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THE INFORMAL TRADE SECTOR IN THE GREATER MANILA AREA

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#### ABSTRACT

The first part of this paper presents some of the salient features of the informal trade sector in Greater Manila Area. It is rather sketchy because to describe the sector more thoroughly implies that the inter-relation of the observed characteristics of the sector have already been unraveled. But the regularity of such interrelations failed to emerge from the more common exercise of estimating production functions for the sector. Such disappointing results are mentioned in the text but no longer discussed.

A different approach is presented in the fourth section of the paper. A model of the informal trade sector is developed to explain why no systematic, i.e. statistically significant, relationship between value added per enterprise, for example, and supply variables like value of fixed assets, capacity utilization rates, etc. could be found. More importantly, the model is developed to help one understand the behavior of the informal trade sector. The latter part of this section confronts the model with data on the sector and the conclusion that seems to emerge is that the model indeed captures the essential characteristics of the sector.

The last section builds on the findings in the precedings sections to lay the foundation for some rather tentative policy prescriptions for the sector.

Lastly, the appendix suggests a possible way of using informal trade sector data as indicator of changes in personal income distribution.

#### 1. Introduction

results of a survey made of the informal trade sector in the Greater Manila Area. The descriptive presentation however is rather shetchy since, to describe the sector more thoroughly would imply that the inner inter-re-lations of observed characteristics of the sector have been unraveled. The analytical portion is not presented until the latter part of the paper where a model is introduced that seeks to put some order into seemingly unrelated information on the informal trade sector. Thus, the first sections merely present characteristics or aspects of the sector which appear prominent from the data collected. In fact, a direct look at the set of tables in the next section may be more satisfying than the few descriptive pages accompanying them.

#### 2. Structural and Operational Characteristics

Trading activity, whether undertaker by big enterprises, or by itinerant peddlers, remains essentially the same activity: it is basically the bringing to final consumers of goods produced in the economy. Thus, Table 1 shows us that enterprises in the informal trade sector deal with practically all kinds of goods, from goods consumed daily, to clothing, footwear, educational supplies, and even with business durable goods.

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Table 1
DISTRIBUTION OF ENTERPRISES BASED
ON GOODS DEALT WITH

	Goods Dealt With	Number of Enterprises	Per cent
1.	Goods Consumed Daily	1,784	71.6
2.	Clothing/Footwear/Accessories/ Jewelry	260	10.4
3.	Household Durable Goods	144	5.8
4.	Business Durable Goods	103	4.3
5.	Second-hand Goods	13	0.5
6.	Several of the above	13	.5
7.	Educational Supplies	24	0.9
8.	Flowers	7	0.4
9.	Not applicable	139	5.6
	Total	2,492	100.0

The predominance of enterprises dealing with goods consumed daily (71.6%, Table 2) can hardly be a distinguishing feature of the sector.

Perhaps, the sources of goods used by these enterprises may put a label to them as belonging to the informal trade sector. While no comparable data on other sectors are available, the predominance of house and samll enterprises as sources of goods used in day to day operation of enterprises (72.2%, Table 2) is an indication of smallness. Conceivably, the bigger enterprises deal with manufacurers directly, and the tendency is therefore for the big traders to deal with big producers. As to who t

# DISTRIBUTION OF ENTERPRISES BASED ON SOURCES OF GODDS USED IN DAILY OPERATION OF ENTERPRISE

	Sources of Goods Bought	Number of Enterprises	Percentage Distribution
1.	Other households only	236	9.5
2.	Other Small Enterprises only	1,023	41.2
3.	Households and Other Small Enterprises	537	21.5
4.	Large Enterprises and Government Agencies Only	404	16.2
5.	All Sources Mentioned Above	155	6.2
6.	Does not buy goods	85	3.4
7.	Not applicable	47	1.8
	Total	2,492	100.0

Table 3
DISTRIBUTION OF ENTERPRISES
BY SOURCE OF GOODS SOLD

	Sources of Goods Sold	Number of Enterprises	464	Percentag Distributi
1.	Single Individual or Enterprise	399		16.9
2.	Several Individuals or Enterprises	1,954		78.4
3.	Not Applicable	139	9:4	5.5
	Total	2,492		100.0

- 4 Table 4
DISTRIBUTION OF ENTERPRISES BY

## TYPE OF MAIN PUYERS OF GOODS SOLD

	Type of Ruyers	Number of Enterprises	Percentage Distribution
1.	Households and Individuals	2,412	96.3
2.	Other Small Enterprises	65	2.6
3.	Rig Commercial or Government Enterprises	11	0.4
4.	Others		
5.	Not Applicable	4	0.1
	Total	2,492	100.0

main buyers are, Table 4 shows that 96.8 per cent of enterprises sell directly to households—not in itself an indication of peculiarity of the enterprise. However, Table 5 shows that 91.6 per cent of enterprise sell mainly to middle income and poor households, perhaps another indication that the enterprises service mainly the low income groups in societ In this light the data presented in Tables 1, 2 and 4 gain added significance. Given this, it is not surprising that most of these enterprise sell goods consumed daily, among other things.

The dimension of the smallness of the enterprise can also be incepted by other data. Table 6 shows that enterprises are indeed small if measured by the size of fixed capital owned. In fact, 622 enterprises accounting for 25.3 per cent of the total sample even show no ownership fixed capital. This may be an indication that such enterprises are simple even shown that ev

Table 5
DISTRIBUTION OF UNTERPRISES BY
TYPE OFUNOUSEHOLD SERVED

Tibe	ype of Mousehold Served	Number of Enterprises	Percentage Distribution	
1.	Rich Households	119	4.8	regal.
2.	Middle Income Households	2,900	30.3	
3.	Poor Households	232	11.3	
4.	Not Applicable	91	3.7	10.1
	Total	2,492	100.0	

Table 6
DISTRIBUTION OF ENTERPRISES BY SIZE OF FIXED CAPITAL OWNED

		Fixed Capital wned	Number of Enterprises	Percentage Distribution
- 1	None		623	25.0
	Less thant	<b>¥</b> 500	509	20.4
	<b>≱</b> 500 -	<b>№</b> 999	299	12.0
	<b>≱</b> 1000 -	¥ 1,999	228	9.1
	<b>≱</b> 2000 -	<b>y</b> 4,999	344	13.8
	¥5000 -	<b>7</b> 9,999	225	9.1
	¥10000 -	₱14 <b>,</b> 999	75	3.0
	₱15000 and		130	7.6
	Total		2,492	100.0

be bolstered by the fact that 2,399 or 96.3 per cent of these enterprises do not borrow or rent similar capital goods. In other words, it is not that trade can be undertaken without any capital whatsoever but that whatever is being used might have been thought of by respondents as used mainly for the household and not for commercial purposes. This is clearly indicated by the fact that 1,213 enterprises or 48.9 per cent were housed on structures that were used for residential purposes when the enterprise is closed. (Table 11).

Similarly, in terms of fully paid employment, defined simply as to employment less the number of workers who do not receive any remuneration at all, and in terms of gross sales, these enterprises are small indeed. Only 17.5 per cent of them employ 3 or more workers, and 53.1 per cent do not employ paid workers at all (Table 7). In terms of gross sales, 56 per cent of them sell less than \$800.00 a wee, or a little over a hundred pesos a day for a 7-day week. (Table 3).

In spite of their relative smallness of informal sector trading enterprises, some form of stability seems apparent in the sector. Practically all of them are located in permanent locations (99.7%, Table 9) using permanent structures (37.6%, Table 10), enjoying water and electricity (69.4% of them have access to both services, and 98.4% have access to either or both of the two services, Table 12). However, the structures being used by enterprises are actually being rented (72.5%, Table 13). The data confirms an earlier assertion that the reason some enterprises indicated non use of fixed capital is that the structures us

Table 7 DISTRIBUTION OF ENTERPRISES BY SIZE OF FULLY PAID E PLOYMENT

Size of Employment	Number of Enterprises	Percentage Distribution
None	1,440	58.1
1	310	12.4
2	300	12.0
3 or more	433	17.5
Total	2,492	100.0

Table 0 DISTRIBUTION OF ENTERPRISES BY GROSS SALES (Weekly)

CONTRACTOR OF THE PARTY OF

Gross Sales Per Week	Humber of Enterprises	Percentage Distribution
Less that P50	134	5.4
 P 50 - 99	61	2.4
 100 - 149	135	5.4
150 - 199	66	2.6
200 - 299	225	9.0
300 - 399	234	0,4
400 - 599	279	11.2
600 - 799	234	0,4
 300 - 999	95	3.3
1,000 - 1,499	355	14.2
1,500 and above	674	27.0
Total	2,492	100.0

Table 9
DISTRIBUTION OF ENTERPRISES
BY TYPE OF LOCATION

Number of Enterprises	Percentage Distribution	
2,487	99.7	
5		
2,492	100.0	
	Enterprises 2,487 5	

Table 10

TYPE OF STRUCTURE USED BY FWTERPRISES

Type of Structure		Number of Enterprises	Percentage Distribution	
Permanent Structure		2,105	87.6	
Temporary Structure		307	12.3	
Total	1.160	2,492	100.0	

Table 11

USE OF STRUCTURE WHEN ENTERPRISE IS CLOSED

	*		1. 1. I .I	
Other Uses		Number of Enterprises	Percentage Distribution	
For Residential Purpos	ses	1,218	48.9	
For Commercial Purpose	es	107	4.3	
None	4	1,135	45.5	
Not Applicable		32	1.3	
Total		2,492	100.0	
				-

AVAILABILITY OF WATER/FLECTRICITY

- . ! -

Type of Service Available	Number of Enterprises	Percentage Distribution
Water Only	40	Min'1.6 state state
Electricity Only	632	27.4
Water and Electricity	1,730	19 2069:4 van berrege
Neither Water nor Electricity	37	glic1.5
Not Applicable	La tacing the	010.1
Total	2,492	100.0
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Table 13 maked out to the second respect to the second respect to

### TEMURE STATUS OF UNTERPRISE IN RELATION TO STRUCTURE

Type of Tenure	Number of Enterprises	Percentage Distribution	viants
Fully owned by enterprise	572	23.0	
Partially owned	63	2.5	
Rented	1,506	72.5	
Neither owned nor rented	43	1.5	
Not applicable	3	0.3	
Total	2,492	100.0	

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practically all of which are permanent, structures are mainly credited to household use and not to commercial use.

Moreover, the informal trading sector enterprises are not fly-bynight affairs. Building of enterprise structures necessitated government
permit (94.3%, Table 14). In fact operation of the trading enterprises
required government permit too (97.2%, Table 15), and 96 per cent of the
enterprises actually sought such a government permit (Table 16) and
39.6 per cent were actually subjected to government regulation such as
regular inspection or licensing (Table 17). More importantly, such
enterprises have been in existence for a long time, with 96.7 per cent
of them having been in the business for at least 2 years (Table 13).
In fact a number of them have been in the business for more than 20 years
(13.1%, Table 13) or for 10 years or more (39.9%, Table 13). Thus, a
relative permanence and stability for the sector is indicated.

Table 14

DISTRIBUTION OF ENTERPRISES BY WHETHER STRUCTURE WAS BUILT WITH PERMIT OR NOT

in the Edition of the

How Built	Number of Enterprises	Percentage Distribution	
Not Applicable	10	0.4	
With Government Permit	2,363	94.3	
Without Permit	77	3.1	
Don't Know	42	1.6	
Total	2,492	100.0	

Table 15

### NATURE OF OPERATION OF ENTERPRISE AS LEGAL REQUIREMENT

Legal Nature	Number of Enterprises	Percentage Distribution
Permission From Government Necessary	2,423	97.2
Permission Not Necessary	51	2.0
Don't Know	18	0.7
Total	2,492	100.0

Table 16

### FULFILLMENT OF LEGAL REQUIREMENT TO CONDUCT BUSINESS 33Y ENTERPRISES

Mas Permit Sought?	Number of Enterprises	Percentage Distribution
Yes	2,394	96.0
No	98	3.9
Total	2,492	100.0

DISTRIBUTION OF ENTERPRISES BY WHETHER SUBJECTED TO GOVERNMENT REGULATION OR

Table 17

SUBJECTED	TO G	OVERMENT	REGULATION	OR
1	I	NSPECTION		

Whether Subjected to Or Not	Number of Percentage Enterprises Distribution
Yes	2,234 89.6
No	218 8.7
Don't Know	. 40
Total	2,492 100.0

Table 18

DISTRIBUTION OF ENTERPRISES BY LENGTH OF OPERATION

Length of Operation Years	Number of Enterprises	Percentage Distribution
Under 1 year	1	0.0
1 - 2 years	183	7.3
2 - 5 years	644	24.3
5 - 10 years	770	30.9
10 - 20 years	567	22.8
20 years or more	327	13.1
Total	2,492	100.0 ?

Tables 19-23 give information that supplement the previous characterization of the sector as consisting principally of small enterprises. Table 19 shows that 1,931 or 79.5 per cent of the 2,492 enterprises in the sample do not employ male workers regularly, nor, for that matter, do 97.3 per cent employ male workers even on a part-time basis (Table 21). Moreover, 71.1 per cent do not employ any females on a full-time basis, and 95.9 per cent do not even employ this category of workers on a partitime basis. These data of course do not rule out the possibility that those who do not employ females may be employing males and vice versa. Thus from Table 23, we discover that 22.1 per cent in fact employ one worker and only 0.7 per cent do not employ any workers at all. At any rate the smallness of the enterprises constituting the sector is highlighted by the fact that only 6.3 per cent employ more than 6 workers (Table 23) and 69.1 per cent have employment of 3 workers or less.

Equally interesting is the fact that 1,190 or 47.8 per cent of them employ family members who do not get paid (Table 24). (Obviously the other 51 per cent of the total who indicated that being classified under non-payment of workers in Table 24 is applicable are those enterprises which either have no employment at all (and this is small, only 0.7% according to Table 23) or those which pay all workers employed.)

DISTRIBUTION OF ENTERPRISES BY NUMBER OF

Table 19

MALE EMPLOYEES EMPLOYED ON A
REGULAR (FULL TIME) BASIS

Number of Male Employees	Number of Enterprises	Percentage Distribution
0	1,981	79.5
1	214	8.6
2	123	5.1
3	63	2.7
4	35	1.4
5	19	0.8
6	18	0.7
7 - 10	25	1.0
Others*	. 4	-0.1
Total	2,492	100.0

<sup>\*</sup>These constitute entries which appear erroneously classified.

Table 20

DISTRIBUTION OF ENTERPRISES BY NUMBER OF FEMALE EMPLOYEES EMPLOYED ON FULL TIME BASIS

Number of	Female Employees	Number of Enterprises	Percentage Distribution
serie.	0	2,438.	97.8
	1	35	1.4
	2	9	0.4
	3	4	0.2
	4	1	0,0
	5	2	0.1
	6	1	- 0.0
	Others*	2	0.1
Tot	a 1	2,492	100.0

These constitute entries which appear erroneously classified.

### DISTRIBUTION OF ENTERPRISES BY NUMBER OF MALE PART TIME EMPLOYEES

Number of Employees	Number of Enterprises	Percentage Distribution
0	2,438	97.3
1	35	1.4
2	9	0.4
3	4	0.2
4	1	0.0
5	2	0.1
6	1	0.0
Others*	2	0.1
Total	2,492	100.0

\*These constitute seemingly erroneous entries.

Table 22
DISTRIBUTION OF ENTERPRISES BY NUMBER OF FEMALE PART TIME EMPLOYEES

Number of Employees	Number of Enterprises	Percentage Distribution
0	2,389	95.9
1	65	2.6
2	13	0.7
3	10	0.4
4	5	0.2
6	1	0.0
Others*	4	0.1
Total	2,492	100.0

\*These constitute seemingly erroneous entries.

Table 23
DISTRIBUTION OF ENTERPRISES BY TOTAL EMPLOYMENT

Number of Workers		Number of Enterprises	Percentage Distribution
0		17	0.7
1		551	22.1
2	4	640	25.7
3		531	21.3
4		306	12.3
5		192	7.7
6		96	3.9
7 - 10		133	5.3
Above 10		26	1.0
Total		2,492	100.0

Constitutes seemingly erroneous entries.

Table 24
DISTRIBUTION OF ENTERPRISES BY TYPE OF UNPAID WORKERS

Type of Workers	Number of Enterprises	Percentage Distribution
lot Applicable	1,273	51.1
Full Time Worker	22	0.9
Part Time Worker	3	0.1
Casual Worker	4	0.2
Family Members	1,190	47.8
Total	2,492	100.0

Table 25

DISTRIBUTION OF ENTERPRISES BY MAXIMUM WAGE PAID
TO MALE FULL-TIME WORKERS

Maximum	Maximum Wage Paid	Number of Enterprises	Percentage Distribution
Less tha	an \$ 5.00	2,067	32.9
₱ 5.00 ·	- ¥9.99	165	6.6
¥10.00 a	and above	260	10.4
Tota	1	2,492	100.0

Table 26

DISTRIBUTION OF ENTERPRISES BY MAXIMUM WAGE PAID
TO FEMALE FULL TIME WORKERS

Maximum Wage Paid	Number of Enterprises	Percintage Distribution
Less thant ¥5.00	2,024	81.2
¥5.00 - ¥9.99	251	10.1
110.00 and above	217	3.7
Total	2,492	100.0

Table 27
DISTRIBUTION OF ENTERPRISES BY MINIMUM WAGE PAID
TO MALE FULL-TIME WORKERS

Minimum Wage Paid	Number of Enterprises	Percentage Distribution
Less than \$5.00	2,235	89.7
\$5.00 to \$9.99	172	6.9
#10.00 and above	85	3.4
Total	2,492	100.0

The latter implication does not seem warranted in the light of previous information that most of these enterprises are mere extensions of household activity. It is bolstered by the fact that as Table 29 shows, many of these enterprises (68.5%) operate from 11 to 24 hours a day and that, furthermore, 73.7 per cent of the enterprises close at will (Table 30). This strongly indicates extreme irregularity in operation which permits the possibility of paying low wages for long hours.

#### 3. Problems and Patterns of Growth

above do not preclude the possibility of growth but do tend to inhibit it. Table 31 shows that 65.5 per cent of the enterprises have been selling the same things as in the past and only 34.5 per cent are now selling things that they have not sold before. This is merely consistent with the fact that 71.6 per cent of the enterprises consist of enterprises dealing with goods consumed daily (Table 2), and for such commodities. The only changes that could come about would mainly be changes in the packaging, etc., and not in the kinds of goods sold. Nevertheless, same favorable indication of growth can be seen. Of the total, 52.3 per cent have experienced at least a slight increase in the quantity of goods sold (Table 32), and 33.3 per cent have changed the method of operation of the enterprise (Table 34).

These growth indicators are not spectacular, and the reason could be traced to the large number of enterprises in the field. For instance, 32.2 per cent of the 2,492 enterprises (i.e., those responding for them)

Table 23

DISTRIBUTION OF ENTERPRISES BY MINIMUM WAGE PAID TO FEMALE FULL-TIME WORKERS

Minimum Wage Paid	Number of Enterprises	Percentage Distribution
Less than \$5.00	2,292	92.00
¥5.00 = ¥9.99	142	5.7
\$10.00 and above	58	2.3
Total	2,492	100.0

Table 29

DISTRIBUTION OF ENTERPRISES BY MURBER OF HOURS ENTERPRISES OPERATES

DAILY ON THE AVERAGE

Number of Hours	Number of Enterprises	Percentage Distribution
1 - 7 hours	89	3.6
8 hours	279	11.2
9 hours	106	4.2
10 hours	311	12.5
11 - 16 hours	1,523	61.1
17 - 24 hours	134	7.4
Total -	2,492	100.0

#### DISTRIBUTION OF ENTERPRISES BY REASONS FOR CLOSURE OF ENTERPRISE

Reason for Closure	Number of Enterprises	Percentage Distribution
Sundays and Fixed Holidays	376	15.1
Closing at will in additionabove	n to 154	6.2
Closing at will whether Su or holidays	1,962	73.7
Total	2,492	100.0

Table 31

# DISTRIBUTION OF ENTERPRISES AS TO WHETHER IT IS NOW SELLING GOODS IT WAS NOT SOLD IN THE PAST

Type of Response	Number of Enterprises	Percentage Distribution
Yes	860	34.5
No	1,632	65.5
Total	2,492	100.0

Table 32

DISTRIBUTION OF ENTERPRISES BY TYPE OF CHANGE IN QUANTITY OF GOODS SOLD

Type of Change	Number of Enterprises	Percentage Distribution
Substantial Increase	252	10.1
Slight Increase	1,063	42.7
No Change	927	37.2
Some Decrease	182	7.3
Substantial Decrease	68	2.7
To tal	2,492	100.0

Table 33

DISTRIBUTION OF ENTERPRISES BY TYPE OF CHANGE IN NUMBER OF PERSONS

ASSOCIATED WITH ENTERPRISES

Type of Change	Number of Enterprises	Percentage Distribution
Increased Substantially	35	1.4
Increased Somewhat	218	8.7
Remained the Same	2,030	83.5
Decreased Somewhat	133	5.3
Decreased Substantially	26	1.0
Total	2,492	100.0