

Ease of Doing Business in Baguio City from the Perspective of MSMEs

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ABSTRACT

This study investigated the ease of doing business in Baguio City, Philippines, from the perspective of micro, small, and medium enterprises (MSMEs). The research aimed to assess the implementation of Republic Act 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018) and its impact on the business environment. Results indicated that while the city had made significant strides in implementing the law, challenges remained in certain areas such as personnel improvement. The study concluded that Baguio City's efforts to improve the ease of doing business had positively influenced the perception of MSMEs, fostering a more conducive environment for entrepreneurship and economic growth. However, efforts were necessary to address remaining challenges and ensure continued progress in creating a business-friendly environment.

Keywords: MSME, Ease of Doing Business, Baguio, Entrepreneurship, Government Policy

Background of the Study

Small businesses in the Philippines play an integral part in the economy. In fact, according to the Department of Trade and Industry, in 2022, there were 1,109,684 business in the country. However, out of that number, 99.59% or 1,105,143 are considered MSMEs or micro and small to medium enterprises. The numbers are staggering, and it means that MSMEs are the lifeblood of the country's economic activities.

Given the data, the Philippine government ought to prioritize strengthening the MSME sector. Entrepreneurship must be encouraged. However, people are hesitant to put up businesses because of the misconception that it is hard to establish one and that corruption may affect their operations. Local Government Units gained the highest corruption related complaints for seven consecutive years based on the report released by the ombudsman's Finance and Management Information Office (Romero et al., 2019). This is bad because LGU is the primary government agency that handles business registration and licensing processes.

In 2018, Ease of Doing Business and Efficient Government Service Delivery Act of 2018 had been signed into law by then President Duterte. The law is also known as RA 11032. The law was created with the main objective of attracting more investors in the country and to remove corruption in government processes and transactions (Gonzales & De Castro, 2024). Hereafter, ease of doing business will be referred to as EODB.

The study would like to focus on the ease of doing business in the city of Baguio. Balaoing (2024) reported that Baguio City is the richest city outside of Metro Manila. Baguio's per capita GDP is at P420,000 which makes it one of the strongest economies in the Philippines. Baguio, given its status, as cultural and educational hub in North Luzon, encourages people in the city and outside the city to establish a business in the city. According to the City Government of Baguio (2023), there are 22,121 registered businesses as of August 2023. Of the total businesses, 19,874 are microenterprises mostly engaged in wholesale and retail while 1,748 are small businesses; 423 are medium enterprises; and, 76 are large scale enterprises. Baguio's MSMEs are the major economic contributors to the city's vibrant business environment.

Therefore, the researcher would like to analyze whether RA 11032 is being applied as perceived by MSMEs in

the city which is an integral economic community outside Metro Manila.

Statement of the Research Problem

Researchers have studied the ease of doing business and the application of Republic Act 11032 (RA 11032), or the "Ease of Doing Business and Efficient Government Service Delivery Act of 2018," in various parts of the Philippines. The law aims to streamline government processes to benefit entrepreneurs. However, in Baguio City, limited or no research has specifically focused on how this law affects local businesses, particularly micro, small, and medium-sized enterprises (MSMEs). While previous studies have concentrated mainly on applying the law at a national or regional level, they have not addressed the perceptions of entrepreneurs—those directly impacted by these reforms.

The size of the problem lies in the fact that without understanding the perspectives of MSMEs in Baguio City, policymakers and local government units may overlook critical areas where RA 11032 is not functioning as intended. The lack of data may hinder the local government from implementing further improvements that could support economic growth in the area.

If the issue is not addressed, Baguio's local businesses may continue to face bureaucratic hurdles, undermining the spirit of RA 11032 and stifling the potential for growth among MSMEs. Failing to act might also mean that the city will fall behind other regions regarding business competitiveness and ease of operation, further exacerbating inefficiencies and discouraging entrepreneurship.

The study is unique in that it focuses on the first-hand experiences of MSME owners in Baguio City, offering a localized perspective on the effectiveness of RA 11032. By centering the research on the entrepreneurs' perceptions rather than the legal or procedural aspects of the law's application, the study will uncover insights that could lead to actionable improvements at the local government level.

REVIEW OF RELATED LITERATURE

Ease of Doing Business

Ease of Doing Business Report was annually published by World Bank for 20 years running. This report publishes the business climate of each country based on the following indicators: opening a business, dealing with construction permits, getting electricity, registering a property, obtaining credit, protecting minority shareholders, paying taxes, trading with other countries, implementing contracts, resolving insolvency, and labor market rules and practices (Gano-an & Chea, 2021). According to the 2020 report of World Bank, the Philippines ranked 95th out of 190 countries.

In the study of Gano-an & Chea (2021), their findings concluded that Philippines is lagging in comparison to its ASEAN neighbors. It is ranked 7th when it comes to ease of doing business. This is a problem if the Philippines aim to be one of the best performing economies in ASEAN region. The Philippine government needs to initiate entrepreneurship and the ease of doing business to catch up with its neighbors. If ease of doing business improves in the Philippines, foreign investment will influx and number of MSMEs will increase as a consequence.

MSME

The Philippine government, throughout the years, initiated different programs and policies to improve the business environment in the country. According to Balotro (2019) higher educational institutions are encouraged to provide entrepreneurial infrastructure to encourage innovation and entrepreneurial ventures. Different laws have been passed such as Magna Carta for MSME or RA 9501, which also gave the structure and definition of what an MSME is. Tadeo et al. (2023) discussed that MSMEs helped facilitate growth and provide employment to citizens. Moreover, United Nations Development Programme (2020) saw the importance of MSME in alleviating poverty, especially in developing countries. To further strengthen MSME should be one of the priority programs of the government. According to Jacildo et al. (2016) Table 1 shows the category of businesses that falls under MSME in the Philippines.

Table 1: MSME Classification

Type of Enterprise	Asset Size	Employee Count
Micro Enterprise	Up to P3,000,000	1–9
Small Enterprise	P 3,000,001 – P 15,000,000	10–99
Medium Enterprise	P 15,000,001 – P 100,000,000	100–199

RA 11032

Republic Act 11032 is an important law that helps established ease of doing business in the Philippines. The goal of the state is to promote effective and efficient implementation of business processes that highlights integrity and accountability. Simply put, the law was created to make it easier for entrepreneurs to establish their ventures and to remove red tape and corruption in the process. The law implied improvements in the process. The researcher divided the improvement and policies into three categories: process, facility and personnel.

Corruption

Government offices are known to be corrupt. Institutionalized corruption is a problem that thrives in the weakness of both public and private institutions to act as effective fiscalizers for the greater public good (Batalla, 2000). Corruption affects investments and entrepreneurs. It hinders the growth of the city or the country. Hence, government efforts to reduce corruption is a welcome development in our country such as the passing of RA 11032.

METHODOLOGY AND DATA GATHERING

The researcher used quantitative technique using descriptive statistics and binary logistic regression to understand the relationship of the three constructs to the perception whether there is ease of doing business in Baguio or none. Binary logistic regression is used when we are trying to predict a dependent variable with only two outcomes or dichotomous variable (Faizi & Alvi, 2023). It can predict the perception of the MSMEs on whether they believe there is ease of doing business in the city. All computations were made using SPSS.

In terms of sampling design, the researcher conducted face-to-face questionnaire to 71 entrepreneurs who are considered MSMEs. To identify the number of participants, G*Power was used. In the computation, the researcher wanted to detect an odds ratio of 5 with a significance level of 0.05 and a power of 0.85. According to Serdar et al. (2021) the ideal power of a study is at 0.80. The participants were identified using random sampling. The study used questionnaires with 5-point Likert’s scale as the main instrument constructed based on the provisions of RA 11032 similar to that of Romero et al’s (2019).

Data set were gathered using instrument tool primarily from RA 11032. Using factor analysis, the following remained in Table 2. FAC 4 was removed in Facility. PER5 and PER6 were removed from Personnel and PRO3, PRO4 were removed in Process. Sampling was adequate in factory analysis using KMO and Bartlett’s Test. KMO=0.67 which is acceptable and Bartlett’s Test=<0.00 which is again acceptable because it is less than 0.05. VIF levels of facility, personnel and process are 1.57, 1.41 and 1.37 respectively that shows no multicollinearity.

Table 2: Ease of Doing Business Indicators

Category	Indicator Code	Description	Source
FACILITY	FAC1	There is an onsite BOSS (Business One Stop Shop) for the business permit and licensing system.	RA 11032: An Act Promoting Ease of Doing Business and Efficient Delivery of Government Services

	FAC2	There is an online BOSS (Business One Stop Shop) for business permit and licensing system.	RA 11032
	FAC3	The offices that transact your business permits and licenses are easy to navigate.	RA 11032
	FAC5	Comfortable seating is provided while waiting for your transaction.	RA 11032
	FAC6	Clean comfort rooms are provided in the vicinity of the transaction.	RA 11032
PERSONNEL	PER1	Employees involved in the processing are approachable and courteous.	RA 11032
	PER2	The employee in charge of processing has no direct contact with the requesting party (Zero Contact Policy).	RA 11032
	PER3	Even during lunch breaks, employees are providing services.	RA 11032
	PER4	No employee in any government office asked for payment in exchange for approval or expedited service.	RA 11032
PROCESS	PRO1	The Citizen's Charter is posted where it is easily seen and read.	RA 11032
	PRO2	The Citizen's Charter is easy to understand and concise.	RA 11032
	PRO5	Processing time for complex transactions is accomplished within no longer than seven business days.	RA 11032
	PRO6	Signatories are limited to three officers only.	RA 11032

RESULTS AND DISCUSSIONS

Statistically, there is no normality in the given data set however, normality is no required when doing binary logistic regression. Out of 71 respondents, there were 62 entrepreneurs who falls under the category of a micro enterprise or 87.3% of the participants. While there were 5 and 4 respondents that fell under small and medium enterprises respectively. Moreover, the researcher recorded how long do the entrepreneurs have been operating their business. 31 or 41.3% answered that they have the business for 1-5 years. There were 28 respondents or 37.4% have their business operating from 6-10 years. Lastly, 16 entrepreneurs or 21.3% have responded that their business is up and running for 10 years and more now.

Table 3 shows the descriptive statistics. The result shows that among the three constructs of EODB process garnered the highest mean and personnel got the lowest mean. Meaning, the perception of MSME is that among the three, they experienced that process is more evident to be improved and entrepreneurs saw the overall implementation of EODB policies related to process had helped them in their business licensing and application processing. Process included the Citizen's Charter posting and making sure that it is understandable to the general public. Moreover, signatories were limited to 3 or less which is what RA 11032 implied. This cut the process of getting a business license shorter as compared to pre-RA 10032 time.

Table 3: Descriptive Statistics

Category	Indicator Code	Description	Mean	SD	Interpretation
FACILITY	FAC1	There is an onsite BOSS (Business One Stop Shop) for the business permit and licensing system.	3.97	0.82	Agree
	FAC2	There is an online BOSS (Business One Stop Shop) for business permit and licensing systems.	3.33	1.16	Agree
	FAC3	The offices that transact your business permits and licenses are easy to navigate.	4	0.84	Agree
	FAC5	Comfortable seating is provided while waiting for your transaction.	3.95	0.82	Agree
	Facility Average		3.82	0.91	Agree
PERSONNEL	PER1	Employees involved in the processing are approachable and courteous.	3.96	0.62	Agree
	PER2	The employee in charge of processing has no direct contact with the requesting party (Zero Contact Policy).	3.44	1.03	Agree
	PER3	Even during lunch breaks, employees are providing services.	3.59	0.92	Agree
	PER4	No employee in any government office asked for payment in exchange for approval or expedited service.	3.57	1.05	Agree
	Personnel Average		3.64	0.91	Agree
PROCESS	PRO1	The Citizen's Charter is posted where it is easily seen and read.	3.93	0.55	Agree
	PRO2	The Citizen's Charter is easy to understand and concise.	3.97	0.52	Agree
	PRO5	Processing time for complex transactions is accomplished for no longer than seven business days.	3.89	0.65	Agree
	PRO6	Signatories are limited to three officers only.	3.91	0.56	Agree
	Process Average		3.93	0.57	Agree

However, looking at Table 3, the construct that got the lowest mean is personnel. This is crucial because one of the contributors of corruption can stem from personnel. The lowest item in personnel that received the lowest means is PER2. PER2 is about Zero Contact Policy. Romero et al. (2019) defined the goal of zero contact policy is to decrease the interaction of the client and the officer in charge of their transaction. It means that the city needs to improve training their personnel in relation to the policies under RA 11032. Notably, PER4, which reads No employee in any government office asked for payment in exchange for approval or expedited service means that there were still instances where somehow an employee in a government office in the city asked something in exchange for a favor with the client based on the answers of the respondents. Take note, the

researcher did not personally witness this.

Table 4: Ease of Doing Business Result

Ease of Doing Business	Frequency	Percentage
No	7	5.60%
Yes	68	94.40%
TOTAL	71	100%

When asked about whether the entrepreneurs perceived in their experience if there is ease of doing business in Baguio or not, the result is a resounding yes. 94.40% of the respondents can attest that the government of Baguio had provided an environment where entrepreneurs does not need to worry about red tape, fixer, corruption and knowing someone from the city hall. It means that overall, MSMEs can feel that the fairness, efficiency and transparency of the processes in the city. This is a compliment to the actions the local government are taking to promote good governance and clean government. The result supports the research of Mengitsu (2016, as cited by Kumar & Kumar, 2020) that good governance infrastructure affects positively the ease of doing business in a country, in this particular case, in Baguio City.

Table 5: Binary Logistical Regression

	B	S.E.	Wald	df	Sig	Exp(B)
Facility	-1.230	1.077	1.304	1	.254	.292
Personnel	1.747	.878	3.958	1	.047	5.736
Process	1.554	.978	2.524	1	.112	4.730
Constant	-4.048	4.294	.889	1	.346	.017

Table 5 shows the logistical regression result. Among the three constructs, only personnel had statistical significance. Although facility and process are statistically insignificant, it is interesting to look at its odds ratio. Facility has an odds ratio=0.292 which is less than one, personnel and process have an odds ratio that is greater than one. The interpretation is that the more the LGU’s personnel and process policies are in line with EODB RA 11032, the higher the perception of MSME that there is ease of doing business in the city. In a way, MSME business owners prefer to experience well trained and transparent people in government offices, and clear and efficient process to be able to say that there is ease of doing business. This can be helpful since the city has limited funding and limited time to implement improvements in all areas. Hence, the city can prioritize improvements and policies related to personnel, followed by process and lastly, facility.

CONCLUSION

Baguio City had done a good job implementing RA 11032 and making sure that MSME can feel and experience ease of doing business in the city. MSME can continue to thrive when EODB is present. Potential investors who would like to establish their business in the city can be assured of clean transactions. The city can continue to be an economic and business hub outside Metro Manila. Although the challenge of fully implementing RA 11032 is that proper technology and training to strengthen the overall process of application and licensing. Gonzales & De Castro (2024) in their study of EODB in Sorsogon noted that the three major problems the province encounter in the implementation of EODB are knowledge and attitude of clients, network and technology, and problems concerning LGU. Same researchers suggested to maximize the use of digital payment channels to make payment

easier and more secure because it won't go through government officials. Romero et al., (2019) in their findings of EODB in Nueva Ecija got the same findings that EODB is being experienced in the province.

Although the implementors of EODB needs to consider the result of Franciso et al., (2020) where they concluded that government needs to lighten the burden of implementing new regulations and policies on smaller and younger firms. Moreover, there is a negative correlation with regards to time spent on regulatory compliance vis-a-viz growth probability of SMEs according to the same researchers. Balance needs to be established between regulatory compliance and making it easy for businesses to comply.

In terms of the city of government of Baguio, as far as the research is concern, the city and its leaders have made a great job in implementing RA 11032. Continuous improvement is suggested for the city to maintained the trust and perceived effectiveness coming from MSME business owners. In relation, Baguio City can also serve as a barometer for other local government units. Other cities can benchmark from the best practices of the city.

Managerial implication may be higher confidence and level of trust of entrepreneurs and potential investors to the political and business climate in the city. It can pave the way to open up the city to more businesses that can help with job creation and stability of the city.

RECOMMENDATION AND LIMITATION OF THE STUDY

The researcher recommends to take the study on a different level. It can be done by garnering more samples. A mixed method can also be useful if one will create the same study as this. The limitation of the study as suggested by the title is that it is only focusing on the perception of MSMEs. Inclusion of large businesses can be a good part of the study. Moreover, a comparison between the perception of MSMEs and Large businesses can be interesting to know and understand. This can be helpful when looking whether there is a bias in the implementation of the law.

Furthermore, the researcher suggests to provide more training and expose local government officials to events that can further improve their knowledge of RA 11032 and if there are available technology and skills to create a better environment for entrepreneurs in the city.

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