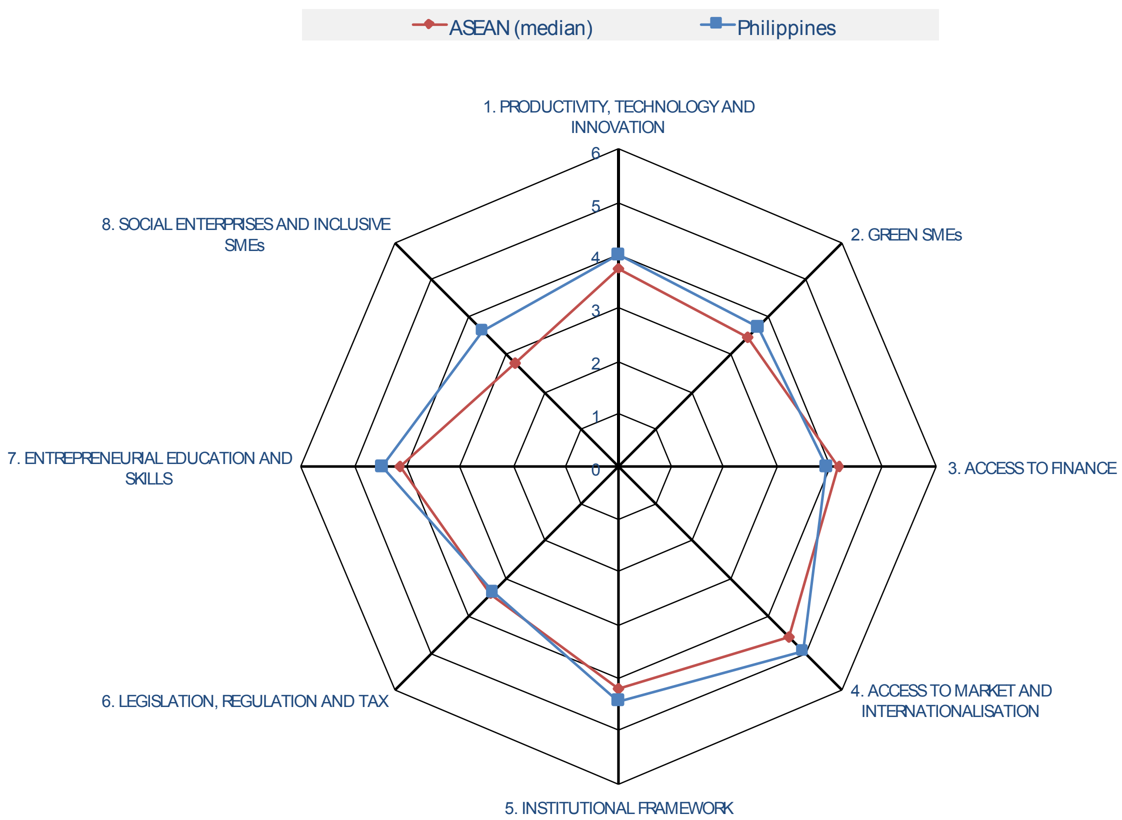
Chapter 18. The Philippines

The Philippines has traditionally adopted a "service delivery" approach to SME policy, providing services to help SMEs increase their competitiveness. However the country also pursues a secondary objective, which sees SME policy as a tool to decrease poverty and regional inequalities as part of its goal of building a predominantly middle-class society by 2040. As such, the Negosyo Centres function as its main policy tool, but interventions currently focus on the provision of microfinance and the development of entrepreneurship.

Figure 18.1. 2018 SME policy index scores for the Philippines



Overview

Economic structure and development priorities

Economic structure

The Philippines is a lower middle-income country located in the western Pacific Ocean. It has ASEAN's second largest and densest population, with 103.2 million people residing on around 2 000 islands (ASEC, 2016[1]).[1] It is home to significant metal and mineral deposits, notably nickel, iron and copper, yet mining accounts for a relatively small share of GDP. Since the late 1970s the country has consolidated and grown its services sector, and today this sector accounts for around 59.5% of GDP and 37.8% of private sector employment (World Bank, 2017[2]; ILO, 2016[3]). It has developed a particular expertise in business process outsourcing (BPO) and tourism services. Since the 1970s it has also built up a strong industrial base, with a revealed comparative advantage in the production of electronics, particularly integrated circuits and semiconductors.

The Philippines has worked hard to reform its economy and revitalise growth since the EDSA revolution of 1986. It has managed to place its public finances on a more sustainable track, bringing down external debt from 98.8% of GNI in 1986 to 21.1% by 2016, and progressively building up its foreign reserves[2] (World Bank, 2016[4]). Capital account liberalisation in the early 1990s opened the country further to foreign trade and investment and brought a number of foreign companies to the Philippines. Growth in the electronics industry was particularly notable, with employment in the industry growing almost fivefold over the 1990s, and exports tenfold. Today electronics account for around 20% of manufacturing gross value added and 52% of merchandise exports (PSA, 2016[5]; MIT, 2016[6]).[3] These liberalisation measures also drew more foreign service providers to the Philippines in the late 1990s, and today the BPO industry accounts for around 1.3 million jobs and around USD 25 billion in annual revenue, or approximately 7.3% of the country's GDP. Since the mid-2000s service exports have grown faster than goods, and this is largely attributable to growth in the BPO industry.

The Philippines' services sector is strengthened by high literacy rates, with 96.4% of the country's adult population literate in 2013 (last available data) (UNESCO, 2016[7]). Tourism contributes significantly to the economy, with the sector accounting for around 8.6% of GDP in 2016 (PSA, 2017[8]), and this constitutes an important source of foreign receipts. A great number of Filipinos also leave to find work abroad: a lack of jobs and rapid population growth in the 1970s and 1980s[4] led many Filipinos to seek jobs outside the country, and this trend has continued. Today the Philippines has one of the largest diasporas in the world, with around 10 million citizens living overseas. Their remittances provide an important contribution to the economy. Remittances accounted for 10.2% of GDP in 2016 and continue to help balance the country's current account.

Table 18.1. The Philippines: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	6.7	7.1	6.1	6.1	6.9
Inflation	Percent, average	3.2	3.0	4.1	1.4	1.8
Government balance	Percent of GDP	-0.3	0.2	0.9	0.6	-0.4
Current account balance	Percent of GDP	2.8	4.2	3.8	2.5	-0.3
Export of goods and services	Percent of GDP	30.8	28.0	28.9	28.4	28.0
Imports of goods and services	Percent of GDP	34.1	32.2	32.6	34.3	36.9
Net FDI (inflows)	Percent of GDP	1.3	1.4	2.0	1.9	2.6
External debt	Percent of GNI	23.0	20.0	22.3	22.8	21.1
Gross reserves	Percent of external debt	120.8	125.6	101.4	100.0	104.3
Domestic credit to the private sector	Percent of GDP	33.4	35.9	39.2	41.8	44.7
Unemployment	Percent of active population	7.0	7.1	6.6	6.3	5.5
GDP per capita	PPP (constant 2011 intl$)	5 988	6 306	6, 85	6 874	7 236

Source: World Bank (2017) World Development Indicators; IMF (2017) World Economic Outlook.

The Philippines sustained a growth rate above 6% from 2012 to 2016, with GDP increasing at an average annualised rate of 6.6%. It achieved this while maintaining a fiscal deficit below 1% of GDP, a current account close to zero and adequate levels of foreign currency reserves, at USD 81 billion, or 8.7 months of imports of goods and services (World Bank, 2016[4]; IMF, 2017a[9]). This growth is expected to remain buoyant over the medium term, driven by robust domestic demand, renewed demand for exports and fiscal impulse (IMF, 2017b[10]). Threats to the growth forecast include a risk of overheating fuelled by high credit growth and concentration, fiscal expansion and strong private investment (IMF, 2017b[10]).

Over the long term, the Philippines faces the challenging task of reducing high inequality and poverty levels, with 13.1% of the population currently living below the international poverty line.[5] It also continues to struggle with rather high joblessness levels, with unemployment rates averaging 6.5% between 2012 and 2016.

Reform priorities

The Philippines' long-term economic vision, *AmBisyon Natin 2040*, or "Our Ambitions 2040", was elaborated in 2016 as an anchor for development planning over 25 years. It aims, by 2040, to create a predominantly middle-class, knowledge-based and caring society where all Filipino citizens can feel a sense of community as well as economic security and comfort, and to achieve the total eradication of poverty. This strategy seeks to achieve its goals in part via competitive enterprises that offer quality goods and services at affordable prices. In particular, the vision identifies the following priority sectors: *i)* housing and urban development; *ii)* manufacturing; *iii)* connectivity; *iv)* education services; *v)* tourism and allied services; *vi)* agriculture; *vii)* health and wellness services; and *viii)* financial services. It aims for all Filipinos to have the following foundational literacies in pursuit of the vision: *i)* reading; *ii)* numeracy; *iii)* scientific literacy; *iv)* digital literacy; *v)* economic and financial literacy; and *vi)* cultural and civic literacy.

Private sector development and enterprise structure

Business environment trends

Private sector activity is relatively robust in the Philippines. Firms benefit from a large market, a relatively stable macroeconomic environment and a strong pool of talent thanks to competitive higher education and training systems. The country is the region's fourth largest recipient of foreign direct investment (FDI) after Singapore, Viet Nam and Malaysia, absorbing 8% of the total.

However, firms continue to face a number of barriers to their activity, mainly due to a lack of infrastructure, rather weak institutions and relatively burdensome tax rates and regulations. Issues remain with government bureaucracy, and practices such as graft remain commonplace, particularly in public procurement (GAN, 2017[11]). The legal framework for tackling corrupt practices is complicated and poorly enforced, partially due to a lack of co-operation and co-ordination among law enforcement agencies.

A number of major initiatives to improve the business environment have been rolled out since the last assessment. One initiative of note is the Tax Reform for Acceleration and Inclusion (TRAIN) programme,[6] which aims to address the country's issues with both tax administration and infrastructure. This programme foresees progressive tax increases on a number of consumer goods and services such as fuels, cosmetic procedures, cigarettes and sweetened beverages, while at the same time lowering individual income tax requirements for lower-income earners. Lawmakers have said that 70% of the additional revenue raised by TRAIN will be invested in infrastructure development, while the remaining 30% will be used for the provision of social services.

SME sector

In 2016, there were 915 726 registered enterprises operating in the Philippines, of which 89.6% were micro-sized, 5% were small, 4% were medium-sized, and 0.4% were large. SMEs accounted for around 63.3% of employment and 36% of GDP in 2016. They also account for 25% of export revenue, and an estimated 60% of exporters are SMEs. They are able to contribute to overseas sales through subcontracting arrangements with large firms or as suppliers to exporting companies.

SMEs in the Philippines are principally found in two sectors: wholesale and retail trade, and repair of motor vehicles and motorcycles (46.1% of all SMEs). Around 31.1% of SMEs operate in the accommodation and food service sector, 12.7% in the manufacturing sector, and just 0.99% and in the agriculture, forestry and fishing sector and 0.34% in the construction sector. Around half of all registered SMEs are located in three of the country's 18 regions: the National Capital Region (20.4%), Calabarzon (15.1%), and Central Luzon (11.3%). Not surprisingly, those regions are also the three richest (measured by GDP) and most populated. Calabarzon and Central Luzon are also geographically more interconnected with Manila, the country's capital.

SME policy

In the 1980s, the Philippines started to open up its domestic economy to international trade through the adoption of trade liberalisation programmes. In the 1990s, the trade reforms continued under the GATT-WTO commitment and the ASEAN Free Trade Area-Common Effective Preferential Tariff Scheme. During this time, government policy on SMEs focused on improving market access, expanding exports and increasing competitiveness.

One of the most crucial pieces of legislation in support of MSMEs was Republic Act (RA) 6977, also known as the Magna Carta for Small Enterprises, which was passed in 1991 to consolidate government programmes for the promotion and development of SMEs into a unified framework. Key provisions included the creation of the SME Development Council and the Small Business Guarantee and Finance Corp (SBGFC), and the allocation of credit resources by ordering all lending institutions to allocate at least 8% of their total loan portfolio to MSMEs (Hampel-Milagrosa, 2014[12]). Amendments to strengthen the original act were made in 1997 (RA 8289) and in 2008 (RA 9501), and the council was renamed the MSMED Council to include micro enterprises.

In 2001, the SBGFC was merged with the Guarantee Fund for Small and Medium Enterprises to form the Small Business Corporation (SBCorp), which today is the largest provider of SME financing in the Philippines (Aldaba, 2011[13]). In 2002, the government increased its use of SME policy as a tool for inclusion with the introduction of the Barangay Micro Business Enterprise Act (RA 9178), which aimed to support the creation and development of rural micro enterprises through incentives and benefit schemes (DTI, 2002). This push to reduce regional inequalities, particularly access to public services, was also extended in 2002 with the enactment of the Go Negosyo Act (RA 10644), which called for the establishment of business support centres, or *Negosyo*, in all provinces, cities and municipalities nationwide. The act also established a start-up fund for MSMEs and initiated the extension of services such as technology transfer, production and management training, and marketing assistance.

The Philippines' overall approach to SME policy has been to develop more competitive, innovative, resilient and regionally integrated enterprises. At the same time, it has also historically had a very strong "equity" approach, particularly spatially (as a tool to reduce poverty and regional inequalities). This approach can also be observed in ASEAN's other archipelago country, Indonesia.

2018 ASPI results

Strengthening the institutional, regulatory and operational environment (Dimensions 5 and 6)

The Philippines has a long history of conducting SME policy and regulatory reform and has established many of the institutions required. However, it continues to face problems with implementing and co-ordinating certain policies and programmes. It has made a push to simplify regulations in recent years under Project Repeal, but SMEs still face a rather complex regulatory environment, particularly in the area of company registration. The country's scores of 4.44 for institutional framework and 3.36 for legislation, regulation and tax reflect these findings.

Framework for strategic planning, design and co-ordination of SME policy

The body responsible for formulating SME policy is the MSMED Council. The council is headed by the secretary of Trade and Industry. Its members are the secretaries of Agriculture, Interior and Local Government, Science and Technology, and Tourism; the chairman of SBCorp; one representative of the MSME sector from each of the three administrative divisions of the Philippines (Luzon, Visayas and Mindanao); one representative of labour (nominated by accredited labour groups); and a representative of the private commercial banks. All members are appointed for three years and are assigned a relatively wide range of responsibilities. MSMED Councils have also been established at the provincial, regional and national levels.

The main body responsible for implementing SME policy is the Bureau of MSME Development within the Department of Trade and Industry (DTI). This bureau functions as the secretariat of the MSMED Council. It co-ordinates implementation of SME policies and programmes by government departments and agencies and is responsible for preparing briefing documents for the council, such as annual and mid-term development plans, the yearly report, periodic reports and position papers or background materials for discussion by the council. It is staffed by around 35 people and funded through an annual budget governed by the General Appropriations Act.

Every five years, the government develops a mid-term strategy for MSME development. The current five-year strategy, the MSME Development Plan 2017-2022, was developed in reference to the "industry and services" component of the Philippines Development Plan 2017-22, and integrates elements from the SAP SMED. Prior to implementation, the strategy must be approved by the president; due to a change in government, there was a gap of one year between the expiry of the previous strategy and beginning of the current one. The strategy is monitored over the mid-term and full-term, but monitoring and evaluation are conducted internally and mainly review the use of the policy's budget rather assessing its impact. The Philippine Statistics Authority (PSA) collects data on the number of SMEs and their contribution to employment, as well as their geographic and sectoral distribution. Data on SMEs' contribution to value added are also collected, although not regularly; the most recent figures are based on 2006 data.

Scope of SME policy

A legal SME definition was developed under Section 3 of the Magna Carta. It classifies firm size exclusively by fixed assets, is mono-sectoral and differentiates micro, small and medium-sized enterprises. It applies to all types of legal entities (i.e. sole proprietorship, co-operative, partnership or corporation), and includes current loans in its calculation of asset value, but not the land on which the business operation is situated. The PSA uses a different definition that determines firm size by number of employees, and therefore the firms counted in its SME data-gathering exercise may not be the same firms receiving policy support.

Table 18.2. The Philippines SME definition

Size classification	Indicator	Value
Micro	Fixed assets	< 3 000 000 PHP
Small	Fixed assets	3 000 000 - 15 000 000 PHP
Medium	Fixed assets	15 000 001 - 100 000 000 PHP

High informality rates may exclude a large number of MSMEs from policy interventions. Under the Barangay Micro Business Enterprise Law, micro firms based in remote areas are permitted access to the following credit facilities without formalising: Land Bank of the Philippines; Development Bank of the Philippines; SBCorp; People's Credit and Finance Corporation; Quedan and Rural Credit Guarantee Corporation; and the Social Security System/Government Service Insurance System.

Development of legislation and regulatory policies affecting SMEs

The main body responsible for overseeing regulatory reform in the Philippines is the National Competitive Council, which was formed in 2006. In March 2016 it launched "Project Repeal: The Philippine Red Tape Challenge". Project Repeal is an inter-ministerial regulatory reform initiative aimed at repealing outdated rules and reducing the cost of doing business. The initiative initially involved eight government agencies, but today this has expanded to 86 line ministries. Around 4 837 regulations have been reviewed under this initiative to date. The National Economic and Development Authority (NEDA) is the oversight body for Project Repeal.

Good regulatory practices are increasingly being used in the development of regulations. The country has long conducted public-private consultations (PPCs), but they are becoming increasingly structured. These consultations remain relatively closed. Private-sector representatives mainly come from Chambers of Commerce and ongoing consultations are not listed online. A manual is currently being developed on good practices in conducting PPCs. Regulatory impact assessments have been piloted in the past,[7] and NEDA is stepping up efforts to socialise the practice among regulators. It has developed an RIA manual that it expected to publish in 2018. This process has been ongoing since 2014, however, with workshops conducted to train regulators on the use of RIA, and there is no clear sign of a strong push in the near future to increase its use.

Ease of company registration and filing tax

Launching a company is relatively burdensome in the Philippines.[8] The full process currently takes 28 days, costs 15.8% of income per capita and involves 16 procedures (World Bank, 2017[2]). None of these procedures can be fully completed online, and an applicant must interact with 12 agencies. A one-stop shop has been set up in Metro Manila,[9] but this does not address the Philippines' unique challenges of connectivity. More than five registration numbers are required to launch a business. The government has taken steps to make the process easier: a Joint Memorandum Circular was released in 2016 on measures to streamline business procedures, a manual was prepared on company registration and the Negosyo Centres provide advice on starting a business. Digitisation has also begun. In 2015, the Securities and Exchange Commission (SEC) rolled out an Integrated Business Registration System through which a first-time applicant can receive an SEC registration number, a tax identification number (from the Bureau of Internal Revenue) and the electronic registration numbers of three social agencies: the Home Development Mutual Fund, PhilHealth and the Social Security Service.[10]

However, to comply with tax regulations, companies must file 20 payments per year, taking around 182 hours in total, and must pay around 42.9% of total profits (the highest tax rate in the region).

E-governance facilities

Online platforms for filing tax and social security contributions have been available in the Philippines since 2015, but the tax platform does not accept credit card payments and citizens cannot yet file pension contributions online. E-government platforms have not yet been consolidated into a single platform. Companies must file on the platform of each responsible agency individually, and government agencies cannot see each other's data. Furthermore, such services are not available throughout the country. In Cebu, for instance, the tax e-filing platform went live only in late 2017. Efforts to improve e-governance platforms are ongoing under the e-Government Masterplan (2017-22), driven by the Department of Information and Communications Technology (DICT).

Facilitating SME access to finance (Dimension 3)

The Philippines has a moderately developed financial sector according to global indicators. It is ranked 52nd for financial market development by the World Economic Forum (WEF, 2017[14]) and 142nd for ease of getting credit by the World Bank (World Bank, 2017[2]). The country scores well on indicators of bank soundness and regulation of its securities exchange, but relatively low on the legal and institutional framework for extending credit, as well as venture capital availability. Collateral requirements are high, averaging 114.5% of the value of the loan for small enterprises and 191.2% for medium-sized enterprises, though some measures are in place to address this. The country also has a relatively high number of unbanked citizens: only 31% of those aged over 15 had a bank account in 2014 (World Bank, 2014[15]). Overall, the country has a relatively low level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 44.7% of GDP in 2016 (World Bank, 2016[4]). The country's score of 3.93 for Dimension 3 reflects these findings.

Legal, regulatory and institutional framework

The Philippines has very weak framework conditions for supplying finance. Facilities to assess and hedge against credit risk do not perform particularly well. The country has had a credit information reporting system in place since 2008,[11] but it is limited in both breadth and depth. It still only covers 8% of the adult population, and less than two years of historical data are distributed. Financial institutions may face difficulties in utilising contracting elements such as securitisation to mitigate credit risk. Secured transactions remain governed by the Chattel Mortgage Law of 1906, and the country's movable assets register remains a document-based system covered by the Registry of Deeds.[12] Some reform efforts have been taken. In 2015 the Credit Information Corporation (CIC) issued guidelines for credit bureaus, and in 2016 the SEC issued Memorandum Circular No. 3/2016 requiring all financial institutions to submit their five-year historical and current credit data by a stipulated date. In 2016, the SEC also filed a Secured Transactions Act to establish clear rules over the creation, perfection and priority of security interests, and to facilitate the creation of a notice-based collateral registry. The Secured Transactions Act was passed by Congress in June 2018 and was awaiting signature.

The Philippines Stock Exchange (PSE) has existed in its current form since 1992. The exchange has been in operation since 1927,[13] yet it still has room to grow. Market capitalisation of domestic listed companies stood at 78.6% of GDP in 2016, and there were only 2.6 listed companies per 1 million people (compared to 87.3 in Singapore). The exchange earlier established a specialised board for SME listings, the Small and Medium Enterprise Board, to supplement its Main Board and Second Board. In 2013 it abolished this three-tier structure and created a new two-tier structure, with an SME Board and a Main Board, in an effort to create a more suitable offering for SMEs and boost investor protection. Although the new junior board has been in operation for five years, it still counts only four listed firms. The government is currently designing a capacity-building programme aimed at increasing the number of firms listed on the SME Board. Under a partnership between the PSE, the Philippines Chamber of Commerce and Industry, the Philippines Franchise Association and GoNegosyo, the programme will seek to identify SMEs that are eligible to list on the SME Board and provide them with targeted support.

Sources of external finance for MSMEs

The government deploys a wide range of instruments to stimulate bank lending to SMEs. Most notable perhaps is its mandatory lending scheme, which obliges all commercial banks to disburse 8% of their total loan portfolio to SMEs, primarily small enterprises.[14] To support lending, the government provides credit lines and interest rate subsidies to commercial banks, as well as credit guarantees. The largest credit guarantee scheme in the Philippines is SBCorp. Aside from providing guarantees, SBCorp offers direct and indirect lending, financial leasing, secondary mortgages, venture capital financing and the issuance of debt instruments for compliance with the mandatory lending scheme. To enhance the existing credit guarantee network, the Credit Surety Fund was created in 2008. This fund pools monetary contributions from a wide range of stakeholders, such as co-operatives, non-governmental organisations (NGOs) and local government units, and has served as a credit enhancement mechanism while reducing information asymmetries faced by banks.

Alongside schemes to stimulate commercial bank lending, two specialised public institutions provide finance for SMEs. The first, the Development Bank of the Philippines, is tasked with increasing SME access to credit, among other responsibilities. Its most notable programme is the Sustainable Enterprises for Economic Development scheme. The second such institution, the Philippines Export-Import Credit Agency, was established in 1977 to stimulate the growth of the country's manufacturing and service sectors, as well as SME development.

The Philippines has one of the deepest microfinance networks in ASEAN, and this is the main source of funding for many micro enterprises. The network was developed by NGOs beginning in the 1970s, and the central government has traditionally had very little information on the exact number of microfinance entities or how they are run. Over the past few years, the government has begun to roll out a programme to increase regulatory oversight of these institutions. In 2015, the Philippines enacted the Microfinance NGOs Act and created a Microfinance NGO Regulatory Council. The act stipulates the core features and principles of a microfinance NGO and instructs such NGOs to develop financial, social and governance standards and systems to implement them. All microfinance NGOs are to file regular progress reports with the regulatory council, which in turn is to submit an annual report to the president of the Philippines and relevant committees (EIU, 2016[16]). Under the act, microcredit can now only be provided alongside either a financial literacy programme or a capital build-up or microsaving component. Financial reporting rules for co-operatives have been updated via the Co-operative Development Authority.

Asset-based financing is relatively widely practiced, led by big players such as BDO Leasing and Finance Inc. The main regulation governing asset-based financing, such as leasing and factoring, is the Financing Company Act of 1998. In 2014, the cost of leasing products was slightly increased when the Bureau of Internal Revenue issued new regulations redefining a leasing instrument as a type of loan, and thus subjecting it to the documentary stamps tax. This cost was transferred to the consumer, and may have made such products slightly less affordable for SMEs.

The use of crowdfunding instruments is still quite new in the Philippines, and the SEC drafted rules to regulate these activities only towards the end of 2017. The development of rules to govern crowdfunding is an important development for the country, though some wrinkles – such as a rather restrictive definition of crowdfunding, a low threshold for exemption and incomplete disclosure requirements – may still need to be ironed out.

Access to equity instruments such as private equity and venture capital is still relatively scarce, but the number and size of deals is increasing. One hundred deals were closed between 2012 and 2017, the fifth highest number in the region after Singapore, Indonesia, Malaysia and Thailand (CBI, 2017[17]). Philippine companies raised funds worth USD 18 million in 2017, the majority of which went to two fintech start-ups, PawnHero (which raised USD 9.7 million) and Coins.ph (which raised USD 5 million) (CBI, 2017[17]). Most PE/VC financing comes from funds based outside the Philippines. There currently do not appear to be any public programmes in place to stimulate PE/VC investment in the country, save the direct provision of venture capital financing via SBCorp. The SEC regulates PE/VC funds in the Philippines.

Enhancing access to market and internationalisation (Dimension 4)

The Philippines recognises the need to empower its SMEs to go global. Its score of 4.95 this dimension reflects this recognition as well as the intensity of policies and programmes in place to encourage SMEs to expand their businesses internationally.

Export promotion

The Philippines export promotion plan for SMEs is embedded in several interrelated strategic planning documents: the Philippines Development Plans for 2011-2016 and 2017-2022; the Philippines Export Development Plan (PEDP) 2015-2017; and the MSMED Plans for 2011-2016 and 2017-2022. The Export Development Council was created to oversee implementation of the PEDP and to co-ordinate the formulation and implementation of policy reforms and promotion strategies, while the DTI implements export promotion programmes for SMEs through its various agencies. The DTI's Export Marketing Bureau is the main implementing agency on export promotion, while the Bureau of Micro, Small and Medium Enterprise Development is mandated to initiate and roll out programmes that address specific SME needs in such areas as marketing, training and upgrade of SME centres. In addition, the Centre for International Trade Expositions and Missions is in charge of supporting trade fairs and access to market services. Among its collaborations with other agencies that brought in SME participants were the 14th China-ASEAN Expo and the 26th Taipei International Food Show.

Other DTI programmes that champion SME internationalisation include the Philippines Export Competitiveness Programme (PECP), Doing Business in Free Trade Areas (DBFTA), the Regional Interactive Platform for Philippine Exporters (RIPPLES) and the Halal Export Industry Development and Promotion Programme. More than PHP 107 million (Philippine pesos) were allocated for export promotion programmes in fiscal 2017. Other key initiatives are undertaken in co-ordination with local government units (LGUs). One Town, One Product helps local SMEs to develop and market their products and access market intelligence information. The Negosyo Centres promote SME exports by providing information and related services on training, financing, marketing, etc. Established in co-ordination with LGUs and supervised by the MSMED Council, the centres are a salient feature of the Go Negosyo Act, which seeks to strengthen the growth of SMEs and entrepreneurship in the country.

Integration into GVCs

Initiatives to fortify SME linkages with global value chains (GVCs) are less apparent than efforts at export promotion, although the aim of strengthening ties between SMEs and regional and global production networks is included in the Philippines Development Plan 2017-2022 and the MSME Development Plan 2017-2022. The DTI is currently implementing a Business Matching programme[15] that promotes ties between international buyers and local exporters by disseminating the traders' directory online. Other schemes to integrate SMEs into GVCs are mostly embedded in export promotion programmes such as PECP and DBFTA. Small and medium enterprises can also connect with larger corporations through the Negosyo Centres. The Export Pathways Programme (EPP) promotes SME linkages with wider production networks. It utilises a value-chain approach, industry clustering and subcontracting to provide systematic export assistance for SMEs at every stage of an exporter's growth. The EPP initiative connects with other SME export development programmes, like the SME Roving Academy and RIPPLES, and provides strategic oversight to help SMEs go global.

The government has also taken steps at international venues to promote the integration of SMEs into GVCs. The Philippine-led Boracay Action Agenda to Globalise MSMEs received strong support when it was presented during the first Asia-Pacific Economic Co-operation Senior Officials' Meeting in Peru in 2016. The action agenda aims to mainstream MSMEs into GVCs (Lazo, 2016a[18]). In 2015, the Philippines and Malaysia proposed a project called "GVC-SME for the Automotive Sector". Under this project, the two nations identified common factors hindering their automotive SMEs from integrating into GVCs and proposed concrete measures to address these barriers in their work programmes for 2016-2018.

Use of e-commerce

The Philippine government's regulatory frameworks on e-commerce have been in existence since the 2000s. The Electronic Commerce Act of 2000 (RA 8792) and its implementing rules and regulations, together with the Access Devices Regulation Act of 1998 (RA 8484), serve as a legal framework on e-commerce, including e-payment issues. Meanwhile, the Consumer Act of the Philippines is being amended to include provisions on e-commerce. To promote the use of e-commerce specifically for SMEs, the MSMED

Council dedicated a task force that will: *i)* tap into Negosyo Centres to develop the e-commerce capacity of MSMEs; *ii)* improve MSME access to information on e-commerce; and *iii)* encourage MSMEs to engage in e-commerce through available online platforms or marketplaces. In 2009, the DTI institutionalised an e-commerce office to formulate policies and guidelines that support e-commerce and to conduct monitoring and evaluation of the implementation of e-commerce policies. The Philippine E-Commerce Roadmap 2016-2020, which aims to have e-commerce contribute 25% of GDP by 2020, was launched by the e-commerce office in 2016.

The Roadmap did not specify the concrete measures or implementing agencies mandated to promote e-commerce among SMEs. However, it is supported by other major initiatives, such as the National Broadband Plan, the National Retail Payment System, the Philippine Roadmap for Digital Start-ups and the Boracay Action Agenda to Globalise MSMEs. Efforts to improve SME access to e-commerce are executed through various agencies. The MSME Development Plan 2011-2016 assigns information technology (IT) appreciation and application to the Philippine Trade Training Centre (PTTC), which offers e-commerce courses such as “eSMEs on the Web: Training for the Development and Deployment of Websites for MSMEs” and “Doing Business on the Web: E-Commerce Made Easy for MSME Exporters”. The SME Roving Academy also offers training related to IT. Other offerings for SMEs include OneSTore, established by the Department of Science and Technology (DOST) to serve as an online marketing hub for products made through the Small Enterprise Technology Upgrading Programme, and collaboration between the Negosyo Centres and the Philippine Long-Distance Telephone Company’s Smart SME Nation to provide WiFi connectivity in the Negosyo Centres.

Quality standards

The DTI’s Bureau of Product Standards (BPS) is the body that formulates Philippines National Standards and ensures that they comply with international standards, such as ISO 9000 (quality management), ISO 14000 (environmental management) and ISO 500001 (energy management). The BPS is also in charge of product certification schemes to ensure the quality and safety of all locally made and imported products. It provides technical assistance to industry and trade sectors to promote standards conformity. The DTI’s regional and provincial offices monitor activities in the market to ensure that all products in circulation have been inspected. The DTI’s Bureau of Trade Regulation and Consumer Protection handles complaints on consumer products.

Certification schemes in the Philippines are not under the sole purview of the BPS. The Department of Health’s Food and Drug Administration is mandated to ensure the safety, efficacy and quality of health products.[16] The Department of Tourism implements an accreditation system for hotels and tourism establishments, while the Department of Agriculture and Fisheries provides certification for organic agriculture practitioners. The Bureau of Plant Industry and Bureau of Animal Industry cover certification of farms growing crops for human consumption and raising livestock.

Many efforts to support SME compliance with quality standards take the form of training. Examples include training programmes conducted by the PTTC on packaging and labelling of food and non-food products, and training and technical assistance on food safety from the Department of Agriculture (DA). The DA provides an organic certification subsidy to help SMEs meet the requirements of third-party organic agriculture certifications. Foreign donors also work with the Philippines on food quality standards. Under the Southeast Asian Food Trade project, the DA collaborated with

Germany's GIZ to allocate more than PHP 10 million as a subsidy for organic farming certification in 2017. While there is no monitoring mechanism in place with regard to the funds provided for quality standards, monitoring schemes do exist within local certification bodies, such as the DA's Bureau of Agriculture and Fisheries Standards.

Trade facilitation

In the 2017 OECD Trade Facilitation Indicators (TFI) used in the 2018 ASPI,[17] the Philippines received moderate scores in four indicators: information availability, fees and charges, formalities-documents and formalities-procedures. As of early 2018, the country was still developing TradeNet, the online platform for its National Single Window (NSW), which is due to be connected to the ASEAN Single Window. Initially expected to be rolled out by December 2017, the platform was rescheduled to go live in July 2018. TradeNet is a single online system that will connect 66 agencies and enable traders to apply for accreditation or permits online. It will facilitate trading for Filipino businesses through faster processing of import and export permits.

Although the MSMED Plan 2017-2020 laid out a vision of how to help SMEs deal with customs procedures, specific programmes on SME trade facilitation are not yet defined. Initiatives to support cross-border trade are often fragmented and embedded in broader programmes for SMEs. For example, training programmes under DBFTA might include sessions on both customs procedures and how to use free-trade agreements (FTAs). Another example is assistance for SME exporters by the Philippines International Trading Corporation in which SMEs are allowed to utilise common warehouses, facilitating their access to imported raw materials. Still another initiative that could indirectly support the foreign trade of SMEs is an October 2016 regulation by the Bureau of Customs that exempts goods with freight-on-board or free-carrier value of PHP 10 000 or less from duties and taxes.

The Philippines could further facilitate trade for SMEs by improving the information it provides on import and export procedures and the special allowances it offers to SMEs. In 2015, the DTI's Export Marketing Bureau published a Philippines Export Guidebook with step-by-step exportation procedures and other related information, but there is no specific programme that directly helps SMEs to familiarise themselves with basic information on trading across borders. The country's Authorised Economic Operator (AEO) programme not only lacks initiatives to help SMEs to qualify as AEOs, but actually hinders SMEs from attaining AEO status because it imposes a minimum authorised capital stock of PHP 100 million on traders applying for the status.

Boosting productivity, innovation and adoption of new technologies (Dimension 1 and 2)

Policy makers in the Philippines have been developing strategies to make SMEs more innovative and to increase their productivity. Although a number of instruments are in place, especially advisory and support services, further policies and programmes could be beneficial. This is reflected in the country's score of 4.08 for Dimension 1, which places it at the mid-level stage of policy development. While the Philippines has developed a number of environmental policies and programmes, and these often include SMEs, there are relatively few dedicated incentives in place to support SME greening. This explains the country's score of 3.75 for Dimension 2, which again suggests that the Philippines is at the mid-level stage of policy development.

Productivity measures

An overarching plan to raise SME productivity is laid out under the MSMED Plan 2011-2016. In the Philippines Development Plan 2017-2022, enhancement of productivity, efficiency and resilience is noted as a desired sub-outcome under the main desired outcome: increased access to economic opportunities in industry and services for MSMEs, co-operatives and overseas Filipinos. Specific actions to improve productivity include increasing access to technology, implementing the MSMED Plan, assessing SME-related laws and encouraging entrepreneurship among households receiving remittances from overseas Filipinos. Regional consultations on productivity enhancement policies have been attended by the SME sector, business support organisations, NGOs, local government units, representatives of academia and civil society, and international development institutions. The private sector is represented by the Philippines Chamber of Commerce and Industry. The MSMED Council's medium-term evaluation report showed that of the 59 active provincial or city SME councils, only 35 were conducting meetings regularly.

The MSMED Council is the designated policy development agency for SME productivity policies and programmes. In practice, however, other government agencies, like the National Wages and Productivity Commission (NWPC), create their own productivity enhancement projects and programmes. Although the NWPC was designated as the portfolio manager for productivity and efficiency under the MSMED Plan, it does not co-ordinate actions with other agencies that implement productivity and efficiency programmes.

The budget allocated for productivity enhancement programmes is not specified in the MSMED Council's accomplishment report, while the NWPC has its own budget for its programmes. The commission provides training for improving SME productivity at three levels: basic (basic concepts on productivity, values, working conditions and basic business systems); intermediate (application of productivity technologies based on the need of enterprises for further improvement); and advanced (for deeply involved and innovative enterprises that are to be transformed into productivity champions). Other programmes include wage advisories on performance/productivity-based incentive schemes, the Productivity Olympics (a biennial national competition of best productivity practices among SMEs) and a Wage and Productivity Caravan. The Shared Services Facility (SSF) programme, a form of capital investment, aims to address gaps and bottlenecks in the value chain of priority industry clusters through provision of processing and/or manufacturing machinery, equipment, tools and related accessories for the common use of MSMEs. An assessment conducted by the Philippines Institute for Development Studies showed that the SSF project, which costs little to run, has had a substantial impact on jobs and productivity. The NWPC and the Regional Tripartite Wages and Productivity Board monitor information such as the number of productivity action plans initiated, the number of SMEs trained, the number of SMEs to have adopted performance/productivity incentive schemes and the number of SMEs benefitting from the full cycle of training and technical assistance. But in terms of direct productivity measurement, official statistics are still limited to labour productivity.

Business development services

The MSMED Plan 2011-2016 aimed to promote and strengthen MSMEs in all productive sectors of the economy, including areas related to business development services (BDS). The Go Negosyo Act of 2015 promotes the ease of doing business and access to services for MSMEs, while BDS are also part of the Philippines Development Plan 2017-2022. DTI and the MSMED Council are the main policy-making bodies that cover BDS.

Most BDS activities are provided through programmes available on the DTI website. The main programme is the nationwide network of Negosyo Centres, which provide assistance with business registration, access to markets, digital marketing, provision of business information, and monitoring and evaluation. Another programme is the SME Roving Academy, which provides access to needs diagnosis and limited training for SMEs at the local level. The government does not provide monetary support or vouchers for BDS, but it offers non-financial support, such as advice from the staff of local centres, as well as facilities and information. The country offers a wide range of awards and business-plan competitions that are provided by the private and public sectors as well as academia. Overall, the Philippines enjoys a healthy SME ecosystem, with active private-sector actors not only in finance but also in BDS. They include IdeaSpace, a non-profit business incubator and accelerator, and Aspace. Private-sector initiatives often focus on selected areas, such as IT, process management and the tech industries. Public-sector intervention could cover a broader range.

Productive agglomerations and clusters enhancement

The Philippines Development Plan 2017-2022 includes an action plan for adopting a cluster-based industrial approach that aims to promote inter-firm co-operation and agglomeration and to build a strong and competitive regional economy. The legislative agenda calls for pursuing local economic development through co-operation among local government units and by strengthening participation in community development. This signals that the government is pursuing national-level policies that are intended to trickle down to the local level.

As of July 2016, the DTI's Philippines Economic Zone Authority (PEZA) listed a total of 358 special economic zones (SEZs) across the country. They include manufacturing economic zones, IT parks and centres, agro-industrial economic zones, tourism economic zones and medical tourism parks and centres. This marks a substantial increase over the 277 SEZs identified in 2014. The biggest increase was in the IT sector. PEZA offers financial incentives to registered economic zone enterprises, such as a 100% income tax holiday for up to four years for non-pioneer projects or six years for pioneer projects. Additional tax incentives include VAT zero-rating of local purchases of goods and services and exemption from expanded withholding tax. Other specific incentives are granted depending on the type of operations. For example, enterprises in agro-industrial economic zones can benefit from exemption from local government fees such as the mayor's permit or a business permit. Monitoring and evaluation of policies on cluster promotion are not well developed yet, and key performance indicators specifically intended for SMEs are also limited.

The Philippines scored 89% in the ERIA Foreign Investment Liberalisation Rate in 2014, which is about the average in ASEAN. The country has the most open manufacturing sector in ASEAN. However, constitutional provisions restrict foreigners to a minority position in the use of natural resources (including land), except in very special circumstances, such as a foreign firm having a technical and financial agreement with the Philippines government in mining (Intal Jr., 2015[19])

Technological innovation

Innovation strategies are embedded in the Philippines Development Plan 2017-2022 under various chapters. The plan lists targets for items like expenditure on research and development (R&D) and it provides a timeline, but it includes no specific reference to SMEs. The Philippines Innovation Act, which was approved in May 2017, recognises the importance of having an effective and efficient innovation ecosystem that addresses MSME development. Innovation for SMEs is integrated into a number of policy documents, for example the Philippines Roadmap for Digital Start-ups. This strategic plan for the start-up community aims to develop digital innovation and was drafted by the Department Information and Communication Technology (DICT). An Eleven-Point Agenda Strategy focusing on the expansion of science, technology and innovation assistance for MSMEs was developed by DOST. The Philippines Council for Industry, Energy and Emerging Technology Research and Development, under DOST, has been mandated to serve as the central agency for formulating policy and implementing strategies related to innovation. However, the Philippines Innovation Act foresees the establishment of a National Innovation Council.

The Intellectual Property Code (RA 8293) recognises that an effective intellectual property (IP) system is vital to attracting foreign investment, facilitating the transfer of technology and ensuring market access for products. The country aims to develop an IP legal framework that is compliant with international standards; it has already acceded to international agreements, conventions and protocols. The Intellectual Property Office oversees and enforces overall implementation of IP rights, trademarks and patents.

Agencies involved in implementing technological innovation programmes include DOST, DICT and DTI, among others. Although much information is available online, there is no single portal where companies can find guidance on the various support mechanisms available in the country. One such mechanism is the Invention-based Enterprise Development programme, which helps to develop and commercialise innovations. The Technology Innovation and Commercialisation programme aims to fast-track the transfer and commercialisation of research results via financial and technical assistance. The QBO Innovation Hub, working in collaboration with the private sector (IdeaSpace Foundation), aims to link up innovators, researchers, investors, academic institutions, start-up mentors, funders and enablers.

While innovation infrastructure is available in the Philippines, access can be challenging due to the archipelago’s geography. In 2015, the country counted 23 innovation hubs. DOST’s Technology Business Incubation programme pushes for innovation and entrepreneurship in the private sector and academic institutions. It provides support for the establishment of technology business incubators and innovation centres by higher education institutions and other organisations. The support covers the cost of capacity-building and training activities, operational expenditures and acquisition of necessary equipment. The country’s science and technology parks include the UP Ayala Technopark. The Technology Application and Promotion Institute, DOST’s technology transfer office, groups the technology transfer offices of several universities.

Environmental policies targeting SMEs

Environmental sustainability is a component of the MSMED Plan 2011-2016. It envisages environmentally friendly products, services and practices as part of the results framework of each of the plan’s elements: business environment, access to finance, access to markets, and productivity and efficiency. Climate change is another of the plan's thematic areas. The MSMED Plan 2017-2022, which was approved in April 2018, also includes the aim of making the country's MSMEs sustainable.

Other environmental plans that could impact SMEs are included the 2017 Investment Priorities Plan, the National Climate Change Action Plan and the National Framework for Physical Planning. The Philippines Development Plan 2017-2022 also lays out a Strategy Framework to Ensure Ecological Integrity, Clean and Healthy Environment, which calls for ensuring that economic growth in resource-based communities is made more sustainable through innovation, technological adaptation and the mainstreaming of ecosystem value into national and local development planning. The Greening the Philippines Manufacturing Industry Roadmap, under the Ministry of Industry, identifies specific sectors of the economy that can be made greener, including SMEs.

Incentives and instruments for green SMEs

The country has created regulatory incentives for enterprises to become greener through the Philippines Environment Partnership Program (PEPP). While open to all enterprises, it singles out SMEs. The PEPP was created in 2003 by the Environmental Management Bureau of the Department of Environment and Natural Resources to support industry self-regulation and reporting while improving environmental performance. It is a two-track programme. Track 2 is an assistance programme aimed at industry associations and individual companies, particularly SMEs, which are not yet compliant with environmental regulations but are committed to improving their performance. Successful applicants sign a legally binding Environment Consent Agreement with the Environmental Management Bureau that commits the company to attaining environmental compliance targets and implementing an environmental management plan. Track 1 gives recognition and incentives to enterprises that go beyond compliance in environmental performance. To qualify for Track 1, enterprises need to show that they have been consistently environmentally compliant for three years and have gone beyond compliance in some way. Valid actions include implementing an environmental management system, undertaking waste minimisation initiatives or engaging in community or social responsibility programmes. No SMEs have yet transitioned from Track 2 to Track 1.

The government has also tried to streamline the process for obtaining environmental certificates, with an increasing number available online. Sectoral approaches have been taken to help enterprises understand the procedures for different areas of environmental compliance. The National Ecolabelling Programme-Green Choice the Philippines, based on ISO 14024, gives third-party certification for clean manufacturers and the use of environmentally friendly products.

Stimulating entrepreneurship and human capital development (Dimensions 7 and 8)

The Philippines is committed to incorporating entrepreneurial learning elements at all levels of education. It underscores the need to develop young entrepreneurs through the higher education system and entrepreneurship training. The country's Dimension 7 score of 4.48 reflects its well-developed policies on nurturing the entrepreneurial mindset and enhancing entrepreneurial skills. The Philippines has also developed policies to promote social and inclusive entrepreneurship, as reflected in its Dimension 8 score of 3.65.

Promotion of entrepreneurial education

The Philippines' newly adopted K-12 Basic Education programme[18] integrates entrepreneurship culture into the curriculum. Under the programme, entrepreneurial competency is expected to rise as students move from lower to higher levels of education. Students are first introduced to basic entrepreneurship concepts. By the time they reach Grade 6, they are expected to be able to demonstrate the ability to sell products based on demand in school and the community. The 2016-2021 period is referred to as the K-12 transition period, with education paradigms expected to shift towards learning that is more activity- and outcome-based.

Technical and Vocational Education and Training (TVET) is under the jurisdiction of the Technical Education and Skills Development Authority, as mandated by RA 7794 in 1994. TVET is designed to be part of tertiary education and is open to high school graduates, secondary school leavers and university undergraduates and graduates. Training delivery can be school-based or through community-based or enterprise-based programmes. It focuses on training to develop entrepreneurship skills in order to facilitate self-employment or apprenticeship within firms or industries. There are a rather large number of private TVET providers operating in the Philippines, as well as public providers. Public TVET providers include public schools, regional training centres, provincial training centres, specialised training centres and state universities and colleges offering non-degree skills training programmes.

Entrepreneurial learning is defined most clearly for the university level. In 2005, the Commission on Higher Education issued a memorandum converting university degrees with a major in entrepreneurship into a new Bachelor of Science in Entrepreneurship. The Philippines now has 288 higher education institutions offering degrees in entrepreneurship, and enrolment has steadily increased over the past five years, *The Philippine Star* reported on 25 October 2017. Collaboration between schools and the Negosyo Centres connects students with SMEs. Another initiative is the creation of a Fabrication Laboratory (FabLab) at universities, including the University of the Philippines in Cebu City, Eastern Visayas State University in Tacloban City and Zamboanga State Polytechnic College (Lazo, 2016b[20]). The FabLab serves as a small-scale workshop on digital fabrication where students learn about new prototyping technologies and software for designing and manufacturing products.

Entrepreneurial skills

The government recognises the need to strengthen outreach on entrepreneurship programmes throughout the country. Through the nationwide Negosyo Centres, aspiring entrepreneurs and SME owners and managers have access to entrepreneurial training and mentoring programmes. The Mentor ME programme aims to help SMEs scale up their businesses through weekly coaching on different areas of entrepreneurship, while the SME Roving Academy provides entrepreneurs with continuous learning on setting up and stepping up their operations and improving their competitiveness.

The University of the Philippines Institute for Small-Scale Industries has provided entrepreneurship training to support SME development since its establishment in 1966. It also conducts research on the entrepreneurial skills of SMEs, in partnership with DTI. The institute has an evaluation system that allows participants to rate the courses and training received and to give feedback. It also conducts curriculum reviews of its training programmes to stay up to date and relevant.

Entrepreneurship skills are also promoted through the One Town, One Product project, which integrates various stages in the development of a business. Chief executives of each city and municipality take the lead in identifying, developing and promoting a specific product or service that has a competitive advantage. The project offers SMEs a suite of services, including business counselling, marketing, and skills and entrepreneurial training.

Social entrepreneurship

The country's social enterprise (SE) sector has historically focused on poverty alleviation, with co-operatives, microfinance institutions and NGOs as key actors. However, a new generation of social enterprises is emerging with involvement of the business sector, leading to the creation of inclusive businesses and co-operatives. The Philippines is also seeing an increase in the number of intermediaries offering business-related services to ventures pursuing social goals. The handful of social enterprises that have successfully scaled up and achieved national impact include Gawad Kalinga, Human Nature and Rags2Riches. They have served as role models, with positive spillovers in the form of new entrants and business models in the social enterprise sector.

While social entrepreneurship is at an early stage of development from an institutional and structural perspective, the Philippines Development Plan 2017-2022 makes reference to social enterprises and calls for the passage of a social enterprise bill. A Senate bill, the Poverty Reduction through Social Entrepreneurship (PRESENT) Act, which provides a definition for social enterprise, was proposed in 2016. However, it has not yet been approved. Nonetheless, the Philippines has historically supported entities whose activities have the characteristics of social enterprises (JRI, 2016[21]); the concept has been in public discourse since the late 1990s.

No government social enterprise registry yet exists, but there is a privately run registry, ChooseSocial.PH. Institutions with a mandate to follow up on these enterprises include the Philippines Social Enterprise Network, Inc. (PhilSen) and the Institute for Social Entrepreneurship in Asia, based in the Philippines. The Co-operative Development Authority promotes the country's co-operatives, while the Philippines Board of Investments drafted a 2017 Investments Priorities Plan geared towards providing fiscal support to inclusive business projects that benefit SMEs.

Although the PRESENT Act proposes establishing a Social Enterprise Development Centre, no implementation body currently exists in the Philippines and there is no specific budget for social enterprises. Networks such as PhilSen, along with private actors like GKonomics and universities and donors like the British Council, are addressing gaps by delivering specialised entrepreneurial support. For example, PhilSen has developed a social enterprise quality index, a voluntary monitoring tool for SEs.

Inclusive entrepreneurship

Inclusive enterprises are at an intermediary stage of development in the Philippines, with considerable structural support and tailored support activities for each of the target groups. Policies and agencies that promote entrepreneurship among women, youth and persons with disabilities (PWD) have been established in line with the socio-economic and labour-market challenges outlined in the national development plan. The motivation to improve the entrepreneurial activities of the target groups has been clearly stated.

Women's entrepreneurship in particular is being significantly advanced. The Philippines is the region's strongest performer in this area, and on the national level entrepreneurship support is strongest for women among the target groups. Women's entrepreneurship is mentioned across several national strategies including the national MSMED Plan. The DTI has implemented a gender mainstreaming approach to entrepreneurship in co-ordination with the Philippines Commission on Women. Most government interventions in terms of implementation appear to take a welfare approach to women's entrepreneurship by engaging low-income women in micro-entrepreneurship activities.

Given the country's high level of youth unemployment, entrepreneurship has been identified as a strategy for improving youth labour-market inclusion in both the national development plan and the Philippines Youth Development Plan 2017-2022. A Youth Entrepreneurship Act was adopted in 2015. Efforts to foster youth entrepreneurship include entrepreneurial education, incubators run by universities and the private sector, awards and networks. In contrast, there are few activities to support PWD entrepreneurs specifically, although they may benefit from the Negosyo Centres. One good practice across the target groups concerns budget allocation. A set percentage of the SME agency's budget is earmarked for each group, ensuring that there are activities on a rolling basis. Currently 1% of the agency's budget is allocated for activities with PWD.

The way forward

Strengthening the institutional, regulatory and operational environment

The Philippines has a relatively extensive institutional architecture in place for SME policy, but may continue to face some issues with co-ordination and capacity. This also extends to the regulatory requirements affect SMEs, which must often interact with a number of government agencies to receive licenses and permits, as well as to meet operational requirements. Moving forward, the Philippines could:

Institutional framework for SME policy

- **Delegate more responsibilities to the MSMED Bureau.** The MSMED Council at DTI currently has a very broad portfolio, and this may limit its efficacy and ability to act strategically. Increasing the resources of the MSMED Bureau, which acts as the Council's secretariat, may result in interventions that are better implemented and co-ordinated.

Legislation, regulation and tax

- **Streamline the requirements for launching a company.** Company registration is still rather burdensome in the Philippines. Further steps could be taken to streamline registration requirements among different government agencies. This could facilitate the creation of a single registration number to operate a business, or at least reduce the number of registration numbers required.

Facilitating SME access to finance

The Philippines has a stable banking system and a number of policies and programmes in place to facilitate lending to MSMEs, but some of these initiatives may distort efficient credit allocation, and many lack mechanisms for a robust performance assessment.

Reforms to the legal and institutional environment for extending credit may also be required. Going forward, the Philippines could:

- **Consider removing the mandatory lending scheme.** The mandatory lending scheme can prevent banks from efficiently allocating credit. It appears that Filipino banks currently prefer to pay the fine for non-compliance or channel funds to firms that deliberately understate their assets in order to qualify as an SME (Aldaba, 2011[13]). The scheme's impact may thus be limited in any event.

Enhancing access to market and internationalisation

To strengthen its efforts to increase market access for SMEs and make them globally more competitive, the Philippines could consider the following actions:

- **Improve the trade facilitation system.** More seamless trading across borders would enhance the capacity of SMEs to access a broader market and go global. This would be of great benefit to the Philippines. Expediting the full-operational status of the National Single Window, together with trade facilitation support for SMEs, could make them more competitive in international trading. Support could include a special AEO programme or incentives for SMEs, as well as specific assistance for SMEs to comply with customs procedures and foreign trade regulations.
- **Strengthen initiatives to integrate SMEs into global value chains.** Linking SMEs with larger companies and MNCs is crucial to improving their competitiveness. Technology transfers and stronger demands to comply with quality standards can take place through such links with production networks. By developing more defined programmes specifically aimed at assimilating SMEs into GVCs, the Philippines would enhance their competitiveness in international trade.
- **Improve monitoring and evaluation of SME internationalisation.** Given that the country has adopted both a national-scale and a decentralised approach in promoting SMEs to go global, such as through the Negosyo Centres and the One Town, One Product programme, it is important to introduce more transparent and systematic monitoring of the programmes to ensure their effectiveness and quality. Monitoring and evaluation are also needed to reduce inequality in implementation of the programmes, especially among different regions in the country.

Boosting productivity, innovation and adoption of new technologies

The Philippines has programmes and policies in place to facilitate SME productivity enhancement and innovation, but it may continue to face issues with co-ordination and performance assessment. Moving forward, the Philippines could:

Productivity, technology and innovation

- **Monitor the implementation of MSME laws and action plans.** Policies have been developed to promote productivity, innovation and the establishment of clusters, but their implementation could be improved through better monitoring. Independent evaluation could help policy makers to gain better understanding of issues and loopholes, and to identify areas where further improvement is needed in the legislative or policy cycle.

- **Streamline the roles of public institutions.** The Philippines has a sophisticated system of agencies and institutions that deal with a large array of areas. Clearly defining and streamlining the roles of institutions could make it easier not just to avoid duplication but also to save on expenditure.
- **Develop growth-stage support mechanisms.** Although the government has a fairly diversified system of instruments to support productivity and innovation, most are focused on early-stage ventures. By developing an offer of mechanisms focused on SMEs in their growth phase, the government could help leverage their development. Mechanisms could include voucher schemes or co-financing mechanisms for customised support of SMEs.
- **Boost awareness of the importance of innovation.** The government could consider further promoting public awareness about the advantages of BDS and innovation. Establishment of a single information portal for MSMEs could make it easier for them to learn about the initiatives on offer from various institutions and to identify those that are best for them, increasing their uptake of services.

Environmental policies and SMEs

- **Ensure better co-ordination of policies relating to SME greening.** A central unit tasked with co-ordinating action on the greening of SMEs could help to maximise synergies. It would also help to ensure that SMEs understand the full range of environmental policies that affect them. Co-ordination could also be accomplished through a regular working group or a consolidation of planning documents.
- **Analyse the uptake of greening programmes by SMEs.** The Environmental Management Bureau could consider evaluating why SMEs are not moving up from Track 2 to Track 1 of the PEPP and could develop strategies to support them. Evaluation of the Green Choice programme could also be conducted to assess SME participation and encourage greater uptake.

Stimulating entrepreneurship and human capital development

The Philippines sees its human capital as one of its core assets, and as a result it has developed relatively strong education and training systems, with policies and programmes in place to promote the inclusion of target groups, notably women. It has also shown a strong commitment to enhancing entrepreneurial skills and knowledge through key initiatives such as the One Town, One Product project. To build on previous achievements in this area, the Philippines could:

Entrepreneurial education and skills

- **Strengthen monitoring and evaluation of entrepreneurship initiatives.** This is important to ensure their effectiveness and to respond to implementation challenges. Publishing regular reports on such initiatives would also provide aspiring entrepreneurs and SMEs with key information on the programmes and could inspire them to participate, thus increasing the programmes' benefits and effectiveness.

- **Develop a national-scale training-of-trainers programme.** Ensuring a supply of quality educators on entrepreneurship and equipping schools with adequate teaching materials to support entrepreneurial education are essential to the success of the new K-12 curriculum. As the Philippines shifts towards more activity- and outcome-based learning with the new curriculum, strengthening training-of-trainers programmes would support the goal of nurturing the entrepreneurial mindsets of the future.

Social and inclusive entrepreneurship

- Develop a clear legal framework for social enterprises. The lack of a legal definition of a social enterprise could be a source of confusion, and the lack of legal frameworks and structural support may pose constraints to the development of the sector. Legal frameworks not only bring clarity and provide legitimacy, but also enable policy makers and private actors to support social enterprises. Strengthening the legal framework can bring needed foundational support to the policy ecosystem. Approval of the PRESENT Act would be a big step forward.
- Provide training on management skills and business acumen. A shortage of technical skills and financial resources constitute major barriers for social enterprises and inclusive entrepreneurs in the Philippines. By developing special support mechanisms and instruments – for example, on-line courses for PWD, or courses on the measurement of social impact – the government could address the needs of target groups and social enterprises. Developing dedicated instruments to promote entrepreneurship within the PWD target group, via the group's allocated budget, could be a good practice example for the other target groups.
- Strengthen the finance ecosystem. To build on the existing structures that provide microfinance, the government could consider developing instruments to address the seed phase of social enterprises and entrepreneurs representing the target groups. In the longer term, the development of an overall impact finance ecosystem and partnerships with private-sector players could be beneficial for developing instruments that support the growth phase of selected ventures.

Notes

[1] The Philippines is made up of an estimated 7 641 islands, only 2 000 of which are inhabited. The country's total territory amounts to around 300 000 km^2.

[2] Total reserves covered 104.3% of total external debt in 2016, compared to 9.3% in 1986 (World Bank, 2016[4]).

[3] The country's main markets for its merchandise goods are in Asia, including Japan (21%), other ASEAN countries (15%, with Singapore alone absorbing 6.7%), and China (11.3%). The United States is the Philippines' second-largest export market, absorbing 15.5% of the country's merchandise goods.

[4] As well as the liberalisation of immigration policies in many migrant-receiving countries.

[5] The international poverty line is the share of the population living on less than USD 1.90 a day. At the Philippines' national poverty line, 25% of the population remain in poverty.

[6] Signed into law on 19 December 2017.

[7] By DOT (the Department of Tourism) and DOLE (the Department of Labour and Employment).

[8] In sum, it receives the second lowest score on this indicator in the region (World Bank, 2017[2]).

[9] With eight Extension Offices: three each in Luzon and Mindanao and two in the Visayas.

[10] Through this service, the SEC transmits the details of SEC-approved registrants to three social agencies, which then issue respective ERNs for first-time registrants

[11] In 2008 the government passed the Credit Information System Act (CISA), creating a public corporation, the CIC, which is responsible for collecting, collating and disseminating information provided by private credit bureaus.

[12] And therefore third parties cannot conduct registrations, amendments, cancellations or searches online.

[13] The PSE was created following the merger of the Manila Stock Exchange and the Makati Stock Exchange.

[14] Under this scheme, banks must disburse 6% of their loan portfolio to small enterprises and 2% to medium-sized enterprises.

[15] Further information can be found at: http://businessmatching.dti.gov.ph/about-us.

[16] Through RA 9711 (on Food and Drug Administration) and RA 7394 (Consumer Act of the Philippines).

[17] Four sets of indicators from the 2017 OECD trade facilitation indicators are used in the 2018 ASPI: i) Information availability; ii) Fees and charges; iii) Formalities-documents; and iv) Formalities-procedures, with 2 the highest possible score for each of the indicators. In 2017, the Philippines scored 1 for information availability, formalities-documents, and formalities-procedures, and 1.4 for fees and charges.

[18] Comprehensive information on the Philippines K-12 Education system is available at http://k12the Philippines.com/.

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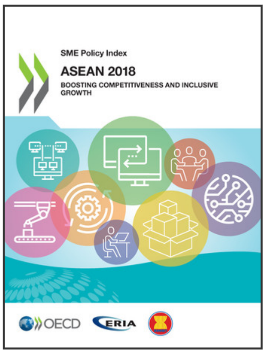

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