

Revisiting the Barangay Micro-Business Enterprises Act of 2002: A Policy Evaluation Using National-Level Data

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Abstract. While micro, small, and medium enterprises are widely considered the backbone of the Philippine economy, their potential to contribute more to development is often hindered by high levels of informality. To help address the issue of enterprise informality, the government enacted the Barangay Micro-business Enterprises (BMBEs) Act of 2002, with the aim of formalizing microenterprises through the provision of incentives. Using data from a national-level census of BMBEs and business counselors directly involved in the implementation of the law, this study sought to evaluate the BMBE Law vis-à-vis its goal of reducing informality. In doing so, it focused on evaluating business registration, incentives, and benefits received by the BMBEs, impact on microenterprises' formalization rate, and impact on BMBEs' business operations and development. Results from the study reveal that the law has been largely ineffective in addressing informality and fostering microenterprise development. In this light, this study recommends policy amendments to account for the recent enactment of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, administrative burdens, and conflicting regulatory priorities. However, given the lengthy legislative amendment process, a more immediate approach would be for implementing agencies to update the implementing rules and regulations and conduct awareness campaigns to enhance the policy's reach and impact.

Keywords: micro, small, and medium enterprises; barangay micro business enterprises; informality; enterprise formalization

Informality is a pervasive issue that adversely affects the economy. In most developing economies in general, the informal sector accounts for approximately 35% of gross domestic product (GDP) and employs 70% of the labor force (Loayza, 2016). In the Philippines, the contribution of the informal economy was estimated

to be around 38.1% of the country's official GDP in 2018 (Wirjo et al., 2022). The latest Informal Sector Survey of the Philippine Statistics Authority (PSA) (formerly National Statistics Office), which was conducted in 2008 and published in 2009, also revealed that about 15.68 million workers or 38% of the total employment in the country belonged to the informal sector.

The persistence of informality has been found to have detrimental effects on various segments of the economy. Workers and firms within this sector often struggle with limited access to formal financial services, social security, and legal protection (Ballesteros & Domingo, 2015; Wirjo et al., 2022). These binding constraints hinder their growth, often resulting in lower economies of scale, productivity, and competitiveness (Loayza, 2016). Due to their limited capacities and access to support services, most informal firms are also unable to directly participate in global value chains and fully reap the benefits from greater market connectivity.¹ Meanwhile, from a public administration and public finance perspective, the informal sector represents an opportunity for governments to increase tax revenue and, by extension, fund other development initiatives (Wirjo et al., 2022). Moreover, from a macroeconomic standpoint, informality hampers capital accumulation (Loayza, 2016), which is one of the preconditions for rapid economic growth (Schatz, 1968).

Microenterprises, which form a substantial portion of the informal sector, play a crucial role in employment generation and economic activity. In the Philippines, this segment accounted for 90.5% (1.004 million) of the total business establishments in 2022 and were responsible for generating over 2.82 million jobs (PSA, 2023). However, despite their widespread presence, many microenterprises remain informal, limiting their access to government support programs, financial resources, and market opportunities.

The challenges of informality among microenterprises in the Philippines largely reflect the situation in other developing economies, where high compliance costs and burdensome regulations drive businesses to operate informally. Across the ASEAN (Association of Southeast Asian Nations) region, informality persists due to structural employment shifts and economic vulnerability. In Vietnam, 98.7% of micro, small, and medium enterprises (MSMEs) operate informally, with 57.2% of non-agricultural workers lacking formal employment, particularly in rural areas (Organisation for Economic Co-operation and Development [OECD], 2020). A key factor driving informality in Vietnam and the Philippines is the complexity and cost of business registration. Despite efforts to streamline processes, starting a business in Vietnam requires eight procedures, takes 16 days, and costs 5.6% of income per capita (World Bank, 2020). The situation is even more challenging in the Philippines, where business registration involves 13 procedures, takes 33 days, and costs 23.3% of per capita income. These burdensome regulatory requirements discourage microenterprises from formalizing, reinforcing informality, and limiting their ability to scale and integrate into the formal economy.

Meanwhile, in Indonesia, informality is strongly linked to poverty, urbanization, and employment shifts toward low-productivity service sectors (Hapsari et al., 2023). A declining share of agriculture in the economy has pushed more workers in Indonesia into informal trade, hospitality, and small-scale services, a trend also observed in the Philippines (Hapsari et al., 2023, Asian Productivity Organization [APO], 2023). As formal employment opportunities remain limited, many individuals

turn into informal work, often passed down through generations, with children following their parents into street vending, small-scale retail, and other unregistered economic activities due to limited education and employment opportunities.

Similarly, in Thailand, informal employment remains widespread, accounting for about 56% of total employment, with almost all agricultural employment being informal at around 92% (Poonsab et al., 2019). A significant portion of informal workers are likewise engaged in market trade and street vending, with over 1.7 million informal workers in these sectors nationwide. Many of these microenterprises face financial security and exclusion from government support programs (APO, 2023). As a result, they struggle to expand and sustain their operations.

In the case of the Philippines, an estimated 3.28 million were classified as managing proprietors or individuals engaged in family-run farms or businesses that do not employ paid workers (PSA, 2009). In comparison, a more conservative estimate from the OECD (2020) suggested that there were approximately 1.49 million unregistered businesses in the country.² Despite varying methodologies and definitions used to classify informal businesses, both, in addition to indirect estimations by Bersales and Ilarina (2019) that suggest a growing trend in the broader Philippine informal sector, highlight the prevalence of enterprise informality in the country.

The PSA (n.d.) defines the informal sector as “household unincorporated enterprises which consist of both informal own-account enterprises and enterprises of informal employers” (para. 1). In the Philippines, informal own-account enterprises encompass a wide range of informal activities, including sari-sari stores, market vendors, street vendors, small-scale farming, as well as artisanal and small-scale mining operations. These informal enterprises have become integral to the everyday lives of Filipinos, providing goods and services to millions.

Due to their informality, however, these enterprises often face difficulties in accessing government programs that require compliance with regulatory frameworks. This vulnerability has become more pronounced, especially during the COVID-19 pandemic, when their lack of access to mitigation and support measures left them particularly exposed to the negative impacts and economic challenges brought about by the crisis (Aditya & Amri, 2023).³ As such, tackling the issue of informality becomes even more crucial in strengthening business resilience and, more broadly, fostering a more inclusive and resilient economy.

Against this backdrop, the Philippine government has made it a priority to not only stimulate the creation and development of businesses but also to encourage enterprise formalization. The Republic Act No. 9178, otherwise known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002, is an initiative towards this end, with a particular aim of providing incentives to microenterprises, such as exemptions from income tax and minimum wage regulations and access to a special credit window, technology transfer, production and management training, and marketing assistance programs, to promote formalization.

However, after more than two decades since the passing of the BMBE Law, high levels of enterprise informality still persist, with estimates ranging from 3.28 million (PSA, 2009) to 1.49 million informal enterprises in the country (OECD, 2020).⁴ Such a situation underscores the need for studies that investigate the law’s effectiveness in reaching its intended beneficiaries for the purpose of policy reform and learning.

Previous studies have already been conducted in this regard, with most, if not all, highlighting the ineffectiveness of the policy (Carpio-Aldeguer, 2015; Macatumbas-Corpuz & Bool, 2021) due to significant implementation issues (Alera et al., 2022; Figueroa, 2018; Garambas & Pinos-an, 2021; Tomas, 2023). While they offer valuable insights into the challenges of implementing private sector development policy at the local level, these works, mostly relying on case studies and regional- or municipal-level surveys, largely suffer from the problem of limited generalizability.

In an attempt to address previous works' limitation, this study draws from a national-level census of barangay micro business enterprises (BMBEs) and Negosyo Center business counselors to evaluate the effectiveness of the BMBE Law in providing assistance to the BMBEs and reducing microenterprise informality in the Philippines. Toward this end, it hopes to shed light on the following research questions:

1. What incentives, if any, have BMBEs received under the BMBE Law? Is there a discrepancy between the expected and the actual benefits received by the BMBEs?
2. To what extent has the BMBE Law been effective in incentivizing the formation and development of BMBEs?
3. What issues and challenges did the BMBEs and the government encounter in accessing and implementing the BMBE Law, respectively?

To validate the findings from the census of BMBEs and capture the nuances in the policy implementation process, insights of business counselors directly involved in the implementation of the law were also gathered. Data collected was analyzed using descriptive statistics to generate insights into the impact and effectiveness of the BMBE Law.

The subsequent section discusses the policy context of MSMEs and informal enterprises in the Philippines, zeroing in on several landmark legislations, such as the Magna Carta for MSMEs, Go Negosyo Act, and the Ease of Doing Business (EODB) and Efficient Government Delivery Act of 2018. This is followed by a review of related literature on the BMBE Law and its policy implementation. Thereafter, the methodology of the current investigation is detailed, which is followed by the presentation of the findings and a discussion synthesizing the insights derived from the census of the BMBEs and business counselors. Finally, the paper concludes with recommendations for policymakers and future researchers.

Policy Context

MSME Development Policies and Informality

To better understand the issue of informality, it is essential to distinguish informal enterprises from informal employment. Research on the former has received less attention in comparison to labor informality due to considerable challenges associated with data collection (OECD, 2020). In the Philippines, for instance, the latest available data on informal enterprises dates back to 2008 when the PSA conducted

the Informal Sector Survey. The report highlighted that there were 3.28 million informal sector operators who were classified as managing proprietors (PSA, 2009). These operators are those who engage in the informal economy by operating family-run farms or businesses without paid employees. Meanwhile, the OECD estimated approximately 1.49 million unregistered businesses in the country in 2020. These statistics assume greater significance when we take into consideration the context of the Philippine MSME sector, which accounts for 99.6% (or 1.106 million) of all business establishments in the country in 2022 (PSA, 2023). Addressing informality in the MSME sector is thus crucial given the significant contribution of MSMEs in job creation, economic growth, and social development (Lanzona, 2015; Narjoko, 2014; OECD/Economic Research Institute for ASEAN and East Asia [ERIA], 2018).

The Philippines has implemented various policies to foster the creation, growth, and transformation of MSMEs. These interventions are designed to cultivate a conducive business environment that enables both existing and potential entrepreneurs to not only survive but also thrive within the formal sector. One policy worth noting is Republic Act 9501, or the Magna Carta for MSMEs, which signifies the government's commitment to the development and support of the MSME sector. This landmark legislation outlines the creation of six-year development plans for MSMEs, the National MSME Development Council that spearheads national efforts to promote MSMEs, and the Small Business Corporation (SBCorp) that is primarily responsible for providing financial services to the MSMEs.

Another policy intervention is Republic Act 11032, also known as the Ease of Doing Business (EODB) and Efficient Government Delivery Act of 2018, which mandates government agencies to streamline existing systems and procedures, particularly for services encompassing the issuance of local business licenses, clearances, permits, and authorizations. The EODB Law also creates the Anti-Red Tape Authority (ARTA) to oversee and ensure compliance of government agencies on the anti-red tape and ease of doing business policies in the country.

Furthermore, the Republic Act 10644, otherwise known as the Go Negosyo Act, has paved the way for the establishment of Negosyo Centers in all provinces, cities, and municipalities in the country. These Negosyo Centers provide a range of business development services, including business advisory, business registration assistance, and business information and advocacy.⁵

While these major laws are primarily focused on supporting the broader MSME sector, it is important to emphasize that there is a policy within this framework that directly and comprehensively addresses informality due to its intrinsic focus within the law itself. As previously mentioned, the BMBEs Act of 2002 seeks to encourage the creation and growth of barangay micro business enterprises and integrate them into the formal economy by providing them with various incentives and benefit. In particular, these benefits include exemptions from income tax and minimum wage regulations, access to a special credit window, technology transfer, production and management training, and marketing assistance programs.

The BMBE Law is a policy instrument that falls under the incentive-focused formalization mechanism. It is designed to motivate microenterprises to transition into the formal sector by granting them various incentives and benefits. It adheres to OECD's (2020) advice to target specific groups for incentivization.⁶

The BMBE Law and Related Executive Issuances

With the goal of addressing enterprise informality in the country, former President Gloria Macapagal-Arroyo signed the Republic Act No. 9178, or the BMBEs Act of 2002 on 13 November 2002. The Law defines a BMBE as:

any business entity or enterprise engaged in the production, processing or manufacturing of products or commodities, including agro-processing, trading, and services, whose total assets including those arising from loans but exclusive of the land on which the particular business entity's office, plant, and equipment are situated, shall not be more than Three Million Pesos (PHP3,000,000.00). ..."[S]ervice" shall exclude those rendered by any one, who is duly licensed by the government after having passed a government licensure examination, in connection with the exercise of one's profession. (para. 3-4)

It seeks to encourage the creation and growth of microenterprises and integrate them into the formal economy by providing them the following incentives and benefits: (a) exemption from income taxes arising from their business operations; (b) exemption from the coverage of the minimum wage law, applicable to employees hired after acquiring a BMBE registration; (c) access to a special credit window for their financing needs; and (d) access to technology transfer, production and management training, marketing assistance programs.

The implementing rules and regulations (IRR) of the BMBE Law are provided for by the DTI's Department Administrative Order (DAO) No. 01 Series of 2003. The Department of Finance (DoF) also issued its guidelines on 20 April 2004 through the Department Order (DO) No. 17-04 to assist the Office of the Treasurer and the Bureau of Internal Revenue (BIR) in implementing the BMBE Law and the granting of tax incentives to qualified microenterprises. Section 3 of the DO No. 17-04 was later amended by DO No. 31-05, signed by the DoF to simplify the documentary requirements to register as a BMBE.

Other implementing agencies also passed their own rules and regulations concerning the specific provisions of the law to which they are subject. As an example, the Department of Labor and Employment (DOLE) issued Department Order No. 45-03 Series of 2003 for the guidelines on the availment of exemption on wage regulations, whereas the National Wages and Productivity Commission (NWPC) released the NWPC Guidelines No. 01 Series of 2003: Guidelines on the Issuance of Wage Advisories for BMBEs. In addition, the Bangko Sentral ng Pilipinas (BSP) issued the BSP Circular No. 374, Series of 2003 under the special credit window provision of the BMBE Law.

The DTI later amended the major provisions of the IRR through DAO No. 16-01, Series of 2016. With the prevailing DAO, applications for the BMBE Certificate, which were previously submitted to the Office of the Treasurer of each city or municipal LGU where the business operates, are now directed to the Negosyo Centers or DTI offices (Department of Trade and Industry, 2003, 2016). The registration has been further streamlined with the introduction of the BMBE Online Registration System in 2022, allowing applicants to process and receive their BMBE Certificate of Authority via online.

Strategies for Encouraging Formalization of Microenterprises in ASEAN

As highlighted in an OECD report (2020), a significant challenge for ASEAN countries in promoting enterprise formalization is the lack of clear definitions and reliable statistical data on informal businesses. The absence of accurate information, particularly on microenterprises, makes it difficult to develop targeted policies that can effectively encourage formalization. In the Philippines, while such data exist for microenterprises, informal businesses are often underrepresented, making it challenging to tailor policies that truly address the needs of the informal sector. To improve policy formulation and implementation, it is essential to foster a better understanding of the informal economy and its key players, ensuring that formalization strategies are well-aligned with the realities on the ground.

A central focus for ASEAN countries is simplifying the business registration process and reducing barriers to entry for microenterprises (OECD, 2020). Many countries have increasingly relied on digital platforms to make the formalization process more accessible. Malaysia's MyCoID Portal, for instance, has revolutionized business registration by reducing the processing time significantly and integrating multiple government agencies to provide a seamless experience. Thailand's one-stop shops and Vietnam's digital tax filing system have made it easier for MSMEs to comply with formalization procedures. The Philippine government, in its efforts to support microenterprises, has also been exploring similar digital solutions, such as the BMBE Online Registration System. These tools help streamline the formalization process, reducing complexities and financial burdens and making the transition from informal to formal business operations more attractive.

Review of Related Literature

Impact of the BMBE Law on Microenterprises

Existing research on the impact of the BMBE Law on registered microenterprises has largely been scant. The majority of these studies have primarily focused on the implementation of the BMBE Law and its effectiveness concerning the incentives and benefits availed by the BMBEs.

One contribution to this area was made by Alera et al. (2022), who examined the impact of the Law on the growth and development of BMBEs in Bataan. Using quantitative data, their work revealed that while the incentives and benefits of the BMBE Law had no significant impact on profit maximization for these microenterprises, there was a positive and significant relationship between BMBE incentives and increased capitalization. This result can be attributed to the tax incentives and minimum wage exemptions provided by the BMBE Law.

However, when scrutinizing the regression models, their study found consistently weak positive relationships between BMBE incentives and key financial and growth indicators, such as return on investment, net profit margin, and job growth ratio. These results suggest that while there is a discernible link between BMBE incentives and these indicators, it is of relatively modest strength. The low correlation coefficients in each analysis underscore the limited degree of association between BMBE incentives and the measured outcomes. Further, the coefficients of determination consistently revealed that the majority of the variability in these financial and growth indicators is influenced by factors other than BMBE incentives.

Tomas (2023) employed a phenomenological approach in examining the lived experiences of microenterprises vis-à-vis the implementation of the BMBE Law. The researcher identified seven theme clusters that reflected the experiences of BMBEs, three of which illustrate in particular the impact of BMBE incentives on the growth of microenterprises. His findings demonstrate that BMBEs used the discounts they received as additional capital for their businesses, contributing to their growth and expansion. The BMBE Law was also observed to provide a conducive environment for microenterprise development. Particularly, through the policy, BMBEs reported they appreciated the support provided by the government, such as exemption from income tax and assistance in business development. The study also showed that, in spite of limited scope and external validity, the marketing assistance provided by the DTI were able to assist BMBEs in improving their products and reaching a wider market.

Challenges to the Implementation of the BMBE Law

Previous studies investigating the implementation of the BMBE Law have often employed case studies and regional analyses, providing insights into the varying levels to which microenterprises have availed of the incentives. Consequently, these studies have brought to the fore various implementation issues inherent in the BMBE Law, pointing out the need for a closer examination of its implementation and impact on microenterprises.

As an example, in a study conducted by Figueroa (2018) involving six registered BMBEs in Tarlac City, it was found that all informants benefited from tax, fee, and charge discounts imposed by the local government, as well as exemptions from minimum wage regulations. However, only two informants were able to avail of the income tax exemption, and none had benefited from the special credit window provision of the Law. Figueroa identified the lack of awareness among micro-entrepreneurs and implementers, along with tedious documentary requirements, as obstacles that hindered the respondents from fully capitalizing on the incentives provided by the law. He suggested intensifying information dissemination of government agencies involved in implementing the law and simplifying the requirements for availing the benefits and incentives to address such issues.

Similarly, a positive effect of the BMBE Law on microenterprises in Zamboanga Del Norte was established by the study conducted by Manipol (2023). Two of the incentives of the BMBE Law were revealed to be effective in assisting registered microenterprises. Interestingly, the researcher found that all the respondents had availed of the income tax exemption. Exemption from the minimum wage law was another incentive found by the BMBE respondents to be very effective and useful for their business. Echoing Figueroa (2018), Manipol (2023) recommended implementing awareness programs on the BMBE Law to further encourage other microenterprises to avail of the incentives and benefits of a registered BMBE. There was also a suggestion for the concerned authority to consider amending the law by evaluating and potentially adjusting the incentives and mechanisms to maximize its effectiveness for its intended beneficiaries. The recommendation came to light due to variations in the utilization levels of the five incentives provided by the Law.

The study of Garambas and Pinos-an (2021) echoed the persistent issue of the awareness of microenterprises and even government implementers regarding the BMBE Law and its incentives. Results showed that 96% of the respondents

who were micro-entrepreneurs and barangay leaders in La Trinidad, Benguet, generally, had no awareness of the Law, while implementing agencies were partially unaware of the BMBE Law. As a result, the provisions of the BMBE Law were perceived by microenterprises as not being implemented, while the implementers perceived it as partially being implemented. In addition, the provision regarding income tax exemption was identified as a concern by the BIR in La Trinidad. They expressed apprehension that it might jeopardize the tax revenue of the municipality. Consequently, the local government viewed the BMBE Law as applicable only to large cities across the country, where a significant presence of MSMEs and large enterprises operated and were capable of sustaining the potential loss of tax revenue resulting from the full implementation of the BMBE Law. Like Manipol (2023), Garambas and Pinos-an (2021) also recommended conducting a review of the BMBE Law, taking into consideration the diversity of businesses in municipalities, cities, and regions to ensure that the law is effective, fair, and responsive to the unique characteristics and challenges of the local business environment.

Alera et al. (2022) also surfaced in their study the issue of awareness concerning BMBE incentives among registered micro-entrepreneurs in Bataan. This lack of awareness contributed to their inability to fully maximize the incentives provided by the BMBE Law. Their work revealed that the income tax exemption incentive had the lowest level of awareness among BMBE respondents. The primary concern is the lack of information regarding the procedures and requirements for obtaining income tax exemption, which, unlike the automatic exemption from the minimum wage law, requires a deliberate application process with the BIR.

On the other hand, Tomas (2023) identified the bureaucratic challenges posed by the BIR as the Achilles' heel for registered BMBEs seeking income tax exemptions. In his study, microenterprise respondents reported varying treatments and inconsistent tax exemption benefits. Tomas recommended the creation of an IRR outlining the tax benefits from the BIR that are available to BMBEs. Additionally, the establishment of an orientation program at the DTI Negosyo Centers was suggested to address the relatively low number of registrants. Regular monitoring and evaluation were likewise highlighted in the study to address the concerns regarding the implementation of the BMBE Law.

Consistent with most works on the topic, the findings of Carpio-Aldeguer (2015) indicated that the law was not being effectively implemented, even to the extent of confirming it as a complete failure and not fully functional. In her study on the extensiveness of the law's implementation across the 17 cities in Metro Manila, several factors were cited as contributing to the ineffectiveness of the BMBE Law. This includes tedious documentary requirements, the stringent definition of a BMBE provided by the DoF, the lack of political will on the part of local government units (LGUs) to promote the BMBE Law and its incentives, and the absence of an information campaign.

Macatumbas-Corpuz and Bool's (2021) work supports the findings of Carpio-Aldeguer (2015), observing that, among the 60 registered BMBEs surveyed in Banna, Ilocos Norte, none of them had availed themselves of any incentives under the BMBE Law. The lack of awareness regarding these incentives was cited as the reason preventing them from benefiting from the BMBE Law. Following the proposals of Figueroa (2018) and Manipol (2023), Macatumbas-Corpuz and Bool (2021) also

underscored the important responsibility of concerned government agencies in increasing the awareness of microenterprises on the provisions of the BMBE Law.

Research Gap

The BMBE Law, which has been in effect for over two decades already, underwent significant changes in its implementation. This transformation was marked by the shift of registration procedures from the Office of the Treasurer to Negosyo Centers and DTI offices. Existing works on the BMBE Law mostly explored its implementation and implications for registered microenterprises. Extant case studies primarily assessed the uptake of the incentives provided by the Law. They have consistently identified challenges associated with its implementation that hinder BMBEs from fully taking advantage of the benefits it offers. While these works offer insights into the effectiveness, including challenges of implementing private sector development policy at the local level, they largely suffer from the problem of limited generalizability. This study is an attempt to address, in part, this gap.

Methodology

To assess the effectiveness of the BMBE Law, we conducted an online census targeting two key respondent groups: (a) BMBE-registered microenterprises and (b) Negosyo Center business counselors directly involved in the implementation of the law. The enumeration frame for the former set of respondents was derived from the DTI's Barangay Micro Business Enterprise Online Registration System (BMBE-ONLINE), a registry of all the BMBEs in the country. As of September 2023, the database contained 20,304 registrants.

Data collection spanned for a total of four weeks, from November to December 2023, with regular follow-ups sent throughout the data collection period in an effort to increase response rate. The data was analyzed using descriptive statistics to generate insights on policy effectiveness and implementation gaps.

Table 1
Description of the Census

Variable	BMBEs	Negosyo Centers Business Counselors
Population	20,304	1,272 (unique email addresses)
Number of responses	639	60
Response rate	3.15%	4.72%

Survey Instruments and Rationale

Two structured questionnaires were developed: one for BMBEs and another for business counselors. These instruments were designed to address the research objectives by identifying incentives availed, assessing policy effectiveness, and capturing implementation challenges. The following outlines the parts of the survey questionnaires for BMBEs and business counselors:

Survey for BMBE Respondents

1. Demographics and business registration – understanding the profile of BMBEs (e.g., business location, legal structure, years of operation, asset size) to contextualize policy impact.
2. Incentives and benefits – identifying availed incentives (e.g., tax exemption, minimum wage exemption, special credit window, training programs) to determine discrepancies between expected and actual benefits.
3. Impact on business growth – evaluating the effect of BMBE registration on business growth, profitability, market share, and technology acquisition to assess policy effectiveness.
4. Challenges in implementation – identifying difficulties in registration and availing incentives to inform recommendations for policy improvements.

Survey for Business Counselors

1. Awareness and familiarity – assessing the extent of microentrepreneurs' awareness of the BMBE Law and frequency of awareness sessions conducted by Negosyo Centers to evaluate outreach effectiveness.
2. Incentive utilization – ranking the most commonly availed incentives and identifying challenges in accessing them to understand gaps in policy implementation.
3. Implementation challenges – documenting difficulties faced by microenterprises in registering as BMBEs and availing incentives, with recommendations for improving implementation and policy adjustments.

Validation through Business Counselors

A parallel census of all business counselors directly involved in implementing the BMBE Law was likewise conducted to validate findings from the BMBE census. These counselors form a large part of the DTI's Negosyo Centers, which provide business development services to the MSMEs, including BMBEs. As frontline service providers scattered throughout the country, these counselors are uniquely positioned to understand the nuances of policy implementation at the local level.

Of the 1,383 Negosyo Centers nationwide as of 30 September 2023, tailored questionnaires, including follow-up communications, were forwarded to 1,272 respondents due to missing contact information for the remainder. It must be noted that despite our intention to conduct a census, the limited number of respondents, as detailed in the following section, was largely due to the voluntary nature of the

instrument. Such a limitation may have implications on the study's findings, though the BMBE respondents were largely proportionate to the regional distribution of registered businesses in the country and all regions, with the exception of Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), were represented among the business counselor respondents. The data collected were thereafter analyzed using descriptive statistics.

Findings of the Study

This section presents the findings of the census from the perspectives of both BMBEs and Negosyo Center business counselors. The subsection on BMBEs' perspective explores BMBE registration, incentives and benefits availed by the BMBEs, formalization rates, the law's impact on business operations and development, and challenges in the implementation of the policy. In contrast, the subsection on the perspective of the counselors only covers incentives and benefits availed by BMBEs and challenges in implementing the BMBE Law.

Findings from the Census of BMBE Respondents

Profile of the BMBE Respondents

Among all the DTI-registered BMBEs, 639 microenterprises (or 3.15%) participated in the census. One participant, however, was excluded, as their business activities, which involve individuals with Professional Regulation Commission (PRC) licenses, did not meet the BMBE eligibility criteria. As a result, a total of 638 BMBEs were included in the final analysis.

Geographically, respondents represented all regions except Region IX (Zamboanga Peninsula). Of the BMBEs included in the final analysis, approximately 21% (132) are from the National Capital Region (NCR), followed by Region IV-A (CALABARZON) at 16% (105), Region III (Central Luzon) at 15% (93), and Region VII (Central Visayas) at 12% (74). In contrast, only two BMBEs are located in BARMM, four BMBEs in Region I (Ilocos Region), and nine BMBEs in Region 13 (Caraga). These numbers are largely proportionate to the regional distribution of registered businesses in the country.

In terms of legal structure, the majority of the respondents at 94% (600) are single proprietors with business name registration with the DTI. Under the jurisdiction of the Securities and Exchange Commission (SEC), approximately 3% (19) are corporations, 2% (10) are one-person corporations, and 1% (4) have a partnership as the legal structure of their business. Associations and cooperatives have the lowest representation, with two and three respondents, respectively.

Examining the business tenure of BMBE respondents, a notable 16% (103) have a tenure of less than a year, while a substantial 42% (268) have managed their enterprises for 1-2 years. Additionally, 18% (114) have sustained operations for 3-4 years, and 16% (102) have demonstrated resilience by maintaining their businesses for 5-10 years. Furthermore, 5% (34) have extended their operations into the 11-20-year range, and 1% (7) have showcased resilience with an operational history exceeding 21-30 years. Remarkably, four BMBE respondents have an operational history of over 30 years.

In terms of asset size, about 45% (289) have assets below PHP100,000, 34% (219) have assets ranging from PHP100,001 – PHP500,000, and 14% (90) have assets of PHP500,001 to PHP1.5 million. Meanwhile, 6% or 40 of the BMBE respondents have assets that are more than PHP1.5 million but less than PHP3 million.

BMBE Registration

On average, respondents have registered their business as a BMBE about 1.32 times. The standard deviation of 0.768 indicates a relatively low level of variability around the mean. The statistical analysis was confirmed as approximately 79% of BMBE respondents, involving 502 individuals, have undergone the BMBE registration process once. About 15% (93) have opted to renew their BMBE registration for an additional term, and 6% (38) BMBEs have registered 3-5 times. Notably, two (2) BMBEs have registered their business six and seven times, respectively.

The statistical analysis of the familiarity of respondents with the BMBE Law revealed a mean score of 3.81, with a standard deviation of 0.98. The results suggest a generally moderate level of familiarity with the BMBE Law, with a moderate degree of variability in familiarity levels of BMBEs. The majority of respondents, constituting 57% (363), described themselves as “somewhat familiar” with the Law. Following this, 20% (125) stated they were “very familiar,” whereas 13% (81) indicated being “neither familiar nor not familiar,” with the BMBE Law. About 6% (39) mentioned being “somewhat unfamiliar,” and a smaller percentage of 5% (30) reported being “not familiar at all.”

The primary reason cited by the majority of respondents for registering as a BMBE is access to the incentives and benefits provided by the BMBE Law, with approximately 86% (549) of the respondents indicating this as a significant factor. Following closely, fulfilling legal requirements or compliance with business registration regulations is the second most common reason, mentioned by around 50% (321) of the respondents. Other reasons include enhancing business credibility (267), facilitating business growth (253), access to financing opportunities (244), easier market access (125), and attracting more customers (119).

Incentives and Benefits Availed of the BMBEs

A substantial majority of the respondents, comprising approximately 49% (311), have benefited from the incentive provided by the BMBE Law, exempting them from the coverage of the minimum wage law. Additionally, about 46% (296) have taken advantage of the exemption from income tax. In contrast, a smaller number of respondents, around 8% (54), have availed themselves of programs related to technology transfer, production, management training, and marketing assistance. Similarly, approximately 8% (52) have accessed the special credit window for BMBEs, while a considerable proportion of about 27% (175) of the respondents indicated that they have not utilized any of the incentives and benefits.

Formalization Rate of the BMBEs

One purpose of the BMBE Law is to encourage the transition of informal microenterprises into the formal sector. Among the respondents, 70% (444) have confirmed securing a business permit from their respective LGU before registering as a BMBE. A mayor’s permit, issued by the LGU, warrants the legitimacy of the

business. It serves as proof of compliance with local regulations and authorization to operate within a specific area.

Conversely, the remaining 30% (194) of the 678 BMBE respondents indicated that they had yet to register their business with their respective LGU before initiating the BMBE registration. Within this group, 47% (92) have not secured a business permit after completing the BMBE registration process, while 52% (101) have managed to formalize their business after registering as a BMBE. Sixty of these 101 BMBEs have availed of the income tax exemption and 44 individuals have benefited from the exemption from the minimum wage law. Additionally, five respondents have accessed the special credit window and nine have availed of the technology transfer, production and management training, and marketing assistance programs for BMBEs. Results also showed that three BMBEs have benefited from all four incentives provided by the BMBE Law. Meanwhile, 29 out of 101 BMBEs, who have registered with their LGU to secure a business permit after registering as a BMBE, have reported not availing of any of the incentives provided by the BMBE Law.

Impact of the BMBE Law on BMBEs' Business Growth, Profitability, Market Share, and Acquisition of Technology in Business Operations

The statistical analysis of the impact of BMBE registration on various aspects of business operations reveals the average perceptions of respondents. In general, BMBEs reported no significant impact across different dimensions, with a moderate degree of variability in responses, as reflected by the mean and standard deviation scores presented in Table 1. Notably, profitability attained the highest mean score (3.31) among the variables, while the acquisition of technology in the daily operations of BMBEs received the lowest score at 3.13.

Table 2
Impact of the BMBE Law on the Business Operations of BMBEs

Variable	Mean	Standard Deviation	Descriptive Equivalent
Business growth (number of hired employees)	3.16	0.801	No significant impact
Profitability	3.31	0.853	No significant impact
Market share (number of customers)	3.21	0.782	No significant impact
Acquisition of technology in daily operations	3.13	0.753	No significant impact

When examining the frequency distribution, it becomes evident that the majority of BMBE respondents, constituting 64% (411), found no significant impact on their business growth (operationalized as the number of employees) after registering as a BMBE. In comparison, approximately 25% (161) reported a positive impact on their business growth, with 5% (35) noting a significant increase in their number of hired employees. Sixty-five or 10% of the respondents, meanwhile, observed a negative effect on their business growth, with 5% (30) reporting a significant decrease in the number of employees after registering as a BMBE.

In terms of profitability, the majority of the BMBE respondents, comprising 53% (336), expressed that registering as a BMBE had no significant impact on the profitability of their businesses. However, a substantial portion, accounting for 37% (239), reported a positive effect on profitability as a result of being a BMBE, with 7% (47) indicating a significant increase. Conversely, a smaller percentage of 6% (36) reported a decreased impact, while 4% (27) noted a significant decrease.

Insofar as market share is concerned, 64% (407) indicated no significant impact of registering as a BMBE on their number of customers. Meanwhile, 28% (176) observed an increase in their number of customers after successfully undergoing the BMBE registration, with 6% (37) indicating a significant increase. On the contrary, 5% (30) reported a decrease in their market share, while 4% (25) indicated a significant decrease.

Lastly, no significant impact on the acquisition of technology in daily operations has been observed by 68% (437) of the BMBE respondents. However, 22% (141) reported a positive impact, with 5% (30) indicating a significant increase in acquiring technology for business after undergoing BMBE registration. On the other hand, 5% (33) observed a decrease in their acquisition of technology in their business operations after registering as a BMBE, while 4% (27) reported a significant decrease.

Issues on the BMBE Law and Its Implementation

On the BMBE Registration Process. The census assessed the difficulty levels associated with the BMBE registration process and the perceived challenges in availing of the incentives and benefits provided by the BMBE Law. Utilizing a scale ranging from 1 to 5, where '1' denoted the least difficult and '5' represented the most difficult, responses from 638 BMBEs were collected. For the BMBE registration process, a mean rating of 1.84 signifies that BMBE respondents generally perceived the registration procedure as relatively uncomplicated, while a standard deviation of 1.168 suggests a moderate degree of variability in individual responses.

In response to the question on the challenges encountered during the BMBE registration process, approximately 75% (477) of the respondents reported not experiencing any difficulties. This finding is consistent with the result of the mean rating, indicating proximity to the least difficult on the scale. Conversely, the remaining 25% (161) acknowledged facing challenges during BMBE registration. Within this subset, 64% (103) cited challenges stemming from a lack of awareness about the BMBE Law and the registration process, 48% (78) mentioned a lack of information or support from government agencies, 42% (67) expressed confusion about eligibility criteria, 25% indicated difficulty in preparing the required documentation, and 24% identified lengthy processing time as a hindrance to the registration process.

The BMBE respondents also encountered other challenges during the registration process, including difficulties in downloading certificates, uncertainties about successful submission, the absence of online registry options, and a lack of response to emails. Respondents also highlighted a general lack of awareness about the online registration process at the LGU and regional DTI levels. Technical glitches during online renewals prompted some individuals to visit physical Negosyo Centers, forgoing the convenience of online procedures. Despite temporary concerns with certificate downloads being addressed, the overall challenges were compounded by issues, such as inaccessible and unstable internet connection.

On Availing the BMBE Incentives and Benefits. Concerning the challenges faced by the BMBE respondents in utilizing the incentives and benefits provided by the BMBE Law, 52% (331) noted that they encountered no obstacles in availing themselves of the BMBE incentives and benefits, while the remaining 48% (307) reported encountering challenges in capitalizing on the opportunities offered by the BMBE Law.

Evaluating the difficulty of availing of these benefits sheds light on the perspectives of the BMBE respondents. On a scale where 1 denotes the least difficult and 5 represents the most difficult, BMBEs generally rated the exemption from income tax at 2.57, indicating a moderately challenging process. In terms of taking advantage of the exemption from the minimum wage law, the respondents rated it 2.20, indicating a relatively lower level of difficulty. As for accessing the special credit window for financing needs and the programs related to technology transfer, production, and management training, respondents rated both at 2.89, suggesting a similar moderate level of challenge.

Within the subset of BMBEs which reported encountering challenges in capitalizing on the opportunities offered by the Law, 65% (200 out of 307) expressed the lack of information or support from government agencies a hindrance to availing of the BMBE incentives and benefits, 55% (170) cited their lack of awareness about the subsequent registration process, 44% (134) indicated confusion about eligibility criteria, 24% (74) reported having difficulty in preparing required documentation, and 16% (49) mentioned lengthy processing time as a challenge to availing of the BMBE incentives and benefits.

The BMBEs have encountered a spectrum of challenges extending beyond those initially identified in the census. A recurring theme pertained to difficulties in accessing loans or financial support from government institutions, such as the Land Bank of the Philippines, due to stringent requirements. The challenges intensify when it comes to availing the exemption from income tax. Specifically, there are hindrances in filing for BMBE with the BIR, impeding the utilization of available tax incentives. Concerns were raised about the lack of information on how to comply with BIR requirements for tax exemption. The taxation challenges extended to issues such as lengthy processing times and confusion in the BIR online system for income tax preparation. The BIR's apparent lack of acknowledgment of the benefits under BMBE, for instance, the specific challenge where income tax exemption is cited as not applicable in certain BIR offices, underscores the pressing challenges inherent in the regulatory framework. Furthermore, concerns regarding the lack of awareness and support from LGUs and other government agencies persist, resulting in a disconnect between the intended benefits of the BMBE Law and its practical implementation. The inconsistency in information, limited awareness, and insufficient support across various government levels have contributed to a complex landscape for BMBEs seeking to leverage the incentives and benefits provided by the BMBE Law.

Findings from the Census of Counselors

Profile of the Negosyo Center / Business Counselors Respondents

The census with Negosyo Centers was conducted from 15 November – 13 December, covering four weeks. A total of 60 out of 1,272 Negosyo Centers responded to the census, and all regions were represented except for BARM. Notably, the

regions with the highest number of respondents include Region 4-A, accounting for 20% of the total, followed by Region 13 (10%), Region 8 (8%), Region 3 (8%), and Region 9 (5%). These regions collectively contribute to a significant percentage of the overall distribution. Conversely, some regions exhibit a more modest presence, each representing about 2% of the total respondents. These regions include NCR, Region 1, Region 11, Region 12, and Region 5.

Incentives and Benefits Availed of by BMBEs

Negosyo Center business counselors assessed the familiarity of their microentrepreneur clients with the BMBE Law using a scale from 1 (least familiar) to 5 (most familiar). The mean familiarity score is 3.82, indicating a generally moderate level of familiarity with the Law.

In terms of ranking the perceived utilization of various incentives and benefits provided by the BMBE Law, with '1' indicating the least availed of and '5' being the most availed of, exemption from the coverage of the minimum wage law received the highest mean ranking of 3.90, indicating that, on average, business counselors perceived it as the most availed of incentive by BMBEs. Exemption from income tax followed closely with a mean ranking of 3.63, signifying a high level of utilization. Access to a special credit window for financing needs was rated lower, with a mean ranking of 3.17, suggesting a moderate level of utilization. The programs related to technology transfer, production, and management training, marketing assistance received the lowest mean ranking of 2.70, indicating that, on average, business counselors perceived them as the least availed of incentives among BMBEs. The standard deviations for each category suggest some variability in responses, reflecting diverse perspectives on the extent to which BMBEs avail themselves of these incentives and benefits.

Issues on the BMBE Law and its Implementation

The business counselors were requested to provide their opinions on the difficulty experienced by BMBEs in availing of various incentives and benefits offered by the BMBE Law. Exemption from income tax received the highest mean difficulty score of 3.48, indicating that, on average, respondents considered it relatively challenging for BMBEs to avail. In contrast, the exemption from the coverage of the minimum wage law was rated lower, with a mean difficulty score of 2.73, suggesting a comparatively less arduous process. The access to a special credit window for financing needs and the programs related to technology transfer, production, and management training, marketing assistance programs fell in between, with mean difficulty scores of 2.78 and 3.03, respectively.

Several recurring themes emerged from the responses regarding challenges faced by BMBEs in availing incentives and benefits under the BMBE Law. One major theme revolves around documentation challenges, including additional requirements and complexity associated with BIR processes. Issues such as difficulties in filing, lack of recognition of BMBEs, and challenges in updating the certificate of registration (COR) were highlighted. According to Negosyo Center business counselors, microentrepreneurs encounter obstacles due to diverse requirements set by various agencies for each benefit, encompassing additional documents required by BIR and DOLE.

Another prevalent theme relates to a lack of awareness and understanding among microentrepreneurs about available incentives. Respondents noted inadequate awareness about benefits, difficulties in understanding eligibility criteria, and challenges in navigating the application process. Recognition issues were also prominent, with some BMBE certificates not universally acknowledged, especially when government agencies are unaware of the BMBE Law, hindering BMBEs from accessing benefits.

Location-related challenges surfaced, with the distance of government agencies posing difficulties for BMBEs residing far from these offices. In addition, some respondents pointed out that LGUs lack incentives for BMBEs despite encouragement in the law. Technical challenges, such as unstable internet connection, were also cited as obstacles, particularly regarding incentives related to technology transfer. Calls for better coordination among government agencies handling BMBE benefits and a more supportive approach from agencies, particularly BIR, were consistently mentioned.

Discussion

Research Question 1: What incentives, if any, have BMBEs received under the BMBE Law? Is there a discrepancy between the expected and the actual benefits received by the BMBEs?

The results reveal that a significant portion of the BMBE respondents have utilized certain incentives provided by the BMBE Law. The most widely accessed incentives are the exemption from the coverage of the minimum wage law and income tax. These findings align with the results of previous studies, such as those by Manipol (2023) and Figueroa (2018), which also identified these exemptions as the most commonly utilized incentives by BMBEs. Meanwhile, a smaller percentage has taken advantage of programs related to technology transfer, production, management training, and marketing assistance, as well as the special credit window for BMBEs. These results correspond with the perceptions of Negosyo Centers reinforcing a consistent understanding between the experiences of BMBEs and the perspectives of business counselors regarding the prioritized incentives.

An analysis of these results reveals an anticipated trend in availing the exemption from the minimum wage law, given its automatic application upon BMBE registration. However, the findings for income tax exemption were somewhat unexpected. The complexity and stringent requirements of the BIR process for availing income tax exemption have been consistently emphasized by BMBEs and business counselors. Similar to the literature reviewed, some respondents have reported that BIR offices, tasked with overseeing the income tax exemption under the BMBE Law, are not adequately informed about the legislation. This lack of awareness poses a barrier to BMBEs, hindering their ability to avail themselves of the income tax exemption. This finding resonates with the studies of Tomas (2023), Alera et al. (2022), and Garambas and Pinos-an (2021), who similarly noted that BIR's unfamiliarity with the BMBE Law has created challenges for microenterprises in utilizing this incentive.

Regarding access to programs related to technology transfer, production, management training, marketing assistance, and the special credit window for BMBEs, our findings suggest a limitation in implementation, as there are no dedicated programs specifically tailored for BMBEs. The services provided by

the DTI, Department of Science and Technology, Technical Education and Skills Development Authority, financial institutions, such as Landbank of the Philippines, Development Bank of the Philippines, and Small Business Corporation, and other mandated implementing agencies cater to all MSMEs, subject to specific program requirements. Consequently, the lower utilization of these two incentives is deemed expected due to the absence of specialized programs for BMBEs.

While a considerable proportion of BMBEs have successfully availed themselves of key incentives, such as exemptions from the minimum wage law and income tax, it is noteworthy that more than a quarter (27%) of respondents reported not utilizing any BMBE incentives.

This significant percentage of respondents who did not avail any incentives may be attributed to factors such as a lack of awareness about the BMBE Law and its associated benefits, along with challenges in fulfilling requirements and navigating application processes with the BIR and other implementing agencies. There may also be a potential misalignment between the perceived and actual benefits realized by the BMBEs. Issues related to the unawareness of the BMBE Law among implementing agencies, leading to the nonrecognition of BMBEs, contribute to a gap between the anticipated advantages microenterprises expected upon registering as BMBE and the tangible incentives they have experienced in practice. This finding echoes the concerns raised by Garambas and Pinos-an (2021) and Figueroa (2018), who highlighted that a lack of awareness of the BMBE Law among both enterprises and implementing agencies has created a significant barrier to the full utilization of benefits.

Research Question 2: To what extent has the BMBE Law been effective in incentivizing the formation and development of BMBEs?

The effectiveness of the BMBE Law in incentivizing the formation and development of BMBEs can be evaluated based on several key indicators and observations from the BMBE census. Among others, the census with BMBEs investigated how the law promotes the shift of informal microenterprises into the formal sector. A majority of the respondents (70%) have already secured LGU business permits before BMBE registration, suggesting that many microenterprises recognize the necessity of complying with local regulations to formalize their operations. This aligns with findings from related studies of Figueroa (2018) and Carpio-Aldeguer (2015), which emphasized the importance of LGUs in facilitating the formalization process for microenterprises.

Meanwhile, slightly more than half (52%) of those who have yet to secure their business permit have subsequently registered with their LGUs after successfully registering as a BMBE, and a little less than half (47%) failed to register for a business permit after initiating the BMBE registration. Although no studies have explicitly explored the relationship between BMBE registration and securing LGU permits, existing literature has highlighted the challenges that microenterprises face in fully availing of the benefits provided by the BMBE Law. Studies, such that of Alera et al. (2022) and Macatumbas-Corpuz and Bool (2021), have identified financial constraints, complicated processes, and limited knowledge as barriers preventing microenterprises from accessing the tax incentives tied to formal LGU registration. These barriers suggest that while BMBE registration provides an entry point

to formalization, many microenterprises may still struggle to complete the entire process, particularly securing the required LGU business permit. As a result, while the BMBE Law encourages formalization, its full benefits, including the income tax exemption, are more likely to be realized when these challenges are addressed.

The law specifically intends for microenterprises that have not secured business registration with their LGU before registering as a BMBE to be motivated to do so afterward. This aligns with the BIR requirement that a mayor's permit from the LGU is essential for availing the income tax exemption under the BMBE Law. Certainly, the data indicates that BMBEs formalizing their business after BMBE registration are less likely to report not availing any incentives compared to those who have not yet secured a business permit despite being registered as a BMBE. This finding reinforces the law's intent and highlights that securing a business permit is integral to accessing the full set of incentives, demonstrating that formalizing business status contributes to a higher likelihood of benefiting from the provisions provided by the BMBE Law.

Similarly, the census with BMBEs assessed the impact of BMBE registration on various aspects of business operations. On average, the BMBE respondents perceive that registering as a BMBE does not yield significant impacts on their business growth, profitability, market share, and acquisition of technology in daily operations. When considering the likelihood of reporting no significant impact from BMBE registration, respondents rank the acquisition of technology in daily operations as the highest, followed by market share, business growth, and profitability. Conversely, in terms of reporting a positive impact from BMBE registration, BMBEs are more inclined to mention increased profitability, followed by an impact on market share, business growth, and, lastly, the acquisition of technology in daily operations. Interestingly, BMBEs tend to report a negative impact of BMBE registration on profitability as their primary concern, followed by business growth, the acquisition of technology in daily operations, and finally, market share. These results suggest that while BMBEs may experience some positive impacts, the overall contribution of BMBE registration to business growth and development is limited. Studies, such as those by Tomas (2023) and Alera et al. (2022), have similarly found that while BMBE registration provides access to valuable incentives, it does not directly lead to substantial business growth unless accompanied by additional support like access to training, capital, technology, and market opportunities.

In summary, the BMBE Law has shown limited effectiveness in promoting formalization and developing BMBEs, as evidenced by their perceptions of yielding no significant impacts on key variables related to the growth of their business. Regarding informality, although slightly more than half of those who have yet to secure their business permit subsequently applied for one with their LGUs after BMBE registration, the census does not explicitly establish a causal link between registering as a BMBE and formalizing business operations. Nevertheless, the recognition that formalizing business status contributes to a higher likelihood of microenterprises accessing and benefiting from the incentives provided by the BMBE Law suggests a strategic advantage for them to pursue formalization. Implementing agencies should, therefore, consider promoting awareness of this potential benefit to encourage more microenterprises to formalize their operations.

Research Question 3: What issues and challenges did the BMBEs and the government encounter in accessing and implementing the Law, respectively?

The implementation of the BMBE Law has encountered a gamut of challenges, as reported by both BMBEs and Negosyo Center business counselors. In terms of the BMBE registration process, the majority of the BMBE respondents perceived the registration procedure as relatively uncomplicated, with only a quarter acknowledging challenges. These challenges included a lack of awareness about the law and the registration process, insufficient information or support from government agencies, confusion about eligibility criteria, difficulties in document preparation, and delays in processing time—challenges similarly identified in the studies of Manipol (2023), Alera et al. (2022), Garambas and Pinos-an (2021), Macatumbas-Corpuz and Bool (2021), and Figueroa (2018).

When it comes to accessing BMBE incentives and benefits, approximately half of the respondents reported encountering obstacles, with difficulty levels varying across different incentives. Similar to the findings of Manipol (2023), Macatumbas-Corpuz and Bool (2021), and Figueroa (2018), BMBEs found the special credit window and programs related to technology transfer, production, management training, and marketing assistance particularly challenging to avail. This is expected due to the absence of dedicated programs specifically tailored for BMBEs.

The challenge in availing the income tax exemption also emerged as a persistent issue, closely aligning with recurrent concerns reported by both BMBEs and Negosyo Center business counselors concerning the BIR, as well as findings from previous studies (Alera et al., 2022; Tomas, 2023). Specifically, BMBEs encounter difficulties related to documentary requirements and the lack of acknowledgment of BMBE benefits in specific BIR offices, sentiments also echoed by business counselors. Furthermore, as highlighted by previous studies (Alera et al., 2022; Garambas & Pinos-an, 2021; Figueroa, 2018; Macatumbas-Corpuz & Bool, 2021; Manipol, 2023), the lack of awareness among both microenterprises and government personnel, coupled with insufficient support from LGUs contributes to the complexity of the landscape for BMBEs seeking to leverage incentives.

Conclusions and Recommendations

This research has delved into the effectiveness of the BMBEs Act of 2002 in addressing informality and helping BMBEs in the Philippines. By addressing three (3) key research questions and corresponding objectives, the study has provided insights into the incentives received by BMBEs, the impact of the law on their formation and development, and the challenges faced in the implementation of the BMBE Law.

While the study serves as an indicative snapshot of the state of the BMBE Law given the small number of respondents, the findings nevertheless offer valuable insights. They reveal a nuanced landscape. Although a significant portion of BMBEs has availed key incentives such as exemptions from the minimum wage law and income tax, a number of BMBEs still have not benefited from any of the BMBE Law incentives. Challenges in awareness, complex processes, and the lack of dedicated programs for BMBEs and coordination among implementing agencies have contributed to this disparity.

Ultimately, as the Philippines seeks to enhance the contribution of microenterprises to its economy and reduce informality, the insights from this research contribute to the ongoing dialogue on policy refinement. Implementing agencies, policymakers, and stakeholders can leverage these findings to shape targeted interventions that foster a more conducive environment for BMBEs, encouraging their growth and formalization. Through a holistic and collaborative effort, the potential of the BMBE Law can be maximized, creating a positive impact on the microenterprise sector and, by extension, the broader economic landscape of the Philippines.

Policy Recommendations

In light of the study's findings, there is a need to revisit the BMBE Law, including its guidelines, as the costs associated with BMBE registration seem to outweigh the benefits for microenterprises. While the law intends to support tiny firms through tax incentives, its actual impact is diminished by administrative burdens and conflicting regulatory priorities. Instead of facilitating formalization, BMBE registration has largely become an additional layer of compliance that does not provide sufficient advantages over remaining in the informal sector.

Furthermore, the study of Ulyssea (2015) highlights that not all informal firms face the same challenges. Some remain informal due to high bureaucratic entry costs, while others deliberately avoid formalization to maximize profits, and many lack the productivity to sustain formal operations. This distinction reinforces the need for a more targeted application of the BMBE Law. Rather than extending tax incentives and regulatory exemptions to all microenterprises, which could inadvertently benefit firms that strategically avoid compliance, there might be merit in amending the law to better target truly constrained yet productive entrepreneurs—those who would formalize had barriers been reduced. A more refined legal framework would support genuine microenterprise development while preventing the misuse of incentives by firms that exploit informality for profit.

At the same time, the BIR and LGUs tend to prioritize short-term revenue collection over the long-term goal of microenterprise development. As found by Garambas and Pinos-an (2021), the BIR is primarily concerned with potential tax revenue losses, while LGUs rely on fees related to the mayor's permit, making them less inclined to actively promote BMBE registration. This focus on immediate revenue generation contradicts the BMBE Law's purpose, which is to cultivate a stronger and more sustainable business sector. A more coordinated approach is thus needed to ensure that tax and local government policies complement, rather than discourage, microenterprise formalization.

Moreover, there is a need to harmonize the BMBE Law with the recently-introduced Tax Reform for Acceleration and Inclusion (TRAIN) Law. At a certain revenue level, the income tax exemption under the BMBE Law becomes less competitive compared to the 8% flat tax on gross sales or receipts exceeding PHP250,000 offered by TRAIN, making BMBE registration a less attractive option. This disparity largely discourages businesses from registering under the BMBE framework, as they may find it more practical to opt for the TRAIN's simplified taxation scheme instead. To maintain the relevance of the BMBE Law, amendments should ensure

that its incentives, especially with regard to tax exemptions, remain meaningful and competitive within the broader fiscal landscape.

Beyond policy design, the implementation of the BMBE Law has also been plagued by various challenges. One important issue raised by a number of respondents was the lack of universal recognition for some BMBE certificates, serving as a constraint in the uptake of services. This has been exacerbated by limited awareness, even among service providers, about the benefits of BMBE status and eligibility criteria, as expressed by some of the respondents. Some also cited varying documentary requirements from agencies such as BIR and DOLE as barriers to BMBE registration. All these implementation gaps limit the impact of the BMBE Law, notwithstanding its design.

While amending the BMBE Law itself is the ideal long-term solution, we recognize that the process of legislative amendments can be lengthy. As such, updating the Law's IRR offers a more practical approach, particularly for addressing the abovementioned implementation gaps, at least in the short run. As a starting point, a joint IRR among key implementing agencies, instead of separate and fragmented guidelines, should be established to ensure uniform interpretation and implementation. Such an effort could result in streamlined processes (e.g., integrating BMBE programs and incentives into LGU business one-stop shops), harmonized standards, and improved coordination among the implementing agencies. Additionally, the joint IRR should emphasize the commitment of the agencies to actively participate in comprehensive awareness campaigns (e.g., social media and campaigns at the grassroots level) that target both microentrepreneurs and government personnel.

Finally, the government, particularly the PSA, should consider resuming the Informal Sector Survey. At present, they rely on proxy indicators from the Labor Force Survey, specifically data on self-employed individuals and unpaid family workers, to estimate the size of the informal sector. While gathering accurate statistics on informal workers and enterprises entails challenges, particularly high costs, the absence of internally valid data severely limits the government's ability to formulate and monitor effective policies and programs for the informal sector.

Recommendations for Further Studies

Although census data from the DTT's online registry of BMBEs were used for the current investigation, this work is by no means exhaustive. For one, while the study aimed to conduct a census, its scope, despite several attempts to reach out, is somewhat limited by the small number of respondents, which could be addressed by incentivizing participation and/or employing additional methods of administering the instrument, such as in-person and phone interviews. Nevertheless, the phenomenon of non-response itself presents an intriguing area for further research, as it may signal underlying issues, such as non-respondents' apathy, distrust in government, lack of knowledge of censuses/surveys, and privacy concerns, as found in a study by Syracuse University's Maxwell X Lab (2024).

Also, the informal enterprises themselves were regrettably not included in the scope of this study, given the difficulty of locating them and generating a sampling frame. Future research would benefit from studying the informal enterprises from an emic perspective that utilizes qualitative methods of inquiry, such as phenomenology. By looking into the motivations, issues, and challenges encountered by informal

enterprises from their own vantage points, such an approach could yield a more nuanced understanding of this underserved segment of the economy.

Furthermore, going beyond descriptive analysis, future studies could investigate how social, demographic, financial, cultural, geographic, and political variables influence BMBEs' motivations to formalize, comply with regulations, and access incentives under the Law. As an example along this line, an interested researcher could examine the relationship between an informal microenterprise's propensity to formalize and the opportunity to influence policymaking at the local government level. Another hypothesis that may be worth looking into is the link between BMBE formalization and opportunity and perceived benefit of participating in value chains and/or industry or business associations. Works, like that of Francisco and Canare (2021), have partially explored this already in the context of MSMEs, but not specifically in relation to BMBEs. Also, exploring the distinction between informal firms in rural and urban settings in relation to enterprise formalization could provide insights for targeted incentive strategies.

Finally, there is a need to interrogate the phenomenon of informal enterprises from a broader political economy perspective, examining how structural conditions, such as the persistence of inequality and lack of structural transformation, shape their development and place within the economy. Such explanatory and exploratory works would allow us to understand the BMBEs and the issue of informality better, as well as inform more effective policymaking and implementation toward the goal of promoting inclusive economic development.

Endnotes

¹ Some of them serve as indirect suppliers to exporting formal enterprises (Narula, 2018).

² This pertains to unregistered businesses that neither maintain financial records nor fulfill tax obligations.

³ A study by Berse et al. (2023) found that even programs designed for formal MSMEs in the Philippines faced low uptake during the COVID-19 pandemic. This underscores the even greater challenges informal enterprises likely encountered.

⁴ This also coincides with the launching of the BMBE-ONLINE in 2022.

⁵ As of 21 October 2023, a total of 1,378 Negosyo Centers have already been established nationwide (DTI, n.d.).

⁶ OECD (2020) advises policymakers to exercise caution when distributing across-the-board incentives, as they can be costly and may not always yield significant long-term tax revenue benefits.

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