APEC PHILIPPINES 2015

PIDS PASCN

BUILDING INCLUSIVE ECONOMIES, BUILDING A BETTER WORLD

A Look at the APEC 2015 Priority Areas

Volume 2

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Volume II

Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

PASCN

Philippine APEC Study Center Network

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Please address all inquiries to:

Philippine Institute for Development Studies
18th Floor, Three Cyberpod Centris - North Tower
EDSA corner Quezon Avenue, Quezon City, Philippines
Tel.: (+632) 372-1291; (+632) 372-1292
E-mail: publications@mail.pids.gov.ph; pascn@mail.pids.gov.ph
Website: http://www.pids.gov.ph

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Foreword

In a span of just one generation, the world we live in has changed dramatically. Global trade is no longer what it has been—with the unprecedented growth in services and intermediate inputs, driven by new technologies, new business models, and the emergence of global supply and value chains. In the process, economies have become more intricately interconnected, which affected trade, investments, and doing business not just across the border but, increasingly and more importantly, behind the border as well.

These changes have generated untold opportunities for economies across the globe. However, at the same time, they pose new threats and challenges that no single economy could effectively manage. Unfortunately, the multilateral trading system, the World Trade Organization (WTO), has failed to keep up with these changes in terms of providing a more appropriate multilateral framework for participating countries. This is largely due to the more complex nature of the changes in the global trading system and the huge number of member-countries involved, making negotiations and concessions extremely difficult to reach. One outcome of the WTO impasse has been the proliferation of preferential trading arrangements as second-best alternatives.

Providing some cohesion and balance in the opposing tendencies of multilateralism and bilateralism is possibly among the most important contribution of the Asia-Pacific Economic Cooperation (APEC) to the global trading order. APEC has provided the primary forum in the region for cooperation to deal with the emerging global challenges while upholding principles of open regionalism and support for WTO and multilateralism.

Each year, the host economy sets the agenda and priority areas for discussions and cooperative actions. The hosting of APEC 2015 comes at a very opportune time for the Philippines. The country is among the best-performing economies in a world that is facing its most serious threats—rising inequality and climate change. The Philippines is well and able to contribute to regional cooperation while strengthening its own reform objectives within the wider regional context.

The Philippine Institute for Development Studies, through the Philippine APEC Study Center Network, and the Department of Foreign Affairs collaborated to produce the needed research support and policy studies for exploring the priority areas during the country's hosting. The policy studies cover the four priority areas of:

- Enhancing regional economic integration
- Fostering small and medium enterprises' participation in the regional and global economy
- Investing in human capital development
- Building sustainable and resilient communities

For the Philippine hosting, APEC aspires to lead the region in "Building Inclusive Economies, Building a Better World". The policy studies in this volume seek to contribute to this theme by exploring the issues and prospects of these four priority areas. In addition, these studies are also intended to contribute to and advocate good domestic reforms in the longer term. Apart from the policy studies themselves, this endeavor has provided fruitful opportunities and a venue for mutual learning among the academe, the government, and the private sector. Undoubtedly, the experience and the lessons learned would have a lasting impact. This book of two volumes would hopefully serve as an important resource for policy beyond 2015.

Gilberto M. Llanto
President
Philippine Institute for Development Studies

Preface

When the Philippines embarked on its preparations to host the Asia-Pacific Economic Cooperation (APEC) 2015, the Department of Foreign Affairs, as co-chair of the APEC 2015 National Organizing Council and as APEC National Secretariat, has assumed a central role in engaging the whole of government in the planning and preparation stages. This engagement included formulating the Philippines' APEC 2015 priorities that presented an opportunity to frame APEC discussions through the lens of inclusive growth, while advancing national interests aligned with Philippine development goals.

In the process of formulating the priorities, the department engaged and consulted with various stakeholders, including government agencies, private sector, and the academe, as well as APEC counterparts, to ensure a holistic and comprehensive perspective and approach to issues and areas of interest.

Recognizing the importance of evidence-based policymaking, the department commissioned the Philippine Institute for Development Studies (PIDS), through the Philippine APEC Study Center Network, to undertake research studies that could help substantiate the proposed priorities and come up with policy recommendations with an end in view of a post-2015 agenda. The results of these studies present a compelling case that while there have been economic gains in the past few years, the Philippines, now more than ever, needs to expand its perspective beyond the domestic spectrum and raise its level of competitiveness in the context of a highly globalized economic environment.

With the theme, "Building Inclusive Economies, Building a Better World", the Philippines identified four priorities that are equally important to both the Philippines and the Asia-Pacific region: enhancing the regional economic integration agenda, fostering micro, small, and medium enterprises' participation in regional and global markets, investing in human capital development, and building sustainable and resilient communities. These priorities and their related work programs will not only inform and shape discussions in APEC in 2015 and beyond but will also hopefully inform domestic policy decisionmaking processes in the years to come. The PIDS' studies will provide guideposts for the road ahead.

We hope that through the Philippines' hosting of APEC 2015, the necessary policy and structural reforms will ensue building better lives for the more than 100 million Filipinos, and signal to the Asia-Pacific region and to the world that the Philippines is indeed open for business.

Laura Q. del Rosario
Undersecretary
Department of Foreign Affairs

Acknowledgment

This two-volume publication is the result of commitment and collaboration among various individuals and institutions that contributed to and participated in all stages of the Research Project APEC 2015, from desk review to the conduct of focus group discussions and consultations with concerned government agencies, to the presentation of findings in workshops/fora to gather information, facilitate the exchange of insights, engender support, and formulate policy initiatives and recommendations.

Undersecretary Laura Q. del Rosario of the Department of Foreign Affairs (DFA)-Office of the Undersecretary for International Economic Relations (OUIER) deserves foremost appreciation. As chair of the Committee on APEC Host Economy Priorities (CHEP) and APEC 2015 Senior Officials' Meeting, she played a key role in engaging the Philippine Institute for Development Studies (PIDS) to provide technical expertise in the conduct of the project.

As co-chairs of the CHEP, Deputy Director-General Emmanuel F. Esguerra of the National Economic and Development Authority and Assistant Director Angelo Salvador M. Benedictos of the Department of Trade and Industry-Bureau of International Relations (DTI-BITR) are similarly recognized for their comments, suggestions, and support during the presentation of the initial findings on December 16, 2013.

The members of the Technical Board on APEC Matters, especially the Department of Education, the Commission on Higher Education, the Technical Education and Skills Development Authority, and the Department of Science and Technology, are also acknowledged for their valuable inputs in the improvement of the policy papers.

The project would not have been completed without the research team's efforts and dedication. It is composed of senior research fellows and associates of the PIDS and consultants/experts from the Philippine APEC Study Center Network (PASCN) member-institutions: Erlinda M. Medalla (project team leader), Marife M. Ballesteros, Roehlano M. Briones, Christopher James R. Cabuay, Janet S. Cuenca, Nina Ashley O. Dela Cruz, Fatima Lourdes E. del Prado, Sonny N. Domingo, Stephanie Rose E. Flores, Ivory Myka R. Galang, Kathrina G. Gonzales, Daniel S. Hofileña, Danilo C. Israel, Leonardo A. Lanzona Jr., Lucita S. Lazo, Angelica B. Maddawin, Melalyn C. Mantaring, Adoracion M. Navarro, Aniceto C. Orbeta Jr., Epictetus E. Patalinghug, Oscar F. Picazo, Ramonette B. Serafica, Sheila V. Siar, Tereso S. Tullao Jr., and Soraya Patria G. Ututalum. The contribution of Celia M. Reyes, the research assistance of Larraine Z. Bolanos, Keith C. Detros, and Evelyn F. Ulpindo, as well as the administrative support of Susan I. Pizarro are also highly appreciated. In addition, the authors benefited from the consultations and discussions with Marie Sherylyn D. Aquia (DTI-BITR) and Jason Patalinghug.

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List of Acronyms

4Ps	–	*Pantawid Pamilyang Pilipino* Program
A2F	–	access to finance
A2M	–	access to market
ABAC	–	APEC Business Advisory Council
ADB	–	Asian Development Bank
ADPC	–	Asian Disaster Preparedness Center
APEC	–	Asia-Pacific Economic Cooperation
ARB	–	agrarian reform beneficiary
ARC	–	Agrarian Reform Community
ASEAN	–	Association of Southeast Asian Nations
BCP	–	business continuity plan
BE	–	business environment
BFAR	–	Bureau of Fisheries and Aquatic Resources
BMBE	–	barangay micro business enterprise
BSP	–	Bangko Sentral ng Pilipinas
CARP	–	Comprehensive Agrarian Reform Program
CCC	–	Climate Change Commission
CCI	–	Chamber of Commerce and Industry
CCRIF	–	Caribbean Catastrophe Risk Insurance Facility
CDD	–	community-driven development
DA	–	Department of Agriculture
DAR	–	Department of Agrarian Reform
DENR	–	Department of Environment and Natural Resources
DepEd	–	Department of Education
DNA	–	deoxyribonucleic acid
DOH	–	Department of Health
DOLE	–	Department of Labor and Employment
DOST	–	Department of Science and Technology
DPWH	–	Department of Public Works and Highways
DRM	–	disaster risk management
DRRM	–	disaster risk reduction and management
DSWD	–	Department of Social Welfare and Development
DTI	–	Department of Trade and Industry
EM-DAT	–	Emergency Events Database
EO	–	Executive Order
EPZ	–	export processing zone
FDI	–	foreign direct investment

Freq	–	frequency
FSSP	–	Food Staples Sufficiency Program
FTA	–	free trade agreement
GAA	–	General Appropriations Act
GDP	–	gross domestic product
GMO	–	genetically modified organism
GMS	–	Greater Mekong Subregion
GNI	–	gross national income
GREAT	–	Gender-Responsive Economic Action for the Transformation
GVC	–	global value chain
HFA	–	Hyogo Framework of Action
HRDWG	–	Human Resources Development Working Group
ICT	–	information and communications technology
IFRS	–	International Financial Reporting Standards
IPR	–	intellectual property right
KALAHI-CIDSS	–	Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services
LGU	–	local government unit
ME	–	microenterprise
MRT	–	Ministers Responsible for Trade
MSME	–	micro, small, and medium enterprise
NCAPEC	–	National Center for APEC
NCR	–	National Capital Region
NDRRM	–	National Disaster Risk Reduction and Management
NDRRMC	–	National Disaster Risk Reduction and Management Council
NEDA	–	National Economic and Development Authority
NGO	–	nongovernmental organization
NHTS-PR	–	National Household Targeting System for Poverty Reduction
NICCEP	–	National Industry Cluster Capacity Enhancement Project
OECD	–	Organisation for Economic Co-operation and Development
OFW	–	overseas Filipino worker
OTOP	–	one town, one product
P&E	–	productivity and efficiency
PCW	–	Philippine Commission on Women
PD	–	Presidential Decree

PDNA	–	Post-Disaster Needs Assessment
PDP	–	Philippine Development Plan
PhilHealth	–	Philippine Health Insurance Corporation
PN	–	production network
PPFS	–	Policy Partnership for Food Security
PPWE	–	Policy Partnership on Women and the Economy
PSA	–	Philippine Statistics Authority
RA	–	Republic Act
RIPPLES	–	Regional Interactive Platform for Philippine Exports
RuMEPP	–	Rural Micro Enterprise Promotion Program
SAARC	–	South Asian Association for Regional Cooperation
SE	–	social enterprise
SET-UP	–	Small Enterprise Technology Upgrading
SME	–	small and medium enterprise
SMED	–	Small and Medium Enterprise Development
SMEMM	–	SME Ministerial Meeting
SMEWG	–	SME Working Group
SPI	–	Social Protection Index
SSF	–	shared service facility
SSN-CBN	–	Social Safety Net Capacity Building Network
TASIM	–	Trans-Eurasian Information Super Highway
UNCTAD	–	United Nations Conference on Trade and Development
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific
US	–	United States
WEF	–	Women and Economy Forum
WMO	–	World Meteorological Organization
WTO	–	World Trade Organization
YEN	–	Young Entrepreneurs Network

1 Promoting Inclusive Growth in APEC by Mainstreaming SMEs

Erlinda M. Medalla and Melalyn C. Mantaring

Abstract

As a major domestic policy objective that is consistent and reinforced within the Asia-Pacific Economic Cooperation (APEC), the development of small and medium enterprises (SME) would not only engender inclusive growth but also enable SMEs to become drivers of growth for both domestic and regional economies. This paper provides some background about the setting (i.e., locally in SME development policy and regionally in APEC SME activities) and offers recommendations for APEC cooperation to mainstream SMEs in the regional and global market.

Introduction

The Asia-Pacific region has enjoyed rapid growth and prosperity in the last two decades. As the premier Asia-Pacific economic forum, the Asia-Pacific Economic Cooperation (APEC) is working to ensure that the benefits of this growth and globalization are felt by all sectors in the region, including the small and medium enterprise (SME) sector. SMEs account for more than 97 percent of enterprises and more than half of employment in APEC economies—developed and developing alike (Yuhua 2013). Thus, addressing SME concerns helps achieve a huge part of any economy's social and economic objectives. In particular, SMEs play a vital role in poverty reduction; they are a major source of employment for poor and low-income workers and for poorer regions within economies. At the same time, SMEs play a critical role in economic growth. They contribute in creating a stable economy arising from their flexibility and capacity to easily absorb both skilled and unskilled labor. Likewise, the viability of SMEs is essential in creating competitive and efficient markets. As such, a vibrant SME sector is also a potential, dynamic source of growth and innovation.

SMEs differ across economies, across sectors/industries within economies, and within sectors/industries. In other words, the enterprises comprising SMEs are widely heterogeneous: in different sectors, in different locations; and with varying education, efficiency, capital intensity, and innovation status. This makes it extremely difficult to come up with overall policies and programs for SME development. Economic theory suggests that the key is to target productivity and competitiveness. Indeed, the basic foundation of industrial development policy, regardless of firm size, is enhancing productivity. Nonetheless, there are inherent barriers and constraints to being small, notably with regard to access to finance, markets, and technology.[1] Unlocking these constraints would engender an inclusive growth for any economy.

In addition, economies, in their pursuit of SME development as a major domestic policy objective, could not ignore the global and regional environment. The objective should not be to keep enterprises small. The ultimate objective should be to provide SMEs with access and the opportunities and means to grow, and to encourage those SMEs with potential to eventually become major players, whether in the domestic or international market. As such, SME development policy should not be confined within the context of limited local environment. A more global perspective has become increasingly important with the "integration of trade" and "de-integration of production" arising from globalization forces and technological development.

At the same time, regional economic integration that not only promotes economic growth but also ensures benefits for all sectors could not be achieved without an effective strategy for SME participation in the regional or global integration. Hence, fostering SME participation in the international market has been a major objective of APEC under the SME Working Group. This focus is reiterated and reinforced when the Committee on APEC 2015 Host Economy Priorities identified SMEs as one of the major priorities in the substantive agenda during the Philippine APEC hosting in 2015.

This paper aims to serve as a background on fostering SME participation in the international market as a Philippine APEC priority area, and to explore recommendations for mainstreaming SMEs in the global market.

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[1] See related discussion in the latter sections of the paper.

Background and context[2]

Rising globalization accompanied by increasing regional integration and growth of global value chains (GVCs) has opened opportunities for SMEs. These arise from the resulting product fragmentation and increased specialization in specific tasks and activities that are more suited to SMEs. At the same time, these developments, which have drastically changed the character of global trade and the business environment, introduce new challenges and risks to SMEs. Unfortunately, some SMEs would be more capable than others in dealing with new challenges and opportunities; in the same vein, some countries have been more successful than others in promoting their SMEs. The different levels of development across APEC economies are a major factor. SMEs in developed countries, such as Japan and the United States (and industrialized countries, in general), work with more capital and are generally better connected and equipped. In the case of developing countries, one factor is the longer history of being part of free trade agreements (FTAs) as in the case of Thailand.

Nonetheless, SMEs are of great concern to all APEC economies, especially with the rising antiglobalization sentiments as some sectors are left behind. Governments need to understand better how to maximize the participation of SMEs—locally and internationally—and how regional cooperation and integration could lead to a more inclusive growth. Indeed, many governments have intensified their efforts in defining policies and programs to support SMEs in the new environment.

Overview of Philippine SMEs

The Small and Medium Enterprise Development Council is the current overall coordinating agency for SME growth and development. It is chaired by the Department of Trade and Industry (DTI) and is composed of the director-general of the National Economic and Development Authority (NEDA) and the secretaries of the Department of Agriculture, Department of Labor and Employment, Department of Science and Technology (DOST), and Department of Tourism. The council is also composed of the chairpersons of the Monetary Board and the Small Business Guarantee and Finance Corporation, three representatives from the private sector, and a representative from the private banking sector.

The above agencies are responsible for formulating the national SME agenda; the most recent is the Micro, Small, and Medium Enterprise Development Plan 2011–2016. The said plan serves as the framework

[2] Some discussions were drawn from Medalla et al. (2016).

for the convergence of initiatives adopted and implemented by multistakeholders to support and encourage SME growth in the country.

There are two operational definitions for classifying Philippine SMEs as presented in Table 1: one is based on employment and the other is based on asset.

Table 1. Classification of SMEs

Size Category	Employment Based	Asset Based
Micro	1–9 employees	≤ PHP 3 million
Small	10–99 employees	PHP 3,000,001–15,000,000
Medium	100–199 employees	PHP 15,000,001–100,000,000
Large	≥ 200 employees	≥ PHP 100,000,001

Source: Department of Trade and Industry-Micro, Small and Medium Enterprises Council (2012)

Micro, small, and medium enterprises (MSMEs) are regarded as the backbone of the economy for its critical contribution to the country's economic growth, employment generation, and poverty reduction. Firm size distribution has not changed much as the proportion of MSMEs has been almost constant at around 99.6 percent of the total establishments from 2008 to 2014, predominantly comprised of microenterprises (90%). Small establishments rose to 9.2 percent in 2014 from only 7.7 percent in 2008, perhaps an indication that some firms move up from micro to small enterprises. Notably, a miniscule 0.4 percent remained as medium-sized establishments. As such, the country's industrial structure has often been characterized as "hollow" or missing in the middle (Aldaba 2012; DTI MSMED Council 2012, p.2). Moreover, MSMEs employed more than 61 percent of the workforce in 2008, peaking at 65 percent in 2012 before declining to around 63 percent in 2014 (Table 2).

In terms of sectoral distribution, a huge bulk of establishments are into wholesale and retail trade as well as repair of motor vehicles and motorcycle industries (46.5%); far second are accommodation and food service activities (13.3%); and followed by manufacturing enterprises (12.7%).

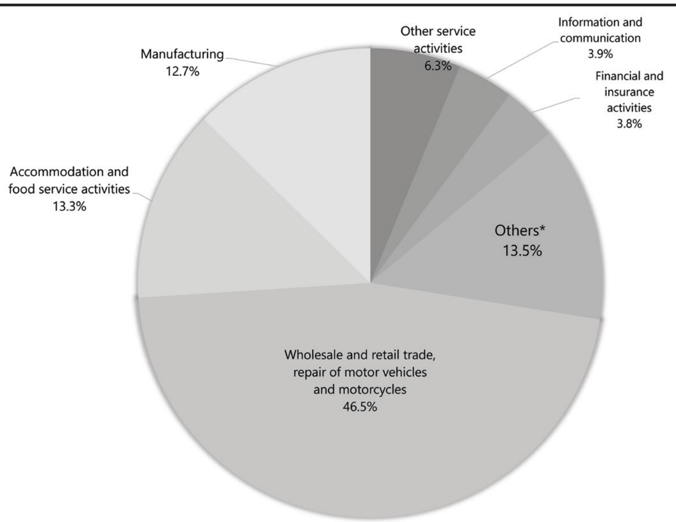
Data for value added and exports contribution by firm size have not been updated. But based on the calculations (using 2006 data), MSMEs contribute around 36 percent to total gross value added and account for 25 percent of the country's total exports revenue. It is also estimated that 60 percent of all exporters in the country belong to the MSME category. MSMEs contributions in exports are through subcontracting arrangement with large firms, or as suppliers to exporting companies. (DTI 2014).

Table 2. MSME distribution by establishment and employment, various years

	Percent Share			
	2008	**2011**	**2012**	**2014**
Establishments	100.0	100.0	100.0	100.0
Large	0.4	0.4	0.4	0.4
MSMEs	99.6	99.6	99.5	99.6
Medium	0.4	0.4	0.4	0.4
Small	7.7	8.6	9.7	9.2
Micro	91.6	90.6	89.4	89.9
Employment	100.0	100.0	100.0	100.0
Large	38.8	39.0	35.0	37.2
MSMEs	61.2	61.0	65.0	62.8
Medium	7.5	7.1	7.3	6.8
Small	23.7	25.9	27.2	25.5
Micro	30.0	28.0	30.5	30.5

Source: Authors' calculation based on basic data from Philippine Statistics Authority (PSA) (various years)

Figure 1. MSME distribution by industry



Source: Department of Trade and Industry (2014)

The Philippines, like many developing economies, has been struggling to find better solutions and more effective approaches to SME development. As early as the 1970s, the government has long recognized the role of SMEs in development and has devoted considerable efforts in promoting SME development through a variety of programs and institutional support (Aldaba 2012).

Table 3 summarizes some of these government programs, including the bigger push for SMEs initiated during the Aquino administration. The list implies a comprehensive and integrated strategy that attempts to focus on the following critical areas: business environment, access to finance, access to markets, productivity, and efficiency. It attempts to address both the internal and external factors that affect SME development. It covers promotional, capacity-building, and regulatory reform aspects.

Table 3. Philippine government policies and programs for SMEs

Business enabling environment: Advocacy of SME laws	Magna Carta for MSMEs (Republic Act or RA 6977 as amended by RA 8289 and RA 9501) *Barangay* Micro-Business Enterprise Act of 2002 (RA 9178) Go *Negosyo* Act (RA 10644)[a]
Access to finance: SME financing support programs	Microfinance programs: 1. People's Credit and Finance Corporation 2. Access of Small Entrepreneurs to Sound Lending Opportunities Program 3. Rural Micro Enterprise Promotion Programme (RuMEPP)[b] 4. Mandatory Allocation of Credit Resources to MSMEs (RA 9501)—8% for micro and small enterprises and 2% for medium enterprises
Access to markets:	
1. Product development and design services	Product designs, technology upgrading workshops, design and technical information, design library, and conduct of design competition
2. Export pathways program	Regional Interactive Platform for Philippine Exports (RIPPLES)[c]
3. Facilitating business partnerships	National Industry Cluster Capacity Enhancement Project (NICCEP)[d]
4. Trade fairs and exhibitions	Manila Furnishings and Apparel Manufacturers' Exchange, International Food Exhibition Philippines, national and regional trade fairs
5. Doing business in free trade areas	Seminars, trade facilitation, advisory, or consultancy
6. Facilitating business partnerships	One-town-one-product (OTOP) stores-*Tindahang* Pinoy,[e] buyer-seller matching, domestic and foreign trade facilitation
Productivity and efficiency:	Technology upgrading: DOST (e.g., Small Enterprise Technology Upgrading [SET-UP][f] and Technology Business Incubator Program) Shared service facilities (SSF)[g] SME Roving Academy[h] Technology information for commercialization

[a] RA 10644 aims to bring government services closer to small businesses by establishing Negosyo Centers in all provinces, cities, and municipalities. These centers shall be responsible for promoting ease of doing business and facilitating access to services for MSMEs. Aside from facilitating business registration through the Philippine Business Registry System, they shall provide assistance to MSMEs in the availment of technology transfer; production and management of training programs; and

marketing assistance of the DTI, DOST, University of the Philippines-Institute for Small-Scale Industries, Cooperative Development Authority, Technical Education and Skills Development Authority, and other agencies concerned.
[b] RuMEPP aims to reduce rural poverty by increasing economic development, job creation, and rural incomes for poor rural households through the promotion of profitable and sustainable microenterprises. While it operates in poor provinces, the microcredit component of RuMEPP is implemented nationwide through NICCEP industries.
[c] RIPPLES focuses on providing export assistance through a systematic approach by providing interventions at every stage of an exporter's growth. It utilizes the value chain approach, industry clustering, and subcontracting to arrive at a holistic export development program that will ensure a stronger and more dynamic export industry. Such dynamism would be a tool for the regions to nurture SMEs with potential to become exporters.
[d] The development and promotion of industry clusters are identified as a major strategy under the *Philippine Development Plan 2011–2016* in helping achieve its vision of a globally competitive and innovative industry and services sectors that contribute significantly to inclusive growth and employment generation. Using the industry cluster approach, DTI will build alliances with relevant agencies and institutions to develop competitive and innovative SMEs, implement a program for productivity and efficiency, and create conducive business-enabling environment.
[e] The project will serve as the showcase of the country's excellent products from the traditional to the contemporary. It will serve as an alternative channel in the promotion and sale of OTOP and other SME products and services through a network of physical outlets that will be supported later on by electronic outlets.
[f] SET-UP is a nationwide strategy to encourage and assist SMEs to adopt technological innovations that will improve their operations and, thus, boost their productivity and competitiveness. The program enables firms to address their technical problems through technology transfer and technological interventions to improve productivity through better product quality, human resources development, cost minimization and waste management, and other operation-related activities.
[g] SSF refers to common service facilities or production centers that give MSMEs access to better technology and more sophisticated equipment that will (1) accelerate their bid for competitiveness and (2) help them graduate to the next level where they could tap a better and wider market and be integrated in the global supply chain.
[h] SME Roving Academy provides a continuous learning program for the development of MSMEs to become competitive in the domestic and international (global) markets.
Source: Medalla et al. (2016)

However, the performance of MSMEs has remained constrained by various factors that prevent them from realizing their potentials and thriving in a highly competitive environment. The key challenges that MSMEs often face are high cost of doing business, lack of access to finance and market information, and low productivity and competitiveness (DTI MSMED Council 2012, p. 3).

Many studies have looked into surrounding issues to come up with strategies and recommendations. For instance, Aldaba (2008, 2012, 2013) summarized and grouped barriers to SME development into internal and external factors. Internal factors include lack of access to technology, skills, and finance. Most SMEs face various challenges in the areas of finance, human resource development, and access to technology and business support infrastructure. Generally, they have difficulty accessing formal credit. Banks are reluctant to lend because they regard SMEs as high-risk borrowers, as most SMEs have no business plans, lack assets that can be used as collateral, and have practically no financial records or accounting system. SMEs underinvest in research and development, innovation, new technologies, and capital equipment, as well as in technical skills and training that would make them productive and competitive.[3]

At the same time, a host of external factors (e.g., poor physical infrastructure and a discriminating legal framework) limit the ability of SMEs to thrive. Hence, the government needs to support measures in opening access to markets and technology and in removing policies that put a bias against SMEs. In general, the government should offer a supportive business environment that addresses both internal and external constraints hindering development.

Still, the beleaguering question remains: with all the push and programs for SMEs, and the identification of barriers and constraints, why does SME development remain a major problem? How much has really been accomplished? These are difficult to answer because of lack of more comprehensive data. There are anecdotal stories of both successes and failures, and some programs seem to help,[4] but it is difficult to assess what has been the overall impact on SMEs.

The apparent lack of progress is discouraging, considering the numerous studies and programs that have been launched on SME development. The same constraints and problems are noted in most studies.

The enormity of tasks involved in SME development is considered an underlying factor for its limited success, as MSMEs comprising more than 99 percent of all enterprises are too diverse and fragmented. Despite the government adopting a more comprehensive and integrated approach, given its limited resources, the reach will also be limited. First, the requirements for quality infrastructure and overall general connectivity are monumental. Reaching a critical mass and sustained momentum will take time, aside from requiring huge resources. Second, past and current efforts (e.g., OTOP emulating Thailand) needed better coordination and implementation and, possibly, some reforms, which the recent SME thrust (strategy) is trying to address. As already noted, there is also a crucial need for better data and statistics. Hopefully, the new approaches under a more integrated approach will be more effective and fruitful.

The Philippine strategy for SMEs outlined above, in effect, attempts to mainstream MSMEs—whether in the local value chain or in the GVC, and whether as a supplier or user of goods and services. Thus, mainstreaming SMEs could have two levels: mainly local and GVCs. Again, while the government has already adopted a more comprehensive approach, it would take time to achieve across-the-board success,

[3] These findings and observation have also been noted by SME working groups in APEC.

[4] For example, see Medalla et al. (2016).

especially in terms of mainstreaming the majority of SMEs, in general, and linking SMEs to the GVC. Failures and bottlenecks are bound to persist. Furthermore, evidence of how much SME regional or global participation has been achieved is difficult to measure. Indeed, there is no solid and current measure about how much our SMEs are exporting (Wignaraja 2012).

Much of the perception of little or no progress come from the stagnant composition and pattern of Philippine establishments, and the persistent constraints and barriers found by many studies. Perhaps the picture is not as gloomy if one looks at the changes in labor productivity over time. Average growth in labor productivity has been negative in the 1990s; it turned positive during the next decade and had continued to rise dramatically during the first half of the 2010s (Table 4). However, this cannot be directly attributed to the success of Philippine SME development efforts. For one, these are averages for all firms. Nonetheless, the trend provides a good sign about the performance of SMEs.

A more immediate goal for the government is to mainstream MSMEs in the value chains, whether local or global. Over time, the distinction would disappear, as integration grows and linkages (and value chains) become more intertwined. In the meantime, the government could aim for a higher goal of mainstreaming SMEs in the GVCs.

When SMEs are able to mainstream in the GVCs, the prospects and benefits are magnified, as these benefits redound to a larger economic system. SMEs that are mainstreamed in the international market generally perform better in terms of productivity, competitiveness, innovation, and sustainable growth; this is compared to those dealing only with the domestic market. This could, of course, be a result of self-selection of firms that are able to participate. However, this could also be a result of a learning-by-doing effect and "on-the-job training", as they would need to learn the ropes and deal with the more competitive

Table 4. Average annual growth rate of labor productivity

Period	Industry (%)	Services (%)
1991–1999	-1.2	-0.8
2000–2009	1.9	1.4
2010–2015	2.9	2.4

Source: Authors' calculations based on data on gross domestic product and employment from PSA (various years) market. In either case, whether a firm is "born global" or has evolved into one, the government should address bottlenecks and constraints, and provide a more conducive regulatory regime for SME participation in both the local and the global markets (and the GVCs). With its more comprehensive approach, this is the thrust of the current SME development program.

Mainstreaming SMEs, in any level, is a common objective in APEC. It has become a major APEC cooperation area that has huge potential in achieving APEC's goal of inclusive (and sustainable) growth. Such cooperation should ensure that regional economic integration would provide SMEs the opportunities for greater participation in regional production networks. Cooperation could be in terms of exchange of information and best practice; mutual efforts to understand the problems and find solutions; and establishing greater connectivity, linkages, and networks.

Evidence of mainstreaming SMEs in the international market

For this paper, mainstreaming SMEs in the regional and global market loosely refers to the internationalization of SMEs. In a nutshell, this means that these SMEs are able to engage in international business activities (i.e., business activities that cross national borders). In general, there are four basic international business activities (Kozenkow n.d.):

- Trading: exporting and importing
- Licensing and franchising: acquiring and granting
- Strategic alliance and joint venture
- Foreign direct investment (FDI): outward and inward (donor and recipient)

Engaging in exporting and importing activities is the most basic and common international business activity. The ability of a firm to export is the first indicator that is looked at to determine whether a firm can be categorized as an international enterprise. A major SME participation index often used in policy analysis is the proportion of firms that is able to export a portion of its sales, or the proportion of exports by SMEs in total exports. As it stands, there is a dearth of data on SME participation index, and exporting activity is the most readily available. Interestingly, while the proportion of SMEs that import should be equally—if not more so—measurable, SME participation index based on importing activities is even harder to come by.

From the little available data, the common finding is the low level of SME participation in international activities. As far as exporting is concerned, Yuhua and Bayhaqi's (2013) study, which involved some APEC economies and used data from the World Bank's Enterprise Surveys, showed that the proportion of medium-sized enterprises exporting directly or indirectly is less than 25 percent for most countries covered. Thailand and Malaysia posted the highest proportion of SMEs with around 58 and 55 percent, respectively. The figure is around 17 percent for the Philippines. As earlier noted, in the case of Thailand, this could be due to its aggressive stance on FTA engagement. In this regard, Malaysia came second to Thailand in the Association of Southeast Asian Nations (ASEAN). They are generally more export oriented, with higher export over gross domestic product (GDP) ratio.

The proportion of SMEs tends to be less as the size of firms gets smaller. Indeed, the proportion of small enterprises able to export is less than 5 percent for many countries covered (Table 5).

It would have been equally useful to get statistics on the import share of SMEs, or the proportion of SMEs that imports. Being able to purchase intermediate inputs more readily from abroad is a clear indication that SMEs are engaged and mainstreamed. An indicator that shows the proportion of SMEs that exports and/or imports would be a better gauge of SME participation or mainstreaming in the international market. In any case, whether exporting or importing, trade facilitation for SMEs is an important measure and APEC area for cooperation.

Table 5. Percentage of firms exporting directly or indirectly (at least 1% of sales)

Economy	Small	Medium	Large
Chile (2010)	4.4	12.4	33.5
Indonesia (2009)	1.6	14.2	55.3
South Korea (2005)	7.4	33.3	52.9
Mexico (2010)	2.8	14.4	29.1
Malaysia (2007)	30.0	54.5	82.7
Peru (2010)	3.8	21.4	46.5
Philippines (2009)	5.0	16.5	29.8
Russia (2012)	9.1	14.6	23.6
Thailand (2006)	40.7	58.3	89.5
Viet Nam (2009)	5.1	23.2	53.3

Notes: Small firms: 5–49 employees; medium: 50–199 employees; large: above 200 employees. The indicators are computed using data from manufacturing firms only.
Source: Yuhua and Bayhaqi (2013)

Mainstreaming SMEs in the international market is not just through exporting or importing. This could also be in the form of a strategic alliance of two or more companies for mutual gain (e.g., a joint venture where partners jointly establish a new company). Such joint market could be serving just the domestic market but is clearly linked internationally. The benefits from such cooperation are clear, especially for SMEs, where they would be able to share development and production costs, and access technologies and sales networks. The policy handle here would involve improving business and investment regulations; in APEC, it involves working toward regulatory coherence.

In the same vein, SME internationalization could be in the form of cross-border franchising activity. Franchising replicates a business success, with a clear process (formula) for obtaining technical know-how, training (which addresses lack of skills), and availability of capital and financing (addressing financial barrier). The owner of the concept or a business model (franchisor) allows another company (franchisee) to replicate the business according to the same concept, model, image, and quality standards (de Caldas Lima 2008). The franchisor provides the franchisee with know-how, licenses, and training. The franchisee would usually provide the investment, but, in some cases, the franchisee and franchisor could establish a joint venture. Hence, franchising directly mainstreams SMEs in the international market. The arrangement could also address most of the constraints faced by SMEs, particularly lack of skills and access to technology and know-how; in the case of joint ventures, financial constraints could also be addressed. Classic examples of franchising are in fast food chains, hotel chains, car hire companies, and retailing. In recent years, franchising activities have expanded to many business fields—big and small—in the goods and services sectors.

Mainstreamed SMEs must also be part, at some level, of the GVC and the global or regional production network. It is also thus useful to look at some evidence of SMEs' participation in production networks. In this regard, there are similar findings of low SME participation. Covering five ASEAN economies, Wignaraja (2012) confirmed that SMEs are still minor players, as only 22 percent of SMEs participate in production networks. Large firms are the major players in these networks, with a participation ratio of 72.1 percent (Table 6).

In an attempt to understand why some SMEs are able to participate in production networks and others are not, a study by Harvie et al. (2010) looked at some firm characteristics and examined the differences between SMEs in production networks and those that are not. They integrated the data from the cross-country studies of the Economic Research Institute

Table 6. Participation of SMEs and large firms in production networks

	All Countries	Malaysia	Thailand	Philippines	Indonesia	Viet Nam
Number of firms in PN	2203	646	619	352	206	380
PN firms as percentage of all firms (%)	37.3	59.7	59.3	26.9	14.5	36.4
SMEs in PN (1–99 employees) as percentage of all SMEs (%)	22.0	46.2	29.6	20.1	6.3	21.4
Large firms in PN as percentage of all large firms (%)	72.1	82.4	91.1	51.1	52.0	64.6

PN = production network
Source: Wignaraja (2012)

Table 7. Average value of characteristics, SMEs participating and not participating in production networks

Characteristics	In Production Networks	Not in Production Networks	Statistically Different
Size (employees)	66.2	52.1	Yes*
Age (years)	10.6	13.8	Yes**
Share of foreign ownership (%)	18.2	7.2	Yes**
Labor productivity (sales/employee, USD '000)	26.8	23.0	No
Loan interest rate (%)	6.1	8.9	Yes**
Interest coverage ratio	250.0	77.5	Yes*
Credit interest rate (%)	6.2	8.9	Yes**
Distance to industrial parks or EPZs (hour)	1.0	0.9	No
Distance to port (hours)	1.3	1.2	No
Skill intensity	0.4	0.3	Yes**

EPZ = export processing zone
Notes: * significant at 5 percent; ** significant at 1 percent
Source: Harvie et al. (2010)

for ASEAN and East Asia "Survey on SME participation in production networks" in 2009 in most ASEAN countries (i.e., Thailand, Indonesia, Malaysia, Philippines, Viet Nam, Cambodia, and Lao PDR) and China, with 780 surveyed firms. The results, as expected, showed that productivity, foreign ownership, financial characteristics, innovation efforts, and managerial/entrepreneurial attitudes are the important firm characteristics that distinguish SMEs in and out of production networks (Table 7).

Moreover, innovation appears to be a major factor. SMEs in production networks have superior characteristics in terms of their process innovation efforts. Likewise, innovative SMEs have better chances of participating in production networks (i.e., mostly process innovation such as improving business strategies) (Table 8).

Table 9 presents a summary of key factors that have been identified in a number of studies conducted by major international institutions as being important in impacting SME manufacturing firm participation on global production networks.

Finally, while productivity, foreign ownership, financial characteristics, innovation efforts, and managerial/entrepreneurial attitudes are important determinants of SME participation, the ease in which SMEs could engage in any international activity mentioned (from trading to FDI) requires a good, SME-friendly regulatory framework. This includes quality infrastructure, trade facilitation, and overall general connectivity. Unfortunately, the Philippines has not been faring well in many of these factors, especially in the area of logistics and infrastructure. Hopefully, the past reforms, which saw the Philippines improving in the global rankings, could lead to better mainstreaming of Philippine SMEs.

Table 8. Innovation effort characteristics, frequency (%) of SMEs participating and not participating in production networks

Characteristics	In Production Networks	Not in Production Networks	Statistically different
Met international standards (e.g., International Organization for Standardization)	44.4	36.5	Yes*
Introduced information and communications technology	35.5	36.0	No
Established new divisions or plants	27.0	18.8	Yes*
Involved in business network activities	52.6	47.1	No
Bought new machinery with new functionality	58.4	47.9	Yes**
Improved existing machinery	72.5	59.1	Yes**
Introduced new know-how in production method	49.6	40.7	Yes*
Recently introduced new products	63.4	55.1	Yes*

Notes: * significant at 5 percent; ** significant at 1 percent
Source: Harvie et al. (2010)

Table 9. Global production networks: A global comparative and benchmarking perspective

Factors/Items	UNCTAD	OECD	WTO	APEC	ASEAN
Product quality	✗	✓	✗	✓	✗
Product price	✓	✗	✓	✓	✓
Product delivery	✗	✓	✓	✓	✗
Use of e-mail communication	✗	✓	✓	✓	✗
Internationally recognized quality certification	✗	✓	✗	✓	✗
Global standards	✗	✓	✗	✗	✗
Information and communications technologies	✗	✓	✓	✓	✗
Electronic marketplaces	✗	✓	✓	✓	✗
Financial stability	✗	✓	✗	✓	✗
Changing business practices	✗	✓	✗	✓	✗
Human capital (human resources)	✗	✓	✗	✓	✗
Fragmentation of production	✗	✓	✓	✓	✗
Buyer-supplier relations	✗	✓	✓	✓	✗
Cooperation within GVCs	✗	✓	✓	✓	✓
Cooperation with multinational corporations and large firms	✗	✓	✗	✓	✓
Structural and policy characteristics	✗	✓	✓	✓	✗
Business environmnent	✗	✓	✓	✓	✗
Productive capacity	✗	✓	✗	✓	✗
Physical and informational infrastructure	✗	✓	✓	✓	✗
Flexibility and adaptability	✗	✓	✗	✓	✗
Geographic location	✓	✓	✓	✓	✓
Innovative capacity	✗	✓	✗	✓	✗

UNCTAD = United Nations Conference on Trade and Development; OECD = Organisation for Economic Co-operation and Development; WTO = World Trade Organization
Source: Asian Development Bank (ADB) and ADB Institute (2015)

APEC SMEs and initiatives on SME development

SMEs play critical roles in all APEC economies as sources of growth, employment, income, trade, innovation, entrepreneurship, and opportunity for people.

As earlier stated, over 97 percent of enterprises in the APEC economies are SMEs (Figure 2), employing more than half the workforce in most APEC economies. However, SMEs generally contribute less to GDP relative to large enterprises. In terms of exports of SMEs, data are

Figure 2. Ratio of SMEs in APEC economies

Source: Asia-Pacific Economic Cooperation (APEC) 2013

limited. Where available, data show that although the number of SMEs as a share of total exports is usually high, SMEs typically contribute a small amount to total export value, with SMEs in most APEC economies contributing less than 30 percent (Serafica et al.).

It is also important to mention that, at present, there is no common and regional definition of SMEs among APEC economies. Economies employ a diverse range of definitions of SMEs based on several criteria—the number of employees, sales/revenue, assets, and capital/investment. Some define SMEs based on a single criterion, while others apply several criteria (Table 10). Thus, it is difficult to compare statistics on SMEs across different economies.

Within the context of the APEC Forum, SMEs have been recognized as a priority area since the 1993 APEC Leaders' Meeting in Seattle. A year after, an SME Ministerial Meeting (SMEMM) has been held annually, while the SME Working Group (SMEWG) Meetings have been done twice a year.

The SMEWG Strategic Plan for 2013–2016 provides a road map to address critical issues and concerns pertaining to the growth of SMEs and microenterprises in the APEC region. Toward this end, the SMEWG agreed to work together and provide four key indicators for the SME Monitoring Index to assess outcomes of the 2013–2016 Strategic Plan. These four indicators include SMEs' (1) share to GDP, (2) share to total business population, (3) contribution to employment, and (4) contribution to exports. However, these indicators are still inadequate in showing the impact of SMEs on inclusive growth; SME data availability is a huge problem for many countries.

Over the years, a number of SME-related initiatives and activities have been developed and implemented: (1) the Action Program for SME under the Osaka Action Agenda in 1995, (2) the preparation of the Integrated Plan of Action for SMEs in 1998, (3) the series of strategic plans, (4) the Daegu Initiative, (5) the organization of the Joint SME-Ministers Responsible for Trade (MRT) Ministerial Meeting in 2011 to address top barriers to SME trade, and (5) the Nanjing Declaration on Promoting Innovation and Sustainability.[5]

[5] Some other important initiatives may be read from the APEC Secretariat, specifically under SMEWG Internationalization Best Practices, APEC Ease of Doing Business, APEC Business Travel Card, and APEC Global Supply Chain Event. A major effort outside of the SMEMM for MSMEs is the Boracay Action Agenda to Globalize MSMEs, which the MRT adopted in Boracay, Philippines, in May 2015.

Table 10. SME definition criteria by APEC economies

	Number of Employees	Sales/ Revenue	Assets	Capital/ Investment	Sector
Australia	×				
Brunei Darussalam	×				
Canada	×	×			×
Chile	×	×			
China	×	×			
Hong Kong, China	×				×
Indonesia	×	×	×		
Japan	×			×	×
South Korea	×	×		×	×
Malaysia	×	×			
Mexico	×	×			×
New Zealand	×				
Papua New Guinea				×	
Peru		×			
Philippines	×		×		
Russia	×	×			
Singapore	×		×		×
Chinese Taipei	×	×		×	×
Thailand	×		×		×
United States	×	×			×
Viet Nam	×			×	×

Source: Serafica et al. (2010)

APEC efforts attempt to address the constraints that are relevant not only to the Philippines but also to the APEC region as a whole. The key constraints echo those revealed in studies on Philippine SMEs. They include underdeveloped infrastructure; inadequate information, especially regarding market opportunities across borders; existing international trade policy frameworks and regulations that are less suited for MSMEs; lack of facilities needed to comply with border measures; limited access to competitively priced and internationally acceptable inputs; and lack of access to financing, thus, imposing significant barriers to MSME expansion.

To summarize, APEC programs have been wide ranging—from providing capacity-building programs to facilitating access to financial services, and trade facilitation, which would benefit SMEs most. Accordingly, APEC initiatives can be grouped into the following major areas: (1) building management capacity; (2) entrepreneurship and innovation; (3) finance; and (4) business environment, market access, and internationalization. Worth noting are initiatives related to start-ups, such as the APEC Start-Up Accelerator Program and Mentorship Program. Another is the APEC Framework for SME Financing (initiated by the APEC Business Advisory Council [ABAC] Canada), which includes, among others: (1) promoting and implementing reforms to ensure a clear legal infrastructure for lending, (2) supporting fully transparent credit information systems to incentivize lenders to significantly expand more affordable credit to SMEs in the region, and (3) supporting a dialogue on these standards as part of the proposed Asia-Pacific Financial Forum to align International Financial Reporting Standards (IFRS) principles with the interests of SMEs. The use of information technologies has also been identified as an area for cooperation. In this regard, ABAC China is sharing its best practice in using e-commerce as a catalyst for growth with its "All-in-One e-Commerce Platform: The New Eco-System for SMEs in China". Box 1 provides some more specific examples of APEC initiatives.

A valid criticism of APEC initiatives and action plans is how much of these plans has been implemented and what are their possible impacts. Unlike initiatives and cooperation in supply chain connectivity, which gave concrete targets in reducing transaction costs, targets and achievements in SME developments are more difficult to quantify.

Summary and recommendations

Former NEDA Secretary Arsenio Balisacan highlighted "employment generation, product innovation through establishment of new

Box 1. Some APEC initiatives to achieve inclusive growth for SMEs

- **APEC Center for Technology Exchange and Training for SMEs**. The objective is to foster and promote technology exchange and training among SMEs in the APEC region by providing relevant, authoritative, and accessible information to individual SMEs, organizations of SMEs, and agencies of governments mandated to promote and assist in the development of SMEs. This was established under the auspices of the Philippines during the First APEC hosting in 1996.
- **APEC SME Innovation Center**. This initiative was proposed by Korea in 2004 to help APEC economies exchange information on SME innovation and to establish cooperative networks among member-economies for SME innovation. The center provides hands-on management consulting to small and medium businesses throughout the Asia-Pacific region. For example, one-on-one consulting advice focuses on enhancing competitiveness through improvement in manufacturing processes.
- **Investing in technology start-ups**. The APEC Start-Up Accelerator Initiative was launched in 2013 to connect technology start-ups with mentors and increase their ability to secure funding. In particular, the APEC Accelerator selects promising start-ups in the Asia-Pacific to participate in an annual Intel Global Challenge and Siemens Venture Forum in Silicon Valley. In 2014, Chinese Taipei cloud company Servtech won first place at the Intel Global Challenge. In addition, as a result of their participation in the Silicon Valley competitions, a number of start-ups received venture capital funding or were acquired by big companies.
- **APEC project on SME business ethics**. Beginning in 2011, the APEC multiyear initiative on business ethics has helped SMEs in the biopharmaceutical and medical device industries develop codes of ethics to self-regulate their business practices. Today, as a result of the APEC initiative, codes of ethics have been adopted and are undergoing implementation in around 60 biopharmaceutical and medical device industry associations and their member-companies from 19 economies across the Asia-Pacific region, representing more than 14,000 firms.
- **SME disaster resilience**. Another key initiative is enhancing SMEs' disaster resilience through business continuity planning to better prepare SMEs to withstand disasters. APEC developed a *Guidebook on promoting SMEs' business continuity planning*, which outlines a 10-step model to help businesses develop their own business continuity plans. Workshops on business continuity plans were also customized and conducted in APEC economies, benefiting local SMEs.

Source: Authors' compilation based on APEC Small and Medium Enterprises Working Group (n.d.)

industries, and countryside development as the immense multiplier effects that SMEs can do to the Asia-Pacific region" (*Rappler* 2014). However, despite the benefits from SMEs' participation in GVCs and the international market, the desired outcome is not automatic.

From the limited available data, SMEs' participation in international activities has been low. As far as exporting is concerned, the World Bank Enterprise Survey (as cited by Yuhua and Bayhaqi 2013) showed the proportion in this regard is less than 5 percent for small enterprises and only around 12–25 percent for medium enterprises for most of the APEC economies covered. Covering five Asian economies, Wignaraja (2012) noted that SMEs are still minor players, as only 22 percent of SMEs participate in production networks.

These findings reveal the constraints and barriers to SMEs, both internal and external. These are well known and have been what the various APEC activities on SMEs tried to address. Internal factors include lack of access to technology, skills, and finance. At the same time, a host of external factors, such as poor physical infrastructure and a complex legal and regulatory framework, limit the ability of SMEs to thrive. In particular, these barriers limit the capability of SMEs to participate more actively and effectively in the international market.

In sum, the APEC priorities to address these SME barriers and constraints can be grouped into: (1) building management capacity; (2) entrepreneurship and innovation; (3) finance; and (4) business environment, market access, and internationalization. The SMEWG Strategic Plan for 2013–2016 was endorsed to provide a road map to address critical issues and concerns pertaining to the growth of SMEs and microenterprises in the APEC region. Various APEC activities on SMEs have covered a wide range of practical measures under these priority areas.

SME development is a key objective of many developing economies. On its own, the Philippines has sought to address the problems and constraints that have become more complex with globalization and technological change in terms of both challenges and opportunities. Within this more complicated, globalized context, the need to mainstream SMEs has become more urgent, especially for benefits to have wider reach and for growth to be more inclusive. Fostering SMEs' participation in the international market is a difficult endeavor for many developing economies, such as the Philippines, to do on its own. Bringing this to the APEC agenda as a priority area for cooperation benefits not just individual countries but also the region as a whole.

The APEC work on SMEs should be sustained and enhanced. New initiatives should continue to be developed. Possible areas for cooperation could focus further on the business environment and regulatory framework, which are particularly burdensome for SMEs and microenterprises. A promising practical initiative from the Philippines is promoting trade facilitation for SMEs. A concrete proposal in this regard is raising the threshold value of imports that would be exempted from customs duties, taxes, and other documentary fees. In the same vein, APEC economies with FTAs should be encouraged to raise the threshold where certificate of origin is waived. Another possible area for cooperation and further work is the creation of an APEC Trade Repository. This could be an expansion of the ASEAN Trade Repository initiative to cover all APEC economies.

Other possible areas include seeking concrete measures in aligning IFRS with SMEs' interest. This could involve developing a more suitable, standard accounting system and books that are less complex for SMEs to comply with; these should remain credible and informative about the SMEs' (and microenterprises) credit status and standing needed in both international and local transactions. Related to this, advancing financial literacy of SMEs is another possible area. This could entail education and technical programs across economies. Efforts along these lines would encourage SMEs to become better versed and more capable in dealing with intricate business environments and regulatory frameworks. These would help mainstream SMEs in the supply and value chain within and outside the local economy.

Another possible additional stimulus for SMEs could be APEC cooperation in facilitating franchising activities. Cross-border franchising directly mainstreams SMEs. In addition, franchising (local or cross-border) could address most of the constraints faced by SMEs, particularly lack of skills and access to technology and finance.

Finally, the need for more data cannot be overemphasized. This has handicapped APEC and individual economies in addressing problems through more effective solutions, and monitoring and evaluating programs and policies.

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2 Social Enterprises and Employment: Mainstreaming SMEs and Employment Creation

Leonardo A. Lanzona Jr.

Abstract

This paper argues that once microenterprises, small and medium enterprises (SMEs), and social enterprises (SEs) are brought into the mainstream through various international treaties, these have positive externalities—externalities that, however, markets cannot fully evaluate. To shed light on such externalities, this paper discusses the possible influence that SEs may have on SMEs' development and, eventually, on employment. SEs are small- and medium-sized commercial businesses providing valuable social services to customers, as well as sustainable jobs and training for up to about 200 people. Their goal is to provide public goods in the form of increased productivity and employment to communities. Unlike SMEs, SEs address social issues at the forefront. This study explains why providing such public goods through SEs is important to SMEs' development. Ergo, it provides (1) insights on the analytical framework that guides the Philippines' engagement in the Asia-Pacific Economic Cooperation under the theme "Mainstreaming SMEs and Employment Creation" and (2) recommendations on how employment can be created by forming SEs or socially inclusive companies.

Introduction

The Philippines will chair the Asia-Pacific Economic Cooperation (APEC) for the second time in 2015, amid a global economic climate that presents both opportunities for greater prosperity, and elements for further economic stagnation and even decline. While the Philippines' substantive agenda for APEC 2015 should be driven by its development goals in the *Philippine Development Plan 2011–2016*, it should not ignore global realities. Aside from its domestic goals, the Philippines must also take into account socioeconomic and geopolitical trends in the region beyond 2015 and, more importantly, its role on maximizing the benefits brought by cooperation with other member-economies in the region.

As host of APEC in 2015, the Philippines will set the theme for all APEC and APEC-related meetings to be held during the year. The host is also expected to set the substantive agenda for all APEC fora and subfora during the hosting year by listing the APEC host-economy priorities. These priorities will guide the direction of all APEC meetings, activities, and projects. However, as host economy, the Philippines should also take into account APEC's core principles of trade and investment liberalization, business facilitation, and economic and technical cooperation, with flexibility to tackle issues of importance to developing economies.

In particular, this study provides input to the analytical framework guiding the Philippines' engagement in APEC 2015 under the priority theme: "Mainstreaming Small and Medium Enterprises (SMEs) and Employment Creation". Likewise, this study makes concrete recommendations on how the formation of social enterprises (SEs) or socially inclusive companies can drive employment growth. In the Philippines, an increasing number of SEs have been established and hailed as an "innovative business model".

SMEs are seen as key players in sustaining growth for two main reasons. First, growth is often initiated by large firms, but, as the economy expands over time, much depends on increasing the scale of new firms to make them more efficient. Second, growth presupposes structural transformation—that is, a transformation where new firms make new goods in new ways, while old inefficient ones begin to innovate and reorganize, or simply dissolve.

This paper also aims to provide a rationale for state intervention among SMEs and SEs. A pro-SME policy is based on three core arguments (WB 1994, 2002, 2005). First, SME advocates argue that SMEs enhance competition and entrepreneurship; hence, they have external benefits on economy-wide efficiency, innovation, and aggregate productivity growth. From this perspective, each government's direct support to SMEs drives countries to exploit the social benefits brought by greater competition and entrepreneurship. Second, while SME proponents frequently claim that SMEs are more productive than large firms, financial markets and other institutional failures impede SMEs' development. Thus, pending financial and institutional improvements, each government's direct financial support to SMEs can boost economic growth and development. Finally, compared to growth in large firms, some argue that expansion in the SME sector boosts employment more because SMEs are more labor intensive. From this perspective, subsidizing SMEs may be considered a poverty alleviation tool.

However, two main arguments explain why intervention is unnecessary and inefficient. First, skeptics doubt that firm size is an exogenous determinant of economic growth. According to industrial organization literature, natural resource endowments, technology, policies, and institutions determine a nation's industrial composition and optimal firm size. Hence, the firm's size does not determine its efficiency, and a policy on SMEs can result in inefficiency.

Second, cynics downplay the role of SMEs and the efficacy of SME policies in the whole business environment. Instead, they believe that SMEs' success depend not merely on SME policies but on all conditions—whether big or small—that firms confront. The cost of doing business, including low entry and exit barriers, well-defined property rights, and effective contract enforcement, characterizes a business environment conducive to competition and private commercial transactions. While these factors may encourage SMEs, the focus of the business environment view is not on SMEs per se; it is on the environment facing all businesses.

Once SMEs and SEs are carried into the mainstream through various international treaties, they are assumed to bring positive externalities that markets cannot fully evaluate. SEs have possible influences on SMEs' development and, eventually, on employment. They are small- and medium-sized commercial businesses providing valuable public goods (i.e., social services to customers and sustainable jobs and training for up to about 200 people) to communities. Unlike SMEs, SEs address social issues at the forefront.

Hence, SEs can help provide the needed stimulus for the development of SMEs. Each SE employs a blended workforce consisting of nongovernmental organizations (NGOs) and other community institutions, as well as production units composed of qualified tradespeople, cooperatives, apprentices, and experienced staff.[1] Production units that work with SEs are often households from disadvantaged backgrounds, often struggling to maintain work in the competitive labor market due to disabilities, mental illness, age, cultural background, housing status, or other barriers.

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[1] Given their diverse nature, SEs may have different purposes in social development, aside from employment creation. These other roles, including the creation of sustainable and resilient communities, however, go beyond the scope of this paper (see Dacanay [2012] for a survey of Philippine social enterprises). In this case, SEs may not be considered as part of NGOs.

By improving their access to loans and technology, SEs are believed to enrich the community and, thus, provide necessary public goods for the whole community. Given an opportunity to realize their potential and be empowered, SEs may be able to address employment issues in their respective areas. Moreover, they may be seen as an emergent and important segment of the SME sector. To achieve these employment goals, this study considers and identifies key policy variables—particularly, the extent to which international trade arrangements, such as the APEC, can support SE and SMEs' development.

Empirical investigation suggests that before these SEs can realize their full potential, other forms of assistance aside from improving the business environment will be necessary. This underscores the importance of addressing poverty directly and not simply improving the business environment.

Review of literature on SMEs

SMEs play an important role in developing the Philippine economy. The government has, in fact, instituted a number of laws intended to improve the SME sector. These laws include:

- Republic Act or RA 7459 (1992): Investors and Invention Incentives Act (provides incentives for inventions and commercialization of inventions; created the Development Assistance Fund)
- RA 6977 (1991) as amended by RA 8289 (1997): Magna Carta for Small Enterprises (a policy to promote, support, strengthen, and encourage SMEs; created the Small Business Guarantee and Finance Corporation and the Small and Medium Enterprise Development [SMED] Council)
- RA 9178: Barangay Micro Business Enterprises Act of 2002
- Executive Order 176 (2003): Institutionalized the "*Isang Bayan, Isang Produkto, Isang Milyong Piso*" Program

In addition, SMEs' development has been highlighted in various government strategies, including the Philippine SME Development Strategy, the Philippine Export Plan, and the Philippine Development Plan.

SMEs are crucial to the economy in several ways. First, they help reduce poverty by creating jobs for the country's growing labor force, as they stimulate economic development in rural and far-flung areas. Second, they serve as valuable partners to large enterprises as suppliers and providers of support services; they also serve as breeding ground for new entrepreneurs and large corporations. Third, a vibrant SME sector is not only an indication of a thriving and growing economy but also a key to sustaining economic growth.

However, despite the policies that aim to provide an enabling environment for SMEs' development, the sector still faces various constraints to its full growth and potential (Aldaba 2009). The evidence showing SMEs as instrumental tools in reducing poverty and sustaining growth has largely been inconclusive. The problem with using firm size as basis for policies can be tied to the false notion that firm size is an exogenous determinant of economic growth. Instead, according to Kumar et al. (2001), natural resource endowments, technology, policies, and institutions determine a nation's industrial composition and optimal firm size.

Given certain endowments, the country can have a comparative advantage in goods that are produced efficiently by large firms, while other countries will have a comparative advantage in goods produced most economically by small firms (You 1995). Similarly, countries that are open and well integrated into international trade may have a larger optimal firm size than countries that are less integrated internationally (Caves et al. 1980). As a specific example, institutional theories suggest that firm size reflects the margin between intrafirm transactions costs and market transactions costs, such that as market transaction costs fall relative to intrafirm transactions costs, the optimal firm size falls (Coase 1937). This margin varies across industries and countries for various institutional and technological reasons. Thus, SME subsidization policies could actually distort firm size and potentially hurt economic efficiency.

Another issue is that government is unable to identify the productive SMEs, thereby leading to government failure. It can be argued that a more targeted SME program will ensure that the gains from state subsidies are maximized. Programs need to be implemented differently for different firms, as what can be effective for some enterprises may lead to inefficiency or limited—if not zero—benefits to others. Targeting the type of SME that will address the issue of poverty will result in higher social welfare as long as other firms are not going to be adversely affected by the measure.

Contribution of SMEs to the economy

The size of the SME sector itself has been used as a justification for subsidizing it. An SME in the Philippines is defined as any business activity or enterprise engaged in industry, agribusiness, and/or services that has: (1) an asset size (less land) of up to PHP 100 million and (2) an employment size of less than 200 employees. Based on these criteria, an enterprise is classified as either micro, small, or medium (Table 1) regardless of the type of business ownership (i.e., single proprietorship, cooperative, partnership, or corporation).

As of 2010, there were a total of 777,687 business enterprises in the Philippines. The small industries have been divided into two: the microenterprises (1–9 employees) and the small enterprises (10–99 employees). Of the total figure, SMEs represented 99.6 percent (774,664 establishments), while large enterprises represented 0.4 percent (3,023

Table 1. Number of employees by industry and firm size

	Micro	Small	Medium	MSMEs	Large	Total
Agriculture, hunting, and forestry	9,855	31,213	16,515	57,583	81,594	139,177
Fishing	3,408	5,705	4,377	13,490	14,227	27,717
Mining and quarrying	930	3,878	1,960	6,768	21,201	27,969
Manufacturing	259,204	244,156	114,274	617,634	685,410	1,303,044
Electricity, gas, and water	2,608	20,924	17,086	40,618	56,397	97,015
Construction	5,305	27,781	17,391	50,477	92,819	143,296
Wholesale/Retail trade and repair services	816,095	364,164	57,658	1,237,917	139,032	1,376,949
Hotels and restaurants	233,525	224,963	21,180	479,668	22,883	502,551
Transport storage and communications	26,161	49,399	16,671	92,231	106,331	198,562
Financial intermediation	80,706	85,395	12,377	178,478	152,970	331,448
Real estate, renting, and business activities	109,214	122,428	46,104	277,746	578,239	855,985
Education	31,516	154,515	37,695	223,726	98,770	322,496
Health and social work	51,006	35,240	15,615	101,861	57,000	158,861
Other community social and personal service activities	99,567	47,911	7,260	154,738	29,489	184,227
Total	1,729,100	1,417,672	386,163	3,532,935	2,136,362	5,669,297

MSMEs = micro, small, and medium enterprises
Source: List of Establishments, Philippine Statistics Authority (PSA) (2010)

establishments). Microenterprises comprised 91.6 percent (709,899) of the total number of SMEs, while small and medium enterprises accounted for 8 percent (61,979) and 0.4 percent (2,786), respectively.

In terms of employment generation, SMEs provided a total of 3,532,935 jobs in 2010, or 62.3 percent of the total jobs generated by all types of business establishments. Large enterprises generated 2,136,362 jobs. Among SMEs, microenterprises created 1,729,100 (30.5%) jobs, while small and medium enterprises generated 1,417,672 (25%) and 386,163 (6.8%) jobs, respectively. The SME employment by industry generally follows the same structure as the number of establishments per industry, with SMEs engaged in the wholesale and retail trade generating 1,237,917 jobs in 2010. This is followed by manufacturing (617,634 jobs) and hotels and restaurants (479,668 jobs) industries.

Two main points are worth noting here. First, despite the fact that micro, small, and medium enterprises (MSMEs) contribute the majority of jobs recorded in the survey, these firms actually comprise roughly 99 percent of the total enterprises in the country. Hence, at the firm level, these enterprises do not generate as much employment as the larger firms. Second, the largest proportion of jobs in the MSME sector is in the wholesale/retail trade and repair services. These jobs are mainly of low quality, characterized by limited skills and low productivity.

Apart from employment generation, SMEs are expected to drive economic growth by: (1) stimulating innovation, (2) acting as a competitive stimulus for existing businesses to increase their productivity, and (3) making a disproportionately large contribution to job creation. However, data concerning its effectivity are deemed inconclusive.

Stimulating innovation. Because of the established empirical relationship between innovation and firm growth, SMEs' contribution to innovation is seen to be important to the economy. The idea is that the potential for innovation is greater in smaller firms. By examining United States' (US) firms, Acs and Audretsch (1987, p. 573) find that small firms have higher innovation rates in "high technology", skill-intensive industries. Larger firms, in contrast, have the innovative edge in "lower technology", capital-intensive industries. In developing countries, however, researchers find that large exporting firms are typically the primary mechanism through which technologies are adapted from abroad to local circumstances (Pack and Westphal 1986; Pack 1992; and Biggs et al. 2002 for Sub-Saharan Africa). Thus, from a developing country perspective, firm-level evidence does not favor SME subsidization as a mechanism for boosting innovation and productivity growth. In the Philippines, Aldaba (2009) finds that the deepening of high-technology industries has remained weak due to limited backward linkages and low value added of high-technology export products.

Spurring competition. SMEs spur competition, which raises productivity and, in turn, stimulates economic growth. The concept of "creative destruction" is a widely recognized principle first proposed by the economist Schumpeter (1942, p. 83), whereby new innovative entrepreneurs challenge incumbent businesses. As competition increases, there is "churn" in the market; the least productive firms exit and the most productive firms grow, resulting in an increase in aggregate productivity.

In the Philippines, some notable improvements in the number of enterprises, value added, and employment were registered, but the overall economic performance of SMEs in the last decade has remained weak. Thus, they have not substantially generated sufficient value added and employment to increase competition, improve industrial structure, or increase the country's overall manufacturing growth (Aldaba and Aldaba 2014). Despite the substantial trade and investment liberalization in the country, along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive remains a major challenge in the Philippines, especially with rising globalization trend and increasing economic integration not only in the Association of Southeast Asian Nations but also within the East Asian region.

Creating jobs. Evidence shows that small firms make a disproportionately large contribution to job creation, given the percentage of the workforce they employ. In aggregate, they make a rather static contribution to the economy and employ a significant proportion of people (Tecson 2004); however, they do not contribute much to employment growth. Many SMEs do not last; some stay in business for only three to five years. Presently, most SMEs are in the "at risk" or "insulated" categories. Hence, finding the best way to adapt to the increasing competitive pressures brought by open regionalism surfaces as the main issue that SMEs face.

Structural and productivity limitations of SMEs

Based on the Department of Trade and Industry's *SME Development Plan 2004–2010*, the Philippines did not perform as well as other countries in terms of SME contributions (Table 2).

To some extent, the low performance of Philippine SMEs indicates the incapacity of the sector to meet expectations. A number of limitations that

Table 2. SME contributions in selected Asian economies (%)

	Philippines	South Korea	Japan	China	Malaysia	Thailand	Indonesia
Number of establishments	99.7	99	99	99	94	98	99.99
Employment	69.1	78.7	88.6	75	40	55.8	99.4
Value added	32	47	56.7	68	26	Not reported	63.11

Source: Small and Medium Enterprise Development Council (2004)

SMEs face relate to productivity and structural weaknesses of services, as well as due to the business environment; these include the following:

- Outmoded or less productive operational assets/methods
- Insufficient use of technology
- Limited room for efficient operational levels
- Insufficient management and professional know-how
- Insufficient and inaccessible funding sources
- Unappreciated and inadequate professional services
- Insufficient incentives and inability to meet regulatory procedures
- Insufficient access to information

All of these seem to relate to the fact that, given their initial conditions, a subset of SMEs may have limited potential to gain profit and possibly expand their production. In most cases, SMEs tend to be poor, are engaged in multiple occupations, and have limited access to financial markets. There is a valid reason why so many of the poor end up as entrepreneurs: If individuals (particularly women) have few skills and little or insufficient capital to start a business, being an entrepreneur is often an easier option than finding an employer willing to hire them.

There is no means yet to measure how many SMEs are actually poor. However, data on poverty suggest that the employed experienced higher poverty incidence in 2006, 2009, and 2012 than the unemployed and the self-employed (Table 3). Thus, a greater proportion of the employed are poor. If the self-employed and unpaid workers include owners and employees of SMEs, it may be inferred then that a certain proportion of these SMEs are actually poor.

This does not mean, however, that SMEs are inefficient. Despite their poor skills and limited access to technology, poor SMEs perform the same function as any other SMEs: all create some value in the chain of productive businesses or reduce the transaction costs in production.

Table 3. Poverty incidence by employment status

Sector	2006	2009	2012	Increase/ Decrease	
				2006–2009	2009–2012
Philippines	26.6	26.3	25.2	-0.3	-1.1
Employed population	22.9	22.8	21.9	-0.1	-0.9
Unemployed population	16.5	16.8	18.7	0.3	1.9
Self-employed and unpaid workers	30.6	29.9	29.0	-0.8	-0.9

Source: Philippine Statistics Authority (2013)

Nevertheless, poverty constrains SMEs from achieving their full potential in terms of access to better technology and quality of inputs. In this case, direct interventions (i.e., public goods) to reduce poverty are expected to support SMEs and drive growth.

The key role of SE

In the Philippines, social entrepreneurship is seen as a process of creating spaces and transforming markets to serve the goal of poverty reduction and sustainable development. This tradition continues to be pursued by Asian scholars and practitioners, and was the inspiration behind the foundation of the Institute for Social Entrepreneurship in Asia in the Philippines in 2008 (Dacanay 2004, 2009). Some scholars appreciate this perspective of social enterprise and social entrepreneurship as context-specific to Asia—a region where poverty and social inequity are stark realities.

Robinson et al. (2009) noted that context matters in social entrepreneurship research, citing how the phenomenon has unfolded in different ways outside of Europe and the US (i.e., not only in Asia but also in Latin America and the Middle East).

Fundamentally, an SE is an enterprise that aims to increase "social value"—that is, to contribute to the welfare or well-being of a given human community. SEs are expected to influence local conditions primarily by improving economic conditions. Disagreement, however, exists over how social value figures in the purposes of the enterprise. In particular, the main issue is this: the value of creating wealth may be contrary to its social welfare goals. If wealth creation is identified to be the main goal of the program and, in the process, the enterprise fails to address the social concerns and, more importantly, the needs of its production units (i.e., mainly households), then it is likely that the SE has been unable to achieve its purpose.

SEs perform a function different from other SMEs. Given its social orientation, SEs can be viewed as those that produce public goods accessible to all workers in a community. The "publicness" of the good produced by SEs indicates its potential for collective consumption. Likewise, SEs aim to achieve a more inclusive development by allowing the benefits, including greater employment for other businesses, to be accessible to all stakeholders of the enterprise, including their consumers and other community members.

The provision of public goods, such as social protection, business opportunities, education, electricity, health, sanitation, and water, is crucial to a society's transformation. These public goods are used to be regarded as primarily the responsibility of governments. Nowadays, the privatization of such services has spread, and the shift of reliance from governments to market mechanisms has become common in many parts of the world, including developing countries.

The result of market-led development in the last 25 years, however, has not been encouraging. Not only have market-driven developments failed to improve public services significantly; they have also undermined democratic institutions and processes, reproduced authoritarian relations of power, and suppressed alternatives made possible by an increasing global acceptance of the importance of economic and social rights.

In this case, the development of SEs can be a solution to the failed provision of public goods. SEs operate in markets to address social needs and reduce inequality, recognizing that this has value. They often trade by using financial prices from existing markets that do not recognize this value in the same way. By doing so, they can put themselves at a disadvantage to competitors who may not use the same measure of value—especially those values that take into account wider and longer-term impacts.

In the short term, and within prevailing sets of relative prices, it can cost more to create a social value. This is not to say that social values will always cost more or that innovative businesses cannot bring new products to the market to reduce inequality (e.g., mobile phones that allow farmers to get accurate information on market prices before taking their goods to markets). Rather, the point here is that these outcomes are not necessarily the primary business objective of SMEs, while they are in an SE.

Technology innovation and SEs

SEs are expected to introduce new technologies that not only increase productivity but also address other social concerns, including protecting the environment. The introduction of better technologies is a crucial element, as they offset the initial conditions faced by the enterprise. They also provide the enterprise its comparative advantage over other firms.

An SE is driven by social innovation, rather than financial gains. Business-minded entrepreneurs with social agenda seize opportunities by creating innovative processes that can help solve major social issues. They relentlessly focus on producing practical results that can change the world for the better.

The ability of SEs to create new innovations can be used to link their production activities to global value chain (GVC). In recent years, firms are increasingly globalizing their production with the help of international suppliers. The value-creation process is also being internationalized. These collaborations among firms help drive entrepreneurial growth, and create and expand competitive advantages (upgrade) and synergistic effects. Thus, transnational and situation- and cooperation-specific norms, which govern the conduct of value chain actors, came about.

The parameters for norm-generating process are determined by various factors. Contractual weaknesses, the degree of asymmetry between value chain partners, and the environment in which the value chain is integrated play a defining role.

Just like lead firms and local suppliers, value chains are also embedded in civil society networks, which, as a contextual factor, constitute a certain framework for norm-building processes within a value chain. For instance, relevant civil society actors—such as trade unions, NGOs, associations, epistemic communities, and credit or consumer organizations—play an important role in the value chain's internal negotiation and norm-building processes, even though they are located outside of the value chain. Here, a distinction is made between local (national) and international (global) actors, and (norm-building) networks.

Organizational structure of SEs

Because systematic studies and surveys in the Philippines fail to establish a comprehensive profile of SEs, a rapid appraisal using secondary data and key informant interviews from national networks of SEs, social entrepreneurship resource institutions, and regulatory government agencies was conducted in 2007. This exercise defined SEs as social mission-driven, wealth-creating organizations with the poor or marginalized as primary stakeholders, and have a distributive enterprise philosophy (Dacanay 2007). The rapid appraisal came up with an informed estimate of 30,000 SEs under the following categories:

- Cooperatives
- Microfinance institutions
- Fair trade organizations
- NGO-initiated income enterprises
- Sector- or area-based enterprises serving specific poverty groups
- Small entrepreneur-initiated enterprises with a clear social agenda

The biggest of these are the cooperatives registered with the Cooperative Development Authority. Most cooperatives involve poor households. Majority are savings and credit cooperatives engaged in microfinance operations; agricultural or farmers' cooperatives, including cooperatives of agrarian reform beneficiaries or smallholders who acquired lands under the government's Land to the Tiller program; and cooperatives providing various forms of social protection schemes, such as micro health insurance.

A number of social entrepreneurs have successfully built "hybrid" organizational structures, such as nonprofits with wholly owned business subsidiaries, donated equity models, and emerging for-benefit business structures. Others have developed hybridized investment structures that achieve similar goals from the investor side, such as the Calvert Foundation's GiftShare Program. In addition, there exist research initiatives that dwell on the frameworks that surround these structures and on the practices that drive public policies to embrace the for-benefit business structure, which was initially pioneered in the United Kingdom.

Given their hybrid nature and resource mix, SEs are unable to adequately operate exclusively as stock, for-profit corporations or as nonstock, nonprofit corporations. For this reason, a number of the more mature SEs have become multiorganizational systems where they have a stock, for-profit corporation handling their market-oriented or transactional activities. Their nonstock, nonprofit corporation or foundation, meanwhile, handles their transformational services, which are directed to capacitate the poor, and advocacy activities to effect changes in the broader context within which the SE operates.

A significant differentiating factor, therefore, between SMEs and SEs is the concept of social technology. As such, SEs are operating not as independent enterprises but as a collection of various production and services units working under a single organization or entity. This means that social capital is a crucial element in the operations of SEs. Social capital is defined as the confluence of organizational operations (i.e., networks, norms, and trust) that facilitate coordination and cooperation with mutual benefit (Putnam 1995). Presumably, these are the factors that can be mobilized to improve production. For one, social capital is expected to reduce transaction and production costs.

Compared to civil society organizations like NGOs, the production activities of SEs are intended to sustain their main social objectives. The concept of social enterprise was introduced in Italy to designate those pioneering initiatives that were created due to the institutional imagination of its promoters. Three distinctive features of these innovations are worth mentioning: (1) stakeholders' search for direct participation through new democratic forms of management (i.e., multistakeholder); (2) the widespread use of the cooperative form in activities, wherein the enterprises are generally managed by associations and foundations; and (3) the production process is expected to meet certain social standards, resulting in a difference in technology. Through various forms of institutional arrangements, associations and NGOs are able to determine the socially efficient level of such goods for the household enterprises that perform the SE's production activities.

More importantly, as long as household enterprises are the direct beneficiaries of these associations and NGOs, any support given to the SEs will promote the SME sector as well. Furthermore, targeting these SEs would lead not only to efficiency but also to greater equity and lower poverty in the communities; this is because most SE products are presumably public goods in nature. Hence, this will affect not only the SME sector but also the community in general.

In the SE framework, the foundation/association and its NGO partner act as principals whose main objective is to achieve community social gains (e.g., reduce poverty in the community). This is done by assigning household agents or firms to execute the association's objectives. However, this creates a number of problems in the absence of complete information on the household's capacity to manage and sustain a business enterprise. For one, information asymmetries can lead to adverse selection; ergo, poor targeting results in the wrong choice of households to manage the enterprises.

As principals, the foundation/association and NGO act jointly to define the decision rules, as well as design the penalties for inefficient performance. At the same time, even in the absence of complete community information, they must provide adequate incentives that will allow a household agent to work as a "self-managed" enterprise instead of a mere follower. Thus, the challenge here is how to define the right incentives in the face of a continuum of unknown agent characteristics.

The success of the SE, then, depends on the incentives that NGOs offer to household production units through NGO partners like cooperatives. Such incentives may be in the form of assistance in business and strategic planning, market studies, capability building, and development financing. Capacity building and technical assistance are other forms of intervention that the foundation/association offers to households. These incentives are fundamentally business in nature and production oriented. In the process, these may not be enough to address the consumption needs of household enterprises.

Fowler (2000) points out two possible ways foundations and NGOs can support SEs. The first is through an integrated approach where NGOs select and introduce enterprises to commercial practices that can potentially create horizontal, vertical, backward, and/or forward linkages for additional economic benefits to communities. It attempts to build up the enterprise at the stage when the latter's scale of production is insufficient to earn substantial profits. The second is called a reinterpretative approach where the association builds on and creatively applies NGOs' existing activities in ways that reduce costs and/or increase and diversify incomes. The idea is to encourage greater self-management of the enterprise. Essentially, the first approach is centered on the association and NGO objectives toward greater clustering, while the second approach focuses on the goals of the household toward self-management. Both approaches should reinforce one another.

Empirical model for SEs

In the Philippines, SEs refer to organizations that provide support to poor household firms through loans and other forms of assistance. Given the absence of complete markets in the rural areas and in poorer urban communities, an integrated approach where production and consumption are nonseparable can work best in cases where SEs consist of poor households that are still struggling to establish themselves. Meanwhile, the approach where production is separable from consumption is best suited to SMEs that are already profitably operating.

For projects to succeed, both approaches should be employed at the proper stage. For many poor households, however, an integrative approach will be necessary. The NGOs that are expected to support SEs must understand the decisions that household enterprises make. The point of Fowler's (2000) thesis, then, is that it is crucial for NGOs and the government to understand at least the distribution of households (i.e., between those that are struggling to establish their business and those that are already thriving). The assumption is that SE projects are supposed to be development focused, market based, business oriented, and value-chain driven. This presupposes that the households are already prepared to engage in a productive and profitable operation. Clearly, this presumption needs to be reviewed and tested. The SME approach may not be applicable if households are still innately weak and incapable of achieving their goals.

The rationale behind an integrated approach is best understood by looking at a model on coordinated households (Figure 1). The questionnaire used for this study's empirical investigation was based on such framework. In this model, poverty intervention cannot be limited to a particular aspect of households, as most decisions are tied to one another. That is, the package of programs meant for poverty intervention should respond to the multiple needs of households. The model features the following specific points:

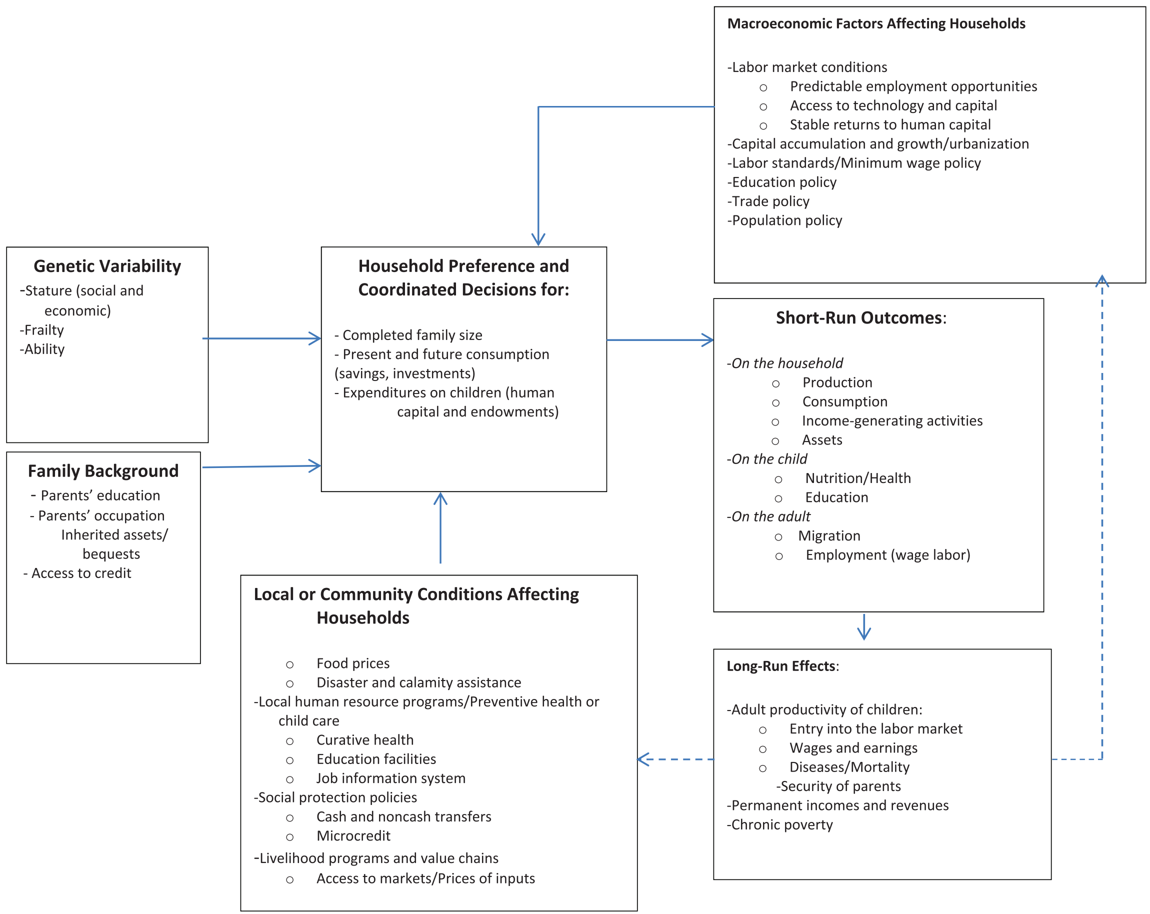
1. **Connections between household decisions exist**. Consumption decisions are linked to production decisions, and vice versa. Household conditions regarding health and education can affect decisions on production. In particular, genetic variability exposes certain households to poor health and varied forms of diseases.

   Inversely, improved production can help improve health. For such to occur, measures like vaccinations and other types of preventive care are needed to relieve the household of its poor health constraints. This process constitutes the integrative approach; that is, one that considers both consumption and production simultaneously.

2. **Short-term outcomes are linked to long-term outcomes**. The framework shows the potential of SEs in influencing local and national conditions (as shown by the broken lines). Nevertheless, if SEs are expected to spur community development, households' pressing needs will have to be addressed first.[2] Programs that

[2] The general policy of NGOs is to delegate the needs of the households, such as the water system, to the cooperatives. This can be problematic if baseline data will show that such needs are still unmet. This shows the importance of a "principal-agent" model. Part of the task of cooperatives is to address these needs and to show that a more integrative approach will be required, indicating that additional programs and incentives will be required for the success of the program.

Figure 1. A model of coordinated household decisions



Source: Author's compilation

aim to achieve greater productivity are often long term in nature, as certain factors of production are not available in the short term. SEs must first address the existing constraints in order for programs to achieve the expected growth in the future.

3. **The household is affected by initial conditions, such as its genetic feature and its family background**. While external factors, including national and local government policies, may affect households' conditions in the long run, there are initial conditions that may constrain households from expanding their production capability. Unless the project is able to address these factors affecting households' capacity, the enterprise may be confined to a smaller scale of production.

4. **Households' preference for a larger/smaller family size and, subsequently, their preference for future or present consumption and kind of consumption expenditures (e.g., children's education and health), or production resources may also affect the status of the household**. Given limited resources, households may be forced to trade off one need, goal, or activity for another. In certain cases, households' ability to manage and adjust their resources according to their preferred goals determines how much of their resources will be devoted to production in the enterprise.

   Also, who makes the decisions for the family regarding the allocation of resources defines household outcomes. In particular, gender issues may be significant in the sense that household enterprises turn out more successful should mothers make the crucial decisions.

5. **Households respond to incentives**. Unless consumption issues are also addressed, the projects' sustainability becomes a concern. For instance, although loans may be available to fund their undertaking, production can still be limited if family members are unhealthy. In such case, loans will instead be used for consumption instead of for production. This can mean that the loans will not result in long-term benefits.

6. **Macroeconomic and local communities' conditions need to be kept in check so as to manage the impact of a project on households' production and consumption**. The NGOs

and governments' efforts can be ineffective if the economic, social, and environmental conditions offset such gains.

Conversely, there are programs available at both the national and local governments that can help improve SEs' performance. This is why program coordination between local and national governments, and NGOs is crucial.

The program design of NGOs should account for these coordinated decisions to create some traction in the social development of communities. Unless programs and incentives are offered to offset initial household conditions that hinder the latter's production and viability, or unless the provision of public goods is adequate, SEs may have difficulties in achieving their goals.

Empirical analyses of SEs

Data used for this analysis came from a 2012–2013 baseline survey conducted by the Ateneo Center for Economic Research and Development for several of its NGO partners. The survey aimed to collect baseline data for SEs in 13 projects being implemented by NGOs. The sample consisted of control (beneficiaries) and treatment groups consisting of MSMEs and NGO-supported SEs.[3] These NGOs include one of the largest SEs in the country.

Table 4 shows the sample of SEs surveyed. Several points need to be highlighted here. First, these enterprises are household based, with most of the workers coming from agricultural households. While there are enterprises in manufacturing and services, these have remained small (with at most 20 workers).

Second, the SEs identified here are distributed across different locations, creating a wide network of activities. Their capital infusion is mainly a form of investment that aims to help rural households gain better incomes and move out of poverty. This capital infusion comes in the form of credit or loans ranging from PHP 300,000 to PHP 7 million. They utilize SE models and build capacity to become ready for growth and investment.

The objective of the empirical analysis is to identify key factors that are correlated with revenues, incomes, and poverty. Data on labor employment are missing and, if ever these exist, seem to be affected by measurement errors. Hence, the dependent factors here are used to proxy for employment creation, as labor demand is derived from the

[3] For confidentiality reasons, the NGOs will be left unmentioned.

Table 4. Sample of SEs surveyed by location and enterprise

NGO	Location of the Social Enterprise	Enterprise	Number of Target Household Firms/ Enterprise Beneficiaries	Number of Beneficiaries Surveyed	Number of Nonbeneficiaries Surveyed
1	Rizal	Business development services and financing	4000	40	40
	Laguna			50	31
	Antique			50	30
2	Puerto Princesa, Palawan	Wild honey expansion and lighting project	350	253	108
4	Quezon, Palawan	Enhancement of alternative tourism	541	175	67
5	Antique	Financing of purchase order	500	172	121
6	Ilog, Negros Occidental	Expansion and improvement of potable water supply system	1450	172	176
7	Calatrava, Negros Occidental	Hi-breed goat farming	400	99	101
14	Laua-an, Antique	Muscovado sugar production	150	43	41
8	Northern Samar	Climate-adaptable *palay* seed	700	162	188
9	Cebu City	Building market access for fair trade products	264	175	175
10	Zamboanga del Sur	Land redemption program	135	50	68
11	North Cotabato	Banana chips production	400	127	73
12	Agusan del Sur	Integrated rice duck farming system (Duck Center)	1800	161	181
13	Davao City	Cacao production	120	67	52
Total			6,810	1,656	1,351

Source: Author's computations

firm's profit maximization and income status. Revenues, incomes, and poverty incidence are the key indicators of welfare and income, which determine the potential of a firm to increase its scale of production.

Using the framework of coordinated household decisions presented in the previous section, these variables include the following:

- **Factors of production (i.e., loans and costs)**: Costs are supposed to proxy for scale of production
- **Household composition**: Percentage of households with high school and college education and age distribution
- **Household assets**: Working phone, electricity, walls constructed with strong materials
- **Water and hygiene**: Water delivered or piped to their own houses, and sealed water toilet
- **Health**: Whether the household has visited a medical practitioner or not
- **Geographical factors**: Access to roads for the whole year, conditions in Visayas and Luzon relative to Mindanao, calamities
- **Preferences**: Whether the wife makes the decision in the family, whether there is an overseas Filipino worker (OFW)
- **Unmeasured NGO characteristics**: Whether the household is a beneficiary or not

Another factor of production included as a variable is if the source of the loan is an NGO, a microfinance institution, or a cooperative.[4] This is intended to differentiate production loans from loans for consumption.

Table 5 shows the mean and standard deviation of these variables by type of household enterprise. Note that all of these are SMEs, but their beneficiaries are SEs. Data indicate no significant difference in these two groups, except for the amount of loans they already have. This indicates that the beneficiaries were chosen randomly (and not selected) for the evaluation that follows below.

Table 6 shows the ordinary least squares regressions for the estimates on incomes and revenues, and probit estimates for poverty incidence. The natural logarithm of incomes and revenues is used to measure percentage changes, instead of absolute values. This makes it easy to compare the results with other estimates measured in terms of probabilities or proportions. The coefficients here are not intended to account for causal relationships but simply an attempt to determine the significant factors that are associated with the key outcomes. Estimates are meant to determine whether consumption factors also affect production, and whether household characteristics are significantly associated with production.

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[4] In certain cases, these three categories can overlap.

Table 5. Mean and standard deviation of variables by type of household enterprise

	Nonbeneficiary		Beneficiary	
	Mean	**Standard Deviation**	**Mean**	**Standard Deviation**
Incomes	6,007.98	17,920.11	6,737.93	16,129.89
Revenues	4,610.83	17,026.56	4,711.11	24,010.25
Poverty	0.59	0.49	0.59	0.49
Loans	1,202.77	8,278.70	946.38	2,958.52
Received production loans	0.12	0.32	0.13	0.33
Costs of household production	1,157.29	6,771.34	1,323.80	19,988.89
Proportion of adults with college education	0.06	0.15	0.07	0.17
Proportion of adults with high school education	0.32	0.35	0.29	0.35
Proportion aged 5 years and below	0.13	0.16	0.11	0.16
Proportion aged 6–14 years old	0.19	0.19	0.18	0.18
Proportion aged 15–20 years old	0.12	0.16	0.12	0.15
Proportion aged 30–60 years old	0.31	0.22	0.33	0.23
Proportion aged 61 and above	0.06	0.16	0.07	0.18
Electricity	0.63	0.48	0.61	0.49
Working phone	0.61	0.49	0.60	0.49
Road accessible for the whole year	0.66	0.47	0.65	0.48
Strong wall	0.21	0.41	0.21	0.41
Owned water	0.18	0.39	0.23	0.42
Sealed toilet	0.44	0.50	0.42	0.49
Percentage of household members seeking medical health	0.13	0.29	0.13	0.32
Percentage going to public hospital	0.12	0.33	0.16	0.36
Overseas Filipino worker	0.04	0.25	0.04	0.29
Wife making decisions	0.12	0.33	0.16	0.37
Calamity affected	0.30	0.46	0.31	0.46

Source: Author's computations

Results show that these variables used as determinants are significant:

- **Loans**: Loans *per se* are not significant, but those considered as production loans (i.e., coming from their NGO partners) are associated with higher incomes, revenues, and, thus, lower poverty. The point is that loans (usually enforced by NGOs,

Table 6. Results of the regression and probit estimates of key welfare and income indicators

Variables	Ordinary Least Squares Regressions		Probit Estimates
	Ln Incomes	**Ln Revenues**	**Poverty**
Loans	-5.42E-06 (1.42)	-5.41E-06 (0.54)	4.2E-06 (0.95)
Received production loans	0.6373** (8.72)	0.5942** (5.58)	-4.6E-01** (6.56)
Costs of household production	7.3E-05** (9.52)	8.3E-05** (10.94)	-3.4E-05** (5.60)
Costs of household production squared	-7.8E-11** (9.30)	-8.5E-11** (10.00)	3.6E-11** (4.96)
Proportion of adults with college education	1.2109** (6.25)	0.8236** (2.98)	-8.3E-01** (4.42)
Proportion of adults with high school education	0.3281** (4.17)	0.3022** (2.69)	-0.3787** (4.96)
Proportion aged 5 years and below	0.3069 (1.46)	0.1003 (0.33)	-0.4933** (2.39)
Proportion aged 6–14 years	0.3473** (2.30)	0.4000* (1.90)	0.0835 (0.56)
Proportion aged 15–20 years old	0.7461** (3.63)	0.3378 (1.17)	-0.2485 (1.23)
Proportion aged 30–60 years old	0.1785 (1.28)	0.0534 (0.27)	-0.5432** (4.04)
Proportion aged 61 and above	0.0905 (0.49)	0.0930 (0.34)	-0.5916** (3.30)
Electricity	0.1591** (2.49)	0.3589** (4.01)	-0.3150** (4.98)
Working phone	0.2744** (4.89)	-0.0785 (1.01)	-0.1943** (3.49)
Strong wall	0.0928 (1.33)	0.3263** (3.32)	-0.0644 (0.96)
Owned water	0.0282 (0.40)	0.2943** (3.04)	0.0042 (0.06)
Sealed toilet	0.3323** (5.54)	0.3857** (4.59)	-0.1571** (2.70)
Beneficiary household	0.0827* (1.64)	0.0679 (0.97)	-0.0483 (0.95)
Percentage of household members seeking medical health	-0.11453 (1.18)	0.36102** (2.79)	0.0350 (0.40)
Percentage going to public hospital	0.1949** (2.65)	-0.0014 (0.01)	-0.1575** (2.18)
Overseas Filipino worker	0.3293** (3.68)	0.1505 (1.06)	-0.0468 (0.54)

Table 6. (continued)

Variables	Ordinary Least Squares Regressions		Probit Estimates
	Ln Incomes	**Ln Revenues**	**Poverty**
Wife making decisions	0.2721** (3.50)	0.4765** (4.29)	-0.3102** (4.12)
Luzon	-0.2989** (3.82)	-1.0602** (10.12)	0.0407 (0.51)
Visayas	-0.7326** (10.21)	-1.6371** (16.64)	0.4689** (6.59)
Calamity affected	-0.1599** (2.83)	0.0272 (0.36)	0.1038** (1.87)
Constant	7.0194** (53.78)	6.8972** (37.46)	1.3478** (10.27)
N	3011	2456	3279
R-sq	0.2302	0.2997	0.1267
F-test (for OLS)/LR chi-sq (for Probit)	37.01	43.02	533.3

Notes: Figures in parentheses are absolute values of asymptotic t-values.
* and ** indicate significance at 10 and 1 percent levels, respectively.
Source: Author's computations

microfinance institutions, and cooperatives) must be production loans (not used for consumption) if it is going to have any positive impact on enterprises.

- **Costs of production**: This variable is intended to measure the increasing scale of enterprise operations. With increasing costs, the production inputs are expected to increase proportionately. Because of this, "learning by doing" and knowledge spillovers are formed. Hence, costs of production (or greater production scale) are associated with higher incomes and revenues, thus, decreasing the probability of being poor. This indicates a potential for these enterprises to expand and be profitable. It should also be noted, however, that the effects of production scale are nonlinear, as shown by "squaring" or "doubling" of the costs of production. As the enterprise further increased its size, there are lesser incomes and revenues observed, leading to a greater chance of becoming poor. Such observed decreasing returns happen if the technology is kept fixed even as scale of production is increased. Hence, innovation is necessary if the scale of production is to be raised. With more innovation, more production can be realized even without increasing inputs, thus, reducing the additional costs of production. Technology should be further improved as the scale of production increases.

- **Schooling**: Households with more college-educated members tend to have more incomes and revenues, and a lower chance of being poor. Similarly, those with more high school education also tend to generate more incomes and revenues, and are able to move out of poverty.
- **Age composition**: Households with younger members (between the ages of 6 and 20) tend to receive more income and revenues, and lower poverty incidence. This can be because these children may complement the production activities of the parents (ILO 2005). In other words, parents and other working members are able to engage in production activities because the children are able to take on the household chores.

  In addition, having older people seems to decrease the chance of being poor. Older persons in the household have more likely accumulated enough pension or savings enough to contribute to the family's consumption. Alternatively, richer households can take care of older members because they have the means to support the latter. Social security for the aged is important in addressing poverty.
- **Amenities**: Those with access to electricity are assumed to have more income and revenues, and, therefore, less likely to be poor. The same effects are observed for those households that have working phones and are situated near passable roads throughout the year; although the availability of phones does not have a significant correlation with revenues. Houses built with strong walls are associated with higher revenues and, therefore, one of the inputs used in households' business. Results here underscore the importance of public goods.
- **Water and hygiene**: These variables are related to the health of every household member and may have an effect on production. Households that have their own piped water or water delivered to their houses are associated with greater revenues. Those with sealed toilets are correlated with more incomes and revenues, and less poverty.
- **Health**: Accessibility and visits to medical practitioners and public hospitals seem to lead to more revenues and more incomes, respectively. Public hospital visits also result in lower poverty.
- **Other income**: Having an OFW in the family tends to result in greater incomes for the household, while having a wife who

makes most of the decisions seems to draw in more income and revenues and lesser poverty, and improves the family's ability to assess its financial condition. Perhaps it is not so much the increase in income that matters but the wise allocation and use of funds the wife brings into the picture that result in these positive outcome. This suggests the importance of gender in this study.

- **Environmental and social conditions**: Households residing in Luzon and the Visayas seem to have lower incomes and revenues, with those in the Visayas having a greater probability of being poor. This shows that the economic conditions faced by households in these regions are more severe compared to those in Mindanao.
- **Calamity**: Households affected by calamities in any geographic location have lower incomes and tend to be poor.

Initial results show how the business environment affects the revenues and incomes of enterprises. Other factors, such as education, amenities, and social conditions, also affect enterprises. These findings justify why directly addressing poverty and providing public goods to these enterprises are crucial.

The APEC policy on SMEs and SEs

This section provides the policy directions and recommendations for SME development in light of the above discussion. The aim is to provide a framework that highlights the role of SEs in employment creation, particularly in the way it can address poverty, and to identify a basis for APEC intervention. A description of APEC's existing programs provides context to the interventions.

Approaches in supporting SMEs

Government policies on SMEs can be classified into two:

- Those that promote the development of local industries that create employment opportunities. These assist antipoverty measures and support social development.
- Those that support infrastructure building, technology transfer, SME promotion, and development of supporting industries. Allocation and coordination with other public funds are stressed. Assistance not only focuses on responding to crises but is also designed to strengthen the national financial system, develop

core human resources, and upgrade business management and technical skills.

Because SMEs are expected to produce positive social externalities or benefits that are unlikely to be evaluated by markets, both approaches above are crucial in the development of SMEs and in justifying why government should intervene. The first approach looks at the needs of the potentially profitable firms and determines their role in employment generation and business sustainability. Note that poverty here is considered as an outcome instead of the focus of intervention.

The second approach points fundamentally to the formation of industrial clusters, such as the agglomeration of companies, suppliers, service providers, and associated institutions in certain fields. Some examples of industrial clusters are financial providers, educational institutions, and various levels of government. These entities are linked by externalities and complementarities of different types, and are usually located near each other. Because of their proximity—by geography and by activities—cluster constituents enjoy the economic benefits of several location-specific externalities and synergies. Such benefits may be in the form of access to specialized human resources and suppliers, knowledge spillovers, and quality performance in head-to-head competition, among others. Moreover, through these linkages, one cluster is inevitably linked to others and to the overall economy.

Generally, developing countries undertake very little to no original research and development activities, and primarily depend on foreign technology. Long-term contracts and subcontracting arrangements within GVCs are important forms of transnational cooperation and, therefore, crucial channels for technology transfer, especially as majority of these developing countries attract limited foreign direct investment.

What is missing from these approaches is the support needed to fully address the productivity and structural limitations faced by poor SMEs. Poverty for some SMEs can affect the quality of their inputs, including human capital, and their state of technology. Unfortunately, there is no institutional support that can directly influence these firms' state of poverty.

Government can play a role in driving industries that are considered economically desirable but would not otherwise be developed through private investments. An infant industry argument is often made in favor of state involvement in markets. However, when nascent industries have externalities that cannot be incorporated in pricing strategies, or when information is asymmetric, or capital or insurance markets are imperfect, private investors may be reluctant to invest. When these industries have potentially important spillovers within or across sectors, the state could decide to invest in their industries. In fact, it is often argued that many successful private sector firms in advanced countries owe their success—at least in part—to prior state incentives and even state ownership (e.g., China state-owned enterprises). This line of argument links poor SMEs' presence to economic development and, thus, suggests a need for state intervention.

State intervention for impoverished SMEs may also be an opportunity to provide public and merit goods. Various public goods are characterized by positive externalities associated with separation of consumption from payment and by nonexcludability of consumption for underdeveloped communities. Under standard economic assumption, public goods as provided by private firms are at suboptimal levels. The same case happens with merit goods, such as basic nutrition or health services. Hence, governments may choose to supply such goods through these SMEs.

Summary of APEC policies

The following are the various action plans for SME development developed by APEC SME Ministers.[5]

- **1998: Integrated Plan of Action for SME Development**. This plan includes a set of broad guidelines for SME development in individual economies. It also provides a reference point for review of both individual and collaborative initiatives, programs, and regulatory frameworks.
- **2005: Daegu Initiative**. The initiative is intended as a long-term measure composed of five-year cycles and aims to make the economic and policy environments of all member-economies more conducive for SME innovation.
- **2006: Establishment of APEC SME Innovation Center**. This identifies six areas in the first cycle (2006–2010), namely:

    1. Developing human resources and technology through linkages between industry and educational and research institutions,
    2. Accessing specialist assistance and advice,
    3. Enhancing availability of capital to innovative SMEs,

[5] For a more comprehensive discussion on APEC Programs for SMEs, see Aldaba (2013).

4. Networking and clustering for innovative SMEs,
5. Establishing appropriate legal and regulatory structures, and
6. Establishing a market-consistent economic environment.

- **2007: The Private Sector Development Agenda**. This was launched to help APEC economies create an enabling environment for small businesses by using the World Bank's Ease of Doing Business indicators. The 2007–2010 work plan to further this agenda includes surveys and symposiums on:

  1. Establishing a business (Australia) in 2007 and
  2. Obtaining licenses (Peru) in 2008.

- **2009: Access to capital** (Singapore) in 2009
- **2010: Getting credit** (Japan) in 2010
- **2011: The APEC SME Green Innovation Conference in Seoul, Korea**. This event brought together government officials from SME-related and energy ministries on one end and business representatives from innovative SMEs on the other end to share ideas and forge greater cooperation.

  Also in May 2011, the 18th SME Ministerial Meeting was held in Big Sky, Montana in the US, under the theme: "Leveraging Partnerships with APEC Small Businesses to Foster Innovation and Create an Entrepreneurial Society". The First Joint Ministers Responsible for Trade and SME Ministers Meeting was also held in Montana on the same day. It underscored the need for a similar collaboration in the future. In November 2011, at the Leaders' Summit in Honolulu, APEC Ministers endorsed the three codes of business ethics: those for the medical device sector (Kuala Lumpur Principles), the biopharmaceutical dector (Mexico City Principles), and the construction and engineering sector (Hanoi Principles).
- **2012**: **19th SME Ministerial Meeting**. This was held in Saint Petersburg, Russia, under the theme: "Promoting SME Cooperation for Innovative Growth in the APEC Region". At the meeting, APEC Ministers:

  1. Reaffirmed the importance of addressing trade and investment barriers, and improving SME business environment, including youth, women entrepreneurs, and microenterprises in the APEC region. They endorsed

the results and efforts made by the SME Working Group (SMEWG) on financing, open and transparent business environment, and high transportation and related costs.

2. Agreed that corruption imposes a significant market access barrier and high costs on SMEs. To address this challenge, they endorsed the principles for voluntary codes of business ethics in the medical device, biopharmaceutical, and construction/engineering sectors. They recognized the importance of raising awareness on these principles and welcomed the industry associations and companies' implementation of the codes of ethics.
3. Agreed that effective protection of intellectual property rights (IPRs) and simultaneous reduction of trade and investment barriers can further SMEs' development in the APEC region. They welcomed Russia's proposal to organize a joint meeting of IPR Experts' Group and SMEWG to further collaborate in addressing cross-cutting issues, including the formation of an accessible system of receipt of protection documents for the intellectual property items for SMEs.
4. Recognized the contribution of the Russian initiative in creating a common information resource that will promote SMEs' inclusion in global supply chains and ultimately foster innovation in the APEC region.
5. Endorsed the adoption of the "Guideline on Promoting SME Business Continuity Plans to Strengthen Reliability of Supply Chains", which was formulated by an Expert Group in Chinese Taipei. They also urged APEC fora and governments to cooperate in assisting SMEs develop disaster preemptive mechanisms in accordance with the guideline.
6. Welcomed initiatives that promote the exchange of best practices on instruments that support innovative SMEs and microenterprises, and instructed officials to develop capacity-building activities.
7. Recognized the importance of young entrepreneurs in economic activities and, in this regard, supported the implementation of the Young Entrepreneurs Network (YEN). They welcomed the first YEN meeting on August 2, 2012 in St. Petersburg, Russia, endorsing the results and agreeing to apply the format of the meeting on future assemblies.
8. Reaffirmed the role of SMEs and microenterprises as an integral part of economic growth and as a source of forward-

thinking ideas, and instructed officials to pay special attention to innovative SMEs and microenterprises in SMEWG programs in the near future (2013–2016).

- **2014**. The US hosted a workshop to facilitate the integration of SMEs into global supply chains. The workshop focused on obligations and expectations that translate across the supply chains to SME subcontractors and suppliers. Companies shared information on the types of certifications needed to ensure the integrity of products within the supply chain. Five sectors are of high interest to regional SMEs: agriculture, food processing, electronics, automobiles, and handicrafts.

Recommendations

The two approaches earlier discussed feature numerous measures used in developing SMEs. What the discussion lacks is the role of public goods in helping SEs prosper, so they can, in turn, be useful to the SMEs in the community. Public goods become global (sometimes called international public goods) in nature when the benefits flow to more than one country, and no country can effectively be denied access to those benefits. Global public goods can be divided into two categories:

- **Final public goods**. These are the "outcomes" (e.g., the eradication of polio and the expansion of education).
- **Intermediate public goods**. These help provide final public goods (e.g., International Labor Standards aimed at stopping worker exploitation, reducing migration and cross-border risks, and decreasing underemployment).

The promotion and protection of cultural diversity, core labor rights, and the environment through global cooperation are also regarded as global public goods. For instance, health care was shown to have a significant effect on SEs. Hence, this can be an important input coming from the international community. Health-specific global public goods fall under three categories:

- Information and knowledge (e.g., information on the effects of risk behavior, such as alcohol and tobacco consumption; knowledge of treatments; surveillance and information systems for communicable diseases that help control their spread)

- Control of infectious disease and implementation of sanitary conditions (e.g., because of cross-border health risks, action on HIV/AIDS or tuberculosis has global benefits)
- International rules and institutions (e.g., sanitary and phytosanitary measures)

One of the key questions about global public goods is this: How can investment in these be encouraged? Failure to provide global public goods is linked to collective action problems, such as "free riding". Free riding describes a situation where no individual is prepared to pay the cost of something that others may be expected to benefit from; instead, all hope that someone else will pay for it, and they will benefit for free. In the health-care sector, one example is the research and development of medicines that combat neglected diseases, which require high levels of investment. There is little market incentive to develop such medicines, as those suffering from the disease typically have low purchasing power. In addition, countries worst affected by neglected diseases tend to have little capacity or resources to invest in research and development.

This free-rider problem is further aggravated by two factors. First, in the case of global public goods, there has yet to be a workable market or governmental mechanism that is appropriate to address the problems. Apart from APEC, there is no mechanism by which global citizens can be bound to collectively decide to produce such goods.[6]

Second, in most discussions, global public goods are often environmental in nature. One of the distinguishing features of most global public goods is that they are generally "stock externalities"—their impact depends on a stock of a capital-like variable that accumulates over time. For example, the impact might be a function of pollution concentrations or knowledge that can be augmented by flows of emissions or learning, respectively. These, however, depreciate according to some processes, such as precipitation or obsolescence. Because of the difficulty in tracking the growth of such externalities over time, it is often challenging to push for a collective action toward the production of such public goods.

Nevertheless, as can be seen in the survey of APEC policies on SMEs, APEC foresees the formation of a GVC that covers not only vertical

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[6] This is known as the Westphalian dilemma. Under international law (as it has evolved in the West and then the world), there is no legal mechanism by which disinterested majorities, or supermajorities short of unanimities, can coerce reluctant free-riding countries toward mechanisms that provide for global public goods.

links (i.e., among different tiers of suppliers along the chain) but also horizontal links (i.e., the interaction among suppliers of the same tier). Along the GVC, a major part of value creation is derived from product and process innovation, as well as branding and marketing.

The GVC, however, is only as strong as its weakest link. Even with their limited capacity, SEs can be developed as a valuable part of this value chain. That is, despite its poverty constraints, SEs can produce valuable inputs that GVCs need. In the weakest-link case, strong incentives exist for parties to cooperate and provide for the common production system (Hirschleifer 1983), resulting in little incentive (or possibility) for free riding. Weakest-link technologies then provide the structure where the noncooperative outcome most closely approaches the efficient outcome only as long as countries have similar preferences and share their technologies. With weakest-link technologies, coordination and technological cooperation may be sufficient to produce reasonably efficient outcomes.

The recognition of these SEs in the production or value chain process is the first step toward establishing weakest-link technology. It is then up to the SEs, given their expertise and linkages with the rest of the world, to integrate their production units (i.e., household enterprises) into the GVC. The state and the NGOs should also be able to provide the proper incentives for these firms, while the global community should voluntarily provide the public goods to enhance their productivity and increase SEs' scale of production. For the state, as well as for the NGOs, the following are ways to integrate their SEs into the GVC:

- **Integrating with other SMEs**:
  1. Facilitating the entry into the market of new, dynamic players
  2. Strengthening business relations between SMEs and big companies
  3. Helping SMEs become fully integrated international business partners
  4. Streamlining business processes
  5. Increasing returns on investments in information and communications technology
  6. Improving business transactions
  7. Reducing administrative overheads or errors

- **Complementing the larger companies**:
  1. Increasing their innovation capacity by partnering with other innovative established firms

2. Enhancing customer satisfaction through more flexible, personalized services
3. Shorter time-to-market delivery

- **Coordinating with the rest of economy and society:**
  1. Promoting a more dynamic and competitive economy
  2. Facilitating the market entry of new players on fair terms

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3 Promoting Women's Participation in APEC Economies

Lucita S. Lazo and Sheila V. Siar

Abstract

Women have significant economic participation in the Asia-Pacific Economic Cooperation (APEC) region, as well as in the Philippines, mainly as entrepreneurs who are contributing to micro, small, and medium enterprises. That is why increasing economic opportunities of women is critical to achieving inclusive growth. There may have been challenges and difficulties in increasing their participation as entrepreneurs, but there are mechanisms in APEC that could promote their participation and realize their full economic potential. This paper recommends women empowerment and enhancing women's competitiveness in a free trade environment in the Philippines and support for the various women-related directives and initiatives in APEC, specifically, public-private dialogues into ministerial meetings to ensure that the barriers to women's empowerment are addressed across sectors.

Introduction

Women comprise a heterogeneous group in terms of their economic participation and contribution that take different forms: as corporate managers/executives, as wage employees in the formal economy, as registered owners of small and medium enterprises (SMEs), or as unregistered microentrepreneurs or workers in the informal economy.

The case for increasing women's economic participation is not yet universally accepted despite three decades of global advocacy since the Beijing Women World Summit in 1995. In countries where deliberate efforts and policies have been put in place to mainstream gender concerns in policies and programs, women empowerment and gender equality are still a work in progress. Although there have been efforts to mainstream gender, the risk remains for these efforts to vanish over time if they are not consciously nurtured, and if leadership support dwindles.

Women's economic participation in APEC

A mechanism that can be tapped to promote women's economic participation is the Asia-Pacific Economic Cooperation (APEC). As early as 1999, the APEC SME Working Group (SMEWG) did a study on women entrepreneurs in SMEs in the APEC region (Yuhua 2013). The APEC Women and Economy Forum (WEF) was established in 2010 and was later called upon to collaborate with the SMEWG. Through the APEC WEF meetings, specific suggestions have been made in the areas of awareness raising and advocacy on the benefits of gender diversity in the public and private sectors, resetting the mindset of employers to be more open to mothers' reentry into the workforce, and acknowledging the achievements of women innovators.

The first Women and SME Ministers joint meeting in 2013 formally signified joint work in the areas of promotion of entrepreneurial culture and increasing access to finance and markets for women-owned and operated SMEs, as well as promotion of SMEs' internationalization through financial education, financial literacy, and greater consumer protection and awareness. The first Joint Ministerial Statement of the SME and WEF was issued in 2013.

The business community has a special interest in women's engagement in the economy. Hence, the APEC Business Advisory Council (ABAC) calls on APEC economies to take further steps to implement the key policy pillars of the San Francisco Declaration, in particular, by (1) promoting access to capital for women; (2) improving women's ability to access markets; (3) encouraging capacity and skill-building programs, including science, technology, engineering, and mathematics education for women; and (4) addressing barriers that discourage women from assuming leadership positions in the public and private sectors. Each APEC government should consider appointing at least one woman to the ABAC (Kelly et al. 2011).

Continued advocacy of the business community and government stakeholders will be required to sustain existing momentum and to ensure that APEC reaches its full potential as a multilateral platform for women's economic empowerment (Jarett 2013). Advocacy on gender and its importance to economic growth and social inclusion must be persistently pursued to enable internalization by decisionmakers, the private sector, and those in charge of economic governance.

For APEC, this advocacy must be carried out at the regional and national levels, and must be linked to the challenges of globalization and trade liberalization (Jarett 2013). But advocacy must be coupled with sound analysis and evidence. As Higgins (2013, p. 3) noted: "While there is an increased interest in and research on gender and trade policies, sound empirical evidence remains sparse, with analyses limited by the absence of gender-differentiated data, as well as the difficulty of disentangling the effects of trade liberalization from other simultaneous changes."

Women's economic participation in the Philippines

The Philippines has had chronic jobless growth for the past four decades. The World Bank foresees that by 2016, around 12.4 million Filipinos would still be unemployed, underemployed, or would have to work or create work for themselves in the informal sector (WB 2013). Due to lack of jobs, Filipinos seek work abroad or set up micro and small businesses as self-employed entrepreneurs. This means joining the huge throng of micro, small, and medium enterprises (MSMEs). In the Philippines, Republic Act 9501 or the Magna Carta for MSMEs defines MSMEs as enterprises with an asset size (excluding land) of up to PHP 100 million. The bulk of MSMEs at 91.6 percent is composed of microenterprises (DTI 2011). The rest are small- (7.7%) and medium-size enterprises (0.4%).

As in most countries, MSMEs constitute the vast majority of enterprises in the Philippines. In 2006, they accounted for 99.7 percent of all enterprises and provided almost 70 percent of the jobs generated by all enterprises (DTI 2011). Micro and small enterprises are often the only source of new employment and serve as a safety net especially for the urban poor.

Filipino women are active as entrepreneurs. For many of them, putting up a business provides an additional income for the family. Of 42 countries surveyed in 2006–2007 by the Global Entrepreneurship Monitor Survey, the Philippines had the second highest percentage of entrepreneurially active females, next to Peru (DTI 2011). This is consistent with the Department of Trade and Industry (DTI) data in 2009 showing that 54 percent of enterprises are female owned. However, most of these enterprises are small, consisting of only the owner/manager without any employees. Women usually have little capital (below PHP 10,000) and, thus, can only penetrate activities with low entry barriers, such as retail trade, food stalls, or personal services, which also have low productivity (GTZ and DTI 2010).

Increasing the economic opportunities of women in APEC economies is critical to achieve inclusive growth in the Asia-Pacific region. For this to happen, an enabling environment for women entrepreneurs should be present to realize their full economic potential. For the Philippines alone, women entrepreneurs are facing challenges and difficulties.

Challenges in the participation of women as entrepreneurs

Inadequate access to productive resources

The *MSME Development Plan 2011–2016* of the Philippines' DTI notes that access to finance is a lingering obstacle to entrepreneurship in the country. Most women in the informal economy and MSMEs are unserved by government financial institutions and microfinance institutions due to the high cost of service delivery and their stringent requirements that are below the capacity of women to meet. These requirements include the minimum loanable amount, quality of collateral, repayment terms, number of years of business experience, submission of business plans, and consent of the husband. Issues of overindebtedness, multiple borrowing, and credit burden affect their capacity to access services. In addition, service providers are usually deterred by the lack of infrastructure and the concerns for peace and order.

Women who work in the informal economy usually have limited information on the potential of their own businesses and lack awareness of the big picture of their business environment, and how global and regional changes could affect their economic activities. The government, through the DTI, assists microenterprises but does not cover those with low capitalization, low value added, and low skills, such as market vending and street selling that operate with a capital of less than PHP 10,000. They fall within the programs of the Department of Social Welfare and Development (DSWD) and the Department of Labor and Employment's (DOLE) Integrated Livelihood Program for Workers in the Informal Economy that provide productive resources in the form of equipment, raw materials, tools, training, business planning, productivity improvement, worker's safety and health, networking, and business alliances. The DOLE program also assists in establishing common service facilities that respond to the common needs of the beneficiaries and facilitate access to low-cost inputs, wider markets, and high technology. It also conducts continued advocacy on social security for informal workers using the common service facility.

Under the DSWD, the *Kapit-Bisig Laban sa Kahirapan*–Comprehensive Integrated Delivery of Social Service and the *Pantawid Pamilyang Pilipino* Program are integrated efforts that promote microentrepreneurship and support resources for their beneficiaries. The Department of Science and Technology also has its Small Enterprise Technology Upgrading Program encouraging and assisting SMEs to adopt technological innovations to improve their operations and boost their productivity and competitiveness. The program enables firms to address their technical problems through technology transfer and technological interventions to improve productivity through better product quality, human resources development, cost minimization and waste management, and other operational improvements.

Despite these initiatives, there remains a general sense of the lack of or difficult access to finance and productive resources by women.

Difficulty to sustain and scale up enterprises

Beyond the start-up stage of an enterprise, there is the challenge to stay in business and expand—a critical issue among women entrepreneurs in developing countries. In general, 40–50 percent of new businesses close down, and this happens more often among women-owned businesses, usually due to lack of financing, insufficient profitability, and family responsibilities. Macroeconomic conditions (i.e., higher wages, increase of available jobs, lower discrimination) and retirement are additional reasons. Often mentioned by female respondents are personal reasons, an issue largely unexplored or less understood as an explanation for high closures of women-led enterprises (Vossenberg 2013).

Based on 2008 data, more women than men (54% versus 46%) register their business; but, for the succeeding years when the business has to be renewed, more men than women (55% versus 45%) renew their business (DTI 2011). This indicates that women have difficulty sustaining their business. Women also discontinue their business when it conflicts with their family responsibilities (Vossenberg 2013). Balancing domestic duties with business responsibilities is a difficult challenge for women.

Another set of factors pertains to the lack of business discipline even among experienced entrepreneurs and the low level of interest of women to experiment and learn new things to improve their products (PCW 2013a). They have little incentive or interest to be competitive and to expand their markets. A related issue is scaling up of successful women economic empowerment pilot projects like the Rural Microenterprise Promotion Program (RuMEPP) and the Gender-Responsive Economic Action for the Transformation (GREAT) of Women Project (PCW 2013a). The challenge is how to institutionalize effective approaches from these projects into mainstream policies and programs.

Lack of social preparation and technical skills for entrepreneurship and lack of readiness for global markets

Many women usually enter a business without the benefit of any market analysis, feasibility study, vocational training, or entrepreneurial orientation (PCW 2013b). In developing economies of APEC, the readiness for internationalization of women microentrepreneurs is wanting. Their tendency is to be inward looking. They have limited realization that the outside world is changing fast, and there are opportunities to be seized but also enormous risks and threats that can compromise the growth and continuity of their businesses. There is also little understanding of global standards of quality, productivity, and efficiency.

If women entrepreneurs are to take advantage of the markets outside their country borders, their appreciation and understanding of business models and methods would enable them to meet the global standards of quality, efficiency, productivity, and price competitiveness of goods and services in the larger market. To this end, women entrepreneurs in the APEC region must build their capacities and globalize their outlook.

In APEC, information and communications technology (ICT) connectivity is seen as a pathway to enterprise competitiveness. Some APEC economies like Indonesia, China, Taiwan, and Singapore have demonstrated how ICT connectivity has helped in empowering women economically to enhance their competitiveness (Jarett 2013). The Philippines and other APEC economies should study how these successful experiences can be replicated.

Voicelessness and lack of representation in governance and decisionmaking structures

The presence of women in corporate boards can enhance firm performance, especially if there are three or more women board members. However, in a survey by Jarret (2013), of 3,054 companies from 1997 to 2010 in five APEC economies (i.e., Indonesia, Malaysia, Philippines, Singapore, and Thailand), women membership in corporate boards was found to be less than 10 percent. This shows the untapped potential of women in corporate governance. Women microentrepreneurs need to organize to have a voice in policymaking bodies. Unfortunately, many women micro and small entrepreneurs are not affiliated with women's groups and coalitions that pursue women's economic rights. Limited available data show only a small percentage of women in the informal economy and MSMEs are organized, usually in the form of cooperatives or politically driven organizations that do not necessarily advocate women's issues in the sector.

Meanwhile, those in the informal economy are also excluded from or underrepresented in the structures and processes of decisionmaking. As such, they do not have a voice in the crafting of policies and programs. While sector-based participation and representation of women is now normally practiced, the issues affecting the economic rights of women in the informal economy and MSMEs are not necessarily voiced out or carried by women representatives, except in a few instances, such as in the National Anti-Poverty Commission where the informal economy and the MSME sector are represented by a woman.

Women must participate in shaping the local economic environment, and the business and investment climate. They must assert their voice in local development and governance structures where economic decisions are made. Women entrepreneurs must seek for their proper representation in both local and national policymaking structures.

Men have the advantage of being able to form clubs that foster their business interests. Governments can support business networks for women and encourage their involvement in general business associations that have been dominated by male-owned enterprises. By giving support in setting up new associations and networks, especially among women-led enterprises, new business relationships can develop between women entrepreneurs and their male counterparts. Women can provide some of the services that male-led enterprises require. Men can and should be part of the solution (Jarett 2013).

Vulnerability and lack of access to health and sociolegal protection

Women entrepreneurs are most vulnerable in times of illness, disability, work injury, maternity, unemployment, and old age. Uncertainty of the market, instability of the business environment, and insecurity of work pose continuing challenges to women entrepreneurs.

The financial crisis and the onslaught of super typhoon Haiyan dramatized the vulnerability of everyone, most especially of women workers and microentrepreneurs. The need for safety nets and social insurance schemes to cushion the impact of external shocks has become a necessity. Women entrepreneurs must build their capacities for resilience and business continuity in the midst of external shocks.

Women microentrepreneurs and workers in the informal economy suffer from unsafe and unhealthy working conditions. For women informal workers, stress is a common health risk, which is manifested by erratic blood pressure and heart rate, ulcers, migraines, and menstrual irregularities that affect their productivity (Barrameda 2009).

Workers in the informal economy are usually outside of government health and social protection programs that are exacerbated by inadequate financial support for the implementation of programs under the National Occupational Safety and Health Plan (Barrameda 2009).

The lack of security and protection from violence in the workplace, including sexual harassment, is another issue that women in the informal economy and MSMEs face on a daily basis. Because of the tight labor market, poor women tend to accept jobs that offer substandard wages, long hours of work, and poor working conditions that make them vulnerable to occupational health and safety hazards, including sexual harassment, with little or no access to security and protection. Women in the informal economy also face physical, psychological, and economic abuses when accessing loans without the consent or approval of their husbands, and this continues when they are no longer able to pay their loans.

The country's social security schemes currently cover only 31 percent of the total employed, effectively marginalizing the larger part of the workforce that can be found in informal, less permanent, and vulnerable occupations. Women are concentrated in the lower strata of unpaid family and industrial home workers where earnings are meager and where poverty-inducing risks, such as illness and job insecurity, are high.

One progressive step in the Philippines is the Philippine Health Insurance Corporation (PhilHealth) Board Resolution No. 1479, series of 2011, which approved the implementation of the partial subsidy scheme for women microentrepreneurs and self-employed and informal economy workers. Another is PhilHealth Board Resolution 1613 that prioritizes unmarried mothers and pregnant women to guarantee access to health insurance. The implementation of these policies needs to be closely monitored, as it requires women to enroll in PhilHealth in order to avail of the services. Local government units (LGUs) and PhilHealth should provide assistance to facilitate their enrollment.

Dearth of data

There is a dearth of data on access to capital, property rights, and ownership of SMEs, among other issues. For example, analysis of access to finance remains incomplete because of lack of data on loans from informal sources. This matter is unrecorded and untracked in the official financial statistics.

Without systematic collection of information about women-owned enterprises, it is not possible to determine where those businesses are, whether existing programs are effective in expanding those businesses, and how an economy is benefiting from the growth of these businesses.

Through data and case studies, businessmen can be made to realize that women empowerment can serve as a mechanism to achieve inclusive growth and promote corporate social responsibility. This implies the need for more resources to identify where additional data are needed to illustrate the link between women's empowerment, innovation, better firm performance, and economic growth. This way, business and industry stakeholders, including women entrepreneurs, can be helped to advocate change within their firms and within their respective economies.

Governments can take advantage of APEC as a channel to popularize high-level economic indicators and business case studies focused on women's empowerment to a broad audience, especially the business sector. With the guidance of data, development programs can be formulated and implemented by individual firms. Economies should develop such programs according to their national circumstances and must work with the business sector in coming up with initiatives that can unleash the economic potential of women in APEC economies (Jarett 2013).

Each economy must take action in defining which sectors women can "win or lose" as globalization and regional integration unfold in 2015 onward. A critical step for any economy is to start identifying women-owned enterprises and tracking their development. This is not an easy task, as many of these businesses are small and operate in the informal economy.

Today, compared to three decades ago, the knowledge base and evidence supporting women's economic empowerment have accumulated and buttressed the advocacy that their economic participation must be nurtured and advanced. The National Center for APEC (NCAPEC) has started to compile empirical evidences that are now contained in the 2013 publication, *Economic empowerment and inclusion of women in APEC economies*.

Recommendation

At the level of the Philippine economy

In the Philippines, which is globally acclaimed as having a narrow gender gap compared with other countries, there have been extensive efforts to integrate gender in national development. Yet criticisms persist that gender stays enclosed in social development and does not penetrate "hard" areas like finance, energy, infrastructure, and the like. Where agency heads perceive gender as inconsequential or unrelated to their respective agency mandates, the talk of gender will not walk far enough to reach the frontlines where it matters. The quality of the services delivered to the constituents could be gender blind or gender insensitive. If policymakers see the link between gender and national productivity and wealth creation, the case for gender will become a more attractive proposition. In fact, this is now an action point for the Philippine Commission on Women (PCW) and the National Economic and Development Authority-Social Development Committee.

By 2020, free trade is expected to be in full swing and to comprise the new order in APEC economies. Efforts must now be taken to ensure that women's economic opportunities are not eroded and that women are prepared to cope with the challenges of the new order. There is a need to strengthen women enterprises to prepare them to compete in the global marketplace amid environmental and business challenges. Three strategic goals must be pursued: (1) empower women entrepreneurs and prepare them for greater trade liberalization, (2) make women-owned enterprises competitive, and (3) build business resilience and sustainability.

- **Women's economic empowerment**

    1. Break the access barriers. The barriers to women's entrepreneurship are inadequate access to productive resources, lack of social preparation and technical skills for entrepreneurship, lack of readiness to global markets, vulnerability and lack of access to health and sociolegal protection, and difficulty of sustaining and scaling up of enterprises, among others.
    2. Intensify actions to remove access barriers through more effective service delivery. LGUs should be mobilized in expanding the provision of business development services and in ensuring that these services reach women entrepreneurs in their areas of jurisdiction. Access barriers, especially access to finance, hinder the setting up and expansion of women-led MSMEs. This means ensuring the availability of business development services for women, such as training, counseling, and consultancy services, including access to financing, cooperatives, or business association toward more stable business ventures. There is a need to improve access of women entrepreneurs to relevant business information and linkages, such as trade fairs, subcontracting, market matching, product design, and other information that would help them grow their business.

3. Promote the organizing of women microentrepreneurs in the informal economy. This is an extremely underserved group due to multiple constraints (e.g., financial, nonfinancial, and gender-based constraints to business performance). Assistance should be provided to women entrepreneurs in the informal economy to organize themselves into cooperatives or business associations, so they could have better access to services. Women microentrepreneurs' associations can take the form of self-help groups, cooperatives, and federations by trade and industry sector. This will make it easier for government and business service providers in the private sector to reach and help in enhancing their competitiveness. Incentivize formalization to encourage entrepreneurs in the informal sector to register through provision of business development services or productivity grants or subsidies. For example, microentrepreneurs who register may be given opportunities to be in the supply chain of government procurement programs.
4. Globalize the outlook of women entrepreneurs. There is a need to educate women entrepreneurs on what free trade means for their enterprises—its opportunities and risks, and how they can enhance their readiness to global markets. They should be made aware of the rapid changes in the regional and global business environments, and understand the importance of knowing and complying with regional and global standards of quality, productivity, and efficiency.

Studies on the effects of liberalization in particular sectors, especially the trades where women are dominant (i.e., agriculture and tourism), should be pursued. The APEC Women and the Economy team in the Philippines can initiate these actions in collaboration with women study centers and women organizations. For example, a dialogue on food security in the context of a liberalizing economy was organized by HOMENET Philippines in collaboration with the University of the Philippines' College of Social Work and Community Development. The dialogue was held on October 15–18, 2013.

- **Enhancing women's competitiveness in a free trade environment**

1. Provide continuous capacity development on entrepreneurship. Examples of relevant activities for women microentrepreneurs

include good manufacturing practices, how to start a business, hazard analysis and critical control points, packaging and labeling, ISO 22000: 2005 food safety management system marketing seminar, and product development. It is recommended to strengthen and integrate core messages in capacity building toward developing business discipline and competitiveness and inculcating innovative approaches and business strategies. Lessons from the studies and workshops on the accelerator program of APEC should be consolidated, and steps should be taken on translating these into actions at the country level.

2. Leverage APEC initiatives on innovation and ICT as mechanisms for enhancing women enterprises. Innovation and ICT are relatively new topics in APEC. The discussions in Ningbo, China, in 2014, can shed light on how this agenda can be advanced and how it can be translated into actions at the country level. Promotion of entrepreneurship and innovation, access to international market, and access to finance are the priorities for SMEs both in the APEC and ABAC. There is a need to identify how e-commerce tools can provide solutions to SMEs in each of these priorities using China as an example, and to explore how global supply chains can be enhanced through e-commerce and how SMEs can benefit (ABAC 2013).

- **Ensuring sustainability and resilience**

1. LGUs should be mobilized to assist MSMEs in anticipating and, as much as possible, coping with the impacts of adverse events like financial crises and extreme climate disturbances. They should be more proactive in facilitating access to pertinent information like geohazard maps and early warning information. LGUs should institutionalize their disaster preparedness programs and make sure MSMEs are involved in the process. In addition, social protection programs should be present to improve coverage and ensure delivery of benefits and services to vulnerable groups.

   LGUs must strengthen their capacity to implement MSME development policies (i.e., *Barangay* Micro-Business Enterprise Law, MSME, Magna Carta of Women). Models for implementing microenterprise programs could be found in initiatives such as DTI's RuMEPP and PCW's GREAT Women Project. The experience of the GREAT Women Project in engaging local governments to support women microentrepreneurs (including the use of the gender and development budget for programs and services for women empowerment, setting up of one-stop-shop business development services, passage of local policies for women's economic empowerment, and partnerships with the private sector to upgrade women enterprises) can be replicated in other parts of the Philippines. Similarly, the success of DTI's RuMEPP should be replicated in other provinces.

2. There should be sector-based capacity building of women entrepreneurs in terms of understanding how free trade could affect their enterprises. The effects could vary among different sectors involved in trade. Country-level studies should be done for different sectors. For the Philippines, agriculture and tourism are priority sectors, and the effects of trade liberalization should be understood by women entrepreneurs.

    Knowledge resources on business continuity planning are available at the APEC SME Crisis Management Monitors and case studies of postcrisis SME recovery; these can be accessed through the Internet and can be used to guide actions at the country level.

    In collaboration with the Women's Business Council, the APEC Philippine team can initiate a program to revisit data collection schemes and available data on women entrepreneurs and enterprises. Relevant and updated data are needed to break the access barriers faced by women entrepreneurs and improve the enabling environment for women entrepreneurship.

At the APEC regional level

APEC has implemented a number of women-related directives and initiatives.

In 2011, the APEC Transportation Working Group launched a Women in Transportation initiative to develop and implement actions that will advance the opportunities for women throughout the sector. The Women in Transportation initiative builds on the core principles of APEC's Policy Partnership on Women and the Economy (PPWE). Transportation and mobility are central to trade facilitation, sustainable development, and economic growth. As countries move to address evolving transportation needs, developing all available human capital is vital to enhancing the transportation industry's global competitiveness and supply chain performance. The APEC Women in Transportation effort focuses on identifying barriers to women's inclusion in the transportation workforce, as well as strategies for enhanced opportunities in four key areas of the career continuum: education, access to jobs, retention, and leadership development. Public-private engagement comprises an integral component of the effort to strengthen the role of women in transportation. The Women in Transportation initiative sets a model for embedding women empowerment in the work of other APEC working groups.

Two years later, Taiwan hosted the 2013 APEC Conference: Innovation and ICT for Women Business and the First Public-Private Partnership Network Meeting. The conference is part of the project, "Innovation for Women and Economic Development: Facilitating Women's Livelihood Development and Resilience with ICTs", cohosted by Taiwan and Indonesia. In this two-day event, representatives of APEC economies shared their experiences on how ICT can help women improve their livelihood and business opportunities, and how women in different economic environments can use ICT to create various livelihood activities. The conclusions and recommendations gathered from this conference will be submitted to the third meeting of the APEC PPWE and to the joint ministerial meeting on SMEs and women.

In addition, a 2013–2015 APEC study on "Evaluating Business Environments" in Malaysia, the Philippines, Thailand, and Indonesia is analyzing the factors affecting access to trade and the growth of women-owned SMEs in these member-economies.

The NCAPEC recommends more involvement of women in the business sector. Specifically, each APEC economy must educate local business communities about the importance of engaging and empowering women in fostering business development and economic growth. Close collaboration with the business sector should lead to the formulation of initiatives that would promote women's economic empowerment and enterprise growth. This will enable the private sector to enhance APEC's efforts in gender-responsive SME development.

Meanwhile, ABAC encourages APEC economies to organize dialogues to share statistics on the benefits of engaging women in the workforce and share best practices on how this can be effectively done. This advocacy can be further expanded among members of the business community. APEC and the PPWE must endeavor to engage the business sector in defining frameworks, indicators, and targets for business development in the context of a globalized business environment.

It is also important for APEC economies to continuously conduct labor market intelligence studies and monitor, as far as possible, the opportunities for women's greater economic involvement in the APEC region and all over the world. This includes being able to detect the opening of markets for goods and services, assess the relative competitiveness of women's enterprises in the APEC region and other external markets, and anticipate the impacts of environmental integrity and enterprise sustainability on business. This can be consolidated into a framework for increasing women's economic opportunities, an agenda being recommended to be part of the APEC discussions in 2015 that will be hosted by the Philippines.

The era of free trade in APEC economies presents economic opportunities and risks, including external risks due to natural hazards and volatile financial systems. Trade policy affects men and women differently because they have different economic and social roles, and different access to and control over resources. Women face bigger challenges in taking advantage of trade liberalization; they also tend to be more affected by the negative side effects of trade liberalization. The Asian financial crisis and Typhoon Haiyan have vastly demonstrated the negative impacts of disasters on lives and economies.

The Philippine delegates to the APEC SME and Women in the Economy meetings (i.e., Women's Business Council, PCW, and DTI) have proposed to organize WEF discussions in APEC 2015 around these themes. The suggested subthemes are:

1) Empowerment of women entrepreneurs
   - Access to finance and productive resources
   - Technical and vocational education
   - Women leadership and political representation
   - Inclusion of women microentrepreneurs in the informal economy in the agenda of APEC
2) Enhancing enterprise competitiveness
   - Innovation (new business models)
   - ICT connectivity (skills building, infrastructure)
   - Globalizing the outlook of women entrepreneurs (building their readiness for the international markets)
   - Encourage formalization, organization, federations, networks, and trade associations (policy measures, good practices)

3) Ensuring enterprise resilience and reducing vulnerability
   - Business continuity planning
   - Disaster preparedness and reduction of vulnerability
   - Social safety nets

The APEC 2015 meetings could push for more sector-specific, public-private dialogues into ministerial meetings to ensure that the barriers to women's empowerment are addressed across sectors.

Final remarks

Increasing the economic opportunities of women in APEC economies is smart economics. It could well be the gateway to prosperity and a way out of poverty. This implies that APEC economies must take national-level and regional actions toward creating enabling environments for women enterprises and empowering women entrepreneurs.

The significant numbers of women entrepreneurs reflect the huge potential of women to make substantial contributions to the national economy. For this to be realized, they need to be supported through appropriate and timely interventions toward growing and scaling up their business.

Gender as a thematic area in MSME development can push local stakeholders to analyze women's and men's access to resources and opportunities, and their respective constraints in scaling up their enterprise. Actions to remove the barriers to women entrepreneurship are essential to ensure the growth of women enterprises. APEC economies can look into affirmative measures, such as providing tax holidays and more suitable social security requirements for SMEs and women enterprises in the informal sector.

The meaningful governance of SMEs and women enterprises requires effective monitoring of business progress, economic contribution, and impact of the support to SMEs and women enterprises. Effective monitoring is a major challenge due to limited data. Additionally, data on SMEs are mixed up with those of the informal sector, making it difficult to separate the economic contribution of SMEs from that of the informal enterprises. Despite these practical challenges, a greater push for women economic empowerment in APEC economies remains an imperative.

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4 Inputs for Philippine Hosting of APEC 2015: Food Security

Roehlano M. Briones, Ivory Myka R. Galang, and Danilo C. Israel

Abstract

Global food security has been the aim of many unilateral, as well as regional and global initiatives. Among the fora that have exerted significant efforts on food security is the Asia-Pacific Economic Cooperation (APEC). In fact, food security shall be high on the agenda of the APEC Summit and other meetings in 2015. This paper recommends that the Philippines, as host of the 2015 Summit, should turn to agribusiness development that is based on sustainable food supply chains as its priority advocacy, while continuing to promote elements of food security as expressed in the APEC road map. This "branding" integrates a strong leaning toward Blue Economy, with the agribusiness development and road map thrusts of the Department of Trade and Industry and the Department of Agriculture.

Introduction

The recent food price hikes have led governments around the world to refocus their priorities on agriculture, particularly on addressing food security issues. Many countries are anxious to see the world's food supply improve because of two reasons: (1) scientists have been anticipating a leveling in the world's capacity to grow food in the next decades and (2) climate change continues to be a threat.

According to the World Food Summit (1996), food security exists "when all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food, which meets their dietary needs and food preferences for an active and healthy lifestyle" (FAO 2008, p. 1). Given this definition, food security can be characterized in four dimensions: availability, accessibility, utilization, and stability. To satisfy all of these dimensions, an entire food system that is robust enough against threats (e.g., climate change, rising population, and continuing poverty) must be put in place.

There have been unilateral, regional, and global initiatives that aim for global food security. The Asia-Pacific Economic Cooperation (APEC) is among the platforms that have exerted significant efforts toward this aim.

In 2015, food security will be high on the agenda of the APEC Summit and its various meetings. As the Philippines will play host to the summit, this paper seeks to advise the Philippine government on its possible position on food security.

Food security in APEC

Agriculture and food security

Discussions on food security in APEC meetings have reached the ministerial level twice. In 2010, during the First APEC Ministerial Meeting on Food Security in Niigata, Japan, APEC economies agreed to collectively work on two shared goals: (1) sustainable development of the agriculture sector and (2) facilitation of investment, trade, and markets.

The elements of the first goal are the expansion of food supply capacity, disaster preparedness, development of rural communities, and addressing climate change and natural resource management challenges. The second goal includes agricultural investment, facilitation of trade in food and agricultural products, firming up of agricultural markets, improved agribusiness, and advancement of food safety practices.

The ministerial meeting recognized the APEC Business Advisory Council's (ABAC) role in proposing the establishment of an APEC Food System in 1999, as well as in creating the Strategic Framework for Food Security in APEC in 2009, which served as APEC economies' guide toward a more sustainable supply of safe and healthy food. In addition, the meeting instructed senior officials to integrate ABAC into the region's overall efforts toward food security attainment. An action plan was also proposed for individual economies, and senior officials were tasked to monitor and report the progress of implementation to APEC Ministers (APEC 2010).

The Second Ministerial Meeting, held in Kazan, Russia in May 2012, reaffirmed the objectives set under the Niigata Declaration and reinforced five key action plans: (1) increase agricultural production and productivity; (2) facilitate trade and development of food markets; (3) enhance food safety and quality; (4) improve access of socially vulnerable groups to food; and (5) ensure a sustainable ecosystem-based management and combat illegal, unreported, and unregulated fishing, and associated trading activities (APEC 2012).

The first of these key areas, which is on increasing agricultural production and productivity, is a critical factor in attaining food security. One of the proposed approaches in the Kazan Declaration that aims to fulfill this is the development of agricultural biotechnologies (APEC 2012).

In the run-up to the Second Ministerial Meeting, senior officials already agreed to create the Policy Partnership for Food Security (PPFS) in 2011. This was followed by a PPFS Management Council Meeting in 2012 in Vladivostok, Russia, where the PPFS Action Plan for 2012–2013 was proposed. In January 2013, the action plan was discussed by APEC economies during the plenary meeting in Jakarta, Indonesia. Four working groups, each with a chair/co-chair, were established to focus on the following: (1) Stock-Take and Road Map Towards 2020 (Japan, Russia, and the United States), (2) Sustainable Development of Agricultural and Fishery Sector (Indonesia), (3) Facilitation on Investment and Infrastructure Development (Russia), and (4) Enhancement of Trade and Market (Australia) (APEC 2013a).

After the Kazan meeting, the First PPFS Management Council Meeting was held in Singapore in April 2013. The agenda included ironing out the existing plans of action of each working group and drafting the agenda for the Second PPFS Plenary Meeting in Indonesia.

Thus, in the Second PPFS Plenary Meeting held in Medan, Indonesia in June 2013, there were sharing of experiences on best practice and partnership between food companies and small holders, and updating from each working group. The meeting likewise put the finishing touches on the strategic road map and highlighted the need for an operational business plan that could engage the private sector's participation in the region's food security efforts (APEC 2013b).

Fisheries

In 1990, APEC established the Marine Resource Conservation Working Group, which aimed to promote balanced and integrated domestic and regional policies and programs (i.e., those that could facilitate the sustainability of marine and coastal environments in the APEC region). The following year, APEC created the Fisheries Working Group, which aimed to promote fisheries and aquaculture activities that yield optimal economic value and support local communities and livelihoods.

The First APEC Ocean-Related Ministerial Meeting was held in Seoul, Republic of Korea, on April 25–26, 2002. The Seoul Ocean

Declaration—the meeting's main output—set the tone for future agenda on ocean and coastal conservation and sustainable management in the Asia-Pacific region.

Meanwhile, the Second APEC Ocean-Related Ministerial Meeting, which was held in Bali, Indonesia, on September 16–17, 2005, produced the Bali Plan of Action. This plan provides the framework for a sustainable development of marine environments and resources in the APEC region, and aims to attain economic benefits from ocean resources and create resilient marine resource-dependent communities.

The Paracas Declaration was formulated during the Third APEC Ocean-Related Ministerial Meeting in Paracas, Peru, on October 11–12, 2010. It focused on four main areas: (1) sustainable development and protection of the marine environment, (2) impact of climate change on the oceans, (3) free and open trade and investment, and (4) the role of oceans in food security to address key ocean-related challenges.

Specifically, the Paracas Declaration stated that food security is threatened by fishing overcapacity; illegal, unreported, and unregulated fishing; maritime crime and piracy; marine invasive species; climate change; and other stressors. It further argued that these activities must be addressed through effective measures—including sustainable resource management—while processing, distribution, and trade systems must be oriented in a way that could maximize and balance economic, social, and nutritional benefits. Under the Paracas Declaration, the Paracas Action Agenda was also formulated.

In 2011, the Marine Resource Conservation Working Group and the Fisheries Working Group merged to become the Ocean and Fisheries Working Group. Its first meeting, which was held in Kazan, Russia, on May 24–26, 2012, prompted members to endorse its work plan.

Over the years, the group has implemented projects and set annual meetings and other activities that focus on marine pollution, among other issues. More recently, the focus extended to issues on illegal, unreported, and unregulated fishing, and the sustainable development of aquaculture.

In 2012, APEC Leaders gathered in Vladivostok, Russia, for the 20th APEC Economic Leaders' Meeting. The meeting produced the Vladivostok Declaration, which, among others, recognized natural resources and the ecosystems as important foundations of sustainable economic growth.

Food security in the Philippines

State of food security

The Philippine economy's growth in recent years has been one of the fastest in Asia. However, this notable achievement has not yet trickled down to the poor, especially to agriculture-dependent households. The agriculture sector's share in the country's gross domestic product (GDP) remained at 12 percent in 2010, but about one-third of the labor force depends on that relatively small share in GDP. This has serious implications on the poverty incidence in rural areas. According to Reyes et al. (2012), the poverty incidence in 2009 among agriculture-dependent households was 57 percent, while that of nonagricultural households was only 17 percent.

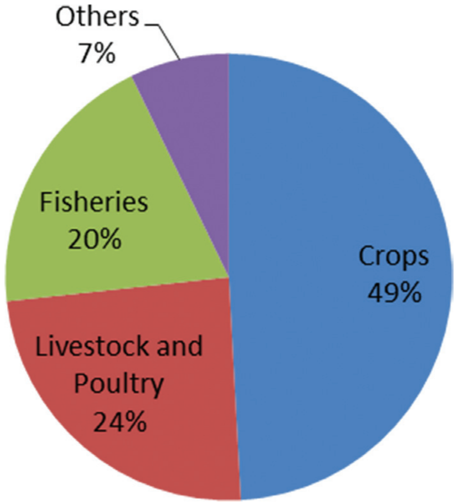
The worsening poverty incidence in the country has resulted in incidences of hunger and malnutrition. From 2010 to 2012, an average of 17 percent of the total population was undernourished (IFPRI 2013). Although it has already substantially gone down from the "alarming" rate of 24.2 percent in the early 1990s, the current average still falls under the "serious" level. Also, the Philippines has a greater prevalence of stunting among children under five years of age at 32.3 percent compared to Viet Nam's 30.5 percent.

Within the agriculture sector, several subsectors differ in their contributions to the economy (Figure 1). The biggest share in the gross value added in agriculture and fisheries still comes from the crop subsector, mainly *palay*, corn, coconut, sugarcane, banana, mango, pineapple, coffee, cassava, and rubber. The second biggest share is that of the combined shares of livestock and poultry subsectors. Hog and cattle are among the major livestock products, while chicken and chicken eggs are the major poultry products. In the fisheries sector, which accounts for a 20-percent share in the gross value added, most fishery products are from aquaculture and municipal fisheries. Agriculture's contribution to value added also spans to manufacturing and services through forward linkages (e.g., processing and storage) and backward linkages (e.g., fertilizers and veterinary services).

Policies

Agriculture and Fisheries Modernization Act of 1997. Food security is one of the principles behind the Agriculture and Fisheries Modernization Act of 1997. The act was legislated to empower the agriculture and fisheries sector to become more competitive. Among others, it aims to: (1) modernize the agriculture and fisheries sector by

Figure 1. Average shares in gross value added in agriculture and fisheries (constant prices), 2010–2012



Source: Bureau of Agricultural Statistics (2013)

developing them into technology-based industries; (2) increase small farmers' profit and income; (3) ensure that food supply is accessible, available, and affordable at all times; (4) encourage horizontal and vertical integration; and (5) encourage value-adding activities in the production of agricultural and fishery outputs.

The comprehensive Agricultural and Fisheries Modernization Plan, which was formulated to address several issues confronting the sector, includes, among others, provisions on: (1) production and marketing support services (i.e., credit, irrigation, information and marketing support service, infrastructure, and product standardization and consumer safety); (2) research, development, and extension; and (3) trade and fiscal incentives.

The Philippine Fisheries Code of 1998 (Republic Act No. 8550). The Fisheries Code provides for the development, management, and conservation of fisheries resources, and codifies all laws on fisheries and aquatic resources. It declares that as a policy of the state, food security is the overriding consideration in the utilization, management, development, conservation, and protection of fishery resources.

It further states that food security may be achieved through self-sufficiency (i.e., ensuring adequate food supplies from domestic production), self-reliance (i.e., ensuring adequate food supplies through a combination of domestic production and importation), or through pure importation (Section 4, 45).

The code mandates that a flexible policy on food security shall be adopted in response to changes in demographic trends for fish, emerging trends in the trade of fish and other aquatic products in both domestic and international markets, and the law of supply and demand (Section 2, a).

Comprehensive Agrarian Reform Program (CARP). CARP is the redistribution of both public and private agricultural lands to landless farmers and farm workers within a 10-year period. The legal basis of this CARP is the Comprehensive Agrarian Reform Law, which was signed in 1988 under the Corazon Aquino administration. Aside from land redistribution, the Support Services Office, which was created under such law, was also tasked to provide support services to help improve the quality of life of agrarian reform beneficiaries (ARBs)—both socially and economically. Among these services are technological, marketing, and credit support. In addition, the Support Services Office provides infrastructure development, irrigation facilities, and price support, among others (DAR 2013a). These support services are consistent with Strategy 1.3 of the Philippine Development Plan (PDP), which pertains to the transformation of ARBs into viable entrepreneurs.

The current version of CARP, known as the Comprehensive Agrarian Reform Program Extension with Reforms, will effectively terminate new land acquisition and distribution. This means that agrarian reform in the country is gearing up for the next phase.

PDP: Competitive and Sustainable Agriculture and Fisheries Sector. A more recent development plan for the agriculture and fisheries sector is the *PDP 2011–2016*. The agriculture and fisheries sector plays a significant role in the attainment of the twin goals of PDP, namely, inclusive growth and poverty reduction. The sector serves as the resource base of the industry and services sectors and, thus, has the potential to impact employment by improving the level of income of a huge part of the labor force (NEDA 2011).

The PDP 2011–2016 envisions to create a "competitive, sustainable, and technology-based agriculture and fisheries sector, driven by productive and progressive farmers and fisherfolk, supported by efficient value chains and well integrated in the domestic and international markets contributing to inclusive growth and poverty reduction". To attain this, three specific goals must be met: (1) improved food security and higher incomes, (2) increased sector resilience to climate change risks, and (3) enhanced policy environment and governance (NEDA 2011, p. 113).

In pursuing food security and higher income, the PDP 2011–2016 suggests the following strategies: (1) raise productivity and income of agriculture-dependent households through production diversification, market development, rural infrastructure development, research and development, and secured food supply; (2) expand and improve the value chains to attract more investments and to create more employment opportunities; and (3) transform ARBs into viable entrepreneurs (NEDA 2011).

The second of these goals has direct implications on the food security issue. Extreme weather disturbances (e.g., typhoons) have become more frequent in recent decades and, therefore, have adversely affected the country's domestic food production. Climate change has damaged infrastructure and destroyed crops, livestock, and poultry, among others. The plan, thus, proposes the following solutions:

- Adopt ecosystem-based approaches, conservation efforts, and sustainable environment and natural resources-based economic activities (e.g., agri-ecotourism)
- Invest in the development of technologies that are climate change sensitive, and infrastructure and food production systems that are climate resilient
- Strengthen the insurance system
- Include natural hazards and climate risk in agricultural land-use plans
- Empower communities to build their ability to respond to climate risks and natural hazards
- Continue assessing the vulnerability and adaptation of food-producing areas

Food Staples Sufficiency Program (FSSP). The FSSP was launched by the Department of Agriculture (DA) in 2012 to achieve the main goals set under the PDP 2011–2016 for the agriculture sector, namely, food security and increased income. The FSSP covers staples, such as white corn and cassava, but it greatly focuses on rice—the country's main staple (DA 2012).

The DA has pursued self-sufficiency for three reasons. The first reason rests on the trust issue among countries. The FSSP proponents believe that "countries can be held to ransom by any reason (e.g., economic, political, ideological) even in a highly globalized world" (DA 2012, p. 1). World rice trade involves government decisions that are politically motivated at times.

The second reason tackles the power of major rice-producing countries over rice exportation. According to the FSSP document, 80 percent of the total rice exports are produced by the top five exporters of rice. As one of the world's top rice-consuming countries, the Philippines is vulnerable to trade restrictions that exporting countries could impose in the future for whatever purpose. The third reason for aiming for self-sufficiency is that the world rice market is "vulnerable to destabilizing speculation and panic" (DA 2012, p. 2).

The FSSP's three main goals are: (1) to raise farm productivity and competitiveness, (2) to enhance economic incentives and enabling mechanisms, and (3) to manage food staples consumption. The proposed strategies for the first main goal focus on improving the provision of support services, such as irrigation; research, development, and extension; postharvest facilities; and high-quality seeds and fertilizer. For the second goal, the strategies proposed include raising domestic procurement, minimizing the National Food Authority's role in importation and distribution, improving credit access, and expanding the coverage of crop insurance. The third set of strategies focuses on diversification of food staples and on food waste reduction (DA 2012).

BFAR programs and projects

The Bureau of Fisheries and Aquatic Resources (BFAR) has ongoing programs and projects that promote the conservation of fisheries and aquatic resources. Among others, an important program is fisherfolk empowerment by organizing Fisheries and Aquatic Resources Management Councils. Another major program is the *Bantay Dagat*, which, among others, seeks to provide the necessary logistics, such as patrol boats equipped with navigational tools to strengthen local capabilities in curbing illegal fishing activities.

The BFAR also has ongoing livelihood programs that provide fisherfolk with appropriate hands-on training on various technologies in the culture of fish and other aquatic organisms. One of these technologies is aquasilviculture, an environment-friendly culture system in mangrove areas. Still another BFAR continuing program is on offshore fisheries, which seeks the promotion of offshore fishing through its research and oceanographic vessel, M/V DA-BFAR.

From 2010 to the present, specific BFAR activities under the category of production support services include fish seed production and distribution, maintenance of *tilapia* and *bangus* satellite hatcheries, maintenance of mariculture parks/zones, conduct of production-related research activities, and other related projects. The specific activity listed under the category of market development services is market matching and participation in agri-aqua fairs and exhibits.

From 2010 to the present, specific BFAR activities classified under infrastructure and postharvest development services include mariculture parks/zones, establishment of cages for livelihood, establishment and maintenance of seaweed tissue culture laboratories, construction and improvement of municipal fish ports, distribution of postharvest equipment and machineries, and other similar activities. Projects of the bureau that are classified as regulatory services include coastal resources management, red tide monitoring, mangrove protection, fish health management, and other similar activities.

Biotechnology and varietal improvement

To achieve greater food production and productivity, one promising strategy is to develop biotechnology. The country has a long history of biotechnology activities, such as plant and animal varietal improvements, biosafety, and disease and pest management (Box 1).

Aside from genetic engineering, the country pursues other areas for research and development in the field of science and technology, such as nanotechnology and genomics. Both nanotechnology and genomics are under the emerging technology sector handled by the Philippine Council for Industry, Energy and Emerging Technology Research and Development (PCIEERD) (2010, 2011a, 2012).

In 2011, the Department of Science and Technology (DOST), through PCIEERD, identified genomics as one of its priority programs. Genomics is a discipline in genetics that studies the gene sequences or genetic blueprint of organisms. These genetic information are being used in different fields, such as health, forensics, and agriculture. The *Philippine Genomics Roadmap for 2012–2018* was thus developed during this year (PCIEERD 2011b).

Some of the agriculture-related initiatives in genomics include identification of markers for bunchy top virus-resistant abaca, drought-resistant eggplant, bananas, cultured bangus, and tilapia. In 2013, the DOST, this time through the Philippine Genome Center, initiated a research on identifying and propagating better sugarcane varieties that would boost the sugar industry. The Philippine Genome Center is also conducting research on deoxyribonucleic acid (DNA) markers of coconuts (Andrade 2013).

Based on the *Genomics Research and Development Roadmap for 2012–2018*, the expected output include the following:

Box 1. Evolution of the Philippine biosafety system

In 1987, a committee composed of scientists from the University of the Philippines Los Baños and International Rice Research Institute, the quarantine officer of the Bureau of Plant Industry, and the director for crops of the Philippine Council for Agriculture, Forestry and Natural Resources and Development drafted a Philippine biosafety policy after being alerted of the imminent harm posed by exotic species entering the country, as well as of issues in genetic engineering.

Former President Corazon Aquino issued Executive Order (EO) No. 430 in 1990 to establish the National Committee on Biosafety of the Philippines, which was tasked to "formulate, review, and amend national policy on biosafety, and formulate guidelines on the conduct of activities on genetic engineering". The committee consisted of four representatives from line agencies (Department of Environment and Natural Resources [DENR], Department of Health [DOH], DA, and DOST), four scientists, and two community representatives. In 1991, the Philippine Biosafety Guidelines was released after consultations with different stakeholders about the draft Philippine biosafety policy.

In 1998, the National Committee on Biosafety of the Philippines issued the "Guidelines on Planned Release of Genetically Modified Organisms (GMOs) and Potentially Harmful Exotic Species". In 2001, the Policy Statement on Modern Biotechnology was issued by former President Gloria Macapagal-Arroyo to emphasize the government's role in the promotion and use of modern biotechnology. A year after, DA Administrative Order No. 8, Series of 2002, was issued to implement the "Guidelines for Importation and Release into the Environment of Plants and Plant Products Derived from the Use of Modern Biotechnology".

In 2006, the National Committee on Biosafety of the Philippines was reorganized as mandated by EO 514; this EO also established the National Biosafety Framework. The new committee is now composed of five scientists, three representatives (i.e., consumers, community, and industry), and seven representatives from line agencies (i.e., DENR, DOH, DA, DOST, Department of Foreign Affairs, Department of Trade and Industry [DTI], and Department of the Interior and Local Government).

The introduction of genetically modified corn and eggplant known as Bt corn and Bt eggplant, respectively, had different consequences. Both these GMOs have been criticized for health and environmental safety issues. In 2003, Bt corn was approved by the DA for commercialization. The Bt eggplant, however, did not reach the commercialization stage that Bt corn has achieved because of a 2013 court ruling to halt Bt eggplant's confined field trials (FDA 2013).

Source: Bureau of Plant Industry (2013)

- Marker-assisted breeding for varietal improvement of economically important endemic crops and staples
- DNA fingerprinting of biofertilizer, biopesticides, and probiotics for improvement of industrial products

- Marker-assisted breeding for varietal improvement of economically important aquaculture resources
- Marker-assisted breeding for varietal improvement of economically important livestock resources

Integration of markets

Since the 1980s, the Philippines has embraced the concept of liberalization in its trading activities. Export taxes and government trade monopolies in the agriculture sector (except for the National Food Authority) were abolished. When the Philippines joined the World Trade Organization in 1994, trade barriers, such as quantitative restrictions (except for rice) and ceiling rates on tariff, were further reduced and/or removed. Other international agreements that the Philippines has been engaged in are the ASEAN Free Trade Agreement and the Philippines-Japan Economic Partnership Agreement (Briones 2009).

Tariff reform programs, which refer to the restructuring of the tariff system, have been undertaken by the Philippines to significantly reduce its tariff rates. The Fourth Tariff Reform Program, which was implemented during the early part of the 2000s, aimed to set uniform tariff rates at about 5 percent. However, some products classified as "sensitive" agricultural commodities are exempted from tariff reduction. These sensitive products are rice, sugar, corn, among others (Briones 2009).

Trade facilitation. Regional organizations, such as the Association of Southeast Asian Nations, aim for regional market integration. This integration encourages member-states to develop their industries in the face of stricter competition brought about by freer trade policies. Aside from strengthening national industries, member-states are also expected to harmonize their policy and regulatory frameworks, which include health and safety standards in the case of food products.

Free flow of investment. Not all industries for services incidental to agriculture, fisheries, and forestry are open to foreign investors. There is a foreign equity limit (40%) for certain sectors or assets, including:

- Production, milling, processing, and trading (except retailing) of rice and corn;
- Operation of deep-sea commercial fishing vessels;
- Lease of agricultural and foreshore lands; and
- Land ownership.

Note: Marine (inshore) fishing is, however, closed to foreign participation.

Agribusiness

Agribusiness involves a set of value-adding activities at different stages of a value chain, such as seed supply, processing, storage, and distribution (NEDA 2004). This organized chain of food production activities offers great opportunities for farmers, farmer organizations, farmer cooperatives, and other stakeholders to substantially increase their income and improve their welfare. Through contract-growing schemes in agribusiness ventures, farmers are able to access quality input, capital, technology, technical support, and—most importantly—guaranteed markets (DAR 2007). Agribusiness accounts for a sizable amount of national output, exceeding by far the contribution to GDP of agriculture alone (Table 1). In general, the higher a country's income is, the greater its GDP contribution of agribusiness relative to agriculture.

According to Balisacan et al. (2011), the existing agribusiness subsectors include, but are not limited to, the following:

- Rice and corn milling
- Flour, cassava, and other grains
- Sugar milling and refining
- Tobacco leaf flue-curing and drying
- Manufacture of desiccated coconut
- Fish canning
- Slaughtering and meat packing

The main government agencies involved in agribusiness development are the DA, the Department of Agrarian Reform (DAR), and the DTI.

The DTI is in the process of preparing industry road maps based on multistakeholder consultations. Agribusiness is one of its priority areas. The road maps aim to chart the direction, goals, and strategies in key industries to enhance competitiveness and sustain inclusive growth (DTI 2016).

The Agribusiness and Marketing Assistance Service under the DA has a vital role in agribusiness promotion, both locally and internationally. It serves as DA's official representative in key negotiations pertaining to agribusiness investments. It also evaluates agribusiness proposals. Apart from being involved in the formulation of long-term plans for the agribusiness sector's competitiveness enhancement, it actively promotes agribusiness investment through different venues (e.g., investment matching and dialogue). The DA supports the preparation of agriculture road maps that cover elements of the agricultural value chain.

Table 1. Share of agriculture and agribusiness in GDP in selected developing countries, recent years (%)

	Agriculture	Agribusiness
Cameroon	40	17
Cote d'Ivoire	28	26
Ethiopia	56	30
Ghana	44	19
Kenya	26	23
Nigeria	42	16
Indonesia	20	33
Thailand	11	43
Philippines	12	15
Agri-based countries	39	22

Source: Wilkinson and Rocha (2009); Philippines data from Balisacan et al. (2011)

DAR is another key supporter of agribusiness. It aims to sustain the gains from land reform by focusing on three components: (1) land tenure improvement, (2) agrarian justice delivery, and (3) program beneficiaries' development. In addition, the agrarian justice delivery serves as a guide for lawyering program beneficiaries to ensure that ARBs' right to free and informed consent is exercised, especially when entering into agribusiness agreements (DAR 2013b).

Furthermore, DAR has adopted several strategies toward agribusiness development. In 1993, DAR adopted the Agrarian Reform Community (ARC) Development to help CARP beneficiaries maximize their land's potential to generate high income. DAR used ARC as a strategy to attain land tenure improvement and to provide support services to ARBs.

In 1999, DAR issued the *Agribusiness Development Program Framework for Agrarian Reform Areas*, a road map for ARC stakeholders to follow. Empowering ARB organizations and ARC households was a must if DAR was to have successful and sustainable area-based rural enterprises. Thus, the ability of ARBs and/or ARCs to manage rural enterprises had to be enhanced. This also enabled target beneficiaries to access support services. The framework for this program recognized the need to differentiate interventions based on spatial dimensions (i.e., ecological, sociopolitical, and economic), area and crop, and existing development programs. It also considered the orientation of ARCs and/or ARBs toward the agribusiness system (i.e., profitability as a rural agriculture-based enterprise). To operationalize the framework, the program interventions included:

- Production and marketing assistance,
- Credit assistance and microfinance development,
- Economic and enterprise development, and
- Appropriate technology and extension services.

In 2007, DAR came up with the document, *Harmonizing the Implementation of Agribusiness Development Programs and Initiatives in the Department*, which mainly delved into the definition of and options for agribusiness, program imperatives, guiding principles, agribusiness development components (i.e., agricultural land development, social infrastructure and local capacity building, and sustainable area-based rural enterprise development), and the development process. The sustainable area-based rural enterprise development, in particular, incorporated the concept of food security. In 2009, the operational guidelines for the development of ARC clusters were released. These clusters were developed to enhance ARC connectivity through capacity building, and federation and alliance building.

Assessment of food security policies and initiatives

Assessment of current priorities

Briones (2012) assessed the feasibility of FSSP targets based on two approaches. One is a comparison with historical trends; the other is a comparison with supply and demand projections. Based on historical trends as shown in Table 2, the FSSP targets (for area and yield growth) are unlikely to be met. However, the DA continues to believe that with enough financial support for its programs and projects, the targets can be attained.

The same is observed from the supply–demand analysis. The FSSP yield targets are unlikely to be attained. In addition, the assumption of fixed consumption per capita is flawed. That is, the per-capita consumption will more likely increase as prices fall due to rising supply, particularly because of the proposed FSSP interventions. To attain rice self-sufficiency, several other factors, such as the affordability of rice and the nutritional norms for rice consumption, must be taken into account.

Meanwhile, certain issues need to be addressed to further improve the investment climate for agribusiness. These issues include existing distortions in the land and labor markets, and the need to improve financial services delivery to small and medium enterprises.

Table 2. Projected and historical growth rates for palay yield, area harvested, and production

	Projected under FSSP 2011–2016	Historical 1994–2010
All palay		
Yield	3.8	1.5
Area	2.4	1.4
Production	6.3	3.2
Irrigated palay		
Yield	3.6	1.1
Area	4.1	2.1
Production	7.9	3.4
Rain-fed palay		
Yield	2.3	2.1
Area	-2.1	0.8
Production	0.2	3.4

Source: Department of Agriculture (2012)

Impacts of climate change on food production

Climate change is one important issue that affects food security and needs immediate action. Climate variability directly affects food production and manifests itself not only in the amount of rainfall but also in the level of temperature, wind speed, and direction (Lansigan et al. 2000). In recent years, there has been an apparent increase in the frequency of high-intensity typhoons traversing anomalous paths (e.g., typhoons Pablo and Sendong).

Extreme weather disturbances due to rising temperatures hamper crop growth and development, if not totally damage planted crops. The damage from climate variability depends on the stage of development and variety of crops. Crops differ in heat tolerance; some are vulnerable to sudden temperature shifts. Rice yield, for example, would be lower if the plant is exposed to high temperature during the flowering stage.

Sudden flooding or drought causes water stress to crops. In particular, water stress affects rice crops in terms of their "tiller number, leaf area index, apparent canopy photosynthetic rate, leaf nitrogen, shoot and root biomass, and root length density" (Cruz et al. 1986, as cited in Lansigan et al. 2000, p. 135).

Climate variability also causes stress on the biodiversity of affected areas. Some species that are predators of certain pests may not be able to adapt to a warmer environment. This increases crops' risk to pest infestation and diseases (Cabrido 2009).

Aside from production yield, other factors affected by climate variability are sowing date, crop duration, and crop systems. The cropping season may have to be adjusted to catch the period when the soil moisture is most adequate for plant growth.

During El Niño periods, where the frequency of rainfall occurrence is less, the sowing date is usually delayed. A longer period is needed to achieve the necessary level of cumulative rainfall. In addition, the period to sustain plant growth is narrower during dry season. To reduce the impact of climate variability, farmers may opt to adjust their cropping sequence and crop rotation (Lansigan et al. 2000).

Global warming and climate change have worsened and may cause adverse effects on aquatic ecosystems. In general, the effects of changes in ocean temperature on fish stock will have subsequent impacts on fish supply and food security. An important food security-related issue in this regard is the degradation of marine resources and environment, which can potentially decrease production in both municipal and commercial fisheries. Another issue is the rise in sea level, which could potentially inundate large coastal areas used for aquaculture.

To counter the adverse effects of climate change on the country's food production, the following are some of the strategies that the Philippine government has resorted to, as stated in its PDP 2011–2016:

- Adopt ecosystem-based approaches, conservation efforts, and sustainable environment and natural resources-based economic activities (e.g., agri-ecotourism)
- Invest in the development of technologies that are climate change sensitive, and in infrastructure and food production systems that are climate resilient
- Strengthen the insurance system
- Include natural hazards and climate risk in agricultural land use plans
- Empower communities to build the capacity to respond to climate risks and natural hazards
- Continue assessing the vulnerability and adaptation of food-producing areas

Options on the Philippine position for food security in APEC 2015

Biotechnology

Although the country is among the first to develop its biotechnology regulatory framework in Asia, the civil society is not yet ready to embrace science-based improvements in the agriculture sector, especially those that employ genetic engineering. Various groups have actively voiced out their opposition to GMOs because of several health and environmental issues, even if these have been already answered by the advocates.

If the country is to promote biotechnology initiatives, huge public investments would be required—something that has been a problem of the agriculture research and development sector. Research efforts such as these are not very well supported by the government, as seen in the country's low research intensity ratio (0.46) when compared to that of other countries' (e.g., Malaysia's 1.92).

In addition, the country's standards and regulations in relation to product safety and quality are adequate, but their implementation is quite problematic because of the overlapping functions among government agencies.

These are some of the reasons why the country is not yet ready to position itself as a promoter of biotechnology advancement in the agriculture sector. There remains a need to educate the public on how these science-based initiatives can significantly address agriculture-related problems, including food security. Moreover, greater public investment is needed for research and development in agriculture.

Facilitating trade

The Philippine government has implemented trade facilitation reforms, such as customs modernization, simplified export procedures through the One-Stop Shop Export Documentation Center, National Single Window, and automation in economic zones, among others (Medalla 2013).

Despite these reforms, the government continues to adopt trade- and investment-restricting policies in pursuit of food self-sufficiency based on protectionism. Among the products under its "sensitive list" are rice and sugar.

As discussed earlier, neither are foreign investors allowed to venture into some "sensitive" services industries. They can only lease land following a set of conditions. The DA views the international market in these sensitive products to be an uneven playing field due to government incentives to producers in both developing and developed countries.

Sustainable food supply chains

The promotion of food supply chains is well supported by key government agencies. This has, in fact, been the country's priority strategy for inclusive growth. A key aspect that must be considered is the sustainability of food supply chains. A sustainable food supply chain must have a steady resource base, be financially viable, and be resilient to shocks or threats (e.g., climate change, growing population).

The elements of this agenda cut across the components of the *APEC's Roadmap for Food Security by 2020*, including:

- Developing sustainable agricultural and fishery sector,
- Facilitating investment and infrastructure development, and
- Enhancing trade and market.

The first element of this agenda requires a rich resource base both in the agriculture and fisheries sectors. The role of farmers and farmer organizations as food producers is significant at this stage. They are closely linked with business enterprises through contract agreements. The second element—investments mainly coming from the private sector—would facilitate the creation of value-adding activities, such as postharvest and processing as well as research, development, and extension activities.

The third element involves market and trade. Agricultural products created by the first two elements are sold to a certain market, which may either be domestic or foreign. The assumption is that the market is closely linked with business enterprises so that the demands of the market (i.e., quality and quantity) will be met.

A major application of a sustainable food supply chain is in the fishery sector. This coincides with the Blue Economy Agenda. The Philippines can aggressively champion the Blue Economy approach as an innovative way of managing the national and APEC-wide fisheries resources, and coastal and oceanic waters.

Blue Economy stands for a new way of designing businesses. It uses the resources available in cascading systems, where the waste of one product becomes the input to create a new cash flow. It aims to create jobs, build up social capital, and increase income while saving the environment. Blue Economy may be a further development of the Green Economy. At the Rio+20 Summit in 2012, Green Economy—in the context of sustainable development—was viewed as the type of economy that "should contribute to eradicating poverty as well as sustaining economic growth, enhancing social inclusion, improving human welfare, and creating new opportunities for employment and decent work for all, while maintaining the healthy functioning of the earth's ecosystems" (UN 2012, p. 10).

In fisheries, Blue Economy is a term used to emphasize the sustainable utilization of marine resources, spanning fisheries, energy, and international trade, among other aspects. It also demonstrates how the Green Economy approach to sustainable development may be applied in the marine and ocean sector.

The First APEC Blue Economy Forum was held on November 5, 2011 in Xiamen, China, where nine economies reached a consensus on policies and procedures that aim to develop Blue Economy. Meanwhile, the Second APEC Blue Economy Forum, which was convened on December 6–7, 2012 in Tianjin, China, aimed to advance regional understanding of Blue Economy, help mainstream Blue Economy, and develop a consensus on the next steps in regional cooperation.

Conclusion

This paper recommends that the Philippines' position on food security should identify agribusiness development that is based on sustainable food supply chains as its primary advocacy and, at the same time, continue to promote the elements of food security as expressed in the APEC road map. This "branding" integrates a strong leaning toward Blue Economy with the agribusiness development and road map thrusts of DTI and DA. The Philippines should continue to focus on addressing the looming threat of climate change and the need to initiate and sustain the income growth of smallholders within resilient value chains, as well as on ensuring a farm-to-fork integrated scenario for supply chains to ensure consumers' food security.

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5 Building Philippine SMEs' Resilience to Natural Disasters

Marife M. Ballesteros and Sonny N. Domingo

Abstract

Disasters are bad for business, specifically for small and medium enterprises (SMEs).[1] These catastrophic events can compromise capital, logistics, product market, and labor, which affect business continuity and recovery. Businesses may have to temporarily close when there are damages to property and disruptions in supply and labor. Large amount of resources are required to repair buildings, and recover or replace damaged equipment used in daily operations. The adverse impact may not only be for the short term; it can have medium- to long-term effects. Unfortunately, the government's disaster risk reduction and management framework has not been effectively translated into local and sectoral (or business) plans. Philippine SMEs, thus, are highly vulnerable, and have weak adaptability and limited access to a broader set of coping strategies. This paper recommends strategic policies that embed disaster risk reduction and management mechanisms in the business sector, and underscore the role of the Asia-Pacific Economic Cooperation in promoting SMEs' resilience in the region.

Introduction

Asia-Pacific Economic Cooperation (APEC) economies are prone to natural disasters. Between 1975 and 2012, more than half of the world's intense natural disasters occurred in the Asia-Pacific region (EM-DAT 2013). Disasters brought by these natural catastrophes have highlighted

[1] Small and medium enterprise (SME) is defined in a broader sense to include micro businesses that employ hired labor. The term excludes microenterprises that operate primarily on unpaid family labor.

the vulnerability of local communities, as well as of national and regional economies. On a sector level, natural disasters have become a major risk to firms, specifically to small and medium enterprises (SMEs) and the global value chain.

In particular, disasters have caused a significant number of SMEs to fail. An estimated 25 percent of SMEs do not reopen following a major disaster (TCA 2014). Even among developed countries, the impact can be substantial. In the United States, 43 percent of companies that experienced disasters never reopened, while 29 percent closed within two years (TCA 2014 as cited in Casares 2014). Similarly, the Great East Japan earthquake in 2011 caused 337 private companies to close down—90 percent of which went bankrupt within six months (Ono 2014). Of the 337 companies, only 46 were located in the tsunami-affected area; the other companies (291 SMEs that were located all over Japan) were affected by calamity-related supply chain disruptions.

Among developing countries, the impact may be more disastrous. Enterprises—particularly SMEs—are worse off specifically after extreme disasters, as they are relatively resource constrained and less resilient (UNDP 2013). They also have limited access to a broader set of coping strategies and are generally not prepared for nature-related disasters. Studies in developing economies noted that most SMEs lack insurance and do not carry out risk assessments nor have business continuity plans (Ye and Abe 2012; UNESCAP 2013).

Most small businesses are also characterized by informality, which not only limits SMEs' access to risk management mechanisms but can also put SMEs at risk during times of disaster due to lack of compliance with norms and regulations (e.g., operating in informal settlements, lack of social protection for their employees). Informality also constrains SMEs' ability to expand their customer and supply bases (Zhang et al. 2007; UNDP 2013).

SMEs are critical drivers of inclusive growth and economic progression. However, any difficulty to recover leads to slow growth, increased unemployment, and general reduction in welfare. Losses of businesses due to natural disaster are estimated at between 1 percent and 20 percent of gross domestic product (Table 1). These losses disrupt both domestic and global supply chains given the interdependence of domestic and regional markets, and SMEs' dependence on large organizations in the global value chain.

This paper, hence, presents a framework for building SMEs' resilience in times of disasters. It also reviews the risks and vulnerabilities the country confronts in terms of the SME sector and the supply chain.

Table 1. Economic costs of disaster events in recent years

Disaster	Country	Year	Total Effects (USD million)	Magnitude (% of GDP)
East Asia Tsunami (Aceh)	Indonesia	2005	4,452	1.6
Cyclone Sidr	Bangladesh	2007	1,640	2.8
Cyclone season	Madagascar	2008	333	4.0
Cyclone Nargis	Myanmar	2008	4,060	19.7
Storm and floods	Yemen	2008	1,638	6.0
Tropical Storm Ketsana and Typhoon Parma	Philippines	2009	4,383	2.7

Source: Post-Disaster Needs Assessment (PDNA) Team (2009)

Moreover, this paper provides a discussion of the developments in the Philippine disaster risk reduction and management (DRRM) initiatives.

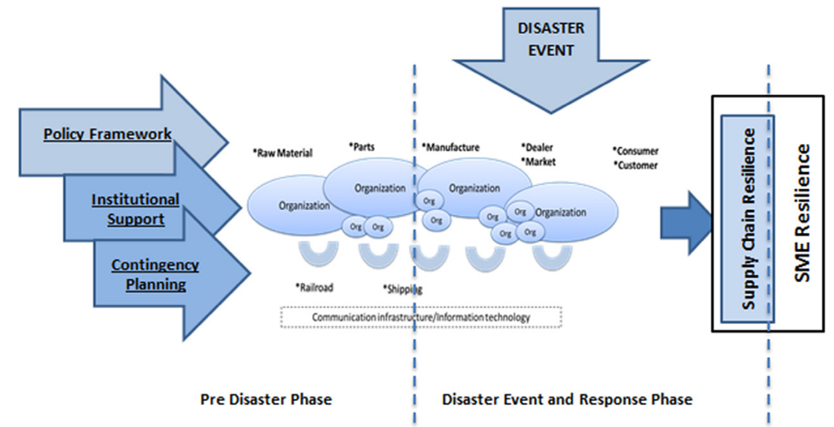
Conceptual framework

Resilience, as defined in the United Nations International Strategy for Disaster Reduction, is the ability to resist, absorb, and recover from the effects of a hazard in an efficient manner (UNISDR 2014). This definition applies to all sectors: households, community, and government. When applied to the business sector, resilience is associated with business continuity (i.e., the preparedness of the business sector to emergencies, such that disruption in business operation is minimal, and the normal operation of business resumes in the shortest time).

Building SMEs' resilience, thus, has to be understood in the context of the business and policy environment in which they operate. Small and medium firms operate within the domestic and global supply chain, and are linked with organizations that make up the value chain and logistics. In the value chain, SMEs interface with big organizations from raw materials to finished products, and to the market/buyers. On the other hand, the flow of funds, goods, and services from all nodes of the value chain comprise the logistics; infrastructure, utilities, and communications are considered the most critical aspects (Figure 1).

SMEs are vulnerable to natural disasters on four fronts: capital, labor, logistics, and markets/buyers. Revenues are expected to fall below expenditures in the short term. At the same time, capital infusion would be required for rehabilitation, which may last for the short or medium term, depending on the SMEs' preparedness and the disaster's impact on the supply chain. Meanwhile, because households are the immediate victims of disasters, the availability of labor/manpower becomes critical. Firms have to consider manpower reinforcement and support affected

Figure 1. Conceptual framework



Source: Authors' rendition

workers if they were to continue to meet targets, respond to spikes in demand, and resume operations at the shortest time.

Disasters can affect facilities and disrupt public infrastructure services, driving businesses to look at alternative or emergency logistic support to continue their operations. A shift in market demand is also expected in the short term, wherein there is a sharp increase in the demand for basic commodities and a dip in nonessentials. An SME has to consider changes in operations and revenues as a result of these shifts and dysfunctions.

SMEs' vulnerabilities and role in the supply chain imply that their ability to manage risks and continue their business operations amid a disaster can be defined by how the firm in particular and the supply chain in general address predisaster and postdisaster imperatives. To be resilient, they need to enter into partnerships and cooperation with other firms and public and private organizations. Resilience cannot be achieved by the enterprise or industry alone, or by the government single-handedly.

Formal plans, such as emergency and business continuity plans (BCPs), are only part of the solution. An initial assessment on the effectiveness of BCPs during disasters showed that only 22 percent of firms found BCPs very effective; 44 percent, not effective at all; 16 percent, not very effective; and 18 percent, moderately effective (Seville 2014).

Insights from international experiences underscore the need for SMEs to build their adaptive capacities—specifically, human resource capacities—and to develop partnerships and networks with other organizations and governments. On the other hand, governments can also play a critical role in building SME resiliency by: (1) providing a policy environment that would address firms' vulnerabilities to capital, labor, and markets; (2) ensuring "weather-proofed" infrastructure and communications facilities; and (3) improving coordination work between national and local organizations, and with the private sector.

In sum, the elements of supply chain resilience can be summarized as follows:

- Improving business continuity and resilience is not only the business sector's concern but should also involve the government (local and national), private sector, and community.
- On the organizational level, SMEs need to foster both planned and adaptive resilience. The development of BCPs is important, but their absence does not necessarily lead to failure. Firms need to build a culture of risk management through: (1) innovation and creativity, (2) networking or effective partnerships, and (3) readiness for change (e.g., proactive posture).
- A government has a key role in: (1) building climate-proofed infrastructure; (2) developing and using hazard- and infrastructure-mapping technologies and systems; and (3) providing an enabling environment for SMEs to recover from capital, labor, logistics, and market risks.
- Supply chain resiliency can be improved through flexible regulations and precontracts. There ought to be predisaster agreements either among local governments or between the government and the private sector. The government also needs to identify flexible regulations in times of disaster to remove obstacles in the movement of critical goods and services.
- The "people side" of the business sector is important. Resilient supply chain begins with resilient citizens and employees. It is important to look after workers and build loyalty. This role is not only the sole responsibility of firms but also of the government.
- Grants can be a direct way of providing SMEs with the necessary capital for business continuity and, when given promptly after disasters, can be more effective than emergency employment in the recovery of SMEs. However, cash is effective as long as markets function, hence, the importance of well-designed in-kind support programs that facilitate SMEs' access to productive inputs when markets are heavily disrupted by

disasters. The role of business associations is critical to ensure that in-kind support is relevant and appropriate for SME recovery (UNDP 2013).

- Cash-for-work and other emergency support programs (e.g., food-for-work schemes) are useful safety nets that help communities restore the necessary basic infrastructure, local demand, and personal capital needed for SMEs to operate. This strategy leads to the pump priming of the local economy and constitutes an alternative livelihood strategy for affected communities (UNESCAP 2013).

International best practices: Policies and strategic options for SME business continuity and resilience

The experiences of other countries are a rich source of insights into how they had operationalized the elements meant to make SMEs and supply chains more resilient to natural disasters.

The Great East Japan earthquake in 2011 disrupted the operations of the manufacturing and industrial plants in large parts of Japan. However, the resilience and fast recovery of SMEs in Japan were attributed to the combined efforts of both SMEs and the government (UNDP 2013; UNESCAP 2013). The initiatives of the SME sector included: (1) implementation of BCPs and (2) extending support to suppliers, coupled with in-kind aid (i.e., Idle Machine Project[2]). On the other hand, the government supported SMEs through direct and indirect financial assistance to help them address any capital and labor constraints.

Kokubu Electric Corporation and Suzuki Kogyo Co. Ltd. are examples of SMEs with successful BCPs (Box 1). By following their BCP, they were able to secure the safety of their employees, resume operations in about a month after the disaster, and prevent loss of customers. The BCPs identified their priority areas for response. These priorities not only focused on continuous service to customers and reassurance to suppliers but also included support and assistance to staff and community responsibility. Japanese firms, in general, adopt a business strategy that involves building networks and cooperation with suppliers and customers.

The Japanese government prioritized logistic support and emergency response through predisaster agreements among local governments, local

[2] The Tohoku Chamber of Commerce and Industry (CCI) Association launched the Idle Machine Project, wherein the CCIs identify the machines and equipment needed by affected micro, small, and medium enterprise and CCIs in nonaffected areas as well as the fallow and idle machines available for charge-free transfer (UNDP 2013).

Box 1. Business continuity plans in action

The Kokubu Electric Corporation in Tokyo engages in manufacturing, and sales and repairs of electric switchboards for power system in buildings and factories. The company has 214 employees with a production base in Ibaraki Prefecture, which was damaged by the earthquake. In the absence of the plant manager, the deputy manager took control according to the BCP, and quickly confirmed the safety of all employees during the evacuation. Responding to the BCP objective of "preventing customer loss", employees immediately contacted customers and explained the situation, asking for their understanding. Kokubu Electric resumed 80 percent of its operations within two weeks of the disaster, without losing its customers. The company has also started reviewing its BCP.

The Suzuki Kogyo Co. Ltd in Sendai City, Miyagi Prefecture, has 67 employees and is engaged in the collection and transport of industrial waste, recycling, and water purification and provision. The tsunami washed away most machinery, vehicles, and other equipment, while the incinerator and water processing facilities were buried in sludge and rubble. Despite the overwhelming damages to the business, Suzuki Kogyo was able to recover all of its business operations within one month, thanks to the BCP it had begun drafting in 2008. Suzuki Kogyo completed the first version of its BCP in 2009, held in-house training with outside experts, and carried out simulations and drills.

As a result, the company was able to smoothly evacuate staff from the processing plant and quickly confirm the safety of all its employees, including those who were out of office with customers. Furthermore, the company contacted contractors with satellite phones, as indicated in the BCP, who came to assess the necessary repairs the next day. Thanks to these phones, the company was also able to participate in restoration works for municipalities and customers.

The company restored the communication system at its headquarters within five days, and resumed all industrial waste collection, cleaning, and recycling works approximately one week after the earthquake. All operations were completely restored within a month. While recognizing the effectiveness of the BCP, the company has swiftly started to improve the plan based on lessons learned from the disaster.

Source: United Nations Development Programme (2013)

government and public organizations, and local government and private companies or associations. Each type of agreement focused on specific support activities. For instance, local government-to-local government predisaster agreements involved the provision of food, water, hygiene comfort kit, and accommodation of evacuees and affected residents. Predisaster agreements with the private sector involved emergency transport, supply fuel, and lifeline recovery, among others (Box 2).

In addition, both the central and prefecture governments provided direct assistance to SMEs. These included financial assistance, emergency employment and unemployment benefits, and provision of temporary workspaces. The government requested that financial institutions give special consideration to dishonored bills and checks, and offer longer repayment period to SMEs. It also provided special grants, soft loans, and repayment grace period (UNDP 2013; UNESCAP 2013). The government also implemented a number of employment-promoting programs, such as "Hello-works" and the "Japan as One" work projects, to facilitate job creation and job matching. These allowed affected firms, especially those in the manufacturing sector, to rapidly regain their levels of employment and recover their production to the level prior to the earthquake and tsunami (Ye and Abe 2012).

Other assistance from the government included special tax deductions for postdisaster reconstruction, refund of corporation tax, exemption from registration and license tax, vehicle weight tax, and stamp tax. To encourage business preparation for future disasters, the government also offered tax incentives to investments in earthquake mitigation and provided special tax deductions for postdisaster reconstruction (UNESCAP 2013).

In Thailand, SMEs and individuals affected by the 2011 floods were able to use a soft loan program of THB 300 billion. The Small Business Credit Guarantee Corporation also provided loan guarantees of up to THB 120 billion for seven years to businesses seeking reconstruction loans from commercial banks (UNESCAP 2013).

To assist flood-hit workers and maintain employment, the Thailand Ministry of Labour provided a subsidy of THB 2,000 for each employee for a certain period, while participating workplaces maintained at least 75 percent of each employee's normal salary. The government also provided a skills development scheme, where participating workers received a food allowance of THB 120 per day for up to 10 days. In case of layoffs, the affected workers received compensation in line with the nation's labor protection law (UNESCAP 2013).

The documented assistance under global value chains may be illustrated by the support provided by Japanese firms to their counterparts in Thailand. Flood-hit Japanese companies sent a number of their Thai workers to work in their Japan-based parent companies. This helped maintain employment while facilitating flows in supply chains (UNESCAP 2013). Toyota, meanwhile, extended support to their suppliers through onsite assessment and verification and, when restoring onsite production was not possible, searched for substitute products (Box 3) (UNESCAP 2013).

The disaster in Thailand highlighted the importance of preparedness in building resilience to natural disasters. The Thai government

Box 2. Setup of predisaster agreements

- Local government to local government
  - Provide food, water, hygiene comfort kit
  - Provide equipment for search and rescue
  - Dispatch officials for search, rescue, medical, response activities
  - Receive evacuees and affected residents
  - Support recovery and reconstruction policy strategy
  - Carry out joint drills and develop standard operating procedures
  - Recognize culture, education, and mutual agreement

- Local government and public or private company or organizations

Types	What	Who
Medical relief	First aid, medical relief, medicine supply	Doctors/dentists association
Supply of goods	Food, water, construction materials, gas	Food and beverage industry retailers, construction industry, and nongovernmental organizations
Emergency transport	Transport of goods and provision of transport vehicles	Trucking association
Evacuation center and fuel supply	Shelter space and provision of gasoline	Megamalls Gas station
Disaster information	Announcement of disaster info and evacuation instruction	Local radio and cable stations
Lifeline recovery	Gas, electricity, road, water	Construction association Electric power
Industrial and human waste	Transport and management	Vendors

Source: Ono (2014)

developed a master plan on water resources management to mitigate flooding in the Chao Phraya floodplain. This master plan intends to increase the efficiency of water control buildings and dykes, as well as that of water drainage systems (i.e., pipes, canals, water gates, and pumping stations). In addition, there is a vision for a double-deck, 100-kilometer storm water management and road tunnel linking affected provinces (UNESCAP 2013).

The recent disasters in Japan and Thailand taught nations the need for flexible enforcement of regulations during times of disasters, specifically on the following:

Box 3. Toyota's assistance to suppliers

Immediately after the earthquake in Japan, all companies in Toyota's network—from suppliers to dealers and overseas operators—came together to provide support and restore operations. The core measures in Toyota's postquake production restoration were:

1. *On-site assessment and verification*. Toyota conducted an investigation of all primary suppliers, including the impact on secondary and tertiary suppliers. On-site investigation teams were dispatched to confirm production items and inventory. The purchasing units confirmed the availability of overseas primary suppliers.
2. *Support to suppliers*. Toyota provided on-site support to 200 suppliers.
3. *Finding substitutes*. When restoring on-site production was not possible, the company would try to find substitute products.

As a result, production was restored more rapidly than had been anticipated. Domestic production had reached almost normal levels by July 2011 and was fully restored by September 2011.

There were similar measures following Thailand's floods. By adjusting the operational levels of each production line according to the parts situation, Toyota was able to return to normal operation in North America by the first half of December 2011, and in Thailand by the beginning of 2012. Initially, it had been estimated that the two disasters in 2011 would cut Toyota's output globally by 1 million vehicles, but the actual drop was only 390,000 vehicles.

The lessons learned following the two events led the company to revise its BCP. The company has also launched measures like decentralizing sources for at-risk parts and converting to generalized designs.

Source: United Nations Economic and Social Commission for Asia and the Pacific 2013

- Relief supplies – relaxing permissions in restricted transportation areas
- Gasoline by truck – relaxing loan capacity, storage places, and parking time, among others
- Supply shortage and product labels – flexibility in indicator labels regarding food sanitation safety rules
- Working hours – relaxing labor laws that prohibit overnight working
- Information sharing of victims – relaxing laws on protection of personal information
- Pre-agreement in industries – flexibility and reduction in conditions on importation/import duties, antitrust laws, and competition policy

The Australian government also has a well-established relief and recovery measure—the Natural Disaster Relief and Recovery Arrangements—which can be quickly activated when disasters hit. The measure's financial assistance packages include special grants where businesses with fewer than 20 employees could receive AUD 25,000 for cleaning, repairs, and stock replacement, and concessional loans of up to AUD 250,000, as well as deferred repayment of existing loans with the Queensland Rural Adjustment Authority. Businesses with more than 20 employees, meanwhile, could get low-interest loans of up to AUD 650,000 for cleaning, repairs, and stock replacement, with a grant component of up to AUD 50,000. Commonwealth and state governments give priority to small businesses and individuals who could not survive on their own. In addition to loans, the Queensland government provides support and advice, and a range of other services (UNESCAP 2013).

The private sector also helped individuals and small businesses. Individual banks had assistance packages that allow the following: (1) deferring home loan repayments for up to three months, (2) rescheduling or restructuring business loans without incurring fees, (3) giving credit card holders an emergency credit limit increase, (4) refinancing personal loans at a discounted fixed rate, (5) waiving interest rate penalties if term deposits were drawn early, and (6) deferring monthly repayments on equipment finance facilities for three months (UNESCAP 2013).

Likewise, insights from the 2011 earthquake in Christchurch, New Zealand, show that the business survival rate after the disaster had been high and not significantly different from business failures that occur under normal circumstances (Seville 2014). This resilience of businesses in the city has been attributed to the following:

- There was multidirectional loyalty (i.e., loyalty of business to employees/families, and of government to business and citizens). Government paid six months' worth of wages to employees of businesses to assure suppliers and customers that the city is open for business. Companies, in turn, held family days and ensured that support was given to families.
- The city helped businesses develop both planned and adaptive resilience. Formal disaster plans are relevant only if adaptive capacities of the business and local community are strong. Resilience emerges from the day-to-day culture of an organization.

In developing countries like Haiti, remittances have become a postdisaster strategy. Remittances provide SMEs with the necessary capital for personal and business recovery (UNDP 2013). Fokonze, a local microfinance institution in Haiti, was quick and flexible in offering its products and services, such as microloans and receipt of remittances to affected SMEs, enhancing the latter's speed of recovery. Fokonze also developed a microinsurance product, the Kore W, to protect its affiliates from catastrophic losses. The Kore W already showed results by helping more than 12,000 affiliates, mostly female entrepreneurs, recover from Hurricane Sandy (UNDP 2013).

To support the private sector initiatives, the government of Haiti provided cash vouchers through a pioneering e-voucher mobile money system so that:

- Women border traders (about USD 115 each) could rebuild their petty trade businesses by purchasing the necessary assets from local retailers;
- Farmers (about USD 130 each) could purchase livestock and seed to sow the next season's crops; and
- Vulnerable families could purchase quality construction materials. Fairs were organized to allow communities to secure adequate supply and to facilitate the flow of market information, such as prices, availability, and quantities (UNDP 2013).

The Sri Lankan government's Task Force for Rebuilding the Nation strategy for restoring the livelihoods of 70–85 percent of households (where more than 150,000 were affected) within a year after the Indian Ocean tsunami was based on three main mechanisms: (1) cash grants, (2) "cash for work", and (3) financial assistance for the recovery of SMEs. For the latter, the Central Bank of Sri Lanka's Susahana Scheme dispensed USD 36 million to 8,000 private sector borrowers for business recovery. For SMEs in particular, the National Development Trust Fund Scheme provided 5,570 loans (UNDP 2013).

The Federation of Chambers of Commerce of Sri Lanka, with support from development partners, such as the International Labour Organization, launched a comprehensive program for SME recovery after the Indian Ocean tsunami devastated the sector. Mobilizing USD 5.7 million, the federation's back-to-business model provided more than 11,000 SMEs with much more than traditional financial assistance. Capacity building, technology transfer, and market linkages were among the 10 different interventions that the program offered so that SMEs can recover as well as improve their predisaster situation. Two years after the disaster, all participating SMEs were now operating, with some even engaging in export activities. Around 50,000 jobs were created under the scheme (UNDP 2013).

Philippine SMEs' vulnerabilities and coping strategies

Philippine vulnerability to natural disasters

The Philippines is exposed to a number of natural hazards annually. It is situated along the typhoon belt of the Western Pacific and visited by an average of 19 typhoons every year; five to nine of these typhoons make landfall and cause damages. The country also lies within the Pacific Ring of Fire and has 25 active volcanoes with destructive potential. Earthquakes are also a source of threat, especially in areas with known fault lines that are affected by tectonic movements. The amalgamation of these elements ranks the Philippines as the third most disaster-prone country in the world, according to the *World Disaster Report* (IFRC 2012). The Global Climate Risk Index also ranks the Philippines as the second most affected country in terms of weather-related loss events (Kreft and Eckstein 2014).

Figures tell how natural disasters in recent years have caused alarming human casualties, population displacement, and economic disruption, especially in the countryside. Table 2 presents the frequency of and assessed damages from natural calamities in the Philippines for the period 2009–2012.

The World Bank (2014), citing pre-Typhoon Haiyan data from the Emergency Events Database (EM-DAT), also reported that the human and economic costs of disasters over the past decade in the Philippines involved over 6,000 casualties, over 23 million people affected, and around USD 1.3 billion in economic damage. These are conservative estimates, as other postdisaster assessments in 2009 valued enterprise losses from typhoons Ondoy (Ketsana) and Pepeng (Parma) at USD 4.3 billion (PDNA Team 2009). More recently, the damages incurred from typhoons Sendong (Washi) in 2011, Pablo (Bopha) in 2012, and Yolanda (Haiyan) in 2013 could easily eclipse the reported figures above in all facets.

SME vulnerabilities and disaster impact

The Philippine business sector consists mainly of microenterprises. Of the total number of firms, 90 percent are microenterprises with low levels of capitalization, of which majority are informal. Only about 1 percent of enterprises are classified as medium and large (Table 3). Nevertheless, SMEs contribute about 35.7 percent of the total sales and value added, and provide jobs to about 63 percent of the total workforce.

Table 2. Frequency and cost of natural calamities in the Philippines from 2009 to 2012

	2009				2010				2011				2012			
	Freq	Casualty	Total Affected	Total Damage*	Freq	Casualty	Total Affected	Total Damage*	Freq	Casualty	Total Affected	Total Damage*	Freq	Casualty	Total Affected	Total Damage*
Earthquake	1	-	392	90	-	-	-	-	1	-	28	-	3	114	353,157	12,144
Flood	8	55	1,083,276	29,314	9	162	2,846,935	50,589	15	122	2,218,828	202,787	8	157	4,614,628	75,330
Landslide	2	20	32	-	2	4	1,854	156	6	58	1,778	-	2	150	46	-
Storm	14	1,242	12,221,663	932,703	3	212	2,595,545	284,420	12	1,782	9,468,676	527,238	9	2,039	7,560,480	1,712,746
Volcanic eruption	1	0	47,137	-	1	-	14,161	-	2	-	33,931	-	-	-	-	-
Total	26	1,317	13,352,500	962,107	19	408	5,462,495	335,165	42	1,988	1.2E+07	731,427	29	2,504	1.3E+07	1,801,622

Freq = Frequency
Note: * in USD '000
Source: Emergency Events Database (2013)

In terms of geographical location, SMEs are highly concentrated in the National Capital Region or NCR (211,974), CALABARZON (122,562), Central Luzon (83,279), Central Visayas (50,078), and Western Visayas (47,166). These five regions accounted for about 63.1 percent of the total number of SMEs in the country.

Many SMEs are located in high-risk areas (i.e., provinces with high frequency of typhoons). Among the high-risk provinces are Pangasinan and Nueva Ecija, where about 40,000 SMEs (or 5% of the total SMEs) are located (Figure 2). The frequency of typhoon and heavy rainfall is also significant in the NCR and CALABARZON—the two regions with the highest concentration of SMEs.

Although SMEs suffer from significant losses and damages, the impact of disasters on SMEs is usually not highlighted because reports focus on the number of people or households affected.

The back-to-back devastation brought by typhoons Ondoy (Ketsana) and Pepeng (Parma) in 2009 caused a total of PHP 111.4 billion in damages and production losses in the enterprise sector in the NCR, Cordillera Administrative Region, Region I, Region II, Region III, and CALABARZON. Small firms and microenterprises were hit the hardest in all the affected regions (PDNA Team 2009).

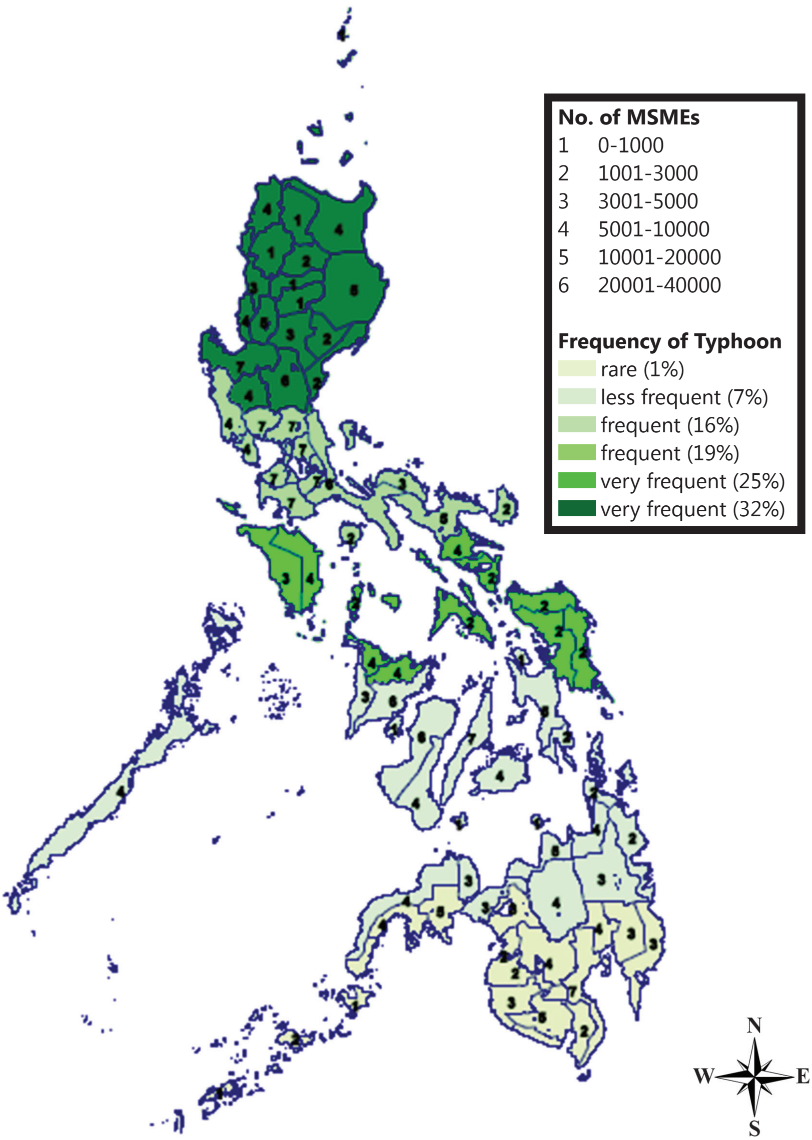
Foregone revenues of the enterprise sector were valued at PHP 111.3 billion, of which 80 percent of total damage and losses came from the wholesale and retail trade subsector. The flooding damaged the inventory buffer stocks for the Christmas season (worth PHP 77.3 billion) and affected 40,698 establishments in the said subsector, of which more than 50 percent were microenterprises (Table 4). Typhoons Ondoy and Pepeng also affected the manufacturing subsector's ability to deliver orders, which were particularly high ahead of the Christmas season, and damaged raw materials. Meanwhile, the impact on the tourism

Table 3. Firm classification and number of firms by employment size (as of 2011)

Firm Classification			Number of Firms by Employment Size	
Size	Asset Size (PHP million)	Employment	Number	Percent to Total
Large	>100	>200	3,496	0.43
Medium	>15–100	100–199	3,287	0.40
Small	>3–15	10–99	70,222	8.56
Micro	Up to 3	1–9	743,250	90.61
All			820,255	100

Source: Department of Trade and Industry (DTI) 2014

Figure 2. Distribution of SMEs in areas vulnerable to typhoons



Source: Authors' rendition using data on number of MSMEs and PAGASA rainfall data by region

subsector was less severe. Disruption in the transport sector could have resulted in revenue losses in the tourism subsector.

In terms of income, commerce sustained the biggest loss amounting to PHP 32.6 billion or 65 percent of total lost income (Table 5). The gross value added of the wholesale and retail trade subsector fell by about 4 percent as a result of the temporary closedown of some firms, as well as home-based enterprises, and of damages to property and firm equipment due to flooding. The manufacturing subsector lost PHP 13 billion in income. Workers and microemployers in the informal sector were severely affected. In terms of employment, losses translated into a total of 170 million workdays. Given that about 60 percent of enterprises in commerce (and possibly 90% in the case of agriculture and fisheries) consist of the self-employed, the income losses can easily translate into worsening poverty.

In recent years, Mindanao was also hit by catastrophic typhoons, such as Typhoon Sendong (Washi) in 2011 and Typhoon Pablo (Bopha) in 2012. Tropical storm Sendong incurred an estimated PHP 1.32 billion in total damages and losses in the livelihood sector, sustained mostly by the agriculture subsector (Table 6).

The crops, livestock, poultry, and fisheries damaged by the typhoons were privately owned, 85 percent of which were incurred by subsistence farmers. The damage also had indirect effects on several industries, such as mining and quarrying, manufacturing, wholesale and retail, and real estate. There was no major impact on formal employment in the region, but the livelihood and sources of income of poorer families in the informal sector (e.g., *sari-sari* store owners, or those who lost their backyard animals and other land- or agriculture-based assets) were severely affected (PDNA Team 2012).

Typhoon Pablo caused an estimated PHP 40.2 billion in total damages in the provinces of Davao Oriental and Compostela Valley (Table 6). Damage and losses in agriculture were experienced primarily by Compostela Valley, with a large percentage of the damage seen in permanent and high-value crops, such as coconut, pomelo, mango, rice, corn, banana, and abaca. Davao Oriental's tourism sector was severely affected, with almost all resorts and guest houses left nonoperational; cultural sites, such as baywalks and parks, and old churches were also damaged. Private owners of beach resorts and lodging houses, locals earning through equipment and machine rental, and tour guides and stall owners lost an estimated PHP 29.4 million in revenues[3] (OCD 2013b).

Postdisaster coping mechanisms and recovery efforts

Studies in several countries observed that disasters affect enterprises disproportionately (UNDP 2013). Larger firms tend to have better access to

[3] There are no official and comprehensive reports on damages and losses from the local tourism sector; data are based on interviews with local tourism officers and owners of the lodging houses and resorts. Cost is based on estimation.

Table 4. Damage and losses in the enterprise sector due to typhoons Ondoy and Pepeng, by type of firm (in PHP million)

	Manufacturing		Wholesale and Retail Trade		Tourism		Enterprise Sector (Total)	
	Indicative Number of Affected Firms	**Damage and Losses**	**Indicative Number of Affected Firms**	**Damage and Losses**	**Indicative Number of Affected Firms**	**Damage and Losses**	**Indicative Number of Affected Firms**	**Damage and Losses**
Micro	10,783	330.3	22,396	686.0	4,977	152.5	38,156	1,168.8
Small	3,407	909.6	11,583	3,092.8	4,088	1,091.5	19,078	5,093.9
Medium/Large	2,584	17,714.9	6,719	85,551.1	1,145	1,869.3	10,448	105,135.3
Total	16,774	18,954.8	40,698	89,329.9	10,210	3,113.3	67,682	111,398.0

Source: PDNA Team (2009)

Table 5. Losses in livelihood and income due to typhoons Ondoy and Pepeng in 2009, by sector

	Number of Workdays Lost	Wage Losses (in PHP million)
Industry	39,141,040	12,961.68
Micro	32,289,412	10,512.21
Small	6,851,628	2,449.47
Commerce	100,217,130	32,644.27
Micro	58,745,976	19,785.25
Small	41,471,154	12,859.02
Agriculture	26,053,150	3,722.00
Fisheries	4,900,824	1,024.80
Total	170,312,144	50,352.74

Source: PDNA Team (2009)

Table 6. Damages in the livelihood sector due to typhoons Pablo and Sendong (in PHP million)

Sector	Typhoon Pablo (Davao Oriental)		Typhoon Pablo (Compostela Valley)		Typhoon Sendong	
	Damages	Percent Distribution	Damages	Percent Distribution	Damages	Percent Distribution
Total	12,802.60	100	27,423.42	100	13,326	100
Livelihood	6,683.69	52.206	19,288.43	70.336	1,319	9.895
Agriculture	469.77	3.669	14,438.08	52.649	1,096	8.222
Tourism	5,528.20	43.180	0.91	0.003	18	0.136
Mining			69.11	0.252		
Industry, trade, and services	685.72	5.356	4,780.33	17.432	205	1.536

Source: Office of Civil Defense (2013a, 2013b); PDNA Team (2012)

a broader set of disaster risk management mechanisms compared to SMEs. SMEs can have greater flexibility but insufficient coping mechanisms, or may be at risk of prolonged reduction in business operations. This observation is also reported in a recent study on the resilience of Philippine SME to economic and climate shocks (Francisco et al. 2014). The authors argued that larger and more productive firms are better able to cope with crises (both financial and environmental); these firms also view crises as opportunities for expansion and new markets. In contrast, smaller and less productive firms face survival challenges and may turn to coping mechanisms that tend to reduce long-run competitiveness.

Postdisaster assessments on recent natural disasters in the country show that the coping mechanism in the enterprise sector has been limited. Based on a survey among enterprises affected by Typhoon Ondoy, remittances or loans/gifts from relatives were one of the main coping strategies (Table 7). About 13 percent of microentrepreneurs compensated their lost incomes with remittances and loans/gifts from relatives, while another 11 percent tended to refinance their losses with funds from moneylenders (PDNA Team 2009).

Still, some microenterprises had to close down business and take on temporary work as a coping mechanism. Majority of those who lost their primary income source because of Typhoon Sendong (e.g., tricycles, *balut*-making supplies, sewing machines) shifted to another means of livelihood, such as making wallets, bags, and other plastic products out of trash and selling them in informal markets. Others engaged in sari-sari retailing in the evacuation and transitional camps (PDNA Team 2012). These coping mechanisms show the fragility of many microenterprises in the country, specifically the self-employed group.

The reliance of developing countries' SMEs on remittances and relatives reflects the absence of formal mechanisms, such as insurance and formal financing, in their recovery. The government's disaster response is focused on relief operations, search and rescue operations, and social services. As a policy, the government also issues a temporary price freeze on basic commodities, including oil, to protect consumers. Its bid to normalize economic activities comes much later, usually one to three years after a disaster. The provision of financing is ad hoc and usually directed to agriculture and fisheries.

Table 7. Postdisaster coping strategies by SMEs

Typhoon	Coping Strategies
Ondoy and Pepeng	• Remittances were used for immediate reconstruction and rehabilitation needs by households and businesses
	• 13% of microentrepreneurs recovered lost incomes, thanks to remittances and loans/gifts from relatives
	• 11% refinanced losses through moneylenders
	• People took temporary jobs where available
Sendong	• Shifted to different means of livelihood (e.g., from sewing or tricycle transport to retailing in informal markets or in evacuation/transitional camps)

Source: PDNA Team (2009, 2012)

The *Bangko Sentral ng Pilipinas* (BSP) may also provide some concessions on past due loans of banks[4] and establish a special rediscounting window for affected SMEs, although this form of financing benefits mainly those in the formal sector and medium-sized enterprises.

Developments in DRRM policies and programs for Philippine SMEs

The policy framework governing DRRM in the Philippines has evolved over the years. The present national DRRM framework and plan, as provided by law, adheres to the principles of proactivity and active response. Increased awareness and understanding among the various stakeholders are viewed as key in increasing resilience and decreasing vulnerabilities to disasters.

However, under the current setup, business establishments operate under the same basic DRRM tenets as individuals, households, and communities. The DRRM policy framework for SMEs has been laid out in relevant republic acts (RAs), national circulars, sectoral development plans, and local government resolutions.

The overarching DRRM policy in the country is outlined under RA 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010. It succeeded Presidential Decree (PD) 1566 or the 1978 PD on Disaster Control and Community Preparedness. Enterprise operations or business continuity during times of disaster is also directly and indirectly influenced by the Price Act (RA 7581), as amended in 2013. Normalizing sectoral situation is also covered by Memorandum Circular No. 05, series 2007 on Cluster Approach to Disaster Management.

Other policies that govern SME operation, institutional support, and development planning are outlined in RA 6977/8289 (Magna Carta for Small Enterprises); RA 9178 (Barangay Microbusiness Enterprise Act); the *Micro, Small, and Medium Enterprise (MSME) Development Plan 2011–2016*; and the *Philippine Development Plan (PDP) 2011–2016*. Meanwhile, RA 7160 or the Local Government Code of 1991 empowers local executives to implement initiatives within their areas of responsibility.

Details of the Philippine DRRM Policy Framework and SME Policy Framework are provided below.

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[4] In the aftermath of Ondoy and Pepeng, the BSP allowed banks to exclude loans of borrowers from the computations of past due loan ratio. It also granted a 4-percent reduction in general loan loss provision for one year.

PD 1566 (Disaster Control and Community Disaster Preparedness of 1978) and RA 10121 (Philippine Disaster Risk Reduction and Management Act of 2010)

Both PD 1566 and RA 10121 provide the overarching framework for DRRM in the Philippines. Until the enactment of RA 10121 in 2010, PD 1566, which was passed in 1978, formed the basic policy governing disaster planning, control, and relief and rehabilitation efforts in the country. In many ways, the remnants of PD 1566 still govern many facets of the country's disaster management today.

Although other decrees succeeded PD 1566, the latter's provisions remain relevant. It created multisectoral local disaster coordinating councils, authorized local government units (LGUs) to allocate funds for disaster preparedness, established disaster operation centers, and supported capacity building of response teams. It enjoined a culture of self-reliance among local governments and outlined disaster management activities into three phases: predisaster phase, emergency phase, and postemergency phase.

RA 10121 was passed into law in 2010, succeeding PD 1566 and laying out the policy basis in strengthening the country's risk reduction and management system. It incorporated the National Disaster Risk Reduction and Management Council (NDRRMC) with the previous National Disaster Coordinating Council. The powers of the NDRRMC, as specified in the law, include policymaking, coordination, integration, supervision, and monitoring and evaluation functions. The law also provides for the development and adoption of a national DRRM framework, and pushes for the institutionalization, implementation, and funding of a National Disaster Risk Reduction and Management (NDRRM) Plan.

Both the NDRRM Framework and Plan adhered to the four pillars of (1) disaster mitigation and prevention, (2) preparedness, (3) response, and (4) recovery. Disaster mitigation and prevention focused on environmental management, infrastructure, and development of early warning systems. Preparedness includes building awareness, training, and capacity building at the national and local levels. Response and recovery are postdisaster operations that involve both short-term response (relief operations) and medium- to long-term operations on rehabilitation and rebuilding.

At the national and local levels, the NDRRM Plan can tap a multitude of fund sources: the General Appropriations Act (GAA) or the budgets of the national line and government agencies, the NDRRM Fund, the Local DRRM Fund, the Priority Development Assistance

Fund, donor funds, adaptation and risk financing, and Disaster Management Assistance Fund.

The previous calamity fund, as appropriated under the annual GAA, has been renamed as the NDRRM Fund; 30 percent of this fund is allocated as quick response fund or standby fund for relief and recovery programs to quickly normalize postdisaster situations in affected communities. Some departments are also allocated DRRM funds, the utilization of which are based on guidelines issued by the NDRRMC in coordination with the Department of Budget and Management.

The quick response fund for disaster relief is relevant in ensuring the continuity of enterprise operations during disaster events. The fund enables utilities for production to be normalized, affected local labor/workforce to be tended to, fixed capital to be protected from further damage, and material and product routes to remain open for supply chains.

In sum, RA 10121, as a core policy, effectively encompasses the totality of all DRRM efforts in the country, including sectoral initiatives ranging from disaster prevention, capacity building, disaster response, and postdisaster rehabilitation. This also effectively covers any initiative that would ensure business continuity and resiliency in the SME sector.

RA 7160 (Local Government Code of 1991) and local government initiatives and policy provisions

As business environments are defined by relevant policy provisions and institutional support, augmenting the capacity of local governments where SMEs operate could lead to operational stability, particularly in times of disaster. Policies that endow LGUs with greater capacity to support their constituents are relevant factors in the business continuity of enterprises.

One of these policies is PD 1566, which capitalized on making local governments and their constituents self-reliant and resilient. Leadership responsibility was given to local executives: the provincial governor, city or municipal mayor, and barangay chairman—each according to his or her area of responsibility. RA 7160 complemented this arrangement by reinforcing local government autonomy. It decentralized the government structure, and LGUs were given more power, authority, responsibility, and resources. This enabled LGUs to promote self-reliant communities, and made them more effective partners in the pursuit of bigger national development objectives.

The policy provisions of PD 1566 prompted LGUs to mobilize disaster management and emergency services at their level, including rescue, evacuation, and relief and rehabilitation operations. This localization of disaster response was reiterated and strengthened in the

Local Government Code, which devolved powers and discharged certain functions of national agencies (i.e., provision of basic health, social welfare, and infrastructure services) to the LGUs.

To provide funding for local government initiatives, RA 7160 allocates 5 percent of the estimated revenue from regular sources as annual lump-sum appropriations for relief, rehabilitation, reconstruction, and other works or services in connection with calamities during the budget year. This provision of the Local Government Code was amended by RA 8185 and, eventually, by RA 10121 to expand the fund coverage. The fund was renamed the Local DRRM Fund and was earmarked to support disaster risk management activities, such as predisaster preparedness programs and training, purchasing life-saving rescue equipment, supplies and medicines for postdisaster activities, and for the payment of premiums on calamity insurance, among others.

Although the size of the Local DRRM Fund varies based on local government revenue, its use is flexible enough to be used for sectoral capacity building. Some exemplary local government executives have found creative ways to get the most out of the resource. The case of the provincial government of Albay best exemplifies innovative fund use and apt local governance.

To institutionalize and strengthen DRRM in Albay, the Albay Public Safety and Emergency Management Office—an independent office that serves as the technical and administrative arm of the provincial DRRM Office—was created. The province also passed Special Proclamation Resolution 2007-04, which stipulates that all businesses to be established in the province should be consistent with climate change adaptation. It requires the submission of hazard assessment and field investigation reports as assurance that the land is safe from disasters. These initiatives come with the appreciation that businesses are also victims of disasters, and that hazards must be addressed by appropriate policy, planning, and action.

Among the provincial government's sound practices are the use of vulnerability and hazard maps, land use zoning, predisaster capacity-building activities, and early warning systems and evacuation. Enterprises are advised to develop contingency/continuity plans to cope with and overcome operational difficulties in the event of disasters. Proper protection or backup systems for important files, and safe stockpiling of materials and products in appropriately located warehouses are also recommended.

Immediately after disasters, the province is ready to aid both affected individuals and local businesses/SMEs through sensible arrangements.

By promoting more cash-for-work schemes instead of relief goods dole-outs, the cash infused into the market may revive local industries.

Such in-house practices enabled the provincial government of Albay to contribute significantly to national disaster risk reduction planning. Albay also hosted the venues that helped the early passage of the Climate Change Act and the creation of the Climate Change Commission (CCC). It can be said that part of RA 10121 was based on Albay's experience.

RA 9729 (Climate Change Act of 2009) as amended by RA 10174 (People's Survival Fund of 2011)

With the passing of RA 9729, the government pledged to cooperate with the global community in the resolution of climate change issues, including disaster risk reduction. Through this policy, the state is bound to drive national and local governments, businesses, nongovernmental organizations (NGOs), local communities, and the public to prevent and reduce the adverse impacts of climate change, as well as maximize potential benefits from it.

The Climate Change Act infuses international commitments into the national political agenda. It pushes for the systematic integration of the concept of climate change in various phases of policy formulation, development plans, poverty reduction strategies, and other development tools and techniques by all agencies and instrumentalities of the government. Similar to the platform agenda that RA 10121 provides, RA 9729 serves as a springboard for more detailed sectoral representations in the planning and development process within and outside the government. It created the CCC and mandated the formulation of the National Climate Change Action Plan (CCC 2010).

Later, RA 10174 amended the act by adding provisions for a People's Survival Fund that would provide long-term finance streams for the government to address climate change. The amount of PHP 1 billion is appropriated under the GAA as opening balance of the People's Survival Fund. However, as of 2013, only PHP 500 million in unprogrammed funds have been promised for the People's Survival Fund. Any intervention that would augment the capacity and stability of LGUs would eventually aid in improving the business environment for SMEs in the countryside.

RA 6977 (1991) as amended by RA 8289 (1997): Magna Carta for Small Enterprises

The basic policy in SME promotion is outlined in the Magna Carta for Small Enterprises, which was enacted in 1991 and then amended in 1997.

The Magna Carta declares that it is the policy of the state to promote, support, strengthen, and encourage the growth and development of SMEs in all productive sectors of the economy. To this end, the state is expected to undertake activities that will spur the growth and development of SMEs throughout the country and attain countrywide industrialization. These activities include creating an enabling and supportive business environment, improving access to financing, granting adequate business support, offering training on entrepreneurship and worker skills, providing linkages between SMEs and large firms, and working in partnership with the private sector. The Magna Carta's major provisions include the following:

- *Creation of the Small and Medium Enterprise Development (SMED) Council*. The council is the primary agency responsible for the promotion, growth, and development of SMEs in the country by facilitating and closely coordinating national efforts toward this end.
- *Creation of the Small Business Guarantee and Finance Corporation*. The corporation provides, promotes, develops, and widens, in scope and service reach, various alternative modes of financing for SMEs.
- *Mandatory allocation of credit resources to small enterprises*. For 10 years from the date the act took effect, all public and private lending institutions, as defined by BSP rules, shall set aside at least 6 percent and at least 2 percent of their total loan portfolio, respectively, based on their balance sheet as of the end of the previous quarter, and make the fund available to SMEs.
- *Ten-percent share of SMEs in government procurement*. SMEs should have a 10-percent share of the total procurement value of goods and services supplied to the government.

RA 9178 (Barangay Micro Business Enterprises Act of 2002)

RA 9178 encourages the formation and growth of barangay micro business enterprises (BMBEs) through the rationalization of bureaucratic restrictions, the active granting of incentives and benefits to generate much-needed employment and to alleviate poverty. Major provisions of the law include the following:

- *Exemption from taxes and fees.* All BMBEs shall be exempt from tax for income arising from the operations of the enterprise. LGUs are encouraged either to reduce the amount of local taxes, fees, and charges imposed or to exempt BMBEs from local taxes, fees, and charges.

- *Exemption from the coverage of the Minimum Wage Law.* BMBEs shall be exempt from the coverage of the Minimum Wage Law provided that all employees covered under this act shall be entitled to the same benefits given to any regular employee, such as social security and health-care benefits.
- *Credit delivery.* The Land Bank of the Philippines, the Development Bank of the Philippines, the Small Business Guarantee and Finance Corporation, and the People's Credit and Finance Corporation shall set up a special credit window that will service the financing needs of BMBEs registered under this act consistent with BSP policies, rules, and regulations. The Government Service Insurance System and the Social Security System shall likewise set up a special credit window that will serve the financing needs of their respective members who wish to establish a BMBE. The Department of Trade and Industry (DTI), in coordination with the private sector and NGOs, is also mandated to link BMBEs with small, medium, and large enterprises. Avenues for technology transfer, production, management training, and marketing assistance to BMBEs are also provided for in the law.
- *Trade and investment promotions.* Data gathered from business registration shall be made accessible to and shall be utilized by private sector organizations and NGOs for purposes of business matching, trade, and investment promotion.

The start-up stage of a BMBE could be likened to an enterprise struggling to continue business activities amid operational difficulties during and after disaster events. Aside from promoting the development and establishment of BMBEs, the law can, during times of disaster, use the provisions for incentives to BMBE to promote business continuity and resiliency.

RA 7581 (Price Act of 1992) as amended by RA 10623 (2013)

RA 7581 as amended by RA 10623 ensures the availability of basic necessities and price commodities at reasonable prices at all times without denying legitimate businesses a fair return on investment. It provides effective and sufficient protection to consumers against hoarding, profiteering, and cartels with respect to the supply, distribution, marketing, and pricing of said goods, especially during periods of calamity, emergency, widespread illegal price manipulation, and other similar situations.

Under the law, the prices of basic necessities in an area are automatically frozen at their prevailing prices or placed under automatic price control under the following situations:

- The area is proclaimed or declared a disaster area or under a state of calamity.
- The area is declared under an emergency.
- The privilege of the *writ of habeas corpus* is suspended in the area.
- The area is placed under martial law.
- The area is declared to be in a state of rebellion.
- A state of war is declared in the area.

Basic necessities refer to goods vital to the needs of consumers for their sustenance and existence. Among these are staples such as rice, corn, root crops, bread; fresh, dried, or canned fish, and other marine products; fresh pork, beef, and poultry meat; fresh eggs; potable water in bottles and containers; fresh and processed milk; fresh vegetables and fruits; locally manufactured instant noodles; coffee; sugar; cooking oil; salt; laundry soap and detergents; firewood; charcoal; household liquefied petroleum gas and kerosene; candles; and drugs classified as essential by the Department of Health (DOH).

Prime commodities are goods not considered as basic necessities but are essential to consumers at certain times. Such include flour; dried, processed, or canned pork, beef, and poultry meat; dairy products not falling under the basic necessities category; onions, garlic, vinegar, *patis*, soy sauce; toilet soap; fertilizer, pesticides, and herbicides; poultry, livestock, and fishery feeds and veterinary products; paper; school supplies; nipa shingles; *sawali*; cement; clinker; galvanized iron sheets; hollow blocks; plywood; plyboard; construction nails; batteries; electrical supplies; light bulbs; steel wire; and all drugs not classified as essential drugs by the DOH.

The law automatically impacts SMEs dealing with basic necessities and prime commodities. The imposition of price control may remain effective for the duration of the condition that brought it about, but not for more than 60 days. The price control for some items, such as household liquefied petroleum gas and kerosene, can be imposed for not more than 15 days.

National and sectoral development plans: NDRRM Plan, PDP, National Climate Change Action Plan, and MSME Development Plan

Of the national and sectoral development plans that touch on DRRM options and other initiatives, the most relevant to SMEs are the NDRRM Plan, PDP, National Climate Change Action Plan, and the MSME Development Plan. The following discussions present the highlights of these development plans.

NDRRM Plan

The NDRRM Plan outlines the activities that strengthen the capacity of the national government and LGUs to build disaster resiliency and to institutionalize arrangements and measures for DRRM. It is the umbrella document that is supposed to prepare the country in responding to all types of disaster and emergency events. It cuts across four priority areas: disaster mitigation and prevention, disaster preparedness, disaster response, and recovery and rehabilitation.

To aid business continuity and resiliency of SMEs, the NDRRM Plan aims to: (1) reduce vulnerability and exposure to disasters (i.e., through DRRM mainstreaming, resilient infrastructure, vulnerability and hazard mapping, insurance and risk financing, early warning systems, risk communication and hazard monitoring); (2) increase level of awareness and capacity among communities and institutions (i.e., International Electrotechnical Commission advocacy plan, training, and simulation exercise; contingency planning; resource inventory; and resource stockpiling and prepositioning); (3) restoration of lifelines and livelihood (i.e., early recovery livelihood- or income-generating activities, restoration of lifelines); and (4) recovery and rehabilitation through restoration of economic activities (i.e., postdisaster needs assessment, infrastructure restoration, fund mobilization, and credit facility).

Overall, the NDRRM Plan is a treasure trove of action points and principles for DRRM. It is all encompassing, with general statements that cover potential gaps or loopholes in local and sectoral applications. Its claim of mainstreaming or integrating DRRM and climate change adaptation within national, local, and sectoral development plans/policy/budget is key in promoting resiliency in communities and their respective economic activities.

Although business continuity is founded on how well enterprises address disaster mitigation, prevention, and preparedness issues, its operational definition lies within the disaster response phase. In fact, SMEs encounter its greatest challenge in how to continue business operations in times of disaster.

National Climate Change Action Plan

The Climate Change Act through the CCC pushes for:

- A strategic framework and program;
- The mainstreaming of climate risk reduction into national, sectoral, and local development plans and programs;
- Policies and key development investments in climate-sensitive sectors; and
- Assessments of vulnerability and facilitation of capacity building.

The national climate change strategic framework has been translated into a National Climate Change Action Plan, which prioritizes food security, water sufficiency, ecosystem and environmental stability, human security, climate-smart industries and services, sustainable energy, and capacity development as the strategic direction from 2011 to 2028.

To reinforce SMEs' business continuity and resiliency, the National Climate Change Action Plan tries to address a realistically achievable program of action for integrated climate change adaptation and mitigation, which includes the following:

- Creation of policies and stable policy environment for the development of climate-smart industries and services
- Adoption of eco-efficient production
- Development of capacity-building programs and knowledge for promoting climate-smart industries and services
- Development of productive employment and livelihoods from these industries
- Climate-proofing of infrastructure in eco-towns
- Development of climate change-adaptive housing and land use
- Full implementation of ecological waste management

PDP 2011–2016

The PDP 2011–2016 serves as a guide in formulating policies and implementing development programs for the medium term. It presents a systematic framework for inclusive growth, which is translated into specific goals, objectives, strategies, programs, and projects. It is a national industrial strategy that details opportunities, coordinates and promotes the growth of forward and backward linkages in priority areas and high-potential growth sectors, and prepares other industries to attract investments and generate jobs.

According to the PDP, the government shall implement disaster-mitigating measures, sustain sociopolitical stability, and create necessary conditions to ensure a safe and peaceful business environment for investors. Policies and legislations that mainstream and support disaster risk reduction and climate change adaptation in industry and services sectors may include the following:

- Establishment of compliance mechanisms on disaster risk reduction standards in the business sector
- Stronger implementation or reform of existing laws on land use and related laws, such as setting a building code toward disaster-resilient industry and service sectors
- Assessment of the level of awareness and activities on disaster risk reduction in the private sector and dissemination of information, education, and campaign materials to ensure the sector's cooperation
- Development of innovative financing schemes to secure sustainable financing for programs on climate change
- Design and implementation of disaster risk reduction and climate change adaptation measures for mining companies (i.e., defining areas suitable for mineral resources development based on scientific information)

MSME Development Plan

The 2011–2016 MSME Development Plan aims to address the key challenges and constraints that continue to prevent the SME sector from realizing its full potential and boosting the country's industrial growth. The development plan lays out the overall framework that will guide future action plans toward a more harmonized approach to MSME development. Four outcome portfolios for 2011–2016 were identified: business environment, access to finance, access to market, and productivity and efficiency.

Figure 3 presents the output framework of the MSME Development Plan 2011–2016. The plan identifies key results necessary to (1) raise the MSME sector's contribution to gross value added to 40 percent and (2) to generate employment that will benefit 2 million Filipinos. The action plans are supposed to be crafted and managed at the regional and local levels. The DTI-SMED Council manages at the outcome level, while the management of action plans is left to regional and local stakeholders.

The MSME Development Plan, as a national framework, must be translated into workable action plans at the subnational level. Aside from the four outcome portfolios, the action plans have to be consistent with three development approaches (i.e., local and regional economic development approach, sector development, and market system development) and four global themes (i.e., gender mainstreaming, migration, green growth, and corporate social responsibility).

However, it is worth noting that there is no reference to DRRM or business continuity/resiliency for SMEs in the MSME Development Plan. This important concern seems to have been overlooked during the national planning and consultation process.

Overall, the NDRRM Framework is inclined toward traditional models that have stronger focus on household recovery than on economic resilience, including business continuity and resilience. The evidence from recent disasters in the country shows the weak policy and strategic intervention directed toward SMEs. There is no program or specific centers that would respond to the immediate needs of the business sector (e.g., logistic security). There must be a wider realization that SMEs or local entrepreneurship plays an important socioeconomic role in community functioning by providing products/services, employment opportunities, and local revenue. This role becomes even more critical in times of disasters because the immediate recovery of communities strongly depends on the ability of businesses to continue operation. A disaggregated approach to assessing the needs of SMEs and providing DRRM interventions for them is thus appropriate.

Conclusions and policy recommendations

SMEs in the Philippines are vulnerable to natural disasters. Their limited coping strategies and adaptive capacity bear directly on business continuity and supply chain resilience. These can be addressed through the combined efforts of the private sector and the government, effective translation of policies from national into local and sectoral action plans, and regional cooperation within the APEC community. Collective commitment and participation should be harnessed to bring more focus on strengthening and normalizing economic activities in predisaster and postdisaster activities/operations.

Translation of national policy into local and sectoral plans

There is an apparent lack of disaggregation or sectoral focus in the policy framework that drives DRRM among the different stakeholders in the country, particularly between households and businesses. There

Figure 3. Output framework of the MSME Development Plan 2011–2016

The contribution of the MSME sector to GVA has increased to 40% by 2016

MSME sector employment has reached 2 million by 2016

BE

1. The cost of doing business (taxes, fees, etc.) is affordable to MSMEs.
2. The institutional support structures for the development of start-up and existing MSMEs are in place.
3. The policies necessary to develop the MSME sector are crafted and being fully implemented.
4. Support for MSME development is results-based, coordinated, harmonized, and sustained by capable stakeholders.
5. An entrepreneurial mindset is pervasive among MSMEs and other MSME stakeholders.
6. Soft and hard infrastructures for MSME development are established.
7. The information needs of MSMEs are available and accessible.
8. MSMEs are gender-responsive and environment-friendly.

A2F

1. The financial products, services and support programs that MSMEs need are sustainably available even to start-up MSMEs and MSMEs operating in the countryside.
2. The cost of obtaining MSME loans is reasonable and affordable.
3. The requirements that MSMEs need to comply with to obtain are reasonable and manageable.
4. The process that MSMEs need to follow and documents that must be submitted to obtain loans are simplified and streamlined.
5. MSMEs are trained in financial management and are able to understand and speak the language of financial institutions are trained to understand and speak the language of MSMEs.
6. Financial products and services for MSME lending are gender-responsive and environment-friendly.
7. The information needed by MSMEs to access financial resources are available and easily accessible.
8. The assistance extended by stakeholders to MSMEs in accessing funds are coordinated, relevant, and effective

A2M

1. MSMEs have maintained their existing markets and penetrated new and emerging markets locally and globally.
2. MSMEs are competitive locally and globally.
3. Marketing support systems are established and are operating on a sustainable basis.
4. MSMEs are implementing the value chain approach and are highly benefited by it.
5. MSMEs are using information technology and intellectual property system to develop a sustainable market share and gain competitive advantage for their products and services.
6. Market information needed by MSMEs is available and freely accessible.
7. MSMEs have considerable market share in in the sustainable development market locally and globally.
8. Government support programs to help MSMEs access local and global markets are coordinated and highly satisfactory.

P&E

1. Government programs and policies on productivity enhancement are coordinated, effective, and highly satisfactory.
2. The MSME workforce is highly motivated and is equipped with the appropriate skills and attitude needed by MSMEs.
3. The working environment of MSMEs fosters greater productivity and efficiency among the workforce.
4. MSMEs are using gender-responsive and environment-friendly technologies.
5. MSMEs are compliant with international quality standards.
6. MSMEs are using state-of-the-art productivity enhancing technologies.
7. Information on productivity enhancement is available and freely accessible to MSMEs.

BE = business environment; A2F = access to finance; A2M = access to market; P&E = productivity and efficiency
Source: DTI (2014)

is no single policy that details SME disaster mitigation, preparedness, response, and recovery. Rather, the DRRM concerns of SMEs are indirectly covered by core policy pronouncements governing the national DRRM agenda.

Several legislative provisions relate to economic activities in times of disaster. However, RA 10121 still provides an overarching legal basis for DRRM. The law acknowledges the need to adopt a holistic, comprehensive, integrated, and proactive DRRM approach for and among all concerned sectors and stakeholders, at all levels, especially the local community.

Likewise, there is enough policy coverage provided under the NDRRM Plan, National Climate Change Action Plan, and PDP. Sufficient legislative provisions have been crafted to support proactive response to disasters for both communities and businesses.

However, it is in the limited translation of national laws, including the NDRRM Plan, into local and sectoral action plans where focus on SMEs' business continuity and resilience is missing. The apparent gap, therefore, is in policy execution.

Thus, there is a need to review and translate national frameworks and development plans into workable subnational and sectoral action plans. The NDRRM Plan, National Climate Change Action Plan, PDP, and MSME Development Plan need to be translated into doable sector-specific regional and local action plans. DRRM strategies should be targeted specifically for business resiliency among SMEs. This plan has to take into context the specific vulnerabilities (e.g., informality) of SMEs.

Application of local learnings and international best practices

In working toward business continuity and resilience, concerted effort and cooperation among the government (local and national), the private sector, and local communities should exist. The government is there to define the policy for managing disaster risks, ensure adequate infrastructure and investment climate for SMEs to thrive, and provide direct intervention during predisaster and postdisaster operations. The involvement of the private sector and local communities cultivates a sense of ownership, and strengthens proactivity and adaptive capacity among all stakeholders.

Disaster resilience among SMEs can be enhanced through three fronts: (1) organizational capacity buildup, (2) policy and institutional support that tackles socioeconomic drivers of risks in predisaster stage, and (3) prompt and sustained economic restoration and support efforts in the aftermath of disasters.

Building organizational resilience to disaster

The MSME Development Plan, as the national framework governing the sector, should be revised to include DRRM for business resiliency as one of its thematic areas of concern. Its content, aside from laying out the development road map for SMEs, needs to be consistent with the provisions of RA 10121, as well as the NDRRM Plan, National Climate Change Action Plan, and PDP. Greater effort should also be exerted in translating an augmented MSME Development Plan into regional and local action plans that can be given budgets and implemented with clarity.

In general, the government defines the policy framework and investment climate that deal with broad economic and institutional issues, and provide direct intervention on DRRM concerns. The former role covers legal reform and business regulations, trade policy and financial frameworks, and infrastructure, including land use planning and zoning. The latter focuses on particular geographic areas, sectors, or groups covering business continuity plans; promotes business associations and networks for DRRM; and supports savings and microinsurance programs.

Some practical strategic options on disaster mitigation and prevention, and disaster preparedness that the government can pursue are listed below:

- Conduct of industry-specific consultations for eventual crafting of MSMEs' DRRM framework, national plan, and local action plans
- Promotion of proactive posture through business continuity plans for DRRM for all enterprises
- Prepositioning of supplies and provisions as applicable and stockpiling of materials and products in appropriate locations as applicable
- Strengthening supply chain resilience by taking into account supply routes for raw materials and finished products, including forging predisaster arrangements with suppliers and/or nodal industry players
- Capacity building among SMEs to strengthen planned and adaptive resilience to disaster events through: (1) promotion of effective networks or business associations to support/ strengthen SMEs; (2) focus on augmenting organizational resilience, particularly on leadership and employee culture; (3) training, stress testing, and disaster response simulation; and (4) provision of a backup system for important business files and documents
- Support to SMEs in building a culture of adaptive capacity among management and employees
- Rationalization of national and local land-use policy by capitalizing on the development and use of vulnerability and hazard maps, with strict implementation of precautionary safety measures regarding SMEs' location setup

Disaster response, early recovery, and postdisaster rehabilitation

Literature on disaster response, recovery, and rehabilitation showed mixed results on firms' resiliency in both developed and developing countries. The United States and Japan reported relatively high rates of business closure for companies that suffered from major disasters, but fast recovery for certain SMEs. Developing economies, such as Haiti and Thailand, experienced capital infusion from overseas remittances and proved the effectiveness of microinsurance, financial subsidy, soft loans, and flexible enforcement of regulations. Australia and New Zealand have focused on augmenting supply chain resilience, financial assistance packages, and organizational resilience.

The same qualified application of interventions is suited for and, in fact, is also being applied in the Philippines. However, they have to be pursued in a more rigorous, timely, and well-directed manner. Response time for early recovery of economic activities should fall within three months to one year, with recovery and rehabilitation extending from three to six years. During the response stage, the immediate concerns for continued business operation include the safety of employees, restoration of basic utilities and infrastructure, and peace and order.

Strategic direct interventions that can be instituted for disaster response and postdisaster recovery include the following:

- There should be a prompt address of dysfunctions/breakdowns in public services and key infrastructure.
- Humanitarian/disaster assistance should be provided to the local workforce to minimize injury, casualty, and displacement.
- There should be an effective restoration of security/peace and order in affected communities to protect the citizens and the operation of local businesses.
- Setup of financing facilities, such as grants and concessionary loans, intended for SMEs and a special credit line in the form of Business Disaster Loans (i.e., a risk mitigating facility) for medium-sized companies must be in place. Grants can be directed to affected micro and small enterprises that have no productive assets left and negligible creditworthiness.
- Provision of additional capital support for SMEs in times of disaster, including optional loan restructuring, and tax reprieve should be considered especially for SMEs. Microenterprises are already tax exempt under existing policy.
- Cash-for-work programs and income support should be implemented to partially restore the livelihoods of those affected. Cash vouchers for farmers, fisherfolk, and disadvantaged groups affected by disasters may be applicable. The provision of cash or temporary livelihood for local residents helps circulate the much-needed currency and restore demand in damaged communities.
- Temporary work stations, factories, stores, and other facilities should be arranged through the municipal or local government.
- Special grants or incentives for cleaning, removal of debris, repairs, stock replacement, and other disaster recovery initiatives should be applied in damaged areas.

- Possible labor protection provisions (i.e., compensation) and facilitated/flexible enforcement of applicable laws should be instituted to aid in early recovery (i.e., movement of goods, customs policy).
- There should be an accessible information system for updates on disaster support facilities, basic services and infrastructure status, market information, and other relevant updates/advisory.
- Access to financial security instruments, including microinsurance for micro- and small-scale industries, should be provided.

Regional cooperation for business continuity and supply chain resilience

To strengthen each other, the Asia-Pacific region has developed several regional cooperation mechanisms, specifically in the areas of integrated early warning systems, disaster emergency logistic systems, and knowledge sharing.[5] APEC, in particular, will continue to build partnerships in business or supply chain resilience, with specific focus on the seven key APEC principles:

1. *Share information and knowledge* to promote supply chain resilience.
2. *Promote disaster risk management and hazard mapping* to better understand potential risks to supply chain resilience.
3. *Support planning and business continuity management* to improve global supply chain resilience.
4. *Promote best practice policy, regulations, and flexibility* to enable global supply chain resilience.
5. *Leverage regional cooperation to support the supply chain*, including coordination with other multinational organizations working on supply chain resilience inside and outside the APEC region.
6. *Promote critical infrastructure protection and intermodalism* as a key component of supply chain resilience.
7. *Recognize and promote best practice in human resource and capacity management* in the context of supply chain resilience.

For these seven principles, APEC will undertake policy dialogues, pilot projects, and cross-collaboration with other APEC entities and international organizations focusing on the following concerns: (1)

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[5] See Annex 1 for a list of these regional initiatives.

vulnerability assessment of supply chain critical points, (2) best practices on critical infrastructure protection, (3) business continuity management of public-private partnership, and (4) identification of best practices on flexible regulations.

The Philippine government can work on strengthening these principles and activities by highlighting the relevant areas that impact on supply chains. It may also explore new areas for regional cooperation, such as regional risk insurance facility, which provides risk transfer solutions to help participating governments finance recovery and rebuilding from disasters. This cooperation has been established in the Caribbean region and recently piloted in the Pacific Island region.

Annex 1. Summary of regional cooperation mechanisms for DRRM in the Asia-Pacific region

Mechanism	Details
Hyogo Framework of Action (HFA)	Calls all regional organizations to undertake the following: 1. Promote regional programs 2. Undertake and publish regional and subregional baseline assessments 3. Coordinate and publish periodic reviews on progress 4. Establish or strengthen specialized regional collaborative centers 5. Support the development of regional mechanisms and capacities for early warning More recently, the Rio+20 outcome document reaffirmed the international community's commitment to the HFA and called on subregional and regional organizations to urgently accelerate implementation of the HFA goals in the context of sustainable development and poverty eradication. The *ASEAN Agreement on Disaster Management and Emergency Response* (2009) is the world's first and only HFA-related binding instrument.
	On integrated early warning system
ESCAP Trust Fund for Tsunami, Disaster, and Climate Change Preparedness (2005)	The ESCAP Multi-Donor Trust Fund for Tsunamis in the Indian Ocean and Southeast Asian Countries was established in 2005 through a USD 10 million contribution from the Government of Thailand. The overall objective was to build and enhance tsunami early warning capacities at various levels in the Indian Ocean. The fund helped establish the Regional Integrated Early Warning System, which now covers over 26 countries from the Asian and African continents, and feeds into the overall Indian Ocean Tsunami Warning and Mitigation System, which went live in 2011.
Regional Cooperative Mechanism for Disaster Monitoring and Early Warning, Particularly Drought	Established under the United Nations Economic and Social Commission for Asia and the Pacific's (UNESCAP) Regional Space Applications Programme for Sustainable Development, the mechanism receives technical support from member-countries in the region. While still at an early stage, this should provide an information portal on national strategies and mitigation experiences. It may also serve as a technical support platform for no- or low-cost space-based products for drought analysis, and as a platform to encourage technology transfer and capacity building.
	On disaster preparedness
ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (2012)	Established by the Association of Southeast Asian Nations (ASEAN) in 2011 to link national disaster management agencies and provide early warnings and response. Shortly after Typhoon Bopha struck the Mindanao region of the Philippines in December 2012, the center launched an ASEAN Disaster Emergency Logistic System.

Annex 1. (continued)

Mechanism	Details
	On knowledge sharing
Asia-Pacific Gateway for Disaster Risk Management and Development (2010)	Launched by UNESCAP in November 2010. An interactive web platform that provides unprecedented opportunities to share information and knowledge products about disaster risk management (DRM) across the Asia-Pacific region. The gateway acts as a knowledge broker that connects the various hubs of DRM knowledge in the region to help develop an extensive database of policies, plans, and assessments. These "knowledge configurations" connect government ministries, particularly national development and disaster management authorities, and enable them to benefit from centralized access to hundreds of policies, strategies, and studies across the Asia-Pacific region. The gateway is a regional initiative supported through key partnerships with the Asian Disaster Preparedness Center (ADPC), the United Nations Office for Disaster Risk Reduction, the United Nations Asian and Pacific Training Centre for Information and Communication Technology for Development, and the United Nations Office for Outer Space Affairs. The gateway builds on existing initiatives in DRM, such as ADPC's Disaster Risk Reduction Project Portal for Asia and the Pacific, and relies on the active participation of users to provide value-added content.
Pacific Disaster Net (2008)	The most comprehensive information resource on DRM in the Pacific. Established in 2008, this was developed by the South Pacific Applied Geoscience Commission, International Federation of Red Cross and Red Crescent Societies, United Nations Development Programme-Pacific Centre, and United Nations Office for the Coordination of Humanitarian Affairs.
South Asia Disaster Knowledge Network	In South Asia, the South Asian Association for Regional Cooperation (SAARC) Disaster Management Centre established the South Asia Disaster Knowledge Network in 2011 to provide a common platform and easy access to real-time disaster data from different providers using a map-based system. The network is linked to portals within and beyond the governments of the SAARC member-countries.
	On regional risk insurance
Caribbean Catastrophe Risk Insurance Facility (CCRIF)	Provides participating governments of the Caribbean Community with the opportunity to purchase insurance coverage at rates 45–50 percent lower than if they were to purchase insurance individually in financial markets. This is because participating countries can pool their country-specific risks into one diversified portfolio. The facility then transfers risks it cannot retain to the international financial markets through reinsurance or through other financial coverage instruments, such as catastrophe bonds. Parametric insurance products are priced for each country based on their individual risk profiles. Annual premiums typically vary from USD 200,000 to USD 4 million, for coverage ranging from USD 10 million to USD 50 million. Bermuda, Canada, France, the United Kingdom, the Caribbean Development Bank, and the World Bank have pledged a total of USD 47 million to the CCRIF reserve fund. Participating governments contribute resources to the pool according to their respective risk exposure. With 16 governments currently sitting as members of the CCRIF, participation is regarded as high.

Annex 1. (continued)

Mechanism	Details
Pacific Catastrophe Risk Assessment and Financing Initiative (2013)	Piloted by the Secretariat of the Pacific Community, the World Bank, and the Asian Development Bank (ADB), this pilot programme, funded principally by the Government of Japan, has successfully placed catastrophe risk with four international reinsurance companies: Sompo Japan Insurance, Mitsui Sumitomo Insurance, Tokio Marine & Nichido Fire Insurance, and Swiss Re. The program covers major tropical cyclones and earthquakes. Five Pacific island countries, namely, the Marshall Islands, Samoa, Solomon Islands, Tonga, and Vanuatu are participating, and coverage is expected to be at USD 45 million. This regional mechanism could generate savings of up to 50 percent compared to individual risk transfer solutions.
	On resilient infrastructure
SAARC Development Fund	Has paid-up capital of USD 300 million to finance infrastructure projects in energy, power, transportation, telecommunications, environment, and tourism.
ASEAN Infrastructure Fund	Cofinanced by ADB, with major contributions from Malaysia and Indonesia. Projects funded are related to the Master Plan on ASEAN Connectivity.
The Greater Mekong Subregion (GMS)	With support from the ADB and other donors, the targeted projects are transport, energy, telecommunications, trade, tourism, agriculture, and environment worth approximately USD 10 billion. The bank has provided funding of USD 65 million for the GMS Information Superhighway Network.
South Asia Subregional Economic Cooperation Information Highway Initiative	This aims to improve data connectivity across Bangladesh, Bhutan, India, and Nepal, and may serve as a preliminary phase for an extended SAARC information highway. ADB has also approved about USD 16 million in grants and loans for this project.
Master Plan on ASEAN Connectivity	ASEAN has designated the development of broadband corridors as a key component of its regional infrastructure development plan.
Trans-Eurasian Information Super Highway (TASIM)	This project covers more than 20 countries between Central Asia and Europe. The TASIM initiative is a collaborative project that involves a connectivity alliance led by the International Telecommunication Union, as well as telecommunication operators from the participating countries that are jointly responsible for the construction of the backbone network.
	Other initiatives
Mekong River Commission (1995)	Cambodia, Lao PDR, Thailand, and Viet Nam The commission has formulated the Basin Development Plan, which integrates economic, social, and environmental issues in the management of water and related resources, energy generation and food production, as well as a regional flood management program; and an agreement on data and information sharing. It also has an agreement with China on hydrological data exchange.

Annex 1. (continued)

Mechanism	Details
UNESCAP/World Meteorological Organization (WMO) Typhoon Committee (1968)	Established in 1968, the Japan Meteorological Agency provides support and advice to members through the Regional Specialized Meteorological Centre in Tokyo.
WMO/UNESCAP Panel on Tropical Cyclones (1972)	Provides a cyclone warning service for the Bay of Bengal.
International Charter on Space and Major Disasters (2000)	Provides countries affected by disasters with a unified system of satellite data acquisition and delivery. Currently, 14 of the world's space agencies are members, offering more than 21 earth observation satellites.

Source: Authors' compilation

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6 Social Protection in APEC: In Pursuit of Inclusive Growth

Janet S. Cuenca

Abstract

The paper seeks to take stock of some of the key Asia-Pacific Economic Cooperation (APEC) documents/reports relevant to social protection and safety net programs. It also focuses on the experience of APEC economies, particularly the Philippines, in implementing social protection measures. In particular, it attempts to identify and analyze social protection issues and challenges within the APEC context. It aims to provide insights, policy guidelines, and recommendations on how to improve social protection.

Introduction

After the 2008–2009 global financial crisis, Asia-Pacific Economic Cooperation (APEC) leaders recognized the need to draw up a new growth paradigm (i.e., comprehensive, long-term growth strategy) "that supports more balanced growth within and across economies, achieves greater inclusiveness in our societies, sustains our environment, and which seeks to raise our growth potential through innovation and knowledge-based economy" (APEC Secretariat 2009).

Thus, in 2010, the APEC Leaders' Growth Strategy (APEC Secretariat 2010) was launched with the end view of attaining balanced growth, promoting inclusive growth, achieving sustainable growth, enhancing innovative growth, and creating a secure growth. By inclusive growth, APEC leaders mean broadening access to opportunities resulting from economic growth and spreading the benefits of growth among a larger segment of society. In this regard, they "seek to ensure that all our citizens have the opportunity to participate in, contribute to, and benefit from global economic growth".

One of the two key thrusts in APEC's inclusive growth agenda is to strengthen social resilience so as to enable individuals to "overcome short-term difficulties while providing the incentive for long-term effort, with a focus on the most vulnerable in our economies" (APEC Secretariat 2009). APEC leaders, hence, commit to:

- Improve outcomes in education and skills training to enhance long-term economic security;
- Consider income supplements or earned income tax credits that encourage work and enterprise; and
- Design social safety nets that provide short-term economic security but avoid long-term dependency.

Some ways to achieve inclusive growth are the following:

- Promote job creation, human resource development, and active labor market policies
- Promote small and medium enterprises, microenterprises (MEs), and entrepreneurship development
- Promote more inclusive access to finance and financial services
- Enhance social resilience and social welfare through means such as improving social safety nets and supporting vulnerable groups
- Create new economic opportunities for women, elderly, and vulnerable groups
- Promote tourism

APEC has been staunch in its commitment to improve social safety nets and support vulnerable groups, which can be traced back to as early as 1998. In this context, the paper seeks to take stock of (1) some of the key APEC documents/reports relevant to social protection and safety net programs and (2) the experience of APEC economies, with special focus on the Philippines, in implementing social protection measures. In particular, it attempts to identify and analyze social protection issues and challenges within the APEC context. In addition, it aims to provide insights, policy guidelines, and recommendations on how to improve social protection.

Social protection in APEC

Social protection defined

Social protection refers to policies and programs that are aimed at preventing, managing, and overcoming the risks (e.g., economic recession, political instability, unemployment, disability, old age, health problems, sudden death of breadwinner, climate change) confronting the poor and vulnerable. It intends to reduce poverty and vulnerability through effective and efficient implementation of policies and programs, which the Asian Development Bank (ADB n.d.) enumerates as follows:

- Labor market policies and programs designed to promote employment, efficient operation of labor markets, and protection of workers
- Social insurance programs to cushion the risks associated with unemployment, ill health, disability, work-related injury, and old age
- Social assistance and welfare service programs for the most vulnerable groups with no other means of adequate support, including single mothers, the homeless, or physically or mentally challenged people
- Micro- and area-based schemes to address vulnerability at the community level, including microinsurance, agricultural insurance, social funds, and programs to manage natural disasters
- Child protection to ensure the healthy and productive development of children

In APEC, social protection is defined differently across member-economies. In this sense, there is no consensus among APEC economies on its definition (Table 1). Nevertheless, it should be noted that the concept of social protection is often understood in the context of broad themes of risks and contingencies, such as unemployment, old age, work injuries, health problems, and other vulnerabilities (e.g., persons with disabilities, women, and children).

Social protection as a priority area in APEC

In today's highly globalized setting, the Asia-Pacific region needs to ensure that all of its citizens, especially the marginalized sector, are included in the economic development process fueled by trade liberalization. Ideally, all sectors of the population must be able to reap the benefits of a globalized economy and well-functioning markets. However,

Table 1. Social protection defined: Select APEC economies

APEC Economies	Definition
Australia	Social protection refers to programs that address risk, vulnerability, inequality, and poverty through a system of transfers to people in cash or in kind. It has three core functions: (1) protection of the poor from the worst impacts of poverty, (2) prevention against income shocks and drops in well-being, and (3) promotion of opportunities and livelihoods (DFAT 2015).
Brunei Darussalam	Social protection system includes existing features on retirement, such as pension schemes, employee trust fund, and the supplementary contribution pension (Haji Saim 2010).
Chile	Social protection "system" is broadly defined to include policy interventions, public institutions, and the regulation of private institutions that lower the welfare costs of adverse shocks to income from job loss and extended unemployment, health episodes, old age, and lifetime poverty (WB 2004).
People's Republic of China	Social protection includes three basic systems: (1) social insurance, (2) social assistance, and (3) social welfare (Juwei 2010).
Indonesia	Social protection refers to an integrated system of protective measures against risks in order for individuals, households, and communities to minimize the normal day-to-day risks that can occur in life, to mitigate the impact of economic shock, and to support vulnerable groups in society. It includes several public intervention instruments, such as social insurance, social assistance, and social safety nets, with additional space for private and community-based initiatives. Social protection is broken down into social security and social assistance (Widjaja and Simanjuntak 2010).
Japan	The concept of social protection is associated with the Japanese term *shakai hosho*; its literal translation is social (shakai) security (hosho). The Ministry of Health, Labour and Welfare schematizes policy for "social security" in terms of (1) social insurance (i.e., public pensions, public health insurance, long-term care insurance, and work-related insurance); (2) public assistance (i.e., poverty relief); (3) social welfare (i.e., personal social services and income support for the elderly, the disabled, children, and single mothers); (4) health (i.e., medical service delivery, health promotion, and epidemic prevention); and (5) medical care for the elderly (Hayashi 2010).
Malaysia	Social protection schemes can be described as multipillar, with reliance on certain pillars depending on an individual's occupational history. The major formal social protection schemes include the Civil Service Pension Scheme, the Employees Provident Fund, the Social Security Organisation, the Armed Forces Fund, and the Workers' Compensation Scheme. There are also the public welfare programs administered by the Ministry of Women, Family, and Community Development, which can be classified into social assistance (means tested) and social pension schemes. The nonformal pillar comprises home ownership, personal savings, and other financial or nonfinancial assets (Ong and Hamid 2010).
Papua New Guinea	Social protection is defined as policies, programs, and services that allow for some form of protection and assistance to be provided directly, either in-cash or in-kind, to individuals, families, and households that are vulnerable to risks and shocks. At the same time, it empowers these groups to cope with the demands of daily life, leading toward the transformation of their lives in the long term (Wrondimi 2012).

Table 1. (continued)

APEC Economies	Definition
Philippines	Social protection refers to policies and programs that seek to reduce poverty and vulnerability to risks, and enhance the social status and rights of the marginalized by promoting and protecting their livelihood and employment, protecting them from hazards and sudden loss of income, and improving their capacity to manage risks.
Russia	The formal system of social protection includes labor pensions, unemployment compensation, family allowances, sickness and maternity benefits, and housing allowances (Sederlof n.d.).
Singapore	The social protection model in Singapore fits into what can be loosely referred to as the Confucianist welfare model, with emphasis on individual and family self-reliance and on community support. The model is represented as a pyramid with "many helping hands". Individuals are at the base of the pyramid, which means that individuals must first help themselves. Family comes next in the pyramid. Welfare assistance is given to households and families that are expected to work together. At the top of the pyramid is the government that, in partnership with community and voluntary organizations, offers help in a public-private partnership (Choon 2010).
Thailand	Social protection system is a multipillar system, with a few schemes to cover different sectors of the population (Paitoonpong et al. 2010).
Viet Nam	According to the draft of the Social Protection Strategy 2011–2020, social protection in Viet Nam includes three main pillars: (1) labor market, (2) social insurance and social health insurance, and (3) social assistance. These pillars aim to deal with various risks in a person's life (Giang 2010).

Source: Author's summary

trade liberalization may expose economies to external shocks that can adversely affect the poor and vulnerable households and individuals. If not properly addressed, social problems may outweigh or, at worse, diminish the benefits globalization brings. Social protection mechanisms must be put in place to mitigate the adverse effects of globalization.

APEC has, in fact, recognized the importance of establishing social safety nets[1] before a crisis occurs on two grounds: social safety nets (1) address the needs of the poor in good economic times and (2) provide coping mechanisms during a crisis (ADB n.d.). Many APEC declarations and joint statements reflect APEC's strong commitment to address the social dimension of globalization through social safety nets. For example:

[1] Social safety nets are noncontributory transfer programs that are aimed at protecting individuals or households against either a chronic incapacity to work and earn (chronic poverty), or a decline in this capacity due to adverse events, such as the sudden death of a breadwinner, economic recession/transition, or bad harvests. They are meant to redistribute income and resources to vulnerable groups and help the poor to proactively manage risks, so that they are better able to engage in activities that may involve some risks but can yield higher returns. Additionally, they are also viewed as effective programs in reaching those who are not covered by traditional social insurance programs, which are often linked with formal sector employment.

- In the 1998 APEC Economic Leaders' Declaration, the leaders firmly resolved to strengthen social safety nets given the ramifications of the Asian financial crisis. As a matter of high priority, they agreed that APEC should intensify efforts to address the social impact of the crisis.
- In the 1999 APEC Economic Leaders' Declaration, the leaders recognized "that income and wealth disparities between and within economies can pose a challenge for social stability. Appropriate social safety nets play a role in facilitating economic and social adjustment."
- In the 2000 APEC Economic Leaders' Declaration, the leaders asked the finance ministers "to include ways to look after those disadvantaged by economic change including through continued work on social safety nets".
- In the report titled, *Social safety nets in response to crisis: Lessons and guidelines from Asia and Latin America*, APEC finance ministers recommended that social safety nets be put in place before a crisis occurs so as to address the needs of the poor in good economic times, as well as provide coping mechanisms during a crisis.
- In the 2001 APEC Economic Leaders' Declaration, the leaders reiterated their commitment to maintain and improve social safety nets in all APEC economies. Such commitment was clearly expressed in the Shanghai Accord of 2001, which emphasized that "developing the social safety net is a high priority, as it can make an important contribution to reducing the harmful effects of economic shocks on vulnerable groups."
- In the Joint Statement of the 13th APEC Ministerial Meeting in Shanghai in October 2001, the importance of social safety nets to the APEC process was highlighted when the ministers endorsed the proposal of the Ad Hoc Task Force on Strengthening APEC Social Safety Nets to establish an APEC Social Safety Net Capacity Building Network (SSN-CBN).[2]
- In the 2002 APEC Economic Leaders' Declaration, the leaders noted "the importance of addressing the social dimensions of globalization and acknowledged the need for developing social safety nets to minimize the costs of structural change".

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[2] The APEC SSN-CBN was established to promote effective capacity building within the APEC region in the area of social safety nets. It was established in 2002 as a virtual network following the discussion on social safety net issues in APEC starting 1997 (http://www.apec.org/content/apec/apec_groups/som_special_task_groups/old/apec_social_safety.html).

- Likewise, in the Joint Statement of the 15th APEC Ministerial Meeting in Thailand in 2003, the ministers reiterated "the need for addressing the social dimension of globalization and the importance of developing social safety nets to minimize the costs of structural change". They commended the APEC initiatives for empowering vulnerable people, especially the jobless, and for ensuring more equitable distribution of the benefits brought about by globalization.
- One of the four APEC-wide economic and technical cooperation priorities set and endorsed by APEC leaders and ministers in 2003 is to address the social dimension of globalization (APEC HRDWG n.d.). It is also one of the priorities endorsed by the Senior Officials' Meeting Steering Committee on Economic and Technical Cooperation in September 2006.
- As part of the APEC Human Resources Development Working Group (HRDWG), the Labor and Social Protection Network is geared toward fostering strong and flexible labor markets and strengthening social protection, including social safety nets, through evidence-based interventions, collaboration, technical cooperation, and the provision of labor market and social protection information and analysis.
- In the 2009 APEC Leaders' Declaration, the leaders resolved to overcome the crisis (i.e., the 2008–2009 global financial and economic crisis) within 18 months through economic stimulus policies. They also recognized the need to develop a new growth strategy that includes inclusive and balanced growth as pillars.
- In the 2010 APEC Leaders' Declaration, the leaders launched their strategy for inclusive growth, which involves enabling all stakeholders—from MEs to women—to participate in the economy and in global trade.
- In the 2014 APEC Human Resources Development Ministerial Meeting, the ministers emphasized the significance of appropriate labor and social protection measures. Their support for inclusive and sustainable growth, which is critical to address the social dimensions of globalization (including equality and needs of vulnerable groups), is reflected in the following statements:
    1. We support enhancing the effectiveness and sustainability of social protection measures and systems.
    2. We promote safe and secure workplaces. We are committed to reducing the number of workplace fatalities, injuries, and illnesses.

3. We acknowledge that the informal economy is sizeable in some APEC economies. Workers in the informal economy may have limited access to quality employment, workplace, and legal protection. Vulnerable populations—such as persons with disabilities, youth, children engaged in labor, and women—make up a disproportionately high number of workers in the informal economy. We encourage the extension of social protection systems, as appropriate, to cover informal workers, taking into account relevant International Labour Organisation standards, and within each member-economy's capacity and existing laws and regulations.
4. We recognize that migrant workers, despite their economic contributions, may find themselves in vulnerable situations, including a lack of adequate legal and social protection. We should consider ways that APEC could enhance the protection of migrant workers' rights through a balance of responsibilities across economies.
5. We commit to ensuring that persons with disabilities can participate more fully in the labor market and be employed in disability-inclusive workplaces.
6. We commit to taking steps to better track the number of persons with disabilities in our labor markets; to inform and improve the evidence base for our policy decisions.

- In the 2015 APEC Leaders' Declaration, the leaders reiterated their "commitment to ensure that future growth is strong, balanced, sustainable, inclusive, driven by innovation, and secure against natural disasters and other threats". They reaffirmed their "commitment to implementing the 2030 Agenda for Sustainable Development, which sets a comprehensive, universal, and ambitious framework for global development efforts for the next 15 years, and to ensuring that no one is left behind in our efforts to eradicate poverty and build an inclusive and sustainable future for all". Moreover, they reaffirmed their "commitment to implementing the Addis Ababa Action Agenda, which provides a comprehensive road map to help economies implement policies to attract and mobilize diverse sources of financing critical for the realization of the Sustainable Development Goals".
- In the 2015 APEC Ministerial Meeting, the ministers supported the APEC HRDWG 2015–2018 Action Plan and its initiatives

toward vulnerable and disadvantaged groups in society, such as persons with disabilities, women, and youth, as well as mobile workers. They called on the APEC HRDWG to identify policy priorities on global workers and address gaps in enhancing their social protection.

In the same vein, various APEC seminar-workshops and activities on social safety nets were conducted to build the region's capacity in strengthening social safety nets. Some of these activities are as follows:

- The First International Meeting of Experts on Social Safety Nets was held in July 2001 in South Korea, where experiences on social safety nets and the future development of the SSN-CBN were shared.
- The Second International Meeting of Experts was held on April 8–9, 2004 in Bangkok, Thailand, where the activities implemented by the SSN-CBN were discussed.
- The APEC High-Level Seminar on Social Safety Nets was held on July 14–16, 2004 in Shenyang, China, which discussed and deliberated "on ways to strengthen [the] ability to respond to the increasing need for social safety nets with capacity to cushion the impact of economic volatility, and thereby contribute to enhanced productivity".[3]
- The workshop on the APEC Social Safety Net Capacity Building was held on March 23, 2005 by the Korea Institute for Health and Social Affairs.
- The APEC Symposium on Social Safety Nets under Rapid Socioeconomic Changes was held on August 23–24, 2005 in Lotte Hotel, Seoul, Korea, which was set to promote comprehensive discussions on the role of safety nets for the vulnerable people under the diverse socioeconomic impact of globalization.
- The Training the Trainers Program on Social Safety Net Capacity Building was held on March 12–16, 2007 in Seoul, Korea, which was geared toward training government officials in relevant ministries and institutes on how to train their colleagues and junior officials using the course contents and techniques used in the training.
- The Symposium on Using Social Safety Nets to Meet Extreme

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[3] Welcome remarks by Mr. Chang Jin Moon, director-general of the Ministry of Health and Welfare, Korea during the APEC High-Level Seminar on Social Safety Nets.

Challenges Faced by Communities was held on June 24–25, 2007 in Cairns, Australia, which was meant "to showcase successful approaches and practices that could be used by economies in times of economic crisis and/or natural disasters".

- Labor and Social Protection Network-sponsored social protection seminars with the theme "Advancing Inclusive Growth through Social Protection" was held in San Francisco and Manila on September 12–13, 2011 and July 25–26, 2012, respectively.
- The Seminar on Facilitating Human Resource Mobility by Enhancing Social Protection was held at the Howard Civil Service International House in Taipei, Chinese Taipei, on August 31 to September 1, 2015 "to gather insights from government officials of various APEC economies, representatives, and experts from labor study agencies to facilitate collaboration in identifying effective measures to address emerging issues on human resource mobility and social protection" (ILS-DOLE n.d.).

Note that the Labor and Social Protection Network-sponsored seminars mentioned above were part of a project entitled "Advancing Inclusive Growth through Social Protection", which was implemented by the United States and the Philippines in 2011 to advance APEC's understanding on how to strengthen the effectiveness and sustainability of social protection measures and systems, particularly in developing economies. More specifically, the project aimed to (1) share promising practices and enhance understanding of social protection programs and policies within APEC economies, (2) promote best practices and develop recommendations to improve social safety net programs and coverage, and (3) develop effective strategies to reach vulnerable populations (APEC Secretariat n.d.).

The report from this project highlights the benefits of social protection as well as the major challenges faced by economies that participated its various seminars. Other existing studies point out the same, as will be discussed in the following section.

Issues and challenges in social protection

The APEC Secretariat (2013) discusses the channels by which social protection advances inclusive growth. These channels are as follows:

- Social protection enhances the capacity of vulnerable people to participate in the labor market, builds human capital, and reduces economic risks faced by the poor and the near-poor, making growth more inclusive.

- During an economic downturn, social protection serves as a counter-cyclical force that protects individuals from falling into or further into poverty.
- Social protection programs have broader benefits because they serve to support the economy and bolster aggregate demand as beneficiaries infuse the economy with program funds.
- Social protection can mitigate the impacts of disasters and reduce risks associated with household investments in higher-profit/ higher-risk livelihood activities. This can result in a positively reinforcing cycle in which wealth and assets are accumulated and households are better able to adapt to changes and shocks.
- Social protection serves to strengthen human capital through programs that invest in education, health, and social services. These programs enhance individuals' capability to participate in the labor market, leading to a more productive and competitive labor force.
- Social protection programs improve individuals' participation in the labor market by giving them the resources to conduct a job search until they locate a position that takes advantage of their capabilities, enhancing labor market efficiency and reducing underemployment.

Nevertheless, these benefits do not come without costs. Strengthening social protection is associated with issues and challenges that APEC economies have to contend with. These issues and challenges can be categorized into broad themes as follows:

Choice of program and its design

Coudouel et al. (2002) discuss the steps in choosing an appropriate mix of social protection policies as follows:

- Analyze the main sources of the population's risk and vulnerability, and identify the groups most affected by these risks. Once the groups and their characteristics are identified, the role that social protection can play, in conjunction with interventions in other sectors and at the macroeconomic level, can then be investigated. Policies to ensure macroeconomic stability, rural development, and human capital formation will complement social protection programs.
- Determine which of the identified groups are covered by existing social protection programs and policies, and assess

the effectiveness of these instruments individually and in combination. Special attention should be paid to the compatibility of the policy context and the expenditure programs, and the specific objectives of each intervention, its effectiveness at achieving these objectives, and its cost effectiveness in delivering the observed outcomes.

- Reveal both gaps in coverage and the cost effectiveness of existing interventions. If a full cost-effectiveness analysis cannot be done, then partial indicators—such as sustainability, targeting effectiveness, administrative costs and unintended effects—and constraints may be considered. This analysis of existing programs and policies, together with information on alternative interventions and the constraints faced (e.g., budget constraints, administrative capacity, and political economy) provides the basis for determining the most effective mix of interventions. In all cases, the full social protection strategy will be composed of a mix of policies and programs. The appropriate mix, of course, will vary by country.
- Develop an action plan that specifies the actions, resource requirements, timetable, and parties responsible for each action.

Cook (2009) argues that social protection strategies should facilitate redistribution across regions or social groups for secure basic livelihood, equal citizenship rights, and greater social cohesion. On the other hand, Subbarao et al. (1997) argue that programs should be designed with a clear appreciation of the country situation—not crowding out private safety nets and growth-promoting investments, and cognizant of political economy constraints. Likewise, Skoufias (2012) points out that social protection and labor policies and programs should be tailored to countries and evidences.

Country-specific conditions that should be taken into account include macroeconomic conditions, socioeconomic profile/demographics, infrastructure constraints, administrative constraints, and political constraints. For instance, choosing between universal and targeted schemes should be context specific, thus, taking into account political, fiscal, and administrative considerations and constraints (UNESCAP 2011).

Country-specific conditions and attributes explain why social protection mix, as well as the definition of social protection, varies across countries. Edes (2012) suggests that social protection system in Asia may differ from that in other parts of the world considering the individuals, families, communities, and the private sector that comprise

Asia. In the case of pension systems in Southeast Asia, Asher and Bali (2015) note the significant heterogeneity among the systems due to their social protection philosophy, institutional features, macroeconomic sustainability, and coverage rates.

A number of existing studies (e.g., Asher 2010a; Choon 2010; Chung 2010; Giang 2010; Handayani 2010; Hayashi 2010; Juwei 2010; Paitoonpong et al. 2010; Widjaja and Simanjuntak 2010; Edes 2012; Asher and Bali 2015) underscore the issue of aging population. As Handayani (2010) puts it, income support for the elderly is one of Asia's biggest social and economic challenges in the 21st century due to aging population, urbanization, globalization of the labor market, and sociocultural change. Demographic trends in Asia are expected to exacerbate the social and political constraints to sustained high growth when there is no well-functioning pension system. The said report attributes the failure in Asian pension systems to high transaction costs,[4] lack of strong governance, poor design, low coverage, insufficient coverage of informally employed workers, low contribution rates, and low replacement rates.

Asher (2010a) reiterates that rapid aging and large informal labor markets challenge the Asian social protection systems. He points out that fairly elaborate social protection programs in Asia are not often characterized by well-designed, high-coverage, and financially sustainable schemes. Handayani (2010) argues that a pension system is well-designed if it adequately covers the populace and the risks posed to it. In general, Leyton (2012) suggests that a social protection system that enables its users to fight poverty on their own can be considered as the best social protection system.

In a similar vein, Asher and Bali (2015) point out that the demographic trends in most economies in Southeast Asia indicate aging at relatively low incomes.[5] In addition, there is a limited opportunity to adjust the design of pension programs and reforms within institutions supporting social protection systems. The authors argue that there will be a longer financing of retirement expenditure for an aging population. This implies a higher share of society's resources for the elderly and changes in the financing mix used to provide pensions due to such additional funding requirements. The authors note that public or government-organized pension schemes have relatively small contribution in ensuring old-age income security.

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[4] Strategic negotiation process with public or private banking sector must be explored to lower the transaction cost of making payments to beneficiaries.

[5] Giang (2010) considers poverty during old age as one of the emerging issues in Viet Nam.

In the case of Korea, Chung (2010) mentions that the elderly tend to be sick, and the high medical costs cause them to slip into poverty. In this regard, an aging population has been an increasing concern in the social protection of the elderly, particularly during the 2008–2009 economic crisis. In the case of Singapore, Choon (2010) raises concern over the adequacy of retirement savings that is required to finance the needs of the elderly. The study suggests that compulsory savings must yield returns that compensate for inflation rates, especially medical cost inflation.

Moreover, Handayani (2010) raises the issue on people working in the informal sector and left uncovered by the formal social protection system, particularly in developing countries (Orbeta 2010; Paitoonpong et al. 2010). Edes (2012), too, points out that the formal sector is the focus of social protection coverage in developing Asia and the Pacific. Countries are challenged to reach those in the informal sector, which is very large in some countries. Handayani (2010) argues that lack of information on social protection products and lack of capacity of the providers during start-up are a major challenge at the micro level. It highlights the importance of promoting microinsurance and its benefits to low-income groups. Nevertheless, Bauer (2012) observes that employment is overlooked in social protection programs in Asia.

In designing social protection schemes, the coverage and the level/size of benefit are important considerations. However, existing studies point to the issue of low coverage and, worse, noncoverage (e.g., of vulnerable groups, informal sector), as well as the question on the appropriate level/size of the benefit. In the case of Viet Nam, Lan Huong (2012) identifies the low level of labor protection for most workers in the informal sector as one of the shortcomings of its social protection policy. In the case of the Philippines, Orbeta (2010) notes the persistent lack of coverage of informal sector workers. In addition, majority of the formal wage workers in the private sector continue to have low coverage despite the system's expansion of statutory coverage to include own-account, overseas, domestic workers, and even housewives. In Malaysia, Ong and Hamid (2010) emphasize the positive correlation between per-capita income and social protection. In this light, the authors mention that increasing coverage through formal sector growth poses a challenge to the country.

In contrast, Widjaja and Simanjuntak (2010) reveal that the Indonesian government has not offered any protection for the aging population, particularly for those outside the government sector. In China, Juwei (2010) mentions that most people are not covered by any pension insurance despite the country's rapidly aging population. In Thailand, Paitoonpong et al. (2010) note the noncoverage of a huge sector of informal workers in any income security system. Haji Saim (2010) mentions that unemployed people in Brunei Darussalam are not covered by social protection schemes.

In addition, Hayashi (2010) notes the holes in the safety nets in Japan, which refer to the inability to include those people in need of help due to fragmented social safety nets as brought about by a rapidly aging population, labor market structural change, and increasing poverty. Similarly, Juwei (2010) notes the holes in China's social insurance system, leaving migrant workers unprotected.

In many low-income countries, Handayani (2010) suggests that there is more work to do to achieve universal coverage and acceptable benefits for social health insurance. The author points out the challenge of covering the informal sector and balancing costs to the insurer and the insured, which is constrained by affordability. At the global level, Bockstal (2012) mentions that 80 percent of the population does not have access to a comprehensive social security coverage. This is a cause for concern because of the link between the growing inequality and access to social protection.

The kind and appropriate level of benefit to be provided (whether in-cash or in-kind) depends on the type of need being addressed. However, the benefit level highly depends on the fiscal capacities of the countries. Handayani (2010) raises concern over the insufficient funding of most social assistance programs for children and, in turn, the low benefits provided despite the persistent and pervasive poverty among children in most developing member-countries of the Asian Development Bank (ADB).

In the case of Korea, Chung (2010) considers the adequacy of pension benefits required to support the elderly as an additional challenge to the national pension scheme. In Brunei Darussalam, Haji Saim (2010) mentions that the adequacy and sustainability of benefits pose a challenge to the country's limited social protection schemes. In the case of Viet Nam, Lan Huong (2012) finds that benefits from social insurance and assistance account for only 4 percent of the household's total income. Ong and Hamid (2010) reveal that the Malaysian Employees Provident Fund's benefits level has always been questionable even though the fund has the highest percentage of coverage among major social protection schemes.

In general, Paitoonpong et al. (2010) argue that problems with regard to coverage, adequacy of benefits, and management render most of the social protection schemes imperfect. Handayani (2010, p. 21) points out that "social security systems are not well developed, statistics on expenditure and coverage are not produced at the national level, and information is dispersed and available only at the level of individual social security schemes. Household surveys, if done on a regular basis, usually do not look deeply into the situations of people covered by social security schemes." Asher (2010a) suggests that professionalism, experimentation, and political and organizational leadership and vision are essential in constructing multitier social protection systems.

As vulnerability to risk varies significantly by gender, gender issues should be factored in the program design. The World Bank cites the following reasons why gender considerations should be incorporated in the design of social safety nets:

- Men and women may be vulnerable or exposed to different types of risks.
- There is evidence that women are often more disadvantaged than men and, therefore, should benefit from more assistance programs.[6]
- Programs that take into account the gender dimension of transfer programs may be desirable because of added benefits to other members in the household.
- This approach might help to increase the impact of safety nets programs on poverty and human development outcomes.

The World Bank further enumerates ways to integrate gender considerations in safety nets strategies:

- Design specific projects for women such as microcredit programs and promotion of crèches and day-care centers.
- Enhance the direct or indirect (e.g., distributing resources in kind) targeting of existing programs for women.
- Ensure that projects accommodate the needs of participating women.

Cost and financing of social protection

The direct cost of a program is determined by the size of the benefit, the number of beneficiaries reached, and the administrative cost of implementing the program. On the other hand, indirect or opportunity cost is measured in terms of: (1) reduced labor supply, as income

[6] Bockstal (2012) points out that women's access to comprehensive social security coverage is more difficult, owing primarily to employment patterns.

transfers may result in disincentive to work; (2) increased government size in case public works programs are undertaken; and (3) poor investment decisions when social safety net programs crowd out long-term investments for growth.

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP 2011) cites the International Labour Organisation's methodology for estimating the cost of a package of measures to serve as basis for a social protection floor.[7] These measures include universal basic old age and disability pensions, basic child benefits, and universal access to essential health care. Adopting the said methodology, the study estimates the cost of the same package for select developing countries in the Asia-Pacific region.

Based on the UNESCAP estimates, the total cost of a basic social protection package mostly ranges from 1 percent to 3 percent of gross national income (GNI). The observed intercountry cost differences are attributed to the per-capita GNI and the demographic composition. Cost tends to be high for countries with high proportion of children or older persons.

Moreover, according to UNESCAP (2011), the costs of social protection programs are relatively small compared with the benefits. In this sense, social protection can be viewed as an investment—a key insight pointed out by Handayani (2010). ADB (2013), too, points out that investing in a social protection program reduces vulnerability, mitigates chronic poverty, and nurtures inclusive growth. Investments in social protection enable households to invest in their future and manage risks (e.g., extreme environmental events, sudden illness, and economic shocks).

Nevertheless, financing social protection schemes poses a great challenge to some APEC economies, particularly due to fiscal consolidation concerns and, as pointed out earlier, a rapidly aging population. For example, Ong and Hamid (2010) suggest that Malaysia's fiscal capacity should be considered in social protection reforms. In the case of the pension reform, the program design should take into consideration both the current and future capabilities of the country. It should also take into account the delivery mechanism, including the management and the governance issues of reform. In particular, the said study notes the highly conservative investment policy for *Kumpulan Wang Persaraan (Diperbadankan*) or the Retirement Fund

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[7] Social protection floors are nationally defined sets of basic social security guarantees that should ensure as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security, which, together, secure effective access to goods and services defined as necessary at the national level.

(Incorporated), Employees Provident Fund, and the Social Security Organisation—all of which focus mostly on government bonds and securities. It suggests the need for policy change that allows investment in high-yielding investments.

In the Philippines, Orbeta (2010) raises concern over the continuing threat to sustainability in social security because contributions and benefits are not strongly linked. The study points out the issue on the increasing operating costs associated with social security in the Philippines, which is considered as among the highest in the region. In China, Juwei (2010) notes the high nominal social insurance contribution rates, which results in contribution evasion.

Handayani (2010, p. 8) describes a well-designed pension system as "affordable from individual, business, fiscal, and macroeconomic perspectives; financially sound and sustainable; able to withstand macroeconomic and other shocks; and able to provide a reasonable level of postretirement income with a safety net for the elderly poor". In this light, the said report argues that "most Asian pension systems need strengthened institutional and administrative capacity, improved governance and regulation, expanded coverage, enhanced financial sustainability, and safety nets for the elderly poor."

Edes (2012) argues that strengthening social protection is constrained by limited fiscal space, but natural resource endowments can help finance social protection if countries will use them wisely. Balisacan (2012) regards tight fiscal space as one of the challenges confronting the Philippine social protection system. Lan Huong (2012) reveals that the state budget finances social insurance and assistance in Viet Nam; thus, resources are not sufficient to meet the growing demand for social protection. In this sense, low financial sustainability of social protection policies is an issue in Viet Nam. Morola (2012), meanwhile, points out that there is no specific source of funds for social protection programs in Papua New Guinea.

However, Asher and Bali (2014) note the increasing national and fiscal resources allotted to social protection in developing Asia. The authors raise a critical issue on sharing the burden to finance social protection expenditure among different sectors. Addressing this issue is important in securing sustainable financing for social protection. Financial sustainability cannot be overemphasized, as this has serious implications. For instance, financial sustainability considerations can mean reduction in the level of benefit.

Chung (2010) points out that reducing the benefit levels and/ or increasing the contribution levels of social protection schemes can enhance financial sustainability. However, the study has a caveat: such changes have implications on intergenerational and intragenerational equity. In particular, the study explains that the current generation will be influenced by policies to reduce benefits, while the future generation will be influenced by policies to increase contributions. Similarly, changing the relative benefit-contribution ratios across income groups and employment status groups will have implications on intragenerational equity.

To address financing issues, Cook (2009, p. 18) brings up the possibility of expanding social protection through tax-funded systems, particularly in East Asian countries. The study points out that the benefits that come with social protection justify the shift from "selective" to "inclusive" forms of provision. Also, the experience in East Asia can serve as basis to argue for "the benefits and necessity of inclusive growth through publicly financed social policies". In addition, it indicates the importance of source of financing for social protection, including the actual amount and its use, in creating political alliances and broad-based support for more redistributive policies and, in turn, in achieving greater equity and inclusion.

Likewise, UNESCAP (2011) argues that it is crucial to provide a basic low-level pension to all that is financed by general taxation, particularly in the poorest countries. This is beneficial for women, especially for those who are not involved in paid economic activity. In addition, a society's willingness to finance social transfers through taxes and contributions determines affordability of social protection.

Targeting

Targeting is a tool meant to concentrate the benefits of transfer programs to the poorest segments of the population. It is key to the cost effectiveness of any program. All targeting mechanisms have the same objective: to correctly identify which households or individuals are poor and which ones are not.

However, the inevitability of errors of inclusion and exclusion remains to be a cause for concern (de la Briere and Rawlings 2006). Targeting involves administrative costs, private costs, social costs, and incentive costs. These costs mean that less of the program budget will be available for distribution as benefits to the beneficiaries. Thus, in evaluating which targeting method is appropriate, one has to weigh the benefits from reduced leakage against the cost of implementing finer targeting methods.

Different targeting mechanisms are adopted in select APEC economies (APEC Secretariat 2013):

- Geographical targeting in China and Australia
- Multidimensional index in Mexico and Peru
- Proxy means testing in the Philippines
- Income-based targeting in Chinese Taipei
- Self-targeting by beneficiaries in Thailand

The APEC Secretariat (2013) further identifies the following factors that need to be considered in a program design:

- Definition of informal sector workers to be adopted
- Assignment of unique identification (ID) number for all citizens and respect for privacy
- Use of new technology (e.g., low-cost ID cards, web-based monitoring systems, and use of existing social or financial structures to distribute benefits) in beneficiary management
- Gender considerations in social protection programs

In addition, Morola (2012) raises concern over the lack of reliable and readily available data, as well as the high cost required for identifying the most vulnerable groups in Papua New Guinea. Handayani (2010) underscores the importance of improved targeting of the poor and efficient spending in view of the developing ADB member-economies' limited resources. Meanwhile, Cook (2009, p. 14) notes that imposing program conditionalities enhances targeting effectiveness. Specifically, Cook's study states:

> "Conditionalities are largely a response to problems of targeting: In countries that are more fiscally constrained, poor targeting of unconditional (means-tested) programmes has led to efforts to focus on more narrowly defined and directly observable groups, with the dual aim of meeting other development objectives (such as maternal and child health). Where fiscal constraints are less severe, the movement appears to be towards programmes that provide universal entitlement with eligibility based on income or economic status (as in Korea and China). Such programmes do pose technical and implementation difficulties, particularly in the identification of those in need, flexibility and responsiveness to changing household circumstances, and monitoring and accountability of financial flows."

Coordination among institutions, line ministries/agencies, and local stakeholders

Central and local governments can forge new accountability relationships when implementing social protection measures. Such relationship can vary depending on the program design, particularly on the degree of program decentralization. In this sense, the success of the program becomes a shared goal between national and local authorities. It should be emphasized, however, that social protection programs must be free of political influence, especially when it comes to targeting and selecting beneficiaries. This calls for transparency in the eligibility criteria and selection of program recipients.

Interinstitutional coordination, moreover, is critical to avoid duplication of programs and wastage of limited government resources. It will also strengthen synergies in protecting the poor and vulnerable. In addition, encouraging community participation and engaging civil society in consultative councils both foster transparency in the program implementation and can be viewed as one way of establishing a good feedback mechanism.

In this light, Cook (2009, p. 18) points out the importance of integrating fragmented systems through institutional arrangements. The study notes “the trajectory in some countries toward more integrated systems”. It argues that moving toward greater integration and policy coherence is essential in ensuring coverage for all. Skoufias (2012) shares the same view that social protection should be developed collaboratively (i.e., through broad and synergistic partnerships across sectors and actors).

Similarly, Hayashi (2010) suggests the importance of structuring a set of social safety nets as a system that effectively connects basic services and assistance together. The study notes that in Japan, safety nets are “disjointed” due to the nation’s rapidly aging population, structural changes in the labor market, and increasing poverty.

Meanwhile, the Philippine government, with the Department of Social Welfare and Development (DSWD) as lead agency, formulated an operational framework to harmonize all social protection schemes, but Balisacan (2012) highlights the challenge of weak institutional capacity and the need to strengthen capability of local government units in the area of social protection in the country. In the case of Korea, Chung (2010) recognizes the importance of coordination among schemes over time, particularly in the coordination of the National Pension Scheme with the newly introduced Basic Age Pension, as well as the coordination between the National Health Insurance and the Long-Term Care Insurance.

There remains a concern, according to Handayani (2010), over the fragmentation of social protection schemes in terms of geography and population groups, as well as the inadequacy of legal and policy frameworks in safeguarding child protection. On child protection in particular, the study enumerates some challenges: (1) finding ways to include children in social protection, (2) sufficient capacity at the local level for children's inclusion, and (3) donors' effective engagement in building the capacity of governments to tackle poverty among children.

Monitoring and evaluation

There is a need to ensure that resources indeed reach the target beneficiaries. Also, it is important to evaluate the social protection programs in terms of: (1) the targeting mechanism used; (2) appropriateness of the benefit and its level; (3) cost, operational efficiency, and cost effectiveness; and (4) administrative feasibility. A good monitoring and evaluation mechanism should be in place. Such mechanism provides useful information that can be used as basis for program expansion (e.g., geographic expansion and scaling up of effective programs) and modification.

The operational efficiency of a program depends, among others, on the following considerations: (1) whether the inputs of a given quality are procured at the lowest possible price, (2) whether there is no wastage in the delivery of the transfers, and (3) whether administrative cost is not excessive. Programs are said to be effective if they actually achieve their goals. It should be emphasized that the cost effectiveness of a program is different from cost. As the cost of the program increases with the size of the benefit, so does its effectiveness. Also, there should be a balance between the need to protect the poor and the desire to maintain economic efficiency in the long run.

ADB recognizes the importance of putting in place a monitoring and evaluation system to provide policy-relevant information on social protection that is critical for policy directions and reforms. It, thus, has developed the Social Protection Index (SPI) that is meant for government's monitoring of progress on social protection and conduct of cross-country comparative analysis. The SPI covers social insurance, social assistance, and labor market programs.

As explained in ADB (2013, p. xii), the SPI "is a relatively simple indicator that divides total expenditures on social protection by the total number of intended beneficiaries of all social protection programs. For assessment purposes, this ratio of expenditures to beneficiaries is compared with poverty line expenditures. For example, if the SPI were 0.100 in country X, this index number would mean that total social protection expenditures (per intended beneficiary) represent 10 percent of poverty line expenditures. The higher this index number, the better a country's performance."

The derived SPI indicates significant disparity among countries in the Asia-Pacific region. For instance, the derived SPI for Papua New Guinea is 0.005 (i.e., representing 0.05% of poverty line expenditures), while that for Japan is 0.416 (i.e., representing about 42% of poverty line expenditures). The said percentages indicate 0.125 percent and 10.5 percent of per-capita gross domestic product (GDP), respectively. In contrast, a comparison of the average SPI for seven upper middle-income countries (0.122) and that for 19 lower middle-income countries (0.096) shows a difference in SPI, albeit not that substantial. For the 35 countries covered in the SPI project, the average SPI was estimated to be 0.110 (11% of poverty line expenditures).

In addition, Korea, along with Japan, is one of the four countries that have SPIs of at least 0.20 (i.e., representing 20% or more of poverty line expenditures). Korea's SPI of 0.20 (i.e., 5% of its per-capita GDP) is set as "a realistic medium-term objective for middle-income countries in Asia and the Pacific". ADB (2013, p. xiii) findings show that a number of middle-income countries have not financed adequate social protection systems.

In addition to ADB's SPI, it is critical for countries to have a monitoring and evaluation system. This entails overcoming the obstacles in this regard. In the area of social insurance and assistance, for example, Viet Nam lacks an effective monitoring and management system (Lan Huong 2012). In the case of the Philippines, the lack of a database that informs sound policies and effective programs is highlighted (Balisacan 2012). Similarly, the lack of reliable data and information sharing that is essential for systematic national evaluation confronts Papua New Guinea (Morola 2012).

Handayani (2010, p. 21) points out that only a few of ADB's developing member-countries produce high-quality statistics, including those on social security. In most developing member-countries, "social security systems are not well developed, statistics on expenditure and coverage are not produced at the national level, and information is dispersed and available only at the level of individual social security schemes. Household surveys, if done on a regular basis, usually do not look deeply into the situations of people covered by social security schemes. Some methodological refinements are necessary, notably regarding the original sources of data used."

Exit/graduation from the program

A culture of dependency among beneficiaries of social assistance or social safety net programs must be avoided. This can be done by limiting the size and duration of benefits. In addition, building work incentives into social protection programs helps prevent dependency. Many APEC economies are confronted with the challenge of effectively integrating work incentives into social protection programs (APEC Secretariat 2013). For instance, Morola (2012) enumerates some difficulties and challenges that the government of Papua New Guinea needs to address: (1) absence of national employment and labor market policies, (2) inadequate and unreliable labor market data needed in designing programs that promote beneficiary independence, and (3) high illiteracy level.

In sum, Asher (2010b) points out that despite the many demographic, institutional, and fiscal challenges, there is a need to sustain the process of expanding social protection in view of the crisis. More specifically, UNESCAP (2011, p. 64) considers budgetary decisions as not only financial but also political. The study argues that in addition to fiscal space, political space and commitment in the executive branch to reallocate funds are necessary in new social protection programs. Political attitudes influence budget allocation. As the study puts it: "Many people agree on the usefulness of social protection, but disagree on its content, scale, delivery, and cost."

Social protection in the Philippines[8]

The DSWD is the Philippine government's lead agency in social welfare development, policy development, and program implementation, as emphasized in Executive Order 221, series of 2003. It was created by virtue of Republic Act (RA) No. 5416 of 1968, with the mandate to set standards and policies that ensure the effective implementation of public and private social welfare programs. Among others, the DSWD is responsible for: (1) formulating policies and plans that provide direction to intermediaries and other implementers in the development and delivery of social welfare and development services and (2) providing social protection to the poor, vulnerable, and disadvantaged sector. The department envisions "a society where the poor, vulnerable, and disadvantaged are empowered for an improved quality of life" by developing, implementing, and coordinating social protection and poverty reduction solutions for and with the poor, vulnerable, and disadvantaged.

[8] Paper presented at the Network of East Asian Think Tanks' Working Group Meeting on Inclusive Growth (Phase II) titled "Social Welfare Policies in East Asia: Sharing Experiences for a New Ground of Regional Cooperation" held in Depok, Indonesia, on July 11, 2013. The author acknowledges with thanks the DSWD for providing the materials used in the preparation of this paper.

The *President's Social Contract with the Filipino People* (Official Gazette n.d.) reiterates DSWD's role as the active lead in social protection, which is a priority area of the Aquino government, as reflected in its *2011–2016 Philippine Development Plan's* inclusive growth goal. Inclusive growth, as encompassed in the President's Social Contract, envisions "a country with an organized and widely shared rapid expansion of our economy through a government dedicated to honing and mobilizing our people's skills and energies, as well as the responsible harnessing of our natural resources". It is expected to result in reduced poverty and increased employment through three broad strategies: (1) high and sustained economic growth, (2) equal access to development opportunities, and (3) effective and responsive social safety nets.

Achieving inclusive growth entails developing human resources by improving access to quality social services, and enhancing social protection that is intended to empower the poor and vulnerable and, in turn, enable them to participate in the growth process (PDF 2013). The DSWD plays a crucial role especially in the area of social protection. For its sectoral reform agenda in 2006, the DSWD defined its critical role and contribution in rationalizing social protection in the Philippines. As a result, social protection in the Philippine context gained formal definition on February 13, 2007.

Several studies assessing social welfare and protection programs in the Philippines suggest the need to harmonize social welfare programs to avoid overlaps and improve targeting of areas and beneficiaries. Also, the government needs to harmonize and coordinate poverty reduction with social protection, especially when crafting interventions and strategies. In response, the DSWD, in collaboration with the National Economic and Development Authority (NEDA) and the Social Security System, formulated an operational framework to harmonize all social protection programs. To date, the NEDA Social Development Committee approved the use of the framework "by all stakeholders involved in recommending and implementing social protection policies, programs, and projects in the country" (NEDA-SDC 2012).

Overview of the Social Protection Operational Framework[9]

The social welfare policies in the Philippines are embodied in the Social Protection Operational Framework (Figure 1), which is a common guiding framework in proposing, implementing, monitoring, and evaluating social protection policies, programs, and projects to avoid duplication

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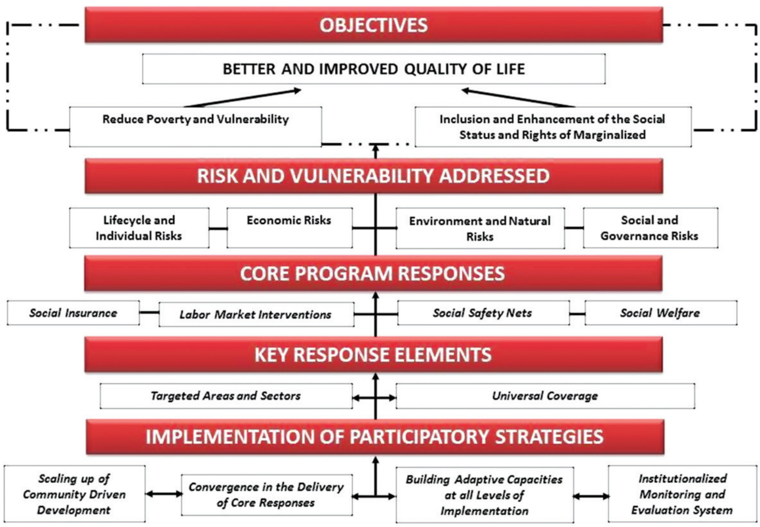
[9] This section draws heavily from DSWD-NEDA-SDC (2012) and PDF (2013).

of interventions (NEDA-SDC 2012). The framework was formulated cognizant of the need to harmonize all social protection policies, programs, and projects to ensure greater impact on the poor and vulnerable. The need for a framework springs from the fact that the multiplicity of programs and government agencies involved tends to bring about poor coordination, redundancy in providing services, and overlapping of program beneficiaries (DSWD 2012).

Figure 1. Enhanced Social Protection Operational Framework and Strategy



Source: Department of Social Welfare and Development (DSWD)-National Economic and Development Authority (NEDA)-Social Development Committee (SDC) 2012

Figure 2. Enhanced analytical framework for poverty reduction

Note: Analytical framework taken from RA 8425 or the Social Reform and Poverty Alleviation Act, which was enhanced to include social protection.

Source: DSWD-NEDA-SDC (2012)

Social protection defined

The Social Protection Operational Framework (DSWD-NEDA-SDC 2012, p. 5–6) defines social protection as "policies and programs that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks".[10] It is regarded as one of the pillars of poverty reduction (Figure 2), considering that "exposure to risks and the inability of individuals/families to manage and cope with these risks lead to poverty." As such, social protection forms part of the country's overall inclusive development goals and poverty strategy.

The core of the operational framework is the objective of social protection (i.e., better and improved quality of life for its beneficiaries by reducing poverty and vulnerability, supporting inclusion, and enhancing the social status and rights of the marginalized). Other elements/features of the framework are discussed below.

Identifying and responding to major risks and vulnerabilities

The operational framework envisions social protection to respond to various types of risks and vulnerabilities (e.g., life cycle and individual risks, economic risks, environmental and natural risks, and social and governance risks) confronting households and individuals. Table 2 provides possible responses from different sectors (e.g., households, government, private sector, and civil society) on the types of risk they face.

Core program responses

The responses to the risks and vulnerabilities listed in Table 2 are categorized into four core programs:

1. **Social welfare**. Social welfare programs provide: (1) basic protection to the poor, excluded, discriminated against,

[10] The operational framework adopts the following definition used by the Subcommittee on Social Protection: (1) "poor" refers to individuals and families whose income fall below the poverty threshold as defined by the government, and/or those that cannot afford in a sustained manner to provide their basic needs of food, health, education, housing, and other amenities of life; (2) "vulnerable" refers to households confronted by ex-ante risk that, if they are currently nonpoor, will fall below the poverty line, or if they are currently poor, will remain in poverty. It is also defined in terms of exposure to adverse shocks to welfare and not only in terms of exposure to poverty; and (3) "marginalized" are groups in society who, for reasons of poverty, geographical inaccessibility, culture, language, religion, age, gender, migrant status, or other disadvantages, have not benefited from health, education, employment, and other opportunities, and who are relegated to the sidelines of political persuasion, social negotiation, and economic bargaining.

Table 2. Types of risks/vulnerability and responses

Assessment		Responses	
Types of Risks/ Vulnerability	**Household or Informal Mechanisms**	**Government**	**Private and Civil Society Sector**
Individual life cycle			
Hunger and malnutrition	Support from relatives, subsistence farming	Health and nutrition policy, programs, and projects	Provision of nutrition services, soup kitchens, etc.
Illness, injury, disease (including HIV and AIDS)	Extended family, community support	Social security, health insurance, and microinsurance	Private insurance schemes
Disability	Hygiene, preventive health	Social security, social assistance, employees compensation	Private insurance and microinsurance
Old age	Asset/savings reduction	Pension plan	Old age annuities, private pension
Death	Debt	Social security	Private life insurance
Economic			
End of source of livelihood	Diversified sources of livelihood	Sound macro and sector policies for job generation, emergency and guaranteed employment	Private sector investments that are job generating
Unemployment	Private transfers, child labor	Regional and rural development policies, emergency and guaranteed employment	Private job search institutions
Low and irregular income	Depletion of assets/ savings	Labor market policies, social assistance, conditional cash transfers	Banking services to the poor, microfinance
Price instability of basic commodities	Reduced consumption of basic goods	Price control inflation management	Sales discounts
Economic crisis	Migration	Social funds, subsidies, emergency employment	
Environmental and natural			
Drought, rains and floods, earthquakes, volcano eruption, and landslides	Migration, community action, private transfers, extended family support, asset/ savings depletion	Environmental policy, programs, and projects; infrastructure investments; relief and rehabilitation; temporary and permanent relocation; disaster prevention and mitigation measures; geohazard mapping; insurance against disasters	Relief and rehabilitation programs

Table 2. continued

Assessment		Responses	
Types of Risks/ Vulnerability	**Household or Informal Mechanisms**	**Government**	**Private and Civil Society Sector**
Social/Governance			
Social exclusion	Community networks	Inclusive growth, good governance, transparency, and accountability	Good corporate governance; corporate social responsibility
Corruption	Community pressure	Public information, transparency, and accountability campaign; bottom-up budgeting	Strengthening the participation of nongovernmental organizations and community-based organizations
Crime and domestic violence	Women's groups and watchdogs	Providing security and equalaccess to justice	Peace and order promotion (e.g., antidrug campaigns)
Political instability and armed conflict	Migration	Participation of citizens and civil society groups, peace negotiations	Advocacy for democracy and democratic transitions

Source: Lifted from DSWD-NEDA-SDC (2012)

and marginalized, and (2) preventive and developmental interventions aimed at supporting the minimum basic requirements of the poor (e.g., *Pantawid Pamilyang Pilipino* Program or 4Ps, Department of Labor and Employment [DOLE]-coordinated National Convergence Plan Against Child Labor in the Philippines, DSWD's Supplementary Feeding Program, and DSWD's Social Pension for Indigent Senior Citizens).

2. **Labor market interventions**. These include employment facilitation schemes, active labor market programs, and emergency and guaranteed employment. Some examples of specific programs are: (1) DOLE's free placement and job-assistance services, career guidance and counseling, and skills training, and (2) DOLE's convergent programs (e.g., institutionalization of the Philippine Qualifications Framework, strengthening of Public Employment Service Offices, and improvement of Phil-Job Net by integrating the Skills Registry System and DOLE Human Resource Data Warehouse) that address job-skills match and increase employability of the

Filipino workforce.

3. **Social safety nets**. Social safety nets refer to time-bound (i.e., short term), stop-gap, and bridge measures (e.g., cash transfers, food-for-work programs, and emergency and employment programs) meant to assist affected families during crisis until such time that they have developed their potential to earn an income and meet their future needs.
4. **Social insurance and related programs**. These include premium-based schemes protecting households from life cycle and health-related risks (e.g., old age, illness, and disability); examples include expanded PhilHealth coverage and expanded coverage for work-related contingencies under the Employees Compensation Program.

Key response elements

1. **Identifying and responding to priority target areas and sectors**

   Based on the operational framework, social protection should be able to identify and focus on its target areas and target groups because prospective beneficiaries may include both poor and nonpoor. To ensure better targeting of social protection programs, DSWD established the National Household Targeting System for Poverty Reduction (NHTS-PR)—a targeting system based on proxy means test that unified the criteria for the selection of the poorest segment of the population and created a database of poor households. In 2010, the government mandated all national government agencies to adopt the DSWD's targeting system as a mechanism for identifying the poor households that will become beneficiaries of social protection programs (Official Gazette n.d.).

   In particular, based on various indicators, the government should target priority areas that have concentration of poverty, conflict, and disasters for the provision of programs and projects. Also, it should target areas that are exposed to potential risks due to climate change. Likewise, social protection programs should be aimed at marginalized sectors that include, but are not limited to, women, children, youth, elderly, families, indigenous peoples, and persons with disabilities. The operational framework emphasizes that the target areas and target sectors are not mutually exclusive, thus, addressing concerns on cross-cutting sectors such as gender.

2. **Working toward universal coverage**
   Due to limited resources, the government can only target households and individuals who are poor and highly vulnerable (i.e., based on the NHTS-PR) as beneficiaries of social protection programs. Nevertheless, an increase in government's resource base may enable major social protection programs, particularly those that reduce or mitigate education- and health-related risks, to reach universal coverage and to form part of the delivery of basic social services.

Implementation of participatory strategies
The operational framework identifies key participatory strategies for implementation. These are:

1. **Scaling up of community-driven development**[11]
   Community-driven development (CDD) is viewed as an important strategy because the implementation of social protection programs starts at the grassroots. In the Philippines, *Kapit-Bisig Laban sa Kahirapan*-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) and *Makamasang Tugon* are leading CDD programs. According to the operational framework, the Philippine government is scaling up CDD activities, including institution building (e.g., formation of CDD units within sectors and departments, developing CDD modules for use by existing training institutes, and conducting interagency CDD pilots).
2. **Convergence in the delivery of core responses (i.e., social protection)**
   Convergence entails the synchronization and coordination of all interventions of the government (i.e., both national and local) and the private sector in a particular geographical area. The aim is to ensure that reforms pertaining to poverty alleviation are realized.

   The operationalization of convergence requires convergence: (1) in the target areas/municipalities; (2) with the private sector in the delivery of social protection programs; (3) in the package of intervention to be delivered in the target areas/municipalities; (4) in mechanisms/feedback systems from the top to the ground, and vice-versa; and (5) in resources that are

[11] CDD is an approach in helping poor communities (i.e., *barangays*) to develop necessary skills and providing them with resources to be able to select, implement, and sustain small-scale community infrastructure projects and key social services.

available to implementers from the national to the local levels, particularly in budgeting.

3. **Building of adaptive capacities at all levels of implementation**

The operational framework requires that social protection programs, at all levels, should include crucial assessment of adaptation for the various types of risks and their negative consequences.[12] Adaptation, as used in the framework, is more than the physical provision of better infrastructure and warning systems. Consistent with the framework's convergence approach, it necessitates an integrated participatory process among individuals and their social networks, local units, and national agencies. Table 3 provides the mechanisms by which social protection can build adaptive capacities.

4. **Institutionalized monitoring and evaluation system**

Institutionalization of monitoring and evaluation systems is deemed important for the rationalization of various social protection programs. In particular, a regular monitoring and evaluation system is critical in adjusting, refining, or even terminating programs to ensure that appropriate responses to the various types of risks are implemented and sustained. Also, it is useful in assessing how convergence among stakeholders at all levels is achieved.

Philippine experience in social welfare policies

The convergence in the delivery of core responses is one of the key participatory strategies identified in the operational framework on social protection. In this regard, DSWD launched in 2010 the Convergence Framework/Strategy[13] dubbed as "*Tatsulo*" or "*Tatlong Sulo Laban sa Kahirapan*",[14] which reflects the complementation of strategies like the country's conditional cash transfer program (i.e., the 4Ps), CDD program (i.e., KALAHI-CIDSS), and sustainable livelihood program (i.e., Self-Employment Assistance-*Kaunlaran* Microenterprise Development and the Guaranteed Employment Program).

The 4Ps is a human investment program that aims to improve the living conditions of the poor by providing cash grants subject to some conditionalities, thus, inducing poor households to invest in human

[12] A process consistent with improving human capital, governance, and rights-based conditions
[13] Draws heavily on the DSWD 2010 Annual Report and DSWD Memorandum Circular 18, series of 2012 (i.e., Guidelines on Internal Convergence of the DSWD Core Social Protection Programs).
[14] English translation: Three Torches against Poverty

Table 3. Promoting adaptation through social protection

Social Protection Category	Social Protection Instruments	Adaptation Benefits
Protective (Coping strategies)	- Social service provision - Social transfers (food/cash) including safety nets - Social pension schemes - Public works programs	- Protection of those most vulnerable to climate risks, with low levels of adaptive capacity
Preventive (Coping strategies)	- Social transfers - Livelihood diversification - Weather-indexed crop insurance - Social insurance	- Prevents damaging coping strategies as a result of risks to weather-dependent livelihoods
Promotive (Building adaptive capacity)	- Social transfers - Access to credit - Asset transfer or protection - Starter packs (drought/flood resistant) - Access to common property resources - Public works programs	- Promotes resilience through livelihood diversification and security to withstand climate-related shocks - Promotes opportunities arising from climate change
Transformative (Building adaptive capacity)	- Promotion of minority rights - Antidiscrimination campaigns - Social funds - Proactively challenging discriminatory behavior	- Transforms social relations to combat discrimination underlying the social and political vulnerability

Note: *Protective measures* provide relief from deprivation. *Preventive measures* avert deprivation. *Promotive measures* aim to enhance real incomes and capabilities of the poorest and most vulnerable populations. *Transformative measures* aim to address vulnerabilities arising from social inequity and exclusion of the poorest and most marginalized groups.

Source: Lifted from DSWD-NEDA-SDC (2012)

capital and, in turn, break the intergenerational cycle of poverty. The KALAHI-CIDSS, meanwhile, seeks to reduce poverty by empowering communities and promoting good local governance through community projects. The Self-Employment Assistance-Kaunlaran Program and Guaranteed Employment Program are intended to sustain and expand the benefits provided to 4Ps beneficiaries by ensuring the sustainability of their income after they graduate/exit from the program.

The Convergence Framework/Strategy behind these core social protection programs aims to maximize the use of government's resources and capacity, and empowers Filipinos to move out of poverty. As DSWD (2012) puts it, the said strategy takes advantage of the complementary aspects of DSWD's core social protection programs, which are comprised of parallel micro and macro level interventions that are geared toward poverty reduction.

Note that as DSWD strengthens its own convergence strategies, it also strengthens external convergence strategies with other national government agencies. In particular, it works with the Department of Education (DepEd) and the Department of Health (DOH) in delivering the package of 4Ps interventions. It collaborates with the Department of Public Works and Highways (DPWH) and the Department of Environment and Natural Resources (DENR) in implementing guaranteed employment programs for the same target beneficiaries (DSWD-NEDA-SDC 2012).

To date, DSWD has gained success in the complementation of social protection programs, particularly in terms of:

- Harmonizing the operation of 4Ps with the DepEd and DOH, and coordinating with local government units on the supply side of the program;
- Driving convergence in DSWD's three major programs (i.e., 4Ps, KALAHI-CIDSS, Sustainable Livelihood Program) at the operational levels, thus, maximizing resources and fast-tracking delivery of services for greater impact; and
- Engaging in partnerships with the DPWH, Department of Agriculture, and DENR for employment facilitation and livelihood opportunities for 4Ps beneficiaries (DSWD 2013a).

  In the first quarter of 2013, about 4,634 4Ps beneficiaries were hired under the Employment Facilitation Program in partnership with the DPWH. In addition, 117,388 families were provided with capital seed fund in connection with the Self-Employment Assistance-Kaunlaran Program (DSWD 2013b).

Nevertheless, DSWD (2013a) recognizes some challenges in social protection. In terms of coordination, there is a need for synchronization and harmonization of program implementation/operations across sectors and institutions to raise the number of self-sufficient social protection beneficiaries. Although the DSWD has gained some success in this regard, more work is required to operationalize the existing policy of convergence of both antipoverty and social protection programs (PDF 2013).

Next, there is a need to strengthen/enhance governance and mechanisms to improve access to social protection interventions, especially at the local level. Moreover, the lack of timely and disaggregated data delays the implementation of interventions and hinders better targeting of program beneficiaries.

Concluding remarks

The operational framework on social protection embodies the social welfare policies in the Philippines. This paper delves into the key features/elements of the said framework, particularly the risks and vulnerabilities addressed, core program responses, key response elements, and key participatory strategies. The operational framework is indicative of the Philippine government's commitment to ensure that social protection programs are well designed (e.g., programs drawn up address the identified risks and vulnerabilities) and well implemented (e.g., key participatory strategies) and, in turn, the ultimate goal of better and improved quality of life for program beneficiaries is achieved. In addition, it also shows the government's effort in ensuring efficient and effective use of limited resources by harmonizing all social protection programs.

It should be noted that due to scarce government resources, many of the social protection programs in the country are targeted toward priority areas and groups. For instance, the 4Ps is a targeted social welfare program whose beneficiaries are identified through the NHTS-PR. Nevertheless, the lack of financial resources did not preclude the government from implementing social protection program with universal coverage. In June 2013, President Benigno S. Aquino III signed RA 10606 (or the National Health Insurance Act of 2013), which amended RA 7875 or the National Health Insurance Act of 1995. RA 10606 aims to ensure that all Filipinos, especially the poor and persons with disabilities, are covered by health-care insurance.

Recommendations

The capacity of APEC economies to address the issues and challenges discussed here has serious implications on their commitment to achieve: (1) inclusive growth through social protection, as highlighted in the 2009 APEC Leaders' Declaration, and (2) the Sustainable Development Goals, as set in the 2030 Agenda. One of the specific targets to hit is Target 1.3 (i.e., implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable), which is critical in achieving the first Sustainable Development Goal of ending all forms of poverty everywhere.

This section summarizes some of the recommendations from existing studies, which were deemed as useful or have the potential to address the issues on social protection systems. In particular, Asher (2010b) identifies some avenues that can potentially strengthen social protection systems based on existing country papers:

1. **Modernizing and professionalizing existing formal social security organizations in performing core functions**.[15] Modernization includes using information technology to improve administration and compliance efficiency, and generating management information systems for better decisionmaking. Professionalization refers to the capability of countries to invest social security funds more aggressively and professionally (e.g., diversification of investment risks geographically by investing internationally, diversification among asset classes).
2. **Implementing parametric and/or systemic reforms of some components of existing systems (such as civil service pensions)**. Reforms in pension systems that are needed to fully reflect developments in financial and capital markets, and changes in labor market dynamics (e.g., reduced fertility, longer life expectancy) should be implemented.
3. **Using different types of retirement income transfers that do not entirely depend on formal labor market relationships**. Transfers include social pensions and co-contributions by the state. For poverty alleviation, the transfers include social assistance targeted at the poor in all age groups.
4. **Other avenues**. Some other options that can be explored are broadening the sources of retirement financing and risk sharing through occupational private pension plans and/or individual retirement accounts; linking pension with microfinance; and participating in paid economic activity, even during retirement.

Specifically, three broad reform directions should be considered to strengthen public pensions, according to Asher and Bali (2015). These reform directions are the following:

- Enhancing the professionalism of existing provident and pension fund organizations, including their governance practices. The five core functions of provident and pension funds should be carried out with greater professionalism.
- Strengthening the role of noncontributory budget-financed pensions (e.g., social pensions).

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[15] Asher (2010b) mentions the core functions of provident and pension fund, such as (1) reliable collection of contributions, taxes, and other receipts (including any loan payments in the security systems); (2) payment of benefits; (3) good financial management and productive investment of fund assets; (4) maintenance of an effective communication network; and (5) production of financial statements and reports.

- Adopting a systemic perspective to pension reform that includes reforms in complementary areas (labor markets, public financial management practices, and the civil service), developing a financing-mix of pensions, and improving effective coverages by exploring complementarities between health-care and pension programs.

On financing social protection programs, Asher and Bali (2014) provide three broad options:

- Realizing efficiency gains in managing provident and pension fund organizations
- Implementing design and service delivery innovations, including better policy coordination and coherence within and among health-care and pension programs
- Developing capabilities to obtain resources from conventional and unconventional sources of budgetary revenue

In addition, the study emphasizes the importance of complementary reforms in fiscal, labor market, and financial and capital markets to manage rapidly aging populations in developing Asia. In this sense, the issue of aging should not be treated in isolation but rather with several economic and social arrangements. Moreover, UNESCAP (2011, p. 76) recommends the integration of social protection with economic development, which is geared toward balanced decisions supportive of social protection and fiscal consolidation. As the study puts it, "social protection thus has to be considered not as a separate budgetary exercise but as part of the overall investment in development."

At the APEC level, Balisacan (2012) recommends: (1) strengthening the capacity of APEC economies to measure and monitor social protection (e.g., Social Protection Index); (2) creating climate-related disaster insurance (e.g., catastrophe insurance coverage, crop insurance); and (3) documenting and sharing good practices and technical know-how. The APEC Secretariat (2013) also recommends: "Good practices and case studies documenting examples of successful social protection interventions should be regularly shared across APEC economies to ensure continued support from the public and policymakers."

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About the Authors

Marife M. Ballesteros is the vice president of the Philippine Institute for Development Studies (PIDS). She has written several papers on economic and development theory and is a leading national expert on urban development policy, land policy, and housing policy. Her interest includes climate change, where she has done studies on vulnerabilities, adaptation, and mitigation mechanisms at the industry and household levels. She has a PhD in Social Sciences from the University of Nijmegen, Netherlands.

Roehlano M. Briones is a senior research fellow at PIDS. where he specializes on agricultural policy research. He has written a number of articles published in peer-reviewed journals and scholarly volumes, and co-edited four books on the economics of agriculture and natural resources, food security, trade, and macroeconomy. He specializes on agricultural policy research, CGE modeling, and rural development. He has a PhD in Economics from the University of the Philippines.

Janet S. Cuenca is a supervising research specialist at PIDS. She has done work relating to decentralization, local governance, research and development, economic and trade policy, urbanization and population, social welfare, and social protection, among others. She has written and cowritten various PIDS discussion papers and policy notes. Her research interests include health devolution and service delivery in the Philippines. She is currently doing her PhD in Public Policy at the Lee Kuan Yew School of Public Policy, National University of Singapore.

Sonny N. Domingo is a senior research fellow at PIDS. His research engagements include work on policy options given seasonal climate variability, economic modeling of production systems, risk aversion among smallholder farmers, resiliency amid climate change and disaster risk and resource mobilization for disaster risk reduction and management (DRRM). His research interests include DRRM and agricultural development. He has a PhD in Applied Economics from Charles Sturt University in Australia.

Ivory Myka R. Galang is a research specialist at PIDS. She has cowritten discussion papers on food security and agricultural policies in the country. She has also been involved in economic modeling research projects. Her research interests include child labor, poverty, and spatial data analysis. She has a master's degree in Public Policy from the University of Tokyo.

Danilo C. Israel is a former senior research fellow at PIDS. He was also a project scientist of the World Fish Center, an international research organization based in Penang, Malaysia. He has written numerous publications and other research works on fisheries, mining, and forestry economics as well as on natural disasters. His areas of specialization are in resource and environmental economics and fisheries economics. He has a PhD in Applied Economics from Clemson University and a postdoctoral degree from the University of British Columbia.

Leonardo A. Lanzona Jr. is the director of the Ateneo Center for Economic Research and Development at the Ateneo de Manila University. He has also been a consultant of both local and international government and nongovernment agencies. He has extensively published books and journal articles mainly in the area of labor economics. His fields of interest are labor economics, development economics, and econometrics. He has a PhD in Economics from the University of the Philippines and a postdoctoral degree from Yale University.

Lucita S. Lazo is a former director-general of the Technical Education and Skills Development Authority and a former undersecretary of the Department of Labor and Employment. She has also been a consultant of international organizations like International Labour Organization, United Nations, and Asian Development Bank. Her areas of expertise include gender and development, labor and employment, social development, and human rights. She also facilitates strategic planning and capacity-building workshops and program evaluation. She has an MA in Psychology from the University of the Philippines.

Melalyn C. Mantaring is a project development officer at PIDS, assigned to the Philippine APEC Study Center Network (PASCN) Secretariat. She assists the PASCN project director in managing and implementing the programs and activities of PASCN. Her research involvement are in research on trade policy, regional integration, trade facilitation, rules of origin, nontariff measures, and small and medium enterprises. She has completed course work for a masteral degree in Public Administration at the University of the Philippines National College of Public Administration and Governance.

Erlinda M. Medalla is a senior research fellow at PIDS and project director of the PASCN. She has been a project director/project leader of various research projects since joining PIDS in 1981. She has written a number of papers and book chapters on trade and investment, competition policy, and regional economic integration, among other topics. Her areas of expertise are trade, competition policy, and industrial policy. She has a PhD in Economics from the University of the Philippines School of Economics and a postdoctoral degree from Yale University.

Sheila V. Siar is director of the Research Information Department at PIDS. She is also the managing editor of the *Philippine Journal of Development*. Prior to working at PIDS, she was a staff member of several international organizations, including the International Rice Research Institute, International Center for Living Aquatic Resources Management (now World Fish Center), and International Institute of Rural Reconstruction. She has written papers on e-governance, skilled migration issues, social remittances, diaspora, and transnationalism. She has a PhD in Development Studies from the University of Auckland.

BUILDING INCLUSIVE ECONOMIES, BUILDING A BETTER WORLD

A Look at the APEC 2015 Priority Areas (Volume 2)

As host economy of the Asia-Pacific Economic Cooperation (APEC) 2015 Summit, the Philippines has the opportunity to shape the agenda and set the theme that would advance both national and regional interests. The Department of Foreign Affairs, as chair of the APEC 2015 National Organizing Council Committee on Host Economy Priorities and as APEC National Secretariat, commissioned the Philippine Institute for Development Studies, through the Philippine APEC Study Center Network, to undertake research on the identified priority areas of APEC 2015 in order to gather expert analyses and insights that can serve as inputs to the various discussions during the summit as well as help advocate domestic reforms in the longer term.

This two-volume publication consists of policy papers written under the Research Project APEC 2015. The project explores the four priority areas of APEC 2015, namely, enhancing regional economic integration, fostering small and medium enterprises' (SMEs) participation in the regional and global economy, investing in human capital development, and building sustainable and resilient communities.

Volume 2 focuses on fostering SMEs' participation in the regional and global economy, and building sustainable and resilient communities. It is made up of papers that tackle mainstreaming SMEs, social enterprises and employment, women's participation, food security, SMEs' resilience to natural disasters, and social protection.

PIDS
PASCN
PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas
PHILIPPINE APEC STUDY CENTER NETWORK
18th Floor, Three Cyberpod Centris – North Tower
EDSA corner Quezon Avenue, Quezon City, Philippines
Tel.: (+63 2) 372-1291; (+63 2) 372-1292
Email: publications@mail.pids.gov.ph
Website: http://www.pids.gov.ph