



RIZALINO S. NAVARRO
POLICY CENTER
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Road to Recovery and Resilience for Philippine MSMEs During the COVID-19 Pandemic

John Paul Flaminiano
*Associate Director and Senior Economist,
Asian Institute of Management RSN Policy Center for Competitiveness*

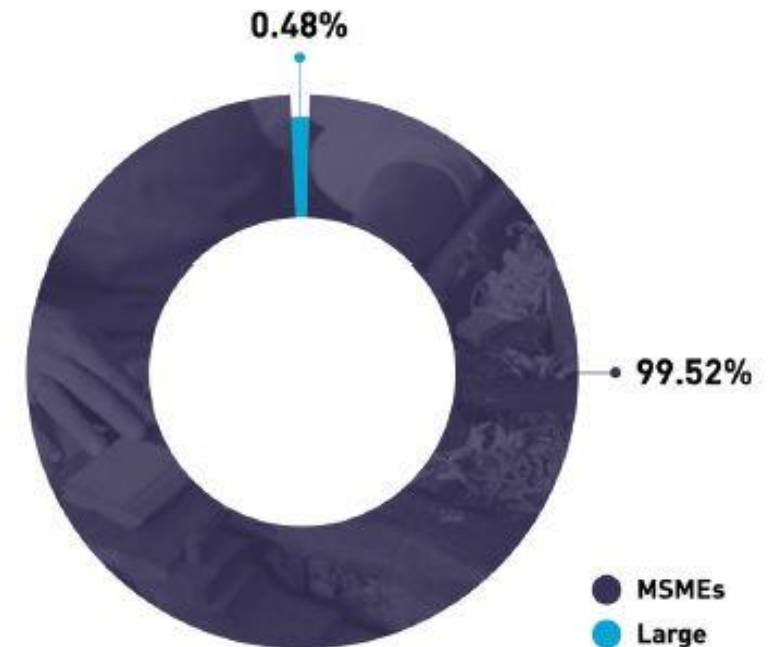
June 2021

MSMEs in the Philippines

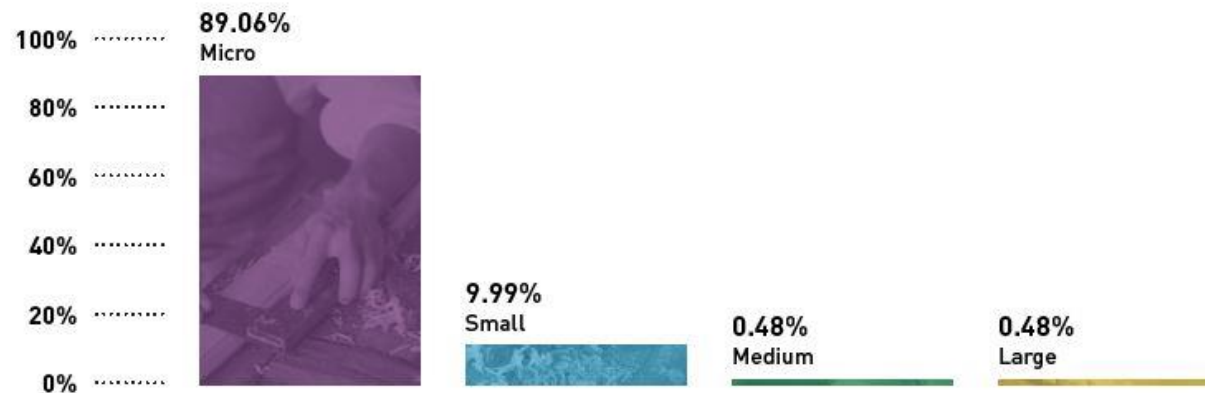
MSMEs account for 99.5 percent of established businesses in the country

FIGURE 1. Distribution of business establishments in the Philippines by enterprise size

Proportion of MSMEs in the Philippines



Distribution of firms in the Philippines



MSMEs: major driver of the PH economy

- **MSMEs contributed significantly to the country's Gross Domestic Product, accounting for about 40 percent of the total GDP**
- **Generated 5.5 million jobs and employs at least 62 percent of the Philippines workforce**
- **MSMEs account for 25% of the country's total exports revenue**
- **60% of all exporters are MSMEs**



Classification

TABLE 1. Classification of enterprises in the Philippines

CLASSIFICATION	ASSETS	NO. OF EMPLOYEES
Micro	P3 million and below	Nine employees or less
Small	P3-15 million	10-99 employees
Medium	P15-100 million	100-199 employees
Large	P100 million and above	200 employees and up

Small Businesses in Times of Crises

- **Liability of “smallness” (Hannan & Freeman, 1984)**
- **MSMEs face unique challenges in survival and growth during crises and disasters compared to large firms.**
- **MSMEs experience a decrease in demand for their products and services, financing constraints, lack of technology and market access, and supply chains, among many others.**

- **MSMEs are now facing a significant challenge due to the COVID-19 pandemic.**
- **MSMEs are facing challenges in recovery and restarting business operations, given that they are relatively cash-strapped and have fewer assets than their larger counterparts.**
- **Crises and disasters provide an impetus for businesses to innovate.**
- **MSMEs have the agility to respond quickly to the changes in their environment (Lu & Ramamurthy, 2011).**



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2020 AIM RSN PCC MSME Wave 1 Recovery Survey

- **How MSMEs in NCR and CALABARZON responded to the COVID-19 crisis, focusing on their coping behavior and strategic approach.**

Survey locations and sample size

- **700 MSMEs**

- Micro: 24.21%; Small: 50%; Medium: 25.79%

- Manufacturing: 48.57%; Services: 51.43%

SAMPLE DISTRIBUTION BY SECTOR	MANUFACTURING	SERVICES	TOTAL
Metro Manila	155	176	331
Calabarzon	185	184	369
Total	340	360	700

Table 2. Sample distribution by sector

Methodology

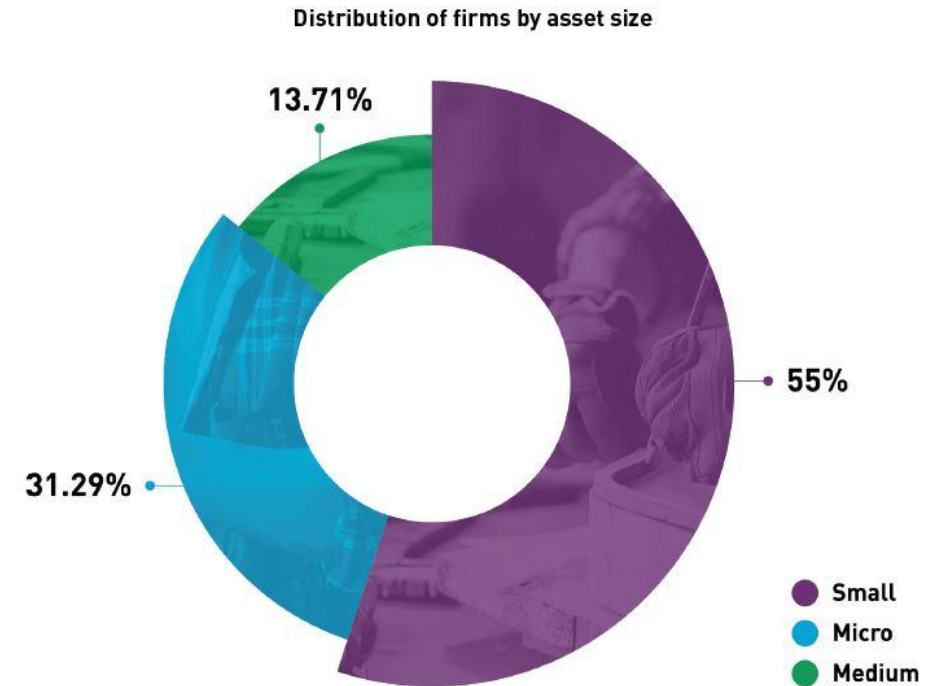
- **Quantitative survey via a face-to-face interview (30 minutes to 1 hour)**
- **Fieldwork: Multi stage random sampling was used**
 - Survey firm ran a random sampling of barangays per city in CALABARZON and Metro Manila
 - Fieldwork was held week of September 8 – October 23, 2020
- **Quality control process:**
 - 10% were observed, 30% were spot-checked, 60% back-checked via telephone calls

Respondent qualifications

- **Head/Owner of the business and manages the day-to-day operations / Person who manages the day-to-day operations of the firm.**
- **The firm should have renewed their Business Permit in 2020.**
- **The firm should be classified as a Micro, Small or Medium Enterprises.**

Although micro-enterprises comprise over 89 percent of all enterprises in the Philippines, our sample distribution is not entirely representative of the total population, and 55 percent of the firms in our sample are small enterprises, only 13.71 percent are medium, and the remaining 31.29 percent are micro-enterprises (Figure 2).

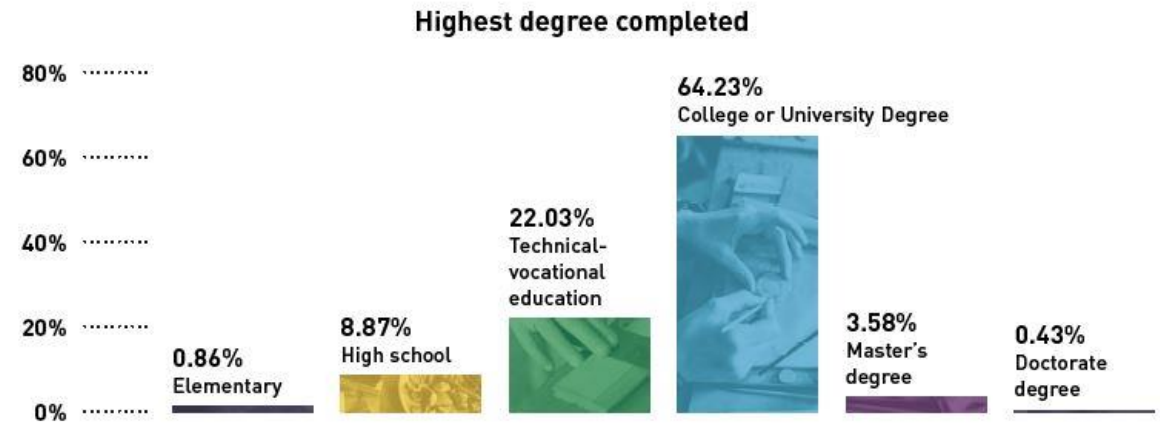
FIGURE 2. Distribution of firms in the 2020 AIM RSN PCC MSME Recovery Survey (Wave 1)



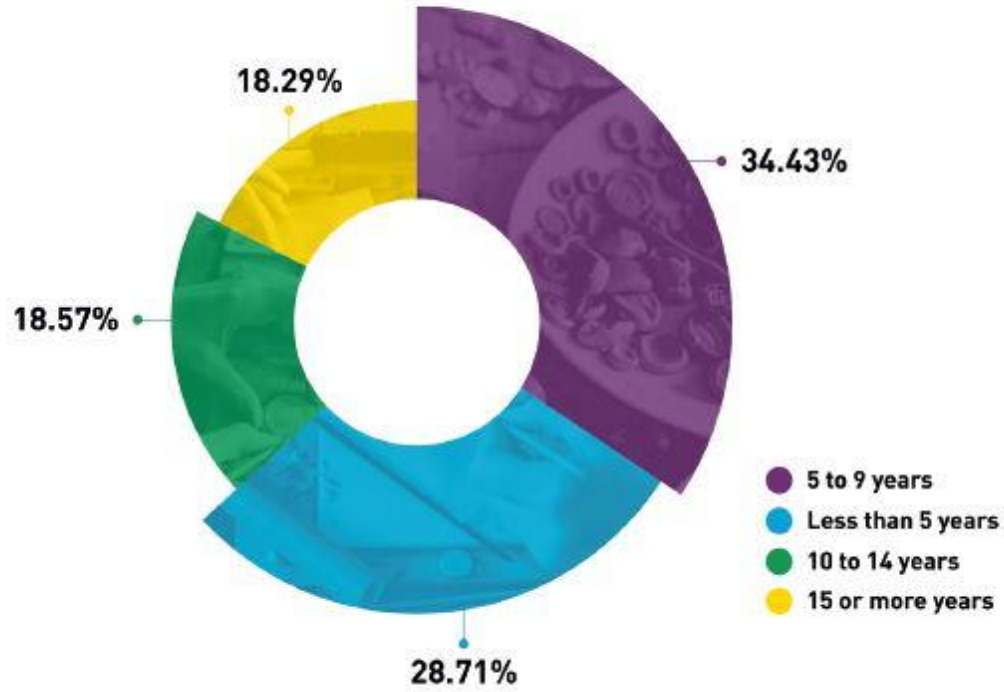
¹ The total assets of the firm should be between Php 100,000 and Php 100,000,000, excluding land.

Profile of survey respondents

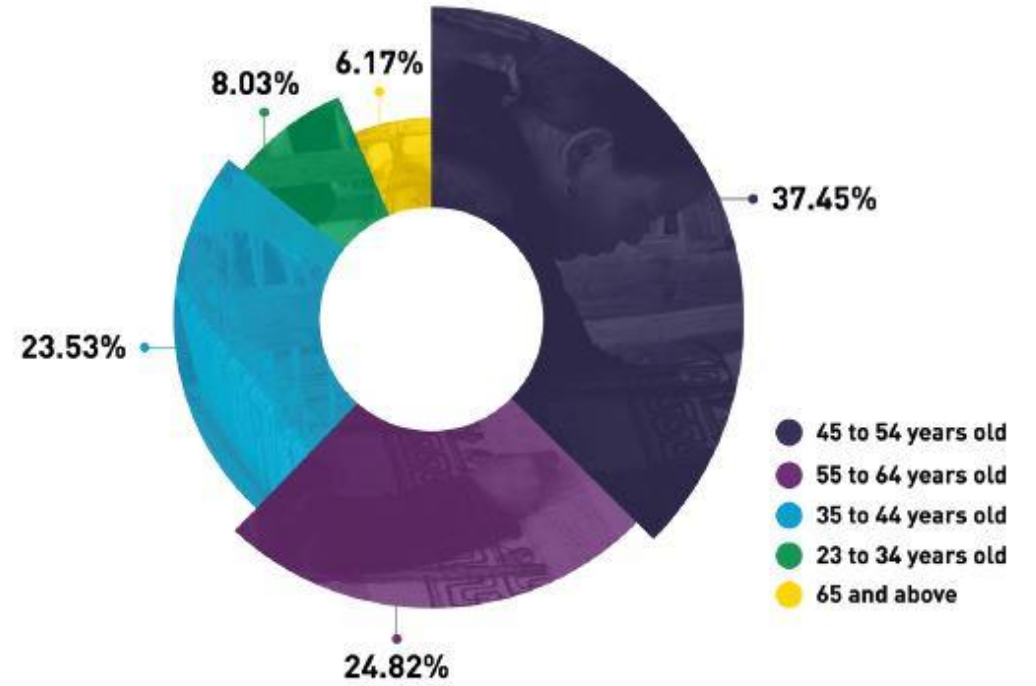
FIGURE 3. General profile of survey respondents



Firm age distribution



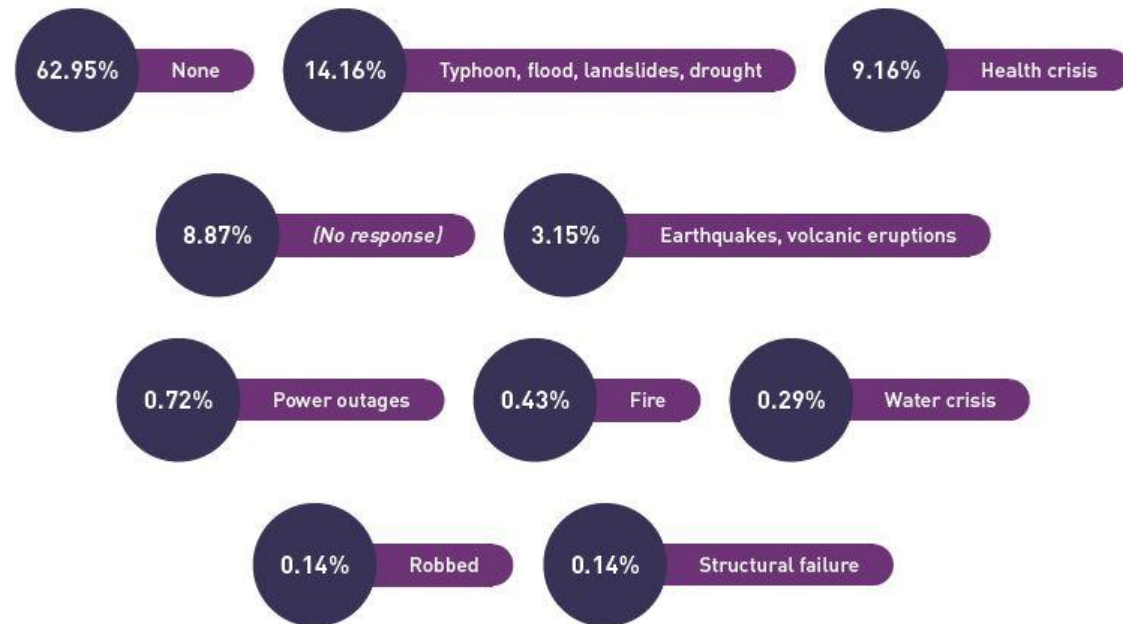
Owner age distribution



COVID-19 has been the most prominent negative shock that many MSME owners in the sample have experienced in the past.

FIGURE 5. Exposure to previous disasters

Prior to COVID-19, which particular disaster event do you remember having negatively affected your business operations the most?



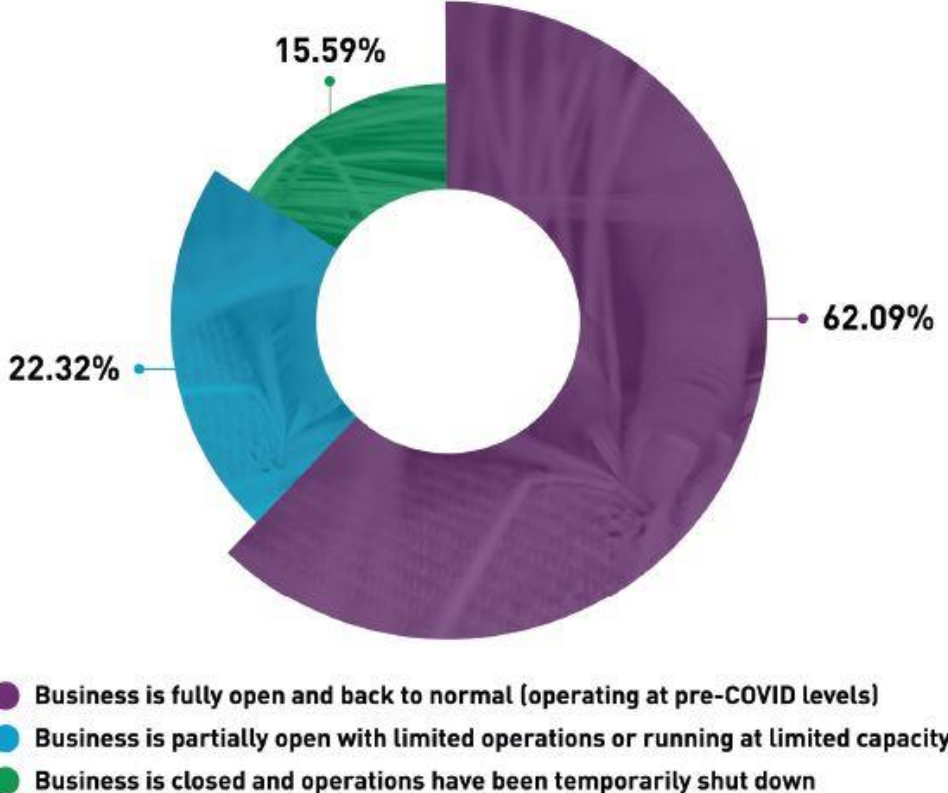
- Before the COVID-19 crisis, the operations of almost 63 percent of MSMEs in our sample had not been adversely affected by disasters (Figure 5).
- However, this result should be interpreted considering the location that respondents belong to.

The Immediate Impact of COVID-19

About 6 months into the crisis, 62% of firms interviewed were fully open and operating at pre-COVID levels

FIGURE 7. Status of business operations six months post-community quarantine

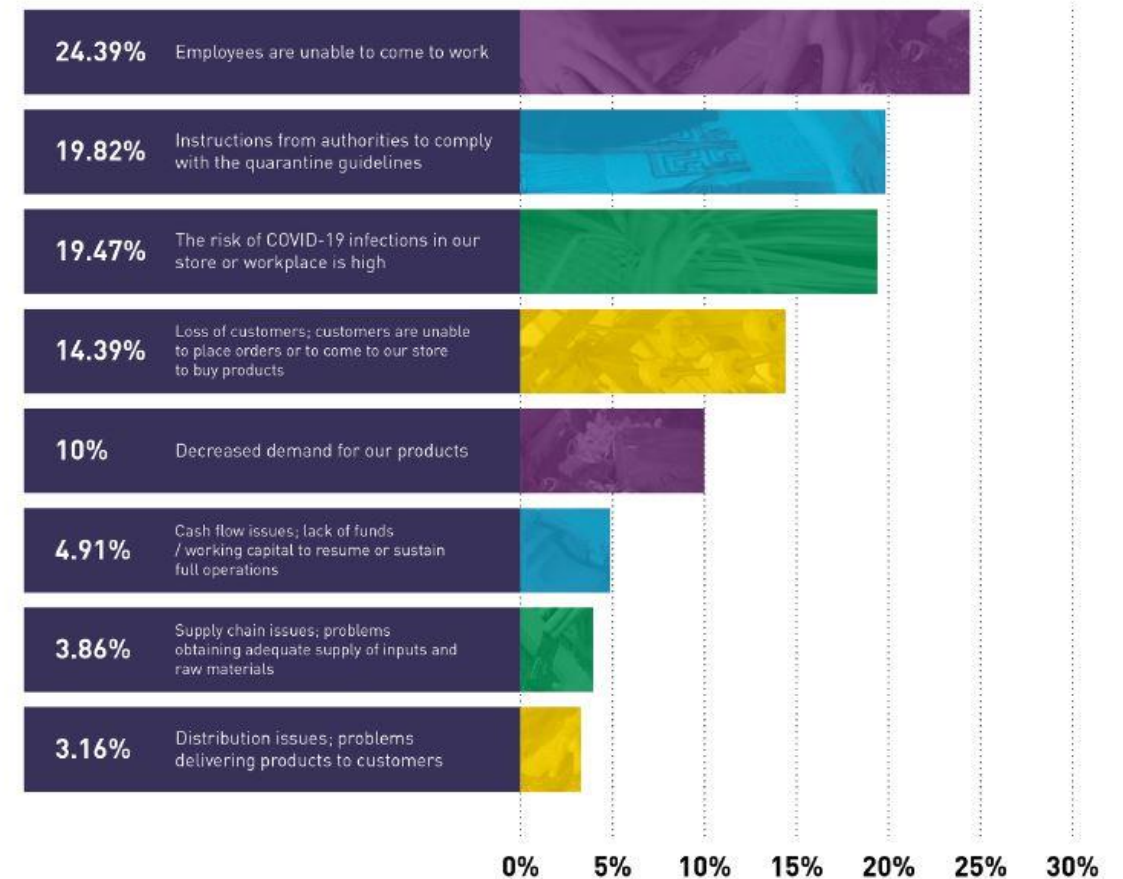
What is the current status of your business operations vis-à-vis the COVID-19 pandemic?



Limited public transportation during the lockdown period was cumbersome for small businesses. For MSMEs operating at a limited capacity or have temporarily shut down operations, the most common setback was that employees were unable to come to work.

FIGURE 8. Reason for running at a limited capacity

What are the reasons why your business is running at limited capacity (partially open) or is temporarily shut down?



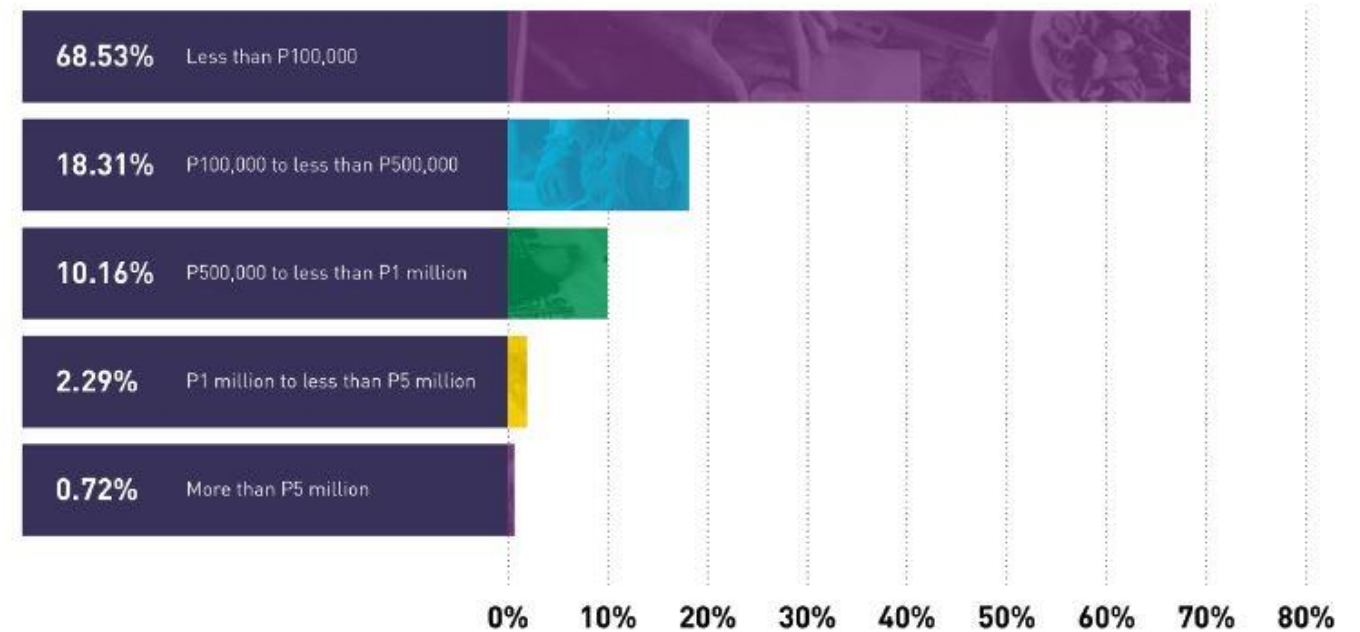
Note: Instructions from authorities to comply with the quarantine guidelines also includes government / IATF classification of business as “non-essential”

An overwhelming majority of MSMEs in our sample (micro, small, or medium alike) did not require large amounts to resume operations.

Almost 69% needed less than Php 100,000

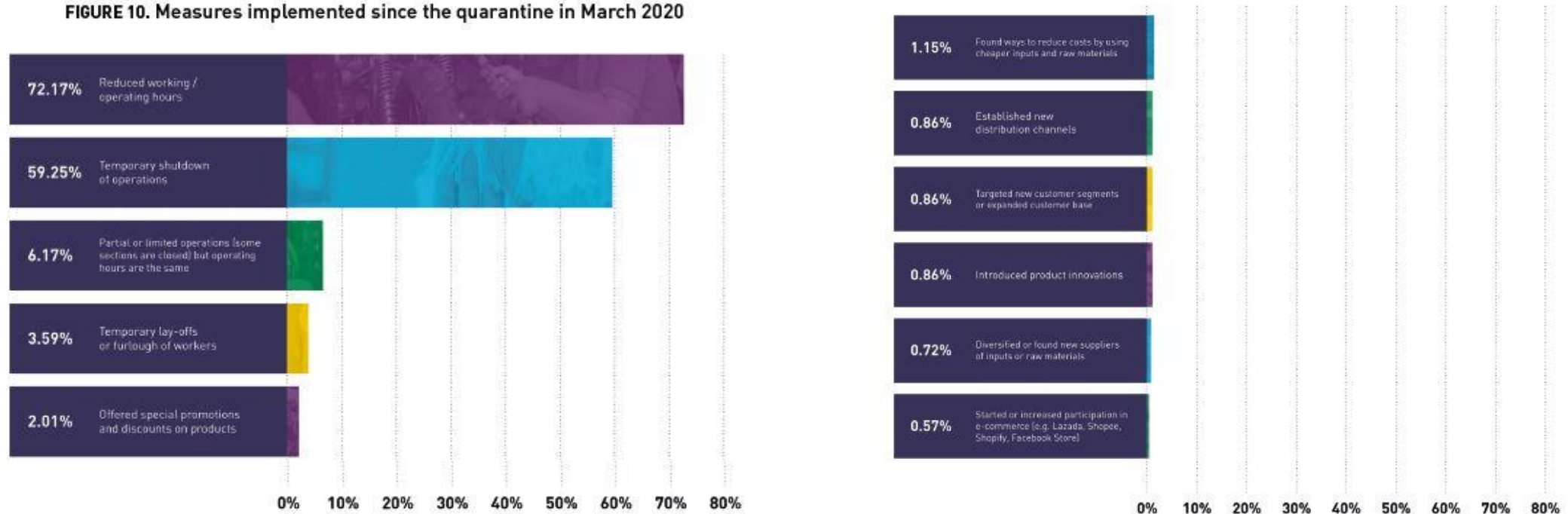
FIGURE 9. Amount required to return to full operations

In your estimate, how much does your business require to return to and sustain full operations? (%)



Although small businesses had different responses to the crisis, most MSMEs (72.17 percent) in our sample reduced their operating hours, while others (59.25 percent) have temporarily shut down their operations (Figure 10).

FIGURE 10. Measures implemented since the quarantine in March 2020



Note: Introduced product innovations - new products or product attributes/features other than price or improvements in old/existing activities or operations

Business Strategies: Differentiation, Cost Leadership and Focus

- **This section presents the strategies taken by MSMEs to cope with the crisis on the path to recovery. The following questions in this section are based on a scale constructed by Frambach et al. (2003) to measure firms' strategic approach based conceptually on Porter (1980).**
- **Our analysis of business strategy addressed three areas: differentiation, cost leadership, and focus.**

Differentiation during the pandemic period

FIGURE 11. Differentiation: Taking the lead in marketing a new product

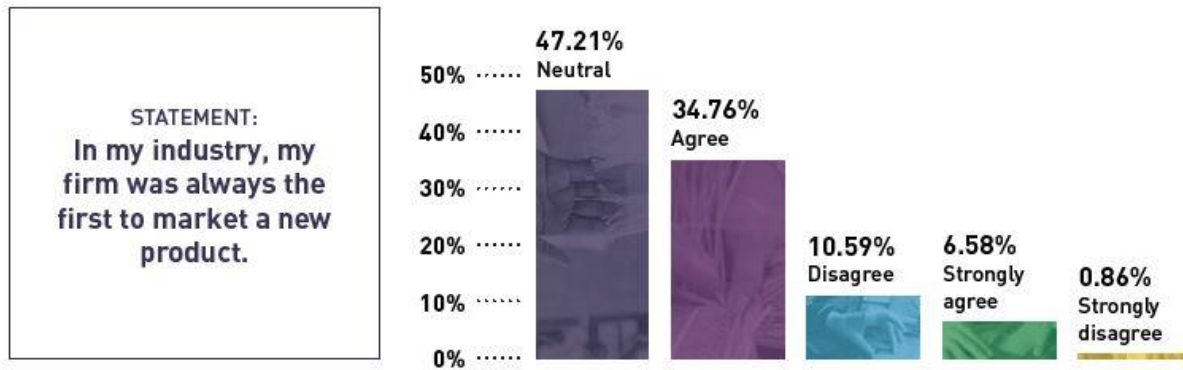
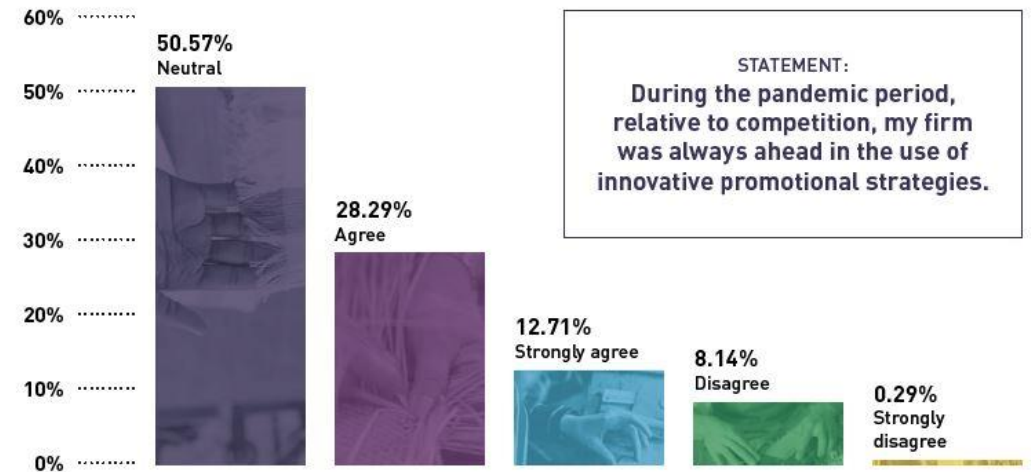


FIGURE 12. Innovative promotional strategies



Cost leadership during the pandemic period

FIGURE 15. Cost reduction in all business activities

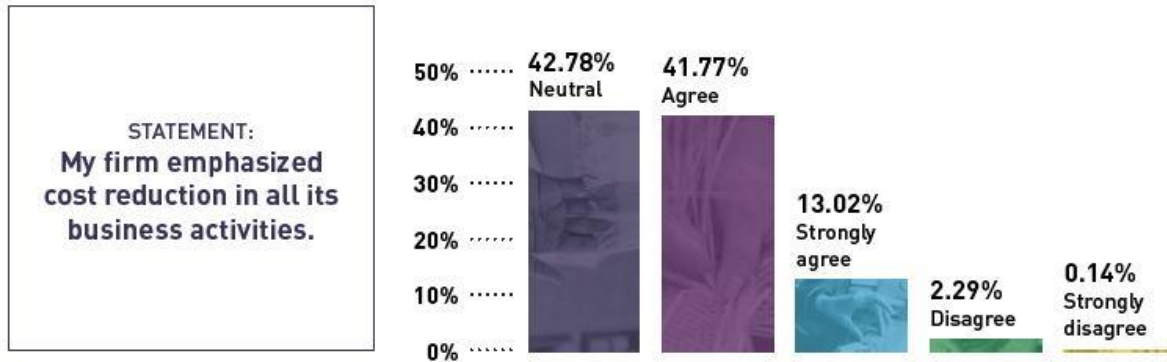
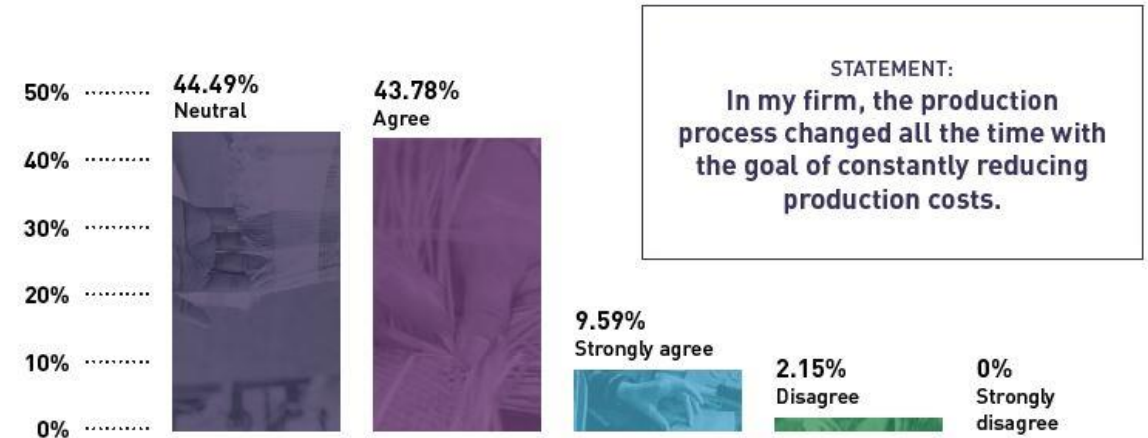


FIGURE 16. Reducing production costs



Focus during the pandemic period

FIGURE 17. Production of one single unique product

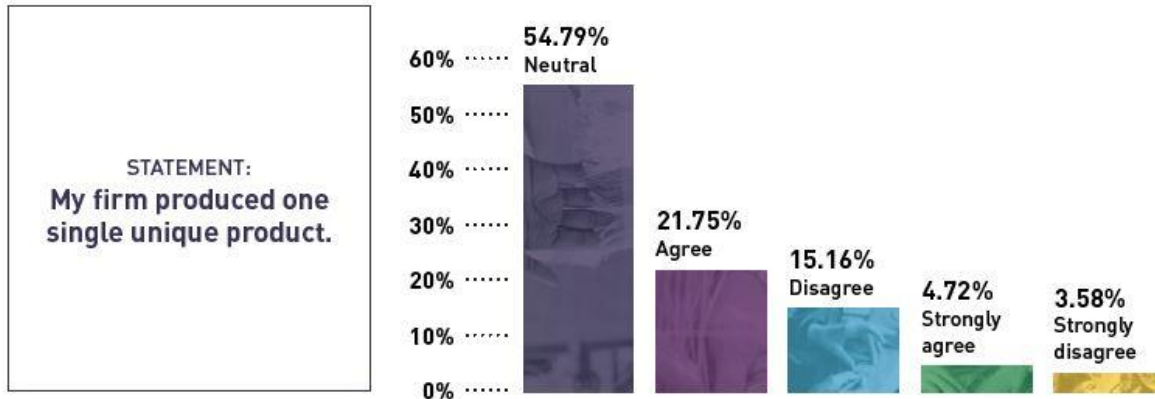
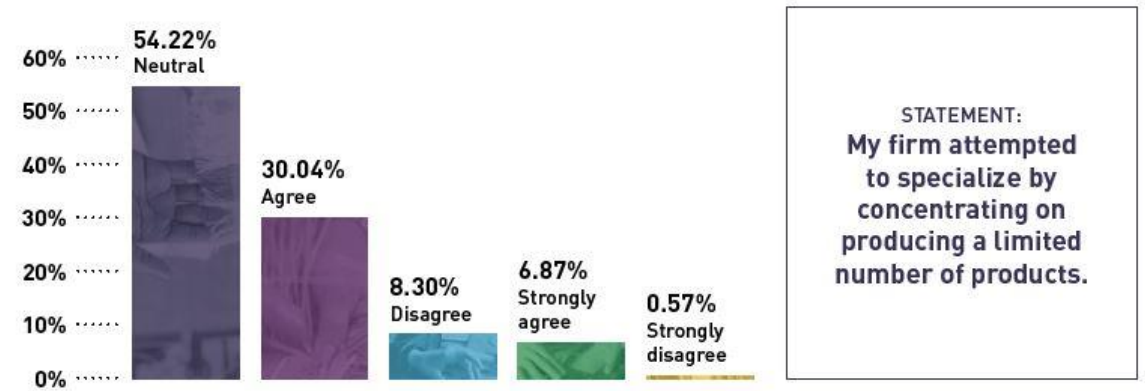


FIGURE 18. Specializing by limiting the number of products



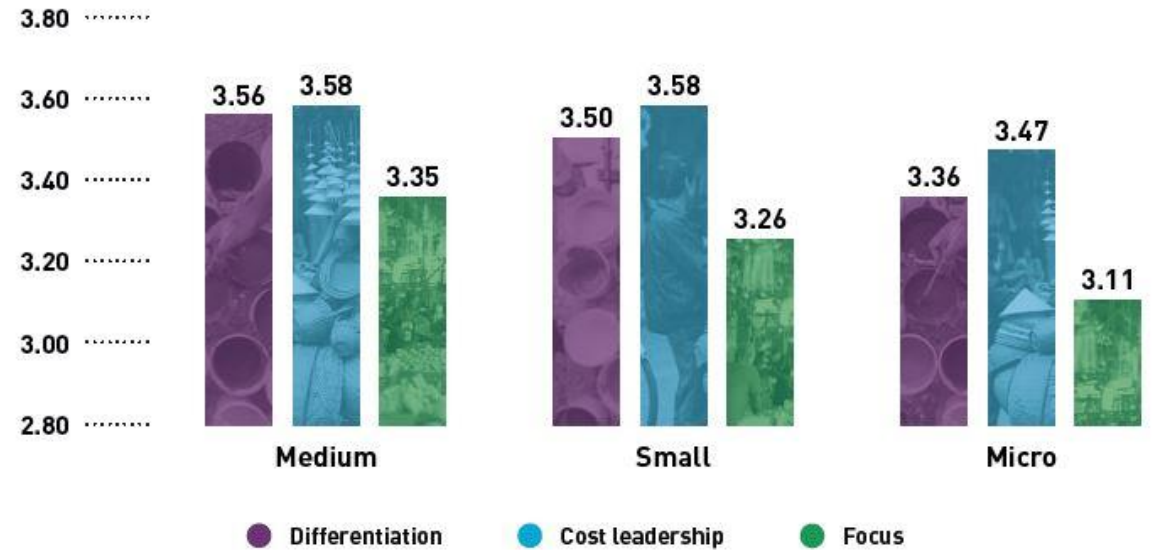
Comparison of the Three Business Strategies

TABLE 3. Mean values for each business strategy indicator

BUSINESS STRATEGY INDICATOR	MEAN
Cost leadership	3.55
Differentiation	3.50
Focus	3.22

MSMEs in our sample were more likely to implement cost reduction and differentiation than focus strategies.

FIGURE 21. Business strategies and firm size



On average, micro-sized firms were not as successful as small and medium-sized firms in implementing differentiation, cost leadership, and focus strategies.



Note: All firms in the sample answered the question

Outlook on Survival

FIGURE 22. Outlook on surviving the crisis

STATEMENT:
My firm will survive the COVID-19 pandemic crisis.

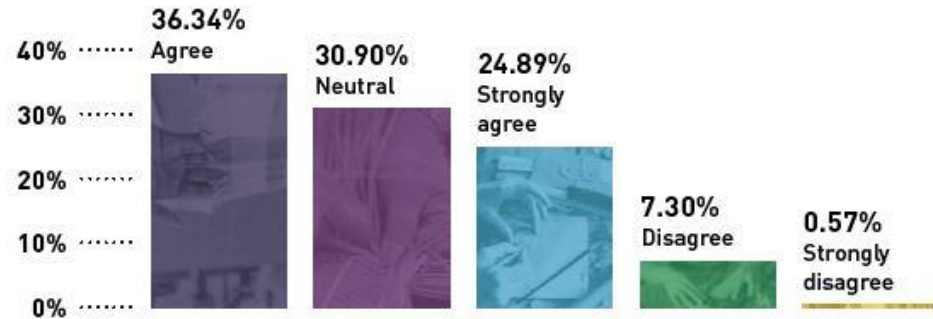
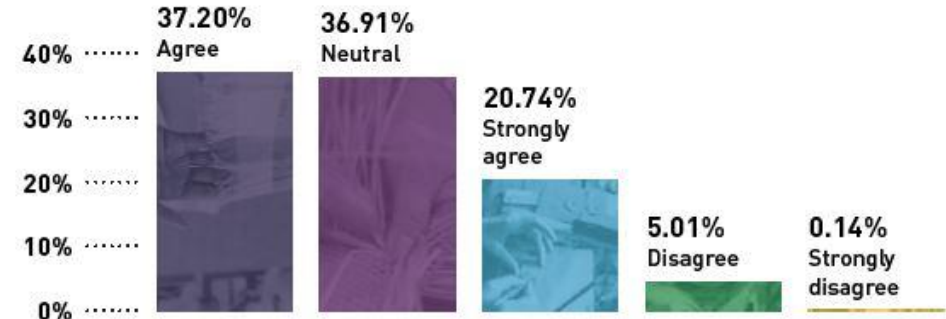


FIGURE 23. Ability to withstand the crisis

STATEMENT:
My firm possesses the ability to withstand the challenges of the COVID-19 pandemic crisis.



The small businesses in our sample generally shared a positive outlook on surviving the crisis (over 60% believe they will overcome)



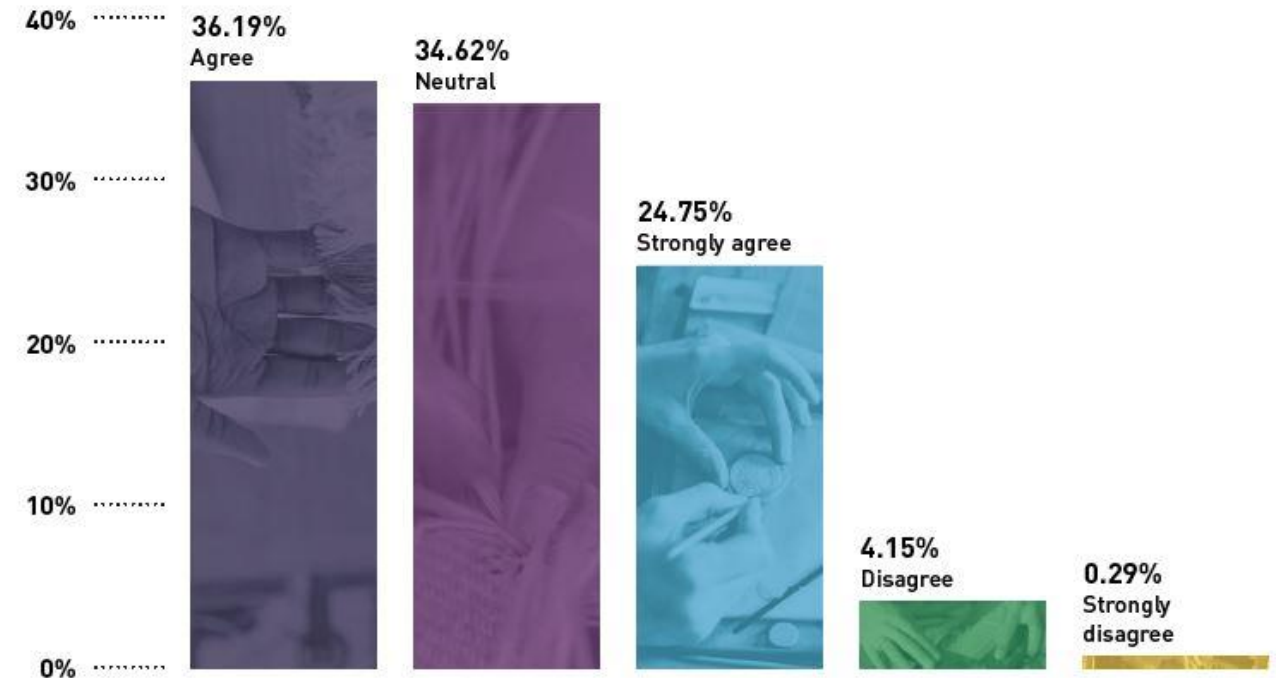
Note: All firms in the sample answered the question

Outlook on Survival

FIGURE 24. Sales recovery

STATEMENT:
Sales volume has decreased in the last six months as a result of the COVID-19 pandemic crisis but sales will rebound back to pre-crisis level.

About 61 percent of firms believe that their sales will rebound back to pre-crisis levels despite experiencing a decrease in sales volume in the last six months.



Surviving the crisis: impact on revenues and profit

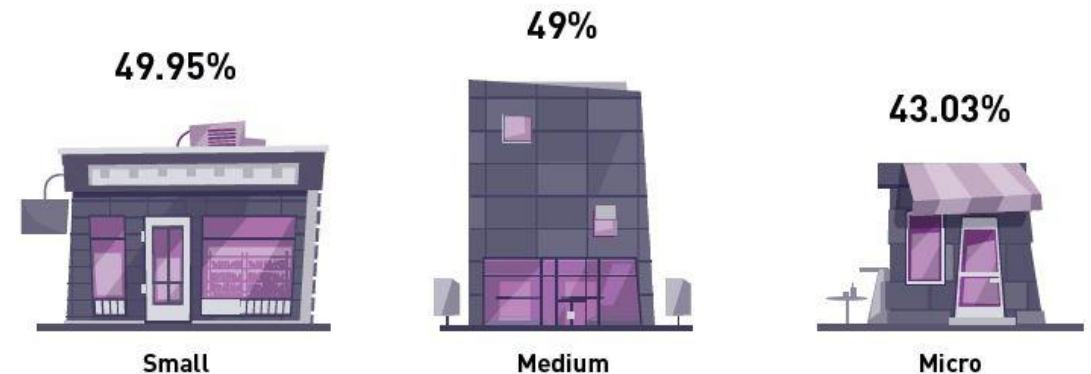
FIGURE 25. Proportion of pre-crisis monthly sales revenue earned six months into the crisis

What percent of pre-crisis monthly sales revenue is your firm earning in the present day?



FIGURE 26. Proportion of pre-crisis monthly net profit or income earned six months into the crisis

What percent of pre-crisis monthly net profit or income is your firm earning in the present day?

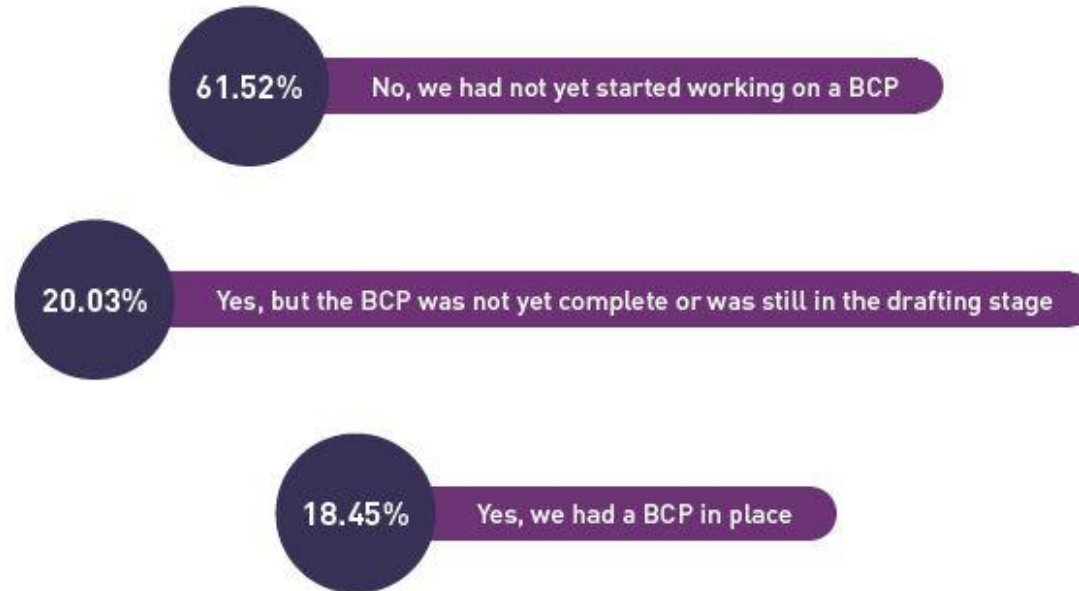


Despite the positive outlook, medium and small enterprises fared better in terms of revenues and profit. Micro enterprises earned a substantially smaller portion of their pre-crisis revenues and profit relative to medium and small firms.

Support through the crisis and BCPs

FIGURE 27. Business continuity plan (BCP)

Did your organization have a business continuity plan (BCP) when the community quarantine was implemented on March 16, 2020?



Note: All firms in the sample answered the question

Support through the crisis and BCPs

TABLE 4. BCP status and firm size

BCP STATUS	Yes, we had a BCP in place	Yes, but the BCP was not yet complete or was still in the drafting stage	No, we had not yet started working on a BCP	TOTAL
Micro	13%	13%	74%	219
Small	21%	21%	58%	385
Medium	21%	32%	47%	96
Total	129	140	431	700

COVID-19 has highlighted the importance of having a BCP to help MSMEs recover quicker and become more resilient to shocks.

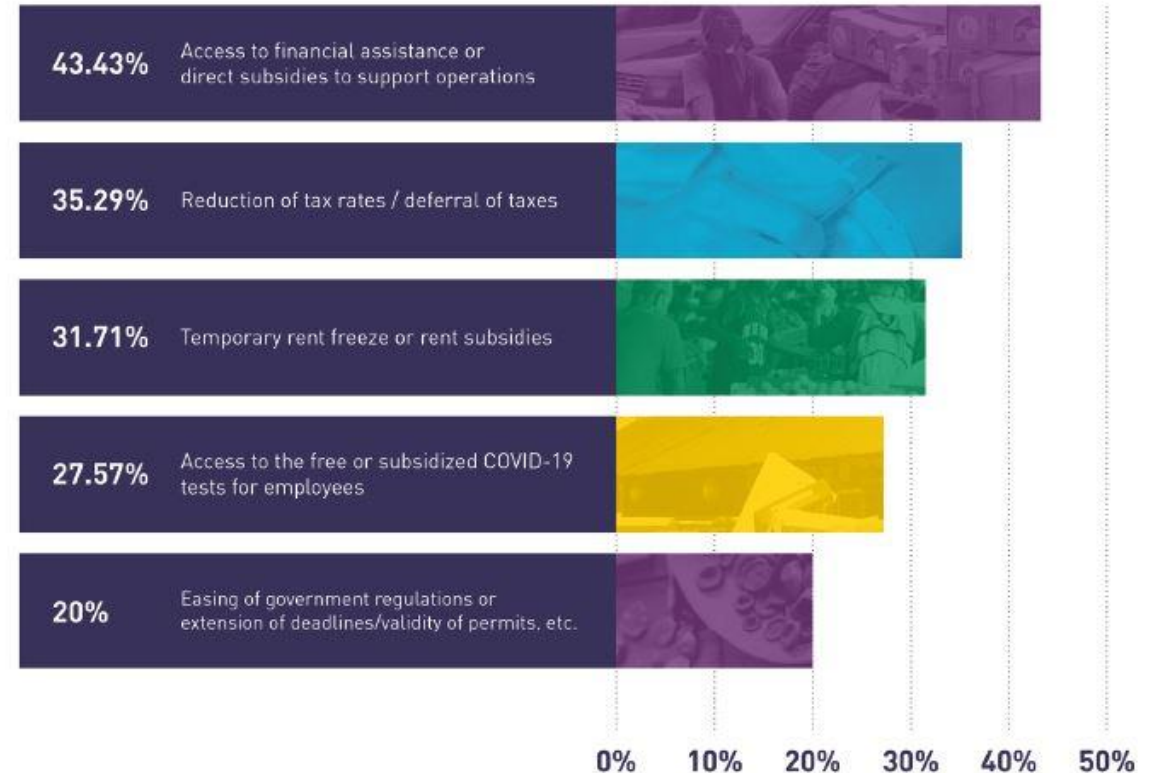
Micro-enterprises were less likely to have a BCP

Support through the crisis

Figure 28 shows the top five responses from small business owners in our sample regarding the support they need from the government to ensure a successful recovery towards full operation from a set of sixteen choices.

The top response (43.43 percent) was access to financial assistance or direct subsidies to support operations. A sizeable proportion of MSME owners also believed that reducing tax rates or deferral of taxes (35.29 percent) and temporary rent freeze or rent subsidies (31.71 percent) would aid their firms' recovery.

FIGURE 28. Support needed from the government



Policy implications

- **Given the importance of small businesses to the overall economy, their closures have a multiplier effect, where jobs, productivity, and income are lost.**
- **This study shows the importance of agility, resilience, and innovation for small businesses to survive and thrive during and after crises.**
- **For formal MSMEs, one crucial factor that can affect their survival during and after crises and disasters is the extent of assistance the government can extend. Some programs that governments can provide MSMEs during crises include tax rebates, low-interest rate loans, and salary subsidies for employees (Pathak & Ahmad, 2018).**

Policy implications

- **The COVID-19 pandemic has highlighted the importance of having a BCP to help MSMEs become more resilient to shocks.**
- **Business continuity plans (BCPs) guide SMEs on how to respond to and how to survive a crisis and recover and become resilient post-crisis (Herbane, 2018; Torabi et al., 2014; Zsidisin et al., 2005).**

Policy implications

- **This report also highlights the importance of access to finance for MSMEs.**
- **The speed and agility of fintech firms in being able to provide financial services to small businesses with limited credit history or collateral are especially needed for the quick recovery of MSMEs.**

THANK YOU

policycenter@aim.edu

