

MSME VALUE CHAIN

Rapid Response Survey (Wave 2)



The United Nations Development Programme's (UNDP) second round of survey has probed the issues and challenges faced by MSMEs. Through the survey results and corresponding analyses, UNDP aims to provide insights that could support the development of a comprehensive recovery plan for MSMEs by the government, the private sector, and the country's development partners. However, due to mobility limitations, UNDP was unable to gather a significant number of respondents for second phase of the survey outside NCR and sampling selection was not random. Nonetheless, UNDP hopes that this paper will lead to further collaboration among stakeholder and spur the government and policymakers into action to address the pressing concerns of MSMEs.

UNDP Philippines acknowledges the team who collaborated in this study:
Karen Brilliantes, Johanna Erroba, Michelle Llorente, Rex Lor, and Yemesrach Workie.

Copyright @ 2020 by United Nations Development Programme, Philippines. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by means, electronic, mechanical, photocopying, recording or otherwise, without prior permission.

The findings, analysis, and recommendations of this report do not represent the official position of the United Nations Development Programme (UNDP). Where indicated, some Figures in the analytical part of the report were estimated by the authors or other contributors and are not necessarily the official statistics of the concerned country, area or territory, which may be based on alternative methods. All the Figures used are from official sources or authors' calculations. The responsibility for the interpretation and use of the material lies with the reader. In no event shall the UNDP be liable for damages arising from its use.

TABLE OF CONTENTS



ACRONYMS	4
EXECUTIVE SUMMARY	5
INTRODUCTION	7
METHODOLOGY	8
WAVE 2 SURVEY RESULTS	9
OVERVIEW OF RESPONDENTS	10
COVID-19 IMPACT	13
<i>OPERATIONS</i>	13
<i>INCOME</i>	14
<i>EMPLOYMENT</i>	15
<i>DEMAND AND SUPPLY SHOCKS</i>	17
BUSINESS STRATEGIES	18
OBSTACLES TO BUSINESS RESUMPTION	19
ASSISTANCE FOR MSMES	23
OUTLOOK	27
SURVEY RESULTS BY GENDER	29
YOUTH SECTOR	33
SOCIAL LISTENING RESULTS	34
CONCLUSION AND POLICY RECOMMENDATIONS	38
FOUNDATION	40
PROCESS	42
SUSTAINABILITY AND TECHNOLOGY	43

ACRONYMS

ARISE	Accelerated Recovery and Investments Stimulus for the Economy
BCP	Business Continuity Plan
BSP	Banko Sentral ng Pilipinas
DICT	Department of Information and Communications Technology
DTI	Department of Trade and Industry
ECQ	Enhanced Community Quarantine
GCQ	General Community Quarantine
GDP	Gross Domestic Product
IATF	Inter-Agency Task Force
LRT	Light Rail Transit
MAP	Management Association of the Philippines
MRT	Metro Rail Transit
MSMEs	Micro, Small, and Medium Enterprises
NCR	National Capital Region
NEDA	National Economic Development Authority
PNR	Philippine National Railways
PSA	Philippine Statistics Authority
SLOS	Senior Bank Loan Officers' Survey
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

As the number of people infected by COVID-19 continues to rise in the Philippines, the country's economy plunged into a recession as Gross Domestic Product (GDP) for the second quarter contracted by 16.5%, accompanied by a 10% unemployment rate. To counter the health and economic crises caused by the pandemic, the United Nations Development Programme (UNDP) in the Philippines reiterated its commitment to support the government in laying the groundwork for an effective and sustainable recovery.

Micro, small, and medium enterprises (MSMEs) are a significant part of the Philippines' economic backbone. Conducted from 13th of June to 23rd of July 2020, the second round of the UNDP Survey for MSMEs aimed to gather insights on their experiences, knowledge, and behavior to support the government in developing policies and programs that are responsive to the needs of MSMEs. A total of 285 respondents participated in the survey—of which two hundred four (204) were micro-enterprises, fifty-one (51) were small enterprises, and twenty (20) were medium enterprises. To add, ten (10) large enterprises answered the survey and were included in the analysis of the survey results.

The survey results showed that two (2) to six (6) weeks after the enhanced community quarantine (ECQ) was lifted in major parts of Luzon in June, a significant share of MSME respondents were still temporarily closed (38%) or operating at decreased capacity (49%). Among the reported primary hurdles in resuming business operations faced by the surveyed MSMEs are persistently sluggish demand from consumers, shortage in transportation and logistics issues, as well as lack of financing capacity.

As MSMEs continue to face supply- and demand-side challenges, 78% of the respondents reported income losses. Their cashflow had been so severely affected that 26% of survey respondents began laying off employees at varying degrees. Remarkably, however, 26% strived to retain employees with full pay amidst income losses. In an attempt to contain the adverse impacts of COVID-19, survey respondents started implementing adaptive business measures. Some of the more frequently reported strategies were digitalization (62%), diversification of products and services (35%), utilization of non-cash payment options (31%), and allowing remote work set up (29%).

Despite the business strategies adapted by MSMEs, a significant portion of the respondents still require assistance, as more than 60% have not received any to date. Based on the responses, access to credit (53%), tax breaks (45%), and deferred loan payments (32%) remain as the most pressing needs of MSMEs.

Several factors such as operational status, income loss, low demand, employment status, and outlook provided an indication of the sectors that had been hit hardest by the pandemic. Accommodation, creative arts and entertainment industry, administrative and support services, and food and beverage service sectors, whose business models typically require the physical presence of their customers and the gathering of crowds, reported the highest percentage of decrease in operational capacity, income losses, reduced demand, and negative outlook of their businesses.

Further analysis of the survey results showed that while there were general concerns shared by most

EXECUTIVE SUMMARY

MSMEs, there were also issues specific to each sector. As such, it is imperative that the government facilitates MSMEs' sector representation in policy dialogues and program planning in order to come up with a better, targeted approach to prevent further closure of MSMEs. To complement this, the government should establish an effective communication strategy to improve information dissemination of MSME-related programs and guidelines. The government, development organizations, and the private sector should also provide online resources to train MSMEs in e-commerce to maximize their digital transition and improve the digital infrastructure in the country to facilitate seamless transactions and activities done online.

As the drive to digitalize the economy accelerates, there is still an urgent need for the government to address public transportation to ensure safe and efficient mobility of people, especially those who cannot work from home and are required to report to work/duty stations. Some of the ways through which this can be achieved are service contracting (government pays operators and drivers to provide public transportation), protected bike lanes, and wider sidewalks. It is also recommended that the Inter-Agency Task Force (IATF) revisits its guidelines and regulations related to inter-city and inter-provincial travel to avoid unnecessary backlogs in the movement of goods and people, which was reported as a major challenge by more than half of the survey respondents.

The business strategies employed by the respondents present an opportunity for the government and its development partners to pave the way for a greener and more sustainable new normal. One of the ways through which MSMEs addressed the lack of supplies from their regular suppliers was to source from local producers in nearby communities. This can be leveraged by the government to boost economic activities in local communities. In addition, a quarter of respondents agreed that shifting to greener business practices would increase their resilience to pandemic impacts, but did not know how to go about the process. This interest provides an opening for the government and development partners to increase the knowledge and capacity of MSMEs in integrating sustainable business practices in their business continuity plans.

Another key aspect of business continuity is financing. Access to financing remained a key concern for majority of the survey respondents. The Central Bank has been proactive in implementing monetary policy actions to improve liquidity and increase market activity in the country. To maximize this, one key element that can contribute to the banks' increased lending to MSMEs is the government's MSMEs credit guarantee program worth PHP 60 billion (USD 1.24 billion).¹ The accreditation process of interested financial intermediaries should be examined and streamlined so that more financial institutions, including rural banks that are on the ground and working with majority of micro-enterprises in the rural areas, can benefit from the guarantee scheme and increase their confidence in lending to MSMEs.

Finally, one of the most evident impacts of COVID-19 that cuts across all business sectors is the lack of demand from consumers. While this can be addressed from various directions, some of the ways through which this can be remedied include a stronger COVID-19 response by the government, integration of MSMEs in public sector procurement, and a balanced and complementing mix of monetary and fiscal policies that will support overall spending, increase household consumption in the country, and ensure that the health and economic crises we are currently facing will be adequately addressed.

¹ Exchange rate used in the report: 1 USD = PhP 48.50 as of August 25, 2020.

INTRODUCTION

In June 2020, the Philippine government lifted the country's community quarantine, which was considered as one of the world's longest and strictest lockdowns.² For almost three months, the movement of goods and people had been restricted, throwing a wrench into the way day-to-day business was conducted.

MSMEs play a crucial role in the Philippine economy; They make up 99.5% of commercial establishments in the country, provide 63% of employment to the Philippine workforce, and contribute about 40% to the country's GDP.³ Official data from the Philippine Statistic Authority's (PSA) note that MSMEs have largely contributed to poverty reduction in the country.⁴ But with the spread of COVID-19, MSMEs became one of the vulnerable groups whose business operations have been adversely impacted by the pandemic.

As part of UNDP's global effort to support countries in designing effective strategies and programs to recover from the crisis and adapt to the new normal, UNDP Philippines launched a rapid response survey to capture the experiences, behavior, and perceptions of MSMEs as they cope, respond, and adapt to the COVID-19 pandemic. Given the unprecedented nature of the crisis, UNDP designed a three-part survey to be deployed periodically. Results from the surveys would be used to inform and guide the response of UNDP, the government, and other development partners in designing interventions that respond to the specific needs of MSMEs in the country.

The first round of the survey was conducted in May 2020. The results of which reinforced the vulnerability of MSMEs' liquidity. In addition, the results confirmed that most respondents' value chains suffered from temporary business closures, transportation and logistical problems, and reduced demand from customers. More than 50% of the respondents of the first survey did not have any business continuity plans and 80% had not received any form of assistance.

The second round of the survey for MSMEs was initially planned to be deployed for two weeks from 13th June to 27th June 2020. However, given the challenges in getting responses, the survey was extended up to 23rd July to gather more MSME respondents. The survey aims to obtain insights into how MSMEs have adjusted upon the re-opening of the Philippine economy. This report intends to supplement the results of the first rapid response survey by:

- understanding the overall impact of the COVID-19 pandemic on MSMEs' operations,
- examining the supply and demand shocks faced by MSMEs and the business strategies and coping mechanisms they have employed in response to these shocks,
- probing on the level of external assistance they have received thus far and what MSMEs perceive as the most effective support they need, and
- identifying obstacles in resuming business operations and understanding the MSMEs' general outlook on the future of their businesses.

² DTI to spur MSME growth to half of national output. (2018, January 03). Retrieved August 19, 2020, from [Link](#)

³ DTI to spur MSME growth to half of national output. (2018, January 03). Retrieved June 11, 2020, from [Link](#)

⁴ (n.d.). Retrieved from <http://documents1.worldbank.org/curated/en/872561590976897612/pdf/Philippines-Emergency-COVID-19-Response-Development-Policy-Loan.pdf>

METHODOLOGY

The survey was deployed electronically via Google form in Filipino and in English, and was posted on the social media pages of UNDP and its partners—the National Economic Development Authority (NEDA) and the Department of Trade and Industry (DTI), which reviewed and provided inputs to the survey questionnaire. Due to mobility constraints, UNDP was unable to gather a significant number of respondents for its second round of survey outside of NCR and sampling selection was not random. In view of these limitations, no statistical tests were performed using the survey results data and analyses were based primarily on percentage distribution of the responses.

The respondents were also grouped by sector in the analyses of survey results. These must be regarded with the sample size and non-random sampling limitation in mind, as these samples may not fully represent some of the sectors.

UNDP also conducted a social listening exercise (data mining using Artificial Intelligence) for the whole month of June to complement the survey.

Through an in-depth analysis of these issues, UNDP aims to contribute to the on-going policy discussions and program planning and implementation that have an impact on MSMEs. Section 2 of the report presents a detailed discussion and analyses of the survey results and is further broken down into several sub-sections (e.g., overview of respondents, impact of COVID-19 on various aspects of the business, measures taken by the respondents, and outlook, among others). Section 3 analyzes the results of the social listening exercise and, finally, Section 4 outlines the policy recommendations that aim to respond to MSMEs' key challenges underscored by the survey.

WAVE 2 SURVEY RESULTS



WAVE 2 SURVEY RESULTS

OVERVIEW OF RESPONDENTS

Two hundred eighty-five (285) respondents answered the UNDP survey, majority of which were micro-enterprises (72%), followed by small enterprises (18%), and medium enterprises (7%). While UNDP targeted MSMEs in the country, there were ten (10) large enterprises (3%) that participated in the survey (see Fig. 1). The distribution of respondents across business size – although not exact – follows the MSME population distribution in the country: micro-enterprises (90%), small enterprises (9%), medium (0.4%), and large (0.4%).

The respondents' business sector classification was based on PSA's industrial classification of 2009. The most represented sectors were the wholesale and retail trade (31%), food and beverage service activities (17%), and manufacturing (15%) (see Fig. 2). Compared to the country's MSME population distribution by sector, some industries such as financial and insurance activities and information and communication were under-represented in the survey. In addition, under the PSA's industrial classification of 2009, accommodation and food service activities are grouped together. However, to better distinguish the impact of COVID-19, these were broken down into two separate sectors. Furthermore, industries that accounted for less than 2% of the total respondents were grouped together as "others." This included education, health and social work, transportation, mining, financial-insurance, and water, among others.

In terms of regional distribution, businesses located in NCR accounted for 39% of the responses (see Fig. 3). This was followed by CARAGA (9%), and Central Luzon and CALABARZON both at 8%. Our sample distribution by region slightly varies from the MSME population distribution, as the regions with the highest MSMEs next to NCR are CALABARZON, Central Luzon, Central Visayas, and Western Visayas. Due to mobility limitations, UNDP was unable to gather a significant number of respondents for its second round of survey outside of NCR. Hence, this report does not include regional analysis, as the number of

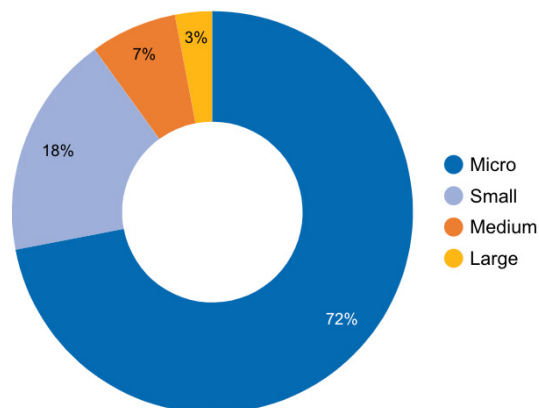


Fig. 1. Respondents by Business Size

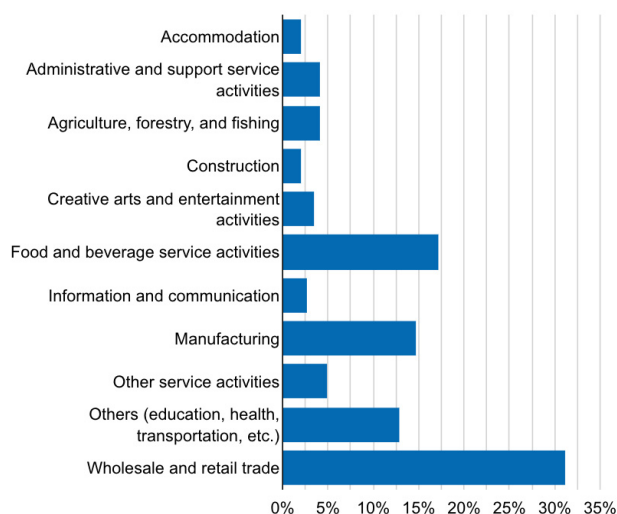


Fig. 2. Respondents by Business Sector

Sector	No. of Respondents
Accommodation	6
Administrative and support service activities	12
Agriculture, forestry, and fishing	12
Construction	6
Creative arts and entertainment activities	10
Food and beverage service activities	49
Information and communication	8
Manufacturing	42
Other service activities	14
Others (education, health, transportation, et...	37
Wholesale and retail trade	89

WAVE 2 SURVEY RESULTS

respondents from other regions was not enough to be considered as representative samples.

Respondents were asked where they operate along the value chain, and a significant number placed themselves in the services sector (38%), followed by retail (26%), processing (22%), distribution (8%), and raw material (6%) (See Fig. 4).

Majority of the respondents (79%) were operating for less than 10 years, but the MSMEs that had been operating for more than 30 years were also represented (5%) in the survey (see Fig. 5). Three-fourths (3/4) of the respondents reported

to have 1-9 employees (see Fig. 6), consistent with the number of survey respondents that were micro-enterprises, defined as those with fewer than 10 employees or with an asset size of less than PHP 3 million.

Finally, 86% of the respondents were business owners (see Fig. 7). There were more female respondents (56%) than male respondents (42%); another 1% belonged to the LGBT+ group; and the remaining 1% chose not to disclose their gender (see Fig. 8). A significant share of the respondents belonged to the following age groups 35-44, 25-34, and 45-54 at 29%, 28%, and 24% respectively (see Fig. 9).

Region Code	Record Count
NCR	112
CARAGA	26
CALABARZON	23
CENTRAL LUZON	23
DAVAO	21
CENTRAL VISAYAS	20
BARMM	16
WESTERN VISAYAS	9
BICOL	8
CAR	5
ZAMBOANGA	4
MIMAROPA	4
ILOCOS	4
EASTERN VISAYAS	4
NORTHERN MINDANAO	3
SOCCKSARGEN	2
CAGAYAN VALLEY	1

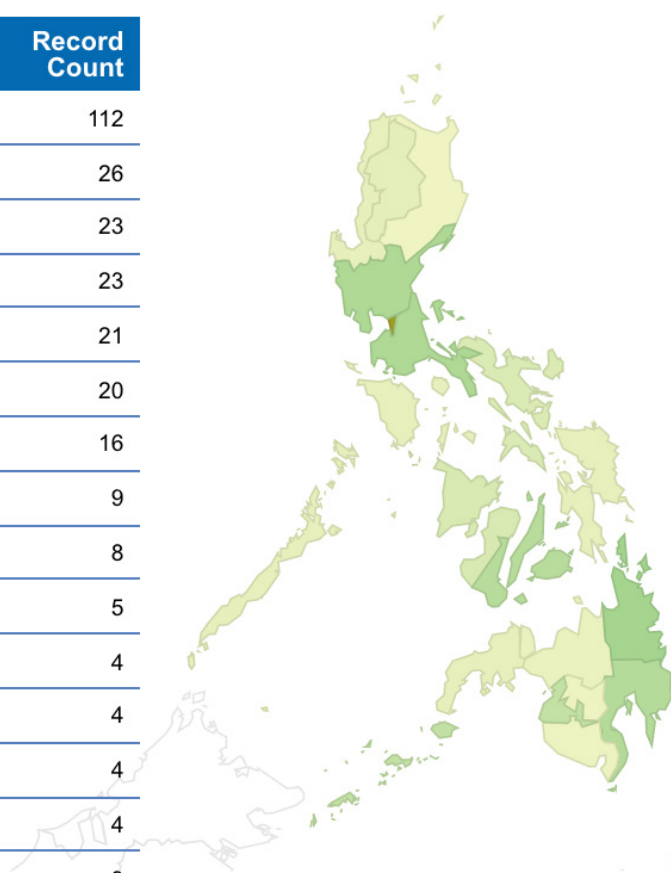


Fig. 3. Respondents by Region

WAVE 2 SURVEY RESULTS

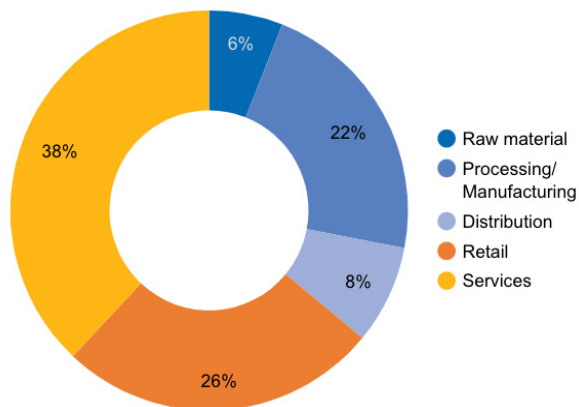


Fig. 4. Respondents by Value Chain Segment

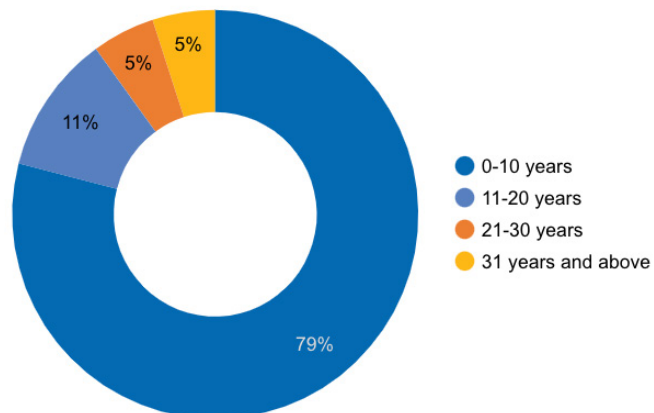


Fig. 5. Years of Operation

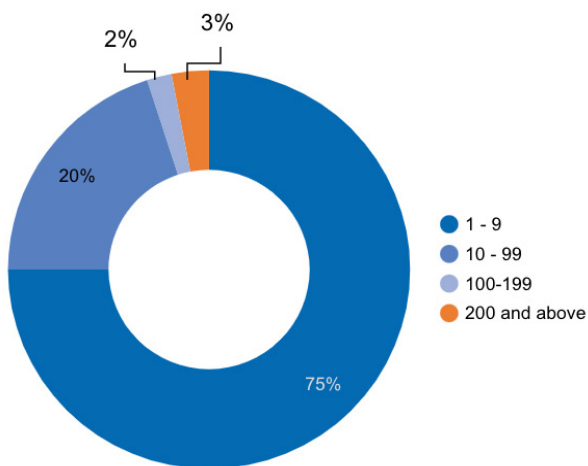


Fig. 6. Respondents by Number of Employees

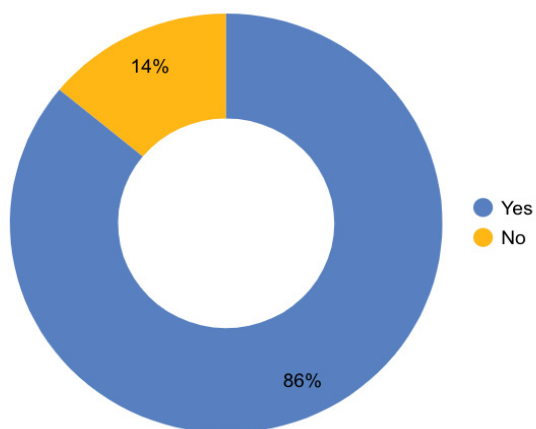


Fig. 7. Business Owner

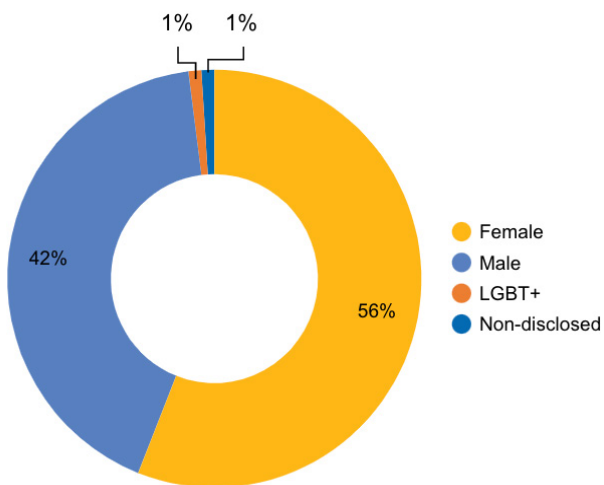


Fig. 8. Respondents by Gender

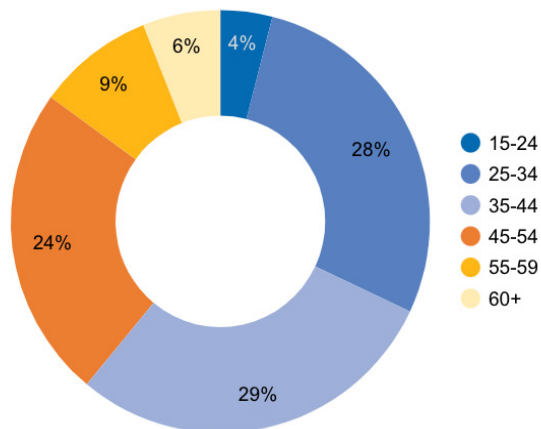


Fig. 9. Respondents by Age Group

WAVE 2 SURVEY RESULTS

COVID-19 IMPACT

The following sub-sections dissect the varying degree of COVID-19's impact on the different aspects of the respondents' business such as operations, income, employee retention, and demand and supply shocks.

OPERATIONS

The survey results showed that two (2) to six (6) weeks after the enhanced community quarantine (ECQ) in general parts of the country had been lifted, majority of the respondents' businesses were still operating at a decreased capacity (49%) or were temporarily closed (38%), suggesting the difficulty in resuming business operations. A small percentage of respondents shut down their businesses for good (4%), while some of the respondents were operating at a normal capacity (5%), and others even at increased capacity (4%).

Business Size

Comparing the responses by business size showed that micro and small enterprises had the lowest percentage of respondents operating at decreased capacity (43% and 57%, respectively), but had the highest percentage in terms of temporary and permanent business closure (see Fig. 10). Meanwhile, medium and large enterprise groups had higher percentage of businesses operating

at a decreased capacity, while none had permanently closed. This suggests that some enterprises, due to relatively smaller operations, were not able to survive the adverse impacts of COVID-19, and that unlike medium and large enterprises, micro and small enterprises may not have had the capacity to continue operation at a decreased capacity, thereby opting for temporary closure of their businesses.

Value Chain Segment

Examining the responses by value chain segment showed that respondents in the raw material segment had the highest percentage of members operating at a decreased capacity (75%). Those in the processing/manufacturing segment, retail, and services sectors had mixed business operation status (see Fig. 11).

Business Sector

Analyzing the responses by business sector gave an overview of the industries whose operations were more affected by the crisis compared to others. For instance, accommodation (e.g. hotels and resorts), creative arts and entertainment industry, and administrative and support services (e.g. travel agencies, tour operators) reported the highest percentage of businesses that temporarily closed (see Fig. 12). This confirmed what we already surmised as the hardest-hit group – hospitality,

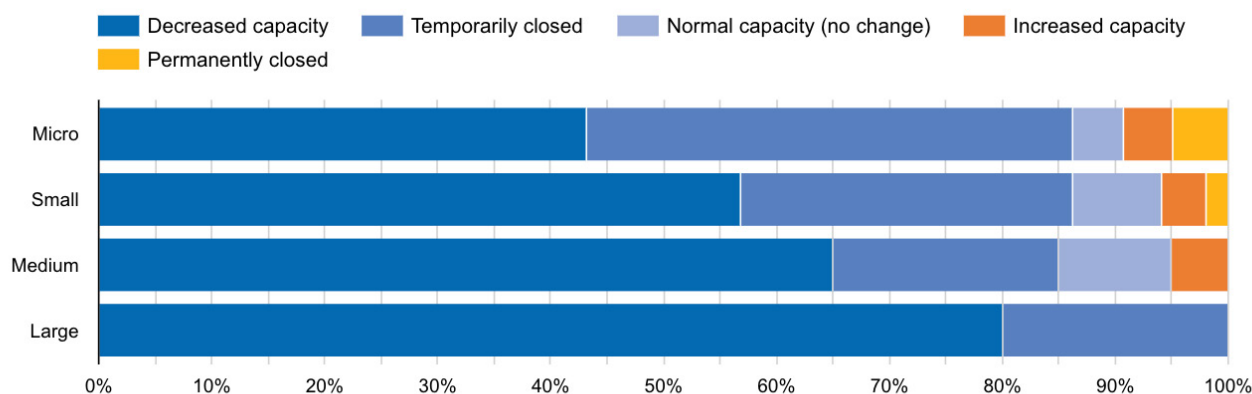


Fig. 10. COVID-19 Impact on Business Operations by Business Size

WAVE 2 SURVEY RESULTS

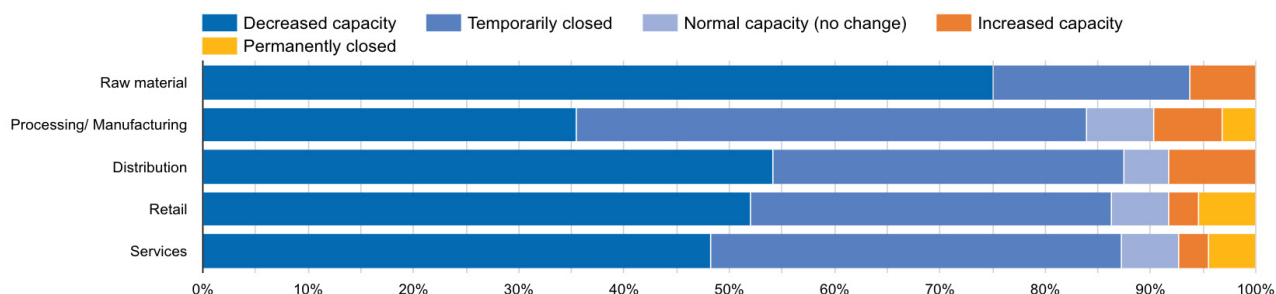


Fig. 11. COVID-19 Impact on Business Operations by Value Chain Segment

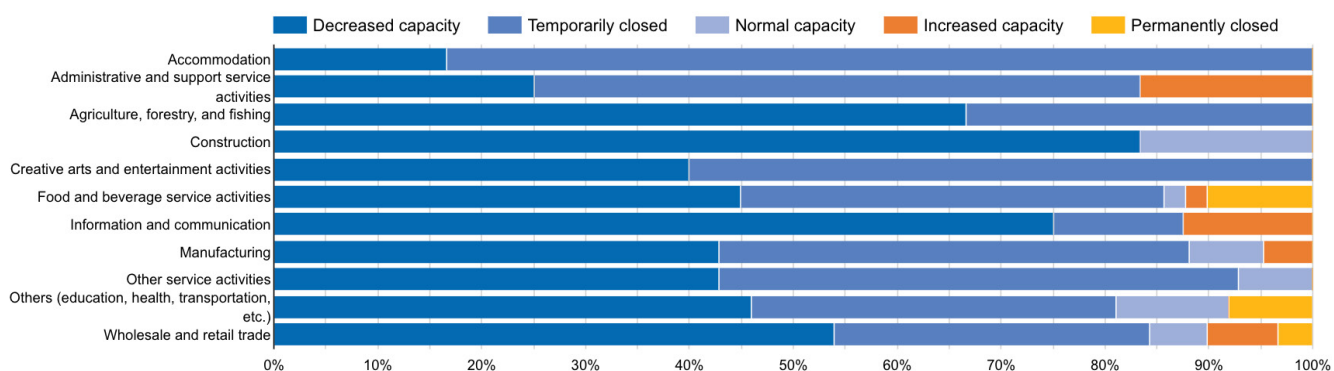


Fig. 12. COVID-19 Impact on Business Operations by Business Sector

travel, and entertainment whose business models require physical presence and gathering of crowds. The agriculture-forestry-fishing sector was also adversely affected even if it comprises essential commodities, which could be explained by the time it took for the MSMEs to adapt to the supply chain disruptions caused by the pandemic and lockdown measures.

Some sectors such as wholesale and retail trade, and food and beverage service activities, which usually have more diverse members, reported mixed business operation status, including permanent closure and increased capacity.

Other sectors that had MSMEs with increased capacity were administrative and support services (which also includes rental and leasing of tangible goods), manufacturing, and information and communication. When asked which business aspects had been most affected by the pandemic,

the most frequent responses were sales (236 or 83%), cash flow (194 or 68%), and overhead expenses, excluding salaries (157 or 55%) (see Fig. 13), signifying the burden of reduced income but continued expenses. Almost three (3) months of reduced sales activity due to the lockdown with continuous costs caused a major blow on MSMEs' already vulnerable cashflow.

INCOME

Two hundred twenty-two (222) or 78% of respondents reported a loss in average monthly income after the imposition of ECQ in major parts of the country in March. Of these, One hundred twenty-seven (127)—44 % of total respondents—reported an average monthly income from April to June that was 75%-100% lower than their average monthly income from Jan to Feb 2020. Even enduring enterprises were not spared from the harrowing effects of the pandemic.

WAVE 2 SURVEY RESULTS

Twenty (20) of the twenty-eight (28) respondents that had been in operation for more than two (2) decades had experienced loss in average monthly income, while twenty-two (22) had decreased their operations, temporarily closed, or permanently closed shop.

In terms of sector analysis, 100% of respondents from the accommodation sector reported a loss in average monthly income. Aside from accommodation, other sectors whose members did not experience positive income growth included agriculture-forestry-fishing and creative arts and entertainment activities, which were consistent with the operational status of these industries (i.e. decreased capacity or temporarily closed). One (1) out of the eight (8) respondents from the information and communication industry reported to have increased capacity in terms of operations, but in terms of income, all respondents from the industry

either experienced losses or did not experience income change (see Fig. 14).⁵

Other sectors that experienced positive income growth were construction, manufacturing, food and beverage service activities, other service activities, and wholesale and retail trade. Majority of the companies that experienced positive income growth belonged to the wholesale and retail trade sector (44%), which usually includes businesses that sell essential items such as rice and grocery items.

EMPLOYMENT

MSMEs employ 63% of the Filipino workforce. However, with low sales and low demand, most businesses were forced to cut down on costs such as payroll. Seventy-four (74) or 25% of the respondents had already begun this process, twenty-six (26) or 35% of which reported that laid-off employees were predominantly female.

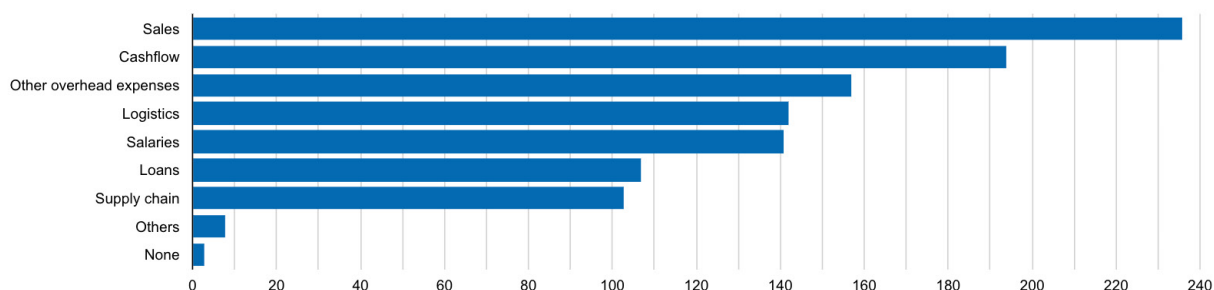


Fig. 13. Business Aspects Most Affected

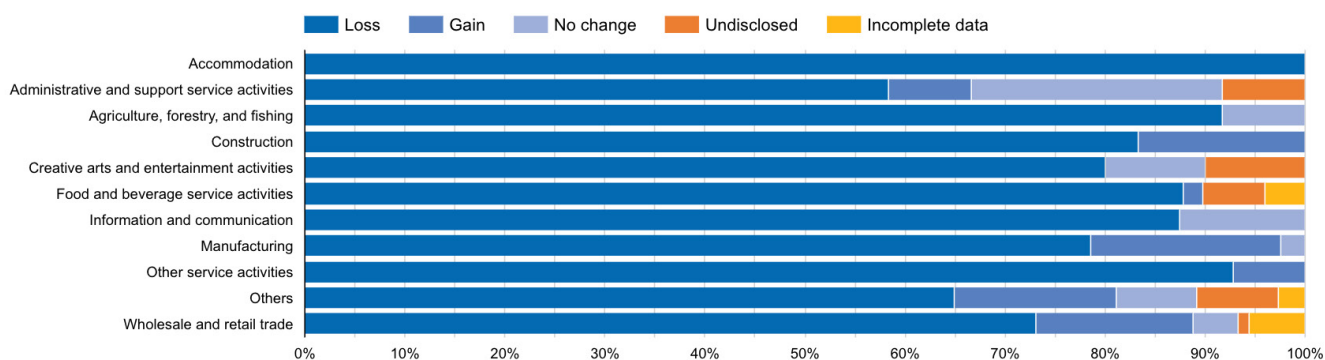


Fig. 14. Income Change by Business Sector

⁵ Given the accelerated adoption of digitalization, we expected that the information and communication sector would relatively fare better compared to others. However, the impact on operations capacity and income reported by the respondents from the said sector is slightly divergent from our expectations. This difference could be attributed to some factors such as sampling and classification - where respondents belong to information and communication sub-sectors that are not pandemic-proof, such as publishing activities (books, brochures, leaflets, etc), motion picture, video and television program production, programming and broadcasting activities.

WAVE 2 SURVEY RESULTS

Another one hundred thirty-six (136) or 48% had retained their employees but with either reduced pay or without pay, and the remaining seventy-five (75) or 26% retained their employees with full pay (see Fig. 15).

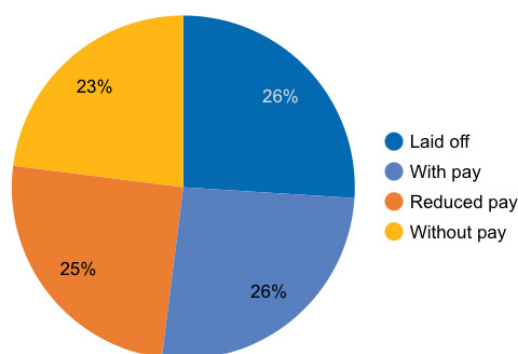


Fig. 15. Employment

The industries that had the highest proportion of respondents who started reducing employees were accommodation, creative arts and entertainment, agriculture-fishing-forestry, food and beverage, and wholesale and retail trade.

Table 2. Respondents who retained their employees with full pay

Respondents who retained their employees despite businesses' income losses	47	16% of all respondents
Micro enterprises	29	10% of all respondents 14% of all micro enterprises
Small enterprises	14	5% of all respondents 27% of all small enterprises
Medium enterprises	2	0.7 % of all respondents 10% of all medium enterprises
Large enterprises	2	0.7 % of all respondents 20% of all large enterprises

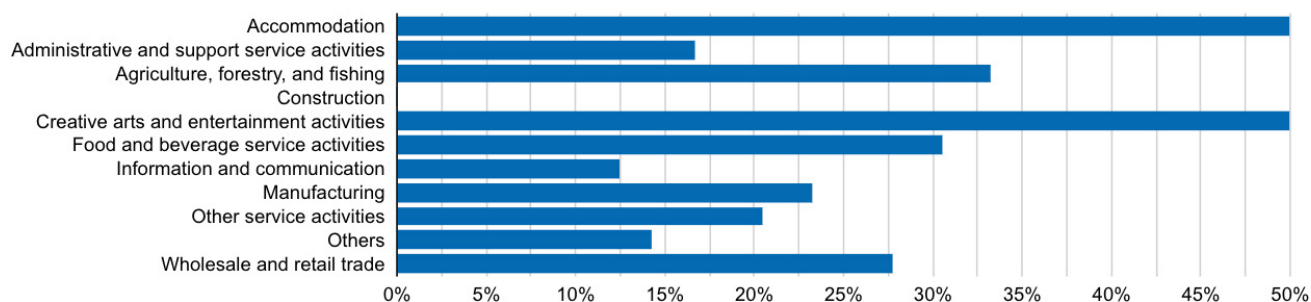


Fig. 16. Respondents who laid off employees

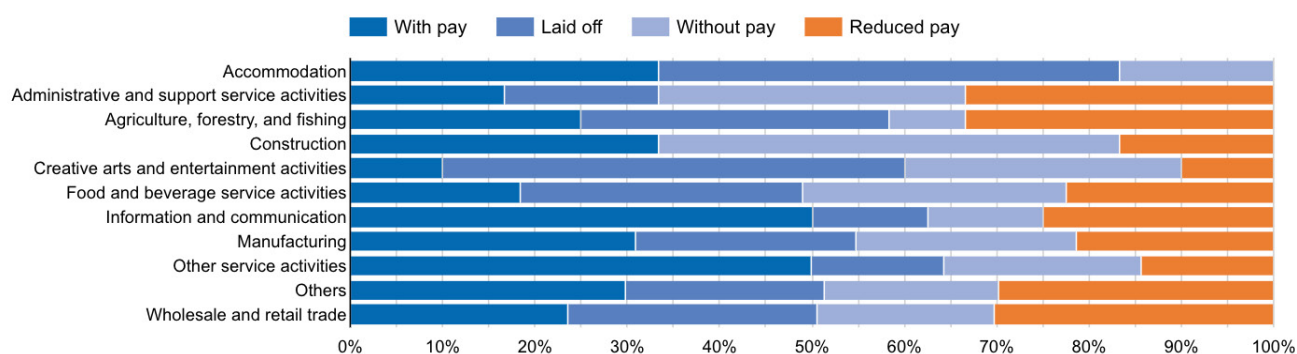


Fig.17. Employment Decisions of MSMEs by Sector

WAVE 2 SURVEY RESULTS

None of the respondents from the construction industry had laid off employees at the time of the survey (see Fig. 16). This could be explained by the labor-intensive nature of the industry and where one's employment is co-terminus with each project or phase of the project. When the ECQ was lifted, construction activities that had been put on hold during the lockdown resumed.

Interestingly, out of the seventy-five (75) respondents who continued to retain their employees with full pay, forty-seven (47) experienced income losses. Majority of which were micro and small enterprises spread across various industries endeavored to retain their employees with full pay

even if they had been experiencing income losses (see Table 2). This reinforced the value of MSMEs as partners of the government in pursuing inclusive recovery.

DEMAND AND SUPPLY SHOCKS

With majority of the population encouraged to continue staying home despite the lifting of the ECQ, 81% of total respondents confirmed that demand for goods and services remained sluggish (see Fig. 18).

All respondents from the creative arts and entertainment industry experienced reduced demand. Other sectors that had the highest percentage of

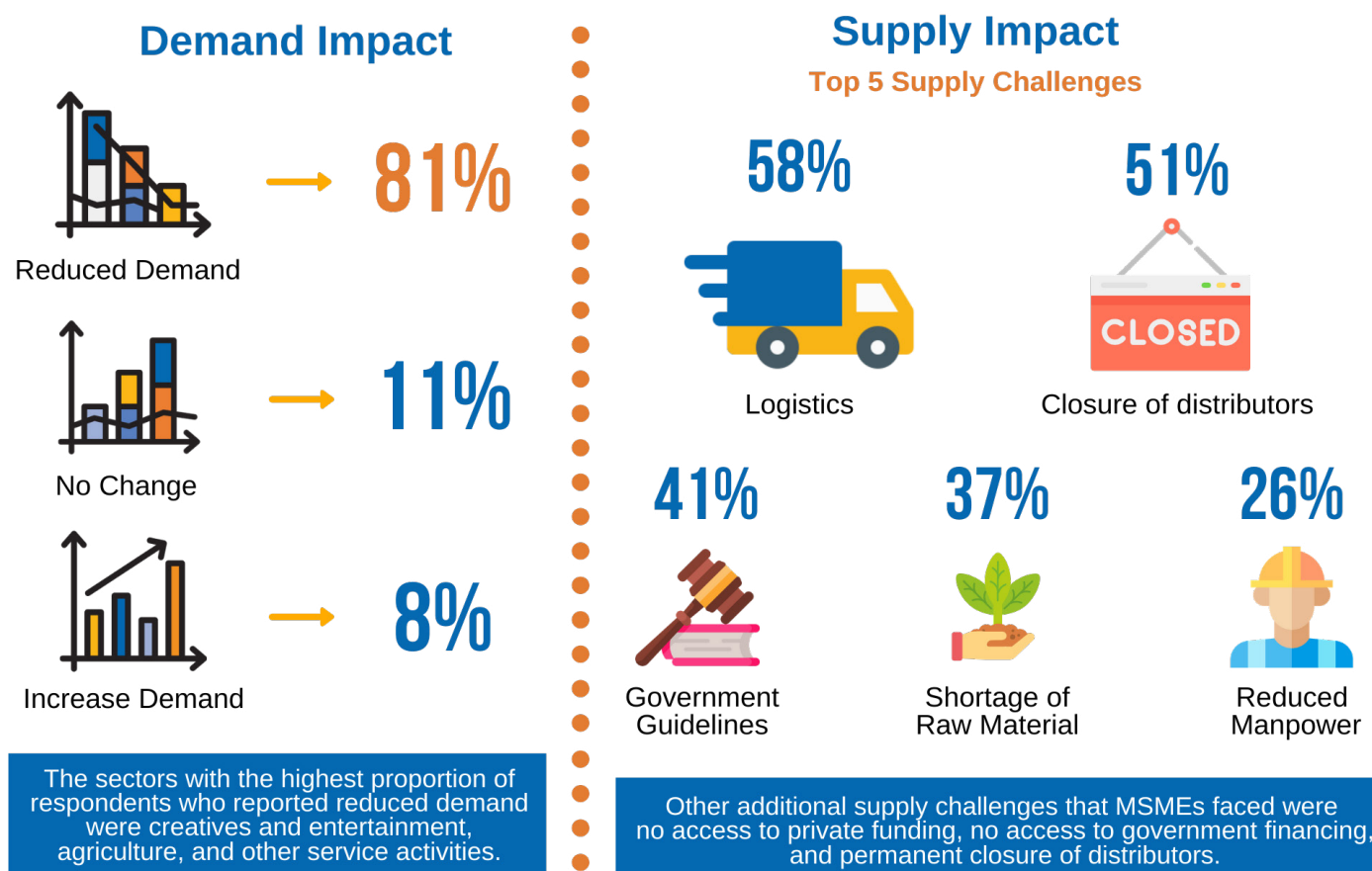


Fig. 18. Demand and Supply Shocks

WAVE 2 SURVEY RESULTS

members who reported reduced demand were accommodation, administrative-support services, agriculture-fishing-forestry⁶, food and beverage service activities, and other service activities.

On the other hand, industries with respondents that experienced increase in demand were wholesale and retail trade and manufacturing.

On the supply side, the three (3) main challenges most frequently selected by respondents were logistics (58%), temporary closure of distributors (51%), and government guidelines on which businesses were allowed to operate during the community quarantine (41%) (see Fig. 18).

These three (3) challenges were particularly dominant in the food and beverage service activities, agriculture forestry and fishing, administrative support services, and other service activities.

Manufacturing and wholesale and retail trade MSMEs had similar supply-side challenges, but the shortage of raw materials came third in their list, as manufacturing firms and traders rely on suppliers of raw materials.

Probing the cause of raw materials shortage revealed that logistics remain to be the primary concern of businesses, as confirmed by one hundred fifty-two (152) respondents (53%). This was followed by unavailability of stocks from local suppliers (41%) and temporary closure of suppliers (40%).

Reduced manpower came fifth in the supply-side challenges cited by respondents. Some respondents said that lack of transportation (37%) was the main cause of reduction in manpower followed by physical distancing guidelines by the government (33%). Other businesses voluntarily reduced their

manpower, as low demand rendered some job functions unnecessary.

BUSINESS STRATEGIES

To understand how MSMEs were managing the crisis, the survey asked the respondents' overall business strategies and adaptive measures to 1) sustain demand for and 2) ensure availability of their goods and services in the market.

Demand and Supply-side Strategies

Majority of the respondents (62%) had already transitioned online as an adaptive measure to sustain demand for their goods and services. This was followed by diversification of products and services (36%) and extension of payment to non-cash payment options (31%). Twenty-six percent (26%) did not have any demand-side strategies (see Fig. 19).

Supply-side strategies were used less frequently compared to demand-side strategies. In general, allowing for remote work accounted for the most cited supply-side strategy (29%), followed by partnership with couriers (25%), and temporary transportation and/or accommodation support for employees (23%). Twenty-nine percent (29%) of the respondents did not have any supply-side strategies (see Fig. 19). In addition, MSMEs employed overall business measures, which included cost reduction (47%), request for private financing (28%)⁷, and pivoting to new business (22%).

All these measures showed that MSMEs continued to find ways to adapt to the current circumstances to keep their businesses afloat. Only 6% of the respondents did not have any kind of business strategy.

⁶ It is worthwhile to note that among the country's major economic sectors, the Agriculture sector was the only one that increased in the second quarter of 2020, which was primarily driven by the increase in the crops and fisheries subsectors. This may seem to be in contrast with the survey results, which showed that the Agriculture sector had a relatively high percentage of respondents who continued to operate at decreased capacity, laid off employees, encountered income losses, and experienced reduced demand. This can be explained by several factors. First, crops were the major source of increase in the agriculture output during the 2nd quarter. Livestock and poultry subsectors reported decline in value of output. The survey did not ask for specific subsectors the respondents belonged to; hence, some of them may have operated in the subsectors that had a decline in output. Second, the number of respondents from the agriculture sector was only 11 so it may not be representative of the entire sector.

⁷ Aside from commercial banks, private financing source referred to in the survey questionnaire included family/friends, microfinance institutions (MFIs) and cooperatives

WAVE 2 SURVEY RESULTS

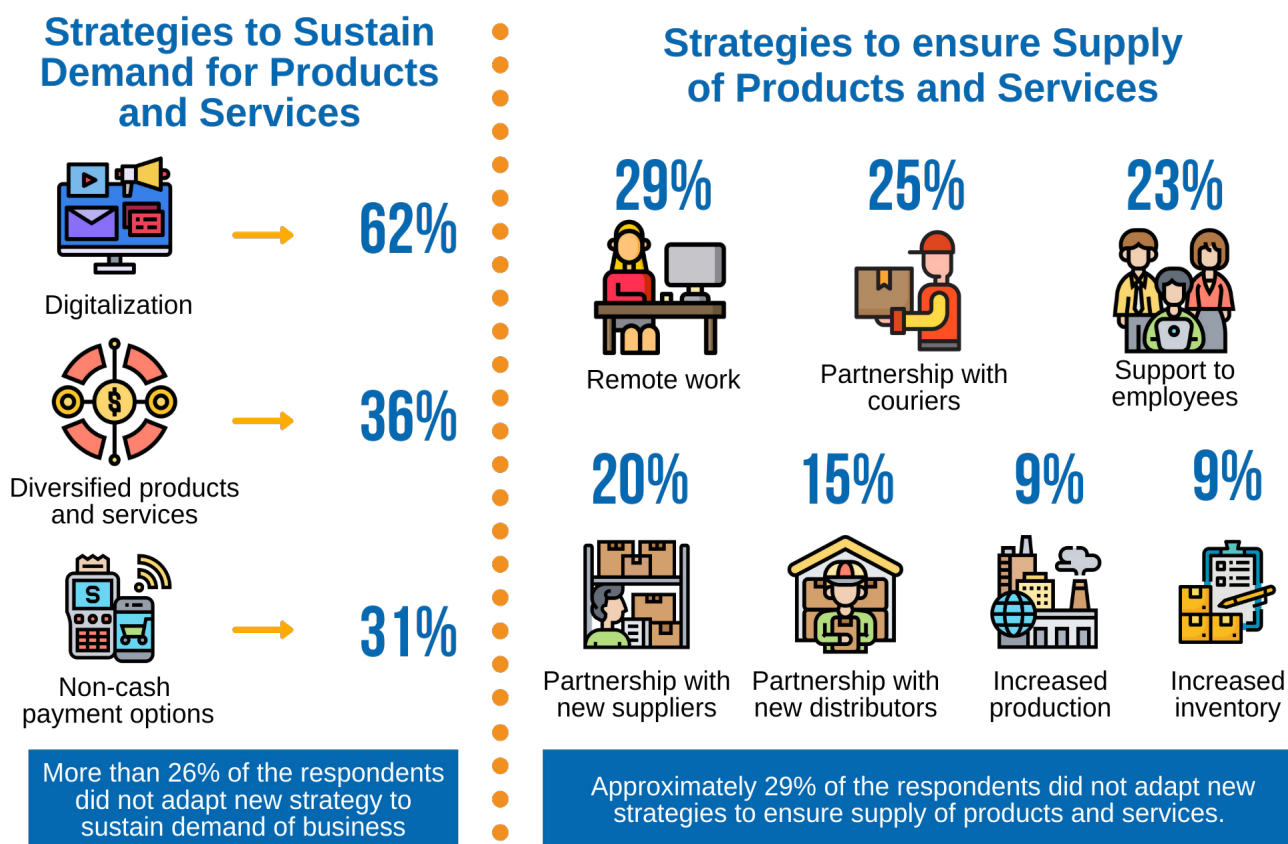


Fig. 19. Demand and Supply Side Business Strategies

Across the value chain segment, digitalization and diversification were the primary demand strategies implemented by most MSMEs. For businesses in the retail segment, provision of non-cash payment options was a more common strategy than diversification of products and services (see Fig. 20). The accompanying primary supply-side strategy of MSMEs in this segment was partnership with couriers (see Fig. 21). Since most retail shops used to operate via physical store before the pandemic, going online, partnering with couriers, and allowing for non-cash payment options may have been an effective strategy to sustain demand for their products.

While most businesses employed one or more demand and supply-side strategies, the accommodation sector was the sole sector that did not have any supply-side strategy (see Fig. 22); and

only one (1) out of the six (6) respondents within the sector had a demand-side strategy, which was digitalization (see Fig. 23).

OBSTACLES TO BUSINESS RESUMPTION

When asked about the main hurdles that MSMEs expected to face in resuming business operations, respondents' top choices were: lack of demand (54%), transportation and logistics (52%), and lack of financing capacity (49%). Other concerns were lack of input supplies (26%) and capacity to comply with new health and safety guidelines (21%) (see Fig. 24). These factors may serve as starting points in making further inquiry on the apprehension of MSMEs to re-open their businesses despite being allowed to resume operations.

WAVE 2 SURVEY RESULTS

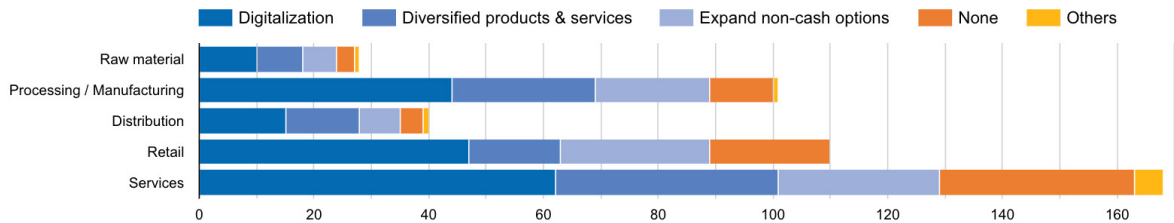


Fig. 20. Demand Strategies by Value Chain Segment

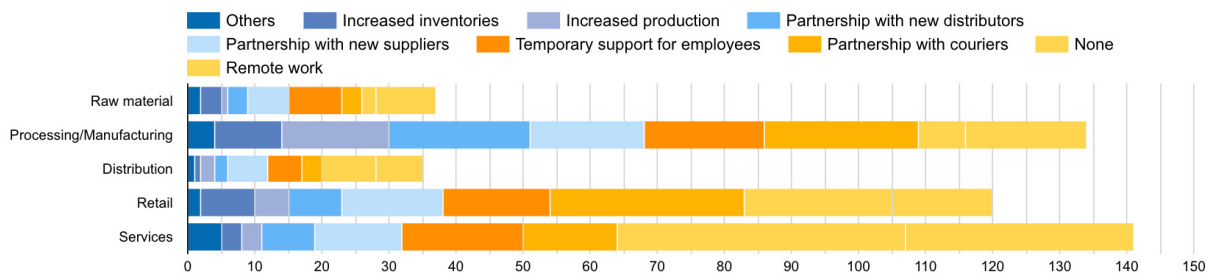


Fig. 21. Supply Strategies by Value Chain Segment

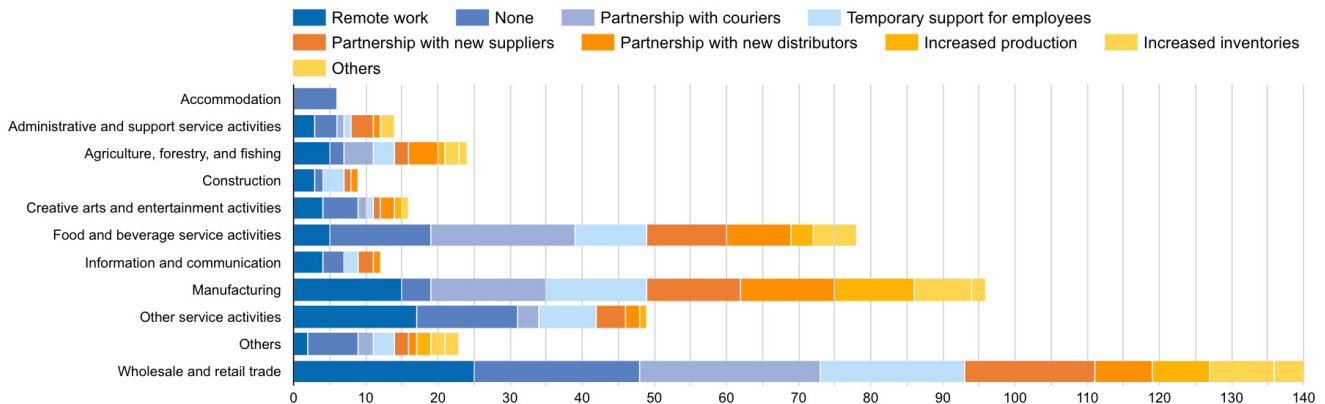


Fig. 22. Supply Strategies by Business Sector

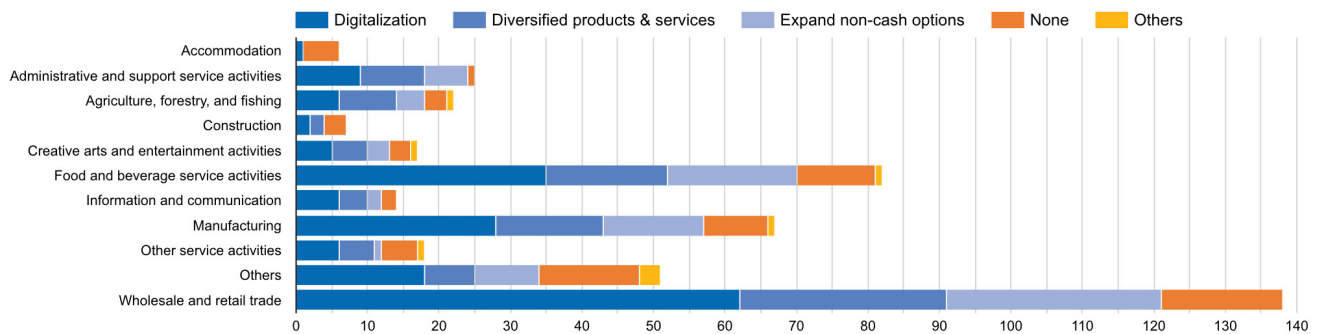


Fig. 23. Demand Strategies by Business Sector

WAVE 2 SURVEY RESULTS

Low Demand

Low demand appeared to be a central issue among survey respondents. Eighty-one percent (81%) of respondents encountered reduced demand and more than 50% saw this as a major obstacle in resuming operations. Indeed, there had been a major shift in consumer behavior during the pandemic. Household spending, which used to comprise 70% of the country's GDP, fell by 15.5% during the 2nd quarter of 2020. University of Asia & the Pacific economist Bernardo Villegas stated that "people are still 'very hesitant' to spend, making any economic recovery difficult to achieve." Moreover, a survey conducted by Social Weather Stations (SWS) revealed that 85% of adult Filipinos were still afraid

that they would contract the disease.⁸ The Philippine Statistics Authority (PSA) recently issued the unemployment rate in July 2020, which was at 10%. This is lower than the unemployment rate recorded in April (17.7%), which could be attributed to the easing of community quarantine in Luzon in June 2020. Nonetheless, 10% unemployment rate (4.6 million Filipinos) is almost double than last year's 5.4%.⁹ OFW remittances, which used to be a significant source of domestic consumption shrunk by almost 20% in May 2020.¹⁰ All of these may have contributed to the overall low spending in the country.

Hurdles in Resuming Operations

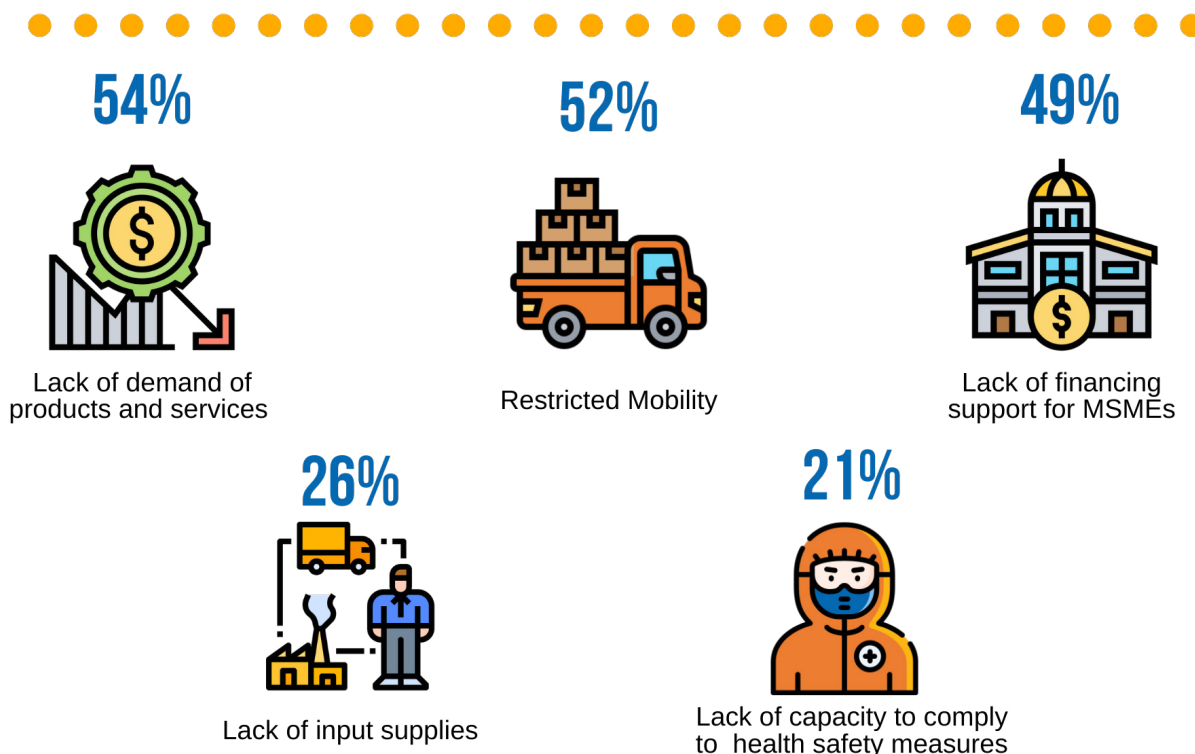


Fig. 24. Hurdles in Resuming Operations

8 Cabico, G. (2020, July 23). Most Filipinos still worried about getting COVID-19 as pandemic persists - SWS. Retrieved August 14, 2020, from [Link](#)

9 Lopez, M. (2020, September 3). 4.6M Filipinos jobless in July as unemployment worsens in Metro Manila – PSA. Retrieved September 03, 2020, from [Link](#)

10 Lucas, D. (2020, August 03). BSP: Remittance drop accelerates in May, down by almost a fifth. Retrieved August 14, 2020, from [Link](#)

WAVE 2 SURVEY RESULTS

Transportation and Logistics

Shortage in transportation options and logistical issues were considered a major obstacle in business resumption by survey respondents. The lack of public transportation in the country has long been a key development constraint. The disproportionate number of private vehicles on the road and the lack of public transportation have left public commuters struggling to get from one point to another daily. The pandemic worsened the state of the country's public transportation. While non-provincial buses and railways such as LRT-1, LRT-2, MRT-3, and PNR were allowed to operate in NCR at limited capacity during the general community quarantine (GCQ), this was not enough to cater to hundreds of thousands of essential workers, as estimated by Management Association of the Philippines (MAP).¹¹ The lockdown – both the enhanced community quarantine and the general community quarantine – prohibited public utility jeepneys—which comprise the most number of public utility vehicles in NCR¹² – from operating, leaving thousands of jeepney drivers unemployed and without income for months. Business owners were tasked to provide shuttle services for their employees but many, especially MSMEs, were financially unable to do so, making it more challenging for workers without private vehicles to go back to work.¹³

Border checkpoints continued even when lockdown restrictions had been lifted and, hence, slowed down the movement of workers and goods, as experienced by most respondents.

Lack of Financing Capacity

While the Banko Sentral ng Pilipinas (BSP) recently reported that more MSMEs were able to secure loans from banks in July¹⁴, access to credit

remained as a key concern for most MSMEs. The Central Bank (BSP) has been easing the country's monetary policy aimed at increasing liquidity and market activity in the country. However, in BSP's recent survey of senior bank loan officers, it was concluded that most banks were tightening their credit standards.

“Results of the Q2 2020 Senior Bank Loan Officers” Survey (SLOS) showed that most of the respondent banks tightened their overall credit standards for loans to both enterprises and households during the quarter based on the modal approach.¹⁵ This is the first time that the majority of respondent banks reported tighter credit standards following 44 consecutive quarters of broadly unchanged credit standards.”

In addition, the BSP survey showed the *most respondent banks saw a decrease in overall demand for loans from both enterprises and households in Q2 2020, which could be explained by the deterioration of clients' business prospects.*¹⁶

While this needs further investigation, the lack of financing capacity may have been caused by MSMEs' drained savings, lack of confidence in applying for new loans due to poor business prospects (i.e., lack of demand), and stricter credit standards by banks.

One way through which MSMEs tried to address these obstacles was through their business continuity plans or guidelines to sustain operations amidst the pandemic crisis. Majority of MSMEs business continuity plans focused on new ways of conducting day-to-day operations (60%), risk assessment (40%), and impact analyses (33%).

11 Canivel, R. (2020, April 22). PH's biggest management group submits plan to resume public transport during COVID-19 lockdown. Retrieved August 25, 2020, from [Link](#)

12 Mercado, N. (2020, August 13). Public transport all set to resume ops once quarantine eases in NCR. Retrieved August 25, 2020, from [Link](#)

13 BusinessMirror. (2020, May 19). Firms, returning workers caught in a bind by public transport ban. Retrieved August 24, 2020, from [Link](#)

14 Lopez, M. (2020, August 11). Banks lend more to small firms as of July – BSP. Retrieved August 11, 2020, from [Link](#)

15 In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.

16 Publications and Research. (2020, July 27). Retrieved July 28, 2020, from [Link](#)

WAVE 2 SURVEY RESULTS

Only 20% of respondents did not have a business continuity plan, compared to more than 50% of MSMEs surveyed by UNDP in May 2020.¹⁷ Sectors with the highest percentage of respondents who did not have BCPs were creative arts and entertainment activities, accommodation, and administrative support service (see Table 3) – the same industries that had been most affected in terms of operational capacity, loss in income, and reduced demand. These were also the industries that had the least number of respondents within the sector who had adaptive measures.

Survey respondents were asked if they think shifting to more sustainable business practices would help them become more resilient to pandemic impacts, and only 7% categorically answered negatively due to additional costs. Twenty-six percent (26%) reported that they had already started shifting to more sustainable business practices (see Fig. 25). The rest would need more knowledge and information on the topic, presenting an opportunity to improve information campaign on and advocacy for sustainable/green business practices.

Areas where respondents thought sustainable business practices could be applied included marketing (51%), raw material sourcing (48%), and production (48%).

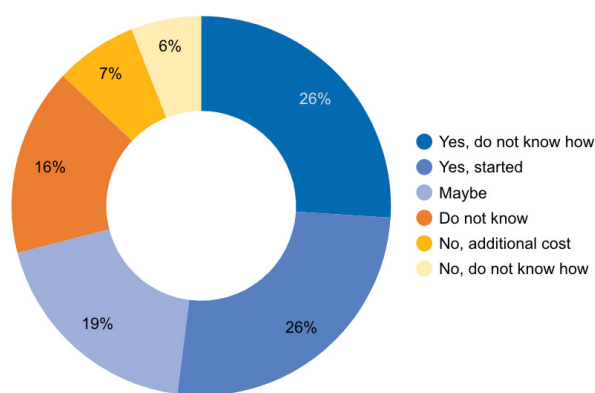


Fig. 25. Shift to Sustainable Business Practices

¹⁷ The previous UNDP survey conducted in May 2020 had different respondents. This second survey was deployed from June 13 to July 23, hence it is possible that the respondents of the second survey had more time to prepare business continuity plans compared to the respondents of the first round.

ASSISTANCE FOR MSMEs

Three (3) months after the implementation of the ECQ, majority of the respondents had still not received any form of assistance (64%) from the government, private sector, or civil society organizations. Only 17.5% of total respondents received assistance from the national government, 10% from LGUs, and a smaller percentage from other sectors such as own suppliers/customers (4%), NGOs (3%), and other private sector not part of the MSMEs' supply chain (2%) (see Fig. 26).

Wage subsidy was the main type of assistance received (16%), followed by deferred loan payments (7%), subsidized rents (5%), loan assistance (5%), and technical assistance (4%) (see Fig. 27).

The low number of respondents who received assistance needs to be addressed. Given the significant number of MSMEs in the country and their contribution to the employment of Filipinos, including women and youth, it is critical that the government strengthens its effort in preventing

Table 3. Respondents with no business continuity plan (BCP)

Business Sector	No BCP	Industry Percentage
Accommodation	2	33%
Administrative and support service activities	4	33%
Agriculture, forestry, and fishing	2	17%
Construction	1	17%
Creative arts and entertainment activities	4	40%
Food and beverage service activities	8	16%
Information and communication	0	0%
Manufacturing	5	12%
Other	9	24%
Other service activities	4	29%
Wholesale and retail trade	19	21%

WAVE 2 SURVEY RESULTS

Source of Assistance Received

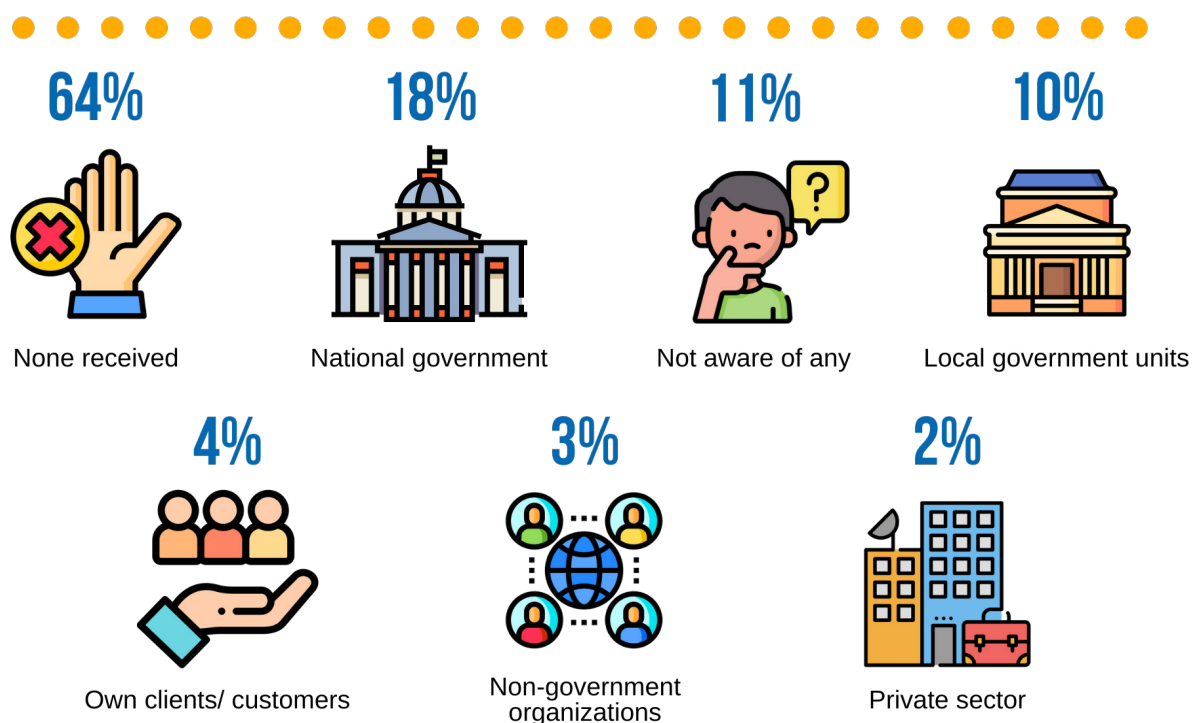


Fig. 26 Source of Assistance Received

further closures of MSMEs. The government should strategize and optimize its resources to ensure that MSME relief and recovery programs – from planning to implementation – are effective and targeted.

Across business size, value chain segment, and sector the following groups had the highest percentage of respondents who did not receive any form of assistance: micro-enterprises, businesses in the raw material segment, and those belonging to the Administrative support services sector (see Tables 4, 5, and 6).

Aside from the low rate of assistance received by MSMEs, there were also low levels of awareness on specific government programs among

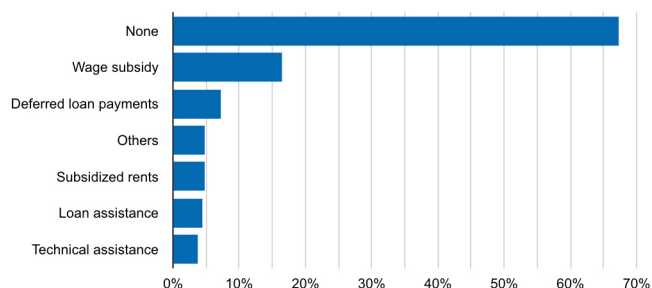


Fig. 27. Type of Assistance Received

MSMEs (see Table 7). Moreover, 73% of respondents did not know which among the four (4) business categories (Category 1, 2, 3, or 4)¹⁸ issued by the government in April they belonged to. These may indicate that enhanced information

¹⁸ Category 1 were allowed to fully operate during the lockdown, which included agriculture-forestry-fishing, manufacturing, hospitals, logistics services, power, energy, water, waste collection, telecommunications, groceries, supermarkets, delivery services, laundry shops, etc. Category 2 were allowed 50% capacity and included select manufacturing and construction activities, among others. Category 3 included publishing and printing services, film, music, salon, and others. Meanwhile, Category 4 were not allowed to operate and included fitness facilities, bars, casinos, and others. [Link](#)

WAVE 2 SURVEY RESULTS

Table 4. No Assistance Received by Business Size

Micro	72%
Small	57%
Medium	50%
Large	60%

Table 5. No Assistance Received by Value Chain Segment

Raw material	75%
Processing/ Manufacturing	60%
Distribution	54%
Retail	68%
Services	73%

Table 6. No Assistance Received by Business Sector

Accommodation	67%
Administrative and support service activities	83%
Agriculture, forestry, and fishing	67%
Construction	67%
Creative arts and entertainment activities	70%
Food and beverage service activities	67%
Information and communication	63%
Manufacturing	62%
Other	76%
Other service activities	64%
Wholesale and retail trade	65%

Table 7. Awareness of Respondents on Government Programs for MSMEs

DTI's Memorandum Circular 20-12: Guidelines on the Concessions on Residential Rents; Commercial Rents	42%
DTI's COVID 19 Pondo sa Pagbabago at Pag-aseño Enterprise Rehabilitation Fund (P3-ERF)	33%
Not aware of any	31%
DOF's Small Business Wage Subsidy Program	31%
DOLE's Social Protection Programs for Vulnerable Workers	28%
Republic Act No. 11199 or Social Security Act of 2018 - Unemployment Benefits for Dislocated Workers	19%
DA's Survival and Recovery (SURE) Aid Program	9%
Landbank Interim Rehabilitation Support to Cushion Unfavorably-affected Enterprises by COVID-19 (I-RESCUE)	8%
DOT's Tourism Infrastructure and Enterprise Zone Authority programs and projects	4%

dissemination by the government is needed to effectively reach more MSMEs. Since not all MSMEs, especially micro-enterprises, have regular internet connection, one of the more effective communication strategies that the government may consider is the use of SMS notifications and/or social media messenger, which does not require internet connection. A complementary online portal may also be pursued for a more organized compilation of information related to MSMEs.

Assistance Needed

MSMEs reported that they urgently need the

following three forms of assistance: credit access (54%), tax break (45%), and deferred loan payments (32%).

Examining the responses by size, by value chain segment, and by business sector revealed slight differences in the priorities of each group. For instance, credit access was perceived as one of the most needed assistance by micro, small, and medium enterprises, but it was not as significant for large enterprises. Tax break, however, was identified by all groups, micro to large, as critical (see Table 8).

WAVE 2 SURVEY RESULTS

DTI Secretary Ramon Lopez proposed to the Congress to include a one-year tax break on companies that had no layoffs or retained 90% of their workers in the Bayanihan 2 bill.¹⁹

Across the value chain segment, aside from credit access and tax break, businesses from processing/manufacturing and retail segments also noted logistics as one of the areas where urgent assistance is needed (see Table 9).

Table 8. Top 3 Assistance Needed by Business Size

Micro	Credit access	Tax break	Rental holiday
Small	Tax break	Deferred loan payments	Credit access
Medium	Credit access	Tax break	Deferred loan payments
Large	Tax break	ICT infrastructure	Digitalization

Table 9. Top 3 Assistance Needed by Value Chain Segment

Raw Material	Credit access	Technical assistance	Digitalization
Processing/ Manufacturing	Credit access	Deferred loan payments	Logistics
Distribution	Credit access	Tax break	Health and safety compliance (access to PPEs, masks, etc.)
Retail	Tax break	Credit access	Logistics
Services	Tax break	Credit access	Deferred loan payments

Table 10. Top 3 Assistance Needed by Business Sector

Accommodation	Tax break	Deferred Loan Payments	Technical Assistance
Administrative and support service	Credit access	Deferred loan payments	Rental holiday
Agriculture, forestry and fishing	Credit access	Tax break	Technical assistance
Construction	Credit access	Tax break	Deferred loan payments
Creative arts and entertainment activities	Credit access	Tax break	Deferred loan payments/deferred service utility fees
Food and beverage service activities	Rental holiday	Credit access	Tax break
Information and communication	Credit access	Tax break	Rental holiday
Manufacturing	Credit access	Digitalization	Technical assistance
Others	Tax break	Credit access	Deferred loan payments
Other service activities	Tax break	Rental holiday	Deferred service utility fees
Wholesale and retail trade	Credit access	Tax break	Logistics

¹⁹ DTI wants tax perks included in Bayanihan 2. (2020, August 17). Retrieved August 17, 2020, from [Link](#)

WAVE 2 SURVEY RESULTS

In addition, there were some industry-specific concerns that came out of the survey. For instance, food and beverage service activities sector's primary need was rental holiday, as most of the businesses within the industry are restaurants with on-going lease payments despite being required to reduce dine-in capacity to observe proper physical distancing, thereby reducing their income. Technical assistance was selected by respondents in the accommodation, agriculture-fishing-forestry, and manufacturing sectors (see Table 10).

OUTLOOK

The survey aimed to get an inkling of MSMEs' outlook by asking about their business forecast for the next three (3) to six (6) months. Remarkably, despite the challenges reported by the respondents, 45% said they expect their businesses to recover or grow in the next three (3) to six (6) months, 38% said they would operate at a loss, 5% expected nothing to change, while 12% had grim expectations of permanently closing shop (Fig. 28). In addition, 17% of respondents that were temporarily closed said they expect to permanently close shop.

Expectations were almost similar across business size and across value chain segment (see Fig. 29 and Fig. 30). It is worthwhile to note, however, that none from the large enterprise group expected to close shop.

Examining the responses by sector confirmed that some industries may withstand the challenges caused by the pandemic better than the others. For instance, MSMEs in the accommodation sector expected the next three (3) to six (6) months to be bleak: 83% said they expected to continue operating at a loss, while 17% anticipated permanent closure. Other business sectors that had relatively high percentage of respondents with negative expectations included: administrative support service; creative arts and entertainment; and food and beverage service activities.

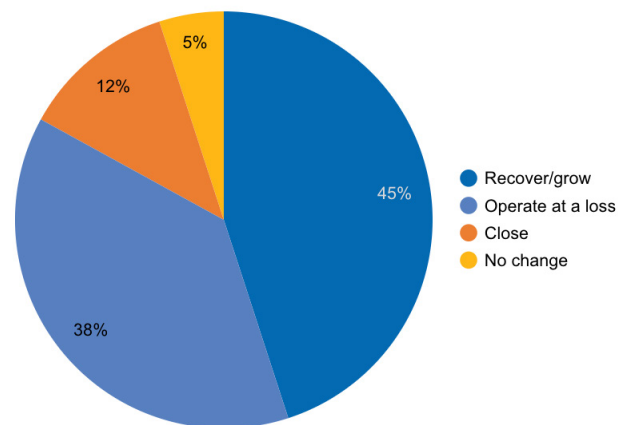


Fig. 28. MSMEs' Business Forecast

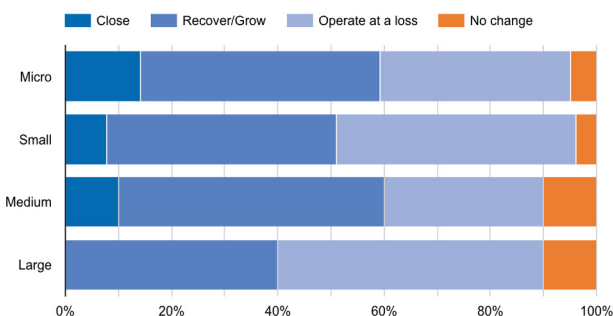


Fig. 29. Business Forecast by Business Size

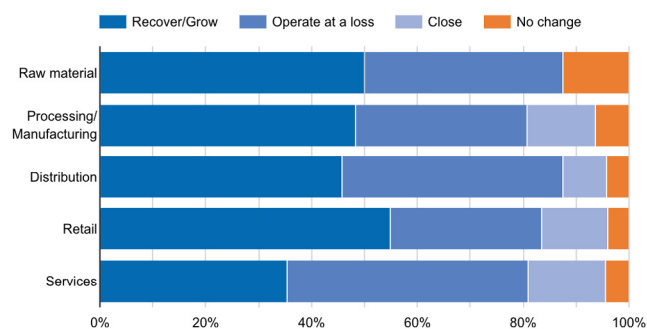


Fig. 30. Business Forecast by Value Chain Segment

WAVE 2 SURVEY RESULTS

On the other hand, the construction industry had a huge percentage of members with positive expectations (67%). The Philippine government's assurance that the "Build, Build, Build" program will continue may have contributed to the positive expectation of the construction industry. Other industries that had a significant percentage of recovery/growth expectations were manufacturing, other service activities, wholesale and retail trade, and agriculture-forestry-fishing (see Fig. 31).

Aside from the sectors these businesses belonged to, gaining insights on other factors that could have contributed to businesses' outlook may assist the government, the private sector, and development partners in designing effective relief and recovery assistance for MSMEs.

Evaluating other features of respondents with

positive outlook point to some potential key relationships: presence of supply and demand strategy.

Table 11 shows that the group that expected to recover or grow in the next three (3) to six (6) months had the lowest percentage of respondents that had no supply or demand strategy, intuitively suggesting that the businesses' positive outlook may be the result of confidence in their strategies, especially where the nature of the industry they belong to allows for a variety of adaptive measures. As discussed previously, some industries such as accommodation, creative arts, administrative support services may not have wide-ranging options that they can implement on their own compared to other industries. These industries may need more support and intervention from the government to survive the COVID-19 crisis.

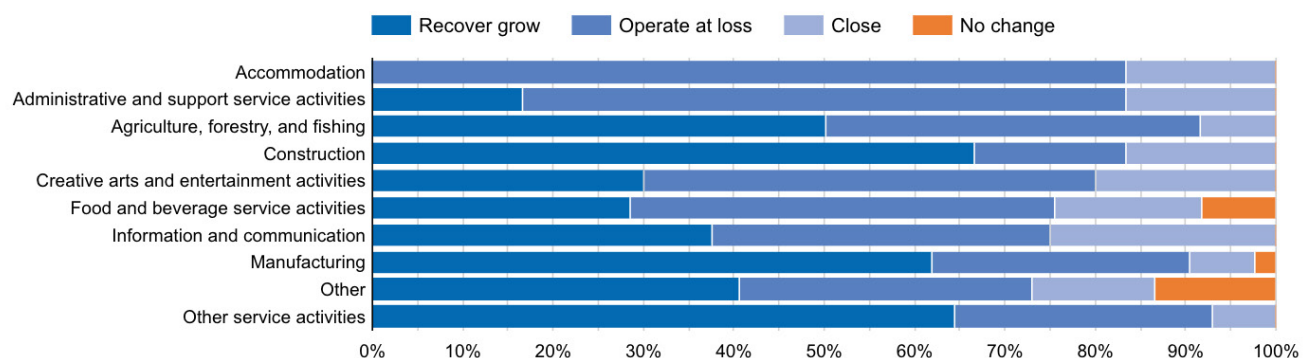


Fig. 31. Business Forecast by Sector

Table 11. Business Forecast Factors		
Forecast	No Supply Strategy	No Demand Strategy
Close	60%	46%
No change	40%	27%
Operate at a loss	31%	32%
Recover/grow	17%	15%

WAVE 2 SURVEY RESULTS

SURVEY RESULTS BY GENDER

While there were some observable differences in the proportion of female and male respondents in the different survey components, further investigation needs to be conducted to be able to make conclusive statements about these differences. Statistical tests to verify the significance of the differences in these proportions had not been performed using the survey results data since the samples were not randomly selected. All comparative words used in this section should be regarded with this limitation in mind.

The discussion in this section focuses on female and male respondents, since there were only three members of the LGBT+ community (1%) who responded to the survey.

The respondents' gender distribution by sector showed that there were more female respondents in the following sectors: administrative and support service activities; agriculture, forestry, and fishing; food and beverage service activities; manufacturing; and wholesale and retail trade (see Fig 32).

Size of Business Owned

Among business owner respondents, there were

more female respondents who owned small (59%) and medium enterprises (56%), while male respondents owned more medium (79%) and large enterprises (100%) (see Fig. 33).

Operations

In terms of impact on operations, female respondents reported higher percentage of increased operations (5%) compared to male respondents (3.3%) and normal operations (6.3% vis-a-vis 4.2% for male respondents). They also had lower percentages of decreased operations compared to male respondents (44.7% vs. 52.9%) and permanent closure (3.1% vs. 4.2%). However, more female respondents had businesses that were temporarily closed (40.9%) compared to male respondents (35.3%) (See Fig. 34).

With income change, 14% of female respondents and 8% of male respondents reported that they experienced an increase in average monthly income from April to June compared to their pre-pandemic average monthly income from January to February. Meanwhile, 73% of female respondents and 83% of male respondents confirmed that their average monthly income dipped from pre-pandemic levels (See Fig. 35)

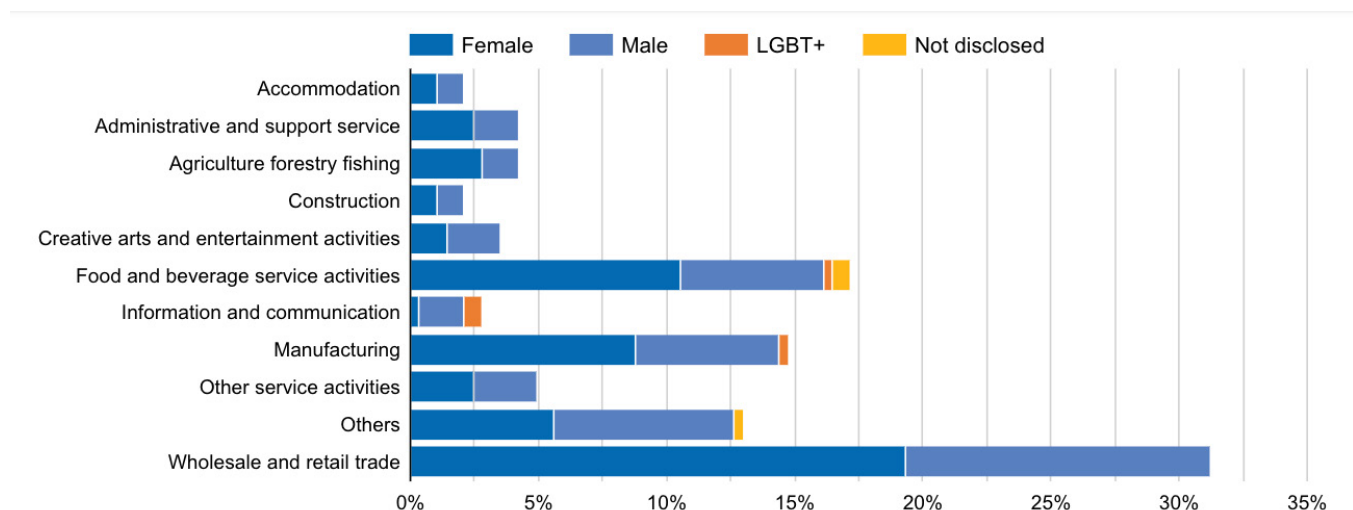


Fig. 32. Sector Distribution by Gender

WAVE 2 SURVEY RESULTS

Employment

When it comes to employee retention, the female group had a slightly higher percentage of respondents who laid off employees (26.4% vis-a-vis 25.2% for male respondents). However, there were also more female respondents who retained their employees with full pay (29.6%) compared to male respondents (21.9%) (see Fig. 36).

Business Strategies

Female respondents had higher percentage of members who employed adaptive measures and business strategies. On the demand side, 81% of female respondents had business strategies while only 66% male respondents had one. Digitalization was the most popular demand strategy for both female (70%) and male (52%) respondents.

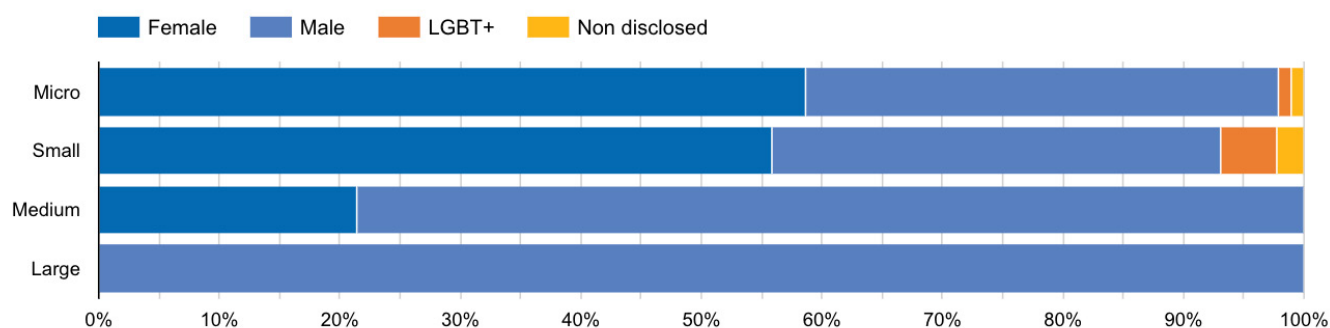


Fig 33. Business Owners by Gender

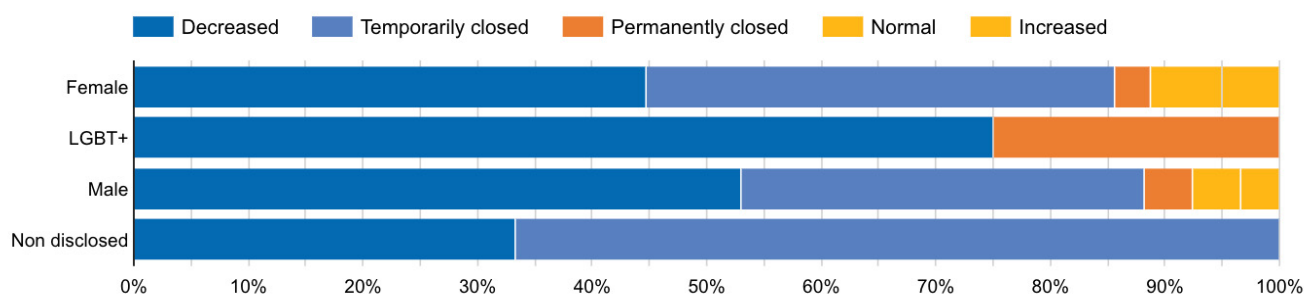


Fig 34. Operations Impact by Gender

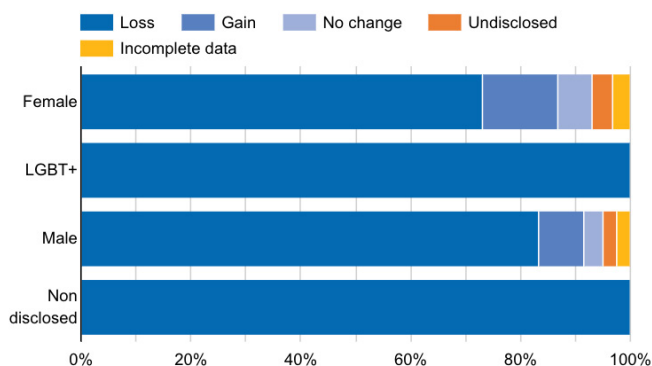


Fig. 35. Income Change by Gender

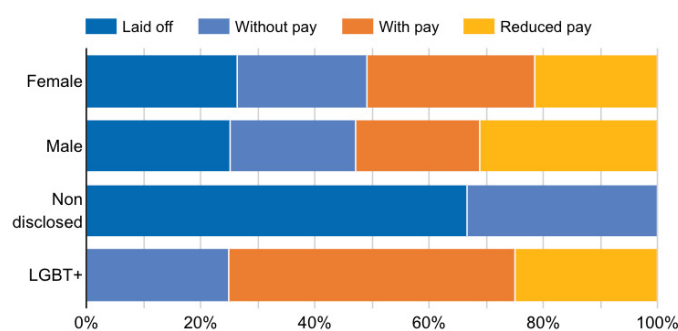


Fig. 36. Employment Decision by Gender

WAVE 2 SURVEY RESULTS

This was followed by diversification of products and services and provision of non-cash payment options for both female and male respondents. On the supply-side, 74% of female respondents reported to have at least one strategy, which was higher than 67% of male respondents that reported the same. Male respondents' top three supply strategies were remote work, temporary support for employees, and partnership with new suppliers. Meanwhile, female respondents' top three supply strategies were remote work, partnership with couriers, and temporary support for employees. Female respondents were also more likely to keep these adaptive measures permanently, confirmed by 18% of female respondents as opposed to 11% of male respondents. In addition, 24% of male respondents did not have business continuity plans compared to 19% of female respondents.

External assistance

More male respondents (41%) had received assistance from at least one stakeholder compared to

female respondents (32%). Higher percentage of male respondents received wage subsidies, deferred loan payments, loan assistance and technical assistance; while the female group had a higher percentage of respondents who received subsidized rents and other types of assistance (mostly grocery and food packs) (see Tables 12 and 13).

Nonetheless, female and male respondents reported the same top two assistance needed, which were credit assistance and tax breaks. Male respondents reported deferred loan payments as the third most important assistance needed, while the third priority for female respondents was rental holiday. This difference may be linked with the nature of businesses owned by female and male respondents, as more female respondents were involved in the food and beverage sector and wholesale and retail trade, where facility rental costs normally constitute a significant portion of the business' fixed cost.

Table 12. Source of Assistance Received

Assistance received	Female	Male
No assistance received	68%	59%
National government	13%	24%
Not aware of any assistance	14%	18%
LGU	9%	13%
Own supplier/customer	3%	4%
Non-government organizations (NGO)	3%	3%
Private sector	3%	0%

Table 13. Types of Assistance Received

Assistance received	Female	Male
None	69%	65%
Wage subsidy	13%	22%
Deferred loan payments	7%	8%
Subsidized rents	6%	4%
Others	7%	3%
Loan assistance	2%	8%
Technical assistance	2%	6%

Table 14. Business Aspect Affected by COVID-19

Gender	Sales	Cash flow	Overhead costs	Logistics	Salary
Female	130	101	85	83	75
LGBT+	4	4	1	1	3
Male	100	87	68	57	61
Non disclosed	2	2	3	1	2

WAVE 2 SURVEY RESULTS

Outlook

Another key difference between female and male respondents was their business forecast in three (3) to six (6) months. In general, women had a more positive outlook, as 51% of female respondents said they expect their businesses to recover or grow, as opposed to only 40% of male respondents. This could be related to the higher percentage of women with business strategies / adaptive measures. Women's proactiveness and positive outlook may be leveraged by the government, as it develops relief and recovery programs for MSMEs.

Business Aspects Affected by COVID-19

The top 5 business aspects severely affected by COVID-19 were the same for both genders, and in the exact order: sales, cash flow, overhead costs, logistics, salaries of employees (see Table 14).

Demand Impact

The impact on the demand for products and services of female and male respondents was almost equal (see Fig. 39), suggesting that the low demand caused by the pandemic cuts across both genders.

Awareness of government programs for MSMEs

31% of both female and male respondents were not aware of any government programs for MSMEs, suggesting the need for a wider information dissemination by the government, business associations, and development partners across genders.

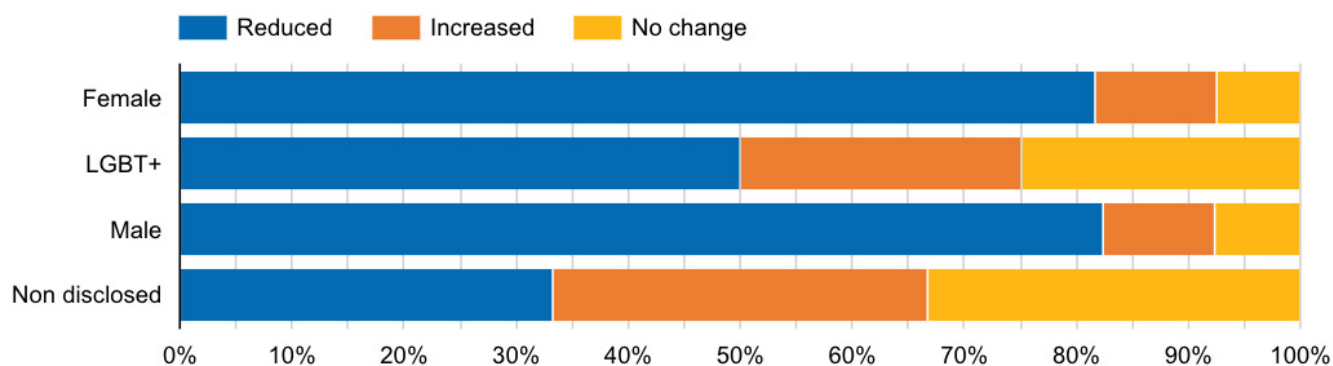


Fig. 37. Demand Impact by Gender

WAVE 2 SURVEY RESULTS

YOUTH SECTOR

There were 11 participants from the youth sector (age group 15-24) , 10 of whom were business owners in the following industries: wholesale-retail trade (7), accommodation (1), manufacturing (1), and other service activities (1).

Like other age groups, majority of the youth (64%) had to decrease operational capacity due to COVID-19.

Supply side shocks and strategies

Logistics, temporary closure of distributors, government guidelines on businesses allowed to operate, and shortage of raw materials were the main difficulties faced by the youth sector, which they addressed through partnership with couriers (36%), temporary support for employees (36%), and partnership with new suppliers (27%).

Demand side shocks and strategies

Like other respondents, low demand had affected majority of the youth respondents (82%). To address this, majority opted to digitalize (82%) while others enabled payments through non-cash options (36%); while 18% did not have any demand strategy.

Given the challenges, 18% of the youth group laid off employees while the remaining 82% retained their employees with reduced pay (5), without pay (1), and with pay (3).

Like other age groups, the youth respondents' main obstacles in resuming operations were transportation/logistics (64%), lack of demand (55%), and lack of financing (55%). Most of the youth had BCPs in place (82%), focused on new ways of conducting day-to-day business, new procurement and delivery mechanisms, and risk assessment. Sixty-four percent (64%) of the youth group did not receive assistance from any stakeholder, comparable to most age groups, at an average of 66%. Meanwhile, only 35% of respondents who were 60 and above did not receive any form of assistance.

Finally, the youth sector was the most optimistic among all age groups, with 73% expecting business recovery/growth in the next three (3) to six (6) months. The next group with highest positive outlook was 45-54 year-old respondents at 50%.

SOCIAL LISTENING RESULTS



SOCIAL LISTENING RESULTS

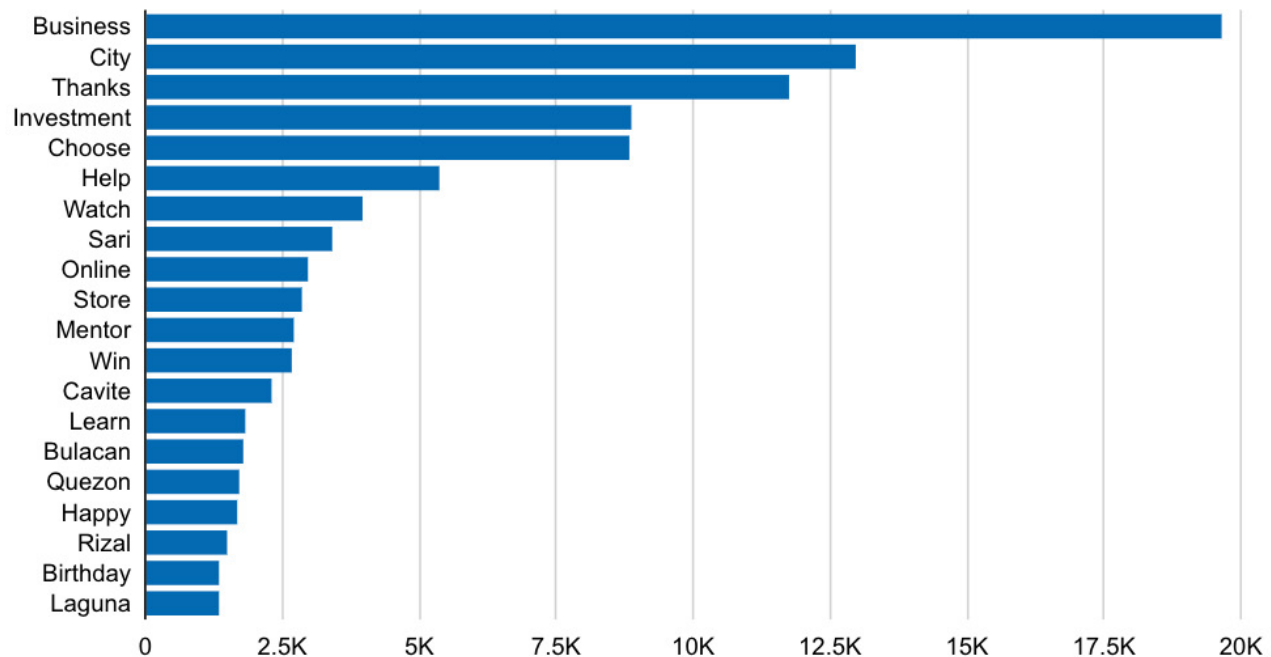


Fig. 38. Top 20 Most Salient Terms

An artificial intelligence firm conducted a social listening exercise for the whole month of June to get an overview of the people's sentiments shared online. The firm monitored official Facebook pages of government agencies that are related to the MSME sector, and captured posts and comments relevant to MSMEs in the context of the current health and economic crises.

The top 20 most salient terms included several specific areas in the Philippines such as Cavite, Bulacan, Quezon, and others. This could have been related to an online streaming of a mentoring program by Go Negosyo called "Mentor Me Online Balik Kabuhayan (Regaining Livelihood) Series." Each week, ten (10) viewers had the opportunity to win PHP 10,000 if they watch the Facebook live episode, register, and comment on the post. Several social media users commented with their place of residence and bulk of the comments related to the said post mostly revolved around their desire to win so that they could use the mone

tary prize as additional working capital (mostly for sari-sari stores, mini-convenience stores found in residential areas).

Some specific comments were:

- "Sana po makasali Rin kami mabigyan nang puhunan" (We hope to be part of this so we can receive additional capital.)
- Hashtags: #Pangpuhunan, #PuhunanPang-Negosyo (#Capital #Capitalforbusinnes)
- "Sana Isa ako sa matulongan" (I hope to be one of the beneficiaries.)

This reinforced the findings of the survey where MSMEs, particularly micro entrepreneurs, need access to financing to resume operations. The third most salient term, "thanks," referred to comments of those who participated in the online streaming of webinars, suggesting that business owners,

SOCIAL LISTENING RESULTS

especially the micro-enterprises, are interested willing to learn online. Other comments in response to posts by government agencies were mostly questions and clarifications on processes for loan and other assistance applications, as well as follow-ups on the status of their applications.

The AI firm that conducted the social listening exercise classified the comments and assigned a specific topic per category. These topics were further clustered using a machine learning algorithm, generating three main clusters.

Cluster 1 had the highest number of topics (25 out of 40), majority of which pertained to concerns of business owners and government assistance guidelines. Fifteen (15) out of the twenty-five (25) topics in cluster 1 revolved around social media users' concerns that pertained to the different government programs and others (see topic IDs 9, 10, 18, 19, 21, 23, 25-28, 30, 32, 34, 38, and 39 in Table 15). The rest of the topics referred to guidelines on online learning, investment, and other government assistance.

The second cluster included topics that referred to fraud, anomalies, and scam (see topic IDs 14, 24, and 35 in Table 16) and other remaining concerns (topic IDs 11, 15, and 24). Some of the topics suggested that there may be a need to educate MSME owners against fraudulent investments and transactions online, especially now that many are looking for ways to earn money amid economic recession and high unemployment.

Finally, most of the topics in the third cluster (see Table 17) were related to webinars and online updates and guidelines by the government. While there were still topics that involved social media users' concerns, cluster 3 comprised some positive topics pertaining to raffle winners, gratitude for the country's public briefing updates on COVID-19, and positive feedback of webinar watchers.

While there were varying issues captured in the social listening exercise, the volume of topics in cluster 1 suggests that the prevailing sentiment among social media users is that of worry coupled

with determination – worry from the growing concerns in relation to their businesses and government programs, as well as determination to learn through online mentoring programs and to earn additional working capital.

Table 15. Cluster 1

Topic ID	Topic Name
1	DICT - NICT Month 2020 Celebration
4	Inclusivity and Continuity of Learning Webinar
9	Internet Speed Issues
10	Esquire Money - Philippine Debt 8.6 Trillion Article Bias Disapproval and Administration Corruption Concerns
12	Philippine Franchise Association - How to Invest in the Right Franchise Webinar Watchers
13	Department of Finance - Create to Make PH as an Investment Destination Post Pandemic Public Approval
17	MentorMeOnline Public Approval
18	Opening of Businesses/Shops Concerns MGCQ
19	DOLE - Akap Cash Assistance Issues/Complaints on Assistance Expectations
20	Help on Returning of OFWs to PH
21	Company Double Pay Independence Day Concerns
22	Reception of Assistance for BPO Employees
23	Criticisms on Failure of Action to Support BPO Employees
25	Agricultural Credit Policy Council (ACPC) SURE COVID-19 Emergency Loan Program Reception of Subsidy/Avail of Program and/or Loans Concerns and Complaints
26	Agri-Negosyo (ANYO) Loan Program Loan Concerns
27	RFFA Distribution per Location Reception Concerns
28	Ekadiwa ni Ani at Kita How to be a Vendor Concerns
29	Ideas and Solutions on Farmer Losses due to Food Dumping Issues
30	Approval and/or Government Corruption Concerns on 20-Million Food Processing Facility BAPTC
32	DA-BAR Seminar Public Interest Joining Concerns
33	On William Dar's Actions
34	Seed Distribution Corruption Concerns
37	Webinar Request of Presentation Slides
38	Webinar Registration Concerns
39	Department of Tourism - MGCQ DOT Hotel/Resort Certificate Complaints

SOCIAL LISTENING RESULTS

Table 16. Cluster 2

Topic ID	Topic Name
3	Internet of Education for Quality
8	Locations of People Watching the Webinars
11	Pandemic Government COVID Testing Concerns
14	Fake News Investment Schemes
15	DTI - GoNegosyo MentorMeOnline Participant Contact Details for Business Assistance Concerns
24	Department of Agriculture - Fertilizer Company Overpriced Bags Issues
35	Online Trading/Bitcoin Investment (Scam)

Table 17. Cluster 3

Topic ID	Topic Name
2	Cybersecurity The New Normal (Realities of Cyberspace) Webinar
5	Positive Feedback of Webinar Watchers
6	Cloud First Policy Public Approval
7	Gratitude on Laging Handa PH Public Briefing Updates on COVID-19
16	Raffle Winner
31	Support for Farmers Concerns
36	BIR - Webinar Open Registration Extension Concerns
40	Interim Guidelines for Application for Accreditation Requirements Concerns

CONCLUSION AND POLICY RECOMMENDATIONS





CONCLUSION

The UNDP survey results provided relevant insights on MSMEs' experiences, knowledge, and behavior and reinforced the need for a holistic or "whole-of-government" approach to address the health and economic crisis caused by the COVID-19 pandemic.

The MSMEs in the country continue to suffer from income losses, as demand for MSME products and services continue to dwindle. Despite the lifting of the enhanced community quarantine in June 2020, a significant number of MSMEs opted to remain temporarily closed while others chose to operate below capacity.

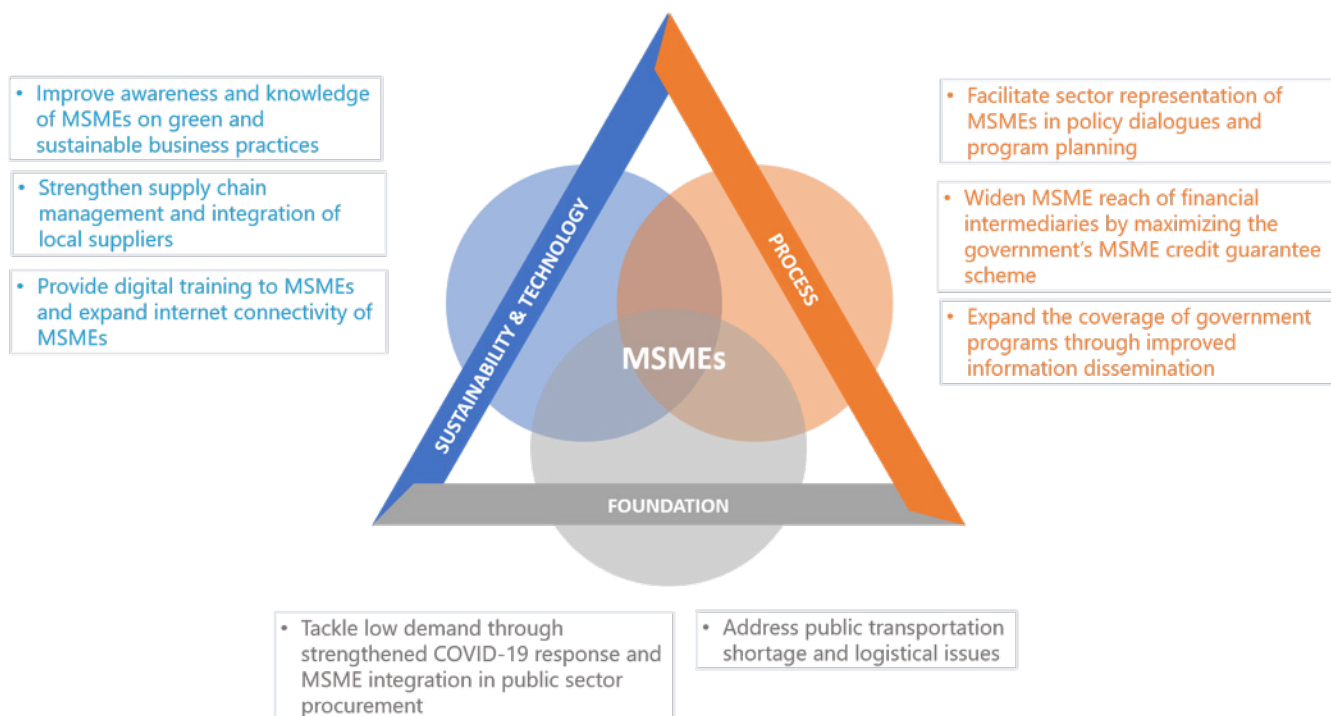
Two of the most apparent economic consequences of MSMEs' challenges are unemployment and under-employment, which are now more prevalent. With depleting sales and minimal operations, most MSMEs had begun laying off employees at varying degrees to reduce cost and avoid further income losses, as confirmed by 26% of the respondents.

To address these challenges, a significant portion of the survey respondents reported to have started implementing adaptive measures to boost demand for and ensure supply of their products and services. Given the required physical distancing, most MSMEs confirmed to have transitioned to digital and allowed employees to work remotely. Others diversified their products and services, and partnered with couriers, new distributors, and new suppliers.

Despite MSMEs' resourcefulness, it is critical that the government, together with its development partners, provides MSMEs with the right support to increase their resilience against the massive disruptions caused by the pandemic. A more targeted and effective approach by the government and its partners would entail constant and closer coordination with MSMEs across sectors at different stages of the crisis. As seen from the survey results, more than 60% of the respondents have not received any assistance to date despite the bleeding effects of the pandemic on MSMEs businesses. Around 80% of the survey respondents reported income losses from April to June and reduced demand from customers. With high unemployment rate and economic recession, MSMEs left to their own without government intervention will find it difficult to recover and may force many to permanently shut down their businesses. The magnitude of the crisis demands that the government redirects its focus on health and economic programs and augments its support for MSMEs, while ensuring that these programs will reach the right beneficiaries.

The policy recommendations are grouped into three major groups, namely: Foundation, Process, Sustainability and Technology. The framework above shows how these recommendations are interconnected and while the government plays a big part in planning, funding, and implementing these policy recommendations, the private sector and development partners have significant contribution in realizing these recommendations.

POLICY RECOMMENDATIONS



FOUNDATION

These recommendations aim to address issues that deem central to the continuity of MSMEs businesses. These include 1) the low demand brought about by fear and lack of confidence in going out, exacerbated by the low purchasing capacity of unemployed Filipinos; and 2) the need for safe and reliable mobility of Filipinos, especially of essential workers.

1. Tackle low demand through strengthened COVID-19 response and MSME integration in public procurement

One of the most striking impacts of COVID-19 that cuts across all business sectors was the low demand experienced by the survey respondents.

In a consumption-driven economy like the Philippines, it is critical that consumers' confidence be restored in the context of the new normal. As revealed by the SWS survey, more than 80% of adult Filipinos were fearful of getting infected by COVID-19; the fear of getting infected prevents many from going out of their homes and hence may contribute to the low demand. A stronger COVID-19 response by the government that depends heavily on testing, contact tracing, and the quarantine of those with COVID-19 (WHO, 2020) may help boost the confidence of the Filipinos.

In addition, DTI may strengthen its "buy local" campaign with clear communication and strict enforcement of health and safety guidelines for local products and services.

POLICY RECOMMENDATIONS

Another way to sustain demand for MSME products and services is to level the playing field for MSMEs in public procurement and ensure that this does not unduly favor large corporations.

The national government and local government units should explore how MSMEs can participate in public procurement without sacrificing the quality and integrity of such transactions. This may come in the form of breaking down large tenders into smaller ones and setting a price threshold so that multiple MSMEs can supply to the government; or adjusting some technical requirements that are too onerous for MSMEs (e.g. experience in bulk supply, number of years in the business, high average sales, and others). With high unemployment rate and low purchasing capacity of most Filipinos, the government as buyer of last resort policy is crucial in addressing the persistently low demand and ensuring the continuity of MSMEs in the country.

2. Address public transportation shortage and logistical issues

Logistics and transportation challenges were reported as a major obstacle to business resumption by more than 50% of the respondents. One of the economic stimulus bills, Accelerated Recovery and Investments Stimulus for the Economy (ARISE) bill proposes that buses and other public utility vehicles be contracted by the government to provide public transportation in the National Capital Region (NCR), Metro Cebu, Metro Davao, and other cities in the country. This is similar to service contracting, which is being advocated by the Move as One coalition—a coalition of 134 organizations. According to Ernie Cruz, president of the National Confederation of Transport Workers' Union: "By shifting to service contracting, the government pays the operators and drivers...so the income of our transport workers is independent of the number of passengers they have... This effectively guarantees the job security of our 2.7 million land transport workers, while also ensuring the safety of 8 million commuters in the NCR [National Capital Region] alone."²⁰ In addition, service contracting may improve the reliability and safety of public transportation for essential workers and general commuters by following a fixed departure and arrival schedule, instead of waiting for the public utility vehicle to be filled with passengers before departing. These may be included in a set of pre-determined performance targets that would determine additional incentives for drivers and operators.

Service contracting may be an immediate measure that the government can implement to address the lack of public transportation, especially in NCR. Other longer-term measures that the government should consider include construction of protected bike lanes and wider sidewalks for pedestrians to avoid congestion of public commuters.

The Interagency Task Force (IATF) should also re-examine its guidelines and regulations related to intercity and interprovincial travel to avoid unnecessary backlogs in the movement of goods and people. Required documents issued publicly by IATF should be followed at checkpoints to ensure that no additional, unofficial requirements would be asked.

Finally, the government, through its "Build Build Build" program, may incorporate construction of farm-to-market roads that will reduce local producers' transportation and logistics cost and allow better access to markets.

²⁰ New strategies urged to improve public transport. (2020, June 02). Retrieved August 14, 2020, from [Link](#)

POLICY RECOMMENDATIONS

PROCESS

The second set of recommendations focuses on improving the processes of the available government support to increase coverage, efficiency, and effectivity.

1. Facilitate sector representation of MSMEs in policy dialogues and program planning

The survey showed that while there were general concerns such as low demand and lack of financing capacity among MSMEs, there were also issues specific to each sector. It is recommended that DTI and other relevant departments of the government, in partnership with business association and development partners, facilitate sector representation of MSMEs in policy dialogues and program planning to address sector-specific issues.

Sector representation and consultations will also enable the government to conduct a more targeted approach in assisting MSMEs. The assistance needed by sector (see Table 10) that came out of the survey is a good entry point in probing the primary lifeline needed by each sector. For instance, the accommodation sector may benefit more from government assistance that will lower their expenses - through tax breaks and deferred loan payments – rather than from access to credit. The same may be true for the other service activities sector.

With stronger collaboration, MSMEs and government agencies may come up with more effective solutions to prevent closures of MSME businesses. For instance, the survey results reinforced what we already know about the accommodation sector being one of the hardest-hit sectors by the COVID-19 pandemic. Through sector representation, national and local government units alike can determine how accommodation facilities, in addition to being used as quarantine facilities, can be used as dormitories for healthcare and other essential workers who struggle to commute to work due to shortage in public transportation and discrimination in their place of residence.

The survey also showed that technical assistance was a priority of MSMEs in the agriculture and manufacturing sectors. With MSMEs' inputs, the government may tailor-fit the technical assistance provided to these sectors that will help them adapt to the new normal and tap business opportunities in each sector.

Other sectors such as food and beverage, other service activities, and information and communication service activities prioritized the need for rental holidays. Examples from other countries that have actively taken measures to relieve MSMEs from paying rental fees may be studied by the government to get best practices and apply these to the sectors that may need this assistance the most. For instance, the Australian government extended various benefits such as reduction in charges, land tax, and/or deferred loan payments to commercial property owners provided that they comply with a mandatory code to support MSMEs affected by the pandemic. Support for MSMEs include non-termination of lease due to non-payment during the pandemic or a reasonable recovery period, reductions in rent based on tenant's business contraction. The government of Brunei Darussalam provided 30% discount on rental rates in government buildings of MSMEs in affected sectors such as tourism, hospitality, food and beverage, air and water transport. Malaysia and Singapore also waived rentals of MSMEs.

POLICY RECOMMENDATIONS

2. Expand the coverage of government programs through improved information dissemination

The survey results showed that 31% of the respondents were not aware of any of the government programs for MSMEs. Hence, there is a need to establish a communication strategy for wider and more effective information dissemination of MSME-related guidelines and programs. Similar to text blasts by the National Disaster Risk Reduction and Management Council, MSMEs may be informed of announcements, policies, and programs through SMS, since not all MSMEs, especially the micro-enterprises, may have internet connection. There can be a complementary online portal (a social media page or a website) where all information pertaining to MSMEs can be found. To implement this, DTI may explore partnership with the Department of Information and Communications Technology and the private sector such as telecommunications and social media companies.

3. Widen MSME reach of financial intermediaries by maximizing the government's MSME credit guarantee scheme

The lack of financing capacity was perceived by the survey respondents as one of the major hurdles in resuming business operations, and access to credit as one of their priorities in assistance needed. The Central Bank (BSP) has been easing the country's monetary policy in the hope of increasing liquidity and market activity in the country. However, in BSP's recent survey of senior bank loan officers, it was concluded that most banks were tightening their credit standards and were seeing low demand for loans both by household and enterprises.²¹

One element that may encourage banks to increase lending to MSMEs is the availability of government guarantee. In response to the COVID-19 crisis, PhilGuarantee established a credit guarantee facility worth PHP 60 billion (USD 1.24 billion)²², specifically for banks' lending to MSMEs. The government should ensure that the MSME credit guarantee scheme will be maximized by all financial intermediaries, including rural banks that work closely with micro-entrepreneurs to increase their confidence in lending to MSMEs given the additional risk brought about by the pandemic. One of the ways through which this can be done is by streamlining and optimizing accreditation process of interested financial intermediaries.

SUSTAINABILITY AND TECHNOLOGY


Finally, the following recommendations aim to maximize the opportunity to increase knowledge on and pursue sustainability through technology and strengthened supply chain management, among others.

1. Improve awareness and knowledge of MSMEs on green and sustainable business practices

A quarter of the respondents confirmed that they had begun the process of shifting to greener/sustainable business practices to increase their resilience to pandemic impacts. Another 25% agreed that the shift would increase their resilience, but did not know how to go about the process. This presents an opportunity for the government, in partnership with development organizations, to pave the way for a greener and sustainable new normal.

²¹ Publications and Research. (2020, July 27). Retrieved July 28, 2020, from [Link](#)

²² Exchange rate used: 1 USD = PhP 48.50



In addition to digital training, the government and development partners may provide online tools and materials that will educate MSMEs on greener/sustainable business practices as part of their business continuity plans. These modules should include concrete ways that MSMEs can implement and successful case studies demonstrating that sustainability and profitability are not mutually exclusive. To ensure uptake of MSMEs, the government should support MSMEs in this shift and incentivize those that have taken steps in making environmentally sound business activities.

2. Strengthen supply chain management and integration

Some MSME respondents shared that they started to source from local, nearby communities in response to the challenge of low supplies from previous suppliers. DTI regional offices, in partnership with Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), and other relevant agencies, may provide online capacity building, quality assurance management, and certification to these local suppliers to increase their efficiency and value-add, thereby enhancing their competitiveness in the market.

3. Provide digital training to MSMEs and expand internet connectivity of MSMEs

Several MSMEs had already transitioned to online operations but many acknowledged that they would benefit from additional training on specific aspects of e-commerce such as digital content and marketing, digital selling, and digital payment. DTI, DICT, other government agencies, business associations, and the private sector should provide MSMEs with online tools and references that will assist them in these areas, as well as in prevention of fraudulent online transactions.

As a long-term measure, the government should ensure that DICT's upcoming partnership with Facebook will improve competition in the industry through public private partnership²³; and will benefit consumers through lowered internet costs, and expanded and improved connectivity. Finally, DICT's Free Wi-Fi for All could be leveraged to include micro-businesses as program beneficiaries.

23 Camus, M. (2020, May 18). PH internet deal with Facebook a go by September 2020 - DICT. Retrieved June 24, 2020, from [Link](#)

About the Survey and the Organization:

UNDP's second round of survey probed the issues and challenges faced by MSMEs. Through the survey results and corresponding analyses, UNDP aims to provide insights that could support the development of a comprehensive recovery plan for MSMEs by the government, the private sector, and the country's development partners. However, due to mobility limitations, UNDP was unable to gather a significant number of respondents for its second round of survey outside of NCR and sampling selection was not random. Nonetheless, UNDP hopes that this paper will lead to further collaboration among stakeholders and spur the government and policymakers into action to address the pressing concerns of MSMEs.

The views expressed in this report do not necessarily reflect the views of UNDP.

UNDP partners with people at all levels of society to help build nations that can withstand crises, and drive and sustain the kind of growth that improves the quality of life for everyone. On the ground in more than 170 countries and territories, we offer global perspective and local insight to help empower lives and build resilient nations.

Copyright @2020 by UNDP Philippines

United Nations Development Programme

Philippines Country Office

15th Floor North Tower, Rockwell Business Center Sheridan

Sheridan Street corner United Street

Highway Hills, 1554 Mandaluyong City

Philippines

Website: <https://www.ph.undp.org/>

Email: acceleratorlab.ph@undp.org

