The Future of Micro, Small, and Medium-Sized Enterprises in the Philippines

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Southeast Asia’s robust growth has been underpinned by MSMEs in recent decades.
Entrepreneurship development is key for accelerating inclusive growth. Local MSMEs have the potential to create more jobs.

MSMEs by Sector, 2014–2018

MSMEs by Region, 2014, 2015, 2018, and 2019

BRU = Brunei Darussalam; CAM = Cambodia; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PHI = Philippines; THA = Thailand; VIE = Viet Nam.

Source: ADB Asia SME Monitor 2020 database.
Access to finance is the central factor underlying MSME growth; limited access to formal financial services remains a critical structural problem.

Source: ADB Asia SME Monitor 2020 database.

BRU = Brunei Darussalam; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PHI = Philippines; SIN = Singapore; THA = Thailand.

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The shares of MSME loans to GDP and total bank loans have been shrinking over time.

**MSME Loans to GDP, 2007–2019**

**MSME Loans to Total Loans, 2007–2019**

INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PHI = Philippines; SIN = Singapore; THA = Thailand.

Source: ADB Asia SME Monitor 2020 database.
Nonbank finance is a viable substitute for bank credit in financing MSME working capital; it remains small in scale.

### Nonbank Financing, 2018 and 2019

![Graph showing nonbank financing to GDP and bank loans in 2018 and 2019.](image)

**Source:** ADB Asia SME Monitor 2020 database.

### NBFI Financing to Bank Loans, 2007–2019

![Graph showing NBFI financing to bank loans from 2007 to 2019.](image)

**Source:** ADB Asia SME Monitor 2020 database.

**Legend:**
- BRU = Brunei Darussalam
- CAM = Cambodia
- INO = Indonesia
- LAO = Lao PDR
- MAL = Malaysia
- MSME = micro, small, and medium-sized enterprise
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**Notes:**
- BRU = Brunei Darussalam; CAM = Cambodia; INO = Indonesia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PHI = Philippines; SIN = Singapore; VIE = Viet Nam.
- Source: ADB Asia SME Monitor 2020 database.
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MSME capital markets have reached the stage for further development.

Market Capitalization, 2019

Market Capitalization to GDP, 2007–2019

Number of Listed Companies, 2007–2019

CAM = Cambodia; LAO = Lao PDR; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; MYA = Myanmar; PHI = Philippines; SIN = Singapore; VIE = Viet Nam.

Source: ADB Asia SME Monitor 2020 database.
**During the Pandemic:**
The pandemic has fatally damaged MSME business. One year after the pandemic, gradually business reopening with creating two streams of business clusters.

**MSME’s Business Environment in the Philippines**

![Bar chart showing the percentage of MSMEs in different business environments](chart)

- **Better than before the COVID-19 outbreak**
- **No Change**
- **Drop in domestic demand**
- **Drop in foreign demand**
- **Delayed delivery of products/services**
- **Disruption of production/supply chain**
- **Cancellation of contracts**
- **Temporarily closed**

**Note:** valid samples from the MSME Surveys in the Philippines:
- 1,804 (March-April 2020);
- 686 (August-September 2020);
- 1,546 (March-April 2021).

Source: Calculated based on data from series of MSME surveys in the Philippines.
MSMEs with no revenue decreased sharply but many continued drop in income.

Note: valid samples from the MSME Surveys in the Philippines: 1,804 (March-April 2020); 686(August-September 2020); 1,546 (March-April 2021). Source: Calculated based on data from series of MSME surveys in the Philippines.

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MSMEs with no cash/savings decreased sharply. While working capital shortage remains an issue, those with enough cash has increased.
MSMEs relied on own funds and informal financing sources, but access to bank credit increased gradually in micro and small firms.

Note: valid samples from the MSME Surveys in the Philippines: 1,804 (March-April 2020); 686(August-September 2020); 1,546 (March-April 2021). Source: Calculated based on data from series of MSME surveys in the Philippines.
Awareness of Issues

1. Strengthening the dynamics of MSMEs is key to revitalize the Philippine economy devastated by the COVID-19 pandemic.

2. Philippine MSMEs, mainly comprised by distributive trade, are exclusively focusing on domestic markets, and the base of entrepreneurship—an essential component for inclusive growth—has yet to be established in the Philippines.

3. The expansion of growth-oriented firm base, with innovation and internationalization, will contribute to unlock new productivity in the country; hence, it is critical to foster this group to bounce back the economy post COVID-19.

4. The Philippine economy has moved to the recovery stage toward end-2021. Business reopening but drop in domestic demand continues, creating two streams of business clusters: contracting firms hurt badly by the pandemic and firm groups benefitted from the lockdowns.

5. Finance is a critical engine for businesses to survive and grow during and post pandemic. Further enhancing access to bank credit and NBFIs is needed for MSMEs to raise working capital, while the venue for growth capital financing to viable MSMEs has yet to be established in the Philippines.
Post-Pandemic Policy Actions

1. The government needs to further elaborate **phased approach** and **differentiated policy measures** by firm size and sector, addressing more support to entrepreneurship and growth capital delivery.

2. Assistance for **digital transformation** of MSME business is another policy priority, addressing informal sectors.

3. Further **diversified financing options** with digital finance are needed for viable MSMEs.

4. A prolonged pandemic requires the government to consider **optimal approach** neither impeding national revenues nor increasing budgetary burden post COVID-19.

5. Intragovernmental **policy coordination** is an essential part of implementing a policy framework on MSME development and financial inclusion; greater synergy among policy actions can emerge from more extensive coordination among public-private stakeholders.
Role of Capital Markets to Bounce Back the Economy

1. More growth capital beyond working capital needed for MSMEs to reopen, maintain, and grow their business further.

2. The role of equity market will increase further as a growth-capital delivery channel to growth-oriented MSMEs and innovative entrepreneurs.

3. Need to reconsider a market model fit to the financing demand from MSMEs & investors:
   (i) a market board not specialized for MSMEs but offering concessional listing requirements (e.g., UPCoM in Viet Nam);
   (ii) a sponsor-driven alternative investment market (AIM) (e.g., Catalist in Singapore, ACE and LEAP in Malaysia, and mai in Thailand); or
   (iii) a dedicated MSME market (e.g., Acceleration Board in Indonesia and SME Board in the Philippines).

4. Key challenges to develop MSME capital markets:
   (i) low market liquidity, (ii) high costs for listing (corporate governance requirements), (iii) quality of issuers (poor accounting), (iv) tax compliance, (v) MSME owners’ mindset not looking for growth, and (vi) weak capital market literacy among MSMEs.
5. Develop and strengthen **incubation and financial literacy programs** to identify and foster growth-oriented MSMEs amid a new normal.

6. Promote **new product design and digital financing platforms** (e.g., equity crowdfunding) to attract more investors.

7. The deterioration of banks’ balance sheets would be another concern post COVID-19. In response to this, the government may encourage banks to strengthen their self-funding rather than capital injection, such as the issue of **asset-backed securities** based on MSME loan assets if the situation is permitted.

8. Further prolonged pandemic will increase uncertainty of economic recovery and may affect investor sentiment with potential risks of capital outflows. A well-designed **MSME capital market** is required to attract both viable MSMEs and investors.
References

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Thank you for your attention.

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