



Impacts of COVID-19 on Firms in the Philippines

Results from the Philippines COVID-19 Firms Survey
conducted in July 2020

Key Findings

- **These findings are based on the survey of 74,031 firms carried out between July 7 to 14, 2020, to assess the COVID-19 impact on firms' activities.**
- **COVID-19 community quarantine measures had a significant temporary and permanent impact on firms' operations.** In July 2020, 40 percent of firms reported the temporary suspension of their operations -- 20 percent by government mandate and 20 percent voluntarily. About 15 percent of firms reported to have closed permanently.
- **Despite the easing of the community quarantine in June 2020, firms reported a deep reduction in sales revenue.** Reported sales revenue has gone down by 64 percent on average between April and July 2020, with 89 percent of firms reporting a continued reduction in sales.
- **The negative impact on employment is also extensive as 1 out of 2 firms reported having reduced payments to employees.** Close to half (48 percent) of firms reported that they reduced the number of their employees, while the rest maintained the level of employment with only 1 percent reporting new employment.

Key Findings

- **Almost two thirds of firms turned to digital solutions for sales, marketing, and payment methods to adapt to the new normal.** A sizable share of firms also invested in digital solutions (23 percent) or repackaged their product mix (40 percent).
- **Firms expressed a high degree of uncertainty and general pessimism about their operations, sales and employees for the next three months.** Such lack of confidence will likely limit additional investment and employment, restraining firms' growth. These suggest that business activities are expected to stay subdued for an extended period.
- **Firms say the most useful form of government support are those that would improve their liquidity, such as cash transfers, subsidized interest rates, deferral of loan, rent, or utility payments, and tax exemptions or reductions.** About 1 out of 5 firms received support from the national or local government, mainly in the form of cash transfers directly paid to employees.

Philippines COVID-19 Firm Survey

- **Objective:** To better understand the impacts of COVID-19 on the private sector
- **Sponsors:** The World Bank in collaboration with the Department of Finance (DOF) and the National Economic Development Authority (NEDA) and support from the Australian Government
- **Survey round**
 - July 7 - 14, 2020, following the April 2020 survey by the government
 - First of five rounds
- **Data collection method:** Self-administered online survey
- **Sample and representativeness:**
 - 74,031 responses
 - Sample was reweighed to follow the distribution of firms by region and firm size based on employment as reported by the Philippine Statistics Authority's 2018 Listing of Establishments
 - Analysis of impacts on firms conducted by asset size (micro, small, medium, and large), location (17 regions), and sector (agriculture, manufacturing, and services)

How COVID-19 is affecting firms

COVID-19 shocks operate through many channels, but the magnitude and who is more affected is hard to predict.

The PH COVID-19 Firm Survey measured the impact of shocks on firms' sales and employment, their operations, expectations, as well as their adjustment mechanisms and access to government support.



Lockdown effects

Public health measures require non-essential businesses to close

Temporary shock, targeting non-essential businesses, mostly in **retail, hotels/restaurants** (tourism) and **personal services**.



Supply shocks

Decline in labor and intermediate inputs, global value chains disrupted

E.g., firms that **rely on imports** are affected.



Financial shocks

Opportunities for finance becoming further constrained

Deterioration in availability of credit while demand increases will affect access to finance



Demand shocks

Economic downturn drives down demand domestically and abroad

Broad-based shock. Will especially hit firms producing **durables, apparel/textiles** and those **reliant on export** (manufacturing & services – e.g. tourism).



Uncertainty

Uncertainty is driving down investment and innovation

Responses by firms and government

Employment measures

Firms can adjust by tightening their labor force and wage bill

Digital Technology

Firms can adjust by adopting new digital technology and business models

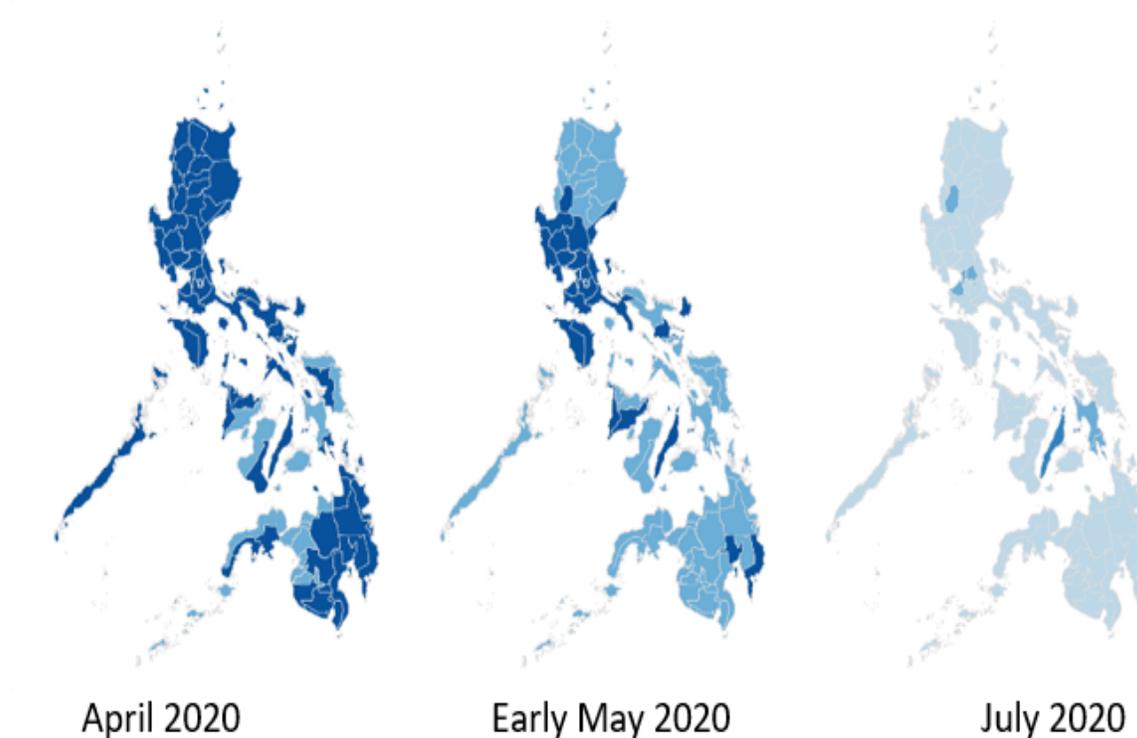
Government Support

Governments can provide fiscal support to firms facing negative shocks

Country Context

The Government of the Philippines imposed strict community quarantine measures to minimize the spread of COVID-19

- Enhanced Community Quarantine (ECQ) areas
- Modified Enhance Community Quarantine (MECQ) areas
- General Community Quarantine (GCQ) areas
- Modified General Community Quarantine (MGCQ) areas



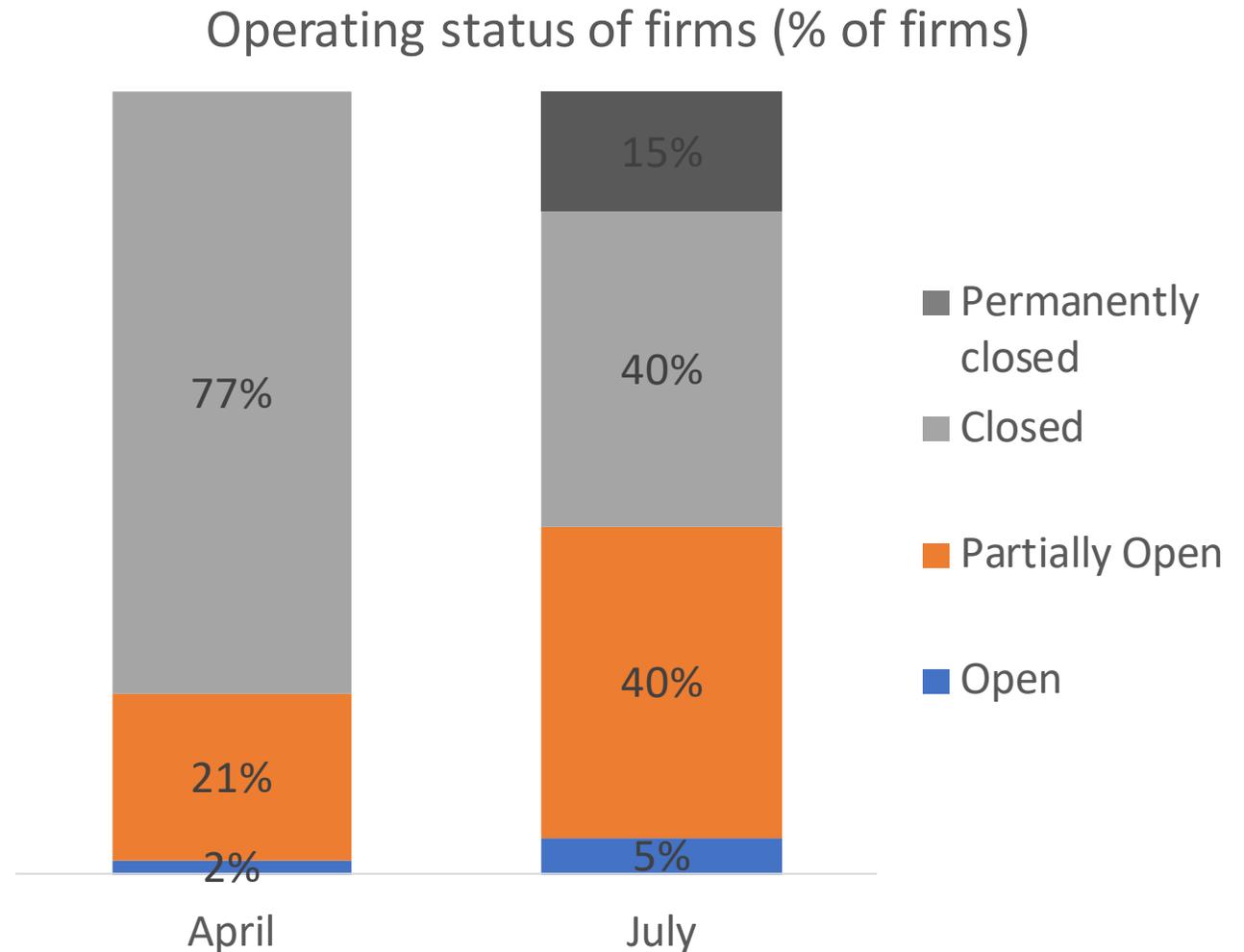
Impact on firms



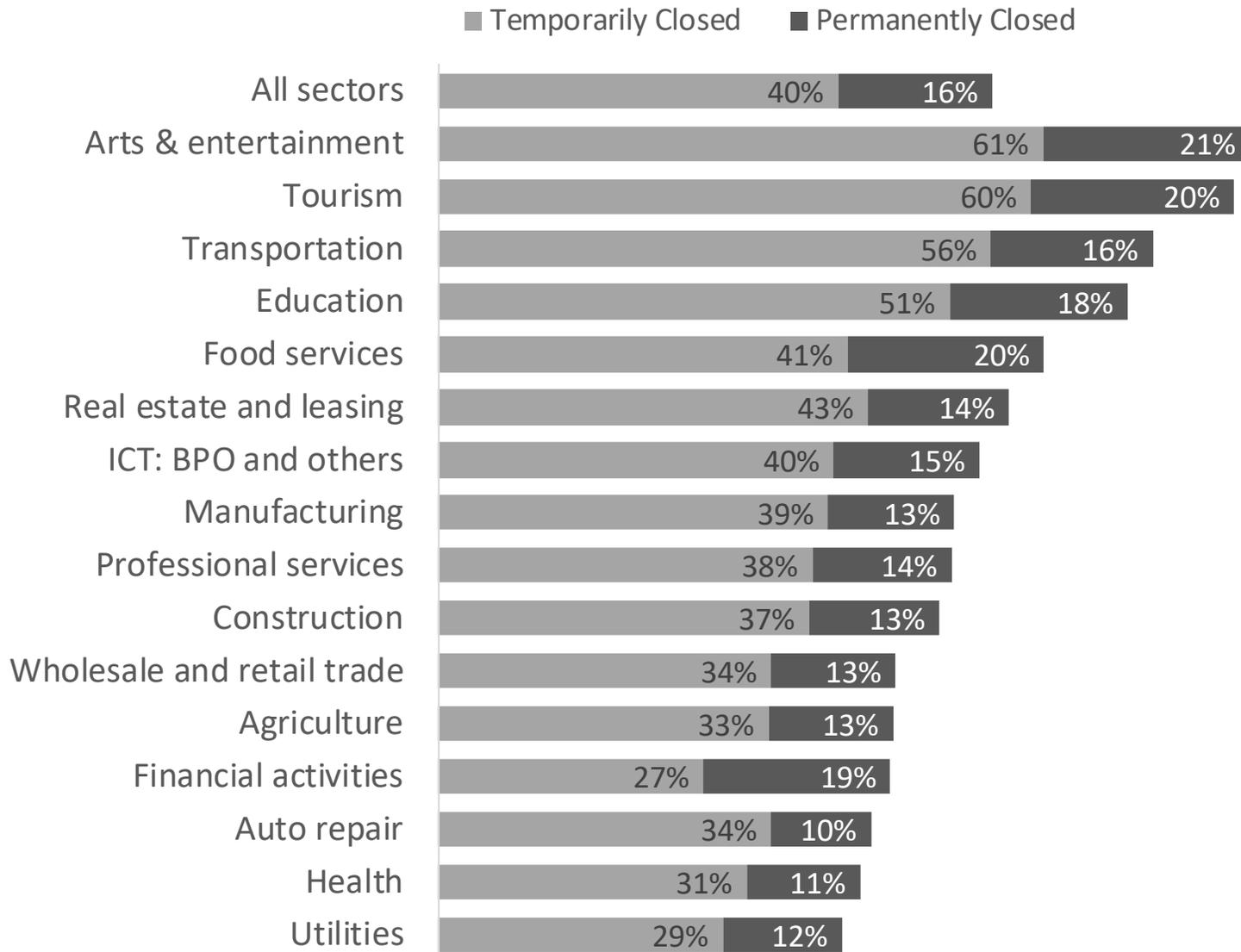
Lockdown and economic downturn can drive down demand domestically and abroad, disrupt input supply, and drive down liquidity.

Community quarantine had a significant effect on the operational status of firms

- 40 percent of firms were closed temporarily, either by government mandate (20 percent) or voluntarily (20 percent)
- 15 percent of firms stated that they were permanently closed



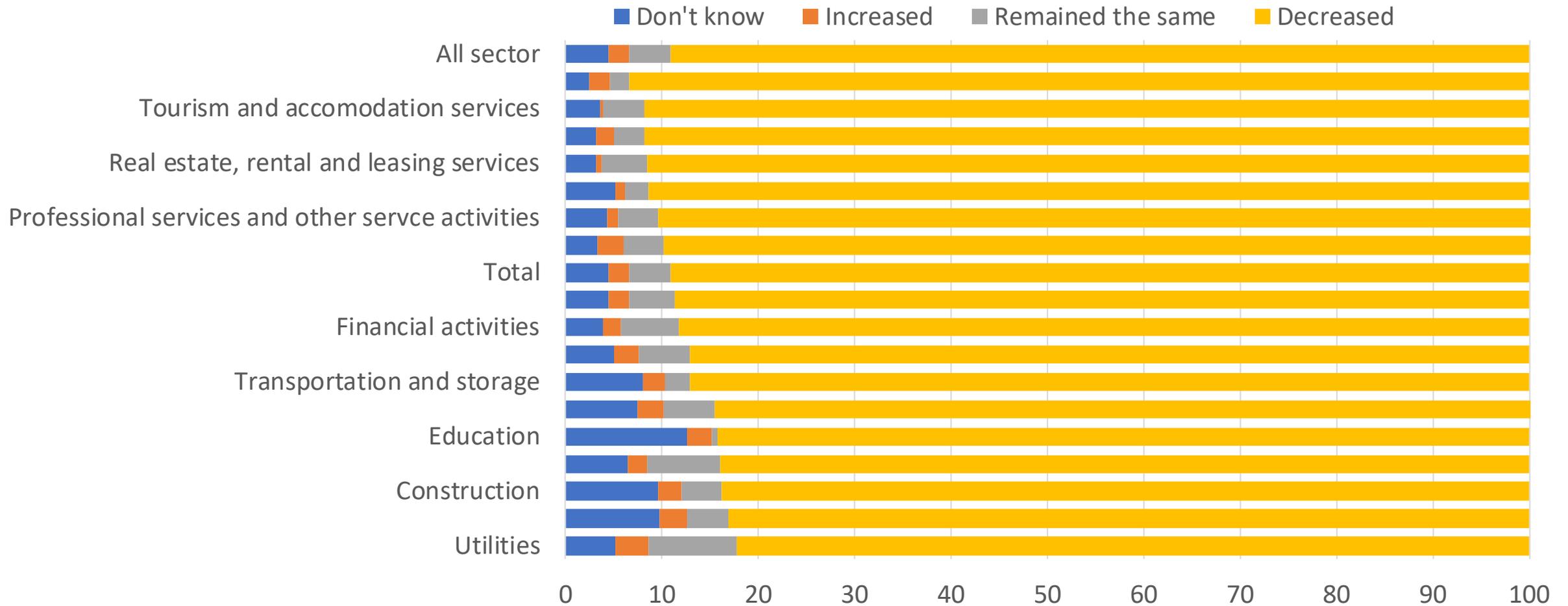
Operational status of firms by sector (% of firms)



4 out of 5 firms in the arts, entertainment, and recreation and tourism and accommodation sectors were closed

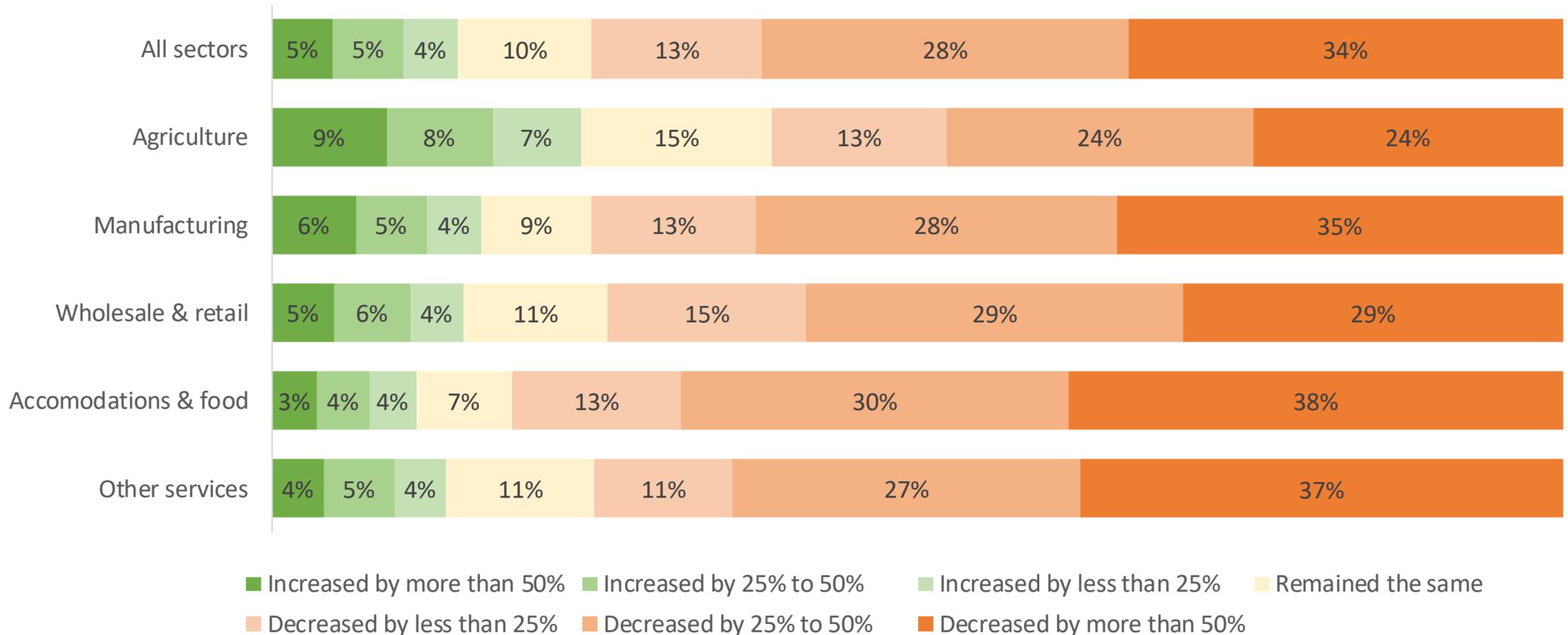
Demand shock continues despite the easing of the community quarantine: firms have reported a deep reduction in sales revenue

Change in sales in July 2020 compared with April 2020 (% of firms)

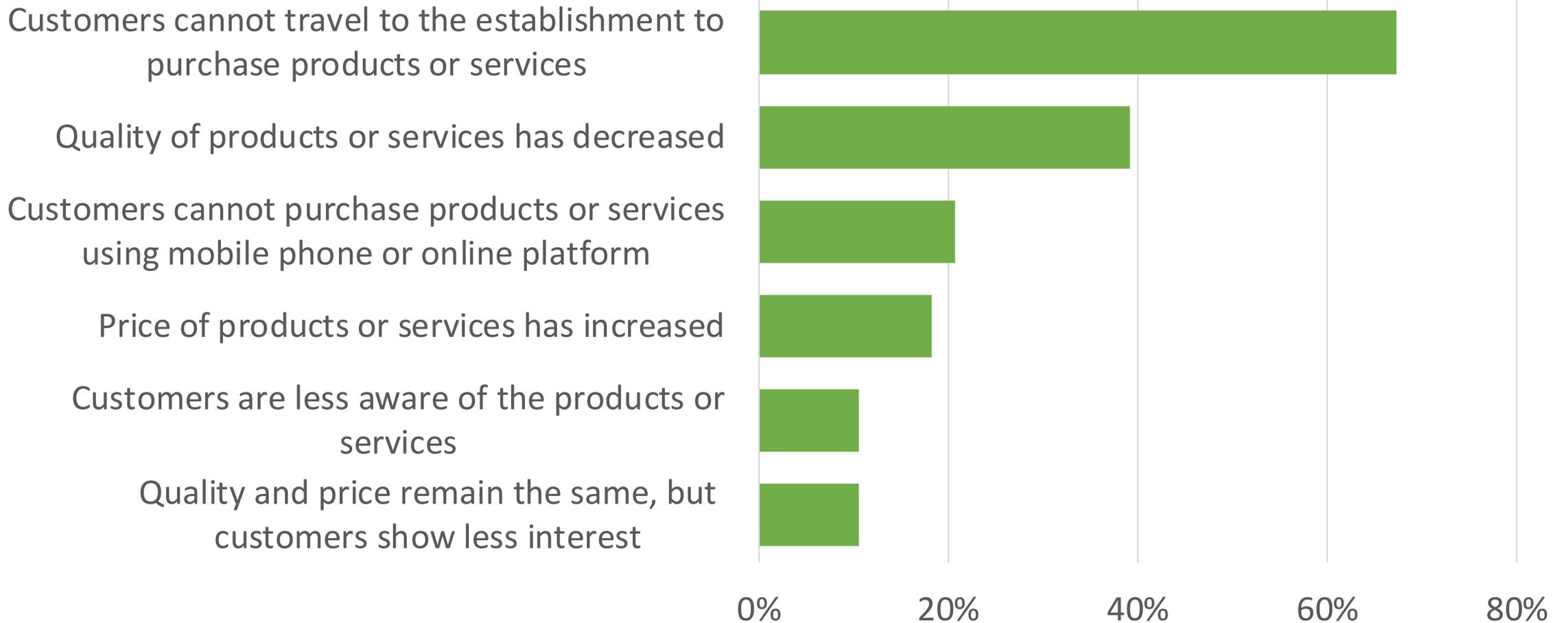


Three quarters of firms experienced a decrease in demand, with 1 in 3 firms reporting a decline by more than 50 percent.

Impact on Demand for Products and Services

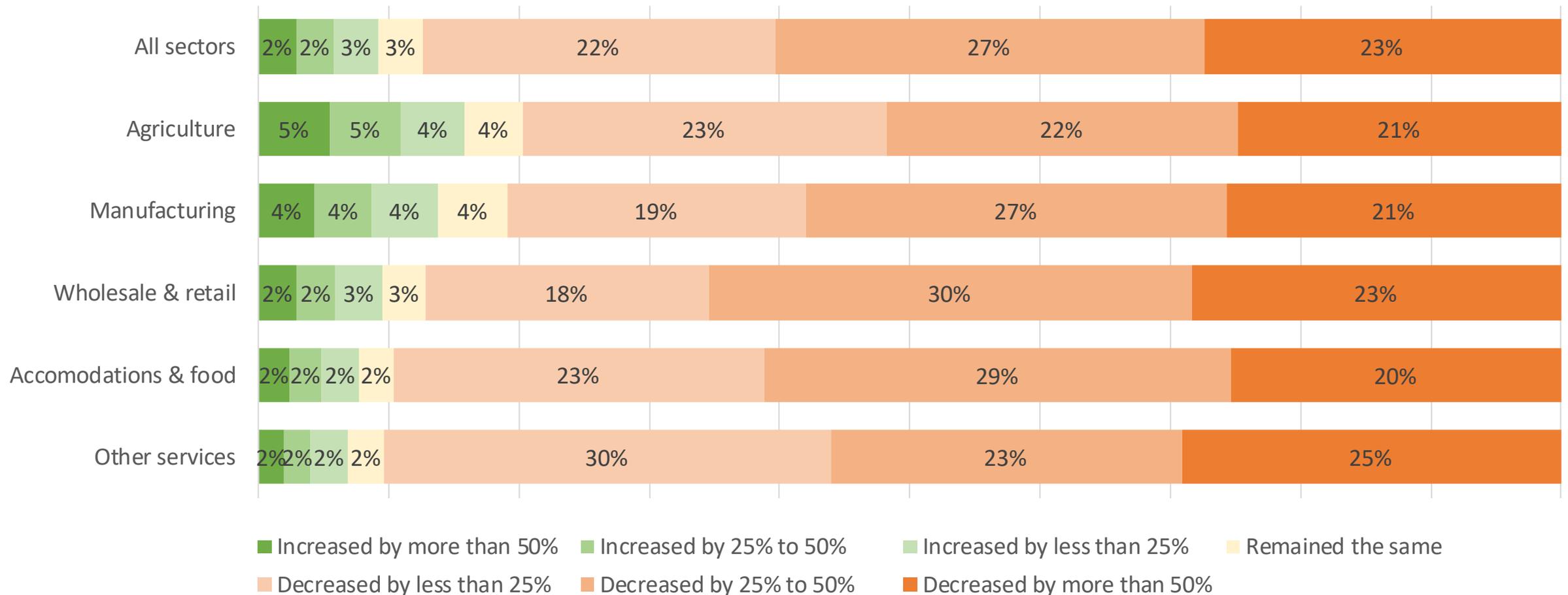


Reasons for the decreased demand for products and services (% of firms)

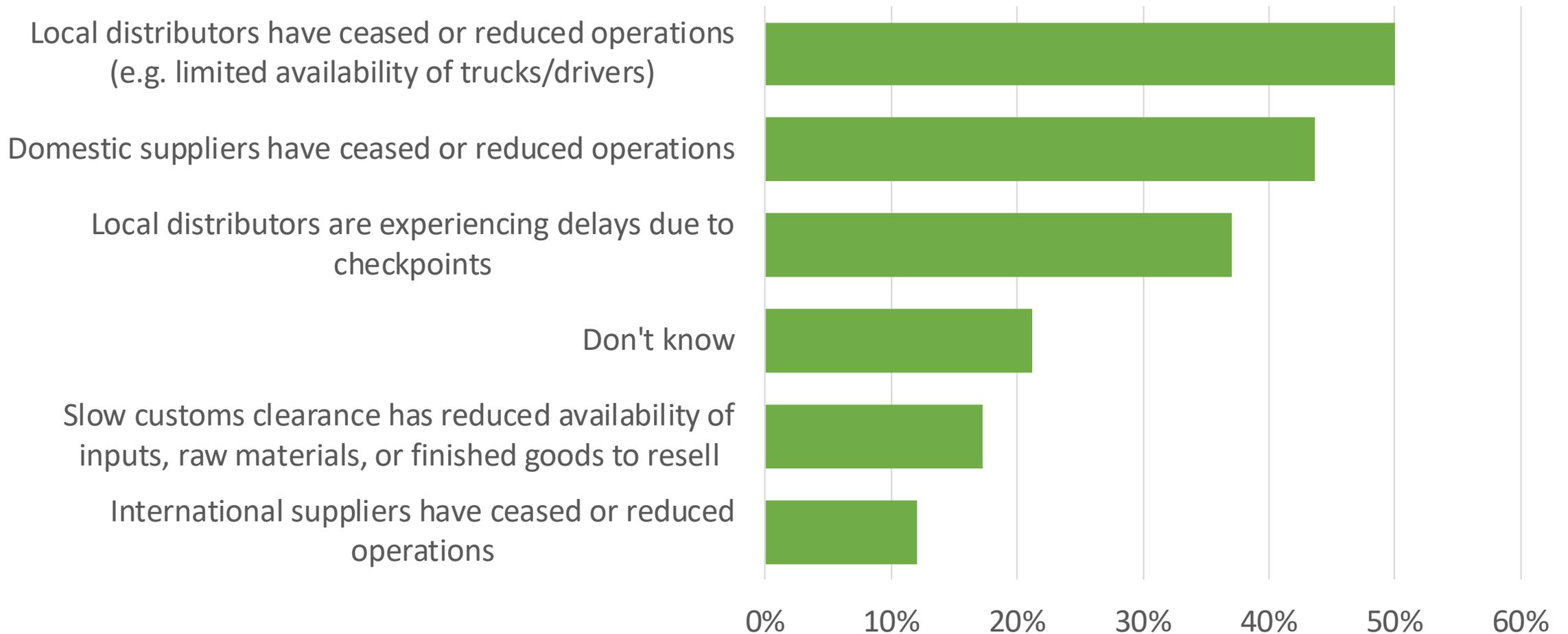


70 percent of firms reported having their operations affected by a decrease in the availability of inputs and raw materials

Impact on availability of inputs, raw materials, or finished goods to resell

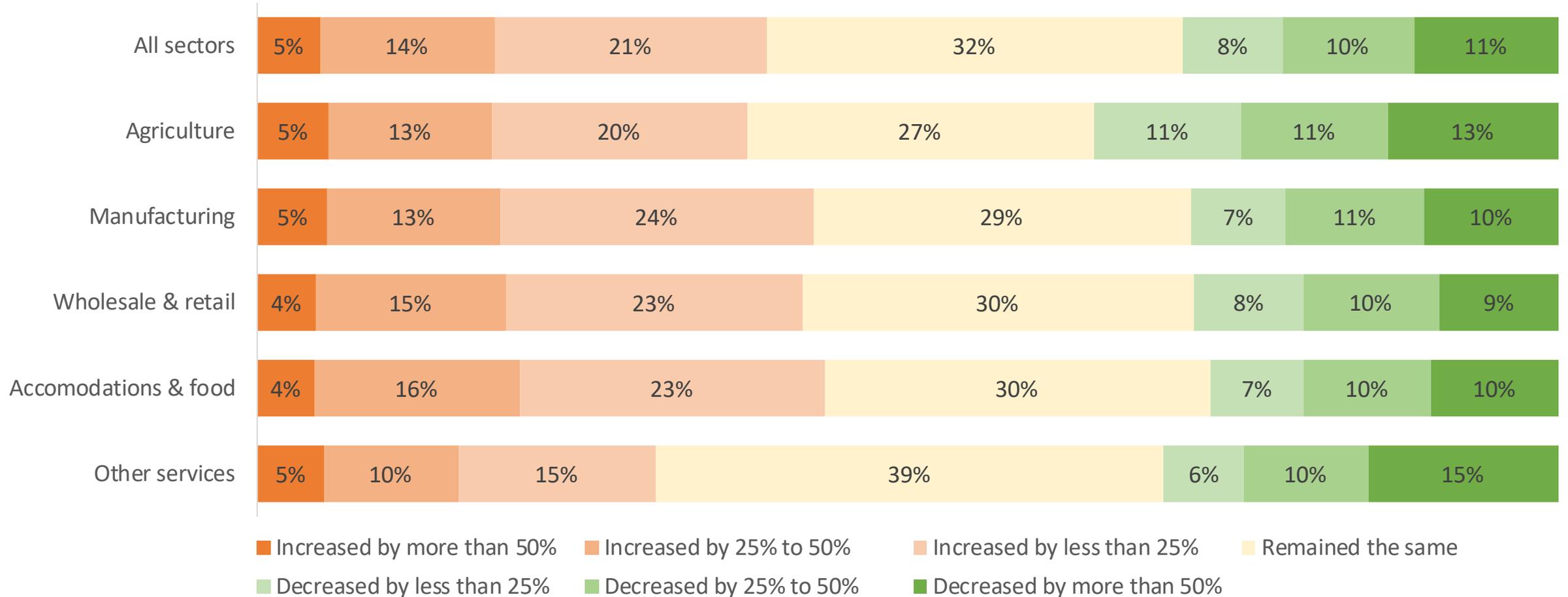


Reasons for the decreased availability of inputs and raw materials (% of firms)



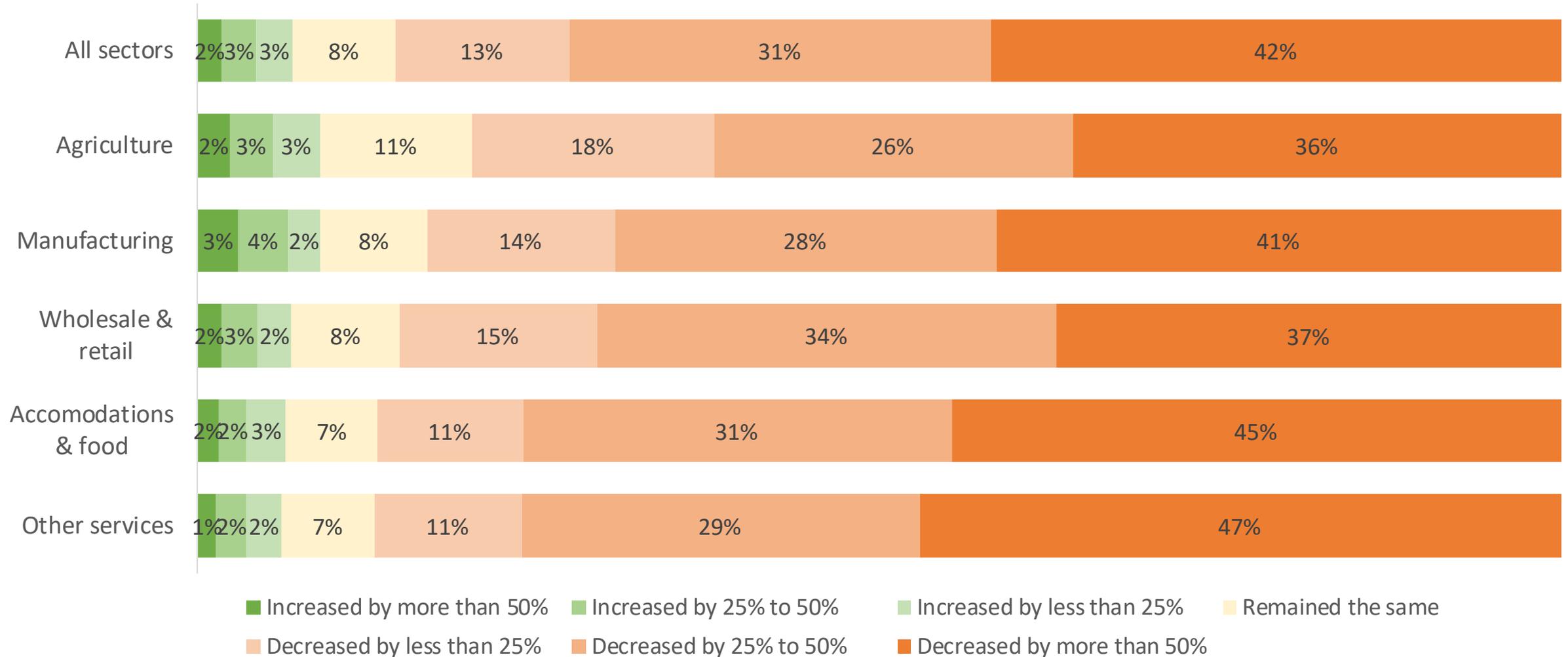
40 percent of firms reported that prices of inputs and raw materials increased

Impact on price of inputs, raw materials, or finished goods to resell



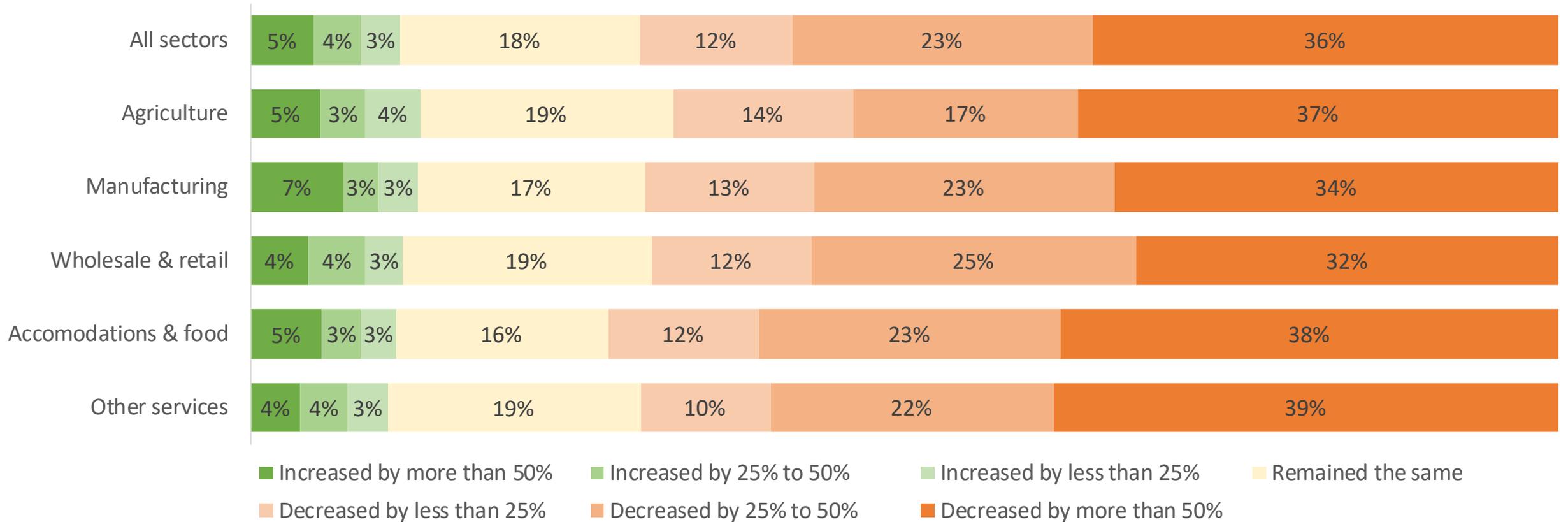
Firms faced a deterioration of their cash flow ...

Impact on availability of cash flow

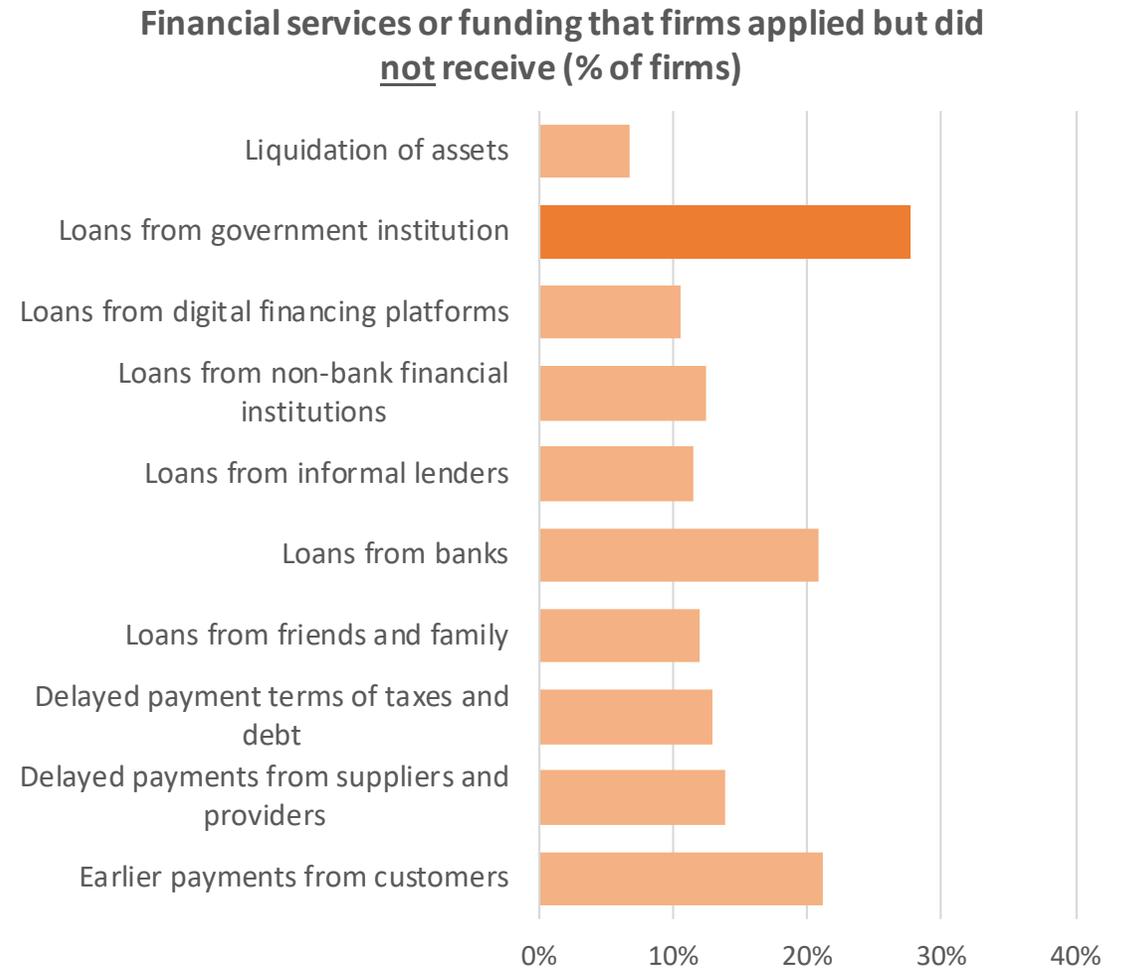
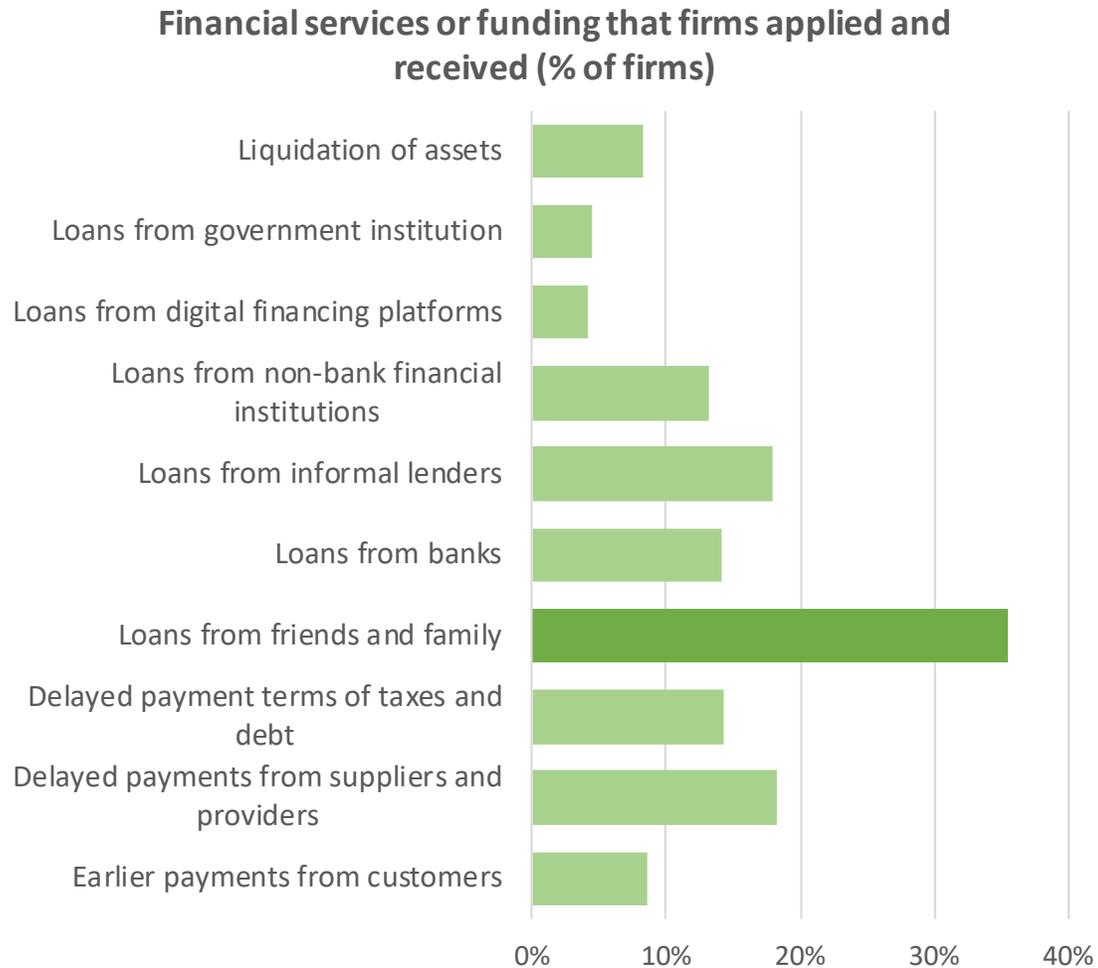


... and decreased access (among those needing) to financial services for funding

Impact on access to financial services for funding



Loans from friends and family were most accessible, while loans from government institution and banks were least accessible



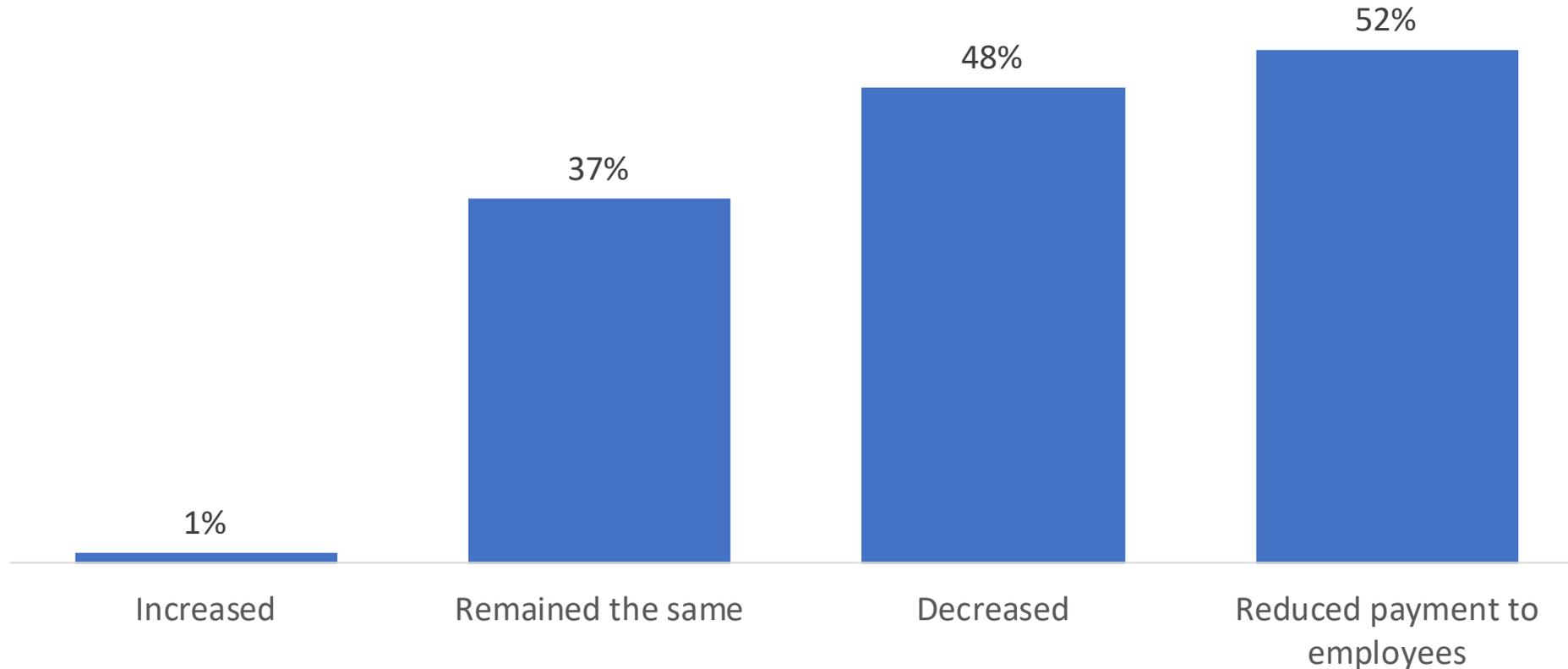
Responses by firms



Firms have taken cost saving measures by reducing hours of operations, wages, and their employees, as well as adjusting business models to use digital solutions.

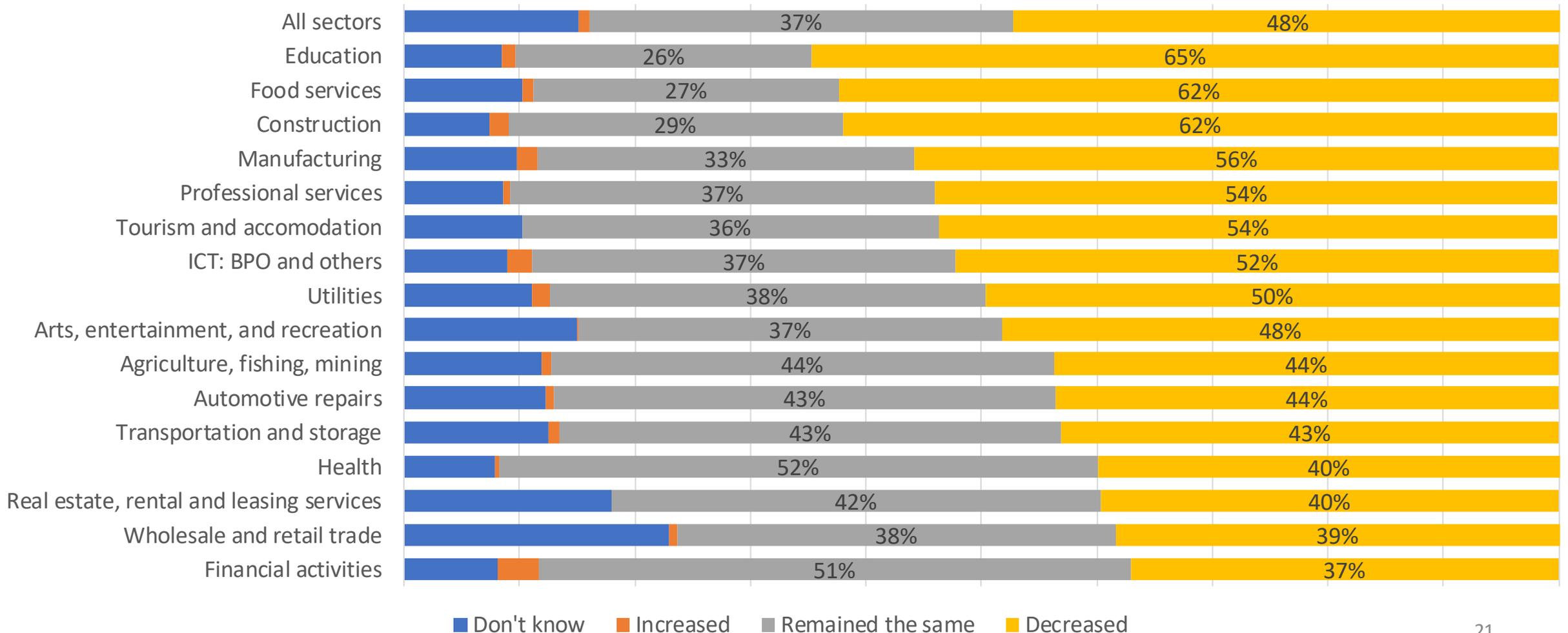
52 percent of firms reduced payment to employees, and 48 percent of firms laid off workers

Impact on employment and compensation in July 2020 compared to April 2020 (% of firms)

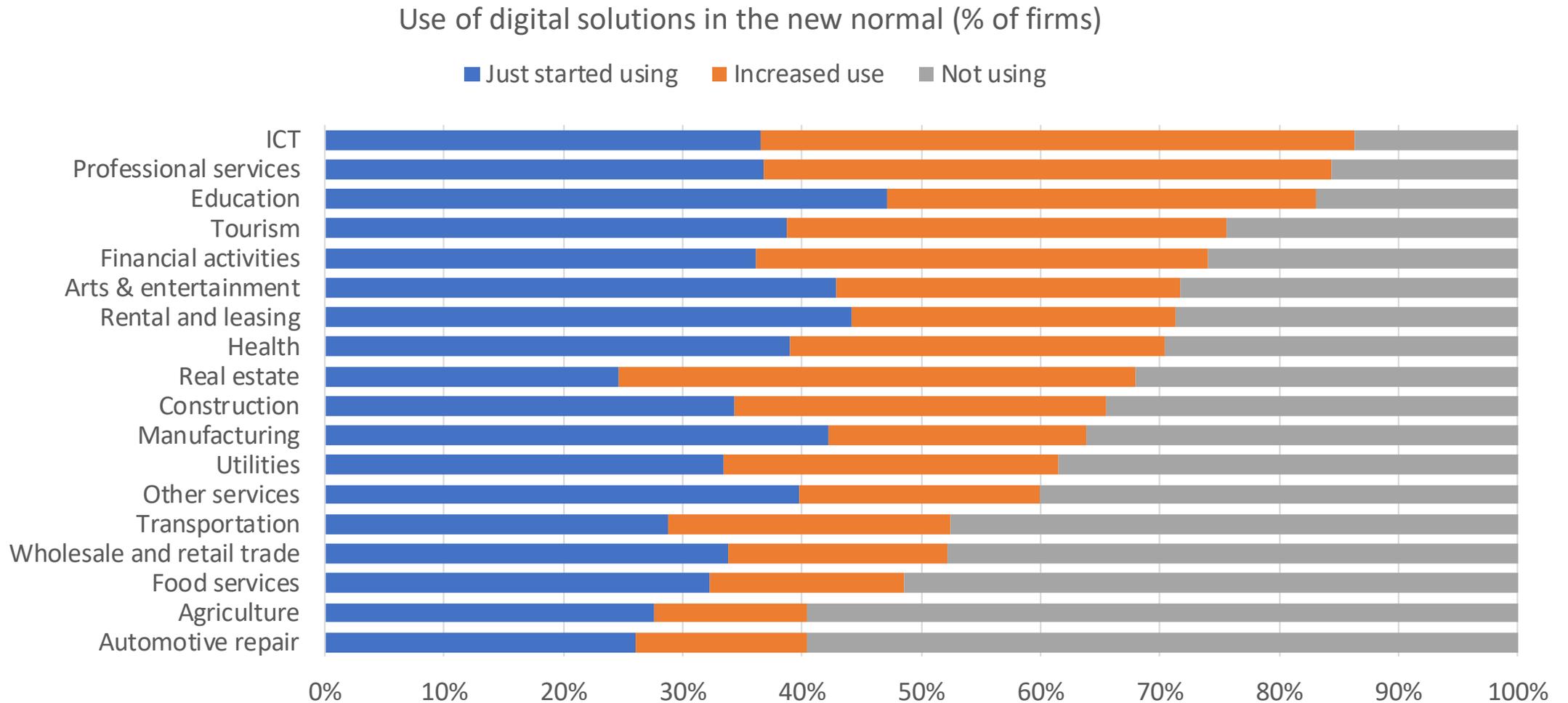


... with firms from education, food services and construction cutting down manpower the most

Impact on employment by sector (% of firms)

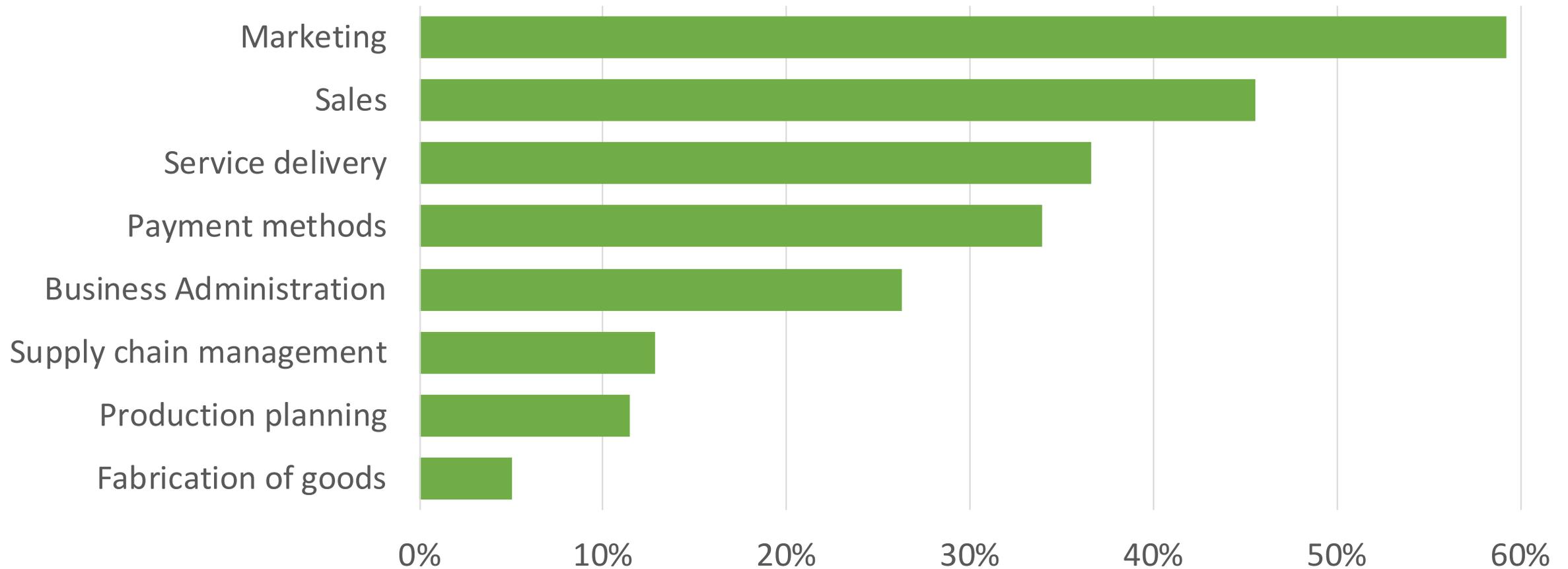


Many firms (58% of SMEs and large firms, 63% of micro firms) turned to digital solutions to adapt to the new normal



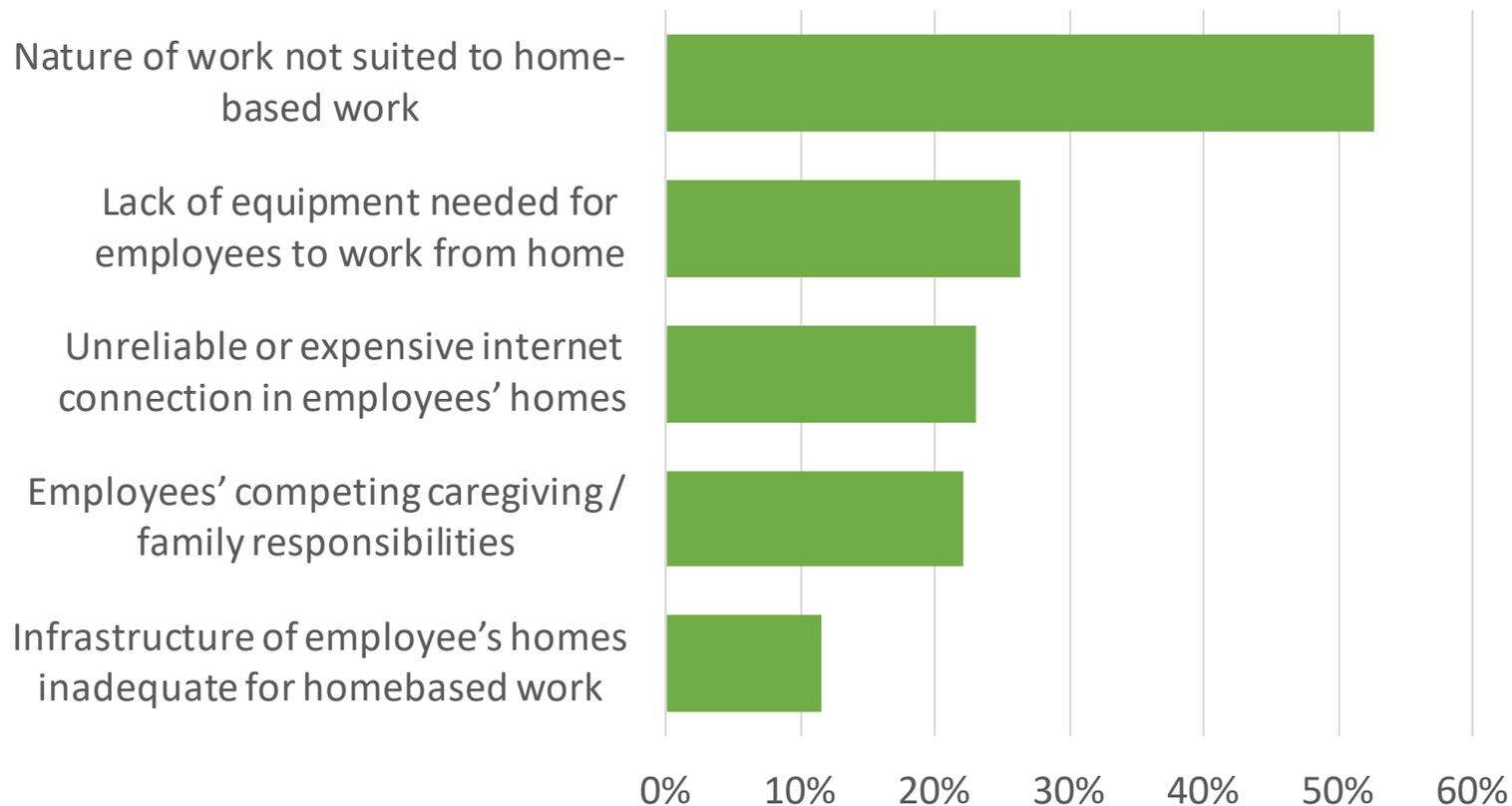
Uptake in digital solutions so far have focused on front-end functions such as sales, marketing, and payment methods.

Business functions where digital solutions are being used (% of firms)



70% of firms noted that less than 2% of their employees worked from home

Major obstacles faced by the firm in maximizing the number of employees to work from home (% of firms)



- The most cited obstacle is that the nature of work was not suited to home-based work
- Only 5 percent of firms noted that 90 percent or more of their employees worked from home

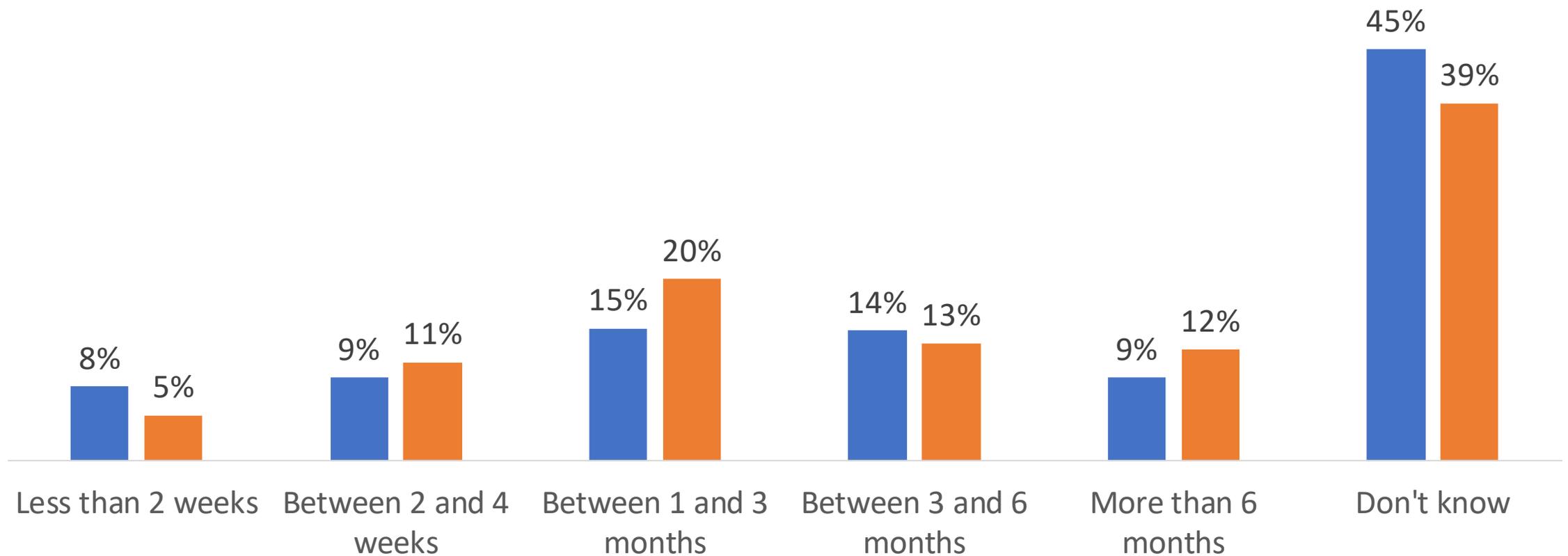
Uncertainty

Uncertainty is an important additional channel affecting firms during the pandemic, and as the economy re-opens, this could result in a lower desire for risk-taking and additional investments.

45 percent of the currently closed firms did not know when their businesses could resume

Expected opening and closure (% of firms)

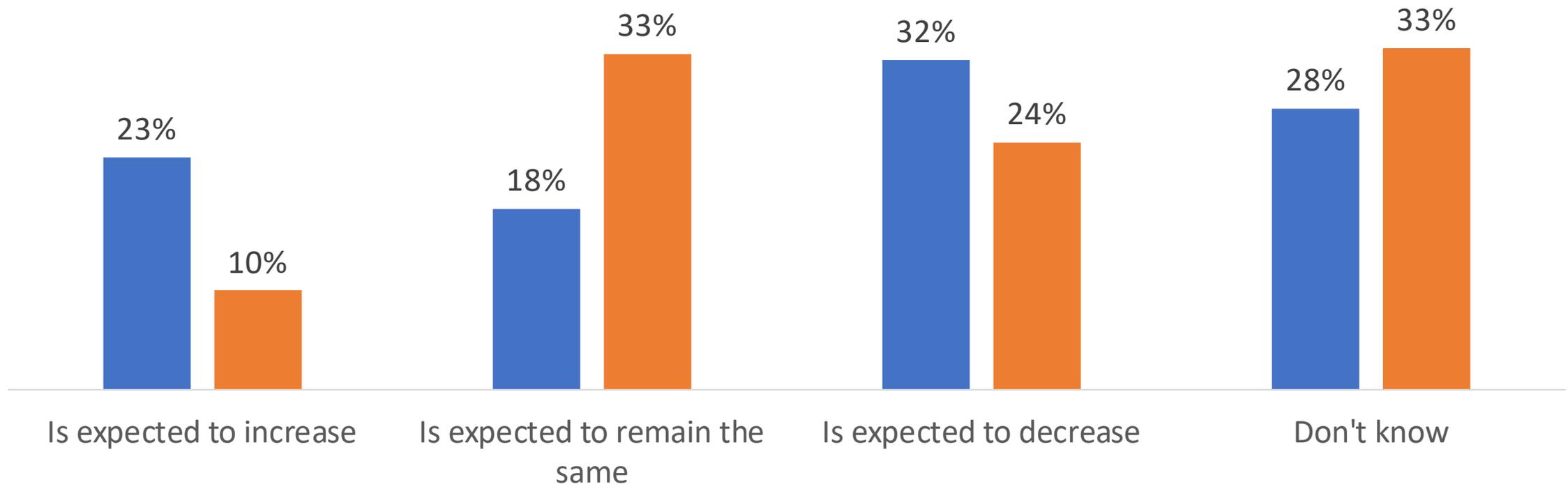
■ When closed firms expect to open ■ When operating firms expect to close



About one third of firms did not know how they sales and employment will change in the next 3 months

Expected changes in sales and employment, July vs. September 2020
(% of firms)

■ Sales ■ Employment



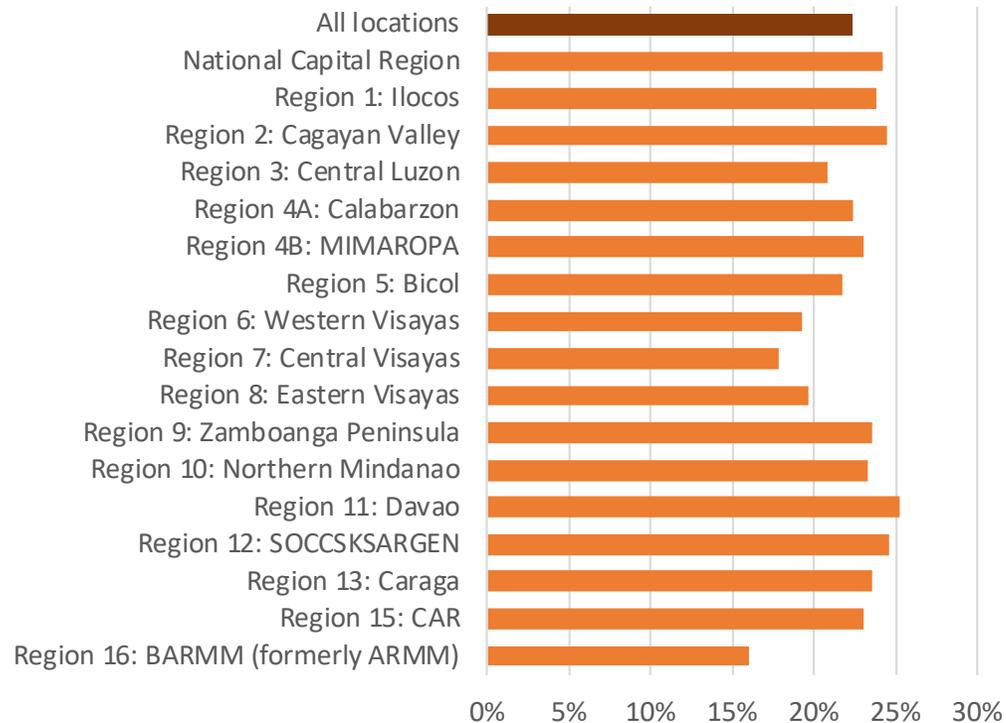
Policy support

Governments can provide support to firms facing negative shocks

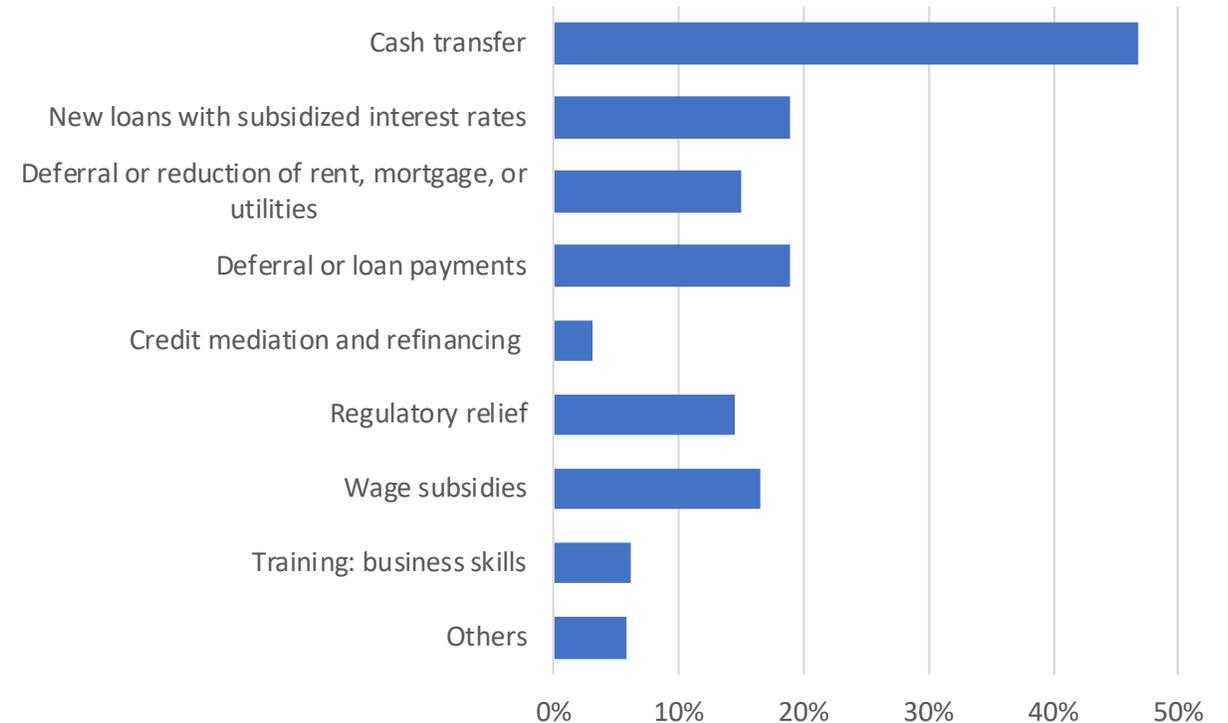
About 1 out of 5 firms reported receiving some support from the national or local government.

- Cash transfers provided to employees through the *Pantawid Pamilyang Pilipino Program* (4Ps) and Social Amelioration Program were the most cited government support received by these firms.

Firms that received government support (% of firms)

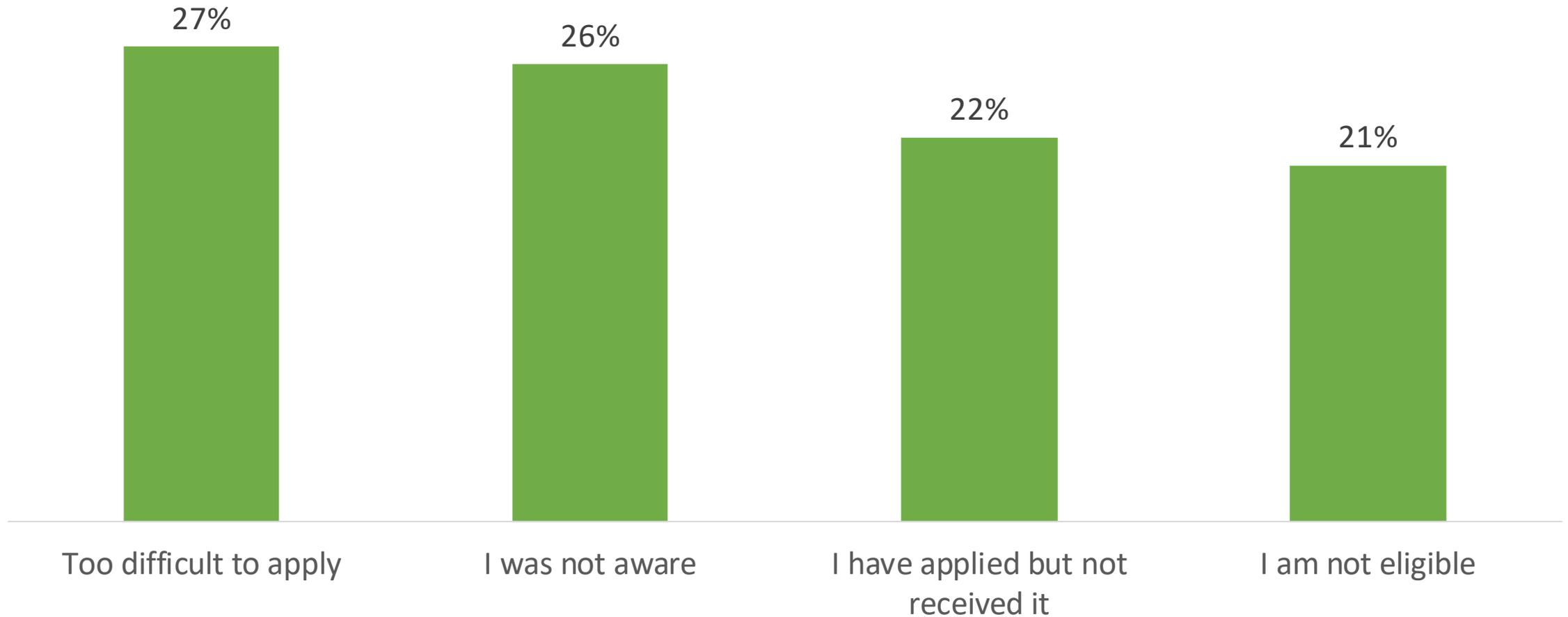


Government support received by firms (% of firms)



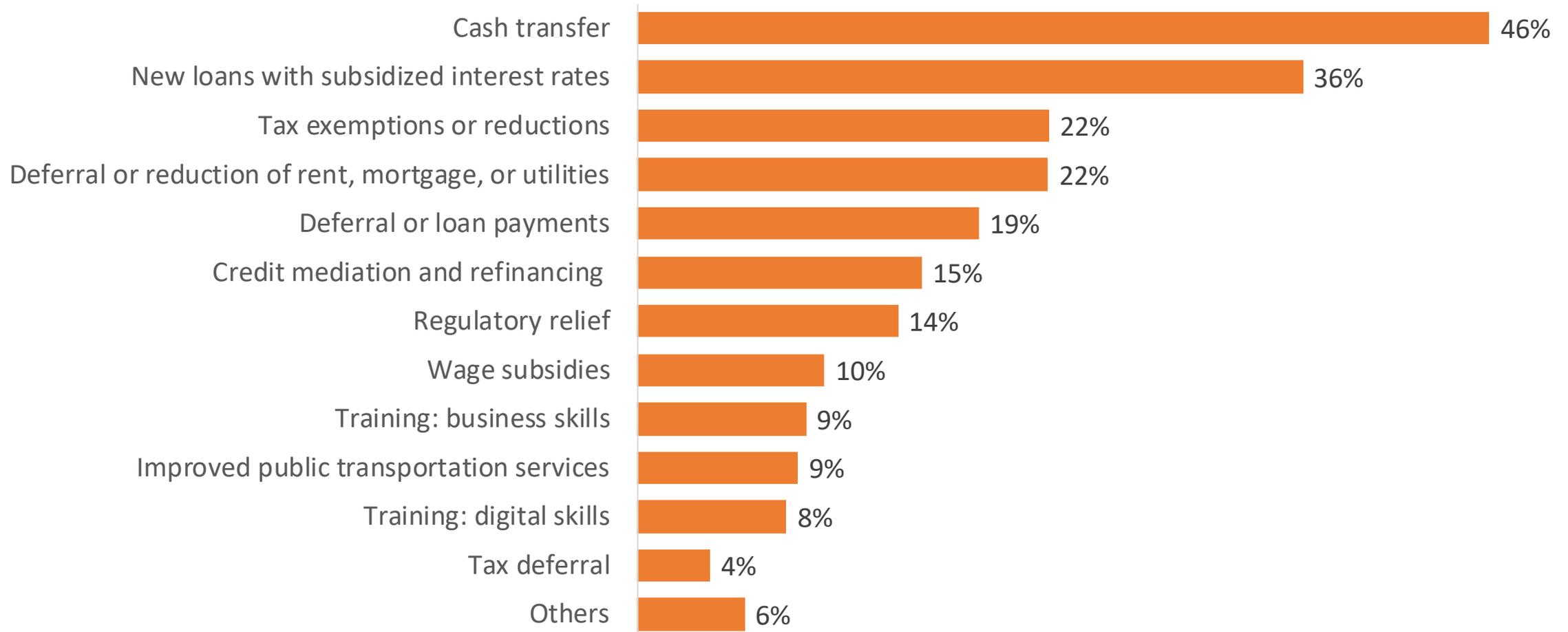
Firms were split evenly across various reasons for not having received government support

Reasons why firms did not receive government support (% of firms)



Liquidity improving measures are the most desired government support

Government support desired by firms (% of firms)



Effort should be concentrated on re-establishing demand, supply, and financial channels and helping firms adjust to the normal by improving firm capabilities.

- The Government of the Philippines is currently considering additional measures to further support the Philippine firms through tax reductions and expanding access to new loans.
- Future government support should also note that the new normal is characterized by high uncertainty, which can make access to finance programs less effective as firms are less willing to borrow, and banks are hesitant to lend.
- Clear communications and consistent messaging about community quarantine measures on business operations in a timely manner will be crucial to reduce firms' uncertainties about the future.

Annexes

Weighted distribution of firms by size, location, and sector

Firm size	%
Micro	59.3
Small	19.2
Medium	12.8
Large	8.7

Location	%
National Capital Region	22.7
Region 1: Ilocos	3.4
Region 2: Cagayan Valley	1.2
Region 3: Central Luzon	11.8
Region 4A: Calabarzon	17.7
Region 4B: MIMAROPA	2.5
Region 5: Bicol	4.3
Region 6: Western Visayas	6.5
Region 7: Central Visayas	9.1
Region 8: Eastern Visayas	2.1
Region 9: Zamboanga Peninsula	1.7
Region 10: Northern Mindanao	2.6
Region 11: Davao	6.3
Region 12: SOCCSKSARGEN	3.1
Region 13: Caraga	2.6
Region 15: CAR	2.4
Region 16: BARMM (formerly ARMM)	0.2

Sector	%
Agriculture, fishing and mining	5.1
Manufacturing	9.9
Construction	4.2
Utilities	1.3
Wholesale and retail trade	28.9
Auto repair	2.6
Transportation and storage	4.4
Tourism and accomodation	3.6
Food services	18.7
ICT: BPO and others	2.1
Financial activities	2.0
Real estate and leasing	1.4
Education	2.7
Health	2.8
Arts, entertainment, and recreation	4.0
Professional services	1.3
Other services	5.3

Government support measures that were available to firms as of July 2020

- Cash transfers: Pantawid Pamilyang Pilipino Program (4Ps) and Social Amelioration Program (SAP)
- Deferral or reduction of rent, mortgage, or utilities: DTI's rent deferment grace period
- Deferral of credit payments, suspension of interest payments, or rollover of debt: grace period for loans
- Access to loans with subsidized interest rates: DTI/SB Corp's P3-ERF / Covid-19 Assistance to Restart Enterprises (CARES) program, Landbank's I-RESCUE Lending, DA-ACPC's Plant Plant Plant under SURE Aid program, PhilGuarantee's loan guarantee
- Credit mediation and refinancing: Landbank's I-RESCUE Lending
- Wage subsidies: DOF's Small Business Wage Subsidy (SBWS)
- Support programs related to business advisory, education, and training for entrepreneurship and SMEs: DTI's Livelihood Seeding Program – Negosyo Sa Barangay
- Regulatory relief: suspended, reduced, or waived fees and payments for licensing, registration, permits and inspection, DOLE's labor regulation adjustments

Acknowledgement

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