The Formal Institutional Framework of Entrepreneurship in the Philippines: Lessons for Developing Countries

MARY JESSELYN CO

This study analyses the formal institutional factors affecting entrepreneurship in the Philippines. The basic policies, laws and regulations affecting small and medium enterprises (SMEs), programmes, services and assistance were identified, reviewed, and evaluated. Linkages among key participants in the entrepreneurship process were also studied. The institutional theory advanced by North was used as the conceptual framework. Small and medium sized firms from different sectors of industry were survey respondents. The institutions assisting the SMEs were also interviewed. Data analyses revealed significant differences in the views of institutions and entrepreneurs as to whether the programmes were responsive to the needs of the entrepreneur; whether they encouraged entrepreneurship and helped in the success of a firm. The analyses also revealed that the programmes had indeed encouraged entrepreneurship and helped in the success of the firm. Relevant lessons for developing countries have been drawn.

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Most developing countries recognise the importance of the small and medium scale enterprise (SME) sector for economic development. The drive of entrepreneurs in developing countries can be catalytic for lifting an economy onto an upward growth spiral. In many cases, however, the lack of an enabling business framework and a scarcity of support structures for new businesses can undermine entrepreneurial endeavour.

Government and support institutions play significant roles in the development and growth of SMEs. These include providing conducive business environment in a stable political climate. To stimulate economic growth through entrepreneurship, SMEs must be geared to provide the right mix of policies and incentives to attract individuals to become entrepreneurs. Since government resources are limited, it is for the support institutions

Sage Publications New Delhi/Thousand Oaks/London
to fill in the gap between resources the entrepreneurs need and those the government can provide. This can be in the form of financial assistance or non-financial services to both entrepreneurs and would-be entrepreneurs. To ensure the continued effectiveness and timeliness of these programmes, assistance and services, it is imperative that an evaluation of these be made from the perspective of the entrepreneurs themselves, as they are the ones who avail them.

To date, there have been only a few studies\(^2\) that have evaluated the policies, programmes, services and assistance of government and non-government agencies and institutions for SMEs in developing countries. From the initial interviews with Philippine entrepreneurs conducted by this researcher (September 1999), it was evident that the government and non-government agencies and institutions do not have formal feedback mechanisms to assess the adequacy and effectiveness of the programmes and services they deliver.

The main purpose of this study is to analyse the formal institutional factors affecting entrepreneurs in the Philippines by examining and evaluating the policies, programmes, services and assistance related to SME development and promotion. The study is expected to generate recommendations, some of which can be applied in the context of other developing countries. Granted that the economic and social conditions in the Philippines are quite different from those in other developing countries, several lessons can still be learned from Philippine national policies for SME promotion. The application of such lessons, however, will have to take into account differences in resources and overall conditions in the different areas concerned.

The following are the specific objectives of the study:

1. to identify and review what the government and support institutions are doing to facilitate and encourage entrepreneurship;
2. to evaluate these policies, programmes and assistance by the government and support agencies on the following aspects:
   2.1 effectiveness of information dissemination to entrepreneurs;
   2.2 availability and ease of access of entrepreneurs to these programmes and services; and
   2.3 the number of entrepreneurs who actually avail these programmes and services;
3. to study the linkages between the different government and non-government agencies that support SMEs.
Review of Related Literature

With growing interest in the development of small enterprises, substantial money and energy have been invested in the SME sector. For example, the World Bank alone has lent over US $3 billion between 1973 and 1989 to foster healthy growth in this sector in developing countries. Despite this interest, evidence suggests that the majority of programmes and institutions designed to support small enterprises have reached and assisted only a minority of them. There have been debates over what effect support systems have on the development of assisted firms. The evaluation of support systems remains under-researched, often inconclusive, anecdotal and ex ante in nature.

On the one hand, empirical studies from developing countries have generally highlighted a limited impact of support systems in terms of growth, profit generated, or jobs created. On the other hand, studies in the Philippines have reported a significant role for support services in improving the performance of assisted firms. These tend to reinforce the general conclusion drawn by parallel studies in developed countries that assistance can enhance the performance of small firms.

Several studies also support the findings that both economic and political-legal factors influence business performance. Variables such as economic timing, access to international markets, economic reforms, infrastructure, taxes and government support have also been cited as crucial success factors. This is confirmed in another study of seventy-four small firms operating in Montreal, Canada. It was found that the government should primarily provide adequate assistance to entrepreneurs and ensure that tax rates are just. Finding contradictory evidence about the effectiveness of institutional framework and support services from one study to another, from one country to another, and even within countries is not surprising. Conditions vary considerably both between and within countries on the nature of support services, their delivery, and in the characteristics and needs of the target firms. Studies have also varied in their scope, rigour and methods of analysis and interpretation.

Theoretical Framework

Institutional theory will be used as the theoretical framework for the study. This theory was developed by Douglass C. North primarily to analyse economic structures by explaining how institutions and institutional changes affect the performance of economies.
Institutions which arise because of uncertainties associated with human interaction provide structure and order, and the rules of the game to human exchange, be they political, social or economic. They provide the framework and the structure to facilitate certain kinds of exchange as well as a framework on which people have some confidence with respect to determination of outcomes. They also reduce uncertainty by establishing a stable platform for human interaction. They consist of both formal and informal constraints as well as their enforcement characteristics. Informal constraints include norms, codes of behaviour, subjective perceptions and traits. These arise to coordinate repeated human interactions and are extensions, elaborations and modifications of formal rules, socially sanctioned norms of behaviour, and internally enforced standards of conduct. These informal constraints persist because they were consciously designed and are in everyone’s interest. Formal constraints, on the other hand, include political, judicial and economic rules and contracts. The function of these rules is to facilitate political or economic exchange.

The structure of rights and the character of their enforcement define the existing opportunities of the entrepreneurs that are realised when they perform exchanges. The extent of economic and political diversity of interests will, given the relative bargaining strength, influence the rule structure. Enforcement, on the other hand, implies whether the rules and informal constraints are applied or not. The interrelationships among the different factors are shown in Exhibit 1.

**EXHIBIT 1**

*Conceptual Framework*

**INSTITUTIONAL FACTORS**

- **Informal**
  (culture, norms, codes of behaviour, subjective perception, traits)

- **Formal**
  (political rules, judicial rules, economic rules, contracts)

- **Enforcement**
  (type, degree of enforcement)

**INCENTIVE STRUCTURE**

- Individual’s (entrepreneur) ability for enterprise

**ENTREPRENEURSHIP**

**Note:** Institutions create the incentive structure in an economy, and organisations will be created to take advantage of the opportunity provided within a given institutional framework.
Organisations are created to capitalise on the opportunities resulting from the existing set of constraints, and in attempting to accomplish their objectives become agents of institutional change.

Formal institutions, specifically government and support institutions, will be examined in this study. The programmes set up by the government and support institutions that provide opportunities for individuals to be engaged in entrepreneurship and be successful or otherwise will also be studied using this framework. Economic and political–legal policies of the government in relation to entrepreneurship will also be examined.

**Method**

*Research Design*

A combination of quantitative and qualitative methods were used in this study. This combination of methods was chosen to minimise biases inherent in particular data sources, investigators and methods. A two-phase design approach was utilised in this study. The qualitative method used to investigate the supply side of the institutional framework was preferred since there were only a few institutions and agencies involved in SME assistance and more in-depth information could be obtained using this method. Due to the size of the sample, the quantitative method, the survey in particular, was the most economical and efficient for studying the demand side of the institutional framework.

*Population and Sample*

SME-assisting government agencies, trade and industry associations and cooperatives were identified using the Department of Trade and Industry (DTI) guide to DTI Services as well as the Bureau of Small and Medium Business Development website. The top ten banks (listed in Table 1) that provided the most loans to SMEs were also selected as respondents. The sampling of the entrepreneurs was done using the 1996 list of establishments from the National Statistics Office (NSO). The researcher requested NSO to generate a computer listing of 200 SMEs using employment size as the criterion. The survey of entrepreneurs only included firms from the manufacturing, wholesale and retail, finance, real estate, insurance and business services, and community, social and personal services sectors. These industries were selected since almost 90 per cent of all SMEs in the National Capital Region belonged to these industry
sectors. The samples for each industry sector were then proportionately stratified according to the distribution of all firms per industry sector.

### TABLE 1
**Top Ten Banks Providing Loans to SMEs**

<table>
<thead>
<tr>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Bank of the Philippines</td>
</tr>
<tr>
<td>Land Bank of the Philippines</td>
</tr>
<tr>
<td>Philippine National Bank</td>
</tr>
<tr>
<td>United Coconut Planter’s Bank</td>
</tr>
<tr>
<td>Bank of the Philippine Islands</td>
</tr>
<tr>
<td>Asiatrust Development Bank</td>
</tr>
<tr>
<td>Export and Industry Bank</td>
</tr>
<tr>
<td>Rizal Commercial Banking Corporation</td>
</tr>
<tr>
<td>Philippine Savings Bank</td>
</tr>
<tr>
<td>Equitable-PCI Bank</td>
</tr>
</tbody>
</table>

### TABLE 2
**Distribution of Sample According to Industry Sector**

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Distributed</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail</td>
<td>65</td>
<td>32.50</td>
</tr>
<tr>
<td>Finance, real estate, insurance and business services</td>
<td>41</td>
<td>20.50</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>59</td>
<td>29.50</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>35</td>
<td>17.50</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Instrumentation**

An interview guide was prepared and pilot-tested with agencies and institutions. Three pilot interviews gave the researcher ideas on how to improve on the interview guide specifically on the following aspects: what additional questions could be included, sequencing of questions, and questions that were redundant and irrelevant. These pilot interviews also gave the researcher additional ideas for items in the entrepreneur questionnaire. The entrepreneur questionnaire was pre-tested on twenty respondents to improve on the questions, format and scales. Comments and suggestions from the respondents were then incorporated in the final questionnaire.

Secondary data were collected from brochures, pamphlets, reports, magazines and other publications and databases of different government agencies and support institutions to support answers to the interviews. These data from multiple sources were used to complement the study and increase their validity.
The Formal Institutional Environment

Basic SME Policies

SME development in the present government is characterised by two overriding factors—a definite policy bias for SMEs which is rooted in the country’s recent legislative enactment, Republic Act No. 9178, and a deliberate effort on the part of government to give SMEs a strong and coherent voice that commands the attention of the highest legislative and executive bodies of the nation.

Republic Act No. 8289, the Magna Carta for Small Enterprises, enacted in 1997, is the landmark legislation reflecting the current policy fostering a dynamic SME sector, particularly rural and agri-based manufacturing ventures. It calls for growing the Filipino entrepreneurial spirit by providing a climate that minimises regulations while assuring stable operating rules. It also requires close coordination of the work of government institutions involved in SMEs with those of the private sector so that there is coherence in both policy thrusts and implementation of action programmes. It also created the Small Business Guarantee Finance Corporation (SBGFC) charged with the task of widening the scope and reach of alternative financing modalities for SMEs. These include direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small businesses. Crop production financing is, however, not included in its coverage.

The goal of the SME Development Framework for 1993–2003 is to help increase incomes, productivity and access to resources among small entrepreneurs, farmers and fisherfolk. A globally competitive small enterprise sector is to serve as the main vehicle for the national goal of improving the quality of life of every Filipino.

The Omnibus Investments Code, Executive Order No. 226, welcomes private investments (local or foreign) into the Philippine economy. Fiscal and other forms of incentives are given to economically desirable projects that are listed in the annual Investment Priorities Plan (IPP). Small and medium enterprises that engage in the priority areas of the IPP are entitled to the standard incentives granted under the code. Furthermore, SMEs that locate in so-called ‘less developed areas’ are given additional incentives.

Republic Act No. 7882 particularly recognises the special role of women in development and supports women entrepreneurs who are engaged in manufacturing, processing, service and trading businesses. Under this act, government financing institutions are mandated to provide
financial assistance to non-governmental organisations (NGOs) engaged in developing women’s enterprises to a limit of $50,000, provided the NGO has an operating track record of at least one year. Existing women’s enterprises received up to an upper limit of US $1,250; and for potential women entrepreneurs with sufficient training, the limit of US $625 each.

*Business Laws and Regulations Affecting SMEs*

Although the government is adopting a minimalist intervention policy, regulatory agencies exist within a socially responsible framework to (a) help ensure efficient business operations and (b) encourage private initiative. Whether firms are based in urban or rural environments, a competitive climate that assures a level playing field for businesses is desired. Among these are fair trade laws that define operating boundaries within which businesses can carry out their affairs while at the same time protecting the interest of consumers and business name registration. The latter protects an enterprise by guaranteeing exclusive use of its registered name and the goodwill and patronage that it represents. The Retail Trade Act, Republic Act No. 8762, on the other hand, reserves the business of direct selling to 100 per cent Filipino entities. There are now pending bills in Congress that would amend the old law to widen its coverage subject to certain limitations and allow foreign investors to engage in retail trade. The implementation of tariff reform measures will allow the lowering of tariffs and is expected to encourage technology innovations among SMEs by lowering the cost of imported equipment and exposing them to modern and appropriate technologies.

*Institutional Framework*

Exhibit 2 shows the institutional framework of entrepreneurship in the Philippines.

International funding agencies such as CIDA, USAID and ADB channel funds to government agencies tasked to implement entrepreneurship programmes and services. These funding agencies specify the government agency and the programmes to which the funds are to be channelled. The funding agencies do, however, coordinate with the Department of Trade and Industry regarding the geographic areas and the specific industries that need more assistance. A monthly progress report is submitted by the government agency that receives funding from the donor. The reports contain summaries of how many actually avail the programmes, amounts
availed and the period of availment. In addition, descriptive data on size of the firm, and income are provided.25

It was observed that government agencies (under the Department of Trade and Industry) were able to direct assistance to entrepreneurs in four ways: through banks, cooperatives, and industry and trade associations and directly to the SMEs. Most financial programmes are coursed through some conduits. The government agencies were seen to work closely with cooperatives, industries and trade associations in determining the kind of financial assistance needed by their members. Different financial assistance packages were tailor-made to specific industry sectors to ensure their effectiveness. During the interactions, the survey respondents mentioned that no formal surveys were ever made to determine the needs of the members of cooperatives, industries and trade associations; only ideas were exchanged during formal meetings and close coordination maintained during the actual implementation of the programmes.

Guarantees were extended through three main agencies: the Small Business Guarantee and Finance Corporation (SBGFC), the Guarantee Fund for Small and Medium Enterprises (GFSME) and the Phliguarantee. Of these three, only SBGFC is government owned and controlled. SBGFC coordinates its efforts with DTI in deciding what programmes to offer. When an entrepreneur obtains funding without collateral, to minimise the risk of the bank from default, the loan is approved only if either one of the three agencies provides the guarantee. In case the entrepreneur cannot pay for the necessary investments, the guarantee agency pays up

EXHIBIT 2
Institutional Framework

Government Agencies

International Funding Agency

Banks

Cooperatives

Industry and Trade Association

Entrepreneurs

EXHIBIT 2
Institutional Framework
to 85 per cent of the entire amount. Various guarantee programmes are in existence for different industries (that is, light industries, agriculture, and exports) as well as for different purposes (that is, enterprise stabilisation, transactional guarantee, and productivity enhancement).

Non-financial programmes are mostly provided to entrepreneurs directly. At present DTI has sixteen sub-agencies that specifically cater to the needs of SMEs. Besides, there are other departments in the Philippine government that have specific programmes for SMEs (like the Department of Agriculture, Department of Science and Technology, Bureau of Patents). Among the institution respondents, 60.54 per cent confirmed that they collaborate with other institutions. Some of the areas for collaboration are technology exchange, training and resources sharing, among others. Some of the institutions interviewed were stand-alone agencies and therefore did not need any consultation with other organisations on programme development. Others were dependent on the requirements and specifications of foreign donors and were only tasked to implement the programmes and not develop them. The nine respondents affirmed that government institutions consulted them and they developed the programmes in coordination with other agencies, including private institutions (mostly banks or guarantee agencies).

Discussion of Major Findings

The formal institutional environment in the Philippines is highly supportive of the formation and growth of SMEs. The government has tried to minimise regulations and red tape and is involved in implementing policies that maintain stable operating rules for SMEs. The government has also increased its efforts in providing new modes of SME financing through the creation of the SBGFC. Smaller enterprises can now avail funding which initially was available to larger and more stable firms only. The Magna Carta for Small Enterprises also contains provisions for mandatory allocation, which requires commercial banks and other financing institutions to set aside a portion of their loanable funds for the exclusive use of SMEs.

The results show a strong linkage between the different agencies and entities that provide support to SMEs. It is interesting to note that these ties are not just because of funding arrangements but also for technical and marketing concerns. The efficient coordination of these agencies is necessary to ensure the prompt and effective delivery of services to the entrepreneur.
Another interesting finding is concerned with the provision of non-financial programmes. As of now, only the government is providing these non-financial services to SMEs. Although the assistance of the private sector in terms of funding for the entrepreneur cannot be underemphasised, its contribution to non-financial support is disappointing. It is understood that to improve the SME sector, both government and the private sector must provide assistance in different ways.

Lastly, it is observed that there are no formal feedback mechanisms in place to evaluate the effectiveness of the programmes and services provided to SMEs. The closest to a formal evaluation process is the occasional meetings with collaborating agencies and/or with the beneficiaries. The institutions themselves admit this deficiency but offer no solution for it.

Support Programmes

A majority (57.69 per cent) of the surveyed institutions exclusively offered financial assistance and programmes to entrepreneurs, 19.23 per cent solely offered non-financial programmes and only three institutions offered both types of programmes, that is, financial assistance and non-financial services. The two most common types of financial assistance in the Philippines are: loans/credit and guarantees. Of the respondent institutions, eighteen offered loans, nine offered guarantees and two offered other types of financial assistance. Six types of non-financial assistance services were identified. The most commonly offered non-financial services are training seminars and consultancy services. This is followed by technical assistance, marketing assistance, information and other types of non-financial assistance, respectively. Other types of non-financial assistance are expertise matching, common facility services, facilities rental, institutional development, accreditation and licensing.

<table>
<thead>
<tr>
<th>Types of Services Offered by SME-Assisting Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Services</strong></td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Credit</td>
</tr>
<tr>
<td>Guarantees</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Some of the programmes and services available only cater to specific industries. The institutional interviews revealed that funding agencies specify to which industry the programmes are to be diverted (for example, only to construction or manufacturing). In some specific cases, the mission and objectives of the institution are taken into consideration while formulating programmes and services. A large number of programmes and services are geared towards exporter manufacturers (for example, trade policy and process simplification for exporters—DTI, supplier-customer matching database—GTEB, Philexport).

Almost all (98.9 per cent) of the entrepreneurs surveyed were aware of the government’s non-financial programmes with an average of six programmes known. This awareness, however, was not the same in case of financial programmes provided by the government and private institutions. Only half of the entrepreneurs were aware of government financial programmes and only a third were aware of private financial programmes (refer to Table 4).

### Table 4

<table>
<thead>
<tr>
<th>Response</th>
<th>Government Assistance</th>
<th>Private Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-Financial</td>
<td>Financial</td>
</tr>
<tr>
<td>Yes</td>
<td>98.90%</td>
<td>52.75%</td>
</tr>
<tr>
<td>No</td>
<td>1.10%</td>
<td>40.66%</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>6.59%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Table 5 presents the number of programmes that were heard of and availed. Results indicate that there is a big gap between what the entrepreneurs knew and what they availed. The entrepreneurs heard of more than five programmes but only an average of three were availed. Of the respondents, only 50 per cent actually availed at least one support programme.

### Table 5

<table>
<thead>
<tr>
<th>Type of Programmes</th>
<th>Heard of</th>
<th>Availed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government (Non-Financial)</td>
<td>6.44</td>
<td>2.76 (42.86%)</td>
</tr>
<tr>
<td>Government (Financial)</td>
<td>5.49</td>
<td>2.79 (50.82%)</td>
</tr>
<tr>
<td>Private (Financial)</td>
<td>5.11</td>
<td>3.25 (63.60%)</td>
</tr>
</tbody>
</table>
In other areas of programme evaluation, the entrepreneurs felt that it was difficult to apply for the non-financial programmes citing that it took too much time, involved bureaucratic red tape, and difficulties in filling up application forms which also required too many documents. More than half of the respondents were happy with the speed of application and two-thirds felt the programme conditions were reasonable. Entrepreneurs expressed satisfaction in areas such as submission of progress reports, application requirements and programme evaluation. The respondents felt dissatisfied with areas such as payback period and payback terms.

Table 6 shows the findings of the number of programmes being availed. Female entrepreneurs availed of more government non-financial programmes than their male counterparts; similarly, the medium sized firms availed of all types of programmes more than smaller enterprises and the wholesale and retail businesses availed the most in terms of government programmes, both financial and non-financial. The finance, real estate, insurance and business services firms availed the most number of private financial programmes.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Industry Sector</th>
<th>Govt Non-Financial</th>
<th>Govt Financial</th>
<th>Private Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>2.74 (36.05%)</td>
<td>2.6 (40.82%)</td>
<td>4 (81.30%)</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>2.79 (53.14%)</td>
<td>2.89 (61.88%)</td>
<td>2.5 (47.71%)</td>
</tr>
<tr>
<td>Size</td>
<td>Small</td>
<td>6.25 (65.31%)</td>
<td>1.89 (39.46%)</td>
<td>2.33 (53.32%)</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>7.1 (91.03%)</td>
<td>4.4 (53.79%)</td>
<td>6 (85.71%)</td>
</tr>
<tr>
<td>Business type</td>
<td>Finance, real estate, insurance and business services</td>
<td>2.81 (53.52%)</td>
<td>2.5 (65.96%)</td>
<td>3.54 (88.50%)</td>
</tr>
<tr>
<td></td>
<td>Community, social and personal services</td>
<td>2.38 (37.72%)</td>
<td>1 (17.48%)</td>
<td>2 (32.41%)</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>2.54 (32.94%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td></td>
<td>Wholesale and retail</td>
<td>4.09 (50.93%)</td>
<td>5.33 (57.37%)</td>
<td>3 (30%)</td>
</tr>
</tbody>
</table>

The main reason that entrepreneurs did not avail SME support programmes is their relative ignorance. More than half (52.75 per cent) mentioned that they had no information about the programmes. More than a quarter (36.26 per cent) replied that they did not need the offered programmes and services, while 2 per cent mentioned that someone they knew had a bad experience with these programmes. This reflects inefficient and ineffective information dissemination methods of both the
government and the private sector. It is interesting to note that only two entrepreneurs out of the entire sample of ninety-one had information on all of the programmes and services offered by the government and the private sector.

### TABLE 7

**Summary of Chi-Square Results (Independent Variable: Respondent Type)**

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>$\chi^2$</th>
<th>$P$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsiveness</td>
<td>74.61818</td>
<td>0.00000*</td>
</tr>
<tr>
<td>Encourage entrepreneurship</td>
<td>14.31994</td>
<td>0.00015*</td>
</tr>
<tr>
<td>Help in success</td>
<td>11.43568</td>
<td>0.00072*</td>
</tr>
</tbody>
</table>

*significant at $\rho<0.05$

$\chi^2$ results (Table 7) show that there are significant differences in the opinions of institutions and entrepreneurs when it came to their perception of whether the programmes were responsive to the needs of the entrepreneur, and whether the programmes encouraged entrepreneurship, also whether it helped in the success of the firm. Most institutions viewed their programmes and services as responsive, encouraging and helping entrepreneurs whereas the entrepreneurs viewed it in the other way.

There is a big difference between the perception of entrepreneurs and institutions on whether the programmes and services encouraged entrepreneurship. Ninety per cent of the entrepreneurs stated that they did not, while 77 per cent of the institutions stated that they did. A significant difference is also observed in the perception of entrepreneurs and institutions on the adequacy of programmes, services and assistances to the needs of the entrepreneurs. The institutions (65 per cent) felt that the programmes and services they provide for entrepreneurs are adequate whereas only 42 per cent of the entrepreneurs believed that the programmes are adequate. Entrepreneurs and institutions agreed that the programmes, assistance and services do help entrepreneurs to become successful. Ninety-two per cent of the institutions said that their support programmes helped entrepreneurs become successful, although only 70.33 per cent of the surveyed entrepreneurs perceived such.

The institutions and entrepreneurs also had similar views on the Philippine environment’s conduciveness to entrepreneurship. All institutions interviewed mentioned that the environment in the Philippines was supportive of SMEs. On the other hand, only 68 per cent of the entrepreneurs agreed with this view.
Lessons for Developing Countries

The Philippine SME development and promotion experience offers some learning lessons to other developing countries. These are:

**Review of Economic and SME Policies**

It is important for developing countries to review their SME policy objectives to guarantee that they are interrelated as well as complementary. They should then incorporate these goals into the policy agenda of the government. This will ensure that the efforts of all agencies are coordinated and directed towards these goals. Legislations should be enacted in line with these objectives.

It is necessary for developing countries to review their macroeconomic policies and ensure that they do not hamper the process of SME formation and development. Rules that encourage fair competition must also serve to encourage entrepreneurship. A movement towards a more market-oriented economy will encourage SMEs to develop. It is a known phenomenon that entrepreneurship grows well in highly competitive environments. The macroeconomic environment should provide the framework and structure for the establishment, survival, growth and interaction of SMEs. It should provide strong incentives to encourage entrepreneurs to establish their own businesses, including relatively easy access to various sources of financing. Such an environment would also enable the entrepreneur to prosper by not having to pay a large portion of his/her profits in taxes. SMEs are known to be resilient and adaptable and can survive with little or no government assistance. But unfortunately, few of even the strongest SMEs can survive a restrictive policy environment.

**Improved Administration**

Administrative procedures and regulations pertaining to SMEs must be promotional in nature. It is necessary that government minimises excessive regulation and red tape and provides a stable operating environment for SMEs. An effective way to minimise bureaucratic interference is to set-up one-stop bureaus for registering businesses. Taxation laws for SMEs should also be made easier to follow. Keeping procedures simple, making processing faster and reducing waiting period are some methods to enhance an enabling environment for SMEs.
Rationalisation and Coordination of Agencies with Private Sector

Developing countries that have a proliferation of SME agencies providing fragmented assistance can consider the need to consolidate their assistance under a single agency (such as the Department of Trade and Industry in the case of the Philippines). Developing countries also could avoid the mistake of creating a lopsided SME infrastructure with minimal private sector participation. The private sector needs to be mobilised to complement the efforts of government. Continued interaction among the different international and local agencies and entrepreneurs often leads to institutional changes that will benefit the SME sector. This may lead to formation of new markets, increasing the demand and supply of funding, increasing convergence and exchange of improved technologies. It must also be noted that the government does not have the sole responsibility of providing all the support services for SMEs. The private sector must have its part in helping SMEs flourish, not only through financial assistance but also through consultancy, training, technical and marketing assistance. Coordination and collaboration are necessary so as to ensure the prompt and effective delivery of support services to the entrepreneur. There will also be less wastage of resources, as coordination will make certain that duplication of efforts is minimised.

Constant Dialogue with Entrepreneurs

Better ideas on how to support SMEs will emerge when agencies involved in supporting SMEs have an open mind to the suggestions of entrepreneurs. Institutions providing support programmes which do not respond to the needs of the entrepreneurs will encounter inefficiency and ineffectiveness in the use of resources, as entrepreneurs will not avail the support services they offer. Entrepreneurs are likely to know better than other agencies (governments or foreign ‘experts’) what is good for them and for the economy.

It is pertinent to note that refinements to SME support programmes must stem from a constant dialogue between all parties concerned to incorporate the changes in the environment and available funding. There must be a regular formal evaluation procedure in order to gauge the effectiveness of these support programmes. Since institutional change is incremental, the absence of this assessment will render support programmes less effective as they have to answer to the continually changing needs of entrepreneurs. It is adaptive rather than allocative efficiency that should
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be a guide to policy and programme formulation. Institutions must adjust in the context of evolving technological and demographic changes as well as shocks to the system.

**Improved Information Dissemination**

Effective information dissemination is a must in ensuring the success of SME support programmes. Accessing information is the first step in availing a programme, assistance or service. Without proper avenues of knowledge about the programmes, entrepreneurs would not even know the existence of these programmes, let alone avail them. The speed of processing as well as the reasonability of the terms and conditions must be taken into consideration while formulating these support programmes.

**Potential of Women Entrepreneurs**

Developing countries should also tap into the potential of women entrepreneurs. Women are generally the most numerous and serious entrepreneurs in developing countries, even though their businesses are often small. They repay loans more reliably than men, and they use their earnings for the benefit of families and for reinvestment. Well-designed programmes which treat clients as responsible adults are likely to attract a large proportion of women and will have good results in both social and financial terms.

**Learning from Other Countries**

Lastly, developing countries should avoid the mistake of formulating and implementing policies on SMEs without doing a careful assessment and analysis of the experiences of other countries. Developing countries can gain significantly from an exchange of the experiences from other countries. Regional cooperation between developing and developed nations in terms of financial, technical, training and marketing assistance will be beneficial to all parties concerned. Innovative approaches to SME development can also be formulated and tested in different country contexts.

**Conclusion**

The success of entrepreneurship promotion is not solely the concern of the government. There is a need for the private sector too to collaborate
and coordinate with the entrepreneurs themselves to ensure that the programmes and services offered are tailor-made to the latters’ needs. The study argues that there is an inherent danger in institutions offering these services of becoming complacent. There must be periodic review of the effectiveness of these programmes and services, specifically from the perspective of its users. Frequent exchange of experiences between developing nations can also benefit policy makers in creating opportunities for future collaboration resulting in improvement of the offerings.

Notes

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10. White and Reynolds found out that one of the few ways in which the government might be involved in the creation and support of new business is through the provision of a variety of business assistance programmes. These programmes may be operated by the public sector or just aided by government advertising or referrals. In any case, such programmes have proliferated and may be an important contributor to entrepreneurship. S.B. White and P.D. Reynolds, ‘Government Programmes and High Growth New Firms’, in R. Rousladt, J.A. Hornaday, R. Peterson and K.S. Vesper (eds), Frontier of Entrepreneurship Research (Wellesley MA: Babson College, 1996).


