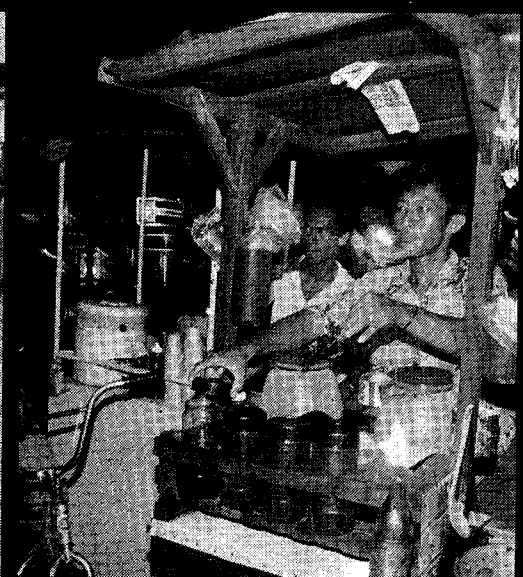


# Interdepartmental Project on the Urban Informal Sector

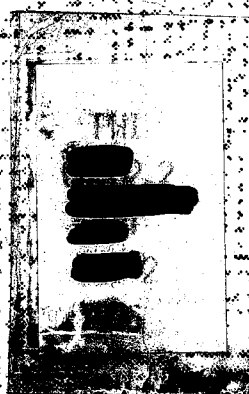
## **PHILIPPINES**



Assessment Report Series No. 2

## **A Background Paper on the Informal Sector in the Philippines**

Simplicio Endaya · Antoinette Bolaños



**INTERNATIONAL LABOUR ORGANIZATION**  
South-East Asia and the Pacific  
Multidisciplinary Advisory Team  
(ILO/SEAPAT), Manila

Interdepartmental Project on the Urban  
Informal Sector

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**INTERNATIONAL LABOUR ORGANIZATION**

South-East Asia and the Pacific  
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(ILO/SEAPAT), Manila

**ILO MANILA  
DOCUMENTATION CENTER**

## PREFACE

This report is part of a series of publications prepared in the context of the Interdepartmental Project on the Urban Informal Sector (INTERDEP) launched by the International Labour Organization in 1994. This is a pilot project which covers three major urban centers: Dar es Salaam (Tanzania) in Africa; Bogota (Colombia) in Latin America; and Manila (Philippines) in Asia.

The INTERDEP uses a comprehensive approach to informal sector development, covering all aspects of direct interest to informal sector promotion, e.g. basic statistics, policy and regulatory environment, access to productive resources, and informal sector associations. It further includes those concerns not usually taken into consideration in traditional informal sector development programmes; namely, improving working conditions, promoting the social protection of workers, reducing child labour, all with a view to progressively extending international labour standards to cover the informal sector.

The project has been designed in such a way as to ensure the full participation of local partners at every stage of the implementation. For this purpose, the Project Advisory Committee (PAC) was formed. It is made up of representatives of government agencies, local government units, employers' and workers' organizations, non-government organizations, financial institutions, and grassroots associations. The Department of Labor and Employment chairs the PAC.

It is hoped that the successful implementation of the INTERDEP would contribute to the growth of competitive and profitable informal sector enterprises, paving the way for their gradual integration into the formal and organized sector of the economy.

This report first provides background information on the ILO's approach and programmes related to the informal sector with a view to putting the INTERDEP Project in a broader perspective. It then reviews and assesses available information on the Philippines and, particularly, the Metro Manila informal sector. The major aspects covered by this report include: the characteristics, problems and needs of the informal sector; public policies which could have a direct effect on the growth and competitiveness of the sector; and the effectiveness of current activities and programmes in favour of informal sector operators. This report concludes with a number of suggestions for future action by the INTERDEP Project.

The ILO is grateful to Mr. Simplicio Endaya and Ms. Antoinette Bolanos for their work. This report also would not have been made possible without the assistance and cooperation of the PAC members as well as of those working in the informal sector who have accepted to participate in the preparation of this study. Lastly, the ILO is thankful to the Government of the Philippines and particularly to DOLE, for having accepted to host the INTERDEP and for their continuous and generous support.

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## **1. Introduction**

This Background Paper is a refinement of the Report of the Preparatory Consultancy submitted (to ILO on 6 June 1994) prior to the arrival of the Inception Mission. It briefly describes the sector citing some statistics, presenting the current policy, laws and programs of concerned institutions. It also incorporates discussions and visit observations as reflected in the minutes taken during the mission.

This Paper encapsulates the issues and presents recommendations for the Inception Mission to the ILO Interdepartmental Project on the Informal Sector in the Philippines. It is a refined version of the Report of the Preparatory Consultancy submitted (to ILO on 6 June 1994) prior to the arrival of the Inception Mission. It also incorporates discussions and visit observations as reflected in the minutes taken during the mission.

## **2. The ILO Initiative in the Informal Sector**

### **2.1 ILO as a Pioneer in the Informal Sector in the last 20 years.**

The ILO's pioneering work concerning the informal sector during the past 20 years, has contributed greatly to the understanding of its nature, characteristics and magnitude; and has assisted a number of member States in formulating and implementing policies for it. However, as pointed out in the Director-General's Report to the 78th Session of the Conference (1991), ILO's work to date has been more explanatory than comprehensive. Most of the activities have been concerned with employment, training and enterprise development in the informal sector. Little attention has been devoted to the possibilities of protecting the rights of workers and producers and of progressively extending social protection to them or of improving the conditions in which they work.

### **2.2 Future Approach of ILO Programmes on the Informal Sector**

The ultimate objective of ILO action regarding the informal sector is to bring about its progressive integration into the formal economy, and the progressive application of the protective measures provided for in national legislation and international labour standards. However, in developing countries, this objective is and will be a continuing concern. It is recognized that the sector is likely to grow since it remains the only source of income for a large proportion of the rapidly growing urban labour force in developing countries where it consists of a range of small units producing and distributing goods and services at low levels of productivity and income, deprived of virtually any form of legal or social protection.

The major effort of future ILO Programmes will be to enable the informal sector to provide increased employment opportunities and improve incomes by acquiring and upgrading skills, technology and improving productivity.

The Programme is also expected to extend to informal sector producers and workers fundamental rights:

- ( i) to eliminate the most unacceptable forms of exploitation; and
- ( ii) to bring about the progressive introduction of certain basic forms of social protection in line with ILO standards and the full application of national legislation and ILO standards in the informal sector.

The ILO strategy for the informal sector will simultaneously pursue the following objectives:

- ( i) to improve the productivity of informal sector activities and their capacity to provide employment and incomes (through vocational and management training, improved technology and improved access to credit, markets, institutions and services, and by other means);
- ( ii) to provide basic social protection to informal sector producers and workers, with a view to the gradual extension of international labour standards to cover them, concentrating initially on the following:
  - freedom of association and freedom from forced labour;
  - the protection of working children and ultimately the complete abolition of child labour;
  - the development of some form of social security, concentrated initially on various type of mutual social protection provided through cooperatives, trade unions and other forms of group solidarity;
  - the reduction of exposure to occupational hazards and health risks; and
  - the development of innovative types of advisory and information services provided by labour inspectorates.
- (iii) to promote and strengthen the organization and collective action of informal sector producers and workers, including cooperatives and other forms of group solidarity, and to encourage and assist national organizations of employers and workers to extend their action to the informal sector.

In pursuing these objectives, particular attention will be paid to measures to improve the situation of women, who frequently represent a large proportion of informal sector employment, and who are frequently concentrated in the most precarious and lowest paid occupations in the sector.

### **2.3 ILO Interdepartmental Project on the Informal Sector**

The project will represent a first attempt to implement this comprehensive approach in the informal sector. It will involve intensive cooperation between all

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technical departments of the International Labour Office. Work will concentrate on three to five cities in the developing world.

The aim will be to collaborate with the public authorities and with employers' and workers' organizations in those cities in order to:

- ( i )     diagnose the situation of the informal sector;
- ( ii )     develop policies and programmes for it; and
- (iii)     if requested, to implement such policies and programmes.

The main criterion for the selection of the cities in which the activities of the project will concentrate will be the degree of commitment of central government, the local authorities and employers' and workers' organizations to the pursuit of the objectives listed above. Other criteria, such as the extent of the ILO's knowledge of the situation of the informal sector in the city concerned and the availability of adequate counterpart staff will also be taken into account.

The specific objectives expected to be achieved in the selected cities by the ILO Interdepartmental Project are:

- ( i )     to have collected statistical and other data on the size and nature of informal sector employment and on various other indicators, such as the incomes of informal sector producers and workers, the social and legal protection offered to them, the conditions in which they work and acquire skills, and their linkages with the formal sector;
- ( ii )     to have organized dialogue between the public authorities and employers' and workers' organizations, and with representative organizations of informal sector producers and workers, and to have reached a consensus among them on the policies to be pursued and the practical measures that will be undertaken as a matter of priority in pursuit of the objectives indicated above; and
- (iii)     to have launched technical cooperation activities for the implementation of such policies and measures.

The project will be experimental as it will for the first time define a comprehensive approach to the problems of the informal sector. The lessons learned will be the basis for the ILO's future work on the informal sector, and if successful, the approach could be replicated in the cities of other countries.

As problems will vary from one city to another, the project will adopt a flexible approach from its inception to its conclusion. To reflect on the heterogeneity of the informal sector and different issues in different places, the focus in each case will be on a different combination of key informal sector activities. Owing to its experimental nature, the project will be carefully monitored and evaluated at each stage, and the lessons derived will be disseminated to guide future national and

---

international action in relation to the informal sector in other countries. A tripartite meeting (including mayors of participating cities and other cities of developing countries) will be convened to advise ILO and its member States on future action.

Four distinct (possibly overlapping) phases will be undertaken:

- fact-finding and data collection;
- analysis and policy assessment;
- promotion of a policy dialogue among all concerned; and
- if requested, technical cooperation to some or all of the conclusions emerging from the policy dialogue.

### **2.3.1 Fact-finding and Data Collection**

This phase will consist of collecting existing relevant and up-to-date information as well as generating original data on:

- the volume and nature of informal sector employment and conditions of employment;
- the role of women;
- the extent of child labour;
- the environment in which the informal sector operates; and
- its linkages with enterprises, markets and institutions of the rest of the economy and society.

Reports on the information which is obtained will be published for each of the selected cities.

### **2.3.2 Analysis and Policy Assessment**

Under this phase, ILO will field a multi-disciplinary advisory mission representing various major programmes to review, together with teams of local counterparts, data and current policies and institutional arrangements; and to suggest appropriate measures to meet the project objectives. The issues to be examined may cover the following:

- ( i ) general policy and regulatory environment-its extent as an obstacle to productivity, incomes and social protection of the informal sector producers and workers; and the opportunities for change to improve access of informal actors to institutions, amenities and legal protection,
- ( ii ) scope for improving productivity and income through measures which involve training, savings and credit, technology and information while considering current arrangements in these areas. Due to their

importance in the informal sector, women in the informal sector will be given special attention as regards means to acquisition and upgrading their skills;

- (iii) scope of improving working conditions and social protection, particularly practical ways to reduce child labour, to improve occupational safety and health, to develop and improve social protection, including social security, and to extend advisory services by labour inspectorates or other bodies for these purposes; and
- (iv) scope of organizing workers and entrepreneurs in organizations of their choice and the role of existing employers' and workers' organizations in this respect.

### **2.3.3 Policy Dialogue**

This phase will bring together the parties concerned, including central and local government, employers' and workers' organizations, NGOs, and if possible informal sector players, to examine the recommendations of the advisory missions and to reach a consensus in the policies and practical measures to be adopted. Without preempting the outcome of the dialogue, the measures may involve:

- the revision of outdated or inappropriate regulations;
  - the simplification of cumbersome licensing procedures;
  - public information campaign about workers' rights;
  - training seminars on improving small business practices;
  - education on safety of workers and consumers;
  - developing physical infrastructure, notably market facilities to improve working conditions;
  - making credit available to micro-entrepreneurs;
  - special measures to improve the situation of women;
  - aiding product development and diversification;
  - recognizing associations of artisans;
  - providing incentives to bona fide masters of apprentices; and
  - action to be taken by employers' and workers' organizations to extend their services to the informal sector entrepreneurs and workers and to defend their interests.
-

### 2.3.4 Operational Phase

The implementation of the measures by the national authorities will be assisted by ILO through mobilization of external funds and advice, if requested to do so. Training, an expected activity can cover the following topics:

- the role of employers' and workers' organizations in the development of activities for the informal sector;
- measures for the acquisition and upgrading of skills, thus improving productivity;
- reduction of occupational risks and hazards in particular industries and occupations in the informal sector;
- the role of labour inspection; and
- methods of data collection and analysis.

### 2.4 Preparatory Consultancy in the Philippines

To launch the Project in the Philippines, a multi-disciplinary inception mission is to be undertaken with the following objectives:

- To explain the objectives of the Project to local authorities, employers, and workers organizations with a view to obtaining their support;
- To review existing data in order to identify data gaps that need to be bridged with fresh data;
- To identify possible areas of collaboration with multi-disciplinary teams;
- To specify activities and outputs of the Project in relation to Metro Manila and priorities of the local authorities and the informal sector; and
- To identify appropriate external collaborators for particular activities and outputs.

It is expected that the inception mission in the will identify the specific content and plan for the studies to be covered in Metro Manila. These studies will be in the following technical areas:

- ( i) Informal sector statistics: coverage and methodologies;
- ( ii) Role of the informal sector: determinants of stagnation, growth and transformation;
- (iii) Legal and regulatory framework: nature, impact and need for reform;

- ( iv) Productive resources: access to financial services, skill training and technology;
- ( v) Working conditions;
- ( vi) Social protection;
- (vii) Informal sector (self-)organization.

## **2.5 Target Groups**

The intended beneficiaries will be workers in the urban informal sector most of whom are engaged in low productivity activities which fall outside formal regulatory and social protection mechanisms and have very limited access to services, such as credit and training. Statistical data on the informal sector, if available, are often not disaggregated by gender and information on age distribution is unreliable. However, many women and children are engaged in the sector and their situation is particularly vulnerable.

The Project will, therefore, pay particular attention to documenting the nature and extent of the participation of women and children in urban informal sector activities and efforts will be made to explicitly address their needs and interests.

Direct beneficiaries will be staff of participating government departments, local authorities, employers' and workers' organizations, informal sector self-help organizations, and NGOs.

## **3. Profile of the Philippine Informal Sector**

### **3.1 Sectoral Overview**

#### **3.1.1 Metro Manila**

Metro Manila is situated east of Manila Bay, flanked by the provinces of Bulacan in the north, Rizal in the east, Laguna and Cavite in the south. Between Rizal and Cavite is Laguna de Bay, a lake touching the boundaries of Taguig and Muntinlupa on its west bank.

Otherwise known as the National Capital Region (NCR), Metro Manila is composed of six cities: Manila, Makati (in the process of becoming a city), Mandaluyong, Kalookan, Pasay, Quezon; and eleven municipalities: Las Piñas, Malabon, Marikina, Muntinlupa, Navotas, Parañaque, Pasig, Pateros, San Juan, Taguig and Valenzuela. It covers a land area of 636 square kilometres, populated by an estimated 8.6 million people in 1993. The population of Metro Manila is expected to increase to about 10 million by the year 2000 at an annual average growth rate of 2 per cent from 1994 due to natural population increase as well as in-migration from rural areas (Table 2.1).

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**Table 2.1. Population Projections, Philippines, NCR: 1991-2000**  
(in thousands)

Year	Philippines	NCR
1980*	48,098	5,926
1990*	60,685	7,929**
1991	62,868	8,178
1992	64,259	8,380
1993	65,649	8,579
1994	67,038	8,776
1995	68,424	8,971
1996	69,804	9,162
1997	71,175	9,350
1998	72,536	9,535
1999	73,886	9,716
2000	75,224	9,895

Source: National Statistics Office (NSO).

\*Census year

\*\*Includes homeless population and Filipinos in Philippine embassies/consulates and missions abroad.



**Figure 2.1 Map of Cities and Municipalities in the National Capital Region**

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The relative location of the cities and municipalities of NCR is shown in Figure 2.1 while the respective land areas, population (1990 Census), and population densities are listed in Table 2.2.

**Table 2.2 Area, Population (1990 Census), Population Density of Cities and Municipalities in the National Capital Region**

Cities and Municipalities	Area** (sq km)	Population* 1990 Census	Rank	Population Density (Persons/ sq km)	Rank
<b>Total NCR</b>	636.0	7,928,867		12,466.8	
<b>Cities, sub-total</b>		4,393,318			
Manila	38.3	1,598,918	2	41,747.2	2
Quezon City	166.2	1,666,766	1	10,028.7	9
Kalookan	55.8	761,011	3	13,638.2	6
Pasay	13.9	366,623	6	26,375.8	4
Makati	29.9	452,734	4	15,141.6	5
Mandaluyong	26.0	244,538	14	9,405.3	10
<b>Municipalities, sub-total</b>		3,535,549			
Las Piñas	41.5	296,851	10	7,153.0	15
Malabon	23.4	278,380	11	11,896.6	8
Marikina	38.9	310,010	8	7,969.4	12
Muntinlupa	46.7	276,972	12	5,930.9	16
Navotas	2.6	186,799	15	71,845.8	1
Parañaque	38.3	307,717	9	8,034.4	11
Pasig	13.0	397,309	5	30,562.2	3
Pateros	10.4	51,401	17	4,942.4	17
San Juan	10.4	126,708	16	12,183.5	7
Taguig	33.7	266,080	13	7,895.5	13
Valenzuela	47.0	340,050	7	7,235.1	14

Source: \*NSO

\*\*Housing and Land Use Regulatory Board (HLURB)

In terms of population density, Metro Manila outranks all of the other regions in the Philippines. Its share in the total population grew from 12.3 per cent in 1980 to 14.1 per cent in 1991. If only urban centres are considered, Metro Manila would constitute about half of the total urban centre population (Alonzo and Mangahas, 1990)

The NCR is characterized by the concentration of economic industrial, social and political activities as evidenced by the presence of 86 out of the 100 top corporations in the country, all of the major newspapers, six out of seven main television stations and 53 per cent of the country's non-agricultural labour force.

The area serves as the distribution centre for exports and capital goods. In addition, about 90 per cent of the internal revenue for the entire country is taken from the area and almost 80 per cent of national imports enter through the ports in the City of Manila. The NCR is also the nation's centre for non-primary production, providing almost one-half of the total national output in manufacturing, commerce and services (Philippine Statistical Yearbook). The primacy of Metro Manila is also seen in the economic statistics, as it accounts for about a third of the country's total Gross Domestic Product.

Despite this economic prominence, open unemployment rates have historically been about twice as high in Metro Manila as in the rest of the Philippines (Table 2.3).

**Table 2.3. Number of Unemployed Persons\* and Unemployment Rate  
Philippines, NCR**

Year	Philippines Unemployed (000)	Unemployment Rate	NCR Unemployed (000)	Unemploy- ment Rate
1980	1,368	7.9	271	13.0
1981	1,607	8.8	308	14.4
1982	1,743	9.4	407	17.8
1983	2,064	10.4	414	17.4
1984	2,124	10.4	498	19.8
1985	2,609	12.6	670	24.9
1986	2,527	11.8	720	25.8
1987	2,523	11.2	634	21.8
1988	2,244	9.6	588	19.6
1989	2,212	9.2	530	17.3
1990	2,032	8.3	492	15.7
1991	2,716	10.6	590	17.5

Source: NSO, Integrated Survey of Households

Bureau of Labour and Employment Statistics (BLES)

\*Unemployed persons are persons in the labour force who did not work or had no job/business during the reference week but were reported available and actually looking for work.

The unemployment rate crept upwards through the crisis years of the mid-1980s. By 1984, it had jumped to 19.8 per cent, and by 1986, it peaked at 25.8 per cent. From 1987-90, the unemployment rate declined from 21.8 per cent to 15.7 per cent, respectively. However, it increased to 17.5 per cent in 1991 due to a series of natural calamities which hit the country.

The proportion of the underemployed is high at an average national proportion of 23.6 per cent to employed for the period covered and reflect that income from employment is not considered sufficient (Table 2.4).

**Table 2.4. Number of Underemployed Persons,\*  
Per cent to Labour Force and Per cent to Employed,  
Philippines, NCR**

Year	Underemployed (000)		% to Labour Force Philippines	% to Employed Philippines
	Philippines	NCR		
1987	5,312	358	23.1	26.5
1988	4,998	388	21.3	23.5
1989	5,091	338	21.1	23.2
1990	4,964	338	20.5	22.4
1991	5,161	274	20.1	22.5

Source: NSO, Integrated Survey of Households  
BLES

\*Underemployed persons are employed persons who are wanting additional hours of work.

Income in 1991, remained at low levels as indicated by the estimated 40.7 per cent of Philippine households living below the poverty threshold income of ₱ 3,675 a month, the amount calculated for a family of six to acquire their basic needs every month. In NCR of the same year, 14.9 per cent of households lived below the poverty line (₱ 4,736 a month). Poverty threshold income for 1994 is projected to be ₱ 4,404 (average for the Philippines) while for NCR it is ₱ 5,813.

While the proportion of households living in poverty is yet to be quantified, poverty is apparent within Metro Manila, more so around squatter zones. Roughly one-third of Metro Manila residents live in the 360 major slum areas. Growth in squatter population from 1948 is shown in Figure 2.2 and a 1986 count of major slum areas in NCR is presented in Table 2.5.

During the crisis years (1983-88), attention was drawn to the biggest employers, the informal sector, that kept the Philippine economy going. Evidently, the informal sector absorbed those displaced by mass layoff, by itself generating employment though incomes remained marginal.

The increasing population, aggravated by in-migrants from rural areas, the persistence of poverty, high unemployment and underemployment rates may not allow the economy to catch up in the short term. Jobs in the formal sector are not being provided as fast as the labour force is increasing but are available only for the skilled and for those having the appropriate education. Although the first quarter of 1994 records an encouraging 4.8 per cent growth rate in the economy, Metro Manila still visibly stages activities of the informal sector, especially in areas where people converge daily.

Table 2.5. Distribution of Major Squatter Areas in NCR

	Number of Major Slum Areas	% Squatter Population to Total City Population
<b>City*</b>		
Manila	83	32
Quezon	142	29
Pasay	36	26
Kalookan	12	26
<b>Municipality**</b>		
Navotas	4	
Valenzuela	6	
Malabon	13	
Marikina	9	
San Juan	1	
Mandaluyong	10	
Pateros	3	
Taguig	7	
Makati	10	
Parañaque	4	
Las Piñas	6	
Muntinlupa	14	

Sources: \*Pilar Ramos Jimenez, et. al., *Philippine Urban Situation Analysis*, UNICEF, 1986.

\*\*Areas for Priority Development (APD) Site Index

Because of the resilience shown by the informal sector, especially through the economic crisis, research and policy-makers are now considering this sector as an important part of the Philippine economic development model and are eager to determine its contribution to the national economy. On the micro side, the government and citizenry are addressing the conceived problems and constraints of informal sector participants through intervention projects intended to alleviate poverty. Furthermore, efforts are being geared towards institutional reforms that will encourage the informal sector's dynamism and viability and thus give a push to the entrepreneurial character of the Philippine economy.

**Figure 2.2. Squatter Colonies in Metro Manila**

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### 3.1.2 Defining the Informal Sector in the Philippines

The search for an alternative to formal employment by the populace in the midst of mass poverty, underemployment and unemployment led to the phenomenal growth of the so-called informal sector.

A review of literature on the informal sector in the Philippines brought out an array of definitions describing different concepts and informal activities. Three types of informality were identified (Quesada 1992):

( i ) Entrepreneurial. This covers individuals and enterprises in the poverty or micro and cottage business sector who do not have the resources to comply with the law and/or wish to comply with the law but find it cumbersome.

( ii ) Semi-formal Business. This covers firms which operate profitably but do not comply with all the provisions of the law. Businessmen resort at times to smuggling, tax evasion, or non-compliance with minimum wages. Rightly or otherwise, they consider the law as unfair or unjust and would not be able to survive if they followed all its rules and regulations.

(iii) Criminality. These are non-merit goods and services which society considers bad in themselves. Included here are kidnapping, drug-trafficking, carjacking, prostitution, insurgency, and graft and corruption. Their contributions are negative and counter-productive.

Considering only the productive economic activities, it becomes evident that informality pervades all sectors of the economy.

Listed are some classes of informal sector participants and their estimated number:

#### Agriculture Sector:

Small farmers	3.5 M
Municipal and coastal fishermen	2.0 M
Forest dwellers	1.0 M
Livestock raisers	500,000

#### Industry Sector:

Small entrepreneurs	800,000
Small miners	few
Construction workers	2.0 M

#### Service Sector:

Transport industry (public utility drivers)
Ambulant vendors
Variety store owners
Barter traders
Domestic helpers

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Squatters  
Wholesalers and retailers  
Informal credit sources

**Open Market Sector:**

Dollar blackmarket dealers  
Foreign currency salters  
Technical smugglers  
Illegal recruiters  
Overseas workers remittances outside the banking system

The informals may include the unemployed/underemployed, out-of-school youths (OSYs), housewives and children, marginal workers in depressed communities, the economically disadvantaged low-income groups, and the handicapped.

In the Philippine situation, where 90 per cent of all establishments are small and medium enterprises, the dichotomy between formal and informal sector would even seem artificial. It is well known that employees in the formal sector do have "side lines" or "side jobs" in the informal sector as a matter of necessity. Many employees engage in the selling and trading of various items, from home-made preserves to ready-to-wear (RTW) clothes and cosmetics, usually under the customary installment basis of payment to augment income derived from formal employment.

However, recent studies have indicated that the participants in the urban informal sector include those in the upper-income bracket, perhaps, mainly to evade the control of the law and lower costs.

Still, the greater majority of the "informals" belong to the low-income groups— people who, for lack of skills, the right education, cannot be accommodated by the already constrained formal labour market. Thus, in order to survive, they have to resort to alternative means. It should be noted that most Filipinos use underground economy.

It was noted that, researchers on the informal sector in the Philippines are yet to converge on a single concept about the informal sector. Often, underground economy is the term used to encompass all economic activities outside the legal system.

Thus, the importance of defining the target subsector has to be underscored, otherwise statistical data gathering and studies will reflect only in part the ILO-defined informal sector. ILO defines informal sector as the sector where free entry exists, enterprises are small, often family-owned and rely on indigenous resources, workers have limited formal training, and markets are highly competitive and unregulated. In effect, it covers only micro-enterprises, their operators and workers.



### 3.1.3 The Informal Sector in Economic Development

Past studies have given weight to the role and contributions of participants in underground employment. Informal economic opportunities enabled the participants to contribute to economic stability, although sometimes not growth, among the urban poor. Informals respond directly to the needs of those who make up the large impoverished sector of the urban society thus, providing the goods and services directly to their fellow poor in the community (Gatchalian and Gatchalian, 1993). Informal activities also provide scope for the development of local entrepreneurial talents and skills of budding artisans.

At the national level, lower production costs which characterize the domestic outwork arrangement, for example, enable the country's exports to be more competitive in the international market. Aimed at promoting non-traditional exports such as garments, handicrafts, etc., outwork arrangement is directed to harness the country's labour surplus, albeit reported cases of exploitation. Today, labour-intensive, non-traditional exports such as garments and handicrafts rank among the major foreign-exchange earners of the country.

The formal and informal sectors and their linkages are significantly found in the export manufacturing sector, characterized by the existence of an industrial structure where formal and informal sector enterprises can complement each other through subcontracting arrangements. This is observed in the following industries: leather, garments, electronics, toys and gifts, handicrafts, food processing, paper and packaging products and furniture-making. In agriculture: contracting exists in sectors like banana, rubber, poultry, piggery, beef, cattle, feedgrains, and shrimp. Ofreneo and Del Rosario (1988) noted that the exporters, suppliers and big subcontractors benefit from the system by reducing production cost to a minimum—cheap labour and low capital requirements. There is maximum flexibility, increasing or decreasing production depending on demand fluctuations. The work available to the informal sector is irregular or seasonal, with earnings following demand patterns as they get paid per piece of product made (Aguilar, 1983; ILO, 1985). The homeworkers represent the bottom of the subcontracting ladder and serve as a buffer during times of high demand and are the first to suffer in times of recession.

Meanwhile, a press release of the National Statistical Coordination Board which opts to use the term "unorganized" rather than "informal", estimates the contribution of the sector to be about 45 per cent of GDP and GNP from 1987 to 1993. By industrial origin, the unorganized sector is found mostly in services, about 48 per cent, followed by agriculture, fishery and forestry, 30 per cent and industry, 22 per cent.

### 3.1.4 Size of the Informal Sector

Determining the magnitude of the informal sector is difficult because of its visibility; the lack of an operational definition of what the informal sector is, who compose it and what economic activities are engaged in. Official statistics that adequately define the sector have yet to be produced.

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Employment in the informal sector is hidden in the data gathered through the Integrated Survey of Households of the NSO. As shown in Table 2.6, the total number of employed persons is growing by an average of 3.4 per cent a year, while NCR's number is growing by an average of 4.0 per cent a year. Of the total number of employed labour force, Gatchalian (1993) estimated that about 80 per cent belong to the informal sector.

**Table 2.6. Number of Employed Persons and Employment Rate  
Philippines, NCR: 1980-91**

Year	Philippines Employed (000)	Employment Rate (%)	NCR Employed (000)	Employment Rate (%)
1980	15,900	92.1	1,816	87.0
1981	16,595	91.2	1,832	85.7
1982	16,808	90.6	1,871	82.2
1983	17,791	89.6	1,954	81.5
1984	18,292	89.6	2,002	80.2
1985	18,136	87.4	2,092	75.3
1986	18,836	88.2	2,078	74.3
1987	20,040	88.8	2,280	78.2
1988	21,205	90.5	2,412	80.4
1989	21,908	90.8	2,530	82.7
1990	22,211	91.6	2,642	84.2
1991	22,914	89.5	2,780	82.5

Source: National Statistics Office, Integrated Survey of Households  
Bureau of Labour and Employment Statistics

Employment in national statistics is further classified by industry, by occupation and by class of worker. Under class of worker are three categories: wage and salary earners, own account workers (self-employed), and unpaid family workers. A rough estimate used by DOLE is to consider the total number of self-employed and unpaid family workers as informal sector participants. However, it is known that some workers employed in the informal sector also receive wages and salaries (Alonzo and Mangahas, 1990).

**Table 2.7. Distribution of Employment in Metro Manila By Industry,  
By Occupation, and By Class of Worker, Third Quarter, 1990 - 92  
(in Per cent)**

Industry	1980	1981	1982	1983	1984	1985	1987	1988	1989	1990	1991	1992
<b>Industry</b>												
Agriculture	1.5	1.6	1.3	1.4	1.2	1.3	1.6	1.9	1.3	1.4	1.3	1.2
Mining	0.1	0.2	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Manufacturing	26.7	25.9	24.4	22.7	19.7	19.8	19.1	20.6	22.1	20.2	21.5	21.6
Electricity, Gas, Water	0.8	1.1	0.8	1.0	0.8	0.6	1.0	1.0	0.9	0.8	0.5	0.6
Construction	6.8	5.1	6.4	6.6	6.2	6.0	6.2	6.6	6.3	6.8	6.7	6.5
Wholesale, Retail Trade	14.6	15.2	15.5	16.9	20.6	22.7	22.4	19.9	19.6	20.5	19.9	21.3
Transportation	10.0	7.7	8.4	8.2	8.1	9.6	8.8	9.1	10.1	8.7	8.8	8.9
Finance, business service	7.9	7.1	8.9	7.8	8.5	5.9	7.4	6.6	7.4	7.4	7.8	6.9
Community, personal services	31.6	36.1	34.0	35.3	34.8	34.0	33.4	34.1	32.1	34.0	33.3	32.8
<b>Occupation</b>												
Professional, technical	11.8	12.5	13.0	12.3	11.3	9.5	10.6	9.7	10.6	10.6	11.0	9.6
Administrative, managerial	2.9	3.1	3.1	3.2	3.5	3.5	2.1	2.6	2.8	3.0	3.1	2.8
Clerical workers	14.4	13.9	14.0	13.5	11.7	11.8	12.5	11.7	11.8	11.1	10.8	10.9
Sales workers	15.0	15.6	16.1	16.9	20.0	21.1	21.2	18.7	19.7	19.4	19.2	20.5
Service workers	17.9	18.1	17.9	18.7	20.2	19.4	17.4	18.8	17.3	18.4	19.2	20.8
Agricultural workers	1.3	1.6	1.1	1.4	1.1	1.2	1.6	1.3	1.2	1.3	1.0	0.8
Production, transport, etc.	36.7	35.2	34.8	34.0	32.2	33.5	34.6	37.2	36.6	36.2	35.7	34.6
<b>Class of Worker</b>												
Wage and salary	86.7	83.3	83.0	80.8	77.5	75.1	73.7	76.8	75.7	74.9	75.3	74.2
Own-account	10.6	13.8	13.7	15.5	18.4	21.5	24.3	20.5	22.1	23.2	22.1	22.7
Unpaid family workers	2.7	2.9	3.3	3.7	4.1	3.4	2.0	2.7	2.2	1.9	2.6	3.1

Source: National Statistics Office, Integrated Survey of Households

Changes in the sectoral distribution of the employed labour force in the Metro Manila area between 1980 and 1985 are reflective of the deterioration in the state of the economy in the 1980s (Table 2.7). The share of manufacturing declined from 26.7 per cent in 1980 to only 19.8 per cent in 1985. However, by 1992, the sector started to pick up again as it registered an employment share of 21.6 per cent. The share of the more "formal" sector of finance and business services also declined to only 5.9 per cent of total employment in 1985, from 7.9 per cent in 1980. Employment was absorbed by the relatively more "informal" sectors like wholesale and retail trade which rose from 14.6 per cent in 1980 to 22.7 per cent in 1985 as community and personal services (including domestic) grew from 31.6 per cent in 1980 to 34.0 per cent in 1985.

Significant reductions in the shares of high-paying jobs may also be observed in the trend from 1980 to 1992, as employment moved towards sales and service occupations usually identified with the informal sector. Production

workers, in particular, who comprised the largest block, registered a fluctuating trend. Similarly, as more and more firms retrenched or shut down with the worsening economic conditions, a bigger proportion of the labour force was pushed into self-employment activities. Wage employment in Metro Manila did not grow at all over this period, even though total employment increased at an average of 4.0 per cent per year.

In a relatively recent survey of informal sector enterprises in Metro Manila (with less than 10 workers), it was reported that a majority (61.5 per cent) of the informal sector enterprises are headed by women. This is due to the high proportion of sales enterprises which are generally headed by women (70.4 per cent), especially the *sari-sari* stores and the *carinderias* (cooked food stalls). Enterprises in professional services (87.5 per cent) are also run mostly by women.

Among the hired help, males (53.1 per cent) slightly outnumber females (46.9 per cent). However, women workers still dominate in professional services (100 per cent), and are predominant in sales (55 per cent) and personal services (54.3 per cent). Males are found mainly in transport (100 per cent), construction (100 per cent) and repair services (95 per cent) (Alonzo and Mangahas, 1990).

The total number of persons employed in the informal sector by industry group from 1986 to 1993 is shown in Table 2.8. Based on DOLE's operational definition of the informal sector, majority are in agriculture, accounting for an average of 66.8 per cent of informal sector workers over the period 1986-1993. The number of informal sector workers in the agriculture sector increased from 7.8 million in 1986 to 8.6 million in 1993, at an average annual growth rate of 1.3 per cent. Self-employed and family workers in the services sector increased from 2.8 million in 1986 to 4.2 million in 1993, while those in industry increased from 731,000 to 810,000. It will be noted that the number of informal sector participants in the services sector has grown by more than 50 per cent during the period 1986-93 and now comprises a bigger share to the total number of informals, increasing from 24 per cent 1986 to 33 per cent by 1993; while the usual share of the agriculture sector decreased by a similar proportion. The share of those in the industry sector had remained at around 6 per cent during the period.

**Table 2.8. Number of Persons Employed in the Informal Sector  
By Major Industry Group: 1986-93  
(thousands)**

Industry	1986	1987	1988	1989	1990	1991	1992	1993
<b>Major Industries</b>	11,320	11,001	11,075	11,149	11,387	11,708	12,278	12,854
Agriculture	7,837	7,494	7,457	7,275	7,499	7,667	8,140	8,580
Industry	731	656	756	818	744	790	699	810
Services	2,752	2,386	2,862	3,056	3,144	3,251	2,794	4,194

- Notes: 1. Data for 1986 are based on Past Quarter Reference (Third Quarter) Period while those for 1987 are based on Past Week Reference Period (October). On the other hand, data for 1988-93 reflect average figures for the year, based on past week reference period.
2. The definition adopted here assumes self-employed or own-account workers and unpaid family workers as comprising the informal sector.

Still, the figures in Table 2.8 are considered to be an underestimation of the extent of the informal sector as they do not include those working in the formal sector which also engage in informal activities. Unfortunately, there are no official statistics on this phenomenon. Nevertheless, the magnitude of those in the formal sector engaged in secondary or moonlighting activities may be gleaned from the persistently high figures of underemployment in the country.

Another reason for underestimating the magnitude of the informal sector is the exclusion of working children. It may be recalled that the official employment figures include all those at least 15 years of age who are part of the labour force, ignoring employed children below that age.

### 3.1.5 Enterprises in the Informal Sector

The informal sector comprises a heterogeneous group of enterprises varying by nature of activity, size, degree of informality, operations characteristics, viability, and by the types of problems and constraints they face.

Most official classifications of enterprises group these activities under the category "micro", meaning an employment size of less than 10 workers. In 1991 for instance, 51.0 per cent of NCR's recognizable establishments employing 5-9 workers, were in this category. Enterprises with less than five workers are not enumerated in the List of Establishments of the Survey of Establishments.

The studies commissioned by ILO (1974) laid the groundwork for subsequent researches on the informal sector, providing baseline information and a working definition for complementation and comparative studies.

These studies focused on the unorganized services sector wherein workers are predominantly engaged in commercial activities such as hawking and peddling, comprising 48-51 per cent of the total employment in the services sector in 1961-71. This is followed by domestic services, covering about 20-25 per cent of the total jobs of the sector.

Several authors relied on data generated from the ILO (1974) studies, including King's (1984) study on working conditions, Tidalgo and Jurado (1978) on services, Ferrer and Jurado (1978) on trade, Alonzo (1980) on transport, Armas (1978) on construction, and Canlas (1980) on manufacturing.

Various types of employment in the informal sector were enumerated in empirical researches conducted within Metro Manila, generating and utilizing primary data. Activity-specific studies include Keyes (1974) on scavengers, Guerrero (1975) who focused on street hawkers and vendors, Carpio (1982) on public utility drivers, Ofreneo (1982) and Aguilar (1983) on subcontracting work arrangements, and Gatchalian, et al. (1986) on ambulant vendors.

Micro surveys on the informal sector in Metro Manila were conducted by Jurado and Castro (1976), Alonzo and Mangahas (1990), and Gatchalian and Guioguo (1991). Although these surveys lend insights on conditions and welfare of participants, the different methodologies used make comparison across types of activities difficult.

The regularly published Philippine statistics often miss out many of the informal sector enterprises. The Economic Census done every ten years and the annual Survey of Establishments base their listing of establishments that have a fixed location and are recognizable by an outward sign of identification as an enterprise, thus leaving out itinerant vendors and home-based economic activities. The Labor Force Survey (LFS) of the quarterly Integrated Survey of Households (ISH) captures informal sector participants and assumes them to be own account and unpaid family workers, but have no data on how their enterprises operate. The Family Income and Expenditure Survey (FIES) done every three or five years enumerate different sources of family income, but skip operational characteristics. An estimate of household employment in the informal sector is taken as the difference between total employment (LFS) and employment listed in the Survey of Establishment.

The 1988 Survey of Household-Operated Activities (SHOA) was conducted with the purpose of filling the statistical gap in determining "the extent of the contribution of the Household-operated activities (HOA)." Specific survey objectives were: "a) to measure the sectoral contribution of the HOA to national production; b) to determine the extent of employment generation; c) to determine the share of the capital outlay of the HOA in the gross fixed capital formation; and d) to gather other information on the operations of HOA." The HOA surveyed were such economic units missed in economic statistical procedures: non-SEC-registered agricultural units; those in mining and quarrying with less than five persons; units in manufacturing, trade and other non-agricultural activities which are not recognizable; and *sari-sari* store, which may be recognizable but with no

paid workers. A comparison of SHOA and 1988 Census of Establishments shows that household enterprises greatly outnumbered the listed small enterprises, particularly in mining and quarrying and in retail trade by as much as 99.5 per cent (Table 2.9).

**Table 2.9. Comparisons Between Small Census Establishments  
and Household Enterprises  
(Number of Enterprises)**

Industry	Census	SHOA	Total	% SHOA	SHOA/ Census
Mining & Quarrying	111	21,171	21,282	99.5%	190.73
Food Processing	31,247	67,275	98,522	68.3%	2.15
Garments & Leather	15,710	101,641	117,641	86.6%	6.47
Wood & Wood Products	6,120	53,417	59,537	89.7%	8.73
Other Manufacturing	14,070	28,335	42,405	66.8%	2.01
Wholesale Trade	15,414	25,155	40,569	62.0%	1.63
Retail Trade	128,970	835,729	964,699	86.6%	6.48
Transport	812	150,904	150,906	99.5%	184.84
Personal, Household Services	34,671	87,313	121,984	71.6%	2.52
Restaurants & Hotels	8,064	17,061	25,125	67.9%	2.12
Other Services	51,085	32,351	83,436	38.8%	0.63

Sources: NSO, 1988 Census of Establishments, 1991.  
Tabulations from the 1988 SHOA files (Alonzo 1993).

The disaggregate data shows that the proportion of employed persons engaged in HOAs in Metro Manila is highest in wholesale and retail trade (60.6 per cent), followed by manufacturing (7.8 per cent), then agriculture, fishery & forestry (7.2 per cent) (Ghate c1993).

The SHOA results included information on the operational characteristics of these enterprises, making its analysis an aid to design of programmes and policies. An analysis of the results in urban areas were summarized by Alonzo (1993). Retail trade predominated among more than half of home-based enterprises, with 25 per cent for *sari-sari* stores and 27 per cent for other petty trading activities. Municipal fishing and informal transport accounted for 9 per cent each, although

Metro Manila contributed only 4.2 per cent of the urban share in municipal fishing. The mature activities were construction, followed by garments and leather, then fishing, activities which require skills acquired through experience. Among the recent operations was retail trade (54 per cent) which indicates easy entry and high turnover rates. From the six month reference of generating gross value of production, wholesale trade dominated, followed by retail trading; the lowest being domestic and personal services. Urban revenues averaged twice as much as the rural revenues. High average earnings, above poverty line were recorded for mining and quarrying, restaurants, commercial fishing and finance and real estate. Majority of the HOAs used their own funds, without availing of finance from other sources. Of the 10 to 21 per cent of HOAs that borrow funds, wholesale and retail traders incurred the most loans, probably in the form of suppliers' credit. Most loans were from informal sources while government financing was highest only in urban services (7 per cent).

In terms of problems and constraints, credit and capital constraints ranked the highest in restaurants and hotels, other manufacturing and trading. Market-related problems were important for garments and leather and urban forestry. Some activities complained of constraints due to natural calamities. Financial and real estate seemed to be least perturbed with problems, with 75 per cent reporting no problem.

**(a) Household-based Enterprises in Metro Manila**

A door-to-door survey was conducted in 1988 to determine the nature and operating characteristics of household-based enterprises. The survey covered three residential areas in Kalookan City, Pasig and Taguig (selected on the basis of decreasing degree of urbanization) and enumerated a variety of income-generating activities that are not captured in earlier micro surveys. The distribution of enterprises with less than 10 workers is as follows: crafts and manufacturing (13.1 per cent) of which 55.2 per cent are in tailoring and dressmaking; selling (69.8 per cent) of which 52.2 per cent are *sari-sari* stores while 24.4 per cent engage in selling raw and cooked food; personal services (5.4 per cent) dominated by 60.5 per cent beauty parlours; repair services (3.7 per cent) mainly of appliances and vehicles; transport services (4.6 per cent) comprising 76.5 per cent of tricycle operators; construction (2.2 per cent), and professional services (1.0 per cent) catering to the informal sector (Alonzo and Mangahas, 1990).

Most of the enterprises operate as single proprietorships, none are incorporated, and partnerships are few. Motivated to supplement their family income, people start operating businesses in their homes using personal savings (70.6 per cent of enterprises) as the main source of start-up capital which is augmented by loans from relatives and friends (27.7 per cent). A few who borrow from other sources do so from professional money lenders (3.6 per cent) rather than from formal institutions (2.4 per cent).

Capital intensity is low, even for the small manufacturing enterprise, and is about 35 per cent lower in terms of pesos per worker as compared to garment



manufacturers in this category. The scarcity of capital is compensated by keeping long hours and operating seven days a week.

The owner is usually the primary skilled worker who hires a young apprentice, often a relative, for extra help. Only manufacturing enterprises hire experienced workers. About half of informal workers receive a fixed salary; many workers get allowances or are paid a piece rate, especially in manufacturing. Perhaps, this arrangement works out for the survival of both the small enterprise and the worker.

Direct linkages between the small informal enterprises and the formal sector are very weak. Locally-made raw materials are bought in cash from shops in the vicinity. Their output is sold retail to poor and middle-income households in the community, competing with small units like themselves.

Fewer than 30 per cent of informal enterprises earn more than 5,000 pesos per month, the official poverty threshold for a family of six in Metro Manila, so other sources of income are tapped.

Lack of capital and credit for start-up and operations is the main problem encountered by a small informal enterprise; to a lesser degree, the smallness of the market and the cost of raw materials are constraints. Government is not perceived as a hindrance but neither does the small enterprise receive any form of assistance from government. Almost half of the respondents think that government programmes do not help; if they do, loans are considered the best form of assistance. If it is desired at all, on-the-job training is the preferred mode, provided that the enterprise is not made to bear the financial cost.

The typical owner of a household enterprise is much older; likely to be female, to have been previously employed full-time in a relatively large enterprise, and would stay in her present line of work. The typical worker, on the other hand, is a young, single male from outside the city, not earning enough to support a family, equally likely to be a first-time employee in a small enterprise, eager to start on his own, emulating his boss.

#### **(b) Homeworkers**

The National Statistical Office (NSO) undertook a Project to institutionalize the enumeration of homeworkers in the national statistical collection system in the Philippines. Phase 1 of the Project which was financially assisted by ILO involved the listing of all homeworkers including their economic activities in all sample barangays/enumeration areas of the Integrated Survey of Households, which are the primary sampling units (PSUs) of the Labour Force Survey.

Although homework constitutes only a part of the informal sector activities, its listing gave NSO the experience to expand data gathering to eventually cover all others.

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Homeworkers are those engaged in the putting out system of industrial, agricultural or services production in and around their home premises.

There are two types of homeworkers:

1. Subcontractees or those who accept orders from an agent, investor or small or big businessman. At times, they shoulder the cost of inputs and earn barely enough to cover their costs. On other occasions, they are totally dependent on the contractor for the job order in terms of design, raw materials, price, and markets.

2. Self-employed or own account workers who work on their own initiatives and own capital. They could sell their products directly in the marketplace or through an agent.

During 1993, there were a total of 6,347,436 homeworkers found in the 15 administrative regions of the country, of whom 2,520,264 or 39.7 per cent were in urban areas as shown in Table 2.10. The homeworkers in Metro Manila account for 4.5 per cent of the national figure.

**Table 2.10. Homeworkers by Type and Sex, Urban-Rural, Philippines, NCR: 1993**

	Region			
	Philippines	Urban	Rural	NCR
<b>Total Homeworkers</b>				
Both sexes	6,347,436	2,520,455	3,826,981	287,391
Male	1,939,341	763,335	1,176,006	104,879
Female	4,408,095	1,757,120	2,650,975	182,512
<b>Subcontractor</b>				
Both sexes	903,402	429,065	474,337	107,564
Male	409,317	214,168	195,149	35,973
Female	494,085	214,897	279,188	71,591
<b>Subcontractee</b>				
Both sexes	2,023,713	622,487	1,401,226	72,666
Male	612,815	152,388	460,427	26,481
Female	1,410,898	470,099	940,799	46,185
<b>Both</b>				
Both sexes	199,402	129,594	69,808	36,092
Male	120,680	83,272	37,408	18,073
Female	78,722	46,322	32,400	18,019
<b>Outworker</b>				
Both sexes	3,220,919	1,339,309	1,881,610	71,069
Male	796,529	313,507	483,022	24,352
Female	2,424,390	1,025,802	1,398,588	46,717

Source: NSO, Report on Homeworkers, 1993.

Homeworkers in the Philippines are dominated by women who comprised 69.4 per cent of all homeworkers in 1993 and about the same proportion of women homeworkers are in the NCR (Table 2.11). However, men dominated some industries which are traditionally known to be their turf such as food preparation, footwear manufacturing, furniture making and other manufacturing activities. In contrast, men homeworkers in NCR engage more in handicraft, furniture making and jewelery while women are found mainly in food preparation and garments.

The majority (about 51 per cent ) of the homeworkers were classified as outworkers of whom 75 per cent were women. Subcontractors comprised only about 14 per cent while subcontractees comprised 32 per cent, all dominated also by women. However, those who were both subcontractee and subcontractor were mostly men with a ratio of almost 4 men to 1 woman homeworker. The type of homeworkers in NCR are distributed as follows: 37 per cent sub-contractors; 25 per cent sub-contractees; and 25 per cent outworkers; women still in greater proportion (Table 2.11).

**Table 2.11. Percentage Distribution of Homeworkers by Industry and by Sex, Philippines, NCR: 1993**

Industry	Percentage Distribution					
	Both Sexes		Male		Female	
	Phil.	NCR	Phil.	NCR	Phil.	NCR
	100.0	100.0	30.6	36.5	69.4	63.5
Food	4.3	1.4	63.7	39.2	36.3	60.8
Garments	14.8	20.4	8.4	28.6	91.6	71.4
Footwear	0.9	4.6	61.7	47.2	38.3	52.8
Handicraft	20.6	11.1	36.9	61.2	63.1	38.8
Furniture	3.0	1.8	93.0	77.5	7.0	22.5
Jewelery	0.8	0.1	62.4	90.7	37.6	9.3
Other manufacturing	5.2	23.0	53.8	26.2	46.2	73.8
Others	50.2	24.7	24.5	34.7	75.5	65.3
<b>Type of Homeworker</b>	100.0	100.0	30.6	36.5	69.4	63.5
Subcontractor	14.2	37.4	43.3	33.4	54.7	66.6
Subcontractee	31.9	25.3	30.3	36.4	69.7	63.6
Both	3.1	12.6	60.5	50.1	39.5	49.9
Outworker	50.7	24.7	24.7	34.3	75.3	65.7

Source: NSO, Report on Homeworkers, 1993.

Note: Pre-classification of homeworkers was limited mostly to the manufacturing sector in Phase I.

Table 2.12 shows that almost two-thirds of the homeworkers belong to age group from 25 to 44 years, although the modal age group of women was registered between 25 and 34 years while their male counterparts were recorded as between 35 and 44 years of age. This trend in modal age is true to both the urban and rural areas.

Captured in Table 2.12 is the number of working children (below 15 years old), estimated at 94,787 nationwide (1.5 per cent of the national total) and 4,238 in NCR (1.5 per cent of NCR total). Of the total NCR homeworkers below 15 years old, 80.4 per cent are females.

Women and children are a growing part of the homeworkers group, seeking job orders to augment family income and still be able to attend their chores (Aguilar, 1983). Children are introduced to the work force by mothers who ask for their assistance to increase output (ILO, 1985).

**Table 2.12. Homeworkers by Age Group and Sex,  
Philippines, NCR: 1993**

Age Group	Philippines	N C R		
	Both Sexes	Both Sexes	Male	Female
TOTAL	6,347,436	287,391	104,879	182,512
< 10 Years	5,744	773	-	773
10-14	89,043	3,465	111	3,354
15-19	302,199	10,142	2,745	7,397
20-24	580,547	22,772	6,913	15,859
25-34	1,821,634	87,724	34,513	53,211
35-44	1,825,264	95,502	37,384	58,118
45-54	1,042,325	41,234	15,456	25,778
55-64	454,798	14,937	2,785	12,152
65 & over	202,896	7,456	3,100	4,356
Not reported	22,986	3,386	1,872	1,514

Source: NSO, Report on Homeworkers, 1993.

**(c) Working Conditions of Homeworkers**

There is no job security. Income though irregular comprises 25 to 35 per cent of the total family income. Earnings are very low compared to the margins of subcontractors and exporters of their products. Work is unstable and irregular; sometimes idle when demand is low but in rush orders, work could extend over 16

hours a day. Peak season increases the incidence of accidents when children are asked to help meet demand.

Homeworkers have no legal protection against unscrupulous subcontractors who may underpay or leave them unpaid for their work. Very few of the homeworkers dare ask for written contracts to protect their rights, making most of those without contracts, practically at the mercy of the agents.

Given that homeworkers usually lack knowledge, training and resources to improve their condition, they are not in a position to negotiate the amount of job orders, pay and price of the product.

**(d) Social Protection**

PATAMABA, the national network of homeworkers, has touched base with the Social Security System (SSS), the government agency in charge of social security for the self-employed and wage workers in private enterprises. While the SSS covers homeworkers as self-employed, it insists in identifying the employer in the case of the subcontractee-homeworker. This does not allow coverage in this case.

The women's group saving fund serves as the major instrument for social security at present. The money is also made available for day-to-day needs as well as for micro-enterprise needs.

The government recognizes their employment status and rights and attends to their needs. The government thru DOLE is formulating policies and drafting laws that will give homeworkers fair wages, social services and health protection.

**(e) Policies and Framework**

Since 1974 the Labour Code has already covered employed industrial homeworkers in Article 154, which provides that the regulations or orders to be issued pursuant to the Chapter on the Employment of Homeworkers (Chapter IV, Title III, Book III) "shall be designed to assure the minimum terms and conditions of employment applicable to the industrial homeworks."

The Labour Code Omnibus Implementing Rules and Regulations (1976) includes Rule XIV on the Employment of Homeworkers, providing for Coverage (amended in 1985 to remove the exemptions and afford wider coverage), Definitions of home, employer, contractor or subcontractor and processing, Payment for work, Conditions for the Payment of Work, Deduction, Jurisdiction of the Regional Office over them and the joint and several liability of the employer with his contractor or subcontractor who employed the homeworker.

On February 4, 1992 an amendment to the Rules was promulgated. The policy on the empowerment of homeworkers was enhanced with the legal tools in the form of the Labour Code and its newly amended Implementing Rule or Department Order No. 5 series of 1992. The new amendment provides for a

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definition of industrial homework as "a system of production under which work for an employer or contractor is carried out by a homemaker at his/her home," the Right to Self Organization, Registration of Homeworkers Organization, Payment for Homework minus SSS, Medicare and ECC premium, Standard Rate of Payment for Homework, Prohibitions on the Employment of Minors as Homeworkers and other prohibitions for homework like explosives and drugs, and a provision on Assistance to Registered Homeworkers' Organization, Employers, Contractors and Subcontractors.

### 3.2 Regulations and the Informal Sector

Alonzo (1991) outlines the process that entrepreneurs must go through to start a business within the legal framework. First, they must secure a *barangay* clearance signed by the barangay chairman (the *barangay* is the smallest administrative unit of a city or municipality). There is no fixed fee but applicants are asked to donate to the treasury as they are issued a receipt. If the business is to be established in a residential area, written consent of the adjacent neighbours is required prior to the issuance of *barangay* clearance.

Entrepreneurs then apply for a mayor's permit. Proof of payment of the realty tax is required if they own the building, otherwise, the registration number of the building owner is submitted. If they intend to make improvements or build a new structure, they must get a building permit from the Municipal or City Office of the Building Official, requiring seven copies of the building plan corresponding to the required signatures from seven departments (land use and zoning; line and grade; architectural; structural; sanitary; electrical; and mechanical). Fees depend on the value of the building and getting all the signatures may take a week.

Applying for a water connection with the government waterworks company in Metro Manila takes time. Upon filing an application for a new connection (to which must be attached the building permit), entrepreneurs must wait for one of the few inspectors to view the site; after which they have to follow up the submission of the inspector's report ("grease money" may hasten the process). Connection fees are paid and while they wait he waits for accredited contractors to install the connection (facilitation fee can move up their place in the queue).

For single proprietorships, entrepreneurs can proceed to the Bureau of Domestic Trade (BDT), the lone national agency office in Metro Manila, the function of which is to register the business name (to ensure that no one else has the same name). Several signatures are also needed at this office, and it may take a day to get the registration papers. For limited partnerships and corporations, applicants must register first with the Securities and Exchange Commission (SEC) before registering with the BDT. The documentary requirements are: (1) verification of the corporate name; (2) the articles of incorporation, constitution, and by-laws; (3) an affidavit of paid-up capital; (4) a statement of assets and liabilities; (5) a bank certificate of deposit; (6) an authority to verify with the bank; (7) a written contract to comply with SEC rules; (8) the marital consent of the incorporators' spouses; (9) the incorporators' tax account numbers; (10) personal information sheets completed by the owners or subscribers; (13) a certificate of authority; and (14) a written

explanation of the *modus operandi* of the business. All these documents have to be notarized. The process takes several months without facilitation; even with the help of lawyers specializing in SEC registration, it may still take a full month for the paperwork to get done. The SEC has opened a fast lane that assures a one-day processing time.

The final step is registration with the Bureau of Internal Revenue (BIR). The required steps include: (1) payment of the privilege tax or fixed tax; (2) registration of the business name; (3) presentation of the SEC or BDT Certificate of Registration, tax account numbers, residence certificates, and articles of incorporation; (4) registration of all books of accounts; and (5) filing of an inventory of goods statement. In addition, applicants must secure BIR authority for every job order to print sales or commercial invoices or receipts.

A business that plans to hire more than five workers must register with the Social Security System. If it is a corporation, it must register with the Department of Labour and Employment. If it is a food-processing business, it must register with the Food and Drug Administration. (Food processing includes bottling sweets and fruit preserves, canning fish products, and a host of other cottage enterprises.)

When the business is finally running, the paperwork needed to comply with all the government requirements continues. The mayor's permit has to be renewed yearly, a percentage tax on the business has to be paid quarterly to the local government and a value-added tax and a withholding tax on employees have to be paid to the BIR. All the other agencies have quarterly or annual paper requirements. No matter how small the business, an owner needs an accountant and a lawyer to comply with all of the requirements.

Another fiscal policy implemented in 1988 is the value-added tax (VAT) which was meant to replace a gross sales tax system. The VAT system's compliance requires at least ten documents which include photocopies of VAT invoices and receipts; original copies of the invoices have to be presented before the tax credit or refund is issued. Export sales and purchases of capital goods require additional approvals as well. The refunds are handled centrally by the BIR central office in Manila. Taxes paid on inputs should be refunded within 60 days from the date of application. The compliance costs are so high that traders prefer a turnover tax on gross income to the VAT's paper requirements.

To date, only 40 per cent comply with the VAT system. Still, small enterprises do contribute their fair share of taxes. In fact, by failing to register, they implicitly pay the taxes built into the costs of their inputs, but are unable to claim tax credits for them. Recently, the expanded VAT law's implementation was suspended due to public resistance, though it will exempt an enterprise that makes P500,000 in gross income per year.

The following sections rely heavily on the work of Alonzo (1991) who has been following regulations and institutions surrounding public transport, vending and housing; as well as how these affect the informal sector. The coping mechanisms of the sector participants are described and could be a basis for institutional reforms.

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Problems and constraints faced by the subsectors will in turn come from the survey results of Gatchalian and Guioquio (1991).

### 3.2.1 Informal Transport

The law mandates public transport vehicles to carry a franchise or Certificate of Public Convenience (CPC), but exempts pedal-driven tricycles (or pedicabs) and *calesas* (horse-drawn carts) which need only a permit from the local government offices. Estimates indicate that the share of informal transport sector's employment has grown from 62 per cent in 1961 to 86 per cent in 1983.

Informal passenger transport is more significant in size; the two most prevalent forms are the jeepney and the tricycle.

The jeepney evolved from a modification of jeeps left behind by the U.S. forces after World War II and now can accommodate 14 to 18 passengers. The tricycle could be motor-driven or the pedicab. Many pedicabs are driven by children or adolescents.

Jeepneys have remained largely informal, while tricycles have managed to be closer to formality. This development was brought about by the extent of appropriateness of regulations covering the two industries.

#### The Jeepney Industry

In March 1990, the Department of Transportation simplified the jeepney franchising procedures. Operators apply for jeepney franchise on established routes from the Land Transportation Franchising and Regulatory Board (LTFRB). Five (it used to be 25) documents are attached to the notarized application form, including: (1) proof of Filipino citizenship (2) provision for a garage; (3) proof of financial standing; (4) income tax returns; and (5) route's "measured capacity." A pro forma invoice of acquisition of the vehicle serves as proof of having units ready for operation. For applicants with only one or two units already paid for, the presentation of the units is considered proof of good financial standing. Operators who apply personally are provided application forms free of charge and are assigned employees to help them fill out and file the forms. Regional applications are now processed by the regional offices concerned, thus decongesting the Manila office. Processing of applications for dropping or substitution of units was reduced from 90 to 12 days.

There are three major modes of illegality in the jeepney industry: the *colorum*, the *kabit*, and the "boundary" system. The *colorum* (private vehicles operating for hire without permits) arose because of the length of time it took to receive a franchise. The LTFRB's recent liberalization in the issuance of franchises may have reduced the number of *colorum* vehicles but is still a temporary route for vehicles waiting to get into a *kabit* or for their own franchise.

*Kabit* means "attached" and refers to the practice by a franchise holder of attaching the public utility license plates of some other legally authorized vehicle to



an unauthorized one. In the *kabit* system, unused permits are rented out illegally by official franchise holders to a small operator.

The *kabit* system is still widely practiced. Simplification of franchising procedures may have lowered the cost of entry but for the small operators, the cost of acquiring a franchise remains high relative to their scale of operations.

The benefits of being a *kabit* extend to operations as well. The franchise holder takes care of the 5-year franchise renewal, the annual vehicle registration for license plates, and the quarterly payment of the Common Carriers' Tax (CCT) although at the vehicle owner's expense; and handles all transactions with other government agencies. In effect, the franchise holder buys government services wholesale and then retails them to the small operator. The system escapes detection because the vehicle is registered in the name of the franchise holder.

The participants incur substantial hidden costs. The vehicle is "sold" to the franchise holder by the operator, with a counter deed-of-sale to protect the true vehicle owner. The operator risks having the franchise holder run away with the title. Another cost is that operators cannot use their property as collateral for borrowing. Franchise holders, on the other hand, risk being held responsible for a vehicle involved in an accident or threatened with the cancellation of all their franchises due to frequent traffic violation.

Alonzo recommends legalizing the *kabit* system for the benefit of all parties concerned in the public transport industry, similar to the sublease of franchises in other utilities. Small operators would keep the title to their vehicles; big franchise holders would not have to assume the liability of an operator in case of a major vehicular accident. Resources would be saved by small operators and the government from having to deal with more transactions.

The "boundary system" is another illegal institution wherein the jeepney is "leased" daily to the driver, who pays the operator an agreed amount at the end of the day. The driver pays fuel expenses, while repair, maintenance and operating expenses are borne by the operator. The driver pays fines and bribes associated with traffic violations while the operator pays for vehicle-related violations.

The officially recognized mode of compensation is either on commission basis or a fixed salary. Enforcing this regulation in the 1960s did not eradicate the practice. A salary system does not give a jeepney driver incentive to generate revenue and may not make the scheduled number of trips. If this happens, the owner loses revenue, and the passenger finds fewer vehicles on the road. The boundary system seems to offer a better deal for the driver, owner, and passenger. The boundary system though officially illegal, is tolerated by the authorities. Legalizing the practice will protect all parties involved.

### **Jeepney Operator**

The typical jeepney operator owns only one or two vehicles; and is likely to be in the *kabit* system. Small-scale operations abound due to lack of access to

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costs of maintaining their spot in the public market, and the poor maintenance of the public market premises (Gatchalian and Guioquio 1991).

### **3.2.3 Informal Housing**

More recent estimates by the Metro Manila Authority show the squatter population to have grown to one-third of the metropolitan population. Studies have shown that residents in the tenured slum areas improved their residences while there were no appreciable improvements in squatter communities.

A substantial proportion of invaded land in Manila is titled to private individuals. Out of the city's 3,000 hectares, only 625 hectares are public property. Thus, invaded land is likely to be privately owned.

The Philippine National Housing Authority (NHA) has in the past relocated squatters on public land to resettlement areas outside of Metro Manila giving them their own piece of property to amortize at very low cost. However, finding the new areas too far from their places of work, many of those resettled eventually sell their rights and return to the city. Recent relocation sites are closer to the metropolis.

In cases of invasion of private property, it is left to the owners to go to court, which grants eviction notices served by the sheriff's office. If the squatter colony is organized, eviction may not be feasible. Sometimes, the landowner may ask the local government or the NHA to buy the property for resale to squatters. In other cases, NGOs mediate to negotiate the sale of the property. If the negotiations succeed, the beneficiaries receive land titles as cooperatives which can in turn mortgage the property to the National Home Mortgage Finance Corporation (NHMFC). The proceeds can be used to buy housing units.

Institutions are in place to address the squatter problem, but government resources allocated to the "social housing" programme are insufficient, and the subsidized loans offered to squatters may even attract more squatting.

### **3.3 Access to Financial Services**

Existing sources of finance for the informal sector participants come from personal savings, relatives and friends, trade credit from suppliers and buyers, semi-formal sources such as credit unions, cooperatives and self-help groups, professional money lenders, private banks and financial companies and government programmes. Discussions with financial institutions brought out the observation that accessibility of credit is more important to the small borrower than the interest rate. Amortization schedules that follow production cycles and cash flow patterns have a higher repayment rate. For example, public utility vehicle drivers and vendors could easily pay on a daily basis while subcontractees would be able to do so when buyers pay them.

The high transaction costs and risks involved in lending to micro-enterprises due to borrowing small sized loans and lack of collateral earned for them the

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classification: "non bankable". They are dependent on funds from the government budget (from multilateral and bilateral aid) or from international and umbrella NGOs.

The state policy of empowerment of the people encourages voluntary groups, committed to the alleviation of poverty through different means such as providing credit for livelihood. Many NGOs run Grameen replicator projects for the "poorest of the poor". Beneficiaries are screened by using a means test, based on house index, income test, and total family assets. This also provides a reference for future evaluation.

Guarantee programmes, such as those of SBGFC and PhilGuarantee facilitates having the near poor graduate from special micro-enterprise programmes to access credit from formal financial sector. Graduation of the upper fringe of the informal sector can be helped by strengthening guarantee associations, encouraging group savings which can be deposited in banks and used as leverage for credit, and link credit with marketing transactions. (Ghate c1993).

### **3.3.1 Programmes and Policies for the Informal Sector**

Considered as the first major programme on livelihood support is the Kilusang Kabuhayan sa Kaunlaran (KKK), instituted in 1981 as a massive credit programme for the "poorest of the poor". The KKK released P1.5B over about five years for more than 25,000 projects and ended up with P744M in arrears. In 1986, the new administration in 1986 "rationalized" the KKK by renaming KKK Capital Fund as National Livelihood Support Fund and KKK Processing Centre Authority as the Livelihood Development Corporation. Implementation was decentralized under the 15 government agencies: Southern Philippine Development Agency (SPDA), Technology and Livelihood Resource Center (TLRC), SIDCOR, Livelihood Corporation (LIVECOR), Sugar Development Authority (SDA), National Housing Authority (NHA), Department of Environment and Natural Resources (DENR), Department of Education, Culture and Sports (DECS), Department of Labor and Employment (DOLE), Department of Social Welfare and Development (DSWD), Department of Interior and Local Government (DILG), NSSF, Department of Trade and Industry (DTI), Department of Agriculture (DA), Department of Agrarian Reform (DAR) (Alvencia, 1989). In 1989 this was modified with Cabinet Resolution No. 29: encouraging more private sector participation in programme formulation and implementation, defining the beneficiaries as marginalized sectors, and engaging only the DSWD in direct lending while assigning coordinating functions to key agencies at different levels of the government.

Problems beset DSWD as a direct lending agency for the poor. A higher repayment rate is scored by government agencies that use conduit organizations in relending loans to beneficiaries. Conduit organizations include NGOs, cooperative rural banks, foundations, church-based organizations and POs. To be eligible for loans, they must have juridical personality, proven management capability, evidence of commitment by contributing their own counterpart fund, and should have implemented at least one livelihood project.

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Discussions with NGOs and financial institutions revealed that funds for credit are available but the problem is the lack of know-how in credit-handling. Programmes should include training of beneficiaries in financial and accounting practice and preparation of feasibility studies that are acceptable to banks.

In October 1993, the National Credit Council was created to "rationalize and optimize the use and delivery on a sound basis of the various credit programmes of all government institutions".

The most recent development in relation to financial facilities is contained in one of the directives in the Social Reform Agenda (July 1994) which was announced for implementation by President Ramos. It directs the:

- "launching a 'Credit-for-the-Poor' programme, using a strategy of clientele segmentation by economic brackets, with a socialized credit programme using the Grameen Bank Approach for the ultra poor, an active and sustained cooperative formation and development programme for the average poor, and a dynamic mainstreaming for the near-poor;
- establishing partnerships between Government Financial Institutions, e.g., the Land Bank of the Philippines (LBP), and cooperatives and other NGOs, with the LBP acting as the trustee bank for socialized credit programme and cooperatives and NGOs/ POs as actual programme implementors; and,
- designating specific roles for different players in the financial system, e.g., for the LBP to provide credit for small farmers and fisherfolk, commercial banks to mobilize financial resources; rural banks and thrift banks to lend to small and medium-scale entrepreneurs."

### 3.3.2 Credit-based Livelihood Programmes

Bot (c1994) reported that the credit-based livelihood programmes evaluated were effective in non-agricultural activities which materially improve the business environment of the beneficiaries but only when loans were available. Without relending possibilities, no sustainable incomes, employment or enterprises are created. Although programmes reviewed generate more than sufficient income for loan repayment and interest, NGOs still fail to survive on the repayments of successful projects because of the higher percentage of failed projects. His analysis of the SHOA brings out two main conclusions: 1) that marginal income is way below average income, and 2) that the link between employment and operating expenses is weak, especially among sectors supported by credit programmes. Both results suggest that expansion of livelihood programmes will have diminishing returns. The SHOA results also confirm that productivity and earnings from the informal sector activities have declined. Livelihood programmes in support of traditional activities (like vending, sari-sari stores, trisikad, garments, handicrafts, food processing) that require no upgrading of technology will likely fail in the long term. BOT concluded further that livelihood programmes will only achieve better results if accompanied by structural reforms: provisions of support services by the

private sector, payment of fees by the enterprise and the creation of an enabling environment by the government, agreeing with the suggestions of Chico and others (1993).

### **3.4 Social Security**

Social security was never an item in the surveys, perhaps assuming that for the informal sector there is none. In discussions with NGOs, it was noted that marginalized earners are not keen on social security nor seem to mind their poor living and working conditions; their attention is held by sustaining themselves with basic needs like food, shelter and clothing.

The self-employed has been extended membership enrollment in the Social Security System (SSS) which was created by the government to provide private employees and their families protection against hazards of disability, sickness, old age and death. In the case of drivers and domestic helpers, there are very few takers owing to the cost of having oneself enrolled and the fact that many of them change employers very often. For the homemaker, an employer-employee relationship has to be established (for the 40:60 share in contribution) unless the worker can afford to pay the whole amount monthly. For the rest of the self-employed, the benefits are probably unknown for them to even bother.

But discussions with different sectors brought out indigenous ways that the informal sector acquire social security. Members of POs, associations or cooperatives put aside a social fund or a provident fund for members to withdraw from in cases of grave illness in the family, death of a family member, accidents and other emergencies. It is also a common practice to "pass the hat" for someone in one of this situations. Relatives, friends and even neighbors freely give what they can afford.

Some local governments like Makati have extended free medical and dental services as well as subsidized hospitalization for members of registered cooperatives and associations of the informal sector in the municipality or city.

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#### **4. Public Policy Affecting the Informal Sector**

##### **4.1 Overall Development Goal and Strategies**

The *Five-Year (1993-98) Medium-Term Philippine Development Plan (MTPDP)* prepared by the present administration under the leadership of President Fidel V. Ramos, states that the overall national development goal is "improved quality of life for every Filipino through people empowerment", which means that:

- ( i ) The State will provide a policy environment to facilitate the pursuit of the people's aspirations and guarantee democratic dialogues;
- ( ii ) Development will proceed from economic initiatives of any individual, community, household, firm, cooperative, non-government or private organization, or local government unit under a well-functioning market system; and
- ( iii ) When economic opportunities are not equal, the State, acting on the people's behalf, will initiate necessary intervention measures to increase income and redistribute wealth.

To achieve people empowerment, the following overall strategies shall be adopted:

- ( i ) Development of human resources, which means increased investments in human capital through education, training, and improved basic services in health and nutrition; increased access to production resources; and diffusion of technology;
- ( ii ) International competitiveness, which means that the country will produce world-class products and services in both the domestic and international markets, and sustain development by expanding markets and opportunities, thus creating new jobs, labour skills, managerial techniques, and other innovations; and
- ( iii ) Sustainable development, which implies that future generations must not suffer from the consequences of the present generation's actions which affect the environment in pursuit of development.

##### **4.2 Policies and Strategies Relevant to the Informal Sector**

###### **4.2.1 Policies and Strategies in the MTPDP**

Among the macro-economic and sectoral policies and strategies listed in the MTPDP, the following are of particular relevance to the informal sector:

- ( i ) Focusing social services on the poor through:
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- Establishment of mechanisms for people empowerment and enhancement of popular participation for the ultra-poor beneficiaries through selected social welfare programmes either pilot and/or experimental in nature;
  - Developing and packaging programmes, for low-income urban and rural communities and special groups like women, children, and the elderly;
  - Adoption of an integrated multisectoral approach to social service delivery at the community level; and
  - Concentration of government assistance to the bottom 50 per cent of the population through the cross-subsidy scheme, *Abot-Kaya Pabahay* Fund, subsidies, and community-based financing schemes.
- ( ii) Development of effective schemes to enhance social equity;
- (iii) Provision of an atmosphere conducive to the operation of people's organizations through the adoption of a policy that will maximize the participation of NGOs/POs/cooperatives in programme/project development and which will consist of the following elements:
- Institution of functional and viable mechanisms that will allow a continuing, free, and active participation of the NGOs/POs/cooperatives in the areas of policy and plan formulation, implementation, and evaluation processes;
  - Assumption by the government of an advocacy role in community organizing;
  - Provision of basic support interventions to NGOs/POs/cooperatives by line/implementing agencies and local government units through improved access to development funds (both local and external) and information base; popular education/meaningful advocacy support; extension services; a conducive policy environment; responsive bureaucracy; and technical assistance; and
  - Provision of support for the establishment and maintenance of NGO/PO/cooperative coordinating structures.
- ( iv) Strengthening of the LGUs' capability for planning, implementation, monitoring, and evaluation of social development activities through the following means:
- Training and orientation among the local government executives (LCEs) and appropriate personnel in the planning,
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- design, implementation, evaluation, and monitoring of programmes and projects;
  - Transferring and adopting know-how (technology) for the conduct of small-area research and statistics gathering;
  - Networking and building a referral system and sustained effective collaboration of LGUs with NGOs, PVOs, cooperatives, and other private groups; and
  - Intensification of advocacy activities to convince local chief executives of the fact that investments in social development are critical in the advancement of their respective localities.
- ( v) Strengthening of existing mechanisms for planning, policy formulation, and implementation at all levels, by way of:
- Undertaking programme/project impact evaluation for policy and programme development;
  - Development of a user-oriented research programme focusing on specific operational policies and development issues requiring comprehensive study;
  - Strengthening institutional and manpower capabilities for effective programme management and implementation;
  - Shift from programme-based strategy to people-based strategy, particularly in health (e.g., from maternal and child health, nutrition, family planning to women and children);
  - Institutionalization of a local level-initiated social assessment and information base; and
  - Strengthening and at the same time streamlining of data gathering for the social sectors to provide a more responsive basis for planning and refocusing of priorities.

#### 4.2.2 Social Reform Agenda

Reforms are targeted in nine (9) social programmes of the government including the Workers Welfare and Protection Programme especially for the informal sector.

Among others, the programme of reform especially for the informal sector includes the following:

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- enhancing institution-building and removing obstacles to effective union organizing;
- stricter and improved enforcement of labour standards and social welfare legislation;
- expansion of coverage and benefits in Social Security and other legislation;
- improvement of workers' conditions in the informal sector;
- certification as urgent of the passage of laws on workers' welfare and protection, specifically on the following:
  - regulation of subcontracting;
  - limitations on the hiring of non-regulars (especially part-time, temporary workers); and
- provision of access to employment and livelihood programmes of the formal sector.

#### 4.3 Constitutional and Legislative Basis of the Policy on the Informal Sector

In the Philippine Constitution of 1987, the State is mandated to enact measures that protect and enhance the right of all people to human dignity, reduce social, economic, and political inequalities, and to regulate the acquisition, ownership, use, and disposition of property and its increments (Article XIII, Section 1).

The more recently enacted law (Republic Act or RA) and executive orders (EO) that impact on the informal sector and its formal sector linkages are the following:

- |  |                   |
|--|-------------------|
| • RA 6810 Kalakalan 20                   | December 14, 1989 |
| • EO 413 Import Liberalization Programme | June 1990         |
| • EO 443 Import Levy                     | Nov. 27, 1990     |
| lifted in 1992                           |                   |
| • RA 6977 Magna Carta for Small Business | Dec. 11, 1990     |
| • RA 7076 Small-scale Mining Act         | June 27, 1991     |
| • RA 67042 Foreign Investment Act        | Nov. 1991         |
| • Local Government Code 1992             |                   |
| • Memorandum Order No. 213               | June 17, 1994     |
| • Cooperative Development Code           |                   |
| • Cabinet Resolution No. 29              |                   |
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Government policies and programmes use firm asset size and/or number of workers to distinguish the informal from the formal sector. In the Philippines, micro and cottage enterprises are usually referred to as informal (Arboleda, 1989; Quesada & Vicente, 1990).

Micro and cottage enterprises are economic activities carried out mainly in households or communities for income generation, for profit; largely operated by the owners and their family members.

Classification of enterprises according to number of workers is done for statistical purposes. However, procedures in gathering statistical data fail to cover much of the informal sector which remain invisible.

#### Classification of Establishments

Type of Industry	Total Asset Size (InP ) (excluding land value)	Number of Workers
MICRO	less than ₱ 100,000	less than 10
Cottage	over ₱ 100,000 - ₱ 1 M	1-20
KALAKALAN 20	₱ 1 million & below	10-99
Small	over ₱ 1 - 10 million	100-199
Medium	over ₱ 10 - ₱ 40 million	200 & above
Large	over ₱ 40 million	
MAGNA CARTA:		
Micro	less than ₱ 100,000	
Cottage	over ₱ 100,001 - ₱ 1 million	
Small	over ₱ 1 - ₱ 10 million	
Medium	over ₱ 10 - ₱ 40 million	

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

SMED Council passed a resolution in November 1992 redefining the categories of small enterprises.

The Magna Carta for Small Enterprises of 1991 (RA 6977), is an act to promote, develop, and assist small- and medium-scale enterprises (SMEs) through the creation of a Small and Medium Enterprise Development (SMED) Council, the establishment of a Small Business Guarantee and Finance Corporation (SBGFC), the mandatory allocation of credit resources to small enterprises, and the rationalization of government assistance programmes and agencies concerned with the development of SMEs. Banks are mandated to allocate from 5 to 10 per cent of their loan portfolio for lending to SMEs.

The SMED Council is an inter-agency and multisectoral body which recommends to the President and Congress all policy matters affecting SMEs, and coordinates and integrates efforts of various institutions to develop SMEs. On the other hand, the SBGFC is a corporate body created to provide various alternative modes of financing for small enterprises, and guarantee loans obtained by qualified borrowers. The SBGFC provides two guarantee schemes, namely: (i) Collateral

Short Guarantee, which provides 100 per cent guarantee coverage on the portion of the loan not covered by collateral up to a maximum of 70 per cent of the loan; and (ii) Clean Loan Guarantee, which provides guarantee coverage for loans up to One Million Pesos with no real estate mortgage requirement.

Kalakalan 20 aims to ease the integration of cottage and household industries to the formal sector by simplifying otherwise cumbersome registration procedures and providing tax exemptions. However, the number of registrations was way below the projected number of target enterprises. Lessons can be learned from the NACIDA which proved that the financial incentives were not as attractive as developmental thrusts such as market encounters, common service facilities and skills training.

It should be noted that the Magna Carta for Small Enterprises and Kalakalan 20 were intended only for countryside development. Metro Manila is not included.

Minimum wages are set by regional wage councils (RWC) rather than legislated to better reflect the living standards in the regions. This was established by the Department of Labour and Employment (DOLE) to promote industrial peace among labour and management, disperse industries regionally and increase income opportunities for workers in the formal and the informal sectors.

Being closer to the people, governments in the provinces, cities, and municipalities are considered to be in a better position to meet the priority service and investment needs of the local populations and to contribute to economic development country-wide. The Government is therefore pursuing a Decentralization Programme to provide greater local autonomy and increased responsibilities to the local governments. Under the revised Local Government Code (1992), the provinces, cities, and municipalities will take over functions currently performed and financed by national government agencies, namely: agricultural development and extension services, environmental protection, construction of school buildings, construction and maintenance of barangay roads and other local infrastructure, social services, tourism, and low-income housing.

In effect, with the implementation of the Local Government Code, the cities and municipalities will have complete authority over their natural resources, local taxes, and social service facilities and budget. Local governments can now negotiate directly with international donors.

Quesada (1992) looked into the following macro-adjustment and the corresponding policy instruments in relation to the export manufacturing and informal sectors:

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

Memorandum Order No. 213 of the President of the Philippines of June 17, 1994, approved and directed the implementation of the Social Reform Agenda by a Convenor Group consisting of government agencies involved in the following programmes:

- |    |   |   |
|----|---|---|
| a. | Social and Housing<br>Delivery for the Poor                           | -Chairman, Housing and Urban<br>Development Coordinating Council        |
| b. | Delivery of Integrated<br>Social Services                             | -Secretary of Social Welfare and<br>Development                         |
| c. | Agricultural Development  | -Secretary of Agriculture   |
| d. | Fisheries Management<br>and Development                               | -Secretary of Agriculture   |
| e. | Protection of Ancestral<br>Domain                                     | -Secretary of Environment<br>and Natural Resources                      |
| f. | Workers Welfare and<br>Protection                                     | -Secretary of Labour and<br>Employment                                  |
| g. | Expansion of Credit   | -Secretary of Finance;<br>President of Land Bank of the Philippines     |
| h. | Livelihood Programmes   | -Secretary of Labour and Employment;<br>Secretary of Trade and Industry |
| i. | Institution Building and<br>Effective Participation in<br>Governance. | -Secretary of Interior and<br>Local Government                          |

For workers, especially in the informal sector, the Social Reform Agenda addresses the following issues:

- the low level of organization of the labour force;