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Rebuilding MSMEs in the Time of the Pandemic and Beyond

Rolando Ramon Diaz[1]

The outbreak of the COVID-19 pandemic bore down heavily on humanity. Originating in Wuhan, China, in December 2019, the virus rapidly spread to several countries that, by March 11, 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic. The virus has had a far-reaching and debilitating impact on human lives and society, affecting public health (physical and mental), politics, security, and the economy.

In the Philippines as elsewhere, the pandemic and the stringent lockdowns imposed to contain the spread of the virus have caused the closure of countless businesses and the general slowdown in economic activities. According to the Department of Finance (DOF), the country's gross domestic product (GDP) contracted by 9.6% in 2020, the steepest decline since World Word II (DOF 2021). Figures presented by the Philippine Statistics Authority (PSA), on the other hand, depicted a 4.2% contraction for the first quarter of 2021 (PSA

1 Prof. Rolando Ramon Diaz is the current head of the Administrative Delivery Division of the University of the Philippines Institute for Small-Scale Industries (UP ISSI). He also teaches at the National Graduate School of Engineering of the College of Engineering in UP Diliman. At the time of writing this paper, Prof. Diaz was Project Leader under the Political Economy Program (PEP) of UP CIDS.

2021). In terms of job loss, the International Labor Organization (ILO) in its December 2020 report estimated that as much as 10.9 million Filipinos lost their jobs, and scores were underemployed, had lower incomes, and fewer working hours this year because of the COVID-19 pandemic. The report indicated that two-thirds of this figure (7.2 million) could be displaced as the country shifts to online and work-from-home (Lazo and Rodriguez 2020).

The present paper focuses on the impact of the COVID-19 pandemic on the Philippine Micro, Small and Medium Enterprise (MSME) sector. It provides an overview of the devastation caused by the pandemic on MSMEs, which comprise 99.5% of enterprises in the country (PSA 2019). The paper then discusses the different responses of government, the academe, and other stakeholders as well as presents policy recommendations for the short term and long haul.

Impact of the Pandemic on MSMEs

The Philippines is one of the worst countries affected by the COVID-19 pandemic and has had one of the longest and strictest lockdowns in the world. The Philippines is 27th out of 192 countries in the world in terms of COVID-19 cases. As of November 23, 2021, there were 2,826,853 registered infections with 47,288 deaths (DOH 2021). The country also has the second-highest number of new infections and active cases in Southeast Asia—making the country one of the region's COVID-19 hotspots.

Against this backdrop, the fate of MSMEs hangs in the balance, and, partly in consequence, the Philippine economy. The sector has been a vital pillar of Philippine economy and the driver of employment and livelihood. MSMEs comprise 99.5% of all business establishments in the country, generating 62.4% of total employment and contributing 36% of the country's gross value added, as well as 25% of the country's exports (PSA 2019).

What the COVID-19 pandemic has done is to expose the MSME sector's underlying vulnerabilities. It has been observed that the pandemic took only six months to wipe out the major gains and strides achieved by the MSME sector during the past decades. The Department of Trade and Industry (DTI), for instance, estimated that in October 2020, as many as 90,000 establishments in the National Capital Region (NCR) have closed because of the pandemic due to insolvency (Ramos 2020). A February 2021 econometric analysis by the Asian Development Bank (ADB) showed that 73.1% of the country's MSMEs underwent forced closures a few weeks after lockdown measures were imposed. Of that amount, small firms as well as those in the services industry, suffered the most damage with 76.4% and 72.7% experiencing closures, respectively (Shinozaki and Rao 2021).

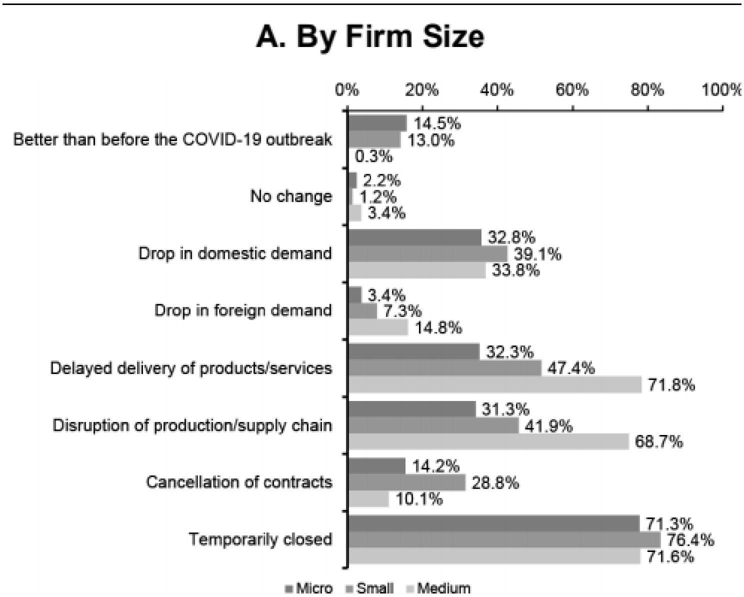

FIGURE 1. Business conditions during the COVID-19 pandemic

Source: Data from Shinozaki and Rao (2021)

The reverberations of the pandemic on the sector include:

Depressed Consumer Demand

The dangers of this once-in-a-century pandemic, coupled with strict restrictions due to lockdowns, have drastically altered the behavior and mindset of people and heightened their mental stress. For instance, a September 2020 Social Weather Stations (SWS) survey showed that 57% of the respondents expected that the crisis would get worse in the coming months (Hallare 2020). People are scared for their own and their families' health and safety, preferring to stay home instead of going outside to do their normal routines, such as shopping, dining out, and doing recreational activities. As such, an Ateneo de Manila University's Department of Economics study found a decline in majority of the country's expenditure components (Lim 2020). Table 1 shows a decline in expenditure in six of nine components and all subcomponents across the table for the first quarter of 2020.

TABLE 1. Growth rate of GDP by expenditure components

	2017 - 2018	2018 – 2019	2019 - 2020
Expenditure	Q1	Q1	Q1
01. Household final consumption expenditure	5.8	6.2	0.2
02. Government final consumption expenditure	13.9	6.4	7.0
03. Gross capital formation	3.5	9.8	-17.4
A. Gross fixed capital formation	9.7	7.8	-4.4
1. Construction	14.5	9.6	-4.4
2. Durable equipment	2.1	5.5	-5.9
3. Breeding stocks and orchard development	9.2	2.1	-1.1
4. Intellectual property products	11.2	15.2	4.2
B. Changes in inventories			
C. Valuables	*	-76.9	-24.8
04. Exports of goods and services	13.0	4.2	-4.4
A. Exports of goods	8.0	5.5	-3.9
B. Exports of services	18.4	2.8	-5.0
05. Less : Imports of goods and services	9.9	8.9	-8.7
A. Imports of goods	10.5	9.0	-10.5
B. Imports of services	7.5	8.5	-1.2
Gross Domestic Product	6.5	5.7	-0.7
Net primary income from the rest of the world	2.3	-1.6	-5.9
Gross National Income	6.0	5.0	-1.2

Source: Data from Lim (2020)

The PSA also reported on August 2020 that household consumption declined by 15.5% during the second quarter, the biggest drop ever in history—surpassing the plunge in household consumption in 1985 during the turbulent last years of the Marcos era (PSA 2020). However, it also reported a slight growth in household consumption for the first quarter of 2021 (PSA 2021).

In the face of the anxieties caused by the pandemic and lockdown, the domestic market experienced a phenomenon called *demand shock* (National Economic and Development Authority [NEDA] 2020a). People's reduced spending was caused mainly by two factors, namely: (i) job loss, furloughs, or pay cut; and (ii) the erosion in consumer confidence. Consumers changed their buying behavior, drastically cutting back on non-essentials and spending only for basic goods and services, such as food, medicine, health and hygiene products, and basic utilities. The consequence of this depressed demand led to a devastating market slump.

Direct Effect of Depressed Demand on MSMEs' Sales Revenues

The fear of the virus, the effects of quarantines, and the resulting demand shock had all taken a heavy toll on MSMEs' sales revenues.

An online survey conducted by the Department of Finance (DOF) on 44,097 enterprises all over the country from April to May 2020 ascertained the impact of the pandemic and the Enhanced Community Quarantine (ECQ). In terms of size, the profile of the respondents include: 71.2% from microenterprises, 17% from small businesses, 7.2% from medium enterprises, and 4.6% from large enterprises. The results pertaining to MSMEs' sales are summarized below (NEDA 2020a):

- Around 70% of microenterprises registered zero sales during ECQ, whereas 28% had decreased sales;
- Around 60% of small enterprises had zero sales during ECQ, whereas 39% had decreased sales;

- Around 49% of medium enterprises had zero sales during ECQ, and 49% had decreased sales;
- Combined, a mere 1.5% of the MSME respondents experienced increased sales during ECQ.

A parallel survey conducted by the UP ISSI Research Division last April 2020, using a smaller sample of 104 MSMEs nationwide, found that 84% of the respondents suffered a huge 50–100% sales decline. Of these, 47% stated that their sales were totally wiped out during the ECQ. Among the most severely affected were those in hospitality, tourism, and recreation, food and beverages, business services, and agribusiness industries (Cabotaje et al. 2020).

Heavy Burden of Continuously Paying Fixed Overhead Expenses

Already faced with dwindling sales revenues, MSMEs' difficulties are compounded as they continually have to pay their short-term fixed overhead expenses, such as salaries, rent, utilities, business permits, licenses, and registrations.

Although Republic Act (R.A.) No. 11469, or the Bayanihan 1 to Heal As One (BAHO) Act, allowed for the payment for utilities (i.e., power, water, telecommunication, and rental) to be done in installment, it merely deferred the payment of these expenses. Hence, these bills will have to be settled eventually.

Impact on MSMEs' Cash Liquidity Position

The double whammy squeeze of drastically reduced revenues and the burden of continually paying short-term financial obligations, such as fixed overhead expenses, heavily hemorrhaged MSMEs' cash flows. This led to a liquidity crunch and severely impaired MSMEs' financial capabilities. To begin with, even during the pre-pandemic period, these small enterprises maintained limited cash position of 30–45 days; the pandemic totally drained the already limited cash they had. As a UP ISSI survey revealed, up to 58% of the MSME respondents were cash strapped—25% stated their cash flow could only keep them running for a month, another 25% for two months, and 18% for three months (Cabotaje et al. 2020).

With the loss of revenues and the continuous burden of overhead payment, MSMEs face the grim reality of depletion of working capital to buy raw materials and pay essential workers' wages.

Various Operational Difficulties

Already reeling from the impact of a serious cash liquidity problem, MSMEs have to operate under the added burden of operational restrictions:

(1) MSMEs were unable to fully utilize business space, equipment, and facilities capacities, owing to low demand and usage restrictions imposed by the government's health protocols. Idle capacities were manifested, as most barber shops and beauty salons operated only using 50% capacity and offered only hair-related services. Since restaurants could only open 50% of their dining area to customers, they had to rely mostly on delivery and pick-up orders. As such, this was a big setback to most of these restaurants, as 70% of their revenues normally came from their dine-in customers (Domingo 2020).

The cutback in restaurant operations also had cascading effects on their orders of farm and meat products that, in turn, adversely impacted the hog, poultry raisers, and agriculture-fishery suppliers.

(2) The pandemic exposed the fragility of MSMEs' supply chains. There were several disruptions in the inbound logistics that caused delay in the arrival and resulted in the non-availability of critical raw materials. This led to unwanted stoppages in their operations. This again surfaced in UP ISSI's survey: of the 63 respondents who required raw materials for their major products and services, 41 (65%) stated that their supply only lasted for one-month operations (Cabotaje et al. 2020).

The ECQ imposed in NCR also led to congested ports and port facilities that affected the entry and processing of any incoming shipments. As such, the Department of Transportation Philippine Ports Authority (DOTR–PPA) and Bureau of Customs (BOC) called on cargo shippers to clear and pick up their overstaying cargoes that clogged Manila ports because the yard utilization exceeded the optimal utilization levels (San Juan 2020).

Cargos that exceeded the maximum storage period allowed were also levied storage charges and other penalties lest these were auctioned off. Either way, the losses and the additional costs incurred were passed on or shouldered by MSMEs.

(3) There were disturbances in the outbound logistics because of random checkpoints and border controls that were set up along major roads and highways. Oftentimes, these were manned by personnel without both proper training and orientation and coordination with local government unit (LGU) officials. This stalled the smooth passage of delivery trucks, which delayed the arrival of goods ordered by customers, and led to higher food wastages, lower farmgate prices of agricultural products, and artificially higher retail prices of food commodities.

Tight border controls forced farmers to throw away their agricultural products because they could not sell them in Metro Manila and urban centers. This then led to the non-collection of revenues, resulting in the loss of goodwill and customers altogether (Novio 2020).

(4) Operating while COVID-19 infections were still raging required more stringent measures to protect employees and customers from virus transmission. This translated into additional costs. Enterprises had to purchase disinfection/hygiene supplies, protective gears, and thermometers for temperature checks. They were also forced to drastically revise their customer interface processes (Mawis 2020).

(5) The imposition of curfew on various places drastically reduced MSMEs' operating times. The number of business customers decreased, and small businesses had smaller sales. With the reduced operating period, the actual work week hours rendered by workers were also cut. This resulted in lower take-home salary for workers.

Inability to Pay Loan Obligations

In the midst of tight cash-flow problems, the payment of existing loan obligations—that is, the principal amortization and interest—became a huge burden and worry for MSMEs. This is especially true for enterprises that, in the past, secured loans from banks and other financial institutions to pay for their businesses' modernization, upgrading, and expansion. Most of these enterprises that ventured into this debt now have to factor in the negative effects of the pandemic into their financial projections. Failure to pay their existing loan obligations meant that creditor banks and financial institutions could declare them at default, demand the immediate full settlement of the total loan amount, forfeit/call their collaterals, and worse, blacklist them, tarnishing their hard-earned good credit rating reputation.

A February 2021 ADB study indicated that with the worsening of the pandemic, loan repayments ranked third among the concerns of 48.2% of micro, 57.3% of small, and 54.2% of medium enterprises. As a temporary solution to this loan problem, majority of the 1,804 respondents planned to request for a deferment of loan repayments. Other enterprises looked into the possibility of approaching the problem with solutions that involved their employees. As such, 36.4% of small and 39.6% of medium enterprises considered wage cuts. Meanwhile, 54.9% of small firms and 65.5% in the medium category were open to staff layoffs (Shinozaki and Rao 2020). This is further detailed in figures 2 and 3.

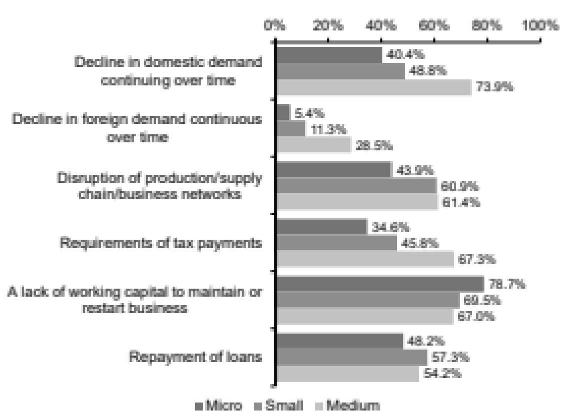

FIGURE 2. Concerns and obstacles faced by MSMEs (by firm size)
Source: Data from Shinozaki and Rao (2020)

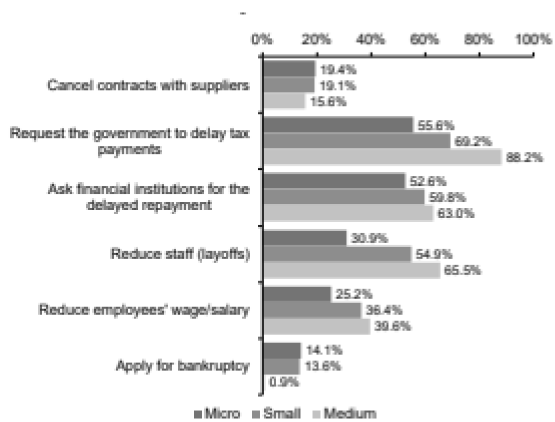

FIGURE 3. Actions considered by MSMEs (by firm size)
Source: Data from Shinozaki and Rao (2020)

Financial Insolvency Problems Led to Numerous Closures of Businesses

Given the mounting difficulties they faced, it was not surprising to see numerous small businesses fall by the wayside. The ADB economic study also showed that 70.6% of the 1,804 MSME respondents in the Philippines suffered temporary closures. The country ranked first among four Association of Southeast Asian Nations (ASEAN) countries surveyed by the ADB (with other countries being Indonesia, Thailand, and Lao People's Democratic Republic) suffering from this problem (Shinozaki and Rao 2020).

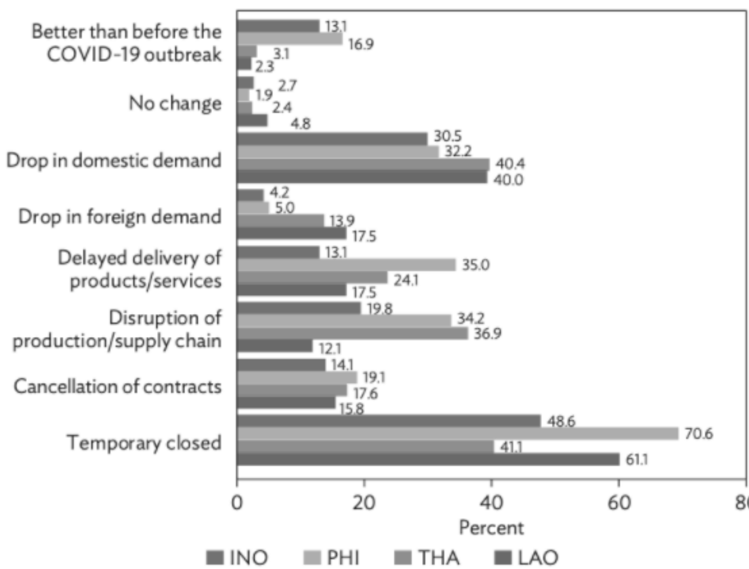

FIGURE 4. Business conditions during the pandemic
Source: Data from Shinozaki and Rao (2020)

DTI conducted a recent survey of 2,135 companies from June 14–17, 2020 on the status of business in the Philippines that showed worrisome results. Insolvency resulted in 25.9% of the respondents closing their operations, leaving 52% in partial operations, whereas only 22.1% remained in full operations (Crismundo 2020).

In a separate report, the Department of Science and Technology (DOST) disclosed that 60% of the beneficiaries of their Small

Enterprise Technology Upgrade Program (SETUP), which provides zero-interest, no-collateral loans for the acquisition of equipment and facilities for modernization, stopped their operations because of the pandemic's effects.

Recommended Program of Government–Academe–Industry Interventions

As the COVID-19 pandemic continues to wreak havoc on the Philippine economy and populace, the study recommends a three-tiered phase intervention program to be carried out by the government, academe, and the private sector to cushion the pandemic's effects and rebuild the beleaguered sector.

The recommended interventions are divided into tiered phases based on the target timing of implementation:

Phase 1 Immediate — Help severely affected MSMEs stay afloat and survive. These programs are emergency measures, aimed at providing a vital lifeline to MSMEs. The target period of implementation for these action programs would be between six months to one year to have immediately effect.

(A) The first order is to stimulate demand through effective public health response aimed not only at containing the virus spread but also at the judicious opening of the economy.

Given that private consumption accounts for 72% of the country's nominal GDP (NEDA 2021c), the first agenda on rebuilding is to enhance and stimulate consumer confidence through the following actions:

There should be relentless and systematic efforts on the part of the government to contain the pandemic. For the populace to get their normal lives back, public health officials and economic managers must work together to balance and fine-tune the two difficult objectives of (i) protecting public health while (ii) opening/reviving the economy.

These two objectives of saving lives and livelihood must be achieved side by side. In the first place, it is a fact that reviving the economy requires healthy people. Market confidence is not a toggle switch that could be flipped on or off. People could not be forced or even encouraged to return to their pre-pandemic routines without first seeing that the COVID-19 pandemic is put under control by implementing coherent pandemic response. Normalization would only come if people regain a sense of security and well-being to carry on with their daily normal life activities. This, in turn, contributes to increased consumer demand and investors' confidence.

This could be done through the implementation of coherent health protocols; a heightened rational practice of testing, contact tracing, isolation, and treatment; and a comprehensive rollout of a vaccination program to achieve herd immunity levels. These programs should be communicated consistently and transparently throughout the population based on a coherent prioritization scheme.

(B) A package of immediate and emergency financial relief should be extended to MSMEs through the following:

(1) Wage subsidies and deferral of payment of their fixed overhead obligations. There is an immediate need to assist small domestic enterprises in meeting their short-term expenses. DTI and DOF could promote arrangements to delay the payment of recurring overhead obligations, such as payment of utilities, rent, business permits, and registration fees. The Department of Labor and Employment (DOLE), Social Security System (SSS), and other government agencies

could grant emergency relief funding by way of wage subsidies to MSME workers to alleviate the burdens of MSME owners.

DOF and DTI could incentivize owners' store stalls and utility companies to support these moves. This could be done by offering tax credit for the amount equivalent to the interests forgone on the money amount as a result of MSMEs' deferral in rentals and utility payments. This form of incentive would encourage them to throw their full support behind this program as this would be aligned to fulfilling their corporate social responsibilities (CSR).

(2) Loan financing to replenish depleted working capital. Encourage government financial institutions, government and private banks, microfinance institutions, and financial intermediaries to allot higher amounts in their loan portfolios for small local companies to replenish their now-depleted working capital.

This could be done by the infusion of capital to government financial institutions (GFIs), particularly Land Bank of the Philippines (LANDBANK), Development Bank of the Philippines (DBP), and Small Business Corporation (SB Corporation), enabling these institutions to extend and expand credit to MSMEs. In the past, these financial institutions were reluctant to provide loans to MSMEs, because of their perception that said loan exposures carried high risks of non-collection and thus offered no real benefits to them.

Loan programs currently being implemented include the following (see Table 2):

TABLE 2. Loan programs implemented

Available Amount	Responsible Agency	Type of Intervention	Latest Status
PHP 2.6 billion	Department of Agriculture—Agricultural Credit Policy Council (DA–ACPC), in coordination with LANDBANK (ACPC n.d.)	Zero-interest loans for smallholder farmers and fisherfolks affected by disaster through the Survival and Recovery (SURE) loan package	591,246 micro and small farmers and fisherfolks (MSFFs) borrowers reached
PHP 31 billion	DA (OECD Library n.d; Miraflor 2021)	Ahon Lahat Pagkain Sapat Kontra COVID-19 (ALPAS)	"Plant, Plant, Plant" program to increase food sufficiency level in the country
PHP 1 billion	DTI—SB Corporation (DTI 2021)	Microfinance loans under COVID-19 Assistance to Restart Enterprises (CARES) Note: Temporarily stopped lending in April 2020 because of lack of funds. Resumed lending in August 17, 2020 as PHP 1 billion funding was secured from LANDBANK and DBP. Total credit line given by the two banks for CARES, amounted to PHP 3 billion. DTI and SB Corporation were eventually allotted additional	Microenterprises with an asset size of not more than PHP 3 million may borrow PHP 10,000 up to PHP 200,000, whereas small enterprises with an asset size of not more than PHP 10 million may borrow a higher loan amount but not exceed PHP 500,000 at 0% interest.

		funding under the Bayanihan 2 To Recover as One (“BARO”) package Loan applications dropped from 17,000 as MSMEs were reluctant to borrow because of repayment because of poor business climate and difficulties encountered with online loan applications.	
PHP 200 million	DTI (DTI n.d.)	Livelihood Seeding Program Pondo sa Pagbangon at Ginhawa (LSP–PBG) Funds for the program are already depleted.	To be used to support communities, especially microenterprises, to resume their businesses after devastating fire incidents and other calamities, including armed conflict, through providing enterprise training with livelihood kits worth not more than PHP 10,000.00 and business counselling

PHP 203 million	DTI (DTI n.d.)	Livelihood Seeding Program Negosyo sa Barangay (LSP–NSB) Funds for the program are fully exhausted.	To provide a package of livelihood kits and business advisory assistance and services, amounting to at least PHP 5,000 up to PHP 8,000 to ailing MSMEs affected by natural and human-induced calamities, including health-related disasters

Given that there are close to 1.5 million registered enterprises with LGUs in the country (DTI n.d.) the available loan fund amount proved grossly insufficient due to the mounting number of applicants. Some relief loan programs, however, have made significant impact throughout their intended beneficiaries.

Likewise, a more effective information campaign must to be done to increase awareness among MSMEs on these ongoing loan relief programs.

(3) *Restructuring or refinancing of existing long-term loans.* It is important that restructuring and/or refinancing MSMEs' outstanding long-term debts be carried out with dispatch to lessen the threat of foreclosure. MSMEs would need to avail financial advices/services from competent government personnel, such as those by trained business counsellors of Negosyo Centers (NCs) already deployed throughout the country. These financial advisers are crucial to ensure that these loan restructuring/refinancing efforts are carried out successfully and expeditiously. Simple and easy-to-

understand restructuring model templates could be made available for use. These loan restructuring is like giving these small businesses a second lease on their life.

(4) *Guarantees for new loans.* The government, through DOF and Philippine Guarantee Corporation (PhilGuarantee), must provide a reliable, easy, and quick-to-implement mechanism by relaxing the laborious rules and regulations in extending guarantees to MSMEs' future loans. Additionally, costly loan guarantee fees must be waived.

As stipulated in existing loan policy guidelines, these financial institutions would not be able provide the needed loans to MSMEs without asking for accompanying collaterals that MSMEs, reeling from the pandemic, clearly do not have. The strict eligibility requirements and banks' long and complicated guarantee process could easily bog down the entire rescue and rehabilitation program.

(5) *Loan mediation.* Albay Congressman Jose Salceda proposed that on top of providing loan guarantees, SB Corporation and PhilGuarantee could facilitate loan mediation. These two agencies could negotiate with government banks led by LANDBANK and DBP, as well as private banks, to grant new loans and refinancing packages for MSMEs under more favorable loan terms, such as zero interest and longer payment terms (Dela Cruz 2020).

(6) *Realignment of the national budget for MSME support.* It is urgent that the Department of Budget and Management (DBM), through the enactment of enabling laws by Congress, reallocate a sizeable amount of the national budget to relief programs that have immediate gestation effects on MSMEs' survival and recovery.

There are stumbling blocks along the way. DOF, through the Bureau of Treasury (BOT), reported that the 2020 budget deficit widened to PHP 1.37 trillion, which was higher than the 2019 budget deficit of PHP 620.3 billion (DOF 2020). Revenues of the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) went down dramatically, whereas expenditures grew on account of higher health and social services expenditures of the Department of Health (DOH) and the Department of Social Welfare and Development (DSWD) (PNA 2020a). Given the gaping budget deficit, the government would find it difficult to sustain subsidizing the increasing number of people from various sectors who have been dislocated because of the pandemic. Among these are the toiling masses composed of daily wage workers, retrenched employees, small farmers, fisherfolks, public utility vehicle (PUV) drivers, repatriated overseas Filipino workers (OFWs), and small business owners.

This is further compounded by the spate of seven typhoons that hit the country in just a span of one and a half months during October and November 2020, which caused massive damages to private properties and infrastructure, agricultural loss, and livelihood dislocations to millions of Filipinos (De Vera Ruiz 2020). These multiple calamities, together with the COVID-19 pandemic, tested the limits of government resources.

One possible funding source for the government is to allot/utilize a sizeable portion of the USD 7.76 billion (PHP 388 billion) of foreign loans, global bonds and grants it secured from various international multilateral agencies, such as ADB, World Bank, China's Asian Infrastructure Investment Bank (AIIB), Japan International Cooperation Agency (JICA), and Française de Development (De Vera Ruiz 2020). The money obtained could be used to cover budget shortfall, augment the pandemic response, and support economic stimulus and recovery programs. The government's role to pump prime and stimulate the sagging economy and ease the plight of the people becomes critical in times of great hardship.

(7) *Philippine Economic Stimulus Act.* Philippines needs a big-ticket economic stimulus package to get the country out of this major slump.

Before Congress's recess in June 4, 2020, it passed House Bill (H.B.) 6815, or the Accelerated Recovery and Investments Stimulus for the Economy of the Philippines (ARISE Philippines), on the third reading (Cepeda 2020). The bill was formerly known as the Philippines Economic Stimulus Act (PESA) when it was still pending at Congress. The law spelled out two to four-year programs to finance various forms of assistance to key sectors, including struggling MSMEs. The bill's lofty objectives are to protect and assist over 15.7 million workers, create three million short-term jobs and 1.5 million infrastructure jobs, and extend help to up to 5.57 million MSMEs (Cepeda 2020).

Among the programmed spending included under the proposed ARISE bill are the following:

TABLE 3. Programmed spending under PESA

Item Particulars	Amount in Billions of Pesos			% of the
	2020	2021	Total	Total
A. MSMEs				
1. SB Corp Strengthening of loan capabilities				
a. Increase in Paid up capital	5		5	
b. Special Fund Program	45	25	70	
2. LBP and DBP Interest -free Loan to MSME	50		50	
3. Loan Guarantee to MSME by PhilGuarantee	40		40	
4. Assistance for training, education and consultancy	10		10	
5. Regularization of MSMEs (5% of MOOE of the implementing bodies)				
Sub total - A	150	25	175	13.4%
B. Sectoral Support			Mass testing	
1. Displaced workers wage subsidy (SSS and DOLE)	140		140	
2. HEIs and Private Education and Students	24		24	

2. HEIs and Private Education and Students	24		24	
3. Tourism Industry	58		58	
4. Transportation Sector	75		75	
5. Other sectors	44		44	
6. Agri-Fisheries	66		66	
7. Agrarian Reforrm Beneficiaries Loan	50		50	
Sub total - B	**457**	**0**	**457**	**34.9%**
C. Enhanced Build Build Build	**325**	**325**	**650**	**49.6%**
D. Mass testing	**10**	**10**	**20**	**1.5%**
D. Other Programs (Regulatory Relief)	**8**		**8**	**0.6%**
Grand Total	**940**	**350**	**1310**	**100.0%**

Source: Data from Cervantes (2020a)

Based on the analysis of the proposed amounts, MSME-related program assistance amounts to PHP 175 billion—equivalent to a meager 13.4% of total economic stimulus amount. Sectoral support, the enhanced “Build, Build, Build” program, mass testing, and other related programs comprise 34.9%, 49.6%, 1.5%, and 0.6% of the total stimulus amount, respectively.

That said, the country’s economic managers have resisted the call for the national government to fund the economic stimulus program. As of this writing, both NEDA Secretary Karl Kendrick Chua and DOF Secretary Carlos Dominguez stated that the proposed PHP 1.3 trillion economic stimulus package, which is roughly 6.5% of the GDP, remained not fundable. Secretary Dominguez was particularly reluctant to commit this huge sum of money, citing the uncertainty of how long the pandemic would linger (Rivas 2020).

It is evident and visible from key interviews and press releases that there exists a ground swell of support for these relief packages among legislators, economic managers, and top government officials. These opportunities should be tapped into once while the momentum is ongoing.

(8) *R.A. 11494 or the Bayanihan 2 To Recover as One Act (BARO).* BARO was signed on September 11, 2020. The law provided funds to save businesses and jobs, support funding and subsidies for critical sectors, and boost health-related efforts to combat the COVID-19 pandemic.

BARO allotted PHP 140 billion for its programs, with funding coming from the 2020 general appropriations and an additional PHP 25.5 billion as stand-by amount sourced from savings and special revenues. The budget matched the amount that the DOF stated were available. This amount, nevertheless, paled in comparison to the PHP 275 billion used in the BAHO Act. BARO's amounts represented only roughly 0.7–0.8% of the GDP (Santos and Lopez 2020).

The law listed the various expenditure items included in the ARISE but comparatively in smaller amounts.

Among the salient features of the law include (Presidential Communications Operations Office [PCOO] 2020):

(a) For loans due;

The law directs banks and other financial institutions, including the Home Development Mutual Fund (Pag-IBIG Funds) loans to grant a 60-day moratorium on loan payment falling due on or before December 31, 2020. There will be no interest-on-interest, penalties, and other charges. The House version earlier proposed a one-year moratorium period, but the banking sector deemed it unreasonable as this could affect the banks' liquidity position arising from their loan portfolios. Some observers doubt whether the 60-day moratorium would be enough.

At the same time, the original one-year proposal may still be too tight. The banking sector's nonperforming assets, as a share of total loan exposure of banks, could swell to a large number and proportion. Given the possible liquidity crunch, banks would be under pressure from regulators to proactively increase their capital.

No doubt, calling for a moratorium could be a double-edged sword. Although it is intended to help the borrowers, it would have a chilling effect on banks' lending appetite and policies, making them even more risk-averse. A careful balancing act is deemed essential.

(b) For rents on residential and commercial lessees not permitted to work and MSMEs and cooperatives ordered to cease operations, a minimum 30-day grace period with equal installments, no penalties, and other charges; and

(c) For utilities in areas placed under ECQ or Modified Enhanced Community Quarantine (MECQ), a minimum 30-day grace period for the payment of utility bills (e.g., electricity, water) with no penalties and other charges;

Among the items included in BARO are the following (*see Table 4*):

TABLE 4. Provisions under BARO

Item	2020 GAA in PhP Billion	Stand by Funds in PhP Billion	Total in PhP Billion	% of the Total
Health Related				
Hiring of addional health care workers				
compensation ,insurance, risk allowances				
eal and transportation allowances	13.500			
Hiring of 50,000 contact tracers by DILG	5.000			
Purchase of PPEs	3.000			
Vaccine and other medications for Covid 19	-	10.000		
Construction of Qurantine and Isolation facilities	4.500			
NDRRMC food, accomodation, transpo of Covid patients	4.500			
Subtotal	**30.500**	**10.000**	**40.500**	**21.79%**
Sectoral Support				
Labor - Cash for Work Program	13.000			
Agri Sector credit Plant, Plant Plant	24.000			
Transport	9.500			
Tourism	4.000			
Tourist guide training	0.100			
ICT Training faccilities for SUCs smart campus	3.000			
Subsidy for public and private HEI students	0.600			
Sdubsidy to teaching and non teaching staff	0.300			
TESDA scholarship for displaced workers	1.000			
DSWD food and livelihood grants	6.000			
DepEd Digital alternative learning modalities	4.000			
LGU Support	1.500			
Payment of Interest on Loans by LGUs	2.000			
National Athlete Support	0.180			
OFW repatriation through DFA	0.820			
Digital Licensure Exams	0.003			
Health Technology Assessment Council Research	0.010			
UP Data Analytics	0.015			
Subtotal	**70.028**	**-**		**50.02%**
MSME Support				
Capital Infusion LandBank	18.473	7.750		
Capital Infusion DBP	6.000	7.750		
SBP CARES Program For MSMEs and Tourism	15.000			
Subtotal	**39.473**	**15.500**	**54.973**	**28.19%**
Grand Total	**140.000**	**25.500**	**165.500**	**100.00%**

Unfortunately, the law does not provide guidelines on the implementing mechanisms, and some of the provisions are somewhat vague and unresponsive to immediate support needs. Besides the inadequacy of funds, there are also questions regarding allocation or distribution and timing of the release of these funds.

Both houses of Congress passed R.A. 11519, an enabling law extending BARO's life, allowing the disbursement of the remaining unreleased balance in the amount of PHP 43.33 billion as of December 2020 up to June 30, 2021 (Rappler 2021).

(9) *Grant of a one-time tax holiday/tax payment deferment.* Another financial relief for MSMEs is for the DOF, through BIR, to grant a tax holiday and/or tax payment deferment. This would greatly lessen the financial burden on the part of the struggling MSMEs.

One would expect, however, that the national and local governments would oppose these measures, particularly since these represent the potential loss of important revenue streams. Nevertheless, these tax-relief measures could be viewed as the proverbial one step back, two steps forward type of strategy, aimed at rescuing a key sector of the economy, MSMEs, at this very critical period. Given that the sector makes up almost all of the formal business establishments in the country, its survival is key to economic recovery efforts.

(10) *Higher tariff protection (safeguard measures) for MSMEs' products.* Toward ensuring the survival of MSMEs during this period of depressed consumer demand, it is important to shield their products from undue competition from imported goods. This would entail the raising of tariff rates for harmonized commodity tariff lines corresponding to MSMEs' traditional finished products, such as food, handicrafts and embroideries, garments and apparels, shoes and footwear, jewelry, ornaments, wood furniture, and creative arts products.

A granular review of rice tariffication and retail trade liberalization laws could also be undertaken to determine impact on the livelihood and viability of small farmers and MSMEs.

(11) *Campaign for local products.* Another way to boost MSMEs' domestic sales is to launch a sustained campaign to encourage Filipino consumers to support and buy locally produced products.

(C) Organization and Institutional Strengthening

(1) Elevate the MSMED Council as the Presidential Advisory Board on MSME Development, to be chaired by the President of the Philippines and composed of the department secretaries of DTI, DOST, DOLE, NEDA, DOF, Department of Interior and Local Government (DILG), Department of Agriculture (DA), and Department of Transportation (DOTR). The proposed board, to be chaired by the DTI Secretary and co-chaired by the Presidential Adviser on Entrepreneurship, should have a clear mandate and definite goals and organizational structure to ensure the unity of command down to the LGU level for a more well-knit and coherent implementation of programs and projects. The DTI–Bureau of Small and Medium Enterprise Development (BSMED) will continue to serve as secretariat.

This proposal stems from the need for a harmonizing central body performing holistic policy formulation and program of actions concerning MSMEs. As it stands right now, each cabinet-level department follows its own program agenda for MSMEs.

(2) Increase MSME sectoral representation. Since the targeted relief may vary from one sector to another, there is a need to expand representation to cover the diverse MSME sectors. This will provide a sectoral approach to policy formulation and program planning.

(D) Another critical and urgent task is to save and protect MSME jobs. Any further loss of employment could trigger ripples of negative consequences on the country's economy and the livelihood of the populace.

Among the early actions taken by the government was the grant of wage subsidies coming from SSS for formal sector employees and DOLE and DTI for informal sector workers. In this connection, some of the government subsidies and loan programs offered included the following (see Table 5):

TABLE 5. Subsidies and loan programs offered

Responsible Agency	Type of Intervention	Latest Status
DOLE (Patinio 2021)	Wage subsidy/financial support for affected workers including OFWs and the COVID-19 Adjustment Measures Program (CAMP) for affected formal and informal sector workers displaced because of the ECQ The program was halted because of depletion of funds.	658,886 workers in the private sector were benefited with PHP 3.3 billion in assistance (Patinio 2021)
DOLE (Patinio 2021)	Temporary cash-for-work jobs for displaced workers under the Tulong Panghanapbuhay sa Ating Disadvantaged/ Displaced Workers (TUPAD) for a period of thirty days The program was stopped because of depletion of funds.	Provided jobs to over 1,300,000 workers in the informal sector, with a total amount of PHP 6.8 billion as of 30 June 2021 (Patinio 2020)

SSS (Ignacio 2021)	Subsidy/financial support for formal workers through the Small Business Wage Subsidy (SBWS), in which PHP 5,000–8,000 per month (depending on minimum wage in their region) was given	More than three million workers received subsidy as of June 2020

Nevertheless, affected workers consider the funding for and from these wage subsidy programs as just a drop in the bucket. Despite the growing number of pending applications, some subsidy loan programs were also halted because of lack of funds (Mejico 2020). Without an assurance of continuous funding, there were serious doubts whether these programs could continue and attain their intended objectives.

To prevent further massive retrenchment, DOLE has now allowed business owners to negotiate with their employees for a flexible and reduced work schedule (i.e., staggered work hours, work-from-home scheme)—a move that nevertheless has also resulted in pay cuts (DOLE 2020). The department's recent proposal is for the government to shoulder 20%–50% of the monthly salaries of workers in MSMEs over the next two months, with funding coming from the PHP 52 billion allotment, which was the supplement budget set aside for this purpose (Gonzales 2021).

(E) Public health safety dictates that employees' physical and mental wellness must be ensured through observing health protocols (e.g., wearing of masks, creative arrangements to meet the need for social distancing, and proper ventilation, among others). There is a need to prioritize essential and frontline workers in the rollout of vaccines.

(F) Ensure the smooth flow of raw materials and finished goods. To ensure the continuity of operations, concerned parties must work to broaden and integrate the supply base for MSMEs. Also, it is important to remove any impediment to the smooth flow and timely availability of raw materials, work-in-process items, and delivery of finished goods along the established supply chain.

(G) Build lasting relationship with clientele. MSMEs should take time to build a lasting relationship with their clients to sustain relations until things return to normal and beyond that.

***Phase 2 Intermediate: The Next Stage — Recalibration and Refocusing of the Business Compass.* These intermediate term programs would be implemented during the period of more than one to three years.**

(A) Recasting/Repurposing of Business Model

An old Chinese belief states that any crisis is two-faced. One face is the *wei* that represents the dangers that lurk ahead. The other face is *ji*, which mirrors the opportunities that abound. This pandemic is no exception. To survive, MSME entrepreneurs must quickly adapt and demonstrate their ability to change.

At present, maintaining the status quo is self-defeating. MSME business owners must get out of their comfort zones and quickly evolve their current business models. Their new business orientation needs to broaden their business lines to cover the production or delivery of essential goods and services with sure demand. Some illustrative examples of essential goods are food supply and preparation, health, medical and hygiene products, online financial services, delivery and logistics services, and the conduct of online education/trainings.

However, care must be observed so that there would be no oversaturation and overconcentration in just a few particular lines of business. This should be done so as to avoid cutthroat competition, leading to bruising price wars that would cannibalize each other's market and hurt business recovery efforts.

It is clear that entrepreneurs must think twice before investing in new business activities involving non-essential products and services related to travel and tours, amusement, recreation, and accommodation, and dine-in restaurants, among others, as these business lines would not be able to recover as quickly given the stark realities created by this pandemic.

(B) Digital Skills Retooling and Reskilling/Upskilling

The acquisition of digital skills and capabilities is a prerequisite in this time of the pandemic. The knowledge and working skills related to e-commerce, contactless transactions, digital marketing, online selling using trading portals, electronic payment and collection, enterprises and commodities geomapping, and video teleconferencing could prove to be expedient and useful. These skills and know-how are now considered essential in a "no or limited physical contact" new normal.

(C) Simpler Process of Availing Government Services

Simplification of the processes and requirements to avail of government services through paperless transactions could be pursued to the hilt. Successful cases of bureaucratic streamlining are the procedures currently being adopted in securing National Bureau of Investigation (NBI) clearances and Department of Foreign Affairs (DFA) passport application/renewal. These examples could be replicated for online transactions for business registration/renewals, securing clearances and permits and speeding up/smoothening supply chain and logistics bottlenecks. This could also be applied to customs processing of imported cargo clearing, payment of taxes and customs duties, pier-related fees, and other ancillary fees.

(D) Online Business Monitoring and Consultancy

Providing an expansive online business mentoring and consultancy is imperative. DTI's "Kapatid Mentor Me" (KMME) program and UP ISSI's "Bangon MSME" campaigns must be expanded and recasted so that consultations may be done purely online. These advisory sessions should be done by appointment to facilitate access, with the time of delivery of services shortened and sustained. The business advisory campaign needs to focus on relevant subject matters related to crisis and change management, risk management, digital transformation, e-commerce, and business resilience. These online advisory services would help MSMEs bounce forward and navigate rougher waters ahead.

(E) Stronger ICT Infrastructure

A crucial step ahead is to strengthen information and communications technology (ICT) infrastructure to achieve faster internet speeds and reach a wider area of coverage. The lead agency for this is the Department of Information Communication Technology (DICT). Once this is achieved, MSMEs would be able to harness the expanded use of digital technology applications for e-commerce and conduct of training/education through distance learning.

UP ISSI survey's MSME respondents cited the need for the sector to upgrade the ICT infrastructure (Cabotaje et al. 2020). They said that WFH arrangements are hampered by ICT-related difficulties because of weak/no internet signals (70%), no available gadgets (i.e., laptops, tablets, or mobile phones) to use (46%), and practically no internet access for employees (43%).

About 57% of the respondents also cited the lack of digital copies of office files (Cabotaje et al. 2020) as a problem. To ensure access to business documents at all times, regular data backups using off-storage sites and/or through cloud could be undertaken regularly.

Cybersecurity issues and threats must be constantly addressed. Any laxity or lapses in handling digital transactions would open the door to online hacking and result in fraud, which could endanger not only the data security of the company's vital information but also breach personal data privacy and severely compromise the safekeeping of hard-earned company resources. Thus, the establishment of reliable computer firewall protection must be done to ensure data security.

(F) Youth Entrepreneurship and Coopetition

Practical concepts like "youth entrepreneurship," which promotes business acumen among the youth, and the use of the innovative practice of "coopetition," which fosters cooperation amid competition among entrepreneurs, must be pursued and further strengthened as essential parts of the mindset change.

(G) Virtual Discussions, Symposia, and Webinars for MSMEs

Holding virtual roundtable discussions, online symposia, and webinars where MSMEs could share among themselves their experiences and proven coping methods throughout the industry should be regularized. Such activities could, for instance, discuss the applications of the principles of Community of Practice on Entrepreneurship (COPE), an ongoing program of UP ISSI.

Phase 3 Strategic: Steering the MSME Sector Toward a Secure and Sustainable Future. The period of implementation for the programs below covers a period of more than three to five years.

The strategic interventions could be grouped into three parts covering structural reforms, namely: strategic plans, organizational and institutional strengthening, innovation and technology, and the continuation of MSME development programs.

(A) Strategic Plans

(1) Develop and implement a business continuity plan (BCP).

An important undertaking at this point is to promote and enhance the preparation and implementation of BCPs. This initiative would lead to the development/cultivation of a culture of preparedness and resilience among MSMEs, taking into account the important lessons gained during this pandemic.

A UP ISSI survey revealed that about three-fourths (75%) of respondents did not have business continuity or disaster preparedness plans at all. As for the rest of the respondents: 27 enterprises had the following types/forms of BCPs: disaster risk reduction and management plan, emergency communications plan, and emergency response plan. Noticeably, only three respondents mentioned they had a pandemic response contingency plan: two came from the manufacturing sector and one from a small enterprise involved in information and communication services (Cabotaje et al. 2021).

The main reasons cited by the respondents that convinced them to develop their business continuity and/or disaster preparedness plans are as follows: sustainability of the enterprise (67%), safety of employees (67%), less risks associated with business disruptions (48%), and fulfillment of contractual obligations with customers (33%).

Among the major challenges faced by the MSME respondents when developing BCPs and/or disaster preparedness-related plans include the lack of awareness on the importance and ensuring buy-in of such plans across the organization, lack of available funds to develop said plans, and the lack of organizational capacity/proficiency needed to create a comprehensive and responsive BCP.

(2) Fast-track a full national internet backbone connection.

The implementation of full national internet backbone connection must be fast-tracked to operationalize and revitalize e-commerce, online training, and education of entrepreneurs, as well as undertake online trading portals.

(B) Technology and Innovation

MSMEs could use the pandemic as an impetus to leverage on and utilize applicable Fourth Industrial Revolution (4IR) technologies. This could be undertaken through using online platforms that would enable MSMEs to virtually engage their customers, suppliers, and other key business partners. Said technologies must offer innovative solutions to address the barriers, irritants, disappointments, and annoyances (BIDA) experienced by businesses and consumers during the pandemic and facilitate the ordering of food and supplies, paying of bills, effecting funds and money transfers, as well as delivery and logistics and telemedicine consultations, among others.

The pandemic has shown that enterprises that embraced technological innovations tend to be more resilient and would be in the best position to weather difficulties and trials.

(C) Continuation of MSME Development Plans

When the pandemic has more or less been put under control, there is a need to revisit the programs and projects that were previously lined up for MSMEs' development. These programs must be implemented albeit in a restructured form suited to the changing and evolving requirements of the new and better normal.

These programs are embodied in the approved Five-Year Development Plan for MSMEs from 2017–2020 and cover the road map to attain the plan's five strategic pillars as defined by the MSMED Council (2018), which are the following:

- Improved business climate
- Improved access to credit
- Enhanced management and labor capacities
- Improved access to technology and innovation
- Improved access to market

Per the Five-Year MSME Development Plan, DTI has already outlined the framework on how the "7Ms" tools that could be used to achieve the five strategic pillars. These

"7Ms" encompass market, mindset (that of entrepreneurs and of the government), machines, money, model, mastery, and mentorship.

In conclusion, the road to recovery for MSMEs and rebuilding the country's economy is expected to be fraught with doubts, difficulties, and challenges. Although the journey to rebuilding MSMEs could prove to be long and arduous, this road should be trekked with clarity of purpose, steadfast resolve, and resolute fortitude.

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Editorial Office
Lower Ground Floor, Ang Bahay ng Alumni, Magsaysay Avenue,
University of the Philippines, Diliman, Quezon City 1101

Telephone
(02) 8981-8500 loc. 4266 to 68 • (02) 8426-0955

Email
cids@up.edu.ph • cidspublications@up.edu.ph

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UNIVERSITY OF THE PHILIPPINES
CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES
Lower Ground Floor, Ang Bahay ng Alumni
Magsaysay Avenue, University of the Philippines
Diliman, Quezon City 1101

Telephone: (02) 8981-8500 loc. 4266 to 4268 / (02) 8426-0955
Email: cids@up.edu.ph / cidspublications@up.edu.ph
Website: cids.up.edu.ph