Road to Recovery and Resilience for Philippine MSMEs
During the COVID-19 Pandemic

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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

Source: Department of Trade and Industry (DTI), 2019
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

Source: ADB (2020); DTI (2019); Philippine Statistics Authority (PSA)
**Classification**

**TABLE 1. Classification of enterprises in the Philippines**

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>ASSETS</th>
<th>NO. OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>P3 million and below</td>
<td>Nine employees or less</td>
</tr>
<tr>
<td>Small</td>
<td>P3-15 million</td>
<td>10-99 employees</td>
</tr>
<tr>
<td>Medium</td>
<td>P15-100 million</td>
<td>100-199 employees</td>
</tr>
<tr>
<td>Large</td>
<td>P100 million and above</td>
<td>200 employees and up</td>
</tr>
</tbody>
</table>

Source: 2010 List of Establishments, NSO
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).
Road to Recovery and Resilience for Philippine MSMEs During the COVID-19 Pandemic
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%

<table>
<thead>
<tr>
<th>SAMPLE DISTRIBUTION BY SECTOR</th>
<th>MANUFACTURING</th>
<th>SERVICES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Manila</td>
<td>155</td>
<td>176</td>
<td>331</td>
</tr>
<tr>
<td>Calabarzon</td>
<td>185</td>
<td>184</td>
<td>369</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>340</strong></td>
<td><strong>360</strong></td>
<td><strong>700</strong></td>
</tr>
</tbody>
</table>

*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).

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

- Gender: 64% Male, 36% Female
- Average age: 48.81

Highest degree completed:
- 64.23% College or University Degree
- 22.03% Technical-vocational education
- 8.87% High school
- 3.58% Master’s degree
- 0.43% Doctorate degree
COVID-19 has been the most prominent negative shock that many MSME owners in the sample have experienced in the past.

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.
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.

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

Note: All firms in the survey answered this question
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**

- **72.17%** Reduced working / operating hours
- **59.25%** Temporarily shutdown of operations
- **6.17%** Partial or limited operations (some sections or branches remain active but with reduced operations)
- **3.59%** Temporary layoffs or furloughing of workers
- **2.01%** Extended social protection and disbursement of benefits

**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

STATEMENT: In my industry, my firm was always the first to market a new product.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>Neutral</td>
</tr>
<tr>
<td>34.76%</td>
<td>Agree</td>
</tr>
<tr>
<td>10.59%</td>
<td>Disagree</td>
</tr>
<tr>
<td>6.58%</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>0.86%</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

FIGURE 12. Innovative promotional strategies

STATEMENT: During the pandemic period, relative to competition, my firm was always ahead in the use of innovative promotional strategies.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>56.57%</td>
<td>Neutral</td>
</tr>
<tr>
<td>28.27%</td>
<td>Agree</td>
</tr>
<tr>
<td>12.71%</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>8.14%</td>
<td>Disagree</td>
</tr>
<tr>
<td>0.29%</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

Note: All firms in the sample answered the question
Cost leadership during the pandemic period

FIGURE 15. Cost reduction in all business activities

| Statement: My firm emphasized cost reduction in all its business activities. |
|------------------|------------------|------------------|
| 50%              | 42.78% Neutral   | 41.77% Agree     |
| 40%              | 2.29% Disagree   | 0.14% Strongly disagree |
| 30%              | 13.02% Strongly agree |
| 20%              |                  |                  |
| 10%              |                  |                  |
| 0%               |                  |                  |

FIGURE 16. Reducing production costs

| Statement: In my firm, the production process changed all the time with the goal of constantly reducing production costs. |
|------------------|------------------|------------------|
| 50%              | 44.49% Neutral   | 43.78% Agree     |
| 40%              | 9.59% Strongly agree |
| 30%              | 2.15% Disagree   |
| 20%              | 0% Strongly disagree |
| 10%              |                  |                  |
| 0%               |                  |                  |

Note: All firms in the sample answered the question
Focus during the pandemic period

Note: All firms in the sample answered the question.
Comparison of the Three Business Strategies

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

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

### TABLE 3. Mean values for each business strategy indicator

<table>
<thead>
<tr>
<th>BUSINESS STRATEGY INDICATOR</th>
<th>MEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership</td>
<td>3.55</td>
</tr>
<tr>
<td>Differentiation</td>
<td>3.50</td>
</tr>
<tr>
<td>Focus</td>
<td>3.22</td>
</tr>
</tbody>
</table>
Outlook on Survival

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

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.

Note: All firms in the sample answered the question.
Surviving the crisis: impact on revenues and profit

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.

Note: All firms in the sample answered the question
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?

- 61.52% No, we had not yet started working on a BCP
- 20.03% Yes, but the BCP was not yet complete or was still in the drafting stage
- 18.45% Yes, we had a BCP in place

Note: All firms in the sample answered the question
Support through the crisis and BCPs

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

Note: All firms in the sample answered the question.

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

Note: All firms in the sample answered the question
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

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