

CHAPTER 9C

Expanding Access to Economic Opportunities in Industry and Services (I&S) for Startups, MSMEs, and Cooperatives

The global pandemic has exposed the lack of resiliency of startups, micro, small and medium enterprises (MSMEs), and cooperatives. Micro and small-scale enterprises were the most vulnerable given their limited asset size, lack of economies of scale, and structural inefficiencies. With the government's support programs and measures to curb the infection rate, 69 percent of the MSMEs were able to resume operations in May 2021.¹ The digital transformation of enterprises during this period has been a silver lining as both consumers and businesses shifted to purchasing goods and services online. However, there remains a need to tap technological opportunities to digitally empower enterprises in this fast-changing market environment.

ASSESSMENT

The pandemic disrupted the operations of MSMEs, startups, and cooperatives as it dampened consumer demands and constrained production networks and supply chains. Targets of all core indicators were unmet as the Philippine economy recorded its worst annual economic contraction in 2020 at -9.5 percent. The 34.2 percent contraction of investments during the same year also reflected the pessimism of businesses. To support economic recovery, the government prioritized assistance to affected enterprises, particularly MSMEs, by providing access to low-cost loans and debt restructuring schemes, facilitating market access, and supporting business-repurposing activities, among others.

¹ World Bank data – 60 percent open and operating at below capacity; 9 percent open and operating at full capacity

EXPANDING ACCESS TO ECONOMIC OPPORTUNITIES IN I&S FOR STARTUPS, MSMES, AND COOPERATIVES ACROSS REGIONS INCLUDING THE DIGITAL ECONOMY

Total approved investments reached PHP756.6 billion in 2021, falling short of the PHP1.02 trillion target. Investment pledges in 2021 declined by 33.6 percent from the same period last year. Specifically, investment pledges for the industry sector significantly increased by 675.7 percent while investment pledges for the services sector dropped by 53.8 percent. Information and communication received the highest increase in investment commitments recording a 459.9 growth from the previous year. Meanwhile, public administration and defense, compulsory social security and water supply, sewerage, waste management and remediation activities suffered the biggest drop, declining by more than 99 percent from the previous year.

Foreign direct investment (FDI) net inflows reached USD10.5 billion in 2021, surpassing the previous high of USD10.3 billion in 2017. Investment inflows were directed mainly to manufacturing, electricity, gas, steam and air conditioning supply, and financial and insurance activities. However, net equity and reinvestment of earnings in the industry sector dropped by 26.7 percent and 20.6 percent respectively. Net equity placements in the services sector also registered a decline of 28.6 percent from USD885.5 million in 2020 to USD632 million in 2021.

Loan allocation of banks for micro and small enterprises declined further to 2.1 percent of the total loans as of end-December 2021. Bank lending activities contracted compared to the pre-pandemic period amid the deterioration of borrowers' credit profiles, less favorable economic outlook, and reduced tolerance for risk. The Philippine banking system's total loan portfolio declined by 0.7 percent year-on-year (y-o-y) to PHP33.9 trillion, while the loans to MSMEs decreased by 8.0 percent y-o-y to PHP1.81 trillion.

Likewise, loan allocation of banks for medium enterprises dropped further to 3.3 percent of the total loans. Pursuant to the Magna Carta for Small Enterprises (RA 6977), the mandatory credit allocation for MSMEs lapsed on June 16, 2018. Nevertheless, the Bangko Sentral ng Pilipinas (BSP) continues to monitor the exposures of the banking industry to MSMEs through the issuance of Memorandum No. M-2018-022.² The BSP has also undertaken other relief measures to help channel liquidity directly to the MSME sector while ensuring a robust industry.³

² Memorandum No. M-2018-022 apprised the extension of banks' submission of compliance reports and encouraged the continued submission of their quarterly exposures to MSMEs.

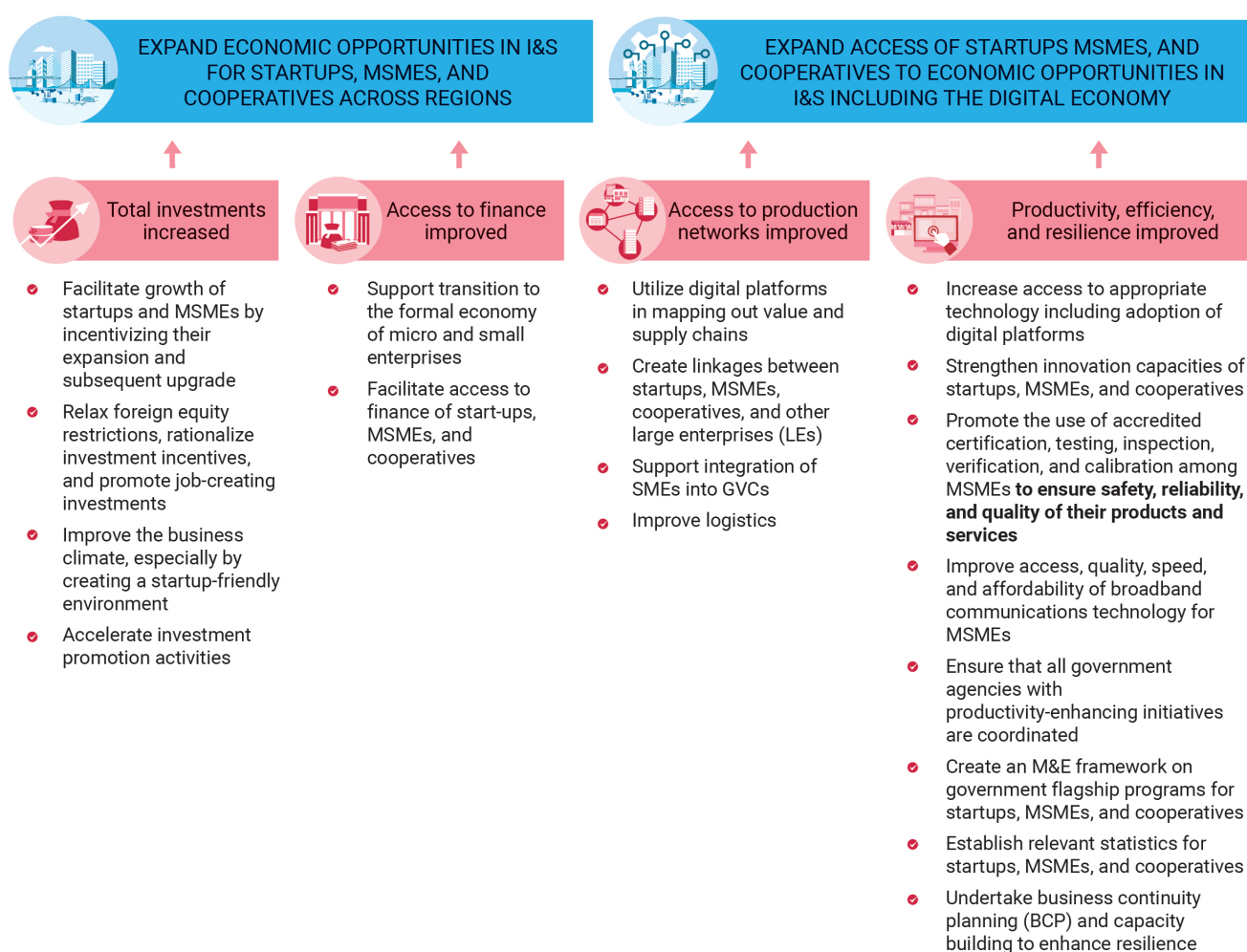
³ Among the relief measures implemented to support the MSME sector's recovery from the COVID-19 pandemic are: 1) reduced credit risk weights to performing MSME loans; 2) flexibility in liquidity-related standards; 3) adoption of credit-related relief measures, and 4) recognition of peso-denominated loans to MSMEs as eligible instruments for compliance with the BSP reserve requirement.

STRATEGIC FRAMEWORK

Nico's condition represents similar hardships faced by small business owners during the pandemic. To aid in their recovery, the recommended strategies will help address small business owners' constraints such as: (a) limited access to finance; (b) lack of business-to-business (B2B) and consumer-to-consumer (C2C) policies; (c) lack of access to production network/supply chain; (d) low innovation and technology adoption; (e) inadequate ICT connectivity, and (f) high occurrence of production supply chain disruptions.

Figure 9.3

Strategic Framework to Expand Economic Opportunities in I&S for Startups, MSMEs, and Cooperatives



Note: Text in bold are revised/new strategies to address the challenges identified in the sector.

STRATEGIES

TO IMPROVE ACCESS TO FINANCE

Improve access to finance. Promotion of and access to hybrid instruments,⁴ Credit Surety Fund (CSF), and value chain financing (VCF) will be further enhanced. For instance, MSMEs that are linked to the supply chain of a fast-moving consumer goods (FMCG) company will have access to working capital and funding for other business needs through the Sustaining Trade Access to Primary Food and Link to Enterprises (STAPLES) Program under the Small Business Corporation (SBCorp). The Credit Risk Database (CRD) project of BSP will be accelerated to lessen banks' dependence on collaterals during credit evaluation. Similarly, the growth of fintech companies will be supported to provide alternative financing solutions for consumers and businesses (see [Chapter 15](#)).

TO INCREASE TOTAL INVESTMENTS

Protect the rights of consumers and businesses through effective B2B and C2C policies. A policy framework that will effectively govern B2B and C2C transactions will be established and implemented to protect stakeholders against fraud, unfair trade, and anti-competitive business practices. This will benefit single proprietors subscribed to franchising agreements, enterprises and customers engaged in digital platforms, and small manufacturers that were constrained by the conditions set by large-scale retailers and consolidators, among others.

Facilitate strategic high-value investments through an effective incentive system and well-coordinated investment-friendly policies. The implementation of the Strategic Investment Priority Plan (SIPP) under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act will target high-value investments, especially in innovation-driven fields of construction, manufacturing, and information and technology (IT), among others (see [Chapter 9A](#)). Incentives for cleaner production technologies/processes will also be prioritized (see [Chapters 14 and 20](#)). Moreover, the amendments to the Foreign Investments Act (FIA) will establish a unified marketing and promotion plan⁵ for the country to attract investments with high potential for job creation (Tier 1 under SIPP), address gaps in the domestic supply and value chain (Tier 2), or include R&D activities that will yield significant high-value added and increased productivity (Tier 3). In addition, implementing investment-friendly policies such as allowing startups or startup enablers to be fully foreign-owned and reducing the direct employment required by foreign investors from 50 to 15 Filipinos, are expected to encourage smaller foreign enterprises to locate in the country.⁶

⁴ Hybrid instruments combine debt and equity features into a single financing vehicle. It serves SMEs that are in need of capital injection, but have limited or no access to debt financing or equity, or the owners do not want the dilution of control that would accompany equity finance.

⁵ The enactment of the Amendments to the Foreign Investments Act will create the Inter-agency Investment Promotion Coordination Committee (IIPCC) that will draft and implement the Foreign Investment Promotion and Marketing Plan (FIPMP). This will institutionalize the current Philippine Investment Promotion Plan (PIPP) Steering Committee and Technical Working Group to harmonize efforts to position the country as among prime destinations for investments in the world.

⁶ This exempts retail trade scope as provided under amendments to the RTLA. Amendments to the FIA stipulates that, "...micro and small domestic market enterprises with paid-in equity capital less than the equivalent of Two hundred thousand US dollars (US\$200,000.00), are reserved to Philippine nationals: Provided, That if: (1) they involve advanced technology as determined by the Department of Science and Technology, or (2) they are

TO IMPROVE ACCESS TO PRODUCTION NETWORKS

Enhance access to production networks to improve the sector's production supply chain. The Innovation for Regional Inclusive Innovation Centers (RIICs), Industry and Startups (IRIS) Program will strengthen and expand the RIICs; assist local firms in assessing their readiness for digital transformation; and support the startups to grow, scale up and become sustainable (see [Chapter 14](#)).

TO IMPROVE PRODUCTIVITY, EFFICIENCY, AND RESILIENCE

Accelerate digital transformation by implementing the Connect, Harness, Innovate, and Protect (CHIP) Framework. CHIP aims to establish the IT connectivity of the government with other governments, local government units (LGU), consumers, and businesses. Its key thrusts include the following:

Improve the quality of the country's ICT infrastructure through the rollout of the National Broadband Program, the Free Wi-Fi for All, and deployment of fiber optics and wireless technology, in partnership with the private sector and LGUs. (see [Chapter 19](#)).

Strengthen digital readiness of cities and provinces, including through investments in digital education, with special focus on countryside interventions to take advantage of opportunities in e-commerce and the gig economy (see [Chapter 19](#)).

Fast-track e-governance processes, such as processes for business name registration, business permit and licensing system, and tax payments, among others, to reduce the cost of doing business (see [Chapter 5](#)).

Strengthen cybersecurity measures and mitigating risks, including those resulting from digital monopoly, and opportunity disparities (see [Chapters 5 and 19](#)).

Enhance innovation and technology adoption of MSMEs, startups, and cooperatives. This is through the implementation of a comprehensive MSME digitalization program among government agencies nationwide. Programs designed to provide innovative solutions to small enterprises will be scaled up, including the establishment of incubation hubs, shared service facilities (SSFs), and the Small Enterprise Technology Upgrading Program (SETUP) 2.0, among others. The formation of Knowledge, Innovation, and Science Technology (KIST) Parks in state universities and colleges and the creation of a Silicon Valley-like ecosystem will raise productivity, increase regional economic growth and enhance Industry 4.0 adoption. Moreover, digital skills training programs will equip entrepreneurs with tools⁷ to improve business productivity.

endorsed as startup or startup enablers by the lead host agencies pursuant to Republic Act No. 11337, otherwise known as the Innovative Startup Act; or (3) a majority of their direct employees are Filipinos, but in no case shall the number of Filipino employees be less than fifteen (15), then a minimum paid-in capital of One hundred thousand US dollars (US\$100,000.00) shall be allowed to non-Philippine nationals..."

⁷ Online business registration, scaling-up and automating business operations, e-payment/e-banking, online marketing, etc.

Promote an alternative digital marketplace for entrepreneurs to sell and promote local products.

E-markets may replace or complement brick-and-mortar shops to ensure continuous operations of businesses. This will complement the Department of Trade and Industry's *Go Lokal!* and the DOST's OneStore.ph platforms.

Enhance consumer protection. Alongside implementing pro-competitive policies, efficient consumer policies and effective redress mechanisms on e-commerce, digital financial payments, and internet services will be prioritized towards ensuring accountability and improving delivery of service providers. The use of automated chatbots and AI-enabled tools to be complemented by digitally skilled human resources will help in resolving simple to complex consumer complaints.

Strengthen coordination of risk management strategies to avoid supply chain disruptions and ensure business resiliency. Agreed policies and enhanced coordination of the national government with LGUs in crafting and implementing risk management strategies will be strengthened to ensure unhampered supply chains in the event of unprecedented natural calamities (see [Chapters 8 and 20](#)). Additionally, the scaling-up of mentorship programs including the development and customization of business continuity plans will help small enterprises expand operations and develop resiliency.

RESULTS MATRIX

Table 9.3 Results Matrix

INDICATOR	BASELINE (YEAR)	TARGETS			ACTUAL		
		2020	2021	2022	2019	2020	2021
Sector Outcome: Total investments increased							
Total approved investments increased (in PHP million) ^a	729,000 (2016)	1,067,000	1,022,000	1,094,000	1,309,009.4	1,139,369.8	756,627.4
Net FDI increased (in USD million) ^b	8,280 (2016)	N/A	N/A	N/A	8,671.4	6,822.1	10,518 ^c
Subsector Outcome: Access to finance improved							
Percent of allocation for micro and small enterprises to total bank loan portfolio (%) ^d	3.81 (2016) ^f	8	Increased ^{d, f}	Increased ^{e, f}	2.8	2.2	2.1
Percent of loan allocation for medium enterprises to total bank loan portfolio (%) ^e	5.44 (2016) ^f	2	Increased ^{d, f}	Increased ^{e, f}	4.3	3.5	3.3

^a Baseline figure used to compute for the plan targets reflects total approved investments submitted by investment promotion agencies to the Board of Investments and the PSA. Members of the Philippine Investment Promotion Plan (PIPP) Steering Committee approved the downward revised target of 7 percent annual increase in IPA-approved investments (from the original 10%) for 2021 and 2022, considering the DBCC revised growth forecasts due to the COVID-19 pandemic. Note that the revised 7 percent annual g.r. was computed starting from the baseline figure (2016).

^b While there were no targets set, the indicator was included in the RM for monitoring purposes. Net foreign direct investment baseline figure for 2016 was recorded at USD8.28 billion. Gross domestic product in current prices for the same year was recorded at USD318.6 billion.

^c Preliminary data from BSP

^d In accordance with the Magna Carta for MSMEs (RA 6977 as amended by RA 8289 and RA 9501). Used as proxy indicator for “Proportion of small-scale industries with loan or line of credit” (SDG indicator 9.3.2 [Tier 3]) to measure improvement of access to finance. The Planning Committee on Economic Development and the PSC approved revision of targets last March 2020 (pre-pandemic) to “increased” given that the ten-year mandatory credit allocation for micro, small and medium enterprises has already lapsed in June 2018, as stipulated under the law.

^e Baseline updated as of March 31, 2017.

^f Relative to actual accomplishment in the previous year.

