



Addressing the Effects of the COVID-19 Pandemic on MSMEs: Insights for Policy Making

Executive Summary

The coronavirus (COVID-19) pandemic and the subsequent Enhanced Community Quarantine (ECQ) implemented by the Philippine government have negatively impacted the micro, small and medium (MSME) enterprise sector. Based on the online survey conducted by the UP Institute for Small-Scale Industries (UP ISSI) among MSMEs, the most common negative effects were: **closure of business; cashflow problems; employees not being able to report for work; drop in sales; delay in processing and delivery of orders/services; and limited or lack of supply of raw materials.**

To cope with the situation, MSMEs employed work-from-home (WFH) arrangement, laid off some of their employees, reduced work hours, among others. Some of these coping mechanisms meant new challenges and additional costs for MSMEs, and at worst, loss of income for retrenched employees. Further, the challenges experienced by the MSMEs employing WFH arrangement have exposed a chronic problem that has been left unattended over the years: the weak and inadequate Information and Communication Technology (ICT) infrastructure in the country.

As the MSMEs struggled for their survival, assistance from the government was dismal and unimpressive, verging on almost non-existent in some areas. Fourteen (14) percent Survey respondents received relief goods and six percent of the respondents availed of the Department of Labor and Employment's CAMP (COVID-19 Adjustment Measures Program). Assistance received from other stakeholders was also minimal but much more relevant: telecommunication support, loan and logistics support.

Asked what assistance they would need to be able to recover from the effects of the COVID-19

pandemic, the common answers were: **tax break (70%), interest-free loan (68%), training on business continuity planning (66%), wage subsidy of affected MSME employees (60%) and provision of working capital (57%).**

The negative effects brought about by the unprecedented COVID-19 situation highlight the critical need for business continuity planning (BCP). **Majority (75%) of the Survey respondents do not have business continuity plans and/or disaster preparedness-related plans** for the following reasons: **lack of awareness on its importance; lack of funds and lack of organizational capacity.**

Recommendations

General recommendations:

1. Intensify efforts to contain virus through mass testing and rigorous contact tracing;
2. Harmonize all efforts and initiatives in addressing this pandemic for efficiency.

Specific recommendations:

1. Provide financial grants to cash-strapped MSMEs;
2. Facilitate MSME's access to interest-free loans and other financial assistance;
3. Look into the feasibility of waiving taxes and other business-related fees of MSMEs for at least six months.
4. Eliminate barriers to the movement of goods and personnel in essential sectors.
5. Realign budget and allocate to industries severely affected by the pandemic.
6. Strengthen the ICT infrastructure in the country.
7. Increase the capacity of MSMEs on business continuity planning.
8. Increase the capacity of MSMEs to leverage on disruptive technologies.

Introduction

Five months after its emergence in Wuhan, China, the coronavirus (COVID-19) has infected more than three million people and claimed over 200 thousand lives across 215 countries/territories (WHO, April 2020). With the gravity of its impact, this pandemic has not just created a huge health crisis but has also generated a major economic downturn globally. As this is unprecedented, no government is prepared for this, not even the seemingly most advanced-thinking economies. Every government is scrambling to implement measures that will stop the spread of the virus, while mitigating the negative consequences of such measures on the economy and the society, in general.

The Philippines reported its first case of COVID-19 on January 20, 2020. As of May 4, the Department of Health reported over 9,000 cases and more than 620 deaths.

The entire country has been placed under a state of calamity since March 16. To limit the spread of the virus, Luzon was placed under enhanced community quarantine (ECQ) from March 17 to April 12 initially, but was extended until April 30. After April 30, some areas in Luzon were placed under General Community Quarantine (GCQ), while in Metro Manila, Regions III and IV ECQ is extended until May 15. Other LGUs in Visayas and Mindanao are also under localized ECQ/GCQ. With the ECQ implementation, alternative work arrangements were put in place; land, domestic air and domestic sea travel were restricted; and mass public transportation was suspended. Only essential agencies such as banks, supermarkets, hospitals and utilities, government agencies remain operational. To ensure the accessibility of basic commodities, all manufacturing, retail and service establishments were directed to continue operation but with strict compliance to stringent measures, e.g. physical distancing, wearing of masks, etc.

The implementation of the ECQ consequently resulted in the disruption of the labor market, heavily impacting the micro, small and medium enterprise (MSME) sector.

This paper discusses the effects of the coronavirus (COVID-19) pandemic on the MSME sector in the country and provides recommendations on how the government can help the sector get back on its feet. As an advisory committee member of the Micro, Small and Medium Enterprise Development (MSMED) Council, the UP ISSI deems it crucial for the government to take the necessary and timely actions for the business continuity and economic recovery of the MSME sector amidst the precarious situation.

This paper is divided into three sections. The first section provides a brief overview of the macro-economic impact of the COVID-19 and then zooms in on the findings of the Survey conducted by the Institute on the effects of the COVID-19 on MSMEs, focusing on the current condition of their businesses, challenges they are facing and coping mechanisms. The second section outlines some initiatives and assistance for the MSME sector provided by the government and the private sector. The third section discusses the conclusion and provides recommendations specific to the MSME sector.

Realities on the ground: Effects of ECQ to MSMEs

The National Economic and Development Authority (NEDA) projected a cumulative loss in gross value added (in current prices) of Php429 billion to Php1.4 trillion and a zero GDP growth resulting in lower incomes and costing at least a year's worth of efforts to reduce poverty.

A study conducted by the Philippine Institute for Development Studies (PIDS) states that "transport, storage, and communication sector is expected to suffer substantial losses because of expected declines in tourism (Php 11.7 - 124.3billion). Other services (Php 41.5-356.9 billion), manufacturing (Php 82.1 - 855.2 billion), and wholesale and retail trade (Php 93.2 - 724.8 billion) are projected to be substantially negatively affected by weaker global and domestic demand" (Abrigo, Uy, Haw, Ulep, Francisco-Abrigo, 2020).

According to the Philippine Statistics Authority (PSA), severely affected industries include the

wholesale and retail trade, and food and accommodation sectors, which account for at least 50 percent of the employment generated by MSMEs (Fernandez, 2020).

As it is, more than a million of workers nationwide have already been displaced due to temporary closures or under flexible work arrangements (FWA) implemented by over 42,000 establishments, as reported by the Department of Labor and Employment (DOLE).

NEDA warned that around 116,000 to 1.8 million individuals could lose their jobs this year, the worst level of unemployment in the country's history.

Zooming in: The UP ISSI Survey

With the scenario presented in the earlier section, the UP ISSI conducted an online survey among MSMEs in the country to provide data-driven picture on the effects of the COVID-19 pandemic on MSMEs and document their experiences.

The online survey was conducted from April 2 – 21, 2020, and had 108 respondents: 64 micro enterprises, 30 small- and 14 medium-scale enterprises. Fifty-nine respondents are in the service sector; 32 manufacturing; 15 trading; and 2 in the agricultural sector. Majority of the respondents (58) are from the National Capital Region (NCR); 23, Region 4; 15, Region 3. The other respondents come from Regions 6, 8, 5, 10 and 11.

Ninety-five percent of the respondents said their business operations were affected by the ECQ. The most common effects among the respondents were: **closure of business** (65%); **cashflow problems** (58%); **employees not being able to report for work** (58%); **drop in sales** (57%) and **delay in processing and delivery of orders/services** (55%). This is a collective experience among the respondents given the close intervals of percentages among these identified effects. Other significant effects identified by the respondents were: loss of customers; problematic access to raw materials; overdue customer payments; reduced number of staff and shortened business hours.

Closure of business

Closure of business establishments is enforced under the ECQ, except those providing or manufacturing basic necessities such as food, medicine, water, banking and remittance centers, power, energy, telecommunication, and the like.

Cashflow problems

With temporary closure of business and/or reduced business operation, cashflow becomes a huge problem as there is no/not enough money coming in to pay for overhead expenses, i.e. rental, labor. With their current cashflow, **68 percent of the respondents would not be able to survive in three months' time**: with 25 percent saying it could only hold on for a month; another 25 percent in two months, and 17 percent in three months. With the pandemic on its third month, more and more MSMEs are likely to close shop because of cash flow issues.

Sales decline

Eighty-four percent (84%) of the respondents suffered 50%-100% sales decline, **with 47% saying their company sales have been wiped out by 100%**.

Limited or lack of supply of raw materials

Among the 63 respondents who required raw materials, **41 (or 65%) said their current supply could only sustain one month's operation**. Despite the Department of Trade and Industry's Memorandum Circular 20-08 "*Ensuring Unhampered Movement of Cargo and Transit of Personnel...*" the varying interpretation and implementation of such guidelines among local government units caused disruptions in the supply chain. The absence of public transportation has also been a problem to business owners who relied on it. As such there were reports on impeded or total shutdown of business operation due to raw materials supply challenges.

Delay in processing and delivery of orders/services. Vague ECQ implementing guidelines over the movement of goods have caused delays in processing and delivery of orders/services.

Employees not being able to report for work

The absence of public transportation caused problems for many workers in essential businesses, resulting in the reduction of workforce. With many workers unable to get to work, most business owners have had to contend with reduced workforce or temporary closure.

Coping mechanisms employed

To cope with the situation, 36 percent of the respondents adapted work-from-home arrangement. Among the respondents belonging to micro enterprises, 22 percent laid off some of their employees, while another 19 percent used online sales channels. Among the respondents from small enterprises, 31 percent reduced work hours and made provisions for employees to stay-in. Among those from medium enterprises, 42 percent maintained social distancing in the workplace and 33 percent reduced work hours and used online sales channels. Other common responses were temporary closure and contactless delivery of products.

For those who have employed work-from-home arrangement, the top challenges encountered were intermittent internet connection (70%), employees cannot access work files from the office (57%), and employees do not have laptops and/or desktops at home (46%).

Meanwhile, the total percentage of employees laid off by respondents reached a minimum of 3% and a maximum of 100% of their personnel complement, with an average of 58%.

Assistance provided to employees

Among the given options on the assistance provided to employees, the most common answers were: provision of food (46%); work-from-home option (33%); payment of advanced salary (29%); paid leave (29%) and temporary shelter for employees (21%). Notably, the “work-from-home option” was prominent among respondents from small and medium enterprises. Further, of the 26 who answered “work-from-home option”, only 18 provided laptop/desktop to their employees and only three (3) provided Internet connection.

Assistance received from the government, other stakeholders

Of the 103 respondents who indicated that their business operations were adversely affected by the implementation of the ECQ, only 19 respondents (or 18%) received assistance from the government (as of the conduct of the Survey). Out of the 19 respondents who received assistance from the government (as of the conduct of the Survey), 14 received relief goods and 6 availed of the Department of Labor and Employment’s CAMP (COVID-19 Adjustment Measures Program). The Survey respondents received minimal assistance from other stakeholders (suppliers, financial institutions, industry associations). The top three most common assistance received were: telecommunication support, loan and logistics.

Road to Recovery: Challenges and assistance needed

Asked what major issues and challenges they were likely to encounter when they resume their business operation, the most common answers were: **loss of clients; lack of/limited operational capitalization; employee welfare; problematic cashflow; availability of raw materials and logistical requirements.**

Among the given options on the kind of assistance or support they would need to be able to recover from the effects of the COVID-19 pandemic, the top five choices for most of the respondents were: **tax break (70%), interest-free loan (68%), training on business continuity planning (66%), wage subsidy of affected MSME employees (60%) and provision of working capital (57%).**

On business continuity planning

The unprecedented situation brought about by the COVID-19 pandemic highlights the critical need for BCP. Majority (75%) of the respondents do not have business continuity and/or disaster preparedness-related plans for their enterprise. Such plans enable businesses to prepare for, respond to, and recover from disruptions. Asked what barriers they encountered in developing BC plans, the most common responses were: lack of awareness on its importance; lack of funds and lack of organizational capacity.

Interventions for MSMEs amid the COVID-19 situation

To mitigate the negative consequences of the ECQ, both the government and the private sector have come up with various interventions and initiatives, some of which are specifically intended for MSMEs:

- **Financial Assistance to MSMEs**

The Small Business Corporation (SBCorp.) rolls out the **1-Billion Enterprise Rehabilitation Financing Facility**, which allows micro enterprises to borrow Php10,000 up to Php200,000, while small enterprises may borrow up to Php500,000 at an interest rate of 0.5%. The SBCorp also offers moratorium on loan payments to its MSME borrowers and partner financial institutions (PFIs). The Department of Agriculture's **Survival and Recovery (SURE) Aid Program** offers smallholder farmers and fisherfolks affected by the COVID-19 pandemic to apply loans of up to Php25,000 each at zero interest, including one-year moratorium without interest on outstanding loans. Landbank of the Philippines' **Calamity Rehabilitation Support and the Development Bank of the Philippines' Rehabilitation Support Program on Severe Events (RESPONSE)** provide credit assistance, which MSMEs or even MSME support organizations can avail of. The Ayala group also rolled out its **P2.4-billion COVID-19 response package** for businesses within its eco-system, including income support, rent condonation for tenants, among others. The **MSME Credit Guarantee Program** of the Philippine Guarantee Corporation (PHILGUARANTEE) meanwhile offers P120-Billion for working capital loans of MSMEs facing economic difficulties as a result of this pandemic.

- **Financial Assistance to employees of MSMEs**

Under the Department of Labor and Employment's **COVID-19 Adjustment Measures Program (CAMP)**, affected employees in private establishments will be provided a one-time financial assistance of Php5,000. There is also the **Small Business Wage Subsidy (SBWS)** measure,

which through the Social Security System (SSS), shall provide a wage subsidy of between 5,000 to 8,000 pesos (based on the regional minimum wage) per month for two months per eligible employee. SSS also provides unemployment insurance or involuntary separation to member employees who have lost their jobs because of the COVID-19 situation.

- **Assistance on Business Operation**

The Bureau of Internal Revenue (BIR) has extended the deadline of filing and payment of 2019 Annual Income Tax Returns (AITR) without penalties to taxpayers. MSMEs also get **concessions on residential and commercial rents** within the period of enhanced community quarantine (ECQ), without incurring interests, penalties, fees, and other charges.

- **Business advisory assistance and services**

The **Livelihood Seeding Program – Negosyo sa Barangay (LSP-NSB)** was revised to fit the government's response on the COVID-19 situation. A funding of Php203 million will be used to provide a package of livelihood kits and business advisory assistance and services, amounting to at least Php5,000 up to Php8,000 per MSME affected by the COVID-19 pandemic.

- **Capacity Building**

Scholarship Programs amounting to Php3 billion will be offered by the Technical Education and Skills Development Authority (TESDA) to support the affected and temporarily displaced workers through upskilling and reskilling. **Go Negosyo's Mentor Me Online** offers free mentoring session on their official Facebook page, discussing business issues and concerns as well as providing technical and practical know-how on managing micro and small businesses.

- **Support to Tourism Industry**

Out of the Php27-billion COVID-19 stimulus package rolled out by the government, Php14 billion is allocated to various programs and projects of the Department of Tourism (DOT). The amount will go to: infrastructure development in Bohol, Iloilo, Pampanga, Pangasinan, Corregidor Island, and other tourist destinations; rehabilitation of tourist destinations (Coron,

Palawan; Puerto Galera and Burnham Park, Baguio City) and improvement of road access to a number of tourism sites in the country.

Note: For a comprehensive list of government interventions for MSMEs, please visit DTI website at www.dti.gov.ph.

Conclusion and Recommendations

The MSME sector is one of the hardest hit by the COVID-19 pandemic and the ensuing ECQ implementation. What aggravated the situation was the fact that on the first wave of the virus and in the early implementation of the ECQ, MSMEs were seemingly left to fend for themselves, as indicated by the minimal number of the Survey respondents who were able to receive assistance and the type of assistance received. This resulted in loss of jobs, closure of businesses, and left MSMEs cash-strapped and struggling to survive. This happened in a span of three months. Given the increasing number of COVID-19 cases reported each day, the coming months do not bring much promise to our MSMEs.

As the situation remains bleak, it is critical that the government and other stakeholders provide the necessary and timely support to the MSME sector to pave the way for its survival and eventual recovery.

Post-ECQ will not be "business as usual" for our MSMEs. The COVID-19 pandemic has turned our world upside down and it is clear that things will not return to normal any time soon, if ever. This pandemic has presented us new problems, requiring new solutions. We are being ushered into the "new normal" where we need to dispose of many conventions. We need to rethink ways of helping our MSMEs.

Considering these challenges, UP ISSI makes the following recommendations:

General recommendations:

- 1. Intensify efforts to contain virus through mass testing and rigorous contact tracing.** The ECQ implementation, which caused huge disruptions in the economy and heavily impacted the MSME sector, will be in vain if not complemented

by massive testing and contact tracing. WHO has repeatedly emphasized the critical importance of testing and contact tracing as the basis of public health detective work to shut down an epidemic. "Find, isolate, test and treat every case, to break the chains of transmission. Every case we find and treat limits the expansion of the disease." These were also the strategies employed by countries that were able/or on its way to flattening the curve (Source). The sooner we contain the virus, the sooner we can move forward and get the economy restarted.

- 2. Harmonize all efforts and initiatives in addressing this pandemic for efficiency.** Ensure that the various initiatives and interventions of different government agencies are coherent and coordinated so there is no duplication of services and wasted resources.

Specific recommendations:

- 1. Provide one-time financial grants to cash-strapped MSMEs.** Supplemental appropriation of one-time emergency funding/financial grants could be provided to help them avoid bankruptcy. This will also help MSMEs in sustaining their workforce and not resort to laying-off their employees.
- 2. Facilitate MSME's access to interest-free loans and other financial assistance.** Simplify processes and requirements to make it easier for MSMEs to avail of loan programs. Most MSMEs, particularly the microenterprises, do not have the capability to access credit facilities offered by the banks and, would usually resort to other means (i.e. 5-6 lending scheme, loan sharks, etc.), which impose higher interest rates and tighter payment terms.
- 3. Look into the feasibility of waiving taxes and other business-related fees of MSMEs for at least six months.**

4. **Eliminate barriers to the movement of goods and personnel in essential sectors.**
5. **Realign budget and allocate to industries severely affected by the pandemic.** The government needs to revisit its budget, realign some of its priority programs and refocus its resources on economic relief programs for MSMEs. The Asian Development Bank (ADB) in its assessment on the macroeconomic impact of the COVID-10 pandemic in the Philippines, identified the five sectors in the country that will be mostly affected by the COVID-19 pandemic, namely: business, trade, personal and public services; light/heavy manufacturing, utilities, and construction; hotel, restaurants, and other personal services; transport services; and agriculture, mining, and quarrying (see Annex 1).
6. **Strengthen the ICT infrastructure in the country.** A strong, reliable and affordable ICT infrastructure is crucial in this time when MSMEs find new ways of doing their businesses, employing WFH arrangement and maximizing digital technology.
7. **Increase the capability of MSMEs on business continuity planning.** Building on the lessons brought upon by this pandemic, MSMEs should be educated on the importance of business continuity planning and be equipped in strategizing on how they can continue operations through disruptions as huge as this pandemic.
8. **Increase the capacity of MSMEs to leverage on disruptive technologies.** To be able to navigate efficiently and effectively through the “new normal” brought upon by this pandemic, MSMEs must be equipped with the necessary skills to leverage on available technology, i.e. maximizing digital platforms to ensure access to market and supply chain. Facilities and technical assistance may be

provided to help MSMEs in restructuring their business operations.

As a research and extension unit of the University of the Philippines, ISSI strongly advocates for building the capacity of MSMEs on Business Continuity Planning. ISSI's HANDA program or (Honing Agents for National Disaster Awareness Program: Disaster Preparedness and Business Continuity Planning Training Program for MSMEs) aims to develop a culture of preparedness in the country by bringing together owners and managers belonging to MSMEs, cooperatives, representatives from local government units, and those interested to know more about safeguarding employees, customers, assets, and how to ensure that their organization / enterprise can prepare for, respond to, and recover from natural and human-induced disruptions. Among the partners of UP ISSI in raising BCP Awareness for MSMEs include the Department of Trade and Industry – Bureau of Small and Medium Enterprise Development (DTI-BSMED), the Business Continuity Managers Association of the Philippines (BCMAP), and ARISE Philippines. UP ISSI also conducts research studies related to BCP and disaster preparedness for MSMEs. The MSME Disaster Resilience Study aims to describe the disaster experiences; impact to their business operations; disaster preparedness and business continuity-related practices of MSMEs in the Philippines. The results of this study will aid in the formulation of policies and development of programs related to community disaster risk reduction, and strategies for business resilience.

References

- Abrigo, Michael R.M.; Uy, Jhanna; Haw, Nel Jason; Ulep, Valerie Gilbert T.; Francisco-Abrigo, Kris (2020). *Projected Disease Transmission, Health System Requirements, and Macroeconomic Impacts of the Coronavirus Disease 2019 (COVID-19) in the Philippines*. PIDS Discussion Paper No. 2020-15. Quezon City: Philippine Institute for Development Studies.
- Asian Development Bank. (2020a). *COVID-19 Outbreak to Have Significant Economic Impact on Developing Asia* [News Release]. Asian Development Bank. <https://www.adb.org/news/covid-19-outbreak-have-significant-economic-impact-developing-asia>
- Asian Development Bank. (2020b). PHL may face up to \$1.9B in GDP loss—ADB. *BusinessWorld*. <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=2ahUKEwi-INCuVNH0AhXjFqYKHTIDBswQFjACegQIARAB&url=https%3A%2F%2Fwww.bworldonline.com%2Fphl-may-face-up-to-1-9b-in-gdp-loss-adb%2F&usg=AOvVaw2LDvDhRxwqGPLQwplZFXHz>
- Bouey, J. (2020). *Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China*. RAND Corporation.
- Department of Finance. (2020, March 16). *Gov't economic team rolls out P27.1 B package vs COVID-19 pandemic*. <https://www.dof.gov.ph/govt-economic-team-rolls-out-p27-1-b-package-vs-covid-19-pandemic/>
- Fernandez, B. (2020, April 6). *Lawmaker bats for 'economic lifeline' for MSMEs affected by Covid-19 crisis*. *BusinessMirror*. <https://businessmirror.com.ph/2020/04/06/lawmaker-bats-for-economic-lifeline-for-msmes-affected-by-covid-19-crisis/>
- Medenilla, S. P. (2020). DOLE releases P90-M aid for COVID-impacted workers. *BusinessMirror*.
- National Economic and Development Authority. (2020). *Addressing the Social and Economic Impact of the COVID-19 Pandemic*. National Economic and Development Authority. http://www.neda.gov.ph/wp-content/uploads/2020/03/NEDA_Addressing-the-Social-and-Economic-Impact-of-the-COVID-19-Pandemic.pdf
- Ordinario, C. (2020, March 23). *MSMEs, import/export bloc need P33.2B'*. *Good Governance*. <http://governance.neda.gov.ph/?p=7816>
- World Health Organization. (2020). *Preparing for large-scale community transmission of COVID-19: Guidance for countries and areas in the WHO Western Pacific Region*. <https://iris.wpro.who.int/bitstream/handle/10665.1/14493/COVID-19-02282020.pdf>
- World Health Organization Philippines. (2020). *WHO Philippines Coronavirus Disease (COVID-19) Situation Report 1* (No. 1; Situation Report). World Health Organization. https://www.who.int/docs/default-source/wpro---documents/countries/philippines/emergencies/covid-19/who-phl-sitrep-1-covid-19-9mar2020.pdf?sfvrsn=2553985a_2

Annex 1: Five sectors severely affected by the COVID-19

Business, Trade, Personal and Public Services

- Enterprises that provide non-basic necessities, including retail trade, are likely to bear significant losses due to mall closures and work stoppage in public transportation services.
- Financial and Insurance Activities. Cash remittances are expected to drop by approximately PhP5.7 billion as an estimated 100,000 overseas Filipino workers engaged in tourism services lose their jobs. With this scenario, around 1,700 to 4,500 people will lose their jobs. Gross value added will drop from PhP3.9 to PhP8.5 billion or 0.02% to 0.04% of GDP.

Light/Heavy Manufacturing, Utilities, and Construction

Manufacturing of household consumption commodities. As consumer confidence dips due to health concerns and social distancing measures, household consumption is expected to decelerate until June this year. A 5% to 10% decline in household consumption of non-essential commodities (i.e., alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and routine household maintenance, recreation and culture, restaurants and hotels, and miscellaneous goods and services) could result in a loss of gross value added of PhP45 to PhP94 billion, equivalent to 0.2% to 0.5% GDP, and reduce employment by 16,500 to 62,500 as forecasted by NEDA.

Hotel, Restaurants, and Other Personal Services

Tourism sector. This sector is expected to be adversely affected with the imposition of travel bans. NEDA is also seeing significant losses from local tourism before and after the declaration of ECQ as local transportation companies and domestic carriers were compelled to close down. This would result to a loss of gross value added of PhP77.5 to PhP156.9 billion, equivalent to 0.4 to 0.8% of GDP in 2020 and may reduce employment by about 33,800 to 56,600.

Transport Services

The transportation industry is expected to significantly suffer in this pandemic due to suspension of public transport, travel bans, cancellation of hundreds of flights, drops in ship calls, and reduction of in cargo volumes and passenger traffic for both sea and air. In the worst-case scenario (6 months), ADB is seeing \$414 million loss in transport services using the Philippines' 2018 GDP of \$330.91 billion as baseline. Likewise, the sector may also face a loss of 3.36% in its employment.

Agriculture, Mining, and Quarrying

This sector is expected to suffer since they export their products. Considering China as the country's largest trading partner, the loss in the gross value added in agriculture as well as mining and quarrying in terms of export could be the major factor that contributes in this sector's expected loss of \$41 million based on ADB's best case scenario outlook.

To reflect the escalating and broadening effect of this pandemic, the ADB calculates the range of additional economic impact once the country will experience significant outbreak. Its assessment as reflected in Table 1 looks at the potential economy- and sector-specific impact of the COVID-19 outbreak as to percentage of sector GDP losses and workforce reduction.

Table 1. COVID-19 Economic Impact Assessment in the Philippines

Sector	Shorter containment, smaller demand shocks		Longer containment, larger demand shocks		ADDITIONAL Impact if significant outbreak occurs	
	as % of sector GDP	as % of sector employment	as % of sector GDP	as % of sector employment	as % of sector GDP	as % of sector employment
Agriculture, Mining and Quarrying	-0.77	-0.77	-1.60	-1.58	-1.54 to -4.01	-1.55 to -4.04
Business, Trade, Personal and Public Services	-0.47	-0.47	-0.98	-0.97	-1.59 to -4.25	-1.6 to -4.32
Light/Heavy Manufacturing, Utilities, and Construction	-0.70	-0.61	-1.42	-1.23	-1.47 to -4.08	-1.51 to -4.31
Hotel and Restaurants and Other Personal Services	-4.73	-4.93	-9.63	-10.03	-1.36 to -3.46	-1.33 to -3.38
Transport Services	-1.68	-1.65	-3.42	-3.36	-1.58 to -4.03	-1.6 to -4.07
TOTAL (Economy-wide)	-0.79	-0.82	-1.62	-1.69	-1.54 to -4.13	-1.56 to -4.19

Source: GDB Forecast Based on 2018 GDP as of 28 March 2020

In the worst-case scenario (6 months), the hotel and restaurant and other personal services will have longer downturn among the industry sectors in the country based from the forecast of ADB as of 28 March 2020. In addition to its GDP loss in a larger disease containment at 9.63%, it could still lose by around 1.36% to 3.46% of the sector's GDP if a significant outbreak will occur in the country. This could also result to additional 1.33% to 3.38% reduction on its employment rate.

In comparison with other industry sectors, GDP is seeing lower losses in business, trade, personal, and public services sector with only 0.98% of this sector's GDP which corresponds to reduction of sector's employment at 0.97%. Although, ADB forecasts higher estimated decrease in this sector as compared with other sectors if a significant outbreak occurs, with 1.59% to 4.25% of GDP loss, which could also contribute to a reduction in the sector's employment by 1.6% to 4.32%.

As the country prepares for a larger disease containment, it is expected that the country will suffer an additional decrease of 1.54% to 4.13 % GDP. With this economy-wide additional decrease in GDP, it could also result to a reduction in employment by 1.56% to 4.19%.

Sources: ADB, 2020; NEDA, 2020

Copyright © University of the Philippines Institute for Small-Scale Industries (UP ISSI)
All rights reserved.

Concept and Implementation: UP ISSI Research Division

Director
Aleli B. Bawagan, Ph.D.

Research Division Team
Gloria S. Recio (Head)
Marilou N. Andres
Melanie V. Cabotaje
Bernadette D. Escoto
Joanna Rose T. Laddaran
Jaylyn D. Manglicmot
Jefferson C. Sumalabe

For inquiries regarding this survey, please contact:

University of the Philippines Institute for Small-Scale Industries
E. Virata Hall, E. Jacinto St., UP Campus, Diliman
Quezon City, 1101 Philippines
E-mail: issi.research@up.edu.ph
Tel. No.: +632 89287076 to 79
Fax No.: +632 89206923