

Comments on the **Senate Resolution No. 405** entitled: “*RESOLUTION DIRECTING THE COMMITTEE ON TRADE, COMMERCE, AND ENTREPRENEURSHIP AND OTHER APPROPRIATE COMMITTEES TO CONDUCT A HEARING, IN AID OF LEGISLATION, ON THE EFFECTS OF COVID-19 ON PHILIPPINE TRADE, COMMERCE, AND ENTREPRENEURSHIP, AND THE POSSIBLE WAYS TO ‘RESTART’ THE ECONOMY DURING AND AFTER THE ‘COVID-19 ERA’*” and **Privilege Speech of Senator Francis “Kiko” Pangilinan on Micro, Small, and Medium Enterprises**

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June 27, 2021

1. We are grateful for the opportunity to comment on the privilege speech of Senator Francis “Kiko” Pangilinan and to respond to Senate Resolution No. 405. We believe that supporting our MSMEs is the key to reviving our economy. The Philippine Institute for Development Studies (PIDS) have a number of activities in support of MSMEs. This would include the recently concluded PASCN Symposium on Navigating the New Normal: Restarting and Rebuilding Global MSMEs held last June 23, 2001. In addition, the PIDS is also the lead convenor of the Network of East Asian Think Tanks 2021 with one of its working groups looking at ASEAN Plus Three Cooperation on MSMEs: Accelerating Digital Adoption in the New Normal. The Working Group will meet on July 21, 2001 to discuss issues related to the topic. Once completed, we would be happy to share with you the results of those discussions to support our initiatives.
2. MSMEs have indeed experienced difficulties brought about by the restrictions imposed to curb the spread of COVID-19. A number of institutions (ADB, AIM, DOF-NEDA-Boston, UNDP, UNIDO) have gathered data on the state of MSMEs during lockdown and the results of these studies do show that **MSMEs have experienced an increase in cost of supplies and raw materials and a reduction in sales, with some also reducing the people they are employing** (Table 1).

Table 1. Summary of findings of MSME surveys on impact of COVID-19

| Survey | Coverage | Major findings (impact to MSMEs) |
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| ADB Asia Small and Medium-Sized Enterprise | March and May 2020 | 1. The majority of MSMEs in the Philippines (70.6% of MSMEs surveyed) suspended |

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| Monitor 2020 | | <p>operations a month after the virus outbreak and national quarantine measures imposed. The remaining half (or less) continued to operate, but faced supply disruptions given low demand.</p> <ol style="list-style-type: none"> 2. Domestic demand for MSME products fell for 30% of the respondents in the Philippines. 3. Supply disruptions were cited in more than 30% of MSMEs the Philippines. 4. Because of strict lockdown measures, the majority of Philippine MSMEs had no revenue after the March measures were imposed. 5. In terms of employment, around 60% of MSMEs saw no change after the outbreak, while the remaining 40% reduced their workforce (in the Philippines, Thailand, and the Lao PDR). |
| DOF-NEDA-Boston | April 2020 | <ol style="list-style-type: none"> 1. MSMEs have experienced an increase in cost (25.5 percent), zero sales (65.5 percent) or decrease in sales (32.8) and even reduction in employment (25.4 percent). While there is still a large share of the respondents who have not experienced an increase in cost or have not reduced employment, these numbers may worsen as the lockdown continues. 2. Companies have a grim forecast in terms of sales with about 98.7 predicting zero sales or reduced sales if ECQ is continued. 3. Majority of the firms did not lay-off workers (74.4%) while some (25.4%) have laid off workers. |
| UNIDO Assessment of the Socio-economic effects of Covid-19 and containment measures on Philippine enterprises | April-May 2020 | <ol style="list-style-type: none"> 1. Around 60% of respondent firms were not in operation during the survey period brought about by the COVID-19 containment measures. 2. Around 55% of non-operating firms reported loss in employment at varying degrees, 30% experiencing 100% loss 3. Of the firms that were not in operation, about 50% were not able to successfully continue and sustain activities during the ECQ, despite being permitted to operate, because of various challenges they encountered |

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| | | <ol style="list-style-type: none"> 4. For the roughly 40% of firms that were able to operate, about 50% of them experienced a 40% reduction in operating hours, resulting in around 50% loss of employment and 60% reduction in both revenues and production volume 5. During the implementation of containment measures, despite being permitted to operate and with government policies supporting the operation of enterprises that produced essential goods and services, Philippine enterprises still experienced difficulties in coordinating their supply chains. |
| UNDP MSME Value chain rapid response survey (Wave 1) | May 2020 | <ol style="list-style-type: none"> 1. Major constraints to business include income reduction (77%); Unpaid loans, reduced demand and supply chain disruptions. 2. 71 percent of respondents reported closure due to lockdowns; 53% experienced reduced demands and 49.5% encountered issues with transport/delivery |
| UNDP MSME Value chain rapid response survey (Wave 2) | June-July 2020 | <ol style="list-style-type: none"> 1. 2-6 weeks after ECQ was lifted, MSME respondents are still temporarily closed (38%) or operating at decreased capacity (49%). 2. Supply and demand challenges has resulted to income losses for 78% of the respondents 3. As cashflow has been significantly reduced, 26% of respondents began laying off employees at varying degrees. |
| AIM ² 2020 AIM RSN PCC MSME Wave 1 Recovery Survey | September-October 2020 | <ol style="list-style-type: none"> 1. Before the COVID-19 crisis, the operations of almost 63 percent of MSMEs in our sample had not been adversely affected by disasters 2. About 6 months into the crisis, 62% of firms interviewed were fully open and operating at pre-COVID levels 3. 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. 4. Limited public transportation during the lockdown period was cumbersome for small |

² Sample selection bias may have occurred as the qualifications for the respondents include: 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.

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| | | <p>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.</p> <p>5. 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</p> |
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Source: Author's compilation

3. The studies display varying degrees of severity of impact on MSMEs with some surveys reporting some MSMEs able to retain some employment in the initial months of the pandemic (NEDA-DOF-Boston; AIM and UNDP). While earlier studies reveal a dismal outlook (NEDA-DOF-Boston), later studies (AIM) has shown that optimism has persisted among MSMEs that were able to resume business. **This reveals the need for a more targeted approach for MSMEs taking into consideration their degree of operation, status of employment and type of industry.**
4. Regarding the proposed solution: "Buy Pinoy, Buy Local" campaign to promote locally-produced, locally-made and locally assembled products. We agree that this would be an effective solution to support our entrepreneurs who have resorted to social media selling in order to generate some cashflow.

Despite the pandemic, Filipinos continue to purchase goods as shown by recent studies. According to Google, Temasek, and Bain (2020), the Philippines' digital economy slightly grew from US\$7.1 billion in 2019 to \$7.5 billion in 2020. In addition, Albert (2020), who used the National Information and Communications Technology (ICT) Household Survey, reported that, in 2019, Filipinos spent roughly 15.5 billion Philippine Pesos (PhP) on online purchases, which is approximately \$310.0 million – a third of this was spent on clothing, a fifth on household goods, and a tenth on electronics and cosmetics.

It is important to capture this expenditure by ensuring that the goods being sold are locally made.

5. Studies have shown that MSMEs' lack of cashflow is a major issue in their survival and increasing the demand for their products would be a solution to this issue. To further strengthen this proposed solution, we propose the following:
 - a) Strengthen the Go Lokal Program of the Department of Trade and Industry
According to the DTI website, the Go Lokal! is "a market access platform for MSMEs introduced by the DTI in collaboration with select retail partners for

brand management and market acceleration realized through the Go Lokal! Concept Store @ DTI located at the Ground floor, Trade and Industry Building.”

Go Lokal! aims to help the country’s MSMEs enter the mainstream market by providing free merchandise development assistance to produce commercially viable products for the market and providing market access to stores/spaces provided by Retail Partners such as mall and retail operators.

The community quarantines have limited the access in mall and retail operations but has increased online markets. However, there seems to be a limited online presence for the Go Lokal! initiative with its webpage on the DTI website showing only the information on how to apply and become a supplier. The potential of the Go Lokal! to promote Filipino products is enormous as Go Lokal! products are known for high quality and affordable, Filipino-made products which are able to compete with foreign commodities available in the market.

- b) Improve the use of digital payments for MSMEs (to increase their revenue)
MSMEs find it difficult to move beyond cash-based transactions but there is room for digital payments as this not only promotes social distancing and limited contact but it also provides more avenues to receive payments for goods or services provided. Having said this, issues such as lack of trust and lack of knowhow should also be addressed.
- c) Improve visibility of local MSMEs in digital selling platforms
Related to a), MSMEs should be more visible in digital selling platforms such as Lazada or Shopee. The government can incentivize the promotion of local MSMEs in these selling platforms in order to increase their visibility and generate more sales. In a similar way, food delivery apps (Grab Food/Food Panda) should also be more open to local food entrepreneurs. It is important that social media entrepreneurs are able to elevate their business by entering digital selling platforms.
- d) Support and promote initiatives similar to the Automotive supplier profile database³ of the Board of investments (<https://boi.gov.ph/supplier-database/>). Anecdotal evidence has shown that some MSMEs find it difficult to find the necessary suppliers for their production because there is no online supplier database which they can check. This was an observation by the JICA project

³ The Auto Supplier Profile Database is a support tool for domestic and foreign investors looking for potential partners in the auto-related manufacturing sector in the Philippines. **The on-line database contains one-page profiles of automotive and other manufacturing companies that produce related products and services and/or may venture into the automotive industry in the future.** Listed here are mostly Philippine-based companies as well as Tiers 2 and 3 foreign-owned companies to show existing suppliers in the country.

entitled “Elaboration of Industrial Promotion Plans Using Value Chain Analysis.” Which aims to support the development of automotive manufacturing in the country. It is recommended that a similar database be pursued for other industries in order to reduce the search cost for MSMEs. This would also increase the transactions domestically as purchasing domestically is relatively cheaper.

- e) Increase the protection for delivery service providers (motorcycle delivery riders) as they facilitate the buy pinoy transactions by allowing the speedy delivery of goods. Sellers in a city are not constrained anymore to sell only to their locality because of these delivery service providers. Despite their critical role, a number of them have become victims of pranks and malicious transactions. It is important that they are protected by law in order for them to continue providing services in support of the local producers.
6. Senator Pangilinan’s speech has also highlighted the critical role of government spending in jump starting the economy, to wit, “Government with all its purchases can easily jumpstart the economy”. Innovation studies have highlighted the role of government spending and public procurement in influencing innovation and adoption of technology. Because of the massive size of government procurement, it can be used to promote industrial development (CARS program - buy domestically assembled cars), promote the use of digital technology (encourage digital payments) and even rejuvenate industries.

Having said this, Competition and transparency in public procurement still needs to be upheld. The government needs to maintain transparency and competition in all its transactions.

7. We need to support MSMEs but we also need to be prudent in our interventions. According to the study conducted by AIM, An overwhelming majority of MSMEs in our sample (micro, small, or medium alike) did not require large amounts to resume operations as almost 69% needed less than Php 100,000. Admittedly, the sample of MSMEs by the AIM study may have already resumed operations so lower credit interventions are needed for them. Those that were able to resume operations may require less money while those that need to restart their business will need not just money but also guidance and even encouragement.
8. Government must replicate the ease and simplicity offered by other sources of funding in order to entice MSMEs to borrow from government.
9. **It would be good to draw from the experience of other countries as what is happening to our MSMEs is also happening to other countries/economies in the Asia Pacific region (See Appendix 2 for a summary of impact to other countries).**

APEC initiated the Boracay Action Agenda to Globalize MSMEs in 2015 and this can help MSMEs recover from the pandemic. Essentially, the BAA recognized that MSMEs are significant contributors of economic growth, trade, employment, poverty alleviation, and innovation, which means that their internationalization is key to realizing inclusive growth and development. In order to internationalize MSMEs, the BAA identified eight priority actions that APEC could focus on from 2016 to 2020, and these priority actions include trade facilitation, financing, digital economy, institutional support, and women-led MSMEs.

Maximize MSMEs' use of FinTech and digital financing platforms. FinTech has actually proven to deliver a series of benefits related to liberalizing financial services by creating new ways to interact with financial service providers. Digital financing platforms are equally good because it helps MSMEs connect with financiers, suppliers, and buyers alike. This is particularly helpful because a paper by the WTO and the Trade Finance Global in 2021 revealed that the rejection rate for MSMEs' trade finance proposals is at a high of 45%, which is alarming because capital financing is important for MSMEs.

Three results on internationalization were identified by the BAA review, which can help MSMEs participate more on GVCs. First, MSMEs' GVC participation can be improved by developing an efficient innovation system, linking MSMEs with lead firms, and improving the investment climate.

Second, we should support policies that encourage MSMEs' participation in services trade. For instance, governments could ensure that there is an enabling regulatory and business environment where MSMEs engaged in services trade can fully grow. An example of creating this enabling environment is to review current strategies and regulations in order to open the services sector.

Lastly, we can also promote strategies that can help MSMEs participate in GVCs, such as brand development and business continuity planning, among others.

10. Regarding the extension of Bayanihan 2, while there is a need to assess the achievements of the law vis-à-vis the targets before implementing an extension, the urgency of supporting MSMEs now takes precedence. The economy is suffering and we cannot afford more companies closing because of delays in providing credit or support.

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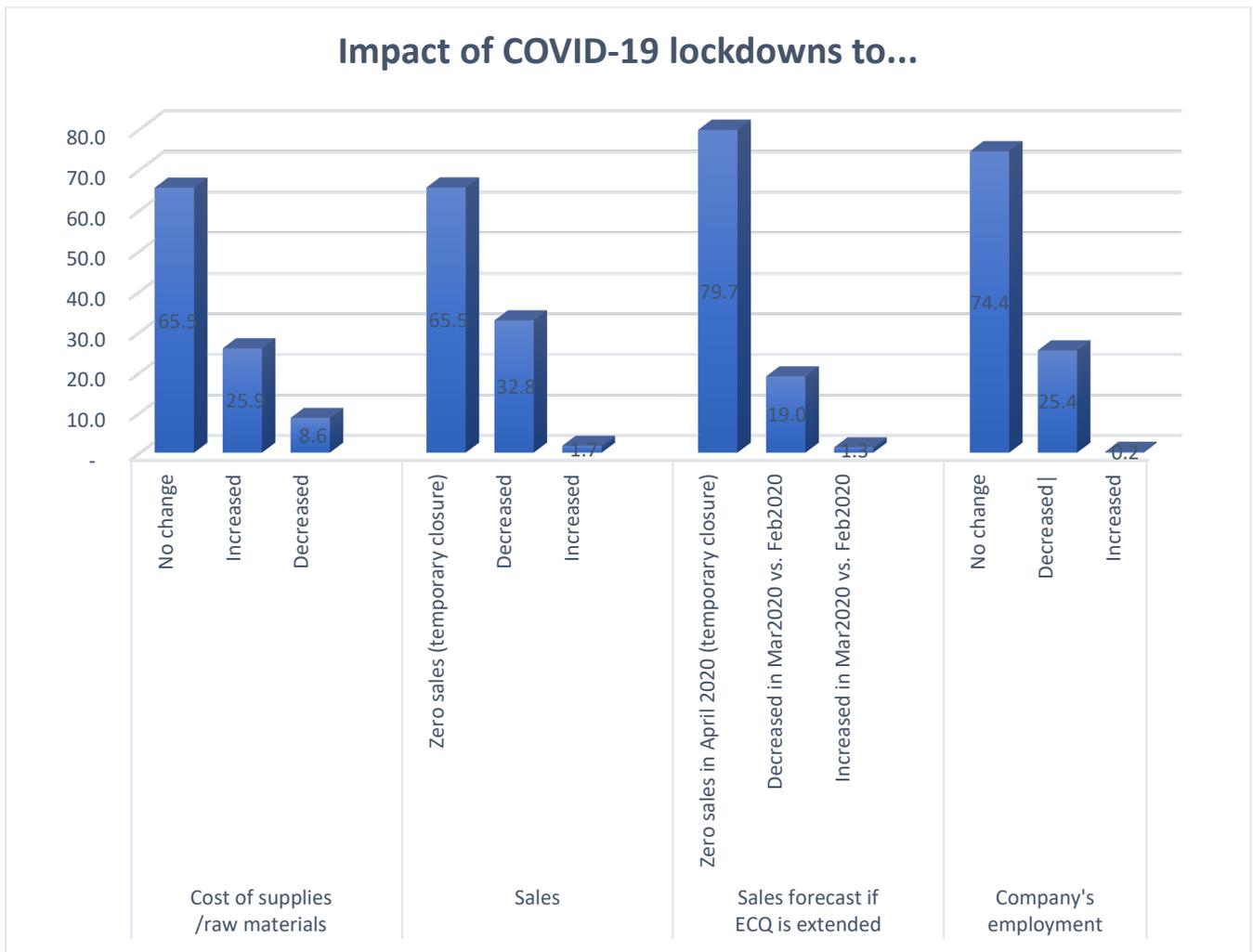
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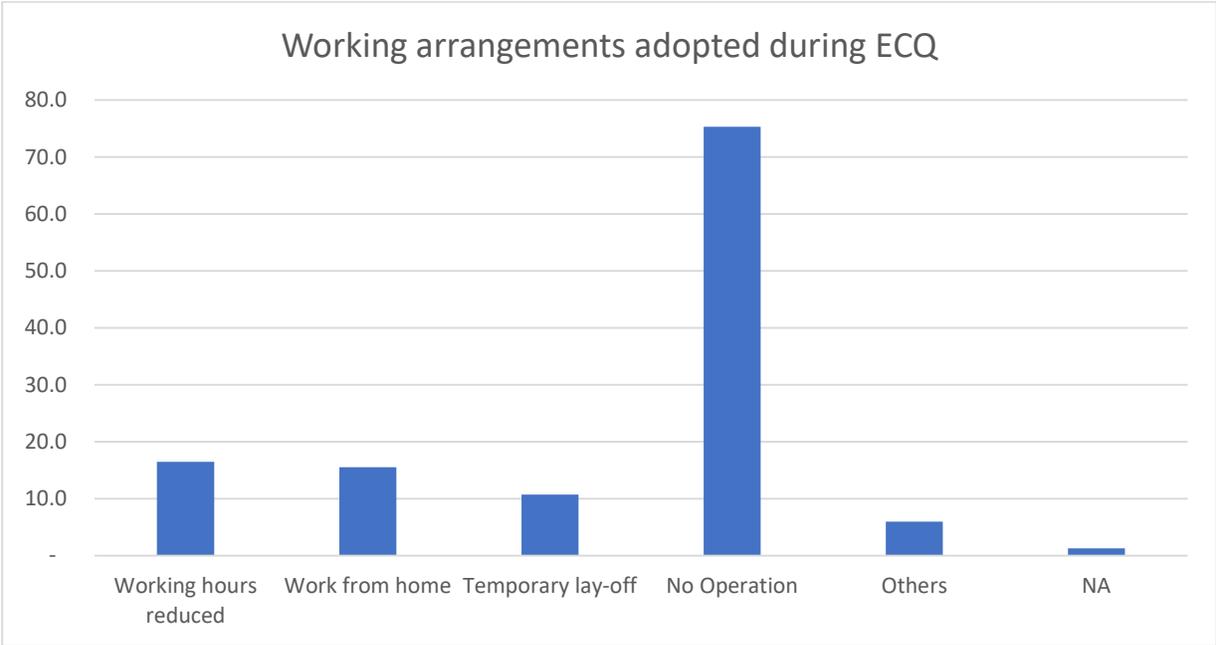
Appendix: Results of the DOF-NEDA-Boston survey

Figure 1. Impact of Covid-19 community quarantines to MSMEs



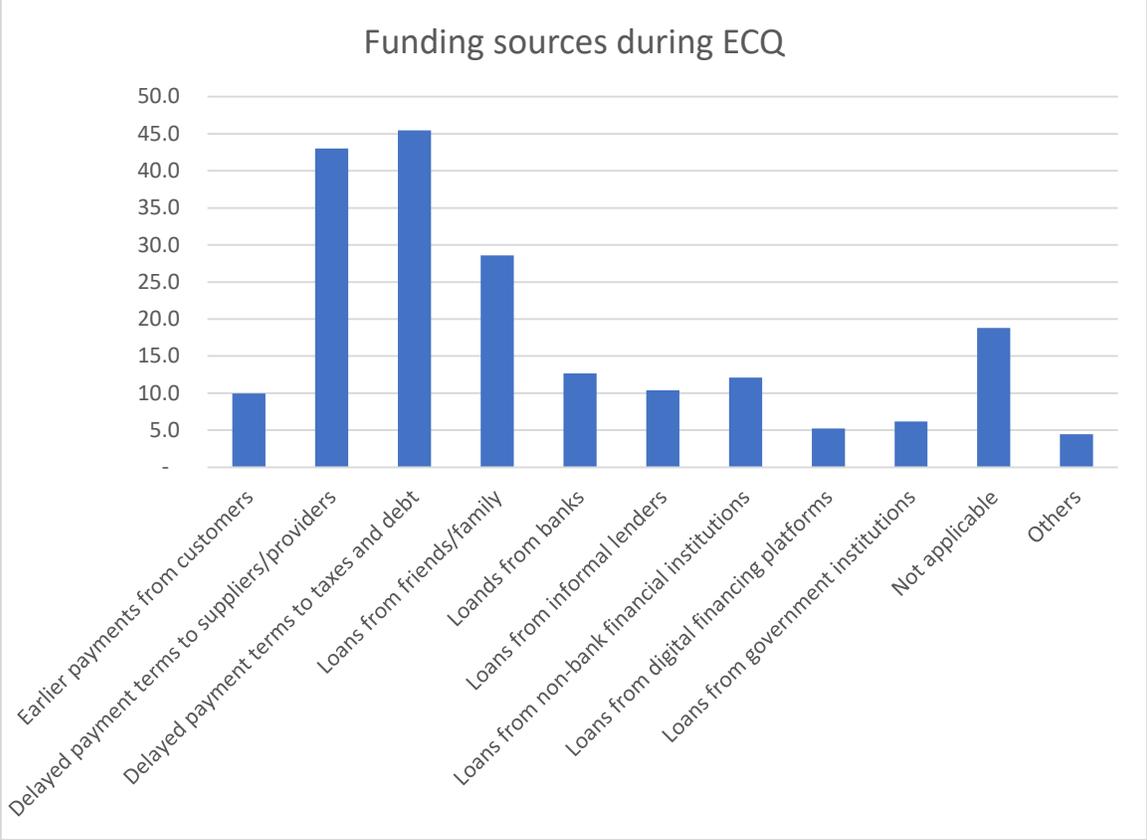
Source: NEDA-DOF-Boston Survey Instrument (n= 44,097)

Figure 2. Working arrangements adopted during ECQ



Source: NEDA-DOF-Boston Survey Instrument (n= 44,097)

Figure 3. Funding sources during ECQ

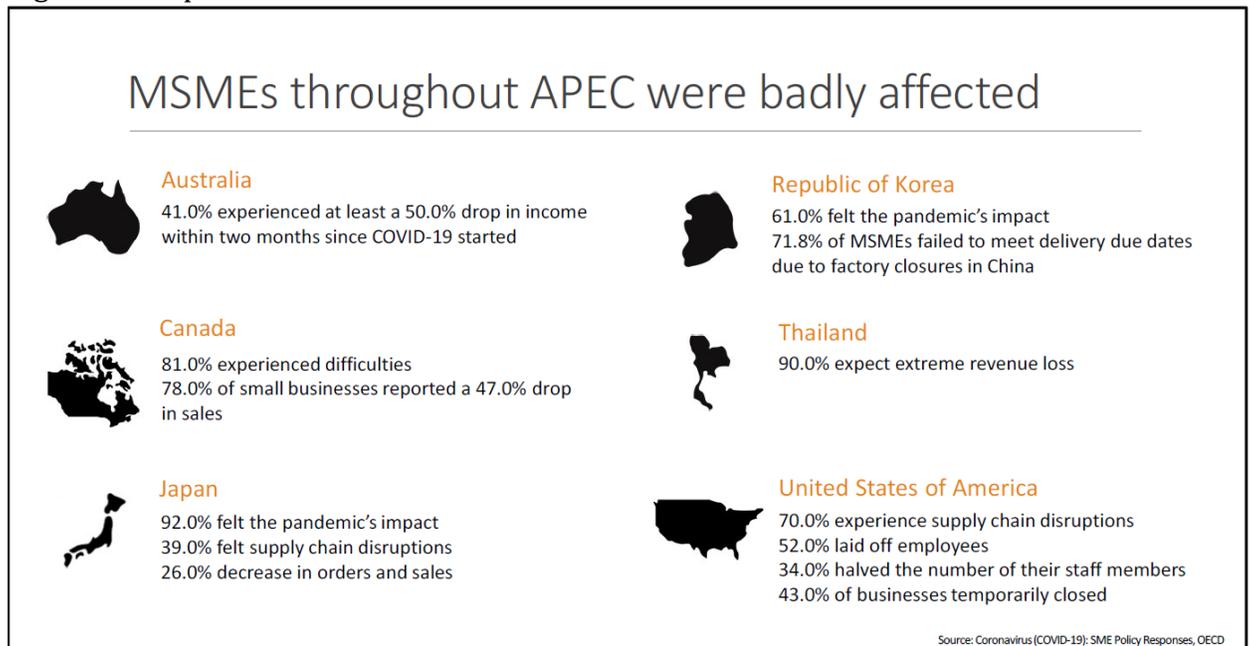


Source: NEDA-DOF-Boston Survey Instrument (n= 44,097)

Appendix 2

For instance, 61% of Korean MSMEs felt the pandemic's impact, which is relatively lower than Japan's 92% or Canada's 81%. Another issue experienced in the region was a disruption in the supply chain. For example, about 70% of American and Korean MSMEs experienced some form of supply chain disruption, which is quite high compared to Japan's 39%.

Figure xx. Impact to MSMEs in APEC



The loss of revenue or sales was also experienced in APEC. For instance, 41% of Australian MSMEs experienced at least a 50% drop in income within two months since COVID-19 started. This is similar to Canada's experience where 78.0% of small businesses reported a 47.0% drop in sales. In Thailand, MSMEs had a darker outlook where 90% expected an extreme revenue loss due to the pandemic. The pandemic did not spare workers either, and we can see that in the United States, 52% of MSMEs laid off employees while 34% halved the number of their staff members. In addition, 43% of American MSMEs temporarily closed because of the pandemic.