

Impacts of COVID-19 on firms in the Philippines

Results from the Philippines COVID-19 Firm Survey conducted in July 2020

Key findings:

- **The findings below are based on the survey of 74,031 firms carried out between July 7 to 14, 2020, to assess the COVID-19 impact on firms' activities.** This survey builds on a large-scale government survey in April 2020, both of which benefit from a large sample size and present a nationwide representative snapshot of the activities of firms in the Philippines.
- **In July 2020, 40 percent of firms reported the temporary suspension of their operations -- 20 percent by government mandate and 20 percent voluntarily. About 15 percent of firms reported to have closed permanently.** This indicates that COVID-19 community quarantine measures had a significant temporary and permanent impact on firms' operations.
- **Despite the easing of the community quarantine in June 2020, firms reported a deep reduction in sales revenue.** Reported sales revenue has gone down by 64 percent on average between April and July 2020, with 89 percent of firms reporting a continued reduction in sales. This was in addition to already significant loss by 65 percent experienced in March 2020 compared to February 2020, with 75 percent of firms reporting reduction in sales.
- **The negative impact on employment is also extensive as 1 out of 2 firms reported having reduced payments to employees.** Close to half (48 percent) of firms reported that they reduced the number of their employees, while the rest maintained the level of employment with only 1 percent reporting new employment.
- **Almost two thirds of firms turned to digital solutions for sales, marketing, and payment methods to adapt to the new normal.** A sizable share of firms also invested in digital solutions (23 percent) or repackaged their product mix (40 percent).
- **Firms expressed a high degree of uncertainty and general pessimism about their operations, sales and employees for the next three months.** Such lack of confidence will likely limit additional investment and employment, restraining firms' growth. These suggest that business activities are expected to stay subdued for an extended period.
- **Firms say the most useful form of government support are those that would improve their liquidity, such as cash transfers, subsidized interest rates, deferral of loan, rent, or utility payments, and tax exemptions or reductions.** These are aligned with the government's proposed legislative interventions to reduce the corporate income tax rates and improve the liquidity in the financial sector. About 1 out of 5 firms received support from the national or local government, mainly in the form of cash transfers directly paid to employees.

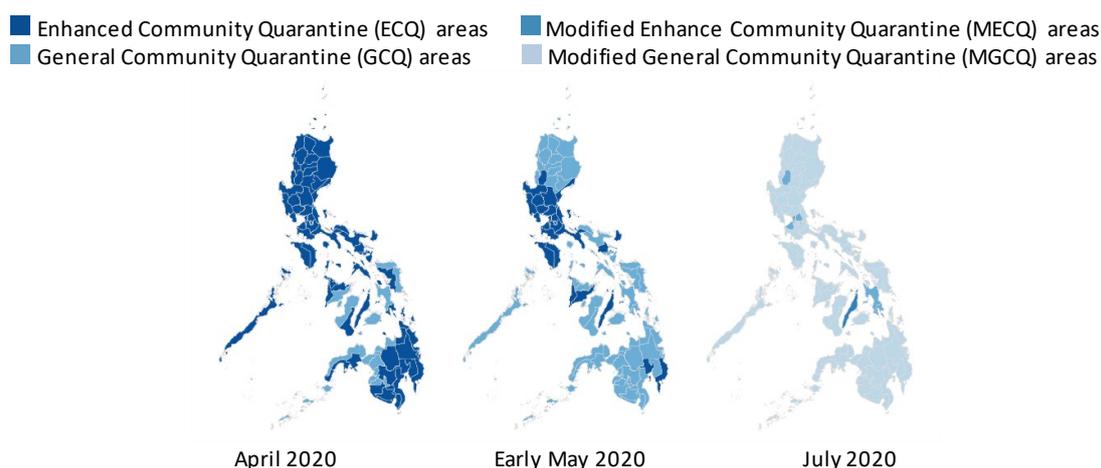
About the survey

To better understand the impacts of COVID-19 on the private sector, the World Bank in collaboration with the Department of Finance (DOF) and National Economic Development Authority (NEDA) conducted the Philippines COVID-19 firm survey. The firm survey aimed to assess the various channels of impact of the pandemic on firms, their adjustment strategies, and public policy responses. The self-administered online survey was conducted between July 7 and 14 and collected responses from 74,031 firms across regions, firm size and sectors. The surveyed sample was reweighed to follow the distribution of firms by region and firm size based on employment as reported by the Philippine Statistics Authority's 2018 Listing of Establishments. The following analysis presents the impacts of COVID-19 on Philippine firms by asset size (micro, small, medium, and large by asset size), location (17 regions), and sector (agriculture, manufacturing, and services).

Government's response to COVID-19

The Government of the Philippines (GoP) imposed strict community quarantine measures in its effort to minimize the spread of COVID-19. Enhanced Community Quarantine (ECQ) in Luzon started on March 16, 2020, with varying degrees of community quarantine measures implemented over time (Figure 1). Areas under ECQ imposed strict home quarantine for residents and allowed only a few essential economic activities, with many firms not permitted to operate. This was in effect across the country in April 2020. ECQ was extended till May 15, 2020 for National Capital Region (NCR), Central Luzon, and populous areas in Central and Western Visayas and Mindanao, while the rest of the country was placed under the General Community Quarantine (GCQ). In GCQ areas, mobility restrictions were eased, and more firms were permitted to operate at full or below capacity. In June 2020, all 17 regions in the country were under GCQ or Modified General Community Quarantine (MGCQ) with further easing of restrictions, except for Cebu City, which went back to ECQ in late June. In July 2020 when the survey was conducted, Cebu City was under ECQ, NCR and surrounding areas, Benguet and Central Visayas were under GCQ, and the rest of the Philippines under MGCQ, with some local government units enforcing strict quarantine in their jurisdiction.

Figure 1. Community Quarantine measures in the Philippines



Source: Republic of the Philippines Inter-Agency Task Force (IATF) on the Management of Emerging Infectious Diseases

Impact on firms



OPERATIONAL STATUS

The survey results indicate that the community quarantine had a significant temporary and permanent effect on the operational status of firms (Figure 2). ECQ came into effect in mid-March and had forced 77 percent of firms to close in April 2020. With easing community quarantine measures in the following months, some firms re-opened and while others remained closed. In July 2020, 40 percent of firms were closed temporarily, either by government mandate (20 percent) or voluntarily (20 percent). Meanwhile, 15 percent of firms stated that they were permanently closed, and there may be more considering that closed firms may not have responded to the survey. 45 percent of firms were open, but only 5 percent were operating at full capacity.

Firms in the stricter community quarantine areas reported the highest levels of closures, with 70 percent of firms in Cebu and 57 percent of firms in NCR, Calabarzon, and Central Luzon being closed. The sectors with the highest levels of closures were arts, entertainment, and recreation (82 percent) and tourism and accommodation (80 percent) (Figure 3). 1 out of 5 firms in these sectors, plus in the food services sector, has permanently closed. 66 percent of firms noted that mobility restrictions across different community quarantine areas had the most significant impact on their operations. In comparison, 3 out of 5 firms in the utilities and health sectors were operating.

Figure 2. Operating status of firms (% of firms)

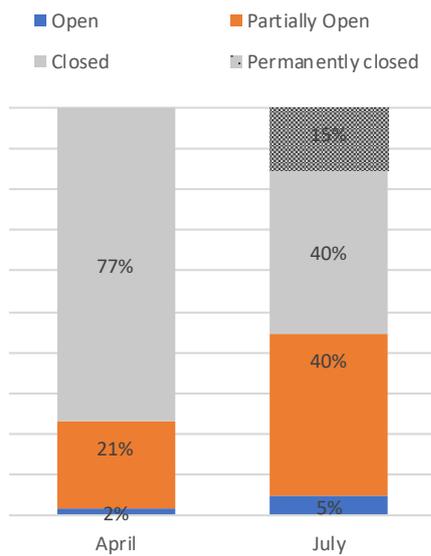
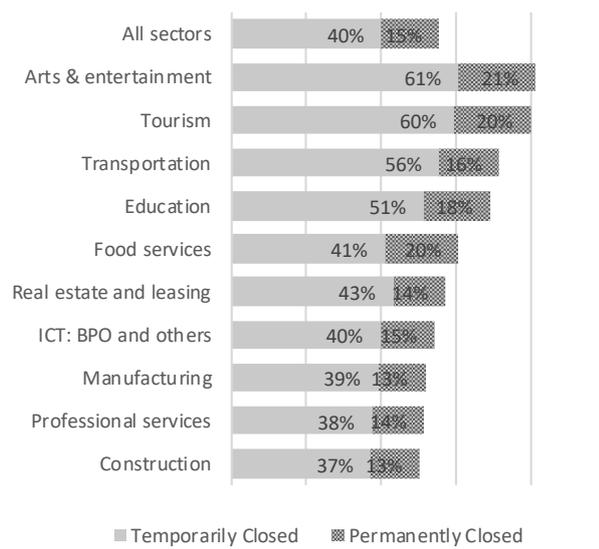


Figure 3. Top 10 sectors with most closure (% of firms)



DEMAND SHOCKS

Despite the easing of the community quarantine, firms have reported a deep reduction in sales revenue. The estimated loss of revenue is at 64 percent in July 2020 compared to April 2020, with 89 percent of firms reporting a reduction in sales. This is in addition to an estimated loss of revenue of 65 percent in March 2020 compared to February 2020, with 75 percent of firms reporting reduction in sales. Firms across asset sizes were affected similarly. Firms outside of NCR and firms in automotive repair, tourism and accommodation, food services, and real estate sectors reported a greater reduction in sales. Reduced sales are linked to a higher than average rate of temporary and permanent closure of firms in the tourism and accommodation, and food services sectors. Meanwhile, firms in automotive repair sectors reported reduced sales despite their operating status having been less impacted than average.

Three quarters of firms experienced a decrease in demand (Figure 4), with 1 in 3 firms reporting a decline by more than 50 percent. The biggest demand shock was a temporary mobility restriction that has caused customers not being able to travel to firms to purchase products or services (67 percent).



SUPPLY SHOCKS

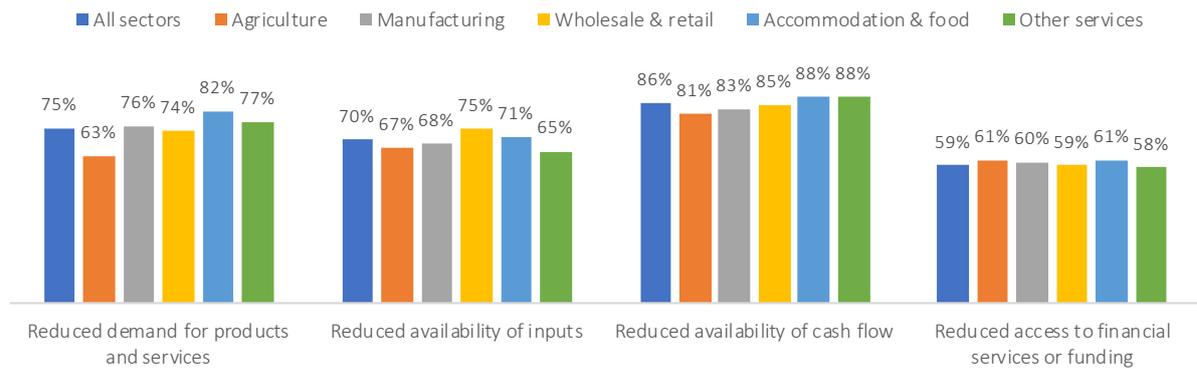
70 percent of firms reported having their operations affected by a decrease in the availability of inputs and raw materials (Figure 4). Similar to the demand shocks, firms outside of NCR and firms in automotive repair and wholesale and retail trade sectors were more severely affected. The most notable causes of supply shocks were local distributors (50 percent) and domestic suppliers (44 percent) having ceased or reduced operations. This is likely to be due to a large proportion of businesses being closed and disruption in logistics as a result of mobility restriction measures.



FINANCIAL SHOCKS

Alongside falling demand and disrupted supply chains, firms faced a deterioration of their cash flow. 86 percent of firms reported reduced cash flows, with 59 percent of firms noting that access to financial services for funding has also decreased (Figure 4). This impact was most pronounced for firms in tourism and accommodation and arts, entertainment, and recreation sectors.

Figure 4. Channels affecting firms (% of firms)



Responses by firms

These shocks from the pandemic and containment measures have had significant implications for employment and the operating model of firms. Firms were forced to take cost saving measures by reducing hours of operations, wages, and their employees, as well as adjusting business models to rely more on digital solutions.



IMPACT ON EMPLOYMENT

The impact on employment is extensive, with 1 out of 2 firms having reduced payment to employees. Close to half (48 percent) of firms reported that they reduced the number of their employees (Figure 5). Job loss is most significant in the education, food services, and construction sectors, with greater than 60 percent of firms in these sectors having laid off their employees. Job loss is less significant in the financial services and health sectors, but 2 out of 5 firms in these sectors reported to have laid off their employees. Only 1 percent of the firms reported new employment.



USE OF DIGITAL SOLUTIONS

Many firms (58 percent of SMEs and large firms, 63 percent of micro-sized firms) turned to digital solutions to adapt to the new normal. 35 percent of these SMEs and large firms started using social media, specialized applications, or digital platforms in response to COVID-19, in addition to 23 percent having increased the use of these digital solutions. Much of the uptake in digital solutions so far have focused on front-end functions such as sales, marketing, and payment methods, which are likely less complex and cheaper to implement than changes in other business functions. In comparison, a smaller proportion of firms invested in new equipment, software, or digital solutions (23 percent), suggesting that firms have intensified the use of available digital technologies such as access to the internet. Apart from digital solutions, repackaging products was part of common solutions that firms took (about 40 percent of firms).

Use of digital solutions was varied across sectors: electronics manufacturers (59 percent) and firms in the education sector (47 percent) were the top two most enthusiastic new adopters of digital solutions, whereas business processing operations (BPO) firms (55 percent) and accounting and legal services firms (48 percent) intensified their use of digital solutions (Figure 6).

Despite a significant uptake of digital solutions, 70 percent of firms noted that less than 2 percent of their employees worked from home, mainly because the nature of work was not suited to home-based work. Only 5 percent of firms noted that 90 percent or more of their employees worked from home. Firms in the BPO and other IT sectors were most suited to home-based work, with 20 percent of these firms reporting that 90 percent or more of their employees were working from home as of July 2020.

Figure 5. Impact on employment and compensation in July 2020 compared to April 2020 (% of firms)

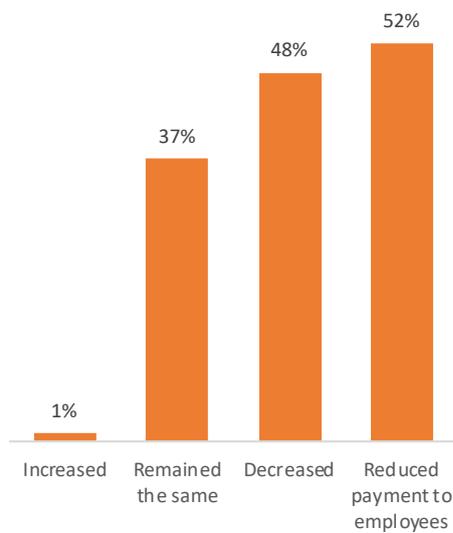
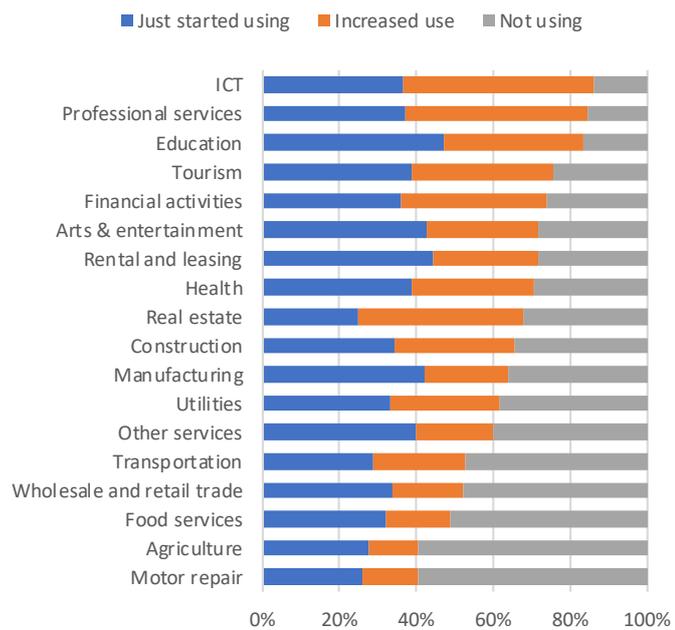


Figure 6. Use of digital solutions (% of firms)



Looking ahead

Even though community quarantine measures were relaxed to some extent during the time of the survey, firms still reported a high degree of uncertainty. Uncertainty is an important additional channel affecting firms during the pandemic, and as the economy re-opens, this could result in a lower desire for risk-taking and additional investments.



UNCERTAINTY

45 percent of the currently closed firms did not know when their businesses could resume (Figure 7). Among the firms that were open as of July 2020, 39 percent did not know how long they could remain open under the current circumstances, whereas 36 percent reported they could remain open only for the next 3 months.

Regarding expectations of sales and employment in the next 3 months, about one third of firms did not know how they will change (Figure 8). The level of uncertainty was greater among firms in the transportation and BPO sectors in terms of sales, and in wholesale and retail trade and rental and leasing services sectors in terms of employees.

Among firms that indicated the change in sales or employment, more firms expected a continued drop in sales and employment. About a third of firms expected their sales to decrease, and 24 percent expected to reduce their employees. Firms in education, arts, entertainment and recreation, tourism and accommodation sectors and firms in Central Visayas and BARMM regions were more pessimistic about the future sales and employment. Firms also expect to reduce payment for retained employees.

In the midst of this hardship, some firms seem to be optimistic about business opportunities, expecting their sales to increase (23 percent), led by those in electronic manufacturing and utility sectors. A smaller but non-negligible share of firms is also expected to add employees (10 percent).

Figure 7. Expected opening and closure (% of firms)

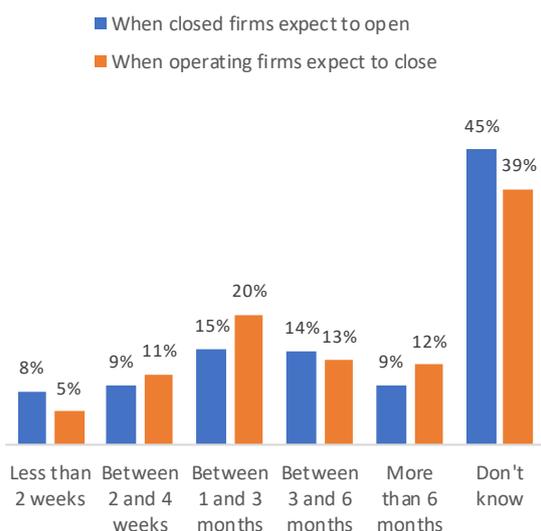
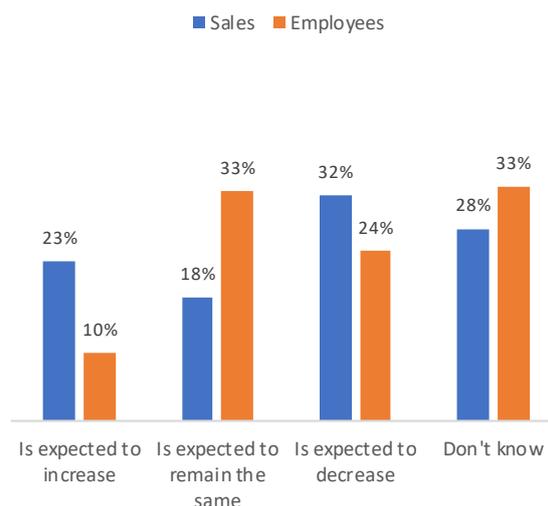


Figure 8. Expected changes in sales and employment, July vs. September 2020 (% of firms)



Policy support

The survey indicates that policies are needed to support firms both in the short and long term. The decrease in demand, as well as difficulties in financing cash shortfalls, has put many firms in a difficult position.



GOVERNMENT SUPPORT RECEIVED

To support firms and workers negatively affected by the pandemic, the Philippine government instituted several support measures. These include cash transfers, deferrals of rent, utilities and loan payments, access to loans with subsidized interest rates, credit mediation and refinancing, wage subsidies, business advisory programs, and regulatory relief (see Annex B for a list).

About 1 out of 5 firms reported receiving some support from the national or local government. Cash transfers provided to employees through the *Pantawid Pamilyang Pilipino Program* (4Ps) and Social Amelioration Program were the most cited government support by these firms (Figure 9). This is followed by deferral of loan payment (20 percent), wage subsidies (17 percent), regulatory relief (15 percent), and deferral of rent, mortgage, or utilities (15 percent). The percentage of firms that received government support was relatively lower in the BARRM region and in the arts, entertainment, and recreation sector.

Firms were split evenly across various reasons for not having received government support. Some found it difficult to apply for support (27 percent), were not aware of support programs (26 percent), did not receive support after application (22 percent), and were not eligible (21 percent). This suggests the need for increased awareness and clarity on the guidelines and requirements of current programs as well as the timely implementation of the programs. This is particularly needed for the new government loan programs offering subsidized interest rates that are in high demand (36 percent) but had a low uptake from firms (8 percent).



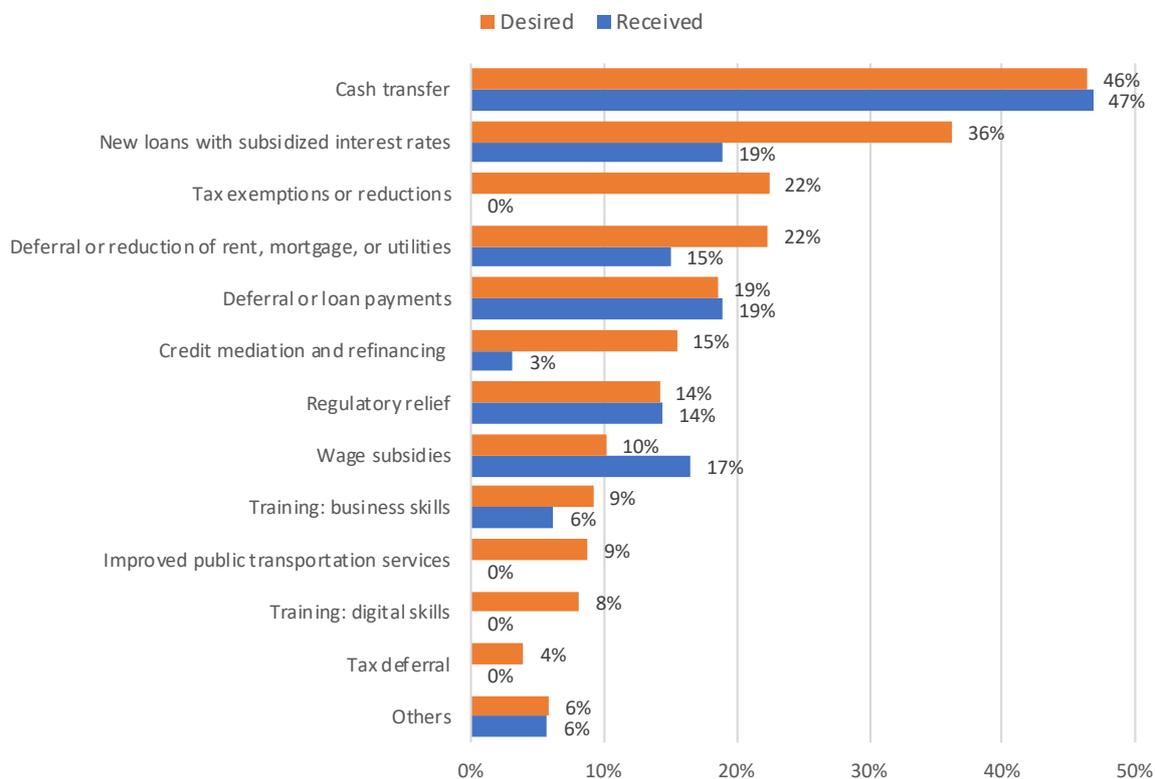
DESIRED GOVERNMENT SUPPORT

Firms reported that measures improving liquidity (subsidized interest rates, cash transfers, deferral of loan, rent, or utility payments, and tax exemptions or reductions) are the most desired government support.

Among the different types of government support, the most desired forms of support were cash transfer (46 percent), loans at subsidized rates (36 percent), deferral of rent, mortgage or utilities (22 percent), tax exemption or deduction (22 percent) and deferral of loan payment (22 percent). These are aligned with the government's proposed legislative interventions to reduce the corporate income tax rates and improve the liquidity in the financial sector.

Firms in the real estate and health sectors indicated greater demand for tax exemption or reduction compared to cash deferral, whereas firms in the education sector showed a strong desire for wage subsidies. Regulatory relief was relatively higher in demand in real estate and tourism and accommodation sectors. Firms also reported that they need both loans (48 percent) and information (37 percent) to expand the use of new technologies to adjust to the new normal.

Figure 9. Government policies received and desired by firms (% of firms)



The Government of the Philippines is currently considering measures to further support the Philippine firms through tax reductions and expanding access to new loans. In the medium and longer term, efforts should be concentrated on (1) re-establishing demand, supply, and financial channels that were adversely affected during the pandemic and (2) helping firms adjust to the “new normal” by improving firm capabilities to boost productivity. Future government support should also note that the new normal is characterized by high uncertainty, which can make access to finance programs less effective as firms are less willing to borrow, and banks are hesitant to lend. Therefore, clear communications and consistent messaging about community quarantine measures on business operations in a timely manner will be crucial to reduce firms’ uncertainties about the future.

Annex A. Distribution of survey respondents by size, location, and sector

Firm size	%	Location	%	Sector	%
Micro	59.3	National Capital Region	22.7	Agriculture, fishing and mining	5.1
Small	19.2	Region 1: Ilocos	3.4	Manufacturing	9.9
Medium	12.8	Region 2: Cagayan Valley	1.2	Construction	4.2
Large	8.7	Region 3: Central Luzon	11.8	Utilities	1.3
		Region 4A: Calabarzon	17.7	Wholesale and retail trade	28.9
		Region 4B: MIMAROPA	2.5	Auto repair	2.6
		Region 5: Bicol	4.3	Transportation and storage	4.4
		Region 6: Western Visayas	6.5	Tourism and accommodation	3.6
		Region 7: Central Visayas	9.1	Food services	18.7
		Region 8: Eastern Visayas	2.1	ICT: BPO and others	2.1
		Region 9: Zamboanga Peninsula	1.7	Financial activities	2.0
		Region 10: Northern Mindanao	2.6	Real estate and leasing	1.4
		Region 11: Davao	6.3	Education	2.7
		Region 12: SOCCSKSARGEN	3.1	Health	2.8
		Region 13: Caraga	2.6	Arts, entertainment, and recreation	4.0
		Region 15: CAR	2.4	Professional services	1.3
		Region 16: BARMM (formerly ARMM)	0.2	Other services	5.3

Annex B. list of government support measures that were available to firms as of July 2020

- Cash transfers: Pantawid Pamilyang Pilipino Program (4Ps) and Social Amelioration Program (SAP)
- Deferral or reduction of rent, mortgage, or utilities: DTI's rent deferment grace period
- Deferral of credit payments, suspension of interest payments, or rollover of debt: grace period for loans
- Access to loans with subsidized interest rates: DTI/SB Corp's P3-ERF / Covid-19 Assistance to Restart Enterprises (CARES) program, Landbank's I-RESCUE Lending, DA-ACPC's Plant Plant Plant under SURE Aid program, PhilGuarantee's loan guarantee
- Credit mediation and refinancing: Landbank's I-RESCUE Lending
- Wage subsidies: DOF's Small Business Wage Subsidy (SBWS)
- Support programs related to business advisory, education, and training for entrepreneurship and SMEs: DTI's Livelihood Seeding Program – Negosyo Sa Barangay
- Regulatory relief: suspended, reduced, or waived fees and payments for licensing, registration, permits and inspection, DOLE's labor regulation adjustments

Acknowledgement

The note was prepared by the World Bank team led by Sharon Piza (Economist, EEAPV), comprising of Jin Lee (Private Sector Specialist, ETIFE), Rong Qian (Senior Economist, EEAM2), and Yoonyoung Cho (Senior Economist, HEASP). The survey is a component of the Real Time Monitoring of COVID-19 Impacts in the Philippines Project supported by the Australian Government. Survey implementation and data processing was supported by the Department of Finance (DOF), National Economic Development Authority (NEDA), National Telecommunications Commission (NTC), along with Gio Santos and Rina Gonzalez (Consultants, EEAPV). The survey design, implementation, and results analysis received the guidance of Cecile Niang (Practice Manager, EEAF2) and Rinku Murgai (Practice Manager, EEAPV), with inputs from Asya Akhlaque (Lead Economist, EEAF2), Leonardo Iacovone (Lead Economist, ETIFE), Shawn Tan (Senior Economist, EEAF1), Trang Tran (Senior Economist, ETIFE), Jaime Frias (Senior Economist, EEAF2), Clarissa C. David (Senior External Affairs Officer, ECREA) and David Llorito (External Affairs Officer, ECREA).