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CASTER Scoping Study Collective Impact solutions for post-pandemic recovery and resilience building of MSMEs in the wholesale and retail trade and food service sectors

APRIL 2021

CASTER Scoping Study

**Collective Impact solutions for
post-pandemic recovery and resilience
building of MSMEs in the wholesale and
retail trade and food service sectors**

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Restart Micro-Enterprise Inc. (RestartME) is non-profit microfinance institution formalized in 2016 as a spin-off of a post-Yolanda USAID-funded project called Micro-Enterprise Disaster Assistance Fund for Resiliency Program (MIDAS). Since its formalization, the organization has helped thousands of MSMEs jumpstart their livelihood as they recover from man-made and natural disasters through its Calamity Loans. Their projects include the Marawi Siege Rehabilitation (2018), Typhoon Tisoy Rehabilitation (2019), Rice Farmers Development Program Assistance (2019), Taal Volcano Eruption Rehabilitation (2020), and the most recent COVID-19 Assistance Fund (2020 to present).

The organization is currently composed of its founding members and four of the biggest microfinance institutions (MFIs) operating in the country today — CARD-MRI, ASA Philippines Foundation, Taytay sa Kauswagan Inc., and Negros Women of Tomorrow Foundation. RestartME also works with non-members through other strategic partnerships and is open to accepting other MFIs to join the organization.

To complement the Calamity Loan Program, RestartME also has Network and Capacity Building Initiatives. This is in the form of research, technical assistance, and stakeholder convening and management to help identify market potential, opportunities and linkages.

Guided by the Filipino values of pakikipagkapwa (humanity), pagiging matatag (resilience), and pag-asa (hope), RestartME aims to further understand and aid the disaster management ecosystem to give the affected Nanays, Tatays, Ates and Kuyas a fighting chance to survive and start again.

To know more visit: www.restartme.ph.



FSG is a mission-driven consulting firm supporting leaders in creating large-scale, lasting social change. Through strategy, evaluation, and research we help many types of actors—individually and collectively—make progress against the world's toughest problems.

Our teams work across all sectors by partnering with leading foundations, businesses, nonprofits, and governments in every region of the globe. We seek to reimagine social change by identifying ways to maximize the impact of existing resources, amplifying the work of others to help advance knowledge and practice, and inspiring change agents around the world to achieve greater impact.

As part of our nonprofit mission, FSG also directly supports learning communities, such as the Collective Impact Forum, Shared Value Initiative, and Talent Rewire, to provide the tools and relationships that change agents need to be successful.

Learn more about FSG at www.fsg.org.



Established in 1978, BPI Foundation Inc. is the social development arm of the Bank of the Philippine Islands (BPI). Their mission is to create a culture of financial wellness and be agents of sustainable positive change for underserved Filipino communities.

Learn more about BPI Foundation at www.bpifoundation.org.



BPI Direct BanKo, Inc., A Savings Bank (or “BanKo”) is the microfinance arm of the Bank of the Philippine Islands (BPI). BanKo’s thrust is to promote financial inclusion by providing access to easy, convenient and affordable microfinance products, focusing on Self-Employed MicroEntrepreneurs (SEME). By strengthening the financial capacities of its clients, BanKo aims to create a positive impact on their quality of life, and ultimately, contribute to the country’s economic growth.

Learn more about BPI Direct BanKo at www.banko.com.ph.

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Acronyms and Abbreviations

ACPC	Agricultural Credit Policy Council
ADB	Asian Development Bank
ANYO	Agrinegosyo
ATM	Automated Teller Machine
BPI	Bank of the Philippine Islands
BSP	Bangko Sentral ng Pilipinas
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon (Region IV-A)
CAMP	COVID-19 Adjustment Measures Program
CARES	COVID-19 Assistance to Restart Enterprises
CASTER	Collective Action Secretariat towards Enhancing Resilience among MFIs and MSMEs
COVID-19	Coronavirus disease
CPMI	CARD Pioneer Microinsurance Inc.
DA	Department of Agriculture
DOF	Department of Finance
DOLE	Department of Labor and Employment
DTI	Department of Trade and Industry
DTI-BSMED	Department of Trade and Industry - Bureau of Small and Medium Enterprise Development
DTI-ROG	Department of Trade and Industry – Regional Operations Group
DTI-SBC	Department of Trade and Industry – Small Business Corporation
ECQ	Enhanced Community Quarantine
FGD	Focus Group Discussion
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
GREAT	Grassroots Entrepreneurship and Technologies
GSIS	Government Service Insurance System
ID	Identification
I-RESCUE	Interim Rehabilitation Support to Cushion Unfavorably affected Enterprises by COVID-19
KAYA	Kapital Access for Young Agripreneurs
LBP	Land Bank of the Philippines
MCPI	Microfinance Council of the Philippines, Inc.
MFI	Microfinance Institution
MSME	Micro, Small, and Medium Enterprise
NEDA	National Economic Development Authority

P2B	Peer-to-Business
P2P	Peer-to-Peer
P3	Pondo sa Pagbabago at Pag-asenso
PDRF	Philippine Disaster Resilience Foundation
QR Code	Quick Reaction Code
RCBC	Rizal Commercial Banking Corporation
ReSTART	Rebuilding the Sari-Sari Stores Through Access to Resources and Trade
RestartME	Restart Micro-Enterprise Inc.
SAP	Social Amelioration Program
SBWS	Small Businesses Wage Subsidy
SEC	Securities and Exchange Commission
SIKAP	Synergizing Recovery Initiatives, Knowledge and Adaptation Practices for MSMEs
SMS	Short Message Service
TESDA	Technical Education and Skills Development Authority
TUPAD #BKBK	Tulong Panghanap buhay sa ating Disadvantaged / Displaced Workers Barangay Ko, Bahay ko Disinfection / Sanitation Project
UN OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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Invitation to Establish Collective Impact Coalitions

The economic recovery of microfinance institutions (MFIs) and their micro, small and medium enterprise (MSME) clients will face greater challenges considering the depth and breadth of impact that the COVID-19 pandemic has brought upon the country. Unlike previous calamities and disasters, the process will not be straightforward as the threat of viral infection continues. At the same time, the country remains exposed to super typhoons, flash floods, earthquakes, volcanic eruptions and other calamities that add to the burden of vulnerable businesses.

Our collective experience of facing a national public health emergency coupled with recurring environmental disasters reinforces the need for recovery initiatives to consider broader resilience building efforts to withstand these adverse events. It further serves as a wake-up call and opportunity to recognize that the problem of managing the risks of such economic shocks — especially within vulnerable sectors — is multi-dimensional and therefore requires systemic solutions.

Recognizing these realities, Restart Micro-Enterprise Inc. (RestartME) and FSG Inc. (FSG) have partnered to mobilize coalitions towards clear, common agenda that will catalyze action to assist MSMEs and MFIs in post-COVID-19 recovery and resilience building. Project CASTER, which stands for Collective Action Secretariat to Enhance Resilience of MSMEs and MFIs, anchors on the principles of Collective Impact and calls for multi-sectoral partnerships among government, private sector and development institutions to co-create adaptive, practical and implementable solutions.

As a starting point, RestartME and FSG, through the research grant from BPI Foundation Inc. and the technical assistance from BPI Direct Banko, Inc., A Savings Bank (or "Banko"), have put together this Scoping Study report on the opportunities and challenges faced by MSMEs in the wholesale and retail trade and food service sectors. Embodying the true spirit of bayanihan, we call on key stakeholders in the broader MSME and MFI ecosystem to come together to help fructify and champion the Collective Impact solution themes which will help MSMEs recover and become truly resilient

Figure 1. Benefits of Heeding the Call to Collective Action



Amplify and Accelerate Impact

- ✓ Involves multiple partners working towards **long term, systemic change**
- ✓ Offers a **holistic approach** by channeling the energy of various stakeholders towards solving a problem
- ✓ Provides opportunities to **influence the system** from within and outside by coupling advocacy with action



Increase Efficiency of Resources

- ✓ Allows **more efficient use of funding**, especially in times of scarce resources
- ✓ Enables **leveraging of public and private sources of funding**
- ✓ Opens channels for organizations to access **additional funding** against an issue



Drive Alignment

- ✓ **Reduces duplication** of services
- ✓ **Increases coordination**
- ✓ Embeds the drive for sustained social change within the community, facilitating **"order for free"**

This report further demonstrates the role that each type of stakeholder operating in this ecosystem can play. For example, certain non-profit organizations can perform the role of a backbone organization, while industry players can partner with the backbone to help develop specific solutions. Philanthropic organizations, the private sector and government agencies can pool resources to fund the backbone and its initiatives. Other organizations that have access to the MSMEs, such as MFIs, fast moving consumer goods (FMCG) players and other grassroots organizations, can support outreach and implementation as a part of their business or other operations. In coming together, there is an opportunity to amplify and accelerate impact on recovery and resilience building, increase efficiency of resource utilization, reduce duplication of efforts and enhance coordination across ecosystem stakeholders.

As a part of our commitment in Project CASTER, we will undertake the role of further socializing the challenges, key opportunities and the five potential Collective Impact themes among relevant stakeholders to get their commitment to take part and contribute to one or more of these solution themes. Specifically, RestartME and FSG will continue to drive the backbone activity for the Recovery and Resilience Financing Innovation solution theme. For other solution themes, Project CASTER invites other organizations to work with us in establishing the backbone entities.

We believe that the time to act is now. We look forward to engaging with every interested organization to take part in this endeavor to assist our MSMEs to recover from the pandemic and gradually establish more resilient businesses.



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Introduction to Project CASTER

Overview

To curb the spread of the coronavirus disease (COVID-19) and to build up the health system capacity, the Philippine national government implemented “community quarantine” measures on 15 March 2020. Starting from the National Capital Region, where reported cases of COVID-19 surged, the geographic lockdowns expanded to other provinces and municipalities all over the country. Eventually, more localized quarantine policies ensued as local governments grappled with local transmission.

The strictest community quarantine protocols occurred during the imposition of the Enhanced Community Quarantine (ECQ) from March to May 2020 in Metro Manila, Luzon, and certain parts of Visayas and Mindanao. In Cebu, the ECQ was reinstated from June to July 2020 because of the surge in community transmissions. During the ECQ, residents were ordered to stay at home and were restricted from traveling. In certain areas, local governments further issued quarantine passes to limit movements.

Restrictions to mobility and suspensions of public transportation significantly reduced the economic activities of the areas under the ECQ to “essentials”. This resulted in temporary or permanent closure of several businesses, which further led to increased unemployment. As key urban centers restrict travel, the economic impact started to penetrate the surrounding rural areas that rely on these markets for trade. The decision to implement stringent quarantine protocols to control the spread of COVID-19 came with a hefty price — 16.9% gross domestic product (GDP) contraction and 17.7% unemployment rate during the second quarter of 2020¹.

The reopening of the economy and the gradual easing of quarantine measures since June 2020 have improved the country’s macroeconomic figures, with GDP contraction reduced to 8.3% by December 2020² and unemployment rate down to 8.7% in January 2021³. However, the process of restarting businesses has proven to be more challenging, especially among MSMEs. Shigehiro Shinozaki, Senior Economist at the Asian Development Bank (ADB), reported that while temporary closure of businesses was reduced towards the end of the third

quarter across MSMEs, at least 50% of business owners across MSME categories reported a decline in domestic demand, with at least 37% of those that reopened experiencing more than 30% drop in income⁴.

Similarly, MFIs that provide financing to these MSMEs also faced funding difficulties from lower collection rates and higher portfolio risk exposure. In a study conducted by the Microfinance Council of the Philippines, Inc. (MCPI)⁵ in March 2020, their MFI members projected that the quarantine protocols affected approximately nine million MSME clients. To support the government’s call to ensure the welfare of the clients and its workforce, these MFIs adhered to the moratorium on payment of outstanding loans, which resulted in approximately Php 59.7 Billion of uncollected loans. They also retained 48,957 employees at a combined estimated monthly personnel cost of Php 1.0 Billion.

Given these conditions, additional interventions, mechanisms and solutions must be put in place to build a higher level of resilience in the MSME and MFI ecosystem. Learning from the current crisis, the actions must involve identification of the most critical resilience needs of the entire MSME and MFI ecosystem, capacity building, documenting successes and failures, development of updated frameworks for resilience and disaster preparedness, monitoring and evaluation of interventions and innovation in new risk mitigation products. There is also an opportunity to convene and align a broad set of sectoral stakeholders behind the common agenda of building a substantially more resilient MSME and MFI ecosystem.

Mobilizing Collective Action to Enhance Resilience of MSMEs and MFIs

The set of responses currently worked out to assist MSMEs and MFIs in post-pandemic recovery may prove to be limited and focused solely on addressing the near-term needs. While this is understandable and necessary, solutions also need to consider the long-term effects on the larger ecosystem resilience as many of the present risks and vulnerabilities will remain or even worsen in the course. Project CASTER envisions to convene government, private sector and development institutions towards a clear, common agenda that will catalyze action to assist MSMEs and MFIs in post-pandemic recovery and resilience building.

1 National Economic Development Authority (NEDA), “Losses, setbacks in 2020 offer lessons to recover together in 2021 – NEDA,” Philippine Information Agency (PIA), 30 December 2020, <https://pia.gov.ph/press-releases/releases/1062752>.

2 Philippine Statistics Authority (PSA), “Philippine GDP posts -8.3 percent in the fourth Quarter 2020; -9.5 percent for full-year 2020,” 28 January 2021, <https://psa.gov.ph/national-accounts>.

3 PSA, “Employment Situation in January 2021,” 9 March 2021, <https://psa.gov.ph/content/employment-situation-january-2021>.

4 Shigehiro Shinozaki, “COVID-19 Impact on Micro, Small, and Medium-Sized Enterprises and Post-Crisis Actions: Six-month after the outbreak in the Philippines,” Asian Development Bank (ADB), 28 October 2020, <https://www.adb.org/sites/default/files/event/648436/files/covid-19-impact-msme-post-crisis-actions-philippines.pdf>.

5 Microfinance Council of the Philippines, Inc. (MCPI), “Consolidated MFI Rehabilitation Requirement for COVID-19,” 25 March 2020.

Specifically, this unique initiative has the potential to deliver the following benefits and outcomes to the local MSME and MFI ecosystem players:

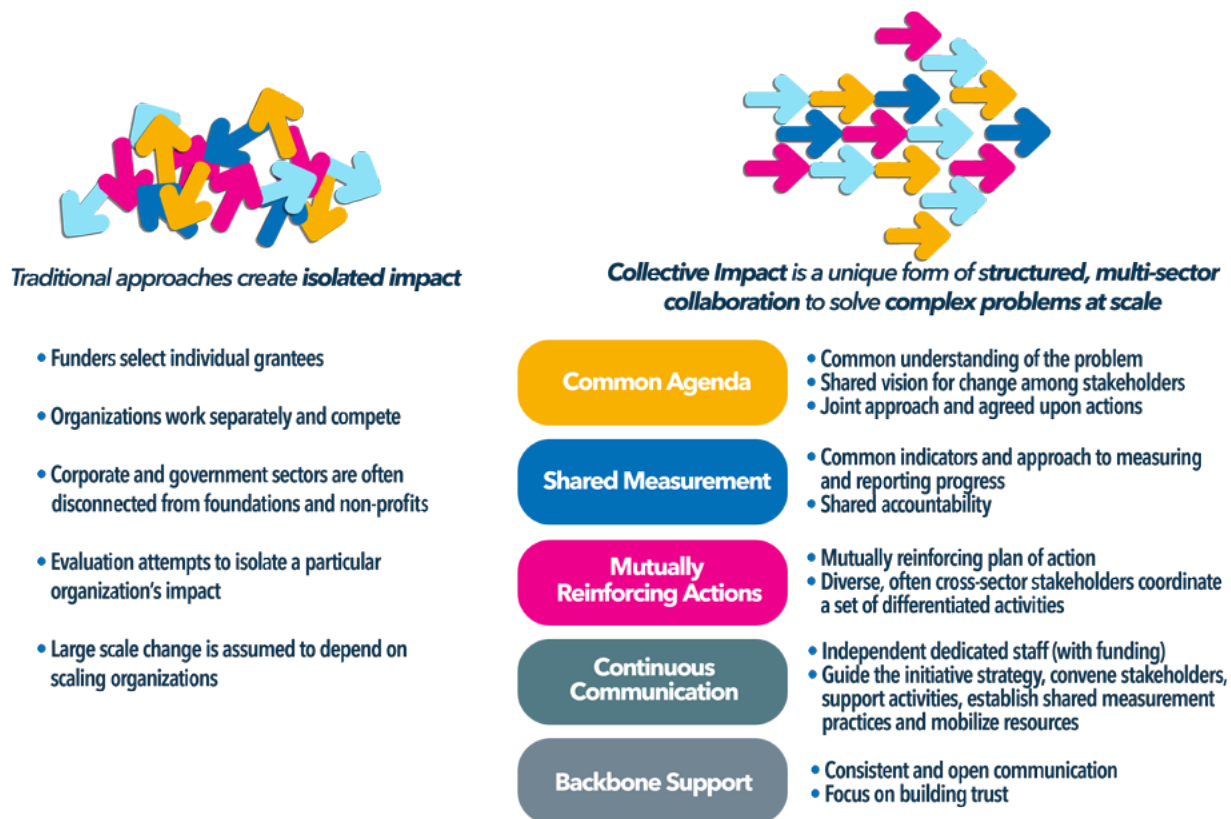
- Generate new knowledge in terms of the identification of short and medium-term resilience related issues;
- Identify potential solutions for building strategic, financial, and operational resilience at ecosystem level;
- Align key resilience-related focus areas across ecosystems, allowing for concerted and mutually reinforcing stakeholder efforts to develop and implement solutions at a faster pace, leading to quicker adoption and scalability;
- Create an institutionalized mechanism with an ongoing focus on identifying and addressing resilience-related issues, enabling ecosystem players to become progressively more resilient and future-ready; and
- Allow for better tailoring of government policies and programs based on the identification of key resilience needs and challenges.

Collective Impact Approach

Building MSME and MFI resilience is a complex issue that requires addressing the challenge at the ecosystem level. For MSMEs, this ecosystem consists of the MSMEs themselves and other industry stakeholders in the upstream and downstream value chain, such as manufacturing, logistics, distribution, payments, e-commerce and financing companies. For MFIs, this covers their MSME clients, larger financial institutions that provide funding, service providers and the broader ecosystem of the MSME clients.

To address this, the optimal methodology that needs to be undertaken is a structured, multi-stakeholder Collective Impact approach. John Kania and Mark Kramer from FSG originally mooted the concept of Collective Impact in their 2011 article, "Collective Impact"⁶, as a new multi-stakeholder approach designed to catalyze population-level social change to solve complex issues. Since then, several communities and stakeholder groups have adopted and implemented the concept to address a wide range of issues, including the establishment of the Collective Impact Forum⁷, a resource base for the growing community of Collective Impact practitioners.

Figure 2. Key Principles of Collective Impact Approach



⁶ John Kania and Mark Kramer, "Collective Impact," Stanford Social Innovation Review, 2011, https://ssir.org/articles/entry/collective_impact.

⁷ <https://www.collectiveimpactforum.org/>

Unlike traditional approaches, which create isolated project-level impact that is often neither replicable nor scalable, Collective Impact gathers upfront a diverse set of stakeholders and the communities they serve to (1) align behind a common agenda; (2) co-create practical solutions based on the insights from a multi-dimensional and multi-layered understanding of the issues; and (3) commit to action in their respective domains. Adopting the Collective Impact approach further ensures commitment from key stakeholders in the MSME and MFI ecosystems and allows for emergent solutions to be co-created, tested, implemented and adapted by the stakeholders themselves.

Figure 2 outlines the five key principles of the typical Collective Impact approach, namely, common agenda, shared measurement of outcomes, mutually reinforcing activities, continuous communication and backbone support. Such efforts require sustained multi-year initiatives to allow Collective Impact initiatives to take root dynamically and organically as part of the MSME and MFI ecosystems, begin catalyzing changes and eventually result in ongoing positive systemic change in the ecosystem's overall resilience parameters.

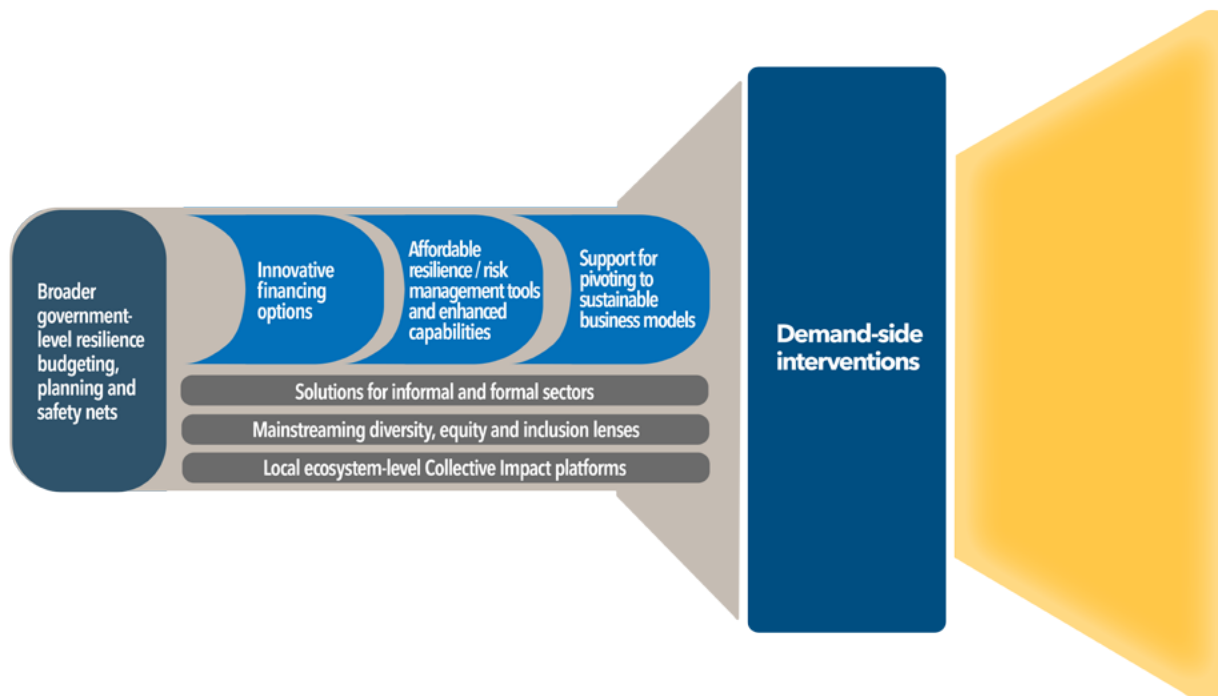
MSME Resilience Framework

To tackle the medium-term challenges of economic recovery and resilience faced by the MSME sector, governments, development agencies, philanthropic foundations and industries need to fundamentally reimagine their support to MSMEs at the firm, sector and ecosystem levels. In assessing the Collective Impact solutions to endorse, CASTER adopts a new MSME Resilience Framework for the emerging new normal, comprising eight (8) reinforcing themes that, in conjunction, can address the challenges and support MSMEs to thrive and become more resilient.

Demand-side interventions: For MSMEs to recover, consistent demand-side interventions are essential in the medium-term. These include sector- and cluster-level initiatives to determine specific customized solutions, pragmatic and safe opening-up campaigns to restore public confidence, demand stimulation programs and MSME investment drives.

Support for pivoting to sustainable business models: The recovery process is an opportune moment to encourage MSMEs to pivot towards more environmentally and socially sustainable business models. For this to happen, various investment generation initiatives, government policy incentives and demand-based benefits will be needed to encourage micro-entrepreneurs to make the shift.

Figure 3. MSME Resilience Framework



Innovative finance options: The range of available financing options needs to be expanded significantly to cover other forms of capital that can share the risks with MSMEs at the firm level, and potentially at the ecosystem level.

Affordable resilience and risk management tools for MSMEs: The approach to capacity building for MSMEs needs to include and increase the emphasis on resilience and risk management. This involves the development of relevant, accessible and affordable tools, as well as MSME training and capability building.

Solutions for MSMEs in both informal and formal sectors: In most support programs for MSMEs, the informal sector is frequently underserved despite representing a large proportion of the sector. Going forward, this approach needs to change. Solutions and support measures need to explicitly cover MSMEs in both the informal and formal sectors.

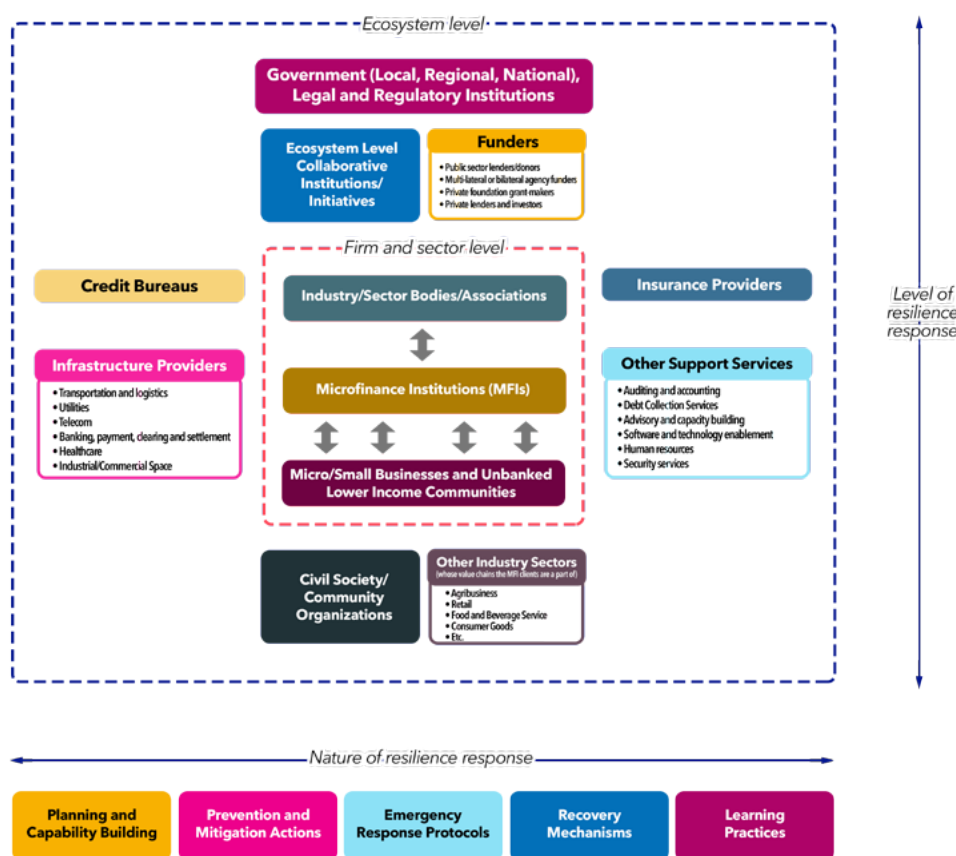
Mainstreaming diversity, equity and inclusion lenses: Disadvantaged populations have been the worst hit by the pandemic—i.e., lower income communities, marginalized

minorities or women. Apart from experiencing worse business challenges, they also typically face inequitable access to relief measures. Harvard Business Review noted the “disproportionate impact of COVID-19 on female entrepreneurship, including women-owned microenterprises in emerging economies” and how scarcity of family resources and traditional mindsets pose the risk of deprioritizing women’s economic activity in favor of emerging household needs (e.g., distance learning and online schooling of children) and employment of displaced male workers⁸.

Local ecosystem-level Collective Impact platforms: Communities could benefit from the creation and empowerment of relevant formal or semi-formal multi-stakeholder grassroots-level Collective Impact platforms at community, district, municipality or city levels that are aligned behind the common agenda of MSME resilience.

Broader government-level resilience budgeting, planning and safety nets: Resilience budgeting and planning for allied areas that impact MSMEs indirectly should be an integral part of government policy so that future shocks can be better managed.

Figure 4. MFI Resilience Framework



⁸Deepa Mahajan, Olivia White, Anu Madgavkar, and Mekala Krishnan, “Don’t Let the Pandemic Set Back Gender Equality,” Harvard Business Review, September 2020, <https://hbr.org/2020/09/dont-let-the-pandemic-set-back-gender-equality>.

Figure 5. Definition of MSMEs according to Republic Act 9501

	By Total Assets ¹⁰	By Number of Personnel
Micro	Less than Php 3.0 Million	1-9
Small	Php 3.0-15.0 Million	10-99
Medium	Php 15.0-100.0 Million	100-199

MFI Resilience Framework

The MFI ecosystem consists of several actors working jointly. This includes the MFIs themselves, their MSME clients, fund sources (e.g., lender and donors from public sector, development agencies, philanthropic foundations and commercial banks), infrastructure service providers (e.g., transportation, utilities, telecommunications, bank and healthcare), financial service providers (e.g., payment, clearing, settlement, insurance), credit and guarantee bureaus, other support services (e.g., accounting, audit, debt collection, information technology, etc.), the broader industry value chain where the MFIs are integrated and government regulatory agencies.

Establishing resilience in such a broad, complex ecosystem will require approaching the issues at the firm, sector and ecosystem levels, understanding the key risks and resilience needs and then developing sustainable solutions. The MFI Resilience Framework calls for solutions at specific levels of response (i.e., firm, sector or ecosystem level) and natures of response (i.e., Planning and Capability Building, Prevention and Mitigation Actions, Emergency Response Protocols, Recovery Mechanisms, Learning Practices).

Scoping Study on the Impact of COVID-19 on the MSME Ecosystem

The CASTER Scoping Study was designed to:

- Map the existing literature and research on the impact of COVID-19 to MSMEs and the areas of intervention necessary for recovery and resilience building;
- Identify opportunities and challenges that can potentially frame the common agenda;
- Determine gaps in information where subsequent research will be necessary to correctly identify the specific interventions; and
- Formulate the common agenda, the ecosystem-level business case and call-to-action to public, private and development sectors.

The research specifically focused on MSMEs in the wholesale and retail trade and food service sectors, which collectively comprise 60% of the 995,745 registered MSMEs in 2019⁹. 'Wholesale and retail trade' includes groceries, convenience stores, market stalls, pharmacies, sari-sari stores, sidewalk vendors and specialty food stores (e.g., fruit, vegetable, meat and seafood), among others. 'Food service', on the other hand, covers bakeries, carinderias, caterers, mobile food services, pastry shops, restaurants, bars and sidewalk food vendors. The research also gave particular attention to the impact of the pandemic on the underserved informal economy.

RestartME and FSG further applied a rapid assessment approach in the Scoping Study. Existing surveys and research on the impact of COVID-19 on the MSMEs and MFIs published by various reputable institutions, including the National Economic Development Authority (NEDA), the Department of Trade and Industry (DTI), the World Bank Group, the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP) in the Philippines were reviewed for data reference. These secondary sources were complemented by consultations with different MSME ecosystem organizations and academicians, as well as one-on-one interviews and focus group discussions (FGDs) with representative MSMEs from the focus sectors.

⁹ "2019 MSME Statistics," Department of Trade and Industry (DTI), accessed 4 January 2021, <https://www.dti.gov.ph/resources/msme-statistics/>.

¹⁰ Inclusive of those arising from loans but exclusive of the land on which the business entity's office, plant and equipment are situated

Consulting with MSME ecosystem stakeholders enabled the appreciation of the extent of pandemic-related opportunities and challenges that persist even after the reopening of the economy, the actual ground experiences and nuances, preliminary solutions undertaken by various stakeholders and opportunities to mobilize multi-stakeholder Collective Impact initiatives. The consultations include representatives from the following sectors and industries ¹¹:

- **Academic institutions**
 - Dr. Geoffrey Ducanes, Dr. Leonardo Lanzona and Dr. Philip Arnold Tuano from the Ateneo de Manila University's Department of Economics
- **Banking, financial services and insurance**
 - ASA Philippines Foundation (A Microfinance NGO)
 - Bayan EDGE Microfinance and Business Servicing
 - BPI Direct BanKo, Inc., A Savings Bank (or "BanKo")
 - Negros Women For Tomorrow Foundation, Inc.
- **Distribution and wholesale**
 - Suy Sing Commercial Corporation
- **Financial technologies**
 - Ayannah Business Solutions, Inc.
- **FMCG**
 - Coca-Cola Philippines
 - Monde Nissin Corporation
- **Government**
 - Bangko Sentral ng Pilipinas (BSP) – Center for Learning and Inclusion Advocacy
 - DTI – Bureau of Small and Medium Enterprise Development (BSMED)
- **Local and international development**
 - Bayan Academy for Social Entrepreneurship and Human Resource Development
 - Hapinoy
 - Logistics and delivery services
- **Technology (e.g., social media, e-commerce).**

Stakeholder consultations and secondary research were undertaken to address the following questions:

- What are the primary financing, infrastructure, supply chain and demand opportunities and challenges faced by the MSMEs as they restart their livelihood and business after the lifting of the lockdowns?

¹¹ This is not an exhaustive list, but it shows select organizations that participated in the consultation

- How are MSMEs currently addressing these challenges? Which kinds of assistance and solutions are available to MSMEs to help them cope with the economic impact of the pandemic?
- What are the barriers to adoption of these assistance programs and solutions at the firm and ecosystem level? What needs to change to improve access?
- Which additional solutions and interventions are needed for the MSMEs to (a) recover from the impact of the pandemic and (b) to become more resilient to all forms of disruptive shocks and stresses?
- Who are the partners that can be mobilized to develop the solutions with and for the MSMEs?
- What are the components of the common agenda for recovery and resilience that key ecosystem players can align on and commit to achieving? Which solution themes related to the common agenda can ecosystem players implement together to drive the change that will help MSMEs recover and become resilient?

Digitalization was also identified as critical to business continuity and sustainability throughout the quarantine period. A specific deep-dive on the subject was undertaken to probe:

- What does "digital" presence mean among MSMEs?
- What are their levels of interest to digitize their business models?
- What are the initiatives that can encourage MSMEs to go further with digitalization?

Consultations, FGDs, and one-on-one interviews were held from November 2020 to January 2021 and reflected their experiences from the start of the ECQ in March 2020 until the resumption of their operations following the easing of the quarantine guidelines. Meanwhile, secondary sources were based on the data and information published in news articles, policy briefs, white paper reports, and other official publications from March 2020 to March 2021.

The Scoping Study recognizes the constant changes in the local situations emerging from updates on government policies and consequent business restrictions. In the final analysis, the researchers identified market and business experiences that persisted up until the end of 2020 and emerging implications of new policies. Thus, appropriate context is further provided in the presentation of the findings and insights. Moreover, the research findings and the recommendations for Collective Action are presented in this report with the intention of informing MSME ecosystem stakeholders on the solutions that can be undertaken. Presenting the prevailing challenges and opportunities can also help to determine areas where interventions are critically needed.

Opportunities and Challenges in the MSME Ecosystem

Opportunity 1 - Accelerated adoption of e-commerce platforms

One of the silver linings of the pandemic was the accelerated adoption of e-commerce. Imposing the ECQ and the temporary closure of non-essential shops in malls, shopping centers and bazaars compelled sellers and buyers to resort to online trading platforms. Its most basic form entailed acceptance of orders through messaging applications and facilitation of delivery through outsourced or in-house couriers. Some sari-sari stores and groceries reported to have adopted this approach to service clients outside their neighborhood coverage. Providing office hours, addresses and contact numbers exhibited value in generating sales from customers that could not physically visit the shops.

Other sellers leveraged social media accounts such as Facebook and Instagram to reach out to a wider network of clients at no extra charges. For instance, souvenir shops in key tourist destinations started to sell their products online to cater to prospective buyers who could not travel. Others further secured business registration to enroll on widely used e-commerce platforms such as Lazada and Shopee where such documentation would be required.

A study conducted by iPrice Group found that the average online shopping basket size in the Philippines grew by 57% during the first half of 2020 compared with the same period in 2019, more than twice the 24% growth in average basket size of the six major economies of Southeast Asia¹². The same report noted that the average online spending grew to Php 1,311 per month. Google Philippines also reported that the digital economy exhibited growth despite overall contraction of the country's Gross Domestic Product (GDP)¹³. The domestic internet economy was forecasted to reach USD 7.5 Billion by end of 2020 as 97% of those that used e-commerce platforms during the ECQ expressed intent to continue the behavior even with the relaxation of the quarantine. The DTI also achieved record registration of 82,000 online businesses from January to November 2020, reflecting the increased shifts of several MSMEs towards online platforms.

12 Vince Nonato, "Online Shopping Grows By 57 Percent, Highest in Southeast Asia, E-Commerce Group Finds," One News, 22 October 2020, <https://www.onenews.ph/add-to-cart-philipino-online-shopping-grows-by-57-percent-highest-in-southeast-asia-e-commerce-group-finds>.

13 "E-commerce seen driving PH internet economy to \$28 billion by 2025: Google," ABS-CBN News, 27 November 2020, <https://news.abs-cbn.com/business/11/27/20/e-commerce-seen-driving-ph-internet-economy-to-28-billion-by-2025-google>.

Opportunity 2 - Expanded usage of digital payments to facilitate fund transfers

Similarly, the demand for alternative means for remittances and fund transfers reinforced the roll-out of digital payment platforms, especially with the difficulty in physically accessing banks and health concerns over handling cash. InstaPay suspending its transfer fees for interbank and inter-platform transactions further encouraged this acceleration. A consumer survey undertaken by PayPal discovered the increasing adoption of digital payments with 87% of Filipinos seeing increased use of digital payment platforms and 93% preferring usage of such platforms over physical cash during the pandemic¹⁴. Almost all surveyed respondents also planned to keep using digital payments even after the lifting of the quarantine restrictions.

Creation of digital payment accounts was further accelerated by the decision of the national government to leverage GCash, PayMaya, Rizal Commercial Banking Corporation's (RCBC) Diskartech Lite, Robinsons Bank and Starpay in the distribution of the second tranche of the Social Amelioration Program (SAP)¹⁵. Disbursements were made through cash-out partners such as automated teller machines (ATMs), pawnshops and money transfer centers. PayMaya further mobilized their network of 30,000 Smart Padala agents and sari-sari stores for distribution, providing convenient alternatives for non-smartphone users to receive their payouts through short message service (SMS) notifications¹⁶.

Mobile wallets and digital payment platforms were further utilized by civil society groups to deliver cash assistance to economically displaced workers such as jeepney drivers. Same-day delivery service couriers also adopted these digital payment platforms to offer cashless options to customers that prefer to pay upon delivery. Local remittances sent through digital platforms also gained traction during the peak of the lockdown.

Year-end performance reports of leading payment applications also reflected the surge in adoption of digital payment platforms. GCash reported a net year-on-year growth of 13 million registered users, achieving 33 million in total user base¹⁷. The company also achieved more than Php 1 Trillion in total transaction value in 2020,

14 Robert Reyes, "PayPal: Pandemic Made 87% of Filipinos Increase Digital Payment Usage," Manila Bulletin, 10 November 2020, <https://mb.com.ph/2020/11/10/paypal-pandemic-made-87-of-filipinos-increase-digital-payment-usage/>.

15 Christine Cudis, "DSWD identifies 6 payment partners for SAP aid," Philippine News Agency, 1 July 2020, <https://www.pna.gov.ph/articles/1107626>.

16 Newsbytes.PH, "PayMaya distributes cash aid via sari-sari stores," Newsbyte.PH, 9 July 2020, <https://newsbytes.ph/2020/07/09/paymaya-distributes-cash-aid-via-sari-sari-stores/>.

17 Raymond Carl Dela Cruz, "GCash has now over 33 million users," Philippine News Agency, 15 February 2021, <https://www.pna.gov.ph/articles/1130710>.

peaking at Php 7.5 Billion gross transaction value and six million transactions in one day, driven by online payments, bank cash-ins and money transfers.

With the momentum on digital payment adoption, the BSP has pushed for a single unified standard for all platforms to speed up the transition towards a “cash light” economy, particularly the increased use of the unified “quick reaction” or QR codes among merchants¹⁸. This initiative further aims to improve the interoperability of transactions and eliminate inefficiencies from the currently fragmented bills payment mechanisms.

Remaining Challenges to Achieving MSME Recovery and Resilience

Despite massive improvement in the adoption of digital solutions by businesses and consumers alike, certain business challenges remain several months after the economy reopened. The actual process of restarting businesses during an ongoing pandemic while putting additional necessary health protocols in place to prevent further transmission of the virus was more difficult than previously imagined, especially among MSMEs that have limited resources. Many of these prevailing issues reflect existing limitations and inefficiencies in the design of local value chains. To enable the entire MSME ecosystem to withstand not just pandemics but any future disruptions from natural calamities or combinations of such, these value chains need further strengthening.

The Scoping Study has identified the following five critical recovery and resilience challenges within the MSME ecosystems in the wholesale and retail trade and food service sectors:

- 1. Slow recovery of consumer demand driven by shifts in consumer purchasing behavior and income;**
- 2. Inadequate access to affordable capital to finance reopening of businesses;**
- 3. Infrastructure and capability barriers to expand adoption of digital solutions;**
- 4. Continued disruption of operations in response to evolving policies and guidelines; and**
- 5. Lack of resilience and risk management mechanisms that enable MSMEs to weather economic disruptions from various forms of disaster and calamities.**

¹⁸ Daxim L. Lucas, “BSP chief pushes for unified digital payments standard,” Philippine Daily Inquirer, 13 November 2020, <https://business.inquirer.net/311635/bsp-chief-pushes-for-unified-digital-payments-standard>.

Recognizing these challenges can provide stakeholders the opportunity to rethink existing business models, determine necessary improvements to align with the standards of the new normal, enable continuity of operations and minimize exposure to various business risks.

Challenge 1 - Slow recovery of consumer demand

Shinozaki’s report in the ADB Asian Impact webinar noted a drop in domestic demand across MSMEs as the economic reopened, with a greater proportion of the surveyed small (70%) and medium enterprises (67%) reporting the experience. Several businesses (i.e., 37-44%) that have reopened also experienced over 30% decrease in income. The slow recovery of consumer demand reflects the overall macroeconomic condition across the country as unemployment remains high. Worse, business closure and downsizing of workforce already had a trickle-down effect on microenterprises with nearby carinderias and sari-sari stores ceasing their operations due to substantial reduction in customer base.

Consultations with MSMEs further identified restrictions in the movement of people as another barrier to driving sales post-ECQ. The prolonged stay-at-home and work-from-home arrangements, while necessary to minimize viral transmission, has significantly reduced the traditional market of many of the stores situated in high foot-traffic locations. In public markets where scheduled visits for market goers were imposed, vendors reported a substantial decline in potential customer base. Shortening of operating hours further contributed to reduced capacity and revenue-generation opportunities. For instance, restrictions on activities that carinderias can do in public markets (e.g., prohibition of cooking onsite) as part of health and safety precautions further limited the ability of smaller food service enterprises to immediately respond to and benefit from additional increase in demand.

While digitalization expanded the customer reach of businesses, many microenterprises still struggled in making the shift. Public market vendors noted the difficulty of traveling to their stalls to access inventory, limited storage space at home and absence of cost-efficient logistics alternatives as barriers to adopting digital platforms in servicing their highly price-sensitive customers. Moreover, MSME efforts to invest in going digital or in creating strategies to drive sales will fail if most of their clients do not have the financial means to purchase.

Hence, critical to speeding up demand recovery are ecosystem-level interventions that improve consumer purchase capabilities. Government policies and programs that contribute to improving consumers’ income generation capabilities are crucial for MSME business

activity to flourish. Corporations that are linked to these MSMEs through their supply chain can further contribute by offering flexible commercial terms that will help manage cash flows. Indeed, MSMEs cannot resolve such immense and systemic challenge alone, and integration of solutions across different institutions and sectors will be crucial.

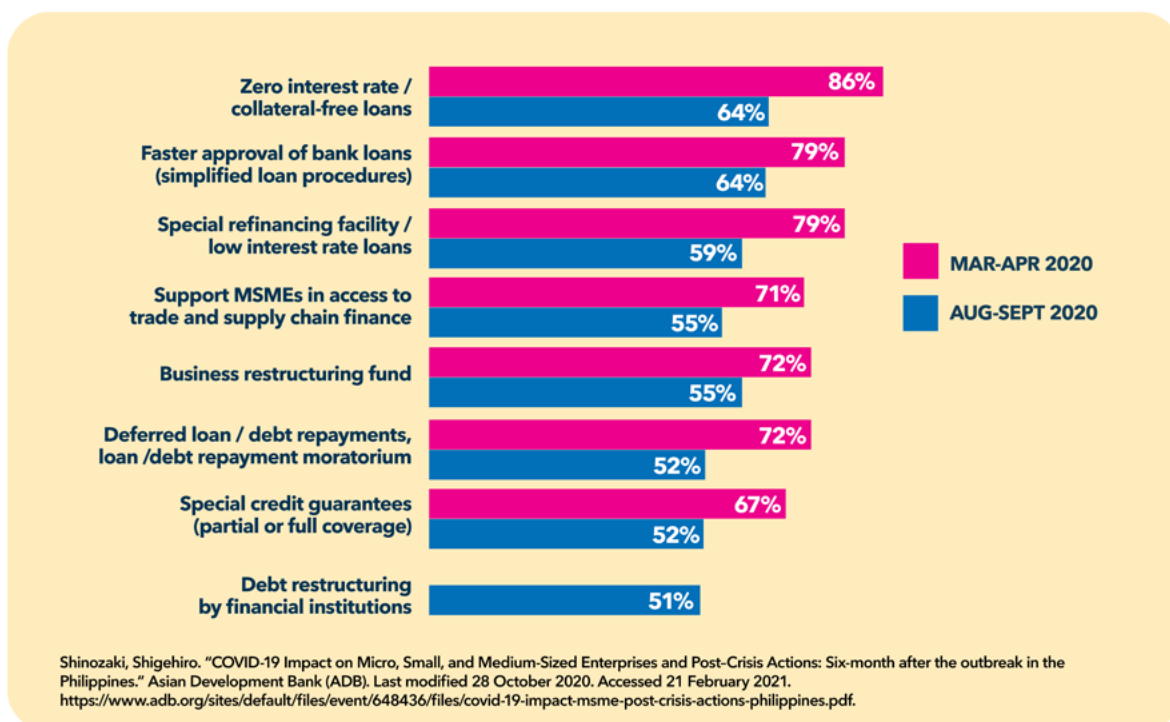
Challenge 2 - Inadequate access to affordable recovery capital

Shinozaki’s study further noted that a significant proportion of MSMEs relied on their own personal savings or borrowed from relatives to finance the restart of their businesses¹⁹. With bank loans being less preferred and business uncertainties posing challenges in managing working capital, at least 59% of MSMEs identified providing zero interest or collateral-free loans, improving the speed of bank loan approval (including simplification of loan procedures) and establishing special refinancing facilities for low-interest loans as desired funding policy measures to assist economic recovery. For the majority of microenterprises, the amount of financing needed to restart businesses could amount to at most Php 30,000²⁰.

Challenges in capital access was further validated by the aggregated results of the total bank loans provided to the MSMEs. According to BSP, only Php 464.34 Billion were allocated for MSME lending, or 5.39% of the total Php 8.60 Trillion loanable funds from January to September 2020 – way below the 10% threshold set by law²¹. The banks remarked that the tightening was driven by less favorable economic outlook, the deterioration in the profitability of the bank’s portfolio and profiles of borrowers, and reduced tolerance for risk, among others.

Bank loans were also less preferred by microenterprises primarily due to stringent documentary requirements and absence of assets that qualify as collateral. Discouraged by these, they— especially those unaffiliated to MFIs — would end up undertaking the “five-six” loan arrangement with lenders that could easily grant the much-needed cash based on personal relationships and previous borrowings. While many were cognizant of the steep interest rates of this scheme, the speed and convenience of disbursement and flexibility of repayment methods compel them to subscribe to this model.

Figure 6. Funding Policy Measures Strongly Desired by MSMEs

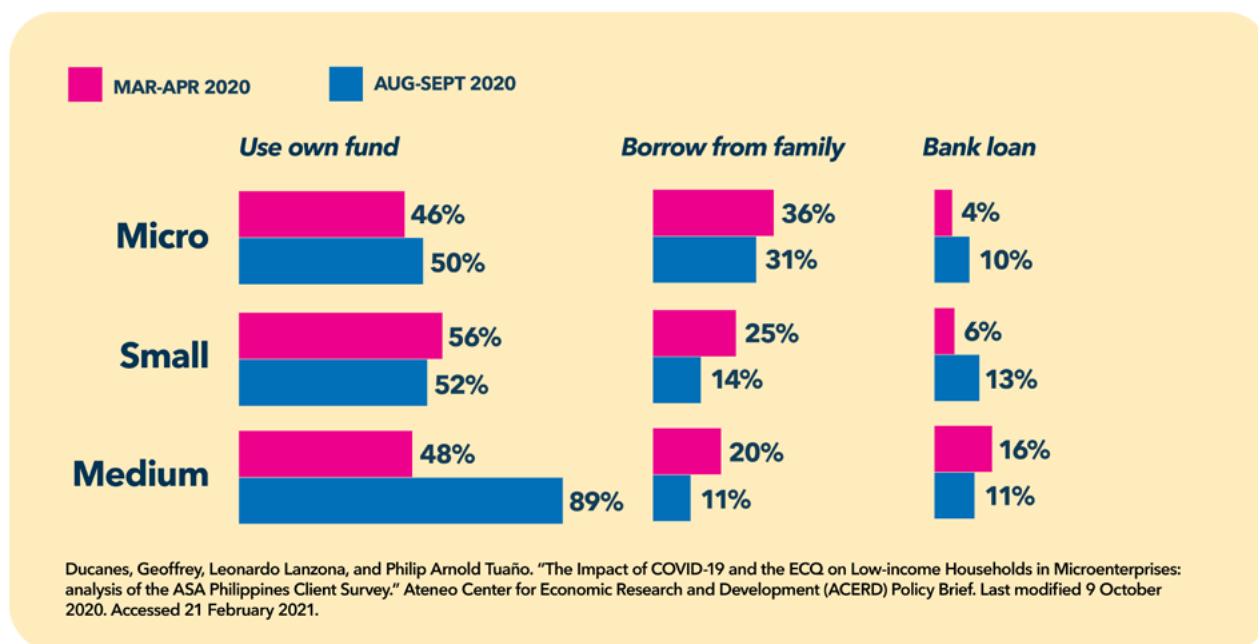


19 Shinozaki, “COVID-19 Impact”.

20 Geoffrey Ducanes, Leonardo Lanzona, and Philip Arnold Tuaño, “The Impact of COVID-19 and the ECQ on Low-income Households in Microenterprises: analysis of the ASA Philippines Client Survey,” Ateneo Center for Economic Research and Development (ACERD) Policy Brief, 9 October 2020.

21 Mayvelin U. Caraballo, “Banks’ MSME loans still below mandated level,” The Manila Times, 2 February 2021, <https://www.manilatimes.net/2021/02/04/business/business-top/banks-msme-loans-still-below-mandated-level/836743/>.

Figure 7. Sources of Financing by MSMEs to Restart Businesses



Government financing assistance to the MSMEs was also observed to be limited if not delayed. Most of the available loan assistance programs required some form of registration, business plans or proof of identification, which were challenging to produce for many neighborhood sari-sari stores, small carinderias and market stall owners. The Scoping Study discovered that many micro-entrepreneurs were hoping to receive and leverage the government's SAP cash aid as capital to restart their businesses given its significant amount—i.e., Php 4,000-8,000 per month per household recipient for two months, or nearly equivalent to the typical size of micro loans. Not all micro-entrepreneurs received assistance due to fund limitations or delays in disbursements.

The BSP has already committed to undertaking various initiatives to ease and speed up the bank lending process to MSMEs, including the creation of a standard business loan application form that would make the process more simplified and borrower-friendly²².

However, expanding access to more affordable capital for MSME recovery remain urgent since the working capital for most of them can only last for six months. Depleted savings, slow recovery of demand and increasing cost

of operations intensify the likelihood of working capital running out²³. MSMEs are further burdened by the additional costs of COVID-proofing their facilities. The cost of protective infrastructure, sanitation counters and disposable utensils (which have been required for carinderias and food stalls) are not necessarily passed on to the cash-strapped customers. With highly limited alternatives, there is opportunity to develop innovative instruments and solutions that will not only address the immediate demand for capital but also provide alternative financing and risk mitigation modalities to enable faster business recovery.

²² Daxim L. Lucas, "BSP unveils reforms to boost lending to MSMEs," Philippine Daily Inquirer, 21 December 2020, <https://business.inquirer.net/314452/bsp-unveils-reforms-to-boost-lending-to-msmes>

²³ Shinozaki, "COVID-19 Impact".

Figure 8. Government Financing and Subsidy Assistance for MSMEs

Agency	Program	Type	Allocation (Php)	Status of Disbursement
Department of Labor and Employment (DOLE), Department of Finance (DOF)	Small Businesses Wage Subsidy (SBWS)	Subsidy	51.0 Billion	As of 8 October 2020: Php 23.1 Billion disbursed to 3.1 Million workers for small businesses receiving Php 7,441 for two months ²⁴ DOLE allotted P52 Billion for this program in the proposed Bayanihan 3 ²⁵
Land Bank of the Philippines (LBP)	Interim Rehabilitation Support to Cushion Unfavorably affected Enterprises by COVID-19 (I-RESCUE)	Loan	10.0 Billion (+27.5 Billion)	No publicly available report on disbursement Additional Php 27.5 Billion from Bayanihan 2 will be allocated to LBP's MSME programs ²⁶
Department of Trade and Industry - Small Business Corporation (DTI-SBC)	COVID-19 Assistance to Restart Enterprises (CARES 2)	Loan	10.0 Billion	As of 3 February 2021: Php 2.3 Billion worth of loans were disbursed to 21,358 MSMEs ²⁷
Department of Agriculture - Agricultural Credit Policy Council (DA-ACPC)	Expanded Survival and Recovery Aid and Recover Project for Micro and Small Enterprises (SURE COVID-19) Kapital Access for Young Agripreneurs (KAYA) Micro and Small Agribusiness Loan Program or Agrinegosyo (ANYO)	Loan	7.8 Billion (combined for three programs)	As of 15 December 2020: Php 3.5 Billion disbursed to more than 131 small and medium enterprise borrowers in 47 provinces and 535,000 farmers ²⁸ Additional Php 1 Billion was extended by DA to LBP to help 40,000 more eligible farmers As of 8 July 2020: Php 1.2 Million disbursed to 5 agripreneurs ²⁹ As of 1 August 2020: Php 693 Million was disbursed to 99 small and medium enterprise borrowers ³⁰

24 Cai Ordinario, "Safety nets cushion pandemic fallout for poor Filipinos," Business Mirror, 08 October 2020, <https://businessmirror.com.ph/2020/10/08/safety-nets-cushion-pandemic-fallout-for-poor-filipinos/>.

25 Mayen Jaymalin, "Palace appreciates Bayanihan 3 but says resources enough," Philippine Star, 09 February 2021, <https://www.philstar.com/headlines/2021/02/09/2076352/palace-appreciates-bayanihan-3-says-resources-enough>.

26 Ben O. de Vera, "Landbank's add'l equity to go to MSME loan programs," Philippine Daily Inquirer, 13 February 2021, <https://business.inquirer.net/317624/landbanks-addl-equity-to-go-to-msme-loan-programs>.

Mayen Jaymalin, "Palace appreciates Bayanihan 3 but says resources enough," Philippine Star, 09 February 2021, <https://www.philstar.com/headlines/2021/02/09/2076352/palace-appreciates-bayanihan-3-says-resources-enough>.

27 Kris Crismundo, "SB Corp. OKs P2.3-B loan under CARES program," Philippine News Agency, 03 February 2021, <https://www.pna.gov.ph/articles/1129516>.

28 DA Communications Group, "DA-ACPC turns over add'l P1B to LandBank for lending to small farmers, fishers," Department of Agriculture, 15 December 2020, <https://www.da.gov.ph/da-turns-over-to-landbank-p1-b-additional-fund-for-lending-to-small-farmers-fishers/>.

29 Jasper Arcalas, "DA earmarks P1.22 million for agripreneur loans," Business Mirror, 08 July 2020, <https://businessmirror.com.ph/2020/07/08/da-earmarks-p1-22-million-for-agripreneur-loans/>.

30 April Rafales, "DA offers P5.5 billion in loans for small, medium 'agripreneurs'," ABS-CBN News, 01 August 2020, <https://news.abs-cbn.com/business/08/01/20/da-offers-p55-billion-in-loans-for-small-medium-agripreneurs>.

Agency	Program	Type	Allocation (Php)	Status of Disbursement
DOLE	COVID-19 Adjustment Measures Program (CAMP)	Subsidy	7.5 Billion	As of 21 January 2021: 658,886 workers from the private sector have received assistance totaling to Php 3.31 Billion ³¹
DOLE	Tulong Panghanapbuhay sa ating Disadvantaged / Displaced Workers Barangay KO, Bahay Ko Disinfection / Sanitation Project (TUPAD #BKBK)	Subsidy	6.2 Billion	As of 28 December 2020: Php 4.5 Billion disbursed to 939,209 informal sector workers ³²
DTI-SBC	Pondo sa Pagbabago at Pag-asenso (P3) Program	Loan	1.0 Billion	As of 6 July 2020: Php 6.8 Million disbursed to 146 applicants from CAR ³³ Additional Php 1.5 Billion was proposed in the 2021 national budget ³⁴
DTI	Livelihood Seeding Program - Negosyo sa Barangay (LSP-NSB)	TA	0.2 Billion	Data on the total amount of nationwide disbursement not available
DTI-Regional Operations Group (DTI-ROG), DTI-SBC	Rebuilding the Sari-Sari Stores Through Access to Resources and Trade (ReSTART)	Loan	0.2 Billion	No publicly available report on disbursement According to Coca-Cola, Php 157 Million were targeted for disbursement to 15,000 sari-sari stores ³⁵

Challenge 3 - Infrastructure and capability barriers to expand digitalization

Despite the promising development in the acceleration of e-commerce and digital payments adoption during the pandemic, these remain heavily concentrated in urban locations as infrastructure and capability limitations made it difficult or expensive to reach far-flung areas. Several consulted MSMEs also noted that e-commerce could be challenging to implement in their existing business models. For instance, market sellers shared that bringing their products online would be difficult because their target

market – the cash-strapped customers – would likely not afford the additional costs of deliveries. The World Bank identified four key factors that prevented the scale up of digitalization across the country: high cost and uneven quality of internet further driven by low competition and high regulatory constraints in the telecommunications market; limited adoption of digital payments due to low transaction account ownership, nascent infrastructure and perceived risks of digital transactions; expensive logistics arising from lack of competition in the sector; and a business environment with low levels of competition restricted by complex regulations that protect incumbents³⁶.

31 Silvestre H. Bello III, Zoom Message to PANATA Group, January 20, 2021, https://www.dole.gov.ph/php_assets/uploads/2021/02/Zoom-Message-PANATA-Group.pdf.

32 "TUPAD pays P4.5B to nearly 1 million workers," Department of Labor and Employment, 28 December 2020, <https://www.dole.gov.ph/news/tupad-pays-p4-5b-to-nearly-1-million-workers/>.

33 Thom Picaña, "Covid-hit MSMEs get DTI support," Manila Times, 06 July 2020, <https://www.manilatimes.net/2020/07/06/news/regions/covid-hit-msmes-get-dti-support/738526/>.

34 Christia Marie Ramos, "BY THE NUMBERS: The proposed 2021 national budget," Philippine Daily Inquirer, 09 September 2020, <https://newsinfo.inquirer.net/1333479/by-the-numbers-the-proposed-2021-national-budget>.

35 "Coca-Cola, DTI launch 'Sari-Sari store,' 'Carinderia' assistance program," ABS-CBN News, 17 July 2020, <https://news.abs-cbn.com/business/07/17/20/coca-cola-dti-launch-sari-sari-store-carinderia-assistance-program>.

36 Philippines Digital Economy Report 2020 (Washington DC: The World Bank, 2020), 1-2.

The stability of internet connection remain a challenge in several areas outside of the city centers, making it nearly impossible to connect to social media or e-commerce platforms on a regular basis. The absence of logistics infrastructure in rural locations prevented e-commerce companies from servicing orders of prospective buyers due to delivery constraints. Moreover, financial technology platforms required submission of identification, which kept out those who have yet to acquire their certificates of birth registration. The roll-out of the national ID system registration only begun in 2020 with just above nine million registrations completed by year-end. Expediting this process could provide the documentation to enable a larger portion of the population — and the most critical target for financial inclusion — to access various digital payment platforms.

Cash remained king in many rural areas that did not have the infrastructure to facilitate digital fund transfers. For instance, while digital cash remittances flourished in the cities, receivers of such funds in the provinces would still rely on cash given the limited network of cashless or cash-light facilities in their communities. In addition, the suspension of inter-platform transaction fees was only temporary and, for the base-of-the-pyramid market, the additional transfer fees would already represent a substantial deduction.

Security of online transactions was also a barrier in digital adoption. Cases of customers receiving fake items purchased online or delivery services receiving orders

from fake or made-up customers, amplified through social media, further added to existing concerns of internet fraud. In effect, cash payment upon physically receiving the orders was still preferred. In response, delivery services often tapped by MSMEs retained cash-on-delivery options that involved additional fees for customers.

Addressing the ecosystem-level challenges of accelerating digitalization will also require government regulatory intervention in cybersecurity to encourage increased activity. An integrated e-commerce solution is necessary to ensure access to affordable internet, logistics and payment channels. While usage of financial technologies is still limited to payment transfers, such platforms can also offer solutions that align with the capabilities and needs of the MSMEs for financing and risk management.

Complementary firm-level interventions will also be instrumental for the whole digitalization push to materialize. At the onset, enabling business owners to build stronger entrepreneurial skills can improve their appreciation of leveraging various online trade and payment platforms for their business. Awareness and education on digital alternatives will be essential to help entrepreneurs optimize the commercial benefits of digitalization and familiarize themselves with security mechanisms to minimize exposure to fraud. Communication of benefits of digitalization, such as ease of facilitating transactions at a distance, efficient delivery of goods, access to digital financing and engagement with new and existing customers can also encourage adoption among MSMEs.

Scoping Study Findings on the Digitalization Experience of MSMEs

Internet user penetration in the Philippines was projected to have reached 72.7% in 2020 and would continuously increase to 77.1% by 2025³⁷. Meanwhile, mobile phone internet user penetration has experienced significant growth in recent years from only 54.1% in 2017 to 69.1% in 2020, and projected to further inch closer to overall internet usage with 76.6% penetration by 2025³⁸. Domestic internet users are estimated to have reached 73.9 million by January 2021³⁹ and almost every internet-connected citizen used social media. Over the same period, smart phone penetration grew to 98.5% of internet users.

These trends demonstrate how the pandemic amplified digital connectivity and reinforced the significant role of social media because of increased work-from-home and distance learning arrangements. However, the increased digital adoption at a personal level does not automatically translate to the utilization of such platforms for business.

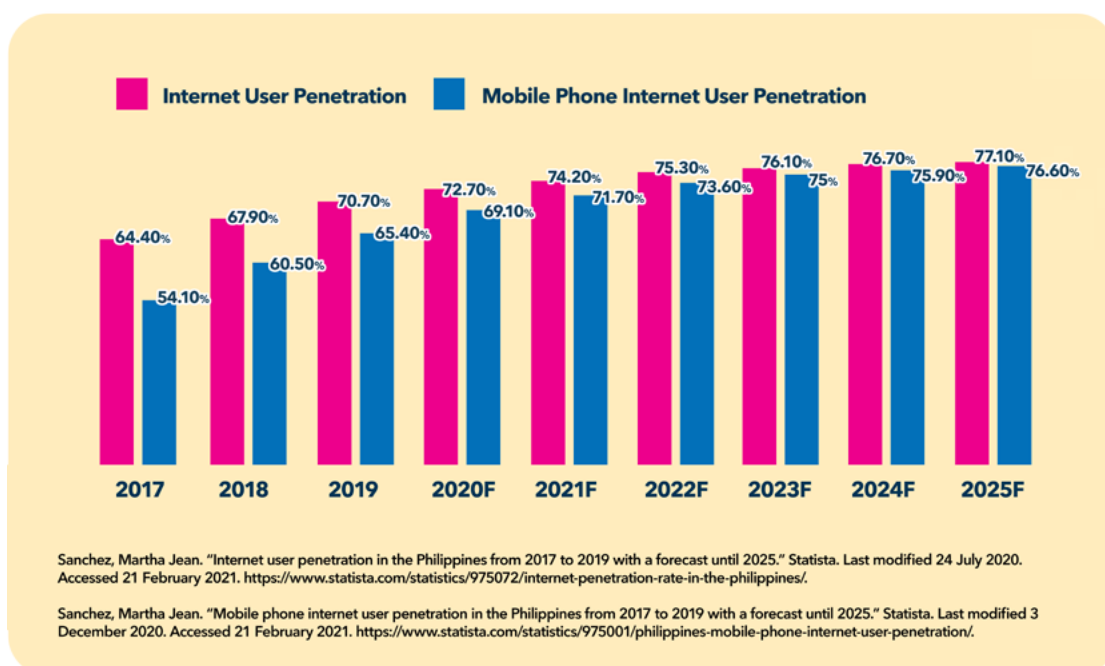
The notion of “business digitalization” varies across MSMEs. The Scoping Study identified four levels of MSME digitalization: online marketing and e-commerce, digital payments, online supply chain linkages and full-suite online banking and credit. Entry of MSMEs into these levels are often shaped by their awareness of these alternatives and their linkages with communities and ecosystems that can influence behavior.

37 Martha Jean Sanchez, “Internet user penetration in the Philippines from 2017 to 2019 with a forecast until 2025,” Statista, 24 July 2020, <https://www.statista.com/statistics/975072/internet-penetration-rate-in-the-philippines/>

38 Martha Jean Sanchez, “Mobile phone internet user penetration in the Philippines from 2017 to 2019 with a forecast until 2025,” Statista, 3 December 2020, <https://www.statista.com/statistics/975001/philippines-mobile-phone-internet-user-penetration/>.

39 Simon Kemp, “Digital 2021: The Philippines,” DataReportal, 11 February 2021.

Figure 9. Internet and mobile phone internet user penetration (2017-2025 Forecast)



Platforms for marketing and trade

For most MSMEs, digitalization means the ability to use online platforms to promote and sell their products. Such is the common entry point for enterprises that need to reinvent their sales channels when face-to-face customer interactions were restricted. Often influenced by peers, business owners utilize commonly used messaging applications such as Facebook Messenger, Viber, WhatsApp or Telegram to inform prospective buyers of their products and facilitate placement and delivery of orders.

Other more advanced business owners would make use of their personal accounts on Facebook (Marketplace and Groups) or Instagram to promote their products and services. Often, additional content development capabilities are necessary to effectively leverage these channels, given the volume of content on the platforms. These marketing initiatives commonly require a contact number, an online messaging account or an online form to facilitate order taking.

Not all entrepreneurs know they can also create business accounts for free on these platforms. Owners usually learn the functionality and set-up process when they participate in trainings or are informed by experienced peers. The process, however, requires more advanced appreciation and understanding of the online ecosystem. Nevertheless, owners benefit from upgrading to business accounts as it comes with access to functions that can help expand customer reach and understand page visitors.

Other food and non-food sellers further expand their e-commerce presence by registering on leading platforms such as Lazada and Shopee. Restaurants, groceries and stores also leverage same-day delivery platforms such as Grab (Food and Mart) and Foodpanda. Other niche online groceries and bazaars have also emerged to offer alternatives for enterprises. By enlisting on these e-commerce platforms, businesses gain higher visitor traffic and enjoy periodic sales promotions. However, these platforms require business registration from the DTI or the Securities and Exchange Commission (SEC). Participation also entails additional fixed and variable placement and commission fees. These factors usually discourage the participation of informal microenterprises that cannot comply with the documentary or pricing requirement.

The more advanced enterprises establish their own websites using platforms such as Shopify. Often, these are niche sellers that offer a wider variety of products and their websites serve as their online shopping mall. The set-up process entails additional investments in web design, development and maintenance.

Payment, remittance and fund transfer

Linked to the MSMEs' usage of social media and e-commerce platforms for sales is the adoption of mobile wallet and online banking platforms. These give them access to customers that are willing to undertake non-cash modes of payment. From a business perspective, the ability to collect payments digitally reduce the need to subscribe to cash collection services during delivery, which often incur additional costs. GCash and PayMaya are the most used e-wallets. Similarly, almost all of the largest commercial banks have expanded the roll-out of their online banking services using web-based and application-based platforms. E-commerce and delivery platforms have also introduced in-house digital payments linked to services such as Lazada Wallet, Shopee Pay, Grab Pay and Lalamove Wallet.

A crucial factor in leveraging these digital payment platforms is the ability to offer services with minimum or zero transaction fees. The suspension of transfer fees during the height of the lockdown proved instrumental in encouraging adoption of e-payments. However, the arrangement is temporary and the return of these transaction fees may discourage budget-sensitive buyers and sellers to continue using the platforms. Universality and accessibility, therefore, will be critical to sustain user adoption.

GCash and PayMaya have also tapped existing payment remittance centers as well as non-traditional disbursement channels such as sari-sari stores to reach the last mile of potential users. They also established presence in brick-and-mortar stores and restaurants that neither debit nor credit card payments have traditionally reached.

Mobile payment platforms are also becoming a business opportunity for sari-sari stores to expand their service portfolio. By activating more stores for bills payments, remittances and fund transfers the same way they were enabled to facilitate mobile load top-ups, mobile wallets can address the last mile challenge of bridging cash-dependent users with digitally equipped ones. Expansion of scan-to-pay transactions through QR codes streamline in-store experience while addressing concerns of erroneous transfers due to incorrect inputs of mobile phone or account numbers.

Digital payment platforms are also providing opportunities for the unbanked microenterprises to build credit history through their transaction history. These can eventually be leveraged for accessing various forms of micro-financing instruments. At the same time, the platforms offer convenient and paperless alternatives for other financing needs including microcredit, microinsurance and loan settlement.

Linkage to upstream supply chain

Faced with restricted movements and the possibility of localized lockdowns, large companies such as FMCGs, distributors and wholesalers expedited the adoption of digital platforms to facilitate order management and delivery of inventory directly to sari-sari stores, carinderias, and other retail channels. By enabling order placement online, owners do not need to temporarily halt operations and go out to purchase inventory, minimizing risks of potential exposure to infected individuals. Some wholesalers and distributors have also reduced their minimum order requirements to encourage orders from smaller stores that have not been directly engaged prior to the pandemic.

The model exhibits similarities with downstream e-commerce platforms, except that it requires membership registration and offers inventory credit mechanisms. A robust customer relationship management is also in place to assist micro-retail clients. At the same time, members of such platforms can also avail of special discounts and other privileges.

Digitalization of the upstream supply chain is still currently limited to a smaller subset of MSMEs, often those affiliated with brands or wholesalers. In fact, when the economy reopened and the quarantine guidelines eased, many sari-sari store owners returned to their pre-pandemic ways of replenishing inventory through physically visiting their go-to suppliers. Scaling up this model can bring convenience and safety to many store owners. But for wide adoption, it must demonstrate cost efficiency, accessibility and ease of transaction to become favorable to practical and price-sensitive micro-entrepreneurs.

Online banking and credit solutions

Hardly any MSMEs have gone beyond digital payments to fully adopt end-to-end financial technology solutions on their businesses. Many still rely on face-to-face engagements to access financing. While some MFIs have also adopted online platforms, transactions are still limited to disbursement and settlement of loans. Only the more advanced MSMEs subscribe to brick-and-mortar and online banking transactions simultaneously. Bank loans remain the least preferred, especially among microenterprises due to bureaucratic processes, stringent requirements and fear of discrimination.

Reaching end-to-end financial technology adoption can be considered as the highest form of digitalization among MSMEs but scaling up requires innovative solutions. Improvement in the awareness and appreciation among MSMEs of existing alternatives will have to be undertaken through more rigorous market education. Complexity and bureaucracy in accessing financing instruments also need to be reduced to encourage the shift to less expensive modalities. Minimizing documentary qualifications is also critical in improving accessibility and convenience. Enabling flexibility of payments can further gain interest, especially among micro-entrepreneurs.

Challenge 4 - Continued disruption of operations

Localized lockdowns, apart from leading to temporary closure of operations, also constrained the flexibility of upstream and downstream supply chains. In certain cases, the irregularities in quarantine policies added barriers to interprovincial movement of goods. The uncertainty of such disruptions further contributed to operational inefficiencies and resulted in the overall inability of businesses to map long-term plans or project likely future scenarios. MSME ecosystem stakeholders – regardless of size – noted the need to adjust constantly to the evolving guidelines and adopt flexible, contingency-driven business models to survive. One of the consulted stakeholders even suggested that the traditional supply chain consolidation models may not be the most optimal given the possibility of localized lockdowns while the pandemic is ongoing.

Shinozaki's study found that several types of business disruptions still plagued the reopening of the economy even with the relaxed quarantine measures. A higher proportion of MSMEs (i.e., 43-55% from August to September 2020 versus 32-48% from March to April 2020) that reopened in the period experienced delays in the delivery of products and services. Similarly, 35-67% of MSMEs experienced disruption in production and supply chain interruptions. In response, most businesses, especially small and medium enterprises, resorted to reducing their operating hours. Work-from-home arrangements also increased across the board. Although the incidence of temporary lay-offs improved notably among microenterprises that could reopen (i.e., 14%), the figures remained higher among small (38%) and medium (56%) enterprises with higher personnel headcount.

One strategy that MSMEs employed to address disruptions was to pivot towards essential products. The experience, however, was highly challenging for

many microenterprises. Ducanes, et al. noted that only 4% of the micro-entrepreneurs were able to pivot their business during the peak of the ECQ while 23% resorted to temporary closure⁴⁰. The Scoping Study found that switching to high-demand, essential products and adopting digital-based models were more difficult to implement due to added infrastructure and capability requirements, limited availability of affordable logistics and extra working capital needed. Nevertheless, affiliations with support groups and adequate entrepreneurial capabilities were identified to significantly help business owners navigate the uncertainties of the shifts.

The impact of the disruptions was worse in regions severely hit by the lockdowns (e.g., National Capital Region, CALABARZON, Western Visayas, Northern Mindanao, Caraga Administrative Region and Bangsamoro Autonomous Region in Muslim Mindanao). In the study conducted by Ducanes et al., disruptions were concluded to have driven micro-entrepreneurs to reduced income opportunities (with majority of the cases already belonging to the lowest income category), inability to provide sufficient basic needs and worst and experience of hunger⁴¹.

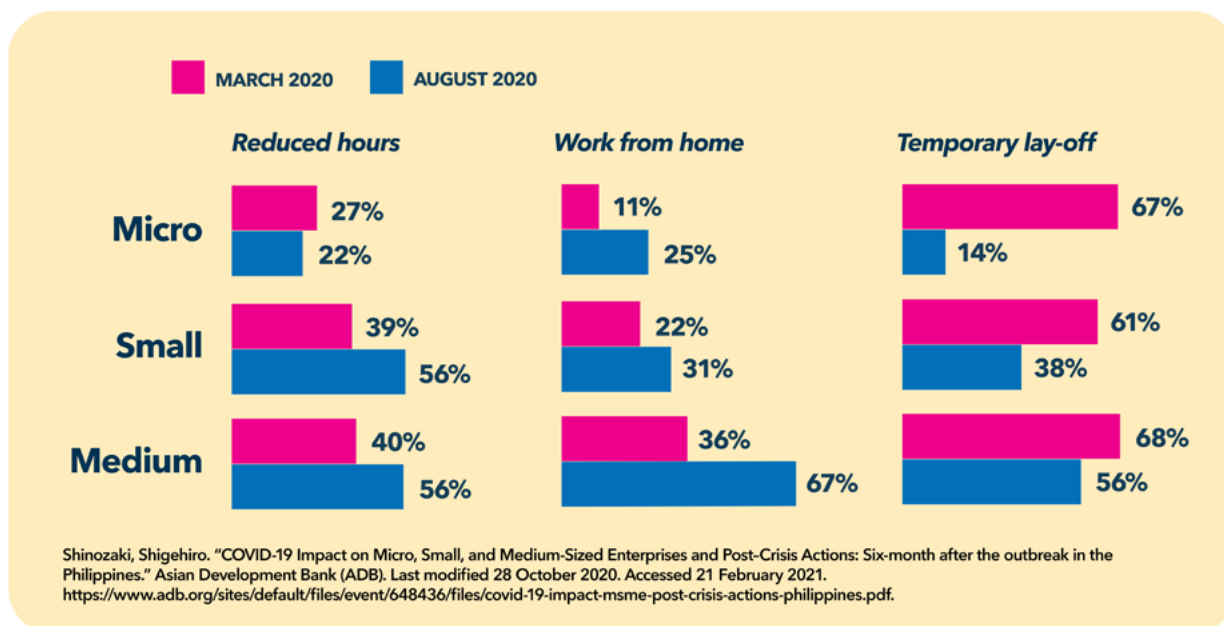
The last quarter of 2020 further demonstrated the compounded disruption resulting from the pandemic and natural calamities occurring simultaneously, and the lack of readiness among MSMEs for such possibility. The agricultural sector, which was supposedly performing better compared to other sectors and industries, recorded up to Php 10 Billion in typhoon-related damages that would take time for the farmers to recover⁴². The wholesale and retail trade and food service enterprises, which would rely on the agriculture sector for inputs, were further exposed to such supply chain instability risks.

40 Ducanes et al, "The Impact of COVID-19 and the ECQ".

41 Ducanes et al, "The Impact of COVID-19 and the ECQ".

42 BM Plus, "Villar: Successive typhoons brought at least P10B loss to agriculture," Business Mirror, 23 November 2020, <https://businessmirror.com.ph/2020/11/23/villar-successive-typhoons-brought-at-least-p10b-loss-to-agriculture/>.

Figure 10. Workforce and Infrastructure Adaptation to Accommodate Disruption⁴³



Ecosystem-level proofing will be necessary to ensure that the impact of future operational disruptions in the entire value chain remain minimal. Any interruption in working hours, delivery schedules or mobility can significantly affect the entire value chain. The World Bank has mapped these interruptions in the entire value chain of essential items such as food during the imposition of the ECQ. A similar bird's-eye view can be a potential starting point when looking at ecosystem-level solutions to disruption. Moreover, interventions would require established collaboration with and among national and sub-national governments to ensure consistency and alignment of mobility policies.

At the firm level, MSMEs must be equipped with capabilities and tools to respond to these disruptions. This includes the ability to pivot product or service offerings towards essential and high-demand categories and to leverage digital alternatives to bridge with customers and suppliers, among others. While solutions require direct action from the MSMEs themselves, the development will require an ecosystem-level enabling environment considering the complexity of the challenge and potential unfamiliarity of entrepreneurs on the concept.

Challenge 5 - Lack of resilience and risk management mechanisms

The pandemic also uncovered gaps in the resilience and risk management capabilities of MSMEs that hampered their overall ability to strategically respond to economic shocks and disruptions. At the ecosystem level, the absence of an integrated national resilience

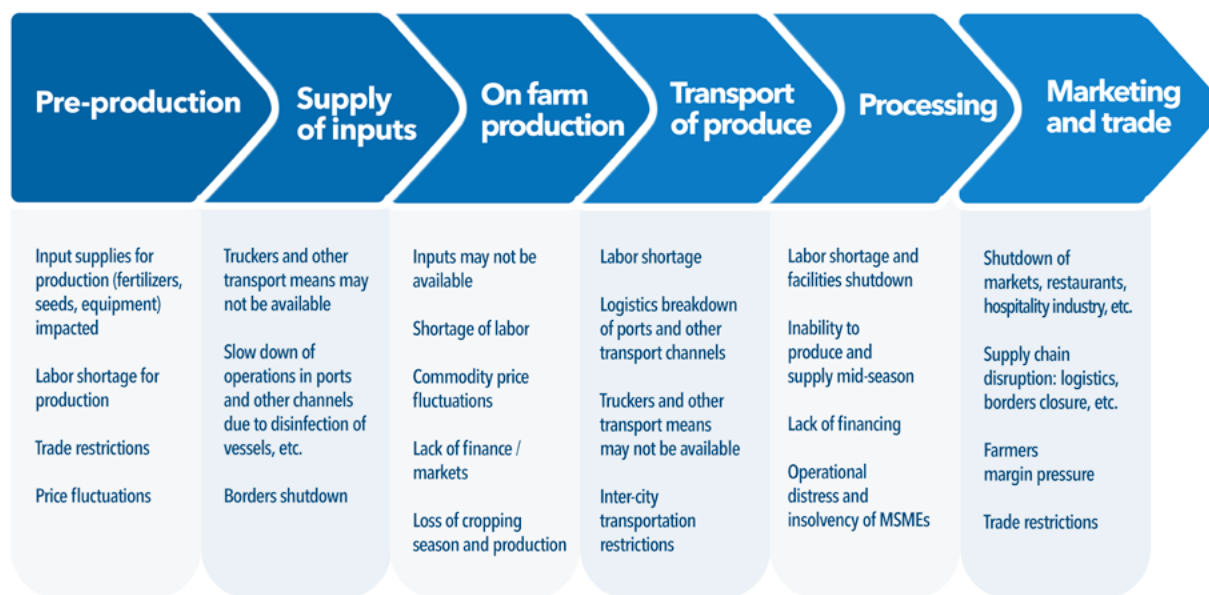
policy framework that businesses can adopt to mitigate the risks from disasters and pandemics exacerbated these challenges. The ADB identified four development constraints in improving disaster resilience in the Philippines: (1) fragmented national disaster resilience policy making and inadequate support to establish resilience in most vulnerable geographic locations; (2) lack in integration of disaster risk reduction and climate change adaptation to sub-national government planning and investment; (3) absence of a clear and cohesive policy to prepare for and respond to massive healthcare challenges such as pandemics and epidemics; and (4) insufficient disaster risk financing capacity which limits the ability to quickly rebuild businesses after such events⁴⁴. Government policy intervention will be critical to address these challenges and to provide the enabling environment for private and development sectors to participate in creating solutions.

The ADB report further noted certain policy reforms that have been initiated. A consolidated bill to establish the Department of Disaster Resilience was submitted to the Congress to facilitate the integration of policy and institutional arrangements meant for disaster risk management and social protection at the national level. Mainstreaming of climate change adaptation and disaster risk reduction in local government unit development plans was also initiated with the inclusion of improved assessment systems. A voluntary city-level parametric disaster insurance scheme for earthquake, typhoon and flood risks was also approved by the Government Service Insurance System (GSIS) for pilot in 17 cities engaged

⁴⁴ Asian Development Bank, "Proposed Policy-Based Loan – Republic of the Philippines: Disaster Resilience Improvement Program," August 2020, <https://www.adb.org/sites/default/files/project-documents/54022/54022-001-rrp-en.pdf>.

⁴³ Shinozaki, "COVID-19 Impact".

Figure 11. Food Supply Chain Disruptions in the Philippine Agriculture Due to COVID-19⁴⁵



in the Philippine City Disaster Insurance Pool project. To achieve these reforms, it is crucial to translate policies into resilience frameworks and tools that can be accessible and comprehensible to MSMEs. There is also a need to complement these documents with robust communication and education campaigns for entrepreneurs to appreciate and apply these in their respective businesses.

At the market level, business risk mitigation products and services remain limited or inaccessible to MSMEs. Personal life, health and accident insurance bundles were the most purchased and widely available. Partnerships between insurance underwriters and sales channels are also common for these products. For instance, Cebuana Lhuillier, Pioneer Insurance and Surety Corporation and Malayan Insurance Company Inc. collaborated to offer personal microinsurance products that cater to specific individual needs⁴⁶. GCash partnered with SingLife to provide digital health and accident microinsurance through GInsure^{47, 48}. CARD Pioneer Microinsurance Inc. (CPMI), a joint venture between CARD MRI and Pioneer Insurance, is also offering personal accident, burial benefit, health and emergency, and calamity aid products primarily linked to the MFI clients of CARD MRI⁴⁹.

45 The World Bank, "Transforming Philippine Agriculture During COVID-19 and Beyond," June 2020, <https://openknowledge.worldbank.org/handle/10986/34012>.

46 "Microinsurance," Cebuana Lhuillier, accessed 21 February 2021, <https://www.cebuanalhuillier.com/microinsurance/>.

47 "Cash for Dengue Cost With Free COVID-19 Coverage," GCash, accessed 21 February 2021, <https://www.gcash.com/singlife-cash-for-dengue-cost/>.

48 "Cash for Income Loss on Accidents," GCash, accessed 21 February 2021, <https://www.gcash.com/singlife-cash-for-income-lost-accidents>.

49 "CARD Pioneer Microinsurance Products," CARD Pioneer Microinsurance Inc. (CPMI), accessed 21 February 2021, https://www.cardmri.com/cpmi/?page_id=390.

Few alternatives, however, are available for MSMEs to insure their businesses from disaster or income losses. Some of these microinsurance products include Cebuana Lhuillier's MicroBiz Protek (underwritten by AXA Philippines) and NegosyoCARE (underwritten by Bankers Assurance Corporation), which provide MSMEs with comprehensive property insurance coverage from losses due to fire, lightning, earthquake, typhoon, flood, burglary, robbery and accidents⁵⁰. CPMI's NegoSure also cover facility reconstruction in the event of fire and personal accident benefits for sari-sari stores, while its ProteKITA provide business interruption benefits from calamity and fire damages⁵¹. The scarcity of business microinsurance products further explains the reliance of MSMEs on micro-loans to restart operations after calamities. Expanding the availability and accessibility of these microinsurance solutions can equip MSMEs with the long-term ability to quickly respond and bounce back in the event of adverse disruptions.

The firm-level responses of the MSMEs to these disruptions further exposed the capability gaps in contingency planning and risk management. For most MSMEs, business continuity plans meant the ability to survive day-to-day operations. Very few have been trained to prepare mitigation solutions that minimize its impact to the enterprise⁵². Informal microenterprises are also found to be most vulnerable to the severe impacts of the disruption.

50 Cebuana Lhuillier, "Microinsurance".

51 CPMI, "CARD Pioneer Microinsurance Products".

52 "MSME Sector is key to COVID-19 Inclusive Recovery for PH," UNDP in the Philippines, 28 September 2020, <https://www.ph.undp.org/content/philippines/en/home/presscenter/pressreleases/202-/msme-sector-is-key-to-covid-19-inclusive-recovery-for-ph.html>

Solutions to the prevailing recovery challenges of the MSMEs need to be grounded on clear resilience frameworks and risk management tools to ensure long-term sustainability of recovery interventions. The country's exposure to climate change risks further highlights the need for businesses to integrate these mechanisms. The experience during the last quarter of 2020 when strong typhoons brought flash floods that displaced communities in the middle of a pandemic should serve as a learning opportunity to seriously reinforce resilience building efforts among MSMEs.

Emerging Collective Impact Models for Post-Pandemic Recovery

To ensure that solutions effectively address multi-dimensional systemic challenges, involvement of the entire MSME ecosystem will be necessary, especially with the complexities of post-pandemic recovery and resilience building. For instance, MSMEs themselves cannot fully address the task of speeding up the recovery of consumer demand if left alone. To a certain extent, intervention from the government and the larger industry ecosystem will be necessary to boost consumer confidence and purchasing capability. Addressing the challenges in accessing affordable capital will need collaboration among banking, financial services and insurance institutions. Adapting to operational disruptions will necessitate the participation of critical supply chain stakeholders such as logistics providers, manufacturers and distributors to enable coverage of the last mile. Expanding digitalization will require the support from adjacent industries which will make infrastructure, technology and solutions more accessible to all MSMEs regardless of size, industry or geographic location.

The Collective Impact approach can mobilize critical actors to come together towards a specific common goal. Remarkably, certain models of multi-stakeholder action – many of which were driven by private and development sector stakeholders – have emerged in response to various pandemic challenges. These initiatives capitalize on the strengths of each partner to develop solutions that address upfront the needs and barriers.

One example is the way MSMEs established online communities where entrepreneurs themselves exchanged information, ideas and suggestions during the height of the lockdown. These groups either covered membership nationwide or focused on specific local communities. The formation of MSME e-communities has been credited as an important mechanism that served as channels for continued learning and development, especially as MSMEs tried to configure digitalization and other business pivots. In partnership with digital companies, non-profit organizations, government agencies and other commercial entities, the platforms were further able to offer much-needed online capacity-building webinars and trainings. Moreover, these groups provided an

important virtual support system that assisted struggling entrepreneurs in navigating the complexities and uncertainties of the pandemic.

The Connecting Business initiative, the United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA), the Philippine Disaster Resilience Foundation (PDRF) and the UNDP in the Philippines also partnered to develop “SIKAP” (or Synergizing Recovery Initiatives, Knowledge and Adaptation Practices for MSMEs). It is an online hub for business recovery that provided MSMEs with centralized information on quarantine guidelines, available financing alternatives and other government assistance programs⁵³.

A consortium of government, consumer goods companies, MFIs, development institutions and non-profit organizations was also established to help stimulate economic recovery, promote resilience, and restart businesses of the sari-sari stores, carinderias and bakeries under the “next normal” economy. The Rebuilding Sari-Sari Stores Through Access to Resources and Trade Program (ReSTART)⁵⁴ has aided the micro-retail sector in COVID-proofing their facilities (“Safe Stores Movement”). The initiative also created an online education platform for retail business resiliency (“Safe Stores Education”) in partnership with the Technical Education and Skills Development Authority (TESDA) and the United States Agency for International Development (USAID). ReSTART also mobilized a Php 150 Million Bridge Loan Fund to provide 15,000 retailers access to micro-loans as cash and inventory assistance (“Retailers’ Rebuild Bridge Loan”) through the partnership of Coca-Cola Philippines, ASA Philippines Foundation (A Microfinance NGO), Alalay sa Kaunlaran Microfinance Social Development and DTI-SBC.

TrueMoney, a payment and remittance network company, has partnered with Unilever Philippines in rolling out Dagdag Puhunan — a cashless payment platform which sari-sari stores can leverage to purchase food and non-food inventory⁵⁵. Using their UnionBank credit line, sari-sari store owners were able to transact in the Dagdag Puhunan platform and directly purchase inventory from TrueMoney’s FMCG partner, eliminating physical travel and cash disbursements.

Collective Impact is imperative to comprehensively address the MSME recovery and resilience challenges. This could involve building on and scaling up existing models, or establishing novel, well-thought-out and structured initiatives. Multi-sectoral collaboration will also ensure the engagement of all relevant stakeholders to develop and implement systemic and sustainable solutions.

⁵³ “About SIKAP,” SIKAP MSME Resilience Hub, accessed 17 December 2020, <https://sikap.com.ph/about/>.

⁵⁴ “Micro-retailers sharing stories of hope from Coca-Cola ReSTART program,” Manila Bulletin, 11 December 2020, <https://mb.com.ph/2020/12/11/micro-retailers-sharing-stories-of-hope-from-coca-cola-restart-program/>.

Figure 12. Five Mutually Reinforcing Areas of Collective Impact



Recommended Collective Impact Solution Themes

Addressing Challenges and Capitalizing on the Opportunities

To enable MSMEs in recovering smoothly and becoming truly resilient, the identified challenges need to be addressed effectively and the MSME ecosystem empowered to capitalize on the emerging opportunities. Some of these challenges and opportunities can and need to be confronted at the level of individual organizations while others need policy or government intervention. However, a significant number of these challenges and opportunities are difficult to address without collective action, i.e., different players in the MSME ecosystem working together in a complementary manner and aligned behind a common agenda and shared metrics to effect systemic change.

This section of the report will present in detail the proposed areas for Collective Impact that can drive MSME recovery and resilience in the wholesale and retail trade and food services sectors. These recommendations are not just hypothetical solutions that are nice to implement. Instead, these actions are imperative for key players in the MSME ecosystem to

55 Joey Alarilla, "TrueMoney supports sari-sari stores via Dagdag Puhunan," Digital Life Asia, 27 July 2020, <https://digitallifeasia.com/2020/07/27/truemoney-supports-sari-sari-stores-via-dagdag-puhunan/>.

consider in pursuit of sustainable economic recovery and resilience building process. Moreover, while the section focuses on Collective Impact, key measures that require government intervention and facilitation have also been identified and endorsed.

Five key mutually reinforcing solution themes for Collective Impact were identified to drive MSME recovery and resilience in the wholesale and retail trade and food service sectors. The identified solution themes include:

1. **Supporting Pivot to Resilient, Sustainable Business Models;**
2. **Recovery and Resilience Financing Innovation;**
3. **Scaling up Digital Adoption;**
4. **Resilient Supply Chain Innovation and Incubation; and**
5. **MSME Resilience Metrics, Scorecard and Tracking.**

Each solution theme meets the following criteria that are a pre-requisite for Collective Impact:

- i. To create system-wide change, individual businesses or government alone cannot implement these solution themes at scale.
- ii. Even if there is shared intent to create change, there is currently a lack of common agenda, mutually reinforcing initiatives, shared outcome goals or related metrics. Hence, initiatives tend to be siloed or sub-scale, not leading to Collective Impact.

- iii. The incentive to compile data-driven evidence is limited for individual organizations. For some of these solution themes, such evidences (e.g., MSME resilience definition and metrics) are inadequate to build a common ecosystem-level understanding of the nature and interlinkages of the issues, as well as their underlying drivers. Hence, there is a need to pool resources to develop a collective understanding of the issues related to each solution theme.

For each Collective Impact solution theme:

- i. The underlying challenges and opportunities are defined;
- ii. A set of preliminary ecosystem-level impact and outcome goals (i.e., common agenda) are endorsed;
- iii. The potential logical framework for achieving the impact goals to highlight priority focus areas, examples of possible initiatives and related outcome goals are proposed; and
- iv. The possible roles that multi-sectoral stakeholders can play in supporting the implementation are defined, including specific organizational and financial benefits that will accrue to them when the systemic change takes effect.

In undertaking these solution themes, Project CASTER emphasizes the need to complement all recovery and resilience building interventions with the broader healthcare solution that the pandemic requires to ensure the safety and welfare of MSME business owners, their employees and their families. Without robust, systemic, and evidence-based healthcare solutions to the pandemic, efforts to assist the economic recovery and resilience building of the MSMEs will not be sustainable in the long run.

Supporting Pivot to Resilient, Sustainable Business Models

Underlying Challenge and Opportunity

The Scoping Study found that the majority of MSMEs, especially micro and small businesses, lack the core set of business skills and tools to assess their business prospects, to adapt and pivot their business models during disruptions and to improve financial resiliency. These include basic financial and operations management skills, an entrepreneurial mindset, risk management and resilience tools and market knowledge to effectively assess their opportunities. While there are some existing initiatives in this regard, these are still limited in scope and scale.

Potential Common Ecosystem-level Collective Impact and Outcome Goals

The overarching impact goal from this solution theme is that a significant number (e.g., at least 250,000) of MSMEs can successfully pivot their businesses in the next 1-2 years to recover and boost resilience. Achieving the impact goal translates to MSMEs attaining the following outcome goals:

- i. Adopt relevant financial and operations management tools;
- ii. Enhance their entrepreneurial skills;
- iii. Adopt risk management and resilience tools; and
- iv. Have access to relevant market knowledge.

Proposed Priority Areas and Tangible Initiatives

This Collective Impact solution theme can focus on the following key initiatives:

1. **Creation and compilation of practical tools and learning materials:** There are four key areas where MSMEs need access to convenient, practical and easy-to-use management tools, such as:
 - a. **Financial and operational management:** This involves basic financial knowledge such as book-keeping, cash flow management, cost of credit evaluation (e.g., interest rates of loans), awareness of insurance and banking solutions and profitability and performance assessment. Improved capabilities on inventory management, procurement, cost management and operational optimization can complement these.
 - b. **Entrepreneurial skills and mindset:** Besides technical knowledge areas, MSMEs also need to develop a more “entrepreneurial” mindset towards running their businesses as opposed to a traditional livelihood orientation. This entails developing more robust business perspectives, being adaptive to new opportunities and having growth-oriented approach on the enterprise. To achieve this, MSME owners need to undergo basic training in business planning, competitive assessment, basic market and community needs identification and relationship building, among others. Such initiative can help empower the MSMEs from a bottom-up approach.
 - c. **Risk management and resilience:** The pandemic has clearly exposed that most MSMEs lack the knowledge and access to relevant risk management and resilience tools. This includes

simple, understandable and implementable guidelines and mechanisms for assessing business risks, steps to undertake to manage these risks and basic resilience measures. The availability of such tools, accompanied by relevant training, will be imperative in empowering MSMEs to withstand disruptions.

d. **Access to market knowledge:** MSMEs also need improved access to market knowledge to anticipate shifts and take appropriate action. This includes understanding the customers and the value chain in the communities that they operate in, as well as the broader market of their products and services. Acquiring this knowledge will allow MSMEs to understand shifts in demand, which can further help them configure strategic business pivots.

2. **Catalyze scalable training and adoption programs:** The creation of relevant practical tools and learning products needs to be complemented with scalable training and adoption programs that can facilitate the dissemination of these tools. Presently, there are several initiatives being run by organizations (e.g., Bayan Academy's Grassroots Entrepreneurship and Technologies or GREAT development program⁵⁶, Hapinoy's HapiSkwela⁵⁷, Suy Sing's Retail Academy⁵⁸), training service providers and government agencies. Coca-Cola's Sari-Sari Store Training and Access to Resource or STAR program⁵⁹ which has reached nearly 250,000 micro-retailers or 21% of the retailer universe, further complements training with access to resources and peer mentoring support.

Without the long-term support of the entire ecosystem, many of these programs may be limited in terms of scope and approach. Uncertainties on whether the trainings were actually applied by the MSMEs and whether the application contributed to improving business performance can also limit them. There is opportunity for these existing initiatives to collaborate and come together behind a common agenda and augment efforts with new and integrated programs which may involve

formal certifications. Ideally, any sari-sari store, carinderia or market stall business owner can participate in a training program and be incentivized accordingly.

3. **Set up knowledge and peer-to-peer (P2P) mentoring, learning portal and helpline:** This initiative aims to catalyze the creation of an active and digitally-enabled community for P2P knowledge sharing, learning and mentoring. A more structured and intentional platform for broader MSME community engagement and sharing could mutually reinforce with the other proposed initiatives, assist in scaling up learning and adoption of best practices, as well as improve resilience.

To initiate and establish these initiatives, the following key inputs will be needed:

- Support from established training and mentoring service providers to help design the overall curriculum of scalable capacity building programs, as well as the tools and learning modules needed (may include leveraging and harmonizing existing tools);
- Access to other relevant experts (e.g., risk management, finance, technology) to help co-design the different components of each initiative;
- Support from key MSME ecosystem stakeholders, such as FMCG companies, social media organizations, financial institutions, development institutions and government by providing access to existing MSME networks or leveraging their resources (financial, capabilities and people) to support one or more of the priority initiatives; and
- An independent backbone organization to bring stakeholders together, align on a common agenda, jointly decide on the key initiatives to pursue, create shared metrics, monitor progress and share learnings in the process.

Figure 13 describes the change framework for this solution theme and highlights the priority initiatives, linkages to strategic inputs, and related outputs and outcomes.

Role of Key Stakeholder Champions and Expected Benefits

In line with the principles of Collective Impact, successfully implementing this solution theme will require multiple stakeholders to come together and play complementary, mutually reinforcing and mutually beneficial roles. For example, a coalition of relevant civil society or non-profit organizations or a sectoral association that represents the MSMEs could form the backbone organization. Playing

56 "GREAT Grassroots Entrepreneurship and Technologies," Bayan Academy, accessed 24 February 2021, https://www.bayanacademy.org/development_program.php?dpc=1.

57 "HapiSkwela," Hapinoy, accessed 24 February 2021, <https://www.hapinoy.com/hapiskwela>.

58 Suy Sing Official (@SuySingOfficial), "RETAIL ACADEMY WEBINAR," Facebook, 8 November 2020, https://www.facebook.com/SuySingOfficial/posts/2803382516644660?comment_id=2806113329704912.

59 "The iSTAR program: Empowering more micro-entrepreneurs amid a crisis," Manila Standard, 28 October 2020, <https://manila-standard.net/tech/business0/338023/the-istar-program-empowering-more-micro-entrepreneurs-amid-a-crisis.html>.

Figure 13. Change Framework – Supporting Pivot to Resilient, Sustainable Business Models

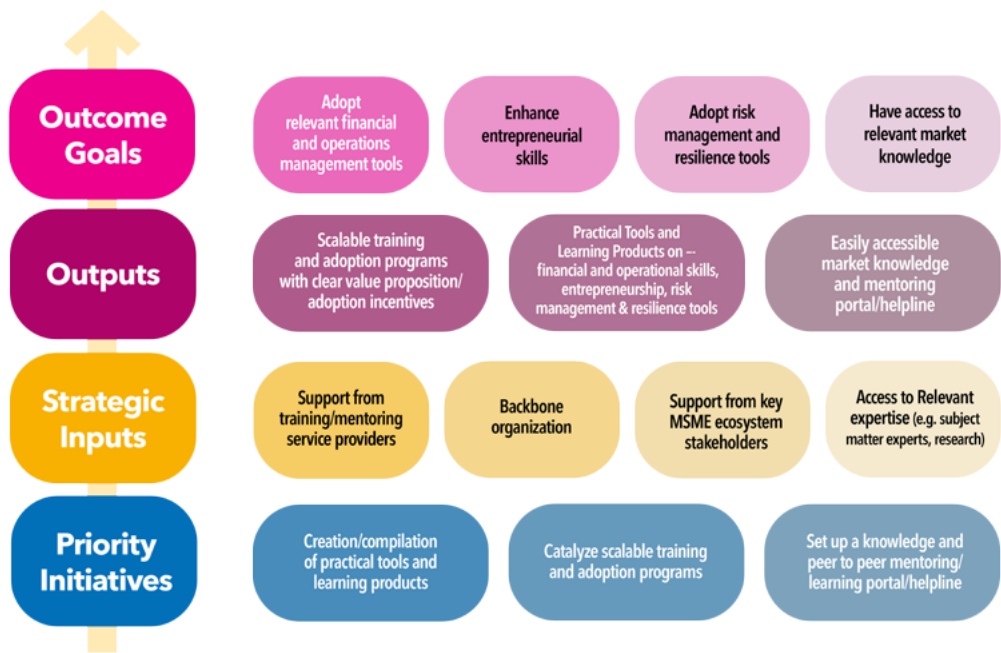


Figure 14. Role of Stakeholder Champions and Expected Benefits – Supporting Pivot to Resilient, Sustainable Business Models

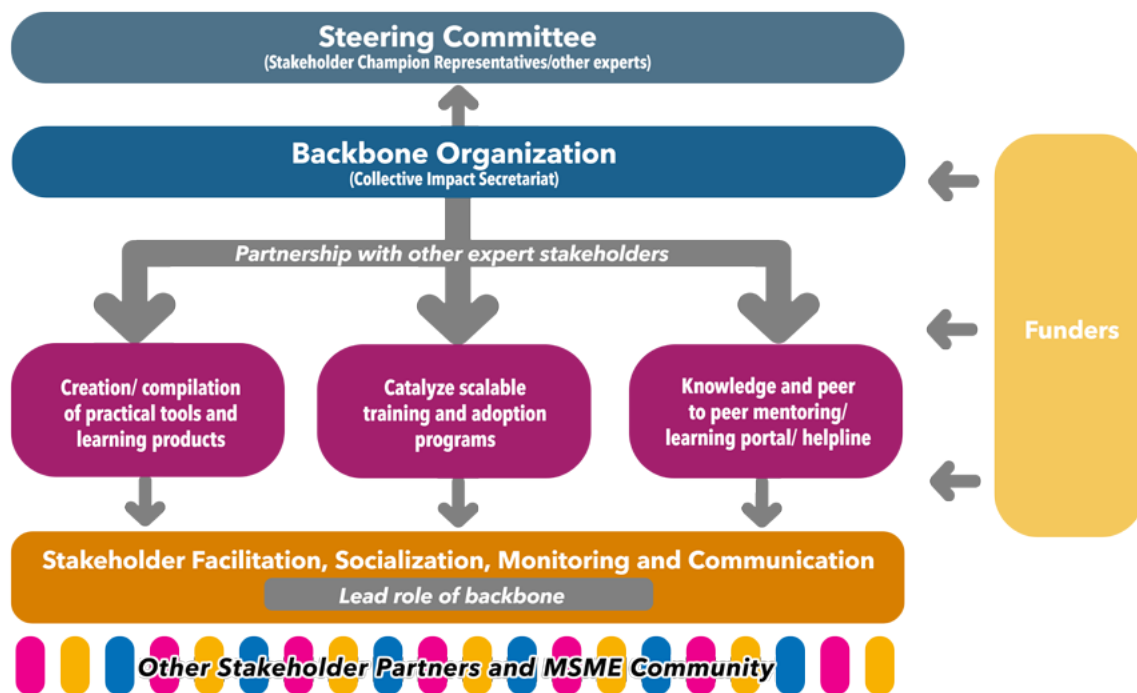
Stakeholders	Potential Role(s)	Benefits
Civil society organizations, non-profits, industry associations	<ul style="list-style-type: none"> • Backbone organization • Access to MSME networks 	<ul style="list-style-type: none"> • Meet their impact objectives at scale
MSME training / mentoring service providers, MFIs	<ul style="list-style-type: none"> • Support in the preparation and delivery of on-ground training, mentoring and adoption programs 	<ul style="list-style-type: none"> • Business / revenue opportunity • Increased loyalty
Private Sector e.g., FMCG, telcos, social media, banks, digital payments	<ul style="list-style-type: none"> • Funder • Access to MSME networks • Support amplification of programs • Help set up mentoring platform • Potential MSME outreach support 	<ul style="list-style-type: none"> • Better user engagement • Future business / revenue opportunity • Increased loyalty
Government, development agencies	<ul style="list-style-type: none"> • Funder • Support creation of tools and knowledge • Endorsement and propagation 	<ul style="list-style-type: none"> • Meet socio-economic impact objectives

this role will be synergistic with their organizational goals and impact objectives of benefiting MSMEs and building resilience. Figure 14 summarizes the potential stakeholder champions, their role, and expected benefits from this solution theme.

Summary of Collective Impact Operating Model

Figure 15 demonstrates the potential operating model for this proposed Collective Impact solution theme. It shows how the backbone organization and other stakeholders can come together to set up and operationalize the key elements concretely.

Figure 15. Conceptual Overview of the Collective Impact Operating Model - Supporting Pivot to Resilient, Sustainable Business Models



Recovery and Resilience Financing Innovation

Underlying Challenge and Opportunity

Several surveys conducted at various periods of community quarantine show that one of the key recovery needs that most MSMEs have cited themselves is the access to adequate and affordable capital to restart their business. While liquidity in the overall financial system is a non-issue, the enhanced risk perceptions associated with lending to MSMEs – especially post-pandemic – has prevented financial institutions such as banks to lend significantly to this segment. This has also resulted in difficulties for MFIs to raise financing or refinance their loans. Such a scenario has had a cascading effect on the amount of capital that MFIs can lend to MSMEs. In addition, the Scoping Study has uncovered that apart from loan products, there are only a few alternative financial products (e.g., microinsurance) for MSMEs to help them address resilience needs.

Potential Common Ecosystem-level Collective Impact and Outcome Goals

Project CASTER proposes two common impact goals for this solution theme:

- i. A significant number (e.g., at least 250,000) of MSMEs can successfully access adequate, affordable capital for business recovery and

financial solutions to better address risk and resilience challenges; and

- ii. Innovative financing alternatives are established, which ecosystem players like MFIs can access to extend to MSMEs.

To achieve these, the following tangible outcomes need to be targeted:

- i. Bridge recovery loans and business-linked insurance products are widely available and accessible to MSMEs;
- ii. Innovative financing and lending platforms such as peer-to-business (P2B) loans are available, which provide more flexible capital alternatives for MSMEs;
- iii. Alternative wholesale financing and refinancing models (e.g., MSME social impact bonds, guarantee-backed lending) are available and accessible to MFIs and other financial institutions, which enable them to better address the capital needs of MSMEs; and
- iv. Public or public-private mechanisms are created to generate emergency funding pools that can be utilized for resilience building against future disruptions.

Proposed Priority Areas and Tangible Initiatives

In line with the outcome goals, the following five priority initiatives have been identified:

1. **Bridging loan program for recovery capital:** A key issue faced by MSMEs in the wholesale and retail trade and food services sectors is the lack of affordable capital to rebuild and recover from the pandemic. This is capital required to restock inventory, invest in implementing new public health guidelines and restart demand generation activities. The Scoping Study found a positive response to some low-cost bridge loan programs (e.g., Retailers' Rebuild Bridge Loan of the ReSTART program). However, existing initiatives are relatively sub-scale and are not adequate to meet the MSME demand. Hence, there is a need to devise an affordable bridge loan recovery program at scale. This will involve gathering multiple stakeholders to determine optimal product alternatives, identify go-to-market models, develop business case, raise funding and deploy relevant risk-sharing mechanisms.
2. **Business-linked microinsurance:** While there are microinsurance products available for personal use (e.g., life, health, accident, property and casualty, fire protection and calamity), there is a dearth of business-linked insurance products. These include insurance products that provide protection against business interruptions and loss of income due to disruptions, destruction of inventory or business-related facilities and coverage for additional expenses during the recovery period, as well as insurance for business owners themselves. There is a need and opportunity to conceptualize, launch and scale up the availability and adoption of such products.
3. **MSME resilience social impact bonds and guarantee products:** There is also a need for alternative wholesale financing and refinancing solutions for MFIs and other financial institutions. These can be in the form of MSME resilience social impact bonds. An expansion of existing guarantee products for MSME financing is also needed to help with risk sharing and to lower the cost of funding for institutions looking to lend to MSMEs. There are some existing but limited examples of such offerings in the Philippines (e.g., MSME Credit Guarantee Program⁶⁰ and SME Credit Guarantee Facility⁶¹ of the Philippine

60 "MSME Credit Guarantee Program (MCGP)," Philippine Guarantee Corporation, accessed 24 February 2021, <https://philguarantee.gov.ph/programs/guarantee-programs/corporate-msme/msme-credit-guarantee-program-mcgp/>.

61 "SME Credit Guarantee Facility," Philippine Guarantee Corpo-

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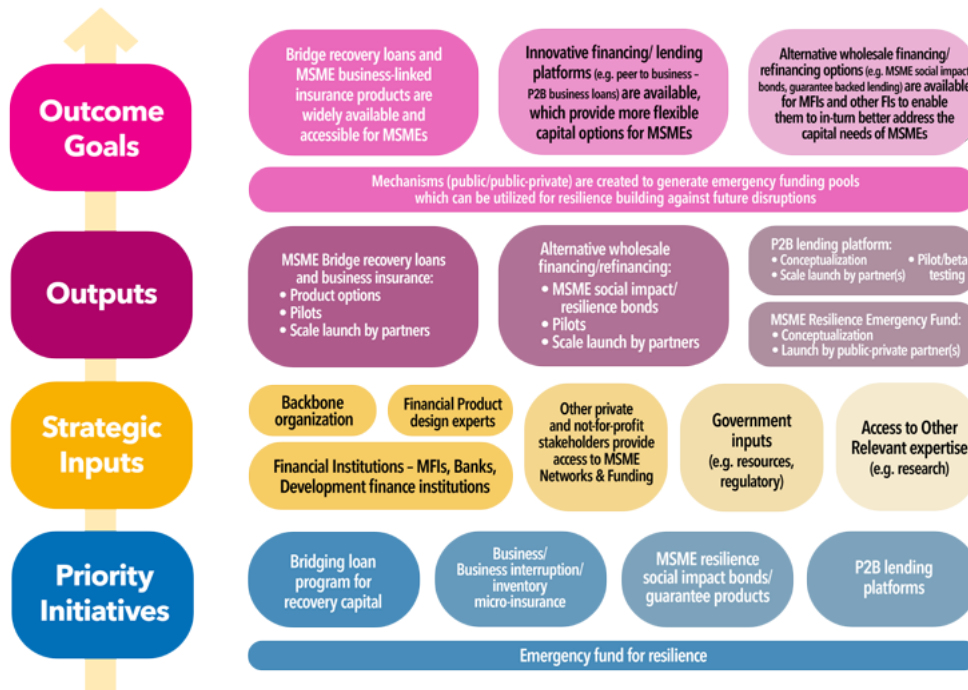
4. **P2P and crowdfunding lending platform:** Apart from MFIs or banks, there is also potential to develop and set up new lending platforms for MSMEs to immediately access. Examples include P2P platforms for MSMEs to support each other, crowd-lending and other crowd-financing mechanisms. These will help MSMEs gain better access to financing from a wider set of sources.
5. **MSME emergency resilience fund:** Finally, there is value in creating mechanisms to seed and build emergency resilience funding pools that can immediately deploy assistance to MSMEs at the onset of disruptions. It can be set up at sectoral, community, regional or national level. Funding can be sourced through private sector, government and development agencies. It can be replenished annually and managed to deliver safe and stable returns, with provisions for disbursing funds for specific emergency assistance programs during calamities.

To launch and execute the initiatives, the following inputs will be required:

- Backbone organization to conduct advocacy for and catalyze the initiatives related to innovative financing solutions, bring stakeholders together, determine the common agenda and set shared milestones and metrics for each initiative;
- Specific expertise from financial institution partners to support the design of the product and related mechanisms for the key identified initiatives (e.g., bridging loans, business interruption insurance);
- Support from financial institutions (e.g., MFIs, banks, financial technology firms and insurance providers) to design the products, provide initial resources for the pilots and take on the onus to launch and scale successful pilots. Assistance from development finance institutions (e.g., ADB and The World Bank Group) to facilitate access to low-cost financing, to bear some of the risks and to provide relevant technical assistance will be critical as well;
- Support from other MSME ecosystem stakeholders such as FMCG companies, technology companies and industry associations which can link their MSME networks to these alternatives and partner with the financial

ration, accessed 24 February 2021, <https://philguarantee.gov.ph/programs/guarantee-programs/corporate-msme/sme-credit-guarantee-facility/>.

Figure 16. Change Framework - Recovery and Resilience Financing Innovation



institutions for co-funding, channel partnerships and technology and platform development;

- Tapping other relevant technical experts, such as research agencies to test the product design with the target MSME segment, as well as training service providers to assist in promoting these innovative financing products among MSMEs; and
- Inputs from national government agencies and local government units in assessing and approving new products being developed and in catalyzing and co-funding some initiatives (e.g., social impact bonds, guarantee products and emergency resilience funds).

Figure 16 provides an integrated view of the Change Framework for this solution theme, highlighting the priority initiatives, key strategic inputs, and outputs leading up to the outcome goals.

Role of Key Stakeholder Champions and Expected Benefits

There is an opportunity for multiple, diverse stakeholders to come together to execute this solution theme and the identified initiatives. Figure 17 shows the type of stakeholder champions that can potentially participate, their roles and the benefits that their respective organizations can generate from this solution theme.

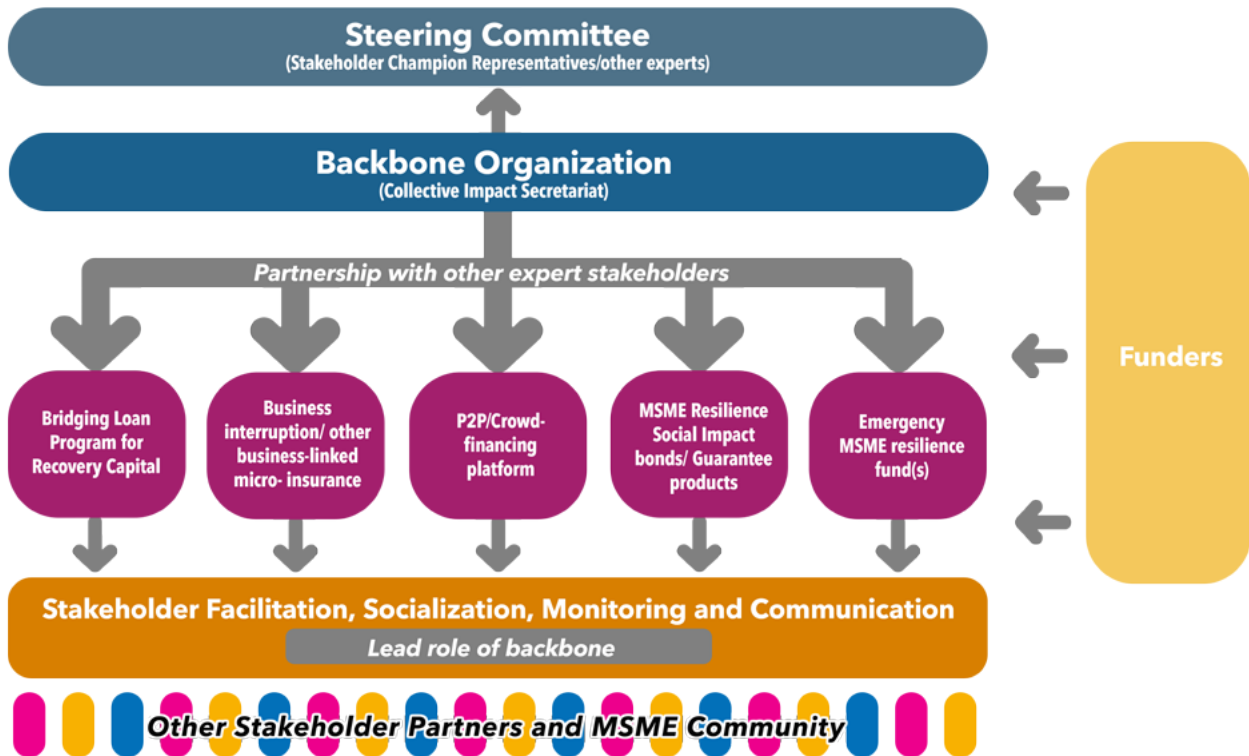
Summary of Collective Impact Operating Model

Figure 18 demonstrates how a Collective Impact model can be set up and operationalized for the recovery and resilience financing innovation solution theme. The backbone organization will be designated as the main advocate. It will be an institutionalized body, with a small set of staff, whose primary role will include stakeholder facilitation, socialization, monitoring and communication. Typically, a grant from a set of stakeholder champion organizations to meet its operational requirements will fund it. This backbone organization will also report to a Steering Committee comprised of representatives from champion organizations, such as senior executive leadership with decision-making authority within their respective organizations.

Figure 17. Role of Stakeholder Champions and Expected Benefits – Recovery and Resilience Financing Innovation

Stakeholders	Potential Role(s)	Benefits
Civil society organizations, non-profits, industry associations	<ul style="list-style-type: none"> • Backbone organization • Access to MSME networks 	<ul style="list-style-type: none"> • Meet their impact objectives at scale
MSME training / mentoring service providers, MFIs	<ul style="list-style-type: none"> • Support in the preparation and delivery of on-ground training, mentoring and adoption programs 	<ul style="list-style-type: none"> • Business / revenue opportunity • Increased loyalty
Banks, digital payment firms, MFIs	<ul style="list-style-type: none"> • Funder • Update products / services • Access to MSME networks • MSME outreach support 	<ul style="list-style-type: none"> • Better user engagement • Future business / revenue opportunity • Increased loyalty
Private Sector e.g., FMCG, telcos, social media	<ul style="list-style-type: none"> • Funder • Access to MSME networks • Support amplification of programs • Potential MSME outreach support 	<ul style="list-style-type: none"> • Better user engagement • Future business / revenue opportunity • Increased loyalty
Government, development agencies	<ul style="list-style-type: none"> • Funder • Support creation of financial products (especially wholesale products) • Endorsement and propagation 	<ul style="list-style-type: none"> • Meet socio-economic impact objectives

Figure 18. Conceptual Overview of the Collective Impact Operating Model – Recovery and Resilience Financing Innovation



Scaling Up Digital Adoption

Underlying Challenge and Opportunity

While the pandemic has accelerated digitalization of businesses, a significant number of MSMEs have yet to adopt digital solutions fully. Identified barriers to adoption include limited technology and logistics infrastructures and the MSMEs' lack of awareness and appreciation on the alternatives. Several stakeholders have tried to address this; however, their efforts are currently limited by their individual organizational resources, potentially resulting in multiple sub-scale siloed efforts.

Potential Common Ecosystem-level Collective Impact and Outcome Goals

The proposed common impact goal for implementing the solution theme is for a significant number of MSMEs (e.g., at least 250,000) improve their business and resilience through the adoption of one or more relevant digital solutions for their business in the next one to two years. To achieve this, the following targeted outcome goals are further endorsed:

- i. Accessibility and adoption of e-commerce and digital marketing solutions;
- ii. Usage of digital payments for at least one or two key business transactions;
- iii. Utilization of digital credit and banking services; and
- iv. Adoption of other digital solutions that increase productivity and resilience.

Proposed Priority Areas and Tangible Initiatives

Four key priority initiatives are recommended under this solution theme in line with the targeted outcome goals. These include:

1. **Scale up the adoption of e-commerce and digital marketing solutions:** While MSMEs in the wholesale and retail and food services sector have been exposed to using digital platforms for their businesses, this remains limited due to lack of awareness, capability gaps and trust issues. There needs to be a concerted ecosystem-level effort to understand these barriers better, address them effectively and scale adoption of e-commerce and digital marketing solutions.
2. **Drive adoption of digital payments for business.** While digital payments adoption has significantly increased in the past year, specifically P2P fund transfers, it will be necessary to

mobilize different MSME and payment ecosystem stakeholders to scale it up for businesses. This can identify and focus collectively on at least one or two core transaction categories that are frequently made by MSMEs in the target sectors (e.g., inventory purchase, utility bill payments, payments received from customers).

3. **Enable access and adoption of digital banking and credit services.** A key aspect of true financial inclusion is access to and adoption of banking and credit services. Use of digital technologies worldwide has helped reduce the cost of customer service, which enabled unbanked and under-banked segments to have access to deposit and credit services. In the Philippines, there remains a significant gap in this area. This is evidenced by MSMEs relying heavily on "five-six" lenders despite their usurious interest rates. Collective action is therefore needed to drive adoption and usage of more formal banking and credit services, and in the process bring several informal sector businesses into the formal sector.
4. **Enable MSME retail and food service outlets to become digital service hubs.** Digital solutions help MSMEs lower costs (e.g., digital banking) or serve their customer base better (e.g., e-commerce) with more convenience (e.g., mobile payments). Furthermore, it can also create new business opportunities for MSMEs. Local micro-retail and food service outlets can become community digital hubs that provide various services linked to online platforms such as cash-in or cash-out, bill payments, remittances and even purchase of financial products. It can potentially result in more robust and diversified income streams for these MSMEs. At the same time, it provides deeper channels for larger digital players along with access to relevant local aggregate data for better insights and planning. The owners of these outlets could also become role models and advocates for digital adoption in their communities, which will indirectly help the other initiatives.

To execute the above initiatives, it will require the following strategic inputs from different stakeholders:

- Relevant expertise from digital or technology players and business strategists to scale up or integrate existing digital solutions, as well as to develop new products and services that have clear value propositions, lucrative incentives for adoption and sustainable business models;
- Direct access to MSMEs through MFIs, MSME training providers, FMCG players and MSME-affiliated distributors., which will be essential

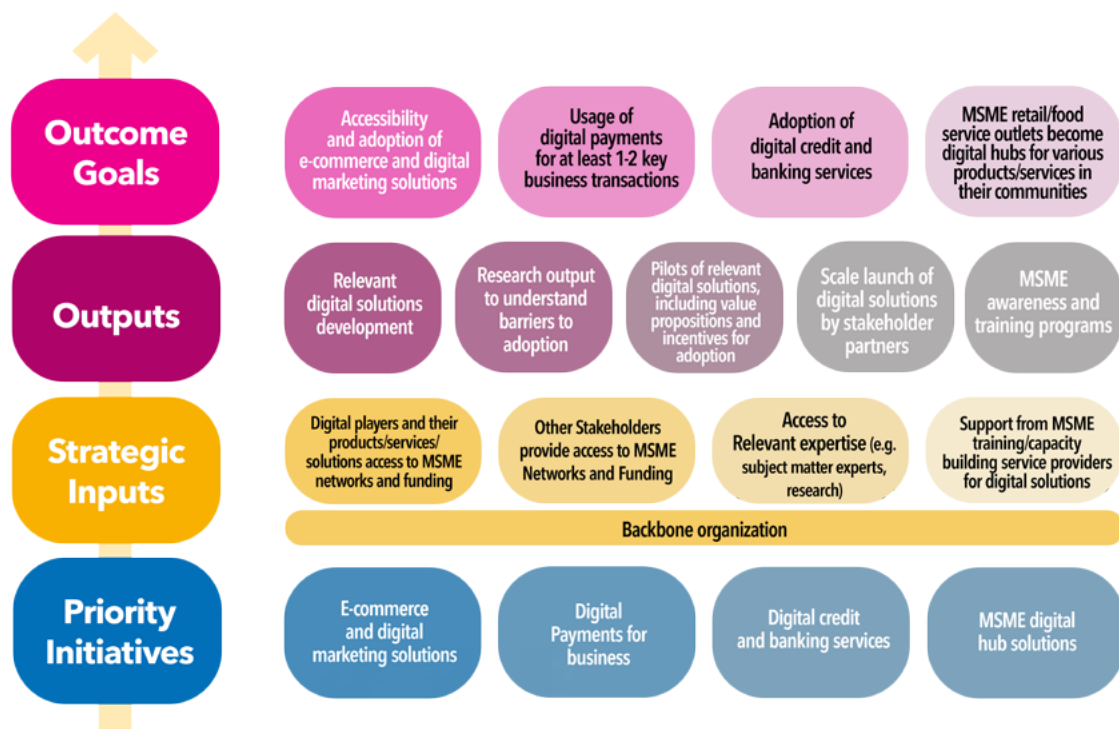
in conducting research to better understand the digitalization needs of MSMEs and in implementing pilot and scale-up programs;

- Access to necessary funding to set up and manage the initiatives, which can be generated through partnerships with large stakeholder champions (e.g., telecommunications, financial technologies, FMCGs), development agencies and government;
- MSME training and capacity building support from training providers, large players that have

MSMEs as part of their value chain and other non-profit organizations to expand the adoption of the proposed digital solutions; and

- A backbone organization that will coordinate with Collective Impact stakeholders, help catalyze the formulation of the common agenda and shared metrics, monitor progress of initiatives and communicate results to various ecosystem stakeholders.

Figure 19. Change Framework - Scaling Up Digital Adoption



Role of Key Stakeholder Champions and Expected Benefits

The successful execution of this solution theme requires a diverse set of stakeholder champions committing to work together behind a common agenda and providing one or more identified input components. In return, stakeholders will also derive direct and indirect benefits for their organization, which otherwise would not have been possible without coming together to pursue this collective action.

Figure 20 outlines the roles of stakeholder champions for this solution theme and the benefits that their respective organizations can gain from participating in the initiatives.

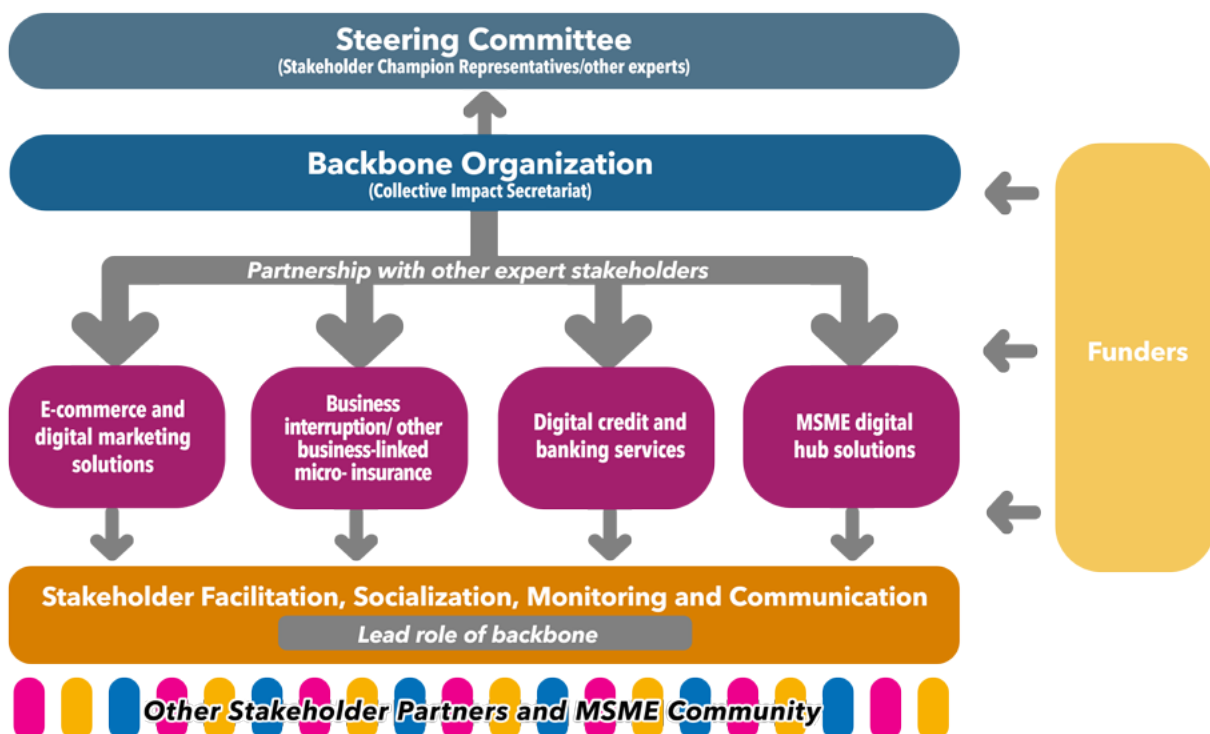
Summary of Collective Impact Operating Model

Figure 21 shows an example of how this Collective Impact solution theme can be set up and operationalized. The backbone organization will serve as the Secretariat for this initiative. Working groups for priority initiatives can be established to formulate the common agenda, establish related metrics and plan target activities. A Steering Committee composed of different MSME ecosystem champions will be needed to provide guidance throughout the development and implementation of the initiatives.

Figure 20. Role of Stakeholder Champions and Expected Benefits – Scaling Up Digital Adoption

Stakeholders	Potential Role(s)	Benefits
Civil society organizations, non-profits, industry associations	<ul style="list-style-type: none"> • Backbone organization • Access to MSME networks 	<ul style="list-style-type: none"> • Meet their impact objectives at scale
MSME training service providers	<ul style="list-style-type: none"> • Support in the preparation and delivery of on-ground training, mentoring and adoption programs 	<ul style="list-style-type: none"> • Business / revenue opportunity • Increased loyalty
Digital Players e.g. e-commerce and digital marketing, digital arms of banks, digital payment firms, financial technologies, MFIs, telcos	<ul style="list-style-type: none"> • Funder • Update existing or new products and services related to their domain areas • Access to MSME networks • MSME outreach support 	<ul style="list-style-type: none"> • Better user engagement • Future business / revenue opportunity • Increased loyalty
Private Sector e.g., FMCG, telcos, social media	<ul style="list-style-type: none"> • Funder • Access to MSME networks • Potential MSME outreach support 	<ul style="list-style-type: none"> • Better user engagement • Future business / revenue opportunity • Increased loyalty
Government, development agencies	<ul style="list-style-type: none"> • Funder • Regulatory support • Endorsement and propagation 	<ul style="list-style-type: none"> • Meet socio-economic impact objectives

Figure 21. Conceptual Overview of the Collective Impact Operating Model – Scaling Up Digital Adoption



Resilient Supply Chain Innovation and Incubation

Underlying Challenge and Opportunity

Supply chain disruption has emerged as one of the major issues arising out of the pandemic. Hence, there is a need for value chains, especially in the Philippines' complex and multi-layered supply chain, to build resilience in anticipation of various shocks and stresses. Implementing solutions that not only focus on efficiency but also on flexibility will be critical. The last mile (i.e., movement of goods from the large wholesaler and retailer to the smaller sari-sari stores or carinderias), which is most vulnerable to disruption as it is often fragmented and not connected seamlessly to the rest of the supply chain, should be considered in the development of solutions.

Potential Common Ecosystem-level Collective Impact and Outcome Goals

The ultimate impact goal of this solution theme is to build resilience and flexibility in the last mile supply chain of the wholesale and retail trade and food services sectors. Achieving this will further entail the following outcome goals in the next one or two years:

- i. Adoption of relevant supply chain resilience innovations and solutions to build flexibility and redundancy; and

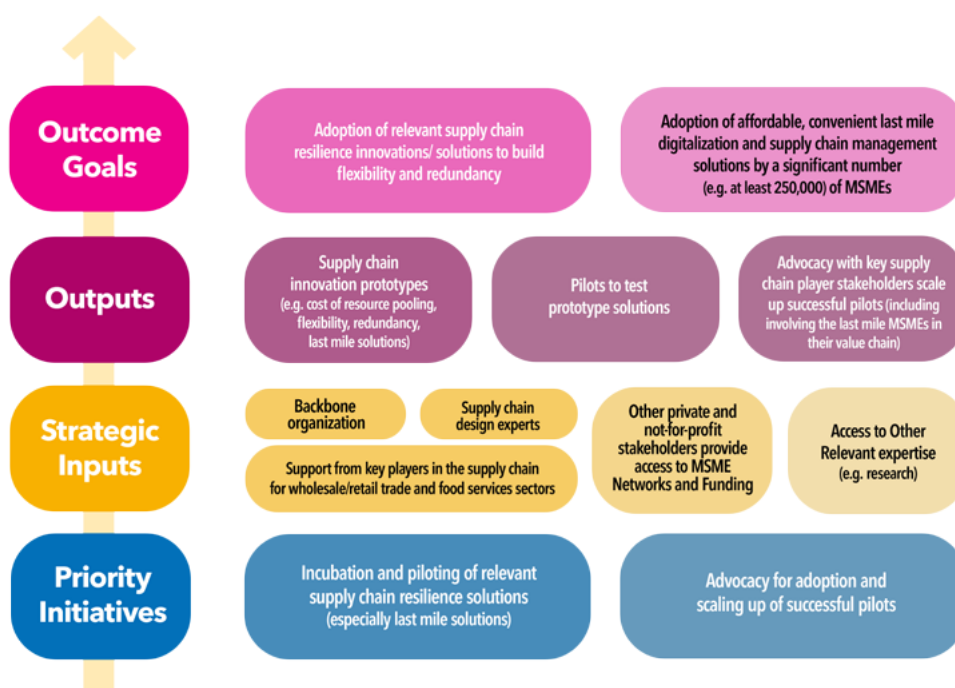
- ii. Utilization of affordable and convenient last mile digitalization and supply chain management solutions by a significant number of MSMEs (e.g., at least 250,000).

Proposed Priority Areas and Tangible Initiatives

To achieve the desired outcomes, the Collective Impact solution theme should focus on two key initiatives:

1. **Incubation and piloting of relevant supply chain resilience solutions with consideration on last mile logistics:** The objective of this initiative is to identify, incubate and pilot business solutions that have the following characteristics:
 - a. Customized for different sectors (e.g., wholesale and retail trade, food services);
 - b. Builds flexibility in the core supply chain (i.e., from sourcing until the engagement of wholesalers and distributors) and in the last mile (i.e., from wholesalers to micro-retailers); and
 - c. Enables digitalization, visibility and real-time information availability of the last mile, which presently is lacking and is where most of the vulnerabilities lie.
2. **Advocacy for adoption and scaling up of successful pilots:** Once there are successful pilots for the identified solutions, the next key

Figure 22. Change Framework – Resilient Supply Chain Innovation and Incubation



task is to create awareness and advocate for the adoption of these solutions. This will involve a concerted effort among large corporations, their value chain partners (e.g., logistics service providers, distributors, wholesalers, larger retailers) and the digital solution providers themselves (e.g., telecommunications, digital developers, information technology). Above all, such collaboration should be targeted at the last mile players (e.g., sari-sari stores, carinderias, food stalls and market vendors). The government can further incentivize MSMEs to embrace such solutions. Large corporations and wholesalers can further offer exclusive privileges and credit terms to encourage MSME adoption.

For the success of the above set of integrated initiatives, the following inputs are necessary:

- A dedicated backbone organization that will take on the role of the catalyst and coordinator of multi-sectoral stakeholders in framing the common agenda, prioritizing target initiatives, facilitating implementation of pilots, promoting solutions to scale adoption, monitoring results and assimilating learnings;
- Access to relevant supply chain, digital or technology expertise through partnerships with organizations that already have designed such solutions and other experts and innovators who can continue to transform and create better solutions in this space;
- Support from key supply chain players (e.g., large FMCG players, logistics companies, distributors, wholesalers) through commitment of resources for the implementation of pilots, commitment to invest in and adopt relevant solutions that pass through successful pilots, as well as willingness to collaborate with other players in the ecosystem;
- Access to funding (e.g., investments, grants) and MSME networks through other private and non-profit stakeholders (e.g., philanthropic organizations, financial sector firms, capacity building organizations, development agencies); and
- Access to other relevant expertise (e.g., research) that can provide targeted support to specific activities.

Figure 22 demonstrates the Change framework highlighting the key initiatives, related inputs, outputs and their linkage to the outcome goals

Role of Key Stakeholder Champions and Expected Benefits

Figure 23 outlines the types of stakeholder champions that are envisaged to participate in this solution them, their roles in terms of providing relevant inputs and the expected types of benefits that the stakeholders will get in return for their collective support.

Summary of Collective Impact Operating Model

Figure 24 demonstrates the potential operationalization of the proposed Supply Chain Innovations and Incubation Collective Impact solution theme.

MSME Resilience Metrics, Scorecard and Tracking

Underlying Challenge and Opportunity

One key challenge in building systemic resilience among MSMEs is the absence of a clear and acceptable country-wide definition of MSME resilience by measurable metrics and scorecards. Without this common understanding and language, it becomes difficult to set a baseline, measure the extent of the key gaps and issues, as well as define the collective goal of various stakeholders. It also prevents interested ecosystem stakeholders from focusing and driving their plans and initiatives in a shared direction informed by these metrics.

Potential Common Ecosystem-level Collective Impact and Outcome Goals

The ultimate impact goal of this Collective Impact solution theme is that the overall resilience of MSMEs improves because of beneficial stakeholder policies and programs that have been designed, keeping in mind a clear, common definition of MSME resilience and related metrics. The following outcome goals in the next one or two years can further reinforce the target impact:

- i. Alignment of key stakeholders in the ecosystem around a clear, common definition for MSME resilience in the Philippines; and
- ii. Key ecosystem stakeholders actively use these metrics to shape their plans and initiatives for MSMEs.

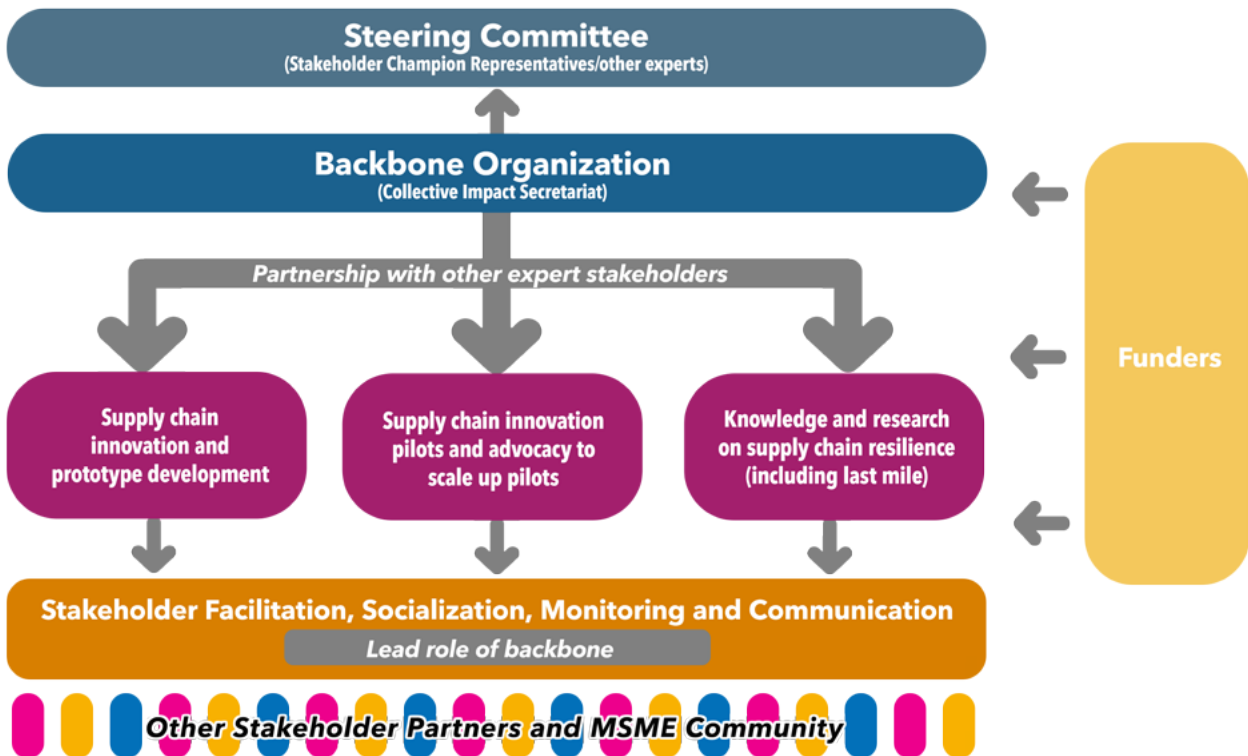
Proposed Priority Areas and Tangible Initiatives

To deliver the proposed outcomes, a concerted multi-stakeholder effort focused on the following three priority initiatives will be needed:

Figure 23. Role of Stakeholder Champions and Expected Benefits – Resilient Supply Chain Innovation and Incubation

Stakeholders	Potential Role(s)	Benefits
Civil society organizations, non-profits, industry associations	<ul style="list-style-type: none"> • Backbone organization 	<ul style="list-style-type: none"> • Meet their impact objectives at scale
Key players in the respective sector or cluster supply chain (e.g., FMCG, wholesaler, retail)	<ul style="list-style-type: none"> • Funder • Participate in the process to identify innovation options • Support pilots • Scale up adoption post pilot 	<ul style="list-style-type: none"> • Business / revenue opportunity from improvement in supply chain • Reduced risk
Other private sector e.g., telcos, social media, banks, digital payment	<ul style="list-style-type: none"> • Funder • Participate in the process to identify innovation options • Access to MSME networks • Potential MSME outreach support 	<ul style="list-style-type: none"> • Business / revenue opportunity from improvement in supply chain • Reduced risk
Government/ Development Agencies	<ul style="list-style-type: none"> • Funder • Participate in design process • Endorsement and propagation • Undertake infrastructure related efforts that may be needed 	<ul style="list-style-type: none"> • Meet socio-economic impact objectives

Figure 24. Conceptual Overview of the Collective Impact Operating Model – Resilient Supply Chain Innovation and Incubation



1. **Development of MSME resilience metrics and scorecard framework:** This involves the conceptualization and development of a framework for MSME resilience, identifying metrics, and their translation into easily understandable and actionable scorecards. In an ideal situation, such framework should be dynamic, with the ability to model and test the impact of different shocks and stresses and be updated over time as new data and insights emerge.
 2. **Ongoing resilience research, data collection, tracking and reporting:** A structured process for research, data collection, reporting and resilience tracking also needs to be established. This is essential to ensure that, over time, there is a significant increase in the evidence base of MSME resilience in the Philippines. It will also provide an abundant set of insights and inputs to different stakeholders, helping them create responsive approaches, plans and actions. Multiple research and data collection and processing tools may be envisaged, including aggregating and analyzing available secondary sources (e.g., DTI data on enterprises, private sector data on impact on MSMEs in their value chain, local government data), primary data collection through surveys and field observations, use of data analytics, predictive modeling, simulations and other digitally enabled tools.
 3. **Communication, socialization and alignment with key stakeholders:** The initiative focuses on devising and implementing an effective communication and socialization strategy for creating awareness and building alignment among key stakeholders. Among those are government, private sector, development institutions, non-profit organizations and MSMEs themselves. This is critical to ensure that the MSME resilience scorecard and its underlying metrics and insights gain acceptance, adoption and utilization across all relevant stakeholders.
- There are three types of critical inputs that will be necessary to succeed in these integrated initiatives:
- Access to relevant and experienced subject and research experts for the creation of the MSME resilience scorecards, data collection, research and analysis;
 - Access to funding in formulating scorecards (e.g., personnel costs and other incidentals) and linkages to MSME networks for engagement and data collection; and
 - An independent backbone organization to facilitate the implementation and coordination among stakeholders, as well as monitoring, updating and communicating the MSME resilience scorecards in collaboration with other experts.

Figure 25. Change Framework – MSME Resilience Metrics, Scorecard and Tracking



Role of Key Stakeholder Champions and Expected Benefits

Figure 26 outlines the types of stakeholder champions expected to participate in this solution theme, their roles in providing relevant inputs and the expected types of benefits that the stakeholders will earn for their collective support.

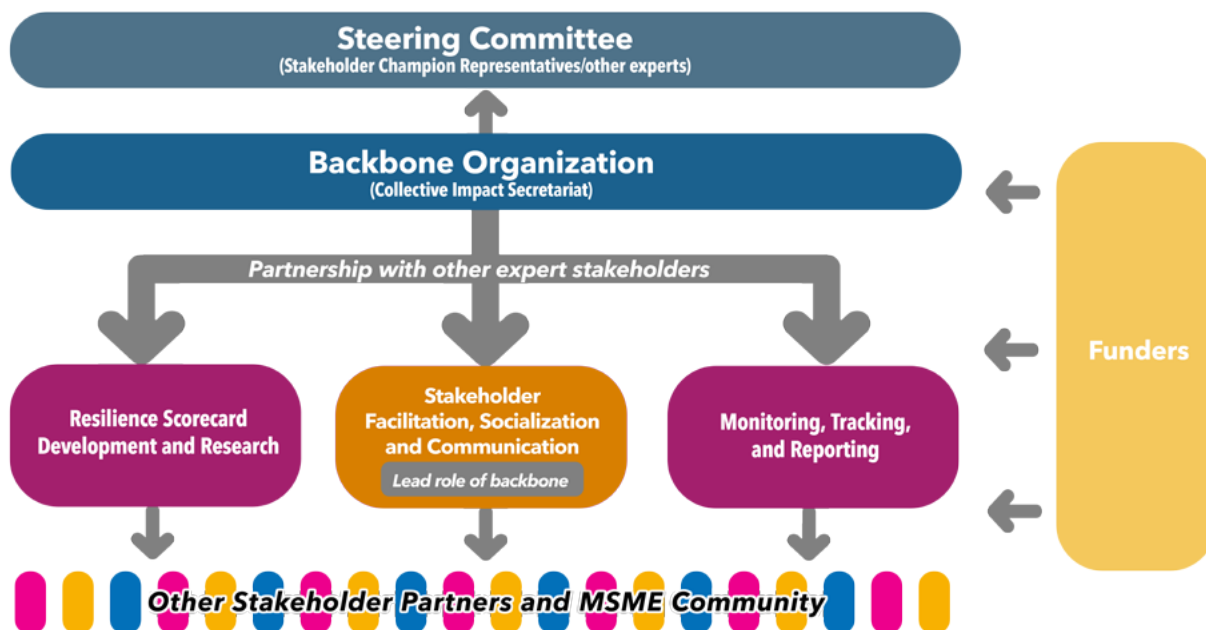
Summary of Collective Impact Operating Model

Figure 27 shows a conceptual depiction of how the MSME Resilience metrics and scorecard Collective Impact solution theme can be operationalized.

Figure 26. Role of Stakeholder Champions and Expected Benefits - MSME Resilience Metrics, Scorecard and Tracking

Stakeholders	Potential Role(s)	Benefits
Civil society organizations, non-profits, industry associations, research, academic institutions, data analytics firms	<ul style="list-style-type: none"> • Backbone organization • Lead the work / provide the expertise 	<ul style="list-style-type: none"> • Meet their impact objectives at scale • Meet academic / research objectives
Private sector e.g., FMCG, telcos, social media, banks, digital payment	<ul style="list-style-type: none"> • Funder • Access to MSME networks • Provide inputs on the framework and scorecard • Potential MSME outreach support 	<ul style="list-style-type: none"> • Enhanced reputation • Benefit from overall improvement in MSME ecosystem resilience
Government, Development Agencies	<ul style="list-style-type: none"> • Funder • Provide inputs on the framework and scorecard • Endorsement and propagation 	<ul style="list-style-type: none"> • Meet socio-economic impact objectives

Figure 27. Conceptual Overview of the Collective Impact Operating Model - MSME Resilience Metrics, Scorecard and Tracking



Role of Government

The Scoping Study has also identified broader initiatives that will require government’s leadership and policy interventions.

Focus on vaccine sourcing, public education and distribution: Ultimately, the key solution from a healthcare standpoint is to scale up the vaccination of the most vulnerable communities expeditiously to achieve herd immunity. This will embolden and encourage people to enhance their economic activity. To achieve this, the Philippine government needs to focus on sourcing the relevant vaccines and establishing a robust supply chain for distribution and administration. Mass vaccination efforts will also need a public education campaign to encourage the target recipients to undergo the inoculation.

Clear consumption and supply chain safety guidelines: National government agencies and local government units should coordinate in issuing clear guidelines for the safe mobility of people and goods. This will result in a common set of streamlined, tiered regulations for lockdowns and movement restrictions, which are easily understood and implementable by businesses and households.

Providing significant demand stimulus: Given the impact of COVID-19 on the real economy, it is imperative for the government to consider placing additional stimulus spending measures to spur consumption, which can have a positive cascading effect to customer demand.

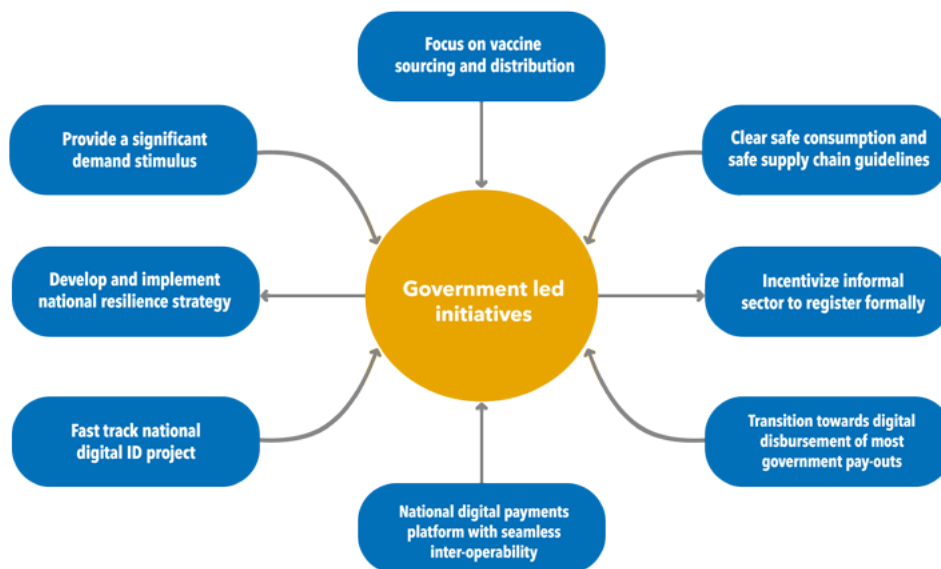
Incentivizing the informal sector to register formally:

Amid pandemic, the largely unregistered informal sector has been hit worse and has had limited access to public aid. They have also found it more difficult to access financing. Informal sector businesses find the process of registration bureaucratic and costly due to the additional paperwork for periodic compliance. The government should innovate incentivizing registration among MSMEs, especially micro and small businesses. This will allow the government (and other actors) to have more visibility into MSMEs, hence the ability to plan better in serving their needs.

Transition towards digital disbursement of most government pay-outs: The government can play a key role in encouraging digital adoption. A key aspect involves the transition towards digital disbursement of most government pay-outs as initiated during the second tranche of the SAP in mid-2020. This will further motivate MSMEs to adopt digital banking, create and use digital wallets, as well as leverage other add-on digital products and services.

National digital payments platform with seamless interoperability: Another way in which the government can incentivize digital adoption is by catalyzing the set-up of a national digital payment platform. This allows for seamless interoperability between different digital payment organizations. The BSP’s initiative to standardize QR codes for digital payment transfers is a commendable starting point. Apart from improving overall convenience, this will also help create trust in the safety and security of the digital payment ecosystem.

Figure 28. Key Initiatives for Government



Fast-tracking national ID project: The national ID project can potentially help bring several MSMEs from the informal into the formal sector. This can allow digital payments linked to the national ID to scale up, enable the seamless pay-out of government disbursements, potentially improve access to finance for MSMEs and accelerate their adoption of digital solutions.

Developing and implementing a national resilience strategy: The government must consider the lessons from this pandemic to review and update its national resilience strategy. This will help generate a better understanding of the systemic vulnerabilities and determine the needed solutions.

These initiatives require the government to play a predominant role. Effecting some of these changes in parallel with the suggested Collective Impact solution themes could go a significant way in helping MSMEs recover and become more resilient. ■

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