Impacts of COVID-19 on Firms in the Philippines

Results from the Philippines COVID-19 Firm Survey

Round 2 – November 2020

THE WORLD BANK
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Australian Aid

HIGHLIGHTS

OPERATIONAL STATUS

- More firms were operating in November 2020 than in July 2020 (63% vs. 45%), with only 9% of firms operating at full capacity.
- 9% were closed temporarily in compliance with government regulation. 21% voluntarily closed despite eased community quarantines.
- 7% of firms reported to have closed permanently.
- Firms in tourism and arts & entertainment and MSMEs reported the highest level of closures.
- Financial constraints were the most cited reasons for operating at below capacity or closing the business. Compared to July 2020 when operational statuses were similar across firm sizes, MSMEs in November have been disproportionally affected by prolonged effects of COVID-19.

DEMAND SHOCKS

- Compared to July 2020, 67% of firms reported a reduction in sales in November 2020. Only 5% of them reported increased sales.
- Change in sales was not correlated with the increase in intra-region mobility between July and November 2020.
- Limited operation (58%) was the main reason for reduction in sales, followed by inability of customers to come to establishments (38%).

EMPLOYMENT

- Downward adjustments of employment continued in November 2020 (38%), albeit at a slower pace than in July 2020 (50%). Only 3% of firms hired new employees.
- Significant shares of firms also made adjustments on the intensive margin. Since the pandemic began, 19% of firms reduced hours for workers and 16% had reduced wages.

LIQUIDITY AND ACCESS TO FINANCE

- A large share of firms reported acute liquidity constraints, with reports of not having enough cash and having fallen behind in payments.
- 66% of firms did not have enough cash to pay all costs and payments beyond 1 month. Two thirds of firms had adjusted loan repayment terms. 48% of firms were in arrears, with an additional 29% expecting to be in arrears by February 2021.
- Access to finance has not improved between July and November 2020. More firms were relying on family and friends for loans in November 2020 compared to July 2020 (44% vs. 36%).
- Informal lenders (19%) and non-bank financial institutions such as pawnshops and cooperatives (13%) continued to be other main sources of financing for firms.
- MSMEs were disproportionally affected by financial constraints.

USE OF DIGITAL SOLUTIONS

- Since July 2020, more firms (two thirds) adopted or increased the use of internet, social media, specialized applications, and digital platforms. Uptake in digital solutions was concentrated on the front-end business functions such as marketing, sales, service delivery, and payments.
- Firms that have used digital technologies more intensively had experienced significantly lower sales reduction.
- 1 out of 4 firms also reported to have invested in new equipment, software or digital solutions in response to COVID-19.
- Difficulty in obtaining financing continued to be the biggest obstacle to increasing the use of digital solutions (23%), followed by uncertainty of demand (16%).
- Firms also noted inadequate regulations on e-transactions and inadequate personal data protection and digital privacy as the two most major regulatory and legal obstacles.
- Despite a significant uptake of digital solutions, most workers worked on-site.

POLICY SUPPORT AND OUTLOOK

- Number of firms reporting to have received support from the national or local government fell from 23% to 14%. Lack of awareness of support programs was the most cited reason for not having received government support.
- Firms demanded government support programs that could relieve their liquidity constraints such as grants and loans.
- Micro firms were less likely to have received government support (14% vs 18% SMEs and large firms). They were less aware of the available support (39% vs. 33% large firms) and more likely to perceive that they are not eligible (16% vs. 12% large firms).
- In the short term, efforts should be concentrated on increasing performance of existing programs that can alleviate liquidity constraints on firms.
- In the medium and long term, strengthening firms' technological capabilities and digital regulatory infrastructure for e-commerce could help firms to become more resilient and to rebuild better in the new normal.
- Overall, clear communications and consistent messaging about community quarantine measures on business operations in a timely manner will be pivotal to reduce firms' uncertainties about the future.

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Survey

What survey R2 shows:
A snapshot of COVID-19 Recovery

- The COVID-19 Firm Surveys Round 1 (July 2020) and Round 2 (November 2020) present the firms' challenges, adjustments, and needs during the recovery period of 2020 Q3 and Q4.
- Round 1 highlighted a significant level of disruption on firms' operation and sales, and the negative impact on employment.
- Round 2 presents a modest rebound in operations and eased downward pressure on employment, but sales continued to decline, with the impacts varying across sectors. Firms reported significant liquidity constraints and limited access to finance. Micro and small firms were disproportionately affected and less likely to have received government support.

The Philippines COVID-19 Firm Survey – Round 2

Fieldwork

- November 26 – December 10

Implementation

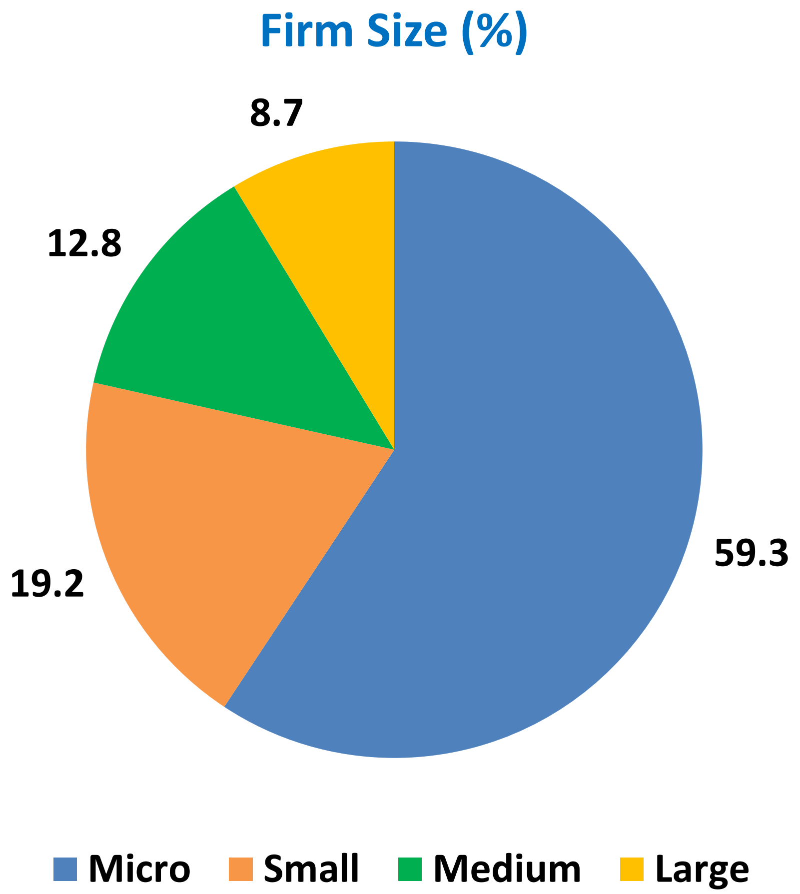
- Self-administered online survey

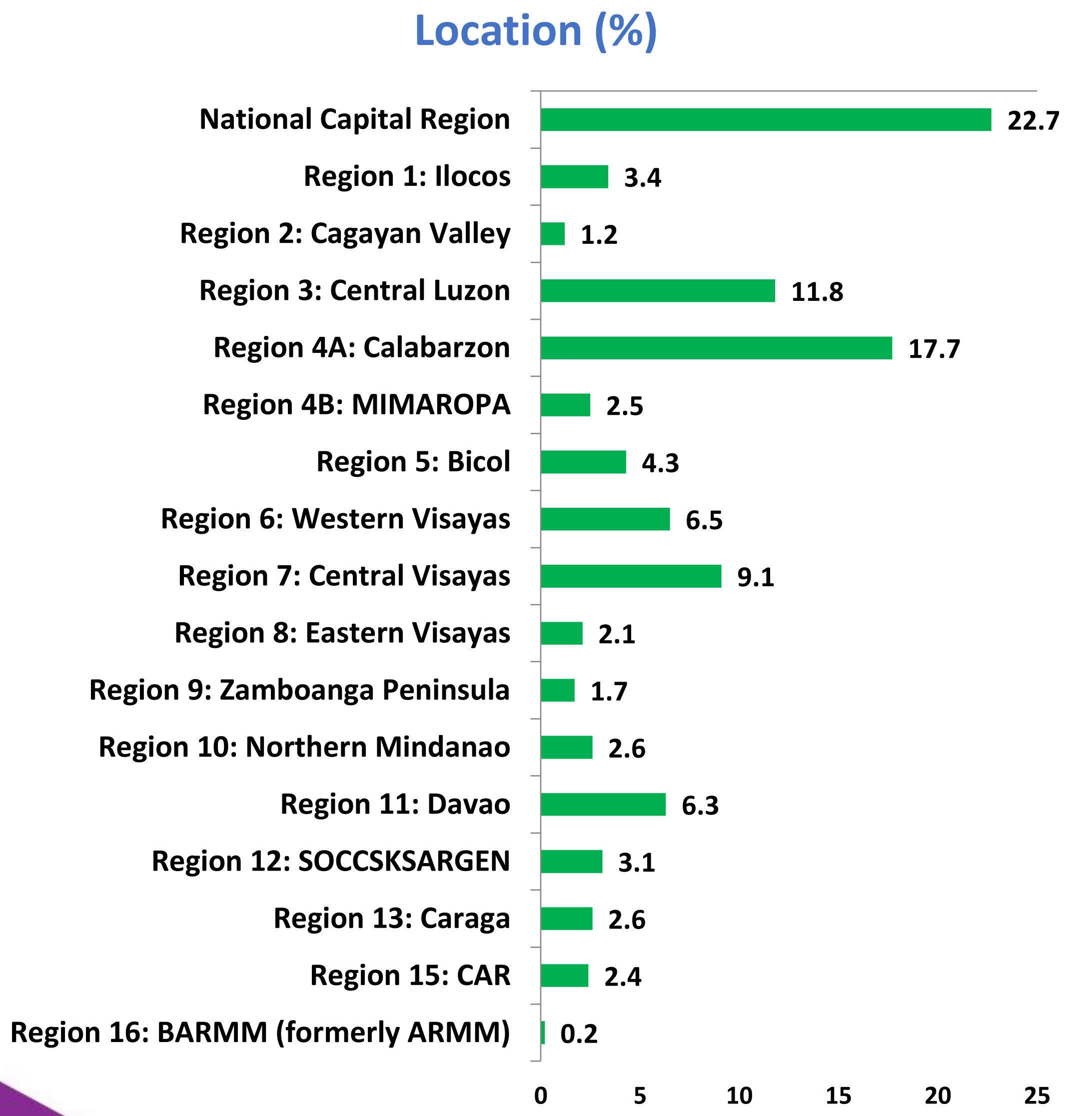
Questionnaire

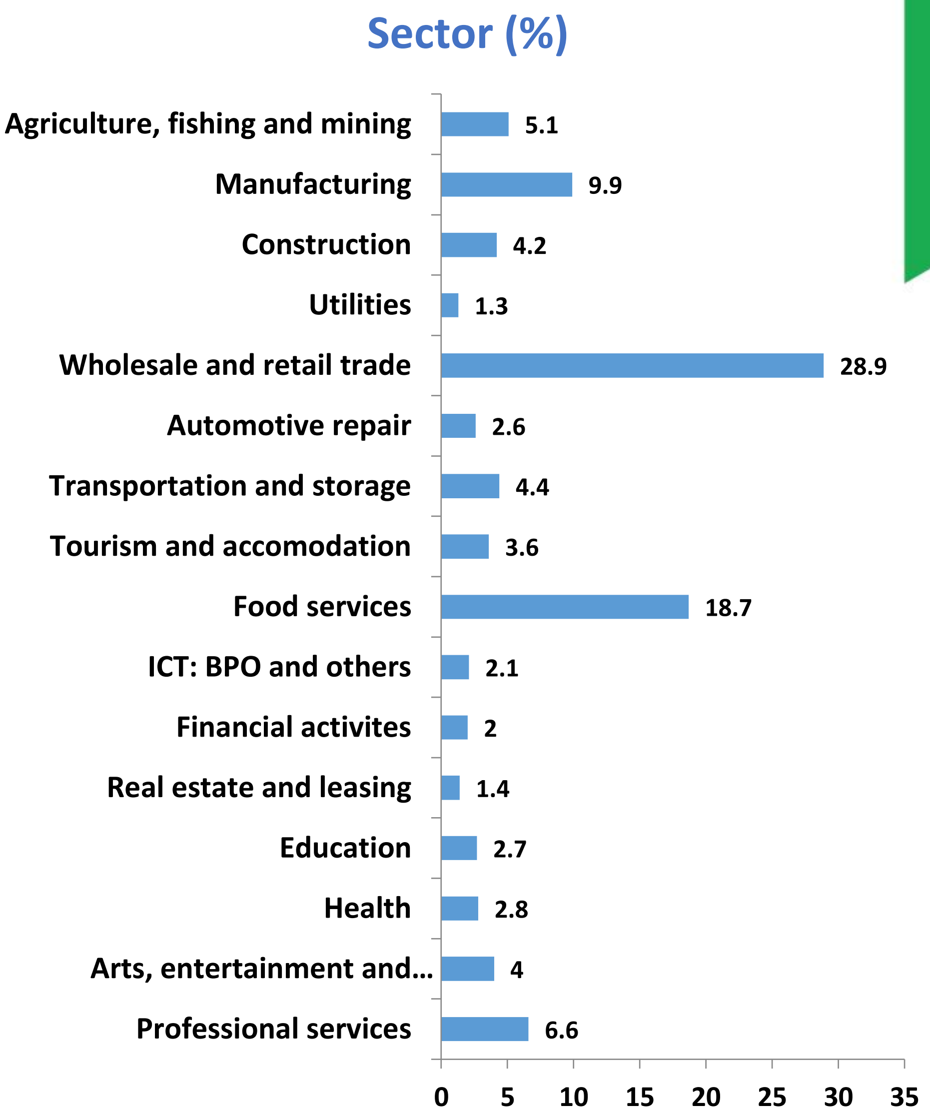
- Establishment characteristics
- Operations
- Assets and sales
- Employees
- Working conditions
- Demand and supply
- Finance
- Government support
- Adjusting to the new normal

Sample and Response Rate

- The self-administered online survey collected responses from 13,878 firms across regions, firm size, and sectors.
- The surveyed sample was reweighed to follow the distribution of firms by region and firm size (based on asset size) as reported by the Philippine Statistics Authority's 2018 Listing of Establishments.
- The analysis presents the impacts of COVID-19 on Philippine firms by size (micro, small, medium, and large by asset size), location (17 regions), and sector (agriculture, industry, and services).




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
0 5 10 15 20 25


Sector (%)
Agriculture, fishing and mining 5.1
Manufacturing 9.9
Construction 4.2
Utilities 1.3
Wholesale and retail trade 28.9
Automotive repair 2.6
Transportation and storage 4.4
Tourism and accomodation 3.6
Food services 18.7
ICT: BPO and others 2.1
Financial activites 2
Real estate and leasing 1.4
Education 2.7
Health 2.8
Arts, entertainment and… 4
Professional services 6.6
0 5 10 15 20 25 30 35

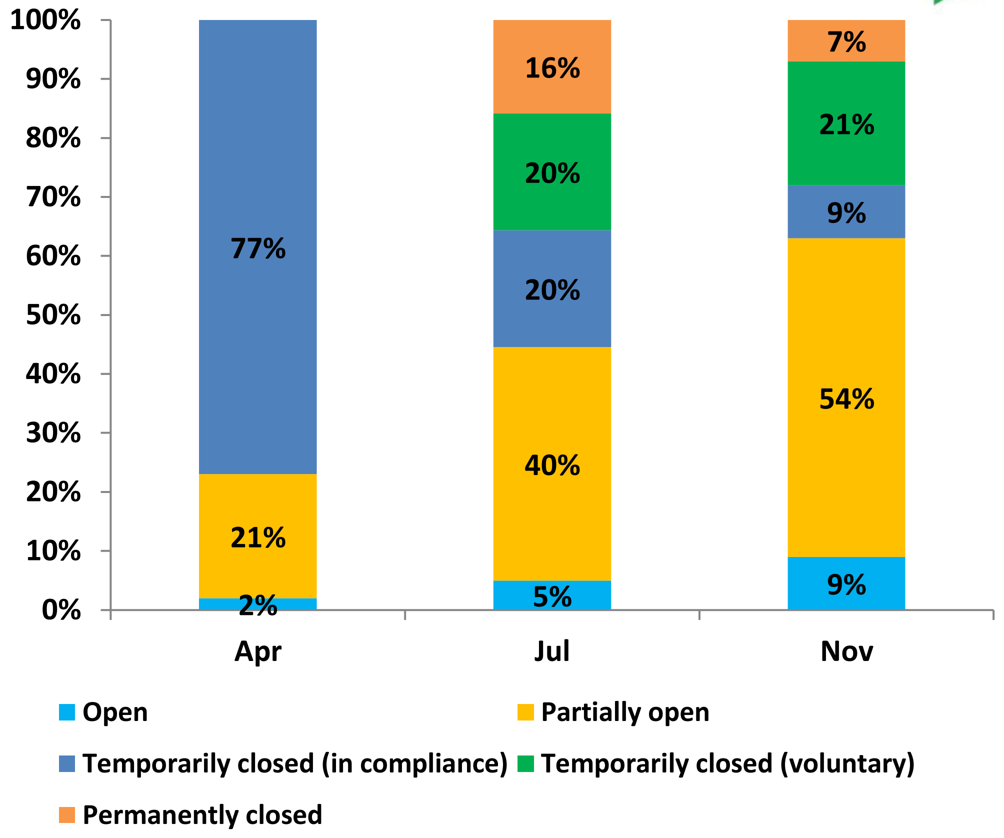
2

Impact on Firms

More firms were in operation, but 9 out 10 were operating at below capacity

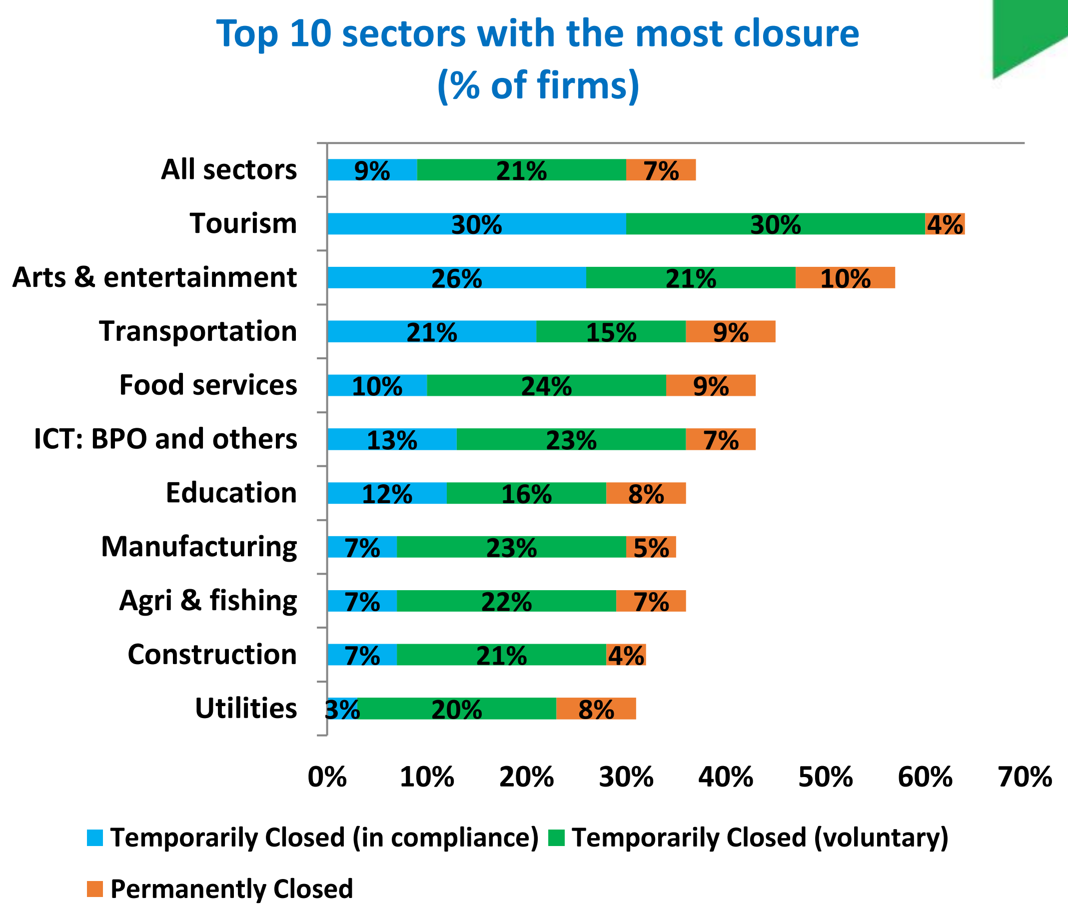
- Many of the temporarily closed firms (30%) expected to reopen, though the dates remained uncertain.
  - 9% were closed temporarily in compliance with government regulation; 21% voluntarily closed despite eased community quarantines.
- 7% of firms reported to have closed permanently.
  - This is a lower figure compared to July 2020, which may be explained by a likelihood that firms that permanently closed in March and April 2020 may have been less likely to participate in the survey in November 2020.
- Widespread closure or reduced operations has been cited as main causes of disrupted supply chain and changed levels of competition.

Operating status of firms (% of firms)



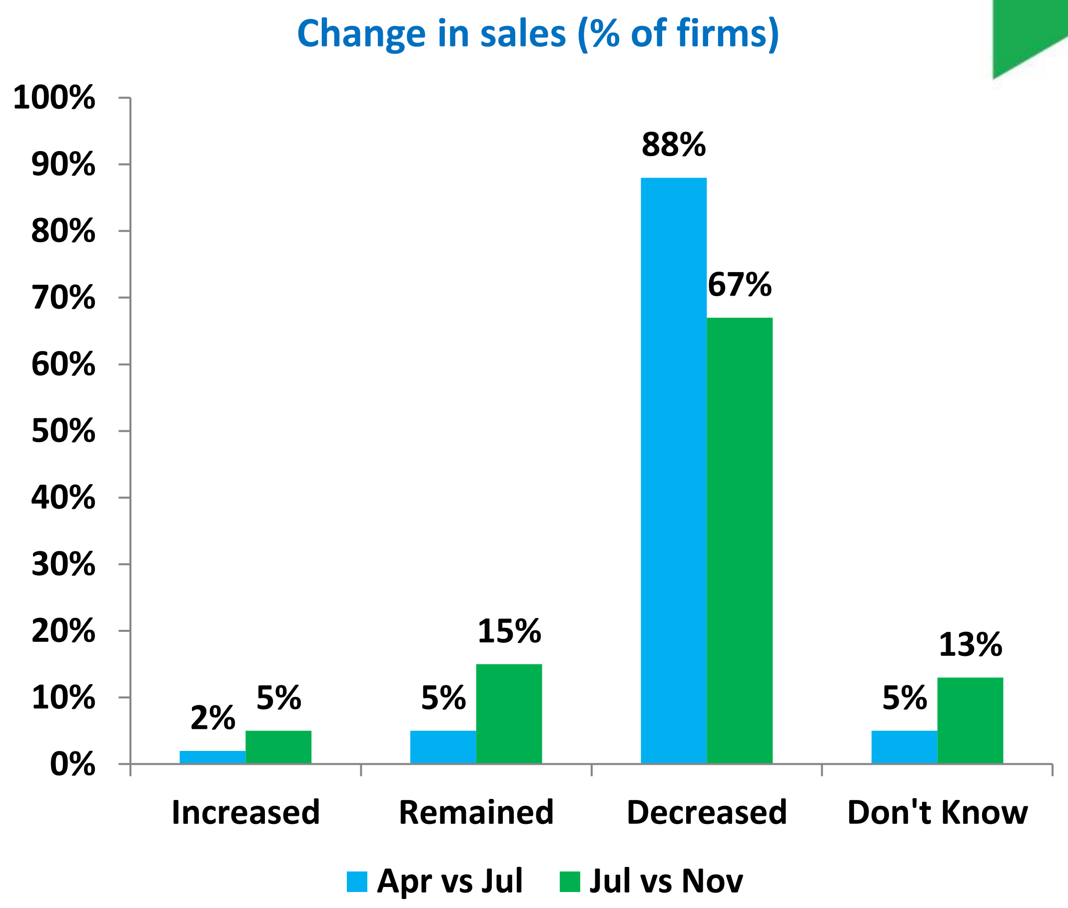
Financial constraints have driven firm closure

- Financial constraints (i.e., cash shortfalls or no access to external sources of financing) were the main reason for operating at below capacity (60%) and firm closure (62%).
- Insufficient demand (13 and 19%) and mobility restriction on customers and workers (7 and 12%) also contributed.
- Firms in tourism and arts & entertainment reported the highest level of closures. Retail, financial, and health services reported less closures.
- Large firms were more likely to be open than temporarily closed compared to micro firms (71 vs. 62%). Permanent closures were similar across firm sizes.



Reduction in sales continued

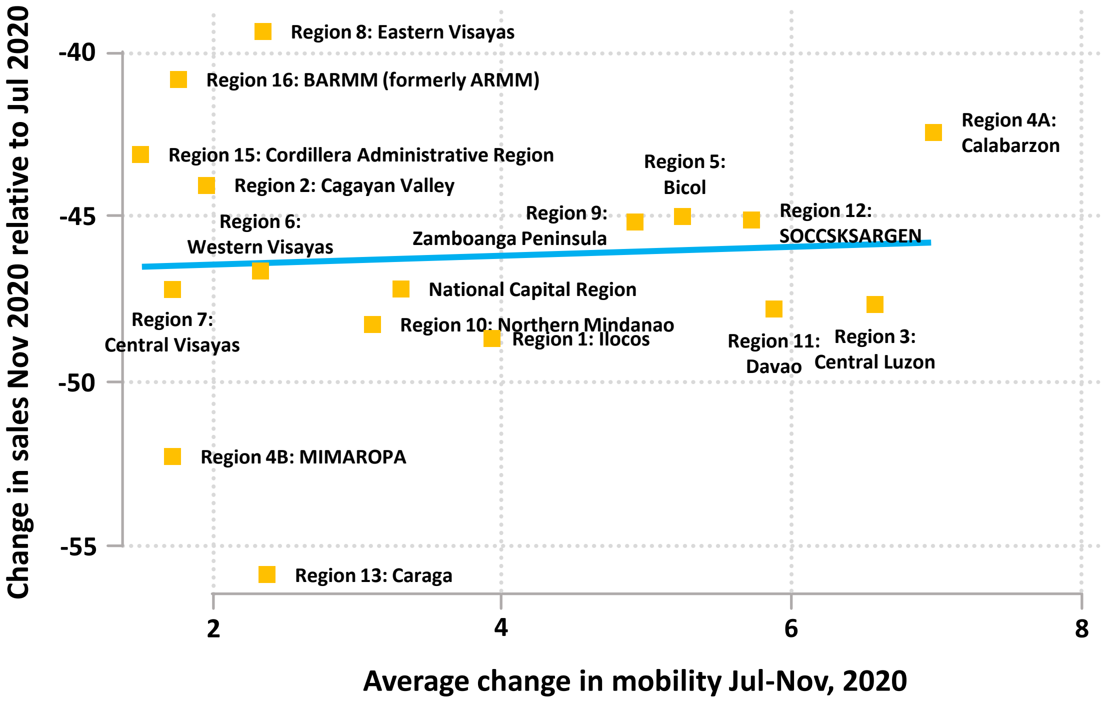
- Between July and November 2020, sales decreased for 67% of firms. Only 5% reported increased sales.
  - A higher proportion of micro and small firms reported reduction in sales in comparison to large firms (65-67% vs. 60%).
  - Sales reduction was more widespread among firms in agriculture (71%) than manufacturing or services (65-68%).
- Between Nov 2019 (before COVID-19) and November 2020, sales decreased for 80% of firms, with an average sales reduction of 56%. Only 3% reported increased sales.
  - Sales reduction was more widespread among firms in health, retail, and tourism (82-86%).
  - ICT sector had the highest proportion of firms reporting sales increase (10%).



Modest increase in intra-region mobility did not result in increase in sales

- Change in sales was not correlated with the modest increase in intra-region mobility between July and November.
- The main reason for decreased sales was limited operation (58%), especially in ICT, tourism, and arts & entertainment sectors.
- Inability of customers to come to establishments also negatively affected sales (38%), especially firms in tourism, food services, and health sectors.
    - Limited mobility of customers was less significant for firms in the National Capital Region (NCR) and Calabarzon (32-33%), compared to Cagayan Valley, Caraga, and BARMM (48-51%).

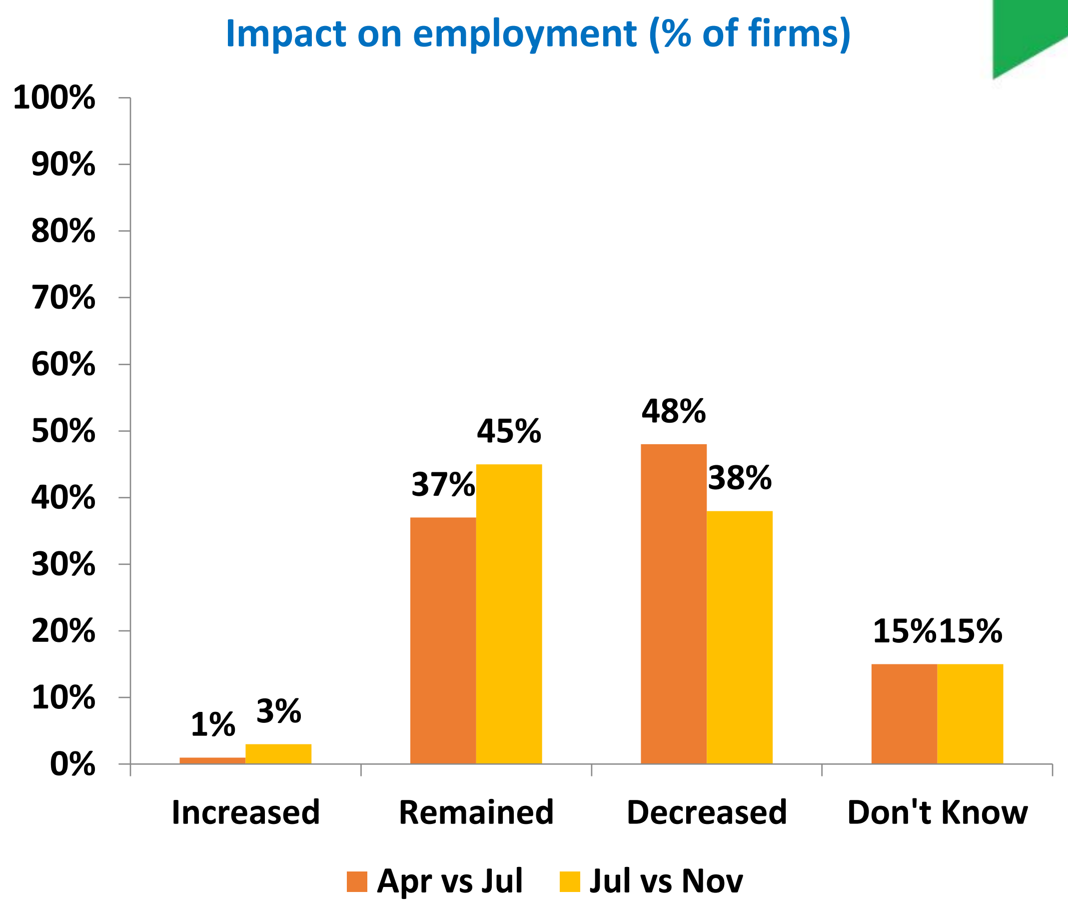
Change in sales relative to change in intra-region mobility between July and Nov 2020



Note: Average change in mobility at workplaces, transit stations, grocery stories, and retail and entertainment establishments between July and November 2020 was calculated as the difference between the average change in mobility from Feb-Jul 2020 and from Feb-November 2020.

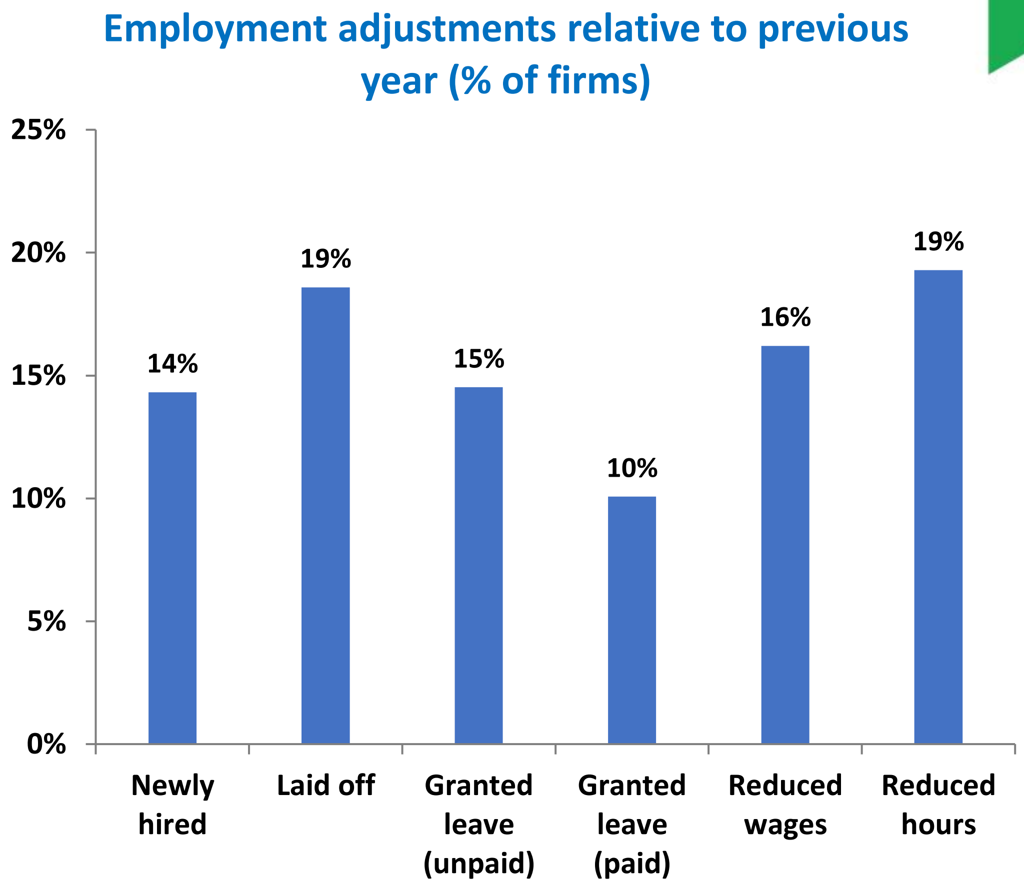
Downward pressure on employment slowed, with slow rebound in few service sectors

- Percentage of firms operating with reduced number of employees improved from 48% in July 2020 to 36% in November. Improvements were mainly from firms in food services and ICT sectors.
- Rebound has been modest: only 3% of firms hired new workers, led by financial services, ICT, and construction sectors.
- Agriculture (42%) and manufacturing (45%) sector firms were more likely to have reduced number of staff than services sector firms (37%).
- Impact on employment is similar across firm sizes.



Firms also reduced hours and wages for workers

- Significant shares of firms also made adjustments on the intensive margin. Since the pandemic began, 19% of firms reduced hours for workers and 16% had reduced wages.
- Firms that were operating at below capacity were more likely to reduce hours (24%) or reduce wages (20%).
- Temporarily closed firms were more likely to lay off their workers (21%) than granting leave of absence, with or without pay.



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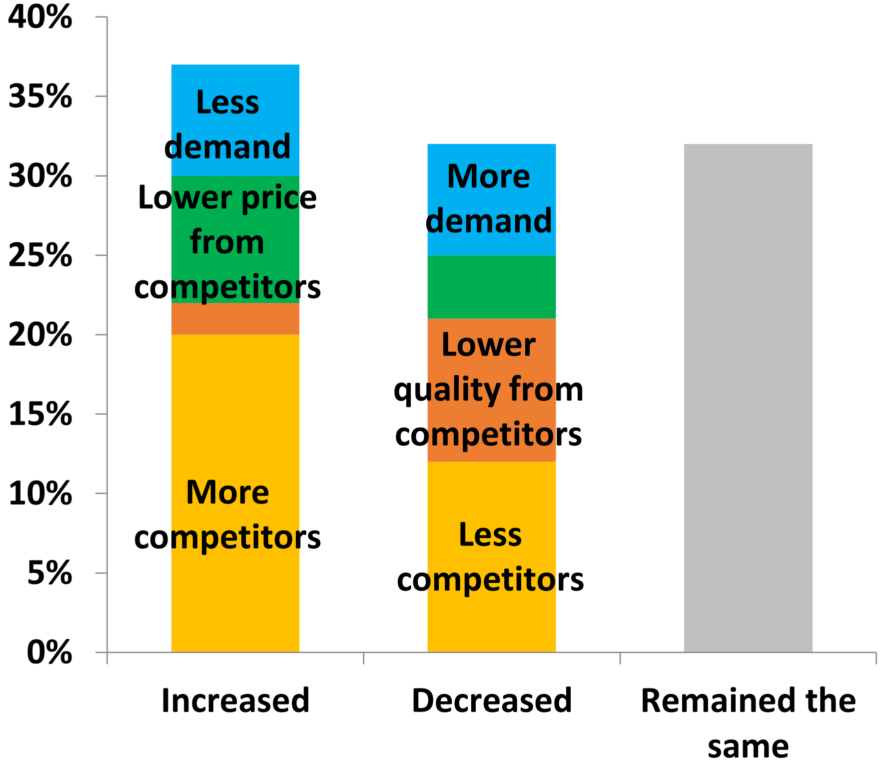
Mechanism of Impact

Firm entry/exit indicates changing market dynamics

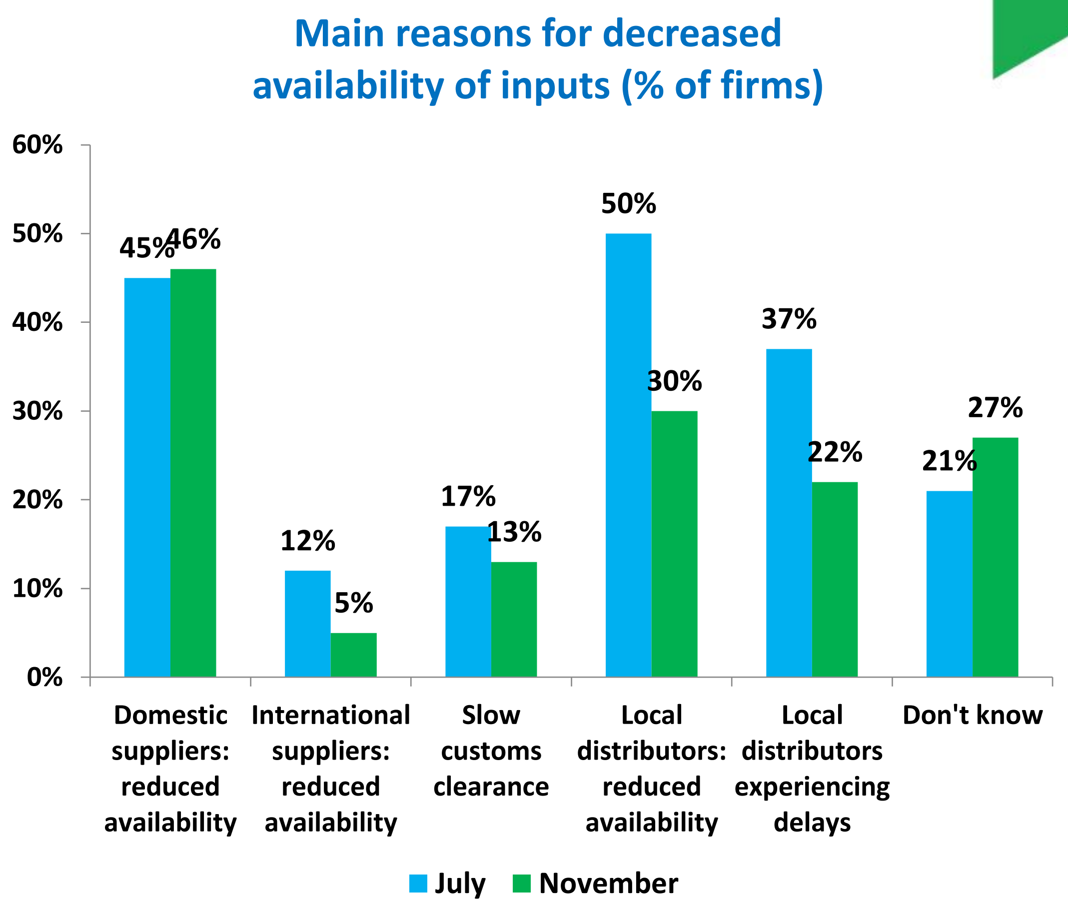
- Changes in competition was split, with 38% reporting increased competition and 32% reporting decreased competition.
- Increased competition was most notable in retail and food services (46% and 43%), mainly due to entry of new competitors.
- Decreased competition was most notable in tourism and arts & entertainment (50% and 43%), mainly due to exit of competitors.
- In agriculture, changes in competition was evenly spread across firms (34% reported an increase and 33% reported a decrease). In manufacturing, more firms reported increased competition (40%) than decreased competition (31%).
- Since the start of the pandemic, 50% of firms reported having lowered the sales price of their main products or services.

Changes in competition relative to 2019 (% of firms)



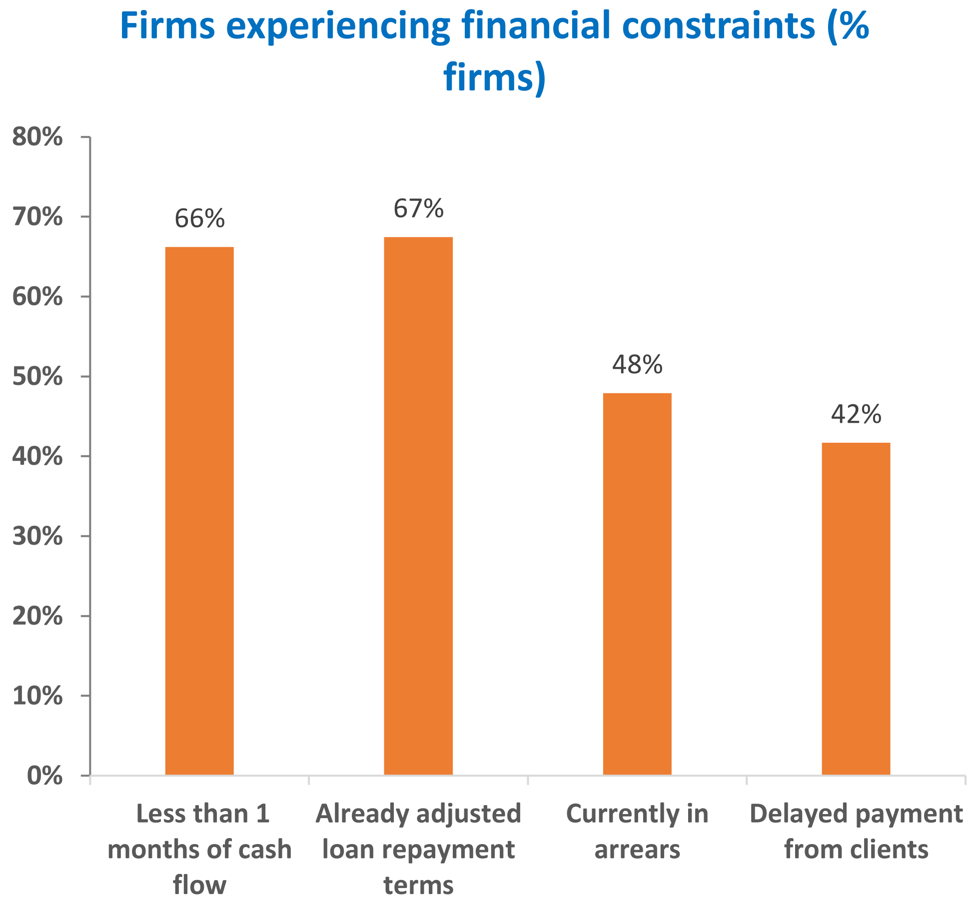
Reduced availability of domestic suppliers disrupted supply chain

- 35% of firms, especially in manufacturing, reported increased production costs, whereas 38% of firms, especially in transportation and tourism, reported decreased production costs.
- Decreased availability of inputs caused 63% of firms to cancel sale orders.
- Closure or reduced operations of domestic suppliers continued to disrupt the supply chain (46%), particularly in manufacturing, construction, retail, and food services (51-52%).
- Availability or efficiency of local distributors has improved since July 2020.
- In response to delayed or interrupted inputs, most firms (81%) did not adjust and waited until the situation improved.



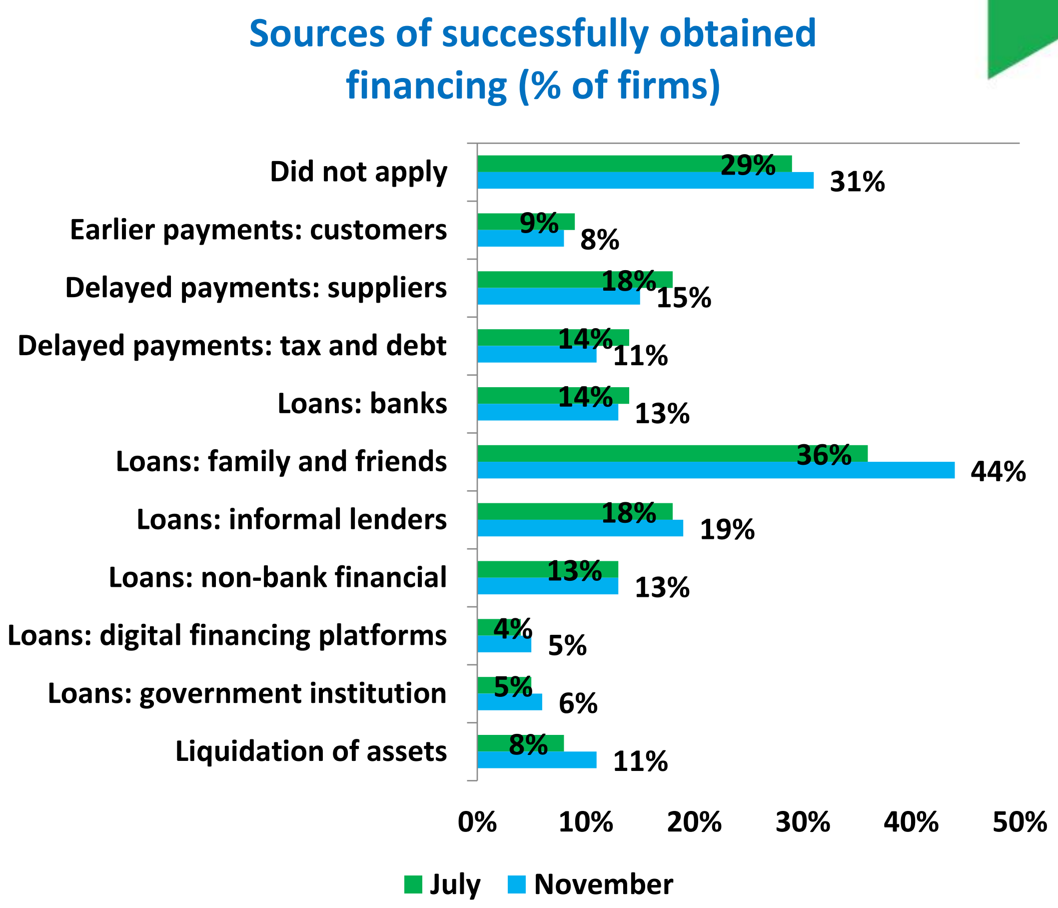
Most firms were under acute liquidity constraints

- 66% of firms did not have enough cash to pay all costs and payments such as payroll, suppliers, taxes or loan repayment beyond 1 month.
- 67% of firms had adjusted loan repayment terms.
- 48% of firms were in arrears, with an additional 29% expecting to be in arrears by February 2021. Micro and small firms were more likely to be or expect to be in arrears (77% vs. 69% large firms).
- 42% of firms reported that their clients delayed payments, and an additional 29% anticipated such delays.
- 25% of firms reported that they expect to have enough cash for 1 year or more.



Access to finance has not improved

- More firms relied on family and friends for loans in November compared with July 2020.
- Informal lenders and non-bank financial institutions, such as pawnshops and cooperatives, continued to be the other main sources of financing for firms.
- Liquidation of assets increased.
- Micro and small firms continued to rely on informal sources and non-banking institutions, compared to large firms.
- Only 13% of firms successfully obtained financing from banks in November 2020, at a similar level to July 2020.
- Male-led firms were more likely to use liquidated assets for financing than female-led firms.



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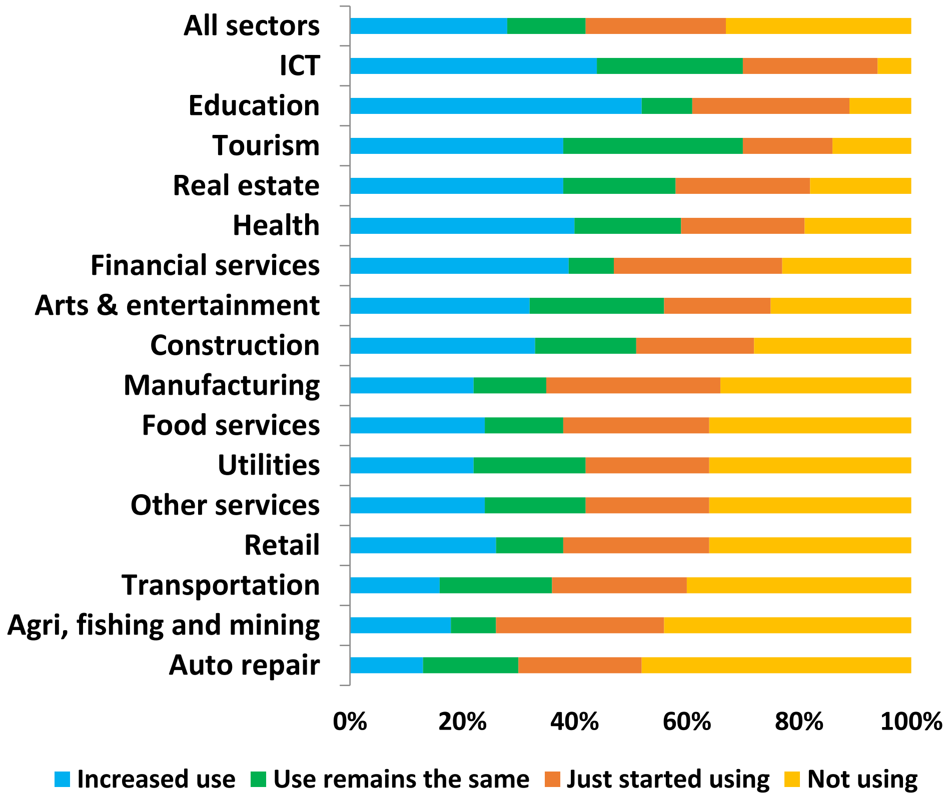
Adjustments: Digital Solutions

More firms adopted or increased the use of digital solutions

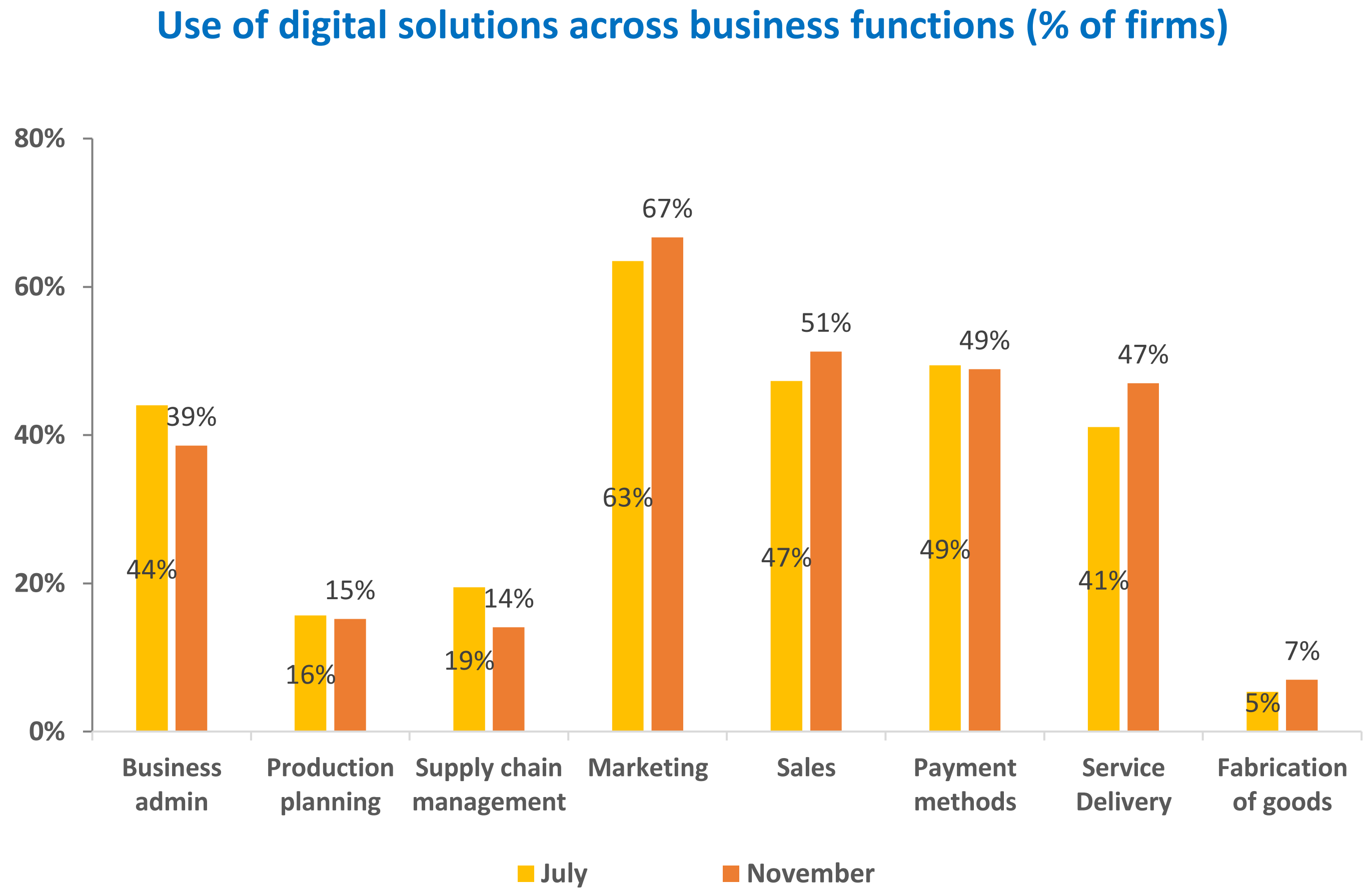
- 67% of firms used internet, social media, specialized applications, and digital platforms in various business functions.
- These firms reported that 10% of their sales derived from digital solutions.
- Manufacturing, financial services, and agriculture & fisheries sector firms led the increased adoption since July 2020. Education and ICT sector firms led the increased use of digital solutions.
- 1 out of 4 firms invested in new equipment, software or digital solutions. Investment in digital solutions were the highest in education (54%) and ICT (49%).

Use of digital solutions by sector (% of firms)



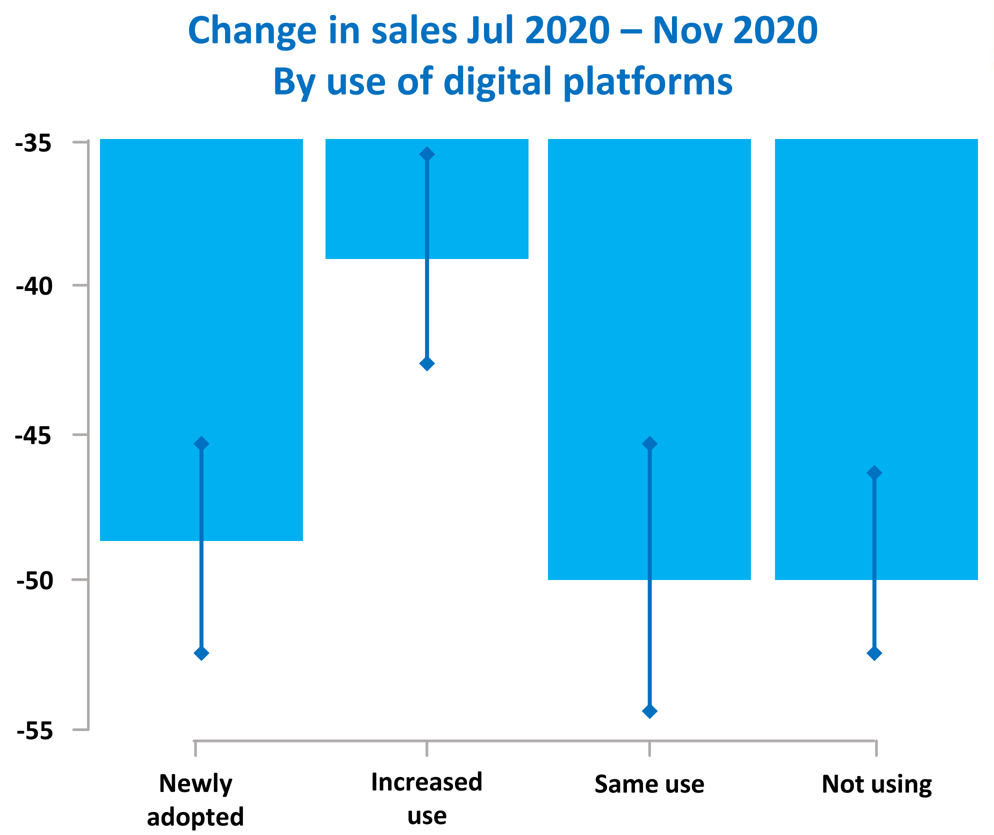
Digital solutions were used mainly in front-end business functions

- Use of digital solutions in front-end business functions such as marketing, sales, service delivery, and payments has increased since July 2020.
- Larger firms were more likely to use digital solutions than smaller firms across different business functions, except in sales for which smaller firms were more likely to use digital solutions.
- Despite a significant uptake of digital solutions, most workers worked on-site.



Firms with stronger technological capabilities experienced lower sales reduction

- Sales reduction was significantly lower for firms that have used digital solutions more intensively, suggesting that firms with stronger technological capabilities adjusted to the new normal better.
- Obstacles to increasing the use of digital technologies were difficulty in obtaining financing (23%) and uncertainty of demand (16%).
- Inadequate regulations on e-transactions (15%) and inadequate personal data protection and digital privacy (13%) were the two most major regulatory and legal obstacles.



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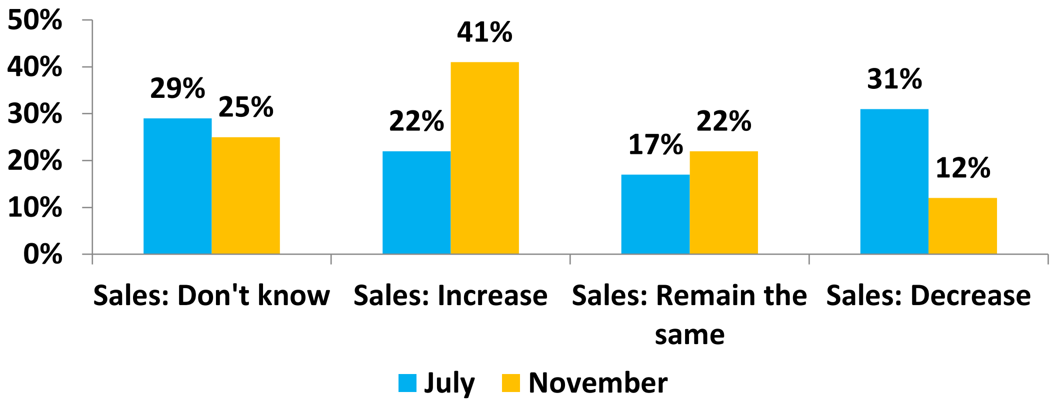
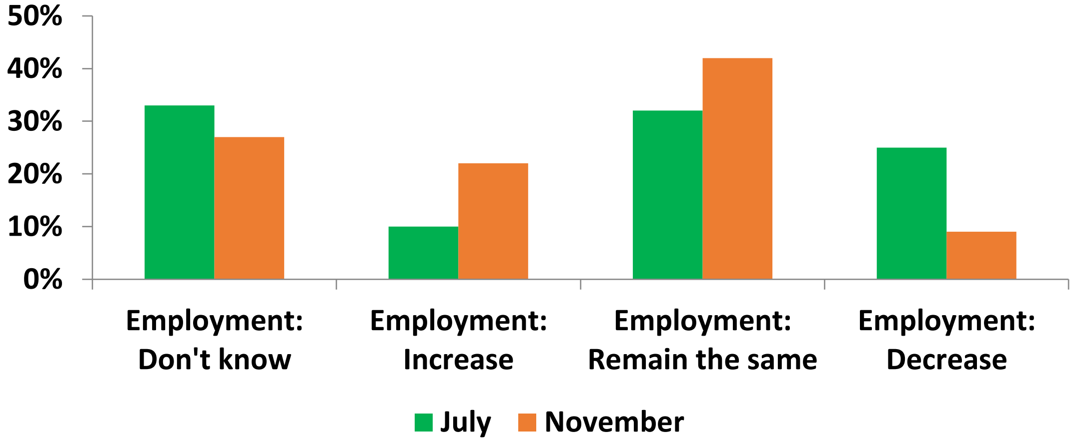
Uncertainty

Firms remained uncertain about the future

- Compared to July 2020, firms expressed a lesser degree of uncertainty and a greater sense of optimism for the next three months; however, uncertainty still remains significant, especially among tourism, transportation, and arts & entertainment firms.
- Among firms that indicated a change in sales or employment, more firms expected an improvement in sales and a continuation in the status quo for employment.
- Share of firms expecting their sales to grow increased from 22% in July 2020 to 41% in November 2020, with firms in food services and manufacturing being more optimistic.
- 42% of firms expected the number of employees to remain the same, 22% expected to hire, and 9% expected to further downsize.

Expected change in sales and employment in the next 3 months (% of firms)





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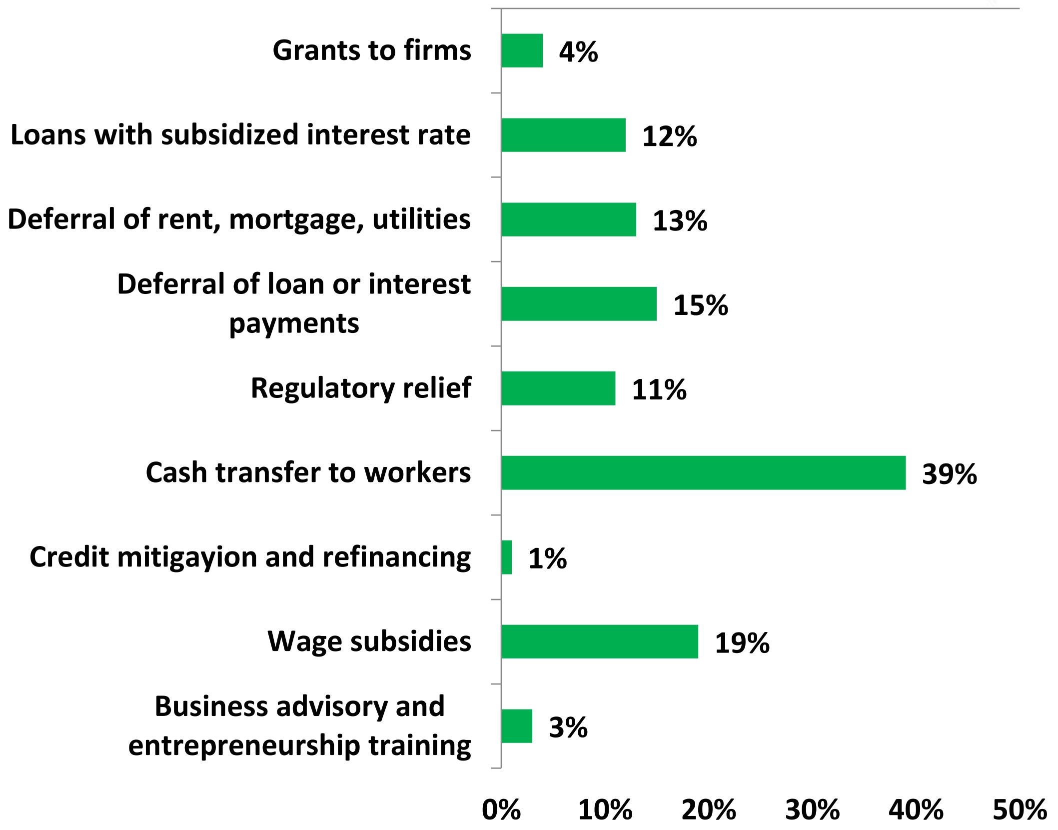
Policy Support

Firms that received government support remained low

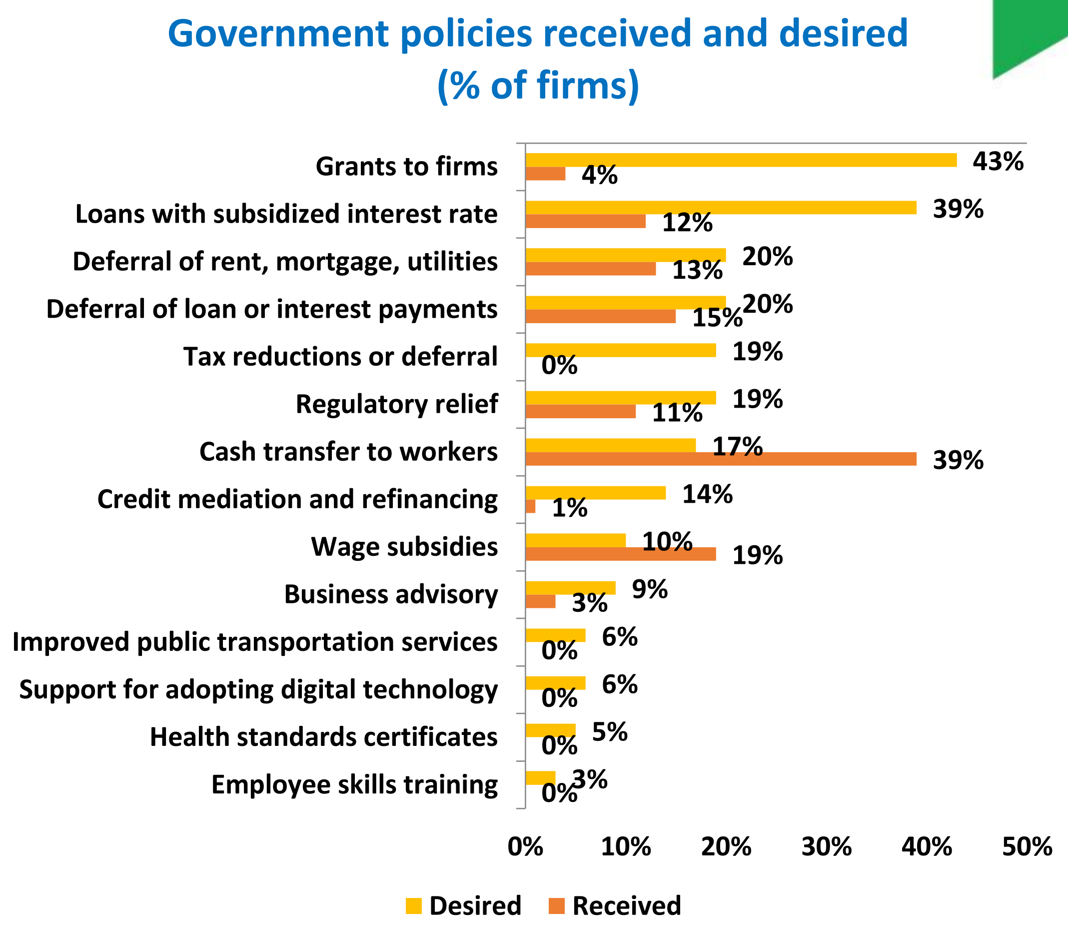
- Share of firms reporting to have received support from the national or local government fell from 23% in July 2020 to 14% in November 2020.
- Most cited support received were cash transfers to employees, wage subsidies, and deferral of payments.
- Lack of awareness of support programs, particularly among firms in retail and food services, was the most cited reason for not having received government support.
- Some firms applied for support but either did not receive it (18%, particularly in education, transportation, and tourism sectors) or considered that they were not eligible (15%, particularly in the arts & entertainment and education sectors).

Policy support received (% of firms)



Government programs that can relieve liquidity constraints were in demand

- Firms demanded government support programs that could relieve their liquidity constraints, such as grants and loans.
- Across sectors, geographies, and firm sizes, firms desired different forms of government support:
  - Grants (ICT, education, agriculture)
  - Loans (automotive repairs, construction, retail, agriculture)
  - Deferral of payments or tax (health)
  - Regulatory relief (real estate, tourism)
  - Wage subsidies (large firms, BARMM)
  - Public transportation services (large firms)



Micro and small firms were disproportionately affected but less of them received support

- Micro firms were less likely to be open than temporarily closed (62% vs. 71% large firms). Permanent closures were similar across firm sizes.
- A higher proportion of micro and small firms reported reduction in sales since July 2020 (65-67% vs. 60% large firms).
- Micro and small firms were more likely to be or expect to be in arrears (77% vs. 69% large firms) and continued to rely on informal sources and non-banking institutions.
- Micro firms were less likely to use digital solutions across different business functions (66% vs. 75% large firms), except in sales.
- Micro firms were less likely to have received government support (14% vs 18% large firms). Micro firms were less aware of the available support (39% vs. 33% large firms) and more likely to perceive that they are not eligible (16% vs. 12% large firms).

Policy Outlook in the short term: Alleviate liquidity constraints on firms

- In the short term, efforts should be concentrated on increasing performance of existing programs that can alleviate liquidity constraints on firms. Disbursement of government's loan programs, such as Landbank's i-RESCUE and SB Corp's CARES program, could be expedited through raising awareness and clearly communicating eligibility.
  - Landbank's Interim REhabilitation Support to Cushion Unfavorably-affected Enterprises by CoVid-19 (i-RESCUE) is a PHP 10 billion fund that aims to provide funding and loan restructuring. Eligible SMEs, microfinance institutions (MFIs), and cooperatives may borrow up to 85% of their working capital needs at an interest rate of 5% per annum, payable up to maximum of five years with grace period on the principal payment. i-RESCUE also offers loan restructuring. As of January 2021, Landbank has approved PHP 6.95 billion loans to 227 borrowers.
  - SB Corp's Bayanihan COVID-19 Assistance to Restart Enterprises (CARES) is a PHP 10 billion fund to provide access to credit for micro and small firms. Loans of up to 200,000 PHP for micro firms and 500,000 PHP for small firms are offered at zero interest rate with a loan term of 18-30 months. CARES loans can be used for working capital, inventory replacement, and updating loan amortizations for fixed loans of the businesses. As of Feb 9, 2021, SB Corp has approved PHP 2.35 billion to 21,659 borrowers.
- Supporting firms to extend operational capacity or re-open voluntarily closed operations, in parallel with containment efforts and vaccinations, are expected to boost consumer demand and reactivate economic growth.

Policy outlook in the medium and long term: Strengthen firm capability for greater resilience

- In the medium and long term, strengthening firms' technological capabilities and digital regulatory infrastructure for e-commerce could help firms to become more resilient and to rebuild better in the new normal. Sales reduction was significantly lower for firms that have used digital solutions more intensively, suggesting that firms with stronger technological capabilities were better at adjusting to the new normal.
  - The use of digital technology in sophisticated business functions could be deepened through existing technology extension services program such as Department of Science and Technology's Small Enterprise Technology Upgrading Program (SETUP) that assist firms with financing and technical know-how to adopt and utilize technologies.
  - Strengthening digital regulatory and legal infrastructure for e-commerce, including e-transactions and digital financial services, outlined in Department of Trade and Industry's Philippine eCommerce Roadmap 2022, would also be critical.
- Overall, clear communications and consistent messaging about community quarantine measures on business operations in a timely manner will be pivotal to reduce firms' uncertainties about the future.

For more information, please visit:

worldbank.org/philippines/covidmonitor