

# Obstacles and Enablers of Philippine MSMEs Participation in Global Value Chains

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PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES

# Background and Objectives

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# Defining SMEs

	Employment Definition	Asset Size Definition
Micro	< 10	Up to PhP 3M
Small	10 to 99	> PhP 3M up to PhP 15M
Medium	100 to 199	> PhP 15M up to PhP 100M

# MSMEs in the Philippines

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- 99.5 percent of firms
- 62 percent of employment
- 36 percent of GVA
- Labor productivity of large businesses more than twice of small and around ten times of micro firms.

# Some Challenges to Higher SME Productivity

- Access to Finance (Harvie et al 2013; Berger and Udell 1998; Chittithaworn et al 2011; Beck and Demirguc-Kunt 2006)
- Access to Technology (Thong and Yap 1995; Lee and Runge 2001; ADB 2015)
- Access to Markets (Rogerson 2013; Coviello and Munro 1995)
- Disruptive regulations (Klapper et al 2006; World Bank 2012, 2013)
- Entrepreneurial orientation and human capital (ADB 2015; Bates 1990; Wiklund and Shepherd 2005; Wiklund et al 2009)

# Linking SMEs to Global Value Chains

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- Can expand market access (Botelho and Bourguignon 2011, OECD 2005; ADB 2015)
- Promotes access to technology, human capital, and information (ADB 2015; OECD 2008)

# Objectives

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- Identify the obstacles that prevent Philippines SMEs from taking part in GVCs.
- Determine the extent to which SMEs in the Philippines participate in GVCs.
- Propose policy solutions on how Philippine SMEs can better integrate into GVCs.

# Data Source and Methodology

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# Data Source

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- Series of Key Informant Interviews with SMEs, business organizations, and government agencies (for the first objective).
- Survey of 530 SMEs in Metro Manila\* (for the second objective).

\*Not specifically conducted for this study

# Method of Analysis

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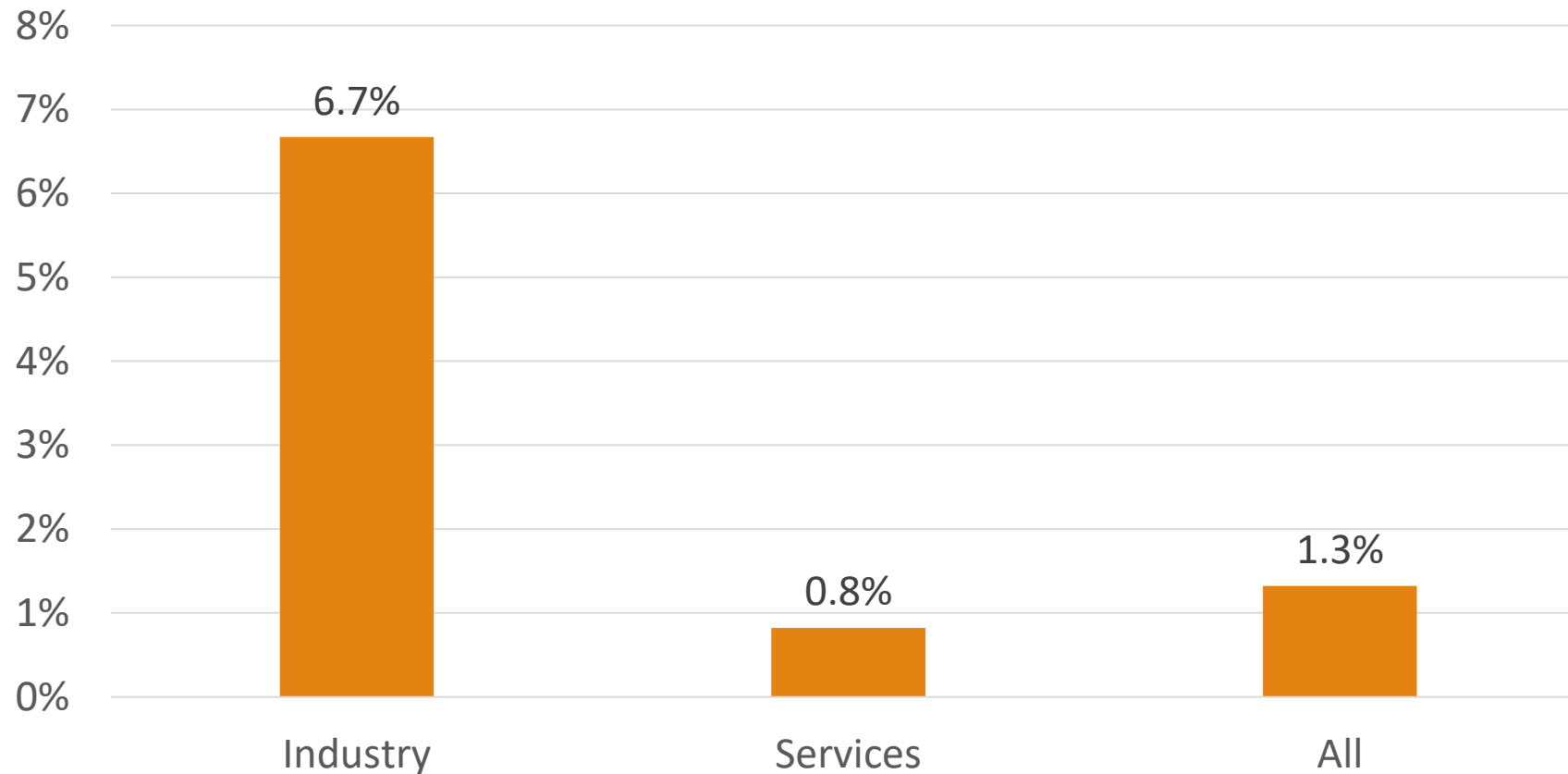
- Thematic content analysis (for the first objective).
- Descriptive data analysis of survey data (for the second objective).

# Results and Discussions

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# How Connected are Philippine SMEs to GVCs?

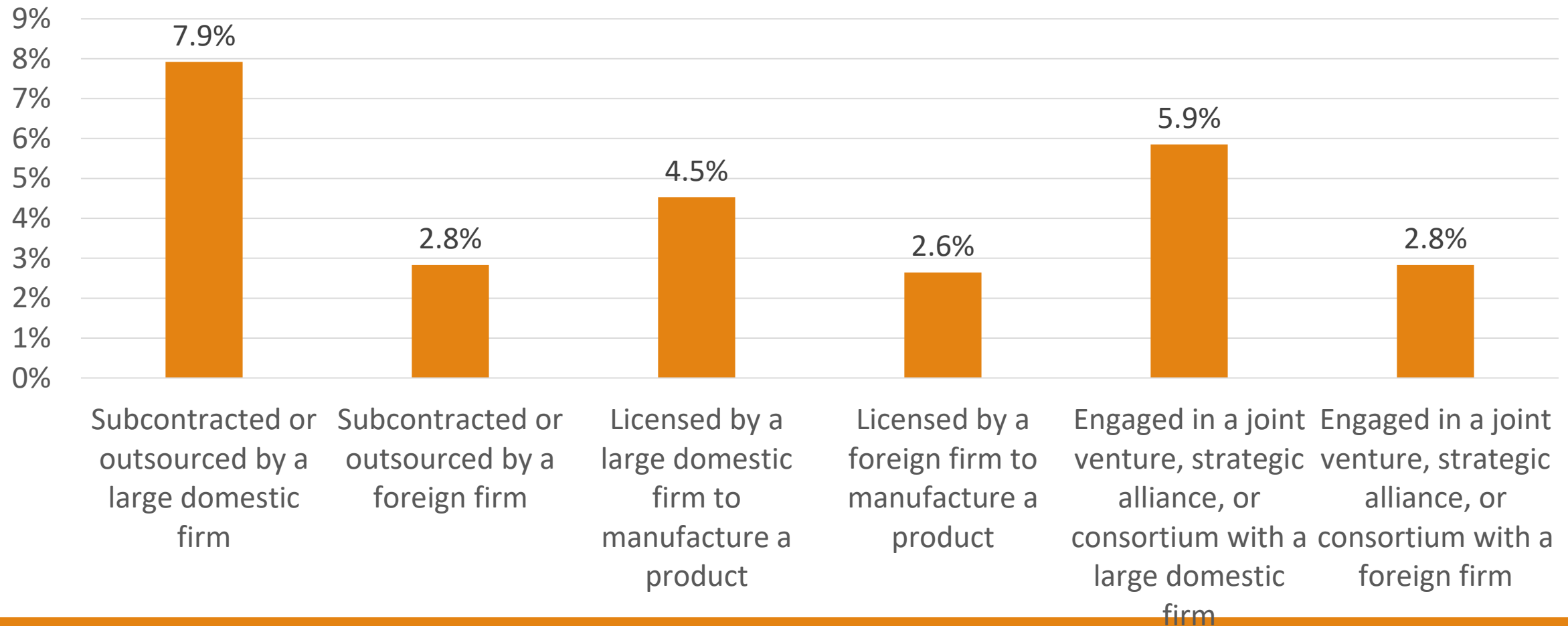
## Share of respondents with export revenue in the last year, by sector



Source: AIM Policy Center Survey on SME-Large Business Linkages and Competition, 2017

# How Connected are Philippine SMEs to GVCs?

**Share of respondents that have engaged in selected partnerships with a domestic large business or a foreign firm**



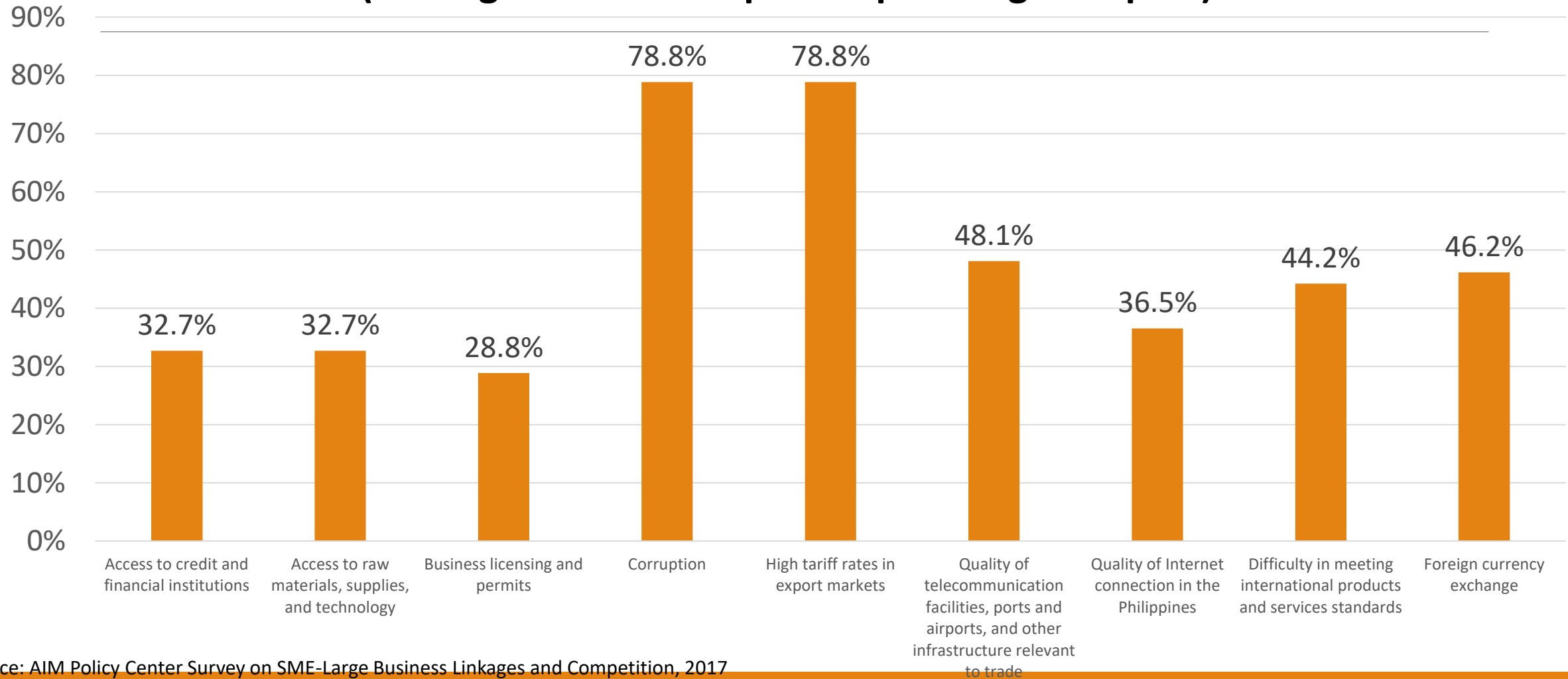
# How Connected are Philippine SMEs to GVCs?

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- Few Philippine SMEs are connected to GVCs.
- This applies to both direct connection (e.g. exports) and indirect connection (e.g. indirect exporting and linking with larger firms that are likely to be connected to GVCs).

# Challenges to SME Participation in GVCs

## Perceived obstacles of SMEs to penetrating international markets (Among those who export or planning to export)



Source: AIM Policy Center Survey on SME-Large Business Linkages and Competition, 2017

# Challenges to SME Participation in GVCs: Themes from Key Informant Interviews

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- Competition in ASEAN and East Asia
- International standards, regulatory requirements, and local institutions
- International market demand and inputs supply
- Entrepreneurial mindset and skills



# Competition in ASEAN and East Asia

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- Many Philippine SMEs have difficulties competing because competitors from ASEAN and East Asia can price their products lower.
- Lack of ability to mass produce of Philippine SMEs.
- Low input cost, particularly labor, in competitor countries.
- Many Philippine SME exporters are in the “lower-value” part of the chain; e.g. they only export raw materials rather than processed products. Thus, they find it hard to compete.

# International standards, regulatory requirements, and local institutions

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- Philippine SMEs have difficulties complying to international standards and regulatory requirements.
- Reasons for difficulties meeting standards and requirements:
  - ❑ Access to finance and credit.
  - ❑ Access to technology and other inputs.
  - ❑ Lack of entrepreneurial skills
  - ❑ Mindset (risk aversion)

# International standards, regulatory requirements, and local institutions

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## ➤ Institutional problems

- ❑ Inefficiencies in Customs and ports operations makes it more difficult and costlier to export.
- ❑ Inefficiencies in processing of permits and licenses.

# International market demand and inputs supply

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- Many Philippine SMEs fail to adapt to changing market conditions and consumer preferences in export markets.
- Lack of ability to mass produce means SMEs cannot supply what is needed by the market.
- Lack of market information.
- Access to inputs, including skilled labor

# Entrepreneurial mindset and skills

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- Risk aversion of Philippine SMEs.
- This risk aversion of SMEs, particularly those that are owner-managed, under single proprietorship, or family owned, is documented in the literature (Fernandez and Nieto 2006; Thomsen and Pedersen 2000; Fama and Jensen 1985).
- With smaller asset size and lack of safety nets, these firms have no fallback in case an investment does not produce positive returns.
- Many SME owners in the Philippines lack entrepreneurial skills.

Thank you

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