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MICROENTERPRISE SECTOR STUDY

Microenterprise Access to Banking Services in Mindanao (MABS-M)

MICROENTERPRISE SECTOR STUDY

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FOREWORD

The Microenterprise Sector Study is one of the baseline studies of the Microenterprise Access to Banking Services in Mindanao (MABS-M). These studies will provide a comprehensive picture of the demand and supply of financial services to microenterprises and other groups at lower socio-economic levels in Mindanao.

The study, in particular, provides an overview of the microenterprise sector in Mindanao as a potential market for rural banks. It describes the size, composition, as well as the major characteristics of the sector using government statistics and data from previous studies. These information will be important in determining the segments of the microenterprise sector that will be targeted by rural banks. Indications of the financial needs and preferences of the sector will also be critical in designing the broad features of the financial products that will be offered to the sector.

A more detailed study of the microenterprises in the service areas of rural banks will be done after the selection of the participating banks. This study will determine whether there will be enough volume of business in the target areas for the rural banks' microfinance operations to be viable. It will also look at the relative density of microenterprises, and the cash flows of various types of microenterprises to determine the most appropriate outreach strategy, as well as the specific features of the products that will be offered by rural banks.

MABS-M is grateful to the Office of the President for Mindanao (OP-MIN), the Rural Bankers Association of the Philippines (RBAP), the Rural Bankers Research and Development Foundation, Inc. (RBRDFI), and the United States Agency for International Development (USAID) without whose support this study would not have been possible.

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LIST OF ACRONYMS USED

ASE	-	Annual Survey of Establishments
BFAD	-	Bureau of Food and Drugs
BIR	-	Bureau of Internal Revenue
BOC	-	Bureau of Customs
BOI	-	Bureau of Investments
BSP	-	Bangko Sentral ng Pilipinas
BPTTT	-	Bureau of Patents and Trademarks and Technology Transfer
CDA	-	Cooperatives Development Authority
FPA	-	Food and Pesticide Authority
GTEB	-	Garments and Textile Regulatory Board
DENR	-	Department of Environment and Natural Resources
DND	-	Department of National Defense
DOLE	-	Department of Labor and Employment
DTI	-	Department of Trade and Industry
LGU	-	Local government unit
LTRFB	-	Land Transportation Regulatory and Franchise Board
MABS-M	-	Microenterprise Access to Banking Services in Mindanao
NFA	-	National Food Authority
NSO	-	National Statistics Office
PNP	-	Philippine National Police
PCFC	-	People's Credit and Finance Corporation
PIZA	-	Philippine Industrial Zone Authority
SMED	-	Small and Medium Enterprise Development Council
SSS	-	Social Security System
VRB	-	Videogram Regulatory Board

MICROENTERPRISE SECTOR STUDY

1.0 INTRODUCTION

The microenterprise sector remains largely untapped by Philippine rural banks as a source of loans and deposit business even as other microfinance institutions in the country and other parts of the world have shown that providing financial services to the sector can be done on a profitable, sustainable basis.

The rural banks' reluctance to serve the microfinance sector stems from several causes. These include: (i) the rural banks' unfortunate experience in government-sponsored, supervised small farmer credit programs in the 70s and early 80s where high loan delinquency almost crippled the rural banking system and which, consequently, caused many rural banks to currently adopt a more conservative attitude towards microlending; (ii) other experiences in microlending (e.g., market vendor loans) which, for one reason or another, could have resulted in similar rates of loan delinquency or in unprofitable operations; (iii) non-familiarity with proven microfinance methodologies which could bring down the high costs and risks of microlending to more acceptable levels; and (iv) lack of information about the microenterprise sector as a potential market for rural banks.

This study addresses the need for information on the microenterprise sector as a potential market for rural banking services. There is presently very little information on microenterprises which rural banks, or other financial institutions, for that matter, can use in assessing whether a sizeable potential market exists in their respective service areas and in determining the financial products most appropriate to the needs and preferences of their target market. Making these information available to rural banks is considered a critical step towards convincing these banks to provide financial services to the microenterprise sector.

Generating the relevant information, particularly about the informal microenterprise sector in Mindanao, however, is not easy. Outside of a few previous studies on the sector, almost all of which focused on the microenterprise sector in Metro Manila and some parts of the Visayas, there has never been a study (except one that covered both Metro Manila and Davao City) that looked at the microenterprise sector in Mindanao, especially those within its smaller towns and cities which are the typical domain of most rural banks.

Given time constraints, the present study will, therefore, focus on information that could be generated from available secondary sources. The information from these sources may not accurately describe the situation in the smaller towns and cities of Mindanao, or be as recent and as detailed to be of practical use to rural banks in planning and decision-making; nevertheless, they do provide a comprehensive overview of the microfinance sector which would also be essential to planners of development interventions in Mindanao such as MABS.

A more detailed market study, however, will be done as the MABS-M pilot participating banks have been selected. The second study will look at the size and characteristics, as well as the financial needs and preferences of the microenterprise sector in each of the participating banks' service areas and, thus, will be of more practical relevance to rural banks in planning and designing their microfinance methodologies and financial products.

The study is divided into several chapters, viz.:

- Chapter 1 briefly describes the background and purpose of this study.
- Chapter 2 presents the various definitions microenterprise.
- Chapter 3 provides information on the size and composition of the microenterprise sector in Mindanao.
- Chapter 4 discusses the characteristics of microenterprises based on the survey findings of previous studies.
- Chapter 5 presents the personal characteristics of microentrepreneurs using the survey data of the same studies.
- Chapter 6 provides information on the credit needs and borrowing practices of microentrepreneurs also using the survey data of previous studies.
- Chapter 7 provides a summary of the key points of the report.
- Lastly, Chapter 8 provides a brief discussion of some of the implications of the study to rural banks.

2.0 DEFINITIONS OF MICROENTERPRISE

Defining the term microenterprise may not appear to be compellingly important at first thought. Yet a precise definition of the term enables the microfinance practitioners to target with greater accuracy the people and enterprises that most need their help. The type of clients and microenterprises to be targeted, on the other hand, determines the microfinance methodology to be employed. It is important that rural banks have a clear definition of microenterprise so that they can offer appropriate products to the ones they intend to serve.

Definitions

The microenterprise sector is generally regarded as identical to the informal sector (which is composed of enterprises that are not fully registered with the proper government bodies).

Experts agree that the term refers to very small income generating units. These units are owned and managed by entrepreneurs who work in the unit themselves, from which they derived most of their livelihood. They employ very few people (if any, mainly relying on family members) and use very little capital. In some cases, the term could include traditional family enterprises, cottage industries or artisanal units, as well as the self-employed.

The term has also been defined as an entity employing less than five persons and generating *income from non-farm production, services and trade*. Another definition refers to it as an enterprise with less than 10 employees, engaged in unincorporated income generation in non-farm activities under an owner-manager.

Local experts, however, observe that in the Philippines, there seems to be no common agreement on how to define microenterprises. The definition may be based on assets, sales turnover, number of employees, income received by the entrepreneur on a monthly basis, or some combination of these.

Some analysts, though, prefer to define microenterprises in terms of the number of workers employed in the business, i.e. those with less than 10 workers, primarily because of the ease of data collection. Data on enterprises with less than 10 workers are regularly collected by the National Statistics Office (NSO).

Official definition

The official definition of microenterprises in the Philippines is provided by the Small and Medium Enterprise Development (SMED) Council which is attached to the Department of Trade and Industry (DTI). The definition is based on the classification scheme for the small and medium enterprise sector, in which enterprises are grouped by asset size. SMED defines small and medium enterprises as *any business activity or enterprise engaged in industry 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 P150,000
- Cottage between P150,000 and P1.5 million
- Small between P1.5 million and P15 million
- Medium between P15 million and P60 million

MABS-M Definition

For purposes of this study, however, microenterprise is defined as a non-farm income-generating activity operated either by a family, individual or a group employing less than 10 workers. This definition includes both the registered and the unregistered business establishments that have less than 10 workers, as well as the self-employed workers in the non-agricultural sector.

In addition to the above definition, MABS-M has stipulations on the loan size, as follows.

- Initial deposit of up to P1,000
- Initial loan size of up to P25,000

The definition which puts a ceiling on the initial deposits and loans (but not on all subsequent deposits and loans) gives greater flexibility to rural banks in selecting potential clients. It also takes into consideration the possibility of the microenterprise becoming a small-scale, or even medium-scale, business operation, over time. The implication is that rural banks should be prepared with various financial products to meet the changing needs of the microenterprise as it grows in size and complexity.

However, it must be clear that small loans given to small or larger enterprises will not be counted as part of the participating banks' microfinance portfolio.

3.0 SIZE AND COMPOSITION OF THE MICROENTERPRISE SECTOR

3.1 Size of the microenterprise sector in the Philippines

A study made by Lapar in 1991 using the 1988 Census of Establishments of NSO reported that micro and cottage enterprises account for majority (84 percent) of the manufacturing establishments

Another study conducted by Niepel, et al. in 1997 observed that microenterprises dominate the Philippine economy. The study noted that the 1988 NSO survey revealed that, in addition to the 300,000 establishments with fewer than nine workers in the country as a whole, there are 1.4 million "household operated activities".

A study done by Alonzo in 1993, however, used the same survey to show that 98 percent of all Philippine enterprises have fewer than nine employees, i.e. they are very small enterprises falling under the microenterprise categories.

Other studies also reported that the microenterprise sector:

- provides primary income to at least 30 percent of the rural work-force;
- provides secondary income to about 20 percent of rural households; and
- that 31 percent of the total family income of farm households and 81 percent of the total family income of non-farm households are contributed by rural non-farm activities.

All these findings point to the fact that microenterprises account for such a large share of the enterprise sector that they are of great economic significance to the Philippines.

3.2 Size of the microenterprise sector in Mindanao

This study looks at two sets of NSO data in determining the size of the microenterprise sector in Mindanao - the Annual Survey of Establishments (ASE), and the 1995 Census of Population. The ASE provides information on the number of enterprises employing less than 10 workers, while the Census of Population provides data on the number of self-employed persons (without any paid worker).

The size of the formal sector, or the number of registered microenterprises, could best be captured by the ASE. The size of the informal sector, or number of unregistered microenterprises, on the other hand, is best indicated by the number of self-employed, non-agricultural workers since the Census of Population is supposed to cover even the unregistered, one-man business operations and household-operated activities.

3.2.1 Number of establishments.

Data from the 1993 Annual Survey of Establishments (Table 1) show that there are 96,411 various types of establishments in Mindanao, 9 out of 10 of which employed less than 10 workers, and thus, could be classified as belonging to the microenterprise sector. Region XI is reported to have the most number of business establishments, followed by Region IX. It should be noted, however, that most of the businesses covered by the ASE are registered establishments and, therefore, substantially underestimates the size of the microenterprise sector which is widely believed to consist largely of unregistered and partially registered micro-businesses.

Table 1. Number of Establishments With Less Than 10 Workers in Mindanao, By Region: 1993

Region	Total No. of Establishments	No. With Less than 10 workers	% to Total
Region IX	22,067	21,132	95.8
Region X	14,784	13,563	91.7
Region XI	32,388	29,605	91.4
Region XII	13,505	12,771	94.6
ARMM	4,682	4,410	94.2
Caraga	8,985	8,361	93.1
Total	96,411	89,842	93.2

Source of data: 1993 ASE, NSO.

3.2.2 Number of self-employed, non-agricultural workers

The number of self-employed persons engaged in non-agricultural enterprises as reported in the 1995 Census of Population provides a more realistic estimate of the size of the sector, as it includes unregistered household-operated enterprises. Table 2 below shows that a total of more than half a million people (530,191) throughout Mindanao operate their own microenterprises. About one-third (32 percent) of the self-employed population in Mindanao are reported to be found in Region XI.

The total number of self-employed, non-agricultural workers is also reported to be about 10 percent of the total number of workers employed in both agriculture and non-agricultural sectors in Mindanao.

Table 2. Number of Self-Employed Non-Agricultural Workers in Mindanao, By Region: 1995

Region	Self-Employed (w/o paid worker)	% Distribution
IX	81,616	15.4
X	94,880	17.9
XI	171,050	32.3
XII	84,572	15.9
ARMM	31,346	5.9
Caraga	66,697	12.6
Total	530,191	100.0
% to total number of persons employed in both agricultural & non-agricultural		10.38%

Source: NSO, 1995 Census of Population

3.2.3 Urban and rural distribution

The Labor Force Survey conducted by NSO in 1996, however, estimates a substantially bigger population of microentrepreneurs in Mindanao. Table 3 below shows that the total number of own-account workers (which include two types of entrepreneurs: the self-employed, which makes up the bulk of the total, and the employers, or those with paid employees) in Mindanao would be close to a million people.

It is interesting also to note that the number of non-farm microenterprises found in the rural areas of Mindanao is almost the same (48 percent) as those found in its urban areas. The fact that rural-based microenterprises are just as many as those in urban areas is even more significant when considering that urban areas, as defined by NSO, includes not just cities and big town centers, but also barangays located around the periphery of the town center, as well as those with relatively denser population.

Aside from showing a much bigger population of microentrepreneurs in Mindanao, the labor force survey data also shows a higher proportion of persons engaged in microenterprises (14 percent).

Table 3. Number of Own Account, Non-Agricultural Workers in Urban and Rural Areas in Mindanao:1996

Region	Urban Areas	Rural Areas	Total	% Rural
IX	71,000	70,000	141,000	49.6
X	89,000	61,000	150,000	40.7
XI	166,000	132,000	298,000	44.6
XII	55,000	63,000	118,000	53.4
ARMM	29,000	56,000	85,000	65.9
Caraga	67,000	61,000	128,000	47.7
Total	477,000	443,000	920,000	48.1
% to Total No. of Employed Persons			14.29%	

Source of basic data: ISH Bulletin (Labor Force Survey), NSO, July 1996.

3.2.4 Microenterprise as primary source of family income.

Table 4 below shows that a total of almost 333,000 families in Mindanao, or around 12 percent of the total, depend primarily on non-farm business activities as their source of family income.

Table 4. Total Number of Families in Mindanao, by Main Source of Income: 1994

Main Source of Income	Total	%
Total number of families	2,855,367	100.0
Salaries & wages	1,090,423	38.2
Entrepreneurial Activities	1,481,303	51.9
Agriculture, fishing & forestry	1,144,789	40.1
Mining and quarrying	3,758	0.1
Non-Agricultural	332,777	11.6
Other sources	283,641	9.9

Source of data: GEM Indicators: Baseline Report Update, March 1998.

3.2.5 Microenterprise population in Davao City

An attempt to estimate the size of the microenterprise sector in Davao City was done in the study conducted by Niepel, et al (1997). The estimate was based on the study's own survey findings and those of an earlier study by ILO on the informal sector in Metro Manila (1996). The Niepel study estimated the total number of completely unregistered microenterprises to be 18-25 percent of the total number of formal and informal microenterprises.

Through interpolation, the Niepel study estimated that the total number of persons engaged in either formal or informal microenterprises would be about 9 percent of the total population. Using one million to represent the population of Davao City, the study concluded that there should be a total of around 95,000 microenterprises in the city. The study further concluded, based on ILO survey findings that an average of two persons are employed in each enterprise, that around 190,000 persons in Davao City are active in that city's microenterprises sector.

The same study, however, explained that its calculations are based on data collected by the National Statistics Office which it found to be rather conservative. On this basis, the study believes that the actual number of microenterprises is far greater than its NSO-based estimate.

3.3 Composition of the Microenterprise Sector

3.3.1 The microenterprise sector in the Philippines.

Table 4 below shows that microenterprises made up 90 percent of the total number of non-agricultural establishments in the Philippines in 1994. (The same proportion is obtained when the total number of establishments with less than 10 workers is compared with the total number of establishments in all industries.)

The three major industry groups of the microenterprise sector, which account for about 91 percent of the total number of establishments in the sector, are: wholesale and retail trade (44 percent); community, social, and personal services (27 percent), and manufacturing (20 percent).

Microenterprises are also most prevalent in the wholesale and retail trade sector, accounting for 95 percent of the total number of establishments in that industry. This is followed by community, social and personal services (92 percent) and manufacturing (87 percent).

Table 5. Number of Establishments With Less Than 10 Workers, by Major Industry Group, Philippines: 1994 (Preliminary)

Industry Group	Total No. of Establishments	No. of Establishments With Less Than 10 Workers		% to Total No. of Establishments
		Total	% Dist.	
All Industries	458,482	413,034	100.0	90.09
Agriculture, Fishing & Forestry	1,833	465	0.1	25.37
Mining & Quarrying	457	207	a/	45.30
Non-Agriculture	456,142	412,362	99.8	90.40
Manufacturing	94,128	82,358	20.0	87.50
Electricity, gas & water	951	445	0.1	46.79
Construction	1,884	692	0.2	36.73
Wholesale & retail trade	192,568	182,265	44.2	94.65
Transportation, storage & comm.	6,384	4,387	1.1	68.72
Financing, insurance, real estate, & business services	22,655	16,215	3.9	71.57
Community, social & personal services	137,622	126,000	27.3	91.56

Source of data: 1995 Yearbook of Labor Statistics, DOLE.

3.3.2 The microenterprise sector in Mindanao.

Table 6 below shows, more or less, the same structure of the microenterprise sector as that observed for the whole country. Wholesale and retail trade comprises close to half (48 percent) of the total number of microenterprises in Mindanao, followed by community, social and personal services (29 percent), and manufacturing (19 percent).

Table 6. Number of Microenterprises in Mindanao, By Industry Group: 1995
(Establishments with Average Total Employment of Less than 10)

Industry Group	Total	% Dist.
Wholesale and retail trade	45,921	48.23
Manufacturing	17,679	18.57
Community, social & personal services	28,134	29.55
Transportation, communication & storage	902	0.95
Finance, insurance, real estate & business sector	2,573	2.70
Total	95,209	100.00

Source: GEM Indicators Baseline Report Update, March 1998.

3.3.3 Number of Microentrepreneurs in Mindanao, By Industry Group.

Data from the 1995 Census of Population on the number of self-employed workers in Mindanao, shown in Table 7 below, show that the majority (52 percent) of the microentrepreneurs in Mindanao are engaged in the wholesale and retail trade business. More than a third (36 percent) work in the services sector, while only about 9 percent are engaged in various manufacturing activities.

Table 7. Number of Self-Employed, Non-Agricultural Workers in Mindanao, By Sector: 1995

Sector	Total	% Dist.
Wholesale & Retail Trade	274,169	51.7
Services	189,976	35.8
Manufacturing	45,711	8.6
Construction	16,263	3.1
Electricity, Gas & Water	4,072	0.8
Total	530,191	100.0

Source of data: 1995 Census of Population, NSO

3.3.4 Microenterprise as primary source of family income.

Of the more than 333,000 families in Mindanao dependent on microentrepreneurial activities as their main source of income, about 60 percent source their income primarily in the wholesale and retail trade business (Table 8). For some unexplained reasons, the proportion of families primarily dependent on income from manufacturing activities (14 percent), as shown in the table below, is substantially bigger than the proportion of self-employed workers in the manufacturing industry (9 percent) as shown in Table 7 above. The smaller proportion of families primarily dependent on community, social and personal services, however, can be explained by the manner by which the two data sources classify the service industry. The Census of Population data has apparently lumped the transportation, storage and communication industry with the service industry while the GEM data apparently did not.

Table 8. Total Number of Families in Mindanao with Non-Farm Enterprises as Primary Source of Income, by Source: 1994

Source of Income	Total	%
Total number of families	332,777	100.00
Wholesale and retail	200,241	59.50
Manufacturing	46,960	13.95
Transportation, storage and communication	42,157	12.53
Community, social & personal services	32,033	9.52
Construction	4,085	1.21
Entrepreneurial activities, N.E.C.	7,301	2.17

Source of data: GEM Indicators Baseline Report Update, March 1998

3.4 Composition of the manufacturing sector

3.4.1 Number of establishments.

Practically half (49 percent) of the total number of micro manufacturing activities in Mindanao in 1992 were made up of food manufacturing enterprises. These would include enterprises engaged in the production, processing and preservation of meat, fish and other sea foods, fruits, vegetables, oils and fats including slaughtering and meat packing. In particular, it would include such activities as "tocino" or "longganiza" production, fish ball production, "patis" or "bagoong" making, fruit and vegetable preserves and juices, candy making, rice and corn milling, bakeries, noodle production, nata de coco production, and ice manufacturing, among others.

The second biggest group would consist of enterprises engaged in the manufacture of wearing apparel (except footwear) accounting for 20 percent of the total number of micro establishments. This group would include such activities as the manufacture of children's garments, other ready-to-wear clothes, clothing accessories, and school, office and athletic uniforms.

The third biggest group is composed of microenterprises engaged in the manufacture of pre-fabricated metal products, including furniture and fixtures primarily made out of metal.

Table 9. Number of Manufacturing Establishments With Less Than 10 Workers in Mindanao, By Minor Industry Groups: 1992

Minor Industry Group	Total	% Dist.
Food manufacturing	7,471	48.57
Mfr. of wearing apparel except footwear	3,084	20.05
Mfr. of pre-fabricated metal products, except machinery & eqpt., & furniture & fixtures primarily of metal	1,647	10.71
Mfr. & repair of furniture & fixtures, except primarily of metal	1,098	7.14
Mfr. of other non-metallic mineral products	515	3.35
Mfr. of machinery except electronics	302	1.96
Printing, publishing & allied industries	296	1.92
Mfr. of wood & wood cork products, except furniture	274	1.78
Manufacturing of textiles	102	0.66

Mfr. of transportation equipment	48	0.31
Mfr. of rubber products	47	0.31
Mfr. of pottery, china & earthenware	41	0.27
Iron & steel basic industries, including non-ferrous metal basic industries	40	0.26
Mfr. of footwear, except rubber, plastic or wood footwear	34	0.22
Mfr. of industrial chemicals & other chemical products	25	0.16
Mfr. of paper & paper products	15	0.10
Mfr. of leather & leather products, leather substitutes, except footwear & wearing apparel	12	0.08
Mfr. of glass & glass products	3	0.02
Other manufacturing industries	327	2.13
Total	15,381	100.00

Source of data: 1992 ASE, NSO.

3.4.2 Number of microentrepreneurs

Data from the 1995 Census of Population on the number and activities of self-employed workers, on the other hand, presents a different structure of the manufacturing industry. Table 10 below shows that biggest industry group in manufacturing industry, accounting for almost half (45 percent) of the total number of self-employed, non-agricultural workers in Mindanao in 1995 were enterprises engaged in the manufacture of textiles, wearing apparel, and leather products. The second biggest group are microenterprises in food and beverage manufacturing, while the third biggest are those in furniture manufacturing and repair.

Given the apparent contradiction between Tables 9 and 10, it can be assumed that most of the microentrepreneurs engaged in the manufacture of textiles, wearing apparel and leather belong to the informal sector, which most likely was left out in the ASE.

Table 10. Number of Self-Employed Persons (Without Any Paid Employee) in the Manufacturing Sector in Mindanao, by Minor Industry Group: 1995

Industry Group	Total	% Distribution
Textiles, wearing apparel, leather	19,567	45.5
Food and beverage mfg.	7,942	18.5
Furniture manufacturing & repair	3,674	8.6
Wood, cork, cane & bamboo	2,134	5.0
Paper and publishing & printing	1,489	3.5
Basic metal & fabricated metal products	1,453	3.4
Machinery	1,421	3.3
Petroleum, chemicals, rubber and plastic	775	1.8
Transport equipment	706	1.6
Non-metallic mineral products	659	1.5
Tobacco manufacture	526	1.2
Other manufacturing	2,515	5.8
Total	42,962	100.0

Source of data: 1995 Census of Population, NSO.

3.5 Composition of the Wholesale & Retail Trade Sector

3.5.1 Number of Establishments

Enterprises engaged in retail trade account for 85 percent of the wholesale and retail trade industry (Table 11). Of the total number of retail trade establishments in Mindanao, a majority (56 percent) are engaged in retail of food, beverage and tobacco products. This group includes such enterprises as sari-sari stores, small groceries, as well as market vendors and stores specializing in the retail of cereals (rice and corn); raw or cooked meat, fish, other sea foods; poultry and dairy products; fruits and vegetables; beverages; bakery products; and tobacco products.

The second biggest group, accounting for about 15 percent of the total, are enterprises engaged in the retail of dry goods, textile and wearing apparel. This would include such enterprises as bookstores, clothes and footwear shops, as well as vendors of bags, clothing accessories, school and office supplies, and rubber sandals, among others.

Table 11. Number of Establishments, With Average Total Employment of Less Than 10, in Wholesale and Retail Trade in Mindanao, By Major Industry Group: 1993

Industry Description	Total	% Dist.
Total number of establishments	44,509	100.0
Wholesale Trade	6,588	14.8
Retail Trade	37,921	85.2
Food, beverage & tobacco	21,294	56.1
Dry goods, textile, & wearing apparel	5,283	13.9
Construction & material supplies	2,351	6.2
Office & household furniture, fixtures, appliances & wares	1,505	4.0
Medical supplies & equipment stores	1,490	3.9
Transport machinery & equipment, accessories & supplies	1,301	3.4
Petroleum & other fuel products	643	1.7
Books, office & school supplies, incl. newspaper & mag.	604	1.6
Retail trade, N.E.C.	3,450	9.1

Source of data: 1993 ASE, NSO.

3.6 Composition of the Services Sector

3.6.1 Number of establishments

Eating places such as restaurants, cafes, food stands and snack bars constitute the biggest group in the services sector, accounting for exactly half (50 percent) of the total number of services-related micro establishments (Table 12).

Repair shops are the second biggest group comprising about 20 percent of the total. This group would include enterprises specializing in motor vehicle repair, household appliances repair, shoe repair, bags and luggage repair, radio and TV repair, and watch, clock and jewelry repair.

The third biggest group is composed of barber shops and beauty parlors accounting for 11 percent of the total.

Table 12. Number of Establishments, With Average Total Employment of Less Than 10, in the Services Sector in Mindanao: 1993

Industry Description	Total	% Dist
Restaurants, cafes, other eating/drinking places	11,507	50.2
Repair shops (motor vehicles, motorcycles, etc.)	4,652	19.9
Barber shops and beauty parlors	2,531	11.0
Medical/dental, other health & veterinary services	2,364	10.3
Photographic studios	601	2.6
Hotels, motels, other lodging places	474	2.1
Educational services	474	2.1
Sanitary & similar services	21	a/
Laundries, laundry services/dyeing plants	7	a/
Personal services, N.E.C.	275	1.2
	Total	22,906 100.0

a/ less than 0.1 %

Source of data: 1993 ASE, NSO

3.6.2 Number of microentrepreneurs

Data from the 1995 Census of Population, which classified the industries differently from the ASE, show that the two biggest groups in the services sector are the self-employed workers in the transport (30 percent) and private business (30 percent) categories. The informal microenterprises in the transport sector include jeepney, taxi cab, and tricycle and pedicab drivers and operators. Private businesses, on the other hand, refer to service-oriented enterprises such as recreational centers, barber shops and beauty parlors, photo studios, and the like.

Table 13. Number of Self-Employed Persons (Without Any Paid Employee) in the Service Sector in Mindanao: 1995

Industry Description	Total	% Dist.
Transport	54,624	30.2
Private business	52,448	30.0
Repair of motor vehicles, personal & HH goods	11,038	6.1
Restaurant & hotels	9,832	5.4
Domestic services	7,241	4.1
Real estate & renting	3,386	1.9
Government services	2,679	1.5
Private education, health & social work	2,499	1.4
Financial intermediation	1,611	0.9
Post & communication	191	0.1
Other community, social & personal services	34,964	19.3
Total	181,059	100.00

Source of data: 1995 Census of Population, NSO.

3.7 Regional Characteristics

Annex Table 2 shows the distribution of self-employed, non-agricultural workers, by industry group and by region in Mindanao.

The proportion of self-employed workers in the non-agricultural sector reflects the relative rank of each region in terms of economic development. Region XI tops the list with 34.0 percent of its self-employed population working in the non-agricultural sector. The rest of the regions are ranked as follows: Region X (26.8 percent), Caraga (25.4 percent), Region XII (25.1 percent), Region IX (22.7 percent), and ARMM (19.7 percent).

The proportion of self-employed persons in the manufacturing sector to the total number of self-employed persons in the non-agricultural sector, on the other hand, shows ARMM on top with 11.0 percent, followed by Region XI (8.6 percent), Caraga (7.6 percent), Region X (6.6 percent), Region IX (6.5 percent), and Region XII (6.4 percent).

That ARMM has the biggest proportion of self-employed persons in the manufacturing sector, even if it is generally considered to be the least economically developed among the regions, may be a bit surprising. A look at the structure of ARMM's small manufacturing sector, however, will show that 7.2 percent of its self-employed, non-agricultural workers are engaged in the manufacture of textiles and wearing apparel, which is almost double that of Region XI (3.9 percent). It should be considered, however, that ARMM has the biggest Muslim population

among the regions in Mindanao and that the Muslims have their own special clothing requirements (e.g. malongs, tubaos, other Muslim clothing/dresses). It could be assumed that most of the clothing and garments ordinarily worn by the Muslim population in ARMM are manufactured within the region itself. In contrast, the people in the rest of the regions in Mindanao, being mostly Christians, would not have this particular need and may actually prefer buying clothes and garments made elsewhere in Luzon or Visayas, which could be better and cheaper, instead of making these things themselves.

On the other hand, no discernible pattern can be seen on the relative ranking of the regions with respect to the trade and the services sector. In the wholesale and retail trade sector, Region XII is number one, with 58.3 percent. This is followed by Region IX (58.2 percent), Region XI (56.4 percent), ARMM (55.6 percent), and Region X (53.3 percent).

In the services sector, CARAGA leads the list with 40.0 percent. This is followed by Region X (36.5 percent), Region IX (32.4 percent), Region XII (32.2 percent), Region XI (31.1 percent), and ARMM (29.3 percent).

4.0 CHARACTERISTICS OF MICROENTERPRISES

The survey findings of previous studies on the microenterprise sector are used to describe the characteristics of informal microenterprises. Since a study of each participating bank's potential microfinance market will be done (after the selection of pilot participating banks), the findings of these study will provide MABS with initial insights on the characteristics of the rural banks' potential markets. These studies and some characteristics of their respective survey data are shown in Table 14 below.

Table 14. Sample Size of Selected Studies on Microenterprises

Study	Survey Year	Survey Sites	Sample Size
Niepel, et al.	1997	Davao City & Metro Manila	841
Alonzo & Abrera-Mangahas	1990	Metro Manila	450
Lapar	1991	Iloilo, Cebu, Bohol, Negros Occidental	400
Gatchalian	1986	Metro Manila	1,000
Allal, et al.	1995	Metro Manila	94

Most of the surveys were done in Metro Manila. Only the study prepared by Niepel, et al. covered part of Mindanao (Davao City). The study done by Lapar, on the other hand, covered four provinces in the Visayas.

Except for the study done by Lapar, all of the studies focused on the microenterprise sector. The Lapar study actually focused on rural non-farm enterprises irrespective of the size of the enterprise. Nevertheless, most (90 percent) of Lapar's survey respondents could still be classified as microenterprises, having less than 10 workers when the survey was done.

4.1 Composition of the sample microenterprises

Microenterprises engaged in retail trade made up the biggest group of respondents in all of the surveys, except in the study done by Allal et al (Table 15).

Table 15. Composition of the Sample Enterprises, by Sector

Study	Trade	Service	Manufactunng	Total
Niepel	63	24	12	100
Alonzo & Mangahas	70	17	13	100
Lapar	41	28	31	100
Gatchalian	83	13	4	100
Allal, et al.	26	34	45	100

4.2 Place of Business Operation

The Allal, et al. study found that most of microenterprises either are located in the residence of their operators (45 percent) or in commercial areas (45 percent). The majority (54 percent), however, pay rent for the use of the land and building occupied by the business.

Table 16. Distribution of Sample Microenterprises by Place of Operation and Ownership of Premises

Item	Percent
<u>Place of Operation</u>	
Holding business in their residence	45%
In commercial site	45%
In factory site	10%
<u>Ownership of Premises</u>	
Owms land and building	39%
Owms building/leases land	4%
Rents land and building	54%
Squatter or mobile	3%

Source: Allal, et al., 1995.

The survey findings of the Alonzo and Abrera-Mangahas study, to some extent, collaborate the findings of the Allal study. Table 17 below shows that 43 percent of the respondents use their residence as location of their business. More than a third (34 percent), on the other hand, use their business space also for residential purposes. Close to a fourth (22 percent) use their business location exclusively for business purposes.

Table 17. Distribution of Sample Microenterprises by Function of the Business Location

	Percent
Mixed Use:	77.0
Primarily for residential purposes	42.9
Primarily for business	34.1
Exclusive use for business	22.5

Source: Alonzo and Abrera-Mangahas, 1990 Survey.

The Niepel study, on the other hand, also found that the majority (51 percent) of the microenterprises pay rent for their premises (Table 18). A smaller proportion (31 percent), however, was observed to be located in the operators' residence. The study found that some 7 percent of the total number of its respondents do not have a permanent location.

Table 18. Distribution of Sample Enterprises by Ownership of Business Premises

Item	Percent
Own business premises	42.0
Located in residence	31.0
Located outside of residence	11.0
Renting business premises	51.0
No fixed location	7.0

Source of data: Niepel, et al., 1997.

Allal, et al. further observed that manufacturing firms are located farther away from more populated centers and are located mostly in the residence of their operators. In contrast, service enterprises are concentrated in more populated centers and tend to be located in commercial areas. Trading enterprises are found in more populated centers and are usually located either in residences or in commercial areas.

4.3 Business registration

In the Philippines, business registration is needed for taxation, regulation and promotion of economic activities, protection of individual and public interest, and safeguarding of general public welfare. The Niepel, et al. study grouped the registration types into five categories, viz.:

- Obtaining legal personality for the business from the DTI, SEC, or CDA
- Obtaining business license or Permit To Operate (PTO) from local government units
- Obtaining secondary franchises or Licenses To Operate (LTO) for regulated business or commodities from either of the following agencies: BFAD, NFA, BSP, LTRFB, VRB, DENR, FPA, etc.
- Compliance to business regulations such as taxation, social security and protection, and labor laws from SSS, BIR, DOLE, and BPTTT.
- Registration to avail of certain incentives and privileges from BOI, PIZA, GTEB, and BOC.

Niepel, et al. found that 26 percent of the enterprises they surveyed were not registered in any form. Allal, et al. on the other hand, reported that about 15 percent of their respondents have not registered in any form at all. Lapar also observed that 14 percent of her respondents were not registered with government agency.

4.3.1 Degree of Formalization.

The number of required registrations depends upon the type of business organization and the goods or services produced by the business. For single proprietorships without any paid employee (e.g. sari-sari stores), three registrations are normally required (i.e. LGU, DTI/SEC and BIR). Other businesses may require three or four other registrations such as those for employer-firms (SSS and DOLE), regulated commodities (e.g. BFAD, NFA), protection of proprietary rights over trade names and trade marks (BPTTT), and availment of certain incentives and privileges (e.g. BOI). The extent of formality or informality of an enterprise is measured by the number of registrations it has acquired. Enterprises that are not registered in any form are considered to be completely informal, while those that are registered but have not acquired all the registrations required for the business are said to be partially registered.

Table 19 below shows the degree by which the sample microenterprises, classified by sector, had formalized their business operations. A greater proportion of microenterprises engaged trading were not registered in any form at all. On the other hand, micro manufacturing activities had the least number of completely informal enterprises.

Table 19. Number of Business Registrations Acquired by Sample Microenterprises, By Sector

Number of Registrations	Mfg.	Service	Trading	Total
None	7.9	18.7	20.8	14.9
1-2 Registration	23.7	25.0	29.2	23.4
3-4 Registration	47.4	31.2	33.3	38.3
5-6 Registration	21.0	25.0	16.7	21.3
Total	100.0	100.0	100.0	100.0

Source of data: Allal, et al. 1995.

4.3.2 Types of Registrations Initiated.

Table 20 below shows that, among all forms of required business registrations, most (81 percent) of the sample microenterprises complied with the requirements of the local government units (municipal LGUs). LGU registration is required for purposes of local taxation. This is followed by DTI registration which is required for single proprietorships that want to register their business names.

Table 20. Distribution of Sample Microenterprises by Type of Registration Acquired

Type of Registration	No	Yes	Not Certain
	(Percent to Total)		
Barangay clearance	24	56	0
Mayor's permit	19	81	0
Commodity clearance	92	3	5
DTI	20	63	17
SEC	85	6	9
CDA	91	0	9
SSS	67	24	9
BIR	54	42	3
BPTTT	87	2	11
DOLE	87	2	11
BOI	95	5	9
GTEB	81	11	8

Source of data: Allal, et al., 1995.

Registration with the SEC is required for partnerships and corporations, while cooperatives are required to register with CDA. SSS and DOLE registration are required for all employer-firms while BIR registration is for the purposes of collection of taxes due to the national government and the registration of books of accounts and of receipts and invoices used in the business. BOI and GTEB registrations are needed, respectively, for availment of incentives given to priority investment areas and to garment and textile firms intending to operate bonded warehouses and in allocation of quotas for shipped products under quantitative restrictions of importing countries.

(The implication of this finding, at least for MABS at this stage, is that, in determining the total population of microenterprises within a given area, the business registration records of LGUs would be a relatively better source of information than those of national government agencies such as the DTI.)

4.3.3 Reasons for Non-Registration.

Table 21 shows that the most common reasons why microenterprises do not register at all are that either the business is too small (44 percent) or that the business had just been started (35 percent).

Table 21. Reasons Cited by Firms That Have Never Registered

Reasons	%
Firm too small	44
Just started	35
Not completed the registration	25
No one asked	19
Do not know	13
Activity not stable	13
Activity not allowed/legal	13
Cost too high	12
Stopped registration due to unreceptiveness of registering authority	6
Processing takes too much time	6
Others (family)	3

Source: Allal, et al., 1995.

In their study, Allal, et al. stressed that non-registration is not based on a deliberate decision to evade compliance with social security, labor, tax and environment regulations, but more of the smallness, newness, and perception of instability of the business by the entrepreneur.

4.3.4 Reasons for registering.

On the other hand, the most common reasons why people want their microenterprises to be registered include: the belief that the business should be registered; for the operator's peace of mind; and to add prestige and credibility to the business (Table 22). Other reasons cited by the respondents include: to be able to open bank accounts, register with SSS, or obtain loans from banks.

Table 22. Reasons for Registering Business

Top Three Reasons for Seeking Mayor's Permit:
<ul style="list-style-type: none">• the belief that the firm should be registered• for peace of mind• to add prestige and credibility
Other reasons cited:
<ul style="list-style-type: none">• to open bank accounts• to register with SSS• to obtain loans from banks

Source: Allal, et al., 1995.

These findings seem to indicate that under normal circumstances, i.e., in the absence of incentives that would make microenterprises want to register (e.g as a requirement for loan), business registration could probably be used as an indicator of more mature microenterprises.

Under MABS, however, where participating banks will be providing deposit and loan facilities to microenterprises, potential clients would be more inclined to register their businesses, particularly when business registration will be required by the participating banks. The number of target clients registering the businesses for the first time can be considered as a positive impact attributable to MABS, and therefore can be used as an impact indicator in addition to those already mentioned in the MABS project document.

4.4 Age of business

The survey done by Alonzo and Abrera-Mangahas indicates generally young enterprises. Average enterprise age of their sample was 2.6 years but 47.5 percent of these were less than one year old Niepel, et al. and Allal, et al. on the other hand, found their survey samples to be relatively older. Only about 12 percent of the Niepel, et al.'s survey sample were existing for less than a year at the time the survey was done.

4.5 Type of Business Organization

Most of the microenterprises were organized as single proprietorships, ranging from almost two-thirds (66 percent) in the Alonzo and Abrera-Mangahas study to 94 percent in the Lapar study (Table 23). The Alonzo and Abrera-Mangahas study also noted that nine out of ten of the partnerships were partnerships between family members.

Table 23. Types of Business Organization

Type of Organization	Allal	Alonzo	Lapar
Single proprietorship	90%	66.3%	94%
Partnership	3%	13.7%	
Corporation	7%	0	

4.5.1 Founder of the enterprise

Alonzo and Abrera-Mangahas, in their study, observed that, on the average, 84 percent of the enterprises were started by the present head of the enterprise. In the professional services sector, on the other hand, 50 percent of the enterprises were started by other family members or relatives.

Lapar also noted that majority of the enterprises were founded or established by the owners/operators themselves, although, almost one-fourth (22 percent) started as a shift in ownership from one family member to another.

4.5.2 Reasons for starting the enterprise

Table 24 shows that the most common reasons cited by the survey respondents of the Alonzo and Abrera-Mangahas study for starting their business enterprise concerns the need to generate additional income (50 percent) and the need to be employed in a gainful enterprise (27 percent). The third most common reason relates to the familiarity of the respondents towards their business having engaged in similar activities before (11 percent).

Table 24. Reasons for starting enterprise

Reason	Percent	Rank
Need for additional income	49.8	1
Need for employment	27.0	2
Previous experience in the same line	11.3	3
Need to be independent	8.0	4
As a hobby	7.5	5
Attracted by profitability	7.2	6
Found financing	6.1	7
Inherited business	5.8	8

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

Gatchalian's survey findings collaborate those of Alonzo and Abrera-Mangahas. Table 25 below shows that people start their microenterprise mainly for economic reasons. Gatchalian's findings, however, seem to indicate that microenterprise is not the most preferred source of income for

many of the respondents. More than a third (37 percent) claim that they are into microenterprises only as a temporary activity until they are able to find better jobs.

Table 25. Major Reasons for Choice of Primary Work

Reason	% Reporting
Temporary work until one can find a better job	37.0
Easy way to earn a living	19.7
Familiar with task/only job respondent can do	15.6

Source: Gatchalian, et al., 1986 Survey.

4.6 Number of employees

Niepel, et al. found that more than two-thirds (69 percent) of their respondents have less than three workers (Table 26). Alonzo and Abrera-Mangahas, on the other hand, reported that almost one-third of their respondents are single-person operations while 35 percent hired one additional worker. The highest proportion of single-person operation is observed in the Gatchalian study with 77 percent of its sample having no other worker aside from the owner-operator.

Table 26. Number of Workers of Sample Microenterprises

Number of Workers	Niepel	Alonzo	Gatchalian	Allal
Own account/self-employed		31.7%	77.0%	11%
One worker		35.0%		16%
Two workers				15%
Less than 3 workers	69%			
3 workers				17%
4-5 employees	26%			23%
> 5 employees				18%

4.6.1 Types of workers

Alonzo and Abrera-Mangahas observed that next to the owner-operator, relatives account for a high proportion of employees at 26 percent, while only 23 percent of those employed were not related. In the Gatchalian survey, of the 23 percent who had work assistants, relatives accounted for 80 percent of these with only 20 percent having no relation to the respondent, at all.

Lapar also noted that majority of the family members working either full-time (89 percent) or part-time (93 percent) in the enterprises are unpaid. Trading enterprises have the highest relative share of unpaid family members working full-time. Manufacturing enterprises, on the other hand, have the highest relative share of unpaid family members working part-time (38 percent).

7 Amount of initial capital

Gatchalian observed that the initial investment made by their respondents was relatively low with 82 percent investing below P1,000 and 61 percent investing less than P500. Lapar also reports that more than half (54 percent) of her sample enterprises have initial capital ranging from P5,000 and below, while more than one-third have initial capital ranging from more than P5,000 to P50,000.

It is worth noting that the relatively low initial capital requirement of most of the sample respondents' enterprises fits the initial loan ceiling (P25,000) to be used by MABS in defining the microenterprise loan portfolio of its participating rural banks.

4.8 Sources of Start-Up Capital

All of the studies found that the major source of initial capital is personal investment by the owner-operator. Gatchalian found that the majority (52 percent) of his respondents used their own savings in capitalizing their business, while 37 percent borrowed.

The findings of Alonzo and Abrera-Mangahas, shown in Table 27 below, also show that majority (71 percent) of the respondents used their own savings in putting up the business while about 28 percent claimed that they also sought the help of friends and relatives in capitalizing their business. Very few borrowed from informal lenders (4 percent), from banks (2 percent), or from government credit programs (0.6 percent).

Table 27. Sources of Start-Up Capital

Source	Percent
Own savings	70.6
Relatives/friends	27.7
Professional moneylenders	3.6
Private financial institutions	2.4
Government credit programs	0.6
Other sources	0.8
None	0.5

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

The proportion of those who borrowed among the respondents of the Alonzo and Abrera-Mangahas study was 20 percent. Table 28 below shows the sources of the respondents' borrowings. The study further reports 76 percent of those who borrowed had loans equal to 100 percent of their total capitalization of their business.

Table 28. Source of Borrowed Capital for Business

Source	Percent
Relatives and friends	93.7
Professional moneylenders	18.1
Private financial institutions	12.0
Government	2.8
Others	4.2

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

4.9 Asset size

Alonzo and Abrera-Mangahas found that the value of physical assets (excluding land and building) per enterprise averaged P28,630 with 55 percent of these valued at P10,000 and below.

Another 16 percent of the respondents valued their physical assets between P10,001 and P20,000. Overall, 88 percent of the enterprises had physical assets valued at P50,000 or less. The largest value was noted in transport with an average of P58,433, followed by manufacturing with P36,260, and trade with P19,163. Construction used the least capital with an average of only P1,041. The main activities under construction are carpentry and painting where the only major physical asset required would be basic hand tools and painting equipment.

4.10 Microenterprise's source of income

Lapar observed that more than two-thirds (73 percent) of the enterprises are primary sources of income. A little less than one-third are operating as secondary sources of income by the entrepreneurs. Manufacturing has the highest relative share of enterprises that are primarily sources of income (78 percent). Service enterprises come next with about 73 percent, followed by trading with approximately 69 percent.

4.11 Length of operation

Alonzo and Abrera-Mangahas observed that microenterprise operators, in general, work more days and longer hours. Survey findings show that most of the sample enterprises operate throughout the year (82 percent); seven days a week (65 percent) and more than eight hours a day (62 percent). Those that were not able to operate throughout the year have to stop at some point due to various constraints, viz.: seasonal demand (38 percent), lack of capital (18 percent), lack of raw materials (17 percent), and shortage of labor (12 percent).

4.12 Cost of operation

Niepel, et al. found that 33 percent of their respondents incurred monthly operating costs (excluding wages) of between P2,000 and P5,000. The study also found that the average monthly operating cost for Manila-based microenterprises is P5,680 while only P2,613 for those based in Davao City. The study attributed this to the lower cost of living in Davao City noting that is much cheaper to rent property in Davao City than in Manila, where rental costs per square meter are approximately three times as high.

4.13 Net Income

The average monthly net income of the enterprises in the Alonzo and Abrera-Mangahas survey was P9,459 (Table 29). This estimate included the value of home consumption of the enterprise output but excluded the opportunity cost of the owners' time and entrepreneurial efforts. However, 70 percent of the respondents were reported to earn at most P5,000 per month which was the poverty threshold for a family of six in Metro Manila at the time of the survey. Chua and Llanto noted that these finding clearly indicate that most of the informal operators fall below the poverty line.

Across sectors, professional services, had the highest average monthly income at P32,806, followed by vending at P11,348. Manufacturing averaged P5,534 but 78 percent were earning P5,000 or less. The lowest average monthly incomes were in construction (P2,149), repair (P2,986), and personal services (P3,307).

Table 29. Average Monthly Income of Microenterprises,
By Type of Business

Type of Business	Monthly Income
Professional services	P 32,806
Trading/vending	11,348
Manufacturing	5,534
Personal services	3,307
Repair	2,986
Construction	2,149
Average, All sectors	P 9,459

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

Lapar also found that almost half of her sample enterprises have net income of more than P10,000 up to P50,000. Among these enterprises, the majority are engaged in trading activities. Enterprises with net income of P10,000 and below account for almost 13 percent of all enterprises surveyed. Service enterprises account for the most number of these enterprises.

4.14 Markets

Chua and Llanto noted that the general observation of the informal sector being a sector that produces goods and services by the poor and for the poor in a local economy with limited reach is borne out by the results of the survey on markets for the outputs of the informal sector made in Alonzo and Abrera-Mangahas.

The respondents of the Alonzo and Abrera-Mangahas survey indicated that 70 percent of their products/services are used or consumed within the barangay, another 28 percent within the town or Metro Manila (Table 30). A very small proportion (1 percent) were consumed outside Metro Manila while only 0.9 percent were for foreign markets.

Table 30. Markets for Goods and Services Produced by Sample Microenterprises

Markets	Percent Reporting
Markets	
Within the barangay	70.0
Within the town/Metro Manila	28.2
Outside Metro Manila	1.2
Foreign markets	0.9
Buyers	
Poor individuals/households	46.3
Average individuals/households	48.4
Rich individuals/households	2.9
Small enterprises	5.6
Large enterprises	2.0

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

The same study found that buyers of the informal sector products were about evenly split between average-income individuals or households (48 percent) and mostly poor individuals/households (46 percent).

4.15 Sources of Raw Materials

Alonzo and Abrera-Mangahas found that the majority (54 percent) of their sample enterprises source their raw materials from small establishments near their locations (Table 31). A third (34 percent) sourced their requirements from bigger establishments either located within or outside the locality

The same study also observed that payment for raw materials was mostly done in cash (78 percent). However, 21 percent were found to depend on credit from suppliers either in the form of deferred payment (9 percent), installments (9 percent), and consignment (3 percent).

Table 31. Sources and Terms of Payment for Raw Materials

Item	Percent Reporting
<u>Sources</u>	
Small enterprises	54.2
Large enterprises	33.7
Individuals and households	9.6
<u>Term of Payment</u>	
In cash	77.9
Credit from suppliers	<u>21.3</u>
Deferred payment	8.9
installment	9.3
Consignment	3.2

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

Niepel, et al. also reported that the great majority of the business transactions of 80 percent of their respondents involved payments in cash on delivery. Most (78 percent) of their suppliers are also paid in cash at the time the goods are delivered, and that 85 percent of customers pay in cash immediately upon purchasing goods or making use of a service.

4.16 Problems Encountered

Lack of capital or credit access appears to be the most urgent problem faced by many microentrepreneurs. This problem was ranked number one by the respondents of the Alonzo and Abrera-Mangahas survey (Table 32). The problem of limited market ranked second among those in vending, personal services and professional services. On the other hand, those in manufacturing ranked availability of raw materials as their second most important problem. Some 29 percent of the respondents, however, claimed that they had not, so far at the time of the interview, encountered any problem.

Table 32. Problems Encountered by Microenterprises

Problems	Rank	Percent
Capital/credit	1	37.2
Small market	2	12.6
Raw materials	3	6.4
Collecting debts	4	5.4
Technical know-how	5	2.3
Personnel	6	2.1
Inadequate premises	7	1.5
Others		3.1
None		29.4

Source: Alonzo and Abrera-Mangahas, 1987 Survey.

Survey results of the Niepel, et al. study supported the findings of Alonzo and Abrera-Mangahas (Table 33). Lack of funds was reported to be a problem by almost the same proportion of respondents of the Niepel, et al. study (38 percent) as those of the Alonzo and Abrera-Mangahas study.

Table 33. Constraints to Microenterprise Growth

Constraints	Percent
Lack of funds	38.0
Limited working space	23.0
Political uncertainties	10.0
High taxes	8.0
Limited working materials	7.0
Supply of water, gas & electricity	2.0

Source: Niepel, et al.

5.0 PROFILE OF MICROENTREPRENEURS

5.1 Gender

Niepel, et al reported that 63 percent of their sample respondents were women. Women account for 68 percent of entrepreneurs active in trade, while only 52 percent of service or production enterprises are run by females.

Allal, et al., on the other hand, found that the ratio of male and female entrepreneurs in their sample were almost equal. Forty nine percent were females and 51 percent were males.

Lapar, however, observed that more than half (54 percent) of the total number of entrepreneurs in her sample were male. Male entrepreneurs were predominant in manufacturing enterprises, and in services, although the difference in number between males and females in the latter was very slight. On the other hand, trading enterprises were mostly operated by women.

5.2 Age

Almost half (45 percent) of the Niepel, et al. survey respondents were over the age of 40. Allal, et al, also reported that more than half of its respondents belong to the 35-45 age bracket and that the ratio of older entrepreneurs, those beyond 45 years, is bigger than those lower than 35.

Lapar also notes that the average age of entrepreneurs engaged in manufacturing is 45 years, while it is 46 years for trading and 47 years for services.

Niepel, et al. also found that microentrepreneurs in Manila tended to be younger than those in Davao City. The study believes that this could be due to: (i) the tendency of children in larger cities tend to leave at an earlier age; (ii) the fact that more young people migrate from rural regions to the Manila metropolitan area than to other urban areas; and, (iii) that Metro Manila offers greater opportunities in the form of larger markets for goods and services.

The same study also notes that the age of its respondents might seem relatively old, especially given the life expectancy of 66 years. The most probable cause for this, according to the study, is that a large number of women start their own business only after they have started a family and found that their husband's salary could not keep up with the increasing household expenditures. The study believes that the decision to establish a microenterprise is, therefore, not completely a voluntary one, in the sense of choosing a career or occupation.

5.3 Education

Lapar reported that, on the average, her sample-entrepreneurs have had some schooling at least at the secondary level. Entrepreneurs engaged in trading have the highest number of years spent in school at almost 12 years, on the average, followed by those in services at approximately 10

years, and then those in manufacturing at about 9 years. On the whole, almost half (46 percent) of the entrepreneurs have completed or at least attended tertiary education. Only less than one percent did not have any schooling.

Alla, et al., on the other hand, found that more than one-half (58 percent) of their sample-entrepreneurs have completed college education and that another 30 percent had completed secondary education.

5.4 Household size

Lapar reported that the majority of the entrepreneurs have household sizes ranging from 3-9 persons (i.e. more than half with 3-6 members while about one-fourth with 7-9 members). On the average, household sizes of entrepreneurs engaged in manufacturing, trading and services are the same at 6 members.

Niepel, et al., on the other hand, found that 51 percent of their respondents lived in households of three to six persons.

5.5 Business experience

Lapar observed that more than half (53 percent) of her sample-entrepreneurs have previous work experience in the same line of activity that they are currently undertaking.

She also notes, however, that greater number of those engaged in trading activities do not have any previous experience related to their activity. It was also pointed out in the study that if this observation is related with the previous observation that majority of entrepreneurs engaged in trading have completed tertiary education, then it can be inferred that for most of these entrepreneurs, engaging in trading activities is an alternative to finding employment in government or some other institutions. Likewise, it can also be inferred that past experience need not be a critical factor in operating a trading enterprise.

Allal, et al., on the other hand, found that most (78 percent) of their respondents were operating their first business venture, and that those engaged currently in their second business and third business enterprises only comprised 16 percent and 6 percent of the total, respectively.

5.6 Number of years of residency

Niepel, at al. found that, on average, their respondents had been living in their present locations for 19 years. The study believes that, on average, people living in Davao City would have been there longer than residents of Manila since, for decades, migrants from the rural areas have been flocking to Manila in far greater number than those who migrate to Davao City. People living in Davao, therefore, would on average have been there longer than residents of Manila. The study also believes that, nonetheless, Philippine microentrepreneurs are much less likely to move than microentrepreneurs in other countries.

5.7 Membership in organizations

Allal, et al. found that 39 percent of their respondents are members of community or sectoral associations and that a majority of them have joined cooperatives. Other organizations are church-based, civic and social groups.

6.0 MICROENTERPRISE ACCESS TO FINANCIAL SERVICES

6.1 Savings

Niepel, et al. reported that 90 percent of their respondents reported having savings, and that 35 percent of this group kept their savings in cash at home while 33 percent deposited their savings in bank accounts. About 10 percent of the respondents deposited their savings in cooperatives.

The same study also reported that the savers earn two to five percent p.a. in nominal interest on their savings deposits. It also claimed that their respondents do not save primarily to maximize their return on savings, and would not necessarily switch to a different institution if they were offered more favorable rates. The reasons for saving, the study stated, include saving for emergencies and saving for specific purposes, (e.g. in order to be able to pay for their children's education in the future).

Lapar also reported that the most commonly availed financial service among her sample microenterprises is savings account (84 percent). Among the types of enterprises, those engaged in trading were the most active in maintaining their savings accounts.

6.2 Loans

6.2.1 Incidence of Borrowing

Niepel, at al. reported that 80 percent of their sample-microentrepreneurs have at some point taken out a loan. Of those who took out loans, 43 percent had borrowed two to four times, while 73 percent had borrowed more than once from the same lender. The study noted, however, that there are indications that actual figures would be a great deal higher given the apparent reluctance of their respondents to admit having taken out too many loans and their difficulty in recalling various loans taken out long ago.

Lapar also noted that majority of the enterprises surveyed (54 percent) have availed of loans from credit markets. The rest (46 percent) have never availed of credit from external sources since they started their operations.

6.2.2 Sources of Most Recent Loan.

Niepel, at al. reported that 37 percent of their respondents last borrowed from a moneylender, and another 19 percent from a credit cooperative. The study noted that moneylenders play the greatest role in financing microenterprises, although, credit cooperatives have captured 25 percent of the market in Davao (vs. only 12 percent in Manila).

The same study observed that microfinance loans provided by commercial banks and private development banks play an insignificant role, given that these institutions grant too few loans to

the target group and the minimum loan amounts are high. Microenterprises which take out loans at these institutions are exceptions.

The study also reported that few loans were granted by rural banks, although not because microenterprises are not one of the target groups. One reason, according to the study, is that there are few RBs located in urban areas, although, their share of the rural microcredit market would probably be considerably higher.

Lapar also noted that more than half (52 percent) of her respondents borrowed from informal sources only (e.g. moneylenders, suppliers, buyers/customers, relatives and friends). Those who borrowed from formal sources only (e.g. banks, savings and loan associations, credit unions and cooperatives) account for a little more than one-fourth of the total number of enterprises who have availed of credit. Those enterprises that have availed of credit from both formal and informal sources account for a little less than one-fourth (23 percent). Majority of the enterprises indicated that informal credit is more accessible to them than formal credit.

6.2.3 Loan Features

The typical features of loans taken out by the respondents of the Niepel, et al. survey are described below.

Loan size. The average size of loans taken out by the respondents was P32,075 with an average maturity of 25 weeks and an average nominal interest rate of 70 percent p.a. (including loans borrowed from informal moneylenders).

Loans of less than P5,000 accounted for 29 percent of credits taken out in Manila and 47 percent of all loans in Davao. The fact that loans tended to be smaller in Davao is a further indication of the lower price level in that city, which in turn enables the microentrepreneurs to operate at lower cost than in Manila.

(Lapar, on the other hand, found that the amount of loans applied for by her respondents ranged from P200 to P1.0 million, with an average of P44,706. The average amount applied from formal sources is bigger than that from informal sources by 75 percent, and was found to be significant at the 5 percent level based on statistical t-test.)

Maturities. Maturities of less than 12 weeks were reported in 55 percent of all cases. The maturities reported by the respondents can be clearly linked to various lenders. The shorter the maturity, the greater the likelihood that the loan was provided by an informal lender. Aside from lending only small amounts, short maturities are often the only available means of "securing" the loan; thus the term and conditions of the loan are the most direct indication of the lenders' assessment of credit risk.

Interest rates. There are different ranges each of which corresponds to a different category of institution. Family members, friends, and some cooperatives usually charge rates of less than 15

percent p.a.; most cooperatives, commercial banks, private development banks, rural banks and NGOs charge between 15 and 36 percent p.a. Pawnshops charge between 36 and 80 percent p.a. (which in most cases corresponds to a monthly rate of five percent), as do a few cooperatives and many lending investors. The latter, thus, set themselves apart from moneylenders who usually charge between 90 percent to 240 percent p.a. (7.5 to 20 percent per month)

(Lapar, on the other hand, reported that the average interest rate for both formal and informal loans is 23.25 percent per annum but that there is not much difference in the average between formal and informal rates, as indicated by statistical tests. The average rate for informal loans is 23.41 percent per annum while that for formal loans is 23.04 percent per annum. However, the maximum rate charged by informal sources was found to be about 50 percent higher than the maximum rate charged by formal sources.)

Collateral. Lapar reported that most informal credit sources do not require borrowers to provide collaterals. Formal sources, on the other hand, require that loans be secured by collateral the most common of which are real estate (land or building), equipment, and vehicles which creates effective barriers to access. In some instances where the loans is a 'character loan' the borrower is not required to provide collateral; instead a guarantor is needed. The average amount of collateral offered is around P19,000. The value of collateral offered for formal loans is three times that for informal loans, on the average. This difference was found to be significant at the 10 percent level based on the results of the t-test.

6.3 Indications of credit demand

In terms of willingness to access a soft loan, 64 percent of the Alonzo and Abrera-Mangahas respondents said yes, while 35 percent said no. Most (86 percent) intended to use the loan to expand their business while 14 percent would use the loan to venture into a new line of business.

Lapar, on the other hand, reported that among respondents who borrowed from formal sources, a majority (60 percent) were not interested to increase their borrowings at the prevailing interest rate, while only 40 percent indicated their desire to borrow more.

Among those who wanted to borrow more, Lapar reported that majority (62 percent) of them stated that the additional loan would be used for working capital. About one-third (32 percent), on the other hand, would use the additional loan for capital investment. Only one respondent indicated that the additional loan would be used for personal needs.

Among those who borrowed from informal sources, Lapar also reported that majority (77 percent) of them claimed that their credit needs are fully met. Among those whose credit needs are not fully met by informal sources, majority (89 percent) of them have unmet credit needs ranging from 10 to 25 percent of their total credit needs. About 30 percent have unmet credit needs of less than 10 percent.

6.4 Constraints in accessing formal loans

Niepel, et al. reported that 46 percent of their respondents felt that their loans carried interest rates that were too high and that 17 percent thought that they were required to submit too many documents and fill out too many forms.

Lapar, on the other hand, reported that collateral requirement was ranked first by her respondents among the difficulties they encountered in applying for formal loans. This is followed by long processing period before loans can be disbursed. High rate of interest was ranked third among the difficulties.

7.0 SUMMARY

7.1 Size and composition of the microenterprise sector

The microenterprise population in Mindanao is estimated to be about half a million (530,191) to close to a million (920,000) people engaged in various non-farm income-generating activities. It provides gainful employment to at least 10 percent, up to 14 percent, of the total number of employed persons in Mindanao. More than 300,000 families, or about 12 percent of the total number of families in Mindanao, depend on microenterprises as their main source of income. Moreover, about 93 percent of all establishments in Mindanao with less than 10 workers are microenterprises.

Microenterprises engaged in retail trade comprise the biggest group in the sector, accounting for 48 percent of the total number of establishments (with less than 10 workers); providing gainful employment to 52 percent of all self-employed workers in the non-agricultural sector; and providing primary income to 60 percent of all families dependent on non-farm income sources.

Enterprises engaged in retailing food, beverage and tobacco (e.g. sari-sari stores, vendors) represents 56 percent of all establishments (with less than 10 workers) in the retail trade industry.

Service-related microenterprises make up the second biggest group, accounting for 30 percent of the total number of establishments (with less than 10 workers), 36 percent of all self-employed non-agricultural workers, and 22 percent of all families dependent primarily on non-farm income sources.

Eating places (e.g. restaurants, carenderias) make up 50 percent of the total number of all establishments (with less than 10 workers) in the service industry. The informal sector, however, appears to be dominated by self-employed transport driver-operators (e.g. tricycle, pedicab), and other service-related private businesses (e.g. beauty parlors, professional services), with each accounting for 30 percent of the total number of self-employed persons in the industry.

Micro manufacturing activities comprise the third biggest group in the sector, accounting for 19 percent of the total number of establishments (with less than 10 workers), 9 percent of all self-employed non-agricultural workers, and 14 percent of all families dependent primarily on non-farm income sources.

Microenterprises engaged in food processing comprise 49 percent of all manufacturing establishments (with less than 10 workers) in Mindanao. The informal sector, however, appears to be dominated by microentrepreneurs engaged in the manufacture of textiles, wearing apparel and leather, accounting for 45 percent of all self-employed persons in the manufacturing sector.

7.2 Characteristics of microenterprises

About half of the microenterprises would most likely be located in the residence of their operators while another half would most likely be paying rent for their premises. In particular, manufacturing activities would tend to be residence-based and located farther away from more populated centers. Service and trading enterprises would tend to be concentrated in population centers and located in commercial areas, although a large number of trading enterprises would also be found in residences.

Most would most likely be registered with the local government unit, but about 15 percent to 26 percent of the total number of microenterprises, would most likely be completely unregistered. Trading would have the biggest number of unregistered enterprises and manufacturing, the least. Most of the newly-started enterprises, as well as the very small ones, will most likely be unregistered.

Most would be relatively young, operating for less than five years. Trading enterprises would tend to have been operating for the least number of years.

Most are organized as single proprietorship, and started by the present business operator as a means for generating additional family income. Many, however, are started, particularly by the unemployed, as temporary employment until they are able to find better jobs.

Most either are single-person operations or have, at most, two other persons working with the owner-operator. Most of these workers, however, are relatives of the owner-operators who work without pay in the enterprise.

Majority would have initial capital ranging from P5,000 and below and are capitalized by the owner-operators usually from their own savings, as well as from borrowings from relatives and friends. The value of total assets of most microenterprises would probably fall below P50,000.

Most would become the source of primary income for the family of the business operator. The most number of operators primarily dependent on their business for family income are found in manufacturing, while trading would have the least. Vending appears to be more profitable than manufacturing. Nevertheless, most enterprises would most likely be unable, presently, to provide an income sufficient for the operator and his family to rise above poverty.

The biggest constraint to microenterprise growth is access to credit, followed by limited market. The market of most microenterprises are confined within the barangay while their clients are made up mostly of poor, as well as average-income, households and individuals.

7.3 Profile of microentrepreneurs

Women tend to predominate in trading, while men outnumber women usually in manufacturing activities. Most would likely belong to the 40-50 age bracket, live in households with an average of six members, and have at least completed secondary education. A fairly large number, though, would have attended, if not completed, their college education. In particular, microentrepreneurs engaged in trading would have the highest proportion of those who had attended or completed college.

Those engaged in trading would most likely have no previous business experience when they started their present enterprise. When correlated with this sector's relatively high population of college graduates, this tends to support the hypothesis that engaging in trading is an alternative to finding employment as salaried workers in the government or private sectors.

Most would also be long-time residents of the place where their businesses are located given that the flow of migration towards the smaller towns and cities of Mindanao would not be as heavy as those observed in Metro Manila or Davao City.

7.4 Access to financial services

Most of the microentrepreneurs would most likely have cash savings which they either keep at home or deposit in bank accounts. A smaller proportion would deposit their savings in cooperatives. Most, however, are not sensitive to deposit interest rates - the reason being that they save primarily for emergencies and for specific purposes, such as for their children's education.

Most also have borrowed at least once, if not occasionally, usually from moneylenders, and to a lesser extent, from cooperatives. Banks still are considered to be marginal microcredit providers in most areas, although rural banks are believed to have a more substantial share of the microcredit market in small towns and cities.

The sizes of loans of borrowed by most microentrepreneurs in Mindanao would most likely be below P10,000. (47 percent of the loans taken out by the respondents of the Niepel, et al. survey in Davao City were less than P5,000.) These loans usually have short maturities (less than 12 weeks in 55 percent of the cases), and non-collateralized. They bear interest ranging from 15-36 percent p.a., if borrowed from cooperatives, NGOs and banks; 5 percent per month, if borrowed from pawnshops; and 10-20 percent per month, if borrowed from moneylenders.

Most would be willing to borrow from available sources, with reasonable interest rates, primarily to expand their present business. The main complaint of most microentrepreneurs with formal credit is with the interest rate which they consider to be too high. Others complain of the collateral requirement, application requirements, and slow processing of loan applications.

8.0 IMPLICATIONS TO RURAL BANKS

Type of enterprise

Trading and service enterprises (particularly market vendors, pedicab drivers, carenderias) would be easiest for rural banks to reach out to since they are usually clustered together within or near commercial centers, such as public markets. Sari-sari stores, particularly the smaller ones, however, may tend to be relatively dispersed throughout the municipality, and thus, would be relatively harder to reach. Nevertheless, sari-sari stores would not be as difficult to reach as those in manufacturing activities because the latter, not being location-sensitive, would usually be found farther from commercial centers, in areas with relatively lesser population density. Yet, providing services to manufacturing enterprises may be the most rewarding for the bank because it is this type of enterprise that has the best chances of growing into small- or medium-size enterprises over time.

The relative concentration or density of the microenterprises, on the other hand, will determine the most appropriate microfinance methodology. Enterprises clustered closely together could be serviced individually by the bank. Those that are relatively dispersed, however, would entail greater work for the bank in bringing the microentrepreneurs together at one time, in one place, so as to reduce the bank's operating costs. In this sense, providing services to home-based manufacturing enterprises would be the most challenging microfinance activity for the rural banks.

Products

Most microentrepreneurs do not manage the funds of their enterprise separately from those of the household. The capital used in the business often gets depleted when household needs become more urgent than those of the business - forcing the microentrepreneur to borrow occasionally to augment the often depleted working capital. The bank should recognize that the financial needs of the household are just as important as those of the microenterprise and it would be difficult for the bank to monitor, much less prevent, the diversion of loan proceeds into other household requirements. Recognizing that money is fungible will have implications on the loan purpose, the loan supervision procedure, and, consequently, on the bank's operating costs.

Providing secure and convenient savings facilities to poor households, where they can draw from in times of emergencies, is also a service equally needed.

Costs

Survey findings indicate that the main reason why microentrepreneurs prefer to borrow from informal moneylenders rather from banks is that the former are more accessible. One of the first things which rural banks should do, therefore, is to make their services more accessible to their potential clients. In order to compete, the bank should do what the moneylenders, the biggest

player in the microcredit market, are doing - that is, they go the borrower's place instead of the borrower going to the moneylender's place. This, of course, will increase the bank's operating costs. It should, therefore, carefully consider various options for reducing, as well as covering, its costs while reaching as many potential clients, as possible.¹

Risks

The proportion of microenterprises that had ceased operating, either due to the microentrepreneur's shift to more profitable lines of business or to outright failure of the microenterprise, is not known but could be assumed to be relatively high. Because it does not require so much capital to start a microbusiness, entry and exit in the microenterprise sector is relatively easy, and therefore, competition could be assumed to be much more intense than in other business sectors (which, in turn, would lead to smaller profit margins for all competing firms). And because of low profit margin (which leads to low capital accumulation), an unexpected liquidity crisis in the household could easily impair the viability of the business, unless the microentrepreneur is able to recapitalize the business from previous savings, or through borrowing.

That many microenterprises could also have less than satisfactory returns or survival prospects could be evidenced by the survey findings that showed, that: (i) many microentrepreneurs are still hoping to find better employment as salaried workers, elsewhere; (ii) many of the sample microenterprises are relatively young business enterprises; and (iii) the reluctance of many microentrepreneurs to register their businesses as they are yet unsure of their enterprises' viability.

Since conventional loan collaterals are not a practical option in reducing microcredit risks (mainly because microentrepreneurs usually do not have any), the bank may need to pay greater attention to the character of the potential client, as well as to the cash flow of the entire household, and not just that of the microenterprise, alone. Other ways to mitigate risks are: starting with very small and very short-term loans, requiring cross group guarantees and peer pressure guarantees, and providing effective incentives, such as prudentially increasing the loan sizes of good borrowers.

¹It is not known how many borrowers a moneylender ("Bombay") on a motorcycle, zooming from store to store, can cover in one day; but one was observed to spend only about 10-15 seconds per borrower in collecting the loan amortization for the day.

Opportunities

An attempt is made below to estimate the size of the microfinance market of an "average" town in Mindanao. It should be stressed, however, that for want of real data, the results would be purely hypothetical. Nevertheless, it should be able to provide an initial, if not raw, indication of the potential volume of business in the microenterprise sector that rural banks could find in their service areas.

Size of the microenterprise sector

Mindanao had a total population of 16,058,708 in 1995 scattered across 16 cities and 419 municipalities. A "typical" municipality in Mindanao, therefore, would have a total population of 27,928 (which is obtained by dividing Mindanao's total population by the total number of its cities and municipalities).²

The labor force participation rate in Mindanao in 1996 is 68 percent, and employment rate of 94.3 percent. The total number of employed persons in the typical municipality, therefore, would be 17,908 (which is obtained by multiplying the total population by the labor force participation rate, and afterwards by the employment rate).

The proportion of self-employed, non-agricultural workers to the total number of employed persons in Mindanao is 10.38 percent (see Table 2). Using this ratio, the total number of microentrepreneurs in the municipality, therefore, could be estimated at 1,858³.

Assuming that only the three major sectors will be targeted, the composition of the microenterprise sector in the municipality would be as follows: retail trade (sari-sari stores, vendors), 52% or 966; service sector (tricycle/pedicab drivers, carenderias), 36% or 669; and manufacturing (garments, food processing), 9% or 167, or a total of 1,802 enterprises.

Size of potential demand for formal financial services

Deposits. The results of a previous survey indicate that 90 percent of the microentrepreneurs have cash savings, of which 33 percent of them keep their savings in bank accounts. The low and high estimates of the potential volume of deposit business in the municipality, assuming that each microentrepreneur saves an average of only P50 a month, are shown as follows:

²The total population of Lianga (Surigao del Sur), the home of Rural Bank of Lianga, which is implementing a PCFC-assisted microfinance operation, is only 25,005 as of 1995.

³The ratio could be considered to be low as it does not consider the number of potential entrants into the microenterprise sector which could be substantial, if credit is made accessible.

Low estimate : 33% x 1,802 microentrepreneurs x P600/year = P 321,000/year

High estimate : 90% x 1,802 microentrepreneurs x P600/year = P 973,080/year

There should therefore at least P321,000 and up to P973,080 in deposits that a rural bank can expect to generate in the municipality within a year, just from the microenterprise sector alone. The potential deposit volume would be significantly bigger if the same savings facilities would, likewise, be offered to other workers in the community, such as those in the agricultural sector, which usually makes up more than half of the total working population.

Loans. Results of a previous survey indicate that 64 percent of the microentrepreneurs would be willing to borrow from formal sources as long as the interest rate is deemed not too excessive. There should, therefore, be at least 1,153 potential borrowers in the municipality. Assuming that each would borrow an average of P3,000, the potential volume of loans that could be generated in the municipality would, therefore, be P3.5 million annually.

The potential volume of credit business will significantly be bigger if the number of new entrants into microenterprise sector is factored in. The number of new entrants can be substantial if formal credit will be made available to both current and new microenterprises.

Among all types of banks, rural banks are in the best position to provide financial services to the microenterprise sector. Compared with commercial banks and thrift banks, which pay substantially higher salaries to their staff, rural banks, being smaller organizations (and lower staff salaries), have lower operating costs. With lower operating costs, rural banks will be able to provide smaller loans to numerous and widely dispersed microenterprises - something which bigger banks would not be able to do, as it would not be cost-effective for them to do so.

The real competition will be with the informal moneylenders, cooperatives, and NGOs that are presently providing loans to microentrepreneurs. The keys to winning the game, as results of previous studies indicate, would be convenience and cost. Whoever will be able to provide services that would be most convenient to both savers and borrowers at the most competitive rates will be able to capture the biggest share of the microfinance market.

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Annex Table 1
 Number of Establishments With Less Than 10 Workers, by Major and Minor Industry Group, Philippines: 1994
 (Preliminary)

Industry Group	Total No. of Est.		Number of Workers		Total No. of Microent.	% to Total No. of Est.
	No.	%	1 to 4	5 to 9		
ALL INDUSTRIES	458,482	100.00	344,746	68,288	413,034	90.09
AGRIC'L, FISHERY & FORESTRY	1,833	0.40	214	251	465	25.37
MINING & QUARRYING	457	0.10	109	98	207	45.30
MANUFACTURING	94,128	20.53	66,202	16,156	82,358	87.50
Food, beverage & tobacco	42,678	45.34	32,406	7,336	39,742	93.12
Textile, wearing apparel and leather industries	19,230	20.43	13,622	2,741	16,363	85.09
Wood & wood products, incl. furniture & fixtures	8,373	8.90	5,549	1,824	7,373	88.06
Paper & paper products, printing & publishing	3,075	3.27	1,284	851	2,135	69.43
Chemicals & petroleum, coal, rubber & plastic products	1,817	1.93	338	282	620	34.12
Non-metallic mineral products, exc. products of petroleum & coal	3,946	4.19	2,607	848	3,455	87.56
Basic metal products	379	0.40	83	60	143	37.73
Fabricated metal products, machinery & equipment	12,726	13.52	9,009	1,953	10,962	86.14
Other manufacturing industries	1,904	2.02	1,304	261	1,565	82.20
ELECTRICITY, GAS & WATER	951	0.21	307	138	445	46.79
Electricity	332	34.91	27	11	38	11.45
Gas and steam	7	0.74	0	0	0	0.00
Waterworks and supply	612	64.35	280	127	407	66.50
CONSTRUCTION	1,884	0.41	300	392	692	36.73
Construction	1,884	100.00	300	392	692	36.73
WHOLESALE & RETAIL TRADE	192,568	42.00	157,110	25,155	182,265	94.65
Wholesale trade	22,584	11.73	15,458	4,232	19,690	87.19
Retail trade	169,714	88.13	141,652	20,923	162,575	95.79
TRANSPORTATION, STORAGE & COMMUNICATION	6,384	1.39	2,404	1,983	4,387	68.72
Transportation services	4,471	70.03	1,195	1,610	2,805	62.74
Storage & warehousing	402	6.30	202	91	293	72.89
Communication	1,511	23.67	1,007	282	1,289	85.31

Industry Group	Total No. of Estab.		Number of Workers		Total No. of Microent.	% to Total No. of Est.
	No.	%	1 to 4	5 to 9		
FINANCING, INSURANCE, REAL						
ESTATE & BUSINESS SERVICES	22,656	4.94	10,991	5,224	16,215	71.57
Banking institutions	4,483	19.79	145	1,277	1,422	31.72
Financial intermediaries (Non-banks)	6,587	29.08	4,437	1,536	5,973	90.68
Insurance	633	2.79	226	188	414	65.40
Real estate	1,478	6.52	636	425	1,061	71.79
Business services	9,474	41.82	5,547	1,798	7,345	77.53
COMMUNITY, SOCIAL & PERSONAL						
SERVICES	137,622	30.02	107,109	18,891	126,000	91.56
Sanitary and similar services	237	0.17	84	59	143	60.34
Educational services	5,787	4.20	1,433	1,129	2,562	44.27
Medical, dental, other health & veterinary services	20,252	14.72	17,650	1,180	18,830	92.98
Other social & related community services	56	0.04	8	13	21	37.50
Recreational & cultural services	13,605	9.89	10,670	1,869	12,539	92.16
Personal & household services	46,177	33.55	40,038	4,832	44,870	97.17
Restaurants & hotels	51,508	37.43	37,226	9,809	47,035	91.32

Source of data: 1995 Yearbook of Labor Statistics, DOLE

Annex Table 2
Number of Self-Employed Persons (Without Any Paid Employee), by Major & Minor Industry Group and by Region: 1995

Industry Group	MINDANAO				Region IX				Region X			
	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total
All Industries	5,947,028	2,089,765	100.00	35.14	1,091,642	350,090	100.00	32.07	1,064,684	323,345	100.00	30.37
NON-AGRICULTURAL	2,290,784	550,218	26.33	24.02	364,410	79,589	22.73	21.84	410,471	86,572	26.77	21.09
Manufacturing	194,650	42,962	7.81	22.07	24,677	5,138	6.46	20.82	33,919	5,715	6.60	16.85
Food and beverage mfg.	60,662	7,942	1.44	13.09	8,681	991	1.25	11.42	13,237	1,193	1.38	9.01
Tobacco manufacture	1,830	526	0.10	28.74	151	29	0.04	19.21	255	56	0.06	21.96
Textiles, wearing apparel, leather	35,105	19,567	3.56	55.74	4,050	2,123	2.67	52.42	4,576	2,205	2.55	48.19
Paper and publishing & printing	10,157	1,489	0.27	14.66	618	170	0.21	27.51	1,287	211	0.24	16.39
Petroleum, chemicals, rubber and plastic	6,512	775	0.14	11.90	1,341	324	0.41	24.16	949	55	0.06	5.80
Non-metallic mineral products	5,552	659	0.12	11.87	212	43	0.05	20.28	868	243	0.28	28.00
Basic metal & fabricated metal products	10,880	1,453	0.26	13.35	490	80	0.10	16.33	1,571	202	0.23	12.86
Wood, cork, cane & bamboo	20,390	2,134	0.39	10.47	1,618	218	0.27	13.47	3,621	329	0.38	9.09
Furniture manufacturing & repair	12,574	3,674	0.67	29.22	1,607	436	0.55	27.13	1,853	550	0.64	29.68
Machinery	13,578	1,421	0.26	10.47	3,535	254	0.32	7.19	2,300	235	0.27	10.22
Transport equipment	4,903	706	0.13	14.40	886	100	0.13	11.29	1,032	118	0.14	11.43
Other manufacturing	12,507	2,515	0.46	20.11	1,488	268	0.34	18.01	2,370	318	0.37	13.42
Electricity, gas & water supply	16,688	1,808	0.33	10.83	2,245	252	0.32	11.22	3,159	308	0.36	9.75
Electricity, gas & water supply	16,688	1,808	0.33	10.83	2,245	252	0.32	11.22	3,159	308	0.36	9.75
Construction	170,114	16,268	2.96	9.56	24,806	1,843	2.32	7.43	32,551	2,207	2.55	6.78
Construction	170,114	16,268	2.96	9.56	24,806	1,843	2.32	7.43	32,551	2,207	2.55	6.78
Trade	557,946	305,434	55.51	54.74	90,880	46,340	58.22	50.99	92,370	46,176	53.34	49.99
Wholesale & retail trade	557,946	305,434	55.51	54.74	90,880	46,340	58.22	50.99	92,370	46,176	53.34	49.99

Industry Group	MINDANAO				Region IX				Region X			
	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total
Services	1,334,778	181,068	32.91	13.56	220,138	25,788	32.38	11.70	244,619	31,667	38.46	12.91
Repair of motor vehicles, personal & household goods	39,227	11,038	2.01	28.14	4,748	1,341	1.68	28.24	7,141	1,999	2.31	27.99
Restaurant & hotels	43,133	9,832	1.79	22.79	4,972	931	1.17	18.72	6,979	1,480	1.69	20.92
Transport equipment	181,625	54,624	9.93	30.08	28,414	7,675	9.64	27.01	30,977	7,658	8.85	24.72
Post & communication	7,557	191	0.03	2.53	1,115	29	0.03	2.06	1,337	24	0.03	1.80
Financial intermediation	24,279	1,611	0.29	6.64	3,610	160	0.20	4.43	4,510	273	0.32	6.05
Real estate & renting	8,781	3,386	0.62	38.56	896	104	0.13	11.61	1,923	794	0.92	41.29
Private business	179,425	52,448	9.53	29.23	23,719	6,527	8.20	27.52	40,718	11,275	13.02	27.69
Government services	415,499	2,679	0.49	0.64	79,159	325	0.41	0.41	65,877	362	0.42	0.55
Private education, health & social work	64,729	2,499	0.45	3.86	9,756	158	0.20	1.62	11,906	456	0.53	3.83
Other community, social & personal services	93,952	34,964	6.35	37.21	19,095	6,867	8.63	35.96	16,346	5,715	6.60	34.96
Domestic services	276,571	7,241	1.32	2.62	44,654	1,116	1.40	2.50	56,805	1,562	1.80	2.75
Not stated	16,608	2,887	0.49	16.18	1,664	260		15.63	3,953	599		15.15

Source: 1995 Census of Population, NSO.

Industry Group	Total No.	Region XI			Total No.	Region XII			Total No.	ARMM		
		Self-Employed	% Dist.	% to Total		Self-Employed	% Dist.	% to Total		Self-Employed	% Dist.	% to Total
All Industries	1,667,327	503,866	100.00	30.22	861,144	338,926	100.0	39.82	589,249	320,493	100.00	54.39
NON-AGRICULTURE	742,101	171,525	34.04	23.11	325,552	85,022	25.09	26.12	187,407	63,170	19.71	33.71
Manufacturing	73,645	14,810	8.63	20.11	23,017	5,448	6.41	23.67	11,957	6,954	11.01	58.16
Food and beverage mfg.	29,209	3,210	1.87	10.99	4,592	1,081	1.27	23.54	1,624	557	0.88	34.30
Tobacco manufacture	494	50	0.03	10.12	115	35	0.04	30.43	707	332	0.53	46.96
Textiles, wearing apparel, leather	12,917	6,722	3.92	52.04	4,198	2,172	2.55	51.74	6,021	4,553	7.21	75.62
Paper and publishing & printing	3,048	563	0.33	18.47	862	221	0.26	25.64	329	172	0.27	52.28
Petroleum, chemicals, rubber and plastic	2,086	155	0.09	7.43	1,151	43	0.05	3.74	55	24	0.04	43.64
Non-metallic mineral products	2,340	252	0.15	10.77	1,598	48	0.06	3.00	30	13	0.02	43.33
Basic metal & fabricated metal products	3,672	543	0.31	14.79	4,045	166	0.20	4.10	379	297	0.47	78.36
Wood, cork, cane & bamboo	5,324	697	0.41	13.09	1,328	293	0.34	22.06	483	141	0.22	29.19
Furniture manufacturing & repair	4,905	1,177	0.69	24.00	1,514	628	0.74	41.48	799	352	0.56	44.06
Machinery	4,114	446	0.26	10.84	1,401	196	0.23	13.99	284	105	0.17	36.97
Transport equipment	1,514	177	0.10	11.69	533	133	0.16	24.95	354	97	0.15	27.40
Other manufacturing	4,022	818	0.48	20.34	1,680	432	0.51	25.71	892	311	0.49	34.87
Electricity, gas & water supply	5,394	622	0.36	11.53	2,913	278	0.33	9.54	458	122	0.19	26.64
Electricity, gas & water supply	5,394	622	0.36	11.53	2,913	278	0.33	9.54	458	122	0.19	26.64
Construction	64,915	5,518	3.22	8.50	20,217	1,874	2.20	9.27	8,667	2,263	3.58	26.11
Construction	64,915	5,518	3.22	8.50	20,217	1,874	2.20	9.27	8,667	2,263	3.58	26.11
Trade	185,604	96,737	56.40	52.12	79,128	49,590	58.33	62.67	53,747	34,750	55.01	64.65
Wholesale & retail trade	185,604	96,737	56.40	52.12	79,128	49,590	58.33	62.67	53,747	34,750	55.01	64.65
Services	408,922	53,364	31.11	13.05	197,351	27,412	32.24	13.89	110,702	18,532	29.34	16.74
Repair of motor vehicles, personal & household goods	16,597	4,219	2.46	25.42	5,213	1,607	1.89	30.83	1,394	593	0.94	42.54
Restaurant & hotels	20,365	4,354	2.54	21.38	6,113	1,751	2.06	28.64	1,787	596	0.94	33.35

Industry Group	Region XI				Region XII				ARMM			
	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total	Total No.	Self-Employed	% Dist.	% to Total
Transport equipment	69,770	19,257	11.23	27.60	22,605	7,121	8.38	31.50	7,976	4,031	6.38	50.54
Post & communication	3,189	67	0.04	2.10	984	27	0.03	2.74	155	19	0.03	12.26
Financial intermediation	11,033	782	0.46	7.09	2,547	162	0.19	6.36	259	68	0.11	26.25
Real estate & renting	3,867	1,627	0.95	42.07	1,033	442	0.52	42.79	309	116	0.18	37.54
Private business	45,547	9,223	5.38	20.25	25,511	9,084	10.68	35.61	22,232	8,699	13.77	39.13
Government services	94,925	389	0.23	0.41	70,725	368	0.43	0.52	53,676	621	1.30	1.53
Private education, health & social work	23,666	980	0.57	4.14	11,100	467	0.55	4.21	2,272	168	0.27	7.39
Other community, social & personal services	30,564	11,241	6.55	36.78	14,549	5,446	6.41	37.43	4,042	2,206	3.49	54.58
Domestic services	89,399	1,207	0.70	1.35	36,971	935	1.10	2.53	16,600	1,212	1.92	7.30
Not stated					2,926	420		3.621	474	549		29.26

Industry Group	CARAGA			
	Total No.	Self-Employed	% Dist.	% to Total
All Industries	682,982	253,046	100.00	0.37
NON-AGRICULTURAL	260,843	64,340	25.43	24.67
Manufacturing	27,435	4,897	7.61	17.85
Food and beverage mfg.	3,319	910	1.41	27.42
Tobacco manufacture	108	24	0.04	22.22
Textiles, wearing apparel, leather	3,343	1,792	2.79	53.60
Paper and publishing & printing	4,013	152	0.24	3.79
Petroleum, chemicals, rubber and plastic	930	174	0.27	18.71
Non-metallic mineral products	504	60	0.09	11.90
Basic metal & fabricated metal products	723	165	0.26	22.82
Wood, cork, cane & bamboo	8,016	456	0.71	5.69
Furniture manufacturing & repair	1,896	531	0.83	28.01
Machinery	1,944	185	0.29	9.52
Transport equipment	584	81	0.13	13.87
Other manufacturing	2,055	368	0.57	17.91
Electricity, gas & water supply	2,519	226	0.35	8.97
Electricity, gas & water supply	2,519	226	0.35	8.97
Construction	18,958	2,563	3.98	13.52
Construction	18,958	2,563	3.98	13.52
Trade	56,217	31,841	49.49	56.64
Wholesale & retail trade	56,217	31,841	49.49	56.64
Services	153,146	24,428	37.97	15.95
Repair of motor vehicles, personal & household goods	4,134	1,279	1.99	30.94
Restaurant & hotels	2,917	740	1.15	25.37

Industry Group	CARAGA			% to Total
	Total No.	Self-Employed	% Dist.	
Transport equipment	21,883	8,882	13.80	40.59
Post & communication	777	31	0.05	3.99
Financial Intermediation	2,320	166	0.26	7.16
Real estate & renting	753	303	0.47	40.24
Private business	21,698	7,640	11.87	35.21
Government services	51,137	414	0.64	0.81
Private education, health & social work	6,029	270	0.42	4.48
Other community, social & personal services	9,356	3,489	5.42	37.29
Domestic services	32,142	1,209	1.88	3.76
Not stated	2,568	385		15.00

Annex Table 3

Number of Manufacturing Establishments With Less Than 10 Workers in Mindanao, By Minor Industry Groups: 1992

	Region IX	Region X	Region XI	Region XII	Total	% Dist.
Food manufacturing	1,229	1,943	2,444	1,855	7,471	48.57
Manufacturing of textiles	8	36	31	27	102	0.66
Mfr. of wearing apparel except footwear	584	639	1,288	573	3,084	20.05
Mfr. of leather & leather products, leather substitutes, except footwear & wearing apparel	0	4	8	0	12	0.08
Mfr. of footwear, except rubber, plastic or wood footwear	3	11	20	0	34	0.22
Mfr. of wood & wood cork products, except furniture	44	40	84	106	274	1.78
Mfr. & repair of furniture & fixtures, except primarily of metal	170	276	478	174	1,098	7.14
Mfr. of paper & paper products	5	5	5	0	15	0.10
Printing, publishing & allied industries	30	107	117	42	296	1.92
Mfr. of industrial chemicals & other chemical products	6	7	12	0	25	0.16
Mfr. of rubber products	10	11	21	5	47	0.31
Mfr. of pottery, china & earthenware	5	9	20	7	41	0.27
Mfr. of glass & glass products	0	0	3	0	3	0.02
Mfr. of other non-metallic mineral products	80	136	196	103	515	3.35
Iron & steel basic industries, including non-ferrous metal basic industries	10	26	4	0	40	0.26
Mfr. of pre-fabricated metal products, excl. machinery & eqpt. & furniture & fixtures primarily of metal	227	388	750	282	1,647	10.71
Mfr. of machinery except electronics	45	69	149	39	302	1.96
Mfr. of transportation equipment	10	16	15	7	48	0.31
Other manufacturing industries	122	46	115	44	327	2.13
Total	2,588	3,769	5,760	3,264	15,381	100.00

Source: 1992 ASE, NSO.

Annex Table 4

Number of Establishment in Wholesale and Retail Trade with Average Total Employment of Less than 10. By Region and Major Industry Group: 1993

Industry Description	TOTAL		Region IX		Region X		Region XI		Region XII		ARMM	
	No	%	No	%	No	%	No	%	No	%	No	%
Total number of establishments	44,509	100.00	13,725	100.00	9,168	100.00	13,076	100.00	5,627	100.00	2,713	100.00
Wholesale Trade	6,588	14.80	1,819	13.25	1,404	15.31	1,934	14.79	861	14.78	570	21.01
Retail Trade	37,921	85.20	11,906	86.75	7,764	84.69	11,142	85.21	4,986	85.22	2,143	78.99
Books, office & school supplies incl. newspaper & magazines	604	1.59	104	0.87	133	1.71	232	2.08	116	2.34	19	0.88
Food, beverage & tobacco	21,294	56.15	8,634	72.52	3,729	48.03	5,333	47.86	2,193	44.16	1,405	65.56
Dry goods, textile, & wearing apparel	5,283	13.93	1,270	10.67	1,180	15.20	1,488	13.18	942	18.97	423	19.74
Construction & material supplies	2,351	6.20	354	2.97	576	7.42	954	8.56	374	7.53	93	4.34
Office & household furniture, fixtures, appliances & wares	1,505	3.97	277	2.33	384	4.95	545	4.89	274	5.52	25	1.17
Transport machinery & equipment, accessories & supplies	1,301	3.43	115	0.97	442	5.69	547	4.91	180	3.62	17	0.79
Medical supplies & equipment stores	1,480	3.93	246	2.07	364	4.89	551	4.95	265	5.34	64	2.99
Petroleum & other fuel products	643	1.70	174	1.46	124	1.60	215	1.93	88	1.77	42	1.96
Retail trade, N.E.C.	3,450	9.10	732	6.15	832	10.72	1,297	11.64	534	10.75	55	2.57

Source of data: 1990 Annual Survey of Establishments, NSO.

Annex Table 5

Number of Establishments in the Services Sector, With Average Total Employment of Less Than 10, Mindanao: 1993

	Region IX	Region X	Region XI	Region XII	ARMM	Total
A. Community, Social & Personal Services	4,716	6,035	10,738	3,849	1,004	26,342
1. Sanitary & similar services	3	5	13	b/	b/	21
2. Educational services	45	135	218	70	6	474
3. Medical/dental, other health & veterinary services	263	496	1,167	393	45	2,364
4. Recreational & cultural	717	854	1,271	490	104	3,436
5. Personal & household services	1,225	2,043	3,456	1,139	173	8,036
-Repair of motor vehicles & motorcycles	485	847	1,331	403	56	3,122
-Repair services, N.E.C.	245	373	724	188	b/	1,530
-Laundries, laundry services/dyeing plants	b/	4	3	b/	b/	7
-Barber shops and beauty parlors	351	586	1,133	392	69	2,531
-Photographic studios	138	155	180	104	24	601
-Personal services, N.E.C.	36	78	85	52	24	275
B. Restaurants & Hotels	2,433	2,502	4,613	1,757	676	11,981
1. Restaurants, cafes, other eating/drinking places	2,368	2,372	4,475	1,619	673	11,507
2. Hotels, motels, other lodging places	65	130	138	138	3	474

Source: 1993 ASE, NSO