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Easing Growing Pains: Supporting the Growth of Small Businesses in the Philippines

In explaining the 2015 survey findings that the Philippines has the second to the lowest existing business rate in the ASEAN region, the Philippine Entrepreneurship Report, 2015-16 stated that "business operations become more burdensome as they grow due to the more restrictive regulations on large enterprises" (Velasco et al., 2017, p. 40). Established businesses, particularly firms operating in the formal sector, shoulder higher taxes and are subject to social security contributions, minimum wage, and industry-specific regulations (Velasco et al., 2017; Auriol, 2014). Strengthening early-stage entrepreneurial activities and supporting their quest for expansion, however, require access to financial, legal, and public services that are almost always only available to established enterprises and organizations that belong to the formal sector (International Labour Organization [ILO], 2013). Deprived of these key ingredients, small businesses may not be able to take advantage of opportunities to stabilize, expand, and/or generate profits (i.e., producing/selling a higher level of output, lowering costs through economies of scale, etc.). Caught between these two equally costly circumstances, a considerable proportion of Philippine businesses in 2015 were discontinued—12.1%, the highest in the ASEAN region (Velasco et al., 2017). Indeed, the Philippine Entrepreneurship Report, 2015-16 determined that the top two reasons for business closures in 2015 were the lack of profitability and the lack of access to credit (Velasco et al., 2017).

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In some cases, however, the government need not choose between regulating and supporting small-scale enterprises, especially those that belong to the informal sector. In fact, several local and national government units around the world have successfully implemented initiatives that not only facilitated the growth of informal sector entrepreneurs but also encouraged them to observe higher standards of production and/or service. Examples of these measures are best discussed in the context of the informal food sector (IFS) . In many developing countries, the IFS is a haven for the countless individuals who are unable to find jobs in the formal sector of the economy and low-income and/or impoverished consumers (Food and Agriculture Organization [FAO], 2007). The Entrepreneurship in the Philippines: 2014 Report revealed that at least 25% of business owners in the Philippines were

[1]The Global Entrepreneurship Monitor defines "existing businesses" as "Businesses in existence for longer than 3.5 years" (Velasco et al., 2017, p. 6).
[2]Per the Global Entrepreneurship Monitor, "early-stage entrepreneurial activity" covers a firm's first three and a half years of business (Velasco et al., 2017).
[3]The informal food sector, per FAO (2007), includes "small producers, manufacturing enterprises, traders and service providers, involved in legal as well as unrecognized activities related to food" (p. 3). For the purpose of this article, street hawkers, sidewalk vendors, and sari-sari stores fall in this category.
[4]Per Velasco et al. (2015), sari-sari store and food stall/cart/shop owners accounted for 34% and 27%, respectively, of the Global Entrepreneurship Monitor (GEM) survey respondents.

necessity-driven (Velasco et al., 2015). Unable to find other sources of income, Filipinos engage in ventures that require a relatively small amount of capital to set-up and manage such as the production and/or sale of food (Velasco et al., 2015). On the demand-side, informal food sector patrons range from local consumers to tourists (FAO, 2007). As street hawkers, sidewalk vendors, and sari-sari stores allow purchases in small quantities—enough for one-time consumption—low-income households, in particular, depend on them for their daily food supply. Likewise, IFS caters to a few local and foreign tourists (FAO, 2007), who are curious to sample the native cuisine.

Producers and consumers in the informal food sector, however, are often faced with grave restrictions and concerns. On the one hand, the continued viability and/or potential growth of micro food businesses are constrained by the lack of or limited access to: 1) physical site on which to operate their businesses; 2) storage facility for their inventory; and 3) power, water, and waste disposal facilities (FAO, 2007; Samapundo, Climat, Xhaferi, & Devlieghere, 2014). On the other hand, consumers risk health and safety owing to the inadequate food safety knowledge, poor practices, and/or lack of resources in the IFS—for instance, the lack of familiarity with food-borne diseases among food handlers, the presence of flies and animals within the immediate vicinity of food stalls, lack of potable water, and so on (FAO, 2007; Samapundo et al., 2014)—that may result in minor and/or major ailments.

In fact, owing to recent customer complaints of allegedly contracting hepatitis from foodstuff sold by street vendors, food safety has been the focus of serious public scrutiny ("U-Belt 'Hepa Lane' rebranded as 'Happy Lane,' still demolished", 2017). The customary official response to these types of reports is to regulate the suspected erring parties or, to the extreme, force the closure of the enterprises. In the case of the October 2017 hepatitis claims, the food stalls in Manila were dismantled; the vendors rendered unemployed and denied an income. The past experiences of some developing countries, the Philippines included, however, suggest alternative solutions that may yield favorable results for all parties concerned. In fact, FAO (2007) affirmed that it is possible to address the issues of viability and growth of informal food sector enterprises and consumer food safety by: 1) allocating legitimate vending sites and guaranteeing access to critical facilities; 2) encouraging the creation of and membership in food sector cooperatives or associations; and 3) easing access to credit (ILO, 2013).

Street vending as a source of income for the unemployed and food supply for low-income households are possible when the informal food sector participants are recognized as partners in solving the problem of poverty (FAO, 2007). Befitting their status, micro food enterprises could be assigned physical sites (i.e., unutilized state-owned lots, buildings, etc.)—ones with adequate space for food preparation and storage of inventory and clean water for washing—at which to market their products and services. Not only would the strategy keep vendors from blocking sidewalks and impeding pedestrian and vehicular traffic, in India, studies revealed that it also gave rise to "improved sanitation and working conditions of street food vendors, and more communication between vendors and authorities" (IDRC, 2002 as cited in FAO, 2007, p.17).

A complementary initiative to providing IFS enterprises with a place to conduct their business is prompting them to form cooperatives or associations. Cooperatives/associations strengthen the campaign for adherence to street food safety standards and provide a means for raising and addressing concerns that are unique to the IFS. In Cebu City, Philippines and Ghana, vendor associations, which include informal food sector enterprises like street hawkers and sidewalk vendors, consistently and effectively lobby for better working conditions such as improved facilities, childcare and health services, and so on (Awuah, 1997 as cited in FAO, 2007). Moreover, associations can serve as a venue for disseminating food sanitation and food safety information as well as improving food handling and preparation practices through seminars and workshops. McIntyre, Vallaster, Wilcott, Henderson, and Kosatsky (2013 as cited in Samapundo et al., 2014), confirmed that training leads to better food safety attitudes among food handlers. Hence, by sponsoring and conducting regular training programs, cooperatives/associations could be instrumental in reducing health and safety risks in the informal food sector.

Lastly, poised for potential expansion, micro food enterprises must have additional financing for raw materials, equipment, and, depending on the situation, extra workers. The Philippine Entrepreneurship Report, 2015-2016 disclosed that majority of Filipino entrepreneurs approached family (77.6%) and friends (38.4%) for their capital and investment needs (Velasco et al., 2017). In 2014, the required seed money was between PHP200 and PHP5,000 (Velasco et al., 2015), which relatives may have been able to pool together and lend to would-be entrepreneurs at concessional terms.[5] Over time, however, supplementary and significantly larger funding—relative to the startup capital requirements—could become necessary to support existing operations, to increase productivity, and/or to take advantage of greater market opportunities. Indeed, evidence found in the literature bear out that firm size is highly and positively correlated with efficiency and innovation (ILO, 2013). Larger firms, by virtue of economies of scale, are more likely to enjoy lower production costs per unit of output. Moreover, not only do they "have easier access to high-skilled labour and banking (including trade) credit" (ILO, 2013, p. 9) but bigger companies are also in a better position to reward innovation and take risks, "which are two essential ingredients for long-term economic success" (ILO, 2013, p.10).

In a nutshell, capacity-building is an important step to remain competitive and ensure continuing business viability and profitability. Per the findings of the GEM 2015 survey, Philippine entrepreneurs recognize the necessity of expansion with 10.2% of businessmen anticipating to generate more than five jobs in the next five years (Velasco et al., 2015). Family and friends, however, may no longer be able to provide the necessary cash infusion to support business operations and/or expansion. What's more, conventional options like informal and formal third-party lenders may impose prohibitive credit requirements (i.e., collateral) and/or crippling credit terms. In fact, the ILO (2013), contends that "the informal economy do not enjoy secure property rights, which deprives them of access to both capital and credit" (p. 9).

Per FAO (2007), however, there are a number funding sources that micro food enterprises could tap, including, but not limited to, non-government organizations (NGOs), cooperatives/associations, and "group-lending" arrangements. Governments and NGOs bankroll lending programs for small businesses in developing countries primarily because they believe that micro entrepreneurship can reduce poverty—for instance, the experience of the Grameen Bank in Bangladesh (Alter, Vanek, & Carr, 2004 as cited in FAO, 2007). In the informal food sector, some of these lending schemes—for example in Manila (Tinker, 2003 as cited in FAO, 2007)—were conditioned on the attainment and maintenance of a particular level of health and cleanliness standards. Cooperatives/associations are also possible sources of additional credit for micro enterprises. In China and India, members contribute to a "purse" and each one takes a turn at borrowing the accumulated funds (FAO, 2007). Lastly, in Maputo, friends form a group and "determine a set amount for each to contribute in cash or material" (FAO, 2007, p. 25). Bound by trust, the group designs a system that governs the lending and repayment of the collected funds. Hence, based on the experience of a number of economies, the viability and, even, expansion of informal food sector producers and retailers could be supported by several and, possibly, affordable means.

In conclusion, recognizing street hawkers and sidewalk vendors as partners in easing the lives of the poor opens the door to new and innovative strategies to address the concerns of the producers and consumers in the informal food sector. Supporting and regulatory initiatives can be combined to promote the growth and expansion of a sector that provides a source of livelihood for a segment of society that would otherwise be unemployed as well as guard the health and safety of its consumers, majority of whom are marginalized…all that is needed is a change in point of view.

[5]Concessional loans (2003), as defined by the Organisation for Economic Development, generally refer to loans that are extended at lower than market interest rates and/or longer repayment periods.

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