

LIVELIHOOD ANALYSIS FOR INFORMAL BUSINESSES: A TOOL TOWARDS COMMUNITY DEVELOPMENT INTERVENTION

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ABSTRACT

The informal business sector is a marginalized sector that are often left behind in the policy making as a result of their informality nature. However, the government regard the informal sector as a valuable partner in local development since they are considered as unplanned driver of economic growth. Livelihood analysis is used as a tool to understand the weaknesses of their assets, which served as basis for community development intervention. The five livelihood assets include human, social, natural, physical and financial. Due to lack of formal education, the informal food businesses such as street vendors are not capacitated in terms of entrepreneurial skills. The informal nature of the sector is in itself a limiting factor in accessing a wide network of suppliers, industry organizations, market and even livelihood assistance. The absence of financial security has led them to acquire multitude of loans. One of the major constraints in their sector is the lack of a public space that is open for informal food sellers. Since most of the informal business owners rely their stocks from a larger business unit, they are prone to disturbances that affect the supply chain of these groups. With a modest net income gained on a daily basis and considered above the subsistence level, the informal food businesses should have expanded and graduated from its informal status. The long years of period in the sector proved to show that they lack entrepreneurial skills such as innovativeness, creativity and visionary skills of an entrepreneur.

Keyword : Informal Business, Livelihood, Financial

BACKGROUND OF THE LIVELIHOOD ANALYSIS

The government considers the informal sector as an unplanned driver of economic growth. In the Philippines, there are about 10.5 million informal sector workers, 9.1 million of whom are own-account workers (PSA, 2008). The sector also accounts for 43 percent of the gross domestic product. Thus, the government regards the informal sector as a valuable partner in local development (Ballano, 2015; Vo and Ly, 2014).

The livelihood analysis anchors on the British Department for International Development (DFID) Sustainable Livelihood Framework (2000). The framework suggests that a household's livelihood assets and the institutional conditions with which they interact with largely determine the livelihood (or coping) strategies that they use to mediate the adverse effects of a crisis or shock (such as those caused by typhoons), and to ultimately achieve desired livelihood outcomes. These livelihood outcomes include financial security, food security, better health and well-being, among others (Figure 1).

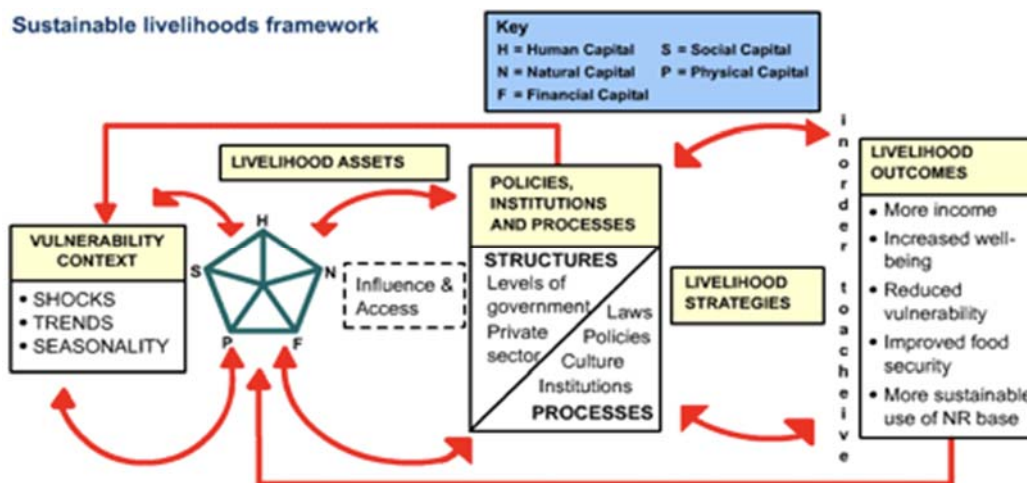


Figure 1. Sustainable livelihood framework (DFID, 2000)

The framework implies that households that have little livelihood assets and are living in poor institutional conditions will be highly vulnerable to the adverse effects of shocks and are less likely to achieve better livelihood outcomes.

The five livelihood assets include human, social, natural, physical and financial. Human assets refer to knowledge, skills, ability to work, and good health. Social assets are the resources people used to make a living, including social networks, relationships of trust, reciprocity and exchanges. Natural assets are the natural resources available for use in livelihood activities. Physical assets are the basic infrastructures and producer goods (goods like tools and raw materials that are used to produce another product) available. Financial assets are monetary resources such as savings, income and/or inflows of money, and access to financial services. Moreover, the framework suggests that institutional structures and processes also determines a household's level of access to livelihood assets. Institutional structures refer to the levels of government, the private sector, and civil society, while institutional processes refer to policies, legislation, and culture. These institutions establish access, ownership, and exchange of assets and facilitate returns to livelihood strategies.

The informal food sector in Naga City, Philippines is predominantly run by women. The average age of the owners is 42. Most only had elementary education. The low educational background may partially explain most claimed that their engagement in the informal food business is mainly borne out of necessity to earn a living outside of formal employment rather than opportunity. They mainly sell local fresh fruits and vegetables, dried and fresh seafood, and native delicacies; a few also sell refreshments and other cooked food items. The nearest source of fish/seafood products is located about 15 kilometers away from the city. Majority operate from small (1.2 sq.m.), makeshift stalls and use native baskets, winnower, sacks, and/or pails, which allows them to easily move from one location to another. Although prohibited by city market officials, they choose to vend in strategic and conspicuous areas where there is heavy pedestrian traffic and potential customers.

The condition of the informal business sector can be further understood using the five livelihood assets:

Human capital

Due to lack of formal education, the informal food businesses such as street vendors are not capacitated in terms of entrepreneurial skills. This, however, does not warrant that the formal business owners have the necessary skills to operate an enterprise. In addition, success indicators can also be found in external factors such government support towards a desirable business environment (Kader et al, 2009).

An effective business operation requires good managerial competencies that will support the decision-making skills of the entrepreneurs (Yusuf, 1995) Lack of formal education or training is one of the weaknesses of the informal food business owners which affected their business competencies (i.e. commodity and skills diversification). Out of necessity, they were forced to start their own small businesses without the guidance of a good business plan. As a result, they have to run after the market, compete heavily with both formal and informal businesses and suffer losses during climate stresses and sicknesses. Though they may have been in the industry for years, they have not graduated from their business economic status. The ability to diversify is weak as a result of poor exposure to business and market trends. Selling similar products at the same time may affect the sales, hence, some of them, resort to lowering the price to increase the market share for urban poor at the expense of product quality. In this case, the sector may be needing the skills of creativity and innovation in order to adopt to the changing market behavior. While they are more keen on the production and trading sides, they do not have the resources to study their market.

The role of the academe, industry and government to support the marginalized business sector is vital in shaping the local economy. The results generated from the social and technical researches of the academe towards the development of food industry may be tested and applied at the local level. The entrepreneurship projects could also be directed towards the development of business models that may include the informal business sector. The state colleges and universities may consider the sector as their clients in the delivery of their technical services and matured technologies. Besides, they are mandated to provide such services and function is inherent to the profession of the teaching personnel. The academe may be a good source of innovative ideas coming from the creative minds of the students and faculty.

Social capital

The informal nature of the sector is in itself a limiting factor in accessing a wide network of suppliers, industry organizations, market and even livelihood assistance. There is no formal record of their existence. The sector's future is quite uncertain and the risk of investing with them is high. Social network within a formal or informal group creates support to the livelihood activities. It is often the source of motivation, ideas, information, capital and trust which makes the members advantageous over those who do not belong to any. In Tanzania, "group cohesion" was found to be one of the success factors in business. (Kristiansen, 2004).

The informal food sector in Naga City, Philippines is composed of two types: the organized group and the unorganized group. The organized group are those informal vendors who are selling inside the supermarket while the latter are those selling outside the supermarket. The purpose of organizing the informal vendors within the supermarket was to address the issues on unhealthy competition among themselves and allegedly bribery to get the best location. The organization brought them to understand each other's plight and even voluntarily support each other. Meanwhile, the vendors located outside the supermarket were observed to have developed a certain network amongst them as they struggle against the public safety enforcers. They also watched each other's products when one needs to leave his or her premises for a while.

The city market officials were happy to see the results made after the organization inside the supermarket. They acted like the formal sector who now has a voice in the policy-making process of the city since they are now affiliated in the representation of the entire vendors associations. The city may replicate such scheme of organization in order to boost the social skills of the sector and could eventually serve as a bridge for increased networking activities including motivations to encourage them to become formal businesses.

Financial capital

Relative to an ordinary employee's salary, the net income in street food selling is quite appealing. An average net returns of PhP793 on a daily basis is more than enough to cover the food expenses of a family of five. Accordingly, their net returns are already allocated to not just one but several sources of informal credit. Hence, this is the reason why many of them do not have sufficient savings. Lack of financial literacy comprises the economic outcomes of the business (Hastings, Madrian, & Skimmyhorn, 2013). The absence of financial security has led them to acquire multitude of loans. Market vendors spend time in investing nexus of networks with informal credit providers for easy access in times of calamities (Schindler, 2010). Maintaining various informal credits has drawn them to a cycle of interest payment which restricts them from setting aside a portion of their income as savings. This becomes a reason for other needs to become susceptible to unforeseen events such as typhoons. These basic needs include food, utilities and medical expenses.

Given the scenario, two points can be gleaned as input for strategic action and policy recommendation. Firstly, with the informal credit as a popular choice, how will the government view such kind of transaction? Similar to informal food sector, they address some needs that the formal credit failed to provide to small-scale type of borrowers. These needs include the processing of non-collateral loans, proximity and flexibility of credit providers, and simplicity of transactions among others. Financial institutions should draw upon these gaps in order to accommodate a great deal of unserved market. Further, the attitude of the government towards the informal credit must serve the purpose for which it was created. In developing an effective micro-finance programs, the government must understand and learn the gaps of the formal credit system which can be used to bridge the inefficiencies to the informal business borrowers. These may include prompt response to credit needs of small-scale vendors, physical proximity to borrowers, flexibility of credit policies and simplicity of credit transactions. (Srinivas, 2014)

The second point is directed to the informal food owners/vendors who have been in the "borrowing" cycle for decades. In most cases, the unavailability of some formal economic opportunities would prompt them to seek some set of circumstances from informal sources in order to meet their daily needs. Family resources are often sacrificed to sustain their livelihood activities. (Webb, et al, 2013) The informal food vendors inside the supermarket were found to have several sources of informal creditors. As a result, the net returns they get on a daily basis were also allocated as payment to several installment schemes. Apart from these, a portion were also dished out to several forms of vices such as drinking alcohol, betting on "lotto", cockfighting and the likes. Some vendors were also tempted from the quick loan offers such that they are able to buy things they do not really need or things that are beyond their means of living. The government may provide a program that will boost their financial literacy. While it may be observed that the diversification index is poor, it may be construed that the respondents lack diversification strategies which can be supported by good financial planning especially on raising capital and investments. Entrepreneurial success is positively related to financial literacy. (Njoroge, 2013)

Physical capital

The informal business sector's most important physical capital is the free public space where they rely their daily market share. The exclusion of a fixed rental fee in the cost of business operation is what makes a gainful net returns. In contrast to the informal businesses, they normally invest on location to get a bigger slice of their target market.

The proliferation of commerce in the City can be accorded to its track record of being a business-friendly area. The pull of the market has brought many vendors to move to the city such that the space could no longer accommodate all informal businesses.

Before, the government viewed the informal sector as a market nuisance because of their business irregularity in terms of registration and operation. However, since they could not prevent them from selling, the city market officials decided to organize them into an association in 2015. This was also a response to the increasing complaints from among the informal food sellers of the unhealthy competition and bribery they experienced on a daily basis. The organization of this sector led to an orderly system of zoning the type of products inside the three floors of the city supermarket. They were, then, provided with a space inside the supermarket and a cash ticket that served as their special business permit. Meanwhile, the street food vendors who were located in one of the major plazas of the city were already subjected to a process of formalizing their operations and are now registered businesses.

However, such space is no longer adequate to the increasing number of informal businesses. Moreso, they could not freely sell along the sidewalks and streets as they are not allowed due to obstruction of foot traffic. In the focus group discussion held with the leaders of the informal food businesses, they revealed that one of the major constraints in their sector is the lack of a public space that is open for informal food sellers. One may also note that an open space is vulnerable to the hazards brought by typhoons. With no structure to protect, their productive assets are jeopardized. As a result, their income is affected for as long as their productive assets are restored to its normal condition.

With the intensification of commercial buildings in the central business areas, street space becomes too small even for the vehicles. It may be an opportunity for the government to work in partnership with the informal food sector as they seem to be willing to cooperate if given the right space for their livelihood. In many tourist Asian countries such as Thailand, Cambodia and Vietnam, night markets are widespread and well-established. This is also a way of setting a culture of business by supporting the needs of the informal vendors. Perhaps, the city government of Naga can set a definite schedule for people to walk on the streets and buy local products sold by the informal food businesses. Although, the city government has already launched the eco-friendly public transportation and promoted biking and walking, it admitted that a strong policy measure must be developed to support such efforts. Such activity could open endless opportunities for the academe and government to heighten and upgrade the level of creativity, innovation and safety of products sold to the open market.

Natural capital

Since most of the informal business owners rely their stocks from a larger business unit, they are prone to disturbances that affect the supply chain of these groups (Vlajic, 2015). These disturbances may not just be climate-related but could be logistical problems and supply chain issues. In terms of the recovery time, the most affected crop after a strong storm is coconut since it would take a year to recover and return to its normal fruiting stage. With fried banana as a traditional snack, banana becomes a critical crop to drop after a storm. However, with a good network of suppliers, they do not run out of stocks even right after a storm. The coping mechanism of the farmers should be included in the city agriculture government program as they serve as the production chain actors in the supply chain of both informal and formal food businesses. The entire food supply chain is affected if the source of agricultural commodities are affected. This would alter their average daily net returns and could impact their daily expenses. If such happen, the level of food security may be affected not only for the food business vendor but for the entire household.

In the business development programs of the city, it might include strengthening the source of basic inputs from the agriculture sector. The reinforcement of smart agriculture modalities in the rural communities and promotion of urban agriculture could help mitigate the impacts of climate extremes to agricultural productivity. The shortening of food supply chains may minimize the issues of food security in the urban areas. (Aubry & Kebir 2013)

COMMUNITY DEVELOPMENT INTERVENTIONS

Inputs for community development interventions were drawn using the five capitals of livelihood: human, social, financial, physical and natural. Under the human capital, managerial competencies were identified as a deficiency in the decision-making ability of the informal sector. On the other hand, the need to develop formal groups within the informal sector may seem to be an important element in improving the social networks and boosting their morale. In order to avoid the informal creditors who are offering very high interest rates, a credit system that will adapt to the nature and needs of the informal business sector may be developed. A free space may also be provided to allow them to sell to the public market without obstructing the flow of traffic within the central business area of the city. While they may be dependent on agricultural supplies within the province, the city may consider a backward integration of the primary agricultural commodities usually sold in the city such as encouraging them to venture into urban agriculture to minimize the risks brought by typhoon to farms in an open field.

The city is getting crowded and the policies might become stricter in the future. But with poor business competency and weak business network, it is not easy for a simple street vendor to upgrade his business. Unless there is a high degree of willingness coupled with a visionary mindset. However, with the kind of behavior they have, it would seem to appear that the focus of the informal food sector is not growth but survival. But beyond survival, they should first build on business legitimacy to access the resources needed to enhance growth especially for new ventures. (Zimmerman & Zeitz 2002)

With a modest net income gained on a daily basis and considered above the subsistence level, the informal food businesses should have expanded and graduated from its informal status. The long years of period in the sector proved to show that they lack entrepreneurial skills such as innovativeness, creativity and visionary skills of an entrepreneur. They are confined to the products usually offered in a street or traditional market. They are using a demand push to sell their products rather than a demand pull as manifested by the type of their marketing practices. With lack of market-orientation techniques, they are not able to create new ventures that will lead then to business growth (Baum and Locke, 2004).

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