



Philippine Entrepreneurship Report 2015–2016

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Philippine Entrepreneurship
Report 2015–2016

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Message from the President



The 2015-2016 Philippine Entrepreneurship Report is a very timely report on the state of entrepreneurship in the Philippines. The report also confirms the University's mission-vision, to be "A leading learner-centered and research University bridging faith and scholarship, attuned to a sustainable Earth, and in the service of Church and society, especially the poor and marginalized". The role of small and medium enterprises to sustain the economic development and inclusive growth of the Filipino people can best be upheld if we understand the motivations, aspirations, and activities of these entrepreneurs. The report helps us to do this.

For entrepreneurship to thrive, a supportive ecosystem must be present. The policy recommendations outlined in the report aim to help advance the country's entrepreneurial factor conditions to make doing business in the country easy and help our industries to become more established businesses.

I would like to congratulate Dr. Aida L. Velasco and her team in preparing this report. I would also like to extend our gratitude to the International Development Research Center (IDRC) of Canada for supporting this research.

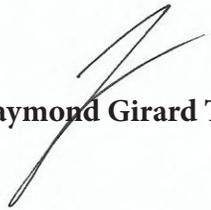

Bro. Raymundo Suplido, FSC

Message from the Vice-Chancellor for Research and Innovation



The robust GDP growth over the past few years may signal the early stages of an economic awakening for the Philippines. However, whether the growth is sustainable and sufficiently inclusive remains uncertain. Since entrepreneurship is one of the key elements needed to ensure that the benefits of development reach the grassroots, it is essential to have empirical data on this aspect of the local economy. The launch of the GEM Philippines Report marks an important milestone in mapping the baseline state in the country, from which insights for policy development can be drawn by various stakeholders.

My congratulations to the GEM Philippines project team, led by Dr. Aida Velasco of our Ramon V. del Rosario College of Business, for the completion of this project, whose contents will surely play a role in contributing to innovation-driven, entrepreneurial growth of the Philippines in the years ahead.



Raymond Girard Tan

Foreword

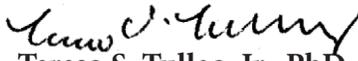


De La Salle University-Angelo King Institute for Economic and Business Studies (DLSU-AKI) is delighted for several reasons with the release of the monograph *Philippine Entrepreneurship Report 2015–2016*. First, the monograph reinforces the commitment of the University and the institute in building a research culture in our institution through the generation of data sets and evidence-based research outputs. Second, with the report the university's research thrusts on poverty alleviation via enterprise development is adequately addressed. Third, with data analysis and the provision of recommendations, DLSU, alongside the DLSU-AKI, continues to contribute not only with the discourse on enterprise development but more importantly in shaping policies that would enhance the role of entrepreneurship in nation building. Fourth, with the publication of the third annual report, DLSU-AKI has demonstrated that it is a dependable research institute that can handle multi-year research projects in partnership with other institutions in the region.

As the ASEAN celebrates its golden year and with the establishment of the ASEAN community one of the major thrusts of the regional organization is the promotion of inclusive growth. In this light, the *Philippine Entrepreneurship Report 2015–2016* becomes particularly significant as it addresses how entrepreneurship can contribute to inclusive growth through the development of small and medium enterprises. There are challenges in enterprise development but numerous opportunities as well discussed in the monograph. To address these challenges, included in the report are recommendations on improving productivity, technology and innovation, access to capital, enhanced regulatory environment, and human resource development.

For researchers and teachers in entrepreneurship, this monograph is likewise relevant. Similar to the previous annual reports, the 2015–2016 report provides broad strokes on the characteristics, perceptions, motivations, and aspirations of Filipino entrepreneurs. But what is more pertinent to researchers in business enterprise is the wealth of specific information at the individual level from data sets generated over the years. With these valuable data sets, researchers among our faculty and graduate students can craft research designs that would probe on issues, problems, and challenges confronting our Filipino entrepreneurs.

I congratulate Dr. Aida Velasco and her team from the Ramon V. del Rosario College of Business and the School of Economics of De La Salle University for this timely report. I also thank the International Development Research Centre (IDRC) of Canada for its continuing support of the Global Entrepreneurship Monitor (GEM) project in which this Philippine report is a component.



Tereso S. Tullao, Jr., PhD

*Director, DLSU-Angelo King Institute for
Economic and Business Studies*

Executive Summary

The results of the 2015 Philippine APS (Adult Population Survey) and NES (National Experts Survey) show the confidence of Filipinos in entrepreneurship as a mover to a better life and more progressive society. Although government policies, structure, and bureaucracy are seen as constraints to growth and sustainability of entrepreneurial undertaking, more than half of the population sees business opportunity in the country and close to 70% believe that they have the necessary skills to seize the entrepreneurial opportunities in the economy. On the other hand, there is a high business closure rate mainly due to unprofitable business operations and difficulty in accessing financing to continue business operations.

There is also a very high gender equity where the Philippines registered the highest among 65 economies that participated in the 2015 GEM survey. As for the impact of entrepreneurship on the economic development of the country, only 10.2% of total early-stage entrepreneurial activity (TEA) or startup businesses envision to employ more than 5 workers in the next 5 years, 5.5% offered innovative products or services, and 2.7% are in the service industry. Eighty-two percent of all TEA is into retail or wholesale business, while only 2% is in manufacturing and 4.4% is into services.

The trend in entrepreneurship motivation, activity, and aspirations was also analyzed from 2006–2015 (periods when the Philippines joined GEM project). The data showed the same pattern for a factor-driven economy where poor countries registered a higher percentage of the population starting a business. Filipinos sustained their high perception on their capability to be an entrepreneur, their belief that there is good business opportunity in the country, and their view that entrepreneurship is a good career option. Media has played a very important role in generating more interest in entrepreneurship by

featuring successful Filipino entrepreneurs and offering programs to encourage the formation and conduct of businesses.

Improvement in the economy dampens to some extent the interest to start a business given the availability of more jobs during the last 10 years. More startup businesses are put up because of a better opportunity for financial rewards and independence rather than as a necessity or due to unemployment. There is also a sustained increase in established businesses as the economy improved.

To support the development of small and medium enterprises, policy recommendations are outlined to have more established businesses and to further the activity of Philippine enterprises in the global market. The following policy recommendations are given:

- identification of industry priority areas where the country can be more competitive globally,
- evaluation of the regulatory environment for startup businesses and ease of doing business,
- development of innovation capabilities of the business sector,
- introduction of entrepreneurship and its different forms in all levels of education,
- creation of new ways of accessing financing through equity,
- promotion of export capacity and ability to integrate in the global supply chain, and
- enhancement of human capital development for women and the youth on entrepreneurship.



PART 1

The Global Entrepreneurship Monitor (GEM) Model



1.1 The GEM Research Project

The Global Entrepreneurship Monitor (GEM) research project studies entrepreneurship in different countries to better explain the role of small and medium enterprises in economic development. Nineteen years after the initial 1997 study by Babson College and the London Business School, over 100 countries now participate. GEM is now the largest worldwide study on entrepreneurship.

The GEM research project conducts annual surveys of entrepreneurial activity within the different phases of businesses, attitudes and perceptions of the population towards entrepreneurship, and the nature of the environment in which entrepreneurship thrives in different economies.

GEM uses two surveys as its primary research instrument: the adult population survey (APS) and the national experts survey (NES). The APS is participated in by a minimum of 2,000 adults and asks about activity, phases of entrepreneurship, and perception and intentions of the population regarding entrepreneurship. The NES inquires about the opinion of experts (minimum of 36 experts) on the entrepreneurial environment in their respective countries that support or constrain entrepreneurial activities and growth. There were 65 countries that participated in the 2015 APS and 62 in the NES.

There were 65 economies that participated in the 2015–2016 survey. These economies were classified according to their level of economic development as used by the World Economic Forum. These economies are classified according to the three economic development stages, namely, factor-driven economies, efficiency-driven economies, and innovation-driven economies. Factor-driven economies are countries that depend on agriculture and extraction businesses using more labor factors and natural resources. Efficiency-driven economies are countries that have become more competitive with economic development supported by industrialization

and economies of scale where capital-intensive businesses dominate the economy. Innovation-driven economies are countries that rely more on new knowledge and expanding into the service sector. A summary of the classification of these countries is shown in Table 1.

Table 1. Economies Participating in the 2015 GEM Survey

Region	Factor Driven	Efficiency Driven	Innovation Driven
Africa	Botswana	Morocco	
	Burkina Faso	South Africa	
	Cameroon		
	Egypt		
	Senegal		
	Tunisia		
Asia and Oceania	India	China	Australia
	Iran	Indonesia	Israel
	Philippines	Kazakhstan	Japan
	Vietnam	Lebanon	Republic of Korea
		Malaysia	Taiwan
		Thailand	
		Turkey	
Latin America and the Caribbean		Argentina	
		Barbados	
		Brazil	
		Chile	
		Colombia	
		Ecuador	
		Guatemala	
		Mexico	
		Panama	
		Peru	
		Puerto Rico	
	Uruguay		

continuation of Table 1...

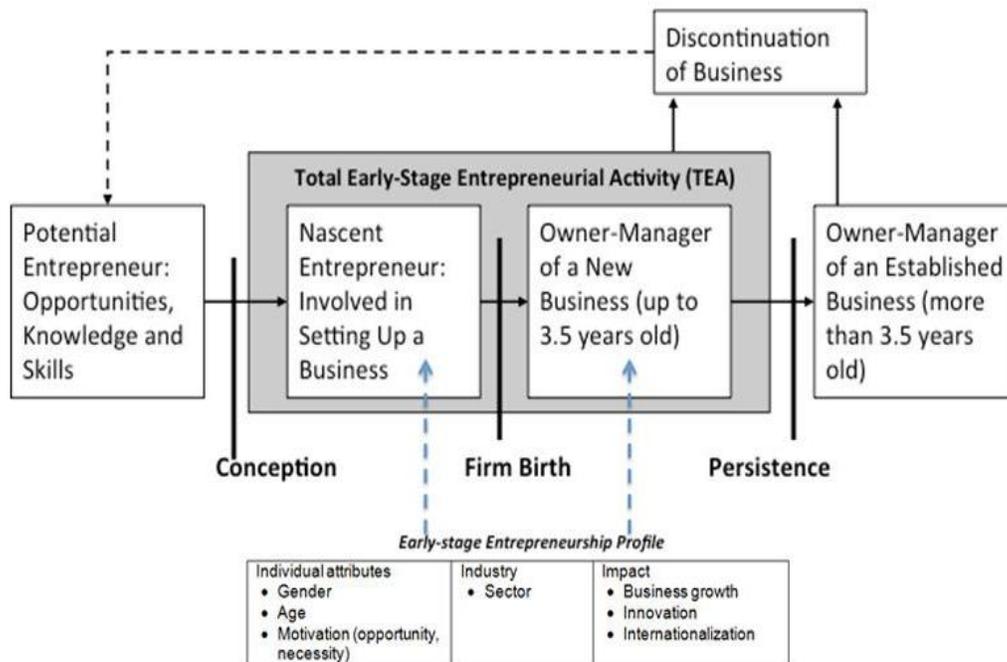
Region	Factor Driven	Efficiency Driven	Innovation Driven
Europe		Bulgaria	Belgium
		Croatia	Finland
		Estonia	Germany
		Hungary	Greece
		Latvia	Ireland
		Poland	Italy
		Romania	Luxembourg
		Macedonia	The Netherlands
			Norway
			Portugal
			Slovakia
			Slovenia
			Spain
			Sweden
North America			Switzerland
			United Kingdom
			Canada
			United States

Source: 2015 GEM Global Entrepreneurship Report

1.2 The GEM Conceptual Framework

GEM defines entrepreneurship as “any attempt at new business or venture creation, such as self-employment, a new business organization, or the expansion of an existing business by an individual, a team of individuals, or an established business” (Kelly, Singer & Herrington, 2016). GEM tracks the entire entrepreneurial process: from the stage where a potential entrepreneur is identified to when the business is considered established, as shown in Figure 1. Some useful definitions follow.

A potential entrepreneur in the *preconception stage* is one who intends to set up a business or pursue self-employment within the next 12 months. *A nascent entrepreneur* in the *conception stage* is one who has started a business within the last 12 months. A firm’s *birth* covers the first year of a business, and its *maturity* is said to be attained after three and a half years. Within the

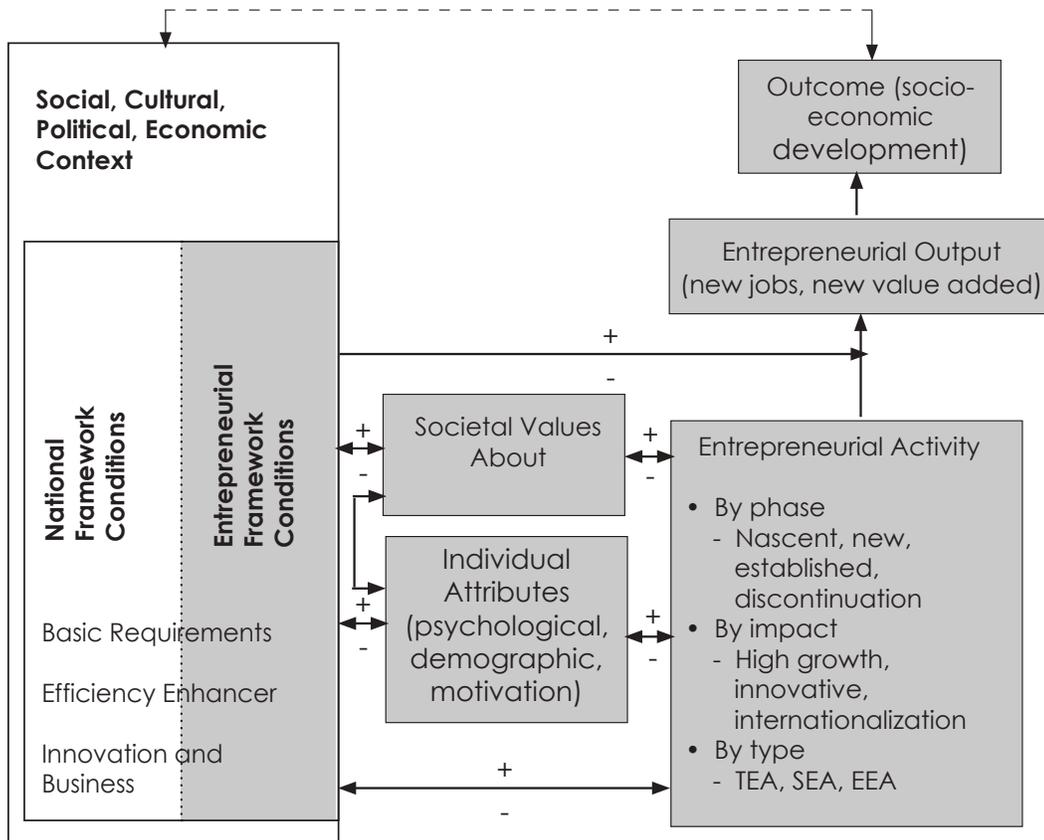


Source: 2015 GEM Global Report, p. 13

Figure 1. GEM Model of the Entrepreneurship Process

GEM framework, this period of 42 months makes up the so-called *total early-stage entrepreneurial activity* or TEA. Businesses in existence for longer than 3.5 years are considered *established businesses or EB*. The formal depiction follows in Figure 1.

As illustrated in Figure 2, entrepreneurial activity is influenced by two factors: the country’s societal values towards entrepreneurship and the individuals’ psychology, demographic characteristics, and motivations. On the other hand, society and individual attitudes toward entrepreneurship are enhanced or hindered by the social, cultural, economic, and political conditions within a country. These factors are determined by the national framework conditions that impact the economic development of the country and the entrepreneurial framework conditions (EFCs) that directly influence entrepreneurial activity. The



Source: 2015 GEM Global Report, p. 12

Figure 2. GEM Conceptual Framework

EFCs include entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, research and development (R&D) transfer, commercial and legal infrastructure, internal market dynamics and entry regulations, physical infrastructure, and cultural and social norms.

Figure 2 also provides the measures of the variables that comprise basic requirements, efficiency enhancers, and innovation and entrepreneurship. These data were gathered from the NES. On the other hand, data on individual entrepreneurial attitudes, activity, and aspirations were obtained via the APS. Together, these data describe the state of TEA and EB in the country and entrepreneurship's contribution to the overall development of the economy.

1.3 How GEM Measures Entrepreneurship

When GEM measures entrepreneurship, it looks at how entrepreneurial activity within the population is influenced by attitudes and perceptions toward entrepreneurship and the types of activities in which the enterprises are engaged. Entrepreneurship activity is also influenced by the entrepreneurship ecosystem that supports or hinders entrepreneurship. These measures are listed in Table 2.

Data on entrepreneurial aspirations, attitudes, and activity were obtained from the APS conducted among, at least, 2,000 individuals aged 18–64. The survey collected information on the different phases of entrepreneurial activity, from entrepreneurial intention to early-stage entrepreneurial activity to the point at which businesses are considered established.

To measure entrepreneurial attitudes, GEM surveys the respondents' motivations to start a business and their risk-taking propensity. The motivation to start a business is classified as either necessity or opportunity driven. Necessity-driven entrepreneurs are those who start a business mainly because there are no other options available to earning a living, while opportunity-driven entrepreneurs are those who start businesses to exploit opportunities and to increase their incomes or establish their financial independence.

Environmental factors are referred to as *entrepreneurship framework conditions* (EFCs), namely, entrepreneurial finance, education for entrepreneurship, government policy, government entrepreneurship program, R&D transfer, internal market openness, physical infrastructure for entrepreneurship, commercial and legal infrastructure for entrepreneurship, and cultural and social norms. On the other hand, the macro-level entrepreneurial framework conditions were verified through interviews with at least 36 national experts. These experts were interviewed on

the following EFCs: financial support, general government support, physical infrastructure, commercial and service infrastructure, specific regulations, market openness, R&D transfer, entrepreneurship education, and cultural norms and values related to entrepreneurship. At least four experts for each of the nine factors were interviewed. A minimum of 25% of these experts had to be entrepreneurs and 50% had to be professionals.

Table 2. GEM Indicators

Indicator	Measures
Perception of societal values related to entrepreneurship	Entrepreneurship as a good career choice
	High status for successful entrepreneurs
	Media attention for entrepreneurship
Individual self-perception about entrepreneurship	Perceived opportunities
	Perceived capabilities
	Entrepreneurial intentions
	Fear of failure rate
Entrepreneurial activity	TEA
	Motivational index (ratio of TEA improvement-driven opportunity to TEA necessity)
	EB ownership rate
	Business discontinuance rate
	Entrepreneurial employee activity (EEA)
Perceived quality of the entrepreneurship ecosystem	Entrepreneurial finance
	Government entrepreneurship programs
	Government policies: support and relevance, government policies, taxes and bureaucracy
	Entrepreneurship education at school age, entrepreneurship education at postschool age
	R&D transfer
	Commercial and legal infrastructure
	Internal market dynamics, internal market burdens or entry regulation
	Physical infrastructure
Cultural and social norms	

Source: 2015 GEM Global Entrepreneurship Report



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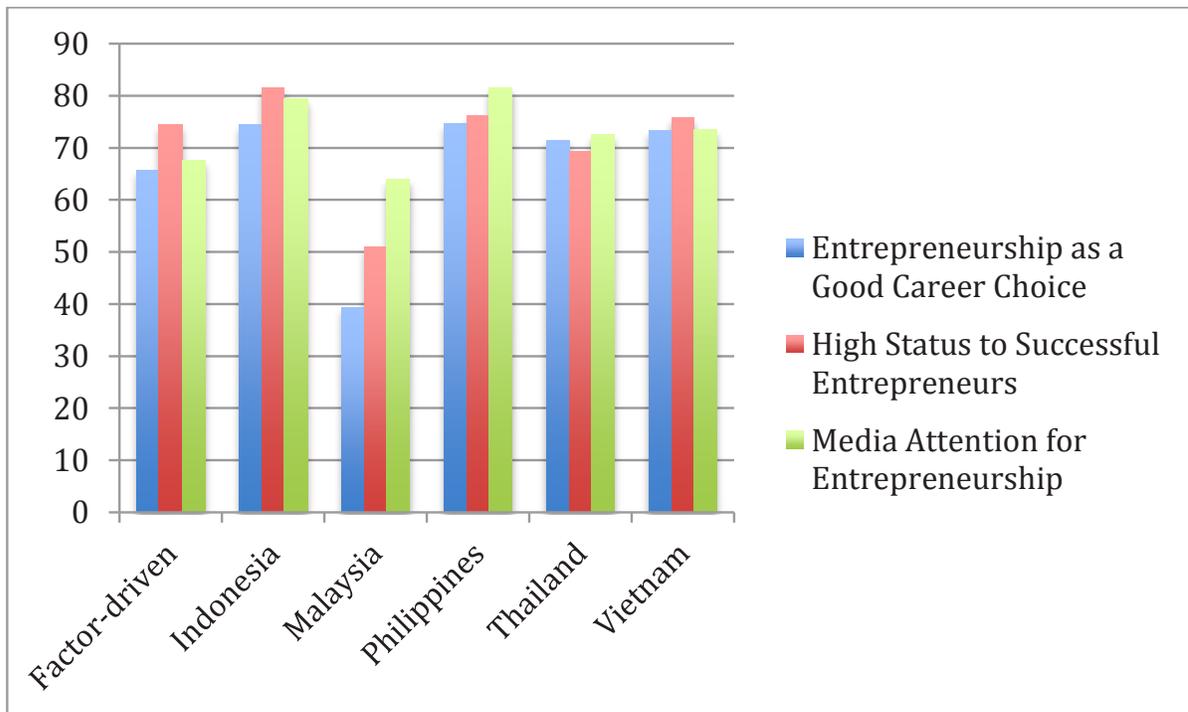
PART 2

The Philippines and GEM 2015 Global Report



2.1 Societal Perception on Entrepreneurship

The Philippines registered the highest societal perception of entrepreneurship in terms of entrepreneurship as a good career choice and media attention on entrepreneurship among countries in Southeast Asia in the 2015 GEM survey. Comparisons with the ASEAN countries and the factor-driven economy are shown in Figure 4. Societal perception is defined by GEM (2015) as the view or importance society places on entrepreneurship. This will affect the entrepreneurial intentions and support people accord to entrepreneurship. In the Philippines, 76% of the survey respondent placed high status on entrepreneurs and 73% regard entrepreneurship as a good career choice. This is supported by the high media attention being given to entrepreneurship.

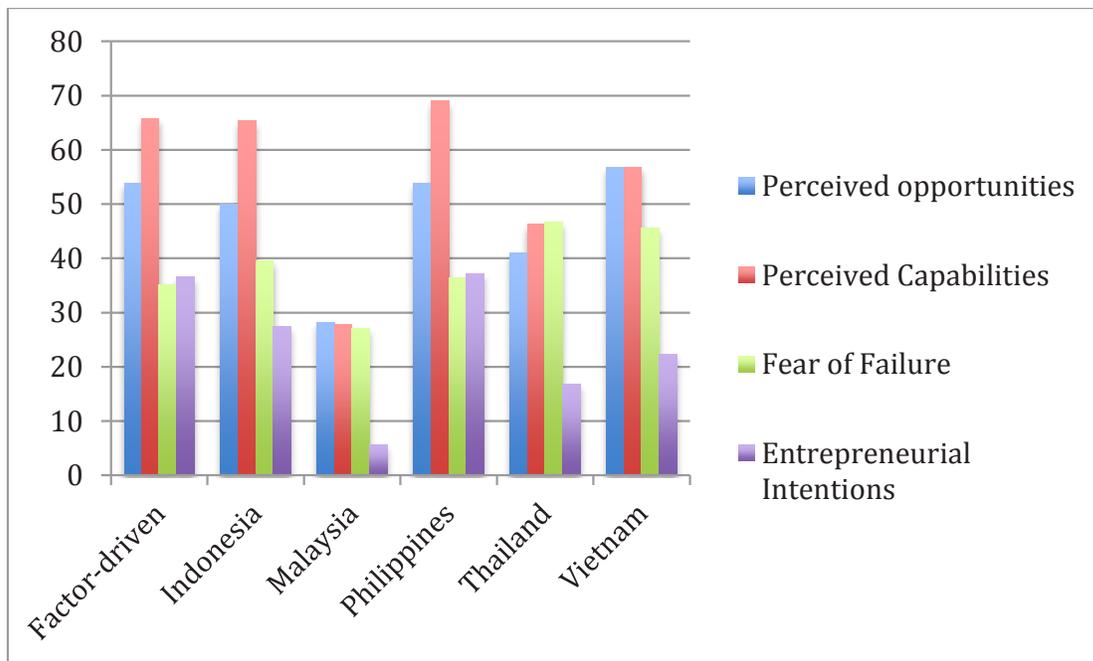


Source: 2015 GEM Global Data

Figure 3. Societal Perception on Entrepreneurship

2.2 Self-Perception about Entrepreneurship

In the self-perception phase, the Philippines registered the highest on perceived capabilities and entrepreneurial intentions and second highest on entrepreneurial opportunities among all ASEAN countries. The country also topped the average for factor-driven economies. In general, 70% of Filipinos believed that they have the capability to be an entrepreneur while 54% believed that there is an opportunity in the country for entrepreneurial undertaking. However, 36.45% of Filipinos fear failure, and only 37% have the intentions to be entrepreneurs.



Source: 2015 GEM Global Data

Figure 4. Self-Perception Phase

The Philippines registered the highest on perceived capabilities and entrepreneurial intentions and second highest on entrepreneurial opportunities among all ASEAN countries.

36.45% of Filipinos fear failure, and only 37% have the intentions to be entrepreneurs.

2.3. Phases and Types of Entrepreneurial Activity

The Philippines registered the highest new business rate as measured by the nascent entrepreneurship rate, new business ownership rate, and TEA. However, it has registered the second-to-the-lowest EB rate and the highest discontinuance rate among ASEAN countries. Comparisons among ASEAN countries are presented in Figure 5. The Philippines also had the highest EEA or employee entrepreneurial activity among ASEAN countries. Although the self-perception of Filipinos on entrepreneurship is high leading to a high rate of entry into entrepreneurial activity, the rate of failure or business discontinuance at 12.2%, is the highest in ASEAN leading to very low EB rate. Thailand, with the lowest entrepreneurial intentions among ASEAN countries, registered the highest EB rate.

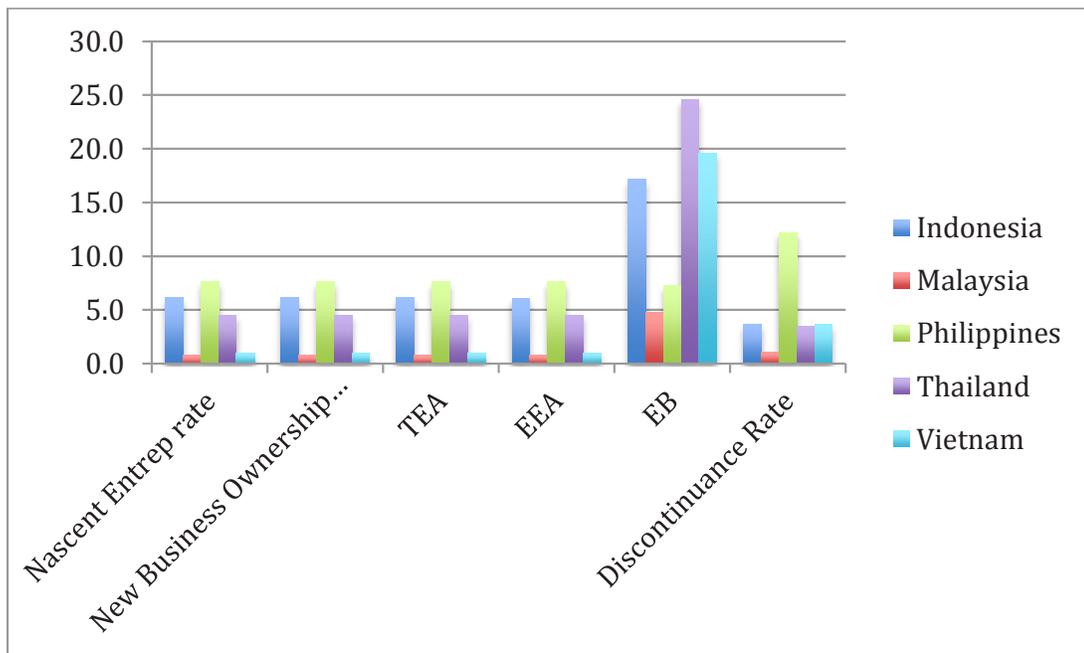


Figure 5. Phases and Types of Entrepreneurial Activity

Although the self-perception of Filipinos on entrepreneurship is high leading to a high rate of entry into entrepreneurial activity, the rate of failure or business discontinuance at 12.2%, is the highest in ASEAN leading to very low EB rate.

2.4. Motivation for Early-Stage Entrepreneurial Activity

Entrepreneurs always detect opportunities that lead them to start a business. Factor-driven economies are usually motivated to start a business out of necessity. This can be brought about by few job opportunities. However, as economies improve and more job opportunities become available, entrepreneurship becomes an avenue to seize the opportunity to earn more, improve one's economic standing, be financially independent, or serve the needs of the society to make the community a better place to live in. For the Philippines, the high TEA is motivated by the opportunity to earn more. Comparisons of motivation to start a business among ASEAN countries are shown in Table 3 and Figure 5.

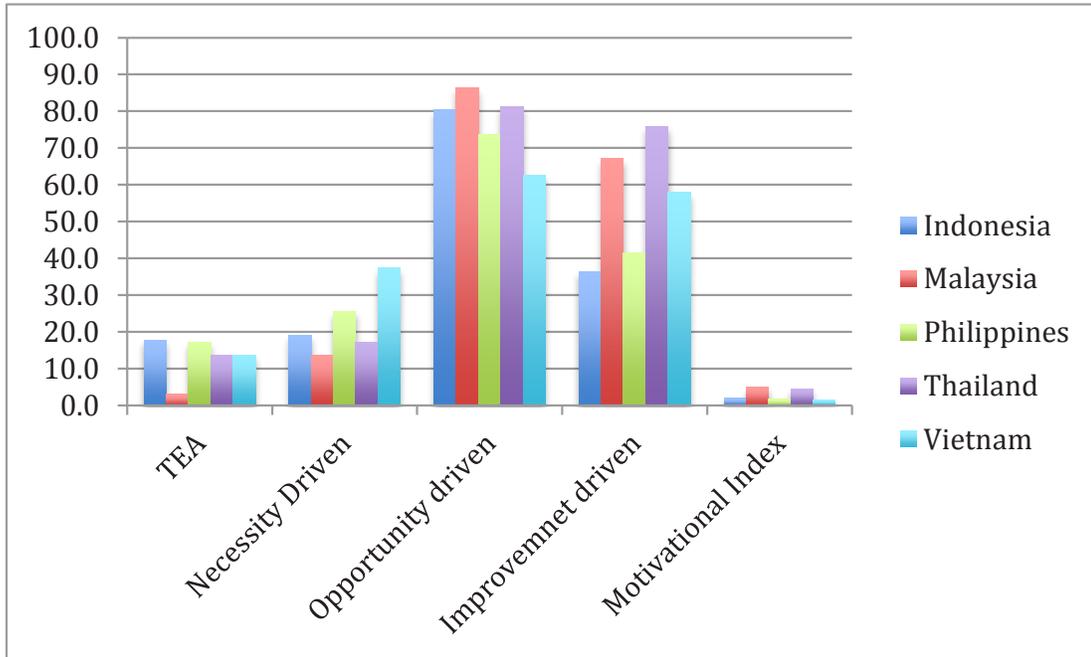
Table 3. Motivations for TEA among ASEAN Countries

Country	TEA	Necessity-Driven	Opportunity Driven	Improvement Driven	Motivational Index
Indonesia	17.7	19.0	80.3	36.5	1.9
Malaysia	2.9	13.7	86.3	67.0	4.9
Philippines	17.2	25.6	73.7	41.6	1.6
Thailand	13.7	17.2	81.2	75.6	4.4
Vietnam	13.7	37.4	62.6	57.9	1.5

Source: 2015 GEM Global Entrepreneurship Report

Table 3 confirms that the Philippines and Vietnam had a lesser percentage of TEA that is opportunity driven as compared to the three efficiency-driven economies in the ASEAN. These two countries also reported the lowest motivational index. Motivational index is the ratio between improvement-driven TEA and necessity-driven TEA. Malaysia had the highest motivational index where those

engaged in opportunity-driven TEA is five times more than those engaged in business driven by necessity.



Source: 2015 GEM Global Entrepreneurship Report

Figure 5. Motivations for TEA

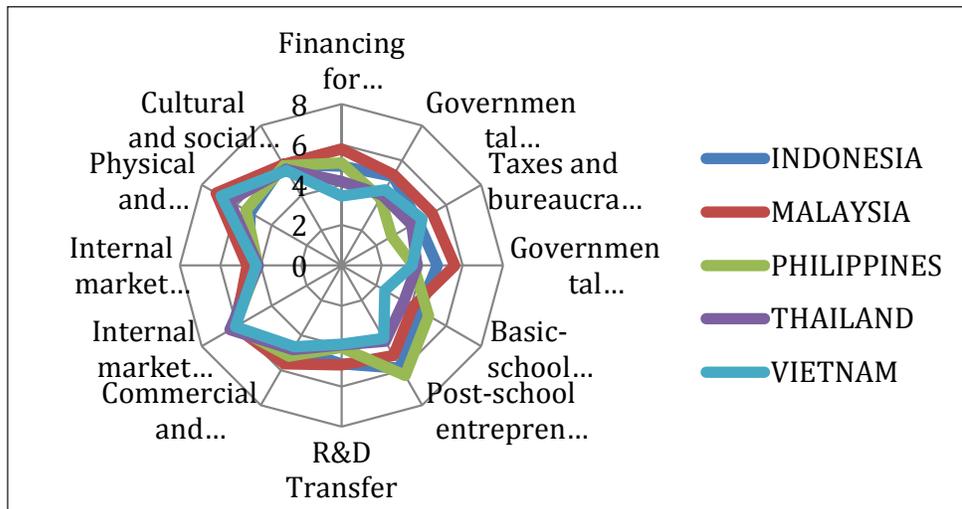
2.5. Entrepreneurship Framework Conditions

EFCs describe the environment entrepreneurship thrive. The Philippines strongly supports entrepreneurship through education. It ranked first in postschool education and second in school education (basic education) entrepreneurship training among the ASEAN economies. However, it ranked the lowest in the region in government support and policies, taxes and bureaucracy, and government programs. Malaysia ranked the highest in financing followed by the Philippines.

The Philippines strongly supports entrepreneurship through education. It ranked first in postschool education and second in school education (basic education) entrepreneurship training among the ASEAN economies.

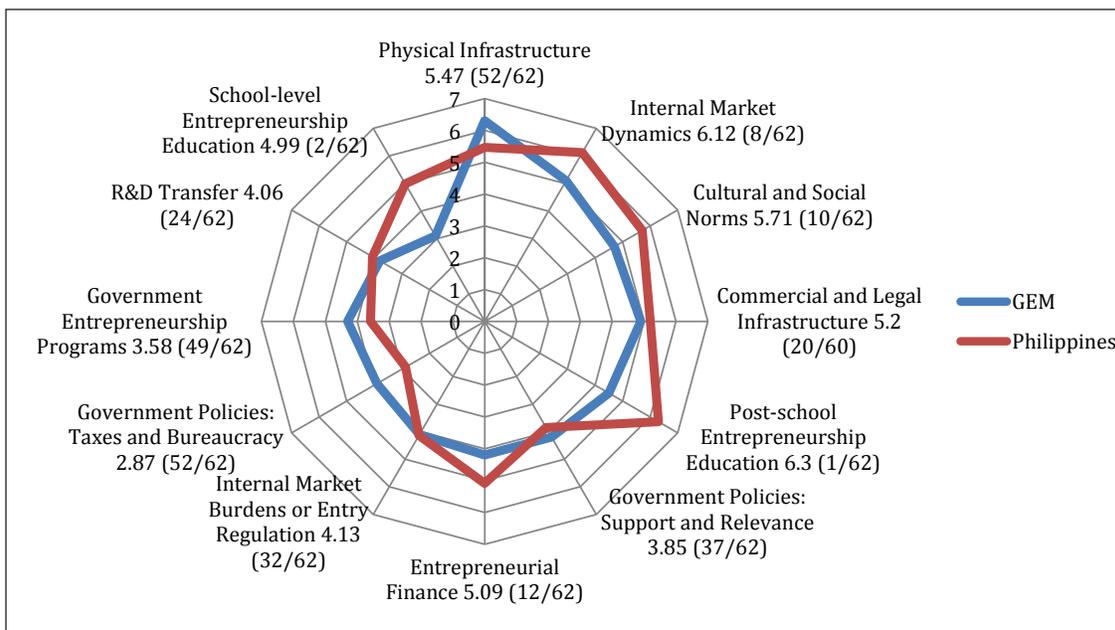
Overall, Malaysia and Indonesia have the highest EFCs as per experts' opinion among the five ASEAN countries that participated in the GEM NES. Indonesia and Malaysia provide a more encouraging entrepreneurial environment relative to other countries in the ASEAN.

The Philippines is an archipelago made up of more than 7,000 islands and a founding member of the Association



Source: 2015 GEM Global Entrepreneurship Report

Figure 6. EFCs in the ASEAN



Source: 2015 GEM Global Entrepreneurship Report

Figure 7. Philippine and GEM Economies EFCs



PART 3
Entrepreneurship
in the Philippines



3.1. The Philippines in a Snapshot

of Southeast Asian Nations (ASEAN). It is classified as a factor-driven economy-relying mainly on its natural resources in generating income and economic activities for the country. However, as more businesses are engaged in service, the country is expected to move from a factor-driven to an efficiency-driven economy. The Philippines posted a GDP growth rate of 5.8% in 2015, down from its 2014 GDP growth rate of 6.1%. For the period of 2012–2015, the country reported an average GDP growth rate of 5.9%. Fifty-seven percent (57%) of its GDP is accounted for by the services sector. The inflation rate in 2015 was computed at 1.4%. On the other hand, the unemployment rate in the country has been reduced from 8% in 2006 to 6.5% in 2015. The Philippines' economic and social indicators are presented in Table 4.

Ranked as the 2nd most populous country in the ASEAN, the Philippines has 101.57 million citizens, with an average population growth rate of 1.9% for the period 2010–2015. Twenty-eight percent (28%) of the population belongs to the youth sector, aged 15–29 years old. The adult literacy rate is 95.4%, whereas net enrollment in primary education is 93.8%.

In 2015, foreign direct investment (FDI) went down by 1.6%. Communication in the country is mostly done through cellular phones with 118.1 cellular phones per 100 persons, the third lowest in the ASEAN. The country is a heavy internet user with 40.7% of the population subscribing to the internet, the fourth highest among the ASEAN economies. However, the country has the slowest broadband and the most expensive internet connection in the region.

Table 4. The Philippines at a Glance

Indicators	Value
Population (as of 2015)	100.98 Million
Land area (×1000 km ²)	300
Density (persons/km ²)	335
GDP growth rate (2015)	5.8%
Phase of economic development	Factor-driven
Geography	Archipelago (7,000+ islands)
Major islands	Luzon, Visayas, Mindanao
Major minerals	Gold, copper, iron, nickel
Competitive advantage	Large domestic market, higher education and training, buyer sophistication
Form of government	Presidential, power equally divided among executive, legislative, and judicial branches
Development plan focus (2010–2016)	Inclusive growth
Inflation rate (2015)	1.4%
Unemployment rate (2015)	6.5%
Peso–US dollar exchange rate (October 2015)	46
Poverty incidence of total families (2015)	16.5%
Poverty incidence of population (2015)	21.60%
Simple literacy (2013)	96.5%
Functional literacy (2013)	90.3%

Source: Philippine Statistics Authority website, <http://psa.gov.ph>

The economic growth of the country in support of the development plan, focusing on inclusive growth, has resulted in the reduction of the poverty incidence for the last 10 years. As can be seen in Table 5, poverty incidence rates among the population and families have consistently reduced from 26.6% and 21% in 2006 to 21.6% and 16.5% in 2015, respectively. Employment figures also improved with the continuous reduction in unemployment rate from 8.0% in 2006 to 6.5% in 2015.

3.1.1. Philippine Competitiveness and Ease of Doing Business

Table 5. Poverty Incidence

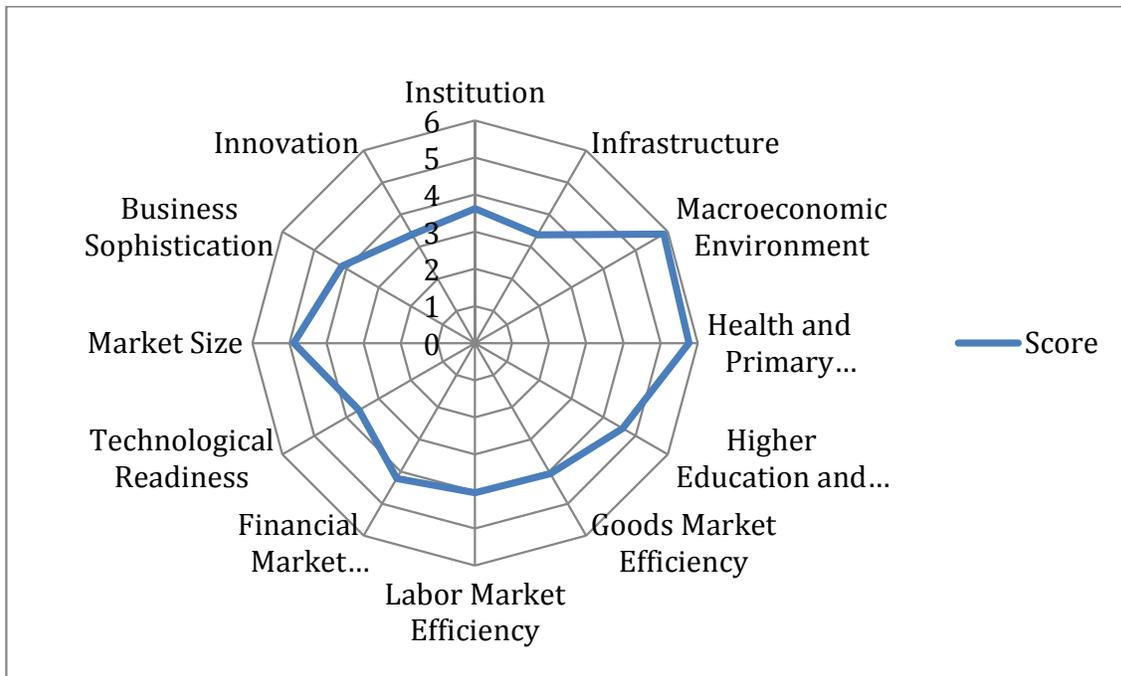
Year	Among the Population (%)	Among Families (%)
2006	26.6	21
2009	26.3	20.5
2012	25.2	19.7
2015	21.6	16.5

Source: Phil. Statistics Authority Website, <http://psa.gov.ph/poverty-press-releases>

To address the new challenges the country is facing, a new administration launched the Philippine Development Plan 2017–2022 which was developed based on the long-term vision for the Philippines called Ambisyon 2040. Based on a survey of 10,000 Filipinos, Ambisyon 2040 describe how Filipinos see their lives in the country in 2040. Ambisyon 2040 outlines the three aspirations of Filipinos, namely, **Matatag** (strongly rooted), **Maginhawa** (comfortable), and **Panatag na Buhay** (secure). Quoting the report,

In 2040, we will all enjoy a stable and comfortable lifestyle, secure in the knowledge that we have enough for our daily needs and unexpected expenses, that we can plan and prepare for our own and our children's future. Our family lives together in a place of our own, and we have the freedom to go where we desire, protected and enabled by a clean, efficient, and fair government.

Based on the World Economic Forum Global Competitiveness Report 2016–2017, the Philippines ranked 57th among 125 countries that participated in the survey, down from the 47th ranking in 2015. Scores on the twelve pillars of competitiveness are shown in Figure 8. Infrastructure got the lowest score followed by innovation, technological readiness, and institutions.



Source: WEF Country Competitiveness Report 2016–2017

Figure 8. Pillars of Competitiveness Score

In terms of the ease of doing business, the Philippines performed poorly in comparison with other the ASEAN economies. Table 6 shows the ranking of the different ASEAN countries out of the 190 economies. The Philippines ranked 99 with starting a business as the most difficult to deal with in the country. Protecting minority investors is not very much upheld in the country, followed by enforcing contracts. Among the difficulties that businessmen have to hurdle in the country are the procedures in paying taxes and getting credit.

3.1.2. SMEs in the Philippines

Table 6. 2017 ASEAN Ranking on Ease of Doing Business

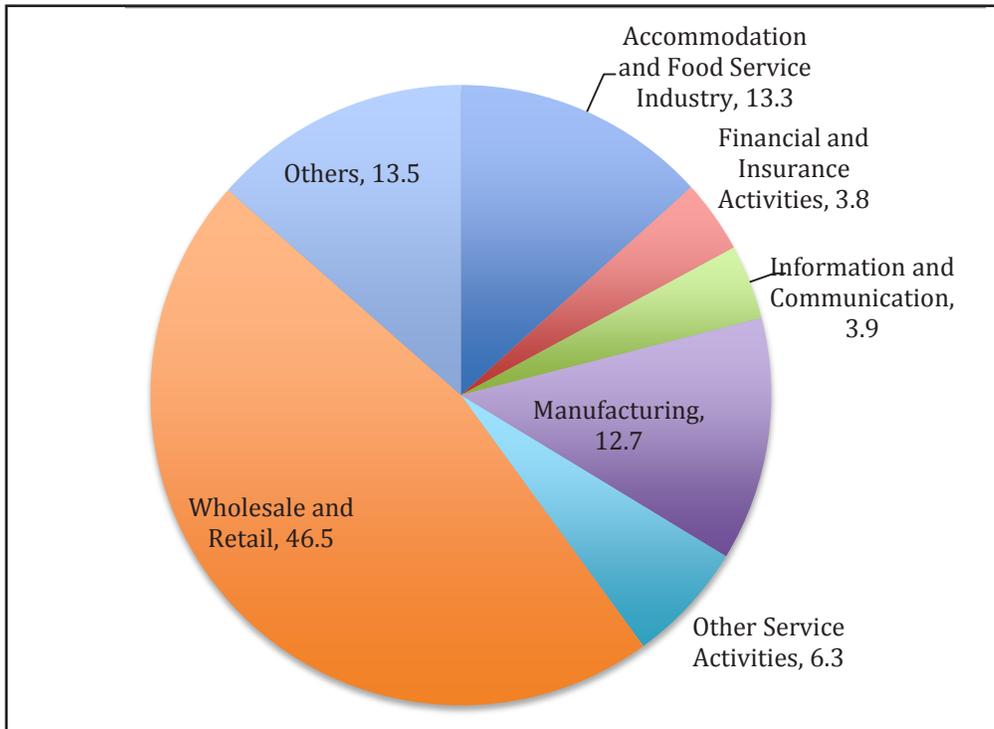
Factors in Doing Business	ASEAN Countries (Ranking out of 190 economies)								
	S	M	T	B	V	I	P	C	L
Ease of doing business	2	22	46	72	82	91	99	131	139
Starting a business	6	112	78	84	121	151	171	180	160
Dealing with construction permit	10	13	42	37	24	116	85	183	47
Getting electricity	10	8	37	21	96	49	22	136	155
Registering property	19	40	68	134	59	118	112	120	65
Getting credit	20	20	82	62	32	62	118	7	75
Protecting minority investors	1	3	27	102	87	70	137	114	165
Paying taxes	8	61	109	89	167	104	115	124	146
Trading across borders	41	60	56	142	93	108	95	102	120
Enforcing contracts	2	42	51	93	69	166	136	178	88
Resolving insolvency	29	46	23	57	125	76	56	72	169

Source: 2015 GEM Global Entrepreneurship Report

Country Legend: S–Singapore, M–Malaysia, T–Thailand, B–Brunei Darussalam, V–Vietnam, I–Indonesia, P–Philippines, C–Cambodia, L–Lao PDR

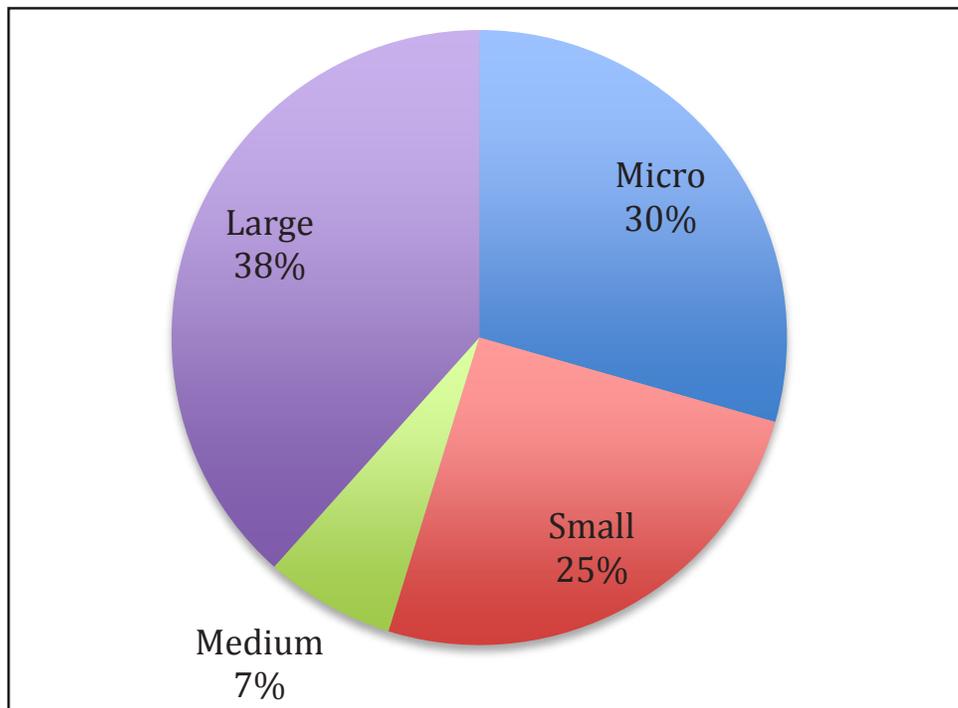
As of 2015, there are 900,914 registered business establishments in the country dominated by MSMEs (micro, small, and medium enterprises), 99.5% of Philippine enterprises. Micro enterprises comprised 89.9% of all business establishments. Small enterprises comprised 9.2%; medium, 0.4%; and large, 0.5%. Majority of the Philippine MSMEs are in wholesale and retail-equivalent to 46.5% of all businesses. The distribution of MSMEs in different industries is shown in Figure 9.

Of total employment in 2015, MSMEs generated 4,784,870 jobs as compared to 2,981,819 jobs created by large enterprises. Among MSMEs, micro enterprises generated the most number of jobs (2,285,634) relative to small (1,968,452) and medium (530,784) enterprise created jobs (refer to Figure 10).



Source: Department of Trade & Industry Website, <http://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>

Figure 9. MSMEs Industry Distribution



Source: Department of Trade & Industry Website, <http://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>

Figure 10. Jobs Generated by Philippine Enterprises

Table 7. Jobs Generated per Establishment

Business Category	Jobs per Establishment
Micro	2.82
Small	23.75
Medium	147.3
Large	662

Source: Department of Trade & Industry Website, <http://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>

The data on the number of jobs generated per business establishment are provided in Table 7.

As the country bids to move from a factor-driven economy to an efficiency-driven economy, the role of MSMEs becomes more critical in sustaining growth and supporting inclusive growth. MSMEs' job generation contributed to the decrease in unemployment and reduction in poverty incidence. With the government support in developing and growing Philippine enterprises, the country is facing a new breed of entrepreneurs who will require a more innovative and supportive business environment.

3.2. Entrepreneurship in the Philippines

The economic development plan of the Philippines for the past 10 years has been focused on enterprise development to support economic development and inclusive growth. Policies, legislations, and government programs on the local and national levels have been crafted to support entrepreneurship. The status of Philippine entrepreneurship described by entrepreneurial perception, motivation, and aspiration is determined through the APS. Two thousand respondents aged 18–64 were surveyed representing all regions in the country. The survey was conducted using face-to-face interviews. The demographics of the respondents are presented in Table 8.

The 2015 APS revealed a continuous high societal perception of entrepreneurship and strong motivation of the population to become entrepreneurs given the Filipinos' perceived opportunities in their environment, entrepreneurial capabilities, and fear of failure.

Table 8. Demographics of 2015 Philippine APS Respondents

Gender	Male	50.1%
	Female	49.9%
Age (years)	18–24	23.4%
	25–34	29%
	35–44	21.8
	45–54	16.2
	55–64	9.65
Average household size	4.77	
Annual income	Below PhP 60,000	49.9%
	PhP 60,000 to less than 120,000	26.7%
	PhP 120,000 to less than 240,000	11.4%
	PhP 240,000 to 600,000	4.2%
	PhP 600,000 to 2 million	1.9%
	Refused to answer	6.6%
Education	Secondary/high school	54.3%
	Postsecondary/vocational	11.4%
	College	17.4%
	Postgraduate	1.2%

The 2015 APS revealed a continuous high societal perception of entrepreneurship and strong motivation of the population to become entrepreneurs given the Filipinos' perceived opportunities in their environment, entrepreneurial capabilities, and fear of failure. The country believes that employment generation can be better supported with the establishment of more businesses that can lead to poverty reduction. However, the 2015 APS showed that Filipinos do not aspire to create jobs when starting a business. Although there is a high perceived capability to start a business and

However, the 2015 APS showed that Filipinos do not aspire to create jobs when starting a business.

low fear of failure among Filipinos, the business failure rate is high, resulting into a very low number of established businesses.

There is high gender equity in the country with more females engaged in early-stage entrepreneurial activity than males. Filipinos are motivated 60% more by the opportunity to earn more than the necessity of earning an income. Entrepreneurs in the Philippines do not see entrepreneurial growth through more job creation with only 10.2% expecting to generate more than five jobs in the next five years making the Philippines ranked 45th in the category among the 65 economies surveyed. Most new businesses in the country (82.4%) are engaged in wholesale and retail and only 2% are into manufacturing. Details of the findings on the state of entrepreneurship in the Philippines for 2015–2016 are presented in Table 9.

Filipinos are motivated 60% more by the opportunity to earn more than the necessity of earning an income.

Table 9. 2015 Determinants of Philippine Entrepreneurship

Self-Perception about Entrepreneurship		
	Value (% of Respondents)	Rank/65
Perceived opportunities	53.8	12
Perceived capabilities	69.0	8
Fear of failure	36.5	31
Entrepreneurial intentions	37.1	9
Entrepreneurial Activity		
TEA	17.2	16
EB Ownership Rate	7.3	26
EEA	2.3	29
Business discontinuance rate	12.2	3

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continuation of Table 9...

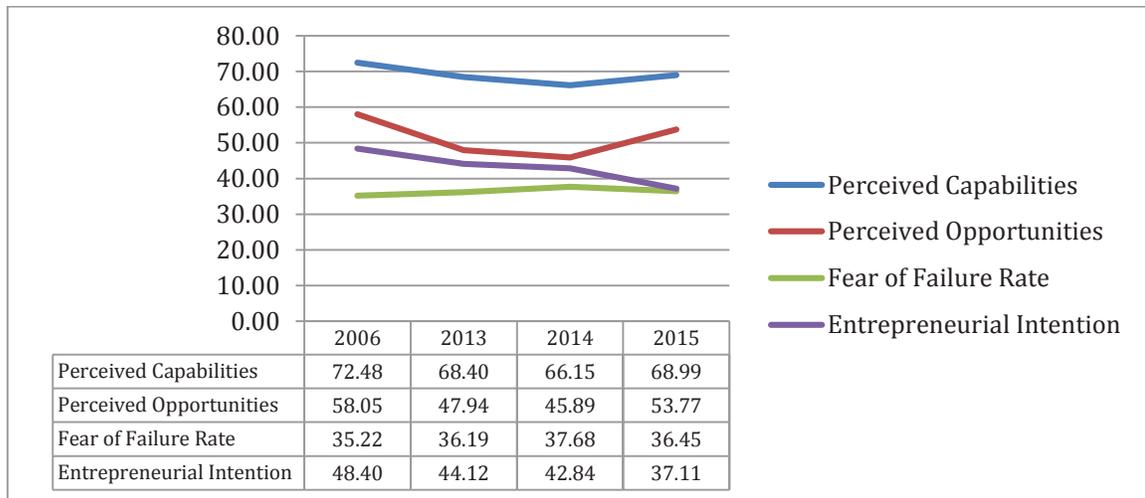
Self-Perception about Entrepreneurship		
Motivational Index		
Improvement-driven opportunity/necessity motive	1.6	38
Gender Equity		
Female–male TEA ratio	1.3	1
Female–male opportunity ratio	0.9	24
Entrepreneurship Impact		
Job expectations (5+)	10.2	46
Innovation	5.5	7
Industry (% in business service sector)	2.7	57
Industry Distribution of TEA		
Industry	% of TEA	
Agriculture	8.9	
Mining	0.1	
Manufacturing	2.0	
Wholesale and retail	82.4	
Information technology and communication	1.2	
Finance	0.9	
Administrative services	0.6	

Source: 2015 Philippine APS

3.2.1. Entrepreneurial Perception, Motivation, and Aspiration

Among the respondents of all the countries in Southeast Asia, the Philippine respondents registered on the average the strongest entrepreneurial intentions and perceived capabilities and opportunities. As can be seen in Table 9, the Philippines ranked 8th on perceived capabilities among 65 countries that participated in the 2015 APS and 9th on entrepreneurial intentions. This points to a very strong desire to be an entrepreneur based on the belief that Filipinos have what it takes to be one.

Comparing the APS results from 2006 to 2015, the intent to start a business among Filipinos revealed a declining trend over the 10-year period. This is supported by an increasing

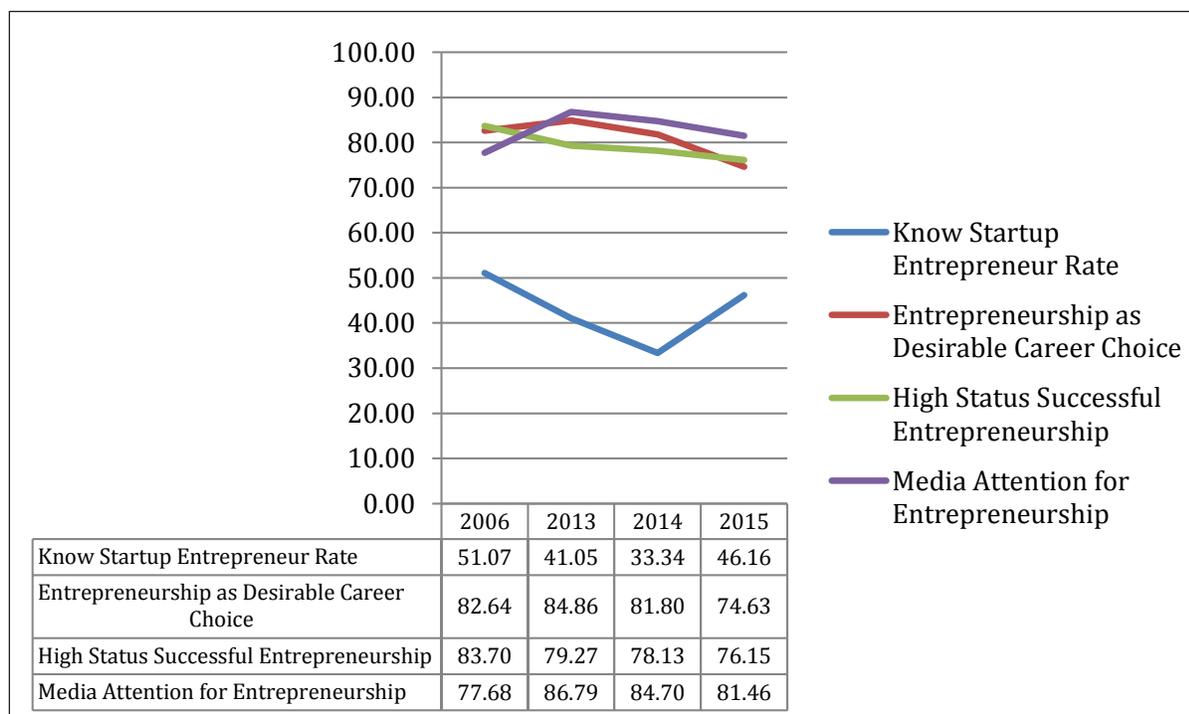


Source: GEM APS Key Indicators 2001–2015

Figure 11. Entrepreneurial Perception of Filipinos

fear of failure. As the country’s economy improves and more job opportunities are present, the risk of putting up a business seems to be higher as compared to the security of having a fixed salaried work. On the other hand, there is a higher level of perceived opportunities from 46% of the population in 2014 to 53.8% in 2015 (refer to Figure 11).

Philippine society has a high regard for entrepreneurs as can be seen in Figure 12. Entrepreneurship is now highly considered by 75% of the population as a good career choice. The media attention being given to successful entrepreneurs and the different government programs supporting entrepreneurship in the country contribute to the high societal perception on entrepreneurship. On another note, these perceptions are slowly declining over the 10-year period except for the media attention being given to entrepreneurship.

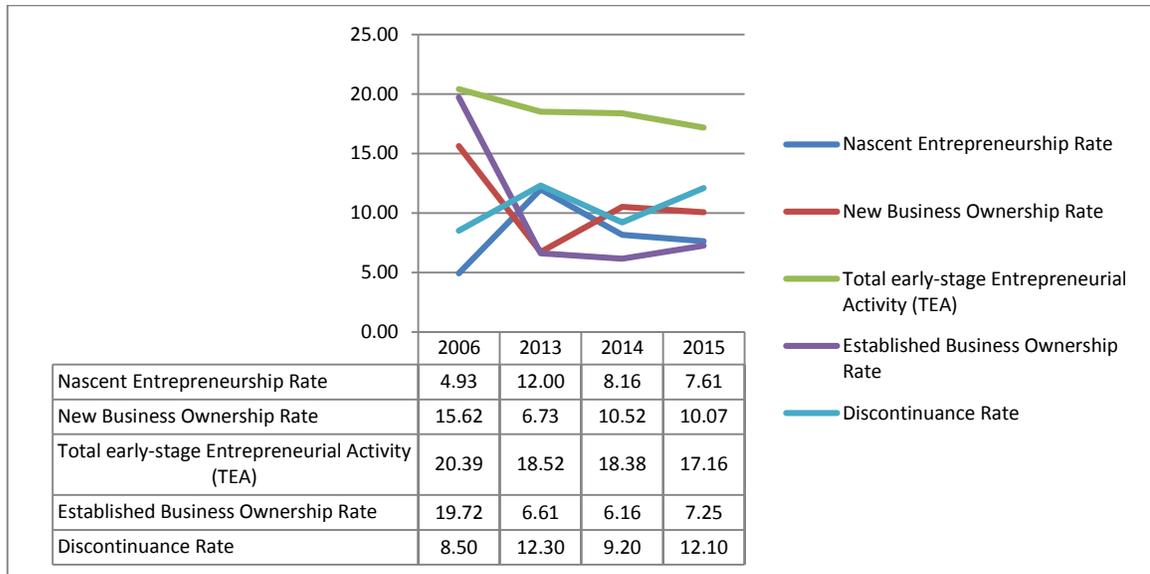


Source: GEM APS Key Indicators 2001–2015

Figure 12. Societal Perception on Entrepreneurship

3.2.2. Philippine Entrepreneurial Activity

The self- and societal perceptions on entrepreneurship is translated into entrepreneurial activity. There are four phases of entrepreneurial activity in the GEM framework which will be used in understanding the entrepreneurship activity in the Philippines. These are nascent entrepreneurship (startup business, less than 3 months in existence), new business entrepreneurship (starting a business, less than 3.5 years in existence), total early entrepreneurship (nascent and new business), and established business (more than 3.5 years in existence). In 2015, the TEA rate among the population surveyed was 17.16%, and the Philippines ranked 16th among all 65 economies surveyed. EB ownership rate was 7.25%. Although 69% of the population said they have the entrepreneurial capability to be an entrepreneur, only 37% have entrepreneurial intentions. Hence, around 40%



Source: GEM APS Key Indicators 2001–2015

Figure 13. Philippine Entrepreneurial Activity

of the respondents are either starting a business or an EB. However, startup entrepreneurship activity is declining over the 10-year period of the study as can be seen in Figure 13 while there is an increasing trend on EB. This trend can be explained by the country's decreasing unemployment rate and GDP improvement.

Business closure as measured by discontinuance rate is mainly due to the business being unprofitable, difficulty in getting financing to fund operations of the business, and personal reasons like death in the family, poor health, or sickness of the entrepreneur. As a result of the high discontinuance rate in the Philippines, serial entrepreneurship tendencies are prevalent among Filipinos. Serial entrepreneurship, which refers to the tendency of entrepreneurs who begin a new venture after a prior business, (Nielsen, & Sarasvathy, 2011), those who have experienced setting up more than one business, (Eggers, & Song 2013), or numerous individuals who terminate their own businesses and start again. More than 70% of TEA in the Philippines have intentions of

starting a new business in the next three years despite quitting their business in the last 12 months.

Filipino entrepreneurs sourced investment/capital for the business from family (77.6%), friends (38.4%), banks and financial institutions (5.9%), private investors/venture capitalists (10.3%), and government programs/donations/grants (5.9%).

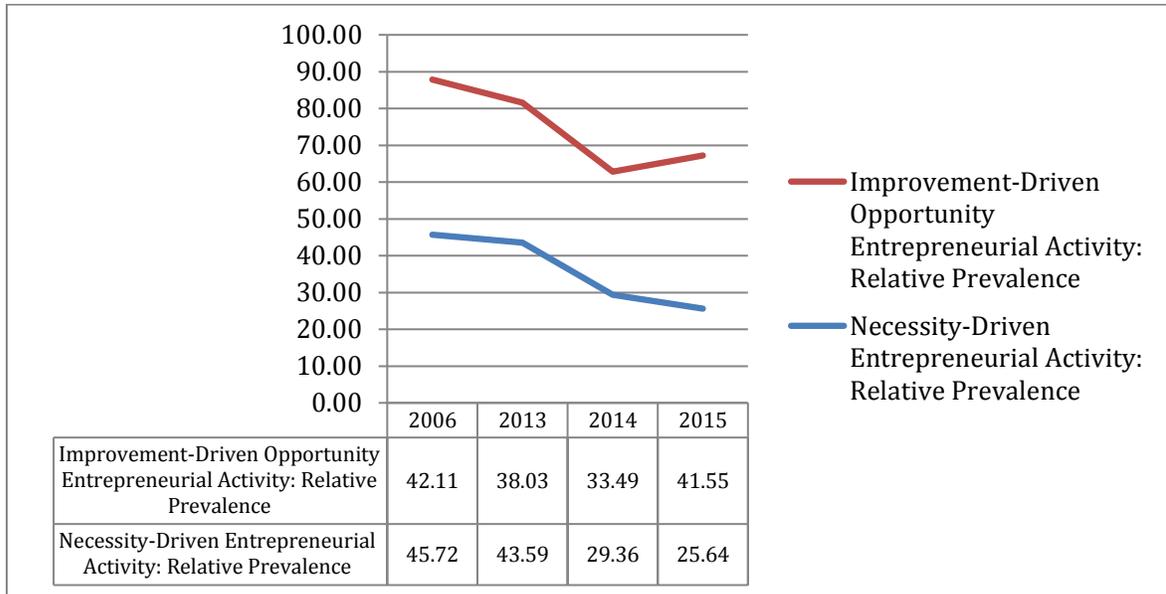
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3.2.3. Entrepreneurship Motivation and Aspiration

Filipinos are mainly motivated to be an entrepreneur by the opportunity to earn more (41.55%) rather than necessity (25.64%) as shown in Figure 14. These opportunities can provide them greater financial independence and higher financial income. In 2006, 45% of Filipinos were encouraged to be entrepreneurs due to necessity as compared to only 25.64% in 2015. The entrepreneurial motivation for opportunity to earn more has been increasing since 2013, from 38% to 41.55% in 2015.

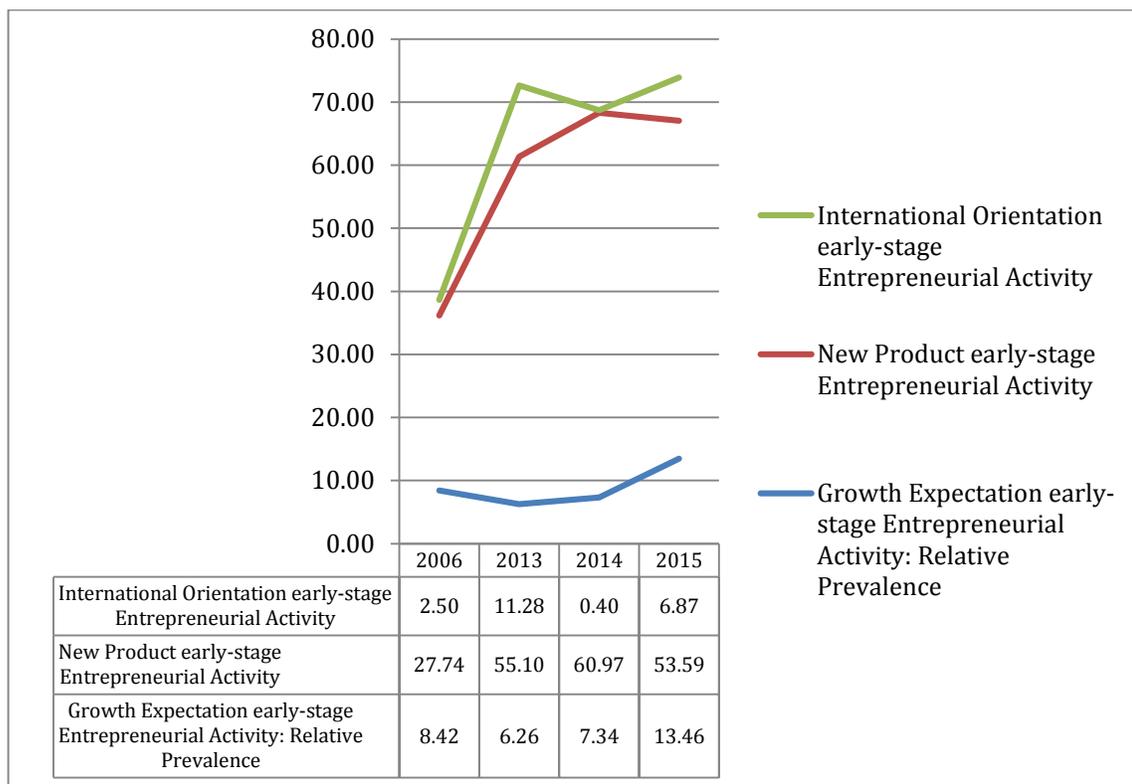
The entrepreneurial motivation for opportunity to earn more has been increasing since 2013, from 38% to 41.55% in 2015.

There is also increasing expectation of business growth in terms of more jobs generated, a bigger market that can be tapped, and offering innovative products and services. Data on these aspirations are presented in Figure 15. Growth expectation for TEA in terms of providing at least five jobs for the next five years has increased from 8.42% in 2006 relative to 13.46% in 2015. There is also a better TEA outlook in terms of product innovation where 53.59% of



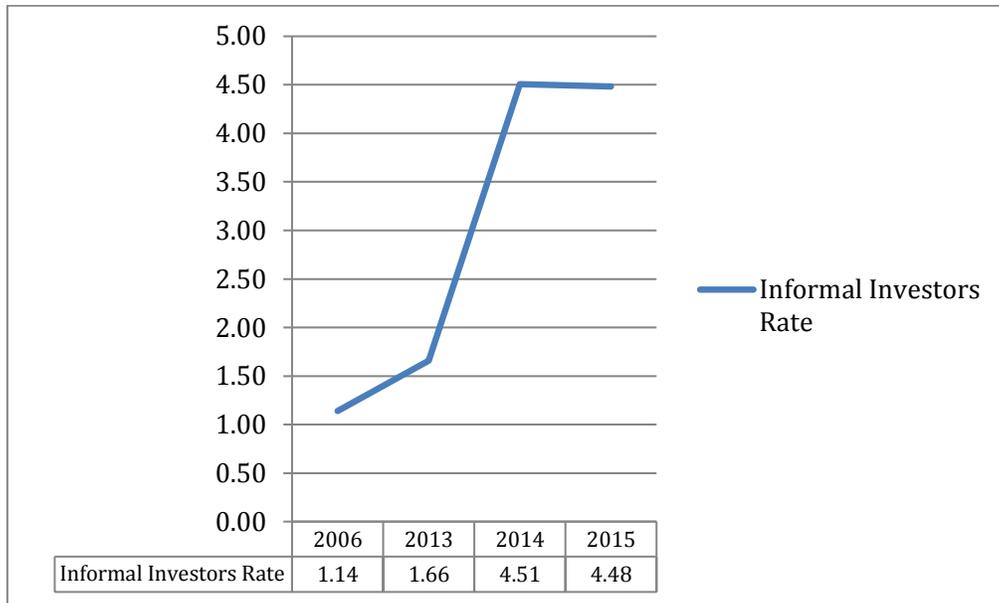
Source: GEM APS Key Indicators 2001–2015

Figure 14. Entrepreneurial Motivation



Source: GEM APS Key Indicators 2001–2015

Figure 15. Entrepreneurial Aspiration



Source: GEM APS Key Indicators 2001–2015

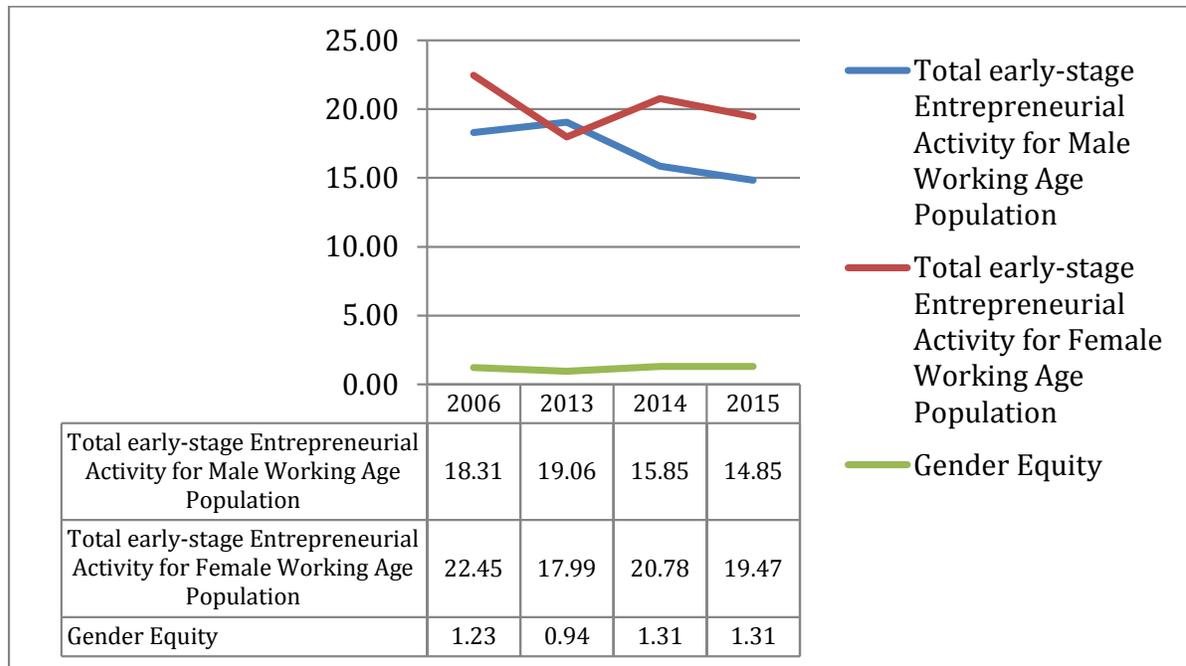
Figure 16. Informal Investors’ Rate

TEA indicated that their product is new to their customers in 2015 compared to 27.74% in 2006. There is also a higher expectation on tapping into the international market: 6.7% in 2015 versus 2.5% in 2006. This positive expectation is supported by the increasing trend in the informal investors’ rate shown in Figure 16. Informal investors are friends, family, or other network that invest in the business.

3.2.4. Gender in Entrepreneurship

The Philippines registered a very high gender equity, which is measured as the ratio of the TEA activity for the female working population to the TEA activity of the male population. As can be seen in Figure 17, there are more

The Philippines registered a very high gender equity, which is measured as the ratio of TEA activity for the female working population to TEA activity of the male population.



Source: GEM APS Key Indicators 2001–2015

Figure 17. Male/Female Population and TEA Activity

females starting a business or engaging in TEA as compared to males since 2006. In 2015, the Philippines ranked first among all 65 countries that participated in the GEM survey. The gender equity continued to increase over the 10-year period as more females start businesses relative to males.

3.3. Philippine Entrepreneurship Ecosystem

The environment in which Filipino entrepreneurs thrive in is described in the GEM framework through the EFCs. The EFCs are assessed through the NES. In the 2015 NES, 38 experts composed of entrepreneurs, policy makers, industry practitioners, and civic organization leaders were asked to complete the survey. The definitions of the EFCs are summarized in Table 10. The result of the 2015 NES is shown in Figure 18.

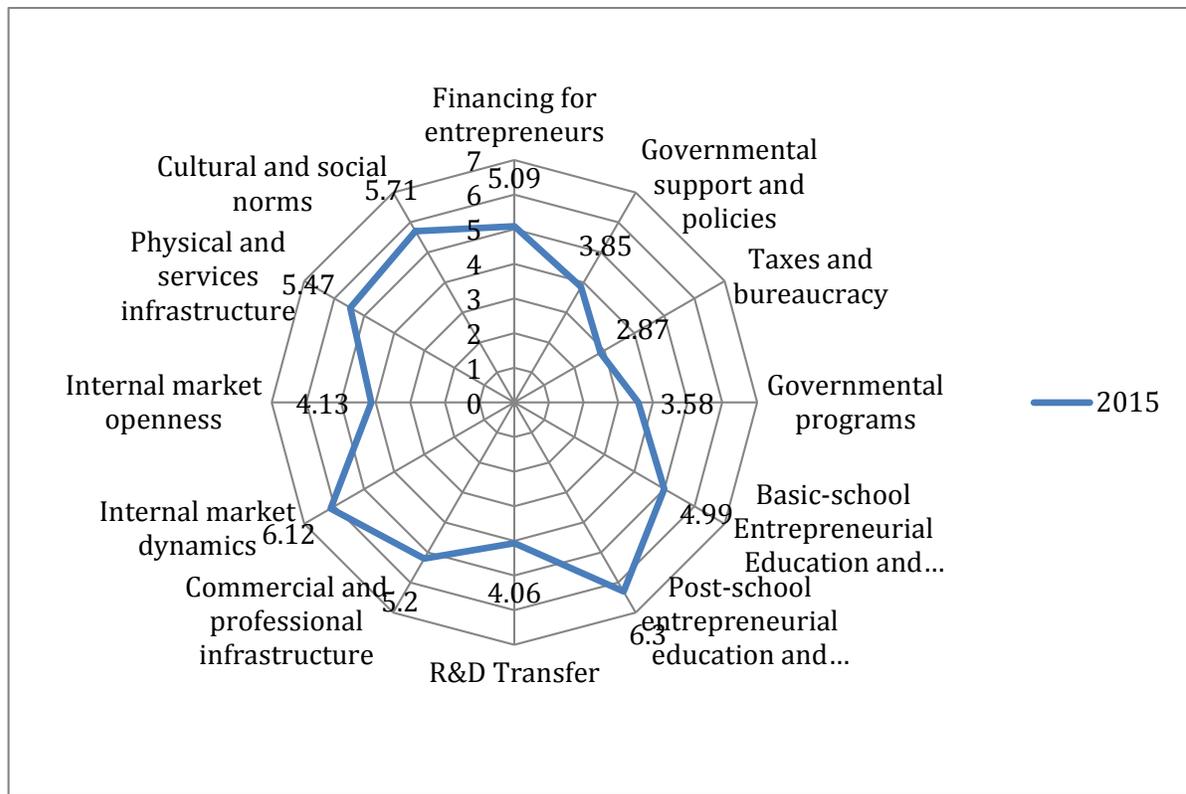
Table 10. *Definitions of EFCs*

EFC	Definition
Financing for entrepreneurs	The availability of financial resources—equity and debt—for small and medium enterprises (SMEs) (including grants and subsidies)
Government support and policies	The extent to which public policies support entrepreneurship—entrepreneurship as a relevant economic issue
Taxes and bureaucracy	The extent to which public policies support entrepreneurship—taxes or regulations are either size-neutral or encourage new and SMEs
Government programs	The presence and quality of programs directly assisting SMEs at all levels of government (national, regional, municipal)
Basic school entrepreneurial education and training	The extent to which training in creating or managing SMEs is incorporated within the education and training system at primary and secondary levels
Postschool entrepreneurial education and training	The extent to which training in creating or managing SMEs is incorporated within the education and training system in higher education such as vocational, college, business schools, etc.
R & D transfer	The extent to which national research and development will lead to new commercial opportunities and is available to SMEs
Commercial and professional infrastructure	The presence of property rights, commercial, accounting, and other legal and assessment services and institutions that support or promote SMEs
Internal market dynamics	The level of change in markets from year to year
Physical and services infrastructure	Ease of access to physical resources—communication, utilities, transportation, land, or space—at a price that does not discriminate against SMEs
Cultural and social norms	The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income

Source: 2015 GEM NES Questionnaire

Post school entrepreneurial education topped the environmental factors that support entrepreneurship in the country followed by internal market dynamics, cultural and social norms, and physical and services infrastructure. On the other hand, taxes and bureaucracy, government programs, and government support and policies burden and constrain Philippine entrepreneurial undertaking.

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Source: GEM NES Key Indicators 2007–2015

Figure 18. 2015 Philippine EFCs

Entrepreneurial education in higher education is mandated by law and offered as a bachelor’s degree and master’s degree. There are also government and private undertakings to support development of youth entrepreneurship through the different business incubator programs that offer trainings in opportunity identification, business plan development, and elevator pitch to attract venture capitalists and angel investors.

The large population of the country supports the domestic market that is up to date on different products and services available globally. This is an outcome of the movement of Filipinos to different countries for work, bringing into the country innovative products and services. The country’s population is very active in social media and the use of internet, thus, exposing them to global trends. The positive

societal perception on entrepreneurship, given the findings of APS, supports the entrepreneurial intentions of the population. There is also affordable access to resources in the country which is open to all levels and types of business.

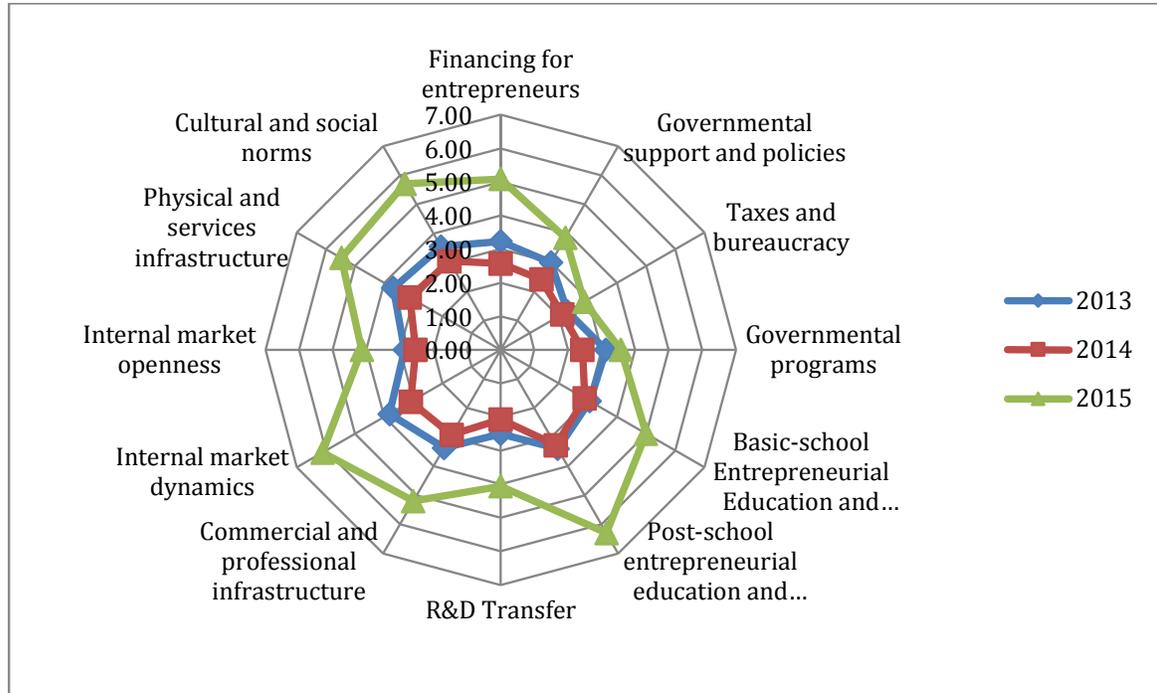
The country's population is very active in social media and the use of internet exposing them to global trends.

On the other hand, government policies and bureaucracy stunt the development and growth of businesses in the country. Although there are numerous laws that support entrepreneurship in the Philippines information dissemination is limited. Likewise, regulations and policies on SMEs are inconsistently and inefficiently implemented. Laws have been crafted to encourage startups. However, these laws do not support the growth and expansion of startups. Business operations become more burdensome as they grow due to the more restrictive regulations on large enterprises. It is also more difficult to conduct business in the Philippines because of taxes levied by the government and bureaucracy in implementing policies and procedures in running a business.

...government policies and bureaucracy stunt the development and growth of businesses in the country.

Over the last three years, Philippine EFCs have registered considerable improvement as can be seen in Figure 19. Improvements in education, internal market dynamics, commercial and professional infrastructure, and social and cultural norms are observed. The highest improvement was registered with the post school entrepreneurial education. This can be attributed to the incorporation of entrepreneurship courses in nonbusiness degrees like science and engineering programs.

Business operations become more burdensome as they grow due to the more restrictive regulations on large enterprises.



Source: GEM NES Key Indicators 2007–2015

Figure 19. 3-year Comparative Philippine EFCs

On the other hand, factors directly related to government have remained considerably the same over the last 3 years. Although there are numerous laws and policies that are aimed to support entrepreneurship in the country, the population is not well-informed regarding these policies. There is also inconsistent implementation of these policies among local government units.

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PART 4

Conclusion and Policy Recommendations



The country's economic performance has been improving in the last 10 years in terms of GDP growth, reduction in unemployment rate, and decreasing poverty incidence. Data for entrepreneurship in the Philippines showed decreasing startup activities (TEA) as more jobs are provided in the economy. There is also an increasing trend in the formation of established business since 2006. The country's development plan for the next 5 years has outlined a vision where

With smarter and more innovative people, the country in 2040 is also envisioned to be a major player in the global knowledge economy, producing innovative products and processes that are used to make high quality goods and services at competitive prices. (PDP 2017–2022)

Given the current state of entrepreneurship where there is a low level of global activities and number of enterprises engaged in manufacturing and production of innovative products and services, the country has to rethink its policy in promoting entrepreneurial undertaking to support the attainment of the 2040 vision. GEM findings can be used as bases for redundant policy recommendations in order for entrepreneurship to become a vehicle for attaining the country's vision of a prosperous, predominantly middle-class society where: no one is poor; there is a long and healthy life of population; there are smarter and innovative people; and there is a high-trust society. For the country to achieve this vision, it has to have businesses that are established and globally competitive. Thus, policy recommendations should consider the strategic goals set by ASEAN and UNCTAD on entrepreneurship policy priorities, namely, a) formulate national entrepreneurship strategy; b) promote productivity, technology, and innovation; c) improve access to finance; d) enhance market access and internationalization; e) improve policy and regulatory environment; and f) promote the

development of entrepreneurial skills through education and capability building.

The following are some policy recommendations to support the country's strategic goals on SME development.

- *Identification of industry priority areas where the country can be more competitive globally.* Nine priority industries are identified in the PDP 2017–2022. Although these industries are important to the attainment of the development goals of the country, the priority areas should be further narrowed down in order to have better focus and allocation of resources. There should be a thorough study on these nine industries and limitations should be imposed on the priority areas to sectors that will create more impact on the creation of more value-added and innovative products and services where the country can gain better competitive advantage.
- *Evaluation of the regulatory environment for startup businesses and ease of doing business.* The Philippines is not a choice investment destination for both foreign and domestic investors due to the difficulty of doing business in the country. The burden of doing business in the country is brought about by national policies and regulations that are often in conflict with or are duplicates of those that are implemented by government agencies. There is also confusion in the implementation of regulations due to the different operational definitions used by government agencies. There should be a regulatory reform program that would focus on the industry priority areas to improve the ease of doing business in the country. The country can benchmark with

the regulatory reforms conducted in countries like Japan and South Korea.

- *Develop the innovation capabilities of the business sector.* Innovation should be promoted in the design and production of goods and the delivery of services. To be able to do this, the country should create a support environment that encourages better innovation of products and services. There should be more active collaboration between the Department of Science and Technology (DOST) and the Department of Trade and Industry (DTI) to enhance the innovative capability of SMEs. There should be more emphasis given on research and development, building and managing business incubators, accelerators and coaching spaces that can help start-up businesses to be established and sustainable.
- *Introduce entrepreneurship and its different forms in all levels of education.* The present reform that extended basic education to 12 years is a very good avenue to introduce entrepreneurship in the formal education setting. Although entrepreneurship is a required track in Grades 11 and 12, entrepreneurship should be introduced in all its form, that is, self-employment, business venture, corporate or employee entrepreneurship, and social entrepreneurship. This can be further enhanced by emphasizing for the other tracks that employment is not the only career option. The science and technology track or STEM can encourage technical people to be self-employed, for example, offering technical services for firms or the arts and humanities track by joining the creative industries like music, film, and the arts. Providing professional services should also be encouraged.

- *Create new ways of accessing financing through equity.* Access to finance is more often associated with borrowing from formal institutions. Small and medium enterprises find it difficult to go through these formal channels due to their inability to meet the requirements of collateral and documentation procedures required by these institutions. This difficulty gave way to the opportunity of informal lenders and microfinancing institution to provide financing, which is usually associated with very high interest rate. On the other hand, equity financing is not easily available. Venture capital, crowdfunding, and social stock exchange can be further developed and institutionalized in the country. Formal programs should be developed to channel funds into these investment opportunities.
- *Promote export capacity and ability to integrate in the global supply chain.* The capability to export is usually tied to two factors: the quality and price of the product or service that will be globally competitive and the cost and facility to move the product beyond the country's borders. The government should give priority to businesses that will export products that will meet the global quality requirements. This can be done by providing small businesses the facility for research and development and quality control from the different government agencies. There should be active collaboration between the SMEs and the government agencies to improve products and services. The country should also fast track the implementation of the one window business facility to facilitate imports and exports, which would make it easy to do business globally.

- *Enhance human capital development for women and the youth on entrepreneurship.* Gender equality in the country is the highest among all the countries that participated in the 2015 GEM research. The country also has also one of the highest youth participation in entrepreneurship. There should be programs in the educational sector to enhance the capabilities of women and the youth to be entrepreneurs. Formal courses on product and service development, where women have better acumen than men, should be offered to equip women with skills that can be used in the production of products or delivery of services. Vocational courses should be revived to give women and the youth skills that they can use in whatever form of entrepreneurship they would like to enter. Dressmaking, culinary arts, fashion design, hair and make-up science, welding, painting, and plumbing—to name a few—should be offered as formal programs in vocational schools. Vocational schools should again be encouraged to better train women and the youth to have very specific skills that they can use to be self-employed.

Results of the 2015 GEM survey and the 10-year entrepreneurship analysis should be further studied to help the country in setting specific actionable plans on the above recommendations. More research should be done to analyze the data gathered to better understand Filipino entrepreneurs. Longitudinal analysis on the entrepreneurial motivation, activities, and aspiration of Filipinos with the different interventions (government and private entities) used to promote entrepreneurship should be conducted to better understand what works and what specific regulations should be enhanced or changed.

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