall have the following duties and functions:

- 1) to prepare, in coordination with local government units and/or associations of local government officials, and recommend annual as well as medium-term small and medium enterprise development plans for approval of the Council;
- 2) to coordinate the preparation of position papers and background materials for discussion or approval during Council meetings;
- 3) to assist the Council in coordinating and monitoring small and medium enterprise policies and programs and activities of all government agencies with respect to small and medium enterprises;
- 4) to prepare, collate and integrate all inputs to the Council's yearly report on the status of small and medium enterprises in the country.
- 5) to submit periodic reports to the Council on the progress and accomplishment of its work programs; and
- 6) to perform ad hoc functions as authorized by the Council.

CHAPTER III

SEC. 10. Rationalization of Existing Small and Medium Enterprise Programs and Agencies. - The Small and Medium Enterprise Development Council shall within one hundred eighty (180) days from its establishment, recommend to the President, measure/s to rationalize and integrate under a unified institutional framework all government programs for the promotion and development of small and medium enterprises.

The President is hereby also empowered to establish a small and medium enterprise promotion body which shall be the principal government agency that will formulate, implement, coordinate and monitor all non-financing government programs, including fee-based

services, to support and promote micro, small and medium enterprises. It shall be attached to the Department of Trade and Industry and shall be under the policy, program and administrative supervision of the SMED Council. The said office shall receive no less than fifty percent (50%) of the assets, and budgetary allocations of the agencies for promotion, development and financing of small and medium enterprises that may be henceforth dissolved and/or abolished and absorbed, incorporated and integrated into the SMED Council.

SEC. 11. Creation of Small Business Guarantee and Finance Corporation. - There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as SBGFC, which shall provide, promote, develop and widen in both scope and service reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and/or rediscounting of loan papers to small businesses, secondary/regional stock markets: *Provided*, That crop production financing shall not be serviced by the Corporation.

The Corporation shall guarantee loans obtained by qualified small enterprises, local and/or regional associations small enterprises and industries, private voluntary organizations and/or cooperatives, under such terms and conditions adopted by its Board. It may guarantee loans up to one hundred percent (100%). It may also provide second level guarantee (i.e., re-insurance) on the credit and/or investment guarantees made by credit guarantee associations and other institutions in support of small entrepreneurs.

The Corporation shall become liable under its guarantees upon proof that the loan has become past due under such terms and guidelines adopted by its Board and printed on the contract of guarantee.

The Small Business Guarantee and Finance Corporation shall:

a) be attached to the Department of Trade and Industry and shall be under the policy, program and administrative supervision of the SMED Council;

b) have its principal place of business in Metro Manila and endeavor to have one or more branch offices in every province of the country;

c) exercise all the general powers conferred by law upon corporations under the Corporation Code as are incidental or conducive to the attainment of the objectives of this Act; and

d) have a board of directors upon which the powers of the Corporation shall be vested, to be composed of five (5) members, including:

- 1) three (3) members from the private sector appointed by the President upon recommendation of the SMED Council and from among whom the Chairman of the Board shall be appointed by the President to serve on a full-time basis;
- 2) the Secretary of Trade and Industry or his Undersecretary; and
- 3) a representative of the five (5) government financial institutions mandated in this Act to provide the initial capital of the Corporation, who shall be designated, under guidelines agreed upon by the Board Chairmen of said institutions.

SEC. 12. Capitalization and Funding. - The Small Business Guarantee and Finance Corporation shall have an authorized capital stock of Five billion pesos (P5,000,000,000.00). The initial capital of One billion pesos (P1,000,000,000.00) shall be established from a pool of funds to be contributed in the form of equity investment in common stocks by the Land Bank of the Philippines (LBP), the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP) in the amount of Two hundred million pesos (P200,000,000.00) each. The Social Security System (SSS) and the Government Service Insurance System (GSIS) shall also set aside Two hundred million pesos (P200,000,000.00) each to be placed in preferred stocks of the SBGFC. Additional funding shall come from trust placements of excess and unused funds of existing government agencies.

CHAPTER IV

cies, bilateral and multilateral official development assistance funds, subscriptions from government-owned or controlled corporations, and investments of private financial institutions and corporations.

SEC. 13. *Mandatory Allocation of Credit Resources to Small Enterprises.* - All lending institutions as defined under Central Bank rules, whether public or private, shall set aside a portion of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for small enterprise credit as herein contemplated. The portion mandated to be so set aside shall at least be, five percent (5%) by the end of the first year of the effectivity of this Act, ten percent (10%) by the end of the second year through the end of the fifth year, and five percent (5%) by the end of sixth year and may come down to zero by the end of the seventh year.

The Central Bank in consultation with the Council, shall formulate rules for the effective implementation of this provision: *Provided*, That the purchase of government notes, securities, and other negotiable instruments, with the exception of such instruments as may be offered by the SBGFC, shall not be deemed compliance with the foregoing provision.

The SMED Council shall set up the appropriate systems to monitor all loan applications of small enterprises in order to account for the absorptive capacity of the small enterprise sector.

The Central Bank shall furnish to the Small and Medium Development Council on a semestral basis regular reports on the lending institutions' compliance with the above provisions on the mandatory credit allocation for small enterprises.

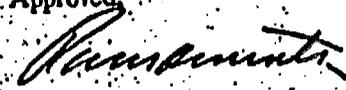
SEC. 14. *Penal Clause.* The Central Bank shall impose administrative sanctions and other penalties on the lending institutions for non-compliance with provisions of this Act. In addition, the president, members of boards of directors, and other officers of the erring lending institutions shall be individually liable for imprisonment of not less than six (6) months and a fine of not less than Five hundred thousand pesos (P500,000.00) each.

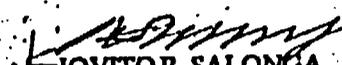
SEC. 15. *Separability Clause.* The provisions of this Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

SEC. 16. *Repealing Clause.* - All laws, executive orders, rules and regulations, or parts thereof, inconsistent herewith are hereby repealed or modified accordingly.

SEC. 17. *Effectivity.* - This Act shall take effect upon its approval.

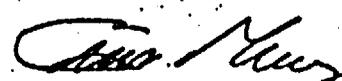
Approved


RAMON V. MITRA
Speaker of the House
of Representatives

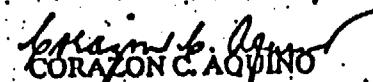

JOVITOR R. SALONGA
President of the Senate

This Act which was a consolidation of S. No. 1258 and H. No. 30723, was finally passed by the Senate and House of Representatives on December 5, 1990 and December 11, 1990, respectively.


FR: QUIRINO D. ABAD SANTOS, JR.
Secretary of the House
of Representatives


EDWIN P. ACOPA
Secretary of the Senate

Approved: January 24, 1991


CORAZON C. AQUINO
President of the Philippines

ANNEX 4

SELECTED BIBLIOGRAPHY

LITERATURE ON INFORMAL PORTS IN THE PHILIPPINES

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2. Synopsis

The bulk of the literature on Philippine ports describe the engineering aspects of the infrastructure and other technical details of port operation. Moreover, most of the ports included in the literature are those run by the Philippine Ports Authority (PPA).

In principle, all ports should be under the supervision of the PPA. However, an agreement has limited the responsibility of the PPA to commercial ports. Large fishing ports are managed by the Philippine Fisheries Development Authority (PFDA). The Department of Public Works and Highways undertakes the construction of municipal ports which are afterwards turned over to municipal government.

Based on survey done on some of these ports in Region IV, municipal ports are not managed in the same way as PPA-run commercial ports or PFDA-operated fishing ports. In these latter ports, activities are closely monitored. For example, these agencies keep records of the traffic (volume of cargo and passenger) at each port and of the vessels using the port. Many municipal ports, on the other hand, do not have such records.

This observation indicates the presence of informality in municipal ports. Furthermore, the absence of published statistics on feeder ports denotes transactions not captured by government records.

A study on the informal sector existing at these ports is, therefore, wanting.

Municipal or feeder ports make up the bulk of the Philippine ports. The latest PPA count mentioned 225 municipal ports. However, DPWH, through the Nationwide Feeder Ports Development Program Task Force, undertook an inventory of all small ports in 1987 and counted 600.

As the Philippine is dotted by several coastal municipalities, several of these municipal ports cater to the sustenance of the fishermen. Yet, the importance of these ports facilities in Philippine economy cannot be limited to fishing. The Philippine is an archipelago consisting of more than 7,000 islands. Ports then are important infrastructure to transport goods, services, and people.

These factors should tell us, for example, about the size of the informal sector in municipal ports. The study could aim to determine its magnitude, among others.

This could be a useful input too in the forthcoming legislation concerning port operations in the Philippines.

LITERATURE ON RURAL LIQUIDITY AND CREDIT

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Quesada, Ramon M. and Joseph A. Sy-Changco. "Sources of Credit for Small Businesses and the Informal Sector". CRC, July 1988.

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2. Synopsis

The studies primarily covers the major structure of the informal credit markets (ICMs); its forms and sizes; role in savings generation; interaction with the formal sectors; impact of monetary and credit policies on the informal credit markets; interest rate formation; competition between the formal and informal sectors; possible sources of innovations in the formal lending activities; interlinkage of informal credits with transactions in other markets including the overseas employment; and the optimal legal and policy environment towards the informal sector.

The studies draw the following conclusions:

- a) The ICMs serve as an important channel of financial services to individuals and enterprises which have very little or no access to the formal markets.
- b) Within the ICM, the nongovernment organizations (NGOs) and cooperatives playing a major role in filling the gaps in the financial system. Although there are about 16,000 registered NGOs with the Securities and Exchange Commission only 13% or 2,000 offer credit and partial or complete nonmonetary or development packages.
- c) Complementarity rather than substitutability exist between the formal and informal credit sector.
- d) The positive reactions and rapid expansion exhibited by the lending investors and pawnshops to the financial crises and liberalization of interest rates should be instructive for policy making.
- e) The ICMs are constantly innovating to suit the needs of clients and some of these innovations find their ways in the formal lending activities.
- f) The remittances of overseas contract workers provide substantial amount* of funds to informal lending activities.

2. Synopsis

The literature points out the following:

1) The industrial structure of enterprises in the Philippines shows a "missing middle". That is, a sizeable group of cottage and large firms with few progressive small and medium-sized firms in between, existing.

2) The policy areas that have been crucial in shaping such pattern are: wages, credit, taxes and tariffs, registration procedures, raw materials, organization, training, technology, sub-contracting, and marketing. The costs of informality appear to outweigh its benefits.

3) Firms in the manufacturing sector are classified according to size determined by asset and employment. In agriculture, farm lands are classified according to hectarage (acreage). However, agriculture and the services sectors are excluded from policies involving size of enterprises.

4) Existing government laws such as "Kalakalan 20" do not seem to be successful in addressing the issues and/or lack the implementation machinery.

5) Key research studies are missing such as translations and analysis of the Italian Law which influenced Kalakalan 20 and the previous experience of government in tackling the informal sector such as the "Movement for Livelihood and Progress" which preceded KABISIG. De Soto was able to document the stages in the development of informality by sector.

LITERATURE ON
DATA BASE ON THE INFORMAL SECTOR

1. Bibliography

DATA	SOURCE
Time Series estimate of the Informal Sector Using Vito Tanzi's Currency Model	CRC
Profile of loans granted by NGOs and Cooperatives	CRC
Primary data on the Nature and Characteristics of the Informal Manufacturing Sector of Cebu (Fashion accessories; garments; rattan furniture)	CRC
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Time Series Data on Capital Flight, Technical Smuggling and Tax Evasion	CRC
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Integrated Survey of Households (1976)	NSO
Family Income and Expenditures Survey (1985/1988)	NSO
Special release Survey of Household Operated Activities (wholesale/retail and Manufacturing) (1988)	NSO
Labor Force Survey	NSO
Statistics on the Informal Sector: Philippine Experience	NSCB
Philippine Statistical Yearbook	NSCB
The Measurement of the Informal Sector	NSO
Business Resource Center Data Bank	BRC

LEGEND:

CRC - Center for Research and Communication

NSO - National Statistics Office

NSCB - National Statistics Coordinating Board

BRC - Business Resource Center

2. Synopsis

*The household surveys conducted by the National Statistics Office (NSO) are periodically used as vehicles for collecting statistics on household economic activities. The statistics generated are used as indicators to approximate the income accruing from the activities of the informal sector.

The National Statistics and Coordination Board (NSCB) is the national government's implementing agency in the monitoring and analyses of socioeconomic indicators, which include the informal sector.

The databank of the Business Resource Centers (BRCs) in specific areas in the Philippines mostly contain information on the informal sector since majority of the BRCs' major clientele are engaged in informal activities such as retail trade (variety stores), cottage poultry and hog raising, tailoring and haberdashery, upholstery, garments, food processing (cottage level), among others.

The annex includes a short write-up on the BRCs and its network of operations.

ANNEX

The Business Resource Center (BRC) was set-up in 1984 as a joint initiative of the Asia Foundation and the US Agency for International Development (USAID). Its aim is to bring together the academe and the business community to assist in the growth and development of the small enterprises in the countryside.

The BRC has four objectives: (1) to provide entrepreneurial training, through seminars and lectures; (2) to conduct consultancies and advisory services on business opportunities and finance management; (3) to provide loan assistance to the small and medium-scale entrepreneurs (4) to set up a databank which will serve as a repository of information about the BRC's area of operation, as well as its surrounding communities. The databank also contains surveys, studies, business profiles, and other social and economic indicators which are valuable tools for the clientele of the BRC. Notably, majority of the clientele of the BRC come from the informal sector. A number of them are engaged in micro-industries such as hog and poultry raising, tailoring and haberdashery, retail trade (sari-sari store), food processing (cottage level), and others.

Due to the success of the first BRC (located in General Santos City, South Cotabato), its operations have been replicated in Tarlac, Bulacan, Batac, Cebu, and Bacolod. (See map).

Available information about the Business Resource Centers are contained in pamphlets and newsletters published and distributed by the BRC's of the abovementioned areas. Seminars or fairs held or attended to by the BRC's or other institutions, business opportunities, training notes and tips on home industries are but some of the articles included in newsletters like the "BRC newsletter" of the BRC-Notre Dame of Dadiangas College and the "BRDC Newsletter" of the BRC-Mariano Marcos State University.

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ON HOUSING

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2. Synopsis

Almost all the papers suggest that the housing problem springs mainly from the families who migrate to the urban areas primarily for economic reasons, and who end up being squatters. The initial data present around 35 percent of urban housing, in all cities in the Philippines, is supplied by the informal sector.

Major gaps and issues on informal housing cover:

1. Unclear process of land ownership;
2. Neglect of the basic facilities such as water supply, drainage and sewerage system;
3. Conflicting laws and policies;
4. Many informal groups, sometimes even syndicates, organize these settlements as a means of generating income;
5. Lack of social housing programs and/or lack of funds to implement them;
6. Lack of coordination between government and private sector groups.

The papers imply that government never neglected the housing problem. In fact, many efforts contributed to the formulation of laws and policies to solve the issues. For example, in the past government, government funds were poured into housing projects such as the BLISS Housing Project and Tenement Condominiums.

In Metro Manila, the Metro Manila Commission as formed to take care of the overwhelming problems the metropolis was experiencing. Still, the inability of the institutional framework to supply houses persists up to the present.

The papers also present financial methods that can be followed to approach the housing backlog, showing some models from other Asian countries, and also local success stories that can materialize with the help of the non-governmental organizations (NGOs), some local government units, and the land owners.

LITERATURE ON THE INFORMAL SECTOR
IN AGRICULTURE

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Bureau of Fisheries and Aquatic Resources (BFAR) - Commercial, Municipal and Aquaculture.

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Agricultural Credit and Policy Council (ACPC) - Agricultural Credit.

3. Synopsis

Like other sectors of the economy (e.g., industry), an informal enclave exists in agriculture that defies measurement by the standard national income accounting framework. How large this enclave is difficult to say. That this situation exists can be inferred from official data on the agricultural sector. For example, based on the 1980 agriculture census the country has sizeable number of small farms (below 5 hectares). (Table 1)

Table 1.
Farms - Number and Area by Size, Philippines, 1980

Farm Size (ha.)	Number ('000)	Distribution (%)	Area (ha.) ('000)	Distribution (%)
All Farms	3,420	100.00%	9,725	100.00%
Under 1.00	776	22.69%	369	3.79%
1.00 to 2.99	1,578	46.14	2,522	25.93
3.00 to 4.99	588	17.19	2,067	21.25
5.00 to 6.99	283	8.27	1,612	15.58
7.00 to 7.99	76	2.22	631	6.49
10.00 to 24.99	104	3.04	1,406	14.46
25.00 & over	15	0.44	1,118	11.50
Under 7	3,226	94.33	6,570	67.56
Over 7	195	5.70	3,155	32.44

Source: Census of Agriculture, NSO

Many small farmers have found ways to survive either by engaging in livelihood activities, off-farm employment, or from local or overseas remittances. These activities are not captured in official government agriculture statistics.

The agricultural sector also includes municipal and sustenance fishermen whose activities are not measured by the official accounting system of the government.

LITERATURE ON THE INFORMAL SECTOR

AT THE MACROECONOMIC LEVEL

IN THE PHILIPPINES

1. Bibliography

A. MACROECONOMY

1. Philippine Studies

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Suarez, Ruby Lynn N, and Elsa Agustin. "Factors Affecting the Underground Economy in the Philippines". U.P., 1989.

Vicente, Francis. "A Sensitivity Analysis of the Underground Economy: The Case of the Philippines". (Unpublished Masteral Thesis) CRC, 1989.

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De Leon, Enrique V. "An Estimate of the Informal Market Sector: Macroeconomic Policy Implications on Employment and Growth". Paper submitted to the Industrial Economics Program, CRC, 1990.

2. Similar studies on other countries

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De Soto, Hernando. "The Other Path: The Invisible Revolution in the Third World". New York: McGraw Hill, 1989.

Instituto Libertad Y Democracia. "An Estimate of the Magnitude of the Informal Economic Activity in Peru". Lima, Peru, 1989.

B. TAXATION

Manasan, Rosario G. "Tax Evasion in the Philippines" Journal of Philippine Development. Vol. XV No. 2. Pages 167-190. 1988.

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Paz, D. and E. Pitargue. "Tax Avoidance and Evasion". Philippine Revenue Journal 23. 1986.

C. FOREIGN SECTOR

Andal, Sergio Jr. "Dollar Salting and Technical Smuggling in the Garments Industry be Controlled?" CRC, 1986.

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Boyce, James K. and Lyuba Zarsky. "Capital Flight from the Philippines, 1962-1986" Journal of Philippine Development. Vol. XV No. 2. 1988.

Sicat, Iluminada. "Capital Flight: The Philippine Case". CB Review. Vol. XLII, No.5. 1990.

Sanchez, Solita Ma. "Illegal Trade in Logs: The RP-Japan Case". CRC, 1986.

2. Synopsis

A. Methods of measuring informal economic activities.

1. Direct Methods. These are usually employed in microeconomic studies. They involve detailed analysis, with fully outlined information, of behavior of economic agents. For example, a survey of informal transactions of consumer goods. (not included in this survey)

2. Indirect methods. These are employed in macroeconomic studies. Some of the approaches used are:

2a. Variations in the rate of labor participation. The ratio, employed population/economically active population, is examined through time. A decrease in this ratio may be attributed to the existence of a labor population that does not declare its clandestine activities. (no available literature)

2b. Discrepancy in GDP as seen in savings and expenses. This involves a comparison between GDP from official national income accounts and survey of business and family expenses. The residual can be used as a first approximation of the informal GDP. (no available literature)

2c. Variations in the relative monetary demand. The basic premise here is that informal businesses and workers tend to transact more with cash than with checks. Thus, the following relationship is examined

$$C/D = f(\text{informal activities, formal activities})$$

where C refers to currency in circulation and D potential deposits.

Since indicators on informal activities are hard to get, they are omitted. Only indicators on formal activities are included in the regression. The computed C/D is compared with the actual ratio. This gives an approximation of the informal market.

B. Studies

1. CRC-Based

Thus far we have conducted two studies on the informal sector at the macro level in the Philippines using the method in 2c. These are:

- i. Enrique V. De Leon (1990). "An Estimate of the Informal Sector: Macroeconomic Policy Implications on Employment and Growth." CRC

The basic conclusion was that the informal sector in the Philippines grew tremendously over the first half of the 1980s, reaching more than 50% of reported GNP in 1985. In the middle to late 70s, the estimate was placed at around 15% of the national output. Furthermore, the same estimates represent underestimation of employment figures for the corresponding years.

- ii. Francis Vicente (1989). "A Sensitivity Analysis of the Underground Economy: the Case of the Philippines" CRC

The study found that the underground economy in the Philippines is highly influenced by indirect taxes and the real wage gap between rural and urban sector.

Non-CRC-Based

- iii. Ruperto P. Alonzo. "Informality In Development: The Philippines"

These studies are based on previous works by:

- iv. Vito Tanzi (1982) "The Underground Economy in the United States and Abroad."
- v. Instituto Libertad Y Democracia (ILD) (1989) "An Estimate of the Magnitude of the Informal Economic Activity in Peru".

2. TAXES

Background: Philippine Tax system

1. It has failed to satisfactorily perform its traditional role of raising revenue.
 - * For the last two decades, tax effort has remained at 12% of GNP on the average.
 - * Expenditures from 1980-88 was 16.22% of GNP
2. The tax system has also been unfair.
 - * For taxpayers earning P100,000 or more, those with fixed salaries pay 10.61% of their income as tax.
 - * A taxpayer with business income pays only 1.14% of his income as tax.
 - * On the average, the income tax burden of fixed-income earners is 1.45% of their income. The tax burden of taxpayers with business income is much less- 0.03%
3. Tax evasion is a problem of significant magnitude.
 - * Studies estimate that the income tax evasion is almost as big as the income tax collection.
 - * In 1984, income tax collection totalled P3.2 billion

relative to an estimate of tax evasion ranging from P5.17 to 6.69 billion.

- * About P4 billion was estimated to be evaded in sales tax in 1985 relative to a P3 billion collection.
 - * The problem of evasion is also increasing through the years. The sales tax evasion rate grew from 59% in 1981 to 68% in 1985.
4. The potential of the income tax is stifled by indiscriminate abuse in deductions.
- * Deductions eat up as much as 92% of the gross income of taxpayers from the high income class.
 - * Generally, the higher the income level, the bigger the magnitude of the deductions.

Studies (Non-CRC-Based)

Rosario G. Manasan (1988) "Tax Evasion in the Philippines" PIDS.

3. TRADE

1. Capital Flight.

- * Boyce and Zarsky (1988). "Capital Flight From the Philippines, 1962-86". PIDS
- * Iluminada Sicat (1990). "Capital Flight the Philippine Case". CB Review.

Major Findings:

* Capital Flight from the Philippines did not commence in the mid-1970s. In the eight years preceding the 1970 foreign exchange crisis, capital flight amounted to US\$776 million, equivalent to US\$4.6 billion in 1986 dollars. However, the outflow of flight capital in real terms appears to have peaked in 1976 and again in 1981-82.

* The estimates indicate that capital flight from the Philippines from 1962 to 1986 was substantial indeed. During this period, capital flight amounted in real terms to almost four-fifths of the country's external debt outstanding at the end of 1986.

2. Dollar Salting and Technical Smuggling.

- * Sergio Andal (1986) "Can Dollar Salting and Technical Smuggling in the Garments Industry be Controlled" CRC
- * Ma. Solita P. Sanchez (1986) "Illegal Trade in Logs: the RP-Japan Case" CRC