

Promoting MSME Development Through Streamlining of BPLS of the Municipality of San Jose de Buenavista, Philippines

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This paper talked about how the enabling environment can be improved to promote MSME development. Earlier efforts to increase the level of business dynamism reflect unsatisfactory results and proof of that was the continued decline in the competitiveness ranking in the global arena. Bearing this in mind, the Municipality of San Jose de Buenavista, identified the cumbersome business permit and licensing system as a very important growth constraint. Reforms were performed and effected a much simpler and more efficient system evidenced by reduction in the number of documents used, removal of unnecessary steps, faster processing time and less cost in time and money for businesses. Further, there was an increase in the number of business registrants and in turn increased the revenue of the LGU that accompanied these reforms. In sum, improving the enabling environment specifically the LGUs business permits and licensing system eased doing business, contributed to the increase in registered MSMEs and manifested better LGU service delivery.

Field of Research: Enabling Environment, Business Dynamism, Local Economic Development, BPLS

1. Introduction

Economic planners and developers alike have long promoted the idea of micro, small and medium enterprises or MSMEs playing a major role in stimulating economic growth. In the Philippines, MSMEs make up 99.6 % of registered businesses, employing 63% of the total labor force (DTI 2012), hence, they are considered the backbone of the Philippine economy. This has led to a widespread attention among the national government agencies (NGAs) and local government units (LGUs) given to private sector development and their contribution to local economic development. In this context, improving the business enabling environment through the streamlining of business permits and licensing system is regarded as one of the pre requisites in optimizing the growth of businesses that will lead to economic growth and even create jobs for the community.

However, there are ongoing debates whether the results of such an initiative to streamline government processes will have significant improvements in how an LGU creates that favourable condition where businesses would be willing to locate in their own area. The question that has yet to be responded to is whether it will result to competitiveness of an LGU.

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Such procedure, regulations and policies that bear direct influence to ensure business build up and promote business development constitutes what most businesses refer to as ease of doing business. This in turn can be measured.

Since 2006, the Philippines has been showing dismal performance in the Competitiveness arena. The Philippines ranked 75th in 2006 and 71st for 2007 to 2008 out of 133 world economies, according to World Economic Forum (WEF). In addition, World Bank (WB) and International Finance Corporation (IFC) also published a study entitled “Doing Business” which looks at regulatory reforms among 175 countries. It illustrated almost the same findings as WEF, where Philippines went downhill from rank 113 then 126 to 133 in that same period. These studies gave the necessary push for Philippines to address and improve the regulatory frameworks and that government processes are streamlined. This has strengthened the resolve of NGAs to advance its efforts in improving the business permits and licensing system (BPLS) in the country. In all those years, the Philippines prejudiced itself against its ASEAN neighbours as these realities impinged on how it was unable to get more external investments and businesses. The combined result of the survey inherently articulates that excessive bureaucracy and red tape in getting a business permit is widespread.

The policy platform for BPLS dates back in 1992 where Republic Act 7470 created the National Economic and Research Business Assistance Center (NERBAC), which is envisioned to facilitate the processing of all government requirements in establishing a business. Parallel to this, LGUs were asked to streamline their operations, including making improvements in the business licensing in support to facilitate the entry of foreign investors, persuade local businesses to formalize their company and to attract potential entrepreneurs to open and operate their own enterprise.

A decade after RA 7470 was passed, improvements were hardly felt. In 2003, a Memorandum Order No 117 mandated all local authorities to simplify civil application systems and DTI and DILG were tasked to spearhead the streamlining of the BPLS. These were further strengthened through the passage of Republic Act No 9485, otherwise known as the Anti Red Tape Act of 2007 (ARTA) which requires government agencies and the LGUs to deliver public service efficiently.

As rollout of streamlining of BPLS was made across the country, the Municipality of San Jose de Buenavista, proceeded to do their streamlining and the reforms that go with it even without national government financial support. It is because of this that this paper is being presented, a case study of the efforts of an LGU, highlighting local initiatives and publish the results that contributed to the growth of MSMEs. There have been studies recording efforts of the LGUs on BPLS but this is the first time that a 3rd class Municipality's experience is documented. This serves as benchmark for other LGUs whose limitations were used as a springboard to translate national agenda to local action.

The aim of this study is to examine how the enabling environment can be improved to promote MSME development in the Municipality of San Jose de Buenavista. In particular, it will look into the efforts of the LGU in streamlining their business permits and licensing system and the benefits it gained from the reforms that they have instituted.

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Ensuing paragraphs, in particular the review of literature shall provide information on a wide range of approaches done by different organizations on how they were able to improve the business environment of an LGU. It shall be analysed within the Keynesian economics framework which advocates for minimal regulatory government intervention in market development. The methodology shall use the case study design to reflect the realities experienced by the LGU. The discussion of the findings will be seen in the findings and analysis section which will then be followed by the conclusion.

2. Literature Review

Enabling Environment

Economic development is dependent in the interplay of a number of factors in a locality. Among these factors, a thriving private sector and a business friendly condition or an enabling environment are recognized to have a strong bearing to economic growth.

What we refer to exactly as enabling environment varies. Low levels of bureaucracy, good infrastructure, a well functioning educational system, trade openness and market regulation are considered by many as examples of enabling environment (UNIDO & GTZ 2008). Adding to the list is a system that allows for business entities to legalize their business operations by way of getting the required permits and license to operate. This is referred as the BPLS (BPLS).

The discussion on enabling environment is influenced by Keynesianⁱ economics which advocate for a mixed economy, where it recognizes the dominant role of the private sector in the market economy. However, Keynes believed that private sector decisions may sometimes lead to inefficiencies and even cause high inflation rate and unemployment, which would require policy responses from the government. Hence, government provides for policies that create business opportunities, employment and demand, reversing the effects of an imbalanced economy and increasing business dynamism in the process.

Local Government Units

The role of the local government units in the Philippines is based upon the doctrines of the Local Government Code of 1991ⁱⁱ. Working within a decentralized system, LGUs are mandated to ensure that local economic development is achieved by providing for an enabling environment where their stakeholders live well within a safe, peaceful and developed environment. How they perform such function varies and one approach that has pervaded LGU's planning process is through LED or local economic development.

LED started in the 1960s and has already undergone different "waves" to signify its evolution (World Bank 2011). From 1960s to early part of 1980s, the focus was on hard infrastructure and foreign direct investments. This was followed until mid 1990s by a concentration on business retention and strengthening of existing businesses. On its 3rd wave, from 1990s onward, the focus then shifted from direct financial transfers to making the entire business environment conducive for business (World Bank 2011).

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LED has been promoted by a number of international development organizations such as WB, IFC, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), The Asia Foundation (TAF), Canadian International Development Agency (CIDA) and Mesopartner. LED essentially offers local government, the private sector, the not for profit sectors and the local community the opportunity to work together to improve the local economy aimed at enhancing competitiveness and hence, encourage sustainable growth that is inclusive (World Bank 2011). While these organizations share a basic mission of promoting economic development, their specific objectives, strategies and results vary considerably.

Facilitating LED meant that market entry of new firms and investments and retaining businesses must be a priority of LGU. This was emphasized by President Aquino stating that “creating jobs is foremost on our agenda, and the creation of jobs will come from the growth of our industries. Growth will only be possible if we streamline processes to make them predictable, reliable and efficient for those who want to invest.” (Aquino, State of the Nation Address, July 26, 2010)

In any business, small or large, investors have to deal NGAs and the LGUs where their businesses are located. Whichever case applies, certain taxes and fees are required to be granted; a license for your business to operate. Efficient and transparent transaction begets contented investors that bring in foreign currencies, new technologies, employment and inevitably, economic growth. On the opposite end of the spectrum, complaints abound if the system of doing things are laden with red tape and inefficiencies. Foreign investors for many years have rated corruption as the top business problem with inefficient government bureaucracy as the second most concern according to *Arangkada Pilipinas*.

TAF’s Transparent and Accountable Governance Program (TAG) works with LGUs in implementing reforms in business licensing, real property administration, investment promotion, economic enterprise management, human resources management, and policy reforms. Between 2002-2007, ten cities have already simplified their business registration and property tax administration under the TAG programⁱⁱⁱ. Further, it was noted that among these LGUs, processing time was reduced to 30 minutes from a previous record of seven days. Local revenue collection likewise increased by 300%.

GIZ has initiated similar project in Visayas, assisting LGUs on how to streamline their procedures. GIZ supported a process oriented and participatory approach with pilot Cities of Ormoc and Bacolod. This included a time and motion study before and after the reforms, a dialogue between the LGU officials, and representatives from the business community, a technical advice and capacity building measures directed at LGUs officials of these two pilot cities (Keppel, Bihn & Spatz 2006). Significant changes in the reduction of number of steps and bureaucratic costs were observed. Further, the capacity building dimension of the GIZ approach encouraged peer to peer learning, which in turn also made the experiences more grounded rather than just theoretical.

GIZ brought their technical know-how in Vietnam in 2003, approaching the reform by targeting policy makers at national level. This has likewise contributed to the establishment of networks of reform oriented institutions like the Vietnam Chamber of Commerce and Industry (VCCI), Prime Minister Research Commission (PMRC) and Central Institute of Economic Management (CIEM).

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The Government of Bhutan is making a parallel commitment in boosting foreign investments by targeting a saving of US\$1 million in compliance cost, in getting a business permit. This is headed by the Ministry of Economic Affairs assisted by the IFC launched this 2012. Under this program, it is expected that reforms will remove overlapping approvals, provide reliable statistics on the number of licenses issued as well indicate the revenue collection (Chhetri 2012).

In a nutshell, the literature cited above suggests that ongoing activities provided for by the LGUs, NGAs and international organizations in advancing the idea of a better regulatory framework for investment generation and business retention have resulted to some successes which other governments are also trying to emulate in other parts of the world.

3. Methodology

The paper employed the case study as a research method as it tries to examine the experience of an LGU in how it improved the enabling environment to foster the growth of MSMEs in their area. By using such method, this paper attempted to deepen the understanding as it narrow down how an LGU has positioned itself to carry out its regulatory function to ensure that business thrive in their locality.

The unit of analysis is the Municipality of San Jose de Buenavista which has been included in the Private Sector Promotion program of GTZ-DTI partnership. San Jose de Buenavista's unique selling point comes from it being a capital town and has just elected a new Mayor. This case is a testament how his leadership facilitated this shift towards MSME development using the LED approach.

Information mined were from primary and secondary sources guided by a set of indicators which were used as measures to the changes that took place from 2008-2011, showing a fixed year on year comparison which may be attributed to the interventions made by the LGU. These indicators include changes in processing time, number of steps and forms involved, number of signatures and bureaucratic cost. These records supplied by the Office of the Treasurer were analysed and used as basis for analysis and discussion. Desk review was likewise done using available printed and web based materials. Primary data were collected by interviewing the Mayor, Licensing Officer, Treasurer, Municipal Administrator, DTI LRED staff, and the LRED focal person and business owners.

4. Findings and Discussion

4.1 Profile of San Jose de Buenavista

San Jose de Buenavista is a 3rd class municipality, and the capital town in the province of Antique^{iv}. Its main source of revenue and employment come from the aquatic and agriculture sectors (NSCB, 2012).

The municipality entered into a tripartite agreement via a Memorandum of Agreement (MOA) in April of 2008 with DTI and GTZ^v. This MOA paved the way for a participatory local/regional economic development (LRED)^{vi} approach, where stakeholders took part and identified opportunities for economic growth and issues

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that impede growth, namely: 1) strengthen the business sector through the formulation of responsive policies for MSME development and; 2) streamline the BPLS.

These strategies outlined by the LGU deliberately recognize its relative practicality in terms of looking at direct impact on its enterprises, majority of which are micro and small in nature. This also acknowledges that business reforms can actually be addressed within their locus of the LGU control both at the policy and executive level. Further, the reforms are assumed to have minimal social trade off as it does not touch on sensitive belief changing reforms.

4.2 Tangible Changes after the Streamlining of BPLS

This section describes the results that have taken place after the LGU implemented reforms through the streamlining of BPLS. The results reflect positive changes discussed separately and supported by quantitative data supplied by the Office of the Treasurer of the LGU covering periods between 2008-2011.

4.2.1 Simplified and Efficient BPLS

Table 1: BPLS indicators for San Jose de Buenavista 2008-2011

Indicators	Type of application	2008	2009	2010	2011
Processing Time (in hours)	RENEWAL	48	24	2.25	2
	NEW	48	32	2.25	2
# of steps	RENEWAL	10	5	4	4
	NEW	10	6	4	4
# of forms used	RENEWAL	4	1	1	1
	NEW	4	1	1	1
# of signatures	RENEWAL	4	3	3	3
	NEW	4	3	3	3
Bureaucratic Cost ^{vii}	MIX	US\$18.3	US\$8.33	US\$4.16	US\$4.16

Source: Treasurer's Office, LGU San Jose de Buenavista

Table 1 displays the various BPLS indicators in measuring a simplified and efficient BPLS, namely: processing time, number of steps, number of forms used, number of signatories and bureaucratic cost. These indicators were categorized depending on the type of application, whether one is a new application or for renewal of business to highlight the distinct process involved in securing a business permit.

As indicated in Table 1, a great reduction in the processing time from 48 hours to two hours in 2011 was achieved. It helped that some tasks like checking and validation of records, assessment of taxes and fees were computerized. Also, it was aided by the adoption of Business One Stop Shop (BOSS) where NGAs and local government offices involved in BPLS are made available and accessible in the Municipality. These offices include the Social Security System, Home Development Mutual Fund,

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Department of Health, Bureau of Fire. Bureau of Internal Revenue, Public market Office Philhealth.

This was complemented by a cutback in the number of steps from 10 to four. The steps specify the number of times the applicant has to go from one office to the other. The forms used were likewise reduced and has been harmonized into just one, while only three signatories were required to process the business permit. With these make-overs, bureaucratic cost also went down, making it less costly for applicants.

4.2.2 Increased Number of Business Permits Issued

Table 2: Net increase in Business Permits Issued from 2008 to 2011

Items	Type of Application	2008	2009	2010	2011
Business Permits Issued	RENEWAL	1,154	1,149	1,212	1,217
	NEW	231	362	305	400
Total Business Permits Issued	MIX	1,385	1,511	1,517	1,617
Increase		-	126	6	100

Source: Treasurer's Office, LGU San Jose de Buenavista

Table 2 illustrates the net increase in the number of permits issued consistently within three years. From 2009 to 2011, a slow yet steady growth are recorded, which may be attributed to a much simpler and faster processing of business permits. However, while this may be circumstantial, this might have helped in the confidence build up of the business community on the efforts of the LGU in improving the BPLS.

4.2.3 Increased Revenue Generated from Business Tax

Table 3: Business Tax Collection from 2008-2011

	2008	2009	2010	2011
Revenue Collected (US\$)	312,982.22	323,149.68	301,285.47	325,332.36
Change in %	-	3%	- 7%	7%

Source: Treasurer's Office, LGU San Jose de Buenavista

Table 3 reveal that the added number of registered business helped contribute to the increase in the revenue of the LGU.

After a year of implementation, an increase of 3% in revenue of the LGU was seen, yet in 2010, that figure slid by a negative 7%. Factors contributing to this may have something to do with the efficiency of the collection system and also because revenue collection is affected by the local elections which took place in 2010.

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4.2.4 Increased Employment by an average of 20%

Table 4: Employment from 2008-2011

	2008	2009	2010	2011
Registered Business	1,385	1,511	1,517	1,617
Employment	1,991	2,539	3,012	3,938
% change in employment	-	22%	16%	24%

Source: Treasurer's Office, LGU San Jose de Buenavista

Table 4 shows the employment pattern in San Jose de Buenavista in 2008-2011. The steady increase of businesses seen in San Jose de Buenavista effected the creation of jobs. In three years, an average of 20% increase in the employment was recorded which may be due to the increase in the number of registered businesses. Although these figures are not conclusive as there are other factors affecting the increase in employment, the figures stated above provide some latitude of speculation that the increase in businesses may have consequently boosted employment creation.

4.2.5 Better Customer Service

In a random interview among 14 business owners during the renewal period in January 2012, the respondents acknowledged the usefulness of BOSS as it made processing more convenient, faster and simpler. Without the BOSS, the applicants had to transfer from one area to the other to process the required documents, incurring a lot of travel time and cost in the process. In addition to the BOSS, waiting was made comfortable through the provision of lounge chairs. Finally, there was also a change in the front line service personnel whom they found to have become friendlier, accommodating and more professional.

4.2.6 Ease in Program Implementation

The process in which the strategies were identified came out from an LRED exercise where stakeholders were given the opportunity to voice out their needs as regards the development of their locality. Hence, that sense of importance and ownership became the leverage of the LGU to implement changes in the BPLS, which was relatively smoother and devoid of major resistance.

5. Conclusions

This case study aimed at examining the experience of the Municipality of San Jose de Buenavista in how it was able to improve its enabling environment to foster MSME development by way of making reforms in their business permits and licensing system. As it is, it was able to expose an array of improvements that resulted in a simple and efficient BPLS system, an increase in the number of registered businesses, creation of employment in the locality, a much friendlier front line service personnel and an encouraging show of confidence from the business owners on LGU services.

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Additionally, policy and operational changes was prompt and easier to manage as the strategy of streamlining the BPLS resulted from a consultative process. Through this, the LGU was able to secure leverage in implementing reforms.

In conclusion, the case underscored the importance of improving the business permits and licensing system as an approach to promoting MSME development, using the LRED approach.

Endnotes

ⁱ John Maynard Keynes, a 20th century British economist who believed that it is the responsibility of the government to intervene as a way to combat inflation and unemployment through government policies, in particular fiscal policy.

ⁱⁱ Republic Act 7160 or the Local Government Code of 1991. An RA which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization with effective mechanisms of recall, initiative, and referendum, allocate among the different local government units their powers, responsibilities, and resources, and provide for the qualifications, election, appointment and removal, term, salaries, powers and functions and duties of local officials, and all other matters relating to the organization and operation of local units."

ⁱⁱⁱ Innovations in Strengthening Local Economic Governance in Asia, The Asia Foundation, 2011

^{iv} Antique is a Province in the South of the Philippines. See map for location <http://myphilippinelife.com/antique-province-tourist-map-philippines/>

^v Back in 2008, GTZ was the former name of GIZ.

^{vi} LRED is an approach used by the Private Sector Promotion Program, a joint project between DTI and GIZ. <http://www.smedsep.ph/>

^{vii} Bureaucratic cost is computed as: [(time in days x daily minimum wage) + (transportation cost + photocopying cost + application form cost + food cost)]

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