



Consultation on the Joint UN research “Unlocking Opportunities to Build a Better Normal”: Toward Gender Responsive and Resilient MSMEs in the Manufacturing & Support Industries in the Philippines

Preliminary Report for Consultation. Not for Citation / Circulation

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Report Summary

The Philippine economy had one of the longest lockdown imposed on the National Capital region which contributes 38% of the country's GDP.

Containment measures pushed MSME's into a vicious cycle of interlinked challenges brought about by constrained resources, that creates greater uncertainty while delaying their path to recovery. Rapid assessments conducted on MSME's at the onset of the implementation of containment measures reported massive shutdowns that created temporary or permanent displacement in employment or reduction in income for others at the very least, to weaker household consumption demand.

The importance of MSME's to the economy, since years before and during the pandemic, cannot be overemphasized. Not only does this sector contribute significantly to economy, but MSME's also account for around 60% of total employment. Therefore, the sooner MSME's become fully operational and employment restored, the closer it will be for household consumption levels to return to normal.

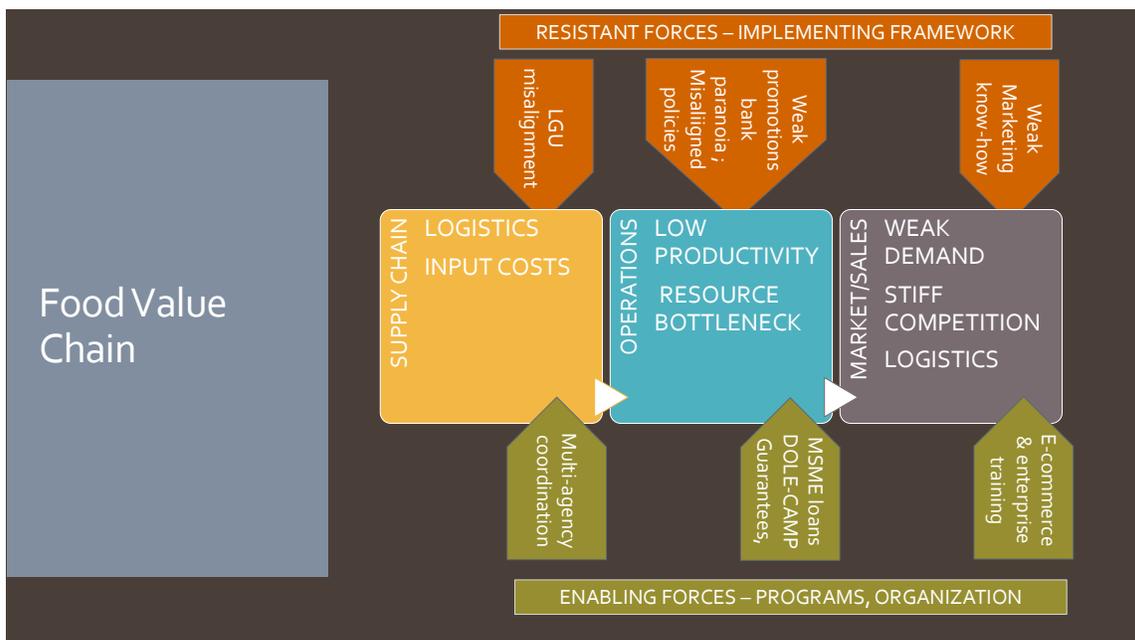
The study focused on the food processing/manufacturing sector. It is one of the few essential industries that was allowed to operate to ensure food security. It is also unique in the sense that the industry is dominated by women entrepreneurs. Hence it is an ideal sector to explore ways to incorporate gender responsiveness while cultivating MSME's to become more resilient.

Taking off from various assessments and surveys by UN agencies, development partners and their government counterparts, as well as first-hand accounts from key stakeholders through KILs and in-depth FGDs, the study looked into the evidences of various disruptions that mainly affected the food manufacturing/processing value chain. The study consolidated the references from using current information sources, while it aimed to validate these data against real-life experiences of MSMEs. Key challenges mentioned include cash flow, digitalization and the shift to e-commerce. Along with this, understanding gender-based impacts and the perspectives on the relevance of green initiatives were taken into account. Specific to the food manufacturing sector, the main challenges include the impact

of the lockdown on their respective business models, and the pincer effect on their limited resources, prioritizing employees' welfare as much as possible, and how the inconsistent policies and stricter regulations and additional fees added to their operational woes

Government provided a comprehensive policy framework to address the various needs of MSME's, utilizing existing programs and creating new ones specifically to address the Covid-19 business environment. Being unprecedented and with pervasive impact, the situation brings valuable lessons to possibly guide future directions as the situation continues to evolve. There are critical policies to resolve and aspects of program delivery to smoothen out to allow for more consistent and coherent implementation as there are efforts done by different stakeholders that are unintentionally negating each other as shown in the chart below.

Figure 6: Food Value Chain



The research identified a few critical bottlenecks that needs to be addressed or improved.

- a. Weak information dissemination leading to low program awareness and uptake. Rapid assessment surveys were consistent in showing low awareness levels. Among the programs, DTI programs registered better cut through than programs of other agencies.
- b. There are some misalignment between LGUs and national government agencies with regards to transportation, border control guidelines, payment of business permits and other fees.
- c. It was also noted that there were incentives given to funding institutions to encourage lending to MSME's but financing institutions tightened credit instead due to the perceived uncertainty in the business environment that persisted.
- d. Inconsistency in program delivery with some MSME's getting a lot more support and information than others. Some departments, such as DTI provide interagency referrals, others do not. There is some degree of variability in service delivery even within DTI sub units.

MSMEs in the Philippines have mainly relied on their own resourcefulness and ingenuity to thrive and survive through the years. Though the pandemic has caught most of them off-guard, specifically in the food manufacturing sector, various coping strategies were carried out. An obvious pathway considered was the use of e-commerce to bridge their products to markets and consumers, diversifying products and focusing them as supplies and distribution necessitates, cash management strategies like cost cutting, enhancing collections and negotiating for supplier credit. As most of them went on the proactive stance to network and find resources to access, it led them to discovering more support programs which they would not have learned about, if they weren't in such a crisis.

Delving further, the study uncovers where things have fallen short, and would need the keen attention so it can really deliver the support to MSMEs as intended.

- a. Weak promotion of government programs for MSMEs resulted in limited access by MSMEs and for these programs not to reach its peak.
- b. This then leads to these programs not having follow-through and leaving these development measures fragmented from various program points, and not reaching its integrative effects.
- c. As more and more programs oversaturate MSMEs with various options and schemes of support, though not bad, this leaves them in the middle of well-intentioned but discordant policies and programs, which could turn out counter-productive.
- d. The programs that really delivered were those whose approach were more focused, structured/systematic, which responds to current and anticipates future business needs, and provides a degree of customization to the industry it caters to.
- e. Sadly, the frenzy of getting in an e-commerce platform is not enough. As MSMEs experienced when they hurried into it during the pandemic period, it became obvious that they need to learn to how to effectively compete as well in this unfamiliar platform, in order to gain benefits from it.

The study provided a few action recommendations listed below, which can become clear ideas for steering the recovery of MSMEs and channel collaboration and support to the economic 'Heroes', as they thread on to survive what has yet been the most unprecedented challenge of the current time.

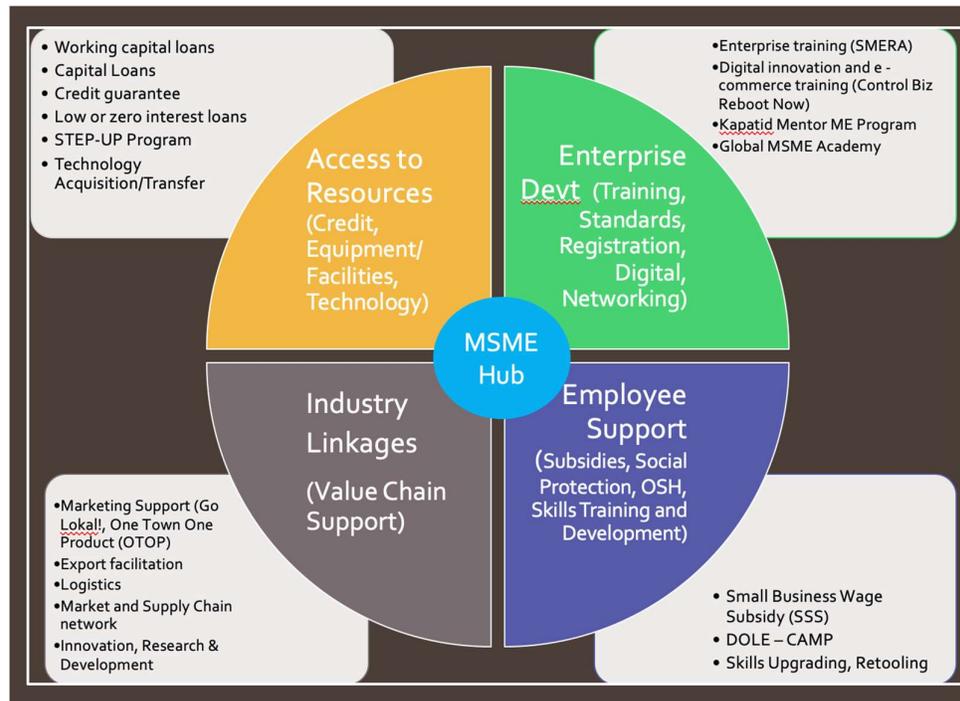
1. MSME Hub - Integrated service delivery system

DTI's Kapatid Mentor Me Program provides a good starting point for MSME support, but expanded to into a whole of government approach and to include other stakeholders especially from the private sector.

Majority of MSME's do not have any formal training in running a business. If there's one critical need they identified to make them stronger and resilient, is to get some guidance on how to navigate through the enterprise life cycle. While government has developed programs to support MSME's in different aspects of the business from product development, to marketing and sales, these are housed or offered by different agencies. MSME's may not know exactly how to start and what to do next as it is not easy to navigate the government system to get information and support. Thus, there is a need for a more systematic and structured approach to supporting MSME's. An MSME hub where everything that an MSME will need are consolidated, from start up until they grow to become more bankable and resilient, categorized into four sub systems: Enterprise Development, Access to Resources, Industry Linkages, Employee Support.

Just like the Kapatid Mentor Me Program, the MSME hub provides information and facilitation services be it digital or facility based (e.g. Negosyo Center) to access resources such as credit/loans, technology, equipment and facilities. It can also serve to provide MSME access to database of legitimate MSME's and even larger companies for products, services/support or any form of linkages it needs within the industry value chain. Lastly, employee support in terms of subsidies, social protection, occupational safety and health and skills upgrading and retooling.

Figure 7: MSME Hub



2. Financing within the value chain structure to minimize uncertainty

One concern of the banking industry's lack of willingness to lend to MSME's is the perception that even in normal times, lending to smaller companies is that they are riskier than larger companies. Given the current situation when markets are soft (where there are more potential sellers than buyers), it cannot be helped that banks would be less confident with MSME's.

However, if banks could consider MSME's as part of a value chain linked to a larger company, then perhaps the risks could be rationalized and the stability of the larger company can serve as a guarantee.

As large banks are more willing to service the larger, less risky enterprises, a different service delivery mechanism may need to be designed specifically for emergency financing of micro and small enterprises which make up 90% of business establishments.

Policy-wise, the mandatory requirement for banks to set aside 10% of their loan portfolios to MSME's, expired in 2018 and it should be reinstated. Implementation of this policy should also be reviewed and evaluated on how well it has met the desired objectives.

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3. Promoting and Supporting Inclusive Business models

In a similar way but with more formalized relationship structure than the value chain model, banks or financial institutions (FIs) could prioritize MSMEs that are using inclusive business models. This model is best exemplified by enterprises and economic activities that seek to create value for low-income groups and communities, by integrating them into the value chain as clients and consumers (demand side) and/or as producers, entrepreneurs or employees (supply side), in a manner that is sustainable and not exploitative. Further, the whole business operations and practices can be geared to advocate approaches such as gender inclusiveness, sustainability, and hereby serving both economic and social purpose.

There are two examples for the inclusive model, both are women led and owned enterprises. One is the EchoStore which in practice finances the direct costs by their suppliers for the production of goods that are sold in their online stores.

The other is Coffee for Peace, a social enterprise that sources its supplies from coffee farmers' cooperatives. In this example, the social enterprise has access to a stable coffee market and it could sell more if she had access to more funds. Furthermore, buying more from farmers would enable them to venture into moving a notch in the value chain to roasting coffee for higher margins to sell back to Coffee for Peace or to sell independently to other interested buyers.

So in this case, banks or FIs can opt to tap into these existing contractual relationships between the anchor/apex enterprise and the smaller enterprises and suppliers within the value chain, and use it as a channel to deliver their financial programs. Doing so reinforces and improves the whole value chain, including those at the bottom tiers that needed more support to perform, and who, otherwise, are always constrained by limited access to resources and funding. With this, the resources/funds are directed to support and scale the inclusive business model, along with all its socioeconomic benefits, as it inspires other enterprises to innovate their business models, given that this will enable them to access similar financial services and programs.

