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Can SMEs survive natural disasters? Eva Marie Arts and Crafts versus Typhoon Yolanda

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ABSTRACT

Promoting more resilient firms and production chains could be the key to much more resilient communities who remain in shock prone areas. Otherwise, shock-upon-shock will produce an immiserizing effect, notably among the smallest and most vulnerable firms. The experience of small and medium scale enterprises and their corresponding value chains affected by Typhoon Yolanda (also known as Typhoon Haiyan) offers important insights here. Public sector and donor support for disaster- and crisis-hit communities is critical; but it is only when firms get back up that the community is able to recover fully. Crises even offer opportunities for expansion and innovation for those firms that are most resilient and are able to boost their competitiveness after crises. Nevertheless, not all firms are able to seize opportunities during crises. These types of shocks have the potential to further increase the productivity divide between relatively smaller and larger firms. All these factors appear cogent in the case of Eva Marie Arts and Crafts, as it recovered from Typhoon Yolanda. Using data gathered through key informant interviews and focus group discussions with the relevant persons in the production chain of the firm, this case study reveals how the coherence across emergency aid and resilience building policy interventions is critical. It also highlights the necessity of knowing the language and circumstance of the locals, the human spirit of resilience, and the importance of supplying to businesses similar aid offered to individuals and households.

1. Introduction

On 8 November 2013, Typhoon Yolanda—also known as Typhoon Haiyan, the strongest storm ever to make landfall in recorded history—hit the Philippines.[1] As part of its repercussions, a storm surge of anywhere from 3 to 5 m (10–17 feet) in height hit the islands of Leyte and Samar.[2] This deluge killed thousands and destroyed countless houses and establishments, on top of the damage wrought by strong winds (from which most infrastructure in the area was not yet designed to withstand). In addition, Typhoon Yolanda devastated many micro, small and medium sized enterprises (SMEs), not merely in terms of their infrastructure, but also by harming workers, disrupting supply chains, and crippling public services [23].

The international development literature is replete with evidence of sustained after-effects of aggregate shocks. Entire cohorts of young people could suffer from cognitive and other underdevelopment side effects from food-related crises and famines as well as economic crises. And farmers may resort to less productive but more resilient crops and livestock in anticipation of continued droughts.[3] To make matters worse, the most affected are those who cannot afford to lose their li-

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[1] Tropical cyclone Haiyan is known as typhoon Yolanda in the Philippines. In order to avoid confusion, we will refer to this tropical cyclone by its officially designated name in the Philippines.

[2] Much of the local elevation is only about 10 feet above sea level (NASA, 2014).

[3] See among others [7,11,12,21,22].

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velihood to disasters, as these are the same people who cannot afford sturdier houses in safer locations and can barely meet their basic needs [17]. In this over-all narrative of the lingering effects of shocks and crises, it is clear that the negative aftershocks may be long-lived, and in some cases, more serious than the impact of the initial shock itself.

As regards Typhoon Yolanda, its implications are expected to linger beyond the immediate effects of the typhoon itself, further affecting the livelihood of the entire community. Since then, relief efforts have been undertaken by the national government and by different local and international non-governmental organizations (NGOs). Nevertheless, many are concerned that the recovery from the aftermath of typhoon Yolanda will be much slower if the enterprises forming the backbone of the domestic economy are unable to resuscitate investments and job creation in the area. And if storms like Yolanda increase in frequency and intensity due to climate change, then there is also the concern that only larger firms will be able to adapt with strong disaster risk management strategies. On the other hand, SMEs could systematically lose out, reducing their competitiveness and marginalizing them in disaster-prone economies.

Definitions of small and medium enterprises (SMEs) vary across countries. In the Philippines, they are defined as any enterprise engaged in industry, agri-business or services that has an asset size of Php3M – P100M or has an employment size of 10–199 employees (National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003 dated 16 January 2003 as adopted by Philippine Statistics Authority Resolution No. 1, Series of 2007). With large enterprises only comprising a small portion of the total establishments in the Philippines,[4] it is worth exploring the concept of resilience in the context of smaller businesses. From their stocktaking of literature on the definition of resilience from various disciplines, Bhamra, Dani and Burnard [3] provides a working definition of resilience that may be applied to the context of SMEs. They define it as "the capability and ability of an element to return to a pre-disturbance state after a disruption" and involving "the ability to withstand systematic discontinuities as well as the capability to adapt to new risk environments."

As SMEs are generally established and operated by a small group of people, it can be reasonably implied that the resilience of SMEs is anchored on the qualities of these people. Various case studies show that quality of leadership, organizational culture, decision-making, and situation awareness in SMEs may indicate how quickly a firm recovers after a disaster [30], as well as the importance of flexibility, motivation, perseverance and optimism of the people running the business [18].

Other than human qualities, there are other factors that lead to successful recovery and reconstruction. For example, Indonesia's successful recovery after the Indian Ocean Tsunami in 2004 was attributed to the government, for allowing local communities, leaders and NGOs to participate in the master reconstruction plan [28]. Meanwhile, in Sri Lanka, which was affected by the same tsunami, cash grants for businesses played an important role in recovery. However, a case study revealed that cash grants were more effective in increasing the speed of recovery for those in the retail sector as compared to those in the manufacturing or services. This may be due to the fact that non-retailers highly depend on trading partners and production assets and have more complex supply chains that may have also been destroyed during the disaster. The study also supports the provision of cash aid to households as this stimulates spending in support of the local shops, speeding up the recovery further [6].

In terms of pre-disaster measures that may help reduce future risk and building resilience for other disasters, case studies point to risk transfer mechanisms like insurance for disasters, "build back better" recovery policies during reconstruction, and having business continuity plans and a national framework for disaster risk reduction and management [5,33]. In the Philippines, there are sufficient legislative provisions for proactive response to disaster events for both communities and businesses, such as R.A. 10121 Philippine Disaster Risk Reduction and Management Act (2010), the National Disaster Risk Reduction and Management Plan, the National Climate Change Action Plan, and the Philippine Development Plan. However, there is a lack of translation of National Policy into local and sectoral plans, as seen in the lack of direct strategic plans for SME business continuity that takes into consideration the vulnerabilities specific to them [2]. These written disaster plans and regulations must also be appended by coordination among organizations. The 1999 the Marmara Earthquake in Turkey showed without a flexible and fast-acting organizational structure, even the most well thought out plans are futile [16].

To help identify general lessons and illustrate the important factors that might influence the abovementioned outcomes, this case focuses on the production chain of Eva Marie Arts and Crafts, Inc., a handicraft producer in Basey, Samar. The case describes how this particular enterprise fared when Typhoon Yolanda struck. It illustrates the important linkages across the resilience of this firm with the resilience of the entire production chain to which it belongs, as well as the resilience of the entire community that this chain supported.[5] Coherence across emergency aid and resilience building policy interventions is critical. And if misaligned, the very support that donors could provide to communities could produce side-effects that delay the recovery of value chains and firms, creating dependency rather than resilience.

2. A snapshot of the production chain

The main output in the production chain under study here includes handwoven mats, bags and other products made out of the domestic materials including "buri" and "tikog". These are essentially the leaves of certain plants that grow in the region. And these indigenous inputs have served as sturdy and pliable materials from which to weave the various handicrafts that the region has come to be well-known for.

[4] According to the 2016 List of Establishments of the Philippine Statistics Authority (PSA), 99.57% (911,768) of the total establishments in the Philippines are micro, small and medium enterprises (MSMEs), of which 89.63% (820,795) were microenterprises, 9.50% (86,955) were small enterprises, and 0.44% (4018) were medium enterprises.

[5] Among other official and media sources, data for this case study was gathered through key informant interviews and focus group discussions with the relevant persons in the production chain of the firm, including raw material suppliers, weavers, embroiderers, the firm owner and her distributor. A local coordinator and case writer carried out initial interviews in the month of May, followed by the fieldwork of a team from the AIM Policy Center in June 2014 to complete the research.