



# Impact of COVID-19 pandemic on micro, small, and medium enterprises (MSMEs)

The Philippines report

June, 2020



# The Philippines report<sup>1</sup>



This document provides a detailed country-level view of the impact of COVID-19 on MSMEs, their coping strategies, and recommendations for policymakers and financial service providers to support them.

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<sup>1</sup>The study primarily focuses on the micro and small enterprises in the Philippines. The research findings may not be valid for medium enterprises. The study is not nationally representative.



# The Philippines

At the time of data collection (April-May 2020), the Government of the Philippines allowed only businesses classified as “essential services” to operate. All other businesses were shut<sup>1</sup>. Therefore, in our sample, 74% of businesses were operating while the remaining 26% were shut.

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# Adopt measures to boost the income of MSMEs and provide subsidies and cash grants to help them manage expenses

## Measures to support the income of MSMEs

### Key insights

- Low customer demand coupled with restrictions resulting from the lockdown have resulted in a sharp decline in the income of MSMEs
- Disruptions in the supply chain have impaired the earning capacity of MSMEs

### Recommendations

- 01 Extend emergency cash benefit transfer to informal microenterprises for at least three months. The volume of cash benefits should be sufficient to take care of sustenance expenses of microenterprises that lie in the bottom 30% of the population in terms of household income<sup>1</sup>. This is also an opportunity to formalize MSMEs to allow them to access future support when other natural or man-made disasters occur.
- 02 Accredite community stores so that they can act as service providers in the government's [food distribution](#) program. This will boost their revenues and can also potentially avoid unintended competition, hoarding, and profiteering by these stores.

## Measures to reduce the burden of expenses

### Key insights

- The increase in transportation costs due to the lockdown has raised the overall business expenses for MSMEs
- MSMEs report challenges in managing their monthly expenses due to reduced income

### Recommendations

- 01 Defer payment on utilities (electricity and water), particularly for those in the manufacturing and food processing business.
- 02 Extend the voluntary [moratorium on loan repayment](#) of at least six months to help MSMEs manage cash flows during the recovery period. The interest during the period will continue to accrue on the amount outstanding.

<sup>1</sup>The cash grant program here is beyond the current cash grant offered by the Government of the Philippines to low-income households. The proposed cash grant should be targeted to microenterprises, most of which are informal. The cash grant should be computed based on the Household Income and Expenditure Survey, where the amount of which should be enough to support sustenance expenses.

# Ensure improved targeting of informal enterprises coupled with access to finance to boost their recovery

## Measures to improve targeting of informal enterprises

### Key insights

- Due to lack of updated data, unregistered or informal microenterprises usually cannot benefit from government relief packages

### Recommendations

- 01 Accelerate the rollout of the national ID system to support the targeting and distribution of cash assistance. The national ID should be linked to the database of MSMEs for delivery of targeted interventions.
- 02 Utilize the digital database of relevant institutions including that of the [Department of Social Welfare and Development \(DSWD\)](#) and the network of financial institutions, such as rural banks and MFIs. The [Department of Trade and Industry \(DTI\)](#) should ensure the consolidated database is accurate and up to date and covers informal and unregistered enterprises<sup>1</sup>.

## Measures to boost access to finance

### Key insights

- MSMEs have resorted to borrowing from their social network to smoothen their cash flow requirements

### Recommendations

- 01 Government banks should provide additional [loan funds to financial institutions that cater to MSMEs](#). Such banks should also offer loan restructuring facility to financial institutions that have seen declining loan portfolio quality due to the impact of COVID-19 on underlying businesses that are funded by such financial service providers.
- 02 Extend working capital loans to MSMEs that resume business operations after the lockdown. Extend the existing limits of the working capital loans by 30%-40% to support the resumption of businesses for existing MSME borrowers.
- 03 The government should support a [loan guarantee fund](#) to ease the flow of debt funds to accredited banks<sup>2</sup>.

<sup>1</sup> The access to emergency cash transfer and other benefits can be used as a hook to encourage MSMEs to register. Also, financial education will be important to inform MSMEs about taxation, its computation, and the benefits of paying it, for instance, access to finance and subsidized credit. DTI has also introduced an [online business registration and tax assistance platform](#) to promote formalization among MSMEs.

<sup>2</sup> Eligible lenders like universal, commercial, thrift and rural banks supervised by the Bangko Sentral ng Pilipinas (BSP).

# Promote digitization among financial institutions and enhance the capacity of MSMEs to adopt relevant digital technologies

## Measures to enhance awareness and preparedness

### Key insights

- Most enterprises have taken no additional measures to improve their business performance

### Recommendations

- 01 Work with institutions, such as MFIs and NGOs that work directly with micro and small enterprises to design and implement low-cost, [innovative communication collaterals](#) to increase awareness about COVID-19. Increasing awareness of MSMEs about the threat of COVID-19 will help them further understand the importance of following health protocols, such as observing physical distancing, washing hands, and use of face mask.
- 02 The [Department of Trade and Industry \(DTI\)](#) will help MSMEs devise business continuity and risk management plans by promoting relevant business practices, such as risk reserves<sup>1</sup> and business interruption solutions.

<sup>1</sup> Risk reserves are an emergency fund that can support the business, especially during unexpected events like COVID-19. This can be in the form of a savings product with favourable interest rates. The product can also be incentivized, where future government relief would be defined as equivalent or multiple of the value of savings.

## Measures to promote digitization and digital payments

### Key insights

- Low adoption of technology, such as the use of social media and other online channels for business communication
- Supplier and customer payment transactions continue to be in cash

### Recommendations

- 01 Build the capacity of MSMEs to adopt digital communication, marketing and payment technologies. Work with [Go Negosyo](#) and utilize its [Mentor ME Online](#) platform to encourage MSMEs to participate in e-commerce and social-commerce platforms.
- 02 Encourage financial institutions to adopt [digital transformation](#) to help them deliver faster and cheaper services, and equip them to serve MSME customers better. Encourage partnership of traditional banks with fintechs to help achieve the objectives of digital transformation. The government should also set up a fund that financial institutions can avail to adopt digital technologies.



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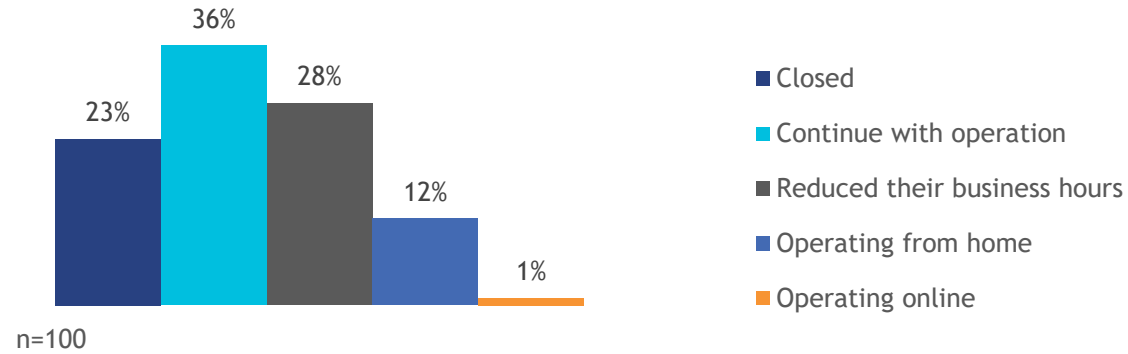
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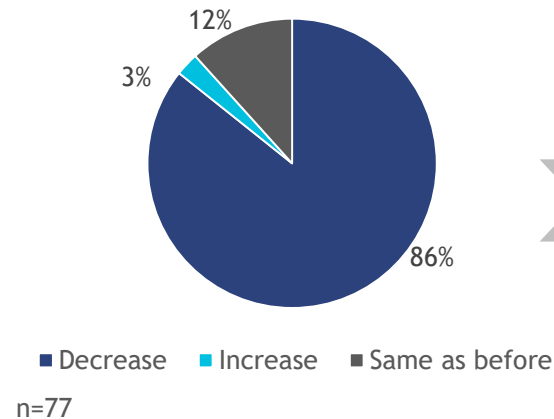
<sup>1</sup>On 16<sup>th</sup> March, 2020, the Government of the Philippines issued a memorandum to impose an Enhanced Community Quarantine (ECQ) over the whole of Luzon, including the National Capital Region (NCR). This was followed by an Executive Order No. 112, s. 2020, which imposed an ECQ in high-risk geographic areas of the country, and a General Community Quarantine (GCQ) in the rest of the country from 1<sup>st</sup> to 15<sup>th</sup> May, 2020.

# Reduced operating hours together with low customer footfall have reduced the income of MSMEs

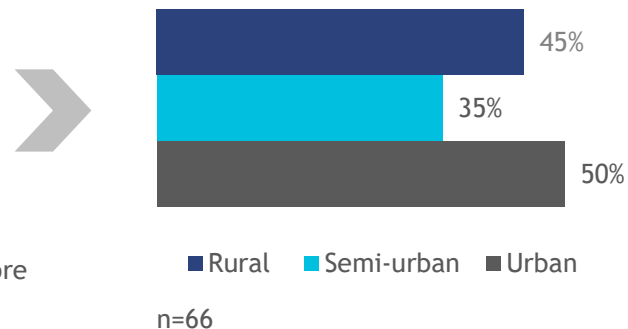
23% of enterprises have closed their operations temporarily



86% of enterprises reported a reduction in customer footfall



The median value of decrease in customer footfall as reported by enterprises that faced lower footfall is 50%



## Local restrictions have forced enterprises to reduce operation hours or close their business

- 28% of enterprises reported that they have been operating for fewer hours during the community quarantine<sup>1</sup> (lockdown) period;
  - The Government of the Philippines has imposed strict implementation of curfew hours (8PM to 5AM) during the community quarantine.

## Low customer demand amid lockdown restrictions

- The reduction in customer footfall was significant for enterprises owned by both men (75%) and women (86%).

“ ———  
 My business has seen little or no income since most people are not going out to dine. We have had a few take-out orders, on an average three orders per week. My business is severely affected during this crisis.  
 - An urban food stall owner  
 ——— ”

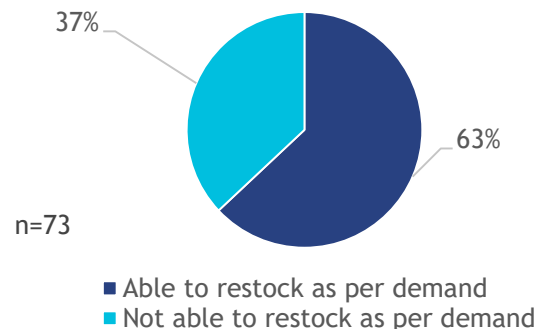
“ ———  
 People are not allowed to go out freely, and only a few are buying from our store during this crisis. We also have to follow the rules. We can open our store, but only within the limited time allowed every day.  
 - Women sari-sari (mom and pop) store owners from rural and urban areas.  
 ——— ”

<sup>1</sup>Source: Department of the Interior and Local Government: Local Government Academy

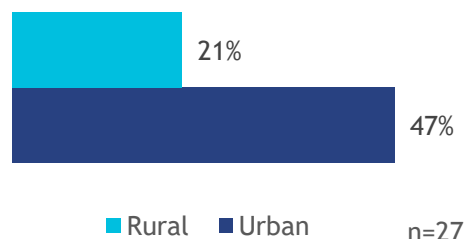


# A disrupted supply chain and decline in the volume of sales per customer have further hampered the earning capacity of MSMEs

37% of enterprises reported delays in re-stocking of commodities as per demand



The delay is more pronounced in urban areas among enterprises that reported delays



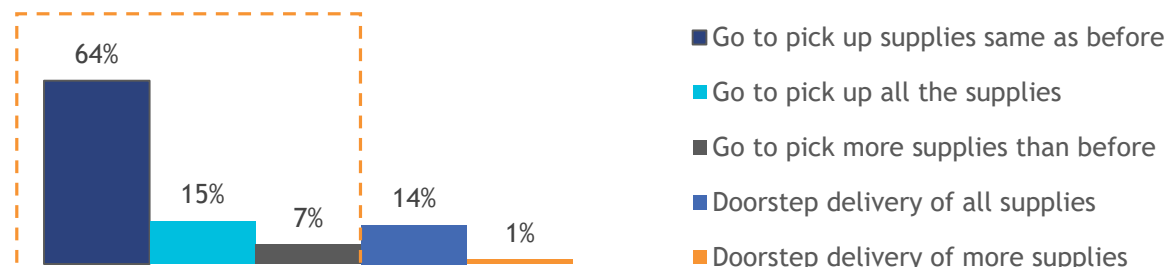
## COVID-19 has had a “domino effect” on the supply chain

- 58% of enterprises reported a decrease in the volume of supplies. This is more pronounced in urban areas.
- Replenishment of stocks is a bigger issue in urban areas, where 81% of enterprises were unable to restock as per the demand.
- While the arrangement for getting supplies has remain unchanged for most enterprises: 85% of them still have to go to the supplier’s shop to pick up their supplies. However, getting a means of transport has been a challenge due to limited availability of public transport or its absence during the lockdown<sup>1</sup>.

## Sales per customer has also decreased

- 75% of enterprises reported a decrease in volume of sales per customer, and the decrease has a median value of 50%
- Among the enterprises that reported a decline in volume of sales per customer, 65% are *sari-sari* (mom and pop) stores.

85% of enterprises have to go to the supplier’s shop to pick up their supplies



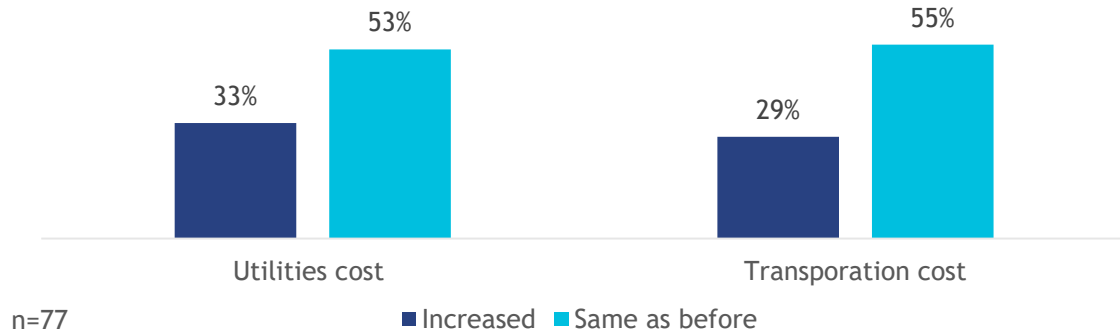
n=74

“ Before COVID-19, we could transport our vegetables to the market before noon. Now, our vegetables can only be delivered in the afternoon due to the unavailability of public transport. - A rural vegetable trader ”

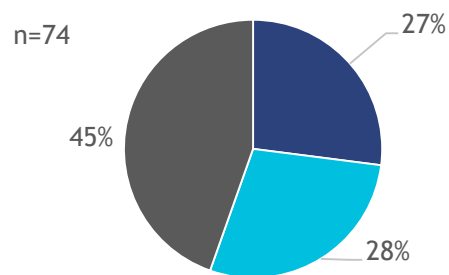
<sup>1</sup>Source: Department of the Interior and Local Government: Local Government Academy

# The unavailability of public transport has increased the transportation cost as well as the cost of supplies<sup>1</sup>

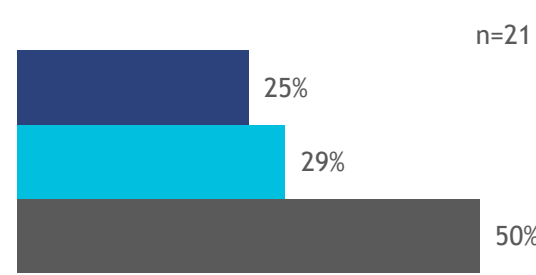
One-third of enterprises reported an increase in the cost of both utilities and transportation



28% of enterprises reported an increase in cost of supplies



The median value of increase in the cost of supplies as reported by enterprises that faced increase costs is 20%



■ Decrease ■ Increase ■ Same as before      ■ Rural ■ Urban ■ Semi-urban

**MSMEs and their business are in lockdown, but not their expenses!**

- Enterprises have been incurring the same (if not increased) operational expenses.
  - The cost of utility bills and transportation has remained the same for nearly half the enterprises.
  - Among enterprises that reported an increase in the cost of utilities<sup>2</sup> and transportation, the increase is of a median value of **45%** and **50%**, respectively.
- The increase in cost of supplies can be attributed to the high cost of transportation during the pandemic.
  - Qualitative data suggests that enterprises had to pay more for transportation, thereby increasing their cost of supplies.

“

The situation is challenging. We have to pay double the fare when buying supplies. - **A sari-sari store owner in a rural area**

“

My potential earning will be reduced since I will have to pay double the normal transportation fare. - **A rural vegetable trader**

<sup>1</sup> The cost of alcohol and surgical masks have increased, but are usually unavailable. Most entrepreneurs instead use reusable cloth for face mask, and soap to wash hands.

<sup>2</sup> Since most people are at home, there is higher consumption in the household than usual. It is important to note that the place of business is the same place of residence for most enterprises. Also, the cost of utilities has increased due to high demand during the lockdown.



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# MSMEs feel uncertain about how long the crisis will continue

- Enterprises have reported a median value of eight weeks that their business has been affected<sup>1</sup>, and a median value of four more weeks till when they expect that their business will remain disturbed. The latter value increases to a median value of eight weeks within rural areas.
- Qualitative data suggests that enterprises are uncertain as to when the crisis will end and their business operation can return to normal. This sentiment is consistent across respondents who operate non-essential businesses.

01

8 weeks

Sales have been affected

02

4 weeks

4 weeks<sup>2</sup>

Sales will remain disturbed

MSMEs feel uncertain of when the crisis will end due to the unavailability of a suitable vaccine

“ —

I think as long we do not have a vaccine, we may not be able to go back to our normal lives. We cannot see the virus, and we cannot easily identify and avoid the people who may have been infected. Things will not return to normal that easily. - **An urban restaurant owner**

“ —

I think it will take a while before the situation returns to normal. The lockdown might be lifted gradually. Our [country's] President says the lockdown will only be lifted once a vaccine for the virus is available but there is no vaccine till now. I just hope that things will return to normal soon. - **An urban transport service provider**

— ”

— ”

Though they feel uncertain, MSMEs are optimistic of re-opening their business once the community quarantine (lockdown) is lifted

“ —

They said in the announcement that the quarantine (lockdown) will only be up till end of the month (May, 2020). Once the quarantine is lifted, I will re-open my other businesses (liquor bar, barbeque stall). - **Food stall owner in a rural area**

“ —

Maybe things will return to normal since the quarantine is being lifted gradually. But I am not sure until when this situation will last. - **An entrepreneur from a rural area who is into hog raising**

— ”

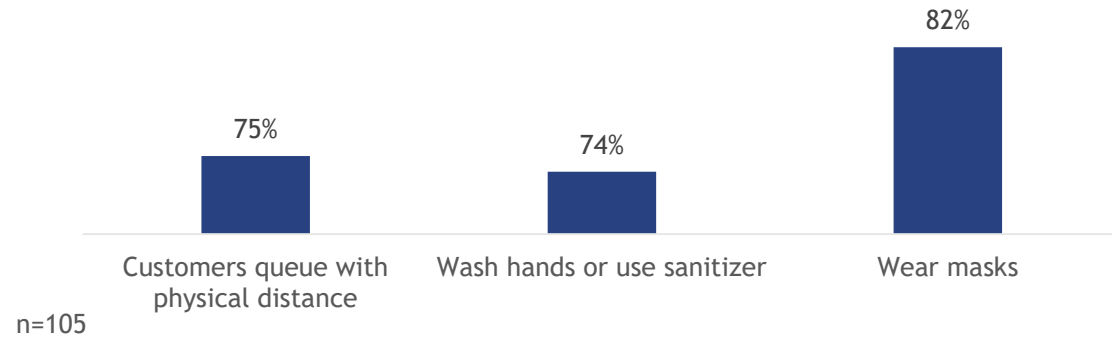
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<sup>1</sup> The Government of the Philippines has started to implement quarantine measures last March 15, 2020.

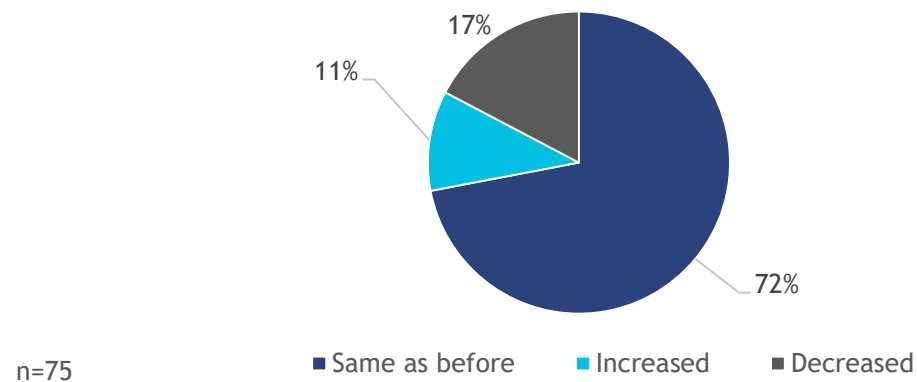
<sup>2</sup> Enterprises, particularly in rural areas, have reported a median value of eight more weeks till when they expect that their business will remain disturbed

# MSMEs have been following health protocols and tweaking their operations to ensure their business continues

More than 3/4<sup>th</sup> of enterprises reported to have followed three common safety measures for themselves, their staff, and customers



11% of enterprises reported an increase in sales on credit compared to what they offered before COVID-19



## MSMEs have been following health protocols to operate their business

- Physical distancing, washing or sanitizing of hands, and wearing of masks are the three most common precautions that the enterprises are following to protect them from getting infected.

## A few MSMEs have changed their operating model

- In order to maintain good relations, MSMEs have been either continuing the credit arrangement or extending fresh sales on credit facility to their loyal customers.
- 11% of enterprises have started using social media to communicate with their suppliers, while 8% have started using social media to communicate with their customers.
- 7% of enterprises have started offering home delivery service.

“

When the quarantine was enforced, we were allowed to continue selling fish in the market. But we need to follow health protocols, such as social distancing, wearing masks, and using disinfectants. - A woman fish vendor from a rural area

“

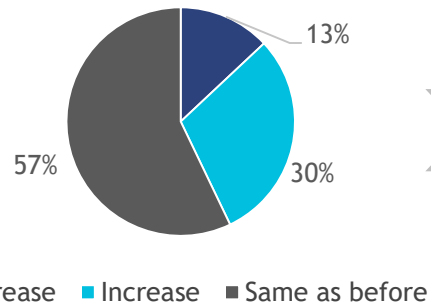
I use alcohol disinfectant and mask when attending to customers. When it comes to payment, some pay in cash, while others ask for credit, especially the regular customers. - A sari-sari store owner in a rural area

”

”

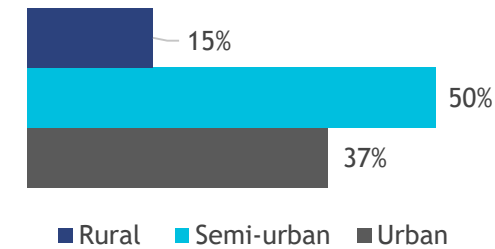
# MSMEs are trying to seize opportunities that come their way

30% of entrepreneurs have increased the price of items sold



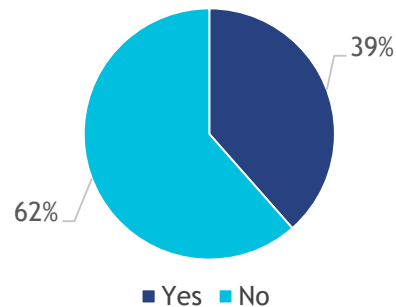
n=77

Enterprises that reported an increase—the increase in price is less pronounced in rural areas



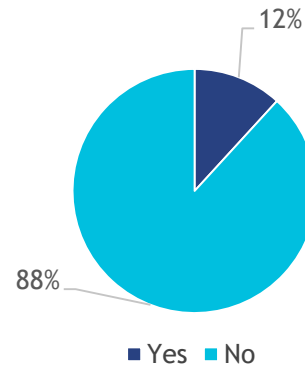
n=23

39% of entrepreneurs have been selling products that have high demand



n=78

12% of entrepreneurs have been offering new products and services



n=76

## MSME strategy: increase price, sell on demand, or sell something new

- 96% of enterprises that have increased prices of items are classified as essential business.
- Some MSMEs have been selling in-demand products, while some others have been tracking down opportunities and diversified into new product categories.
  - 83% of enterprises that sell products that are in high demand<sup>1</sup> and 89% of enterprises that offer new products<sup>2</sup> have businesses that are classified as “essential service”.
  - These same enterprises are also more pronounced in urban areas.
- 11% of enterprises have been selling a lower volume of goods, while 7% have reduced the variety of goods that they sell.

“

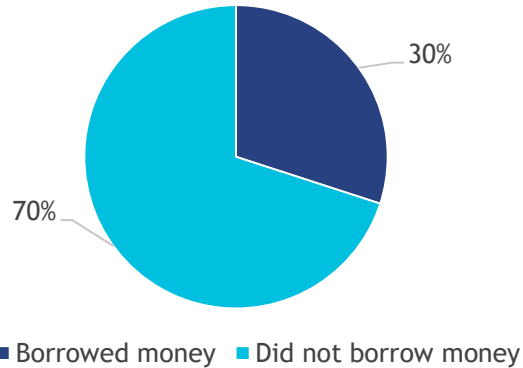
Now, I have started selling shrimp paste while my restaurant is still closed. It is timely since most people are staying at home, and it is also the season for mangoes. People can have shrimp paste with raw mangoes, or mix it with dishes. - A woman restaurant owner in an urban area

”

<sup>1</sup> High-demand products include basic food, such as rice and eggs  
<sup>2</sup> New products include shrimp paste, cheaper varieties of fish, and hog feeds

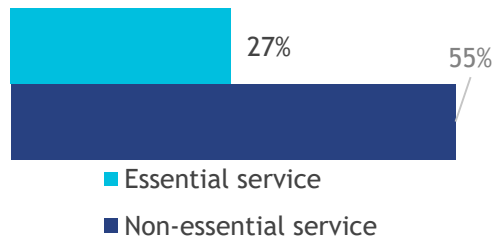
# Some MSMEs have been borrowing to sustain their operations, while a few had to sell their assets

30% of enterprises have borrowed money during the crisis



n=100

Borrowing of money is more pronounced among non-essential businesses



n=30

## MSMEs have been borrowing from their social network

- 30% of the enterprises reported that they have borrowed money to sustain their enterprise. However, the borrowing was in addition to the existing credit that they have already taken from a financial institution<sup>1</sup>.
  - Such borrowing is apparent in both urban (53%) and rural (47%) locations.
- In a few cases, entrepreneurs had to sell off assets early due to uncertainties of the market during the current situation.

“

I sold my hogs below their regular price so I can easily have money. - A woman entrepreneur from a rural area who is into hog raising

”

“

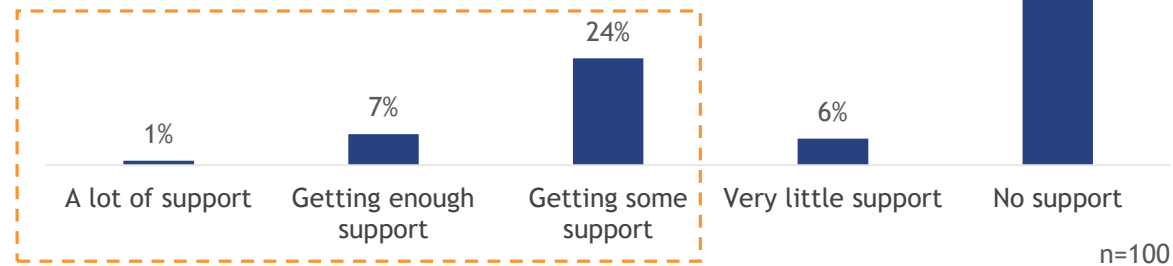
If I have cash, I can pay the supplier right away. Sometimes, they allow me to pay after three days. Their personnel will come to my store to pick up the cash payment. - A woman *sari-sari* store owner from a rural area

”

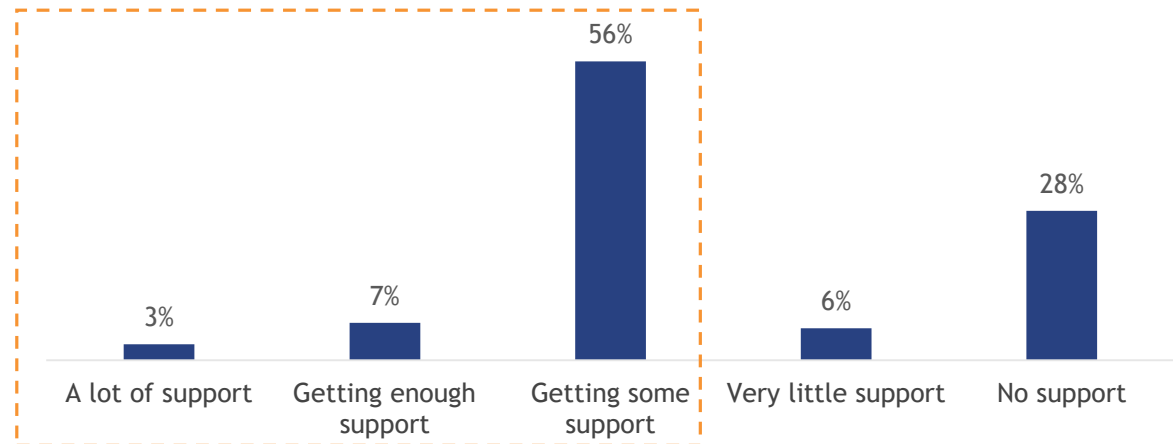
<sup>1</sup> Respondents for the quantitative research exercise are existing clients who have an outstanding loan with MSC's partner MFI.

# With the businesses not doing well, MSMEs needed all the support that they can get

32% of enterprises reported that they received financial support from the government and their social network<sup>1</sup>



66% of enterprises reported that they received non-financial support from their social network and the government



<sup>1</sup> The social network of MSME entrepreneurs includes relatives, friends, neighbours, and suppliers n=100

<sup>2</sup> SAP cash assistance is given to 18 million low income families affected by the work stoppage due to the quarantine. Source: [Inter-Agency Task Force](#)

<sup>3</sup> Source: [Philippine Information Agency](#)

<sup>4</sup> Smallest administrative division in the Philippines, which is a native Filipino term for village

## Support from government and private sector helps keep MSMEs afloat

- Financial support through government-to-person (G2P) programs, such as Conditional Cash Transfers (CCT) or 4Ps, and the [Social Amelioration Program \(SAP\)](#)<sup>2</sup> are provided to individuals who have qualified under certain conditions. [See Appendix for details.](#)
- Financial institutions including microfinance institutions (MFIs) have also provided their clients with a grace period for loan repayment. This is in line with the government's directive to provide a 30-day mandatory grace period<sup>3</sup> either for all loans with principal or for interest falling within the community quarantine period, or for both.
- The government also provides non-financial support in the form of food rations.

## However, some support can be a “double-edged sword” for MSMEs

“

Church officials also sell fish at a very cheap (no mark-up) price. They even offer door-to-door delivery, which is bad for our business. - A woman fish vendor from a rural area

“

I cannot sell rice easily nowadays since our *barangay*<sup>4</sup> officials have been distributing rice as food assistance for the household. - A rural *sari-sari* store owner

”





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# Unprecedented support at a time of an unprecedented crisis

	Instant liquidity measures	Credit-related (short-term and long-term)	Other relief and benefits
 <b>Government</b>	<ul style="list-style-type: none"> <li>An Emergency Subsidy Program (ESP) of cash or non-cash subsidy for 18 million low-income household beneficiaries amounting to USD 100 to USD 160 per month for two months</li> <li>The Social Security System to finance USD 24 million worth of unemployment benefits for up to 60,000 workers, which would cover unemployment resulting from the economic fallout to their companies due to COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Microenterprises, which have an asset size of not more than USD 60,000, may borrow USD 200 up to USD 4,000; while small enterprises with an asset size less than USD 200,000 may borrow up to USD 10,000</li> <li>Interest-free loan assistance worth USD 500 for each eligible farmers and fishermen under the Survival and Recovery (SURE) assistance program</li> <li>Working capital loans worth USD 2.4 billion with 50% guarantee to MSMEs affected by COVID-19 under the PHILGUARANTEE Credit guarantee program</li> </ul>	<ul style="list-style-type: none"> <li>Temporary employment for the 51,293 displaced workers through the TUPAD program</li> <li>Mandatory price freeze on all necessities and adoption of measures against hoarding, panic buying, and profiteering as per the Price Act and Consumer Act</li> <li>Filing and payment of 2019 Annual Income Tax Return was extended from 15 April, 2020 to 15 May, 2020</li> </ul>
 <b>Regulator</b>	<ul style="list-style-type: none"> <li>Purchases of government securities (GS) in the secondary market</li> <li>Reduction in the overnight reverse repurchase (RRP) volume offering</li> </ul>	<ul style="list-style-type: none"> <li>200-basis-point decrease in reserve requirement ratios of universal and commercial banks as well as NBFIs with quasi-banking functions.</li> <li>Temporary reduction in credit-risk weight of MSME loans</li> </ul>	<ul style="list-style-type: none"> <li>Timely suspension of the term deposit facility auctions for certain tenors</li> <li>A cumulative 75-basis-point reduction in the monetary policy rate since February, 2020</li> </ul>
 <b>Financial service providers</b>	<ul style="list-style-type: none"> <li>Moratorium on payments of loans for 127,000 microenterprises under the P3 program and 15,000 MSMEs under the Small Business Corporation (SBCorp) corporate-funded loan portfolios</li> </ul>	<ul style="list-style-type: none"> <li>A minimum 30-day grace period for payment of all loans falling due within the community quarantine without incurring interests, penalties, fees, or other charges</li> <li>An enterprise rehabilitation facility for MSMEs worth USD 20 million</li> </ul>	

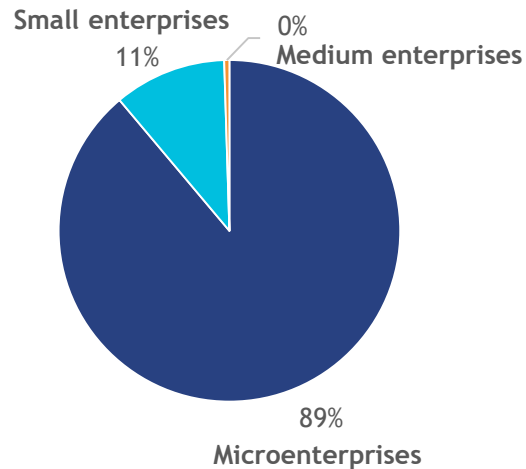
Note: This is not an exhaustive list on the measures taken to provide relief against COVID-19; the details are based on information available till 30th May, 2020.  
 Source: Government of the Philippines, Central Bank of the Republic of the Philippines. 1 Exchange rate: PHP 50 = USD 1

# Status of the MSME sector in the Philippines

Definition of MSME for manufacturing and services<sup>1</sup> (based on asset and number of employees)

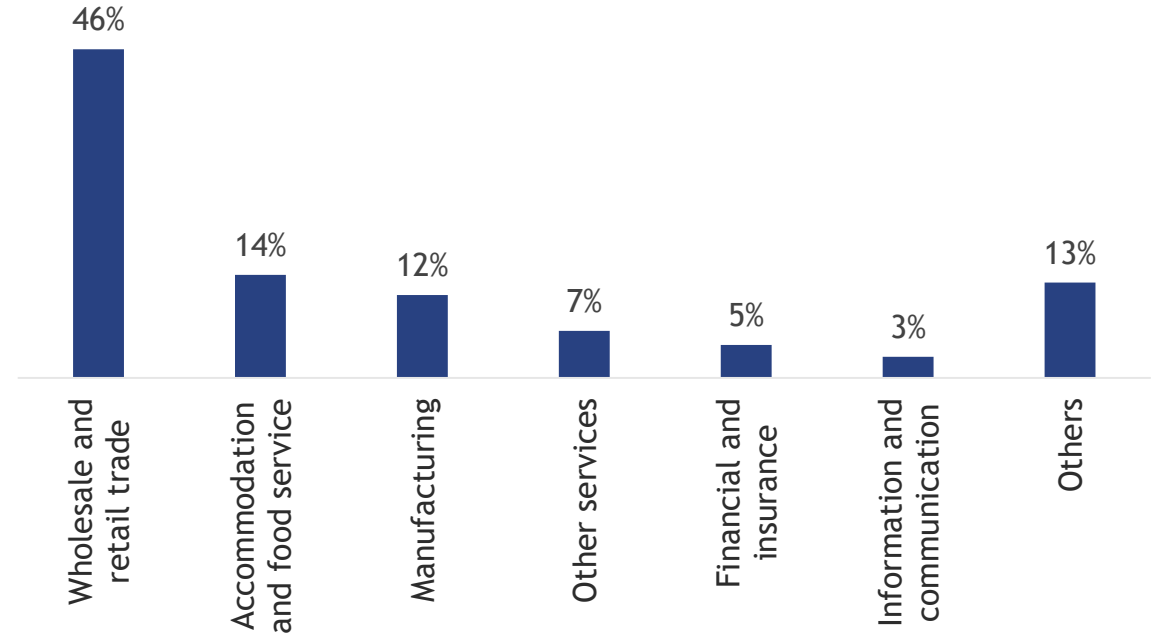
Enterprise	Asset size <sup>2</sup>	Employees
Micro	Up to USD 60,000	1-9
Small	USD 60,001 - USD 300,000	10-99
Medium	USD 300,001 - USD 2,000,000	100 - 199

## Proportion of MSMEs<sup>3</sup>



Number of MSMEs  
**998,342**

## MSMEs in Numbers



## Data on MSMEs

**63%**

MSMEs are employed (2018)

**36%**

The contribution to the GDP by MSMEs

**25%**

Export revenues is generated by MSMEs

<sup>1</sup> Source: [Senate Economic Planning Office. Senate of the Philippines.](#)

<sup>2</sup> Exchange rate: PHP 50/ 1 USD

<sup>3</sup> Source: [Department of Trade and Industry. Republic of the Philippines](#)

# Assessing the economic impact of COVID-19 on MSMEs

## The objective of the research



- Understand and quantify the impact of COVID-19 on MSMEs.
- Inform policy and support subsequent efforts to rebuild the MSME segment
- Assess the impact of COVID-19 on:
  - Revenues and costs
  - Supply chains
  - Business activities and product range
  - Liquidity management
- Explore options for minimizing threats and maximizing business opportunities
- Assess gender implications
- Understand the usage of communication channels and opportunities to be utilized
- Understand the role of entrepreneur's networks and trust and the impact of the pandemic on both
- Assess private and public sector support services

## Research coverage



- Research country: The Philippines
- Locations: Rural, semi-urban, and urban areas
- Quantitative sample size: 100 respondents
- Qualitative sample size: 19 respondents

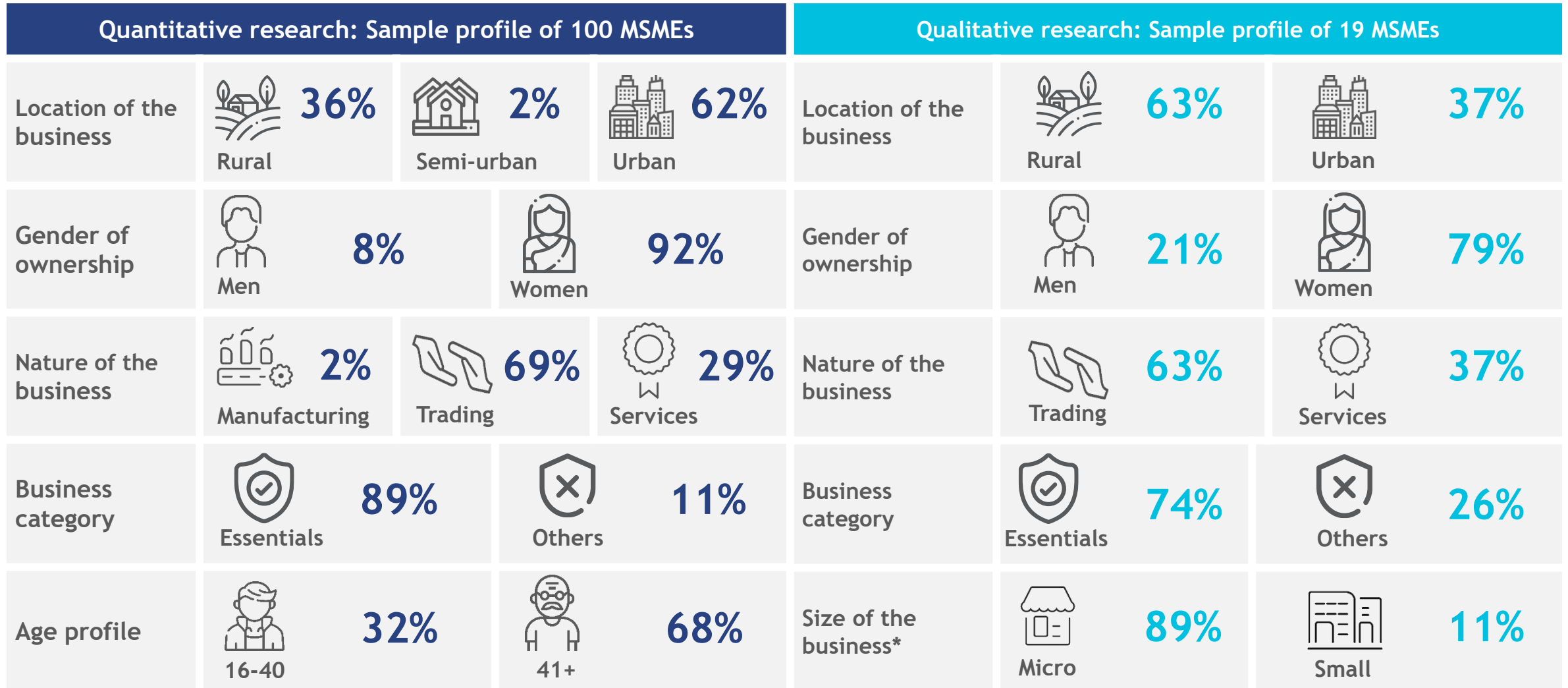
## Approach



We adopted a mixed-method research approach under which:

- Branch managers at the partner MFI administered the quantitative survey
- MSC staff conducted a qualitative interview of 19 MSMEs

# Respondents profile



\* As per the existing definition of MSMEs

# MSC is recognized as the world's local expert in economic, social, and financial inclusion



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**180+** staff in **11** offices around the world



Projects in **~65** developing countries

## Our impact so far

**550+**  
clients

**>850**  
publications

Assisted development of digital G2P services used by **875 million+** people

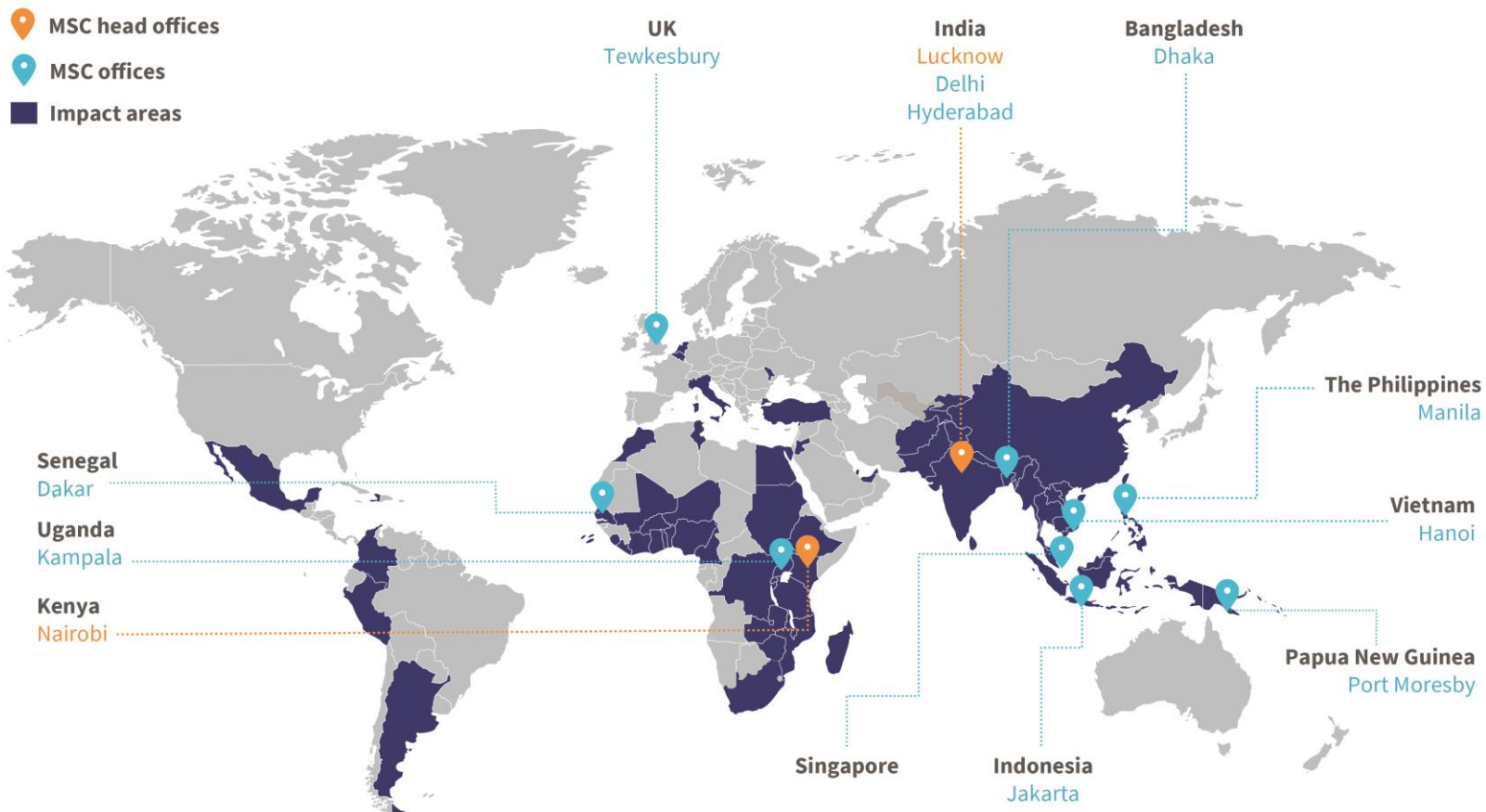
Implemented **>850 DFS projects**

Developed **275+ FI products** and channels now used by **55 million+** people

Trained **9,000+** leading FI specialists globally

## Some of our partners and clients





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