

# **Improving the business environment in the Philippines**

A case study of GTZ's support for a better business environment for small and medium-sized enterprises in the Philippines

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## **Abstract**

The Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) is a development cooperation project of the Philippines and German Governments. It falls under the German development cooperation sector entitled, Economic Reform and Development of the Market System. The purpose of SMEDSEP is to shape the business environment in the Philippines, and particularly in the Visayas Region, to enhance the development and use of entrepreneurial potential and stimulates competition.

This case study has been prepared for the International Conference on Reforming the Business Environment; From Assessing Problems to Measuring Results held in Cairo 29 November to 1 December 2005. Its purpose is to help other donor agencies, development organizations and governments to learn from the experiences of designing a program of this kind. Since SMEDSEP began in late-2003, this case study does not focus on the results or impact of the program. Instead, it is the process undertaken to assess the need for business environment reform program and the processes that led to the design of the program that are of interest.

The design of a donor-support business environment reform program can involve a range of assessment tools and processes, as well as a high degree of consultation with key stakeholders. The development of SMEDSEP illustrates how donor agencies can build on their previous experiences in a host country and elsewhere, draw from the findings of assessments undertaken by other donor and development agencies, and build collaborative partnerships with key local actors. Even in the early stages of implementation, SMEDSEP has shown a commitment to collecting good information that can guide the program in its reform efforts.

SMEDSEP contains four components, only one of which deals with reforming the business environment. The other three components, while not described in detail in this case study, complement the business environment component. These components are financial services, business development services, and skills development (specifically vocational training).

Another noteworthy feature of SMEDSEP is its dual focus on national and local business environments. Building on previous experience in German development cooperation in the Philippines and the networks already developed in the Visayas Region, SMEDSEP has designed interventions that endeavour to improve the business environment at the national level, while working with local government units and other local and regional actors to test-out approaches that lead to local business environments that are more conducive to small enterprise development.

## Table of contents

1	Introduction .....	4
1.1	Committee of Donor Agencies for Small Enterprise Development.....	4
1.2	Micro, small and medium-sized enterprises in the Philippines.....	5
1.3	Report structure .....	6
2	Context for private sector and small enterprise development.....	7
2.1	National poverty and investment flows.....	7
2.2	Supporting private sector and small enterprise development.....	8
2.3	National framework conditions for private sector and small enterprise development.....	12
2.4	Local conditions for private sector and small enterprise development .....	17
3	Designing SMEDSEP .....	20
3.1	Chronology of program development .....	20
3.2	Lessons learnt in program design.....	25
4	SMEDSEP in action.....	27
4.1	Structuring the advisory team and action planning.....	28
4.2	National review of policy and legal framework.....	28
4.3	Survey of business regulatory processes in selected Visayan cities .....	29
4.4	Production of tools for practitioners and policy-makers.....	29
4.5	Component 1 strategy development.....	30
5	SMEDSEP guiding principles and areas of focus.....	32
5.1	Addressing reform challenges .....	34
6	Conclusions and lessons to learn.....	37
	References .....	40
	Annex 1: City competitiveness indicators .....	42
	Annex 2: Philippine development partner organizations.....	46
	Annex 3: Partner organizations in German development cooperation .....	47
	Annex 4: Other donor support for private sector and small enterprise development .....	49

## 1 Introduction

This case study has been prepared as a contribution by the *Gesellschaft für Technische Zusammenarbeit* (GTZ) to the Committee of Donor Agencies for Small Enterprise Development. The Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) is a development cooperation project of the Philippines and German Governments. It falls under the German development cooperation sector entitled, Economic Reform and Development of the Market System. The purpose of SMEDSEP is to shape the business environment in the Philippines, and particularly in the Visayas Region, in a way that enables the development and use of entrepreneurial potential and stimulates competition.

This case study has been prepared so that other donor agencies, development organizations and governments can learn from the experiences of designing a program of this kind. Since SMEDSEP began in late-2003, this case study does not focus on the results or impact of the program. Instead, it is the process that was undertaken to assess the need for business environment reform program and the processes that lead to the design of the program that are of interest.

### 1.1 Committee of Donor Agencies for Small Enterprise Development

Since its inception in 2001, the Working Group on Enabling Environment has sought to draw together information on how donor agencies are supporting reforms in the business environment for small enterprise development. The interest in working together on this subject stems from three reasons: (1) because it is important to know what each agency is doing and to learn from each other's experiences; (2) because coordination and collaboration at the country level can improve the effectiveness of donor interventions; and (3) because cooperation among agencies is likely to give a better mix of knowledge, experience and partners at country level.

A first initiative of the Working Group was to commission research into the role donor agencies play in promoting an enabling environment in five countries/regions.<sup>1</sup> This resulted in the publication of a report entitled, *Enabling small enterprise development through a better business environment* (White & Chacaltana 2002). The findings of this report were presented during the annual meeting of the Committee of Donor Agencies in Turin in September 2002. The report identified similarities and differences in donor initiatives in this field, while describing the content, process and outcomes of donor efforts.

In 2004, the Working Group commissioned further research to better understand the concepts, approaches and practices donor agencies apply in their efforts to improve the business environment in which small enterprises operate.

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<sup>1</sup> The five countries/regions examined were the Balkans (encompassing Albania, Bosnia-Herzegovina and FYR Macedonia), the Caribbean (specifically Dominica, Grenada, Guyana, and Jamaica), Peru, Tanzania, and Viet Nam.

## Improving the business environment in the Philippines

The report entitled *Donor approaches to improving the business environment for small enterprises* (White 2004a) was presented at the Committee of Donor Agencies annual meeting in Columbia in September 2004.

Stemming from the outcomes of this research, the Working Group on Enabling Environment has encouraged its members to prepare and disseminate case studies into how donor agencies support reform of the business environment. Case studies on donor-supported reform interventions can provide useful descriptive and analytical information on the concepts, approaches, tools and practices donor agencies use when supporting the development of a more enabling business environment for small enterprises. Case studies can be used for comparative purposes or to examine the processes involved in designing, implementing or evaluating a specific business environment program.

This case study has been prepared as a contribution to the Committee's work on donor-supported business environment reform. It describes the processes used by GTZ to establish a business environment reform program in the Philippines.

### **1.2 Micro, small and medium-sized enterprises in the Philippines**

The Philippines Government regards micro, small and medium-sized enterprises (MSMEs) as the driving force behind economic and social development increasingly. However, there are significant structural and institutional problems that hamper the potential of MSMEs to develop and to contribute to the social and economic goals of the country. Thus, while, on the one hand, there are government agencies eager to support the development of MSMEs—and even the president herself has boosted the priority of this cause—on the other hand, there are government-induced obstacles to private sector and (in particular) small enterprise development that need to be addressed.

The following table (Table 1) provides the most recent definition for MSMEs in the Philippines.

*Table 1: Micro, small and medium-sized enterprises defined*

Enterprise category	Total asset value	Nº of employees
Micro-enterprise	P3,000,000 or less	1 – 9
Small enterprise	P3,000,000 – P15,000,000	10 – 99
Medium enterprise	P15,000,000 – P100,000,000	100 – 199

SOURCE: SMED Council Resolution, January 2003

The Philippines Department of Trade and Industry (DTI) claims that MSMEs account for 99.6 per cent of the country’s businesses (some 811,589 firms), generating 69.1 per cent of Total Employment and 32 per cent of Value Added (Government of the Philippines 2004, Chapter 2).

### 1.3 Report structure

This case study is organised as follows. The next chapter describes the context in which SMEDSEP was developed according to three key themes: (1) the demand for donor support, which is focussed on the high levels of poverty and low investment experienced in the Philippines over the last ten years; (2) the role of the private sector, and small enterprises in particular, in addressing the development challenges experienced in the Philippines, with a focus on recent government initiatives; (3) the national framework conditions for small enterprise development and the outcomes of recent assessments of the investment climate and business environment;<sup>2</sup> and (4) the local conditions for small enterprise development.

Chapter 3 then presents a chronological account of the development of SMEDSEP. This illustrates the range of assessments and consultations undertaken to launch the program to the point of implementation. Some of the main lessons learnt in designing a business environment reform program of this sort are also described.

Chapter 4 describes the work of SMEDSEP since its launch, with attention given to the program component dealing with the business environment for small enterprises. Chapter 5 identifies the principles and challenges illustrated in SMEDSEP’s work, while Chapter 6 presents conclusions and lessons that can be drawn from the SMEDSEP experience to-date.

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<sup>2</sup> The term ‘investment climate’ is used in this paper to describe the broader macroeconomic policies and institutions affecting private sector development, while the term ‘business environment’ refers to the policies, laws, regulations and institutions that have a more direct affect on the performance of privately owned enterprises, especially micro, small and medium enterprises.

## **2 Context for private sector and small enterprise development**

The economic and social character of the Philippines set the conditions for the design of SMEDSEP. While high levels of poverty and low levels of investment create the overall demand for development cooperation, the potential of the private sector and, in particular, the presence of a large MSME sector provide a point of focus for donor intervention.

### **2.1 National poverty and investment flows**

The incidence of poverty in the Philippines, or the proportion of households below the poverty line, fell from about 40 per cent in 1991 to 32 per cent in 1997 when growth was relatively rapid. However, the Asian Development Bank and World Bank (2004) describe how poverty rose again to 34 per cent in 2000 as growth turned slightly negative as a consequence of the Asian Financial Crisis.

About 5.1 million households were considered poor in 2000. The majority of the poor are in rural areas where infrastructure is inadequate, productivity low, and non-farm employment opportunities lacking. Seventy three per cent of the country's poor reside in rural areas.

Both domestic and foreign investment in the Philippines has fluctuated over the last ten years. Domestic investment, measured as gross domestic investment (GDI), averaged 23.6 per cent of GDP from 1993 to 1996. Thereafter, investment growth was dampened due to the economic slowdown. In 2001, GDI expanded by 13.6 per cent from the previous-year's level despite the unsteady political and economic environment, but in 2002 GDI recorded a negative growth relative to GDP, down to just a little over 19 per cent.

Foreign investment during 1986-1989 showed relatively large inflows, spurred by liberalization and deregulation measures. However, the growth recession of the next two years saw net foreign direct investment (FDI) reduce dramatically. However, FDI inflows improved as the economy improved, accounting for about 2.2 per cent of GDP from 1993 to 1996. However, by 2002 net FDI was down to 1.4 per cent of GDP (Asian Development Bank & World Bank 2004).

The drop in both domestic and foreign investment has mostly been blamed on the 'deteriorating investment climate in the Philippines' (Alburo, Lamberte et al. 2003). While the economic policies of the Philippines were radically reformed in the 1990s leading to a relatively stable macro-economy, growing fiscal deficits have weakened the economy. In addition, Alburo, Lamberte et al. (2003) claim 'vested interests appear to increasingly influence both legislative and judicial proceedings and the weakness of the public sector in creating and enforcing freely competitive and/or regulated markets act as a deterrent to prospective investors and a drag on economic growth. While private enterprises do dominate the economy, effective competition does not exist in many sectors'.

A strong history of pro-business policies, economic liberalisation and relatively skilled workforce has contributed to a large private sector. Around 99.6 per cent of all firms in the Philippines are MSMEs, of which the majority are micro enterprises. MSMEs employ around

## Improving the business environment in the Philippines

69.1 per cent of the workforce and account for about 32 per cent of the national value chain (Government of the Philippines 2004, Chapter 2).

### **2.2 Supporting private sector and small enterprise development**

For a long time, the Philippines Government has established and maintained a policy framework that could be broadly defined as ‘pro-business’. However, it has been large enterprises and particularly foreign-owned firms located in the Philippines have captured much of the government’s attention in the past. Micro-enterprises have received some attention from Government, but mainly as mechanism to help the poor become engaged in creating their own livelihoods.

SMEs and their specific concerns have recently gained some prominence in the Philippines through policies such as the following:

#### ***Magna Carta for Small Enterprises of 1997***

The Magna Carta for Small Enterprises (RA6977; RA8289) was passed in January 1991 and amended in May 1997. It provides a definition of small enterprises and establishes a range of government support services for the development of small enterprises in the Philippines.

To address the financing needs of SMEs, the Magna Carta created the Small Business Guarantee and Finance Corporation (SBGFC) to ‘provide, promote, develop and widen in both scope and service reach various alternative modes of financing for small enterprises...’ The Corporation guarantees loans obtained by qualified small enterprises.

Amendments to the Magna Carta for Small Enterprises are currently under consideration by the Congress of the Philippines to broaden its focus to include micro-enterprises. In addition, House Bill No. 180 of the 13<sup>th</sup> Congress of the Philippines entitled, *An Act To Further Promote Entrepreneurship And Support The Development Of Micro, Small And Medium Enterprises, Amending For The Purpose Of Republic Act No. 6977, As Amended, Otherwise Known As The Magna Carta For Small Enterprises*, endeavours to provide greater resources and institutional support for micro-enterprise development.

#### ***Small and Medium Enterprise Development Council***

The Magna Carta also created the Small and Medium Enterprise Development (SMED) Council, whose mandate is to promote, the growth and development of SMEs by ‘facilitating and closely coordinating national efforts to promote the viability and growth of SMEs, including assisting relevant agencies in the tapping of local and foreign funds... as well as promoting the use of existing guarantee programs’. The SMED Council is attached to the Department of Trade and Industry (DTI), which serves as its secretariat.

***Barangay Micro Business Enterprises Act of 2002***

The Barangay Micro Business Enterprises Act (or BMBE Act) encourages micro-enterprises to formally register. The main incentive for registration is an exemption from taxes and minimum wage laws. The Act is ‘a policy of the State to hasten the country’s economic development by encouraging the formation and growth of barangay micro business enterprises’ and the integration of ‘those in the informal sector with the mainstream economy’. This is to be achieved through the rationalization of bureaucratic restrictions, the active intervention of the government—at the local level in particular—and the granting of incentives and benefits.

Thus, a new category of enterprises was created by this Act: the BMBE. A BMBE refers to ‘any business entity or enterprise engaged in the production, processing or manufacturing of products or commodities, including agro-processing, trading and services.’ DTI issued a Department Administrative Order (No. 01) indicating that a BMBE ‘shall include any individual owning such business entity/enterprise, partnership, cooperative, corporation, association or other entity incorporated and/or organized and existing under Philippine laws; and registered with the office of the treasurer of a city or municipality in accordance with these (sic) implementing rules and regulations’. However, the BMBE must also have an asset size of not more than three million pesos, excluding land, before applying for BMBE registration.

This definition allows micro-enterprises that have previously registered under the Magna Carta to register again with the DTI as a BMBE (Tecson 2004). There are many benefits and incentives provided for by the BMBE Act, such as:

- Exemption from income tax arising from the operation of the enterprise
- Reduction or exemption from all local taxes, fees and charges
- Speedy registration and processing of licenses and permits through one-stop business registration centres which local government units are encouraged to establish
- Exemption from the Coverage of the Minimum Wage Law provided ‘that all employees under the Act are entitled to the same benefits given to any regular employee such as social security and healthcare benefits’
- Access to credit, through the opening of special credit window to service the financing needs of BMBEs by government banks and other public financial institutions—special guarantee windows will also be opened to guarantee BMBE loans
- Technology transfer, production and management training, marketing assistance will be provided by specific government agencies
- Trade and Investment promotion, assuming these are provided by private sector organizations and NGOs

## Improving the business environment in the Philippines

### ***SME Development Plan 2004–2010***

This Government Plan calls for broad-based support to foster competitiveness and growth of SME. The plan presents the integrated efforts of government to strengthen and stimulate the SME sector (which in this case includes micro-enterprises) so that it can contribute more effectively to the country's development. By 2010, the plan aims to make the SME sector a key factor in the country's economic growth by 2010.

The plan contains the following vision of SME development in the Philippines:

The overall vision of the SME Plan 2004-2010 is to create globally competitive SMEs in the new industrial economic environment. These are SMEs that acquired distinctive competencies from harnessing efficient technologies and establishing strategic relationships with partners, market forces, suppliers (even competitor producers). The envisioned breed of dynamic SMEs shall propel the nation into the world-class business sphere. These SMEs shall also showcase the country as a people, its richness in resources, as well as the boundless possibilities available to create and offer products and services to seamless global markets.

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

The Plan is designed to be carried out in three stages: (1) roll-out; (2) assessment of interim results; and (3) re-programmed implementation. It aims to increase the SME sector's gross value added contribution to 40 per cent of aggregate by 2010. It also intends to make the SME sector a major contributor to export growth, with exporting SMEs achieving a 16 per cent annual growth rate in export sales. These are expected to come about mainly through the creation of 'globally competitive SMEs' and assistance in aggressively seeking new market and product opportunities.

In order to meet the issues and challenges of the SME sector, the plan sets down the following strategies:

#### *To enhance operations of the individual SME*

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

#### *To assist priority industries*

- 3 Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.

## Improving the business environment in the Philippines

- 4 Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.

### *To improve the SME operational environment*

- 5 Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMEs.
- 6 Streamline the systems that provide support programs and incentives for SMEs.
- 7 Streamline the implementation of SME policies and regulations.
- 8 Strengthen and build the capabilities of institutions that generate and implement programs for SME development.

Forty-eight specific programs are described in the plan and are used to pursue the implementation of the above eight strategies.

### **GMA Development Agenda**

In addition to the above, the newly elected president Gloria Macapagal Arroyo (GMA) announced her administration would seek to create one million new jobs a year by supporting entrepreneurs: 'To create a higher economic growth path, we will need to bring investments from 19 per cent of GDP to 28 per cent of GDP, and increase our exports of goods and services from \$38 billion to \$50 billion within two years. To achieve these objectives, *government will provide the policy environment that will reduce the costs and risks of doing business and nurture globally competitive enterprises that will produce goods of high quality in a cost-efficient manner.* It will also provide the marketing and logistical support to facilitate domestic and international trade and effect transfer of knowledge that will increase the productivity of our people' (GMA Development Agenda, July 2004).

### **DTI Roadmap**

DTI has formulated a *Long-Term Plan to Institutionalise SME Development (2004-2010)*. Its goals are to 'increase the contribution of SMEs as a primary engine of growth' and 'spur the Philippine SMEs to be at par or better than the performance level of comparable ASEAN enterprises in terms of value added, employment, number of establishments, and export volume'. There are two strategies contained in this document that specifically address 'broad-based strategies' for SME development: Strategy 6: 'Strengthen the systems that provide support programs and incentives for SMEs' and Strategy 7: 'Streamline the implementation of SME policies and regulations'.

The DTI has also developed a major campaign known as the One Town One Product-Philippines (OTOP-Philippines) Program.<sup>3</sup> This is a priority program of President Gloria

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<sup>3</sup> The OTOP program is based on Japan's One Village One Product (OVOP) project, OTOP has already been established in Thailand, Vietnam, Malawi, Cambodia, Pakistan, India,

Macapagal-Arroyo to promote entrepreneurship and create jobs, which encourages MSMEs to produce and market distinct products or services using indigenous raw materials and manpower. Through OTOP-Philippines, local chief executives of every city and municipality take the lead in identifying, developing, and promoting a specific product or service, which has a competitive advantage. LGUs are also encouraged to create and provide a conducive business environment and prioritise OTOP-Philippines programs and activities in their area.<sup>4</sup>

### **2.3 National framework conditions for private sector and small enterprise development**

The policy, legal and regulatory framework presents great problems to enterprises of all sizes. While the Government of the Philippines has pronounced its commitment to improving this, there are significant challenges to address. The following examples serve to illustrate these challenges.

The World Bank's *Doing Business in 2005* report presents a number of indicators concerning the regulatory burden on business. See Table 2, below. This provides some useful regional and international comparisons. It shows that the Philippines has a number of improvements to make if it is to compare more favourably with its neighbours and more developed countries.

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Bangladesh, and Indonesia as an effective tool of poverty alleviation particularly in the rural areas.

<sup>4</sup> The DTI, through its Regional Operations Group and SME Development Group, assists the LGUs in identifying the specific product or service and coordinates all forms of assistance from various agencies including the Departments of Agriculture (DA), Environment and Natural Resources (DENR), Interior and Local Government (DILG), Science and Technology (DOST), Tourism (DOT) and the Technical Education Skills Development Authority (TESDA). Under the program, the inter-agencies will provide MSMEs a comprehensive package of assistance including business counselling; skills and entrepreneurial training; product design and development; marketing; and introduction of appropriate technologies.

## Improving the business environment in the Philippines

**Table 2: Snapshot of Doing Business in 2005, Philippines**

Indicator	Philippines	East Asia and Pacific Regional Average	OECD Average
<b>Starting a business (2004)</b>			
Number of procedures to start a business	11	8	6
Time to start a business (days)	50	52	25
Cost to start a business (% of income per capita)	19.5	47.1	8.0
<b>Hiring and firing workers (2004)</b>			
Difficulty of Hiring Index	22	20.6	26.2
Rigidity of Hours Index	60	30.0	50.0
Difficulty of Firing Index	40	22.7	26.8
Rigidity of Employment Index	41	24.2	34.4
Firing costs (weeks of wages)	90	53.0	40.4
<b>Registering property (2004)</b>			
Number of procedures	8	4	4
Time (days)	33	51	34
Cost (% of property per capita)	5.7	4.3	4.9
<b>Getting credit</b>			
Cost to create collateral (% of income per capita)	8.3	1.9	5.2
Legal Rights Index	5	5.4	6.3
Credit Information Index	2	2.0	5.0
Public credit registry coverage (borrowers/1000 adults)	0	33.9	76.2
Private bureau coverage (borrowers/1000 adults)	34	67.3	577.2
<b>Protecting investors (2004)</b>			
Disclosure Index	6	2.6	5.6

## Improving the business environment in the Philippines

<b>Enforcing contracts (2004)</b>			
Number of procedures	25	27	19
Time (days)	380	316	229
Cost (% of debt)	50.7	57.0	10.8
<b>Closing a business (2004)</b>			
Time (years)	5.6	3.6	1.7
Cost (% of estate)	38	29.8	6.8
Recovery rate (cents on the dollar)	3.9	30.4	72.1

Source: World Bank (2004)

The informal economy represented some 43.4 per cent of the economy in the Philippines in 2003 (World Bank 2004). It is likely that many MSMEs are found in this sector of the economy. Thus, the procedures and costs described in the *Doing Business in 2005* report are not necessarily directly experienced by this group. Indeed, in many cases, informal enterprises will remain informal because of the negative consequences perceived in formalising. To this end, the following table is of interest.

Table 3 below, presents data from the World Bank Investment Survey conducted in 2003. It is interesting to note that roughly a quarter of all surveyed enterprises consider the Government of the Philippines as a major obstacle in the areas presented. Corruption, economic and regulatory uncertainty, and inefficient delivery of government services are the most pronounced government failures in the business sector's dealings with the authorities. Thus, it is not just the procedures an enterprise has to deal with that hamper business activities in the Philippines (as presented in the *Doing Business in 2005* report), but the way these transactions are administered.

## Improving the business environment in the Philippines

**Table 3: Government as a business obstacle**

<b>Government obstacle</b>	<b>Major Obstacles or Very Severe Obstacle</b>	<b>Inefficient Or Very Inefficient</b>	<b>Fully Disagree Or Disagree in Most Cases</b>
Tax administration	25.14%		
Customs and trade regulations	21.66%		
Labour regulations	24.71%		
Licensing and operating permits	13.52%		
Economic and regulatory uncertainty	29.50%		
Corruption	35.17%		
Anti competitiveness/ informal practices	24.27%		
Efficiency of govt. in delivering services		33.97%	
Officials' interpretations of laws consistent and predictable			24.93%

Source: World Bank (2003)

The Asian Development Bank and World Bank (2004) found that deficiencies in infrastructure and weak governance affect small enterprises adversely. Small enterprises have to contend with longer delays, compared to large firms, in getting delivery from imports and clearing customs (Asian Development Bank & World Bank 2004, p. 48). However, it should be noted that the sample of small firms used contained a relatively high number of employees, i.e., 10-99 workers (footnote 3). Thus, the experiences of enterprises with less than ten workers have not been captured.<sup>5</sup>

The Asian Development Bank and World Bank (2004) suggest that improvements to the investment climate could be made in the following areas:

- Infrastructure needs to be improved: especially in the delivery of electricity, water, and roads and maritime transport

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<sup>5</sup> It should also be noted that 62 percent of the firms sampled in the Investment Climate Survey were owned by males and 60 per cent of the samples were located within or very close to city centres (World Bank 2003).

## Improving the business environment in the Philippines

- Regulatory procedures need to be reduced: especially in customs and trade regulations, labour legislation, taxation, as well as the more general fields of governance and corruption
- Access to finance needs to be increased: efforts should be made to facilitate better access to finance for businesses from commercial banks, especially for small enterprises

Gross (2004b) has identified three reasons for tackling policies, laws and regulations to improve the business environment for MSMEs in the Philippines:

- 1 The share of the informal economy in the Philippines is the second largest in the region, which may at least in part be due to an unfriendly business environment
- 2 There is a wide discrepancy between actual and available best practice government-private sector interaction
- 3 The implementation of laws and regulation is plagued with inefficiencies, corruption and unnecessary costs to businesses

### **Micro-enterprise views on the problems of registering**

Length of processing time for registration: The documentary requirements for registration are voluminous and require time to gather. Moreover, processing takes days if not weeks.

Cost of registration: Fees are high for a micro-enterprise and it may be preferable to put this money into working capital. The required documents are also rather costly: health certificates, x-rays and stool examinations of workers, etc.

Lack of information: on what permits to get, where to get them and how much they really cost. Some participants were afraid of 'hidden' requirements that they would be asked to comply with.

Source: Tecson (2004)

A study into the private sector in the Philippines commissioned by the Asian Development Bank proposed the follow areas for ADB support (Albuero, Lamberte et al. 2003):

- 1 Creating a rules-based business environment. It was recommended that this include the strengthening of the legal framework for competition; efforts to eradicate corruption; strengthening the legal framework and enforcement mechanisms for protecting credit and property rights; and reducing political interference in the markets.
- 2 Attracting private sector investment into physical infrastructure through coherent investment planning and implementation; credible and independent regulatory oversight; the establishment of clear rules and regulations for the solicitation and evaluation of PPI proposals; tariff regimes based on cost recovery; and efficient mechanisms for dispute resolution.
- 3 Mobilizing finance for private sector development through legal, regulatory, and corporate governance reforms.
- 4 Facilitating the growth and development of micro-enterprises and SMEs. Here the consultants noted: 'it should be remembered that in the Philippines, as in most middle-

income countries, the engines of job creation in the economy are micro and SMEs. Facilitating the creation and growth of these enterprises, particularly in rural areas most affected by poverty, must remain a development priority’.

- 5 Local implementation approaches: ‘While engagement with the national Government on policy, legal and regulatory issues is and will remain essential in addressing private sector development issues’ said the consultants, ‘working with local governments may present greater opportunities for focused governance reform. Local governments have responsibility for managing a large number of public services which directly affect the operating conditions of private enterprises, most notably the provision of infrastructure (water, power, roads, ports, airports)’.

### **2.4 Local conditions for private sector and small enterprise development**

Increasingly, attention is being given to the importance of the local business environment. It is at the local level that most MSMEs come into direct contact with government bureaucracy. Local institutions and procedures can become another layer of bureaucratic burden, or they can facilitate and support MSMEs as they navigate the regulatory framework.

The Philippines Government has introduced an aggressive decentralisation program focussed on the local government unit (LGU). Increasingly, attention has been given to LGUs and the role they can play in promoting local social and economic development. The BMBE Act, for example, stipulates that LGUs ‘are encouraged to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges’. It also suggests that LGUs will provide one-stop business registration centres that will offer speedy registration and processing of licenses and permits.

The Asian Institute of Management (AIM) Policy Center (2003) conducted an assessment of fifty cities in the Philippines to determine their competitiveness as well as the attractiveness of their local economic and political systems. This was to encourage local government leaders to better understand that with decentralization, ‘their roles must shift from being mere service providers to becoming economic and development managers’ (p. 1).

Based on the understanding that competitiveness refers to the ability and the extent to which a city is able to provide an environment that nurtures the progress and dynamism of its local enterprises and industries, the assessment endeavours to investigate the following ‘drivers of competitiveness’:

- **Cost competitiveness:** How expensive is it to operate a business in the city compared to other cities? This driver is concerned with the direct costs of doing business, such as those for land, labour, rent, telecommunications and power.
- **Human resources and training:** How well equipped is the population to build and take advantage of opportunities in the locality? The education of the populace is taken to be the most significant component of human resource endowment. The driver primarily refers to the competence of local labour and the availability of training programs for skills development.

## Improving the business environment in the Philippines

- **Infrastructure:** Are the necessary physical, telecommunications, technological, infrastructure and knowledge support services in place in the city? Transacting business requires not only production factors, but also accompanying infrastructure and services. These include, among others, road infrastructure, information and communications technology, and transport.
- **Linkages and accessibility:** Linkages are one of the significant determinants of city competitiveness. This refers to proximity to other growth nodes, urban centres, and surrounding growth regions. The driver's aspects are accessibility to domestic and international markets and the availability of national government and business support services. Moreover, certain geographical characteristics can be advantages upon which a city can build.
- **Quality of life:** How well off are residents in terms of quality of environment and life? The quality of life factor has been increasingly considered as one of the yardsticks in determining which cities have successfully developed and which have succumbed to the ills of urbanization. Indeed, the long-term competitiveness of the city would significantly be influenced by the degree to which its leaders have taken care of the environment and the local community. Among the relevant aspects of the quality of life are the social welfare of the people, peace and order, quality of living environment, and local amenities.

These competitiveness drivers lay the foundations for the attractiveness of a city as a place to live and do business. The competitiveness of a city is also greatly influenced by good governance and the involvement of the private sector. Thus, the assessment focuses on the conditions required for a vibrant local economy that attracts inward investments, as well as on the responsiveness of the LGU.

Annex 1 contains a list of qualitative and quantitative indicators used to assess metropolitan cities (i.e., Metro Manila, Metro Cebu and Metro Davao), mid-sized cities (those non-metropolitan cities with more than 200,000 residents), and small cities (cities with less than 200,000 residents).

The AIM Policy Center identified five key features characterising the Philippines' most competitive cities (p. 27):

- 1 The cities that are most competitive belong to the metropolitan cities, which could be attributed partly to the resources available to the LGUs. Its strengths lie in its accessibility and linkages and the presence of good infrastructure.
- 2 Most of the cities considered very competitive have a strong supporting environment (i.e., a responsive local government with business-friendly policies and regulations and support services), examples include Dagupan's on-line transaction with City Hall and Marikina's streamlined processing of business permits.
- 3 The most competitive cities have main attractions, core competencies or products or services as its main source of revenues and employment generation (e.g., tourism

## Improving the business environment in the Philippines

sector for Tagaytay, educational institutions in Baguio and Iloilo, and financial services in Makati).

- 4 A number of cities are influenced by the strengths of their neighbours or by belonging to a cluster of relatively strong cities (e.g., Metro Manila, Metro Cebu, Calabarzon). The factor endowments present in these clusters (i.e., road network, ports, power grid, quality tertiary educational and vocational/technical institutions) offer nearby cities opportunities to enhance trade and services and develop its human resources.
- 5 In addition to low cost of doing business, market is one of the primary reasons for the mushrooming of SMEs in a given city. The population and the heavy traffic that the city generates draw businesses such as fast food establishments, which in turn lead to the setting up of branches of banking institutions.

As will be shown in the following chapter, local business environments have become an important feature of SMEDSEP.

### **3 Designing SMEDSEP**

This chapter describes the processes that led to the design of SMEDSEP and the lessons that can be learnt from these experiences.

#### **3.1 Chronology of program development**

The following presents a chronology of events leading to the design and implementation of SMEDSEP. The chronology illustrates the level of assessments performed to identify the general purpose of the program, leading to consultations with key stakeholders and collaboration with program partners in the design and initiation of the program.

##### ***3.1.1 Previous Philippine-German development cooperation***

Bilateral relations between Germany and the Philippines have long been warm and friendly. Germany decided as early as 1961 to make the Philippines one of its major development partners and the Philippines are among 40 nations in Asia, Africa and Latin America, which form the 'core group' of Germany's current priority partner countries. Nowadays, Germany is the third largest bilateral donor of the Philippines after Japan and the USA. Through the efforts initially facilitated by German church organizations as early as the 1950s, the number of official development workers in the Philippines has grown to almost one hundred today. In addition to that number, countless other represent various religious, political and private institutions with projects all over the Philippine islands (German Embassy Manila 2004).

The focus of the countries' bilateral relations is in the fields of economics and development aid. In 1994, Philippines President Ramos visited Germany and in October 1996, the German Chancellor visited the Philippines. Federal Foreign Minister, Fischer visited Manila in 2000 and the German Minister of State, Muller visited in 2003 (Manila Bulletin Online 2001).

Since the start of the bilateral cooperation in 1961, the German Government has committed a total bilateral assistance of more than EUR 552 million in financial cooperation and EUR 149.5 million in technical cooperation for a broad spectrum of projects and programs. Annex 2 contains a list of Philippine partner organizations that have participated in development cooperation with the Government of the Federal Republic of Germany.

The last German-Philippine bilateral talks were held in June 2003. In these discussions the German government pledged EUR 26.5 million for 2003 and 2004 for a number of projects under the bilateral technical and financial cooperation.

The most important implementing agencies for the bilateral German-Philippine development cooperation are the GTZ (German technical cooperation), KfW (German development bank), InWent (Capacity building international), DED (German Development Service) and CIM (integrated experts). About 20 German NGOs, the churches and political foundations

## Improving the business environment in the Philippines

affiliated with major political parties in Germany are also carrying out various development projects.<sup>6</sup> See Annex 3 for more details.

Poverty alleviation is the overarching objective of German development cooperation has been established by the document entitled, *BMZ concept for development cooperation in Asian countries*.

There are four focal areas of Germany's current development cooperation designed to meet this objective:

- 1 Economic reform and the development of the market system (SMEDSEP falls within this focal area)
- 2 Health care, family planning, and HIV/AIDS
- 3 Environmental policies and the protection and sustainable use of natural resources
- 4 Drinking water, water management, sanitation and waste management

Within the first focal area referred to above, German development cooperation has adopted a 'systemic approach to competitiveness'. This contains development interventions focussed on the development of the SME sector at three levels: macro (i.e., legal and administrative framework conditions), meso (i.e., institutions, associations and chambers, private sector providers, and networks), and micro (enterprises, employed men and women, young people). Within this range of possible interventions, Philippines-German discussions agreed that future development cooperation would concentrate on the framework conditions for competitiveness and sustainable growth in the development of the SME sector, as well as on systematic meso level interventions.

Philippines-German discussions also led to the identification of the Visayas Region as a suitable location for regional concentration of German development cooperation. The Visayas Region (which covers Regions 6, 7 and 8) is a 'medium ranked' region in the national context, but contains remarkable local disparities. On this basis, it was agreed that development cooperation in promoting SME competitiveness and sustainability should involve:

- (i) Project and future program contributions that comply with local demands and with the objectives of a regional development strategy; interventions should be demand-oriented while integrating local development plans into the design of regional and national development plans in a bottom-up manner.

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6 The German Embassy also directly undertakes Small Scale Livelihood Projects in the Philippines. These projects are financed from the budget of the German Ministry for Development Cooperation (BMZ) and are intended to directly improve the quality of life of poor families, especially in rural areas (e.g., remote islands, mountainous areas). Examples of Small Scale Livelihood Projects include: construction of a suspension bridge in Suyo, Ilocos Sur; water supply system for vegetable planting in Bagac, Bataan; and multi-purpose cooperative store in San Dionisio, Iloilo.

## Improving the business environment in the Philippines

- (ii) Local initiatives should be back by national policies. Institutions such as DTI and TESDA should contribute to the development of private sector lead growth by clear market-oriented schemes.

In summary, the overall structure of German development cooperation in the Philippines in the field of Economic Reform and Development of the Market System was as follows.

*Overall goal: Contributing to poverty alleviation by increasing sustainable employment and income (employment-oriented growth).*

*Specific goal 1: The competitiveness of the private sector is increased by contributing to the development of the SME sector, the financial system, the employability of the labour force as well as to market-friendly framework conditions.*

*Specific goal 2: Selected regions are strengthened in using their economic potentials for development.*

The Government of the Federation of Germany was acutely aware of the role other donor agencies were playing in the promotion of the private sector in the Philippines. See Annex 4. Efforts were taken in all consultations to ensure that the contributions of the Government of the Federation of Germany complemented and supported these initiatives.

### **3.1.2 Request for assistance in private sector development (2001)**

In 2001, the Philippines Department for Trade and Industry wrote to the Government of the Federal Republic of Germany requesting technical assistance for private sector development that would help Philippines' industries become more globally and locally competitive. The Government of the Federal Republic of Germany responded by requesting GTZ to field an appraisal mission to the Philippines.

### **3.1.3 Appraisal mission (April 2002)**

As previous Philippine-German development cooperation dealt with vocational training in the Visayas Region of the Philippines, it was considered useful to examine how a private sector development could complement previous experiences in this region in designing the appraisal mission. The terms of reference for the appraisal mission were reviewed in the first two days of the mission with the GTZ Country Director and then with National Economic and Development Authority (NEDA) and the DTI.

The appraisal mission concluded that, indeed, the German Government could support the Philippines in its efforts to make the private sector more competitive. To this end, the appraisal team recommended that the program focus on the needs of SMEs. The team believed that while the SME sector was vital to employment generation and poverty reduction

## Improving the business environment in the Philippines

in the Philippines, most government attention was paid to large corporations and micro-enterprises (Prey, Hartig et al. 2002).

The report prepared by the appraisal team drew from a variety of information collected during the appraisal mission. This included interviews with key government agencies in Manila as well as in the Visayas Region. Interviews were also held with current German development programs and other donor agencies supporting private sector development in the Philippines.

The appraisal team recommended that the program address four fundamental constraints to SME competitiveness:

- 1 Business environment for SMEs
- 2 Business development services
- 3 Access to financial services
- 4 Skills and staff development

It was believed that while separate, each of these components would create mutually beneficial synergies.

Since the Philippines and German governments had previously agreed that their cooperation should have a regional focus (i.e., in the Visayas Region), the appraisal team recommended the program contain a national and regional focus.

The inclusion of the Visayas Region in the work of the appraisal team and the inclusion of the region in the final recommendations of the team is interesting because it shows how such assessments are often conducted on a subjective basis. The selection of the Visayas was based on previous engagement in this region and a long-standing agreement with the Government of the Philippines. It was not selected because of its poor or good business environment or for the relevance of specific issues facing the MSME sector in the region. This is consistent with the findings of White (2004a), which suggest that donor agencies do not rely solely on objective assessments when formulating reform interventions.

### **3.1.4 The offer**

In 2002, following the outcome of the appraisal mission, GTZ (2002) prepared an ‘offer on the implementation of the Private Sector Development Programme’ in the Philippines, which committed 5,317,000 euro to the program from September 2003 to August 2006. As a technical agency, GTZ is required to submit a formal offer (i.e., program proposal) to the Government of Germany.

This offer laid the foundations for the design and implementation of what was to become SMEDSEP and established the following overall objective of the program: ‘State-run and private institutions create general business conditions in the Philippines, particularly in the Visayas, to harness entrepreneurial potential and encourage competition’.

GTZ nominated Department of Trade and Industry (DTI) and the Technical Education and Skills Development Authority (TESDA) as joint executing agencies. Separate implementation agreements were later established with both these agencies.

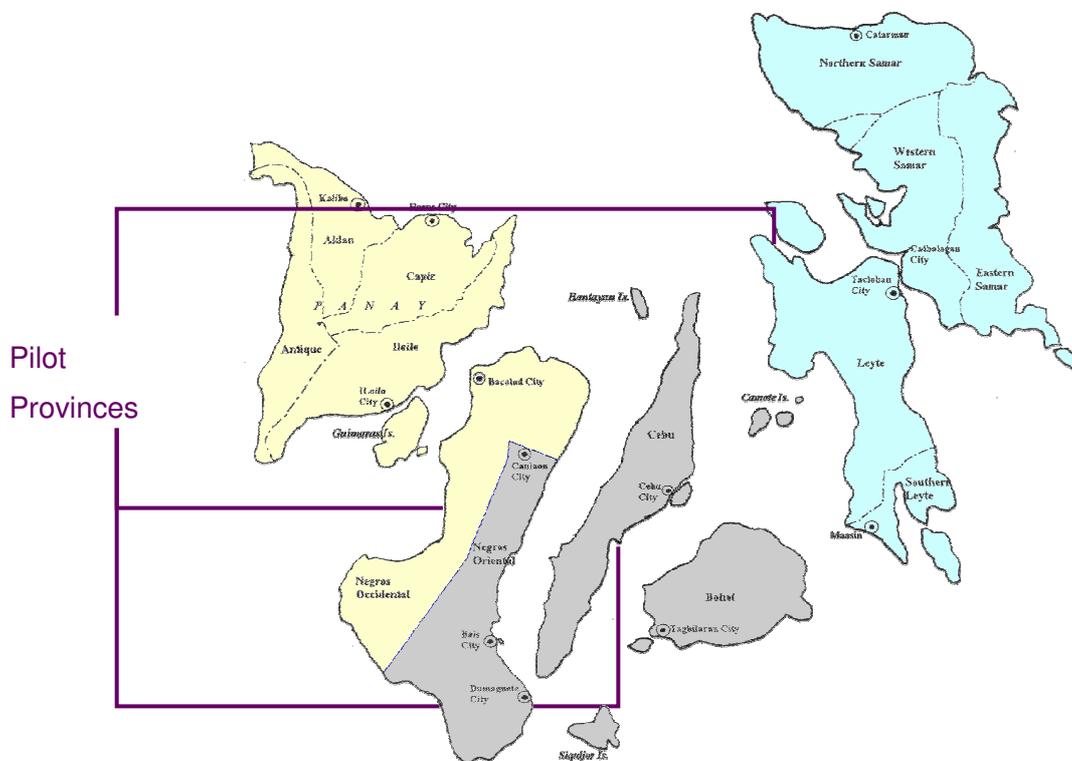
As the following activities show, acceptance of this offer by the Government of the Federal Republic of Germany does not lead to the immediate launch of the program. Instead, the overall purpose, timeframe and structure of the program are agreed to. A process whereby GTZ refine the program strategies in close consultation with relevant domestic actors and potential program partners follows this.

### **3.1.5 Planning workshops**

A series of planning workshops were held to consult with key program counterparts and to finalise the design and management of the program:

- **Antipolo City workshop (September 2002):** This was a program-planning meeting in which the need for a multi-partnership arrangement was agreed upon.
- **Bacolod City workshop (October 2003):** This workshop was a follow-up to the Antipolo City workshop in order to define the relationships among key program players and agree on a process for designing an implementation plan for the program. Staff from the national, regional and provincial levels of DTI and the Technical Education and Skills Development Authority (TESDA) attended the meeting, along with representatives from GTZ. It was at this meeting that the official name of the program was agreed upon (Small and Medium Enterprise Development for Sustainable Employment Program, or SMEDSEP). A Steering Committee was also formed and there was agreement to present a detailed work program to the next meeting (initially scheduled to be held on Panglao Island, Bohol, in November 2003 (GTZ 2003).
- **Kick-off workshop (December 2003):** Sixty six participants attended the ‘Kick-off workshop’ in December 2003 at Lapulapu City, thirty nine of these were representatives of the private sector, representing SMEs, as well as various trade associations and chambers of commerce and industry. Other participants represented DTI, TESDA, local government and SMEDSEP. The main output of the meeting was an increased level of awareness among participants and the agencies they represented of the program’s purpose, its management arrangements, and planned activities (SMEDSEP 2003). It was also at this workshop that the final decisions were made regarding LGUs in the pilot provinces (see map on the following page).

### Map of pilot provinces



### 3.2 Lessons learnt in program design

SMEDSEP's own reflections on the lessons that can be learnt from setting up a business environment reform program such as this are informative. The following issues have been identified by SMEDSEP as significant in this regard (adapted from Gross 2004a):

- **Relevance with the national agenda:** the design of a reform such as SMEDSEP should be closely linked to the government's own reform and development agenda. This allows the program to be seen as adding value to domestic reform processes, rather than bringing external agendas.
- **Make use of locally recognised program structures:** there are some well regarded mechanisms for program management and information sharing that, while not necessarily desired by the donor, are considered appropriate and useful by local actors (e.g., steering committees). Program design should accommodate the use of recognised program structures to build program ownership. Care should also be taken

## Improving the business environment in the Philippines

to follow the bureaucratic structures and procedures that are in place, regardless of how time-consuming this may be.

- **Consultation is essential:** it helps different actors of the business environment to express their views and to find a common ground for reform. Priorities will vary among different actors—especially among public and private sector actors—but consultation will help to build understanding and ownership.
- **Tensions surrounding the role of government:** While good international practice in setting the framework conditions for private sector and small enterprise development suggest that government should generally perform a hands-off, facilitator's role, national governments have their own interests. Political pressure and institutional self-interest often encourages government departments to play a direct role, for example in service delivery. Thus, government agencies want to be seen for doing things that support private sector and small enterprise development.
- **Build the capacity of local personnel and agencies:** SMEDSEP has found it very useful to develop close working relationships with local agencies, as well as to employ local staff with a sound knowledge of the Philippines government processes. This encourages actors to share knowledge and information in the vernacular, while also helping local actors (i.e., individuals and organizations) to engage these issues more fully.

In addition to these lessons, it is interesting to note that the basic structure of the program was quickly established and agreed to by GTZ and the Government of the Federal Republic of Germany. This rather rapid agreement built on a strong history of development cooperation between Germany and the Philippines. Understandably, there were some changes of emphasis and focus that occurred as the program moved from its initial approval toward its launch.

SMEDSEP has recognised the importance of working closely with domestic program partners. It has invested considerable time and money to ensure that all program partners understand the program and contribute their own views on how it should work. Thus, there appears to be a high degree of ownership of this program by the program partners.

SMEDSEP and GTZ have been active partners in efforts to promote donor coordination in the SME sector. While a many donors are engaged in SME promotion, only a handful of agencies are engaged in programs that support the policy environment for SME development. In addition to GTZ, these are the Canadian International Development Agency and the Japan International Cooperation Agency. See Annex 4 for further details.

An SME Donor Group has been established in the Philippines. Currently chaired by Mr Joe Goodings of the Canadian International Development Agency, the group liaises closely with the Government of the Philippines and, in particular, with DTI and the SMED Council. The Group is currently commissioning a consultant to assist—in close consultation with government—in the process of defining priorities for the implementation of the SME Development Plan and to estimate the technical, financial and human resources need to implement these.

## 4 SMEDSEP in action

What follows is a brief overview of SMEDSEP, illustrating its current focus and activities. The overall goal for SMEDSEP is as follows:

*State and private institutions shape the business environment in the Philippines, and particularly in the Visayas, in a way that enables the development and use of entrepreneurial potential and stimulates competition. Focusing on certain pilot areas is expected to heighten their dynamic capacity, resulting in more income and employment, especially for poor population segments.*

German promotion is scheduled to last for an eight-year period at an estimated cost of €12 million. The first phase is planned to run for three years and is financed with a German contribution in the amount of €5,317,000.

SMEDSEP's target group is small and medium enterprises, as well as micro enterprises with growth potential.

Four different components of program activity are contained within SMEDSEP:

1 *Creation of a framework conducive to business activities*

Component objective: policy proposals for the improvement of the business climate at national and local and regional levels exist and have been implemented in the Visayas on a pilot basis.

2 *Market development for MSME-relevant services*

Component objective: business development services in selected areas of the Visayas adequately meet the growing demand from MSMEs

3 *Improving access to medium- and long-term loan financing*

Component objective: selected banks in the Visayas Region increase the share of MSMEs in their credit portfolio

4 *Improved vocational training and upgrading*

Component objective: demand-oriented training is increasingly available for people capable of work in the Visayas Region

SMEDSEP has designed following indicators for its first program component (Creation of a framework conducive to business activities) to measure its success:

- The local investment climate/business environment has improved (in selected LGUs in the Visayas) compared with other regions in the Philippines (e.g., higher ranking in the 'Competitiveness of Cities' list drawn up by the Asian Institute of Management)
- Representatives of the SME sector are regularly and effectively integrated into the decision-making processes by relevant promotion institutions (e.g., frequency of consultations, results achieved)

## Improving the business environment in the Philippines

- SMEs confirm the approval and licensing procedures have been shortened, simplified and are better publicised
- Seventy per cent (70 per cent) of the entrepreneurs say that the framework conditions have improved since the beginning of the phase (based on a random survey)

This case study is concerned with the contribution SMEDSEP can make to the improvement of the business environment for small enterprises in the Philippines. Thus, activities and outcomes of the first program component are of most interest. Since its inception, SMEDSEP has undertaken the following activities to achieve its first component objective.

### **4.1 Structuring the advisory team and action planning**

A workshop was held in March 2004 with the SMEDSEP advisory team. The aim of this workshop was to establish a common understanding of the program strategy and to develop a suitable planning and management structure within the team (Ramm 2004).

### **4.2 National review of policy and legal framework**

SMEDSEP commissioned a consultant to undertake a review of the policies and laws affecting MSMEs in the Philippines (Tecson 2004). The resulting report included a review of the literature on the business environment for small enterprises as well as a desktop analysis of policies, laws and regulations dealing with: starting a business (business registration), financing, taxes and infrastructure, labour and human resource development, trade, and technology and competition. Focus group discussions were also conducted in Bacolod, Negros Occidental and Cebu City (in the Visayas).

This report documented a wide range of policy, legal and regulatory instruments affecting MSMEs in the Philippines and provided valuable data for the implementation of SMEDSEP. Among the range of problems and issues identified by this study were the following:

- High cost of business registration is a result of unnecessary documentary requirements and long processing times
- Lack of information on registration procedures
- Lack of information on available sources of credit
- Lack of orientation of banks with regard to lending to small businesses, hence still dependent on collateral-based lending
- SULONG program, or SME Unified Opportunities for National Growth program, while promising, has too little budget to meet the demands of SMEs
- Small Business Guarantee and Finance Corporation (now known as the Small Business Corporation) is undermined by additional collateral requirements
- Lack of credit for research and development
- Complicated procedures surrounding tax payments

## Improving the business environment in the Philippines

- Lack of information on taxes and fees (opportunities for corruption)
- Non-payment or discouragement to pay proper taxes due to lack of transparency
- Perception that industrial parks cater to foreign investments rather than local firms
- Need to rationalise real estate tax
- Tariffs on agricultural inputs (e.g., sugar) increases the cost of production for exporters and reduces competitiveness

### 4.3 Survey of business regulatory processes in selected Visayan cities

SMEDSEP commissioned an assessment of the business registration procedures in six cities of the Visayas in October 2004 (Aleta, Kropp et al. 2004). These were: Bacolod in Region 6; Cebu, Lapulapu and Mandaue in Region 7; and Ormoc and Tacloban in Region 8. The report sought to benchmark the processes involved in registering a business in these cities. This was done so that local mayors, city treasurers and city administrators in these cities could begin to assess the impact future reforms may have on making the process of business registration easier. This is in line with the policy directions established by the Barangay Micro Business Act of 2002 (as described above). Thus, this survey created substantial evidence of the issues faced by MSMEs in urban areas of the Visayas.

Among the findings of this survey were the following notable issues:

- All LGUs experienced difficulties in meeting the requirements of national policies and laws associated with the Social Security System, PhilHealth, and *Pag-Ibig*.<sup>7</sup>
- Most LGUs did not use computerised systems for business registration and record keeping.
- Most LGU personnel involved in registering or assessing businesses had received little training in how to effectively undertake these activities.
- Business registration is a complicated procedure in all cities and can be streamlined.

In addition, this report also presented a number of options to SMEDSEP regarding its support for reform of the business environment in these cities.

### 4.4 Production of tools for practitioners and policy-makers

In October 2004, a SMEDSEP consultant produced *Tools for analysing the political, legal and regulatory environment for SME* (Gross 2004b). These tools were based on the

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<sup>7</sup> *Pag-Ibig* is a trust fund to which all employees in the Philippines contribute each month. Employees, in return, can obtain housing loans from this fund. The employers deduct from their employees' salaries a small amount to be remitted to *Pag-ibig*. As a prerequisite for the renewal of business permits, the LGUs also look for proofs if companies actually make their payments to *Pag-ibig*.

## Improving the business environment in the Philippines

experiences of SMEDSEP to date, but also drew from international sources and experiences. The main target audience of the tools are practitioners working with donor agencies in the field, who are concerned with actual implementation questions or in headquarters, where the focus is on planning, monitoring and concept development.

The tools were designed to extend beyond a narrow SME perspective to include such topics as local and regional development, decentralization, good (regulatory) governance and administrative reform. The document contains a range of tools that can be used to undertake an assessment of the business environment for MSMEs.

### 4.5 Component 1 strategy development

Drawing from the information collected in the abovementioned activities, SMEDSEP undertook a process of strategy development for the business environment component of the program. This involved a workshop with key actors (DTI, TESDA, and private sector representatives) in Manila in October 2004, along with the commissioning of an options paper by an international consultant.

During this workshop a number of possible areas of focus for SMEDSEP Component 1 were discussed and presented. These included (White 2004b):

- Redefining the role of MSME development in the Philippines policy framework
- Strengthening public-private dialogue
- Strengthening analysis and the design of reform programs
- Building a demand for reform
- Simplifying business registration and reporting regimes
- Improving the policy and legal framework for MSE employment

The workshop identified a number of critical issues that affect the business environment for MSMEs, which SMEDSEP should bear in mind, and provided recommendations on possible activities, linkages and outcomes.

Aside from the issues identified in the various presentations that were made, participants indicated it would be important to establish a communication system to inform MSMEs of existing programs that support them, as well as to do something to address the current lack of advocacy on entrepreneurship.

The registration of micro enterprises and business permit processing came out as the most critical area to be addressed by SMEDSEP. The specific activities to address this issue can be undertaken on several levels, as the chart below shows.

Specific Issue	Activities	Possible Partners	Possible Outcomes by 2006
Lack of Communication (Information on	Creation of SME centres capable of IT-based	SMED Council, PCCI,	Government for financial

## Improving the business environment in the Philippines

available assistance for MSMEs)	<p>information dissemination and complaint/feedback monitoring</p> <p>Implementation of advocacy campaigns to increase awareness and interest on entrepreneurship</p>	<p>LGUs</p> <p>Academe</p> <p>Private Sector</p> <p>DTI, DOLE, TESDA, DOF</p> <p>Media</p> <p>Government</p>	<p>support</p> <p>Creation of counterpart monitoring entities in the private sector</p> <p>LGUs will become more developmentally inclined</p> <p>Increased focus on managerial capability building</p>
High Cost of Doing Business for MSMEs	<p>Simplification of business registration process and reporting patterns</p>	<p>NGAs involved in business registrations</p> <p>LGUs</p>	<p>Business registration process and flow are simple, clear and efficient</p> <p>More MSMEs are registered</p>
Lack of LGU capability to support MSME business registration	<p>Development of databases in LGUs</p> <p>Increase awareness of BMBE law</p> <p>Training of LGU personnel on BMBE and other MSME-related laws</p> <p>Convergence of other government programs</p>	<p>DILG/LGU Leagues</p> <p>DTI</p> <p>Private sector (NGOs, people's organizations, civil society groups)</p> <p>Donors</p> <p>Other donor agencies (PIA, DOF, GFIs)</p>	<p>More business identified</p> <p>Improved coordination and policy development</p> <p>More people are aware of BMBE law</p> <p>LGU personnel are capable of implementing business-friendly environment</p>

## 5 SMEDSEP guiding principles and areas of focus

SMEDSEP has identified the following principles that underlie its efforts to improve the business environment for small enterprises (adapted from Gross 2004b):

- Take a comprehensive approach towards improving the business environment: laws and regulations at national and local levels will be studied simultaneously in order to promote policy coherence.
- Focus on the local level: to improve the responsiveness of local authorities to business needs and to improve rules and regulations and their implementation.
- Process orientation: ongoing evaluation and fine-tuning will improve impact. Rather than rolling out a pre-determined plan, constant adjustment towards ‘do-able’ reform provides the intervention with the necessary flexibility to address problems as they emerge.
- Identification of the energy for change: to add-value to existing reform initiatives rather than promoting theoretically desirable interventions. Thus, one criterion in the selection of possible interventions is the degree of commitment whether directly observable or perceived.
- Introduction and promotion of competition: this should be done at the municipal level by presenting the bi-annual city competitiveness survey of the Asian Institute of Management. At the national level, regional benchmarking is encouraged by using data from the World Bank’s doing business database.

SMEDSEP will apply the above principles when identifying and responding to the main priorities for reform of the business environment for MSMEs. Indeed, there are many areas of focus that the program can choose and in the early stages of the program’s development it has been important to identify specific entry points.

One of these entry points, or areas of focus, has been the BMBE Act (2002). This act was specifically designed to support the development of the micro-enterprise sector through the provision of a number of exemptions. However, its implementation has been poor and there are many areas where SMEDSEP can contribute to both a review of the BMBE Act to assess its impact on the micro enterprise sector and support at the local level for better implementation.

The Department of Finance as well as the Department of Labor and Employment have successfully resisted the implementation of the BMBE Act by issuing Implementation Rules that undermine the purpose of the act. The Department of Finance does not want to decrease Government revenue by exempting micro-enterprises from their taxation obligations, while the Department of Labor and Employment fear the affects this might have on stifling employment growth in the MSME sector and forcing more enterprises into the informal economy. This is an unresolved issue and underlying conflict that has never been openly debated. Thus, Component 1 SMEDSEP is in a good position to add-value to this debate

## Improving the business environment in the Philippines

through the presentation of reform options for government and improving the understanding within government concerning the impact of laws and regulations on the MSME sector.

LGUs are an obvious area of focus for SMEDSEP. Improving the local conditions for MSMEs requires the direct involvement of the LGUs. Indeed, LGUs have been given more and more powers in recent years as government has pursued a strong decentralisation program. The establishment of local business centres is a government initiative SMEDSEP can both support and use.

Another possible entry point, or area of focus, for SMEDSEP is on issues of current concern. Because the MSME sector creates many jobs, increasing attention has been given to the quantity and quality of MSME employment. Organizations such as the Philippines Chamber of Commerce and Industry and the Employers' Confederation of the Philippines have proposed a reduction of the minimum wage and the deregulation of the labour market, while others have been concerned for the quality of employment in the MSME sector. While this is a large and controversial field, SMEDSEP is well placed to promote further discussion on this issue and to present options for reform. These options could be piloted at the local level—in the Visayas—with experiences being communicated to national tripartite partners.

As SMEDSEP has developed its areas of focus have been refined. One example of this is found in the program's target group. When GTZ first conceptualised the program it proposed a focus on SMEs. However, as consultations and further assessments were undertaken, SMEDSEP broadened this target to include micro-enterprises 'with the potential for growth'. Thus, the target group is now MSMEs.

In the consultations and assessments that led to the establishment of SMEDSEP, it has become clear that supporting reforms in the business environment for MSME development often involves working with different partners and not only with MSMEs with or without potential. In many cases, SMEDSEP's Component 1 has less direct involvement with the MSME sector than other components of the program. Some of the most relevant actors that should be involved in Component 1 are listed below:

- The legislature:
  - Congressional and Senate Trade and Industry Committees
- National government:
  - Department for Trade and Industry (DTI), Bureau for Small and Medium Enterprise Development
  - Small and Medium Enterprise Development Council (national and provincial)
  - Department for the Interior and Local Government
  - Other relevant national departments (e.g., Department for Science and Technology, Department for Tourism, Department for Finance)
  - National Economic Development Authority
  - Technical Education and Skills Development Authority (TESDA)

## Improving the business environment in the Philippines

- Philippines Special Economic Zones Authority
- Regional and provincial government offices
- Private sector representatives:
  - Philippines Chamber of Commerce and Industry
  - Employers Confederation of the Philippines
  - Various sector associations (e.g., tourism, IT)
  - Foreign chambers (e.g., European Chamber of Commerce, American Chamber of Commerce)
- Media
- Commercial banks
- Technical support agencies:
  - Asia Institute of Management (AIM)
  - University of the Philippines (including the Institute for Small-Scale Industries and the Small Enterprises Research and Development Foundation, Inc.)
  - Training agencies (e.g., Local Government Academy)
- Donor agencies:
  - Asia Foundation
  - Asia Development Bank
  - International Labour Organization
  - World Bank

Thus, if SMEDSEP is to be effective, it is required to work with a wide range of actors: public, private and civic.

### 5.1 Addressing reform challenges

There are a number of challenges in the business environment that SMEDSEP must address if it is to effectively achieve its desired outcomes. These are described below within three broadly framed challenge areas:

- Challenge of national policy
- Challenge of local business environments
- Challenge of engaging the private sector

### **5.1.1 Challenge of national policy**

The Government's national policy arena for MSME development sets the framework within which most other challenges are faced. It is here that issues such as the role of government and the role of the private sector are clarified, as are issues such as the importance and influence of the investment climate and business environment, the role of regulation, the relevance of private sector development and competition, etc.

Government has increasingly highlighted the importance of the MSME sector and announced a number of policy and program measures to promote the growth and competitiveness of the sector. However, turning these good intentions into meaningful change is a major challenge. There appear to be three issues to address when facing this challenge.

Firstly, promotion of the MSME sector requires the coordinated efforts of a number of national agencies. The Philippines Government lacks a unified stand on a number of issues concerning MSME development. Each government office appears to be pushing its own goals and demands, which in some cases are contradictory. The BMBE Act is a good example. This is a relatively new act that has been poorly implemented. One of the main reasons for this is the lack of coordination across all government ministries, some of which are openly opposed to the act (e.g., Department of Finance). To address this challenge, SMEDSEP works with a number of government departments to facilitate dialogue toward a more common understanding of the role that government can play in MSME development. However, there are many policy and program initiatives of government, which SMEDSEP could support and the challenge for SMEDSEP is to decide which ones it can best support.

Secondly, the Philippines Government does not show a strong interest in major reform. While there is a general understanding of the need to improve certain areas (e.g., to simplify business registration procedures), there are few signs of a strong commitment to making the business environment better for MSMEs. This is partly due to the lack of a strong demand from the private sector for change. Many people in business are used to doing business in the current environment and the lack of strong business associations, especially within the MSME sector, tend to encourage the status quo. SMEDSEP works with government agencies to help them introduce the reforms the government wishes to make, nonetheless it also works with other groups in the Philippines to encourage debate on these matters.

Thirdly, government needs to see how MSMEs can contribute to social and economic goals and to understand its role in MSME promotion. SMEDSEP assists in this process by promoting a vision for MSME development. Part of this vision building should be to highlight the relevance of MSMEs in broader private sector development. Currently, firms in the MSME category are seen either as a poverty-stricken group of enterprises that need constant handouts (especially financial handouts) or as major employers that deserve special support. The likely truth is that MSMEs contain both kinds of enterprises and many more. The diversity of this very large sector should not be underestimated. Thus, SMEDSEP plans to promote concepts and models that display the link between firm size and the business environment. It will highlight those elements of the business environment that keep small firms small, while helping policy-makers to recognise that the achievement of national development goals (as well as the Millennium Development Goals) through enterprise

## Improving the business environment in the Philippines

development requires a specific role for government in concert with other actors in the business environment.

### **5.1.2 Challenge of local business environments**

The strong decentralisation thrust of the Philippines has given local government units (LGUs) greater powers in the registration of businesses, but here again, there has been mixed success in achieving reform in this field. SMEDSEP is well placed to work with selected LGUs in the Visayas to help in the simplification of business registration procedures. LGUs now have greater responsibilities with regard to business registration and a whole range of other functions concerning MSME development. SMEDSEP will help selected LGUs in the Visayas design and deliver programs that reform the local business environment and promote the strategic development of the local business sector. This would include helping LGUs to initiate and sustain dialogue with the local private sector, including the local micro enterprise sector.

### **5.1.3 Challenge of engaging the private sector**

Government policy-makers appear to have very little contact with MSMEs. While the Philippines Chamber of Commerce and Industry and the Employers Confederation of the Philippines often claim to have many small business members, the extent to which the views of micro and small enterprises are sufficiently represented can be questioned.

Thus, the third major challenge is to engage the private sector. From the start, SMEDSEP has sought to involve the private sector in all its consultations and studies. However, in many cases MSMEs are poorly organized, especially at the local level, which has meant that MSME participation has often relied on the direct participation of specific firms.

SMEDSEP plans to support the development of local business forums as a mechanism for promoting regular and meaningful dialogue between local MSMEs and LGUs.

## **6 Conclusions and lessons to learn**

This chapter attempts to draw some conclusions and lessons from the experiences of designing a reform program such as SMEDSEP. While it is not possible to identify the impact of the program at this stage—since the program is still in its early (start-up) stage—there appear to be a number of interesting features to recognise. Indeed, a close monitoring of the SMEDSEP program over the coming years could provide very useful information for further analysis and discussion.

### ***Using existing assessments and analysis***

GTZ made good use of the assessments and analysis of other agencies when designing SMEDSEP. Rather than undertake its own assessments and surveys, GTZ drew what it could from the work of the Asian Development Bank, the Asian Institute of Management, the Government of the Philippines and the World Bank—in addition to other academic studies and reports.

### ***Digging deeper as the program is refined***

Once agreements had been reached regarding the overall scope and direction of SMEDSEP, the program undertook a number of focussed assessments that allowed it to dig deeper into the issues that affected the business environment for MSMEs. This included a national assessment of the policies, laws and regulations that apply to MSMEs, as well as an assessment of the local conditions in the Visayas.

### ***Continuing consultations***

The early stages of SMEDSEP is characterised by a high degree of consultation with government agencies, as well as with the private sector. While two government agencies were assigned program partners, consultation with other agencies has been sought. Private sector consultations have included formal representative agencies, as well as opportunities for MSMEs to participate in forums and studies.

### ***Working with other donors***

SMEDSEP has been developed in close consultation with the donor community in the Philippines. The program is an active member of the SME Donor Group, which liaises closely with the Government of the Philippines and, in particular, with DTI and the SMED Council.

### ***Refining program focus***

SMEDSEP has gradually refined its area of focus, target groups and program activities as it has developed. While the program remains faithful to the original objectives set by GTZ

## Improving the business environment in the Philippines

when it was approved, it has been able to adapt and respond to new information and the demands and opportunities that became apparent through extensive consultation and further investigation.

### ***Working with a wide range of actors***

SMEDSEP has formed strong relationships with two national partners: DTI and TESDA. These agencies are well placed to take on issues associated with the national policy framework for MSME development. However, there are a number of other agencies that need to be brought into the reform process (e.g., Congressional and Senate Trade and Industry Committees, Small and Medium Enterprise Development Council—at national and provincial levels, Department for the Interior and Local Government, Department of Finance, the Philippines Special Economic Zones Authority, Philippines Chamber of Commerce and Industry, Employers Confederation of the Philippines, selected LGUs, and the media).

### ***Applying national and local reform dimensions***

SMEDSEP's approach to reform at national and local levels is significant. This approach allows the program to test the impact of national changes at the local level, while also enabling it to pilot new approaches in selected LGUs. There is a sound rationale for this approach, which is informed by the strong decentralisation program of the Philippines Government and the work on the competitiveness of cities undertaken by the Asian Institute of Management. Local program efforts also build on the previous experiences, networks and relationships GTZ has in the Visayas.

### ***Applying complementary services***

This case study has focussed on one component of SMEDSEP, the component dealing with reforms to the business environment for MSMEs. However, there are three other components that make up the program and complement its reform activities. The information and experiences gained in the other components are very useful for reform purposes and the program manager is eager to ensure these are shared across all components.

### ***Supporting current reform efforts***

SMEDSEP is clearly focussed on supporting and strengthening current reform efforts. International experience (including GTZ experience) has shown that donor agencies wishing to improve the business environment cannot take the lead in these processes. The key lead agencies are domestic agencies: government mainly, but also the private sector. Thus, SMEDSEP works with these agencies to support their reform efforts.

***Building a demand for reform***

There will be occasions where SMEDSEP identifies reforms that government haven't seen or believe are less relevant. In such cases SMEDSEP will continue its dialogue with domestic partners on these issues, including the private sector. A demand for reform must be created to influence the national policy agenda. This requires a long-term commitment to establish stable alliances with relevant stakeholders.

***Focussing on the achievable***

SMEDSEP appears to focus on those reforms that are possible within its financial and time constraints. There are many elements of the business environment that require reform. However, SMEDSEP has not attempted to address all these. Instead, the program focuses on those elements of the business environment that it can support. While very important, it would appear that SMEDSEP cannot contribute much to reforms in governance, commercial dispute resolution, corruption in general, customs, infrastructure and utilities, and competition policy and law.

***Keeping a long-term perspective***

While SMEDSEP is focussing on what is achievable within the bounds of its timeframe and resources, it also appears to focus on long-term results. It is easy, for example, to focus on the simplification of business registration procedures and to lose track of broader business environment issues. Thus, SMEDSEP promotes discussion on the purpose of the business environment reform and the benefit of private sector development in general and MSME development in particular.

***Positioning small enterprise development within a larger context***

While the promotion of MSMEs is a central concern for SMEDSEP, it is the broader business environment that the program wishes to improve. The experiences of MSMEs provide a lens through which the broader business environment can be viewed. Thus, the experiences of MSMEs in the business environment are a kind of litmus test that shows the effect the investment climate has on the private sector. SMEDSEP's work with this target group complements the work of other agencies (e.g., World Bank, Asian Development Bank) that are more concerned with larger, formal firms (e.g., through investment climate surveys and assessments). Thus, SMEDSEP provides a sharper focus on specific issues by highlighting the investment climate constraints that affect MSME development.

***Engaging the private sector***

SMEDSEP is eager to work with the private sector in its support for business environment reforms. It has ensured that private sector representatives are invited to all workshops and has endeavoured to capture the concerns of this sector in all studies and assessments.

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## **Annex 1: City competitiveness indicators**

The following qualitative (**ql**) and quantitative (**qn**) indicators were used to assess metropolitan cities (i.e., Metro Manila, Metro Cebu and Metro Davao), mid-sized cities (those non-metropolitan cities with more than 200,000 residents), and small cities (cities with less than 200,000 residents) (AIM Policy Center 2003).

### **COST OF DOING BUSINESS (6 Indicators)**

- 1 (ql)** In general, profitability of doing business in this city is very high
- 2 (ql)** Informal fees (bribes) in the city are non-existent
- 3 (qn)** Cost of power for industrial use
- 4 (qn)** Average rent of commercial space
- 5 (qn)** Average installation cost of new telephone lines
- 6 (qn)** Local minimum wage

### **DYNAMISM OF LOCAL ECONOMY (10 Indicators)**

- 7 (ql)** In the next six months, the revenues in the city are likely increase considerably
- 8 (ql)** In general, the city's regulatory environment (such as licensing procedures and fees, taxes, and other regulatory requirements) is conducive to business
- 9 (ql)** Tourism as an industry is a very vibrant sector
- 10 (ql)** In my city, access to financing for private businesses is readily available
- 11 (qn)** Average household income
- 12 (qn)** Local inflation rate
- 13 (qn)** Percentage of top 200 companies in city
- 14 (qn)** Population vs. fast-food chain locators
- 15 (qn)** Market size
- 16 (qn)** Consumer Price Index

### **LINKAGES AND ACCESSIBILITY (6 Indicators)**

- 17 (ql)** Raw materials and other production inputs are located near the city
- 18 (ql)** The transportation system for moving raw materials from domestic sources to the city and finished goods to other domestic markets works very well

## Improving the business environment in the Philippines

- 19 (ql)** International entry and exit points such as airports, seaports, and other trans-shipment points are located near the city
- 20 (ql)** In my city, the availability of support services, such as advice on product or process development, marketing, and business strategy making, is readily available
- 21 (ql)** The benefits of collaborating with other firms in my industry are very positive
- 22 (ql)** The level of services provided by national agencies (e.g., DENR, BFAR, BFAD) is very good

### **HUMAN RESOURCE AND TRAINING (15 Indicators)**

- 23 (ql)** Skilled labour needed by my company is available in the city
- 24 (ql)** Workers from the local pool are eager to developing skills
- 25 (ql)** Curricula and academic programs in local colleges, universities and other tertiary-level training institutions equip graduates with basic skills needed by local industries
- 26 (ql)** IT training programs available in the city equip students with needed IT skills
- 27 (ql)** Investing in training and skills development is very important
- 28 (ql)** In my city, training programs jointly organized by schools and industry partners are highly present
- 29 (ql)** My business allows on-the-job trainees from schools
- 30 (ql)** Good performance by workers is expected
- 31 (ql)** Effective management of my firm's human resource is the least of my worries
- 32 (ql)** In my city, relations between management and labor are generally constructive
- 33 (ql)** The link between the job satisfaction of my workers and productivity very strong
- 34 (ql)** Worker suggestions about ways to improve business operations are encouraged
- 35 (ql)** In my city, poor labour practices such as discrimination and harassment are discouraged
- 36 (qn)** Number of tertiary educational institutions
- 37 (qn)** Number of Vocational Institutions

### **INFRASTRUCTURE (12 Indicators)**

- 38 (ql)** The city's roads/road network and traffic management are well managed
- 39 (ql)** During peak hours, roads are always clear

## Improving the business environment in the Philippines

- 40 (ql) Electric power in the city is reliable
- 41 (ql) The water supply in my city is abundant
- 42 (ql) Connecting to telephone lines from other service providers is easy
- 43 (ql) Cellular phone signals in the city are always adequate
- 44 (ql) Internet Service Providers (ISPs) are reliable
- 45 (ql) The city's waste management program works very well
- 46 (qn) Number of banks
- 47 (qn) Road Density
- 48 (qn) Vehicle density
- 49 (qn) Number of ISP providers in the city

### **RESPONSIVENESS OF LGU (12 Indicators)**

- 50 (ql) Securing a business permit is simple and efficient
- 51 (ql) The city government is honest and transparent in its dealings
- 52 (ql) The city's administration of justice is fair
- 53 (ql) Policies and regulation in the city are reflective of business needs
- 54 (ql) The local government holds regular forums to elicit opinions of its constituents
- 55 (ql) The city government's Clean and Green Program has been very effective
- 56 (ql) Business taxes imposed by the city are reasonable
- 57 (ql) The city's master development plan is appropriate to business sectors' needs
- 58 (ql) Land-use regulations, such as zoning, are reasonable and flexible
- 59 (ql) Local government units are involved in developing human resources dynamically
- 60 (ql) Local government programs to assist displaced workers are effective
- 61 (qn) Percentage of IRA to total LGU revenue

### **QUALITY OF LIFE (9 Indicators)**

- 62 (ql) The city, especially its roads and public open spaces, is always clean
- 63 (ql) Open bodies of water in the city are clean
- 64 (ql) Air quality in the city is clean
- 65 (ql) The city's rest and recreational facilities (i.e., cinemas, bookstores, malls, etc.) are adequate

## Improving the business environment in the Philippines

- 66 (ql)** The security environment is conducive for business
- 67 (qn)** Incidence of theft per 100,000 Population
- 68 (qn)** Incidence of murder per 100,000 Population
- 69 (qn)** Life expectancy at birth
- 70 (qn)** Hospital beds per 100,000 population

## **Annex 2: Philippine development partner organizations**

The following organizations have participated in development cooperation programs with the Government of Germany:

Bureau of Internal Revenues (BIR)

Business associations

Department of Environment and Natural Resources (DENR)

Department of Labor and Employment (DOLE)

Department of Trade and Industry (DTI)

Development Bank of the Philippines (DBP)

Land Bank of the Philippines (LBP)

Local government units (LGUs)

National Economic and Development Authority (NEDA)

Non-governmental organizations (NGOs)

Technical Education and Skills Development Authority (TESDA)

## **Annex 3:**

### **Partner organizations in German development cooperation**

**Federal Ministry for Economic Cooperation and Development (BMZ):** responsible for the planning and implementation of the German Government's development policy. It monitors the useful and efficient spending of public funds by the partner organizations.

**German Development Service (DED):** the development service arm of the Federal Republic of Germany specializing in personnel cooperation. DED program areas are: Sustainable land use and resource management; Integrated coastal zone management; Vocational training and support for small and medium enterprises; Civil conflict transformation; Promotion of local organization and self-help initiatives.

**Gesellschaft für Technische Zusammenarbeit (GTZ):** supports development projects and programs and cooperates with various partners, such as local organizations, NGOs, the private sector as well as other German development organizations and multilateral donors. All projects pursue the overarching goal of reducing poverty, a fundamental principle of German development policy.

**Capacity Building International (InWent):** an organization for international human development, advanced training and dialogue. InWent is promoting sustainable social, economic and ecological development through international exchange and training.

**KfW Development Bank:** Germany's leading bank in the rehabilitation of economies. It plays an active role in the business areas of investment finance, export and project finance. It also supports development cooperation through financial cooperation with developing countries combined with advisory and other technical services.

**Center for International Migration and Development (CIM):** CIM has recruited German and European experts for know-how transfer and capacity-building programs for partner organizations in Africa, Asia, Latin America and Eastern Europe.

**Friedrich Ebert Stiftung (FES):** a non-profit, private educational foundation committed to the basic values of social democracy. Its Philippine projects cover crosscutting themes of political and economic reforms, social change, poverty reduction, gender issues, youth, human and workers' rights, democratic participation and international cooperation.

## Improving the business environment in the Philippines

**Konrad-Adenauer-Stiftung:** makes an active and substantial contribution to international cooperation and understanding. KAS is cooperating with six partners in the area of political education, local government, rural development, as well as the media.

**Hanns Seidel Foundation:** active in the Philippines since 1979, extending development assistance mainly in the field of human resource development ranging from training and education, research and publications to project development and consultancy services.

**Friedrich Naumann Stiftung:** the German Foundation for the promotion of liberal politics through civic education, international political dialogue and political consultancy.

## **Annex 4:**

### **Other donor support for private sector and small enterprise development**

There are a number of other donor agencies working in the field of private sector and small enterprise development in the Philippines. This includes the following:

#### ***Asian Development Bank (ADB)***

The ABD Country Assistance Plan for the Philippines includes a focus on private sector development and recognises the ‘basic prerequisites for the efficient functioning of the private sector are the development of the capital market and financial infrastructure; deregulation of industry, trade, and investment; and adoption of appropriate policies conducive to efficient market functioning (Asian Development Bank 2005). However, emphasis is given to financial assistance and advisory services to catalyse the privatisation of selected state-owned enterprises as well as the provision of infrastructure.

ADB supports private sector development by:

- Increasing the private sector’s participation and competitiveness
- Improving the policy environment in which the private sector operates
- Enhancing infrastructure support

Also continues to promote development of Small and Medium Enterprises (SMEs) as part of its private sector strategy (Alburo, Lamberte et al. 2003).

#### ***Canadian International Development Agency (CIDA)***

Helps in building private sector capacity to create jobs, primarily by small and medium enterprises and cooperatives (Alburo, Lamberte et al. 2003).

In 1994-2000, CIDA funded a number of studies on various issues done under Entrepreneur Support Program and Entrepreneur Linkages Project.

In 1999-2004, CIDA undertook established a Policy Training and Technical Assistance Facility to provide technical assistance and training to national agencies on sub-project basis.

In 2004-2009, CIDA established a WTO Implementation Support/APEC project to enhance compliance with WTO obligations and/or WTO accession requirements of six Southeast Asian nations and to increase the ability of the nations to take advantage of their WTO rights.

#### ***European Community***

Promotes trade and investment of Filipino/European businessmen/companies (Alburo, Lamberte et al. 2003).

## Improving the business environment in the Philippines

### ***Japan International Cooperation Agency (JICA)***

In 2002, JICA placed an expert on SME promotion and development in DTI with the aim of helping the department create a favourable policy environment and a well-coordinated institutional set-up for the promotion and development of SMEs in the Philippines.

In 2002-2004, JICA supported the design of the Philippine Small and Medium Scale Enterprises Development Plan to hasten the growth of SMEs. This included a development study to assess the conditions of local small and medium scale enterprises, identify competitive advantage of the priority sector, and revalidate current SMEs policies, strategies and programs.

In 1999-2003, JICA supported a Project for Modernization of Industrial Property Administration. This technical cooperation sought to make IPO's able to grant industrial property rights more promptly with increased accuracy.

In 1989, JICA placed an advisor in the Foreign Desk Officer of the Board of Investment to promote the entry of Japanese investment to the Philippines and to formulate and recommend to Philippine Government authorities, measures and action programs for the promotion of foreign as well as local investments in the Philippines.

### ***USAID***

Helps in improving competition policies in infrastructure; supports SME development (Alburo, Lamberte et al. 2003).

### ***World Bank***

Helps in strengthening the business environment, improving domestic mobilization of long-term resources and, improving the infrastructure; supports SME infrastructure needs (Alburo, Lamberte et al. 2003).

### ***Other German development partners***

SMEDSEP recognises the role of other German development partners in the field of SME development and will expand its cooperation with these agencies. This includes cooperation with the *Centrum für internationale Migration und Entwicklung* (CIM), German Development Service (DED), *Internationale Weiterbildung und Entwicklung* (InWEnt), and the *Kreditanstalt für Wiederaufbau* (KfW, German Financial Cooperation); KfW provides financing for micro, small and medium enterprises.