Impacts of COVID-19 on Firms in the Philippines

Results from the Philippines COVID-19 Firm Survey

Round 3 – May 2021

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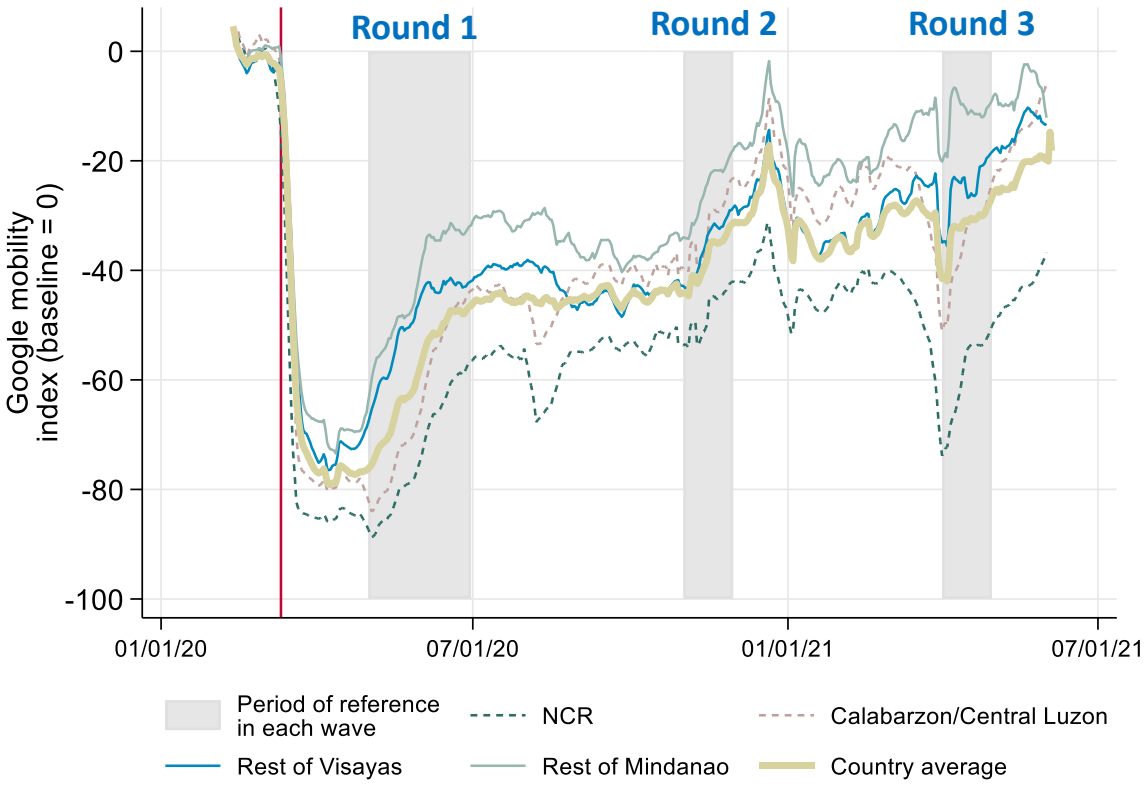
The Philippines COVID-19 firm surveys

- To help monitor the impact of COVID-19 on private sector performance in real time and inform public policy responses, the World Bank, in collaboration with the Department of Finance (DOF) and the National Economic Development Authority (NEDA), designed the *COVID-19 Firm Survey*.
- The *self-administered online* survey has been conducted in 3 rounds, at various stages of the pandemic in the Philippines: July 7th-August 1, 2020 (Round 1), November 25 – December 10, 2020 (Round 2), and **May 11-26, 2021 (Round 3).**
- **Round 3** captured business results & sentiments during the latest resurgence of the virus and new mobility restrictions in selected regions.
- The sample includes responses from 1,425 firms across regions, firm size, and sectors.

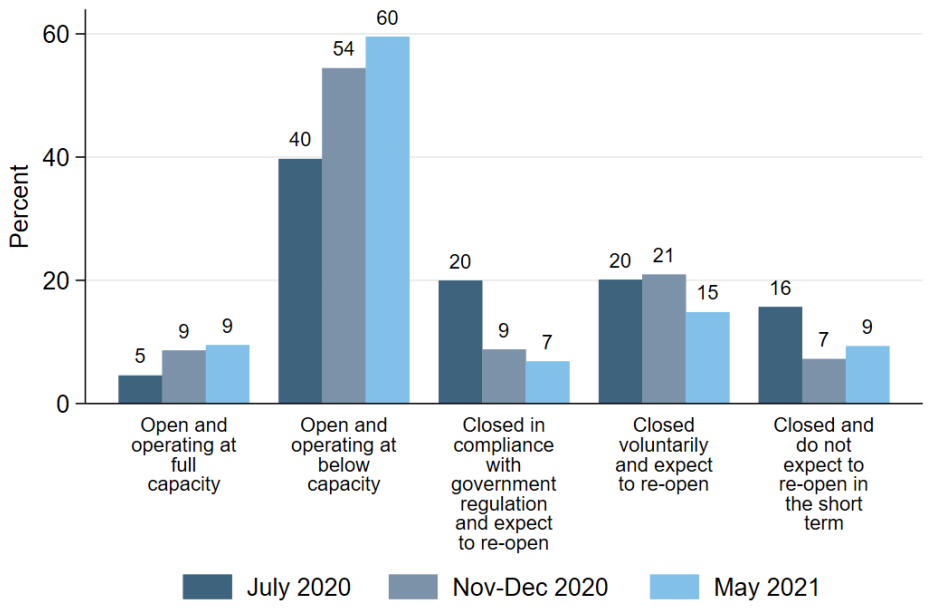


Source: Google mobility trends and Business Pulse Survey. Averages at the region level. Retail/recreation includes places like restaurants, cafés, shopping centers, theme parks, museums, libraries, movie theaters. The period of reference correspond to May and June 2020 for Round 1, November of 2020 for Round 2, and April of 2021 for Round 3.

More businesses were open in May 2021, but the average closure rate was still high when compared to regional countries.

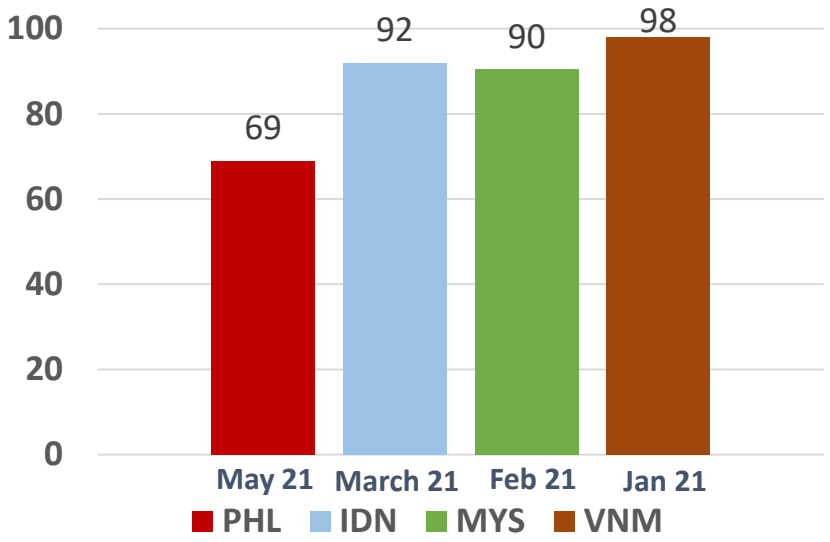
- Since last November, the share of firms operating either fully or partially has continued to increase. The share of open firms within the Philippines increased to a total of about 69 percent from a base of 63 percent in November and 45 percent in July 2020 .

Status of operations at the time of the interview



Values may not add up to 100 due to rounding.
Shares computed over respondent establishments on each wave.

Share of operating firms by countries (measured between January -May 2021) (%)

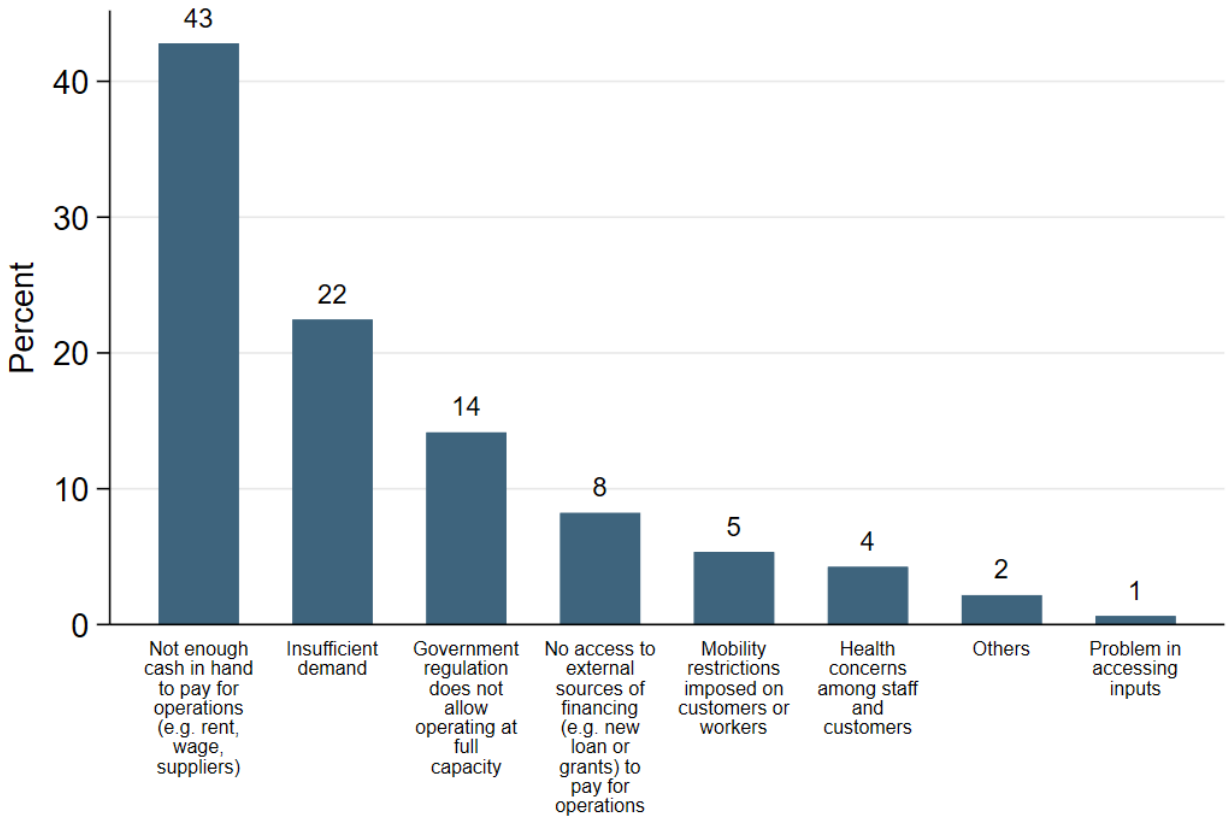


Note: data from Indonesia, Malaysia, and Vietnam are from the latest BPS round. The timing of the survey corresponds to May 2021 for PHL; March 2021 for IDN; January-February 2021 for MYS; and January 2021 for VNM.

Despite increased reopening, firms' operations continued to be under distress.

- About 87 percent of open businesses operated below their full capacity, driven mainly by liquidity shortfalls (43 percent) and lack of demand (22 percent).
- The share of firms that had closed and did not expect to reopen was on the rise again (9 percent in May 2021 versus 7 percent in November of 2020).

Reasons for operating at below capacity

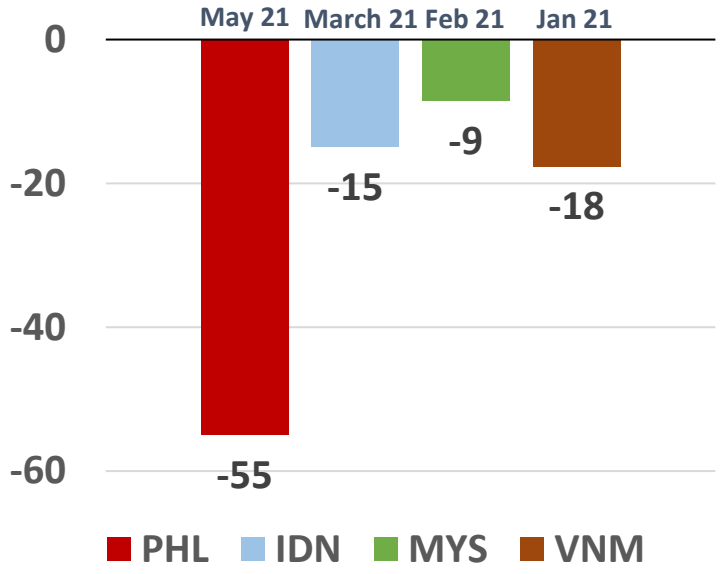


Values may not add up to 100 due to rounding.
Shares computed over respondent establishments.

Despite improvements in some regions, average sales continued to decline at a rate similar to that reported by the end of 2020, driven by worsening performance of firms in NCR, Calabarzon, and Central Luzon

- While there have been some improvements in Mindanao, businesses in NCR, Calabarzon, and Central Luzon exhibited steeper drops in sales by around 5 pp when compared to November 2020.

Average change in sales by countries (measured between January -May 2021)



Average change in sales relative to the same period of 2019

	Round 2 (End of 2020)	Round 3 (May 2021)
NCR	-58	-64
Calabarzon & Central Luzon	-53	-59
Davao	-57	-57
Central Visayas	-58	-58
Rest of Luzon	-55	-53
Rest of Visayas	-52	-53
Rest of Mindanao	-54	-42
Total	-55	-55

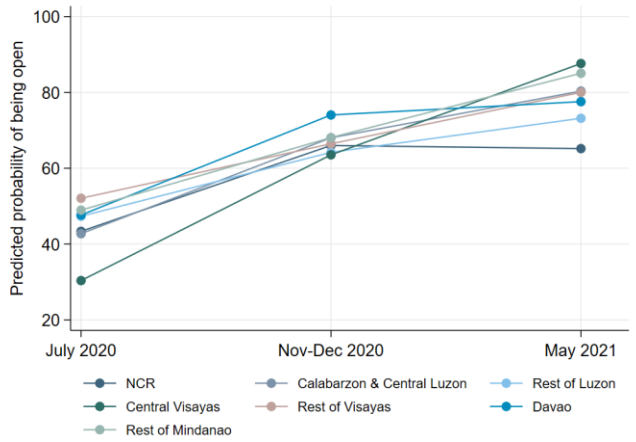
Note: Change in sales from regressions controlling for size and sector. Computations use sampling weights. Note: data from Indonesia, Malaysia, and Vietnam are from the latest BPS round. The timing of the survey corresponds to May 2021 for PHL; March 2021 for IDN; January-February 2021 for MYS; and January 2021 for VNM.

The overall pace of reopening slowed down, driven by lackluster performance of firms in the National Capital Region (NCR) region, micro-businesses, and firms in the hospitality industry.

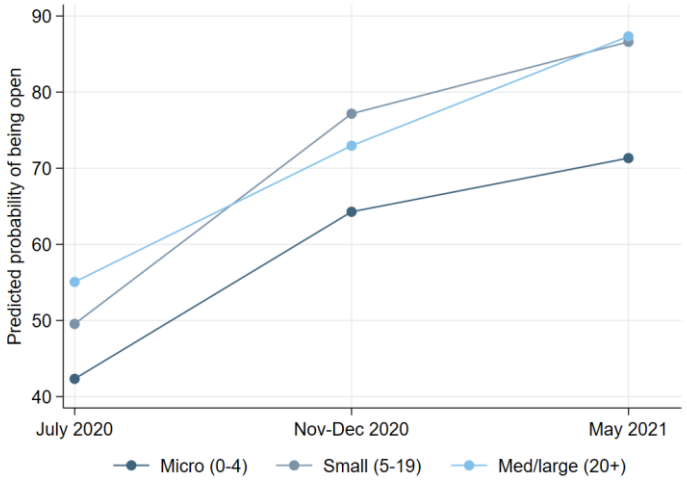
- While businesses in most regions reported significantly higher reopening rates since Nov 2020, the pace has slowed down for NCR, which exhibited a lower share of businesses that remained open in May 2021
- Micro firms and firms in the hospitality sector (accommodation, tourism, food services, arts & entertainment) stood out with significantly higher closure rates across all periods.

Normalized probability of being open (full or below capacity)

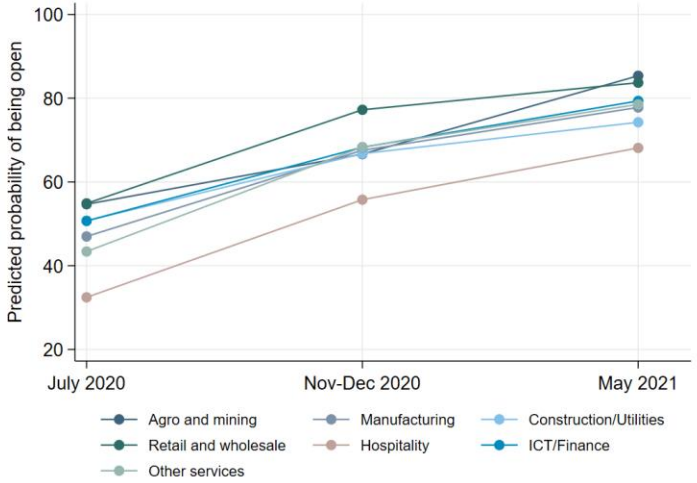
By region



By firm size



By industry

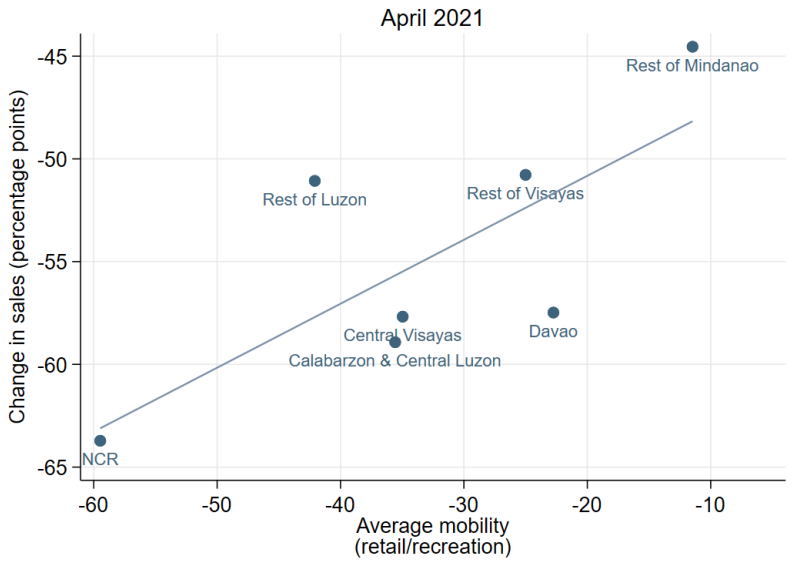


Note: Adjusted probabilities from linear regressions controlling for size, sector, and region. Computations use sampling weights.

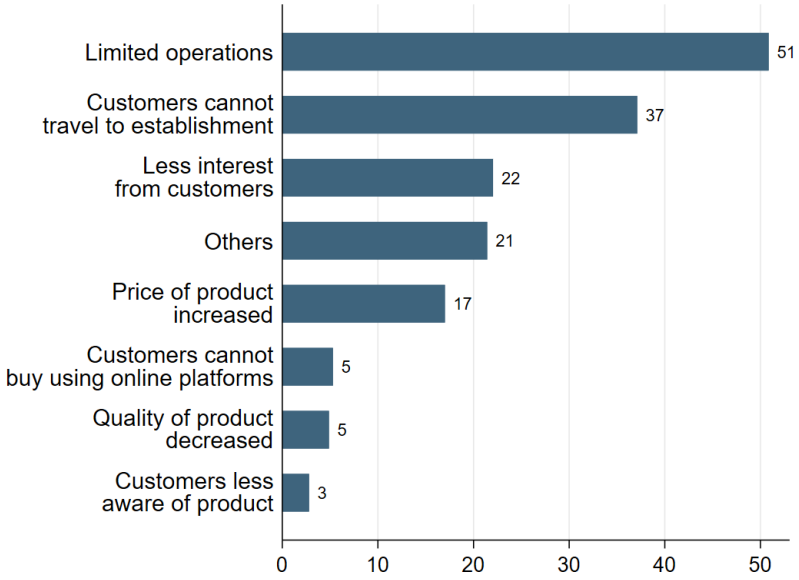
Much of the variations in sales performance can be explained by mobility restrictions

- At the region level: average change in sales was strongly correlated with the average mobility.
- Firms reported that shock to their operations (either business closures or reduced operating hours) and customers' reduced mobility stood as dominant reasons for the observed sales decline.

Average change in sales and mobility by region



Reasons for change in sales

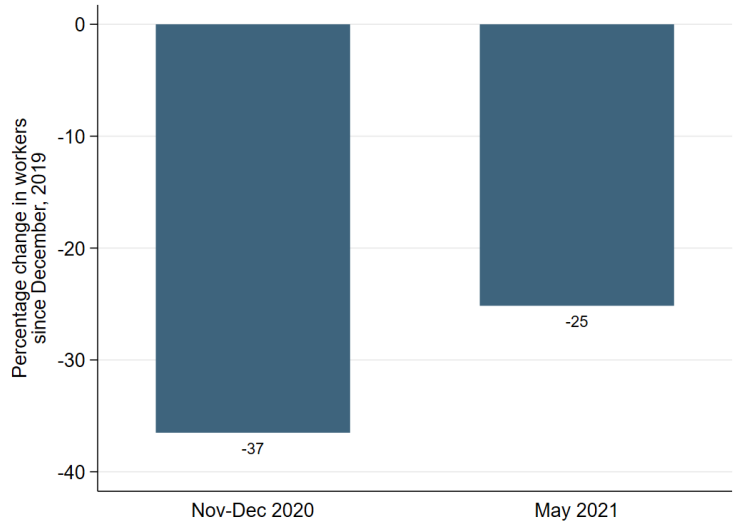


Source: Google mobility trends and Business Pulse Survey. Averages at the region level. Retail/recreation includes places like restaurants, cafés, shopping centers, theme parks, museums, libraries, movie theaters. The period of reference correspond to May and June 2020 for wave 1, November of 2020 for wave 2, and April of 2021 for wave 3. Computations for change in sales use sampling weights. The change in sales in wave 1 corresponds to the change between beginning of period and end of period; in waves 2 and 3, the change corresponds to the same period of 2019.

Despite the persistent sales reductions, the survey revealed signs of employment recovery.

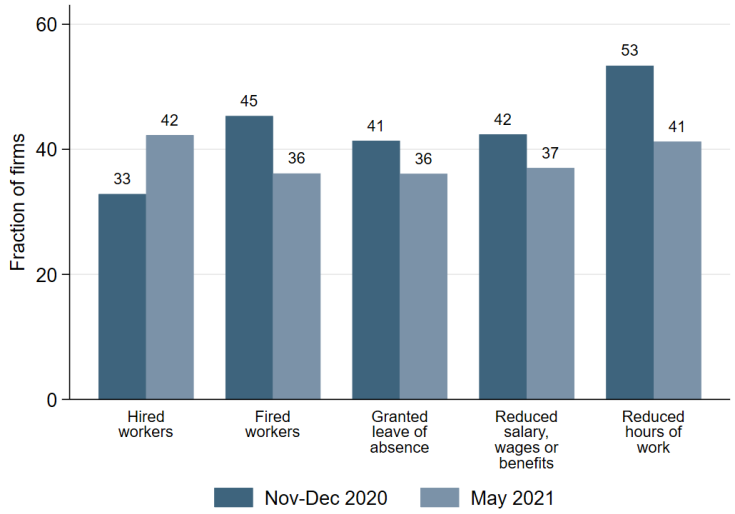
- Relative to the pre-pandemic baseline (December 2019), the pace of employment losses decreased by 12pp between November 2020 (37 percent) to May 2021 (25 percent)
- Compared to November 2020, the share of firms hiring workers increased to 42 percent, while the share of firms either laying off workers, granting leave of absence, reducing wages, or reducing working hours decreased.

Average percentage change in workers (relative to pre-pandemic baseline)



Note: Computations use sampling weights.

Share of firms that adjusted their labor force

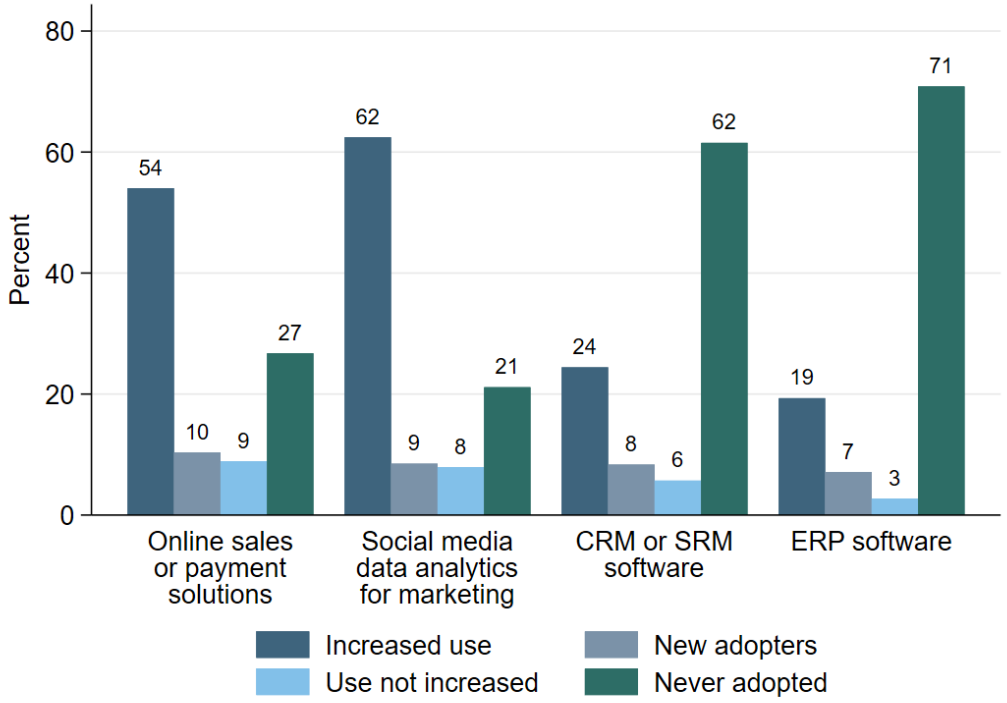


Note: Computations use sampling weights. Observed differences between share of hiring and average employment losses are due to composition effects.

Increases in the use of different digital technologies in response to COVID-19 were driven by increased intensity (intensive margin), with relatively fewer new adopters (extensive margin)

- 10 percent of businesses were not using digital platforms for sales/payments before the pandemic hit but started their use to respond to the crisis.
- The share was 9 percent for digital technologies for marketing and 8 percent for CRM/SRM software. New adoption of Enterprise Resource Planning was reported to be even lower at 7 percent.
- A remarkedly high share of firms reported increasing use of online sales or payment solutions and social media or data analytics for marketing (54 percent and 62 percent).
- Significant shares of existing users also reported increasing intensity of use for CRM/SRM and ERP software.

Use of digital technologies since COVID-19

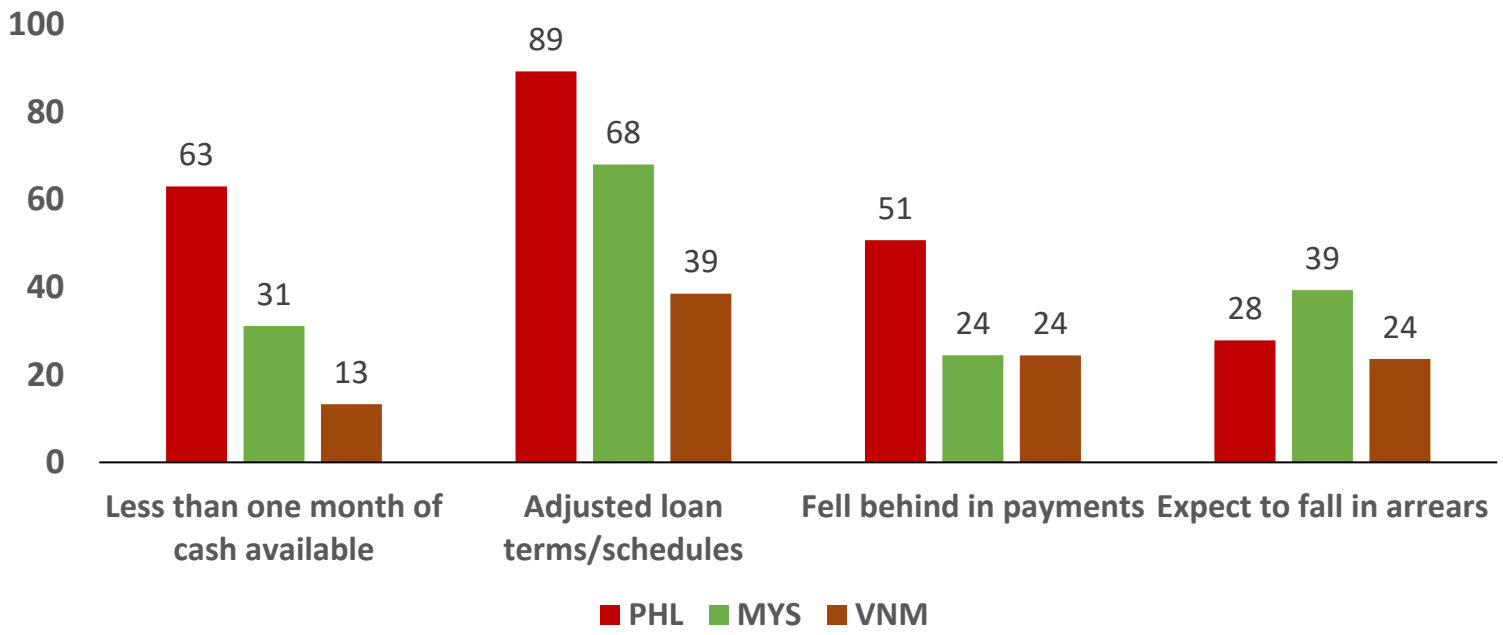


Computations use sampling weights.

Persistently weak sales performance was mounting pressure on firm's liquidity and solvency

- Firms in the Philippines were more likely to have less than a month of cash available, adjusted loan terms/schedules, or have fallen behind in payments, relative to peers in regional countries.
- However, the expectation to fall in arrears was lower for firms in the Philippines than in Malaysia – albeit similar to that found in Vietnam.

Financial constraints by countries (measured between January -May 2021)

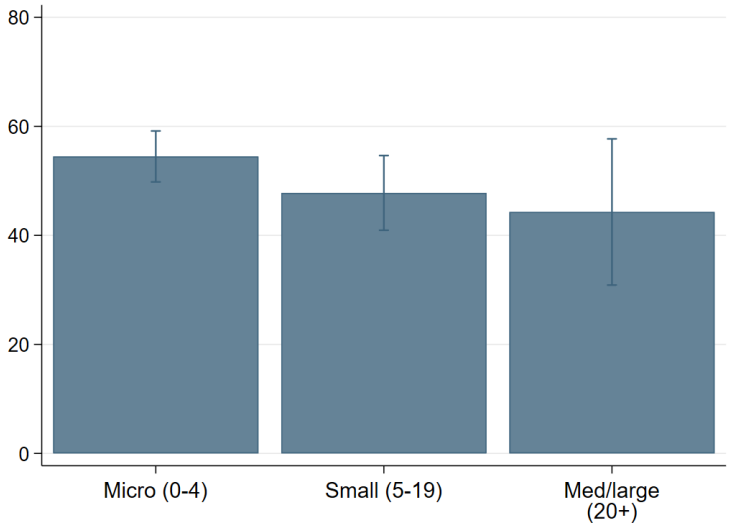


Note: Fraction that adjusted loans terms/schedule is of the sample that has outstanding liabilities. Computations use sampling weights.

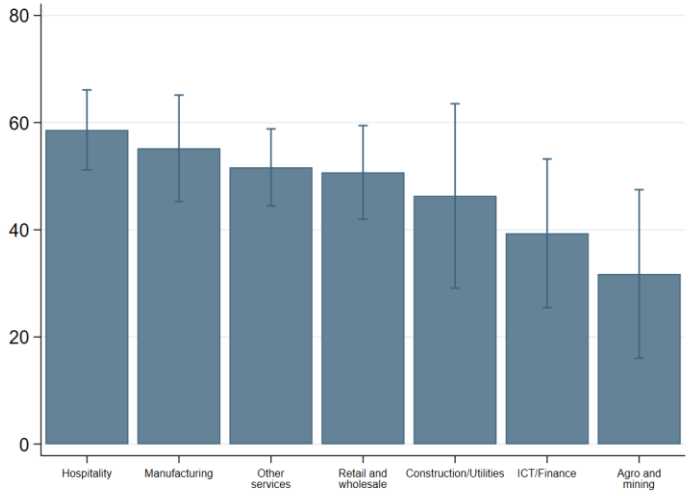
Micro businesses and businesses in NCR and hospitality were more likely to report having fallen behind in payments, consistent with their experience of sales decline.

Normalized probability of reporting having fallen in arrears

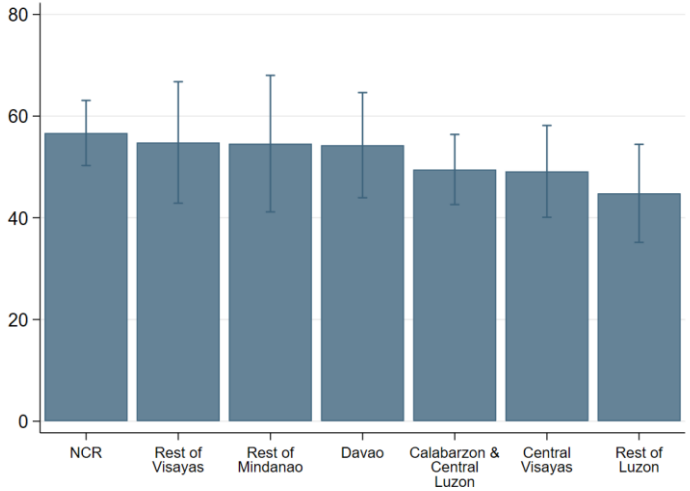
By Size



By Sector



By Region

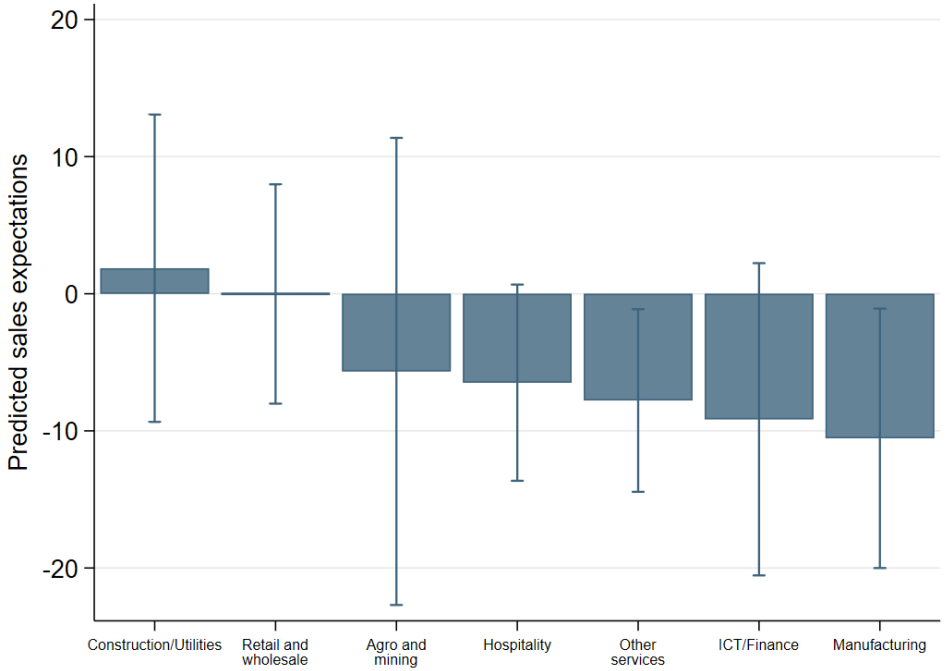


Note: Normalized averages from linear regressions on dummies for size, sector, and region. Computations use sampling weights.

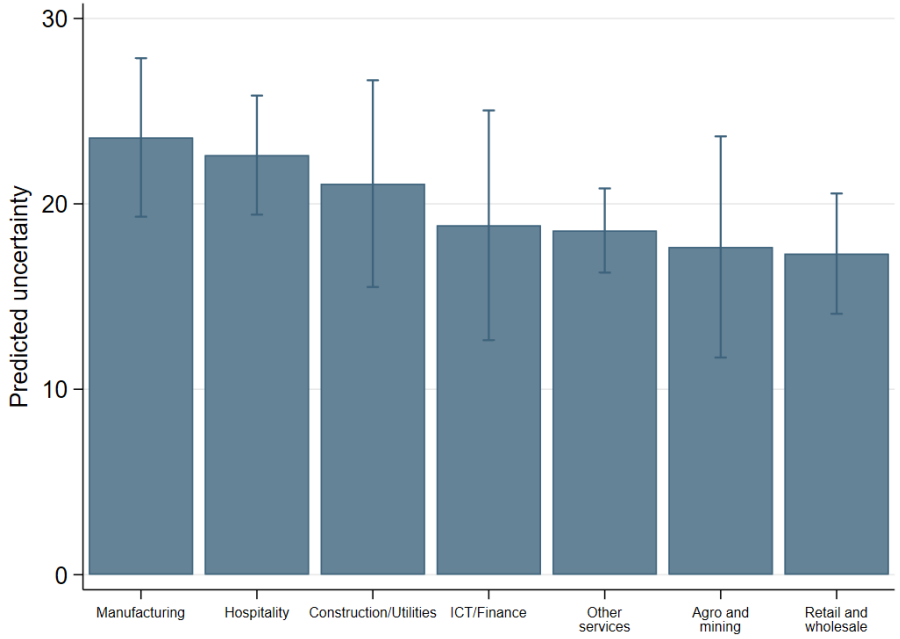
Businesses in manufacturing and hospitality industry expressed higher uncertainty. Uncertainty for hospitality is consistent with their shock experience in declining sales revenue.

Prospects about sales growth the coming 6 months: Differences across sectors

Expected sales growth



Uncertainty about the prediction

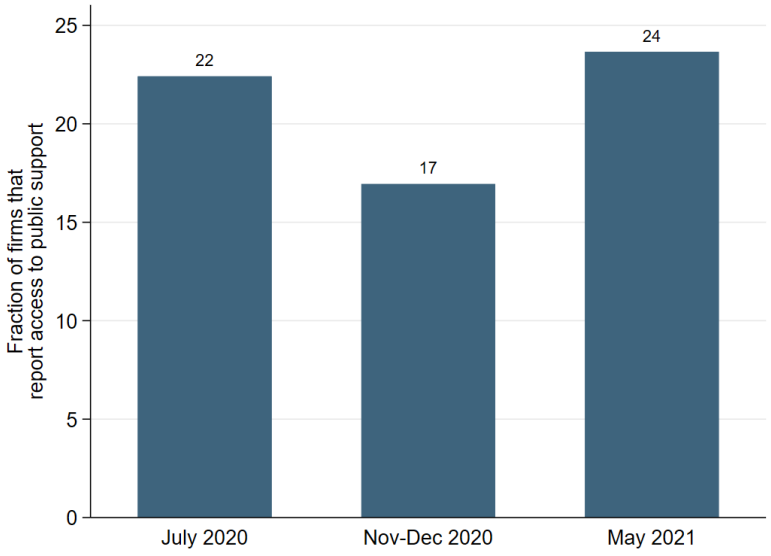


Note: Normalized averages from linear regressions on size, sector, and region dummies. Computations use sampling weights.

The share of firms reporting access to government support slightly increased in May 2021 relative to November 2020

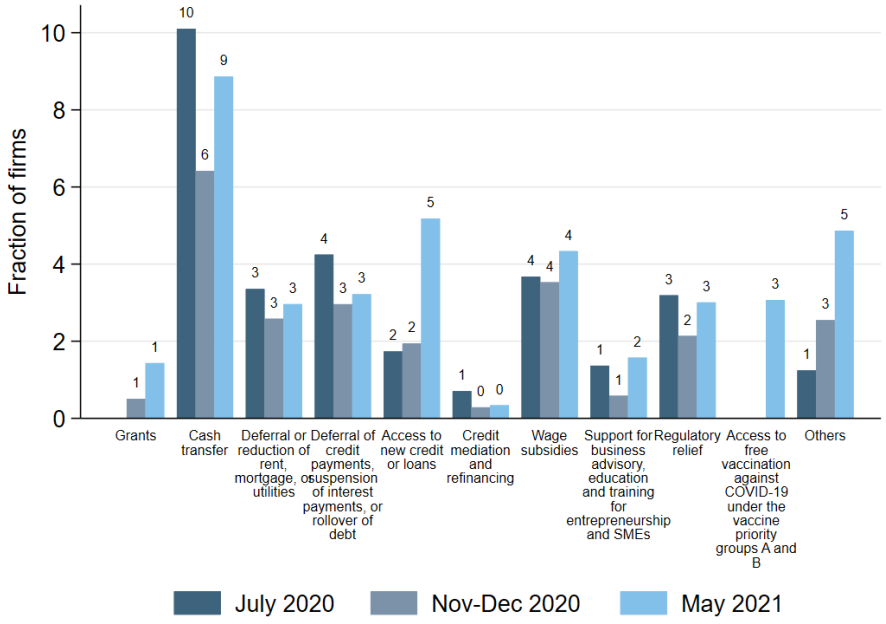
- The share of firms which received public support was 24 percent in May 2021, a slight increase from 17percent in November 2020 . Cash transfers continued to be main mechanism of support received.
- Overall, a trend of decreasing support in the form of regulatory forbearance and cash transfers was observed, with an increase towards access to grants and loans.

General access to public support*



**Note: due to lack of panel data, it is not possible to cross check firm's responses over time. Changes in reported access may be driven by survey noise.*

Access by policy instrument

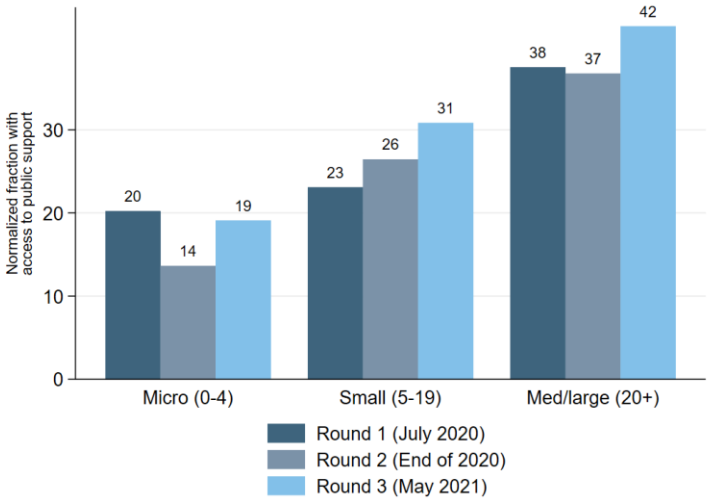


Note: Computations use sampling weights.

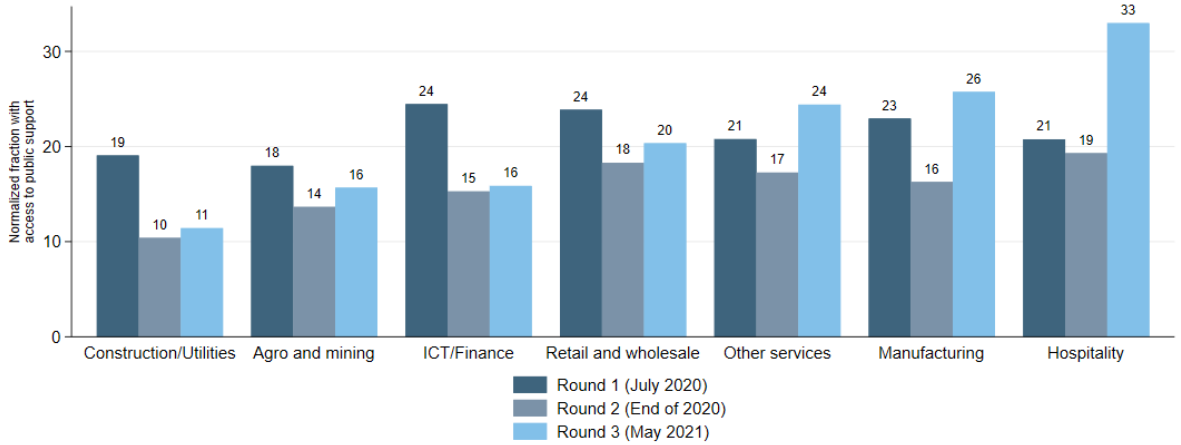
Access to public support among micro-firms stalled relative to July of 2020, whereas reported access among businesses in the hospitality sectors seemed to have increased.

Normalized probability of reporting access to public support

By Size



By Sector

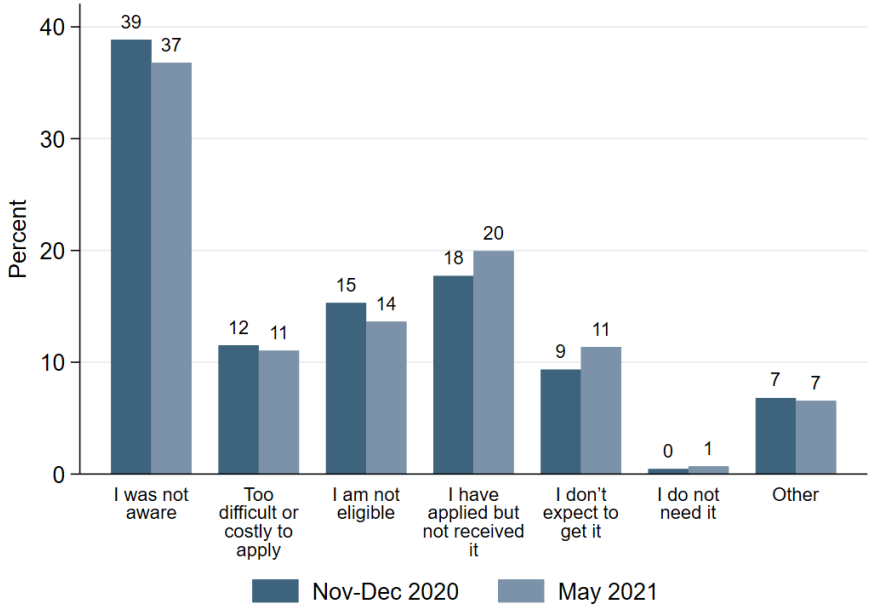


Note: Normalized averages from linear regressions on dummies for size, sector, and region. Computations use sampling weights.

The main reason for the lack of access to public support was unawareness of available support, followed by rejection in support applications

- The share of firms that were unaware of public support slightly decreased from 39 percent to 37 percent, but it remained as the dominant reason for not accessing public support.
- The shares of firms that applied but not received public support - and that did not expect to obtain support - increased to 20 percent and 11 percent, respectively.

Reasons for lack of access (fraction of firms)

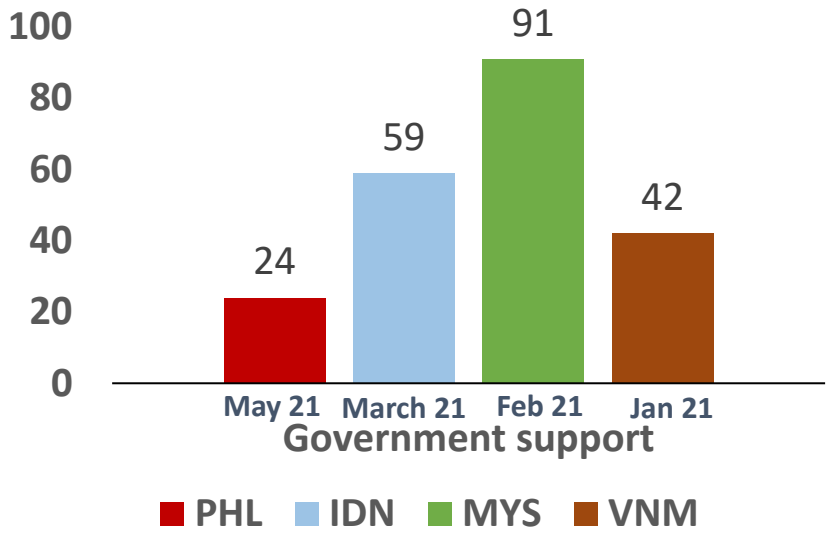


Note: Computations use sampling weights.

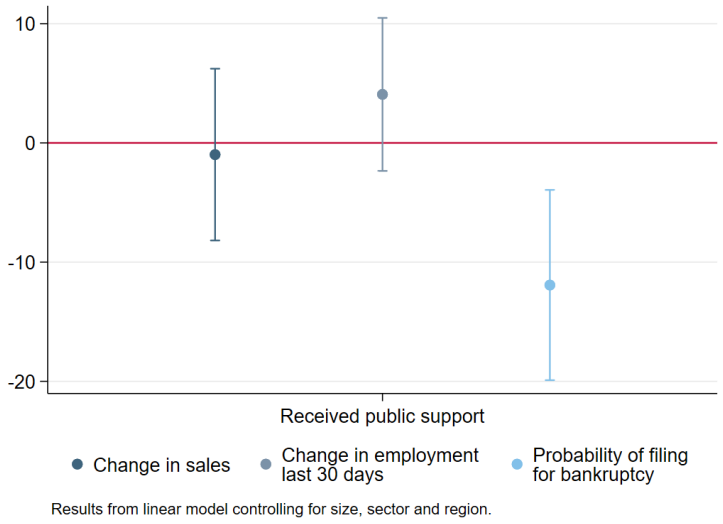
Although the share of firms receiving public support was lower than three regional peers, access to public support appeared to be effective in reducing expected bankruptcies.

- Receiving public support was positively associated with increases in and employment in the 30 days prior to responding , although this relationship is less precise.
- Firms that received support were less likely to expect filing for bankruptcy in the next 6 months by more than 10 percent.

Government support by country (measured between January -May 2021)



Government support & firm performance

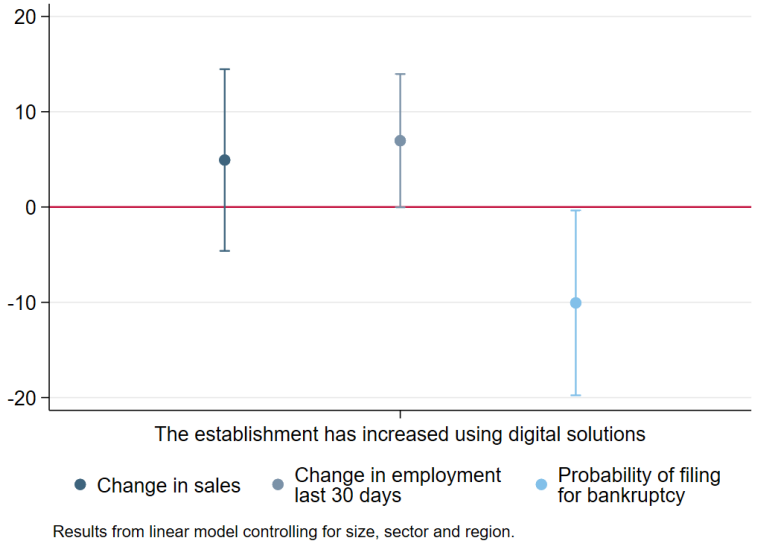


Note: Coefficients from separate linear regressions controlling for size (in number of workers and assets), sector, and region. Computations use sampling weights.

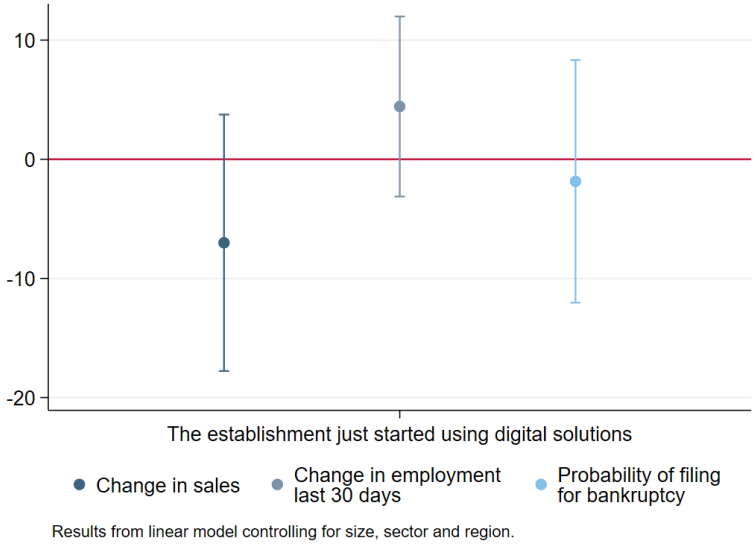
Increased use of digital technologies has also assisted firms in coping with the crisis.

- Firms that adopted digital platforms before the pandemic and that increased usage intensity during the shock experienced significantly higher employment growth (about 7 percent); and lower expectations to file for bankruptcy (about 10 percent).
- Increased adoption of digital technologies during the pandemic was not significantly associated with better firm performance, suggesting that the benefits of digital adoption may take time to materialize.

Increase on the intensive margin vs. no use



New adopters vs. no use



Note: Coefficients from separate linear regressions controlling for size (in number of workers and assets), sector, and region. Computations use sampling weights.

Policy outlook

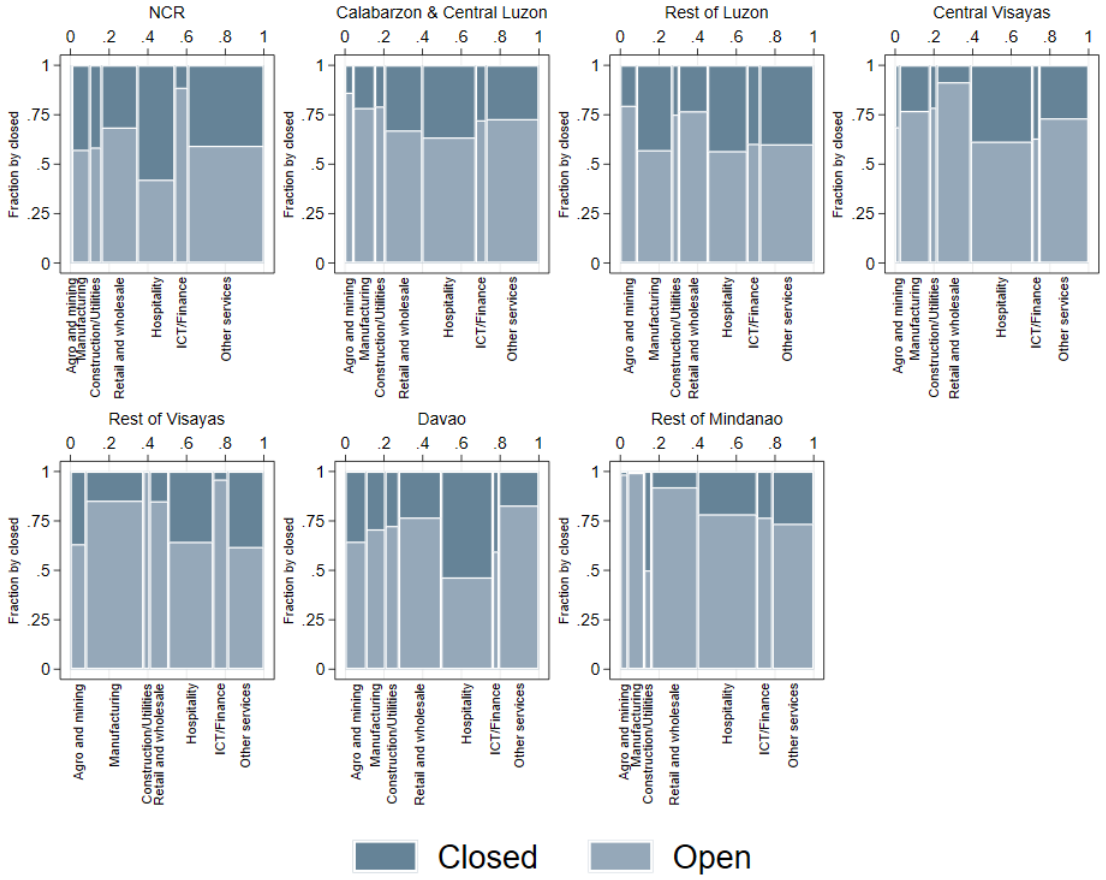
- In summary, evidence from the three waves of the *COVID-19 Firm Survey* collected thus far suggests that the negative effects of the pandemic on firm performance has been severe and will likely continue in the presence of mobility restrictions and depressed demand.
- Recovery hinges on the Philippines gaining effective control over the pandemic and on widely scaling up vaccination efforts while strengthening pandemic management effort (testing, quarantining, and contact tracing).
- Evidence suggests that both government and firm responses (digital adoption) can help cushion the negative effects of the pandemic.
- Yet, at the time of the survey, the share of firms receiving government support in the Philippines, at 24 percent, was one of the lowest among regional peers.
- These results suggest of a few avenues for government assistance:
  - Increase access to government support, especially among SMEs.
  - Directed communication could help bridge the existing awareness gap for available support and increase policy take-up rates for micro firms.
  - Explore whether conducive digital regulation (i.e. ITA, e-commerce) could be advanced and existing budgetary programs supporting SMEs could be enhanced to increase levels of digitalization and business adaptation to the ‘new normal’.

Annex

Higher closure rates in NCR was driven mainly by the hospitality industry, with ICT & financial services exhibiting low closure rates.

- The survey revealed more sectoral variations in business operations in other regions:
  - Hospitality explained most of closure in NCR, Visayas, and Davao
  - Manufacturing, hospitality and other services drove the relatively high closure rate in the rest of Luzon region.

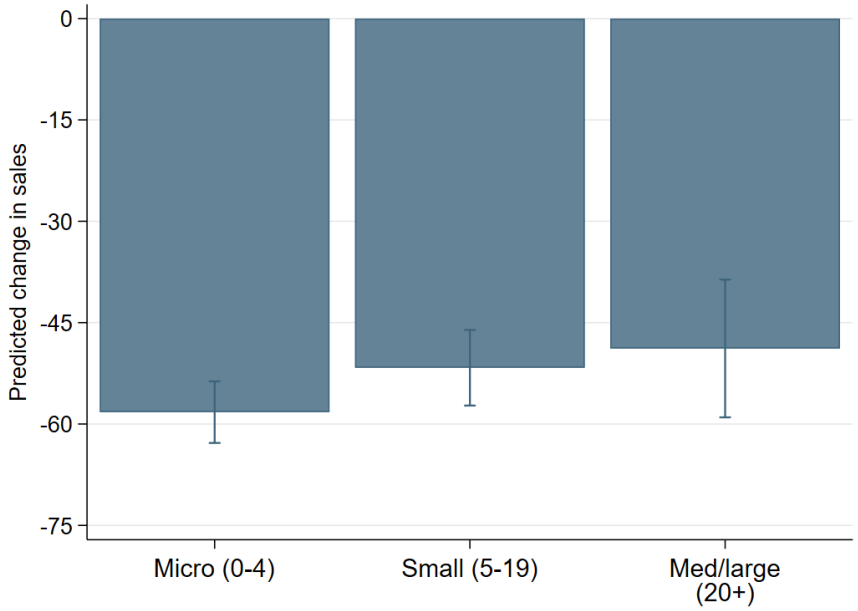
Share of open/closed firms by region and sector at survey (May 2021)



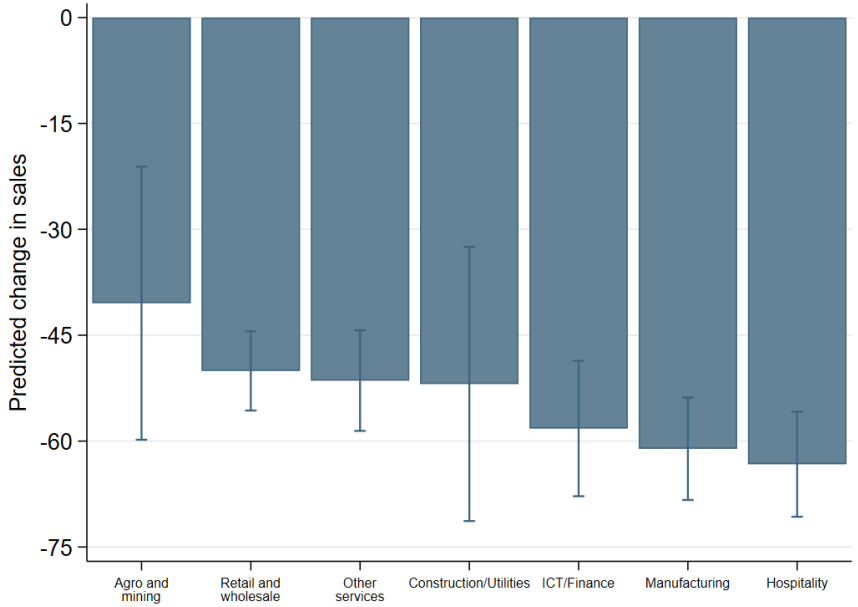
Conditional on firm location, the impact on sales has continued to be the most severe for micro firms and firms in hospitality sectors

Normalized change in sales relative to the same period of 2019

By firm size



By industry

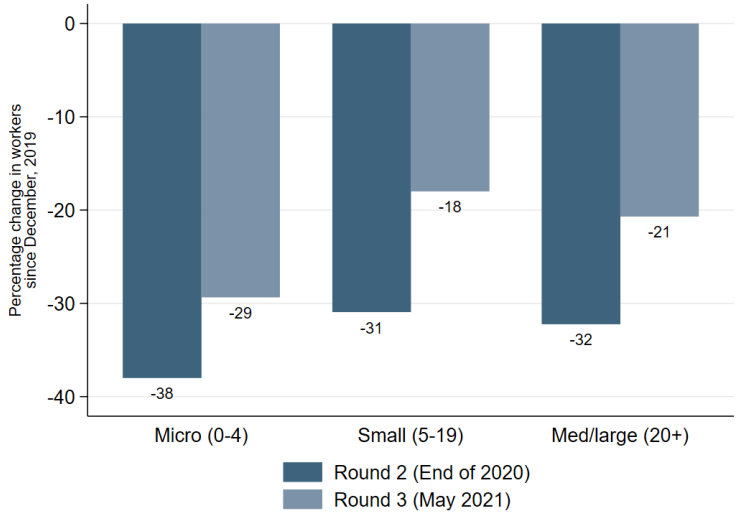


Note: Averages from linear regressions on dummies for size, sector, and region. Computations use sampling weights.

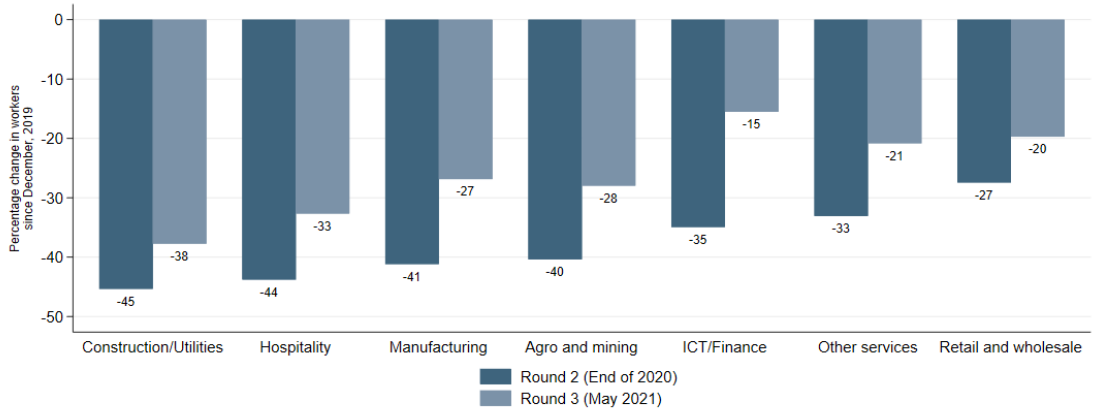
Businesses across all sizes and sectors experienced improvements in employment, but recovery was faster for the ICT and financial sector and among non-micro firms

Normalized percentage change in workers (relative to pre-pandemic baseline)

Differences across sizes



Differences across sectors

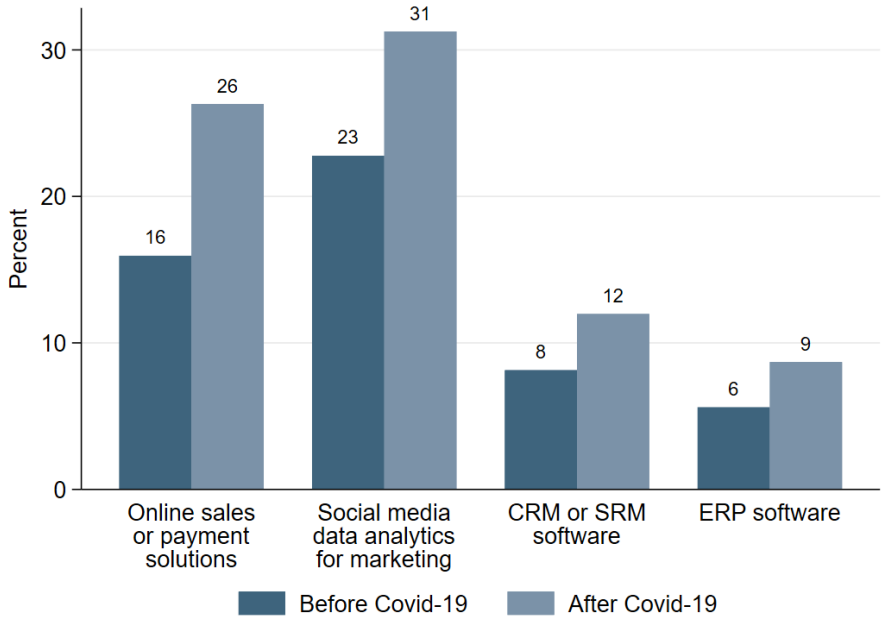


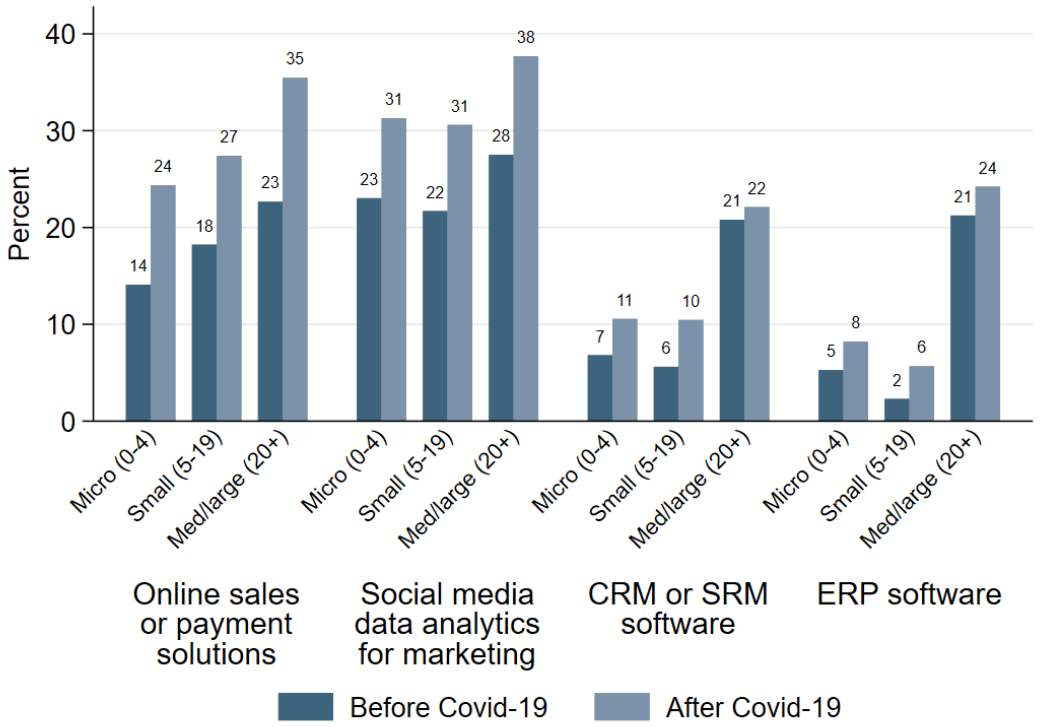
Note: Averages from separate linear regressions for each wave on dummies for size (in number of workers and assets), sector, and region. Computations use sampling weights.

Increased intensity was driven mainly by use of customer-facing functions, and increased use among medium and large firms.

- Intensive use of digital solutions (that is, using “to a great extent”) for marketing and sales became stronger with the crisis.

Share of firms that report using technology intensively
(“to a great extent”)

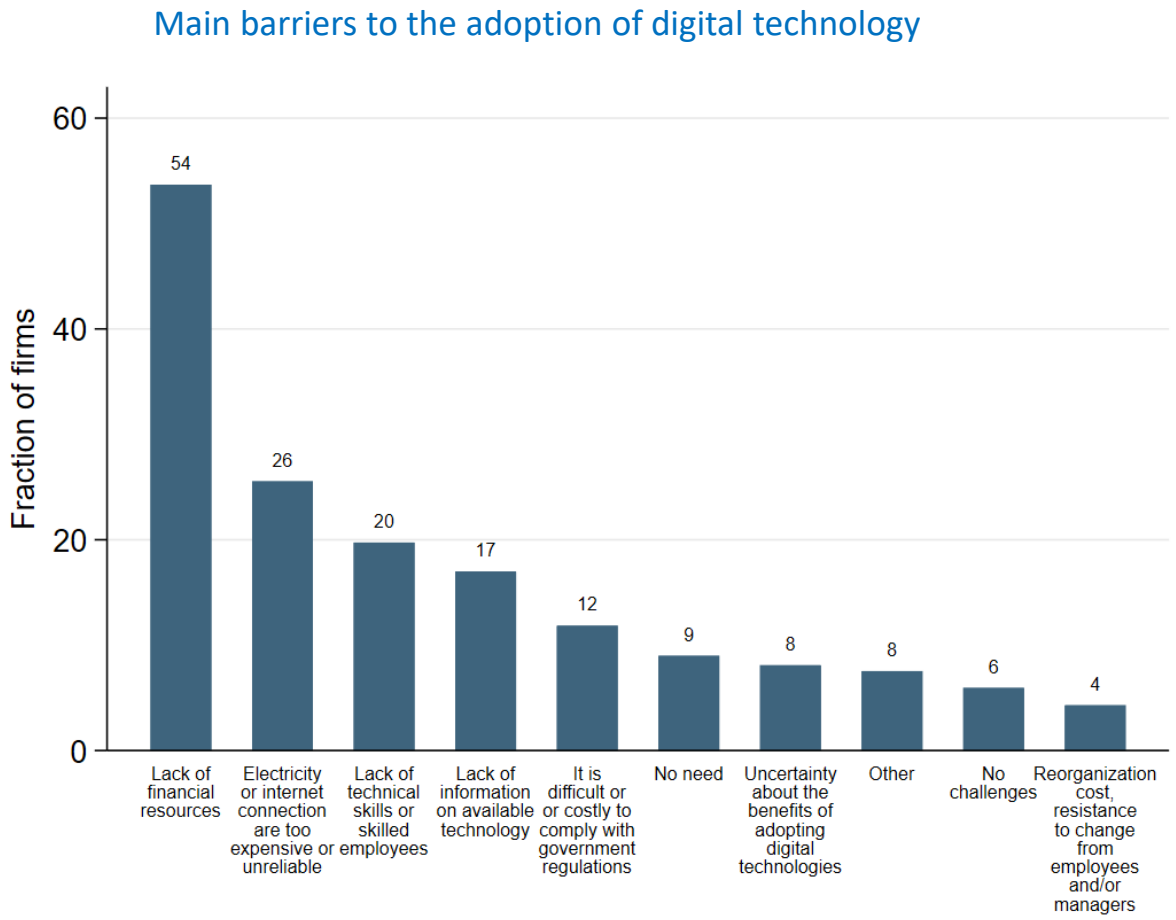




Computations use sampling weights.

Lack of financial resources was perceived to be the main impediment to further adoption of digital solutions.

- 54 percent of firms reported lack of financial means as the main barrier to adopt new technology
- 26 percent of firms reported the key constraint to be either expensive or unreliable electricity and internet connection.



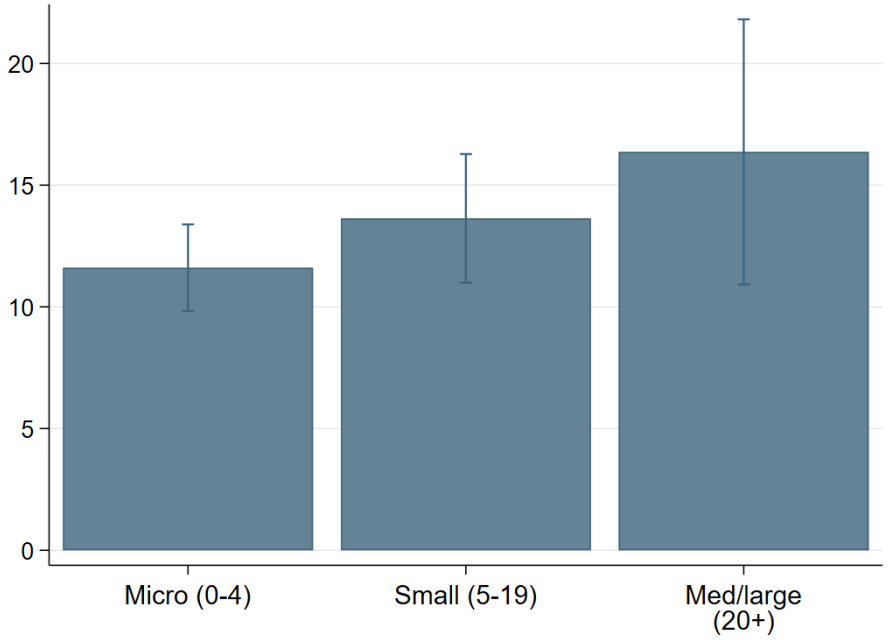
Computations use sampling weights.

Micro businesses and businesses in NCR were the most cash constrained

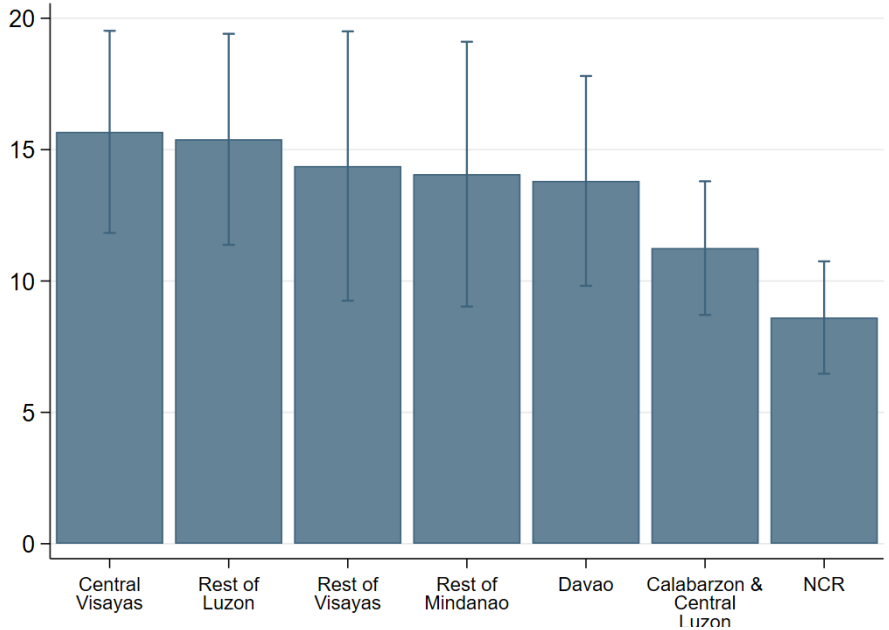
- The average number of weeks that firms could cover their costs with available cash reserves decreased with firm size.
- Firms in the NCR region were able to cover their costs with cash in hand for less than 10 weeks

Average number of weeks they can cover costs with cash available (internal funds only)

By Size



By Region

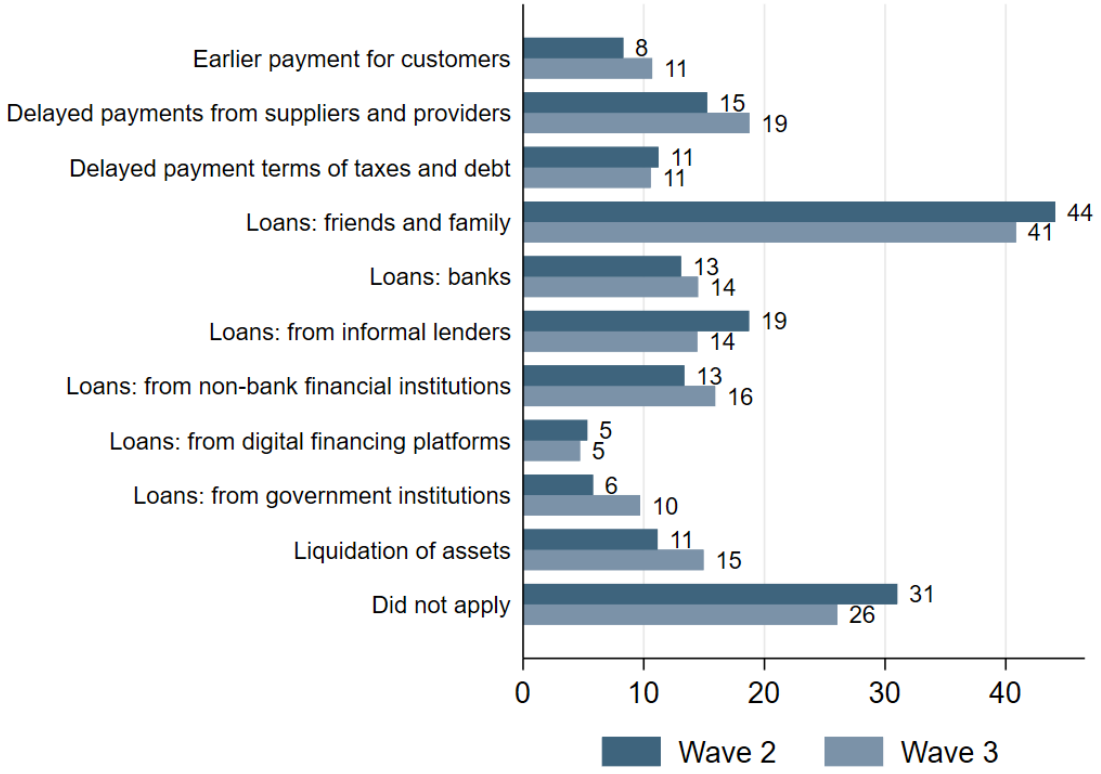


Note: Normalized averages from linear regressions on dummies for size, sector, and region. Computations use sampling weights.

Most firms relied on informal sources for finance; and several firms experienced difficulty in accessing finance from banks and gov. institutions

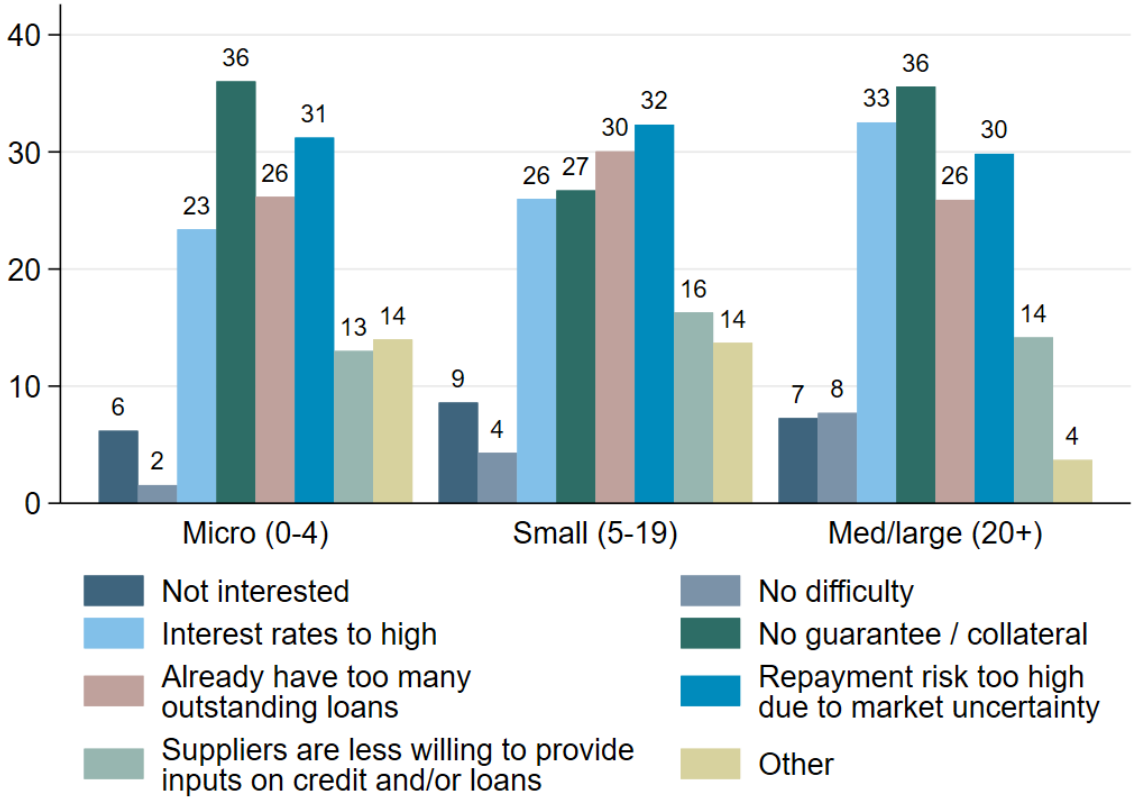
- The most dominant source of financing was informal: 41 percent currently obtained loans through friends and family
  - 21 percent report applying for financing from banks but were rejected – 18 percent were rejected from government institutions.
- Digital finance remained the least likely source of financing.
- Since the last survey, there has been some small improvements in accessing formal loans:
  - The share of firms that obtained loans from government institutions, banks, and other financial institutions increased while the share of firms that reported not applying for a loan decreased.
- At the same time, more firms relied on informal financing channels such as advanced payments from customers, delayed payments from suppliers or liquidation of assets – in line with increasing trend in payment delays.

Fraction of firms that have received finance from each source



Overall, evidence suggest most firms remained financial constrained, with lack of collateral and market uncertainty ranking as top barriers to access finance.

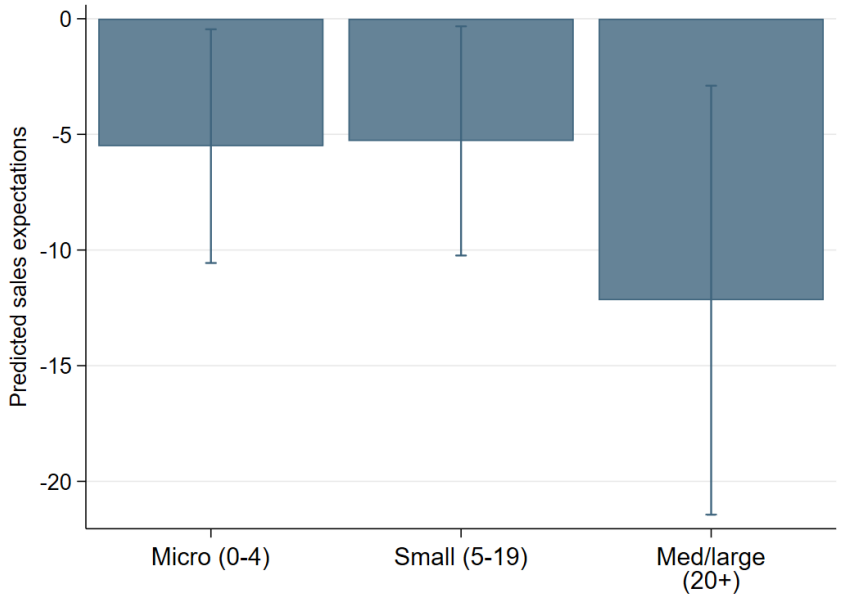
- Very few firms – less among SMEs - indicated either no interest or no difficulty in accessing finance.
- The top 2 perceived barriers to access finance were lack of collateral and high repayment risk due to market uncertainty
- Inability to produce collateral was a more important barrier for micro, medium, and large firms while uncertainty was more important for small firms.



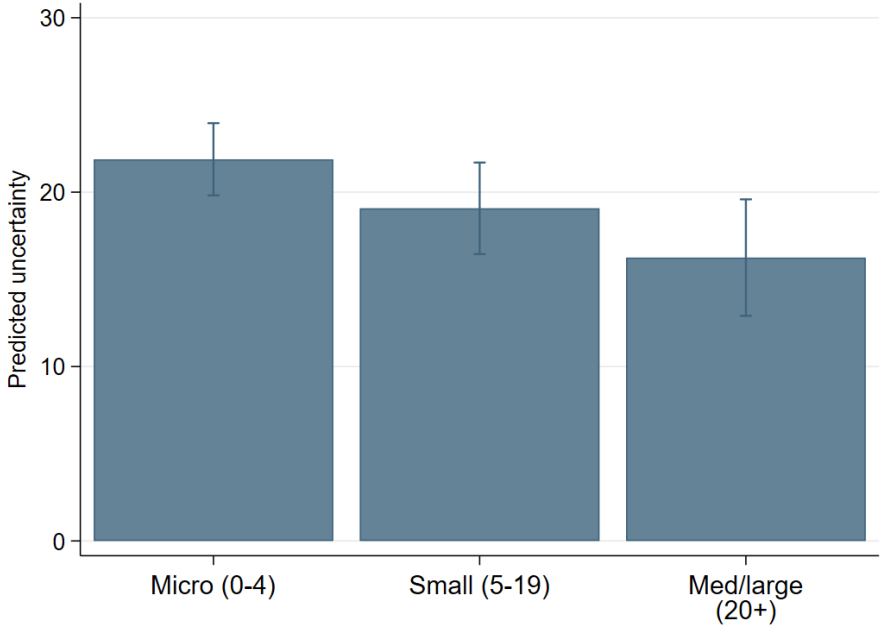
Medium and large businesses were less optimistic and less uncertain about future sales growth.

Prospects about sales growth the coming 6 months: Differences across sizes

Expected sales growth



Uncertainty about the prediction

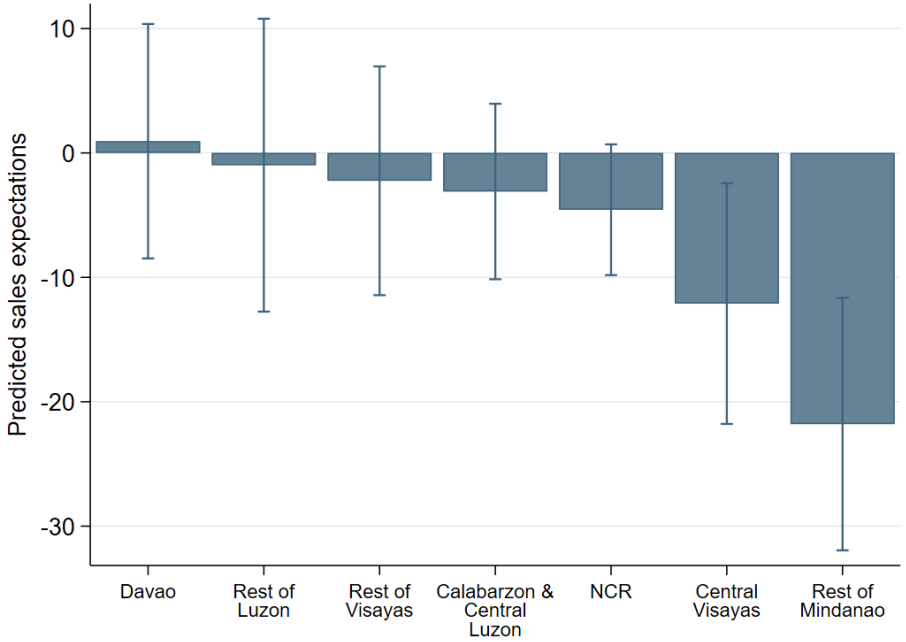


Note: Normalized averages from linear regressions on size, sector, and region dummies. Computations use sampling weights.

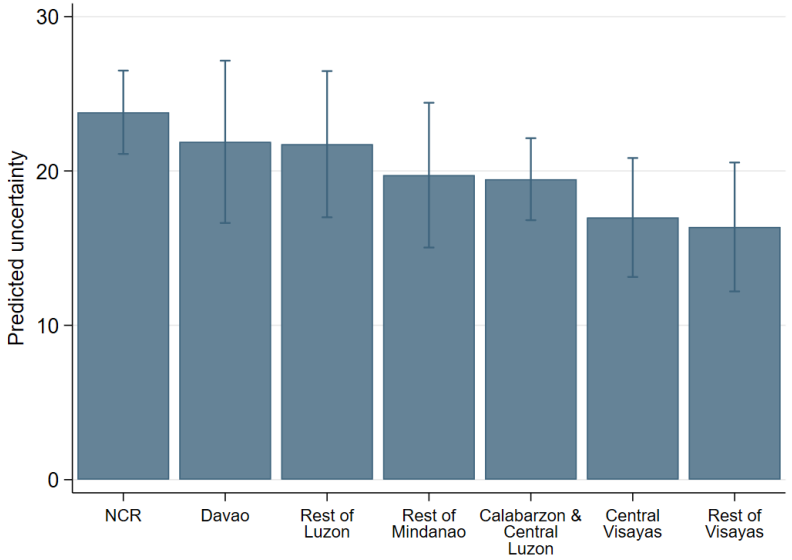
Businesses in NCR were more uncertain than firms in other regions, in line with differences in mobility trends across locations.

Prospects about sales growth the coming 6 months: Differences across regions

Expected sales growth



Uncertainty about the prediction



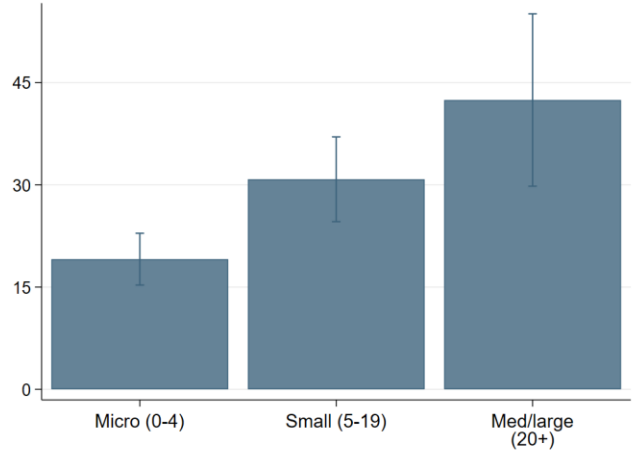
Note: Normalized averages from linear regressions on size, sector, and region dummies. Computations use sampling weights.

Businesses in the hospitality sectors and businesses in NCR were more likely to report having received public support, consistent with manifest need for relief (i.e., those who experienced the steepest sales decline).

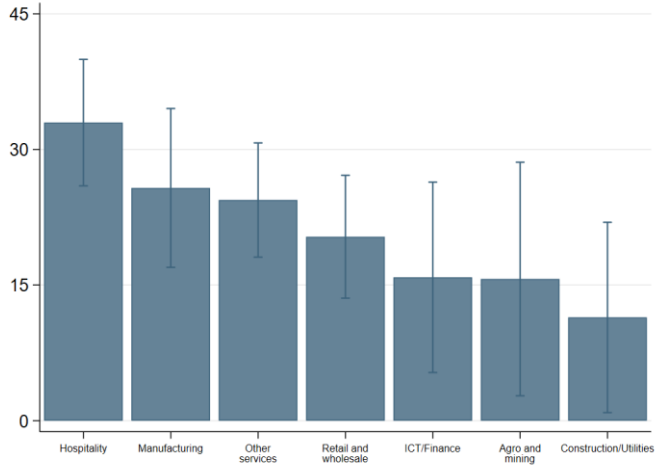
- Micro-businesses were less likely to report public support, compared to medium and large firms, despite their experience with severe drop in sales.

Normalized probability of reporting access to public support

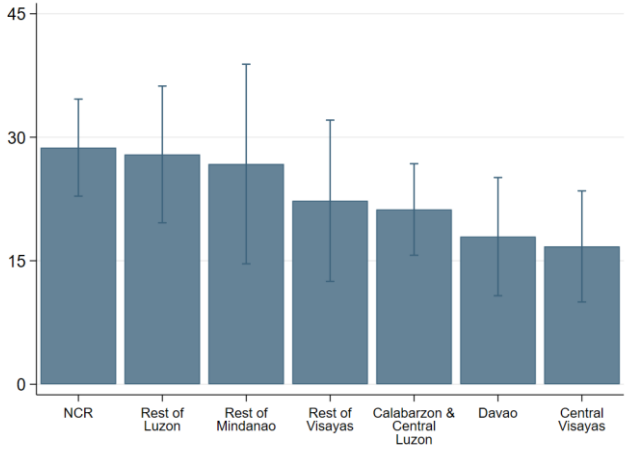
By Size



By Sector



By Region



Note: Normalized averages from linear regressions on dummies for size, sector, and region. Computations use sampling weights.

Note: Are there opportunities to enhance the Philippines government support to accelerate SME digitalization for economic recovery?

- Business digitalization (with a focus on SMEs) is important for building resilience, improving productivity and as a potential driver of new growth, diversification and jobs.
- The Philippines government has turned the digital transformation a priority issue for advancing economic recovery and has already facilitated expansion of digital infrastructure (mobile network and broadband, e-payments, Philsys), and enacted regulations that account for new needs in this emerging field**.**
- An array of existing budgetary programs supporting SMEs digitalization remains in place[1]

However, it is less clear whether the composition of government support is optimal. Could it be improved?

… What are the binding constraints preventing SME digitalization or the adoption of digital solutions? (preference and information biases, complementary investments, coordination and trust issues.)

Are there gaps in digital regulation that represent an impediment for SMEs to participate of the digital economy?

- Are the design features of existing budgetary programs responding to identified market and system failures that prevent adoption of digital solutions? Are there being implemented effectively? Do they work?
- What is the evidence of effectiveness of digital support policies from the international experience? Are Philippines policies in line with best practice?
- Do the implementing agencies in the Philippines have the capacity to advance these programs?

The WBG is working with DTI/DICT to find answers to some of these questions…

- Assessing regulations for digital businesses. Identify Key regulatory bottlenecks in the e-commerce ecosystem that affect entry and scale up of e-commerce businesses and MSMEs access to digital platforms (Fall 2021).
- Profiling of existing budgetary programs supporting digitalization of SMEs (Fall 2021)..

Note: (1) e.g. SheTrades, OTOP Philippines Hub – Next gen, Go Lokal!, Tradeline, OneStore , Ctrl+Biz and digital jobs)

Examples of policy reviews and international reference for policies supporting digitalization of SMEs

Digitalization of SMEs, in the present work, is understood as the adoption of digital technologies within the firm to expand the market, work remotely, enhance efficiency, commercialize, or create any other outcome that improves the firm's performance.

Preliminary findings from the assessment of regulations for digital businesses reveal a mixed picture …

- Philippines was an early adopter of eCommerce regulations in ASEAN region having passed E-Commerce Act in 2000
- In few areas, adequate legislation is in place and may only require partial improvements – for instance, Personal data protection & Ride-sharing platforms; Philippines has already enacted provisions that account for new regulatory needs in this emerging field.
- In other instances, significant aspects re. to digital businesses are not fully or adequately covered including Cross-border data transfers, competition, open data policies and consumer and supplier protection; gig economy workers.

Examples of policy reviews and international reference for policies supporting digitalization of SMEs

In addition to regulation, there are budgetary policies. Budgetary programs supporting SME digitalization are policies that carry fiscal implications (expense-based interventions). A program is defined as a set of planned activities that must be implemented within a certain timeframe, with a defined budget, and with a series of external conditions in order to achieve the defined objectives.

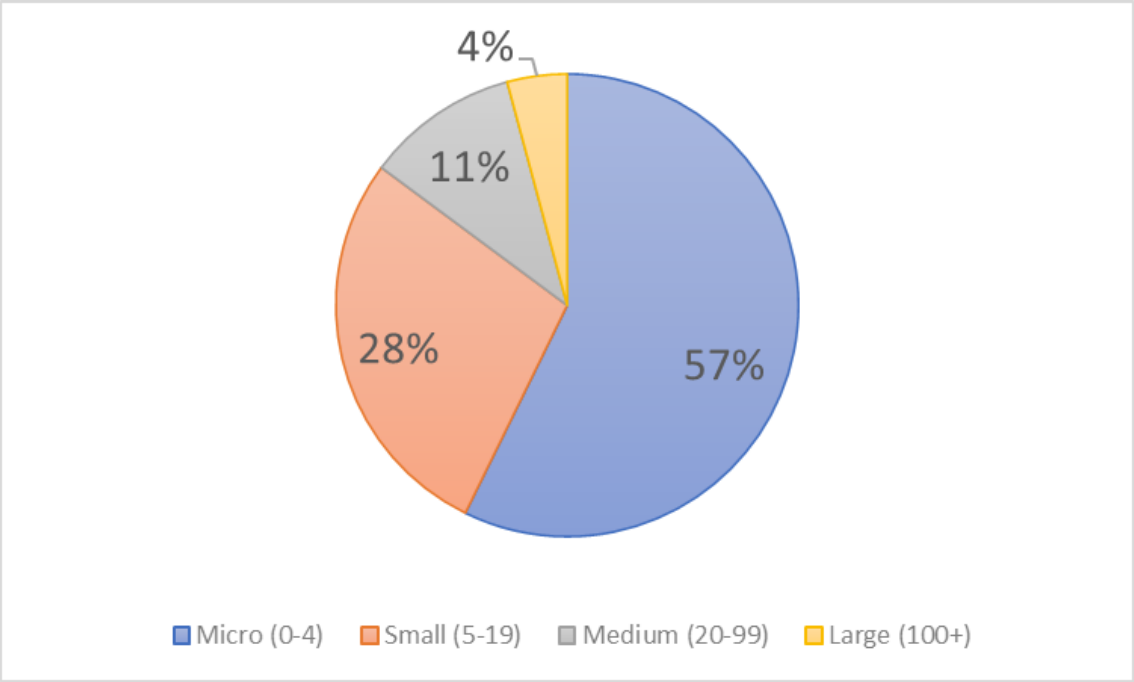
Examples of international budgetary programs supporting digital technology adoption targeting SMEs.

1. Public platform for SME digital upgrading. They address coordination problems and information constraints. They rely on the provision of self-administrated tools through digital portals, from which SMEs can access information for digitalization (including a digital assessment), basic training, and access portals to reduce transactional costs with customers and suppliers. E.g. Digital Boost Program - New Zealand, Acelera pyme (Spain), Digitaliza tu Pyme (Chile).
2. Provision of complementary investments for digital adoption. Address the need of complementary investment, coordination problems and information constraints. These programs are public goods that facilitates tailored assistance, and often provides financial support for SMEs. Hence, programs under this category provides tools for complementary investment, both managerial and financial. E.g. SMEs Go Digital – Singapore; FranceNum, which provides loans and guarantees for digital projects. SMV Digital – Denmark; Cloud Computing (Spain), Trading Online Voucher Scheme (Ireland), Digital Skills Partnership (DSP), SME Business Digitalization Grant (Malaysia), Go-Digital (Germany).
3. Promotion of advanced technologies. Size-Induced Market Failures (Vandenberg et al., 2016). These focus on digital technologies (e.g., IoT, Industry 4.0), with focus on digital upgrading on SMEs. As they address size-induced market failures, they often promotes collaborative activities and linkages with third parties, such as large firms and research institutes. E.g. Mittelstand 4.0 Competence Centers, MadeSmarter (UK), Digitalization Boost (Denmark), Smart Factory Korea.

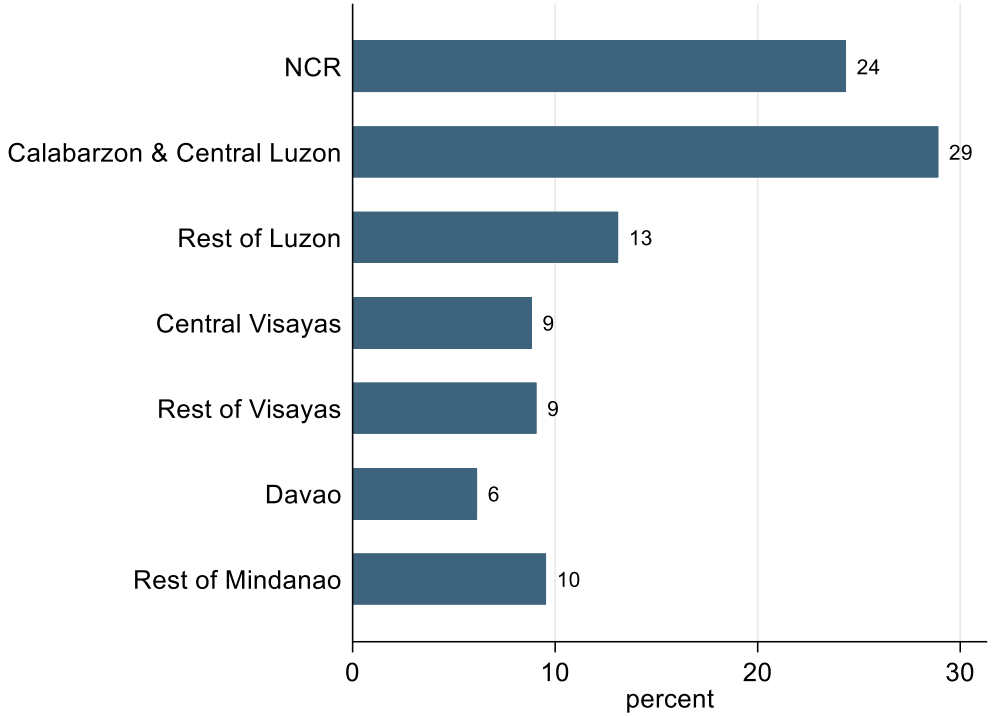
Characteristics of the sample

- The self-administered online survey collected data on 6,611 firms. Only 3,123 businesses responded the question on total assets at the time of the interview, which is necessary to assign sampling weights, and in this sub-sample there were only 1,425 complete interviews.
- The surveyed sample with complete interviews was reweighted 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/large by number of workers), location (7 major regions), and sector (7 categories).

Distribution by size



Distribution by region



Distribution by sector