

**Micro Impacts of Macroeconomic Adjustment
Policies (MIMAP): A Framework for the Philippine
Industrial and Informal Sectors**

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**MICRO IMPACTS OF MACRO ADJUSTMENT POLICIES (MIMAP):
A FRAMEWORK FOR THE PHILIPPINE
INDUSTRIAL AND INFORMAL SECTORS**

*Ramon M. Quesada**

I. SCOPE AND DEFINITION

The study focuses on the manufacturing component of the industrial sector as this contributes 75.4 percent of the industry output (Table 1).

Table 1
Gross National Product, Industrial Origin
Percentage Shares, 1986-1991

| Sector | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | Average |
|---------------|-------|-------|-------|-------|-------|-------|---------|
| Agriculture | 29.8 | 28.1 | 27.4 | 27.1 | 27.0 | 22.5 | 27.0 |
| Industry | 31.1 | 32.0 | 32.8 | 33.2 | 33.0 | 34.6 | 32.8 |
| Manufacturing | 76.5 | 75.7 | 76.1 | 75.7 | 75.3 | 73.0 | 75.4 |
| Services | 39.1 | 39.9 | 39.8 | 39.8 | 40.1 | 41.8 | 40.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source of Basic Data: National Science and Development Board.

The export component in manufacturing is highlighted because:

1. The Philippines shifted from an inward-looking economy to an export-oriented one in 1976.
2. International policies such as foreign exchange, import liberalization, and foreign investment measures, can be covered.
3. Both the formal and the informal sectors and their linkages are significantly found in the export manufacturing sector.
4. Two of the government's centerpiece policies on the informal sector, namely, "Kalakalan" and "Magna Carta for Small Business," focus on the manufacturing sector. Though informality is also present in the agriculture and service sectors, the costs and benefits of (in)formality in the manufacturing sector can be said to be representative of the informal sector in general.

Different definitions have been used to distinguish between the formal and the informal sectors. One of the earliest treatments is wage employment. The formal sector consists of salary and wage employees while the informal sector consists of self-employed (own-account) and unpaid family workers. (See Harper 1983 and Jenkins, 1988 for a survey of the definitions and issues).

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A more recent definition is that of Hernando de Soto (1989), the father of Informal Economics, where he defines "informality as referring to individuals or enterprises operating totally or partially outside the legal system."

There are three types of informality:

1. *Entrepreneurial*. This category covers individuals or enterprises in the poverty or micro and cottage business sector who do not have the resources to comply with the law and/or who wish to comply with the law but find it bureaucratic.
2. *Semi-Formal Business*. This covers firms which operate profitably but do not comply with all the provisions of the law. Businessmen resort, for instance, to smuggling, tax evasion, or non-compliance with minimum wages. Rightly or wrongly, they feel that the law is unfair or unjust and they cannot survive if they follow all its rules and regulations.
3. *Criminality*. These are non-merit goods or services which society considers bad per se. Included here are prostitution, kidnapping, drug-trafficking, carnapping, insurgency, and graft and corruption. Their contributions are negative and counter-productive.

Government policies and programs use firm asset size and/or number of workers to distinguish the informal from the formal sector. In the Philippines, micro and cottage enterprises are usually referred to as informal (Arboleda, 1989; Quesada, Vicente, 1990). See Table 2 for firm size definitions for micro, cottage, small, medium, and large establishments.

Table 2
Classification of Establishments

| Type of Industry | Asset Size (In ₱) | Number of Workers |
|------------------------|-------------------------------|-------------------|
| NACIDA: | | |
| (Cottage or Household) | ₱500,000 & below | unspecified |
| KALAKALAN 20 | ₱500,000 & below | 1-20 |
| Small | over ₱500,000-₱5.0 million | 10-99 |
| Medium | over ₱5,000,000-₱20.0 million | 100-199 |
| Large | over ₱20.0 million | 200 & above |
| MAGNA CARTA: | | |
| Micro | less than ₱50,000 | |
| Cottage | ₱50,001-₱500,000 | |
| Small | ₱500,001-₱5 million | |
| Medium | ₱5,000,001-₱20.0 million | |

Sources: National Economic and Development Authority; NACIDA;
Kalakalan 20 (Republic Act 6810) and
Magna Carta for Small Business (Republic Act 6977)

Please refer to Table 3 for the distribution of non-agricultural establishments by major industry group in 1989.

Table 3
Distribution of Non-Agricultural Establishments
by Major Industry Group and Employment Size, 1989^{a/}

| Industry Group | Micro/ Cottage (1-19) | Small/ Medium (20-199) | Large (200 & over) | Total |
|---|-----------------------------|------------------------------|-----------------------|----------------|
| Mining & Quarrying | 246 | 127 | 35 | 408 |
| Manufacturing | 72,591 | 4,668 | 857 | 78,116 |
| Electricity, Gas & Water | 72,591 | 214 | 52 | 72,857 |
| Construction | 791 | 658 | 76 | 1,525 |
| Wholesale and Retail Transportation | 15,515 | 2,726 | 94 | 153,335 |
| Storage & Communication | 2,305 | 705 | 106 | 3,116 |
| Financing, Insurance, Real Estate & Business Services | 13,005 | 1,504 | 223 | 14,732 |
| Community, Social & Personal Services | 100,055 | 3,946 | 365 | 104,366 |
| Total | 412,099 | 14,548 | 1,808 | 428,455 |

^{a/}Preliminary

Source: 1989 Yearbook of Labor Statistics.

II. REVIEW OF ECONOMIC LITERATURE AND EXISTING LAWS

The review of related literature was grouped into three areas: (1) Firm Size and the Informal Sector, (2) Macro Adjustment and Industrial Policies, and (3) Existing Laws and Pending Bills on the Informal Sector.

The first provides an overview of the Philippine industrial manufacturing sector. It is characterized by a sizeable group of informal, cottage-type enterprises, on one hand, and large firms on the other. There are relatively few but increasing progressive small-and medium-sized firms. During the Marcos era (1965-86), there was an extreme bias towards large and informal and cottage-type enterprises resulting in what earlier studies refer to as a missing middle of small and medium enterprises in our industry size framework.

The Aquino Administration sought to remove the bias and, as a result, small and medium enterprises found their way back into the industrial system. In the process, however, the bias turned against the smaller-than-small enterprises.

The second set of literature describes the effects of macro adjustment and industrial policies. Most of these studies are directed on equity issues; the rest are on the effects of domestic resource allocation in the industrial manufacturing and informal sectors, particularly for the Philippine case (Bautista, 1978; Dacanay, 1989).

It appears that there has been no significant change in the informal sector. The informal sector continues to be 30.0 - 50.0 percent of our GNP as a result of unfavorable exchange rates, inadequate infrastructure and utilities, high interest rates, and in general, the high costs and the bureaucratic nature of doing business.

The third set of literature is a list of recently enacted laws, executive orders, and a pending bill that may impact on the informal sector and its formal sector linkages. These are:

1. Republic Act 6810, Kalakalan 20; December 14, 1989;
2. Executive Order 413, Import Liberalization Program; June 1990;
3. Executive Order 443, Import Levy; November 27, 1990;
4. Republic Act 6977, Magna Carta for Small Business; December 11, 1990;
5. Republic Act 7076, Small-scale Mining Act; June 27, 1991;
6. Republic Act 67042, Foreign Investment Act; November 1991; and
7. Local Government Code 1992.

The existing laws plus other pertinent pending bills will be discussed in the succeeding section.

III. THEORETICAL FRAMEWORK

Concept of Adjustment Policies

In principle, there are two available sets of adjustment policies that can be utilized to solve macro imbalances. There is a set called structural adjustment policies that aims to change the production parameters of the country over a certain period of time so as to improve supply capabilities of the economy in the medium term; for example, output-augmenting policies like tariff reduction and foreign exchange devaluation. There is another set called stabilization policies which assumes, that in the short run, supply parameters are fixed so that adjustments are focused on cutting government spending and/or imposing revenue-generating measures.

Theoretically, both sets of adjustment policies have dampening effect on prices; however, they have opposite effects on output. Structural adjustment policies tend to increase output after a certain period of time, while stabilization policies tend to decrease output in a short period.

Because of these opposite output effects, a successful stabilization program need not necessarily be consistent with structural adjustments (Montes 1988). For instance, a drastic cut in government infrastructure program could undermine structural adjustments.

In relation to the export manufacturing and informal sectors, this study looks at the following macroadjustment policies and the corresponding policy instruments:

- a. Trade policy: import liberalization and tariff reform;
- b. Monetary policy: foreign exchange rate, dollar earnings retention, Central Bank's (CB's) rediscounting window for exporters, interest rates on loans, and Magna Carta for Small Business;
- c. Fiscal policy: import levy, duty drawbacks for exporters and tax credits, Value Added Tax (VAT), and Investment Incentives Act;
- d. Labor policy: Minimum wage law;
- e. Institutional policy: Kalakalan 20; and
- f. Regional and local: Regional Wage Councils and Local Government Code.

Effects on the Micro Level: The Firm and Household (Figure 1)

In an exchange economy, there is an interdependent relationship among firms, households, and institutions where the firm, as a production unit, uses economic resources or inputs that the household supplies (e.g., labor and skills) and the household, as consumer unit, consumes the goods and services of the production unit.

This relationship is carried out with the use of money incomes. Institutions, on the other hand, such as the government, develop or regulate the relationship between the household and the firm through policies and programs.

The effect of macro policies on the firm's and the household's relationship is made through changes in their real money incomes. According to Lamberte (1992), the channels of influence of macro policies particularly in the case of the household are: (a) the factor market where the household makes the decisions regarding allocation of time, consumption, investment, and location of employment; (b) the goods and services market where the household expresses preferences for goods and services given their prices; and (c) the absence or presence of particular public/social goods such as potable water, preventive health care, housing and sewage, and various subsidies that directly affect the household. Herrin (1992) explains that changes in income and prices faced by the household is a starting point for the micro level analysis of the impact of macro policies.

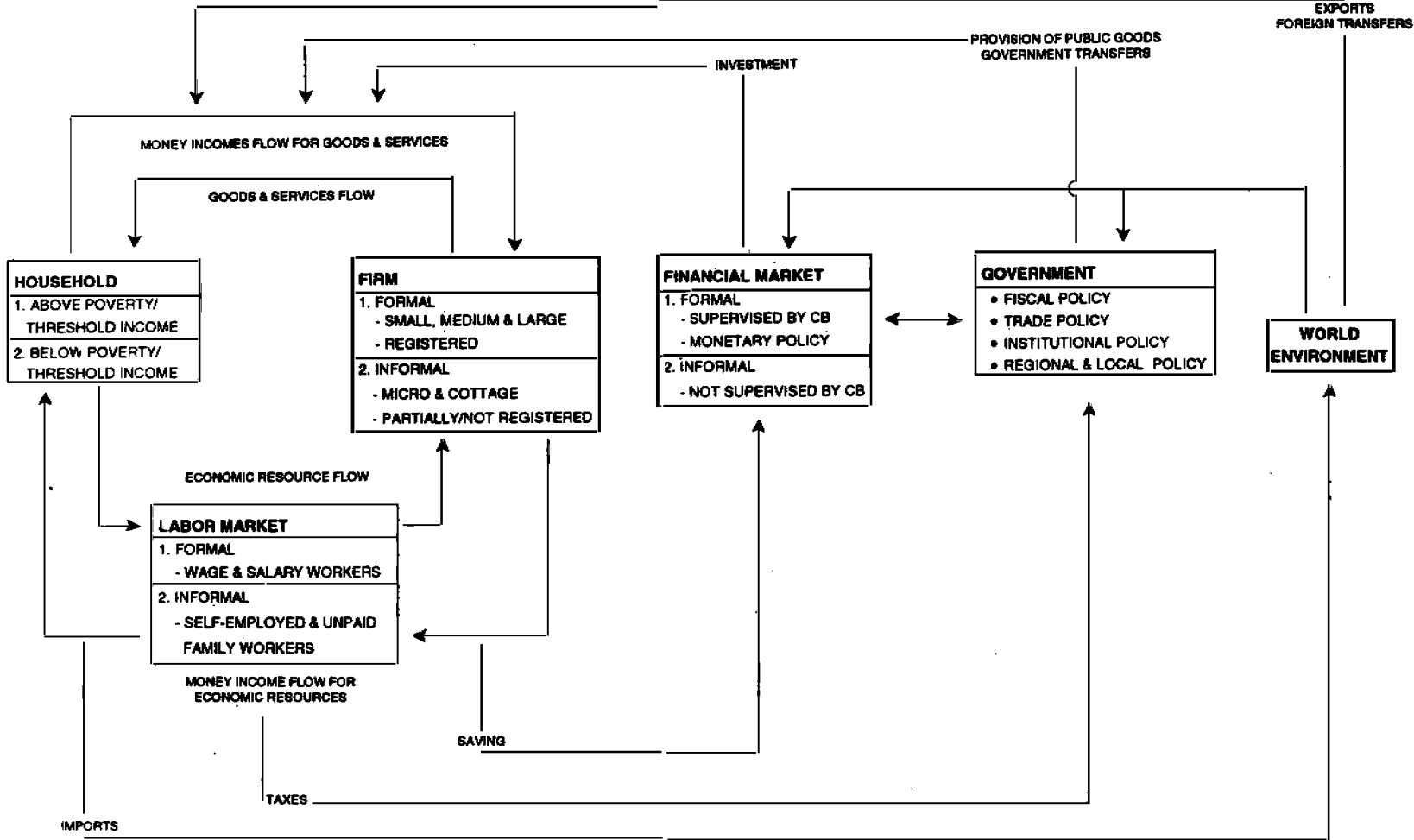
Lamberte (1992) explains further that the household's real purchasing power (or real money incomes) depends on: (a) its initial endowment of wealth (assets), (b) its wage income through the labor market, (c) public provision of goods and services, and (d) inflation rate. This is the standard optimization framework in which the household chooses the bundle of goods and services that gives it the greatest level of welfare, subject to budget constraints.

The firm can also be viewed in similar fashion as the household. As an optimizing agent, the firm chooses the optimal combination of factors that it can employ in order to maximize its profits. These choices may be in terms of pricing, product strategy, investments in capital equipment, or economics of scale. However, these choices are also dependent on the market structure within which the firm operates.

The export manufacturing sector of a developing country such as the Philippines, may be characterized by the existence of a dual industrial structure where formal and informal enterprises coexist, complementing each other or otherwise by way of subcontracting arrangements. The latter can be gleaned among the following industries: leather, garments, electronics, toys and gifts, handicrafts, food processing, paper and packaging products, and furniture. In agriculture, contract growing exists in sectors like banana, rubber, poultry, piggery, beef, cattle, feedgrains, rice, and shrimp.

Ofreneo and Del Rosario (1988) noted some positive and negative effects in the subcontracting system. The foreign principals, the exporters/suppliers and the big subcontractors, extract the most advantages from the system. They can reduce production costs to a minimum, principally through cheaper labor supply and lesser capital requirements. They have maximum

Figure 1
Effects on the Micro Level: The Firm and Household



flexibility, because they can increase or decrease production depending on fluctuations in demand. When the demand is high, workers can be made to produce more, and when low, they can be made to produce less or not at all. On the other hand, the homeworkers (work carried out at the household), which are at the very bottom of the subcontracting ladder, "represent a buffer workforce essential in times of heavy demand but the first to suffer in case of recession." They get a mere pittance, yet they are hardly conscious of the fact that their labor redounds to the immense profits of foreign principals and the large manufacturers-exporters.

One of the choices which the household and the firm in the export manufacturing sector may consider in optimizing its welfare or benefits (or minimizing its costs), is to participate in the formal or informal sector. However, the extent to which macroadjustment policies affect the welfare of the household and the firm in the export manufacturing sector still has to be determined.

Theoretically, the relationship between the formal and informal sectors may be viewed in the following manner:

1. Macro Policy

If macroadjustment policies result in the improvement of output, employment and income in the formal sector, then there are no incentives for economic agents to go underground and participate in informal activities.

However, if an economic contraction results from the set of adjustment policies applied, then economic agents such as the household may be forced to leave the formal sector and go to the informal to satisfy their minimum human requirements like food, clothing, shelter, and education. In this sense, the informal sector may serve as society's "safety net" in periods of crisis and economic stress. It can absorb those who are eased out of the formal sector during an economic recession.

Gatchalian (1987) aptly described the rise of informal sector employment on specific sectors such as manufacturing, services, trade, transport, and construction during economic crises.

On the other hand, the works of Briggs, Levy, Oppenheim and Schmitz (1986) observed the existence of a "missing middle" in the country's industrial structure. Biased producing macro policies resulted in many cottage (considered to be part of the informal sector) and large firms and only a few small and medium enterprises.

2. Institutional Dimensions

According to Lamberte (1992), the exchange economy operates within a complex institutional and social framework which conditions the interaction of economic agents. North (1989) defines institutions as rules, enforcement characteristics of rules and norms

of behavior that structure repeated human interactions. They define and limit the choice set of economic agents. For example, the recognition and establishment of property rights and the organization (or agency) created to enforce them "allow individuals in highly complex interdependent situations to be able to have confidence in their dealings with individuals of whom they have personal knowledge and with whom they have no reciprocal and ongoing exchange relationship" (North, 1989).

According to De Soto (1989), there are two relevant aspects of the relationship of the firm or individual and institutions:

- a) the cost of complying with the legalities, and
- b) the benefits of legality.

The cost of complying with the legalities is directly proportional to the mass of regulations that agents must follow so that the state may support their rights. On the other hand, the benefits depend on how well the state defines and protects contracts and property rights.

De Soto (1989) further explained that the cost of compliance which he also refers to as the "cost of formality," determines whether a firm or household stays in the formal or informal sector. When state institutions are deficient and accessible to only a few, the cost of formality (i.e., the cost of making contracts and protecting the property of third parties) increases. Thus, a person may decide to operate in the informal sector if he sees that the estimated cost of formality far outweighs the benefits.

The economic effects presented have not been duly incorporated into the equilibrium and welfare theory perhaps due to the difficulty of expressing the magnitude and the effect of typically institutional variables (such as property rights and the costs of transaction derived from these rights) in economic terms (De Soto 1989).

IV. MACRO ADJUSTMENT POLICIES IN THE PHILIPPINES

The Aquino Administration (1986-1992) basically continued the structural adjustments applied by the Marcos Administration in 1976 to correct the inward-looking and import-substitution approach. There were also distortions which the Aquino Administration sought to correct, such as:

1. Import restrictions and tariff levels
2. Foreign exchange controls
3. Institutional constraints such as registration procedures and overconcentration of governing powers in Metro Manila
4. Absence of a coordinated marketing, financial, and technical assistance program for informal and small and medium enterprises.

As related to the export manufacturing and informal (subcontracting) sector, the following policies will be discussed:

1. Trade
2. Monetary
3. Fiscal
4. Institutional
5. Regional or Local

Trade Policy

Import Liberalization

In 1989, the Aquino Administration issued Executive Order (EO) 413 or the Import Liberalization Program (ILP) to remove the remaining import restrictions. To some extent, EO 413 is a continuation of the 1981 ILP program under the Marcos administration which was shelved because of the 1983 balance of payments (BOP) crisis. The latter ILP program was designed to complement the Tariff Reform Program (TRP) which was started on January 7, 1981 through Executive Orders (EOs) 609 and 632-A. Medalla (1986) noted that the achievements from the TRP would be nullified if no similar effort was done in liberalizing import licensing. Reduction of tariffs in the continuing presence of import barriers (most notably, in the Philippine setting, varying forms of import licensing) would not only retain the old protection structure but also shift the foregone tariff revenue to private rents.

The "new" ILP brought to 1,444 the items liberalized. This increased the total number of items liberalized since 1981 to 2,443.

Tariff Reform

Meanwhile tariff rates saw continuing reduction over the period from 1981 to 1988 (Table 4).

Table 4
Average Nominal Tariff Rates and Variability Resulting
from the 1981-1985 Tariff Reform Program (In percent)

| Type of Good | 1981 | 1982 | 1986-1988 (Average) |
|--------------------|------|------|------------------------|
| Consumer Goods | 67.7 | 46.7 | 38.1 |
| Intermediate Goods | 33.3 | 27.6 | 25.2 |
| Capital Goods | 21.4 | 22.4 | 22.4 |
| Overall Average | 40.7 | 31.8 | 28.6 |
| Standard Deviation | 34.2 | 18.6 | 11.8 |

Source: Tariff Commission

The ILP under the Aquino administration, however, was met by opposition from the industrial sector. Businessmen feared that the trade reforms would create industry dislocations. As a compromise of the government, EO 413 was amended through EO 470 through joint executive and legislative actions in September 1991. EO 470 incorporates an adjustment period for industries.

In terms of the impact on revenue collections, the decrease projected did not materialize in spite of the lowering of tariff levels. Revenue collections instead increased (See Table 5). This may be attributed to the offsetting effect of the increase in the volume of imports.

Table 5
Taxes on International Trade, 1981-1991

| Year | Current Terms Int'l. Trade (In ₱ M) | Real Growth Taxes on Int'l. Trade (In %) |
|------|---|--|
| 1981 | 9,771 | |
| 1982 | 12,253 | 14.3 |
| 1983 | 16,522 | 19.1 |
| 1984 | 17,756 | -30.4 |
| 1985 | 17,444 | -13.9 |
| 1986 | 17,851 | -1.8 |
| 1987 | 26,274 | 36.6 |
| 1988 | 25,580 | -12.6 |
| 1989 | 38,919 | 38.8 |
| 1990 | 46,005 | 4.0 |
| 1991 | 65,901 | na |

Source: Department of Finance
National Statistics Office

Monetary Policy

(Foreign Exchange Liberalization, Dollar Retention, Rediscounting Window for Exporters)

The Aquino government stabilized the exchange rate as can be gleaned from the narrowing of the divergence between the official and the blackmarket exchange rates.

The exchange rate has depreciated to ₱28.00 to US\$1.00 exchange in 1990 from ₱22.30 to US\$1.00 in 1986. Consequently, this boosted the country's exports, particularly the non-traditional manufactures in 1987 and 1988. It encouraged exporters to remit their earnings and attracted new entrepreneurs into export-oriented industries.

However, because of the recession experienced by our major trading partners, and the Gulf War, exports experienced a slowdown in 1989 and 1990 (Table 6). This situation is compounded with the steady appreciation of the peso-dollar rate since 1991 from ₱27.00 to US\$1.00 to ₱26.00 to US\$1.00 as of April 1992. Exporters have been experiencing decreases in orders and export earnings.

Table 6
Philippine Exports (In US\$B)

| Year | Value (In %) | Growth |
|------|-----------------|--------|
| 1985 | 4.6 | |
| 1986 | 4.8 | 4.3 |
| 1987 | 5.7 | 18.8 |
| 1988 | 7.1 | 24.6 |
| 1989 | 7.8 | 9.9 |
| 1990 | 8.2 | 5.1 |

Source: National Statistics Office

On the other hand, the Central Bank (CB) continues its steps towards the gradual deregulation of the foreign exchange market that will lead to a freely floating exchange rate and increase in the access of exporters to formal financing. Among the measures implemented are:

1. Realignment of its rediscounting window for export advances.

The CB jacked-up the rediscounting of export loan papers to 100.0 percent. Consequently, commercial banks began to lower their charges from 20.0 to 16.0 percent.

However, the CB approved last March 16, 1992 the Export Development Fund Program (EDFP). The EDFP was proposed by the World Bank and is intended to replace the rediscounting facility. According to the CB, the rediscounting facility has been costly to maintain because they have been borrowing at from 23.0 to 24.0 percent from the domestic market but lending at 15.5.

The replacement of this rediscounting facility may be a big loss to dynamic small and indirect exporters (subcontractors and other suppliers to direct exporters) to whom banks are reluctant to extend financing.

2. Dollar Earnings Retention

The CB issued two circulars: (Please refer to Annexes A and B).

- a. CB Circular 1319 (Rules on Export Retention) allows service exporters to retain 40.0 percent of their foreign exchange earnings. This privilege was only available to commodity exporters. Such policy aims to: a) fully deregulate foreign exchange transactions in the country, b) give exporters more flexibility in their strategic planning; and c) allow the peso-dollar rate to move freely.

- b. CB Circular 1317 (Foreign Currency Deposit Unit Loan [FCDU] Loan for Exporters) granted exporters an increase in FCDU loan limit of from 50.0 to 70.0 percent of their letters of credits (L/Cs), purchase orders (POs), and sales contracts (SCs).
3. Off-floor foreign exchange trading

Last April 20, 1992, the CB approved the off-floor foreign exchange trading scheme wherein importers and exporters are now allowed to transact in the foreign exchange market. Previously, foreign exchange trading was among banks at the Bankers Association the Philippines (BAP), where the foreign exchange rates were determined daily.

Interest Rate Liberalization. In 1981, the Marcos administration removed controls on lending rates to promote savings and efficient allocation of credit resources. The Aquino administration continued this thrust. Among the measures implemented were:

- a. Rehabilitation and streamlining of government financial institutions.
- b. Liberalization of branch banking and entry of foreign banks to encourage competition in the banking system.
- c. Continued efforts to rehabilitate rural banks.

In spite of the reforms, the lending rate has remained high. Consequently, access to credit has continued to burden small businesses and thus, many still resort to the informal credit markets.

There are several factors that prevent the lowering of lending rates:

- a. High reserve requirements (RR)

RR in the country is among the highest in the region. RR restricts the available supply of loanable funds and increases intermediation cost.

- b. Gross receipts tax (GRT)

The GRT has raised intermediation costs and these are passed on to borrowers in terms of higher lending rates. The export manufacturing sector has clamored for its removal. Government, however, is reluctant because the oligopolistic structure of the banking system may not result in the decline of lending rates even if the GRT is removed.

- c. Extremely high overhead costs of banks

Credit Access for Small Business. In 1990, the government enacted RA 6977 or the Magna Carta for Small Business (Annex C). This law seeks to give Micro, Cottage, Small and Medium

Enterprises (MCSME) access to the formal credit market by creating the Small and Medium Enterprise Development Council (SMEDC) and the Small Business Guarantee and Finance Corporation (SBFGC). RA 6977 mandates banks to allocate from 5.0 to 10.0 percent of their loan portfolio for lending to MCSMEs over the next ten years.

On May 17, 1992, the Monetary Board issued CB Circular 1288 to enforce RA 6977 in the banking system (Annex A1).

Apparently, the SMEDC is a duplication of government efforts since the Department of Trade and Industry (DTI) already had the set up and capability to undertake the activities. In the 1980's, the DTI set up the original SMED with support from the USAID. Bringing in NEDA and the Departments of Agriculture, Labor and Employment, Environment and Natural Resources, Science and Technology makes the "new" SMED only more bureaucratic.

The SBFGC, on the other hand, is similar to the Cottage Industry Loan Fund created by NACIDA also in the 80s. For this operation to be viable, the SBFGC should leave it to the DTI to identify and assist small borrowers, and to financial institutions the right to evaluate and provide the loans. The service that SBGFC can give is to provide guarantees (for a fee).

Central Bank data shows that 15.5 percent of loans outstanding of commercial banks are availed of by cottage, small and medium enterprises (Table 7). If these statistics are correct, the commercial banks have already set aside the amount recommended by the law for CSMEs. By design, these banks were never meant to cater to micro and informal enterprises.

Table 7
Loans Outstanding of Private Commercial Banks
by Firm Size

| Firm Size | Average | | 1991 ^{a/} (in ₱ M) | % Dist. |
|------------------|-----------------------|---------|--------------------------------|---------|
| | 1980-1990 (in ₱ M) | % Dist. | | |
| Cottage | 4,180.6 | 3.8 | 6,139.6 | 3.2 |
| Small-scale | 5,305.5 | 4.6 | 8,427.0 | 4.4 |
| Medium-scale | 9,133.5 | 7.9 | 15,152.9 | 7.9 |
| Large-scale | 63,765.8 | 55.8 | 109,076.2 | 57.1 |
| Other Categories | 32,669.9 | 27.9 | 52,253.6 | 27.4 |
| Total | 115,055.4 | 100.0 | 191,049.3 | 100.0 |

^{a/}2nd Quarter

Source: Central Bank

Meanwhile, the government has established several financing programs to address the credit needs of micro, cottage, small and medium enterprises (See Annex D). These programs have lower lending rates than bank rates.

Fiscal Policy

Import Levy

On November 27, 1990, EO 438 imposed an additional across-the-board 5.0 percent duty on all imports. The import levy was implemented to generate additional government revenues to address the problem of the growing budget deficit. In 1991, the levy brought in ₱16.4B government revenues (Antonio, 1992).

The levy contributed to the decline of imports. However, the dampening effect was not as much as the impact of the devaluation of the peso in the last quarter of 1990 and the series of disasters that befell the country in 1991 (Antonio, 1992).

This import levy was finally lifted in the second quarter of 1992.

Investment Incentives

In 1970, the Marcos administration enacted RA 5186 or the Investment Incentives Act of 1970 which was basically addressed to large enterprises.

Cottage-type enterprises were also given sales tax and tariff exemptions. However, the Marcos Administration removed these financial benefits in 1984.

On the other hand, the Aquino Administration enacted EO 226 or the Omnibus Investment Code of 1987 (July 1987) and RA 7042 or Foreign Investment Act (November 1991) to strengthen RA 5186. (See Annex E).

The target beneficiaries of the new investment laws are listed in the Investment Priorities Plan (IPP). The IPP includes following sectors: agriculture, mining, manufacturing, energy, public utilities, and infrastructure sectors. This list is updated yearly by the Board of Investments (BOI).

There are several pending bills in the legislature that complement the present investment laws (Teves, 1991). The objectives of the bills are:

1. To lower the cost of doing business (House Bill [HB] 30520, HB 30522, HB 35068);
2. To unclog infrastructure bottlenecks (HB 30521);
3. To provide security to foreign investors (HB 33162, HB 31547); and
4. To develop the country's manpower skills (HB 29712).

Institutional Reform

Kalakalan 20

One of the most publicized laws under the Aquino administration is Kalakalan 20 or RA 6810 enacted on December 14, 1989 (Annex F). The law aims to bring out the dynamism of the informal sector, particularly, the cottage or household industries by removing the bureaucratic procedures in registration and providing tax exemptions. The law also seeks to re-establish the support which this sector had for 24 years under the NACIDA. Ironically, NACIDA was abolished by the Aquino administration, only to transform it into "Kalakalan."

Simplified registration procedures as well as tax exemptions lower the "cost of formality." Kalakalan 20, however, has enticed only a handful of enterprises to register after two years of implementation (Table 8). Apparently, the low turn-out indicates that tax exemption is not an adequate incentive. What informals need and want are non-tax incentives. This was the experience of NACIDA which removed all financial benefits in 1984 and concentrated on developmental (not regulatory) thrusts such as market encounters, common service facilities and skills training.

Table 8
Number of Registered Kalakalan 20
Enterprises as of January 6, 1992

| Region | 1990 ^a | 1991 | Cumulative Total |
|--------------|-------------------|--------------|---------------------|
| 1 | 73 | 98 | 171 |
| 2 | 247 | 386 | 633 |
| 3 | 228 | 386 | 633 |
| 4 | 714 | 489 | 1,203 |
| 5 | 82 | 48 | 130 |
| 6 | 133 | 207 | 340 |
| 7 | 267 | 116 | 383 |
| 8 | 142 | 41 | 183 |
| 9 | 139 | 171 | 310 |
| 10 | 107 | 163 | 270 |
| 11 | 193 | 236 | 429 |
| 12 | 81 | 142 | 223 |
| CAR | 29 | 54 | 83 |
| Total | 2,435 | 2,300 | 4,735 |

^aRegistration started March 1990.

Source: Department of Trade and Industry

Regional And Local

Regional Wage Councils

To promote industrial peace between labor and management, regional dispersal of industries, and income opportunities for workers in the "formal" and "informal sector, the Department of Labor and Employment (DOLE) established regional wage councils (RWCs) as an alternative wage-setting mechanism to legislated minimum wage. Thus, minimum wages reflect the living standards in the regions instead of just the National Capital Region (NCR).

Local Government Code

The Local Government Code of 1992, which repeals Batasan Pambansa Bill 337 (Local Government Code under Marcos Administration), seeks to transfer from the national government to local government units (LGUs) the power to provide basic services and facilities; regulatory functions; revenue-raising powers and more access to funds; and other governmental and corporate powers,

The 1992 code mandates the transfer to LGUs of these functions within six months from January 1, 1992. The previous BP 337 provided no time frame for the transfer of the functions mentioned therein. This resulted in concentration of policy and decision making in the national government resulting in imbalances in regional development.

With this new code, exports will be "regionalized" and more local units can respond to opening up access to income and employment opportunities.

V. THE PHILIPPINE INDUSTRIAL AND INFORMAL EXPORT MANUFACTURING SECTORS

Performance of Philippine Exports

From 1987-1988, Philippine exports experienced robust growth due to the confidence brought back to the local economy: the devaluation of peso-dollar rate, and the strong economies of our major trading partners. However, the strong performance of the country's exports was short-lived with the series of natural disasters that hit the country (1989 and 1990), the attempted major coup of December 1989 and the world economic slowdown primarily arising from the Gulf War (1990) (Table 6).

A comparison of the export performance of the Philippines with that of neighboring Asian countries shows that the country has been left behind significantly (Table 9).

Table 9
Comparative Exports of Different Asian Countries
1986-1990 (US\$B)

| Country | 1986 | 1987 | 1988 | 1989 | 1990 |
|-------------|------|------|------|------|------|
| Thailand | 8.9 | 11.2 | 15.7 | 20.0 | na |
| Indonesia | 11.3 | 17.2 | 19.5 | 22.9 | 26.8 |
| Malaysia | 13.9 | 17.9 | 21.1 | 25.9 | 28.9 |
| Singapore | 22.5 | 28.7 | 38.0 | 39.3 | na |
| Hong Kong | 35.4 | 48.5 | 63.7 | 73.1 | na |
| South Korea | 34.7 | 47.3 | 60.7 | 62.3 | 63.1 |
| Taiwan | 39.8 | 53.6 | 60.5 | 66.2 | na |
| Philippines | 4.8 | 5.7 | 7.1 | 7.8 | 8.2 |

Source: Asian Development Bank

Structure of Philippine Exports

There has been a significant change in the structure of the country's exports. In 1980, traditional exports used to account for 53.0 percent of total merchandise exports. In 1990, it declined to 19.8 percent. The biggest contributors to non-traditional exports were garments and electronics (Table 10). Although encouraging, it should be noted that these products have

limited domestic value-added. Most of the raw material requirements of these industries are imported. Thus, their contribution to meet export earnings is limited (Cororaton, 1992).

Table 10
Philippine Exports and Imports, 1980-1990
(% Distribution)

| Export-Import Merchandise | | 1980 | 1982 | 1984 | 1986 | 1988 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Exports: | | | | | | |
| Traditional | 53.0 | 42.1 | 33.9 | 26.3 | 22.7 | 19.8 |
| Non-traditional | 45.9 | 56.2 | 63.6 | 71.2 | 75.8 | 78.9 |
| Electronics | 11.6 | 19.9 | 24.7 | 19.0 | 20.2 | 24.0 |
| Garments | 8.7 | 10.8 | 11.2 | 15.5 | 18.7 | 21.7 |
| Others | 1.1 | 1.7 | 2.5 | 2.5 | 1.5 | 1.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Imports: | | | | | | |
| Capital Goods | 25.7 | 23.3 | 18.9 | 17.1 | 21.4 | 25.6 |
| Raw Materials & Int. Goods | 37.0 | 39.7 | 42.8 | 53.0 | 51.0 | 47.5 |
| Mineral Fuels & Lubricants | 28.7 | 27.5 | 25.9 | 17.2 | 13.5 | 15.1 |
| Consumer Goods | 6.0 | 8.3 | 6.0 | 7.9 | 9.0 | 8.8 |
| Others | 2.5 | 1.3 | 6.3 | 4.8 | 5.1 | 3.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source of Basic Data: National Statistics Office

Export Growth and Industrial and Informal Sectors

The inability of the country to get a bigger slice of the world export market has limited the inflow of dollars to finance the country's imports of machineries and equipment and raw materials as can be gleaned from the decline in the capacity of the gross international reserves (GIR) to finance import (Table 11).

Table 11
Gross International Reserves, 1986-1990
(In US\$ B)

| 1986 | 1987 | 1988 | 1989 | 1990 |
|-------|-------|-------|-------|-------|
| 2,485 | 1,959 | 2,059 | 2,324 | 2,324 |

Source: Central Bank

Employment Structure

In terms of firm size and employment distribution, there has been a shift in employment from the micro and cottage type to small, medium, and large enterprises (Table 12).

Table 12
Estimated Number of Employees by Firm Employment
Size Criterion, Philippines: 1972, 1975, 1983,
1988 and 1989 (In percent)

| Year | Micro Cottage (1-19) | Small Medium (20-199) | Large (200 & Over) | Total |
|---------|----------------------------|-----------------------------|-----------------------|-------|
| 1972 | 61.9 | 17.7 | 20.4 | 100.0 |
| 1975 | 50.8 | 22.3 | 26.9 | 100.0 |
| 1983 | 42.1 | 24.9 | 32.9 | 100.0 |
| 1988 | 38.6 | 29.6 | 31.9 | 100.0 |
| 1989 | 38.2 | 28.4 | 33.4 | 100.0 |
| Average | 46.3 | 24.6 | 29.1 | |

Source of Basic Data: 1989 Yearbook of Labor Statistics

Export Strategies of Government and the Private Sector

Although the Aquino Administration has undertaken major steps in introducing market-friendly economic policies and opening the Philippine economy, its competitive position in the world market has not improved significantly. Malaysia, Thailand, and Indonesia have maintained more open economies compared to the Philippines. For example, the import liberalization ratios of Malaysia and Thailand are higher than those of the Philippines. Moreover, average tariffs of Indonesia and Malaysia are lower than those of the Philippines (Villegas, Garchitorena, 1992).

This situation continues to be unfavorable to the export as well as to the agriculture sectors. At the same time, it promotes inefficiency in industries and hampers equity in income in terms of low employment absorption.

The private sector strongly feels that government has not set the right policy environment for the export sector (Franco, 1991). To assist government in formulating policies, exporters are seeking the establishment of the Export Development Council (EDC).

The private sector does not expect any increase in government assistance this year and beyond because of the government's tight budget. Exporters are now being prodded not to be dependent on government assistance.

VI. A SECTORAL ANALYSIS OF THE INDUSTRIAL AND INFORMAL EXPORT MANUFACTURING SECTOR

Cebu Model

The Cebu export and subcontracting model was used in order to analyze the micro impacts of macro adjustment policies. A Delphi (Pre-test) survey was designed and addressed to five manufacturing sub-sectors in Cebu through one of our networks--CRC South Office, Cebu, namely: Garments, Furniture, Food Processing, Electronics, and Fashion Accessories and Gift Items (Please refer to Annex G for the survey questionnaire).

Objectives

Essentially, the objectives of the framework and directional survey were:

1. To assess the level of awareness of government laws and policies.
2. To find out how government policies and programs affect the export manufacturing sector.
3. To determine the types of family or household members involved in the informal sector and the filtering down of employment and income opportunities to them.

Survey Approach

Five questionnaires were fielded through Center for Research and Communication interviews for each sub-sector. Two or three were addressed to the exporter and the rest to the sub-contractor. The CRC Cebu office identified the interviewees based on CRC's working relationship with them and the extent of their market share and influence.

Level of Awareness

The exporters were generally aware of government policies though they lamented that they were hardly part of the process in the enactment of the laws. Quite a number of times, the exporter has no choice, but to comply with laws and regulations due to the status of his enterprise as an exporter. Among the regulatory practices complied with are: registration with the Securities and Exchange Commission (SEC) and the Department of Trade and Industry (DTI), acquisition of mayor's permit, securing a VAT number, opening an account with a bank, and the like.

On the other hand, the subcontractors were preoccupied with production activities and making both ends meet, to find the time and motivation to know about government policies. It is the common perception that the costs of formality far outweigh its benefits (or the costs of informality) thus many enterprises do not comply or only partially comply with regulations.

Subcontractors also enter into arrangements with their contractors (exporters) for their credit, raw materials, and skills training needs. These subcontractors do not have any social security, insurance benefits, or redress to courts of justice in the absence of formal contracts. This situation is not beneficial to both the exporter and subcontractor.

Effects of Policies

The growth of exports slowed down from 1989 to 1990. This was due more to the super typhoon that hit Cebu, plus the aftermath of the December 1989 coup.

Cebu has always adjusted to any ruling political party. Although lacking in natural resources, the province has more than made up for it in terms of developing its strengths - strategic location, a viable international port and airport, organized private sector, industriousness of its people, an efficient local government, and its dynamic small and medium and informal enterprises.

For instance, where the country has failed in its program of tree planting, Cebu has taken the initiative of importing formally and informally rattan poles from non-traditional sources such as Vietnam and Sabah; Cebu has also established business ventures in those countries. The subcontracting model makes Cebu relatively free from labor unrest and strikes.

The province has attracted tourists and investors in its export processing zones, making it like a little "Singapore."

Please refer to Table 13 for the growth trend of non-traditional exports in Cebu from 1987 to 1989 peaking in 1988. Export growth in 1990 tapered because of the Gulf War and Typhoon Ruping.

Table 13
Growth Rates of Cebu's Non-Traditional Exports
(FOB Value)

| Type of Goods | 1987 | 1988 | 1989 | 1990 |
|------------------------|--------|-------|-------|--------|
| Consumer Goods | 24.59 | 33.54 | 14.19 | 0.76 |
| Intermediate Goods | 18.35 | 30.78 | 17.83 | -1.51 |
| Capital Goods | 2.89 | 65.81 | 48.71 | 64.23 |
| Other Industrial Goods | 167.77 | 88.20 | 45.41 | -32.88 |
| Total | 23.91 | 34.32 | 15.43 | 2.82 |

Source: Department of Trade and Industry-Cebu

Trickle-Down Effects

From all indicators, the Cebu model seems to be a good prototype. The export manufacturing sector is growing significantly and steadily; the subsectors have shown resilience and flexibility under stress; and there are a good number of progressive large, small and medium and informal enterprises which interact among one another.

The study of microeconomics, however, extends to both the firm and household, thus, the family and income distribution profile of Cebu was noted and compared with those of the cities of Davao and Iloilo.

The results showed the following Gini coefficients (a higher coefficient means a more inequitable income distribution and vice-versa) (Table 14).

Table 14
Gini Coefficient and Per Capita Income

| Areas | Gini Coefficient | | Annual Per Capita Income (P) ^{a/} | |
|--------|------------------|------|--|--------|
| | 1985 | 1988 | 1985 | 1988 |
| Cebu | 0.41 | 0.42 | 6,789 | 11,408 |
| Iloilo | 0.45 | 0.39 | 9,584 | 14,128 |
| Davao | 0.45 | 0.37 | 8,342 | 10,189 |

^{a/}Per Capita Income of each city was computed using the income of families based on the Family Income and Expenditure Survey (FIES) tables over the estimated population.

Sources of Basic Data: 1985 and 1988 Family Income and Expenditure Survey (FIES), National Statistics Office

Although Cebu's economic performance was above par, income was not distributed equitably as shown in the increase of the Gini coefficient in 1988 relative to 1985. In contrast, Iloilo and Davao only showed relatively modest economic growth, but had a more equitable income distribution as each of them had lower Gini coefficients in 1988. This is an area that needs to be further verified and studied.

This may be due to structural changes following the Kuznets theory wherein income distribution in a developing economy is inequitably distributed at first.

Migration patterns producing backwash effects could also be accountable for the high Gini coefficients.

In any case, this is an area that needs to be further studied because of the significant social implications.

Gross Domestic Product (Macro)

There has been no shifts in the GDP composition of agriculture, industry, and services from a macroeconomic point of view since 1976 (Table 15). However, at the regional level, there have been shifts as shown in Central Visayas (Cebu) and Western Visayas (Tables 16 and 17). Cebu has shifted to manufacturing while Western Visayas has increased its trading services. This is where regional complementation is necessary.

Table 15
Real Gross Domestic Product of the Philippines
by Industrial Origin, Percent Distribution

| Sector | 1975 | 1980 | 1985 | 1989 |
|------------------------|-------|-------|-------|-------|
| Agriculture | 26.8 | 25.6 | 29.2 | 27.1 |
| Industry | 34.1 | 36.2 | 32.3 | 33.2 |
| Manufacturing | 74.2 | 69.2 | 74.3 | 75.7 |
| Services | 39.1 | 38.3 | 38.6 | 39.8 |
| Trade | 32.7 | 34.5 | 40.6 | 39.4 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

Table 15a
Real Gross Domestic Product of the Philippines by
Industrial Origin, Average Growth Rates

| Sector | 1976-80 | 1981-85 | 1986-89 |
|------------------------|---------|---------|---------|
| Agriculture | 5.3 | 2.1 | 2.6 |
| Industry | 7.5 | -2.6 | 5.3 |
| Manufacturing | 6.0 | -1.3 | 5.8 |
| Services | 5.8 | -0.3 | 4.6 |
| Trade | 6.9 | 2.9 | 4.6 |
| Gross Domestic Product | 6.2 | -0.5 | 4.5 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

Table 16
Real Gross Domestic Product of Western Visayas
by Industrial Origin, Percent Distribution

| Sector | 1975 | 1980 | 1985 | 1989 |
|------------------------|-------|-------|-------|-------|
| Agriculture | 44.5 | 39.2 | 42.2 | 40.6 |
| Industry | 25.7 | 27.6 | 21.2 | 17.9 |
| Manufacturing | 81.6 | 78.2 | 73.2 | 71.7 |
| Services | 29.8 | 33.1 | 36.6 | 41.5 |
| Trade | 48.8 | 50.0 | 53.3 | 54.6 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

Table 16a
Real Gross Domestic Product of Western Visayas
by Industrial Origin, Average Growth Rate

| Sector | 1976-80 | 1981-85 | 1986-89 |
|------------------------|---------|---------|---------|
| Agriculture | 1.0 | -1.1 | 1.2 |
| Industry | 5.1 | -6.6 | -1.7 |
| Manufacturing | 4.2 | -7.3 | -0.5 |
| Services | 5.68 | -0.66 | 5.4 |
| Trade | 6.18 | 0.52 | 6.1 |
| Gross Domestic Product | 3.42 | -2.52 | 2.15 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

Table 17
Real Gross Domestic Product of Central Visayas
by Industrial Origin, Percent Distribution

| Sector | 1975 | 1980 | 1985 | 1989 |
|------------------------|-------|-------|-------|-------|
| Agriculture | 24.2 | 23.4 | 23.2 | 22.7 |
| Industry | 29.7 | 34.2 | 30.5 | 31.8 |
| Manufacturing | 50.8 | 48.8 | 61.0 | 68.4 |
| Services | 46.0 | 42.4 | 46.3 | 45.5 |
| Trade | 49.3 | 48.4 | 55.5 | 57.5 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

Table 17a
Real Gross Domestic Product of Central Visayas
by Industrial Origin, Average Growth Rate

| Sector | 1976-80 | 1981-85 | 1986-89 |
|------------------------|---------|---------|---------|
| Agriculture | 7.6 | -1.8 | 6.1 |
| Industry | 11.1 | -3.6 | 7.8 |
| Manufacturing | 10.4 | 0.6 | 6.9 |
| Services | 6.2 | 0.1 | 6.1 |
| Trade | 6.1 | 2.9 | 7.0 |
| Gross Domestic Product | 8.0 | -1.6 | 6.5 |

Source of Basic Data: Economics and Social Statistics Office
National Statistical Coordination Board

VII. CONCLUSIONS AND RECOMMENDATIONS

1. The policy of the Aquino government (1986-1992) on the export manufacturing and informal sector is basically the same as the Marcos administration (1965-1986). The latter shifted to an export-oriented approach from an import substituting one in 1976.
2. There are three strategic laws recently passed which will provide the needed support to the economy, namely:
 - a. The Foreign Investment Act, 1991
 - b. Local Government Code, 1992
 - c. Executive Order 470 (Import Liberalization Program), 1991.
3. The two laws passed on the informal sector, which are Kalakalan 20 (1989) and the Magna Carta on Small Business (1990), have not been effective. The former is just a rehash of the NACIDA Law of 1962. The present government should have benefitted from the NACIDA experience that it is developmental assistance the informal sector needs and not financial incentives which turn out to be disincentives. The proposed Kalakalan II (House Bill No. 23355) should replace the original one (AnnexH).

The Magna Carta on one hand, focuses on mandating commercial banks to set aside 5.0 to 10.0 percent of their loan portfolio for small business. This is a mismatch of lender-to-borrower relationship.

4. Successful local units in export development like Cebu are characterized by the following:
 - a. Dynamic private sector
 - b. Efficient local government
 - c. Dynamic informal and small and medium enterprises.
5. Developmental assistance by international institutions to the export and informal sector can be given directly to NGOs or private end-users. Government can concentrate on providing basic goods and services.
6. There should be a continuing dialogue between government and the private sector through Export Councils. This is more attainable now that the two organizations of exporters have unified into a single body called the Confederation of Philippine Exporters.
7. The Aquino government has brought back renewed confidence in the economy and has succeeded in providing positive growth inspite of the natural disasters, military coups and incessant political intrigues.

There has been a resurgence of small and medium enterprises. Monopolies, e.g., sugar and coconut and crony capitalism have been dismantled. Families falling below the

poverty line has declined from 70.0 to 50.0 percent during the Aquino administration. Regional growth centers like Bacolod and General Santos are on the rise.

8. Despite the positive growth of the whole economy, there are serious indications that the trickle down of benefits of income and employment to the households or families leaves much to be desired.

A comparative study was done among the cities of Cebu, Iloilo, and Davao. In spite of the Cebu boom, the income distribution profile does not seem to reflect this boom.

This is an area of microeconomics - the household benefits - that needs further research and study.

9. There have been structural shifts observed from traditional to non-traditional exports. However, the imported components, as in the case of garments, continue to remain the same.
10. From a macroeconomic point of view, there has been no shifts in the GDP composition of agriculture, industry, and services. In the regions studied -- Central Visayas (Cebu) and Western Visayas (Iloilo) -- some significant shifts occurred in the manufacturing and the trade sectors.
11. The areas for further study in Phase 3 are:
 - a. Detailed sampling survey of the export (formal) and sub-contracting (informal) sectors.
 - b. Validation of the Gini Coefficient and Kuznets theory on households.
 - c. Econometric tests, e.g., elasticity on the impact of macroadjustment policies on income, employment, and distribution effects on firms and households, both formal and informal.

Annex A. Salient Features of CB Circular 1319

| <i>Particulars</i> | <i>Under Old Regulation</i> | <i>CB Circular</i> |
|--|--|---|
| 1. Target Beneficiary | Export oriented firms whose foreign exchange receipts are at least US\$ 100,000. | Any commodity exporter. |
| 2. Foreign exchange retention rate | Up to 25% of export receipts but with a ceiling of US\$ 100,000. | Up to 40% of exports. |
| 3. Restriction on the use of retained foreign exchange | Retained foreign exchange must be deposited in Special Foreign Currency Deposit Accounts (SFCDA) for specific purposes: <ol style="list-style-type: none"> a. Commission to agents abroad not exceeding 5% of total invoice value. b. Freight/insurance costs to shipping/insurance firms. c. Supervision/survey fees to foreign surveyors; and d. Advertising and other promotional expenses incurred abroad not exceeding US\$5,000 p.a. | Retained foreign exchange must be deposited in SFCDA. Purpose for allowed usages of these funds have been expanded. |
| 4. CP approval | Required. | Not required. But subject to verification/examination. |

Source of Basic Data: CRC-EPRU and CB.

Annex A1

**MONETRAY BOARD
CIRCULAR NO. 1288**

SERIES OF 1991

Pursuant to Republic Act No. 6977, the Monetary Board, in its Resolution No. 520 dated May 17, 1991, approved the following rules to govern the mandatory allocation of credit resources to small enterprises:

SECTION 1. Definition of Terms. - For purposes of this Circular, the following definitions shall apply:

a. Lending institutions - shall refer to and include all banks, namely, expanded commercial banks, local branches of foreign banks, specialized government banks, thrift banks and rural banks.

b. Loan portfolio - shall include all loans and advances (net of valuation reserves) in the Statement of Condition/Balance Sheet excluding the following: Interbank Loan Receivable; Agrarian Reform/Other Agricultural Credit Loans - P.D. No. 717; loans granted under Special Financing Programs; foreign currency denominated loans and advances; and loans from multilateral and bilateral sources which are relent by a bank on a wholesale basis to conduit financial institutions.

c. Small enterprises - shall refer to any business activity or enterprises engaged in industry, agribusiness and/or services, excluding trading, whether single proprietorship, cooperative, partnership or corporation:

1) whose total assets, inclusive from those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, amounts to five million pesos (P5,000,000) and below;

2) duly registered with the appropriate agencies as presently provided by law: Provided, That, in the case of micro enterprises (with total assets, as similarly determined in item c.1 above, of less than P50,000), registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;

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

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

5) it must not be a branch, subsidiary or division of a large scale enterprise nor may

its policies be determined by a large scale enterprise or by persons who are not owners or employees of the enterprise.

SEC. 2. Mandatory Allocation of Credit Resources to Small Enterprises.

a. All lending institutions shall set aside a portion of their total loan portfolio based on their Consolidated Statement of Condition/Balance Sheet as of the end of the previous quarter, and make it available for small enterprise credit. The portion mandated to be so set aside shall at least be five percent (5%) by December 31, 1991, ten percent (10%) by December 31, 1992 through December 31, 1995, and five percent (5%) by December 31, 1996 and may come down to zero by December 31, 1997.

b. For purposes of determining compliance with the mandated allocation, loans to small enterprises and such instruments mentioned in Section 3b below which have been rediscounted with the Small Business Guarantee and Finance Corporation (SBGFC) or the Central Bank shall be excluded.

SEC. 3. Funds set aside in accordance with the foregoing requirement shall be made available for any of the following:

- a. loans to small enterprises;
- b. instruments as may be offered by the SBGFC.

The funds set aside which have not been invested in either (a) or (b) above may be held in the form of Cash on Hand, Due from the Central Bank and Due from Local Banks provided these are free, unencumbered, not hypothecated, not utilized or earmarked for other purposes.

SEC. 4. The purchase of government notes, securities, and negotiable instruments other than the instruments offered by the SBGFC, shall not be deemed compliance with the foregoing requirement.

SEC. 5. Guarantee Coverage. - loans granted in accordance with this Circular shall be eligible for guarantee coverage to be issued by the SBGFC, subject to rules and regulations as may be issued by the SBGFC.

SEC. 6. Submission of Reports. - Banks shall submit quarterly reports to the appropriate supervising and examining departments of the Central Bank within twelve (12) banking days after the end of each reference quarter showing compliance with the mandatory allocation, using the attached form.

Lending institutions shall maintain appropriate records/details of the reported loans to small enterprises and shall make these available to Central Bank examiners.

SEC. 7. Lending institutions are hereby encouraged to make available funds for lending to medium enterprises (with total assets, as determined under Sec. 3 of RA No. 6977, of more than P5,000,000 but not more than P20,000,000).

SEC. 8. The administrative sanctions under Section 34-A of RA No. 265, as amended, shall be applicable for any violation of this Circular, Penal sanctions shall be as provided in Section 14 of RA No. 6977.

SEC. 9. Effectivity. - This Circular shall take effect immediately.

Approved: June 4, 1991

Annex B. Salient Features of CB Circular No. 1262 and CB Circular 1317

| <i>Particulars</i> | <i>CB Circular 1262 November 11, 1990</i> | <i>CB Circular 1317 January 1, 1992</i> |
|---|--|--|
| 1. Loan ceiling (as % of value of the L/C, P.O., or S.C.) | Up to 50% | Increased to 70% |
| 2. Allowable uses of loan. | For payment of working capital. Loan proceeds are released in pesos. | For payment of working capital, importation of machinery, spare parts or raw materials. Loan proceeds are released in local or foreign currency. |
| 3. Loan maturity/roll-over. | Short-term maturity with no financing/roll-over. | Loan can be rolled-over depending on maturity period. |
| 4. Use of unconfirmed export L/Cs as basis for grant of loan. | Not allowed. | Not allowed. |
| 5. Disposition of unpaid loan balance in case no or only partial export shipments are affected. | No stipulation. | Unpaid loan balance can be paid in foreign currency. |
| 6. Substitution of export L/C, P.O., or S.C. used as basis for grant of loan. | No stipulation. | Allowed. |
| 7. Bank-certified statement of exporter's export earnings. | Required. | Not required. |

Source of Basic Data: CRC-EPRU and Central Bank.

Annex C

MAGNA CARTA FOR SMALL ENTERPRISES
 [Republic Act No. 6977]

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

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

CHAPTER I

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

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

- a) by assuring, through the establishment of adequate support structure, and the creation and promotion of an environment conducive to the viability of these enterprises, establishment of mechanisms, the access and transfer of appropriate technology needed by small and medium enterprises;
- b) by intensifying and expanding programs for training in entrepreneurship and for skills development for labor;
- c) by facilitating their access to sources of funds;
- d) by assuring to them access to a fair share of government contracts and related incentives and preferences;
- e) by complementing and supplementing financing programs for small and medium enterprises and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;
- f) by instituting safeguards for the protection and stability of the credit delivery system;
- g) by raising government efficiency and effectiveness in providing assistance to small and medium enterprises throughout the country, at the least cost;
- j) by promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;
- k) by making the private sector a partner in the task of building up small and medium enterprises through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and

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

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

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

In a generic sense, all enterprises with total assets of Five million pesos (P5,000,000) and below shall be called small enterprises.

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

SEC. 4. Eligibility for Government Assistance. - To qualify for assistance, counseling, incentives and promotion under this Act, businesses falling under the above definition must be:

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

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

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

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

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

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

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

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

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

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

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

d) Decentralization. The State shall accelerate the decentralization process by establishing regional and provincial offices in order to enhance and attain greater efficiency in the provision of services to the countryside and the implementation of this Act, in coordination with local government units. To this end, the Government Agencies shall effect a substantial delegation of authority to their regional and provincial offices to make decisions, particularly in the registration of beneficiaries of this law, qualification for availment of benefits, accreditation of private voluntary organizations, industry associations and cooperatives, and to resolve complaints for violation of applicable laws.

CHAPTER II

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

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

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

a) Director General of the National Economic and Development Authority;

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

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

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

The Department of Trade and Industry shall allocate Five million pesos (P 5,000,000.00) out of its savings for the initial operating expenses of the Council, after which the Council's budget shall be included in the annual appropriation of the Department of Trade and Industry.

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

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

- a) to help establish the needed environment and opportunities conducive to the growth and development of the small and medium enterprise sector;
- b) to recommend to the President and the Congress all policy matters affecting small and medium scale enterprises;
- c) to formulate a comprehensive small and medium enterprise development plan to be integrated into the National Economic and Development Authority Development plans;
- d) to coordinate and integrate various government and private sector activities relating to small and medium enterprise development;
- e) to review existing policies of government agencies that would affect the growth and development of small and medium enterprises and recommend changes to the President and/or to the Congress whenever deemed necessary. This shall include efforts to simplify rules and regulations as procedural and documentary requirements in the registration, financing, and other activities relevant to small and medium enterprises;
- f) to monitor and determine the progress of various agencies geared towards the development of the sector. This shall include overseeing, in coordination with local government units and the Department of Local Government as well as private sector groups/associations,

the developments among small and medium enterprises, particularly the cottage and micro-sized firms;

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

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

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

1) provision of business training course, technical training for technicians and skilled laborers and continuing skills upgrading programs;

2) provision of labor-management guidance, assistance and improvement of the working conditions of employees in small and medium-sized firms;

3) provision of guidance and assistance regarding product quality/product development and product diversification;

4) provision of guidance and assistance for the adoption of improved production techniques and commercialization of appropriate technologies for the product development and for increased utilization of indigenous raw materials;

5) provision of assistance in marketing and distribution of products of small and medium scale enterprises through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic-market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants, refrigerated storage, cooperative trucking facilities, etc.;

6) intensification of assistance and guidance to enable greater access to credit through a simplified multi-agency financing program; to encourage development of other modes of financing such as leasing and venture capital activities; to provide effective credit guarantee systems, and encourage the formation of credit guarantee associations, including setting up of credit records and information systems and to decentralize loan approval mechanisms;

7) provision of concessional interest rates, lower financing fees, which may include incentives for prompt credit payments, arrangements tying amortizations to business cash flows, effective substitution of government guarantee cover on loans for the borrower's lack of collateral;

8) provision of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises, and the establishment of measures such as insurance against extraordinary disasters;

9) intensification of information dissemination campaigns and entrepreneurship education activities;

10) easier access to and availment of tax credits and other tax and duty incentives

as provided by the Omnibus Investment Code and other laws;

11) provision of support for product experimentation and research and development activities as well as access to information on commercialized technologies; and

12) provision of more infrastructure facilities and public utilities to support operations of small and medium enterprises;

j) to submit to the President and the Congress a yearly report on the status of small and medium enterprises in the country, including the progress and impact of all relevant government policies, programs and legislation as well as private sector activities;

k) to assist in the establishment of modern industrial estates outside urban centers; and

l) generally, to exercise all powers and functions necessary for the objectives and purpose of this Act.

SEC. 9. Designation of the Bureau of Small and Medium Business Development as Council Secretariat. The Bureau of Small and Medium Business Development of the Department of Trade and Industry, in addition to its current activities and functions, is hereby designated to act as the Council Secretariat. The Secretariat shall have the following duties and functions:

1) to prepare, in coordination with local government units and/or associations of local government officials, and recommend annual as well as medium-term small and medium enterprise development plans for approval of the Council;

2) to coordinate the preparation of position papers and background materials for discussion or approval during Council meetings;

3) to assist the Council in coordinating and monitoring small and medium enterprise policies and programs and activities of all government agencies with respect to small and medium enterprises;

4) to prepare, collate and integrate all inputs to the Council's yearly report on the status of small and medium enterprises in the country.

5) to submit periodic reports to the Council on the progress and accomplishment of its work programs; and

6) to perform ad hoc functions as authorized by the Council.

CHAPTER III

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

The President is hereby also empowered to establish a small and medium enterprise promotion body which shall be principal government agency that will formulate, implement, coordinate and monitor

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

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

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

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

The Small Business Guarantee and Finance Corporation shall:

- a) be attached to the Department of Trade and Industry and shall be under the policy, program and administrative supervision of the SMED Council;
- b) have its principal place of business in Metro Manila and endeavor to have one or more branch offices in every province of the country;
- c) exercise all the general powers conferred by law upon corporations under the Corporation Code as are incidental or conducive to the attainment of the objectives of this Act; and
- d) have a board of directors upon which the powers of the Corporation shall be vested, to be composed of five (5) members including:
 - 1) three (3) members from the private sector appointed by the President upon recommendation of the SMED Council and from among whom the Chairman of the Board shall be appointed by the President to serve on a full-time basis;
 - 2) the Secretary of Trade and Industry or his Undersecretary; and
 - 3) a representative of the five (5) government financial institutions mandated in this Act to provide the initial capital of the Corporation, who shall be designated, under guidelines agreed upon by the Board Chairmen of said institutions.

SEC. 12. Capitalization and Funding. The Small Business Guarantee and Finance Corporation shall have an authorized capital stock of Five billion pesos (P5,000,000,000). The initial capital of One billion pesos (P1,000,000,000) shall be established from a pool of funds to be contributed in the form of equity investments in common stocks by the Land Bank of the Philippines (LBP), the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP) in the amount of Two hundred million pesos (P200,000,000) each. The Social Security System (SSS) and the Government Security Insurance System (GSIS) shall also set aside two hundred million pesos (P200,000,000) each to be placed in

preferred stocks of the SBGFC. Additional funding shall come from trust placements of excess and unused funds of existing government agencies, bilateral and multilateral official development assistance funds, subscriptions from government-owned or controlled corporations, and investments of private financial institutions and corporations.

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

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

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

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

SEC. 14. Penal Clause. The Central Bank shall impose administrative sanctions and other penalties on the lending institutions for non-compliance with provisions of this Act. In addition, the president, members of boards of directors, and other officers of the erring lending institutions shall be individually liable for imprisonment of not less than six (6) months and a fine of not less than Five hundred thousand pesos (P500,000) each.

CHAPTER IV

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

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

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

Approved: January 24, 1991

Annex D. Selected Micro, Cottage, Small and Medium Enterprises Financing Programs

MICRO AND COTTAGE FINANCING PROGRAMS:

| <i>Programs</i> | <i>Brief Description</i> |
|---|--|
| Tulong-sa-Tao Self-Employment Loan Assistance Program | Develop NGOs as conduits of credit and other forms of assistance to low-income, group-based, non-collateralized borrowers. |
| PBSP-Financial Advance for Income Generating Projects | Target beneficiaries are community-based organizations and PVOs. |
| Urban Livelihood Financing | A WB-IBRD funded program for NCSME is depressed urban communities in Metro Manila. Financial assistance to low-income individual entrepreneurs comes in the form of equity, loans and grants. |
| TST-Subcontracting Facility | A program which extends financial assistance to qualified contractors and sub-contractors. |
| IGLF Micro Financing Program | A program which utilizes member-companies of the Personnel Management Association of the Philippines (PMAP) as conduits of funds for relending to qualified borrowers. |
| Micro Enterprise Development Program | A relending program for people in depressed municipalities and is funded by the National Government and implemented by DTI/BSMBD. |
| Small Market Vendors Loan | A program of the PNB that extends operating capital of P1,000-P10,000 to stallholders. |
| Pangkabuhayan ng Bayan Program | Another program of PNB designed to support the government's livelihood programs and the Kalakalan 20. |
| Small Enterprise Loan Fund | A PNB designed to finance project costs and/or working capital requirements of enterprises such as small handicrafts, manufacturing, retail establishments and cottage industries located outside Metro Manila |
| Members' Assistance for the Development of Entrepreneurs (MADE) | The MADE program has 2 components, namely: credit and technical assistance. Conduit institutions are cooperatives, NGOs, and GOs. |

SMALL AND MEDIUM FINANCING PROGRAMS:

| | |
|---|---|
| Overseas Economic Cooperation Fund (OECF) | A Japanese facility for firms whose asset size are up to P200 million. The interest rate is 2% lower than market rate. |
| Export Credit Guarantee Program for Small and Medium Enterprises (SMEs) | The project intends to: <ol style="list-style-type: none"> a) implement a modern finance system for SME's and new exporters; b) adapt Pre-shipment export Financing Guarantee (PEFG) to help exporters improve their access to export financing; and c) lessen burden of heavy collateral imposed by financial institutions. |

Annex D (continuation)

| <i>Policies/Programs</i> | <i>Brief Description</i> |
|---|---|
| Industrial Guarantee Loan Fund (IGLF) Regular DBP | A WB-IBRD financed program that extends guarantee financing for collateral deficient projects and loans for working capital and acquisition of fixed assets. Eligible borrowers are manufacturing concerns and service industries supportive of manufacturing activities. |
| Export Industry Modernization Program (EIMP) II-TLRC | An OECF-funded program designed to assist exporters with projects having modernization inputs. The program offers an initial maximum loan of P5M. TLRC will finance 70% of the total cost while 30% will be shouldered by the borrower. |
| Guarantee Fund for Small and Medium Enterprises (GFSME) | A program established to encourage banking institution to participate in lending to small and medium agribusiness enterprises. GFSME assumes 85% of the total risk involved. |
| Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee)-Export Credit Guarantee Program | Previously called the P3M Guarantee Facility. This program guarantees as much as 70% of an eligible borrower's loan for working capital and fixed assets. Eligible borrowers are export producers, traders and service exporters and contractors. |
| Philippine International Trading Corporation's (PITC) Financing Assistance Program | A financing facility for the acquisition of raw materials, working capital and other costs of servicing export orders of small and medium export producers. |
| Kabalikat Pagpapaunlad ng Industriya (KASAPI) | A program under the Social Security System (SSS) which provides loans to new or existing export-oriented SMEs. |
| Enterprise Development Financing Scheme-TLRC | Eligible borrowers are manufacturing/processing enterprises except garments in Metro Manila. Financing is for working capital, fixed assets, and site improvement. |
| <i>DBP Lending Facilities:</i> | |
| SME Financing Program | A program designed for agro-industrial, manufacturing, and service industries supportive of manufacturing activities. |
| Window III | Designed for projects that speed-up the development of an area/industry. |
| Balikatan sa Kabuhayan Program-TLRC | A program for manufacturing, piggery, poultry, cattle, aqua-culture and nontraditional crop production. |
| Livelihood Corporation Transactional Financing-TLA | For accredited producers or suppliers with confirmed purchase orders or letters of credit. |
| Small Business Loan Program-USAID | A program designed for productive and commercial activities located outside Metro Manila. |
| <i>Other Financing Programs:</i> | |
| Packing Credit - CB | |
| International Trade Financing - PNB | |

Source: Philippine Development Report 1990
Central Bank of the Philippines
Department of Trade and Industry

Annex E. Salient Features of Investment Acts 1967-1992

| <i>Subject</i> | <i>Marcos Administration</i> | <i>Aquino Administration</i> |
|---------------------------------------|--|--|
| LAWS | <ul style="list-style-type: none"> • Republic Act (RA) 5186 (Sept. 16, 1967) or Investment Incentives Act • RA 5455 (Sept. 30, 1968) Regulates the entry of foreign investments • RA 6135 (1970) or Export Incentives Act | <ul style="list-style-type: none"> • Executive Order (EO) 226 (July 17, 1987) or the Omnibus Investment Code • RA 7042 (November 1991) or Foreign Investment Act |
| INCENTIVES: | | |
| 1. Use of Capital Equipment | <ul style="list-style-type: none"> • Tax exemption on imported capital equipment within 7 years. • Tax credit on domestic capital equipment up to 100% • Tax deduction for expansion equipment of 25 to 50% "non-pioneer projects;" 50 to 100% for "pioneer projects." • Priority in obtaining assistance from government financial institutions at low interest and allocation of foreign exchange. | <ul style="list-style-type: none"> • Tax and duty exemption on imported capital equipment up to 100% within 5 years. • Tax credit on domestic capital equipment up to 100%. • Exemption from contractor's tax. • Exemption from taxes on imported spare parts. |
| 2. Promoting Export Production | <ul style="list-style-type: none"> • Tax credit on duties paid on imported raw materials and supplies. • Double deduction of shipping of shipping costs and promotional expenses for exports. • Exemption from export sales taxes. • Deduction from taxable income within 5 years. | <ul style="list-style-type: none"> • Access to bonded manufacture/trading warehouse system. • Tax exemption from wharfage dues, export tax, duty import and fee. |

Annex E (continuation)

| <i>Subject</i> | <i>Marcos Administration</i> | <i>Aquino Administration</i> |
|---|---|---|
| 3. Promoting Labor Use and Backward Integration | <ul style="list-style-type: none"> • Total cost of direct labor and local raw materials used in export production deductible from taxable income up to 10% for trader, 25% for producer, and 50% for service exporters. • Deduction from taxable income of 50% for labor training expenses. | <ul style="list-style-type: none"> • Deduction from taxable income of 50% of labor expense for the first 5 years if prescribed ratio of capital equipment to number of workers is met. Deduction is doubled if activity is located in less developed areas. |
| 4. Promoting Foreign Investments | <ul style="list-style-type: none"> • 40% foreign equity for "no-pioneer" activities; 100% foreign equity for "pioneer" activities. • Approval of application 30 to 90 days. • No restrictions on the repatriation of earning provided that foreign investors comply with CB rules and regulations. | <ul style="list-style-type: none"> • 40% to 100% foreign equity in activities not in the "negative lists." • Approval of application within 30 to 20 days. • No restrictions on the repatriation of earning provided that foreign investors comply with CB rules and regulations. |
| 5. Other Incentives | | <ul style="list-style-type: none"> • Income tax holiday for 6 years for pioneer and 4 years for non-pioneer firms and can be extended depending on: <ul style="list-style-type: none"> a) the ratio of capital equipment to number of workers; b) utilization of indigenous raw materials; and c) annual earnings amount to US\$500,000 for three years. |

Annex F

KALAKALAN 20
[Republic Act No. 6810]

AN ACT ESTABLISHING THE MAGNA CARTA FOR COUNTRYSIDE AND BARANGAY BUSINESS ENTERPRISES, GRANTING EXEMPTIONS FROM ANY AND ALL GOVERNMENT RULES AND REGULATIONS AND OTHER INCENTIVES AND BENEFITS THEREFORE, AND FOR OTHER PURPOSES

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

SECTION 1. It is hereby declared to be the policy of the State that growth of countryside business enterprises shall be achieved through absence of bureaucratic restrictions and granting of incentives and other benefits.

SEC. 2. This Act shall be known and cited as the "Magna Carta for Countryside and Barangay Business Enterprises (Kalakalan 20)."

As used in this Act, the term "countryside and barangay business enterprises," hereinafter referred to as the CBBE (Kalakalan 20), shall mean any business entity, association or cooperative registered under the provisions of this Act whose:

(a) Number of employees does not exceed twenty (20) at any time for the purpose of undertaking a productive business enterprise recommended by the Department of Trade and Industry (DTI) provincial office that will help develop the economy in its area.

For this purpose, the term "productive business enterprise" shall not apply to business enterprises engaged principally in any of the following activities, namely: professional services, retailing, wholesaling, or trading of commodities, products or merchandise;

(b) Assets, at the time of registration as CBBE, do not exceed Five Hundred Thousand Pesos (P 500,000.00) before financing; and

(c) Principal office and location of business operations are located in the countryside as defined in the implementing rules and regulations issued by the Secretary of Trade and Industry.

SEC. 3. Countryside business entities shall, upon registration, pay Two Hundred and Fifty Pesos (P 250.00) to the municipality or city where its principal place of office and business operations are located to cover the cost of the issuance of the licence to operate, known as the CBBE authority.

All CBBEs shall be exempted from all taxes, national or local, license and building permit fees and other business taxes, except real property and capital gains taxes, import duties and other taxes on imported articles. In addition, any and all income, receipts and proceeds derived from the business operations of the CBBE shall be excluded from the computation of gross income for

purposes of computing the individual income tax of the owners/members thereof.

It shall be exempted from any and all government rules and regulations in respect of assets, income, and other activities indispensably and directly utilized in, proceeding from or connected with the business of the enterprise. CBBEs, however, shall pay the CBBE fee to the municipal or city treasurer where they are registered, starting on their second year of operations, based on the following schedule:

- (a) Those with net assets before financing amounting to not more than P100,000.00
..... P1,000.00 per annum;
- (b) Those with net assets before financing of more the P100,000.00 to P250,000.00
..... P2,500.00 per annum;
- (c) Those with net assets before financing of more than P250,000.00 to P400,000.00
..... P4,000.00 per annum; and
- (d) Those with net assets before financing of more than P400,000.00 to P500,000.00
..... P5,000.00 per annum.

In the event the CBBE uses a brand name on its products, such brand name shall first be registered with the Bureau of Domestic Trade, through the Department of Trade and Industry (DTI) provincial officc.

SEC. 4. The collected CBBE fee shall accrue exclusively to the municipality or city and shall be used for developmental projects approved by the municipal or city council.

SEC. 5. CBBEs registered under the provisions of this Act shall acquire a separate and distinct juridical personality from the owners/members thereof and as such can own, dispose and encumber its properties and enter into contracts on its own account, with the capacity to sue and be sued, and transact business anywhere in the country.

SEC.6. The CBBE shall, as far as practicable, recruit its employees and utilize the indigenous and other existing resources within the areas of its operations.

SEC. 7. All the exemptions and other benefits herein provided shall, after due notice and hearing, be forfeited in case of any violation of the provisions of this Act by the CBBE or by any of its officers and authorized representatives.

SEC. 8. The CBBE authority shall, after due notice and hearing, be revoked and cancelled upon the failure of the CBBE, without valid reasons, to commence its operations within forty-five (45) days from receipt of the authority to operate.

SEC. 9. The exemptions and other benefits provided in this Act shall apply for a period not exceeding five (5) years from the date of the registration of the CBBE, provided such CBBE is registered within five (5) years from the effectivity of this Act.

SEC. 10. The Secretary of Trade and Industry in consultation with the Secretaries of Finance, Labor and Health, and the local government units shall formulate and prepare the necessary rules and regulations to implement the provisions of this Act within one hundred twenty (120) days. The rules and regulations issued pursuant to this section shall take effect fifteen (15) days after publication in a newspaper of general circulation and by such other means as the Secretary of Trade and Industry may deem reasonably sufficient to give interested parties general notice of such issuance.

SEC. 11 Any person who shall willfully violate any provisions of this Act who shall in any other manner commit any act to defeat any provisions of this Act shall, upon conviction, be punished by a fine of not less than One Thousand Pesos (P1,000.00): Provided, however, that should the same act or omission committed, under this section be likewise covered by another law, decree or order which provides for heavier penalty, the latter shall be made applicable: Provided, further, that should the act or omission punishable under this section be committed by a public official, that latter shall be prosecuted under the provisions of existing applicable laws.

SEC. 12. All laws or parts thereof, decrees, orders, rules and regulations inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 13. If any of the provisions of this Act are declared invalid, the remainder of this Act or any provision not affected thereby shall remain in force and effect.

SEC. 14. This Act shall take effect upon its approval

Approved : December 18, 1989

(SUB) CONTRACTOR

Annex G

PIDS-CRC PROJECT
MICRO IMPACTS OF MACRO ADJUSTMENT POLICIES (MIMAP)
A FRAMEWORK FOR THE PHILIPPINE INDUSTRIAL FORMAL SECTOR
 Questionnaire Form

PART I. SOCIO ECONOMIC PROFILE

Name of Enterprise: _____
 Name of Owner/Respondent: _____
 Office Address: _____
 Year Established _____
 Residence: _____
 Age: ____ Sex: () Male () Female

Type of good manufactured or services rendered:

PART II. GOVERNMENT POLICIES/PROGRAMS

1. Is your business registered with the government?

() Yes () No

a) If YES, with what government agencies are you registered?

- () Department of Trade and Industry (DTI)
 () Bureau of Internal Revenue (BIR)
 () City/Municipality (Mayor's Office)
 () Department of Labor and Employment (DOLE)
 () Others, please specify: _____

b) If NO, please give reason(s):

2. Are you aware of the following government policies/programs?
 (Please indicate your preference)

TRADE POLICY:

- a. Import Liberalization () Yes () No () Partly
 b. Tariff Reform () Yes () No () Partly
 c. Comprehensive Import
 Surveillance
 Scheme (CISS): () Yes () No () Partly

MONETARY POLICY:

- a. Foreign Exchange Rate () Yes () No () Partly
 b. Dollar Retention () Yes () No () Partly

- c. CB Rediscounting Window for Exporters () Yes () No () Partly
 d. Interest Rates on Loans () Yes () No () Partly

FISCAL POLICY:

- a. Import Levy () Yes () No () Partly
 b. Duty Drawbacks for Exporters & Tax Credits () Yes () No () Partly
 c. VAT () Yes () No () Partly
 d. Investment Incentives Act () Yes () No () Partly

LABOR POLICY:

- a. Minimum Wage Law () Yes () No () Partly

INSTITUTIONAL:

- a. Kalakalan 20 and Magna Carta for Small Business () Yes () No () Partly
 b. Local Government Code () Yes () No () Partly
 c. Bottle Recycling () Yes () No () Partly

3. Do the following government policies/programs affect your business? (If YES or Partly, please explain briefly how you are affected at blank space provided)

TRADE POLICY:

- a. Import Liberalization () Yes () No () Partly
 b. Tariff Reform () Yes () No () Partly
 c. Comprehensive Import Surveillance Scheme (CISS): () Yes () No () Partly

MONETARY POLICY:

- a. Foreign Exchange Rate () Yes () No () Partly
 b. Dollar Retention () Yes () No () Partly
 c. CB Rediscounting Window for Exporters () Yes () No () Partly
 d. Interest Rates on Loans () Yes () No () Partly

FISCAL POLICY:

- a. Import Levy () Yes () No () Partly
 b. Duty Drawbacks for Exporters & Tax Credits () Yes () No () Partly
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 d. Investment Incentives Act () Yes () No () Partly

LABOR POLICY:

- a. Minimum Wage Law () Yes () No () Partly

INSTITUTIONAL:

- a. Kalakalan 20 and Magna Carta for Small Business Yes No Partly
- b. Local Government Code Yes No Partly
- c. Bottle Recycling Yes No Partly

4. What policies or programs if any would you recommend to government? Please explain briefly.

PART III. EMPLOYMENT and PRODUCTION

1. Number of workers:

full time: male: _____ female: _____
 contractual: male: _____ female: _____

2. How many of your workers are aged:

| Age | Male | Female |
|--------------------|-------|--------|
| Below 15 years old | _____ | _____ |
| 15 - 21 | _____ | _____ |
| above 21 | _____ | _____ |

3.a. Compensation of Workers: (Please indicate the range)

piecemeal:P_____ daily P_____ per hour:P_____

weekly:P_____ monthly:P_____ others:P_____

b. Do you have benefits, if any, for your employees? Please describe briefly.

4.a. How many (sub)contractors do you have? _____

b. How much of your production volume is (sub)contracted?

5. Compare how your business fared during the Marcos and Aquino Administration.

6. What are the prospects for your business in the next 5 years?

Annex H

Congress of the Philippines)
 Third Regular Session)

HOUSE OF REPRESENTATIVES

H. No. 23355

AN ACT GRANTING ADDITIONAL INCENTIVES TO COUNTRYSIDE BUSINESS ENTITIES

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

SECTION 1. Declaration of Policy. It is the policy of the State to hasten the country's economic development by encouraging the formation and growth of small business entities principally in the countryside through the grant of nontax incentives thereby: (a) generating more employment opportunities in the rural areas; (b) increasing the incomes of rural people; and (c) strengthening the market of indigenous products.

This Act shall supplement the Act exempting Countryside Business Entities (CBEs) from any and all government rules and regulations.

SECTION 2. Business Entities Covered. All Countryside Business Entities (CBEs) located in cities/municipalities outside Metro Manila and highly urbanized cities, with less than twenty (20) workers and with a capitalization of not more than Five hundred thousand pesos (P500,000.00), shall avail of the nontax incentives provided in Section 3 of this Act: Provided, That this Act will apply only to those business enterprises engaged principally in manufacturing, processing and/or other production-oriented activities; Provided, further, That these business enterprises shall register with the Office of the Treasurer of the city/municipality where they are located.

SEC. 3. Nontax Incentives Granted. Registered CBEs are hereby granted the following nontax incentives:

(1) **Credit Incentives.** Registered CBEs shall be eligible for eighty-five percent (85%) project loan financing at a maximum effective rate of interest equivalent to the prevailing prime rate of financial institutions.

(a) **Seed Money.** Seed money shall be generated by requiring all government financial institutions to set aside Three hundred million pesos (P300,000,000.00) each for the credit support program to CBEs, consistent with their respective charters and/or with their international covenants.

(b) **Credit Delivery.** The said government financial institutions shall either lend directly to CBEs or through accredited private financial institutions to provide credit support

to CBEs covered by this program. Moreover, these private financial institutions using their own funds/resources may also lend directly to CBEs.

(c) **Incentives to Participating Financial Institutions.** In order to encourage credit flow to CBEs, the participating financial institutions are hereby granted the following incentives:

(i) **Interests, commissions, and discounts on loans from lending institutions granted to CBEs shall be exempt from gross receipts tax; and**

(ii) **The total interest income realized by the participating financial institutions from the money lent to CBEs based on prime lending rate shall be deducted from the total taxable incomes of said participating financial institutions for the purposes of computing their income tax.**

All loan releases to CBEs made by participating financial institutions shall be certified by the borrowing CBEs, which certification shall be the basis for determining the interest income on CBE loans that shall be deductible from the taxable income of said financial institutions.

(2) **Research/Technical/Management Training Assistance.** The Department of Trade and Industry, in coordination with other appropriate agencies such as the Department of Science and Technology, the U.P. Institute of Small Scale Industries, the National Economic and Development Authority as well as nongovernmental organizations, shall serve as the lead agency in extending research/technical/management training assistance to CBEs.

(3) **Marketing Assistance.** The Department of Trade and Industry shall provide up-to-date and continuing information to CBEs as regards input and output prices, the availability of the needed inputs, the markets for their outputs, list of possible business ventures in their locality, and other marketing assistance.

SEC. 4. Implementing Guidelines. The Department of Trade and Industry, in consultation with the Department of Finance and other appropriate institutions, shall formulate and announce the necessary implementing guidelines within ninety (90) days from the approval of this Act.

SEC. 5. Effectivity. This Act shall take effect upon its approval.

Approved,

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