



**ADVISORY ON THE IMPLEMENTATION OF
PRODUCTIVITY-BASED PAY SCHEME
For the Tourism Services Industry
Series of 2014**

WHEREAS, R.A. 6727, otherwise known as the Wage Rationalization Act, advocates that it is a State policy to rationalize minimum wage fixing and promote productivity improvement and gain-sharing measures to ensure workers' decent standard of living, just share in the fruits of production, employment generation along reasonable returns on investments, expansion and growth of business and industry;

WHEREAS, the law also encourages collective bargaining as the primary mode of setting wages and other terms and conditions of employment;

WHEREAS, the Regional Tripartite Wages and Productivity Board (RTWPB), Region IV-B recognizes the need to improve workers' productivity and income, enhance firm competitiveness, boost employment and strengthen the link between pay and productivity;

WHEREAS, the National Wages and Productivity Commission issued NWPC Guidelines No. 02 implementing the Two-Tiered Wage System consisting of a mandatory floor wage (1st tier) and a productivity incentive (2nd tier) that is voluntary in nature;

WHEREAS, the Guidelines, particularly Section 4 (d) thereof, provides that the Boards, after they have identified the region's priority industry, shall issue an Advisory to guide them on the range of productivity incentives which may be used as basis for employer initiatives or enterprise-level bipartite agreement;

WHEREAS, the Board, Region IV-B identified tourism services industry as priority industry based on its contribution and potential to the region's economic growth, business performance, labor productivity and employment;

WHEREAS, the Board conducted a study and consultations with said identified industry in Calapan City, Oriental Mindoro on September 19, 2013; San Jose, Occidental Mindoro on October 11, 2013; and Puerto Princesa City, Palawan on October 18, 2013;

WHEREAS, the results of the study and consultations showed a positive business outlook in the tourism industry, an existing system of various productivity and performance-based incentive schemes, and a desire on the part of the industry players to go into the 2nd tier of the Two-Tiered Wage System;

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NOW THEREFORE, BE IT RESOLVED, AS IT IS HEREBY RESOLVED, that pursuant to R.A. 6727 and NWPC Guidelines No. 02, Series of 2012, the Board hereby issues this Advisory to improve workers' productivity and income, enhance firm competitiveness, boost employment and strengthen the link between pay and productivity:

Section 1. Regional Economic Performance

1.1. Economic Growth. –

1.1.1 The regional economy grew by 4.2% from a GRDP of P104,987,077 in 2011 to P109,428,311 in 2012. This is within the target growth range of 4% to 7%.^{1/}

1.1.2 This is attributed to the strong performance of the region's agriculture industry and service sectors, including tourism service industry which continues to be one of the region's economic drivers. In particular, the region continues to contribute 5.7% of the total national rice production, 1.2% in corn production and is the 2nd highest contributor to the national fisheries production, especially Palawan. Also, the region continues to be the country's top producer of cashew nuts and calamansi. It is also the country's 2nd top producer of garlic and 3rd top producer of onions.²

1.2. Labor Force

1.2.1 The region's labor force declined insignificantly by .98% from 1.314M in 2011 to 1.301M in 2012. Employment declined by 0.2% bringing total employed to 1.247M in 2012. Unemployment increased by only 1.34% or 55,000 in 2012.^{3/}

1.2.2 Of the total employed in the region, 48% are employed in agriculture; followed by 40.99% in the service sectors and 10.96% in the industry sector. The Bureau of Agricultural Statistics Region IV-B clarified that although nearly half of the workforce is currently employed in agriculture, a vast majority thereof comes from the informal sector consisting of family owned and family operated farms where household members work on the farm. In 2010, formal employment in the region's agriculture sector accounted for only 18.30%.^{4/}

1.3. Other Major Socio-Economic Developments. - Under the Regional Development Agenda of NEDA for 2010-2020, tourism service is considered a priority industry given its potential to contribute to the region's economy. A long-term key development strategy is to link agriculture with tourism industry to ensure adequate food supply to the expected surge in number of tourist arrivals. Towards this end, the rehabilitation of airport and seaport terminals, increase and improvement of transportation and communication facilities will be undertaken, including the use of environment tourism and disaster risk management to sustain the industry's growth considering the region's geographical topography characterized by strewn islands and susceptibility to natural calamities.

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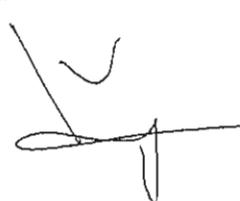
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Section 2. Priority or Growth Industry

2.1 Tourism industry

- 2.1.1 The tourism enterprises play a significant role in the region's economy. In 2010, Puerto Princesa City and the municipality of Coron in Palawan, including Puerto Galera in Oriental Mindoro, registered a combined total revenue of P7,274,206. This figure alone represents 13.21% of the region's revenue. In terms of tourist arrivals, a more pronounced upward trend was evident in Puerto Princesa which registered a 63% increase in tourist arrival in 2010. Likewise, Puerto Galera is one of the frequently visited local destinations with 215,755 visitors since 2009. The trend is expected to continue considering the global massive campaign launched by the government featuring the region as one of the country's premier world class tourist destination.⁵
- 2.1.2 Under the Medium Term Philippine Development Plan (MTDP) and the 10 - Priority Industry Sector of the Department of Trade and Industry, tourism service industry is considered a major pillar for development in the region. Besides the direct revenue benefit derived from tourist arrivals in the region, the growth of tourism enterprises has also spawned community-based frontline chain of services which provided livelihood and employment to local residents, and thus helped alleviate poverty. These chain of services include souvenir shops, accommodation ("home-stay"), food services, medical tourism, transport and tour services.
- 2.1.3 Also, the National Tourism Development Plan (2011-2016) of the Department of Tourism sets forth a menu of convergent programs and projects to implement strategic directions, namely: develop and market competitive tourist products and destinations; improve market access, connectivity and destination and; improve tourism institutional governance and tourism manpower capabilities. In particular, among the initiatives include: a) develop a diversified market-oriented product portfolio on all tourism development areas in the country, including their products, for wider economic opportunities, especially among the poor; b) rapid improvement of the quality and expansion of primary and secondary international airports, including access and connectivity of air, sea and road infrastructure to main domestic gateways and; c) develop a competent, well-motivated and highly productivity tourism workforce.⁶

All provinces in Region IV-B are included in the recommended portfolio destination framework with the following core products: ecotourism, cultural tourism, sun and beach tourism, meetings, conventions, incentives and exhibitions, leisure and entertainment and shopping complexes, diving and marine sports and cruise tourism, nautical tourism, health and wellness, retirement and education tourism. Notably, the specific initiatives towards the vision of a competent, well-motivated and highly productive tourism workforce include the development of a fair compensation system that is faithful to tourism and labor laws for improved morale and labor productivity, and the promotion of professional tourism training and education.⁷

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2.1.4 Further, the successful implementation of the NTDP is seen to increase the volume of international tourism to the Philippines from 3.52 million (2010) to 10 million (2016), and directly employ 7.7 million by 2016, where 1.6 million will come from the poor. Domestic tourism market, which underpins the viability of investment in tourism, is predicted to grow from 27.91 million in 2010 to 32.8 million by 2016. The potential contribution to the Gross Domestic Product is foreseen to reach 8.1%, where Region IV-B is anticipated to have a decent share in the industry's economic impact.⁸

2.1.5 Under the 2012 Investments Priorities Plan (IPP) of the Board of Investments (BOI), tourism is included among the mandatory list, as mandated by R.A 9593 (Tourism Act of 2009). This covers tourism enterprises outside the tourism enterprise zones (TEZs) and are engaged in the following:

1. Tourist transport services whether for land, sea and air transport for tourist use;
2. Establishment and operation of:
 - a. Accommodation establishments such as but not limited to hotels, resorts, apartment hotels, tourist inns, motels, pension houses, private homes for homestay, ecolodges, condotels, serviced apartments, and bed and breakfast facilities;
 - b. Convention and exhibition facilities or meetings, incentives, conventions and exhibition (MICE) facilities;
 - c. Amusement parks;
 - d. Adventure and ecotourism facilities;
 - e. Sports facilities and recreational centers;
 - f. Theme parks;
 - g. Health and wellness facilities such as but not limited to spas, tertiary hospitals and ambulatory clinics;
 - h. Agri-tourism farms and facilities; and
 - i. Tourism training centers and institutes.
3. Development of retirement villages.
4. Restoration/preservation and operation of historical shrines, landmarks and structures.⁹

2.2 Coverage

2.2.1 For purposes of this Advisory, the term "tourism enterprises" shall refer to facilities, services and attractions involved in tourism, such as but not limited to: travel and tour services; tourist transport services, whether for land, sea or air transportation; tour guides; adventure sports services involving such sports as mountaineering, spelunking, scuba diving and other sports activities of significant tourism potential; convention organizers; accommodation establishments, including but not limited to hotels, resorts, apartelles, tourists inns, motels, pension houses and home stay operators; tourism estate management services, restaurants, shops and department stores, sports and recreational centers, spas, museums and galleries, theme parks, convention centers and zoos.¹⁰

2.2.2 Economic Performance. - In 2012, employed persons in the tourism industry totaled 23.473M and 23.967M based on available data as of 2013. From 2010 to

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2012, the service industry's output grew by 12.68% from P38.9M to P43.8M, representing 39% on average of the region's total economic output. ^{4:}

The largest establishment contributor among the sectors is accommodation and food services at 74%, followed by agriculture, arts entertainment & recreation, and transportation & storage at the rates of 11%, 10% and 5%, respectively. ^{4:}

Puerto Princesa City as an ecotourism destination in the country, hit 500,000 tourist arrivals in 2010. Likewise, the number of tourists visiting Coron in northern Palawan has continued to increase as a result of the upgraded airport in town, boosting local economy and providing livelihood opportunities to residents. Since the opening of the airport project, tourist arrivals both domestic and international have registered an increase from 5,000 to 25,000 on quarterly basis. ⁵

- 2.2.3 Although available data indicate that employment in the industry declined from 96.1% in 2011 to 95.8% in 2012, accommodation and food services sector continued to generate employment with remarkable engagement from 2010 to 2012 at the rate of 38.77%. ^{3:}

2.3 Wages and Productivity

- 2.3.1 Labor productivity of the industry is recorded at an average of 5.4 % in 2011.

- 2.3.2 Increase in wages in the industry is recorded at 5.4% for establishments employing more than 10 workers and 36% for those employing less than 10 workers in 2011 and by an average of 15.36% in the last 5 years, which is higher relative to the growth in labor productivity.

Section 3. Outlook

- 3.1. The industry grew at an average rate of 18.98% in view of the national and local development linkages in agriculture, infrastructure, transportation together with risk and disaster management and budgetary priorities. Based on international market growth prospects for the Asia and Pacific Region and within South East Asia (SEA) between 2011 and 2016, the Philippines is expected to compete for a share of the additional 29 million arrival forecasts for SEA. Should the country maintain its historic compound annual average growth, it is likely to penetrate about 5.6% of the expected 5.5 million arrivals by 2016. ¹¹
- 3.2. To sustain a projected growth rate of at least 10%, the industry will require human resource strategies, infrastructure and increased investment in products.
- 3.3. Considering the competitive nature of the country's tourism resources and its proximity to fast growing Asian and South East Asian growth markets, the industry's conservative growth target is an average of at least 9.47% for the next three (3) years.

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Section 4. Productivity incentives and bonuses.

- 4.1 In line with the fundamental objective of the Two-Tiered Wage System to promote workers' productivity and enhance enterprise competitiveness, alongside the manifest intent and willingness on the part of the industry stakeholders to go into the 2nd tier as proven during the industry consultations, the following range or type of productivity incentives may be used as basis for employer initiatives or enterprise-level bipartite agreement:

Range of Productivity Incentives.

- 4.1.1 A minimum of 50% of savings earned from implementation of productivity improvement programs.
- 4.1.2 Existing company practices, policies or agreements granting other form of incentives or bonuses to inspire workers to be more productive may be considered as falling within the 2nd tier, including those based on such standards like performance, attendance, punctuality, innovation, sales quota, loyalty, among other relevant indicators, provided such practices, policies and agreements are reported to the Board.
- 4.1.3 This is without prejudice to other industries not engaged in tourism industry from granting similar productivity incentives or bonuses, either unilaterally or through enterprise-level negotiations.
- 4.1.4 It is understood that any productivity incentive or bonus granted under the second tier is given in addition to the floor wage under the 1st tier and shall not form part thereof.
- 4.1.5 It is further understood that the productivity incentives provided herein are merely recommendatory for the workers and employer. For this purpose, the employer is encouraged to evaluate the company's performance relative to the overall industry assessment and outlook.

4.2 Creation of Productivity Incentive Committee (PIC)

- 4.2.1 To facilitate enterprise-level negotiation on the grant of productivity incentive or bonus, the parties may create a Productivity Incentive Committee coming from the Provincial or Regional Tripartite Industrial Peace Council. If there is already an existing mechanism on the grant of productivity incentive or bonus, the same may be used by the parties for such purpose.

4.3 Labor Management Committees.

- 4.3.1 The parties may also tap existing labor management committees and tourism tripartite organizations that are provincial or regional in scope to assist their members to design and implement productivity incentives programs indicating coverage, performance or standards and targets, productivity program, sharing scheme and frequency of sharing, among others.

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4.3.2 They may also upgrade or adopt innovations in their work places, with management spearheading the productivity drive and workers supporting improvements in work processes.

4.3.3 Finally, they may also share the gains from productivity improvement with their workers in accordance with their own productivity designs.

Section 5. Tax Incentives.

5.1 Pursuant to R.A. 6971, any tourism service enterprise in the region which adopts a productivity incentive program, duly and mutually agreed upon by parties of the Productivity and Incentive Committee shall be granted a special deduction from gross income equivalent to fifty per cent (50%) of the total productivity bonuses given to employees under the program over and above the total allowable ordinary and business deductions for said bonuses under the National Internal Revenue Code.

5.2 Grant of manpower training and special studies given to rank-and-file employees prepared by the PIC for the development of skills identified as necessary by the appropriate government agencies shall also entitle the enterprise to a special deduction from gross income equivalent to fifty per cent (50%) of the total grants over and above the total allowable ordinary and necessary business deductions for said grants, also under the National Internal Revenue Code.

Section 6. Technical Support. – The Board, in coordination with other agencies, shall provide capacity building and consulting services, especially to micro, small and medium enterprises engaged in tourism industry in the region by designing quality and productivity improvement programs/strategies and gain-sharing schemes through:

6.1 Intensifying existing productivity training programs such as the 5S or Good Housekeeping; ISTIV modules for manufacturing enterprises; Service Quality for service establishments and Green Productivity;

6.2 The conduct of Work Improvement Measurement Studies to measure labor productivity.

6.3 The conduct of a series of workshops on:

- a. Creation of PICs to requesting establishments;
- b. Design of human resource strategies;
- c. Walk-through, collection and reporting of records through tripartite parties; and
- d. Implementation

6.4 The establishments provided with these services are enjoined to give feedback to the Board for purposes of recording, monitoring and continuous improvement of the project.

Section 7. Skills Training. - The Board shall likewise coordinate with the Technical Education Skills and Development Authority (TESDA) to assist tourism service providers avail of formal skills training.



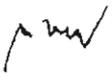
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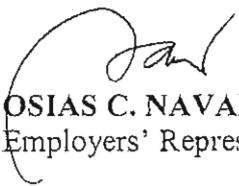
Section 8. Effectivity. This Advisory takes effect 30 days from date of issuance.


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APPROVED, this 12th day of May 2014.

Table 1. GROSS REGIONAL DOMESTIC PRODUCT

REGIONAL ACCOUNTS OF THE PHILIPPINES

Unit : In Thousand Pesos

2010 TO 2012

AT CONSTANT 2000 PRICES

REGION / YEAR	2010	2011	2012
PHILIPPINES	5,701,539,196	5,908,999,733	6,311,670,842
NCR METRO MANILA	2,038,178,776	2,101,687,899	2,255,116,040
CAR CORDILLERA	120,136,274	121,728,409	122,967,777
I ILOCOS	179,927,789	184,246,599	193,741,846
II CAGAYAN VALLEY	99,839,760	105,434,223	114,064,995
III CENTRAL LUZON	510,617,864	546,830,485	581,382,134
IVA CALABARZON	1,009,389,533	1,026,046,727	1,097,720,281
IVB MIMAROPA	101,835,838	104,987,077	109,428,311
V BICOL	114,109,823	116,241,121	124,491,331
VI WESTERN VISAYAS	227,241,684	241,412,643	259,428,707
VII CENTRAL VISAYAS	340,700,776	363,901,202	397,651,690
VIII EASTERN VISAYAS	150,799,368	153,893,711	144,346,537
ZAMBOANGA			
IX PENINSULA	117,018,919	117,182,723	131,695,644
NORTHERN			
X MINDANAO	210,965,521	223,160,739	239,677,173
XI DAVAO REGION	217,313,462	225,455,325	242,230,400
XII SOCCSKSARGEN	151,318,180	159,309,865	172,262,219
XIII CARAGA	64,534,772	70,002,372	77,426,887
ARMM MUSLIM MINDANAO	47,610,858	47,478,614	48,038,871

Source: National Statistical Coordination Board

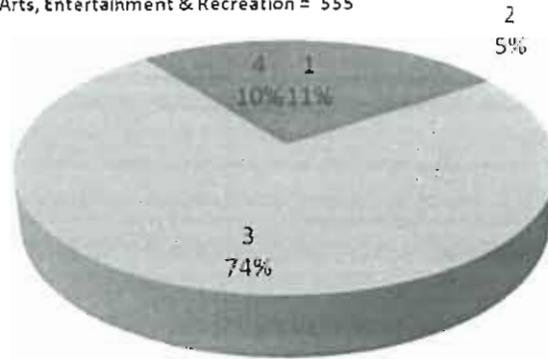
Table 2. Labor Force

	2011	2012
Household Population 15 years and older	1875	1903
Labor Force	1314	1301
Employed	1264	1247
Underemployed	273	282
Unemployed	51	55
Labor Force Participation	70.1	68.4
Employment Rate	96.1	95.8
Underemployed Rate	21.6	22.6
Unemployment Rate	3.9	4.2

Source: Current Labor Statistics (In 000 except for the rates)

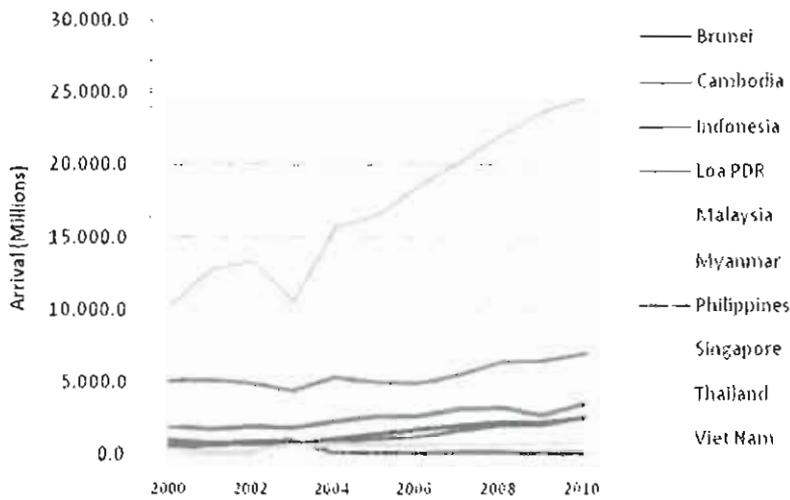
**Chart 1: 2012 MAJOR TOURISM SECTOR & SUPPORT
(ESTABLISHMENTS)**

- 1. Agriculture = 579
- 2. Transportatlon & Storage = 264
- 3. Accommodation & Food Service Activities = 3,971
- 4. Arts, Entertainment & Recreation = 555



Source: National Statistics Office

Chart 2: Trends in ASEAN International Arrivals 2000-2010



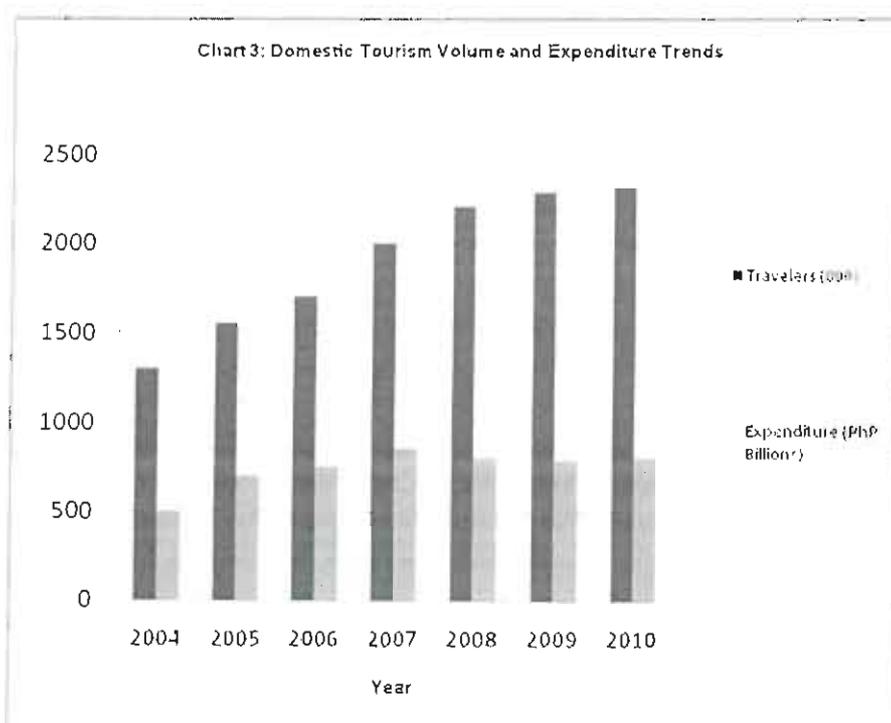
Source: National Tourism Development Plan (NTDP), 2011-2016, p. 17-19

Table 3. Forecast International Tourism Arrivals at Asia Pacific Sub-regions (in Millions)

Regions	2010	2016	2020	CAGR
Asia & Pacific	204.0	284.5	355.0	5.70%
- N. E. Asia	111.5	155.5	195.0	5.70%
- ASEAN	69.9	98.0	123.0	5.80%
- Oceania	11.0	13.8	15.0	2.90%
- South Asia	11.1	16.5	21.0	6.80%
Total	940.2	1,171.4	1,360.0	3.80%

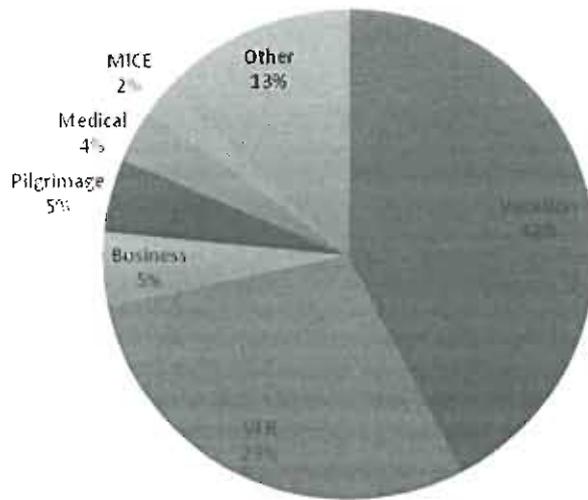
Source: UNWTO, Towards 2030/Global Overview

Source: National Tourism Development Plan (NTDP), 2011-2016, p. 17-19



Source: National Tourism Development Plan (NTDP), 2011-2016, p. 17-19

Chart 4: Main Purpose of Domestic



Source: National Tourism Development Plan (NTDP), 2011-2016. p. 17-19

Table 4: Economic Impact of Tourism-2010

International Tourists:	
-Arrivals (Million)	3.52
- Length of Stay	8.21
- Expenditure per day (Php)	3,779
-Receipts in Php Billion	109
Domestic Tourists:	
-Travelers (Millions)	27.90
-Trips (million)	111.64
-Length of Stay	4.00
-Average Total Expenditure (Php)	8,357
-Receipts in Php Billion	933
Economic Impacts:	
-Gross Value Added (PhPbil)	\$18.6
-% GDP	5.76
-Tourism Employment (Mil)	3.7
-% of National Employment	10.25

Source: National Tourism Development Plan (NTDP), 2011-2016. p. 17-19

Table 5: Total Employment in the Philippines and Employment in Tourism Industries 2001-2008 (in '000 persons)			
Year	2000	2005	2008
Total Employment in the Philippines	27,775	32,876	34,533
Tourism Characteristic Industries	2,670	3,138	3,305
Hotels and similar	78	99	106
Restaurants and similar	606	771	826
Passenger transport	1,106	1,350	1,415
Travel agents, tour operators and guides	109	133	139
Recreation & cultural services	366	328	334
Retail trade on tourism-characteristic goods	179	242	256
Miscellaneous	226	215	229
Share to Total Employment	9.6%	9.5%	9.6%
<i>Source: NSO, NSCB</i>			

Source: National Tourism Development Plan (NTDP), 2011-2016.
p. 17-19

REFERENCES

- ^{1f} National Statistics Coordination Board www.nscb.gov.ph, see Table 1
- ^{2f} Bureau of Agricultural Statistics www.bas.gov.ph
- ^{3f} Bureau of Labor and Employment Statistics, Current Labor Statistics www.bles.dole.gov.ph, see Table 2
- ^{4f} National Statistics Office www.consensus.gov.ph, see Chart 1
- ^{5f} The combined total revenue and tourist arrivals in Puerto Princesa City, Coron in Palawan and Puerto Galera in Oriental Mindoro were derived from data provided by Department of Tourism Region 4 Planning Unit
- ^{6f} p. viii, National Tourism Development Plan (NTDP), 2011-2016
- ^{7f} p. 6-9, 51, National Tourism Development Plan (NTDP), 2011-2016
- ^{8f} p. 19, National Tourism Development Plan (NTDP), 2011-2016, see Chart 2 – 4 and Table 3 - 5
- ^{9f} p. 49-53, 2012 Investment Priorities Plan, Board of Investments
- ^{10f} Sec. 2, p. RA 9593, otherwise known as the Tourism Act of 2009
- ^{11f} p. 18 of National Tourism Development Plan (NTDP), 2011-2016