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Toward Competitive and Innovative ASEAN SMEs: Philippine SME Policy Index 2012

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Abstract

The ASEAN SME Policy Index is an analytical tool to review, track, and identify gaps in SME policy development and implementation. The index covers the following eight policy areas: institutional framework; cheaper and faster start-up and better legislation and regulation for SMEs; access to information and supporting services; access to finance; technology and technology transfer; market access and getting more output of the single market; promotion of entrepreneurial education; and developing stronger, more effective representation for SMEs' interests.

Applying the above framework, the paper assesses whether the policies, programs and institutions in the Philippines are supportive of the development of SMEs in the region. On the average, the overall score for the country is quite modest and to move forward, it is important to simplify and streamline the overall registration process. Existing government programs must be evaluated in terms of scope and delivery with a view to improve and broaden support services for start-ups include business incubators as well as vouchers, grants and loans on favorable terms especially for the most dynamic enterprises. There is also a need to institutionalize the framework for conducting regulatory impact assessment in the country.

Key words: ASEAN SME Policy Index, Philippines

Toward Competitive and Innovative ASEAN SMEs:
Philippine SME Policy Index 2012[1]

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I. Introduction

Small and medium enterprises (SMEs) represent a vital element in the economic growth and industrial development process. They play a critical role by providing the crucial industrial linkages to set off a chain reaction of broad-based industrial development (Lim 2008). By serving as suppliers and subcontractors of parts and intermediate inputs as well as providers of agriculture activities, they provide not only an important source of employment but also a mechanism for technology transfer and local capacity building.

To narrow the development gap in the ASEAN region, the role of SMEs would be crucial. The ASEAN Policy Blueprint for SME Development for SME Development (APBSD) 2004-2014 was formulated to provide a consistent policy framework in the ASEAN at both the national and regional levels. It aims to accelerate the pace of SME development and enhance the competitiveness and dynamism of SMEs by facilitating their access to information, market, human resource development and skills, finance, and technology. The ASEAN Strategic Action Plan for SME Development was also crafted to further enhance the competitiveness and flexibility of SMEs in moving towards a single market and production base in ASEAN.

As of 2008, the Philippines had a little over 761,000 registered enterprises of which 91.6% are micro enterprises. Small enterprises had a share of 7.7% while medium enterprises accounted for only 0.4% of the total. In terms of sector structure, the wholesale and retail trade sector dominated the total with a share of almost 50%, followed by manufacturing and hotels and restaurant with shares of 14% and 12%, respectively. Total employment of around 5.54 million

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was registered during the same year with micro enterprises accounting for a share of 30%. SMEs contributed roughly the same with a share of about 31.2%. In terms of sectors, wholesale and retail trade generated 35% while manufacturing contributed 19% of total employment.

While some notable improvements in terms of number of enterprises, value added, and employment contribution were registered, the overall economic performance of SMEs in the last decade has been subdued. Thus, they have not substantially generated sufficient value added and employment to increase competition, improve industrial structure and increase the country's overall manufacturing growth. The weak performance of SMEs has been largely attributed to the large number of barriers particularly access to finance, technology, and skills as well as the presence of information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that the Philippines faces especially in the light of rising globalization trend and increasing economic integration not only in the ASEAN but also with the East Asian region.

Towards this end, the paper aims to assess whether the policies, programs and institutions in the country are supportive of the development of SMEs in the region. The analysis applies the ASEAN SME Policy Index, an assessment framework developed by the Economic Research Institute for ASEAN and East Asia (ERIA) and which was adopted from the OECD SME Policy Index. As an analytical tool to review, track, and identify gaps in SME policy development and implementation, the ASEAN SME Policy Index incorporates comprehensive dimensions at both the regional and national levels and covers the following eight policy areas: institutional framework; cheaper and faster start-up and better legislation and regulation for SMEs; access to information and supporting services; access to finance; technology and technology transfer; market access and getting more output of the single market; promotion of entrepreneurial education; and developing stronger, more effective representation for SMEs' interests.

The paper is divided into four parts. After the introduction, Section 2 discusses the macroeconomic and business operating environment of SMEs. Section 3 presents and analyzes the major findings of the survey-interviews on the implementation performance and outcomes of SME policy from all relevant government agencies and relevant stakeholders. Section 4 summarizes the main findings and recommendations for an effective SME policy in the Philippines.

II. Macroeconomic and Business Environment for SMEs

A. Structure of the Economy

Table 1 presents the average growth rates of the economy from the 1980s to the 2000s. Since the 1980s, the services sector has been the most important sector posting the highest average growth from 3.3% in the 1908s to 5.8% in the 2000s. Both agriculture and industry, manufacturing in particular, experienced sluggish growth in the 1980s and 1990s; modest gains were registered in the current period. In contrast, the average growth rate of the services sector increased particularly in the last two decades as its average growth rate went up from 3.6% in the 1990s to 5.8% in the 2000s.

Table 1: Average Growth Rates by Sector

Year	1981-90	1991-00	2001-10	2011	2012
Gross Domestic Product	1.7	3.0	4.7	3.9	6.6
Agriculture, Fishery, Forestry	1.1	1.8	3.0	2.7	2.7
Industry	0.3	3.0	4.2	2.3	6.5
Manufacturing	0.9	2.5	4.1	4.7	5.4
Service	3.3	3.6	5.8	5.1	7.4

Source of basic data: National Accounts of the Philippines, National Statistical Coordination Board

In terms of contribution to total value added, Table 2 shows that the services sector has accounted for the largest share increasing from 40% in the 1980s to 48% in the 2000s. The services sector's share continued to increase from 56.4 percent in 2011 to 56.9 percent in 2012. The average share of manufacturing value added declined from 26% in the 1980s to around 24 percent in the 1990s and 23.7% in the 2000s.

Table 2: Value Added Structure by Major Economic Sector

Year	1981-90	1991-00	2001-10	2011	2012
Agriculture, Fishery, Forestry	23.9	20.8	18.9	11.5	11.1
Industry	38.0	34.1	33.1	32.1	32.1
Manufacturing	26.3	24.3	23.7	22.4	22.1
Services	40.4	42.4	48.0	56.4	56.9

Source of basic data: National Accounts of the Philippines, National Statistical Coordination Board

Table 3 shows a more detailed structure of manufacturing value added. Consumer products continue to dominate the sector, although its share dropped from 57 percent during the period 1980s to 50 percent in the 1990s and 51% during the 2000s. Food manufactures remained the largest subsector with a share of 40% in the current period. Intermediate goods like petroleum and coal products and chemical and chemical products follow, accounting for an average share of 31 percent in the 1980s to 35 percent in the 1990s, although its share dropped markedly to 27% in the current period. The share of capital goods increased substantially from approximately 10 percent in the

1980s to 17 percent in 1990s. Currently, its average share is about 19 percent. This can be attributed to the growing importance of the electrical machinery sub-sector as its share jumped from 3% in the 1980s to 12 percent in the period 2001-2010.

In terms of growth, electrical machinery has been the best performer from the 1980s up to the 1990s as it grew from 7.3 percent during the mid-1980s to 14 percent during the 1990s (see Table 3). Its growth, however, slowed down substantially to 2.7% in the recent period due to the global economic crisis. Non-electrical machinery and miscellaneous manufactures also registered respectable growth from the 1980s up to the 1990s. In the recent period, non-electrical machinery registered a contraction in its growth while miscellaneous manufactures posted a slowdown.

Table 3: Structure and Growth of Manufacturing Value Added (in percent)

	Average Share			Average Growth Rate		
	1981-89	1990-00	2001-10	1981-89	1990-00	2001-10
Consumer Goods	**57**	**50**	**51**	**0.15**	**1.75**	**1.92**
Food manufactures	44	36	40	-0.73	1.83	2.82
Beverage industries	4	4	4	7.05	2.28	1.25
Tobacco manufactures	3	3	1	0.96	1.17	-5.46
Footwear, wearing apparel	5	6	4	5.65	1.54	-1.78
Furniture and fixtures	1	1	1	1.61	2.04	3.06
Intermediate Goods	**31**	**35**	**27**	**1.73**	**1.59**	**-1.07**
Textile manufactures	4	3	2	0.34	-4.58	-3.42
Wood and cork products	2	2	1	-4.60	-3.99	-4.87
Paper and paper products	1	1	1	4.00	-0.74	-0.42
Publishing and printing	1	2	1	3.23	1.39	-2.40
Leather and leather prod.	0	0	0	-3.39	5.32	-6.75
Rubber products	2	1	1	1.43	-2.21	-3.16
Chemical & chemical prod.	7	6	6	-0.69	2.47	0.69
Products of petroleum & coal	12	17	14	6.05	3.73	-1.14
Non-metallic mineral prod.	2	3	2	2.31	2.14	1.79
Capital Goods	**10**	**13**	**19**	**1.92**	**6.22**	**2.55**
Basic metal industries	3	2	3	9.53	-1.81	7.79
Metal industries	2	2	2	3.93	0.13	3.24
Machinery except electrical	1	1	1	0.41	5.94	-1.58
Electrical machinery	3	6	12	7.25	13.19	2.72
Transport equipment	1	1	1	-4.97	2.44	3.37
Miscellaneous manufactures	2	2	3	8.00	4.94	3.47
Total Manufacturing	100	100	100	0.88	2.33	1.15

Source: National Income Accounts.

Employment

In terms of employment contribution, the services sector has become the largest provider of employment in the most recent period (Table 4). The share of the labor force employed in the sector consistently increased, from around 32 percent in the mid-1970s to about 49 percent in 2000-

2011. The share of industry to total employment has been almost stagnant at 15% from the mid-1970s to the most recent period under review.

Table 4: Structure of Employment (in percent)

Major Sector	1975-78	1980-89	1990-99	2000-11
Agriculture, Fishery and Forestry	52.83	49.60	43.16	36.07
Industry	15.23	14.49	15.98	15.10
Mining and Quarrying	0.46	0.66	0.59	0.42
Manufacturing	11.29	9.93	10.01	9.08
Electricity, Gas and Water	0.35	0.36	0.44	0.40
Construction	3.13	3.54	4.94	5.22
Services	31.87	35.90	40.94	48.82
Wholesale and Retail Trade	10.32	12.55	14.54	18.65
Transportation, Storage & Communication	4.08	4.45	5.80	7.46
Financing, Insurance, Real Estate & Business Services	4.55	1.79	2.18	3.55
Community, Social & Personal Services	14.05	17.11	18.42	19.17
Industry not Elsewhere Classified	0.49	0.02	0.05	0.00

Sources: Yearbook of Labor Statistics (1980-2000) and Current Labor Statistics (2001-2002), Bureau of Labor and Employment Statistics, Department of Labor and Employment and Employed Persons by Major Industry Group, National Statistics Office Labor Force Survey (1970, 1975-1976, 1977-1978, 2003-2009).

The manufacturing sector share dropped from 11 percent in the mid-1970s to 9 percent in the 2000-2011 period. While the share of agriculture has been declining, the sector has remained an important source of employment. From 52.8 percent in the mid-1970s, the agriculture sector's share in total employment continuously declined in the succeeding decades and is currently around 36 percent.

Size Structure

In 2011, micro enterprises dominated the economy accounting for 91% of the total while small enterprises accounted for only 9% (Table 5).[3] Middle enterprises a very small proportion of the total. Since 2003, the total number of enterprises has fallen from 839,114 to 783,165 in 2006. In 2011, this went up to 820,255 but still lower than the total number of enterprises in 2003. In terms of employment contribution, micro enterprises accounted for a share of 28% in 2011 while small enterprises registered a share of 26%. Medium enterprises posted a share of 7% while large enterprises contributed 39% during the same year.

Within manufacturing, micro enterprises accounted for 89% of total establishments while small enterprises recorded a share of 9% in 2011 (Table 6). Medium and large enterprises registered a share of 0.8% and 0.9%, respectively. In terms of employment share, large firms contributed the

[3] Micro enterprises have from 1-9 employees. Small enterprises are defined as having 10-99 employees; medium as having 100-199 employees; and large as having over 200 employees (The National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003).

highest with a share of 53% of the total. Small and medium enterprises contributed 20% and 9% respectively while micro enterprises posted a share of 18%. Medium enterprises constitute a small share not only of the SME sector but also of the overall manufacturing and total Philippine industry structure, such that the country's industrial structure has remained "hollow".

Table 5: Total Number of Enterprises and Employees in the Philippines

Number of Enterprises

Year	Micro	%	Small	%	Medium	%	Large	%	Total
1995	449,950	91	39,848	8	2,712	1	2,447	0.5	495,057
2000	747,740	91	67,166	8	3,070	0.4	2,984	0.4	821,060
2003	762,573	91	69,175	8	3,521	0.4	3,745	0.4	839,114
2006	720,191	92	57,439	7	2,839	0.4	2,596	0.3	783,165
2010	709,899	91	61,979	8	2,786	0.4	3,023	0.4	777,687
2011	743,250	91	70,222	9	3,287	0.4	3,496	0.4	820,255

Number of Employees

Year	Micro	%	Small	%	Medium	%	Large	%	Total
1995	1,345,175	31	945,401	22	366,890	8	1,664,076	39	4,321,603
2000	2,165,100	37	1,522,227	26	416,686	7	1,798,173	30	5,902,256
2003	2,214,278	34	1,556,206	24	485,891	8	2,218,419	34	6,474,860
2006	1,667,824	33	1,279,018	26	381,013	8	1,657,028	33	4,984,950
2010	1,729,100	30	1,417,672	25	386,163	7	2,136,362	38	5,669,297
2011	1,778,353	28	1,642,492	26	451,561	7	2,473,336	39	6,345,742

Source: National Statistics Office

Table 6: Manufacturing Total Number of Enterprises and Employees

Number of Enterprises

Year	Micro	%	Small	%	Medium	%	Large	%	Total
1995	86,900	89	8,928	9	1,027	1	982	1	97,837
2000	108,998	87	14,121	11	1,110	0.9	1,238	1	125,467
2003	107,398	89	11,910	10	853	0.7	1,024	0.8	121,184
2006	105,083	90	10,274	9	1,004	0.9	985	0.8	117,346
2010	101,072	90	9,471	8	823	0.7	938	0.8	112,304
2011	**100,837**	89	**10,029**	9	**899**	0.8	**1,024**	0.9	**112,789**

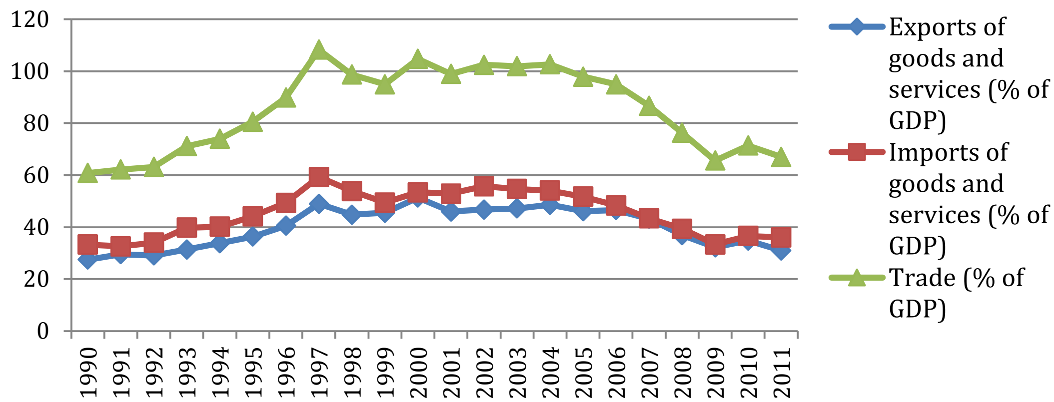
Number of Employees

Year	Micro	%	Small	%	Medium	%	Large	%	Total
1995	271699	22	227949	18	137384	11	615874	49	1252906
2000	354025	22	354328	22	150734	9	730127	46	1589214
2003	360576	25	285027	19	118896	8	698173	48	1462672
2006	259664	19	252931	18	132332	10	727984	53	1372911
2010	259,204	20	244,156	19	114,274	9	685,410	53	1,303,044
2011	**253,945**	18	**270,123**	20	**124,524**	9	**724,775**	53	**1,373,367**

Source: National Statistics Office

Trade (exports plus imports of goods and services) increased from an average of around 82% of GDP in the 1990s to 89% in the 2000s (Figure 1). On average, exports of goods & services as % of GDP rose from 38% to 43% during the same period, and imports from 44% to 47%. Trade balance, however, has been unfavorable with imports surpassing exports except in 1999-2000. In terms of the structure of exports, the Philippine export base has become less diversified.

Figure 1: Trade as Percentage of GDP, 1990-2011



Source: World Development Indicators 2012, World Bank

B. Monetary and Fiscal Policy[4]

Monetary

To foster macroeconomic stability, the government has pursued sound fiscal and monetary policies. Monetary authorities have continued to maintain a policy stance supportive of noninflationary growth. Though monetary authorities adopted intervention measures at the height of the global financial crisis, these were gradually abandoned as financial conditions improved. Credit remains sufficient in supporting economic activity. This is evident in the steady uptrend in bank lending and smooth functioning of domestic financial markets (PDP 2011). Inflation has been low and stable and this has contributed to the lower cost of funds in the market. Inflation in the Consumer price Index (CPI) averaged 5% during the period 2004-2011, registering 4.4% in 2011.

In terms of the external sector, the current account balance as a proportion of GDP increased from 1.8% in 2004 to 4.5% in 2010, although this declined to 3.2% in 2011. The current account position started to shift from deficits to surpluses in 2003 mainly due to the resilience of overseas remittances and increased services receipts from business process outsourcing and tourism. With favorable external payments performance, international reserves also increased providing strong coverage for both imports and short-term external debt. Gross reserves over imports increased from 4.42% in 2004 to 14.94% in 2011. The official reserve assets stood at

[4] The policy directions discussed in this sub-section draws substantially from the Philippine Development Plan 2011-2016.

US$75.3 billion in 2011. With the country's strong external liquidity position, the peso has remained broadly stable. Monetary authorities continue to face major challenges such as huge foreign capital inflows, build-up of asset market imbalances, and volatile and rising global prices of key commodities.

The strategic monetary framework continues to focus on low and stable inflation conducive to balanced and sustainable growth and reduced external vulnerabilities. In recent years, monetary authorities implemented a number of reforms to enhance the effectiveness of the monetary policy framework such as changing the method the inflation target was set and shift to a fixed medium term inflation target from a variable annual inflation target. As stated in the Philippine Development Plan, the reform agenda will focus on improving the institutional set-up and fine-tuning the procedures of inflation targeting.

Given the importance of policy coordination in promoting macroeconomic stability, closer coordination of monetary, regulatory, and fiscal policies would be explored, including through a wider representation in the Financial Sector Forum[5]. The monetary authorities will continue to adopt a flexible exchange rate policy to help the economy against external shocks. The foreign exchange regulatory framework will be further reviewed to keep it responsive to the needs of an expanding and increasingly integrated economy. The country's external debt will be maintained at more manageable and sustainable levels.

Fiscal

To improve the country's revenue position, the government implemented important fiscal reforms during the period 2004-2009. These included changes in the excise tax on alcohol and tobacco, expansion of the scope and increase in the value added tax rate as well as enactment of the Lateral Attrition Law. As a result, tax effort rose from 12.5% in 2004 to 14.2% in 2008. However, due to the economic slowdown arising from the global financial crisis, revenue collection weakened. Revenue effort dropped from 16.2% in 2008 to 14.6% in 2009. As the revenue position weakened and given the need for a stimulus package to counter recessionary pressure, the National Government Deficit reached 3.9% of GDP in 2009 while the consolidated public sector deficit posted 3.3% of GDP during the same year.

The strategic fiscal policy framework focuses on the expansion of the narrow fiscal space and attainment of a sustainable revenue and spending path. The major challenge that must be

[5] The FSF is an interagency body composed of the BSP, Securities and Exchange Commission, Insurance Commission and the Philippine Depository Insurance Corporation. This serves as an institutionalized framework for coordinating the supervision and regulation of the financial system.

addressed in the medium term is the need to achieve fiscal consolidation while substantially increasing investments in infrastructure, health, and education. Large budget deficits were incurred during the global financial crisis. But, at the same time, the reduction of infrastructure and social services spending in 2002 to 2006 resulted in large financing gaps in these areas.

The overall strategy is to increase tax effort to 15.6% of GDP through increases in collection effort of the Bureau of Internal Revenue and the Bureau of Customs as well as nontax revenue collection. The National Government deficit should decline to a level of 2% of GDP by 2013 and this must be maintained till 2016. The consolidated public sector deficit must also be reduced to 1.5% of GDP. To achieve these targets, specific strategies and programs would be designed to cover tax administration reforms (establish tax registry of all taxpayers, use third party data to determine potential tax base, maintain transparent and productive tax audit program, fully staffing the Bureau of Internal Revenue and Bureau of Customs with competent and adequately trained personnel); tax policy reforms (rationalization of fiscal incentives, fiscal responsibility law to hasten the fiscal consolidation process); nontax revenue reforms (adjustment of fees and charges, auctioning of assets such as air frequencies permits); and expenditure policy reforms (continued adoption of multiyear budgeting system, government rationalization program, procurement reforms, zero-based budgeting approach).

C. Trade and Investment Regime

Trade Policy

Since the 1980s, the Philippines has made considerable progress in opening-up the economy not only by removing tariff and non-tariff barriers but also by deregulating prices, entry and other administrative rules and liberalizing foreign investment restrictions. As a result, the current regime is substantially more open, particularly in the manufacturing industry.

From the early 1980s till the 1990s, the Philippines liberalized its trade policy by reducing tariff rates and removing import quantitative restrictions. The first tariff reform program (TRP 1) initiated in 1981 substantially reduced the average nominal tariff and the high rate of effective protection that characterized the Philippine industrial structure. TRP I also reduced the number of regulated products with the removal of import restrictions on 1,332 lines between 1986 and 1989.

The second phase of the tariff reform program (TRP II) was launched in 1991. TRP II introduced a new tariff code that further narrowed down the tariff range with the majority of tariff lines falling within the three to 30 percent tariff range. It also allowed the tariffication of quantitative restrictions for 153 agricultural products and tariff realignment for 48 commodities. With the country's ratification of the World Trade Organization (WTO) in 1994, the government committed to remove import restrictions on sensitive agricultural products except rice and replace these with high tariffs.

The government initiated another round of tariff reform (TRP III) in 1995 as a first major step in its plan to adopt a uniform five percent tariff by 2005. This policy was in line with the country's commitments to the ASEAN Free Trade Area-Common Effective Preferential Tariff (AFTA-CEPT) agreement where tariffs on most products would be reduced to a range between 0-5% by 2002. TRP III further narrowed down the tariff range for industrial products to within three and ten percent range and reduced the ceiling rate on manufactured goods to 30 percent while the floor remained at three percent. It also created a four-tier tariff structure: three percent for raw materials and capital equipment which were not locally available, 10 percent for raw materials and capital equipment which were locally available, 20 percent for intermediate goods, and 30 percent for finished goods.

In 1996, Republic Act 8178 legislated the tariffication of quantitative restrictions imposed on agricultural products and the creation of tariff quotas. Tariff quotas impose a relatively lower duty up to a minimum access level (or in-quota rate) and a higher duty beyond this minimum level (or out-quota rate). This brought down the percentage of regulated items from about four percent in 1995 to three percent of the total number of product lines in 1996. By 1997, most quantitative restrictions were lifted, with the important exception of rice.

Executive Order 465 was legislated in January 1998 to further refine the tariff structure and gradually implement the tariff reduction on 23 industries identified as export winners. EO 486, a comprehensive tariff reform package, was signed to modify the rates on product lines not covered by EO 465. However, after six months, Executive Order 63 was issued to increase the tariff rates on textiles, garments, petrochemicals, pulp and paper, and pocket lighters. It also froze tariff rates at their 2000 levels. In January 2001, EO 334, which was to constitute TRP IV, was passed to adjust the tariff structure towards a uniform tariff rate of 5 percent by the year 2004, except for a few sensitive agricultural and manufactured items. This was never implemented as a series of executive orders were passed to either postpone or increase tariff rates on selected products. In 2003, a comprehensive tariff review was carried out which culminated in the legislation of Executive Orders 241 and 264. These twin Executive Orders modified the whole tariff structure such that the tariff rates on goods that are not locally produced goods were made as low as possible while the tariff rates on locally produced goods were increased.

Philippine average tariffs are already low with manufacturing at 6.8% and agriculture at 11.2%. About 55% of total tariff lines are clustered around the 0-3% tariff levels and about 29% are found in the 5-10%. In recent years, the uncertainty in the successful conclusion of the World

Trade Organization (WTO)'s multilateral trade negotiations has led to a new wave of regionalism through the surge in free trade agreements (FTAs). The Philippines has participated in these initiatives by signing seven free trade agreements covering Japan-Philippines, Korea-ASEAN, China-ASEAN, AFTA, Japan-ASEAN, ASEAN-India and ASEAN-Australia and New Zealand. The government policy on FTAs is to maintain active engagement in several multilateral and bilateral trade and investment agreements. Philippine participation in these agreements is seen to pave the way for the country's deeper trade and investment integration in the global economy.

No unilateral trade reforms took place in recent years as the country's trade policy has been driven mostly by its FTA commitments, particularly the AFTA. Under the ASEAN Trade in Goods Agreement (ATIGA which came into force in 2010), the Philippines has reduced all tariffs to 0-10% except for the highly sensitive agriculture products such as rice. The China-ASEAN FTA (CAFTA) was also implemented on January 1, 2010 simultaneous with the ATIGA. Under CAFTA, tariffs are expected to be eliminated on 90% of products ranging from textiles to rubber, vegetable oil, and steel between China and the ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Thailand, and Singapore). Import duties will be removed on 6682 Chinese products. Average tariffs are reduced to 0.6% (from 9.8% in ASEAN and 12.8% in China).

Investment Policy

Beginning in the 1990s, Philippine foreign direct investment policy has changed considerably from a restrictive and complicated regulatory system towards a more open one. Given the need to expand exports and the potential economic contribution of FDI through the transfer of knowledge and experience, the Philippines adopted more open and flexible policies toward FDI. This was carried out simultaneously with the country's market-oriented reforms in the 1990s. In June 1991, the country accelerated the FDI liberalization process through the legislation of Republic Act 7042 or the Foreign Investment Act (FIA).

The FIA considerably liberalized the existing regulations by allowing foreign equity participation up to 100% in all areas not specified in the Foreign Investment Negative List (or FINL, which originally consisted of three component lists: A, B, and C)[6]. Prior to this, 100% eligibility for foreign investment was subject to the approval of the Board of Investments. The FIA

[6]List A: consists of areas reserved for Filipino nationals by virtue of the Constitution or specific legislations like mass media, cooperatives or small-scale mining.
List B: consists of areas reserved for Filipino nationals by virtue of defense, risk to health and moral, and protection of small and medium scale industries.
List C: consists of areas in which there already exists an adequate number of establishments to serve the needs of the economy and further foreign investments are no longer necessary.

was expected to provide transparency by disclosing in advance, through the FINL, the areas where foreign investment is allowed or restricted. It also reduced the bureaucratic discretion arising from the need to obtain prior government approval whenever foreign participation exceeded 40%.

Over time, the negative list has been reduced significantly. In March 1996, RA 7042 was amended through the legislation of RA 8179 which further liberalized foreign investments allowing greater foreign participation in areas that were previously restricted. This abolished List C which limited foreign ownership in “adequately served” sectors. Currently, the FIA has two component lists (A and B) covering sectors where foreign investment is restricted below 100% under the Constitution or those with restrictions mandated under various laws.

In the mid-1990s, Republic Act 7721 (1994 Foreign Bank Liberalization) allowed the establishment of ten new foreign banks in the Philippines. With the legislation of Republic Act 8791 (General Banking Law) in 2000, a seven-year window was provided allowing foreign banks to own up to 100 percent of one locally-incorporated commercial or thrift bank (with no obligation to divest later).

In March 2000, Republic Act 8762 (Retail Trade Liberalization Law) allowed foreign investors to enter the retail business and 100% ownership as long as they put up a minimum of US$7.5 million equity[7]. A lower minimum capitalization threshold of US$250,000 is allowed to foreigners seeking full ownership of firms engaged in high-end or luxury products. R.A. 8762 also allowed foreign companies to engage in rice and corn trade.

While substantial progress has been made in liberalizing the country’s FDI policy, certain significant barriers to FDI entry still remain. The sectors with foreign ownership restriction include mass media (no foreign equity), land ownership (foreign ownership is limited to 40%), natural resources, firms that supply to government-owned corporations or agencies (40%), public utilities (40%), and Build-Operate-Transfer (BOT) projects (40%). Constitutional change is necessary to remove these barriers. The 8th Foreign Investment Negative List which was issued in February 2010 did not differ substantially from the previous List (7th issued in December 2006).

As the Philippines shifted its orientation from import-substitution towards export promotion, the country implemented trade and investment liberalization and pursued changes in its overall investment and investment incentive policies. Incentives along with simplified registration procedures have become the centerpiece of the country’s investment promotion strategy. Fiscal and non-fiscal incentives have been conferred to preferred activities under the Omnibus Investments Code (OIC) and export-oriented enterprises in economic zones. The Board of Investments (BOI)

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[7] Singapore and Hong Kong have no minimum capital requirement while Thailand sets it at US$250,000.

offers incentives to firms located outside economic or free port zones. The major economic zones are supervised by the Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), and Clark Development Authority (CDA).

BOI-registered enterprises are allowed income tax holiday (ITH) up to eight years, tax and duty free importation of spare parts, and tax credit on raw materials. After the lapse of the income tax holiday, the regular corporate tax rate of 30% will apply to BOI enterprises. PEZA grants the most generous incentives covering income tax holiday, basic income tax rate of 5% of gross income, and tax and duty free importation of capital equipment, spare parts, and raw material inputs. Except for the income tax holiday, Clark and Subic enterprises enjoy the same incentives available to PEZA enterprises.

D. Labor Market Regulations

Labor regulations in the Philippines are characterized by minimum wages and stringent protection laws especially on workers dismissal. There exists a complex legal framework due to various labor regulations such as legislative acts, executive orders and court jurisprudences. In general, the country's labor regulations are designed to protect workers.

Minimum Wages

Since the 1950s, wage boards (consisting of members appointed by the President) have governed the determination of wages in the country. From 1951 to 1989, minimum wages were set at the national level and after 1989, these have been set at the regional level through the issuance in 1989 of Republic Act (RA) 6727 or the Wage Rationalization Act. RA 6727 shifted wage setting from a national to a regional system of wage determination and assigned the function of minimum wage setting to the Regional Tripartite Wages and Productivity Boards (RTWPBs) to take into account the differences in living standards and economic development across regions. The policy intent is to rationalize minimum wages and promote productivity in order to ensure a decent standard of living for the workers and their families; guarantee just share of labor in the fruits of production; enhance employment generation in the countryside through industry dispersal; and allow business and industry reasonable returns on investment, expansion and growth. The Regional Boards are mandated to determine regional minimum wages based on needs of workers, employers' capacity to pay, prevailing wages and the requirements for social and economic development.

RA 6727 covers all workers in private establishments except for the following two groups of workers: (i) household or domestic helpers and persons employed in the personal service of another, including family drivers and (ii) workers in Barangay Micro Business Establishments (or

BMBEs). The following establishments may also be exempted: (i) distressed; (ii) new business enterprises; (iii) retail and service establishments regularly employing not more than 10 persons and; (iv) establishments adversely affected by calamities.

The current system has been in place for the last twenty years and recently, there have been moves to reform the process. The Department of Labor and Employment is reviewing the Labor Code and has adopted a two-tiered wage scheme in selected industries such as public transport and regions like the CALABARZON. Under the two-tiered wage system, the first tier is a mandatory fixed floor wage set by the regional wage boards based on poverty threshold and average wage, among others. The second tier is an industry or firm specified amount based on productivity.

Workers Termination

The Labor Code requires employers to justify termination for authorized causes such as redundancy, installation of labor-saving devices, and other similar measures. The procedures for termination are considered by many employers as tedious and costly. Any steps missed are considered violation of due process. The Labor Code also mandates employers to pay full back wages if the worker wins the case. Previously, the Supreme Court ruled a three-year limit. As there is an incentive for both the arbiter and employee to prolong the case to extract a larger severance pay, the true cost of severance pay, including legal fees and opportunity cost, can be prohibitive. Hence, some firms resort to outsourcing non-core business lines and using short-term contracts such as the rotating 5-month contract to avoid regularizing employees, which is mandated after the 6th month of employment (World Bank PRD 2012).

Note that the Labor Code mandates employers to regularize probationary employees after their 6th month of service. Regularized employees have the right to full benefits and security of tenure, and can only be removed under just or authorized causes. Other workers may be terminated after their contracts have expired.

The World Bank Report also indicated that most cases of illegal termination entail lengthy proceedings. Both unions and employers agree that the dispute settlement process is too legalistic and costly. Instead of adopting streamlined procedures to facilitate litigation, the National Labor Relations Commission (NLRC) follows regular court proceedings. This has contributed to the huge number of case backlogs (up to 30,000 cases per year). Decisions at the arbiter level can be appealed all the way to the Supreme Court.[8] Cases that go all the way to the Supreme Court can take up to

[8] At present, all cases are first heard at the "single entry desk" for conciliation and mediation. If both parties cannot be reconciled, the case is brought before a labor arbiter in the NLRC. Appealed cases are heard by the

10 years to resolve. According to the NLRC, about half of the cases decided by labor arbiters are appealed with a third going all the way to the Supreme Court.

Due to their complexities, many of the regulations are not effectively implemented as indicated by the low compliance and enforcement rates. Less than 25 percent of workers comprising mostly formal wage and salaried workers are *de facto* covered and protected by labor regulations. However, the informal sector and informal workers in the formal sector are largely left out and are not protected from job and income losses. Among formal sector firms, around half of inspected firms do not comply with one or more core labor standards (BLES as cited in World Bank PDR 2012).

III. Towards an Effective SME Policy in the Philippines

Table 7 summarizes the ASEAN SME Policy assessment scores consisting of eight policy dimensions. Each indicator is structured around six levels of policy reform with 1 being the weakest and 6 being the strongest.

Table 7: ASEAN SME Policy Scores

No	Policy Sub-dimension / Indicator	Level
A	Institutional Framework	3.7
A.1	SME definition	4
A.2	Intra-governmental coordination in policy formulation	5
A.3	SME development strategy	3.5
A.4	SME policy implementation agency or equivalent	4
A.5	Facilitation for a transition from informal to formal (registered) sector	2
B	Access to Support Services	3.79
B.1	Policy framework for supporting services	3.75
B.1.1	Government action plan on development of SME support services	3.5
B.1.2	One-stop shop business development centres	4
B.2	Promotion of E-services	3.83
B.2.1	Promotion of E-commerce	4
B.2.2	Provision of E-government services	4
B.2.3	On-line portal for SMEs	3.5
C	Cheaper, faster start-up, and better legislation and regulation for SMEs	2.96
C.1	Cheaper and Faster Start up	3.92
C.1.1	Issuing of business establishment registration certificate (start from the lodging of the complete documents)	5.33
C.1.1.1	Number of days for obtaining business registration certificate	6

NLRC Commission Proper, the Court of Appeals, and finally the Supreme Court. Each step can last for up to 2 years.

C.1.1.2	Number of administrative steps for obtaining the business registration certificate	4
C.1.1.3	Official cost of obtaining the business registration certificate	6
C.1.2	Completion of the overall registration process and entry in operations	2.75
C.1.2.1	Number of days for completing the overall registration process, including compulsory licenses for standard business activities	2
C.1.2.2	Number of steps for completing the overall registration process, including compulsory licenses for standard business activities	1
C.1.2.3	Costs connected with registration (% of GNI per capita)	3
C.1.2.4	Minimum capital requirements (% of GNI per capita)	5
C.1.3	On-line access, one-stop-shop for registration, and start-ups	3.67
C.1.3.1	On-line registration	3
C.1.3.2	Progression to one-stop-shop (OSS)	4
C.1.3.3	Financial supports for start-ups (soft loans, vouchers, grants etc)	4
C.2	Better Legislation and regulation	2
C.2.1	Review and amendment of legislations and regulations	2.5
C.2.2	Use of Regulatory Impact Analysis (RIA)	1.5
D	Access to Finance	3.56
D.1	Legal and regulatory framework	3.33
D.1.1	Cadastre (including land use right)	3.5
D.1.2	Collateral and provisioning requirements	3.5
D.1.3	Creditor rights	3
D.2	Sound and diversified financial markets	3.79
D.2.1	Credit guarantee schemes	4
D.2.2	Credit bureau/ registries (not limited to SME)	1.5
D.2.3	Microfinance Facilities (including Credit Unions)	4
D.2.4	Leasing	4
D.2.5	Factoring	4
D.2.6	Availability of Risk Capital (e.g. venture capital, private equity funds, business angels)	4
D.2.7	Access to stock market	5
E	Technology and Technology Transfer	3.6
E.1	Promote Technology Dissemination	3.5
E.1.1	Strategic approach to innovation policy for SMEs	4.5
E.1.2	Information on innovation support services	1
E.1.3	Standards certification	5
E.2	Foster Technology Cooperation to Develop R&D focused on Commercialization of Knowledge	4.17
E.2.1	Incubators	4
E.2.2	Technology support in Universities, R&D Labs and Incubators with SMEs Linkages	3.5
E.2.3	Intellectual Property Rights (IPRs) System	5
E.3	Promote Clusters and Business Networks	3.75
E.3.1	Broadband infrastructure to support smooth connection and coordination of knowledge flows in cluster	4.5
E.3.2	Sciences / industrial parks, competitive clusters and facilities (agglomeration)	3
E.4	Finance and Technology Development	3

E.4.1	Financial Incentives	3
E.4.2	Public R&D grants	3
F	International Market Expansion	4.4
F.1	Export promotion programmes	4
F.2	Providing advise and high value information of the international market	4
F.3	Export capacity building programmes	4
F.4	Financial facilities for SMEs to export	4
F.5	Reducing costs of custom clearance for exports (per container)	6
G	Promotion of Entrepreneurial Education	3.7
G.1	Entrepreneurial promotion policy	4
G.2	Support of EL in basic education	3
G.3	Support of EL in higher education	3.5
G.4	Business-academe collaboration	4.5
G.5	Non-formal education on EL and management of SMEs	3.5
H	More Effective Representation of SMEs' Interests	4.67
H.1	Role and capacity of SME association	**4.67**
H.1.1	SME association	5
H.1.2	Technical capacity	5
H.1.3	Research capacity	4
H.2	Participation in Consultations on SME Policies	4.67
H.2.1	Mechanism of the consultations	5
H.2.2	Frequency of the consultations	5
H.2.3	Formal influence of the consultations	4
	Average Score	3.8

A. Institutional Framework

A.1 SME Definition

The Philippines has two operational definitions of small and medium enterprises covering all sectors (industry, agribusiness, trade and services) in the economy: employment and asset size. Due to the unavailability of data, the asset size definition is not widely applied. Employment size definition is the most commonly used definition in the country. The different size categories are classified as:[9]

Micro enterprises: 1-9 employees
Small enterprises: 10-99 employees
Medium: 100-199 employees
Large: 200 or more employees

In terms of the assets, SMEs are defined as follows:

Micro enterprises: P3 million or less

[9] National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003.

Small enterprises: P3-15 million
Medium: P15-100 million
Large: P100 or more

Based on Republic Act 9501[10], the above definitions shall be subject to review and adjustment by the Micro, Small and Medium Enterprises Development (MSMED) Council. Apart from employment size, the Council may use other variables such as equity capital and asset size.

Assessment

The Philippines has an existing legislation on MSME definition, but it is not streamlined in government programs and policies within the country. The National Statistics Office (NSO) is planning to align industry statistics to reflect the asset-based definition of MSMEs. This has been incorporated in the on-going Census of Establishments being carried out by the NSO. (**Level 4**)

A.2 Intra-governmental coordination in policy formulation

The Department of Trade and Industry (DTI) is the main government agency responsible for the development of Philippine MSMEs. The MSMED Council is the primary agency (administratively attached to the DTI) responsible for the promotion, growth and development of SMEs. It is headed by the Secretary of Trade and Industry as Chairman and is composed of the following members: Secretary of Agriculture; Secretary of the Interior and Local Government; Secretary of Science and Technology; Secretary of Tourism; Chairman of the Small Business Corporation; 3 representatives from the MSME sector to represent Luzon, Visayas, and Mindanao; one representative from the labor sector; and a representative from the private banking sector.

The Council is mandated to help establish the needed environment and opportunities conducive to the growth and development of MSMEs; recommend to the President and Congress all policy matters affecting MSMEs; coordinate and integrate various government and private sector activities on MSME development; and review existing policies of government agencies that would affect the growth and development of MSMEs and recommend to the President and Congress through the Committee on Economic Affairs of the Senate and the Committee on Small Business and Entrepreneurship Development of the House of Representatives.

In the implementation of the mandatory allocation of credit resources to MSMEs under the Magna Carta, the Council formulated the following policies: prescribing proportional penalties based on bank size and setting a floor penalty; remitting 90% of the penalties collected to the Council; and consideration of MSME notes and MSME credits, loans to traders, and committed

[10] RA 9501 of 2008 amended Republic Act 6977 of 1991, the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)". RA 8289 of 1997 also amended RA 6977.

credit lines granted by the Bankers Association of the Philippines as compliance to the mandatory allocation of credit provision. The Council also crafted two MSME Development Plans: 2004-2010 and 2011-2016.

The Bureau of Micro, Small and Medium Enterprises Development (BMSMED) acts as the Council Secretariat and is tasked to prepare, in coordination with local government units and/or associations of local government officials, and recommend annual as well as medium-term SMED plans for approval by the Council. It also assists the Council in coordinating and monitoring SME policies and programs and activities of all government agencies affecting SMEs. BMSMED leads DTI's SME Core Group and acts as a "one-stop-shop" to guide MSMEs to specialized support agencies.

Under RA 6977 (as amended by RA 8289 and 9501), the Small Business Corporation (formerly Small Business Guarantee and Finance Corporation) was created with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas but not limited to finance and information services, training and marketing. The SB Corporation is administratively attached to the DTI and under the policy and program supervision of the MSMED Council. The SB Corporation is mandated to source and adopt development initiatives for globally competitive MSMEs in finance and business technologies; extend all forms of financial assistance to eligible MSMEs; guarantee loans; and formulate means and methods of accepting alternative collaterals and implementing alternative loan evaluation models.

Apart from the MSMED Council, SB Corporation and the BMSMED, there are other DTI-attached agencies set up to support SMEs and SME exporters. These include the Philippine Trade Training Center (PTTC) for development and implementation of SME training and learning activities; Product Development and Design Center (PDDC) for product development initiatives and design programs; Center for International Trade Expositions and Missions (CITEM), and Bureau of Export Trade Promotion (BETP). CITEM assists exporters develop their core competencies in marketing, promotion, and capability building. PTTC designs and develops training curricula and instructional materials and conducts training programs for MSMEs. Its programs and services include entrepreneurship development, business management, export management, IT and webpage development, quality and productivity, and international standard seminars like ISO 9000 quality management system.

The Department of Science and Technology (DOST) is the main agency responsible for providing technology support to SMEs. It launched the Small Enterprises Technology Upgrading Program (SET-UP) to improve the viability of SMEs and enhance their competitiveness through the infusion of technology, technical assistance and manpower development.[11] The Program provides support to SMEs in the following areas: (i) technology needs assessment and technology sourcing; (ii) provision of seed funds for technology acquisition; (iii) technical training on hazard analysis and critical control points, good manufacturing practices, quality and environment management systems and other specific skills; (iv) technical and productivity consultancy services to participating firms; (v) establishment of product standards; (vi) development of networks of accredited regional product-testing laboratories; (vii) establishment of a packaging R&D center; and (viii) design and fabrication of cost-reducing equipment. The Program covers the following sectors: food processing, furniture, fashion accessories, gift, housewares, decors, handicrafts, natural dyes and fibers, marine and aquatic resources, horticulture, and metals and engineering.

There are other agencies involved in providing product and package design development services and technology intervention. These include the Industrial Technology and Development Institute, Technology Application and Promotion Institute, Metals Industry Research and Development Center, Forest Products Research and Development Institute, Philippine Textile Research Institute, Packaging Research and Design Center of the Philippines, Bureau of Food and Drugs, Bureau of Product Standards, and Food Development Center.

The Department of Agriculture (DA) is responsible for the promotion and development of MSMEs in agriculture, fishing and forestry. The Department of Interior & Local Government (DILG) for providing conducive business environment; the Department of Labor & Employment (DOLE) for improving productivity of MSMEs; and the Department of Tourism (DOT) for development of MSMEs in the tourism industry. The Bangko Sentral ng Pilipinas (BSP or Central Bank of the Philippines), Development Bank of the Philippines (DBP), and People's Credit & Finance Corporation (PCFC) are responsible for providing financing assistance to MSMEs. Other government financial institutions that are also involved in SME financing include the Land Bank of the Philippines, Quedan and Rural Credit Corporation, and the Philippine Export-Import Credit Agency. The Technical Education and Skills Development (TESDA), University of the Philippines-Institute for Small Scale Industries (UP-ISSI), Commission on Higher Education (CHED) and Department of Education, Culture and Sports (DECS) are tasked to provide entrepreneurial learning and business and technical skills and trainings.

[11] http://setup.dost.gov.ph/index.php (accessed on 30 July 2010).

Assessment

There is an existing institution with staff and budget in place as well as a system of consultation with implementing agencies (**Level 5**). The MSMED Council meets regularly on a quarterly basis. It is important to strengthen and deepen the coordination mechanism among the agencies particularly at the department secretary level including a system to keep track and monitor MSME policies formulated by different government agencies.

A.3 SME development strategy

The 2011-2016 MSME Development Plan focuses on addressing the critical constraints to the growth and development of the MSME sector. Measures will be implemented to create an enabling business environment, improve access to finance, expand market access, and strengthen MSME productivity and competitiveness as well as to deepen linkages with large enterprises and value chain networks. The Plan targets a 40% contribution of the MSME sector to total value added and creation of two million jobs by 2016.

Assessment

The SME development strategy has been implemented with moderate success (**Level 3.5**). A mechanism for review, evaluation, monitoring, and revision strategy should be formulated and effectively adopted.

Based on consultations and report submissions by different government agencies implementing MSME programs, the MSMED Plan highlighted the following achievements for the period 2004-2010: streamlining of business registration requirements (mayor's permit) in 100 cities and municipalities in Central Luzon and installation of internal monitoring systems in 26 cities and municipalities; development of DTI Business Profile Management System for business matching; provided P367.4B in loans to support more than 5.3M MSMEs around the Philippines; generated 6.5M direct and indirect jobs; P20.12B worth of MSME domestic sales and US$1.8B of MSME exports; capacity building programs for 115,604 MSMEs; and encouraged the registration and formalization of MSMEs by improving & simplifying the business environment of MSMEs. In a joint evaluation of the SMED Plan by the DTI and German Technical Cooperation in 2009, it was indicated that interaction and dialogue between government and MSMEs improved significantly building up synergies for effective implementation of MSME strategy; improved access to finance, although smaller MSMEs are benefitting less than the more established ones; and MSMEs are struggling to invest in skills, technology and quality & finding access to markets.[12]

A.4 SME policy implementation agency or equivalent

Assessment

SME implementation entity is fully operational and covers a range of activities with measurable outcomes (**Level 4**). The MSMED Council is in-charge of policy-making and coordination with government agencies, labor groups and the private sector. At the same time, there are many government agencies that are involved in the implementation of policies and programs affecting MSME growth and development. Under RA 6977 (as amended by RA 8289 and 9501), the Small Business Corporation (formerly Small Business Guarantee and Finance Corporation) was created with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas but not limited to finance and information services, training and marketing.

A.5 Facilitation for a transition from informal to formal (registered) sector

Under RA 9501, all lending institutions are mandated to allocate at least 8% of their credit resources to SMEs by mandating all lending institutions to set aside 8% of their total loan portfolio to micro and small enterprises and 2% for medium enterprises.

RA 9178 or the Barangay Micro Business Enterprises (BMBE Act) provides support to microenterprises and the informal sector through incentives to local government registered barangay micro enterprises, exemption from income tax, reduction in local taxes, exemption from payment of minimum wages, financial support from government financial institutions and technological assistance from government agencies.

The government created the People's Credit and Finance Corporation (PCFC) as the only government agency mandated by law to provide microfinance lending. It provides wholesale funds to retail microfinance institutions consisting mostly of rural banks/cooperative rural banks, cooperatives, and non-government organizations.

[12] MSMED Council. MSMED Plan 2011-2016. http://dti.gov.ph/uploads/DownloadableFiles/2012_DTI_MSMEDPlan_2011-2016.pdf

Assessment

The MSMED 2011-2016 Plan focuses on addressing the critical constraints to the growth and development of MSMEs. One of the four major areas that the Plan prioritizes is the creation of an enabling business environment along with improvement of MSME access to finance, expansion of market access, and increased productivity. Improvement of the regulatory environment is the main approach taken by the government to encourage MSMEs to register or formalize their business as well as enable the graduation of MSMEs to higher level of operation.

In 2002, the Barangay Micro Business Enterprises (BMBE) Act was legislated to integrate micro enterprises in the informal sector into the mainstream of the economy. Incentives that would facilitate their integration were offered such as income tax exemption, exemption from the coverage of the minimum wage law, and priority to a special credit window set up for the financing requirements of BMBEs.

DTI also created the Philippine Business Registry that integrates the services of all agencies involved in business registration to facilitate business registration. Sole proprietorship applicants can go to the nearest DTI Office and look for the PBR tellers to avail of such services. DTI has 101 regional and provincial offices and 101 Business Action Centers that provide assistance to start-up businesses (like business registration & licensing) all over the country. Business name registration processing time in the National Capital Region is 24 hours, for other areas it is 3 days for online application and 5 days for those provinces that are not online.

Much more needs to be done in order to establish a system of monitoring and evaluation that would directly measure the impact of the above on the transition of enterprises from informal to formal sector as well as on SME sector development. A more focused action plan must be formulated to tackle the informal sector (**Level 2**).

B. Cheaper, Faster Start-up, and Better Legislation and Regulation for SMEs

B.1 Policy framework for supporting services

B.1.1 Government action plan on development of SME support services

The 2004-2010 SME Development Plan highlighted the creation of globally competitive SMEs and strengthening government assistance in seeking new market and product opportunities. To achieve its targets, the Plan focused on three major areas: enhancing SME operations, providing assistance to priority industries[13], and improving SME operational environment. Based on the 2011-

[13] Food, organic and natural products, marine products, wearables, leathergoods, home furnishings, construction materials, micro-electronics, IT services, and motor vehicle parts and components.

2016 MSME Development Plan, reports gathered from various government agencies indicated that the implementation of the 2004-2010 Plan generated 6.5 million direct and indirect jobs, encouraged registration and formalization of MSMEs by helping improve the business enabling environment for MSMEs, provided PhP367.4 billion loans to support more than 6.3 million requests from MSMEs around the country, generated PhP20.12 billion worth of MSME sales and US$1.8 billion of MSME exports, and provided capacity building to 115, 604 MSMEs. In terms of improving the business environment, the issuance of mayor's permit was streamlined in 100 cities and municipalities in Central Luzon. The DOST provided technology transfer assistance to 4,394 firms and technology trainings to 12,380 during the period 2006 to 2009.

Under the 2004-2010 Medium Term Philippine Development Plan (MTPDP), the focus was also on providing credit, technology and marketing support for three million micro, small and medium enterprises (MSMEs). The MTPDP highlighted the "One Town-One Product "(OTOP) Program to stimulate economic activities of SMEs where every city or municipality in the country would develop a product where it has competitive advantage. The 2011-2016 MSME Development Plan reported that the OTOP Program generated export sales of US$417 million and domestic sales of PhP10 billion. The Program also assisted 29,639 MSMEs and generated 312,118 jobs from 2004 to 2010.

Assessment

The following are the major programs implemented by various government agencies:[14]

- Streamlining of business registration requirements by simplifying requirements for mayor's permit and creation of SME Business Action Centers to facilitate business registration
- SULONG Program (a unified lending program for MSMEs), Microfinance Program through the People's Credit and Finance Corporation, Magna Carta for MSMEs
- DTI's local and international trade fairs, buyer-supplier matching assistance
- Department of Science and Technology's SET-UP which aims to improve the viability and competitiveness of SMEs through infusion of technology, technical assistance and manpower development

[14] http://dti.gov.ph/uploads/DownloadableFiles/2012_DTI_MSMEDPlan_2011-2016.pdf (Table 10, pp 16-17).

- DTI's SME Roving Academy or SME Caravans that conduct regional and provincial road shows that bring together national government and private sector institutions to promote entrepreneurship, improve access to credit and markets, and increase productivity of MSMEs. These programs also aim to improve access of MSMEs to government and private sector services particularly in areas where provision of business development services may be limited.

The plan covers a range of support services and has been implemented with moderate success (**Level 3.5**). A monitoring system to measure the impact of the Plan should be designed and put in place.

B.1.2 One-stop shop business development centers

The DTI-Board of Investments National Economic Research and Business Action Center (NERBAC) gathers together under one roof representatives from various government agencies to answer investor queries and process investors' business registration. It provides assistance to the start-up firms in business registration and licensing, knowledge management, and investment promotion and facilitation. SME Centers have been established to act as one stop shops providing information, advisory, and consulting services in productivity improvement, technology upgrading, market information, product and market development, trade promotion, financing and entrepreneurial development. The BMSMED operates its own MSME Center and provides policy direction and program support to SME Centers.

Assessment

There is a network of one-stop shop business development centers nationwide with personalized services for SMEs (**Level 4**). The Department of Trade and Industry has 101 Business Action Centers operating in regions and provinces all over the country (see Attachment 1).[15] A monitoring and evaluation system to measure the impact of the one stop shops and quality of services provided should be designed and put in place.

[15]2012 DTI-BMSMED. "Programs and Services for MSMEs", pp.313-324.
http://dti.gov.ph/uploads/DownloadableFiles/2012_DTI_Programs_Services.pdf

B.2 Promotion of E-services

B. 2.1 Promotion of E-commerce

RA 8792 (E-Commerce Act) was legislated in June 2000. This defined government policies on electronic transactions and set the legal framework for the country's participation in e-commerce. It provided for the legal recognition and admissibility of electronic data messages, documents and signatures. It is highlighted by the following provisions:

- Mandated all government departments and offices to accept electronic data messages and documents in their transactions within two years from its commencement date
- Provided penalties on computer hacking, introduction of viruses and piracy of copyrighted works of at least PhP100,000 and maximum commensurate to the damage incurred, and imprisonment of six months to three years among others
- Promote e-commerce in the country, particularly in business-to-business and business-to-consumer transactions whereby business relations are enhanced and facilitated and consumers are able to find and purchase products online
- Reduce graft and corruption in government personal interaction between government agents and private individuals is minimized.

The government promulgated several policies and launched several programs to support the spread not only of e-commerce but of ICT in general. The Commission on Information and Communication Technology (CICT) was established in 2004 (EO 269) and mandated as the primary ICT policy, planning, coordinating, implementing, regulating, and administrative entity of the executive branch of Government. It is tasked to promote, develop, and regulate integrated and strategic ICT systems and reliable and cost-efficient communication facilities and services in the country.

Assessment

Supporting regulations and policy are in place to foster e-commerce (**Level 4**). However, "despite headways made in establishing a legal framework for e-commerce; pushing for a stable online trade infrastructure and upping Internet penetration in the country, local e-commerce has yet to step out of its nascent stages. Local e-commerce sales still comprise less than one percent of the total local retail market. The issue is both cultural and habitual, we are still uncomfortable as a people on the lack of guarantees of an online purchase". (Jack Madrid, country manager Multiply Philippines, Digital Filipino E-Commerce Summit. InterAksyon March 3, 2012 "Despite inroads, PH e-commerce landscape still at day one")

B.2.2 Provision of E-government services

The e-Services portal (www.eserbisyo.gov.ph) provides a single entry point for accessing government services. The Philippine Government Electronic Procurement System (PhilGEPS http://www.philgeps.gov.ph/) is a single, centralized electronic portal that serves as the primary and definitive source of information on government procurement. The eBayad (The Philippine Payment Gateway System http://ebayad.ncc.gov.ph/index.php?id1=1) is an internet-enabled payment portal that allows electronic payment to the government agencies through the use of different delivery channels to include debit instructions, credit cards and mobile wallets. Participating agencies include PhilGEPS, Intellectual Property Office for trademarks online filing system, and the Bureau of Food and Drugs.

Assessment

Some services can be filed online, but the software allows only for a limited number of operations (**Level 4**). "The Philippines has made significant progress in the area of e-government based on UN Reports in 2008, 2010 and 2012. However, the maturity level in e-government still remains relatively low especially due to its modest level of ICT infrastructure such as low PC penetration rate, low internet access and existing backbone." (National Computer Center and National IT Industry Promotion Agency. December 2012. Electronic Government Development and Strategy). Recently, DOST-ICT Office launched the iGovPhil (Integrated Government Philippines http://i.gov.ph/) Project to strengthen the online presence of citizen-facing government agencies. The iGovPhil will put up shared services, a common payment gateway system, and a national records management system for a number of government agencies. The building of the platform is essential for promoting e-Government in the country. The project will address common ICT-related problems in government such as lack of infrastructure and manpower, high cost of technology, lack of integration among government agencies and the lack of connectivity in rural communities.

B.2.3 On-line portal for SMEs

There are several SME portals in the country: (i) Small Business Corporation (www.sbgfc.org.ph) provides information about its MSME financing programs. (ii) World Bank-International Finance Corporation-PlantersBank SME.com.ph (www.sme.com.ph) links SMEs to the global economy through the Internet and has SME Toolkit offering a wide range of information to help entrepreneurs in developing countries start, finance, formalize and grow their business, business directory and quick links. It also provides SME books, downloadable forms from different government agencies, government laws, programs and pronouncements for SMEs. It also has a forum (http://www.sme.com.ph/forum/) that provides a venue for open group discussions (SME BizTalk with 4,471 registered users). (iii) SMEplus (www.finex-sme.org.ph), a loan portal developed by the Foundation for Filipino Entrepreneurship in collaboration with DTI-BMSMED. This links SMEs directly with banks & financing institutions that can lend to them & get advice from financial experts.

Assessment

There is one centralized portal for SMEs that re-directs users to key websites for SMEs. Portal is regularly updated and maintained. Portal is user friendly and gathers the information related to SMEs from the different public authorities active in this field (**Level 3.5**). It appears that the primary portal is the SME.com.ph while the other two are primarily focused on finance programs. There are indications that the SME.com.ph portal is being used, for instance, in its "Business Opportunities" tab which announces existing or potential business opportunities, ideas and leads, the most recent post was made on September 5, 2013. 13 opportunities were announced in August 2013 coming from companies located in the National Capital Region as well as in Regions 4 and the Cordillera Autonomous Region. There was also a Nigerian company offering its services. For the "SME Events" tab, the last event posted was dated August 2012. For the BizTalk which provides a venue for open group discussion, the most recent forum posted was dated June 25, 2013 with the topic "SME Events Around the World". A total of 1,233 articles were posted and the total registered users is 4,500 based on the SME Biz Talk Forum Index.

C. Access to Information and Supporting Services

C.1 Cheaper and faster start-up

C.1.1 Issuing of business establishment registration certificate

The DTI-National Capital Region and DTI Provincial Offices nationwide administer the registration of business names for single proprietors. Registration takes less than 5 working days (**Level 6**). Registration requires 4-5 administrative steps (**Level 4**). Official cost of obtaining the business registration certificate is greater than US$50 but less than US$100 (**Level 5**).

The DTI has been carrying out the following activities in order to improve the business environment:

- simplification and streamlining of business registration requirements and procedures in the country in coordination with other government agencies and the private sector

- nationwide streamlining of Business Permits and Licensing System in as many Local Government Units as possible (in coordination with the Department of Interior and Local Government)
- operationalization of the Philippine Business Registry to facilitate business transactions among government agencies and private sector by providing a single-window online transaction processing system
- strengthening the Business Action Centers to serve as one-stop business registration, investment promotion and information center in the countryside.

In cooperation with the German International Cooperation (GIZ), the DTI's "Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) was conceived to help improve the Philippine business and investment climate for SMEs. Its mission is to facilitate the development and replication of sustainable models for improving the local business climate in the Visayas. DTI launched the Electronic Business Name Registration System or EBNRS in 2010. This is an anti-red tape initiative which has reduced the time, number of documents and signatures required to register a business name. With the EBNRS in place, entrepreneurs can get their DTI business name registration certificates in less than 30 minutes. [16]

C.1.2 Completion of the overall registration process and entry in operations

For partnerships and corporations, the Securities and Exchange Commission is the government agency that gives the business enterprise its legal personality. Based on the World Bank's Ease of Doing Business, the overall registration process including compulsory licenses for standard business activities require 36 days (**Level 2**). The process entails 16 procedures (**Level 1**). The costs is 18.1% of income per capita (**Level 3**) while the paid-in minimum capital requirement is 4.8% of income per capita (**Level 5**).

C.1.3 On-line access, one stop shop for registration and start-ups

In terms of on-line registration, enterprises are able to submit registration forms, but cannot register in the on-line registration (**Level 3**). One stop shop for business registration operates on the basis of multiple windows in one location or with a limited geographic scope (**Level 4**). The Department of Trade and Industry has 101 Business Action Centers operating in regions and

[16] (source: Amy Remo. Philippine Daily Inquirer. May 18, 2012. "DTI reports hike in business registrations" http://business.inquirer.net/60237/dti-reports-hike-in-business-registrations)

provinces all over the country (see Attachment 1).[17] DTI also has SME Roving Academy or SME Caravans program that conducts regional and provincial road shows that bring together national government and private sector institutions to promote entrepreneurship, improve access to credit and markets, and increase productivity of MSMEs. These also aim to improve access of MSMEs to government and private sector services particularly in areas where provision of business development services may be limited.

Strategy on financial support tools approved and several financial support tools are being implemented but limited amount and coverage (**Level 4**). Studies show that access to finance has remained a major constraint to the growth and development of SMEs in the country. The 2011-2016 MSMED Plan recognizes the absence of financial support to start-ups. For most SMEs, savings continue to be the main source of financing especially when the business is just starting (SME Toolkit Philippines, Sources of Financing). There are two financing programs available for start-ups: Small Business Corporation Financing For Start-Up Enterprises and the Land Bank of the Philippines Easy Pondong Pang-Asenso. No evaluation has been done to assess the impact of these programs.

Financing Services	Notes
Land Bank of the Philippines Easy Pondong Pang-Asenso (EPPA)	Lending program for small entrepreneurs; accommodates new/start-up & existing projects with easy collateral requirements & simpler documentation procedures Loan amount: up to 80% of total project cost Interest rate: prevailing market rate Term: credit line (1 year renewable); term loan Collateral requirements: any or combination Real estate/chattel mortgage; hold-out deposits; assignment of receivable &/or inventory; JSS of principal stockholders/officers; guarantee cover from Small Business Corporation
Small Business Corporation (Small Business Guarantee & Finance Corporation) Financing For Start-Up Enterprises	A direct lending facility for start-up domestic entrepreneurs whose product or service prototype has already been produced & market-tested Type of loan: amortized term loan Amount: minimum P200,000; maximum: up to 50% of total project cost Interest rate: interest rate setting is based on borrower risk rating, collateral cover & term of the loan Security: Must be fully secured by real estate mortgage &/or chattel mortgage on motor vehicle Fixed assets to be financed by the loan shall form part of the collateral

[17] 2012 DTI-BMSMED. "Programs and Services for MSMEs", pp.313-324. http://dti.gov.ph/uploads/DownloadableFiles/2012_DTI_Programs_Services.pdf

There are no specific data on financial programs for start-ups. Using consolidated data from the website of the Small Business Corporation (http://www.sbgfc.org.ph/index.php/about-us/history), the SB Corporation is the third largest provider of SME financing with a lending portfolio of P3B. It has over 10,000 clients, 150 partner financial institutions and serving 65 of the 81 provinces across the country. It has 4 area offices (Baguio, Palawan, Bacolod, & Butuan) and 9 desk offices in Luzon, Visayas and Mindanao. Asof 2012, SBC's total funding for MSMEs amounted to P38.5 billion. Its credit guarantee facility increased from P40.2 M in 2011 to P87.9 M in 2012.Luzon is still the bulk (55%) of SBC's loan portfolio, Mindanao is 24% and Visayas is 16%. For 2012, loan releases to MSMEs by government financial institutions totalled P30.4B. PHILEXIM had P346M loan releases and QUEDANCOR P385M.

Assessment

Significant progress should be made in simplifying the overall registration process which is still quite cumbersome. It takes 6 days to obtain the business permit to operate from the BPLO, 7 days to print receipts and invoices at the print shops, 7 days to register with the Social Security System, and 3 days to register the company with the SEC and receive pre-registered Taxpayer Identification Number. The National Competitiveness Council is currently working closely with government agencies and the private sector to map out ways to streamline and simplify each process and eventually to automate.

Current government financial support for start-ups is still limited to have any significant impact. It is important to assess existing programs in terms of scope and delivery with a view to improve and broaden these support services to include business incubators as well as vouchers, grants and loans on favorable terms.

C.2 Better legislation and regulation

There has been some ad hoc activity to carry out amendment of redundant or ineffective legislations and regulations and the government is planning to carry out this exercise with the creation of a Congressional Oversight Committee on MSMED in 2008 (**Level 2.5**). RA 6977 or Magna Carta for Small Enterprises has been amended three times since its legislation in 1991. RA 6977 defined SMEs as follows: micro - less than P50,000; cottage - P50,0001 to P500,000; small - P500,001 to P5,000,000; and medium - P5,000,001 to P20,000,000. It also mandated all lending institutions to set aside a portion of their total loan portfolio to small enterprises and created the Small Business Guarantee and Finance Corporation (SBGFC) to provide financing to small enterprises.

Taking into account inflation and other economic factors, RA 6977 was amended in 1996 by RA 8289 to define SMEs as follows: micro - less than P1.5M; small- P1,5001 to P15M; medium - P15,000,001 to P60M. It also amended the mandatory allocation of credit to SMEs as follows: 6% for small and 2% for medium enterprises for a period of 10 years and required the SBGFC to guarantee loans obtained by qualified SMEs.

Through RA 9501 in 2008, the definitions were again changed as follows: micro - not more than P3M; small - P3,000,001 to P15M; medium - P15,000,001 to P100M. Another amendment was the formulation by the DTI of a 6-year MSMED Plan to be approved by the President. The SBGFC would be known as Small Business Corporation with the primary responsibility to implement comprehensive policies and programs to assist MSMEs in all areas including but not limited to finance and information services, training and marketing. Its authorized capital was also increased from P5B to P10B. The mandatory credit allocation was also changed to at least 8% for micro and small enterprises and at least 2% for medium enterprises. RA 9501 also tasked the MSMED Council to conduct continuing review of government programs for MSMEs and submit a report together with recommendations to Congress and the President. A Congressional Oversight Committee on MSMED (COC-MSMED) was also created to oversee and monitor the implementation of RA 9501. The COC-MSMED was mandated to design the guidelines and overall framework for the monitoring of this Act.

A simplified, pilot regulatory impact analysis program is being used in certain areas of regulation (**Level 1.5**). Through a technical assistance under the "PHI Strengthening Institutions for an Improved Investment Climate" with the Philippine government, the Asian Development Bank is assisting the implementation of a RIA regime across departments. The Department of Labor and Employment, Department of Tourism and Department of Finance are piloting the institutionalization of RIA in the Philippine Government. The pilot program is focused on developing a RIA regime based on regulatory best practice principles that suit local circumstances. It will be progressively rolled out across other departments with an Executive Order for full implementation across the government in 2015 including the establishment of a central Office for Best Regulatory Practice. Progress to date includes establishment of RIA Pilots in the DOLE and DOT, development of RIA Guidelines, and conduct of RIA training. Current challenges include level of skills and knowledge in analysis of impacts from regulations in both government and business, weak coordination across departments in the development & assessment of laws and regulations and weak interface between government & business in regulatory development & implementation. [18]

Assessment

The review and amendment of legislations and regulations is not conducted in a systematic way. There is also no systematic regulatory impact assessment. A simplified, pilot RIA program is being used in certain areas of regulations of the Department of Finance, Department of Labor and Employment, and Department of Tourism under a project introduced and supported by the Asian Development Bank in 2012. There is a need to simplify and improve legislations and regulations as well as institutionalize the framework for conducting regulatory impact assessment.

D. Access to Finance

D.1 Legal and regulatory framework

D.1.1 Cadastre including land use right

There is a cadaster on landownership but not on land use (**Level 3.5**). The cadastre on land ownership is fragmented and not updated because of the overlapping functions of several government agencies that are responsible for carrying out surveying/titling activities. These involve the Department of Environment and Natural Resources-Land Management Bureau (DENR-LMB), Land Registration Authority (LRA), Department of Agrarian Reform (DAR), and the National Commission on Indigenous People (NCIP). There is very little information sharing among the agencies. Land ownership has not been fully documented in the cadastre since some lands have yet to be titled. About 54.6% of land ownership is documented. There is a pipeline project for DENR to come up with a single system cadastre, update and harmonize the existing cadastre system as well as to develop common working base map. Note that only titled and registered real properties (Torrens Certificate of Title) are acceptable as bank loan collateral. Titled and registered lands with land reform titles and DENR Free patents/homestead titles have limited acceptability because of restrictions in the transferability of these lands.

[18] Source: DOLE and DOT. 2012. RIA Pilot Project. http://www.tourism.gov.ph/Downloadable%20Files/Briefing_Paper_for_Provincial_Seminars_FINAL_July_2012.pdf

D.1.2 Collateral and provisioning requirements

Based on the Manual of Regulations for Banks, loans can be secured by real estate mortgages (shall not exceed 70% of appraised value); chattels and intangible properties including patents, trademarks, trade names, copyrights (shall not exceed 75% of appraised value of the security); and personal properties consisting of bonds and securities issued by the government (may be given loan values equal to their face value or cash value), readily marketable bonds and other high-grade debt securities and blue chip stocks (except those issued by the lending entity or its parent company, loan value shall be equal to 50% of their market value), expected harvest from the project to be financed or growing crops (up to 40% of calculated market value of crop), quedans or warehouse receipts issued by bonded warehouses (up to 80% of the value of the crop) and any other personal property (up to 50% of the fair market value).

Type of Collateral	Definition
Chattel mortgage: personal property must be registered in the Chattel Mortgage Registry	Aircraft; Animal, Crops (in ground & severed), Timber; Inventory; Promissory Notes & Chattel Paper; Vessels; Vehicles; Shares (in book entry & certificate form & other securities)
Pledge: must appear in a public instrument (notarized instrument)	Aircraft; Animal, Crops (in ground & severed), Timber; Intellectual Property; Inventory; Leasehold Rights; Promissory Notes & Chattel Paper; Shares (in book entry & certificate form & other securities); Vessels, Vehicles
Real estate mortgage: registered in the Registry of Deeds	Real Estate
Assignment by way of security	Bank Accounts; Certificates of Bank Deposits; Leases; Receivables (credit rights under contracts or invoices); Rights under Contracts (excluding Receivables); Animal, Crops (in ground & severed), Timber; Equipment; Inventory; Mineral Interests; Promissory Notes & Chattel Paper

Any business can use movable assets as collateral while keeping possession of the assets and financial institutions accept such assets as collateral. There is no collateral registry in operation that is unified geographically and by asset type. (Ease of Doing Business in Philippines 2013). The value or amount of collateral required by financial institutions depends on the credit policy of the latter. In practice, the average percentage of collateral requirement ranges from 125 to 140% of the loan amount (**Level 3.5**).

Firms can apply for uncollateralized loans. These are approved on a case-by-case basis depending on the financial condition of the firm, whether it has enough equity, sufficient assets to cover its liabilities, and track record of the firm (i.e. no previous defaults). For unsecured loans, the Manual of Regulations for Banks indicate that apart from information on credit standing and financial capacity of borrower, the following are required: (i) copy of latest Income Tax Return of the borrower and co-maker; (ii) if borrower is engaged in business, a copy of the borrower's latest financial statements as submitted for taxation purposes to the Bureau of Internal Revenue (BIR); and (iii) waiver of confidentiality of client information and/or an authority of the bank to conduct random verification with the BIR. Microfinance loans and loans to registered micro-business enterprises are exempted from submission of required additional documents. Unsecured loans would be made under the signature of the principal borrower and at least one co-maker, except that a co-maker is not required when the principal borrower has the financial capacity and a good track record of paying his obligations.

D.1.3 Creditor Rights

The Financial Rehabilitation & Insolvency Act (FRIA) of 2010 replaced the antiquated Philippine insolvency law of 1909. The Insolvency Act of 1909 deals only with three remedies: suspension of payments, voluntary insolvency and involuntary insolvency and does not provide for corporate rehabilitation. The FRIA declares that “the State shall ensure a timely, fair, transparent, effective, and efficient rehabilitation or liquidation of debtors. The rehabilitation or liquidation shall be made with a view to ensure certainty and predictability in commercial affairs, preserve and maximize the value of assets of these debtors, recognize creditor rights and respect priority of claims and ensure equitable treatment of creditors who are similarly situated”. (**Level 3**).

The FRIA provides no diminution of secured creditor rights. Section 60 states that the “issuance of the Commencement Order & the Suspension or Stay Order shall not be deemed in any way to diminish or impair the security or lien of a secured creditor, or the value of his lien or security, except that his right to enforce said security or lien may be suspended during the term of the Stay Order. The Court, upon motion or recommendation of the rehabilitation receiver, may allow a secured creditor to enforce his security or lien, or foreclose upon property of the debtor securing his/its claim, if the said property is not necessary for the rehabilitation of the debtor. Under section 114 on rights of secured creditors, the liquidation order shall not affect the right of a secured creditor to enforce his lien in accordance with the applicable contract or law.

Creditor consent is not required for a borrower to seek protection of the courts by filing a petition for rehabilitation. However, there are certain conditions before a borrower’s petition for rehabilitation will be given due course (e.g. must prove that it has sufficient assets to cover its debts and that it is capable of being rehabilitated, must submit schedule of debts, inventory of assets, rehabilitation plan, and names of the nominees for rehabilitation receiver). At the same time, the law also allows any creditor or group of creditors whose claim is at least PhP1 million or at least

25% of the subscribed capital stock to initiate involuntary proceedings against the debtor by filing a petition for rehabilitation with the court if the debtor has failed generally to meet its liabilities as they fall due or a creditor, other than the petitioners, has initiated foreclosure proceedings against the debtor that will prevent the debtor from paying its debts or will render it insolvent.

The court may appoint and direct the rehabilitation receiver to assume the powers of management of the debtor or appoint a management committee that will undertake the management of the debtor under any of the following circumstances: (i) actual or imminent danger of dissipation, loss, wastage or destruction of the debtor's assets or other properties; (ii) paralyzation of the business operations of the debtor; or (iii) gross mismanagement of the debtor or fraud or other wrongful conduct on the part of existing management of the debtor (Section 36). According to FRIA, unless otherwise provided herein, the management of the juridical debtor shall remain with the existing management subject to the applicable laws and agreements. However, all disbursements, payments or sale, disposal, assignment, transfer or encumbrance of property or any other act affecting title or interest in property shall be subject to the approval of the rehabilitation receiver and/or court (Section 47).

The 2013 Ease of Doing Business in Philippines also indicated that secured creditors are not subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure. At the same time, the law provides secured creditors with grounds for relief from an automatic stay and sets a time limit to it. The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court at the time a security interest is created. Secured creditors are paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure. When a business is liquidated general tax claims and employee claims are paid first.

Assessment

The legal and regulatory framework should be strengthened particularly the documentation of land ownership. To simplify the land use regime, consolidation of land management into one agency should be pursued. A centralized and computerized registry for chattel mortgage must be established. Without central registries, it is difficult to ascertain whether or not a particular property is already the subject of an existing encumbrance. To effectively implement the Financial Rehabilitation and Insolvency Act of 2010, measures and reforms should be put in place to ensure the speedy resolution of court cases and to improve the efficiency of courts. Courts hearing rehabilitation cases should be consolidated to increase judicial expertise and efficiency. Specialized bankruptcy case tracking should be implemented, this may likely spur increased performance by the judges that are hearing these cases. Judges' salaries should be increased to attract candidates with advanced commercial litigation skills.

D.2 Sound and diversified financial markets

D.2.1 Credit guarantee scheme

There are three major institutions providing credit guarantee facilities:

(1) Small Business Corporation (SBC) offers a Credit Guarantee Program which aims to help financial institution consider the granting of loans to MSMEs thru credit sharing, with SBC taking on the bigger bulk of the risk for a fee. SBC has three facilities:

- SME-GEAR: guarantee for MSMEs without collateral
- SME-GROW: guarantee for MSMEs with partial collateral
- SME-GAIN: guarantee for MSMEs with available collateral but are faced with some credit risk concerns.

(2) The Philippine Export-Import Credit Agency (PHILEXIM) has two programs:

- Wholesale Guarantee for SMEs Program provides guarantees on existing loan portfolios to direct and indirect SME exporters
- Guaranteed Programs for SMEs provides guarantees on short term loans to direct and indirect exporters, firms involved in priority projects of the government and import substitution industries.

(3).QUEDANCOR: guarantee institution for the agriculture and fishery sectors, mission is to provide better and accessible credit and guarantee by agricultural stakeholders; QUEDANCOR is the fund manager of the Agriculture and Fisheries Credit Guarantee Fund which mandates it to serve as guarantor to the unsecured loans of farmers and fisher folk and encourage local banks to increase their loans to the sector.

Assessment

Credit guarantee facility covers limited geographical and type of business (**Level 4**). Based on the SBC website (http://www.sbgfc.org.ph/index.php/about-us/history), SB Corporation is the third largest provider of SME financing with a lending portfolio of P3B. It has over 10,000 clients, 150 partner financial institutions and serving 65 of the 81 provinces across the country. It has 4 area offices (Baguio, Palawan, Bacolod, & Butuan) and 9 desk offices in Luzon, Visayas and Mindanao. Asof 2012, SBC's total funding for MSMEs amounted to P38.5 billion. Its credit guarantee facility increased from P40.2 M in 2011 to P87.9 M in 2012. The number of SMEs guranteed also increased from 25 in 2011 to 49 in 2012.Luzon is still the bulk (55%) of SBC's loan portfolio, Mindanao is 24% and Visayas is 16%. For 2012, loan releases to MSMEs by government financial institutions totalled P30.4B. PHILEXIM had P346M loan releases and QUEDANCOR P385M.

D.2.2 Credit bureau/registries

Although private credit bureaus (BAP Credit Bureau Inc., Dun and Bradstreet Phils, Inc) have been in existence in the Philippines, a centralized credit information system is absent. This lack of a comprehensive and specific database makes individual and corporate credit inaccessible and costly especially for SMEs. The deficiency in credit information puts financial institutions to excessive and unnecessary credit risks. To address the fragmented and unorganized credit information system, the Credit Information System Act (CISA under Republic Act 9510) was enacted in 2008. The Credit Information System (CIS) under the Central Credit Information Corporation is 60% owned by the government (Securities & Exchange Commission as lead together with the Bangko Sentral ng Pilipinas) and 40% owned by the private sector (Bankers Association of the Philippines, Philippine Cooperative Center, Credit Card Association of the Philippines, Chamber of Thrift Banks, Rural Bankers Association of the Philippines and Philippine Credit Reporting Alliance). The implementation has been limited due to lack of regulatory and funding support. The same holds for the country’s credit guarantee programs.

Assessment

Credit information services in place, but access limited to financial institutions. (**Level 1.5**)

D.2.3 Microfinance facilities

The National Credit Council approved a Regulatory Framework for Microfinance in 2002. The framework covers only institution taking deposits from the general public & or from its members. These institutions (banks and cooperatives) are subject to prudential regulation and supervision. Since microfinance NGOs are not supposed to take deposits from the public, they are not covered by prudential regulations. NGOs that collect beyond compensating balances should transform into institutions that will be subject to appropriate regulation and supervision. Banks engaged in microfinance operations are regulated by the Bangko Sentral ng Pilipinas while cooperatives are under the Cooperative Development Authority. NGOs are encouraged to submit reports to the Microfinance Council of the Philippines which has been tasked to be the repository of information for microfinance NGOs. Even with the variety of institutions providing microfinance and a clear regulatory framework for the practice of microfinance, much remains to be done to increase the reach of microfinance institutions. According to industry estimates, the supply of microfinance is reaching between 10-20% of the potential market. Microfinance loans in the amount P5,000-P20,000 are mostly financed by NGOs & government agencies.

Assessment

Level 4[19] + wide ranges of microfinance products and extensive coverage. Most is privately managed (**Level 4**). According to the BSP, microfinance facilities operate nationwide. The national strategy is geared towards a market driven, private sector led microfinance industry. Donors no longer provide funds for loans but for capacity building. The funds are mainly private and institutions provide the following products: microenterprise loans, micro housing, micro agri, micro deposits, and micro insurance.

The Philippines follows a market approach to microfinance and the government role is limited to regulating and providing an enabling environment for sector growth and development. In the Economist Intelligence Unit 2011, of 55 surveyed countries globally, the Philippines (and Pakistan) ranked first in the category of regulatory framework and practices suggesting strong regulatory regimes and good prospects for microfinance. The micro finance industry is commercially oriented, offering more diverse products and services to clients with more licensed or formal institutions operating in the market. Penetration rates compare active borrowers against a potential client base of the population living below the international poverty line of $1.25 per day and using this metric, penetration rate was only 14% in the Philippines which is quite low.[20] The 2010 Year End Report on Bangko Sentral Ng Pilipinas Initiatives in Microfinance and Financial Inclusion indicated that as of 2010, there were 202 banks with microfinance operations; 932,622 clients being served; P6.5B outstanding loan portfolio and P3.1B savings component. There are 24 E-money Issuers among banks and 3 E-money Issuers among nonbanks. These E-money Issuers have an agent network of over 15,000 and continuously expand. In 2012, there were over 188 M e-money transactions amounting to P613B. There are 56 rural banks with electronic banking (mostly mobile banking using e-money). [21]

[19] Microfinance sector present and operating throughout the country. Facilities mainly state or donor funded. Limited range of microfinance products.
[20] Asian Development Bank. 2012. "Microfinance Development Strategy 2000 http://www.adb.org/sites/default/files/SES-Microfinance-Strategy_0.pdf
[21] Pia Tayag. 2013. "Financial Inclusion: Why is it important & how do we achieve it?"Bangko Sentral Ng Pilipinas. (ppt presentation).

D.2.4 Leasing and D.2.5 Factoring

Leasing and factoring are regulated under Republic Act 8556 or the "Financing Company Act of 1998". They are regulated by the Securities and Exchange Commission and the Bangko Sentral ng Pilipinas (for their quasi-banking functions). In the Philippines, leasing and finance companies are affiliated with banks and other financing institutions. Leasing/factoring is still a growing market in the country. The Philippine Finance Association (PFA) reported that financing leasing is estimated to be around P35 to P40 billion (US$0.875 to US$1 billion) with an annual growth rate of 10%. The market is dominated by the major leasing companies in the country, which are wholly-owned subsidiaries of top commercial banks (Bank of Philippine Islands, Banco de Oro, United Coconut Planters Bank, Land Bank, Philippine National Bank, and Rizal Commercial Banking Corporation). Leasing products include auto, heavy equipment, office equipment, medical equipment, and other specialized types of manufacturing and production equipment. It will still take time for the financial leasing industry to become mature.[22] In November 2012, the PFA and the BAP Credit Bureau, Inc. signed the Safe-T-Net or Security Access on Financed Equipment Tally Network which was developed to equip financing and leasing companies with an information system that will provide the industry with data on the current status of equipment, machinery and other assets that are used to secure loan or lease products. Safe-T-Net is web-based and can be accessed online through the Safe-T-Net website.

BDO Leasing and Finance, Inc., a subsidiary of Banco De Oro, is the leading company providing financial lease, operating lease, amortized commercial loan, installment paper purchase, floor stock financing, and factoring and leasing. It has 10 branches all over the country. It grew steadily in 2010 with a total net profit of P308.7M which could be attributed to the increase in revenues by 9.7% from its finance and lending operations. For the next years, the company would continue to build its portfolio by finding niche markets whose requirements in leasing and factoring of receivables remain untapped by the commercial banks. Corporates and SME clients remain the priority of the company as it expands and improves its client network. [23]

Assessment

Implementation of leasing/factoring law. Regulator active in monitoring market. Some leasing and factoring activities. (**Level 4**)

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[22] Philippine Finance Association. 2013. "Financial leasing, an important tool to grow business". Philippine Daily Inquirer. 26 April 2013.
[23] https://www.bdo.com.ph/sites/default/files/pdf/BDo_Leasing_140511_FINAL.pdf

D.2.6 Availability of risk capital

Risk capital is available with several venture capital/private equity funds such as Narra Venture Capital, ICCP Ventures, Walden AB Ayala Ventures, Co., and the Philippine Venture Capital Investment Group. The laws and regulations covering risk capital are the Corporation Code of the Philippines; specific regulations of the Securities and Exchange Commission, and PD 1688 on banks investing in venture capital corporations. Exit is possible through IPO but very few firms are listed in the SME Board of the Philippine Stock Exchange.

Assessment

Level 4[24] + range of exit options including a functioning (second-tier) stock exchange with clear opportunities for initial public offerings if venture-capital backed enterprises (**Level 4**). Venture capitalism has remained limited due to the shortage of experienced technology entrepreneurs and managers, shortage of scientists and engineers, and accessibility to a global network of experts that may provide the necessary knowledge and even financial capital to build a community of venture capitalists. Another concern is the lack of business-minded technology entrepreneurs; many engineers and scientists tend to think of becoming employees rather than pursuing their own ventures.

D.2.7 Access to stock market

Companies that will list on the SME Board in the Philippine Stock Exchange are required to have at least P20 million in authorized capital stock. SME companies are also subject to a one-year operating history prior to their application for listing. The SME Board was officially launched in July 2001. To date, there are only two companies listed on the Board, iRipple and Makati Finance Corporation. The unattractiveness of SME Boards was attributed to the following[25]: no incentive for underwriters to promote the SME Board because the requirements for listing on the First and Second Boards are almost the same as for the SME Board; easier to borrow from banks and other financial institutions than comply with the SME Board listing rules; concerns of potential investors about SME's financial viability and lack of track record; and concern about compliance with the strict and expensive pre-and post-listing requirements (continuous disclosure requirements).

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[24] Law and regulation have been approved and institutional responsibilities clearly assigned. Several venture capital/private equity funds and business angels, but the only exit possibility is direct sales or proper merger and acquisition regulations.

[25] Ross Grady and Ken Waller. 2012. "Implementing Best Practice Regulatory Principles and Proportionate Regulation to Support MSME Access to Finance". A training program report. RMIT University, AusAID, APEC Study Centre, ADFIAP, ADBI.

The SME stock market capitalization as of December 2012 was P586.36 Million (the total for the Philippine Stock Market Capitalization was P10,930,092 M). As of Feb 2013, SME stock market capitalization was P890.25M (total for the Philippine stock market amounted to P12,449,734 M). For SME stock market transactions, in terms of volume, 1.69M shares were traded with total value amounting to P12.4M in 2012. For the total Philippine stock market transactions, total volume reached 1,043,119.22M with total value of P 1,771,711.2 M during the same year. (Data from the Bangko Sentral ng Pilipinas gathered from the Philippine Stock Exchange).

Assessment

Establishment of a small board for SME. (**Level 5**)

E. Technology and Technology Transfer

E1. Promote Technology Dissemination

E1.1 Strategic approach to innovation policy for SMEs

The Philippine Development Plan states that the government shall continue to implement the national innovation strategy called "Filipinnovation" which focuses on strengthening human capital investments for science, technology and innovation (STI); stimulating STI; enhancing management of the STI system; and upgrading the Filipino mindset in S&T. The Plan explicitly identifies science, technology & innovation as an area of support to be provided to potential, new and existing MSMEs. The strategy is also subsumed under the productivity & efficiency strategy of the Philippine MSME Development Plan for 2011-2016. The Department of Science and technology takes the lead in providing these strategic approaches to innovation for SMEs with programs like the Small Enterprises Technology Upgrading Program (SET-UP) and the Technology Incubation for Commercialization (TECHNICOM) under an overall and comprehensive thrust within the "Filipinnovation" framework of producing value based knowledge products.

The SET-UP Program provides support to SMEs in the following areas: (i) technology needs assessment and technology sourcing; (ii) provision of seed funds for technology acquisition; (iii) technical training on hazard analysis and critical control points, good manufacturing practices, quality and environment management systems and other specific skills; (iv) technical and productivity consultancy services to participating firms; (v) establishment of product standards; (vi) development of networks of accredited regional product-testing laboratories; (vii) establishment of a packaging R&D center; and (viii) design and fabrication of cost-reducing equipment. The Program covers the following sectors: food processing, furniture, fashion accessories, gift, housewares, decors, handicrafts, natural dyes and fibers, marine and aquatic resources, horticulture, and metals and engineering.

The TECHNICOM Program was implemented to create mechanisms to fast track the commercial application of innovative technologies developed by both government research institutes and the private sector. It provides assistance to facilitate access by SMEs to the necessary government research facilities and personnel. The Program provides funding for commercial prototype development, pilot plant production and intellectual property protection. Any local research and development institutes, duly accredited public or private higher institutions, and Filipino-owned enterprises may submit project proposals aligned with DOST priority programs, commercial importance and technical soundness. The six priority programs are biotechnology, information and communication technology, health/pharmaceuticals, food and agriculture, environment and alternative energy. TECHNICOM provides technical and financial assistance to private sector businesses with grants ranging between P100,000 and P3 million.

Assessment

The innovation policy and strategy have been developed and integrated into the Philippine Development Plan and the MSME Development Plan. The strategy also includes programs for SMEs. There are also monitoring mechanisms in place. However, for some programs, the budget has not yet been released.[26] (**Level 4.5**)

E1.2 Information on innovation support services

No database of innovation support services. The DTI-BMSMED compiles all programs and services for MSMEs provided by government agencies, private sector organizations, academic institutions, and MSME organizations. This is published as a handbook (Programs and Services for MSMEs 2012 edition). The handbook contains a brief description of each agency, its programs and services as well as information on how to avail of its services. The agencies are grouped according to the type of assistance: technology intervention, product development, market development, entrepreneurship and human resource development training, and institutional development.

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[26] According to an Undersecretary of the Department of Science and Technology , the budget for Research and Development is available but not yet released

Assessment

The DTI-BMSMED's handbook could form the baseline information for the creation of the database on innovation services and programs that MSMEs can readily access on-line. The DTI-BMSMED could coordinate with the government agencies and other providers of MSME services in creating, maintaining and regularly updating this common database. (**Level 1**)

E1.3 Standards certification

The Bureau of Product Standards (BPS) under the Department of Trade and Industry is the Philippine National Standards Body. BPS is mandated to develop, implement, and coordinate standardization activities in the Philippines. Aside from standards development, BPS also ensures the implementation and promotion of these standards to raise the quality and global competitiveness of Philippine products and to protect the interests of consumers and businesses.

Working closely with BPS, there are two other government agencies that are mandated for the development of standards for consumer products: the Bureau of Food and Drug (BFAD) of the Department of Health and the Bureau of Agriculture and Fisheries Product Standards (BAFPS) of the Department of Agriculture. BFAD establishes standards for processed food while BAFPS develops standards for agriculture and agriculture-related products including fruits, vegetables, and grains. BPS is responsible for other related food standards not covered by the BFAD and BAFPS.

Recognizing the importance and benefits of international standards, BPS, BFAD, and BAFPS participate in international and regional standardization activities. Among the international standardization initiatives that the Philippines participates in are the following: International Organization for Standardization, Codex Alimentarius Commission, Asia Pacific Economic Cooperation, Association of Southeast Asian Nations (ASEAN) Consultative Committee on Standards and Quality (ACCSQ), and Asian European Meeting. BPS is an active member of the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), the International Accreditation Forum (IAF), the Asia Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations Consultative Committee on Standards and Quality (ACCSQ), the Pacific Accreditation Cooperation (PAC), the Asia-Pacific Laboratory Accreditation Cooperation (APLAC), and the International Laboratory Accreditation Cooperation (ILAC).

Testing and calibration laboratories are also compliant with ISO/IEC/7025 guidelines. Testing services for SMEs are available in the different regions through the regional offices of the BPS, BFAD, and BAFPS.

Assessment

The MSMEs have access to testing and standards services by various government agencies. (**Level 5**)

E2. Foster Technology Cooperation to Develop R&D focused on Commercialization of Knowledge

E2.1 Incubators

There are incentives and support schemes to establish incubators and networks of incubators all over the country. Services provided include data center, video conferencing, matching with venture capitalists (as an exit strategy), intellectual property management assistance, R&D funding assistance, and recreation facilities.

- University of the Philippines –Ayala Technology Business Incubator (UP Ayala TBI) or Technopark is a joint experimental facility on technology development and technology based entrepreneurship program by the University of the Philippines and the Ayala Foundation. The partnership aims to create a community of innovators and entrepreneurs by providing a facility that offers an IT friendly environment, access to academe research and access to IT technology breakthroughs. The physical facility offers a place for small starters of dot-com businesses that can benefit from the interface between businesses and the academe. Services and amenities include conference/training room with audiovisual equipment, business center, lobby for common use that is ideal for exhibits and product launches, 24-hour security and maintenance, internal telephone system, internet connectivity, consultancy services (strategic planning, business development, IT infrastructure consultancy).
- Department of Science & Technology-Philippine Economic Zone Authority Open Technology Business Incubator (DOST-PEZA Open TBI) is an ICT business incubator located at the University of the Philippines, Quezon City. It houses ICT-based start-up enterprises whose business models incorporate open technologies. Established in 2009, it provides leasable office spaces and a support program for budding technopreneurs.
- DOST Metals Industry Research and Development Center Technology and Business Incubation Program provides developing enterprises with business space equipped with production facilities until such time that they can spin off into established and self-operating ventures. Services provided include business and production spaces, common service facilities, technical assistance in the form of consultancy and training, testing and quality control, and engineering design services.

Assessment

Pilot technological incubators in operation, publicly funded, funded by donors and/or other organizations (**Level 4**). Currently, there are three incubator networks in the Philippines. According to the respondent, based on a survey that they conducted, locator and start up firms are satisfied with the services of these incubators. Exit strategies available include venture capital arrangements and referrals to new locations.

E2.2 Technology support in Universities, R&D Labs and Incubators with SMEs Linkages

There exists networking and coordination activities between technology development activities in universities, R&D labs and incubators, the DOST and SMEs. (UP-Ayala TBI and DOST-PEZA Open TBI). The Technology Resource Center-DOST is in charge of overall management and operation of the DOST-PEZA open TBI. The TRC helps facilitate the smooth entry into business of young and outstanding IT professionals and help young entrepreneurs who develop open-source software, content and hardware products to accelerate their business launch and become competitive.

Another service agency of the DOST is the Technology Application and Promotion Institute (TAPI)-DOST whose primary task is to promote the commercialization and transfer of technologies and market the services of other operating units/agencies of the DOST. The TAPI has the three major programs and services for enterprise development, technology information and promotion services, and invention and innovation development services. These include the following:

- Academe/Industry Prototype Development Assistance Program provides support for the fabrication and testing of commercial prototype models for developed technologies.
- Technology-based Enterprise Development Assistance Program provides financial technical assistance for the establishment and operation of pilot plants to establish the economic and technical viability of selected technologies.
- Consultancy services through the Manufacturing Productivity Extension Program and Agricultural Productivity Enhancement Program to assist SMEs to attain higher productivity.
- Investors' Forum Program brings together government, academe and private technology operators, businessmen, investors, financiers, and industry associations to translate technology-based opportunities into actual business investments through forum

presentations on commercially viable technologies and services and programs that can be availed by technology generators.

- Testing Assistance Program provides financial assistance in the form of grant for laboratory testing analyses including performance testing to be provided by research development institutions or other testing laboratories/institutions.
- Industry-Based Invention Development Program provides support for the production of the first working model of the invention to be installed in the actual operations of industrial firms. This is a collaborative undertaking among TAPI, the inventor, and the industrial enterprises involving testing, debugging and other refinements for the invention.
- Invention-based Enterprise Development provides financial support for the fabrication of models for testing, demonstration and promotion. It also gives inventors technical and consultancy services to pilot technologies and assistance in the marketing of products from piloted technologies.

Assessment

Government has established legal and/or policy framework to support technology development in universities, R&D labs and incubators. At the same time, there is some active implementation of framework for linking SMEs with standards and technology development in universities, R&D labs and incubators. There are quite a number of programs in place, these programs should be further promoted, strengthened, and expanded to reach out to more SMEs, universities, and research institutions. (**Level 3.5**)

E2.3 Intellectual Property Rights (IPRs) System

The Philippines has a strong legal framework and made substantial improvements in its intellectual property protections (USAID 2007)[27]. In 1997, Republic Act No. 8293 or the Intellectual Property Code of the Philippines was enacted covering all aspects of protection of IPR. It incorporated, amended and replaced the former Copyright Law, Patent Law and Trademark Law to make them consistent with various agreements, including the Agreement of Trade Related Aspects of IPR (TRIPS).

The Intellectual Property Office (IPOPHIL) oversees and enforces the overall implementation of intellectual property rights, trademarks and patents. IPOPHIL has 10 satellite offices and 63 Innovations and Technology Support Offices (ITSO)._These offices provide

[27] USAID. 2007. "Southeast Asia Commercial Law and Trade Diagnostics: The Philippines. Final Report".

information and awareness services. Box 1 provides the list of IPSOs and ITSOs all over the country.

The ITSOs are managed and owned by the member institutions. An IPR strategy and a patent system are also in place. IPOPHIL Desks are also part of the government agencies housed under the National Economic Research and Business Assistance Center (NERBAC)[28], the DTI's One-Stop Business Center that provides assistance to start-up businesses in business registration and licensing, knowledge management, and investment promotion and facilitation.

IPOPHIL has the following programs and services for MSMEs:

- Information dissemination programs: address needs of MSMEs and helping them reach highest potential use of their IPR
- IP Information help desk: provides more focused advisory and technical assistance to MSMEs, universities, R&D institutions, industries
- IP Satellite Offices and IP Business Development Service: make IP services more accessible to MSMEs in key areas of the country
- Two-tiered fee structure: 50% reduction in the assessed fees for small enterprises

[28] The NERBAC houses the following government agencies: DTI, Bureau of Internal Revenue (BIR), Social Security System (SSS), Home Development Mutual Fund (HDMF), Philippine Health Insurance Corp. (PHIC), Cooperative Development Authority (CDA), Department of Labor and Employment (DOLE), Department of Environment and Natural Resources (DENR), Mines and Geosciences Bureau (MGB), Securities and Exchange Commission (SEC), a One-Stop Export Documentation Center (OSEDC) composed of the Bureau of Customs (BOC), BPI-PQS, etc. The Philippine Contractors Accreditation Board (PCAB) and the Intellectual Property Office of the Philippines (IP Philippines) Desks are also part of the NERBAC.

BOX 1: LIST OF ITSOs in the Philippines

ITSOs in Luzon	MOA Signed
1. Ayala Foundation, Inc. (AFI)	Nov. 15, 2010
2. University of Santo Tomas (UST)	Nov. 15, 2010
3. De La Salle University (DLSU)	Jan. 21, 2011
4. University of the Philippines – Manila (UP Manila)	Jan. 24, 2011
5. Mapua Institute of Technology (MIT)	Feb. 14, 2011
6. Adamson University (AdU)	Mar. 1, 2011
7. Ateneo De Manila University (ADMU)	Mar. 11, 2011
8. Don Bosco Technical College (DBTC) Don Bosco Communications & Information Technology Institute (CITI)	Mar. 11, 2011
9. Technology Application & Promotion Institute (DOST - TAPI)	Mar. 11, 2011
10. Benguet State University (BSU)	Mar. 11, 2011
11. Bicol University (BU)	Mar. 11, 2011
12. Lyceum of the Philippines University (Lyceum)	Mar. 15, 2011 (pre-signed) Apr. 4, 2011 (ceremonial)
13. Department of Science and Technology – National Capital Region (DOST-NCR)	Apr. 19, 2011
14. Eulogio Amang Rodriguez Institute of Sciences & Technology (EARIST)	Apr. 19, 2011
15. Polytechnic University of the Philippines (PUP)	Apr. 19, 2011
16. Technological Institute of the Philippines (TIP)	Apr. 19, 2011
17. Technological University of the Philippines (TUP)	Apr. 19, 2011
18. Angeles University Foundation (AUF)	Aug. 3, 2011
ITSOs in Cebu (Vis-Min Network)	**MOA Signed**
19. Cebu Institute of Technology (CIT-U)	Nov. 17, 2010
20. University of Cebu (UC)	Nov. 17, 2010
21. University of San Carlos (USC)	Nov. 17, 2010
22. University of San Jose-Recoletos (USJ-R)	Nov. 17, 2010
23. University of the Philippines in the Visayas – Cebu College (UPVCC)	Feb. 9, 2011
24. Cebu Chamber of Commerce and Industry (CCCI)	Mar. 1, 2011
25. Western Visayas College of Science & Technology (WVCST)	Mar. 11, 2011
26. Visayas State University (VSU)	Mar. 11, 2011
27. Mindanao University of Science & Technology (MUST)	Mar. 11, 2011
28. University of Southeastern Philippines (USEP)	Mar. 11, 2011

Assessment

Nation-wide one-stop support centers on IPR systems (**Level 5**). Strengthen information programs to educate the public especially MSMEs, business associations, law schools and universities on the importance of IP and its protections as well as its benefits to the country. Strengthen enforcement and coordination among the various agencies involved in its implementation.

E3. Promote Clusters and Business Networks

E3.1 Broadband infrastructure to support smooth connection and coordination of knowledge flows in cluster

Broadband connections available nationwide through major telecommunication companies PLDT and Globe Telecom. These firms offer independent, nationwide data networks and have announced significant new investments in infrastructure to support domestic demand (primarily mobile voice and data services) as well as commercial requirements. These services are also available in economic zones and clusters. Telecom infrastructure (state of the art voice and data) is available throughout the archipelago. The high-speed networks are maintained by PLDT and Globe (and a smaller third-party provider, Bayan). The infrastructure has connections to Asia, Europe, North America, and Australia. However, the quality of connection and speed depends on the location.

The government enacted cyber laws, E-commerce law of 2000 (RA 8792), Cybercrime Prevention Act of 2012 (RA 10175), and Data Privacy Act of 2012 (RA 10173). The Cybercrime Act is meant to provide the resources and legal framework to identify, prevent, and impose punishment for Internet-based crimes and safeguard users' online information from unauthorized data collectors. The Data Privacy Act criminalizes breaches of confidential personal data and provides stiff penalties for these acts.

Assessment

MSMEs are able to access broadband services through private sector provision. These private companies also offer packages for SMEs to facilitate their businesses[29] (**Level 4.5**). Further development of the required infrastructure to address the connectivity deficit in the Philippines and to increase broadband coverage should be pursued.

According to the IT & Business Process Association of the Philippines, telecom infrastructure is available throughout the archipelago. The high-speed networks maintained by PLDT & Globe (and a smaller third-party provider Bayantel) are illustrated in Attachment 2 along with landing stations for international submarine cables. The infrastructure has connections to Asia, Europe, North America, & Australia.

In terms of broadband usage (measured by mobile subscription with access to broadband per 100 inhabitants), the Philippines compares well against Thailand, Indonesia & Cambodia in 2010. However, overall penetration is still low with less than 5% fixed broadband penetration

[29]See for example http://www.pldtsme-nation.com.ph/ and http://business.globe.com.ph/sme/solutions

(measured by fixed subscription with access to broadband per 100 inhabitants) and 10% wireless broadband penetration. There is no reliable and up to date data on broadband coverage but it is safe to assume that many smaller or poorer municipalities & many rural areas do not have broadband service. (Source: Commission on Information & Communications Technology. "The Philippine Digital Strategy").

E3.2 Sciences / industrial parks, competitive clusters and facilities (agglomeration)

The DTI-Philippine Economic Zone is the agency responsible to promote investments, extend assistance, register, grant incentives to and facilitate the business operations of investors in export-oriented manufacturing and service facilities inside special areas designated as PEZA special economic zones. Currently, there are 17 agro-industrial economic zones, 178 IT parks/centers, 65 manufacturing economic zones, 2 medical tourism parks, and 15 tourism economic zones. Among the economic zones, there are three science parks, Light Industry and Science Park 1, II, and III. Light Industry and Science Park I and II are home to Fortune 500 companies and major multinational companies including NEC, NXP and ST Microelectronics and Continental Temic, to name a few. These are located in Laguna, a province south of Metro-Manila. Some of the fiscal incentives to export manufacturing enterprises include income tax holiday, 5% special tax on gross income and exemption from all national and local taxes upon expiry of the income tax holiday, tax and duty free importation of raw materials, capital equipment, machineries and spare parts, and VAT zero-rating of local purchases.

The Department of Trade and Industry-Regional Operations and Development Group is implementing the National Industry Cluster Capacity Enhancement Project (NICCEP), a 3-year technical cooperation project funded by the Japan International Cooperation Agency. The project aims to develop and mobilize pilot industry clusters nationwide. The 14 priority industry clusters are as follows:

- Luzon: milkfish, dairy, coffee, bamboo, tourism, ICT, health and wellness, wearables, homestyles
- Visayas: gifts, decors, housewares, tourism ICT, health and wellness
- Mindanao: banana, mango, coconut, seaweeds, wood, mining, tourism, ICT, rubber, poultry, tuna, oil palm

The NICCEP is envisioned to offer a platform for convergence of the relevant government agencies and development partners and private sector institutions supporting the target industries. Complementary projects to support the NICCEP include Shared Service Facility Project (set up common service facilities or production centers to give MSMEs access to better technology), Agricultural Credit Support Project (link the farmers/producers with the processors and markets), and Socialization, Externalization, Combination, and Internalization (or SECI, a knowledge creation approach that the NICCEP adopts, provide training and dialogue programs based on the SECI).

Assessment

There are science/industrial parks, clusters and facilities in the Philippines. Basic supporting infrastructures for the facilities are in place. These are operated with average of more than 50% of the capacity (**Level 3**). Limited linkages with universities and other innovation and technology centers.

In a survey of firms in the CALABARZON are (where most PEZA firms and economic zones are located), Macasaquit (2009)[30] found weak evidence of linkages between firms and the intellectual community, i.e., universities and public and private research institutes. The study also indicated that while university-industry linkages are occurring, these are limited and characterized by informal arrangements rather than more formal agreements due to the absence of IPR policies in universities. Linkages with knowledge networks are weaker whether in terms of accessing technical assistance from the government or participating in research consortium organized with support from government or from local business organizations. Also found to be low is the cooperation between the firms and local universities or R&D institutions. The same results emerged in the firm innovation survey conducted in 2010 (Survey of Innovation Activities) where firms tend to rely more on their own experience and knowledge combined with information from suppliers, customers, and clients. Firms consider institutional sources such as government or public research institutes to be of lowest significance in terms of their sources of innovation-related knowledge and information (Albert, Aldaba, Quimba and Yasay 2010)[31].

E4. Finance and Technology Development

E4.1 Financial Incentives

As earlier discussed, the DOST Small Enterprise Technology Upgrading Program (SETUP) is a nationwide strategy encouraging and assisting MSMEs to adopt technological innovations to improve their operations and increase their productivity and competitiveness

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[30] Macasaquit, M. 2009. "Sources of Innovation of Philippine Firms: Production, Logistics and Knowledge Networks" in Limskul, K. (ed.), Development of Regional Production and Logistic Networks in East Asia. ERIA Research Project Report 2008-4-1, pp.80-152. Jakarta: ERIA.

[31] Albert, J., R. Aldaba, F. Quimba and D. Yasay. 2011. "Why some firms innovate and others do not". PIDS Policy Notes. No. 2011-17. Philippine Institute for Development Studies.

through infusion of appropriate technologies to improve operations; human resource training, technical assistance and consultancy services; among others. MSMEs are also assisted and matched with venture capitalists. The DOST-TAPI's Venture Financing Program provides funding support to MSMEs in their start-up and scale-up stages to accelerate the initial commercialization of emerging and new technologies. TAPI has other projects that provide financial technical assistance such as the Technology –Based Enterprise Development Assistance Program (establishment and operation of pilot plants), Tax and Duty Exemption Assistance Program (exempting inventors from payment of license fees, permit fees and other business taxes), Testing Assistance (grant for laboratory testing analyses including performance testing), and Invention-Based Enterprise Development Program (purchase/fabrication of major equipment/machineries needed in the commercialization of piloted technologies).

There is a law on incentives for inventions known as Invention Guarantee Fund but to date, this law has not been fully implemented.

Assessment

There exists financial support schemes for innovative projects of firms but these are still limited and accessed by only a small number of firms[32]. The government still needs to increase funding (in terms of amount and number of schemes) available for these innovative projects in partnership with private sector investors (**Level 3**).

E4.2 Public R&D grants

There are available grants but these are limited. The grant programs are mainly implemented by government research institutes. In 2009, P2.61 billion was allocated to R&D but has not yet been disbursed. The loans to experimental equipment can be available but grant is very rare and tax benefit for R&D is mainly designed for purchasing capital goods (Source: APEC SME Innovation Center. 2006. Chapter 8: Philippines. "APEC member country profiles on SME Innovation Policies. Part II.)

Assessment

There are pilot public funds for R&D activities but still limited (**Level 3**).

[32] DOST can assist 100 MSMEs each year, but only 30 to 40 avail annually (DOST Director Rene Llanto, Jan. 25, 2012, "DOST offers SMEs help on increasing productivity", Sun Star Cebu).

F. International Market Expansion

F.1 Export promotion programs

The Center for International Trade and Export Missions (CITEM) is mandated to help achieve DTI's export growth targets by promoting the Philippines as a reliable source of products in the global market. Its programs and services include trade events, trade missions, merchandise/technical consultancy program, in-store promotions, CITEM trade opportunities program.[33] CITEM indicated that export activities have adequate funding – US$ 1.8 M for signature events, US$ 0.3M for overseas trade fairs and US$0.2M for institutional participation.

Assessment

Export promotion programs exist and executed by a specific agency of government. There is funding available but export firms see the need for larger funding given the number of activities that needs to be undertaken each year (**Level 4**).

F.2 Providing advice and high value information of the international market

There are three DTI agencies providing advice and high value information of the international market: Bureau of Export Trade Promotions, Foreign Trade Service Corps and Board of Investments. Market information given include product features, prices, buyers and distributors, relevant standards and specifications and related legal requirements and procedures. As the export promotion arm of the DTI, the Bureau of Export Trade Promotion provides frontline assistance, information, and specialized consultancy services to all exporters. Its main programs consist of frontline services, specialized consultancy services, outbound business matching and inbound business matching, and market opportunity mapping and information session. Its specialized consultancy services are: [34]

- Market Consultancy: assist exporters in formulating market strategies and provide them with updated information and other valuable tools
- Product Consultancy: assist exporters of resource based commodities, food and food preparations, herbal and natural products, industrial manufactures, and consumer goods particularly on trade policy issues and updates on R&D for these products.
- Other information provided include export requirements such as prohibited and regulated products for export, niche opportunities for Philippine products and services, recent

[33] 2012 edition. "Programs and Services for MSMEs". Department of Trade and Industry. pp.149-152 CITEM

[34] Ibid.

development and opportunities in a particular market/industry sector, import regulations, and export related issues such as Halal and FTAs.

The Foreign Trade Service Corps of the DTI promotes the exports of goods and services, encourages inward foreign investments through various support activities and commercial intelligence work.

Assessment

There are agencies assisting exporters by providing important market and legal information (Level 4).

F.3 Export Capacity Building Programs

Export capacity building programs such as training courses, export coaching, workshops and trade fairs are implemented with national coverage. The Philippine Trade Training Center (PTTC) is the export and MSME training arm of the Department of Trade and Industry. It designs and develops training programs for MSMEs, business support organizations and government sector. It also provides post-training advisory and counseling services and customized in-firm level training programs and services. For 2013, its training programs focus on strengthening competitiveness and export potentials of MSMEs. PTTC provides business management seminars, export management seminars (expanding business through exports, import procedures and documentation, product costing and pricing, customs valuation, market opportunities), IT and webpage development seminars, international standards seminars and food seminars (current good manufacturing practices, food packaging and labeling, hazard analysis critical control points). There are monitoring and evaluation processes for these programs. The PTTC is pushing for accreditation of a local pool of trainers to facilitate access of more participants to PTTC training programs conducted nationwide.[35]

Assessment

The programs are operated with limited geographical coverage and a limited number of SMEs (**Level 4**).

F.4 Financial facilities for SMEs to export

Financial facilities to export are in place nationwide with monitoring and evaluation processes. The Trade and Investment Development Corporation of the Philippines (TIDCORP)

[35] Ibid.

known as the Philippine Export-Import Credit Agency (PhilEXIM), is a government owned and controlled corporation designed to provide financing services to exporter firms[36]. Its lending programs are as follows

- Short Term Direct Lending Program that aims to extend short-term loans to direct and indirect exporters and firms engaged in priority projects of the government. For direct exporters, minimum export volume of US$100,000 within the last 6 months prior to application is required as well as profitable operations for the last 2 years. Indirect exporters are required to be indirectly exporting in the immediately preceding year. Loan amount: 80% of the value of the L/C, CPO, CSC and/or export bills, maximum will not exceed P20 million
- Medium and Long Term Direct Lending program for exporters and firms engaged in priority projects of the government. Loan amount: up to P50 million but not more than 30% for land acquisition.
- SME Unified and Lending Opportunities for National Growth (SULONG) is a financing strategy collaborated by PHILEXIM and other government financial institutions to provide SMEs access to financing (export financing, revolving credit line and long term loans) under a uniform lending structure. Loan limit: 70% of the value of LC/PO, maximum P5 million
- Wholesale Direct Lending Program provides short term loan and capability building assistance to SME export sector. Credit limit: financial institutions and exporters organization (P10 million-P50 million); single borrower (P2.5 million)
- Wholesale Guarantee for SMEs provides guarantees on existing loan portfolios to direct and indirect exporters. Maximum amount: P20 million
- Guarantee Program for SMEs provides guarantees on short term loans to direct and indirect exporters and firms engaged in priority projects of the government. Loan amount: P20 million
- Trade Credit Insurance Program provides insurance coverage to exporters against the risk of non-payment by foreign buyers of or export shipments on credit arising from political or commercial risks.

[36] See http://www.philexim.gov.ph/ for details of loan and guarantee programs

Assessment

The facilities are operated with limited geographical coverage and a limited number of SMEs (**Level 4**).

F.5 Reducing costs of custom clearance for exports (per container)

According to the DTI-Center for International Competitiveness (CIC), customs clearance for exports would take a maximum of 1 day, cost is US$50. The DTI Center for International Trade Expositions and Missions (CITEM) indicated that there are different agencies giving out clearances for exports depending on the materials used. Thus, there is no standard number of days for releasing clearances. The World Bank Doing Business 2013 reported 2 days for customs clearance and technical control.

Assessment

In both the DTI-CIC and WB estimates, customs clearance takes less than 2 days and costs less than US$ 100 (**Level 6**).

G. Promotion of Entrepreneurial Education

G.1 Entrepreneurial Promotion Policy

The Commission on Higher Education (CHED) is responsible for the formulation and implementation of policies, plans and programs for the development and efficient operation of the country's system of higher education. There are 2,247 higher education institutions in the Philippines. Recognizing the importance of entrepreneurial spirit in the economy, the CHED issued Memorandum Order 17 in 2005 to set the competency standards and curriculum for the BS Entrepreneurship Program to provide formal education and training for entrepreneurship. All private higher education institutions intending to offer the course must first secure proper authority from the CHED. The same applies to State universities and colleges as well as local colleges and universities.

For secondary levels under the Department of Education (DEPED), entrepreneurial learning (EL) is included under the TLE (Technology and Livelihood Education) modules during second year high school and entrepreneurship subject during third year high school. Based on the old curriculum (DepEd Order No. 88 s. 2010 Revised Manual of Regulations for Private Schools in Basic Education), Entrepreneurship shall deal with the principles, practices, management, processes, procedures of putting up a business enterprise and the preparation for work using computer as a tool to facilitate operations in various entrepreneurial and office management activities.

The newly implemented K to 12 basic education has changed the aim of the Basic Education Curriculum from functional literacy to holistic development. The K to 12 education is outcome-based as it prepares learners for higher education, middle level skills, employment and entrepreneurship. The K to 12 Program offers opportunities for specialization in academic, technical-vocational, and entrepreneurship. (Source: K to 12 Toolkit Reference Guide for Teacher Educators, School Administrators and Teachers. 2012. SEAMEO-INNOTECH). The Entrepreneurship Education-based TLE is designed to ensure that every student will learn some livelihood skills.

The importance of developing entrepreneurial skills and fostering a culture of entrepreneurship and entrepreneurial mindset is integrated in the Philippine Development, SME Development Plan, Philippine Labor and Employment Plan as well as in the Filipinnovation innovation policy.

Assessment

EL policy linkages are clearly articulated with SME, industrial, employment, and innovation policy documents. It is also integrated in the Philippine Development Plan's section on developing human resources that is crucial to increasing firm-level productivity and boosting competitiveness awareness (**Level 4**).

G.2 Support of EL in Basic Education

Technology, Livelihood and Entrepreneurship (TLE) is a mandated learning area in the basic education curriculum. Recently, DEPED Order No. 67 of 2012 issued guidelines on the implementation of strengthened technical-vocational education program and technology and livelihood education curriculum for Junior High School. The Entrepreneurship Education-based technology and livelihood education is designed to ensure that every student will learn some livelihood skills at the end of every quarter to enable him/her to start a small household enterprise. It focuses on 3 domains: Personal Entrepreneurial Competencies, Market and Environment, and Process and Delivery of products and services related to the mini-course. (Guidelines in the implementation of technology and livelihood education in public and private secondary schools. Enclosure No. 2 to DepEd Order No 67, s 2012).

Assessment

Secondary schools with EL teaching materials and staff with knowledge and skills for teaching entrepreneurship cover more than 50% of enrolments (**Level 3**). Note that the Department of Education has strict procedures in hiring teachers, they must pass the Teachers Board Examination and must be included in the Registry of Qualified Teacher Applicants.

G.3 Support of EL in Higher Education

Key Philippine universities like Ateneo de Manila University, University of the Philippines and De La Salle University offer programs on entrepreneurship. Only De La Salle University adopted the ASEAN Common Curriculum (COBLAS) although the University of the Philippines is aware of COBLAS.[37]

Assessment

The Commission on Higher Education sets the competency standards and curriculum for the BS Entrepreneurship Program. Key universities offer such courses and programs. National quality assurance system and course subjects for small business and entrepreneurship are developed and offered. One major university offers a degree in entrepreneurship and adopted the ASEAN Common Curriculum (**Level 3.5**).

G.4 Business-Academe Collaboration

The Ateneo de Manila University, University of the Philippines, De La Salle University, University of Asia and the Pacific and Entrepreneurship School of Asia partner with the private sector in offering entrepreneurship related courses. The Asian Institute of Management-Asian Center for Entrepreneurship provides relevant quality education and training to SMEs through its Mastering Entrepreneurship for Nation Building Degree Program offered jointly with the Ateneo de Manila Graduate School of Business.

The universities have mentoring, apprenticeship and on the job training programs where academic institutions partner with enterprises that would hire students for short periods e.g. during the summer. There are also business plan competitions sponsored by the private sector such as Bid Challenge Competitions[38], and development partners for social enterprise competition, I am

[37] AsiaSEED Japan. Dece. 2011. "Report on the Progress of ASEAN Common Curriculum Project". Presented at the 9th Joint Consultation between the ASEAN SME Agencies Working Group & Japan.
[38] http://www.bidnetwork.org/en/competition/bidchallengephilippines2011-2012

Change maker[39]. Businesses also provide scholarships for students in selected courses that their companies need.

The Philippine Center for Entrepreneurship (PCE) is a non-stock, non-profit organization that advocates for a change in mindset and attitude through Go Negosyo. Go Negosyo aims to demystify entrepreneurial success and popularize entrepreneurship. It provides links to its partner entrepreneurs' businesses to business opportunities, to entrepreneurship-related training programs and to funding sources and aims to bring together all key stakeholders and enablers of different entrepreneurship programs. Its programs include caravans and summits (free of charge and open to all), TV show (Kaya Mo! TV), and Negosyo Seminar.

Assessment

Both universities and the private sector jointly support EL programs, curricula, research, customized training service, coaching and various partnership modes such as apprenticeships, mentoring, competitions, awards and scholarships (**Level 4.5**).

G.5 Non-formal education on EL and management of SMEs

The DTI Philippine Trade Training Center (PTTC) develops and formulates training curricula and instructional materials and conducts training programs for MSMEs. Its entrepreneurship development training programs consist of two components: (i) business start-up briefings covering how to start a business; BEST game workshop; understanding patents, trademarks, and copyrights; financing facilities for MSMEs; business opportunities in franchising; finding the right market for the right product; putting your business online; and exporting made e-Z and (ii) quality and productivity improvement briefings covering corporate culture; food safety; Kaizen philosophy; 5S of good housekeeping; cleaner production; and waste minimization. Other training programs/seminars include business management; export management; IT and webpage development; business language; and quality and productivity seminars. Regional seminars are generally conducted in co-sponsorship or as requested by the DTI regional or provincial offices, local government units and provincial/regional trade and industry associations or chambers of commerce. Seminars in the National Capital Region are held at the PTTC building in Manila.

The University of the Philippines Institute for Small-Scale Industries aims to empower SMEs to sustain their viability in a global environment so that they may fully contribute to the national development goals through the provision of relevant, affordable, appropriate, and innovative training programs, research studies, consultancy and information services. Its training

[39] http://www.gonegosyo.net/blog/announcements-from-partners/british-council-opens-2012-i-am-a-changemaker-deation-camp/

programs include developing entrepreneurs, perking up marketing, perfecting operations, harnessing technology, empowering human resources, demystifying finance, and making leaders.

The PCE has two training programs: (i) caravans and summits and (ii) negosems. Caravans and summits usually include talks and forums featuring established entrepreneurs and business experts to inspire and provide knowhow in starting a business. Negosems (negosyo seminar) is a one-day seminar on the how-to's in entrepreneurship that aim to help micro and small businessmen become more innovative, strategic, and smart. The seminar covers key principles in entrepreneurship from set-up, product development and marketing to finding sources of capital and managing finance.

The DEPED Bureau of Alternative Learning System implements the Alternative Learning System (ALS), a free education program to help out- of-school youth and adults who did not finish their elementary and high school degrees. The ALS is a literacy cum livelihood program which combines academics with entrepreneurial and technical skills to provide opportunities for out of school youth and adults to upgrade their knowledge, values and technical skills for gainful employment. In 2006, the Bureau in partnership with the Commission on Information & Communication Technology engaged in a project called eSkwela to deliver alternative learning through the use of interactive electronic modules in 4 pilot project sites in the country.

Assessment

There are several training programs and seminars available for MSMEs and individuals who aspire to become entrepreneurs (**Level 3.5**).[40]

H. More Effective Representation of SME's Interests

H.1 Role and capacity of SME association

H.1.1. SME Association

At the national level, the SME agenda and interests are articulated by the Philippine Exporters Confederation (Philexport) and the Philippine Chamber of Commerce and Industry (PCCI)[41]. Philexport is the country's umbrella organization of exporters and is composed of 3,000 member exporters from fifteen economic sectors accredited under the Export Development Act of 1994. PCCI is a non-stock, non-profit and non-government organization of SMEs as well as local

[40] 2012 edition. "Programs and Services for MSMEs". Department of Trade and Industry.
[41] See websites of both organizations: http://www.philexport.ph and http://www.philippinechamber.com

chambers and industry associations. It has currently over 35,000 direct and indirect members over a hundred local chamber affiliates throughout the country. Its programs and services are implemented by its various Committees composed of: (i) SME Development; (ii) Intellectual Property; (iii) Industry; (iv) ICT, Transportation and Logistics; (v) Banking and Taxation; (vi) Environment; (vii) Agriculture and Food Security; (viii) Energy and Water Sector; and (ix) Housing, Construction and infrastructure.

PCCI focuses its advocacy for business growth & sustainable development by providing business services for the development of grassroots entrepreneurships, chamber development, international trade relations, business innovation and excellence, and operating efficiency. These are achieved through its professional organization working closely with various stakeholders in public and private sectors. PCCI actively participates in the formulation and implementation of policies and programs both at national and regional levels to improve the capabilities and competitiveness of MSMEs in the global market particularly on access to technology and information, access to credit and financing, access to markets, human resource development & access to market opportunities. These are exactly the same concerns of the government. (2012 edition. "Programs and Services for MSMEs". Department of Trade and Industry.)

At the ASEAN level, the Philippines has representation in the ASEAN Business Advisory Council (ABAC), the ASEAN SME Advisory Board and the Confederation of Asia Pacific Chambers of Commerce (CACCI).

Assessment

The membership of SMEs is mainstreamed with the major industry associations and Chambers of Commerce. These national organizations are independent and are strong advocates of SME related issues. They also network internationally and within ASEAN. (**Level 5**)

H.1.2 Technical Capacity

Philexport provides the following services to its members: database management of SMEs contact information; networking, business matching, training, seminars; processing of certificates of origin, trade and investment promotion; advice to local and national government to review SME related policies. Both Philexport and PCCI conduct advocacy work and have partnered with other stakeholders in advancing the interests of SMEs. They actively engage in policy discussions and deliberations on issues affecting industries. Position papers and policy programs are developed and implemented based on inputs generated from Trustees and Members. They have extensive networks covering the academe, three branches of government, other trade related government agencies, media and trade-related nongovernment organizations. They are also able to mobilize resources among their members and development partners to fund various programs and projects.

PCCI's Advocacy Division is composed of 10 sectors headed by a Vice-President. Under the Sectors are the Committee chaired by the Sector VP or an industry leader. A specialist is assigned to provide technical assistance & coordination activities for the Sectors. The Sectors serve as forum for discussing common issues and taking initiative and action. Their advocacy activities are aimed at influencing public policy, practices and social systems affecting the economy. They conduct meetings, forums, seminars, building coalitions, lobbying and media relations, the Sectors articulate on issues and concerns to affect decision-making process. With respect to SME development, the Division focuses on five key areas: access to technology and information, access to credit and financing, access to markets, human resource development, and access to market opportunities.[42]

Assessment

Both organizations have the ability to provide key services to its members, undertake independent advocacy work and to formulate/propose policies at the national and local levels and to generate resources internally and externally. (**Level 5**)

H.1.3 Research Capacity

Both Philexport and PCCI have professional staff which they can direct to undertake important researches related to their industries and sectors and issues related to their policy advocacy. Both organizations are also able to tap partner academic and research institutions to help them conduct these researches. Both organizations are also able to come up with important publications related to their services to members and their policy advocacies.

The Universal Access to Competitiveness and Trade (U-Act) is the think-tank of the PCCI. It prepares FTA Primers and conducts industry studies along with policy papers and impact on competitiveness such as infrastructure development, education & training policies, competition law, etc. U-ACT works in cooperation with local and international organizations including government departments, trade and industry associations, national trade promotion agencies, chambers of commerce, industry associations & management institutes to strengthen private sector's role in economic governance & policy making process. See the U-Act papers at

[42] http://www.philippinechamber.com/; http://www.philippinechamber.com/index.php/advocacy)

(http://www.uactphilippines.org/index.php?option=com_content&task=view&id=27&Itemid=41)[43].

Assessment

Both organizations have the capacity to undertake independent research and studies on their own or with partners. They are able to tap technical expertise and funding for joint research projects. (**Level 4**)

H.2. Participation in Consultations on SME Policies

H.2.1 Mechanism of the Consultations

The Micro, Small and Medium Enterprise Development Council (MSMEDC) was established as formal mechanism for consultations. The Council is organized at the national, regional, provincial and city levels. It has membership from key government agencies and institutions and private SME sector representatives[44]. Thus, the various level councils are able to formulate and recommend policies and programs which government can undertake to promote MSMEs all over the country.

The PCCI SME Development Division actively participates in the formulation and implementation of policies and programs, both in the national and regional levels to improve the capabilities and competitiveness of MSMEs focusing on five key areas: access to technology and information, access to credit and financing, access to markets, human resource developments and access to market opportunities.

PCCI represents the business sector in a number of government bodies tasked to implement policy & support programs including the following: Small and Medium Enterprise Development Council, Bureau of Customs Consultative Group, Commission on Higher Education, Brunei Indonesia Malaysia Philippines- East Asia Growth Area (BIMP-EAGA), etc. PCCI has 10 committees consisting of: energy, power, alternative fuel and water, environment, industry, membership, membership recruitment and retention, transportation infrastructure, air transportation, and logistics. PCCI has a network of 112 local chambers that provide support in terms of advocacy for policy reforms, business services and networking to help build PCCI's competitive advantage. The local chambers provide feedback to the national chamber on the needs

[43]http://www.uactphilippines.org/index.php?option=com_content&task=view&id=12&Itemid=26

[44]See details in http://www.smedsep.ph/Download/DTI-GIZ-MSMED-Council-Operations-Guidebook-Aug11.pdf

of business people in various areas. To ensure that the advocacies & activities of the local chambers are aligned with the national chamber, strategic planning workshops are conducted regularly. To ensure the active involvement of local chambers in all advocacies, a system was established such that point persons per chamber were identified to work directly with the Committee Vice Presidents. (PCCI. 2012. President's Report)

Assessment

There is an institutionalized broad and nationwide mechanism at various levels that puts together government and MSME representatives where the former is able to solicit feedback and measure outcomes of programs for the sector. (**Level 5**)

H.2.2 Frequency of Consultations

The Councils shall meet at least once every quarter and up to at most 24 meetings per year to include those of the Executive Committee and Sub-committees. These committees created by the Councils which meet whenever required are more frequent than the Council meetings. In practice, meetings of the MSMED Council take place every quarter.

Assessment

Consultations involving key players at various levels take place on a monthly basis or even more. (**Level 5**)

H.2.3 Formal Influence of the Consultations

The Council adopts some recommendations from the private sector representatives. MSME sector have also seen their inputs reflected in the Philippine Development Plan, MSME Development Plan and Philippine Export Development Plan[45]. Specific policy initiatives and measures that the PCCI and Philexport suggested to the government and which were adopted included the following: Barangay Micro Business Enterprise Law and Magna Carta for MSMEs for SME development. Other reforms and measures included implementation of the following: retail trade liberalization, export development fund, reduced interest on Central Bank's special deposit account, etc. PCCI continues to advocate for the following in the area of SME development: establishment of SME Development Fund for start-up business, streamlining of business registration processes and requirements and establishment of incubation centers in all state universities & colleges. Advocacies are pursued in the other Committees. (Sources: PCCI. 2012. President's Report; interviews with members of the private sector associations)

[45] As confirmed by Sergio Ortiz-Luis, President of Philexport

Assessment

There is ample evidence that suggestions and recommendations from the private sector have been adopted by government for instance in the MSME Development Plan 2011-2016. (**Level 4**)

IV. Ways Forward: Specific Recommendations Towards an Effective SME Policy in the Country

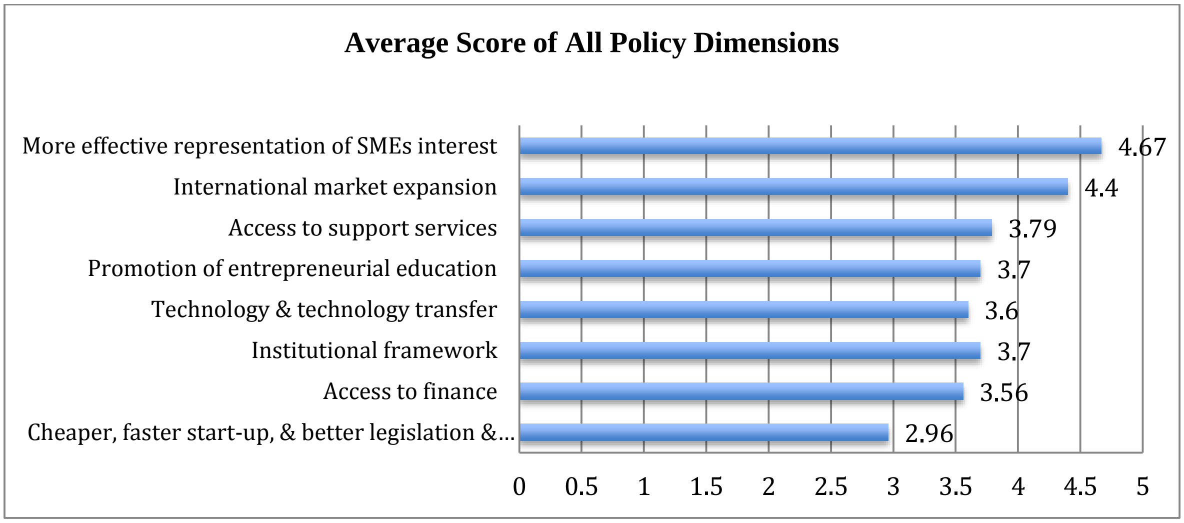

Figure 2 presents a summary of the average scores for the eight policy dimensions. On the average, the overall score is quite modest at 3.8. The highest average score is more effective representation of SMEs (4.67) and the lowest is cheaper, faster start-up and better legislation (2.96).

A. Institutional Framework

In 1991, the Magna Carta for Small Enterprises was passed to consolidate all government programs for the promotion and development of SMEs into a unified framework and mandated all lending institutions to set aside 8% of their total loan portfolio to SMEs. The DTI-BMSMED is the primary coordinator for MSME policies and programs. It serves as the Secretariat to the MSMED Council which is tasked to review policies and strategies for MSME development. It also serves as consultation mechanism involving major stakeholders. The implementation and monitoring of policies and programs to address the finance, marketing, promotion, human resource development, training, product and package design development, and technology needs of MSMEs is carried out by various offices of the Department of Trade and Industry and other national agencies such as the Department of Science and Technology, Department of Agriculture, Bangko Sentral ng Pilipinas and government financial institutions.

Recommendations

- Strengthen and deepen the coordination mechanism among the various government agencies particularly at the department secretary level. Address overlapping and unclear responsibilities across agencies, if any[46].
- Develop a system to keep track and monitor MSME policies and programs formulated and implemented by different government agencies. Government provides wide-ranging support to MSMEs in order to improve their competitiveness and generate employment. Much more needs to be done in establishing a system of monitoring and evaluation that would directly measure the impact of policies and programs on the growth and development of MSMEs especially on productivity which is vital to MSME's international competitiveness. Understanding the impact of government policies and programs on the performance of SMEs would be crucial not only in properly designing future programs but also in formulating policies for the growth and development of SMEs. A rigorous evaluation of the appropriateness and effectiveness of programs would thus be critical especially given our country's scarce resources. Present monitoring and evaluation only looks at the output or outcome indicators such as number of beneficiaries, employment generated, or total amount of loans granted before and after program implementation.
- Formulate and adopt a clear framework or mechanism for review, evaluation, monitoring, and revision strategy. There should be more focus in identifying key sectors taking into account the financing constraints and how to balance the twin social and economic objectives in MSME development evident in many programs implemented by various government agencies.

B. Access To Information and Supporting Services

There is evidence showing that the implementation of the previous 2006-2010 MSME Plan achieved the targets defined in the action plan especially in terms of employment generation, loans provided, training support and MSME performance measured by the amount of sales revenues and exports. The DTI-Board of Investments National Economic Research and Business Action Center (NERBAC) serves as a one-stop shop providing assistance to start-up firms in business registration and licensing, knowledge management, and investment promotion and facilitation. SME Centers have been established nationwide. There are supporting regulations and policy in place to foster e-

[46] For instance, a policy to streamline SME registration was prevented by some local government authorities because of the revenue losses that it would entail.

commerce. The government launched several programs to support the spread not only of e-commerce but of ICT in general. The government also has an e-Services portal that provides a single entry point for accessing government services. Though he Philippines has made significant progress in the area of e-government based on UN Reports, the maturity level in e-government still remains relatively low especially due to its modest level of ICT infrastructure such as low PC penetration rate, low internet access and existing backbone. To address this, DOST-ICT Office has recently launched the iGovPhil Project to strengthen the online presence of citizen-facing government agencies. Currently, there are two major SME portals in the country: the Small Business Corporation and the World Bank-International Finance Corporation-PlantersBank SME.com.ph that provides a wide range of information, SME toolkits and links to other relevant websites.

Recommendations

- Enhance the monitoring and evaluation of the Plan by designing and introducing a framework to regularly measure the direct impact of the MSME Plan on the performance of MSMEs. This is important to ensure that the resources channeled to supporting MSMEs are being well spent and the programs are well targeted and to modify or terminate the programs once their objectives have been attained. It is also important to assess the performance of one stop shops and the quality of services provided.
- Further develop e-government services by creating a centralized online portal for the various MSME programs and services covering finance, marketing promotion, human resource development, training, product and package design development, and technology provided by the different government agencies. Currently, the BSMED regularly publishes handbooks compiling these programs and services as well as government regulations affecting MSME operations. This information could serve as initial database for the centralized on-line portal on SME programs and services.

C. Cheaper and Faster Start-Up and Better Legislation and Regulation For SMEs

The DTI registration of business names for single proprietors has relatively been fairly successful in simplifying its process in terms of number of days required, number of procedures and cost. However, for corporations and partnerships, the overall registration process including compulsory licenses for standard business activities has been quite cumbersome.

There are only a few financial support programs in place for start-ups. Studies show that access to finance has remained a major constraint to the growth and development of SMEs in the country. The 2011-2016 MSMED Plan recognizes the absence of financial support to start-ups. For most SMEs, savings continue to be the main source of financing especially when the business is just starting (SME Toolkit Philippines, Sources of Financing). There are two financing programs available for start-ups: Small Business Corporation Financing For Start-Up Enterprises and the Land Bank of the Philippines Easy Pondong Pang-Asenso. No evaluation has been done to assess the impact of these programs.

There has been some ad hoc activity to carry out amendment of redundant or ineffective legislations and regulations. There is no systematic regulatory impact analysis.

Recommendations

- Significant progress should be made in simplifying the overall registration process, reduce administrative barriers and streamline regulations. The National Competitiveness Council is currently working closely with government agencies and the private sector to map out ways to streamline and simplify each process and eventually to automate.
- Current government financial support for start-ups is still limited to have any significant impact. It is important to assess existing programs in terms of scope and delivery with a view to improve and broaden these support services to include business incubators as well as vouchers, grants and loans on favorable terms especially for the most dynamic enterprises.
- There is a need to simplify and improve legislations and regulations as well as institutionalize the framework for conducting regulatory impact assessment (RIA). A simplified, pilot RIA program is being used in certain areas of regulations of the Department of Finance, Department of Labor and Employment, and Department of Tourism under a project supported by the Asian Development Bank.

D. Access To Finance

There is a cadaster on landownership but not on land use. Land ownership has not been fully documented in the cadaster since some lands have yet to be titled. About 54.6% of land ownership is documented. It is important to note that only titled and registered real properties (Torrens Certificate of Title) are acceptable as bank loan collateral. Titled and registered lands with land reform titles and DENR free patents/homestead titles have limited acceptability because of restrictions in the transferability of these lands.

Loans can be secured by real estate mortgages, chattels and intangible properties including patents, trademarks, trade names, copyrights and personal properties. Any business can use movable assets as collateral while keeping possession of the assets. There is no collateral registry in operation that is unified geographically and by asset type.

The Financial Rehabilitation & Insolvency Act of 2010 provides no diminution of secured creditor rights. Secured creditors are not subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure. The law also provides secured creditors with grounds for relief from an automatic stay and sets a time limit to it. The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court at the time a security interest is created. Secured creditors are paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure. When a business is liquidated general tax claims and employee claims are paid first.

There are three major institutions providing credit guarantee facilities. These credit guarantee facility covers limited geographical and type of business. Although private credit bureaus have been in place, access is limited to financial institutions. There is no centralized credit information.

There are many institutions providing microfinance and a clear regulatory framework for the practice of microfinance exists. However, much remains to be done to increase the reach of microfinance institutions. According to industry sources, the supply of microfinance is insufficient to meet the potential market demand. Microfinance loans in the amount ranging from P5,000 to P20,000 are mostly financed by NGOs and government agencies.

Leasing and factoring are regulated under Republic Act 8556 or the "Financing Company Act of 1998". Leasing/factoring is still a growing market in the country. Laws and regulations on risk capital have been approved and institutional responsibilities clearly assigned. There is a small board for SMEs on the SME Board in the Philippine Stock Exchange; companies that will list are required to have at least P20 million in authorized capital stock.

Recommendations

- Strengthen the legal and regulatory framework particularly the documentation of land ownership. To simplify the land use regime, consolidation of land management into one agency should be pursued.
- Establish a centralized and computerized registry for chattel mortgage. Without central registries, it is difficult to ascertain whether or not a particular property is already the subject of an existing encumbrance.
- To effectively implement the Financial Rehabilitation and Insolvency Act of 2010, strengthen the efficiency of courts by introducing measures and reforms to ensure the

speedy resolution of court cases. Courts hearing rehabilitation cases should be consolidated to increase judicial expertise and efficiency.

- Implement measures to facilitate and widen access by SMEs to alternative forms of finance such as venture capital and private equity and leasing and factoring products. Encourage the use of capital market by MSMEs
- Facilitate greater access to credit by the establishment of credit information bureau and secured property registers for collateral related purposes to ameliorate information asymmetry.
- Enhance financial literacy programs for MSME entrepreneurs. These programs build trust in the use of financial services and minimize the risk of MSMEs acquiring unsuitable products and becoming indebted. (R. Grady and K. Waller, 2012).

E. Technology and Technology Transfer

The innovation policy and strategy have been developed and integrated into the Philippine Development Plan and the MSME Development Plan. The DTI-BMSMED's "Programs and Services for MSMEs" handbook could form the baseline information for the creation of a database on innovation services and programs that MSMEs can readily access on-line.

The MSMEs have access to testing and standards services by various government agencies - The Bureau of Product Standards (BPS), the Bureau of Food and Drug (BFAD) of the Department of Health and the Bureau of Agriculture and Fisheries Product Standards (BAFPS) of the Department of Agriculture.

A framework linking SMEs with standards and technology development in universities, R&D labs and incubators is also being implemented. There are limited incentives and support schemes to establish incubators associated with universities and/or research centers. Currently, there are only two incubator networks that have been set up and both are located at the University of the Philippines in Quezon City.

Nation-wide one-stop support centers on IPR systems are operational. MSMEs are also able to access broadband services through private sector provision. These private companies also offer information technology packages for SMEs to facilitate their businesses.

There are science/industrial parks, clusters and facilities in the Philippines. Basic supporting infrastructures for the facilities are also in place and these are operated with average of more than 50% of the capacity. There exists financial support schemes for innovative projects of firms but these are still limited and accessed by only a small number of firms. There are also limited pilot public funds for R&D activities.

Recommendations

- Creation of a database on innovation services and programs that MSMEs can readily access on-line.
- Further promotion, expansion and strengthening of incubator programs should be pursued to reach out to more SMEs, universities, and research institutions.
- Strengthen linkages between science parks/clusters and universities/innovation and technology centers as a step to reach out to more innovative SMEs and develop business networks that would foster connectivity among SMEs, science parks, and universities.
- Strengthen information programs on IPR to educate the public especially MSMEs, business associations, law schools and universities particularly on the importance of IP and its protection as well as its benefits to the country. Strengthen enforcement and coordination among the various agencies involved in its implementation.
- Pursue further development of the required broadband infrastructure in the country to address the connectivity deficit and to increase broadband coverage.
- Increase funding (in terms of amount and number of schemes) available for innovative projects in partnership with private sector investors.

F. International Market

Export promotion programs exist and executed by a specific agency of government - Center for International Trade and Export Missions (CITEM). There is funding available but export firms see the need for larger funding given the number of activities that needs to be undertaken each year. There are various agencies assisting exporters by providing important market and legal information. These include Bureau of Export Trade Promotions, Foreign Trade Service Corps and Board of Investments. Export capacity building programs are fully functional nationwide and a significant number of SMEs have participated. A dedicated government corporation, the Philippine Export-Import Credit Agency (PhilEXIM), extends financial services to direct and indirect SMEs exporters with monitoring and evaluation process in place. Both the DTI-CIC and WB estimates, customs clearance takes less than 2 days and costs less than US$100.

Recommendations:

- Increase resources available for export promotion programs through innovative fund raising schemes
- Further expand the capacity building and credit programs through more effective targeting of MSMEs with potential to export

G. Promotion of Entrepreneurial Education

EL policy linkages are articulated with SME, industrial, employment, and innovation policy documents and integrated in the Philippine Development Plan’s section on developing human resources. The Department of Education ensures that secondary schools equipped with EL teaching materials and staff with knowledge and skills for teaching entrepreneurship cover more than 50% of enrolments. The Commission on Higher Education set the competency standards and curriculum for the BS Entrepreneurship Program as key universities offer such courses and programs. Both the academe and the private sector jointly support EL programs, curricula, research, customized training service, coaching and various partnership modes such as apprenticeships, mentoring, competitions, awards and scholarships. There is also available information on training programs on entrepreneurial learning provided by the Philippine Center for Entrepreneurship, University of the Philippines Institute for Small Scale Industries, and the DTI Philippine Trade Training Center. The DEP-ED BALS also has a program that combines academics with entrepreneurial and technical skills for the out-of-school youth.

Recommendations:

- Formulate a framework and more specific strategy for the promotion of Entrepreneurial Learning in various government plans
- Provide adequate budget and effective monitoring and evaluation system for these specific programs promoting Entrepreneurial Learning
- Deepen networking by universities with their ASEAN counterparts towards the adoption of the ASEAN Common Curriculum
- Further improve the quality and increase the number of partnerships between academe and the MSME sector in the promotion of entrepreneurial learning
- Establish a system of accreditation of training program providers

H. Developing Stronger, More Effective Representation For SMEs’ Interests

The membership of SMEs is mainstreamed with the major industry associations and Chambers of Commerce though PHILEXPORT and PCCI. These independent national organizations are strong advocates of SME related issues and are networked internationally and within ASEAN. Both organizations have the capacity to undertake independent research and studies on their own or with partners. They are able to tap technical expertise and funding for joint research projects. There is an institutionalized broad and nationwide mechanism i.e. the MSMED Council at various levels that combines government and MSME representatives where the former is able to solicit feedback and measure outcomes of programs for the sector. Consultations involving key players at various levels take place at least on a monthly basis. There is ample evidence that suggestions and recommendations from the private sector have been adopted by government especially in the MSME Development Plan 2011-2016.

Recommendations:

- A regular annual or biennial summit of individual MSMEs and their clusters to highlight their innovative products and articulate their issues and concerns vis-à-vis government
- Regular dialogue between the MSMED Council and key legislative committees concerned with specific legislation on MSME
- Establish a more effective system of feedback, monitoring and documentation of successful policy outcomes highlighting insights and lessons learned for the sector