



United Nations

Department of
Economic and
Social Affairs

Division for Sustainable Development Goals, UN DESA

CAPACITY BUILDING EVENT:

The Impact of the COVID-19 Pandemic on Micro, Small and Medium-sized Enterprise (MSMEs) in the Creative Industry Sector in the Philippines

The Division for Sustainable Development Goals in the Department of Economic and Social Affairs (DESA/DSDG), in partnership with the Department of Trade and Industry (DTI) of the Philippines, held a capacity building event on 23 July 2020, PHT to discuss the impact of the COVID-19 pandemic on micro-, small and medium-sized enterprises (MSMEs) in the Philippines, specifically in the creative industries in Cebu City. This event was held as part of the Philippines' MSME Week, which was organized by the DTI. To infuse the discussion with a more global perspective, representatives from the DesignSingapore Council (DSC) and the FabLab Barcelona (FLB) were also invited to share their respective responses, policy interventions and good practices. A social entrepreneur from HoliCow Cebu (HCC) also presented their experience from the grassroots standpoint as they deal mostly with far-flung rural communities and MSMEs.

The speakers (in order of presentation) were:

Mr. Amson Sibanda, Chief, National Strategies and Capacity Building Branch, DESA/DSDG

Ms. Blesila Lantayona, Undersecretary, DTI

Mr. Gil Carungay, National Consultant, DESA and DTI

Mr. Jacks Yeoh, Deputy Executive Director, DesignSingapore Council

Mr. Tomás Diez, Co-Founder, FabLab Barcelona, Spain

Ms. Kae Batiquin, Manager, HoliCow Cebu

Ms. Asteria Caberte, Assistant Secretary, DTI

Some of the key messages from the presentations and discussion are enumerated below, as are a couple of follow-up actions that have been initiated immediately after the webinar:

- MSMEs form the backbone of the Philippine economy, representing 99.52% of total registered establishments and 62% of employment. In Cebu, which is the country's second largest metropolitan area, MSMEs account for about half of the employment due to the concentration of large Business Process Outsourcing Firms (BPO), which

account for 24% of total employment despite only representing 2% of listed establishments.

- While there are no definitive national statistics on Creative Industries due to insufficient reporting mechanisms, Cebu City was able to estimate the size of this sector from a variety of resources, including national government statistics, local government data and industry value chains. Reflective of global estimates, this sector is theorized to represent 7% of Cebu's GDP, which equates to \$550 million in 2019, 1,300 firms and 50,000 jobs. Spanning all the different disciplines identified by the United Nations Conference on Trade and Development (UNCTAD), Cebu's most prevalent creative disciplines are in Creative Services and Functional Design.
- Like the rest of the globe, the COVID-19 pandemic has had a massive negative impact on the entire Philippine economy and continues to wreak havoc as it remains unchecked and threatens a second wave in other regions. The Philippines' nearly three-decade growth and recent stellar GDP growth rates, which pre-COVID was expected to hit 7% per annum, would have exceeded China's and neared India's. Due to the pandemic, it is certain that the economy will shrink this year with estimates ranging from a 1.9% contraction by the World Bank¹ and up to 6.2% decline by the Asia Investment and Infrastructure Bank². Unemployment has also reached historical levels, surging by 250% in April to 17.7% while those that remained employed were forced to reduce the number of hours worked by 20% due to movement restrictions and mandatory closures³. Extreme poverty levels, which had been cut by more than half from their nearly 40% high in the early 1990s, are now expected to increase by 3 percentage points and hover around 20%. This pandemic is also set to delay the Philippines' transition into the Upper Middle Class of the planet's countries by a few years.
- Creative Industries in the Philippines have been particularly hit by COVID-19, as every aspect of the creative value chain – from supply to production, distribution and access – were severely impacted. Along with the Tourism Sector, HSBC Philippines estimated that these two segments of the economy have fared the worst, experiencing more than 80% decline since the onset of the pandemic. To make things worse, it has also brought to fore idiosyncratic weaknesses that were already existing pre-COVID, which include underemployment, multiple job holding, high mobility, seasonality, the democratization of design and the fact that a lot of creative practitioners are

¹ Philippines Economic Update, The World Bank, 9 June 2020

² Press Release, Asia Infrastructure Investment Bank, 29 May 2020

³ Philippine Labor Force Survey, Department of Labor and Employment, April 2020

freelancers and are part of the informal economy, which prevents them from accessing most social services. Like in other industries, COVID-19 has accelerated paradigm shifts – bolstering megatrends that were already threatening the creative status quo.

- A survey was conducted in Cebu City to fathom the impacts of the COVID-19 pandemic on MSMEs. Preceded by 20 one-on-one interviews and 3 focus group discussions, the survey was circulated using the databases of DTI and Cebu Design Week and garnered 116 distinct responses. The results indicated that 92% of those surveyed had to either shut down completely or work from home in the first two months of lockdown. Almost 80% received no government assistance. 65% experienced cancellations – a number that will probably go up even more as the lockdowns persist. Almost 2/3 of respondents have no business continuity plans, although some stated that they were in the process of making them. Nearly 75% stated that they will continue to work remotely in some form until a vaccine or effective treatment protocols are discovered. On a brighter note, 9% did report an increase in activities and these were the companies that were already positioned in the online space or were able to pivot quickly during the pandemic. Now that the Philippines is starting to open up, a follow up survey needs to be conducted to refine data, quantify consumer uptake and model trajectory scenarios.
- Despite the hardships that befell Cebu-based creative MSMEs, it did not stop them from doing their part in disaster relief. As in previous external shocks, the private sector really stepped up and organized various homegrown grass-roots movements, whether individually or as a group. Efforts included fundraising, PPE production, online capacity building and upskilling, virtual conferences, marketplaces and exchanges.
- The Philippine government also responded with a three-phased plan to control the virus, mitigate the financial impacts on its citizens and businesses, and lay the groundwork for the eventual recovery phase in the new normal. DTI, for its part, launched a multitude of initiatives that included guidelines pertaining to business operations, such as unhampered movement of goods, subsidies, rent concessions, production of PPE and medical equipment, and discounted distribution of essential goods. It also pivoted some of its existing capacity building programs and tweaked them in light of the pandemic. Understandably, most of the trainings involved the acceleration of digital transformation from tools, applications, platforms and payment solutions.

- Singapore responded with a multi-pronged approach to recovery from both the government and the DesignSingapore Council. To deal with immediate challenges arising from COVID-19, the government launched a 3-month relief from corporate income tax obligations and 2-month rental waivers to alleviate cash flow issues. To retain talent, Singapore guaranteed 75% of wages (up to SG\$ 4,600/month) until August 2020. They also instituted a 6-month relief from contractual obligations for the hardest hit sectors like tourism and entertainment. The second phase of the country's response was to prepare for growth, which involved deepening e-commerce adoption, discounted digital solutions, and up to SG\$ 10,000 in adoption payouts for retail and F&B MSMEs. To nurture talent, the government also introduced a 90% training subsidy for impacted sectors, as well as accelerated career conversion programs in growth areas. At the company level, the government introduced enterprise development grants for firms to upgrade, innovate and even expand overseas. For their part, the DesignSingapore Council introduced initiatives around building resiliency in the industry, which emphasized the importance of branding and partnered with academia, industry associations and brand consultancies on a series of industry-oriented digital events on a wide variety of relevant topics. To grow sectoral capacity and capabilities, the Good Design Research Program was launched to incentivize designers and creative MSMEs to shift their attention to designing for impact in light of the pandemic. The SkillsFuture Award was also intensified to upskill and future proof both design and non-design professionals. Lastly, a big push to inculcate MSMEs with the importance of user journeys and understanding how consumers interface with their products, services and experiences.
- In Europe, a recently concluded and unprecedented €750 Billion (US \$877 Billion) Coronavirus Recovery Fund was recently agreed upon. While it revolves around loans and grants to its 27-member bloc and implementing guidelines are still being threshed out, it also includes the mention of a new productive model based on ecological transition, new mobility frameworks and digitalization. While this is still on paper, it is an understandable and logical move considering the strong social nets, the EU's evolved population and strong support for environmental concerns. It is also very consistent with FabLab Barcelona's programs on anticipating weak signals and the emergent futures they lead to. This pandemic validates FabLab's Distributed Production framework that emphasizes smaller scale batch production, local/regional supply chains and promoting circular versus the traditional linear economies. With innovation and disruption as core themes in FabLab's DNA, a new development paradigm is being advocated utilizing a Full Stacked Model that emphasizes shared strategies, new forms of learning, democratized infrastructure and incubation, platform ecosystems and international cities networks.

- While it is easy to use this pandemic for soul searching, alternative scenario modeling and reimagining future iterations of the world we live in, the fact is that this luxury is not available to most people. Citizens in less affluent countries, like the Philippines, are still in survival mode. This problem is magnified in rural areas, where educational levels are lower, social amelioration is more politicized and access to the digital realm is limited. HoliCow Cebu also mentioned that people in these areas are more prone to be discouraged and understandably shift to other means of livelihood just to provide sustenance for themselves and their families. In order to prevent the attrition of people and skills, innovative arrangements need to be introduced to afford them the basic necessities while continuing to practice their craft.
- As COVID-19 continues to ravage the Philippine economy, it is clear that a more cohesive and substantial response specific to the vulnerable creative industry sector needs to be formalized. The timing is quite opportune since the next tranche of stimulus is still being debated and formulated in the Philippine Congress but should be approved soon. However, even if the bill is passed, the amounts being indicated are paltry vis-à-vis the large population of the country and the enormity of the challenges that continue to plague its citizens and businesses. Any intervention needs to be low cost, high impact, easy to access and straightforward to implement. The sub-sectoral business reboot toolkits based on a crisis strategy matrix should be fast-tracked and linked to existing recovery programs of the DTI and other agencies. More importantly, entry barriers to these programs should be simplified to also appeal to those in the informal segment of the economy and used as a means to migrate them into the formal sphere with incentives. Networks and collaborative platforms at all levels – local, regional, national and international – should also be strengthened to democratize information sharing, catalyze cross-border collaborations, align resources, reduce redundancies and achieve synergies.
- However, for any policy intervention to succeed, a fundamental paradigm shift on how the Creative Industries are perceived and what the role of designers are in a post-pandemic world needs to be institutionalized. It is very easy to dismiss that creative work is non-essential during a crisis such as this when in reality, not only are they important healing mechanisms, they are also embedded in nearly everything in the modern world and are essential to any response. Now, more than ever, this role is even more critical as everything needs to be redesigned -- from the spaces we occupy, to the products we consume, and to the experiences we engage in. Public awareness campaigns spotlighting the importance of design and creativity need to be launched, in addition to platforms to engage and empower these practitioners.

- Finally, while the speakers came from different backgrounds and represent different stages in the developmental curve, it became clear that they were on the same page in terms of the implications of the pandemic, the gaps that need to be bridged, the necessity to work together and the imperative of evolving as an organization and as a community. It is worth mentioning that immediately after the capacity building event, the speakers continued their conversations and have scheduled further sessions to explore concrete cooperative endeavors in the near term. One of the first collaborative projects will be to tap into collective knowledge and insights to validate the reboot toolkits for creative sector Philippine MSMEs prior to their launch next month. It is hoped that the initiatives catalyzed by this event will be just one of many around the world that will help humanity overcome COVID-19 and emerge from the other end more creative, more resilient and ultimately more caring for each other and the environment.