

## **Cases of Micro Enterprises on the Incentives and Benefits of the Barangay Micro Business Enterprises Act of 2002**

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### **ABSTRACT**

This study aims to know the cases of the incentives and benefits provided by the Barangay Micro Business Enterprises (BMBE) Act of 2002 to registered micro enterprises in the City of Tarlac, Philippines. It looked into the implementation of the law by the conduct of a multiple case studies of six selected micro enterprises in availing and/or forgoing the incentives and benefits of the said Act. The study revealed that all the selected cases of micro enterprises managed to avail the discount provided by the local government regarding its taxes, fees and charges. All the cases of micro enterprises exercised as well their rights on the exemption from the minimum wage law. However, the most attractive provision of the Act pertaining to the income tax exemption of the micro enterprises are not successfully availed by the micro enterprises. The financing area of micro enterprises through a special credit window was not explored by the micro entrepreneurs which might result to possible benefit in the future in the area of financial management. The study showed that the major obstacles faced by the micro entrepreneurs are the lack of understanding of the BMBE Act and bureaucratic red tape in the government.

Keywords: BMBE, Micro Business, Fiscal Incentives, Income tax exemption.

### **INTRODUCTION**

The enactment of RA 9178, otherwise known as the “Barangay Micro Business Enterprises (BMBE) Act of 2002” was intended to hasten the country’s economic development by encouraging the formation and growth of barangay micro business enterprises. The BMBEs are meant to effectively serve as seedbeds of Filipino entrepreneurial talents. The Act encourages the informal sector to integrate with the mainstream economy, through the rationalization of bureaucratic restrictions, the active intervention of the government especially in the local level, and the granting of incentives and benefits. The ultimate goal of the Act is to generate much-needed employment and alleviate poverty.

A business with capitalization below three million pesos (P3, 000, 000), known as micro enterprises, can possibly be exempted from paying income taxes and minimum wages to employees. These are the two principal incentives provided for businesses registered under the Act. A special credit window is provided by banks to service the financing needs of BMBEs registered under the said Act consistent with the Bangko Sentral ng Pilipinas (BSP) policies, rules and regulations. Likewise, various government agencies act as implementers in providing technology transfer, production and management training, and marketing assistance to registered BMBEs. The Act

primarily aims to develop a micro business to evolve into a small or medium business enterprise and consequently into a large business enterprise for continuous economic growth and development.

In the City of Tarlac, there are thirty eight (38) registered BMBEs during the year 2015. The study focused on the profile of these registered BMBEs, the incentives and benefits availed and forgone by them under the BMBE Act and the obstacles faced by them in trying to avail the incentives and benefits provided thereof.

## **OBJECTIVES OF THE STUDY**

The study presented six selected cases of micro enterprises registered as BMBEs in Tarlac City. It aimed to describe the profile of the six BMBE cases, quantify the incentives and benefits availed and forgone by the six BMBE cases, and describe the obstacles faced by the six BMBE cases in availing the incentives and benefits provided by the BMBE Act. A general plan of action for the six BMBE cases is also recommended.

## **METHODS AND MATERIALS**

The case study method was used in the study. Case study is an in depth study of a particular situation rather than a sweeping statistical survey. Though it does not answer a question completely, it gives some indications and allows further elaboration and hypothesis creation on a subject. The case study research design is also useful for testing whether scientific theories and models actually work in the real world. (John Wiley & Sons, 2011)

Documentary analysis was the first method used in data gathering. The Barangay Micro Business Enterprises (BMBE) Act of 2002 was thoroughly understood before the research was conducted. Documents related to the BMBE Act were collected directly from the concerned government institutions through their respective offices, from annual reports published either online or through published magazines, periodicals, books or manuals. These documents were presumed to be more reliable for they came from the government accomplishment reports and other reportorial documents of implementing agencies.

The researcher requested and gathered the list of all the registered BMBEs in Tarlac City from the City Treasurer's Office. According to the database report generated, there were 40 registered BMBEs in the city of Tarlac from 2014 to 2015, although two had incomplete profiles. For this reason, they were excluded for purposes of the study. After which, the researcher chose six BMBEs to be the subject of the multiple case study by judgmental approach.

Personal interviews were conducted after selecting the six cases of micro enterprises. Interviews with the registered owner, personal accountant and other persons who were knowledgeable were conducted based on the most convenient time they indicated after receiving the letter of request. For additional information needed in the analyses, the

researcher communicated to the case respondents using personal text messages, voice call and social media messaging.

## **RESULTS AND DISCUSSIONS**

### **1. Profile of the Micro Enterprises**

The profile of the micro enterprises served as background of each case featured in the study. The micro enterprises were described in terms of the nature of business operation, the number of employees, current capitalization based on the latest renewal or registration as BMBE, and the number of years of operation as BMBE.

The industry, where the selected cases of micro enterprises belong, was perceived to have an impact on the nature of assistance that the government extend in the form of technology transfer or other business related development assistance through its various agencies. The number of employees was a great help in assessing the incentives of the micro enterprises in the form of salary saving in relation with the exemption from the minimum wage provision. The relationship of the capitalization of the micro enterprises and their financing needs to avail the special credit window offered by government financing institutions (GFIs) was assessed. The number of years of operation as registered BMBE has something to do with various reasons why the micro enterprises continuously renew their registration as BMBE.

Entity A- A micro enterprise owned by a good father of a family who chose to continue the business of his grandmother for his family sustenance and needs.

Entity A belongs to the business industry of retailing garden plants and pottery. It is engaged in selling flowering plants, ornamental plants and other backyard garden plants. It also provides landscaping services as a special service offering. Established in the early 1990s by the current owner's grandmother, Entity A was originally operating as a manufacturer of plant pots aside from selling garden plants. When the business' sales started to decline in early 2000, the production of plant pots was forced to be discontinued due to high fixed manufacturing costs. From then on, the entity decided to just purchase all its inventories from suppliers in the provinces of Pampanga and Bulacan. Entity A first registered as a BMBE in the year 2004.

Entity B- A micro enterprise owned by a father, with his young son as the managing graphic artist: skilled in lay outing and designing business signage and tarpaulins.

Entity B has its place in the printing services industry. Its product offerings were mainly on tarpaulin printing, sticker and business' signage making. Its operation started in the latter months of the year 2009 for minor printing services. Currently, Entity B's major clients are small businesses. However, the entity also catered to government needs especially for road and infrastructure construction notices.

Entity B first registered as BMBE in December of 2010, a year after it was established. The owner knew about the incentives and benefits provided by the BMBE

Act through a publication made on the newspaper of general circulation in the country. The owner was fascinated by the promises embedded on the said Act, which led to his decision to register the entity. The capitalization of the business in that year did not even reach half a million pesos (P 500, 000).

Entity C- A micro enterprise owned and managed personally by an industrious mother preparing healthy foods and other products being sold with 100% personal touch.

Entity C operated as a restaurant offering organic foods derived from its organic farm. The entity primarily offered food and beverages that were artificial ingredient- free in all aspects. The products and production process of the entity were recently approved by the Food and Drug Administration. The entity's restaurant operation offers an array of homemade viands from organic chicken, pork, vegetables and fruit juices. The entity is manufacturing and selling teas and juices freshly made from organic fruits and vegetables directly picked from its backyard garden.

Entity C was established and registered in the Department of Trade and Industry (DTI) in the year 2008. However, it was officially registered as a BMBE only in the year 2010 after the owner's lawyer proposed that it be registered as such to enjoy the incentives and benefits provided under the law.

Entity D- A micro enterprise owned and personally managed by a woman advanced in age, waiting for the government to look into the needs of micro entrepreneurs for business development.

Entity D was an enterprise established thirty years ago. It focuses on manufacturing vinegar, fish sauce, shrimp paste, fermented rice and other related sauces and condiments used primarily for native foods. Despite its very long years in operation, the products and production process were just recently approved by the Food and Drug Administration (FDA).

The owner had known the incentives and benefits of the BMBE Act through her sister who had unintentionally read it on a newspaper of general circulation and endorsed it to her. But, the owner had a hard time registering at that time because the LGU had no knowledge of the existence of the law. She even went to the extent of providing the local government a copy of the law through the news print. Believing that the benefits and incentives under the BMBE Act would greatly help her business, she incessantly kept on pushing the local government officials to heed on her demand. Finally, her application was approved in September 2004.

Entity E- A very simple micro enterprise in which its operations are typically present in all areas of the streets and in all corners of establishments where many people come and go to eat.

Entity E is a typical canteen operator known to Filipinos simply as "carinderia" or "turo-turo". It is strategically located in front of a certain school with a big population. The entity offers homemade viands and meals at a very low and affordable price

especially for the students are its primary customers. The entity also offers bottled water, tea-based and rehydrating drinks to supplement its main products. Aside from these, the entity also caters students craving for snacks or “merienda” in the form of noodle-based meals. It also accepts large order of noodle-based snacks in “bilaos”.

Entity E was established in 2010. After completing all the requirements for BMBE registration, the owner sought to be registered in 2011. The owner managed to know the incentives and benefits provided by the BMBE Act in a trade fair she attended as sponsored by the Department of Trade and Industry in the city of Manila. She was attracted to the promises of the law that seeks to promote the growth of micro enterprises.

Entity F- A micro enterprise managed by a male married entrepreneur. This business entity was the legacy of his father, passed on to him as he starts his own family.

Entity F is operating in a printing services industry. The main service offered was printing of quality photos for requirements purposes and displays at home. The business was established in the year 2000 by his father. The business is being managed by him for his father is in a foreign country. The business is operating in a very busy street in the heart of the city along with other business establishments operating in other industry. The enterprise successfully registered as a BMBE in the year 2014.

## **2. Quantification of the Incentives and Benefits Availed and Forgone by the Six Cases of Micro Enterprises**

Quantification sought to know the monetary value saved and forgone by micro enterprises in terms of income tax exemption, reduction of local government taxes, fees and charges, exercising the exemption of the enterprise from the minimum wage law in relation with the salaries and wages paid to employees, the interest incurred by availing the special credit window of the government financial institutions for BMBEs versus the interest imposed by the loan sharks and other similar informal financing institutions and the fair market value of the technology transfers and related business development assistance either in the form of seminars, trainings, support services, trade fairs, and other business related services by the micro enterprises.

The five major incentives and benefits provided by the BMBE Act are indeed great privileges to starting micro enterprises to grow. For them to provide the needed employment and to help the government alleviate poverty, these incentives and benefits should be rewarded to micro entrepreneurs: exemption from income taxes; exemption or reduction from local government taxes, fees and charges; exemption from the minimum wage law; special credit window for business financing of micro enterprises; and technology transfer and related business development assistance.

Among the selected cases of micro enterprises, the owner of Entity A, surprisingly, is the only one not knowledgeable about the provisions of the BMBE Act in full, considering his business enterprise is registered as BMBE since 2004. The owners of Entity B, C, D, E and F claimed that they do know and understand the promises of the BMBE Act.

## **2.1. Income Tax Exemption**

As to income tax exemption, only Entity D and E actually benefited considering they did not secure any certificate of income tax exemption from the legitimate authorities. This is due to the fact that the employees of the Bureaus of Internal Revenue at that time are not knowledgeable about the said law. The amount of income tax savings ranges from P12, 500 to P22, 500 a year. Entity A, B, C, and F however forgone the benefit of income tax exemption. Estimated amount of income taxes paid ranges from P8, 500 to P14, 000 per year.

## **2.2. Reduction of Local Government Taxes, Fees and Charges**

For the grant of discounts on local taxes, fees and charges, all the entities managed to avail them. The owners of Entity B, C, D, E and F expressed all their satisfaction and contentment. They all think that at least, they managed to recover the one thousand pesos registration fee and renewal fee they paid to the local government. Estimated amount of discount from local government taxes, fees and charges availed by the said micro enterprises ranges from P1, 500 to P6, 500.

## **2.3. Salaries and Wages Paid to Employees**

The only incentive that will be awarded automatically with the Certificate of Authority issued to qualified micro enterprises is the availment of the “Exemption from the Minimum Wage Law”, which means that, all registered BMBEs are allowed by the BMBE Act to pay wage rates below the minimum wage to their employees as agreed upon by both parties. Needless to say, an entity is not prohibited from paying its employees at or above the minimum wage. Meaning, the availment of this benefit is just an option on the registered BMBE.

Among the six cases, Entity A and D had common form of hiring employees, which is on a part-time basis. Obviously, the provision of the minimum wage law does not apply in their cases. However, Entity B, C, E and F confirmed that they are paying their employees below the minimum wage set by the Department of Labor and Employment. All of them did not divulge any information regarding this issue for reason of confidentiality and employees protection.

## **2.4. Special Credit Window for Financing**

As to the special credit window, none of the six cases of micro enterprises was benefited. Among them, only the owner of Entity B tried to apply for a loan from government bank, but was denied of his application. The owner of Entity B said that the bank had no assistance desk, priority table or special lane for BMBEs. Micro entrepreneurs were even discriminated since they usually apply for loans without any collateral security to provide. Owners of Entity A, C, D, E and F are not interested in the special credit window provision of the Act. All have common personal reason of being afraid to incur debts and a huge amount of interest.

## **2.5. Technology Transfer and Other Business Development Assistance**

It was noted that only Entity C and D benefited from the programs and assistance of the Department of Trade and Industry (DTI) and the Department of Science and Technology (DOST). Entity C got most of the blessings by receiving two valuable machines/ equipment that are very important in her production process: an oil extractor from DOST and a solar dryer and pulverizer from the shared service facility of the DTI. The DOST on the other hand donated display cabinets to Entity D for the proper storage and store exhibit of its products. The owner of Entity C is always an attendee of free trainings and seminars conducted by the DTI. The owner of Entity D is also attending the free seminars conducted by the DTI. .

Benefits forgone by the other four cases of BMBEs were not identified since the possible benefits were not fixed or certain in nature. The only benefit that can be availed by the other cases of micro enterprises are the seminars and trainings provided by the Department of Trade and Industry.

It is to be noted that Entity C and Entity D are both in the manufacturing industry, producing special products marketed to different provinces in Luzon and Metro Manila.

Findings are consistent with the study of Parilla (2009) that recommended that the DTI should focus on developing the owners of micro and small businesses. Support can be in the form of financial or technical aspects.

### **3. Obstacles faced by the six cases of Micro Enterprises in availing the incentives and benefits of the BMBE Act.**

The major obstacles faced by the micro enterprises in availing the incentives and benefits of the Barangay Micro Business Enterprises (BMBE) Act of 2002 are summarized as follows:

#### **3.1. Lack of Awareness and Correct Understanding of the BMBE Act**

The biggest hindrance or obstacle faced by the micro entrepreneurs nowadays is the lack of awareness on the Act both on the part of micro entrepreneurs and the government employees tasked to implement the Act. The employees of the government agencies themselves are not knowledgeable on how they should entertain queries from the micro entrepreneurs.

Some BIR officials, LGU personnel and even the people of DTI are not fully knowledgeable of the incentives and benefits provided to micro entrepreneurs as BMBEs, making them ineffective in the performance of their duties and responsibilities in the implementation of the law.

In an interview conducted by the researcher to the chief or head of office of the taxpayer's division of the Bureau of Internal Revenue in Tarlac City, the officer in charge confirms that there is no registered BMBE claiming for income tax exemption in the locale. She said that they are accepting applications for certificate of income tax

exemption but these applications should still be submitted to the regional office for approval. The officer said that they are open for application but no one is applying at all in recent years. It is to be noted that the owners of Entity B, C, D, E, and F said they are applying for exemption but their application were declined or rejected by the BIR.

These findings are consistent with the study of Carpio-Aldeguer (2015) that puts the BMBE law in the list of unpopular business and tourism related laws in the Philippines because the implementation is not that extensive and only small number of entrepreneurs are aware and benefited.

### **3.2. Bureaucratic Red Tape on Government Agency Implementers**

Bureaucratic red tape has been a perennial problem of almost all the citizens of the Philippines when it comes to regulatory compliances. Most businesses are having difficulty dealing with the government due to volume of documents required to be submitted to comply with regulatory requirements. It is to be noted that none of the six cases of micro entrepreneurs managed to secure a certificate of income tax exemption from the BIR exactly for this reason that eventually discourage them to avail of their income tax benefits.

The owner of Entity B, although willing to apply for a loan to a certain government bank, was denied in its application due to so much documents being required to be submitted, although it is natural for banks to ask for these to assess an applicant's credit rating or ability to pay in the future.

### **3.3. Lack of Information and Understanding on Business Management Concepts**

An uncontested obstacle that leads the micro entrepreneurs to limit their horizons and remain with their current status is the issue of contentment. The owners of Entity A, C, D, E and F are all afraid to incur indebtedness with government banks or any commercial banks. All of them thought that it will just worsen their business condition in the future when payment for the loan obligation commences. Business owners in the city of Tarlac seem to possess the traits of being risk-averse investors since they are afraid to take any amount of risk in their decision making.

The owners failed to realize the values to their business the incentives and benefits provided by the BMBE Act which they forgo by not pushing too hard to avail of them. All the cases of micro enterprises in the study remained to be micro enterprises for almost decades of their existence. The understanding as to the importance of financial management, management accounting, tax compliances and administration, production and marketing for business growth and development were lacking on the part of the micro entrepreneurs, making their entities remain as micro.

These findings supports the study of Rufino, H. D. (2015) to which recommends the provision of relevant trainings and seminars to managers, owners and employees of small and medium enterprises to update and develop their skills and technical knowhow on managerial decisions.



#### **4. Proposed Plan of Action for the Micro Enterprises**

The following are the proposed action plan for the obstacles encountered by the cases of micro enterprises.

4.1 To impart knowledge to the micro entrepreneurs about the rules and regulations on the proper implementation of the BMBE Act, the micro entrepreneurs should consider reading books, articles, newspapers and other sources regarding the government efforts to help micro enterprises. Realization of possible incentives and benefits that can be claimed by registered micro enterprises to help them develop their business are the expected results.

4.2 To avail the incentives and benefits provided by the BMBE Act, the micro enterprises should keep complete records and business documents necessary to comply with the requirements set by the government implementers of the law. Incentives and benefits that have been forgone by the micro enterprises can now be possibly availed. This would help them realize more the efforts of the government in promoting growth to microbusiness enterprises.

4.3 To be knowledgeable in different areas of business management for entrepreneurial success and a more competitive business enterprise, the micro entrepreneurs should have time to attend marketing, production, accounting, financial management and human resources seminars and trainings for proper business administration. Greater appreciation and taking advantage of the perceived or possible benefits of the BMBE Act and similar laws relating to micro business establishment and its eventual development are the perceived results.

### **CONCLUSIONS**

Based on the results of the cases of selected micro enterprises that registered under RA 9178 or the Barangay Micro Business Enterprises (BMBE) Act of 2002 in Tarlac City, the following conclusions were drawn:

#### **1. Profile of Micro Entrepreneurs**

The registered BMBEs were operating on different industries and not confined to only one type of business operation. The type of business operation does not have anything to do with the availment of income tax exemption and reduction of local government taxes, fees and charges. The type business operation has something to do with the assistance that might be provided by the government implementing agencies in terms of technology transfer and other business related development programs. The government support programs are focused mainly on the manufacturing businesses.

The number of employees does not have any relation with the availment of the minimum wage exemption. The number of employees of the registered micro enterprises are within the limit of the BMBE Act not have more than nine employees.

Registered micro enterprises were operating in a wide ranges of capital, from the smallest amount of about P55, 000 only to the largest amount of about P2, 600, 000. Capitalization of the micro enterprises do not have anything to do with the availment of the special credit window for financing in the form of loans on government financial institutions.

The number of years of registration as BMBE does not necessarily mean that the entity is benefiting much from the Act. The number of years of operation as BMBE has something to do with the reduction of local government taxes, fees and charges. Based on the existing city ordinance, entities who have renewed their certificate of authority as BMBE receive higher discount than entities which are approved for the first time.

## **2. Incentives and Benefits to BMBEs**

The main reason why micro enterprises register as BMBE is because of the income tax exemption provision. However, not all micro enterprises managed to avail the income tax exemption provision of the Act. Surprisingly, not all the employees of the Bureau of Internal Revenue are aware or well informed of the BMBE Act and its implementing rules and regulation.

This benefit promised by the Act relating to reduction of local government taxes, fees and charges is implemented in the City of Tarlac. However, the city government of Tarlac is not consistent in granting discounts to micro enterprises. The city ordinance provides that 10%-15% discount but some assessors give 20% discount in some cases, although there is nothing in the ordinance stating the 20% discount.

All micro enterprises pay their employees below the minimum wage for practical purposes since some employees work part-time. The employees are well informed and agreed to receive wages below the minimum. The micro enterprises save money through this benefits, although they may not be fully aware of it.

Most micro entrepreneurs do not resort to banks in financing their operations. This is because micro entrepreneurs are not interested in applying for loans in financing their businesses' needs for expansion and day to day operations.

Some micro enterprises are very thankful for the programs and projects of the Department of Trade and Industry and Department of Science and Technology. However, the Department of Trade and Industry and other government agencies usually devote their programs to manufacturing concerns businesses in the service and retail industry.

## **3. Obstacles faced by the Micro Enterprises in Availing the Incentives and Benefits of the BMBE Act.**

First, the lack of awareness on the part of the owners of micro enterprises and the government implementers definitely are the biggest challenges. Second, is the bureaucratic red tape hinders most entrepreneurs in enjoying the incentives and benefits provided for them. Lastly, most micro entrepreneurs are contented with their business operations and afraid to venture into future expansion.

## RECOMMENDATIONS

1. The micro entrepreneurs should be educated and well informed about the incentives and benefits provided under the BMBE Act.
2. Micro entrepreneurs should consider attending trainings, seminars, trade fairs, conventions and other business gatherings for possible linkages or connections that may help them in achieving and creating new market and customers.
3. Entrepreneurs should not treat government agencies as barriers to growth but rather treat them as advocates for business development.
4. The micro entrepreneurs should carefully plan and see to it that they comply with the requirements of the regulatory agencies to minimize risk of noncompliance in the future.
5. Banks, whether government or privately owned, should establish programs that aim to help micro enterprises grow by catering to their financial needs.
6. Continuous information dissemination on the part of the government agencies implementing laws and to the micro entrepreneurs should be conducted.
7. Educational institutions should help the government agencies through the conduct of extension services to micro entrepreneurs in giving information and understanding of the Barangay Micro Business Enterprises Act and other related laws benefiting entrepreneurs.
8. The government should seek to minimize or simplify the requirements in availing the benefits and incentives of the BMBE Act for the beneficiaries to enjoy them.

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