Table 34

DISTRIBUTION OF ENTERPRISES BY TYPE OF CHANGE IN METHOD OF OPERATION

Type of Change	Number of Enterprises	Percentage Distribution
Change for the Better	829	33.3
No Change	1,583	63.5
Change for the Worse	80	3.2
T o t a l	2,492	100.0

Table 35

DISTRIBUTION OF ENTERPRISES BY PERCEPTION OF RESPONDENTS AS TO NUMBER OF ENTERPRISES RENDERING THE SAME SERVICE

Perception	Number of Enterprises	Percentage Distribution
There are too many enterprises	2,048	82.2
Neither too many nor too few	309	12.4
Too few	135	5.4
T o t a l	2,492	100.0

feel that there too many of them rendering the same service (Table 35). Furthermore, 79.5 per cent think that the larger enterprises (conceivably those in the formal sector) affect their revenue, with 44.7 per cent actually thinking that the effect is large (Table 36). The reason for this seems to be that mainly the larger enterprise, if not better located, at least sell more cheaply than the smaller enterprises (Table 37). Thus, belief in bigness seems to be prevalent among the enterprises, with 71.1 per cent of them thinking that they could also sell more cheaply if their scale of operation can also be enlarged (Table 38). Subsequently, 1,961 or 78.7 per cent expressed the desire to expand capacity (Table 39).

Table 36

DISTRIBUTION OF ENTERPRISES BY PERCEPTION OF THE EFFECT OF LARGER ENTERPRISES ON REVENUE OF ENTERPRISE

Perception	Number of Enterprises	Percentage Distribution
Effect on Revenue Very Much	1,114	44.7
There is effect but not much	866	34.8
No effect	453	18.2
Not Applicable	59	2.4
T o t a l	2,492	100.0

Table 37

DISTRIBUTION OF ENTERPRISES BY REASON LARGER ENTERPRISES AFFECT REVENUE OF SMALL ENTERPRISE

Reaseon	Number of Enterprises	Percentage Distribution
Larger Enterprises sell cheaper	966	38.8
Goods are of better quality	168	6.7
Cheaper and better quality	223	8.9
More accessible (location)	473	19.0
Greater variability of goods, better facilities	112	4.5
Availability of goods in greater demand/badly needed	41	1.6
Not applicable	509	20.4
T o t a l	2,492	100.0

Table 38

DISTRIBUTION OF ENTERPRISES BY BELIEF OF RESPONDENTS THAT LARGER SCALE OF OPERATION ALLOWS SELLING MORE CHEAPLY

Response	Number of Enterprises	Percentage Distribution
Yes, it allows cheaper price	1,772	71.1
No	720	28.8
T o t a l	2,492	100.0

Table 39

DISTRIBUTION OF ENTERPRISES BY DESIRE TO EXPAND CAPACITY

Type of Desire	Number of Enterprises	Percentage Distribution
Desire to expand	1,961	78.7
Does not desire to expand	492	19.7
Not applicable	39	1.6
to T o t a l	2,492	100.0

Obviously these many enterprises have not yet found the correct size. These may be the same enterprises which indicated the existence of bottlenecks preventing expansion, and their reasons range from government regulations regarding licensing, permits, etc. (23.2%, Table 40) to lack of credit from banks (17.9%, Table 40), and a host of others. Regarding the desire to improve methods of operation where 82.7 per cent have expressed desire to implement such a change (Table 41), 76 per cent feel that the bottleneck is lack of capital (Table 42). On the whole, therefore, it seems that it is the capital constraint that is more pervasive as reason for the absence of growth of the enterprises in the informal sector, at least as perceived by the respondents. Thus, if given credit on easy and favorable terms, 74.9 per cent of the enterprises would accent to expansion (Table 43). Or, if the enterprises are given each a ₱10,000.00 financial assistance, 62.9 per cent would either construct or improve the structure for commercial purposes (Table 44). Regarding government assistance to the enterprises, 43.2 per cent feel that it is financial assistance

Table 40

DISTRIBUTION OF ENTERPRISES BY PERCEIVED BOTTLENECKS PREVENTING EXPANSION

Perceived Bottlenecks	Number of Enterprises	Percentage Distribution
Government regulations in regard to licensing, permit, etc.	579	23.2
Lack of credit from banks at moderate interest rates	447	17.9
Lack of managerial skill to run bigger enterprises	84	3.4
Lack of skilled workers	42	1.7
Workers quit job frequently	14	0.6
Lack of demand for goods and services produced	209	8.4
Lack of bigger building premises and other physical facilities	282	11.3
Lack of marketing facilities	12	0.5
Lack of capital	218	8.7
Stiff competition	8	0.3
Health and personal reasons	3	0.1
High cost of products and rentals	4	0.2
Not applicable	590	23.7
T o t a l	2,492	100.0

Table 41

DISTRIBUTION OF ENTERPRISES BY DESIRE TO IMPROVE CURRENT METHODS OF OPERATION

Typesof Desire	Number of Enterprises	Percentage Distribution
Would want to improve	2,060	82.7
No	432	16.3
T o t a l	2,492	100.0

Table 42

DISTRIBUTION OF ENTERPRISES BY PERCEIVED BOTTLENECKS PREVENTING IMPROVEMENT IN METHOD OF OPERATION

Perceived Bottleneck	Number of Enterprises	Percentage Distribution
Lack of capital	1,875	75.2
Lack of electricity and other utilities	18	0.7
Lack of know-how	38	1.5
Not profitable at current scale of operation	164	6.6
Too risky	77	3.1
Strick government regulation	15	0.6
Tight competition	7	0.3
Health and personal reasons	4	0.1
Lack of advertisement	1	0.0
Not applicable	293	11.7
T o t a l	2,492	100.0

Table 43

DISTRIBUTION OF ENTERPRISES BY WHETHER ENTERPRISE WOULD EXPAND OR NOT IF GIVEN CREDIT ON EASY AND FAVOURABLE TERMS

Response	Number of Enterprises	Percentage Distribution
Yes, would expand	1,867	74.9
No	558	22.4
Don't know	67	2.6
T o t a l	2,492	100.0

that could really help, while another 34.9 per cent feel that it is relaxation of government regulations regarding taxes, licenses and prices which could help (Table 45).

On the whole, therefore, the growth of the informal trade sector seems to hinge on policies that will be implemented by government regarding it. However, before we say anything more, it might be better to look at the sector with a more analytic eye.

Table 44

DISTRIBUTION OF ENTERPRISES BY WHAT ENTERPRISE WOULD DO WITH ₱10,000.00 FINANCIAL ASSISTANCE

What it Would Do	Number of Enterprises	Percentage Distribution
To help buy land for purpose of construction	189	7.6
Construct structure for residential purposes	233	9.3
Construct structure for commercial purposes	819	32.9
Improve existing structure	747	30.0
Buy furniture, machines, etc.	235	9.4
Buy goods and merchandise	31	1.2
Deposit or add to capital	65	2.6
Use for education	4	.1
Start new business	30	1.2
Won't be of much help	49	2.0
For leisure or pleasure trip	0	0.0
Expand and increase employment	1	0.0
Not applicable	89	3.6
T o t a l	2,492	100.0

Table 45

DISTRIBUTION OF ENTERPRISES BY PERCEPTION OF WHAT GOVERNMENT CAN DO TO HELP ENTERPRISES EXPAND

What Government Can Do	Number of Enterprises	Percentage Distribution
Give Financial Assistance	1,076	43.2
Provide favorable working facilities for public markets and store places	140	5.6
Relax government regulations on taxes, licenses and prices	870	34.9
Protect small enterprises	68	2.7
Provide training program	19	0.8
Don't know	158	6.3
No answer	161	6.5
T o t a l	2,492	100.0

4. An Analytical Description of the Informal Trade Sector

Introduction

A major objective of this study on the informal sector in the Greater Manila Area is to be able to recommend policies which, when implemented, can lead this sector to contributing its share to the attainment of society's employment, income, and equity objectives. It was therefore natural that those who undertook this study paid particular attention to those characteristics of the informal sector having most to do with that sector's income and employment generating power.

Specifically, for the informal trade sector, as for the other sectors, several equations relating (1) value added per enterprise; (2) value added per worker; (3) value added per unit of capital; (4) total employment per enterprise; (5) earnings of head of enterprise; and (6) weekly income from enterprise, as dependent variables were estimated, using as arguments for each of these equations several variables which, on theoretical grounds, were expected to explain the behavior of the dependent variables.* Indeed, several specifications of these equations were estimated. Unfortunately, the results were quite disappointing. Of the estimated equations, that relating total employment per enterprise to (1) value added per enterprise; (2) value of fixed assets, (3) daily wages, and (4) capacity utilization rate yielded the best fit, with R^2 of 0.07180. The best is not even good enough, for this value of R^2 indicates no systematic relationship at all between the selected dependent variables and several explanatory variables.[1/]

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*The equations are defined in the Appendix to this paper.

[1/] Already taken into account here is the result of step-wise regressions made, where the computer was made to choose explanatory variables that could explain best the variation of the dependent variables.

It looks like the attempt to be able to say anything significant concerning the informal trade sector is futile. On the one hand, the sector does not seem to behave in any systematic manner that allows for policy control of its behavior and, on the other, the data that we have from the survey which have failed to show systematic relationships can no more provide us with a clear picture of the informal trade sector. The alternative that is open to us, if we want to gain a little insight into the informal trade sector, is to formulate a model of the sector that can explain the poor regression results and see whether this will be confirme or denied by the data on hand.

The Model

There is a very simple explanation to the fact that no systematic relationships exist between selected dependent variables such as value ad per enterprise, for example, and supply variables like (1) total employment per enterprise, (2) value of fixed assets per enterprise, (3) capaci utilization rate, (4) quality of labor force, (5) hours worked per week p enterprise, and others. The reason is that the gross revenue or gross sales of each enterprise is but a proportionate share of a given total market, where the total market is determined largely by the number of households in the market and average household income, while the share of each enterprise in this market is determined mainly by the total number of enterprises. Thus it is to be expected that given the market and therefore the gross sales per enterprise, no amount of variation between enterprises in the so-called supply variables will affect this value of sales.

While this explanation might suffice for the disappointing regression results, it raises more questions than it answers. For example, consider Table 46 below which shows the distribution of enterprises in the sample on the basis of gross revenue.

Table 46

DISTRIBUTION OF TRADING ENTERPRISES
BASED ON GROSS SALES PER WEEK

Gross Sales	Number of Enterprises	Percentage Distribution
Less than ₱50	137	5.5
₱ 50 - 99	58	2.3
100 - 149	135	5.4
150 - 199	66	2.6
200 - 299	225	9.0
300 - 399	234	9.4
400 - 599	279	11.2
600 - 799	234	9.4
800 - 999	95	3.8
1000 - 1499	355	14.2
1500 and above	674	27.0
T o t a l	2,492	100.0

The explanation put forward seems to break down immediately when confronted by the preceding fact: Informal trading enterprises are widely distributed in terms of gross sales, contradicting the explanation which suggests that enterprise sales will tend towards some average value. In reality, the wide dispersal of enterprises in terms of sales supports the explanation put forward. But to understand this better and, at the same time, to

understand the nature of the informal trade sector, let us first see how small trading enterprises can exist amidst the large,well-organized formal trading enterprises.

To begin with, consider trade in commodities consumed daily by households. A basic reason for the existence of small trading enterprises is low household income. This smallness of income, coupled with the objective need by households for variety in the day to day consumption basket, requires the breaking up of purchases into very small units. This justifies the existence of small trading enterprises which can break-up commodities indeed into units finer than these could be purchased from th big trading enterprises. The small trading enterprises can therefore be thought of as doing the shopping for, and the rationing of the weekly or monthly consumption needs of households which constitute its market.

One may ask at this point why this intermediation is required. If households can afford daily purchases of goods in small units, why cannot these households budget their expenditures and do their marketing on a weekly or monthly basis when they could buy at a lower unit price? The small income assumption seems to answer this. Small unit purchases are made on a daily basis because it is an effective means to stretch income, i.e., to make it suffice. If the total amounts of the different commodities that can be purchased by a low income household in a month were purchased, say, at the beginning of the month, all this may be consumed long before the month is over. There may not exist an effective means to ration these commodities to make them last a month if they are already available at the beginning of the month. In short, the consumers are more rational than we might be led to believe.

Moreover, to the need for making frequent purchases of commodities in amounts much smaller than the smallest units that these may be available in large trading enterprises, or for rationing a limited amount of income, can be added the convenience of a neighborhood store, and the savings in transportation cost when buying from these stores, as reasons for the continued existence of the informal trade sector.

However, the discussion above suggests that there exists some threshold level of household income (which may vary from household to household) beyond which the household will drop out of the market for such small enterprises. The reason for this of course in that the level of consumption of these households allows these households to purchase bigger amounts of commodities needed in a week, or a month. The need for rationing has also disappeared when a sufficient level of household income is attained. Hence, the convenience of a neighborhood store, as well as the savings in time as well as transport cost when buying from those stores, may be overshadowed by cost differences with the big enterprises, or by the snob appeal of such enterprises.

Nevertheless, we expect that other small-size trading enterprises can still capture the drop-outs from the former category of informal trading enterprises. These small-size trading enterprises can achieve this if they are competitive with the big enterprises in price terms. Locational advantages to the small trading enterprises will also play a very big role in making these small enterprises competitive. The reason for this is that consumers are rational so that when households attain levels of income beyond the threshold level making daily purchases in small units no

longer necessary, cost calculations play the dominant role in the purchase of these households. Therefore, for as long as small enterprises in better locations can be competitive in price terms with the big enterprises, these small enterprises can hold on to the relatively high income market. Perhaps, only with much higher levels of income will households move on to the big enterprises, even if the small enterprises are competitive with the big enterprises. Snob appeal just might do this, but in the meantime, small trading enterprises still have reasons to exist.

What we have put forward is this. In the informal trade sector dealing with commodities consumed daily by households, two general classes of enterprises exist. One class consist of enterprises supplying consumers whose income lie below a threshold value. We call these enterprises class I enterprises. The process of competition among such enterprises for this low income market leads to an average size enterprise within this class measured by sales.

Then other class we call class II enterprises consists of those enterprises supplying households whose incomes are above the threshold level for class I, but lower than another threshold income. The higher threshold determines the low income classes as a whole. These enterprise must be competitive with the enterprises in the formal sector, because if they are not, buyers can easily shift to the latter. Location gives them an advantages: these enterprises tend to supply the needs of consumers in a well-defined area, both those households earning high incomes, and perhaps occasionally the class I enterprises in the area supplying th low income earners. Moreover, these enterprises must attain a minimum

size because if they are to retain their customers, they must have a minimum array of goods in their stock. However, since this minimum size is not large enough to make entry difficult, the size that these enterprises can attain measured by sales, is limited. In other words, in this class an average size enterprise will also emerge in the process of competition where both entry and exit are easy.

We can say from all this that class I enterprises will tend to grow towards the same size in terms of sales, while class II enterprises will tend to grow also towards another size, measured in sales, higher than the size of class I. Therefore, a discontinuity in size seems to arise. We can see this better if we look at the way an enterpise may move from class I to class II.

Consider a locality where households are earning incomes less than the lower threshold income. In this case, class I enterprises arise to fulfill a basic and useful function. As population and incomes in this locality grow, corresponding growth in the sales of already established enterprises induces entry. Soon, moreover, some households earn incomes above the threshold level. These households sooner or later drop out of this market, so that a limit to the growth in sales of class I enterprises, and also in their number, is attained. However, in the course of the preceding changes, some of the class I enterprises, experiencing growth in sales, and being located in more favorable locations than the rest, may try to increase their stocks to capture the emerging high-income market. It is necessary that each of them will have to compete with the big enterprises in the formal sector in terms of prices as

well as the array of goods it makes available to the high-income consumer. Assuming then that these conditions are satisfied so that these high-income consumers do not shift to the big enterprises, we can see that class I enterprises hoping to break into the class II category will only share among themselves the market that, initially, may have warranted only one or two class II enterprises. In terms of sales, they may have grown a little bigger than the other class I enterprises.

Eventually, locational factors, as well as the growing difficulty of providing the necessary spectrum, and freshness, among enterprises, of commodities to hold on to the high-income market at low sales levels, will lead to one or two of the class I enterprises completing the break into the class II category. In this case, the successful enterprises will experience a big jump in sales as the others are thrown back into class I membership. To a certain extent, a monopolistic element is present here. Those enterprises breaking into the class II rank will enjoy some monopoly status within the locality. Nevertheless, unlimited growth in sales is precluded because as population and incomes grow, there is always the possibility of class I enterprises breaking into the class II category.

All this suggests that between the average (or even the maximum) size of class I enterprises in terms of sales, and the average (or even minimum) size of class II enterprises, is no man's territory. Either an enterprise has to jump into at least the minimum sales level of class II remain there, or it is thrown back into class I. It cannot hold onto the intermediate position indefinitely. What is also suggested above is that within classes, enterprise sales tend to gravitate to a level independent

of supply factors.

What is crucial in arriving at the conclusion that within classes enterprises tend to gravitate towards some size measured in sales is free entry and exit. Take average sales volumes for the two classes to be defined. All we are saying is that if enterprise sales increase above this value, say for class I, more enterprises will enter reducing the sales of each enterprise to the average. If on the other hand sales go down below the average, exit will take place resulting in an increase in sales toward the average. It is only the number of enterprises that determines the volume of sales of each enterprise, given any volume of market for either class I or class II enterprises. The individual circumstances of enterprises hardly matter.

However, the main problem at this point is what the average enterprise size is in terms of sales volume. And related to this problem is why, given this average size for each of the two class of enterprises, should there be no systematic relation between say, value added in enterprise, and supply factors like employment of labor and fixed capital. In other words, even if gross sales for enterprises were determined by demand factors alone, why should not enterprises adjust employment of labor and capital, for example, corresponding to this sales volume, to bring about optimum use of these resources?

Several reasons can be put forward that will help clarify these two related problems. Firstly, entrepreneurs within the informal sector as a whole may have available to them labor power which may have remained

unemployed otherwise, and such entrepreneurs are not constrained to empl these workers by prevailing wage rates in other sectors. Thus, across t informal trade sector as a whole, employment of labor by enterprises cou correspond to labor productivity ranging from the most capitalistic, whe labor's marginal product is equal to the wage, to the least capitalistic where marginal productivity is zero, or is close to zero. In this case, the relation between employment and sales on fixed capital may show no regularity at all.

Secondly, entrepreneurs within the informal sector may put up trading enterprises primarily to improve their current consumption strea instead of to increase capital values. Thus, for example, a housewife m put up a sari-sari store to have a supplementary income source to allow a higher level of consumption than before. Or some entrepreneurs as a last resort may have put up the enterprise as the sole source of daily sustenance. In any case, if we assume that some average mark up on commodity prices prevails, a given volume of sales will determine an average net income that our entrepreneurs can consume. In the second example, when the enterprise is the sole source of daily sustenance for the entrepreneur, sales volume can only go down to a level sufficient t sustain the entrepreneur and his household. Sales volume lower than th will result in the stock of this particular enterprise being consumed, i.e., the enterprise will be forced out of the market. In the first ca where the enterprise is only a supplementary source of income, sales ca go down a little lower before the enterprise will be forced to close. A peculiarity of trade is that location introduces monopolistic element

so that one can very well say that in a certain locality, enterprises may settle to a lower average sales volume because enterprises as supplementary income sources predominate, while in another locality, the average sales volume may be higher because of a different characteristic which predominates. But it is clear that no unique average sales volume exists.

A third factor that should be taken into account is that some entrepreneurs in the informal trade sector, while doing business not for the main objective of increasing current consumption stream, may have no other investment opportunities aside from trade. It is unnecessary to assume that the entrepreneur is not familiar with other high-paying ventures. All that need be assumed is that the smallness of capital available to the entrepreneur locks him into the relatively low-paying informal trade sector. A possible consequence of this is that returns to capital could vary within a very wide range and yet capital will be immobile. More concretely, a given sales volume which at a given average mark-up determines a given amount of net revenue, will be consistent with various amounts of capital investment. Coupled with the situation where the employment of labor need not follow the capitalistic rationality criterion, the informal trade sector certainly can not be expected to give systematic relationships between, say, value added per worker on the one hand and fixed capital used, capacity utilization rate, and other supply factors on the other.

But consider Table 1 again. If the model is to do more than rationalize disappointing regression results, it must shed light on some characteristics of the sector like that shown in the table. Enterprises

are widely distributed in terms of gross revenue (sales) per work. In the table there are actually eleven classes, starting with enterprises selling less than ₱50 a week to those selling more than ₱1,500.00 a week. A striking characteristic of the sample is that between size 5 to size 8, that is, in those enterprises selling between ₱200.00 per week to ₱799.00 per week, the number of enterprises in each class, and the percentage each class accounts of the total, remains roughly the same. But the number of enterprises constituting the next class drops significantly, and jumps up again at the next class. The model that we have discussed suggests the existence of such a discontinuity in size. Although the model does not tell us exactly where such a discontinuity should be, the class size wher it actually occurs seems to confirm the model prediction. This can be better appreciated by first considering the other sizes.

As we can see from Table 46, 39 per cent of all enterprises accou for sales greater than ₱200 but less than ₱800. Roughly, this is equival to daily sales between ₱70.00 and ₱110.00. If we assume a ten per cent mark-up, this is equivalent to ₱7.00 to ₱11.00 daily net return to the enterprise. On the other hand, the table also shows that 15.8 per cent of the enterprises have sales less than ₱200.00 a week, which, on the assumption above, brings a net return of less than ₱7.00 daily to the enterprise.

The model also suggests that the sales volume to which enterpris will gravitate is that which allows the entrepreneur, if he has no other income source for the family, to earn daily sustenance for the household and for entrepreneurs using the enterprise to supplement other sources o income, the sales volume will even be less. These sales volumes the mod

has identified do not correspond to just one definite amount, since what is enough daily income for households could be different amounts. Yet the range of enterprise net revenue of between ₱7.00 and ₱11.00 is close to the minimum wage for unskilled workers. Thus, the table values can be taken as further confirmation of the model, if it is remembered that locational elements play a role in the model. All small trading enterprises do not compete against each other. Rather, those in a well defined area are the once which effectively compete against each other. This accounts for the variation in terms of sales volume between enterprises.

The enterprises belonging to sub-classes 1 to 8 in Table 46 most likely are the class I enterprises in our model. Those in sub-class 9, or those selling between ₱800.00 to ₱1,000 are those trying to break into class II rank. As the model predicts, enterprises can hardly hope to retain this position, so it is not surprising that only 3.8 per cent in the sample are found in this position, much lower than the 9.4 per cent in the immediately preceding sub-class, and also lower than the 14.2 per cent found in the next higher sub-class.

The sample enterprises have been broken up into two groups and a sub-group in the light of our model. In terms of the model, class I enterprises consists of a group made up of the 15.6 per cent of total enterprises with net enterprise revenue of less than ₱7.00 a day and the 39 per cent with net revenue greater than ₱7.00 but less than ₱11.00. (The figures are rough estimates.) Among these class I enterprises are those in the sub-group of enterprises "poised" to move up to class II. These enterprises constitute only 3.8 per cent of the total, since