

# Philippine Report on Employment Trends and Policies: Can the Duterte Administration End Contractualization?

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## I. Abstract

Precarious employment has been a lingering labor issue in many countries all over the world. This is manifested in many forms: contractualization, subcontractualization and informal work. Since the advent of globalization, these have become the trends putting into questions and doubts about the gains of a globalized economy.

The state as a principal actor in a tripartite industrial relations system, intervenes to mediate between the conflicting interests of labor and management, to create the balance among the actors. In the Philippines, companies and institutions, including government agencies follow the global trends on employment. Issues about labor-management relations or the non-existence of employer-employee relationships are rampant.

This paper begins by presenting employment trends by age distribution, by industry sectors and by size of enterprise. It proceeds to a discussion of relevant laws in the Philippine Labor Code (particularly on regularization and contractualization), laws in support of employment in micro, small and medium enterprises and policies such as the proposed Magna Carta for Workers in the Informal Economy.

The major issue addressed by this paper is sustainability of employment and regulating contractual arrangements. The Duterte administration has enforced stringent measures to reduce if not end short-term contractual work. The review of the Department of Labor and Employment (DOLE) DO 18-A, the signing of the new DO 174, and inspection of establishments practicing “endo” (end of contract) are important steps. According to news reports, there have been a number of workers regularized by employers since the start of the Duterte administration. Certain government agencies have also started to convert some “job order” employees into regular employees. However, labor groups continue to urge the DOLE to eliminate all forms of contractualization.

## II. Employment trends

### By age distribution

The young population of the Philippines is reflected in the employment and unemployment figures. In 2015, half of all Filipinos were 24 years old and younger, and the median age was estimated at 23, according to the Asian Development Bank (ADB) Outlook 2016.<sup>2</sup>

Looking at the total picture, employment rate in January 2016 was estimated at 94.2% by the Philippine

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2 ADB: Youth unemployment a 'policy challenge' for gov't" in <http://cnnphilippines.com/business/2016/03/30/ADB-Youth-unemployment-policy-challenge-govt.html>.

Statistics Authority. Employment is highest among the age cohorts 25-34 and 35-44 (Table 1). Among these age cohorts are those who may have reached or finished college and have undergone training and skills development, have acquired work experience, thus, have greater opportunities for work.

Unemployment is highest among 15-24 years old. This age group comprises of young people who reached high school or college level. Studies showed that on the average, high school graduates took three years to find work while college graduates took about a year to be employed. Those who could not find work join the informal sector, work part time or remain unemployed. The ADB report further stated that one in four young people is neither working nor pursuing education or training. On the demand-side, this indicates a large gap between the number of new entrants into the labor force and available jobs.

Unemployment is also high in age cohort 25-34. This can be attributed to the following factors: short employment contracts, high attrition rate, or perhaps due to low job satisfaction and thus are compelled to quit jobs. The ADB report, in fact, cited a mismatch of education and skills required in the labor market.

### **By industry sector**

Employment figures by industry sector (Table 2) shows that the Philippines is still an agricultural country. Agriculture sector remains the biggest employer but many workers are described as small farm owners and informal agricultural workers. Ironically, many farmers remain poor due to many factors:

- weak implementation of the Comprehensive Agrarian Reform Program or CARP
- low investments in irrigation, rural roads and ports
- low funding in agricultural research and development (Habito and Briones in Diasanta, 2016).

Wholesale/retail ranks second among the top employers. This can be explained by the fact that the Philippine economy has become import-driven and consumerist, resulting to the numerous establishment of malls, small enterprises trading goods that must employ sales workers. Manufacturing ranks third and is way below wholesale/retail/repairs sector. Low employment in manufacturing means low rate of production within the country. Goods are coming from other countries. We can also attribute the employment trends to lowering of tariffs, making it is easy for imported goods to come to the country. Thus, investors tend to shift to trading business (Sibal in Diasanta, 2016).

### ***Sunrise industries:***

- Business Process Outsourcing (BPO)

This part of the paper looks into the sunrise industries (Table 3), their potentials for growth, and potentials to generate employment. Among the sunrise industries, the government has been vigilant in the growth of BPOs and tourism. In the past six years, almost 80% of new jobs have been generated by the service sector, particularly BPO, tourism, and retail trade combined.<sup>3</sup>

According to the Philippine Development Plan 2011-2016,<sup>4</sup> there are two factors that contribute to the growth of BPO industry:

- (a) lowering trade barriers to allow companies find alternative locations and reduce operating costs
- (b) advances in information and communication technology (ICT) that enhance service delivery using the internet

The most common outsourced services include the operations of human resources departments, research needs, accounting services and transcriptions. In 2010, the BPO industry reached the US\$9 billion revenue target and employed about 530,000 full-time employees. The US remains the primary source for outsourcing activities.

Based on the Philippine Development Plan 2011-2016, on the supply side, the country produces

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3 “ADB: Youth unemployment a 'policy challenge' for gov't” in <http://cnnphilippines.com/business/2016/03/30/ADB-Youth-unemployment-policy-challenge-govt.html>.

4 <http://www.neda.gov.ph/wp-content/uploads/2013/09/CHAPTER-3.pdf#67-70>.

**Table 1. Employment and unemployment rates by age cohorts**

Age cohort	Employed (%)	Unemployed (%)
15-24	17.8	48.2
25-34	26.8	30.9
35-44	23.3	9.8
45-54	18	7.1
55-64	9.9	3.3
65 and over	4.2	0.7

Source: Philippine Statistics Authority, January 2016 Labor Force Survey.

**Table 2. Industries by rank and number of employed persons (in 000), 2014**

Industries	Employed persons
1. Agriculture, hunting, forestry	10,405
2. Wholesale, retail, repairs	7,248
3. Manufacturing	3,212
4. Transportation and storage	2,686
5. Construction	2,578
6. Other service	2,187
7. Public admin. defense	1,964
8. Accommodation and food service	1,694
9. Fishing and aquaculture	1,396
10. Education	1,254
11. Administrative and support service	1,085
12. Households as employers, goods and service producing	508
13. Financial and insurance	491
14. Human health and social work	480
15. Information and communication	352
16. Arts, entertainment	349
17. Mining and quarrying	239
18. Professional, scientific and technical	209
19. Real estate	168

Source: Philippine Statistics Authority Labor Force Survey.

480,000 graduates per annum, some of these are in the IT sector. To improve its competitive standing, “the country would need to enhance the capability of its professionals in the IT sector to capture opportunities from India’s BPO market. Aside from labor resource, the Philippines also needs to develop suitable locations to ensure that BPO investments and expansions can be accommodated. Physical and IT infrastructures are key solutions to address growth of the industry.”<sup>5</sup> Most BPO companies are located in Metro Manila but are now shifting to the provinces.

- *Tourism*

Another significant sunrise industry is tourism. From 2004 to 2009, the average shares of tourism in GDP and in total employment were 6.12% and 9.68%, respectively. Visitor arrivals grew from 2 million in 2004 to 3 million in 2009, based on figures from the Philippine Development Plan 2011-2016.<sup>6</sup> The threat of terrorism has not weakened the industry.

Tourism receipts from inbound expenditure of foreign visitors from 2004 to 2009 have driven private and foreign investments in the accommodation, transportation, recreation and entertainment. Tourism is regarded as the fourth largest contributor to foreign exchange receipts. Two others are electronics/semiconductors and BPO.

However, the Philippines ranked only sixth in attracting foreign tourists vis-à-vis its ASEAN neighbors.

**Table 3. Summary of Sunrise Industries in the Philippines**

1. Business Process Outsourcing- According to the 2015 report of the CB Richard Ellis Group (CBRE), the BPO sector continues as the main driver for investment. BPOs generated roughly 11% of the country's GDP.
2. Retail- Developers have adopted the retail-tainment concept. Malls are not only havens for shopping but as venues for entertainment, as examples, the Arena in The SM Mall of Asia or Samsung Hall in SM Aura.
3. Green industries- With the crafting of Philippine Green Jobs Act of 2016 and Greening the Philippine Manufacturing Industry Roadmap, we foresee the creation of enterprises that produce goods and services that benefit the environment or conserve natural resources. In view of mounting ecological issues, some enterprises have begun to join the movement to address problems of the degradation of mother earth. It is forecasted that there will be rapid development of environmental standards for industries and products arising from new consumption patterns (Tolentino 2016).
4. Construction- The ADB reported that construction sustained double-digit expansion, with increases in both the public and the private sectors. Infrastructure projects include building national roads and bridges, rail systems, and ports to provide better access to the provinces.
5. Gaming- The casinos at Entertainment City are set to be joined by Okada Group's Manila Bay Resorts and Resorts World Bayshore in 2016 and 2018 respectively. Industry analysts are expecting double-digit revenues as licensed casino operators like Travellers International Hotel Group and Bloomberry Resorts Corp. go online.
6. Hospitality and Leisure- In 2013, tourists soared to 4.7 million. The government aimed to attract 10 million tourists in 2016. The government liberalized aviation policy and removed taxes on international airlines.
7. Real Estate- Stemming from the BPO sector, all businesses servicing it are expected to have a boost. One industry is the real estate. Even though in the last quarter of 2014, vacancy rates in key business districts – Makati, Bonifacio Global City, dropped and overall vacancy rates for Prime and Grade A buildings in Metro Manila slipped from 2.53% to 2.13% quarter-on-quarter, investors remain positive and on track.
8. Manufacturing- The manufacturing sector has grown 10 % since the last quarter of 2013 which accounts for 55% of GDP. What further gives this growth stability is that the expansion in manufacturing is broad-based coming from shipping, medical products, toys, auto parts, and agriculture.
9. Energy and Automotive- The energy sector recorded a total of 19 energy projects by the first half of the year, worth Php 159B. This is expected to generate 2,064 megawatt power to address the power cuts and shortages in the provinces.
10. Shipbuilding- The Department of Trade and Industry (DTI) reported that even the aerospace and shipbuilding industries have drawn interest from investors overseas shipbuilding and aerospace sectors to connect the islands of the Philippines.

Source: Casa, Michelle (September 2015).

5 <http://www.neda.gov.ph/wp-content/uploads/2013/09/CHAPTER-3.pdf#67-70>.

6 Ibid.

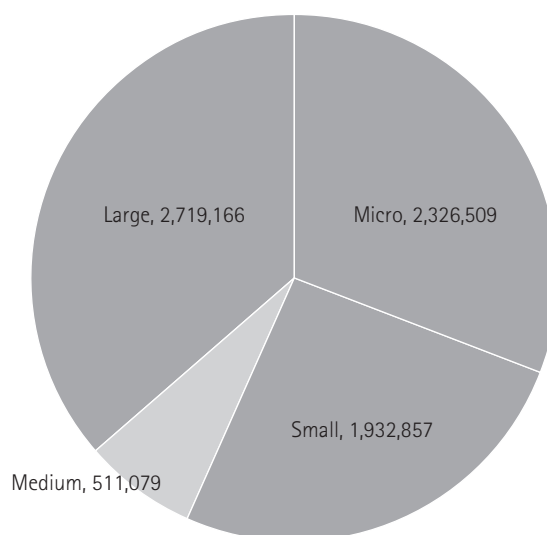
According to the Philippine Development Plan 2011-2016, more work is needed to enhance the country's competitiveness as a tourist destination. The country's attractiveness hinges "on the availability of support infrastructure (air, land, and water), a healthy business environment, and transparent and proactive rules and regulations. The Philippines ranked lowest among comparable ASEAN neighbors in terms of the number of airlines with scheduled flights originating in the country and the availability of good air connections to overseas markets to provide access for more foreign visitors. The Philippines also lagged behind in terms of quality of roads and ground transportation network that offers efficient accessibility to major tourism centers and tourist attractions."<sup>7</sup>

### By size of enterprise

Employment can also be examined by size of enterprise. Based on statistics obtained from the Department of Trade and Industry (DTI), collectively, micro, small and medium enterprises (MSMEs) generated 63.7% jobs in 2013 versus 36.3% for the large enterprises (Figure 1).

These figures underscore the important role of MSME in employment generation. There are numerous policies in support of MSMEs. Among these are:

- Magna Carta for Small and Medium Scale Enterprises or RA 6977 amended by RA 8283 — The Magna Carta provides government "assistance, counseling, incentives and promotion" to qualified small and medium enterprises.
- Barangay Micro Business Enterprises (BMBE) or RA 9178 — defines barangay micro enterprise (urban and rural enterprises located in the smallest local government units in the Philippines) with total assets of Php 3 million or less. The Local Government Units are encouraged either to reduce the amount of local taxes and fees or to exempt BMBEs from local taxes. It also exempts BMBEs from the Minimum Wage Law.
- Kalakalan 20 or RA 6810 was enacted to develop and promote barangay or countryside small enterprises (rural only). The law defines a small enterprise as any business entity whose number of employees does not exceed 20 and whose asset at the time of registration shall not exceed Php 500,000.



Source: DTI website, the figures exclude the undocumented informal workers, own-account and unpaid workers.

Figure 1. Distribution of employment by size of enterprise, 2013

7 <http://www.neda.gov.ph/wp-content/uploads/2013/09/CHAPTER-3.pdf#67-70>.

The DTI abounds with programs to provide support to MSMEs due to their capability to generate jobs, notwithstanding the short-term employment contracts in these enterprises. In micro enterprises, workers render services on seasonal periods, have no security of tenure and no social protection.

### III. Workers in the informal economy

The Philippine employment scenario is also characterized by informal work. The informal sector (IS) contributes substantially to job generation and a large share to the GDP but the figures are insufficiently recognized and documented.

In a serious effort to determine the size of the IS, the first official survey was conducted by National Statistics Office (NSO) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in 2008. It was found out that there were about 10.5 million “informal sector operators.”<sup>8</sup> NSO identified the “informal operators” as either self-employed without any paid employee or employer in a family-owned or operated small farm or micro enterprise.

Similar to informal work is the emerging peer-to-peer work transactions (Steinmetz, 2016). These are on-demand delivery of services offered by independent contractors (acting as middlemen using a software) between the workers and the individual clients. The contractors call themselves platforms. An example is the Uber company, a ride application company that operates a software allowing drivers and passengers to connect. In this arrangement, the company does not hire drivers as employees, maintain no cars and does away with employer-employee relationship. Employers are spared from granting salaries, social security benefits and impose no control over the workers. There are workers who attest to earning substantial income from independent contracting and enjoy the intrinsic reward of managing one’s own time.

### IV. Labor policy pronouncements about contractual employment and regularization

The Philippines is besieged with challenges about uplifting the lives of workers and maintaining industrial peace. Based on the Philippine Statistics Authority, there were 1.3 million non-regular workers (in establishments with at least 20 workers) in the year 2014. From CNN Philippines, the figure is 20 million contractual workers in 2016. Many of these are struggling for job security. To cite a specific case, in May 2016, about 460 workers of rope-making factory in Laguna went on strike after their plea to be regularized was not granted. The strike happened after the parties failed to reach a Collective Bargaining Agreement. Management promised new workers regularization after ten months but were made to sign five-month contract that were renewable (Cinco, 2016).

When President Rodrigo Duterte campaigned in the 2016 May elections, one of his promises was to put an end to contractualization. After taking his oath, the new President issued a warning to businessmen practicing “endo,” a colloquial term for illegal contractualization. It means a contract of five months or less, either renewable or non-renewable. He instructed the Department of Labor (DOLE) Secretary Silvestro Bello III to inspect business establishments in the country (Ramos & Santos, 2016). Otherwise, a closure of businesses will be ordered, if violations were found.

Thereafter, the DOLE launched a more rigid inspection and discovered violations of labor standards. DOLE officers consult and meet with employers first to encourage them to voluntarily regularize workers. After this, a sustained inspection of establishments, principals and contractors which practice “endo” (Geronimo, 2016) is conducted.

According to news reports quoting the DOLE, there were around 10,352 workers who have been regularized by 195 employers since the start of the Duterte administration. Certain government agencies

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8 www.census.gov.ph. In the survey, the reporting unit was the household, which means that the statistics from this survey refers to the characteristics of the population residing in households. Persons based in institutions and establishments were not within the coverage of the survey. The barangay or a group of contiguous barangays was the primary sampling unit.



such as the Philhealth has also started to convert some “job order” employees into regular employees. Job order is defined by the Civil Service Commission (CSC) as the following:

- Lump sum work or services such as janitorial, security, or consultancy where no employer- employee relationship exists between the individual and the government.
- Piece work or intermittent job of short duration not exceeding six months and pay is on a daily basis.<sup>9</sup>

Labor Secretary Bello said that the total ban on contractualization would seem not feasible as several sectors are project-based and seasonal such as the construction industry (Medenilla, 2016).

Furthermore, jurisprudence recognizes the exercise of “management prerogative” stating that managerial employees are “vested with the powers or prerogatives to lay down and execute management policies and/or to hire, transfer, suspend, lay-off, recall, discharge, assign or discipline employees.” Management prerogative is that broad freedom “to regulate, according to its own discretion and judgment, all aspects of employment... This right is tempered only by these limitations: that it must be exercised in good faith and with due regard to the rights of the employees.”<sup>10</sup>

Labor groups continue to urge the DOLE to fully eliminate contractualization by removing Articles 106-109 of the Labor Code completely (Geronimo, 2016) and amend related policies. Employees performing core functions and have served for long number of years should be regularized.

What are the implications of regularizing workers? Regularizing workers will result to an increase in the labor cost within the range of PhP200-500 per month to cover the mandated Social Security premiums, Philhealth and Housing Development Mutual Fund. Additional mandated benefits are Service Incentive Leave of at least five days convertible to cash and 13th month day.

Any increase in wages and benefits could translate to millions of pesos in expenses to the corporation, especially if it employs hundreds of employees. Small enterprises will be most affected by the labor cost adjustment.

## V. Labor laws about regular and contractual employment

Philippine Labor Code Article 280, defines regular employment as “the provisions of written agreement to the contrary notwithstanding and regardless of the oral agreement of the parties, an employment shall be deemed to be regular where the employee has been engaged to perform activities which are necessary or desirable in the business of the employer.”

The Philippines does not totally prohibit contractualization but rather regulates it through the formulation of laws and DOLE department orders. Below are policies about contractual employment:

- Philippine Labor Code (PLC) Articles 106-109 define the obligations of contractor or subcontractor, assuring the wages and protection of the worker.

When an employer (principal company) enters into a contract with another person to do work (contractor), the employee of the contractor (and of the latter’s subcontractor, if any) shall be paid wages... If the contractor or subcontractor fails to pay the wages of his employees, the employer shall be jointly liable with his contractor or subcontractor to such employees.

“Labor-only” contracting is defined as the person supplying workers to an employer. The labor-only contractor does not have substantial capital in the form of equipment and work premises. The workers recruited perform activities directly related to the business of the principal employer. In such cases, the labor-only contractor is merely an agent of the principal employer and is responsible for the workers.

- To implement the aforementioned PLC Articles, DOLE Department Order (DO) 18-A was issued in 2011 covering all enterprises engaging in contracting or subcontracting, also referred to as third party service providers. According to DOLE officials, the DO compels these enterprises to fully comply

9 Civil Service Resolution 020790 in <http://www.csc.gov.ph/>.

10 <http://www.laborlaw.ph/589/management-prerogative/>.

with minimum wages and general labor standards, including payment of social security premiums, security of tenure, self-organization and collective bargaining.

DO 18-A stated that contracting or subcontracting shall be legitimate, first and foremost, if the contractor is registered with DOLE and carries an independent business and undertakes to perform the job, work or service on its own responsibility, free from control of the principal company. Secondly, the contractor has substantial capital and/or investment so that it does not engage in labor-only contracting. This implies that labor-only contractors cannot be registered at DOLE under this Department Order, making labor-only contracting illegal.

- DO 174 recently signed on March 16, 2017 supersedes DO 18-A, after months of consultations with both labor and management, pursuant to the promise of President Duterte. Labor analysts opined that it is not substantially different from DO 18-A because it does not end all forms of contractualization as what labor groups demand. DO 174 only makes explicit what were implicit in DO 18-A so that the new DO cannot be circumvented, depriving the right of workers to security of tenure. DO 174 prohibits the following:

- labor-only contracting or the “cabo” system (a type of illegal contracting in which the contractor without substantial capital and equipment, supplies only workers)
- contracting out of work by reason of strike
- sign, as a precondition to employment, an antedated resignation letter; a blank payroll; a waiver of labor standards including minimum wages and social or welfare benefits; or a quitclaim releasing the principal or contractor from liability as to payment of future claims;
- repeated hiring of employees under an employment contract of short duration
- sign a contract that fixes the period of employment to a term shorter than the term of the service agreement, unless the contract is divisible into phases for which substantially different skills are required and this is made known to the employee at the time of engagement

The new DO 174 also shortens the validity of the certificate of registration of contractors and subcontractors from three years to two years and increases the registration fee from PhP25,000 to PhP100,000.<sup>11</sup> This means contractors and subcontractors will continue to operate.

Bello requested President Duterte to create 200 plantilla (government personnel positions) for Labor Laws Compliance Officers who will be deployed in the DOLE regional offices. DOLE would like to deputize labor groups to take an active part in the inspections.

- Department Order No.19 (series of 1993) refers to guidelines governing the employment of workers in the construction industry:

“The construction company and the general contractor and/or subcontractor shall be responsible for the workers in its employ on matters of compliance with the requirements of existing laws and regulations on hours of work, wages, wage-related benefits, health, safety and social welfare benefits, including submission to the DOLE-Regional office of Work Accident/Illness Report, Monthly Report on Employees’ Terminations/Dismissals/Suspensions and other reports. The prime/general contractor shall exercise sound judgment and discretion in contracting out projects to ensure compliance with labor standards.”

#### **IV. The proposed Magna Carta for workers in the informal economy**

Five versions of the magna carta had been filed at the House of Representatives and Senate (Sibal and Tolentino, 2010). They are products of persistent advocacy efforts by informal workers’ associations, women’s groups, human rights and other civil society organizations stretching for almost a decade.

All versions are comprehensively written with noted similarities. As proposed in the bills, workers

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<sup>11</sup> <http://www.dole.gov.ph/news/view/3550>.



in informal employment shall have the same basic rights accorded to all workers as enshrined in the Philippine Constitution and in international instruments. All versions intend to bring the Workers in the Informal Economy (WIE) into the economic and social mainstream through facilitative and non-burdensome mechanisms. The bills propose accreditation with corresponding minimal fees, provision of basic rights which include safe and developmental work conditions, right to self organization and participation in policy-making. Tax exemption is also proposed for an accredited informal economy (IE) worker, an enterprise from all taxes, national or local, license and building permit fees and other business taxes.<sup>12</sup>

Lawmakers and the advocacy groups are working on the integration of the bills and passage into a law. If enacted into a law, implementation will pose a great challenge due to the all-encompassing features of the bills, the involvement of many agencies from national down to the barangay level.

## VII. Conclusion

The Philippines must harness the potentials of its young population because this offers an opportunity to raise economic growth, but only if they are employed in productive jobs. There were identified sunrise industries that can possibly provide more jobs, especially for the young. The agribusiness segment, comprising more than 10 million working Filipinos, is another important sector that must be pump-primed.

After providing jobs, the next challenge is providing sustainable and decent employment. We go back to the principal question of this paper: can the Duterte administration end contractualization and uplift the lives of workers?

The concept of sustainable employment is hinged on regularizing workers and eliminating contractual work. But data shows that there are laws that regulate contractual work: PLC Articles 106-109, DO 174, CSC Resolution 020790 on hiring “job order” employees, and exercise of management prerogative. All of these laws legitimize contractual arrangements. Unless these laws are amended or repealed, contractualization will continue. Even the new DO 174 does not eliminate contractualization but further legitimizes it but with explicit prohibitions for abusive acts. What can possibly be eliminated is the “endo” system or illegal contractualization. Enterprises that are not granted DO 174 registration will be considered illegal operators and can be subjected to sanctions or closure.

After only a few months in office, President Duterte through the DOLE, has done concrete actions to address the problem: inspection of establishments, review of DO 18-A and consultations with labor, employers and academic sectors. On December 2016, DOLE, in fact suspended the granting of DO 18-A registration to new enterprises to have more time for inspection. In March 2016, DO 174 was signed. These quick actions indicate resolute leadership. Theories about leadership explain that major changes can happen if the change emanates from the top. It takes political will to use resources of the government to make the change happen. Leaders that can transform societies are imbued with courage, persistence and a vision. The president is resolute in ending contractualization but the implementing government agency, the DOLE is not as tough and resolute, made evident in the DO 174 he signed.

What is lacking is a clear agenda about employment generation or alternatives for people who will lose their jobs. This is from the point of view of employers. If they are pressured to regularize workers, some workers might be retrenched if employers could not afford the high cost of regularizing all employees. In relation to this, the opinion of labor leader Renato Magtubo speaking for the Partido ng Manggagawa is: “policy reforms should be introduced (a) to regulate labor markets, (b) to have provisions for adequate and quality social services which enhance the development of human capacities, and for the achievement of

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<sup>12</sup> Except real property and capital gains taxes, import duties and other taxes on imported articles. In addition, any and all income, receipts and proceeds derived from their business operations shall be excluded in the computation of gross income for purposes of computing the individual income tax of the members, stated in SB 2381.

full employment. This can be done through strengthening labor market and industrial institutions as well as policies that will generate demands for generation of employment.”

Beyond regularization of employment, the ultimate goal is inclusive growth and social security, encompassing all industries and work categories. Industrialists and economists are hopeful, noting that the “Philippines remains a bright spot in Asia with growth targets between 7-8% that are attainable”<sup>13</sup> vis-à-vis the various sunrise industries and government development projects. Economist Bernardo Villegas advised that government give more attention to the improvement of the agribusiness segment and help the farmers, thereby reduce the rate of poverty among the poorest Filipinos.

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