



# MSME Value Chain Rapid Response Survey



This paper seeks to encourage further discussion and collaboration among decision-makers and key players in the MSME sector. For those who want to learn more, a copy of the questions of the first part of the survey may be accessed through <https://tinyurl.com/msmewave1Qs>.

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# MSME Value Chain Rapid Response Survey

## BACKGROUND

Micro, small, and medium enterprises (MSMEs) play a crucial role in the Philippine economy. They make up 99.5% of business establishments in the country, provide 63% of employment to the Philippine workforce, and contribute about 40% to the country's Gross Domestic Product (GDP)<sup>1</sup>. However, MSMEs are one of the most vulnerable groups whose business operations have been affected by the COVID-19 pandemic. As part of United Nations Development Programme's (UNDP) global effort to support countries design effective strategies and programs to recover from the COVID-19 crisis, UNDP Philippines conducted a rapid response survey for MSMEs to capture the experiences, behavior, and perceptions of the MSMEs as they cope, respond, and adapt to the supply shocks in the value chain due to the enhanced community quarantine.

## RESEARCH QUESTION

This rapid response survey's main research question was how the COVID-19 lockdown affected the MSME value chain, in general, and their business operations, in particular.

## METHODOLOGY & COVERAGE

Data collection had two tracks: (a) the deployment of an online survey using Google forms and a chatbot integrated in Facebook Messenger and (b) the use of social listening (data mining using Artificial Intelligence) to complement the survey. The survey was deployed in series, with the first covering the period from May 1 to May 15. Geographically, the survey covered MSMEs nationwide. It is important to note that this method for deployment did not allow for a random selection of respondents.

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<sup>1</sup> DTI, DTI to spur MSME growth to half of national output, [Link](#), 24 December 2017 (accessed June 11, 2020)

This report presents the results of the first part of the survey and outlines policy implications that are vital in addressing MSMEs' key challenges identified in the survey:

### FINANCIAL STANDING

The results of the survey confirmed the vulnerability of MSMEs' liquidity. Major concerns of MSMEs included significant loss of income due to COVID-19, continuing expenses (e.g. rents, taxes, salaries, and wages), and unpaid loans.

### VALUE CHAINS

Business closures, lack of supplies, problems with logistics/transportation, and reduced demand from customers had adversely impacted MSMEs' supply chains. Moreover, less than half of the respondents had local supplier alternative for international suppliers.

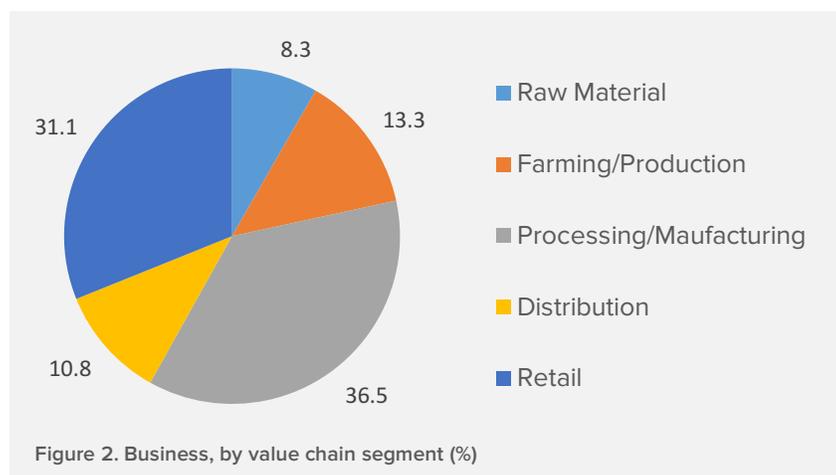
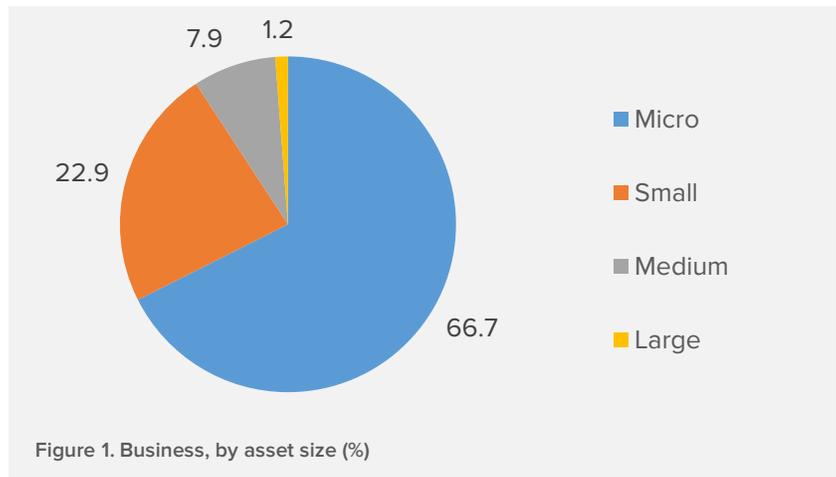
### BUSINESS CONTINUITY AND SUPPORT

At the time of the survey, more than 50% of the respondents had not developed any business continuity plan, majority of which were micro-businesses. In addition, 80% of the respondents had not received any form of assistance (financial or in-kind).

## WAVE 1 SURVEY RESULTS

The survey had a total of 315 respondents, 54% of whom were female, 43% male, and 3% LGBTQ+.

Majority of the respondents were microbusinesses at 66.7%, followed by small and medium enterprises at 22.9% and 7.9%, respectively. In addition, more than 60% of the respondents' businesses were from National Capital Region (NCR) and CALABARZON (Region 4A), where most MSMEs, particularly those in the manufacturing and retail value chain segments are located. While UNDP aimed for a more nationwide representation of MSMEs, this is one limitation of the survey, as 14 out of the 17 regions had below 16 respondents.



## MAJOR CHALLENGES FACED BY MSMEs

Seventy-seven percent (77%) of MSMEs reported income reduction as a major business constraint, which was closely followed by concerns about unpaid loans, reduced demand, and supply chain disruptions during the lockdown (see Figure 3). The loss of income is largely attributed to measures taken to combat the spread of the virus in most centers of economic activities in the Philippines, which compelled businesses to temporarily suspend their operations or operate at limited capacity beginning the third week of March.

## VALUE CHAIN: FLOW OF GOODS, MERCHANDISE, AND SERVICES TO THE MARKET

Seventy-one percent (71%) of the respondents said that their businesses closed due to lockdown, 53.3% experienced reduced demand from customers, and 49.5% encountered issues with transportation/delivery (see Figure 4), which highly affected the flow of goods, merchandise, and services of MSMEs.

MSMEs in the processing/manufacturing segment had the highest absolute number of reported challenges, as they made up 36.5% of the total MSME respondents. However, if we consider the number of MSMEs within the same value chain segment, MSME respondents in the raw material segment reported the highest business closure and transportation/delivery problems as the major factors that impacted the flow of goods, merchandise, and services to the market. Meanwhile, farming/production value chain segment reported the highest

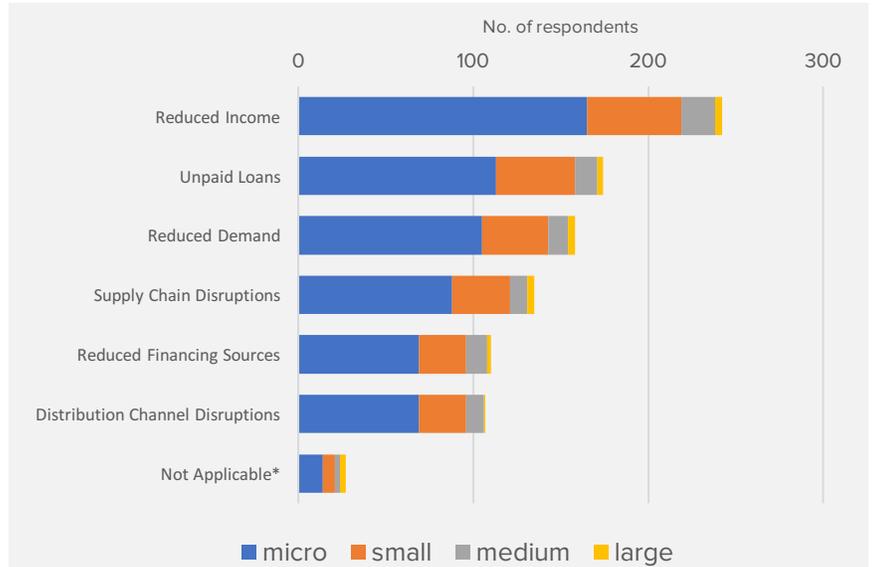


Figure 3. Business Constraints

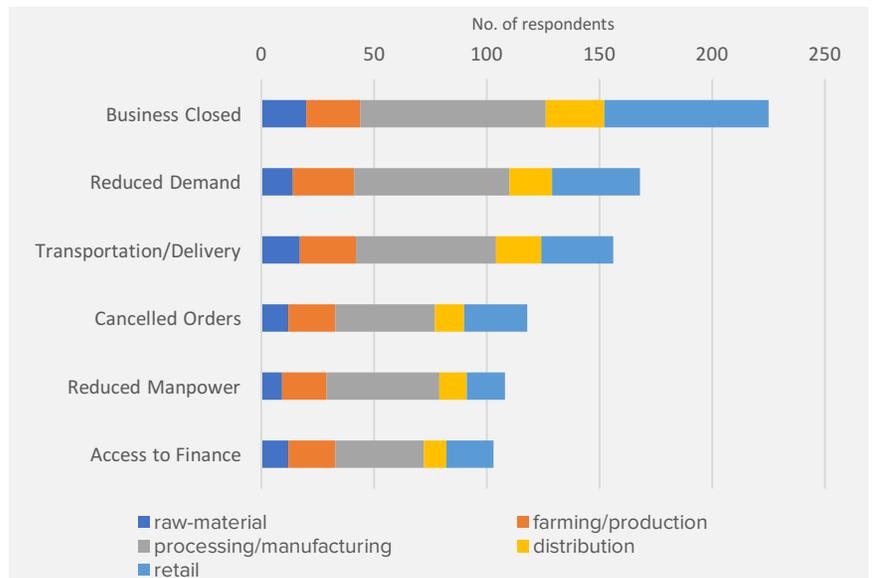


Figure 4. Impact of Lockdown on Flow of Goods, Merchandise, Services

percentage of respondents whose flow of goods, merchandise, and services had been highly affected by reduced demand, cancelled orders, reduced manpower, and access to finance (see Table 1). In the early days of the community quarantine, there had been reports of farmers almost disposing of their produce because buyers could not pass through the checkpoints, placing an additional burden to the agriculture sector and posing a threat to food security. This was also confirmed by the social listening results, which showed that farmers were seeking help, as most could not sell their harvest.

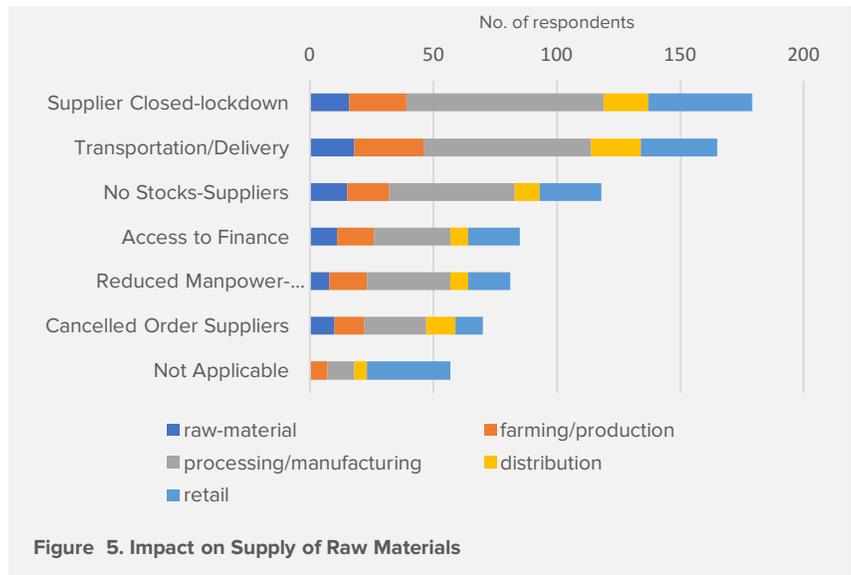
**Table 1. Impact of Lockdown on Flow of Goods, Merchandise, Services**  
(within each value chain segment)

	Raw Material	Farming / Production	Processing / Manufacturing	Distribution	Retail
Business Closed	<u>77%</u>	57%	71%	76%	74%
Reduced Demand	54%	<u>64%</u>	60%	56%	40%
Transportation	<u>65%</u>	60%	54%	59%	33%
Cancelled Orders	46%	<u>50%</u>	37%	38%	29%
Reduced Manpower	35%	<u>48%</u>	43%	35%	17%
Access to Finance	46%	<u>50%</u>	34%	29%	21%

## VALUE CHAIN: FLOW OF RAW MATERIALS FOR PRODUCTION

Of the 315 respondents, 56.8% confirmed that closure of suppliers' businesses affected the flow of raw materials for their production or processing. This was followed by transportation/delivery problems at 52.4% and lack of supplies at 37.5% (see Figure 5).

Within each value chain segment, 70% of MSMEs in the processing/manufacturing segment had been affected by the business closure of their suppliers because within



**Table 2. Impact of Lockdown on Supply of Raw Materials**  
(within each value chain segment)

	Raw Material	Farming/ Production	Processing/ Manufacturing	Distribution	Retail
Supplier Closed-lockdown	62%	55%	70%	53%	43%
Transportation / Delivery Problems	69%	67%	59%	59%	32%
No Stocks-Suppliers	58%	40%	44%	29%	26%
Access to Finance	42%	36%	27%	21%	21%
Reduced Manpower – Suppliers	31%	36%	30%	21%	17%
Cancelled Order-Suppliers	38%	29%	22%	35%	11%

each value chain segment, 70% of MSMEs in the processing/manufacturing segment had been affected by the business closure of their suppliers because of the lockdown, as

these businesses highly relied on raw materials. Meanwhile, those in the farming/production value chain segment had the highest number of respondents whose supply of raw materials was disrupted due to reduction in manpower. Finally, MSMEs in the raw materials segment had the highest percentage of respondents

impacted by transportation, no stocks from suppliers, access to finance, and cancelled orders by suppliers (see Table 2).

Studying the responses collectively, we see a similar pattern of challenges faced by MSMEs from the demand and supply side of the value chain:

1. Closure of business due to lockdown – both MSMEs and their suppliers
2. Logistics - transportation and delivery problems extremely affected both the flow of goods, merchandise, and services to the market, as well as the supply of raw materials for production or processing
3. Demand and supply shocks – reduced demand from customers and no stocks from suppliers

In terms of gender, there was no significant difference between the percentage of male and female respondents facing the above-mentioned value chain challenges (see Figures 6 and 7). There were only nine (9) LGBT+ respondents and may not be a good representative to provide any conclusive statements about their gender group.

In terms of imports, 56% of the respondents reported to have no domestic alternative for international suppliers.

In terms of assistance, 80% of MSMEs did not have access to any kind of financial assistance (see Figure 8), of which 70% were micro businesses. Of those with access, female respondents accounted for 69%, followed by male respondents at 26%, and LGBT+ at 5%.

Those operating in the farming and retail value chain segments had the lowest percentage of respondents (relative to their segments) that had access to any finance,

tax stimulus, and relief measures. This points to the prevailing challenge of access to finance in the agriculture sector. These were all consistent with the sentiments shared online through social media platforms, as the most used words found in social media posts and comments pertained to that of seeking assistance (e.g. “tulong,” “bigay,” and “tanggap”).

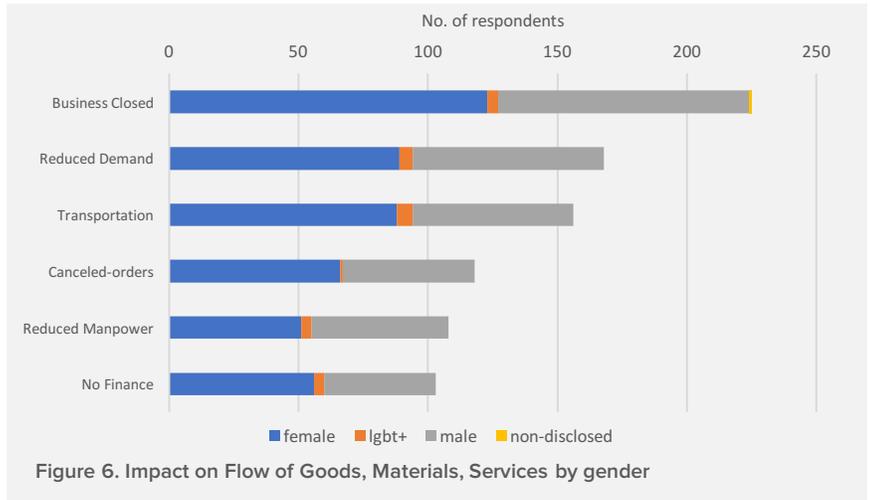


Figure 6. Impact on Flow of Goods, Materials, Services by gender

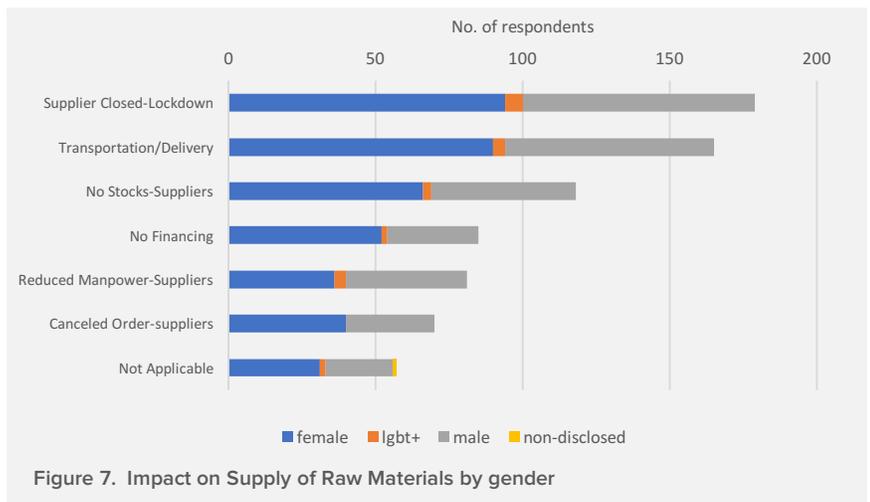


Figure 7. Impact on Supply of Raw Materials by gender

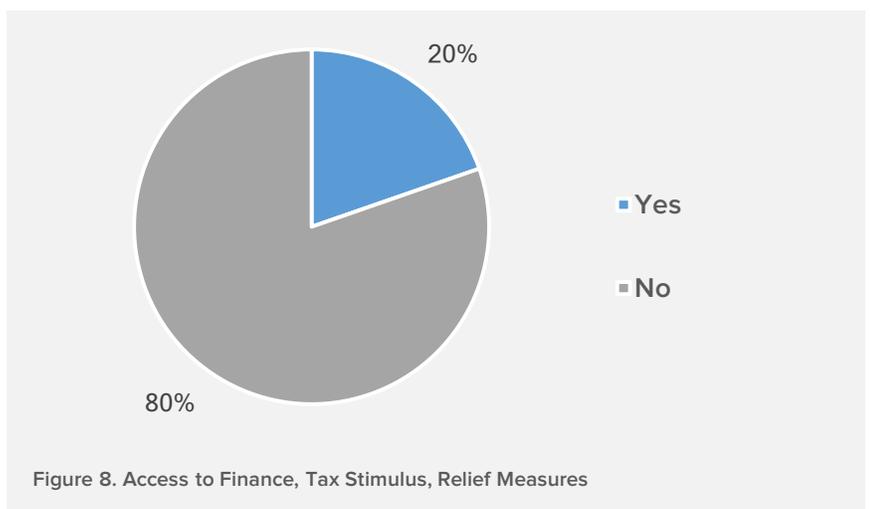


Figure 8. Access to Finance, Tax Stimulus, Relief Measures



# POLICY IMPLICATIONS

Given the results of the rapid response survey, outlined below are key areas that the Philippine Government may consider in its policy formulation and program implementation to support MSMEs in post-pandemic recovery:

## 1. MSMEs' ACCESS TO EXPEDITIOUS AND AFFORDABLE FINANCE TO IMPROVE THEIR LIQUIDITY.

- The results of the survey confirmed the vulnerability of MSMEs' liquidity. With reduced income due to COVID-19, continuing expenses, and unpaid loans, MSMEs need speedy and affordable access to additional working capital to keep their businesses afloat. The government, through the Central Bank's monetary policy<sup>2</sup> and line agencies' stimulus programs<sup>3</sup>, aims to inject additional cash into the economy. It is equally important that these loans reach MSMEs quickly. It is also advisable that the government and financial intermediaries extend the lowest possible interest rate to avoid MSMEs' insolvency and over-indebtedness.
- For non-registered businesses: government may encourage registration by focusing on its benefits and streamlining the process (shorten timeline, review redundant requirements). It is also recommended that registration be conducted online since public transportation is still scarce and physical distancing is still necessary to mitigate the risk of contacting and spreading the virus.
- To complement the above measures, government may also consider providing extended tax relief measures for MSMEs until they are able to recover from business losses due to the COVID-19 pandemic.

## 2. MOVEMENT OF GOODS, WORK WITH LOCAL SUPPLIERS, AND DEMAND FOR MSME PRODUCTS AND SERVICES:

- The disruptions in value chain brought about by the community quarantine, particularly business closure, transportation/delivery problems, lack of supplies, and reduced demand call for a multi-sectoral engagement to improve MSMEs' value chain resilience moving forward.
- It may be worthwhile for the government to re-engage with various MSME sectors and groups of local suppliers to understand better how government can support and stimulate local economy through 1) guidelines on movement of goods in case another community quarantine takes place in the future; and 2) provision of technical assistance/capacity building for local suppliers to enable them to substitute for international suppliers.
- In a consumption-driven economy like the Philippines, it is critical that consumers' confidence be restored in the context of the new normal. The Department of Trade and Industry (DTI) may strengthen its "buy local" campaign with clear communication

<sup>2</sup> BSP has eased by 175 basis points for this year, bringing the benchmark interest rate to a record low of 2.25%. It has also lowered its reserve requirement ration (RRR) from 20% to 12% to help counter the economic slowdown due to COVID-19. [Link](#), 25 June 2020. (Accessed June 25, 2020)

<sup>3</sup> Stimulus programs by line agencies include DA's 0% interest loans for farmers under Php2.8 billion Survival and Recovery (SURE) Aid Program; DTI's Php 1B loan for MSMEs under P3-ERF program; and others.

and strict enforcement of health and safety guidelines for local products and services to boost consumers' confidence. Another way to boost demand for MSME products and services is to consider how they can be gradually incorporated into public procurement. During the community quarantine, a few LGUs purchased directly from farmers fruits and vegetables that were distributed to their constituents as part of their food assistance. The government may also look into encouraging more MSMEs to diversify into the production of face masks, face shields, and other PPE, and ensuring that they meet the highest standards to be able to qualify and participate in public and private procurements of these products.

### **3. HIGH-LEVEL TASK FORCE THAT WILL SPEARHEAD MSME'S COMPREHENSIVE RELIEF AND RECOVERY PROGRAM**

- The DTI may consider the establishment of a high-level task force that can spearhead a comprehensive relief and recovery program for MSMEs. The task force will be responsible for coordinating with different government agencies and development partners to:
  - ensure that MSMEs' welfare is included in policy discussions and formulations;
  - secure sufficient funds for MSMEs; and
  - guarantee the provision of technical support for MSMEs on business continuity (e.g., digitalization, conducting business under the new normal, new business opportunities, sustainability, and others).
- While DTI has on its website a list of government assistance for MSMEs, it may also be helpful to tap Go Negosyo Centers as a one-stop shop (online and physical) for MSMEs where they can access information about and seek assistance related to the relief and recovery program – where to apply for low-interest loans, what trainings to participate in, and others.

## **CONCLUSION**

The rapid response survey generated key insights on the situation of MSMEs that could support the development of the recovery plan and response by the government, the private sector, and the development partners. However, considering the lockdown restrictions at the time of survey deployment and the need for rapid assesment, the scope of the survey was limited. The use of internet survey in an unrestricted, self-selected fashion could have also resulted in selection bias, as only those with internet access and digitally exposed to the survey were able to participate. More than 60% of the respondents were from NCR and CALABARZON, hence, may not be a good representative of MSMEs across the country. The UNDP aims to address these limitations through a second wave of survey, which is currently ongoing. In this follow-up survey, UNDP attempts to delve deeper into the challenges faced by MSMEs and the measures and strategies they have currently employed to respond or adapt to the supply and demand shocks brought about by the COVID-19 pandemic.

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