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**Initiatives for Harmonizing Business Classifications with the Philippine Standard  
Industrial Classification (PSIC)**

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## **Initiatives for Harmonizing Business Classifications with the Philippine Standard Industrial Classification (PSIC)**

### **I. Introduction**

Republic Act 10625, also known as the Philippine Statistics Act of 2013, has established the Philippine Statistics Authority (PSA) to serve as the central statistical authority of the Philippine government on primary data collection as well as to develop and maintain appropriate frameworks and standards for the collection, processing, analysis and dissemination of data.

RA 10625 also mandated the PSA to coordinate with local government units (LGUs) on the promotion and adoption of statistical standards involving techniques, methodologies, concepts, definitions and classifications. The establishment of a local-level statistical system is vital for the functional structure of the Philippine Statistical System (PSS) in order to serve the needs of local development planning. The enactment of Republic Act No. 7160, also known as the Local Government Code of 1991 signaled the devolution of more powers and functions from the national government to the local government, including the decentralization of statistical operations and activities in health, social services, infrastructure, environment and natural resources, among others.

In the pursuit of this mandate, the Standards Service (SS) under the Censuses and Technical Coordination Office (CTCO) of the PSA has conducted a Provincial and Municipal Assessment and Consultation Workshop on the Adoption of Statistical Classification Systems at the Local Level in August 2016. The staff of the PSA Regional Statistical Service Office (RSSO) and its Provincial Statistical Offices (PSOs) in Region VI as well as the local government units (LGUs) through the Provincial and City/Municipal Planning and Development Offices in the Region participated in these activities. The results of the assessment and consultation workshop showed the low awareness and utilization of the national standard statistical classification systems of the LGUs. Nonetheless, the participants responded that adopting these classification systems will not be a problem provided that the necessary capacity building and proper institutional mechanisms are in place. The assessment also revealed that the Region VI municipal LGUs are using a different business classification from the PSIC. They are also using different kinds of business permit application forms.

Considering the dismal results of the assessment and as part of PSA's commitment to facilitate and strengthen the adoption of statistical standard classification at the local level, the Standards Service of the PSA has embarked on the development of a local statistical capacity building program on classification systems in selected pilot provinces, initially focusing on the PSIC. In this regard, the PSA conducted a training on the Philippine Standard Industrial Classification (PSIC) for local municipal treasurers and business permit licensing officers (BPLOs) of the provincial local government of Aklan and Guimaras in Iloilo City in May 2017. One of the objectives of the training is also to test the use of the e-Classification in the area. The e-classification is an android-based mobile application designed to facilitate access and utilization of standard statistical classification systems.

To further enhance the local statistical development, the Macroeconomic Accounts Services (MAS) of the PSA likewise conducted the Training/Workshop on the Assessment of Data Requirements for the Compilation of the Provincial Product Accounts in the province of Palawan on 15-17 February 2017.

Based on this assessment, an adequate knowledge of the PSIC is needed by the Palawan LGUs to generate reliable and comparable data support for the PPA. Hence, the assessment also pointed out the need to conduct trainings on PSIC for LGUs to enhance the data inputs for economic planning and policy formulation both at the national and subnational levels.

Meanwhile, recognizing the need to standardize financial systems and data processing related to local finance data and transactions, the Department of Interior and Local Government (DILG), Department of Communication and Information Technology (DICT), the Department of Finance (DOF), and the National Competitiveness Council (NCC) of the Philippines also established a Business Permit Licensing System (BPLS) Working Group to develop an on-line Unified Business Permit Form to be adopted by all city/ municipal local government units (LGUs) in the country.

During the 5<sup>th</sup> BPLS Working Group Meeting held on 11 November 2016 in Makati City, the group likewise agreed to pursue the harmonization effort in classifying businesses as well as ensuring that a uniform as well as comparable industrial statistics are produced by different agencies in the government. The DOF through its Bureau of Local Government Finance (BLGF) was tasked to spearhead this activity. The BLGF of DOF then sent a letter to the PSA inquiring about the feasibility of harmonizing business classifications as provided under the Local Government Code with the internationally accepted standards of classifying industries that has been adopted in the PSIC.

In response, the PSA convened a consultation meeting with the concerned agencies and departments on the Unified Business Permit on 9 March 2017 to provide an overview of the PSIC and present the e-classification mobile application. While all national agencies present in the meeting recognized the importance of adopting a common standard classification system for classifying industries to come up with comparable industrial statistics at the local and national levels, the questions on who will classify or code the businesses in all the permit application forms and how to impart the knowledge of PSIC to all LGUs and business permit applicants with the least cost and time are the biggest challenges that still need to be addressed.

In the past, there were some fragmented efforts by World Bank and other development partners to train LGUs on the processing the business permits using the PSIC but no single government agency has the manpower and financial resources to embark on the coding and consolidated processing of business permits coming from the more than 1,400 municipalities in the country. Fortunately, technology can now provide an easier and better way on how these can be accomplished.

Consequently, it was agreed during the meeting to include the PSIC code in the newly developed on-line Unified Business Permit Form that will be prescribed by the BLGF of DOF to be adopted in the business licensing system of LGUs. Thus, it has become imperative that the LGUs through the municipal treasurers and business permit licensing officers understand and adopt the PSIC.

On July 3, 2017, the PSA successfully launched the e-classification Android-based mobile app together with the Inventory of Statistical Standards in the Philippines (ISSIP) and Philippine Statistics Authority Data Archive (PSADA) at the Dusit Hotel in Makati City in order to promote appreciation, awareness and utilization of the PSA new products and services in the Philippine Statistical System (PSS).

## II. The 1991 Local Government Code

The 1991 Local Government Code of the Philippines provides the legal basis for classifying businesses for taxation purposes by municipalities. Under Article 2: Municipalities, Section 143. Tax and Business of the Local Government Code the municipality may impose taxes on the following business:

- On manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of **liquors, distilled spirits, and wines** or manufacturers of any article of commerce of whatever kind of nature

- On wholesalers, distributors, or dealers in **any article of commerce** of whatever kind or nature
- On retailers
- On contractors and other independent contractors
- On banks and other financial institutions, at a rate not exceeding fifty percent (50%) of one percent (1) on the gross receipts of the preceding calendar year
- On exporters, and on manufacturers, millers, producers, wholesalers, distributors, dealers or retailers **of the following essential commodities** enumerated hereunder:
  - Rice and corn
  - Wheat or cassava flour
  - Meat
  - Dairy products
  - Locally manufactured, processed or preserved food
  - Sugar
  - Salt and other agricultural
  - Marine, and fresh water products
  - Cooking oil and cooking gas
  - Laundry soap, detergents, and medicine
  - Agricultural implements, equipment and post-harvest facilities, fertilizers, pesticides, insecticides, herbicides and other farm inputs
  - Poultry feeds and other animal feeds
  - School supplies
  - Cement
- On peddlers engaged in the **sale of any merchandise** or article of commerce, at a rate not exceeding **fifty (50) pesos** per peddler, annually;
- On any business, not otherwise specified in the preceding paragraphs, which the Sanggunian concerned may deem proper to tax.

### **III. Harmonizing the Business Classification of LGUs with the PSIC**

It should be noted that the provisions of the 1991 LGC pertain to both economic activities as well as some commodities that are deemed essential. In this regard, the economic activities that produce the identified essential commodities may be considered instead.

The businesses identified in the 1991 Local Government Code (LGC) can be matched with the sections, divisions, groups, classes and subclasses in the PSIC. However, the initial matching may yield one to one, one to many or many to one correspondence since some categories in the 1991 LGC are not strictly economic activities. Some categories pertain to occupations such as “exporter” or “contractor” which need further disaggregation in the classification/database. However, there is no doubt that with some refinements the PSIC can also provide the requirements of the 1991 LGC.

In the PSA pilot provinces, some business permit licensing officers (BPLOs) in smaller municipalities had expressed willingness to adopt the PSIC. These municipalities reported lesser number of transactions at only about 300 to 400 transactions per year, hence, easier to manage.

But what about the case of developed cities and big municipalities? Cities and big municipalities have more complex business reporting systems. The cities and big municipalities in the PSA pilot region reported over one hundred thousand business permit transactions per year. Some cities had established their own databases on recording business permit applications received through the years and have developed their own coding systems based on the requirements of the 1991 LGC.

One example of a highly urbanized city in the country that has adopted the PSIC into its database along with the LGC business classification is Quezon City. The city has maintained its LGC business

classification but with correspondence table with PSIC to enable conversion into comparable information. This was developed through technical assistance from the PSA.

The huge number and diverse types of applications for business permits being received and processed by Quezon City has led them to seek a more efficient system that will facilitate data organization, management and analysis which is through the use of PSIC.

#### **IV. Way Forward**

The local government units in the country are in different stages of economic as well as statistical development. To make standard classifications more accessible to the public, the PSA has developed the Android-based PSA e-classification application for mobile phones.

The adoption of PSIC by municipal LGUs in issuing its business permit will pave the way for the generation of more disaggregated industry statistics needed for the generation of the provincial and city product accounts. Quezon City is an example of a highly urbanized city with complex economy that naturally adopted the PSIC to organize and manage its ever-increasing business permit information that has accumulated through the years in its database.

A strong advocacy and capacity building program encouraging the LGUs and other stakeholders to use the e-classification application should therefore be developed and implemented by the PSA and its partner agencies to ensure that the LGUs and the business permit applicants classify their businesses properly using the PSIC. This will harmonize local industry statistics with the national data generated by national agencies and will enable more evidenced based development planning and easier monitoring of development programs at the local level.