

STRENGTHENING DISASTER AND CLIMATE RESILIENCE OF SMALL & MEDIUM ENTERPRISES IN ASIA

Philippines



**ENABLING
ENVIRONMENT &
OPPORTUNITIES**



The iPrepare Business facility for engaging the private sector in Disaster Risk Management is a joint initiative by the Asian Disaster Preparedness Center (ADPC), the Asian Development Bank (ADB) through the Integrated Disaster Risk Management (IDRM) Fund and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH within the framework of the Global Initiative on Disaster Risk Management (GIDRM). It focuses on building disaster-resilient businesses in the region through partnerships to strengthen the resilience of the private sector, particularly SMEs; providing technical assistance in strengthening resilience on a demand-driven basis; supporting governments in strengthening the enabling environment that promotes risk sensitive and informed investments by private sector; and facilitating knowledge sharing at the regional and national levels.



The Asian Disaster Preparedness Center (ADPC) is an independent regional non-profit organization that works to build the resilience of people, communities and institutions to disasters and climate change impacts in Asia-Pacific. Over the past 30-years, ADPC has expanded its scope and diversified its operations for a programmatic approach that offers long-term and sustainable solutions to addressing the underlying causes of disasters and climate change risks.



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Acronyms

- ADB** Asian Development Bank
- ADPC** Asian Disaster Preparedness Center, Bangkok
- AEC** ASEAN Economic Community
- APBSD** ASEAN Policy Blueprint for SME Development
- APEC** Asia-Pacific Economic Cooperation
- ASEAN** Association of Southeast Asian Nations
- ASEC** ASEAN Secretariat
- BCP** Business continuity plan
- BCM** Business continuity management
- BMZ** German Ministry for Economic Development and Cooperation
- BSMED / BMSMED** Bureau of Micro, Small and Medium Enterprise Development, DTI
- CCA** Climate change adaptation
- CCC** Climate Change Commission
- CCO** Climate Change Office
- DBP** Development Bank of the Philippines
- DRR** Disaster risk reduction
- DRM** Disaster risk management
- DTI** Department of Trade and Industry
- GIDRM** Global Initiative on Disaster Risk Management
- GIZ** Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
- GVCs** Global Value Chains



- LGU** Local Government Unit
- MSMEs** Micro, Small and Medium Enterprises
- NDRRMA** Philippine National Disaster Risk Reduction and Management Act
- NDRRMC** Philippine National Disaster Risk Reduction and Management Council
- NEDA** National Economic Development Authority
- OCD** Office of Civil Defense
- PCCI** Philippine Chamber of Commerce and Industry
- PDRF** Philippine Disaster Recovery Foundation
- PDP** Philippine Development Plan
- PTTC** Philippine Trade Training Center
- SBCorp** Small Business Corporation
- SMEs** Small and medium enterprises
- SMEMM** Small and Medium Enterprises Ministerial Meeting - APEC
- SMEWG** Small and Medium Enterprises Working Group - APEC
- SOM** Senior Officials' Meeting - APEC

Key Terminology

Business continuity management (BCM) – (ISO 22301:2012)

“Holistic management process that identifies potential threats to an organization and the impacts to business operations those threats, if realized, might cause, and which provides a framework for building organisational resilience with the capability of an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.”

Business continuity plan (BCP) – (ISO 22301:2012)

“Documented procedures that guide organizations to respond, recover, resume, and restore to a pre-defined level of operation following disruption.”

Coping capacity – (UNISDR¹)

“The ability of people, organizations and systems, using available skills and resources, to face and manage adverse conditions, emergencies or disasters.”

Disaster – (UNISDR)

“A serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.”

Disaster risk management (DRM) – (UNISDR)

“The systematic process of using administrative directives, organizations, and operational skills and capacities to implement strategies, policies and improved coping capacities in order to lessen the adverse impacts of hazards and the possibility of disaster.”

Disaster risk reduction (DRR) – (UNISDR)

The concept and practice of reducing disaster risks through systematic efforts to analyse and manage the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness for adverse events.”

1 UNISDR Terminology 2009. Available at <http://www.unisdr.org/we/inform/terminology>. Other relevant terms defined therein include: disaster risk, emergency response, exposure, hazard, mitigation, preparedness, recovery, risk, vulnerability.

Emergency response – (UNISDR)

“The organization and management of resources and responsibilities for addressing all aspects of emergencies, in particular preparedness, response and initial recovery steps.”

Resilience (IPCC²)

“The ability of a system and its component parts to anticipate, absorb, accommodate, or recover from the effects of a hazardous event in a timely and efficient manner, including through ensuring the preservation, restoration, or improvement of its essential basic structures and functions.”

2 IPCC. 2012: “Glossary of terms. In: Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation.” Available at http://www.ipcc.ch/pdf/special-reports/srex/SREX-Annex_Glossary.pdf

Executive Summary

A disaster-resilient enterprise is one that has the capacity to anticipate, resist or absorb, and then accommodate or recover from a hazard that affects it, returning to at least the equivalent state of economic health that it enjoyed beforehand, and continuing to grow and develop without detrimental long-term effects.

This report is both an analysis of the results of an SME Resilience Survey conducted in the Philippines in 2015, and a strategic policy analysis of the enabling framework for disaster-resilient micro, small and medium enterprises (MSMEs) in the Philippines. The Philippine Government formulation of “MSME” is used to discuss the national frameworks although the report is part of a regional project, “Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia Project” (using the term “SMEs”, which also includes micro enterprises). The project is being implemented by the iPrepare Business facility. In the Philippines, the iPrepare Business facility is working with partners from government and the private sector in project implementation. The main partner government agency is the Department of Trade and Industry (DTI), in particular the Bureau of Small and Medium Enterprise Development (BSMED). The project is supported by the ADB’s Integrated Disaster Risk Management Fund, which is financed by the Government of Canada, and the German Ministry for Economic Development and Cooperation (BMZ) through the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) within the framework of the Global Initiative on Disaster Risk Management (GIDRM).

The report is based on desk research on relevant laws, policies, institutions and secondary literature, consultations during a country mission in September 2015, and the Philippine SME Resilience Survey undertaken as part of the project. It is divided into six parts:

Part 1 looks at what we mean by disaster-resilient SMEs, then frames the discussion in terms of the two main categories of risk that SMEs face – (1) shared community disaster risk, and (2) business continuity disaster risk. This broad categorisation then determines which pillar of government policy provides the best basis for policy intervention to support SME resilience to these risks. It proposes that national systems of disaster risk reduction and management (DRRM), including climate change adaptation (CCA), provide the most effective and efficient legal, policy and institutional basis for improving SME resilience to shared community disaster risks. For business continuity disaster risks, it is proposed that national laws and institutions targeted to broader SME development provide the best vehicle for policy intervention. They are already immersed in issues around SME capacity development, access to finance and markets, and they have a range of entry points for interaction with SMEs about business continuity issues that arise from disasters. This categorisation of SME risks leads to two guiding questions for the Philippine country policy analysis, due to the possibility that SME disaster resilience may fall between the two policy pillars of SME development and DRM/CCA:

1. To what extent do national and local climate and disaster risk reduction and management systems include SME representatives at national level, and/or integrate SMEs into local institutions, risk awareness campaigns, emergency response and recovery operations at local level?

2. To what extent is climate and disaster resilience factored into the picture of an economically healthy SME through policy schemes targeted at SME development and promotion?
-

Part 2 examines what we know about Philippine MSMEs from national statistics, and what this can (and cannot) tell us about their disaster risk. It notes that enhancements to the standard national statistical base on MSMEs could be valuable tools to underpin policy intervention for MSME support generally, as well as initiatives for MSME disaster-resilience. In addition, policy approaches targeted at MSME resilience could benefit from the availability of cross-referenced data from the DRRM and CCA system and other technical data, so that it is possible to match local and regional risk assessments with MSME distribution, size and industry sector.

Part 3 presents the results of the SME Survey, sampling 513 MSME respondents across 17 regions. Although based on a very small proportion of the 945,000 formal enterprises in the Philippines, rather than being a comprehensive survey, it is a significant sample size that provides valuable qualitative data not available elsewhere. Overall, the results indicate a high awareness of disaster risk amongst MSME respondents, and extensive personal experience of significant disaster losses. A large majority reported experiencing hazards that affected their business operations – 364 respondents (71%). Natural hazards were regarded as a high and increasing business risk for the survey group, which was broadly representative of Philippine MSMEs (albeit somewhat over-representing manufacturing and agriculture, and under-representing retail and also micro enterprises compared with national statistics). The main hazards they highlighted were typhoon, power blackout, flood, earthquake, fire and accidents (Figures 3 and 4). A majority, 288 respondents (56%), also reported a major business disruption, and most of these (69%) reported that this occurred in the past three years, with 2013 being the year that one-third of them reported such a disruption (Figure 5).

- In terms of the business effects of disruptions, 264 respondents (48.5%) reported losing days of operation due to disaster disruption. Of these, the number of days they lost ranged from less than a week to more than three months, but these impacts varied between business size and industry:
- Those that reported complete stoppage for more than three months were all micro and small enterprises, suggesting medium (and large) enterprises had more capacity to recover from major setbacks.
- Manufacturing was the most affected for the longest periods by complete cessation of operations, with retail following, and then agriculture.



The effects of past disruptions to business operations were not by any means confined to cessation of operations. A large majority reported on other types of business impacts – 385 (75%). In addition to stoppages, respondents reported significant interruptions in the supply chain to their businesses, and from their businesses to their markets. The top reasons listed were: employees being unable to go to work; inability to deliver products to market/customers; damage to facilities and equipment; damage to raw materials and finished products; and suppliers being unable to deliver materials or services. The cost of damage from previous disruptions varied widely, but in some cases losses were surprisingly high, given the small size of the assets and small number of employees used to classify them as MSMEs. This suggests turnover may also be an important indicator for statistical data on MSME characteristics.

There was also a significant degree of engagement with the DRRM system at local level, but low awareness of Business Continuity Management (BCM) as a risk reduction mechanism, and of business continuity plans (BCP), and little use of external risk financing or other formal coping mechanisms. These findings indicate a strongly self-reliant approach to disaster risk, with low uptake of insurance accompanied by the use of personal savings, working more and using networks of family and friends to recover from disaster losses. While these indicate a high level of resilience, they may also reflect the lack of available financing and insurance for MSMEs, so that these informal risk financing coping mechanisms are perhaps a necessity. However, survey respondents also believe that DRM training (including emergency drills) is one of the most useful things they can do to enhance their business. Three-quarters of respondents also said they would be interested in participating in a national planning process to support SMEs to prepare for and recover from hazards and disasters.

Part 4 gives an overview of the laws, policies and institutions underpinning the companion systems of disaster risk reduction and management (DRRM) and climate change adaptation (CCA). It then analyses them for aspects that support MSME resilience, and finds that neither framework has so far identified MSMEs as a priority in reducing risk and increasing disaster and climate change resilience. Both these systems are established as coordinating mechanisms to mainstream the issues into government across sectors and at all levels, but the structural links are minimal between, on the one hand, the Department of Trade and Industry (DTI) concerning MSME development and, on the other hand, the Office of Civil Defense (OCD), supporting the National Disaster Risk Reduction and Management Council (NDRRMC), and the Climate Change Office – the DRRM/CCA system. Indeed, although formal links exist, there is room for greater practical coordination between the DRRM and CCA systems themselves.

Part 5 gives an overview of the laws, policies and institutions underpinning MSME development support, primarily through DTI, but also through financial institutions (some examples of the many financial assistance regimes in the Philippines are discussed). It finds that for this policy sphere also, there is almost no crossover to the DRRM/CCA systems. However, if those links can be made to capture the data and expertise in the other areas, the system of MSME development provides many opportunities to access MSMEs and provide information, training and incentives for them to undertake risk assessments and BCM that addresses them.

Part 6 is not a set of recommendations, but a set of issues, questions and potential solutions for national stakeholders to consider in developing a roadmap for MSME disaster resilience. The two key messages are that (a) MSME disaster resilience is a cross-cutting issue that cannot be adequately addressed within a single sector or ministry and that existing policy and planning tools need to be adapted to accommodate the need for cross-sectoral coordination, and (b) that MSMEs and private sector institutions need to be a part of the policy formulation, as well as taking their own initiatives, if MSME disaster resilience is to be substantially achieved and sustained. The following analysis is provided as a way to break down the global question of “MSME disaster-resilience” into bundles of concrete actions, based on the findings of this report.

Part 6 canvasses the following issues:

1. What do we need to know?

In addition to the project survey, other studies and national statistics, there remains a need to improve access to baseline data on MSMEs and their disaster risk as the overall national data set and published analyses for MSMEs as a group remains limited. Increased data links between the MSME business support system and the DRRM and CCA institutions could also enhance the information available as the basis for improving MSMEs resilience.

2. Who needs to be engaged?

a. It may be useful to extend participation in the roadmap process beyond the current consultative group, to also engage with: MSMEs directly through regional and local consultations; MSME organizations or divisions within larger industry bodies; organizations of women in small business; key industry sectors where MSMEs are in significant numbers and/or which are most vulnerable to natural hazards; NGOs engaged in DRRM and micro-credit; the insurance industry; LGUs; DRRM Councils at Regional and Local level, to Barangay level (in addition to NDRRMC/OCD which are part of the existing group); CCC/CCO; Philippine Statistics Authority; academia and technical institutions; and BCM trainers – institutions, certified consultants, large enterprises.

b. Consideration should be given to specific regional consultations with MSMEs and their organizations, LGUs and Barangay and Local DRRM Councils, sampling areas with different levels of socio-economic development, and a range of natural hazards including floods, storms, earthquakes, and vulnerability to sea level rise, including regional cities, rural and coastal areas.

3. How to create an enabling environment for MSME disaster resilience?

a. Enhance interaction between the system for MSME development and the DRRM/CCA system institutions by: establishing a more formal system to improve links between DTI, OCD and CCO at national level concerning MSME disaster resilience; including MSME needs in national DRRM policies, plans, strategies and resource allocations for DRR, awareness-raising, CBDRR, risk assessments, and risk mapping, especially in DRR, prevention and preparedness; institutionalising representation of MSMEs in the DRRM system from national to local level, and clarifying how private sector representatives become part of DRRM Councils (e.g. through an NDRRMC memo Circular similar to No. 3 of 2012 on



appointment of CSO representatives); and using revisions of the DRRM Act (following the sunset review) and/or its implementing regulations, to create a mandate for a greater focus on awareness-raising and DRM training in the private sector, especially for MSMEs.

- b. Ensure DRRM and CCA risk assessments are part of the legal requirements, and are implemented, for planning all new economic zones or industrial precincts intended to cluster MSMEs, and undertake risk assessments and any necessary mitigation measures to reduce exposure in existing zones.
 - c. Better adapt risk and recovery financing to MSME needs, for example through: tailored small loans for MSME disaster recovery, such as those developed by SBCorp following Typhoon Haiyan (Yolanda), which feature streamlined procedures, rapid payment, a repayment exemption period, and incremental increases in repayment amounts as the business recovers, over five years.
 - d. Evaluate current developments in different types of affordable disaster risk insurance and risk financing, such as those in parametric or event-based insurance with a fixed schedule of payments for natural hazards, and facilitate their development in the Philippines in both the public and private sector.
 - e. Identify ways to focus MSME disaster resilience initiatives: at regional or provincial level; within designated industrial areas, for example, special economic zones, such as the Agro-Industrial Economic Zones, or Technology Parks and Centers and Tourism related zones; and in particular industry sectors.
 - f. Support the further development of MSME business organizations, as MSMEs need their own voice and advocates in the policy process, such as the nascent National Small Business Association, Philippines (NSBA PH).
 - g. Develop and disseminate targeted tools and training. For example, promote, use, or develop BCM manuals and training programmes that are based on a full risk assessment that includes natural and industrial hazards – disaster-resilient BCM. These need to be tailored to the requirements of different sizes, locations and sectors of enterprises.
 - h. Link with large corporations on BCM. Facilitate engagement by large Philippine enterprises and foreign companies to support disaster-resilient BCM for MSMEs in their supply chain.
4. Where and through what mechanisms can MSMEs be accessed?
- a. Use existing channels and locations for MSME development and business registration to raise awareness of disaster issues, as MSMEs routinely access government-business systems for reasons of compliance or for information or training. Such access points include: point of registration of business name (DTI); registration of enterprise; registration as a barangay micro enterprise (LGUs); Negosyo Centers; BSMED / DTI training and other business capacity building for MSMEs; submission of taxation documents; application for business loans (various government and other financial institutions); and application for insurance, risk finance or disaster compensation; application for national industry standards certification (especially in manufacturing)



- b. Use existing channels in business finance, insurance and taxation to provide financial incentives, exemptions, conditions, and/or requirements for disaster risk assessments and evidence of disaster-resilient BCM. For example: access to some forms of business registration and/or grants, training, or other business development support could be made dependent on investment in disaster-resilient BCP; investment in disaster-resilient BCM could be tax deductible, along with associated BCP-preparation and training; micro credit and small business loans criteria could include environmental and enterprise disaster risk assessment and/or BCP or other mitigation measures as part of the credit assessment (while ensuring this does not further restrict MSMEs access to credit).
- c. Mainstream disaster-resilience into health and safety compliance, since MSMEs already have compliance obligations and contact with the relevant standards and safety agencies. It may be effective in some industries for the relevant government agencies and standards bodies to incorporate assessment and mitigation of natural hazard and climate risks into standards, inspections, training, and compliance manuals, for hazards such as fire and industrial safety.

Introduction

This report analyses the enabling framework for disaster-resilience of micro, small and medium enterprises (MSMEs) in the Philippines, informed by the results of an SME Resilience Survey, research on legal and policy frameworks, and consultation with national stakeholders. It provides the background for a government and stakeholder process towards developing a roadmap during 2016 for increasing Philippine MSME resilience to disasters.

In the Philippines, the iPrepare Business facility is working with partners from government and the private sector in project implementation. The main partner government agency is the Department of Trade and Industry (DTI), in particular the Bureau of Small and Medium Enterprise Development (BSMED). Other partner government institutions engaged in the Consultative Group include the Development Bank of the Philippines, the Land Bank of the Philippines, the Office of Civil Defense/National Disaster Risk Reduction and Management Council (OCD/NDRRMC), and the Small Business Corporation (SBCorp). In the private sector, they are the Philippine Chamber of Commerce and Industry (PCCI) and the Philippine Disaster Recovery Foundation (PDRF).

The Philippine Government formulation of “MSME” is used to discuss the national frameworks, although the report is part of a regional initiative “Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia Project” (using the term “SMEs”, a general

term which also includes micro enterprises). The regional project is being implemented by the Asian Disaster Preparedness Center (ADPC) under its iPrepare Business facility. The regional project is supported by the ADB’s Integrated Disaster Risk Management Fund, financed by the Government of Canada and the German Ministry for Economic Development and Cooperation (BMZ), through the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), within the framework of the Global Initiative on Disaster Risk Management (GIDRM). It aims to build disaster-resilient enterprises by: 1) identifying actions to strengthen resilience of SMEs; 2) providing technical assistance in strengthening resilience to selected SMEs on a demand-driven basis; 3) supporting governments in strengthening the enabling environment that promotes risk-sensitive and informed investments by SMEs; and 4) facilitating knowledge sharing at the regional level. The four countries included in the project are Indonesia, the Philippines, Thailand and Vietnam.

In the Philippines, as in each project country, national consultation meetings on the draft report have been an integral part of the process, along with participation by stakeholders from all four project countries in the regional forum that took place in April 16, where the learning from the country projects was shared. This final report is intended to underpin a “roadmap” process in the Philippines, to identify how MSME disaster resilience can be better integrated into government, private sector and civil society policy, planning and programmes.



The purposes of this report are threefold:

1. To present the results of the Philippine SME Resilience Survey (SME Survey), undertaken by the project partners in the Philippines from August – October 2015, on MSME perception of risk, experience of disasters, preparedness for likely hazard events, and business continuity management for mitigation and recovery. The SME Survey was based on 513 MSME respondents from 17 of the 18 regions of the Philippines. Similar surveys in each project country are a key component of the Regional Project. The MSME Survey results are particularly important in drawing conclusions about the current levels of MSME disaster-risk awareness and business continuity management, as these issues are not covered by official statistics.
2. To identify aspects of the Philippine legislative and policy environment for MSME disaster resilience that are working well, as good practice examples in the national and regional context, as well as to identify areas that could be enhanced through stronger policy support or resources, and new approaches that might be considered as part of a Philippine roadmap for MSME disaster resilience. It is an analysis of the government policy and institutional framework in place in the Philippines to support disaster-resilient MSMEs, as well as how these interact with private sector initiatives. This aspect of the report is based on: desk research on laws, policies and secondary

resources; and a country mission from 1 – 5 September 2015 that included a meeting of the project consultative group as a whole, as well as separate discussions with group members and other stakeholders concerning implementation of policy, (listed in annex A).

3. Based on the survey and policy analysis, to propose issues for consideration in a Philippine “roadmap” process for MSME disaster resilience.

The policy analysis of this report takes into account relevant Philippine laws, policies, and government institutional frameworks as well as private sector initiatives that interact with government policy. Although the focus is on MSME resilience in the face of the major natural hazards that often cause disasters in the Philippines, including a projected worsening of weather hazards due to climate change, the report adopts a multi-hazard approach.

Many aspects of MSME disaster resilience are an interaction between the underlying economic health of the enterprise, and measures taken to reduce disaster risk and survive disaster shocks. This brings together two policy pillars that are present in the Philippines, and indeed in most other ASEAN countries, but which rarely have cause to interact. The first is the policy framework to support development of MSMEs as business enterprises. The second is the national framework for disaster risk reduction and management (DRRM), supplemented by climate change adaptation (CCA) measures, which are together described as the DRRM/CCA system.



Towards Disaster-Resilient MSMEs

M SMEs play a vital role in all the ASEAN economies, making up the vast majority of enterprises (between 88.8 and 99.9 percent), and contributing significantly to national employment (between 51.7 and 97.2 percent), across all economic sectors and in both rural and urban areas.³ They also provide significant economic opportunities for women and youth, and account for a substantial slice of GDP, between about 30–35 percent on average.⁴ In contrast to their numbers and share of employment, however, their share of total exports remains small, at between 10.0 and 29.9 percent,⁵ and they have thus been identified as requiring additional

support for development and promotion. Regional policy support for MSMEs through APEC, ASEAN and other organizations will be considered in a regional project synthesis report to be completed later in 2016.

The concept of resilience can be applied to economic shocks and MSME reactions to them, but is also now widely used to talk about the capacity of people and communities – including enterprises – to prepare for, cope with, and recover from, challenges such as major natural hazards.⁶ A disaster-resilient enterprise is one that has the capacity to anticipate, resist or absorb, and accommodate or recover from a hazard that affects it, returning to at least the equivalent state of economic health that it enjoyed beforehand, and then continuing to grow and develop without detrimental long-term effects.

3 ASEAN. 2015. “ASEAN Strategic Action Plan for SME Development 2016-2025”. P.1. (In fact these ASEAN figures refer to Micro, Small and Medium Enterprises (MSMEs) – but for these purposes MSMEs are equated with SMEs.)

4 Narjoko, Dionisius. 2014. “Turning Dream Into Reality? Achieving the Goal of Small and Medium Enterprise Development in ASEAN Economic Community.” Taipei: Economic Research Institute for ASEAN and East Asia.

5 ASEAN. 2015. “ASEAN Strategic Action Plan for SME Development 2016-2025”. P.1.

6 UNISDR Terminology 2009, at <http://www.unisdr.org/we/inform/terminology>.

In addition to purely economic and business challenges, MSMEs in Southeast Asia also face business disruption, economic loss and sometimes complete closure as a result of the impacts of natural hazards, such as floods and storms. The Philippines in particular, is subject to major natural hazards. Due to its geographical location, the country experiences earthquakes, high intensity typhoons (20 per year of which 6–9 make landfall), storm surges, and floods.⁷ Other hazards in the Philippines and the region include exacerbation of extreme weather events and sea level rise, due to climate change, as well as earthquakes, tsunamis, volcanic eruptions, and pests or diseases affecting agriculture, forestry and fishing.

What is disaster resilience?

The concept of resilience is used extensively in this report and deserves a brief explanation. A useful definition is that resilience is:

The ability of a system and its component parts to anticipate, absorb, accommodate, or recover from the effects of a hazardous event in a timely and efficient manner, including through ensuring the preservation, restoration, or improvement of its essential basic structures and functions.⁸

A disaster-resilient enterprise is one that has the capacity to anticipate, resist or absorb, and then accommodate or recover from a hazard that affects it, returning to at least the equivalent state of economic health that it enjoyed beforehand, and continuing to grow and develop without detrimental long-term effects. Obviously this

includes not suffering such huge losses that the enterprise ceases operation, but it also relates to smaller shocks and stresses that can affect the long-term viability and growth of an enterprise. But the fact that this definition talks about systems and their component parts is also a reminder that MSMEs are not simply a number of independent entities; they are part of international, national and local systems of commerce and trade, finance and insurance that are governed by laws, policies and institutions. Therefore their resilience is partly determined by their own capacities and partly by the business environment in which they work.

It should also be noted that although the word ‘disaster’ is widely used to refer to large-scale natural hazards, when used in the context of disaster risk reduction and management, it refers not to the hazards themselves, but to the effect that they have on communities, including MSMEs. A widely accepted definition of disaster is:

A serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.⁹

Thus, the disaster risk of MSMEs is partly determined by their actual exposure to natural hazards, and partly by their capacity to reduce the risks through taking preventive action and developing better coping capacities. So a key part of becoming disaster-resilient is the idea of disaster risk reduction (DRR),¹⁰ as resilience includes the ability to anticipate and prepare for foreseeable hazards so that they do not become disasters. It includes actions to prevent hazards occurring where possible, to reduce physical exposure to them based on business location,

7 CFE-DMHA (Center for Excellence in Disaster Management and Humanitarian Assistance). 2015. “Philippines – Disaster Management Reference Handbook.” Joint Base Pearl Harbor-Hickam, Hawaii: United State Department of Defence. https://www.cfe-dmha.org/LinkClick.aspx?fileticket=fmpFiMdOl_g%3d&portalid=0

8 IPCC. 2012. “Glossary of terms. In: Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation.” Available at http://www.ipcc.ch/pdf/special-reports/srex/SREX-Annex_Glossary.pdf

9 The following terms are defined according to UNISDR Terminology 2009, available at <http://www.unisdr.org/we/inform/terminology>: disaster risk reduction, emergency response, exposure, mitigation, preparedness, recovery, vulnerability.

10 The italicized words in this paragraph are commonly used terms in the field of DRM. Definitions are found in the UNISDR Terminology 2009 (undergoing review from August 2015), at <http://www.unisdr.org/we/inform/terminology>

and to reduce vulnerability by taking protective and preventive measures to mitigate the effects of hazards. It also means having the capacity to cope with disasters when they occur, through preparedness and effective emergency response, including contingency plans, as well as access to post-disaster mechanisms to support full recovery. Thus, disaster-resilience for MSMEs is not just about how they respond to hazards and recover from disasters, it is also about MSMEs assessing their underlying disaster risks and reducing them to an acceptable level, as part of business continuity management (BCM).

The aim of the regional project is to address, so far as possible, the full range of physical hazards and their consequences that MSMEs are likely to face, and which may affect their development, profitability or survival. Hence, the above definition of disasters also encompasses technological or human-made hazards, especially as these often compound the effects of natural events to create mixed hazards that result in worse disasters. For example, flooding may result in the spread of dangerous pollutants if industrial or agricultural premises have not adequately protected chemical supplies from floodwaters.

Analysis of MSME disaster risk also needs to consider the extent to which potential long-term changes in disaster risk as a consequence of climate change are taken into account, both by MSMEs themselves and by government policies intended to support MSME resilience and development. Thus, the terms 'disaster risk' and 'climate and disaster risk' are both used in this report to describe the natural and human-made hazards that MSMEs need to consider, while noting that climate risk alone does not describe all relevant natural hazards (e.g. earthquakes).

Characterising MSME disaster risk in the policy context

The underlying question of this report is how policy interventions can promote and support MSMEs to attain disaster resilience. In this regard

it is therefore helpful to divide the disaster risks faced by MSMEs into two broad categories: (1) shared community disaster risks and (2) business continuity disaster risks.

1. Shared community disaster risks

MSMEs, even more so than large enterprises, are physically embedded in urban and rural communities throughout Southeast Asia (although some are now part of industrial parks and special economic zones). This means that their direct exposure to natural and other large-scale local hazards is, by and large, the same as that of the communities where they operate. Thus, many aspects of promoting disaster resilience for MSMEs can be done through the same policy tools as are used for the general population. The main such tools are the national and local systems of disaster risk reduction and management (DRRM) laws, policies and institutions, including those addressing climate change adaptation, and disaster risk financing. In this report the system of laws, policies and institutions addressing climate change adaptation is also considered a part of the system of risk management against natural hazards, albeit in this case permanent changes to which MSMEs, their communities and government frameworks need to adapt.

As will be seen, MSMEs in the Philippines tend to be micro and small enterprises that are very much part of their local communities. Owners and employees therefore need to be aware of the hazards in their locality and how to reduce their risk from them. This may include MSME participation in local disaster risk assessments, community based disaster risk reduction programmes, or public awareness campaigns on local risks that are targeted to or inclusive of MSMEs. MSMEs may need to participate actively in early warnings systems, or opt in to a system to ensure they receive such warnings.

In addition to the major natural hazards of typhoons, floods and earthquakes (in some regions), disaster preparation for MSMEs also needs to include fire, and other emergency drills as necessary, to ensure employees' safety in the face of all likely hazards. Preparation may also need to include contingency

plans to move stock and/or plant and equipment to a safe location in the event of flood or typhoon warnings.

Many of these are the same measures as are needed for the surrounding community, and micro enterprises operating in community hubs may be well served by broad community based disaster risk reduction and management (CBDRRM). However, small and medium enterprises, especially those situated outside settlements, may not always be regarded as part of the 'community' for such purposes, and yet may also not be part of industry organizations that focus on larger enterprises. It cannot be assumed that MSMEs have access to the relevant information or expertise on disaster risk reduction and emergency response, so efforts may need to be made to include them in community level risk reduction, preparedness, response and recovery.

2. Business Continuity Disaster Risks

In addition to shared community disaster risks, MSMEs may have particular vulnerabilities due to their industrial sector, type of activities or enterprise characteristics, as well as the nature of their supply chains and markets.¹¹ These can be described as business continuity disaster risks. For example, the agricultural sector can suffer disaster due to drought, or the timing of heavy rain or storms, or crop pests, which have little effect on the communities where they are based. Small retail businesses may lose uninsured stock due to floods or fires, an economic impact lasting well beyond the hazard itself, or they could face loss of business due to prolonged power cuts caused by emergencies elsewhere. Many businesses may face major disruptions if road access is blocked or roads washed away, affecting their ability to take produce or merchandise to markets; and in manufacturing they may have difficulty obtaining

raw materials or parts if their own suppliers are devastated by a disaster.

The very fact of being business enterprises makes MSMEs vulnerable to different types of economic loss and damage even from hazards that also affect their local communities. Not only do they risk losing goods and assets, as do residents, but both owners and employees face the risk of short or long term loss of employment/income if a disaster seriously disrupts their ability to operate in their normal premises (e.g. due to flooding or blocked physical access, earthquake-damaged premises that become unsafe, loss of communications, disrupted water or electricity supply), or if it negatively impacts their supply chains, distribution or service networks, or demand for their goods or services in a disaster-affected area. Loss of MSMEs from a community following a disaster also impacts livelihoods and prosperity in the wider community.

These arise from the same types of hazard as shared community risks, but they are not necessarily restricted to the immediate locality. Hazards that cause disasters in other areas can also affect MSME supply chains or distribution networks. Preparation for such eventualities requires MSMEs to consciously factor disaster risk information into their business planning.

For business continuity disaster risks, the policy tools used to encourage MSME development and to support their broader economic resilience may be the best starting points. For example, they can build capacity in MSME business continuity management (BCM) for disaster resilience, or provide tax concessions, access to finance and general reform of the business environment. These systems are aimed at business support, and therefore have multiple entry points to access MSMEs in order to provide information about disaster risk, offer training and other capacity building, and potentially provide incentives for MSMEs to become disaster-resilient. For example, there is the one-stop-shop concept of the Negosyo Centers being established throughout the Philippines. However, these business development systems can sometimes fail to take account of MSME economic losses from disasters, or the reasons for such losses, including the extent to which these are preventable through

11 There are now many resources available on these questions. Starting points include two special journal editions: ADPC. 2014. "Engaging the Private Sector in Disaster Risk Reduction", Special Edition, Asian Disaster Management News, June 2014. P 52-54. Bangkok, Thailand: ADPC; and APEC-ACMC (SME Crisis Management Center). 2014. APEC SME Monitor, Issue 16, June 2014. Taipei, Taiwan: APEC-SCMC [special edition on SME business continuity planning in the face of disasters].

DRR, contingency planning and disaster recovery support.

This categorisation of MSME risks leads to two guiding questions for the Philippine country policy analysis, in considering that MSME disaster resilience may fall in between the two policy pillars of MSME development and DRRM:

1. To what extent do national and local climate and disaster risk reduction and management systems either include MSME representatives at national level, and/or integrate MSMEs into local institutions, risk awareness campaigns, emergency response and recovery operations at local level?
2. To what extent is climate and disaster resilience factored into the picture of an economically healthy MSME through policy schemes targeted at MSME development and promotion?



Philippine MSME definitions and economic profile

This part looks at the legal definitions and statistical profile of MSMEs in the Philippines, using published official statistics, to see what these can tell us about their likely exposure and vulnerability to the major natural hazards in the Philippines (as well as what they do not tell us).

MSME economic statistics cited below.¹² The asset-based criteria, along with a description of an enterprise, are used to determine eligibility for benefits under two laws made to support MSME development: the Magna Carta for Micro, Small and Medium Enterprises (the “Magna Carta”);¹³ and the Barangay Micro Business Enterprises Act (the “Barangay MBEs Act”) in defining micro enterprises.¹⁴

MSME Definition

1. The official definition of MSMEs and large enterprises in the Philippines is two-fold, with one set of criteria based on number of employees, and the other on size of assets (the land on which the business is operated), as set out in Table 1. The employee-numbers criteria are used in the Philippine Statistics Authority (PSA) census, and this is the classification used for the

The Magna Carta defines MSMEs for the purpose of being recognized beneficiaries under the law. For this purpose, the informal sector is excluded. It states:

¹² Through the “Annual Survey of Philippine Business and Industry (ASPBI)” conducted by the Philippine Statistics Authority.

¹³ S.3, Republic Act No. 6977 of January 24, 1991 (originally the “Magna Carta for Small Enterprises”) as amended by R.A. 8289 of May 6 1997 and R.A. 9501 of May 23 2008.

¹⁴ S.3, Republic Act 9178 of 2002 “Barangay Micro Business Enterprises (BMBE) Act”

Table 1 Legal and statistical definitions of enterprise size in the Philippines

| | Magna Carta for MSME, by asset size (excluding the land on which the business is operated) in PHP | Approx Value USD¹⁵ | Philippine Statistics Authority, classification by number of employees |
|--------|--|--------------------------------------|---|
| Micro | Up to 3 million | Up to 63,000 | 1 to 9 employees |
| Small | Between 3 million and 15 million | 63,000 - 317,000 | 10 to 99 employees |
| Medium | Between 15 million and 100 million | 317,000 - 21.2 million | 100 to 199 employees |
| Large | More than 100 million | More than 21.2 million | More than 200 employees |

MSMEs shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories...¹⁶

- It then defines the sub-categories based on the value of these non-land assets in Philippine pesos (PHP), as summarised in the first column of Table 1.¹⁷
- The Magna Carta law also establishes the Micro, Small and Medium Enterprises Development (MSMED) Council (s.6) and both the Magna Carta and the Barangay MBE Acts empower the Council to update these criteria and to add additional variables as needed (s.3). The MSMED Council adopted the employment-based criteria in 2003, for the purpose of these laws.¹⁸ However, the MSME statistics used by DTI are those of the PSA census classification, based on number of employees, so it is unclear to what extent the asset-based criteria is used in policy decisions.

15 Rounded figures, based on exchange rate of 26 November 2015 – PHP:USD was 47:1.

16 Section 3, R.A. No. 6977 as amended.

17 A definition matched in s. 3, "Barangay Micro Business Enterprises (BMBEs) Act (R.A. 9178 of 2002)" in defining micro enterprises.

18 MSMED Council Resolution 1 s. 2003

MSMEs in the national economy

Contribution

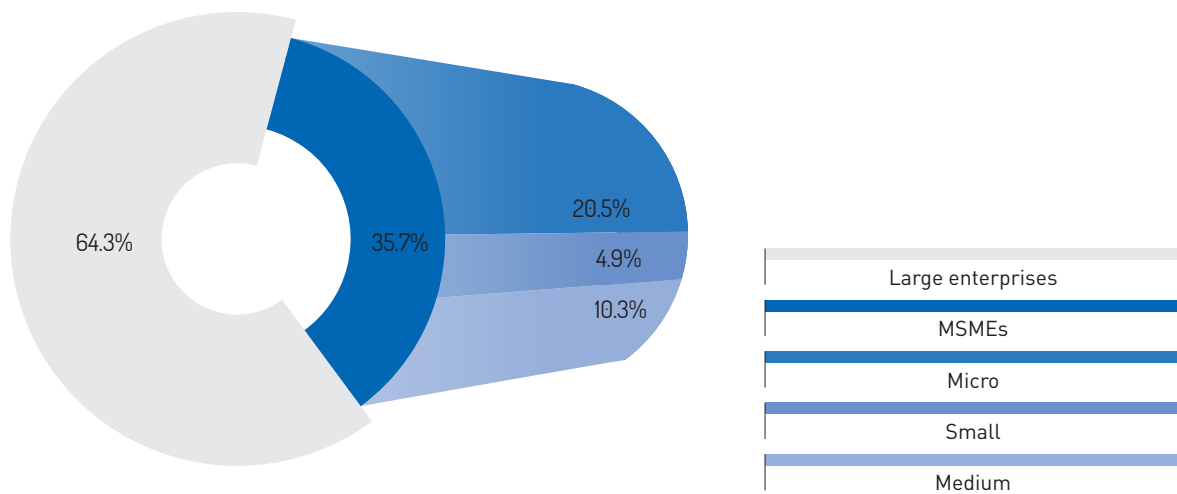
The Philippines is a lower middle-income country in which MSMEs are central to the national economy. The most recently published statistics are from 2012, when MSMEs accounted for 99.6 percent of all the 945,000 formal enterprises in the Philippines.¹⁹ The 2012 national MSME statistics show that micro enterprises overwhelmingly dominate the MSMEs in the country, accounting for 89.78% of national total. Small enterprises account for 9.78% and medium for 0.44%.²⁰

As between the MSME categories, this group was made up of almost 90 percent micro, almost 10 percent small, and just under half a percent medium, showing that micro enterprises are vastly greater in numbers than small, and that medium sized enterprises are almost insignificant in number by comparison. But number of enterprises is less significant than employment and other economic contributions, so it is important to note that MSMEs also provided the majority of the jobs generated

19 Philippine Statistics Authority (PSA). 2013. "2012 Updating of the List of Establishments: Final Results." Available at: <https://psa.gov.ph/content/2012-updating-list-establishments-ule-final-result>. (Total proportions in all sizes were 89.4 % micro, 9.7 % small, 0.4 % medium, and 0.4 % large. The informal sector is also known to be significant in the Philippines, so it is likely that MSME numbers are under-counted by formal statistics.)

20 Department of Trade and Industry. (DTI). "SME Statistics". Available at <http://www.dti.gov.ph/dti/index.php/resources/sme-resources/sme-statistics>, accessed 2 December 2015.

Figure 1 Showing the percentage contribution of the Philippine MSME sector to value-added, and the breakdown of this within the MSME sector



Source: DTI "MSME Statistics 2015"

by all types of business establishments in the Philippines, at almost 65 percent of the total, or 2,316,664 jobs.²¹ Of these MSME jobs, micro accounted for 47 percent, small for almost 42 percent (despite being only 9.78% of enterprises) and medium just over 11 percent (despite being only 0.44% of enterprises).²² So despite their much lower numbers, small and medium enterprises contributed a disproportionately large number of the jobs within the MSME sector, averaging just over 22 jobs per small enterprise, and almost 132 jobs per medium enterprise, compared with 2.7 jobs per micro enterprise.²³

Another key indicator of MSME economic contribution is that they contributed almost 35.7 percent of national value-added (based on the most recently published data, from 2006).²⁴ Small enterprises contributed the largest share of this, at 20.5 percent, medium enterprises the next largest at 10.3 percent, and micro enterprises the smallest share at 4.9 percent of total value-added.

So, although nine out of every ten establishments in the Philippines are micro enterprises, their total contribution to value-added is less than one twentieth of the whole. Again, small and medium enterprises make a disproportionately high contribution to value-added compared with micros. However, compared with the total number of MSME enterprises, and the number of jobs they sustain, MSMEs as a whole make a disproportionately low contribution to value-added compared with large enterprises. This indicates there is low productivity and therefore considerable room for development in the MSME sector, even though there has been strong policy support for MSME development in the Philippines since the early 1990s.

Industry distribution

On industry distribution of Philippine MSMEs, four industry sectors account for almost 98% of the total number of MSMEs:

- 46 percent (436,809) are in the wholesale and retail trade, repair and maintenance of motor vehicles and motorcycles industries

21 *ibid*

22 *ibid*

23 *ibid* (Author calculation from total numbers).

24 DTI "SME Statistics," citing MSMED Plan 2011-2016. The same figures are quoted by ADB. 2015. "Asia SME Finance Monitor 2014". P. 214 (Noting that they are based on 2006 PSA data, the most recent available).

- › 14 percent (133,157) are in the information and communication, financial, insurance and other service activities
- › 12.5 percent (117,601) are in manufacturing
- › 11.3 percent (105,927) are in human health and social services, professional, scientific or technical, education, administrative support services, arts, entertainment and recreation industries, and real estate.²⁵

The agricultural, forestry and fishing (Sector A, “Agriculture”),²⁶ important for the many reasons discussed below, accounts for just under 1 percent of the total number.

What can these statistics tell us about MSME disaster vulnerabilities, either shared community risks or business continuity risks? It is notable that two of the top four industry sectors for MSMEs – wholesale and retail trade, and human health and social services etc. – are by their nature enterprises that tend to be embedded within their communities, and primarily serve local clients. For many of them, their disaster risk will also be very localised, with mainly shared community disaster risks. However, the 12.5 percent in manufacturing are somewhat more likely to be physically separate from residential and light commercial areas in settlements (depending on the type and size of enterprise, as small-scale manufacturing also occurs in homes), so they may need to have more specifically targeted initiatives on disaster risk assessments and resilience, even within the DRRM system. It is difficult to generalise about the information and communication, and other services sector, as it encompasses such a wide range of enterprise types.

Of the top four industries for MSMEs, two also appear more likely than the others to be affected significantly by supply chain and distribution blockages originating from disasters in other

areas. These are the wholesale and retail trade industries that are part of the first category, as well as manufacturing. They are likely to have vulnerabilities in business continuity because of their reliance on parts, supplies and merchandise (from both local and more distant sources). The service sector, especially tourism, is likely to be affected by a different type of ‘supply chain’ issue, being client access to facilities, as well as the necessary produce and staff to provide the services.

The agricultural, forestry and fishing is worthy of special mention, both because it is given policy priority for development support in the Magna Carta for MSMEs, as well as having its own Magna Carta for Small Farmers,²⁷ and because it has particular vulnerabilities to natural hazards such as storms, typhoons, drought periods and crop pests, as well as saltwater intrusion due to sea level rise. Despite its importance for food security and in national GDP, the number of Philippine enterprises engaged in agriculture is small, at just under 1% of the total number of enterprises, although 98% of these are MSMEs (8,621).²⁸ Of the MSMEs engaged in agriculture – and bearing in mind that agricultural land assets are not part of the classification system – sixty-nine percent are micro enterprises, twenty-eight-and-a-half percent are small, and only two-and-a-half percent are medium.²⁹

Although agriculture accounts for a small proportion of national employment (3% of all enterprise employment), the sector does have the highest average number of employees per establishment, averaging 27 employees (the breakdown for agricultural MSMEs alone is not published, but there are only 193 large enterprises in the sector nationally). Furthermore, agriculture contributes around eleven percent of Philippine GDP, with industry accounting for around thirty-two percent, and services fifty-seven percent (2013).

These different industry sector characteristics, even using such broad-based national statistics,

25 DTI Statistics

26 For statistical collection, enterprises are divided into sectors A to S. However, for analytical purposes the PSA divides these into three major Industry Groups: Agriculture (A), Industry (B to F), and Services (G to S). PSA. 2009. “Philippine Standard Industrial Classification (PSIC)” <http://www.nscb.gov.ph/csid/psic1.asp>

27 Republic Act No. 7607, “Magna Carta of Small Farmers” 4 June 1992. <http://www.acpc.gov.ph/wp-content/uploads/2015/11/RA7606.pdf>

28 PSA. 2013. “2012 Updating of the List of Establishments (ULE) 2012: Final result”. <http://census.gov.ph/content/2012-updating-list-establishments-ule-final-result>

29 Ibid

suggest it may be useful to develop separate disaster resilience strategies for different industries or sections of industries, as well as different enterprise size.

Geographical distribution

The geographical location of an MSME will often determine its initial hazard risk, which can be identified if local risk mapping has been undertaken, such as in Metro Manila, which has an identified seismic fault line running through it, or if it is in a region well known for certain hazards. Although this has not been done so far, national statistics on MSME locations could potentially be matched with national and local risk mapping data, to indicate priority regions, provinces or settlements. This could be the basis for geographically based policy targeting on MSME disaster resilience, for example of MSME concentrations in hazard-prone areas.

The DTI and PSA publish statistics on the geographical distribution of MSMEs. These show that over 60 percent of all MSMEs are concentrated in five regions, with the remaining MSMEs distributed fairly evenly across the territory; and these proportions barely altered between 2008 and 2012, even though the numbers increased. The five regions with the highest MSME concentrations are: 21 percent of all MSMEs are located in the National Capital Region (NCR),³⁰ then 15 percent and 11 percent respectively in the two adjacent regions CALABARZON (Region IVA)³¹ and Central Luzon (Region III), meaning that 47% of all MSMEs are located in one concentrated area over three adjacent provinces on one island. Then 7 percent are in Central Visayas (Region VII) and almost 6 percent in Western Visayas (Region VI), also adjacent, albeit over a number of islands.

Even with such aggregate data at the level of regions, it is clear that any major initiative to target MSME disaster resilience, such as a campaign on disaster risk reduction or awareness, could usefully take account of such MSME concentrations. No doubt the PSA would be able to produce from its

database similar statistics for provincial and local levels. Such data is most useful, however, when it can be cross-referenced with hazard maps or risk maps, either at the aggregate level or specific local level.

Business structure

When considering the MSME census statistics in light of disaster resilience, it is also possible to highlight potential vulnerabilities based on business structures. For example:

- › In terms of legal structure, the vast majority of all Philippine business establishments were owned by single proprietors (82.6%). While single ownership has the benefit of flexibility and speed in decision-making, this business structure may make MSMEs more vulnerable to business continuity disruptions, if the owner is incapacitated by disaster, or if a sole proprietor has less capacity than corporate entities to bridge a period of income loss through capital savings, or to obtain finance for recovery and reconstruction.
- › A similar proportion of enterprises were classified as single establishments (82.8%) - without branches elsewhere. If a single-location enterprise is located in a high-risk area, the entire operation is exposed to that localised disaster risk, with potentially little flexibility to continue operating if a major hazard strikes.

These are disaster risk factors related to both exposure (location), which is a shared community risk, and enterprise vulnerability (legal and physical structure of the enterprise), which is a business continuity disaster risk.

Adequacy of current MSME data

The PSA publishes a number of analyses of its census data according to enterprise size, including industry and geographic distribution, and these are valuable tools in profiling MSMEs. Publication of statistics on business structure and type and gender of ownership may also be possible based on currently collected census data, although this

30 NCR - 201,576 of the 940,886 MSMEs operating in 2012. DTI Statistics.

31 144, 811 MSMEs. The acronym is derived from the 4 provinces of the region: Cavite, Laguna, Batangas, Rizal and Quezon.



is not presently done. However, for MSME policy, the information is also limited by the census data collected. For enterprise size, this is based on the employee-numbers criteria, not on assets, and does not include current data on value-added or other enterprise characteristics such as annual turnover that could potentially enable more fine-tuned policy interventions. For example, Gibson and van der Vaart proposed that even using quantitative measures alone, volume of turnover of business was perhaps a better indicator of MSME status than either assets or employee numbers; and that qualitative analysis of “functional and behavioural attributes” would be far more accurate as a form of classification.³²

The availability of more qualitative data and analysis of MSMEs would assist in targeting them both for business development support, and for supporting greater disaster resilience, especially if such data could be compared with regional and local hazard and risk mapping. So, for example, it might be useful to know that in a given community that is subject to typhoons the majority of enterprises are micro enterprises engaged in retail and run by women; their disaster resilience could likely be enhanced by the local Barangay DRRM Council working with local women’s organizations. Alternatively, parts of a large city such as Metropolitan Manila, that is flood and earthquake prone, may have groups of small and medium enterprises engaged in manufacturing, which are part of a complex system of supply chains. Improving their disaster resilience may require both hazard and risk mapping, and other resilience strategies such as ‘area Business Continuity Plans’ (area BCP) that take into account the local natural and technological hazards and supply chain vulnerabilities.³³

32 Gibson, Tom, and H. J. van der Vaart. 2008. “Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries.” Washington D.C.: Brookings Institution. P. 10.

33 Baba, Hitoshi, Taisuke Watanabe, Masafumi Nagaishi, and Hideaki Matsumoto. 2014. “Area Business Continuity Management, a New Opportunity for Building Economic Resilience.” *Procedia Economics and Finance*, 4th International Conference on Building Resilience, 8th – 11th September 2014, Salford Quays, United Kingdom. 18: 296–303.

How disaster-resilient are MSMEs? – The SME Survey

The SME Survey was based on 513 MSME respondents from 17 of the 18 regions. It aimed to identify Philippine MSME perceptions of disaster risk, their experience of disasters that disrupted business, and their exposure to and practice concerning business continuity management (BCM), including use of business continuity plans (BCP), that incorporate disaster risk assessment and contingency planning. (Further information on sampling and survey methodology is provided in Annex C.)

The SME Survey was not a comprehensive survey of the 945,000 formal enterprises in the Philippines, but was a significant sample size of over 500 respondents that provides valuable qualitative and quantitative data not available elsewhere. The SME Survey results are particularly important in drawing conclusions about the current levels of Philippine MSME disaster-risk awareness and business continuity planning, as these issues are not covered by official statistics. They also throw some

light on the national statistics discussed above, and potential ways forward to enhance the published data on MSME for more targeted policy interventions in the future.

[Relevant aspects of the survey sample profile](#)

Enterprise Size

The survey aimed primarily to sample MSMEs, and did not target either micros or large enterprises, but it asked for profile data of respondents on both the employee numbers and the assets criteria. The sampling was based on self-selection and outside observer understandings of the enterprises being MSMEs; and the group ultimately included five percent large enterprises according to the employee-based criteria. In terms of enterprise size,



the respondents can be categorized according to number of employees and asset value.

- › Using enterprise size according to the number of employees, the sample was 65% micro, 25% small, and 4% medium (with 5% larger and 1% unknown).
- › Using enterprise size according to asset value (excluding land assets), the sample was made up of 60% micro, 16% small, and 12% medium (with 6% larger and 5% unknown).

Thus, the survey sample represents a much smaller proportion of micro enterprises than are present in the national economy (with national statistics putting micros at 89.78% of national total according to number of employees). This was most likely due to the fact that, to the extent the survey was administered through DTI networks, micro enterprises may be less likely to be engaged in business development activities.

The sample also raises some interesting questions on the current MSME classification criteria. The difference in proportion of small and medium enterprises as between the two sets of criteria is of interest. Using the employee-based criteria many more are classified as small than medium, (S25: M4), but, using the assets-based criteria, the proportions of small and medium enterprises are approaching equality (S16:M12), while fewer are classified as micros. In this sample, the employee-based criteria used by the PSA gives a lower proportion of medium to small enterprises, in comparison with the assets-based criteria from the Magna Carta, which results in a larger proportion being classified as small and medium, as opposed to micro. One interpretation is that either the employee or the assets criteria are not well calibrated in terms of the numbers, so that one of them is giving a distorted result. It is more plausible to conclude, however, that any single numeric criterion is a blunt tool as the basis for profiling complex entities such as enterprises, especially across different industry sectors. And in this instance, the classification used in national statistical collection is different from the one used

to decide policy interventions under the Magna Carta. This is another reason to review the statistical base for MSME resilience, as already identified, and also to use both the criteria currently available. This does not necessitate changing the law, which already provides for the two criteria through a combination of legislation and regulations but, rather, using the existing data more fully rather than choosing one or the other set of classification criteria. In this case, the addition of other data such as annual turnover could be an additional policy tool for better policy targeting, along with the use of industry-based and local data.

Industry distribution

Most of the of the respondents came from the sectors of manufacturing, wholesale and retail, agriculture, forestry and fishery, and food service activities. Figure 2 shows the number of respondents according to sector, based on the entire survey sample of 513 respondents, with only 2% not replying to the question. This shows that the sample somewhat over-represented both the manufacturing and agricultural sectors and under-represented the retail sector in comparison with national data. Despite this sample bias, it nevertheless covers a wide cross-section of industries, including a significant group of retailers.

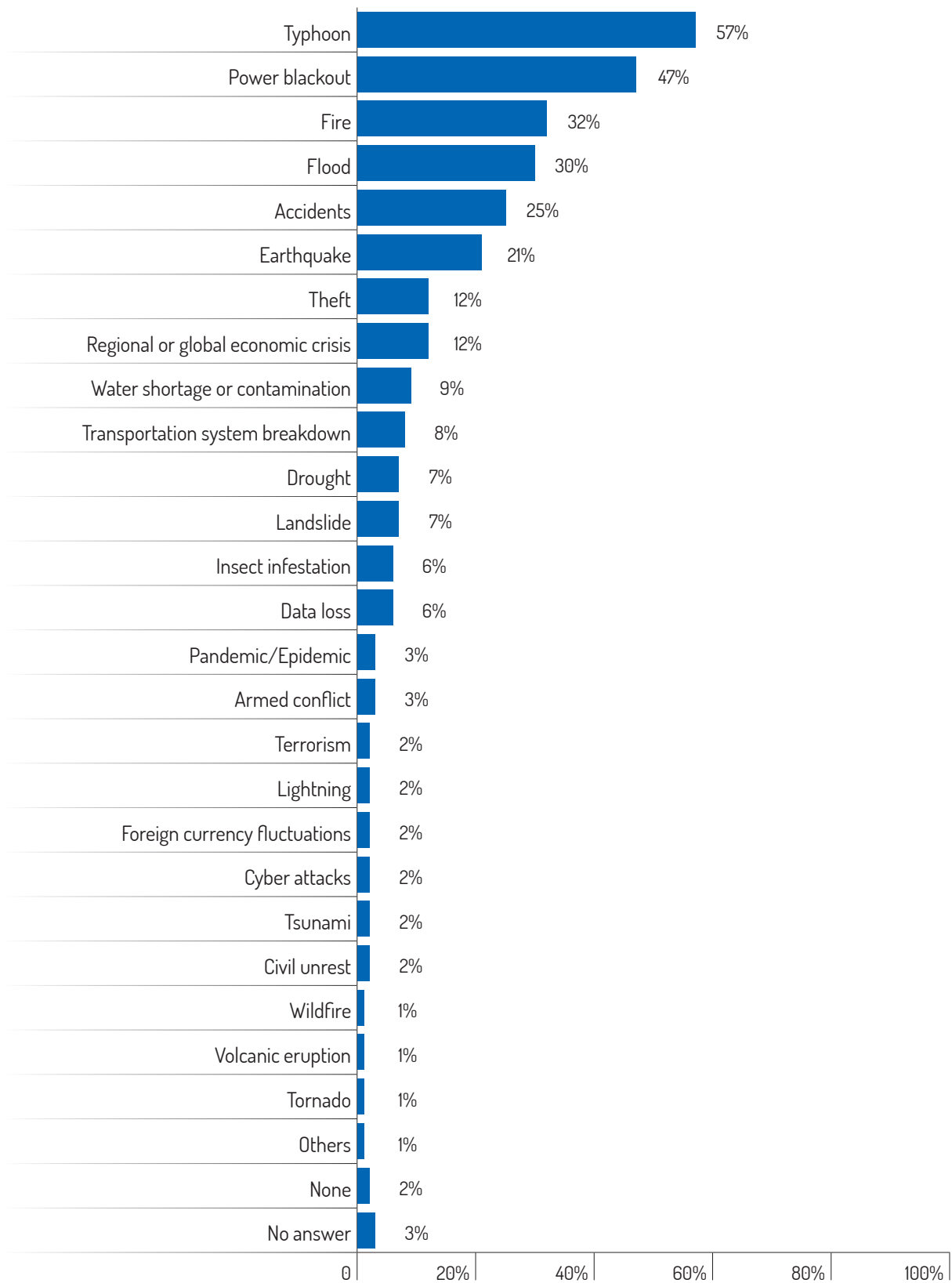
Year of Establishment of Enterprises

In terms year of establishment, most of the enterprises surveyed began operating since 2000, although around 10% were established before 1990.

Although a third of the surveyed enterprises had commenced operation in the last five years, a significant proportion had been in business for much longer. Eighteen percent commenced operation at least sixteen years ago (between 1990-1999) and another thirty-five percent commenced at least six years ago (2000-2009). This supports the findings of a 2012 survey of Philippine MSME characteristics, using a sample of 1,740 Philippine enterprises, which showed that the average age of the enterprises surveyed was 12 years for micros and 15 years for small



Figure 2 Hazards that can potentially affect business operations (513 responses)





and medium.³⁴ Both of these survey results go against a perhaps common perception that MSMEs, especially micros, readily come and go. In fact, it presents a picture of considerable stability. This not only supports continued investment in MSME development as a sound public policy objective, but suggests that long-term investment in DRRM/CCA awareness-raising for MSMEs is worthwhile, as the knowledge will not be lost through high turnover. In addition, given that most of the MSMEs are micros, many of which operate from their homes or are otherwise embedded in their local communities, such awareness is also likely to have a positive impact on overall community awareness, and to strengthen the resilience of communities.

Gender balance

There was a balanced distribution of respondents in terms of gender (men 48%, women 51%, no answer 1%). There were some gender differences according to enterprises size. In terms of gender distribution across the various enterprise sizes, respondents reported that women owners dominate the micro enterprise class at fifty-six percent (56%), while the opposite is observed for small and medium enterprises, where women make up forty-four (44%) and thirty-eight percent (38%) respectively (and then 48% for large). Despite these differences, however, the survey results suggest there is not a significant gender disparity in MSME ownership in any of the enterprise size categories in the Philippines. Rather, there is remarkably equal gender distribution of ownership in all the categories. However, further research is recommended to determine whether these averages are sustained in different industry sectors or regions, and whether there are different characteristics as between women-owned enterprises and those owned by men. Only then will it become clear whether there is a need for targeted policy initiatives according to

gender of MSME ownership and, if so, what types of interventions are likely to be effective.

Risk Perceptions and Previous Disaster Experience

On the hazards that can potentially affect their business, the top six responses were typhoon, power blackout, fire, flood, accidents and earthquake (aggregated from the question asking respondents asked to nominate their top 3). Three of these are natural hazards, one a mixed hazard (fire) and the other two are technological hazards, although power blackouts in particular are often a consequence of natural hazards like typhoons, and these effects can last well beyond the event that caused them, affecting business activity. Based on these responses, the survey respondents perceive natural hazards as a very major risk for business disruption. Figure 3 shows the hazards that respondents believe can potentially affect business operations, based on the entire survey sample of 513 respondents, with only 3% not replying to the question.

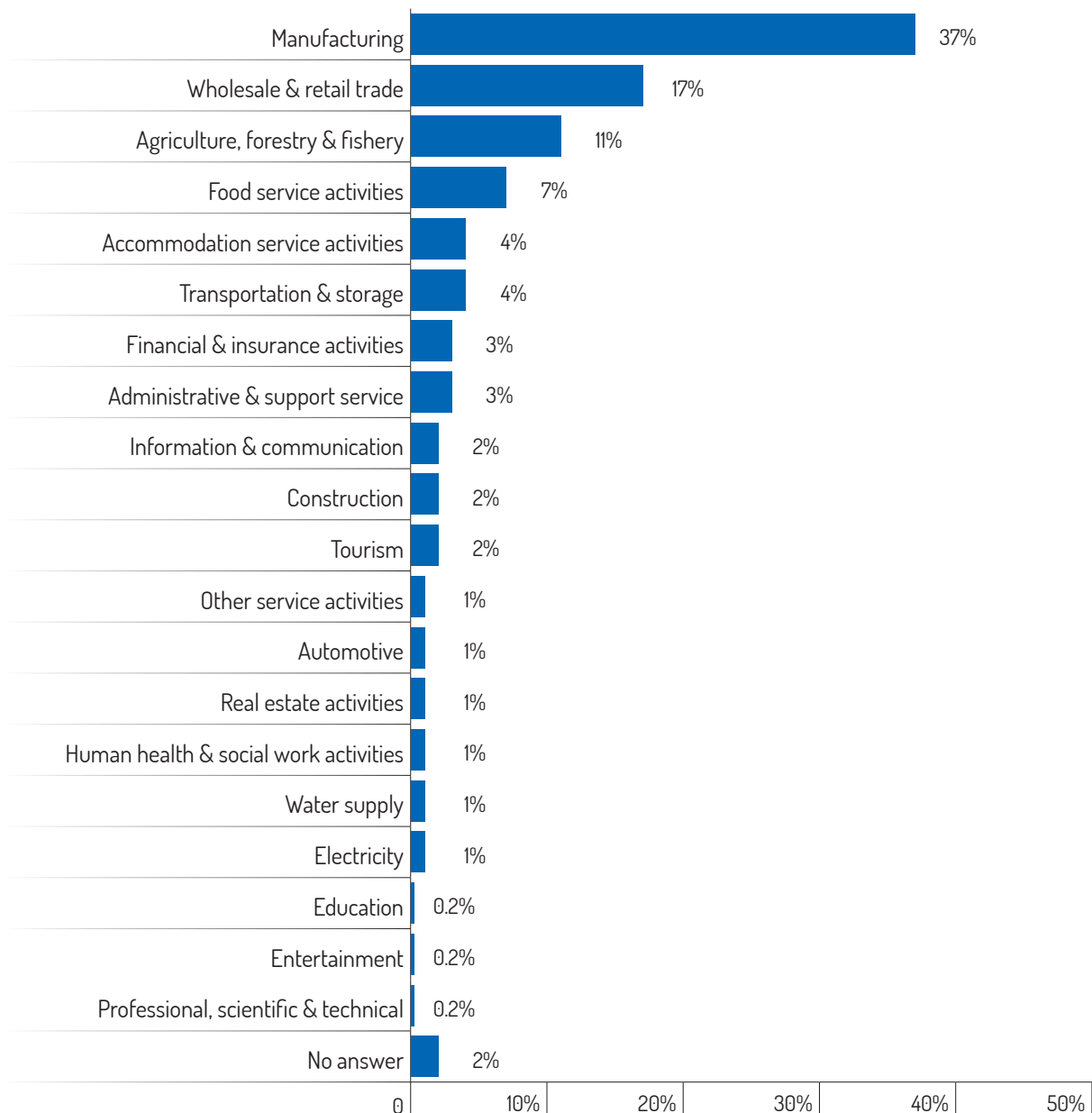
For flood, most of the responses came from establishments in the National Capital Region (NCR), which is highly flood prone due to the number of rivers that cross Metropolitan Manila. Some of the more massive flood events in NCR have been those from Tropical Storm Ondoy in 2009 and southwest monsoon rains in 2012.

For earthquake risk, NCR also accounts for most of the responses, despite there being no recent experience of them there. The heightened awareness in the NCR for potential occurrence of a big earthquake may be attributed to wide information campaigns and recently conducted earthquake drills. Region VII, which includes the provinces of Bohol and Cebu that were actually affected by the 2013 Earthquake, has the second greatest number of responses identifying earthquake in the top three potential hazards.

34 Almeda, Steve and Ivyrose Baysic-Pobre. 2012. "Micro, Small and Medium Enterprises (MSMEs) in the Philippines: What We Know and What We Don't Know." SSRN Scholarly Paper ID 2316569. Rochester, NY: Social Science Research Network. P. 8-9. (Average age of firms in the 1,740 Philippine enterprises surveyed was 12 years for micros and 15 years for small; 30% grew their asset value since start-up; and the asset value was higher for the older firms). P.9.



Figure 3 Distribution of respondents according to industry



Hazards that actually affected operations in the past

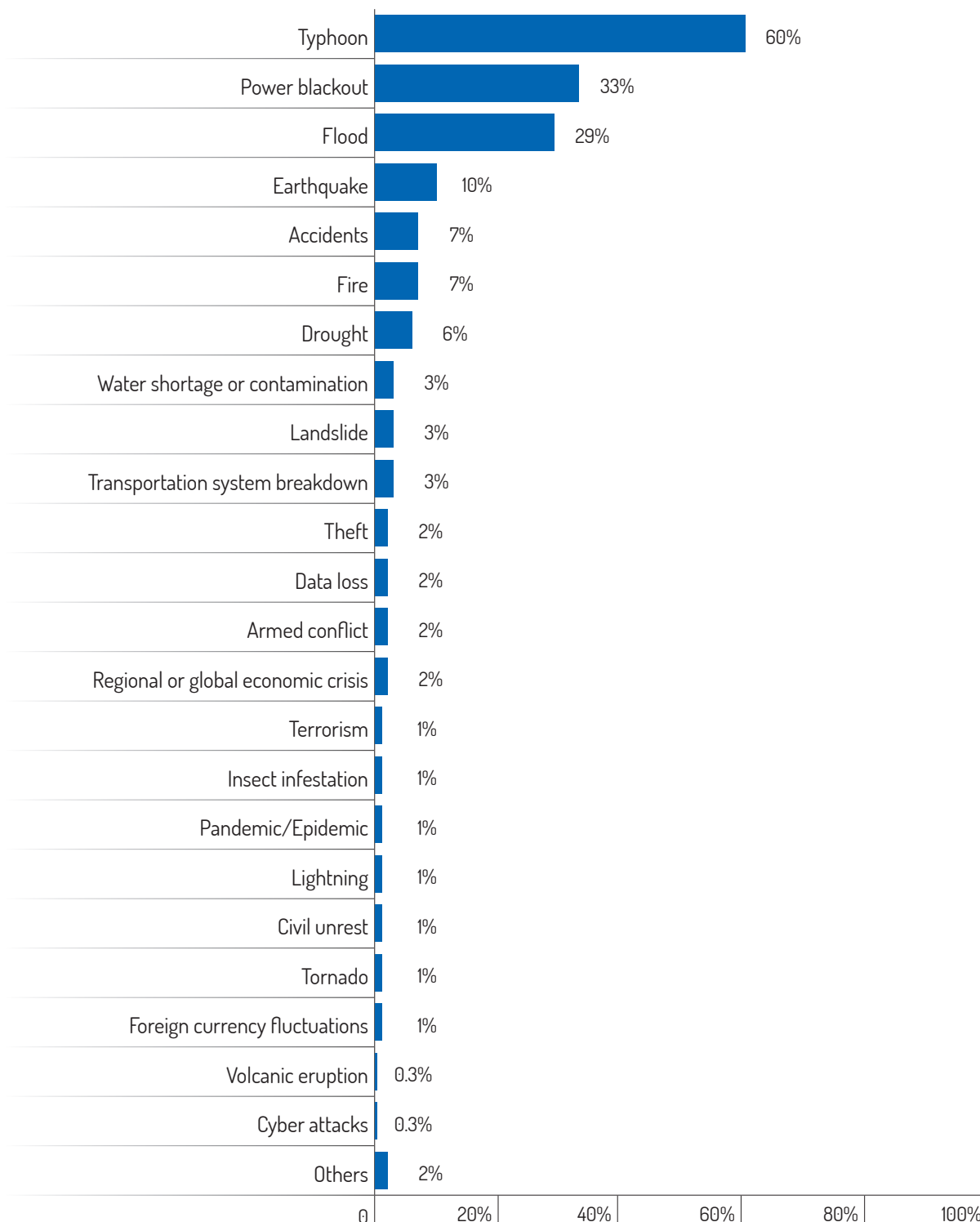
On the hazards that have actually affected their operation in the past, 364 respondents (71%) reported experiencing hazards that disrupted their business. Their top answers were typhoon, power blackout, flood, earthquake, fire and accidents. These results show an overall consistency between the hazards that survey respondents fear will affect business continuity and the hazards to which they

report being exposed. However, it is notable from the previous data that concern about earthquakes is much higher than respondents' experience of them, suggesting that factors other than personal experience have impacted perceptions of risk. In this case, the perception of earthquake risk could have been affected by public education and awareness campaigns focused on Metro Manila following the 2015 Kathmandu Valley earthquake in Nepal. This is encouraging as an indication that awareness-raising campaigns can actually affect



perceptions of risk, and potentially lead to changed behaviour in managing risk. Figure 4 shows the hazards that the 364 respondents reported as actually affecting business operations.

Figure 4 Hazard that caused the disruption experienced by survey respondents (364 responses)



Year of last disruption

On the year when the last disruption in business occurred, 288 respondents (56%) replied (with the remainder replying 'not applicable' or no answer). The year in which the vast majority reported their most recent major disruption was 2013, nominated by 32% of the respondents to this question. Based on records, there were 25 tropical storms/typhoons that passed the Philippine Area of Responsibility (PAR) in that year. The most notable was Typhoon Yolanda (internationally known as Typhoon Haiyan) which affected the Visayas. The Bohol earthquake also occurred in the same year. The next top answers were 2014 and 2015. For typhoon, which is the top response to cause of disruption, there were 19 tropical storms/typhoons that entered

PAR in 2014 and 13 as of October 2015. These results indicate that natural hazards are having an increasing impact on MSMEs in the Philippines, and that disaster resilience is central to their viability as businesses. Figure 5 shows the years in which the 288 respondents to this question reported experiencing the last major disruption.

Number of days lost

On the number of days they had to shut down or stop operations in the last disruption, 264 (51%) replied (while the remainder nominated 'not applicable' or did not provide an answer). This suggests that, for many, disasters did not cause them to cease operating, even if, based on the previous question, they worked with reduced employee numbers and

Figure 5 Year in which last major disruption to business operations occurred (288 responses)

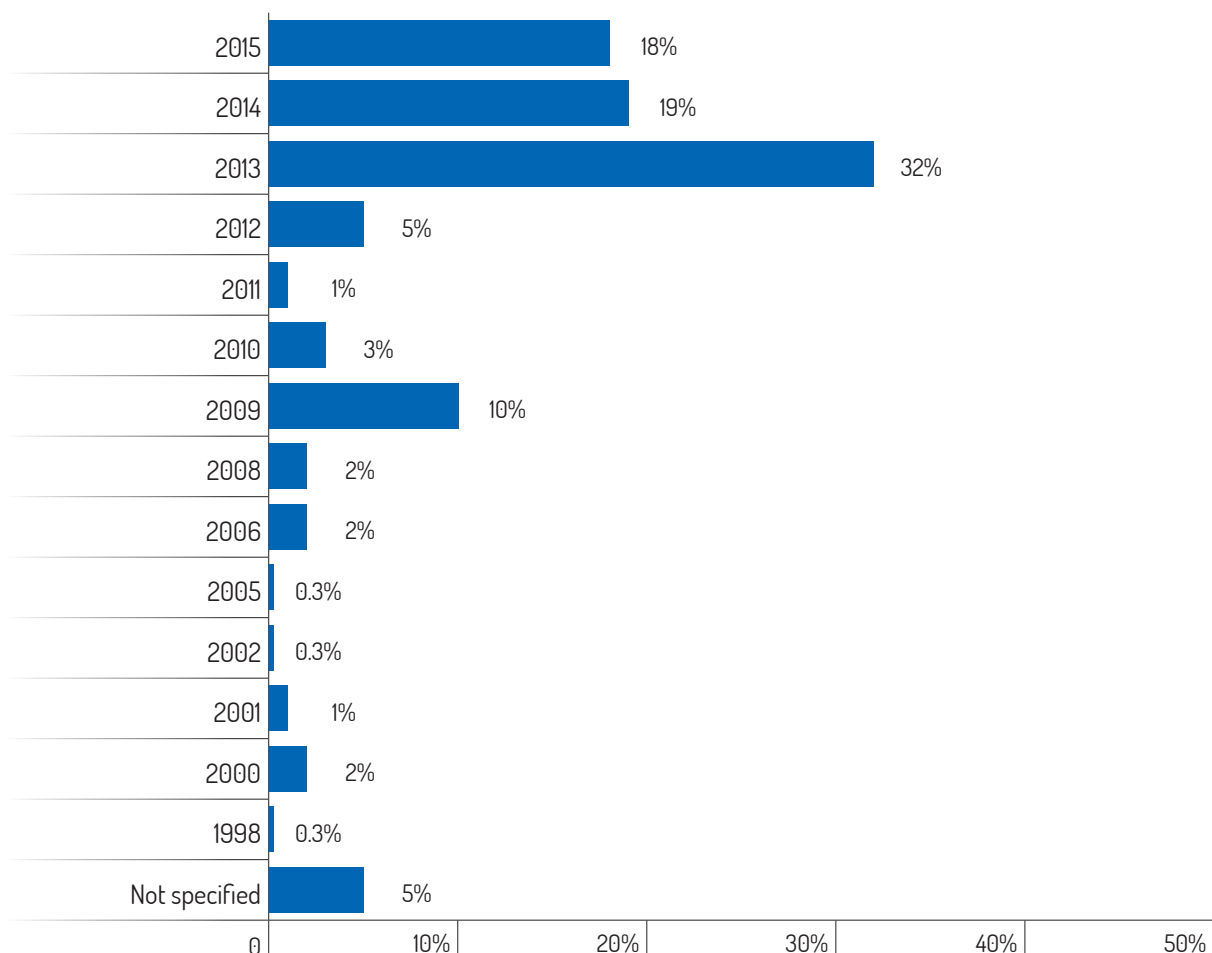
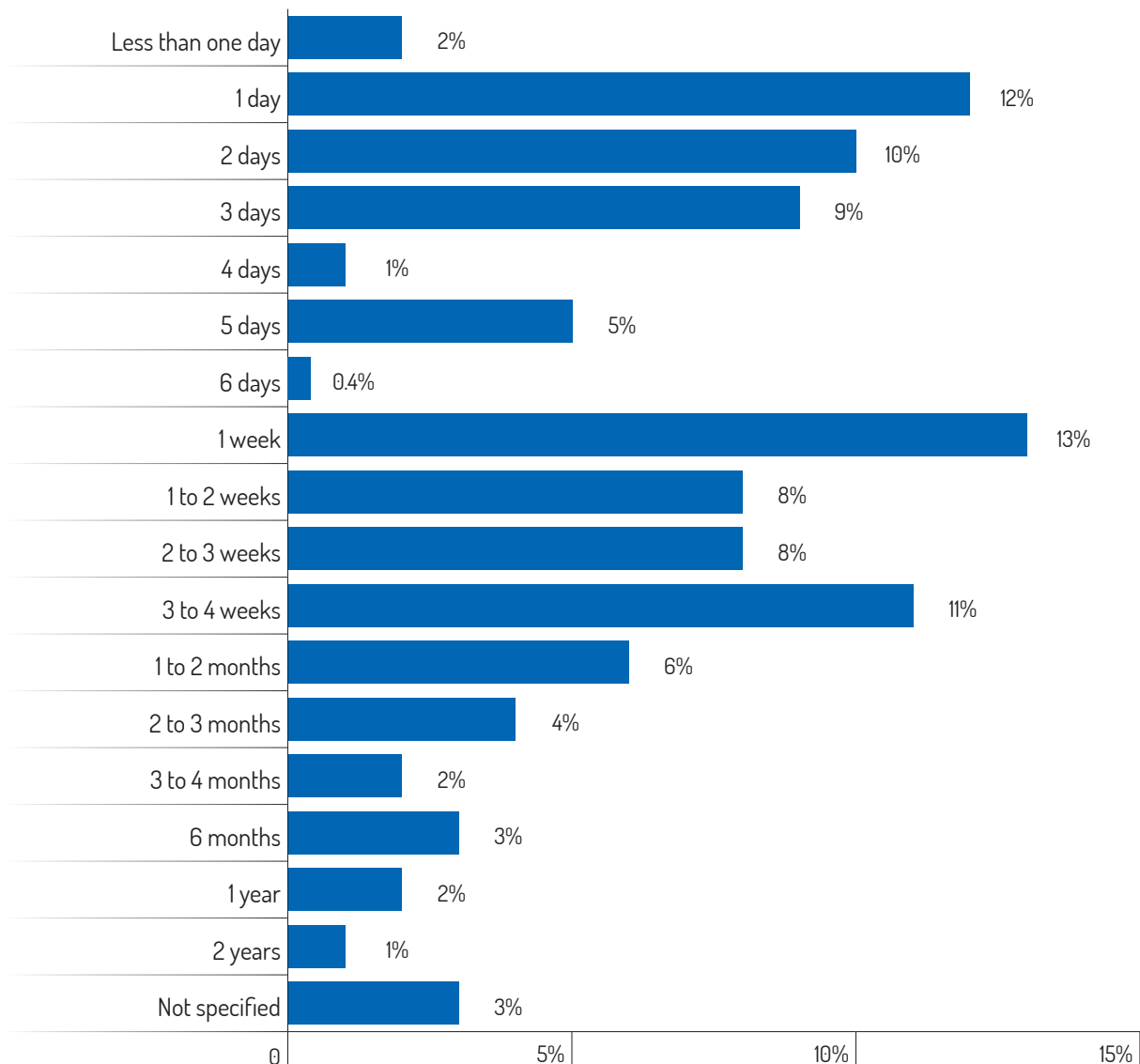




Figure 6 Period business operations stopped due to the disruption (264 responses)



supply chain interruptions. For the 264 who actually stopped operations due to a disruption, the answers varied widely, from the top answer of 1 day or less, to the next most common answer of 16–30 days, with most reporting somewhere between these two extremes. However, a significant number – 28 – did report ceasing operation from between 31 to more than 90 days. Figure 6 shows the number of days lost due to disruption.

Respondents that reported more than three months stoppage in operation due to disruption were all micro and small enterprises. There were

no medium or large enterprises that reported such a period of stoppage. These figures may be a reflection that larger enterprises (i.e., medium and large) are better able to recover from disruption in terms of resuming operations as compared to micro and small enterprises. It is indicative of the limited access to financing that micro enterprises have, requiring targeted interventions.

There were also differences between industries as to how long the hazards experienced required them to cease business operations, with manufacturing the most affected for the longest periods.

Figure 7 Period of business operation stoppage by enterprise size (264 responses)

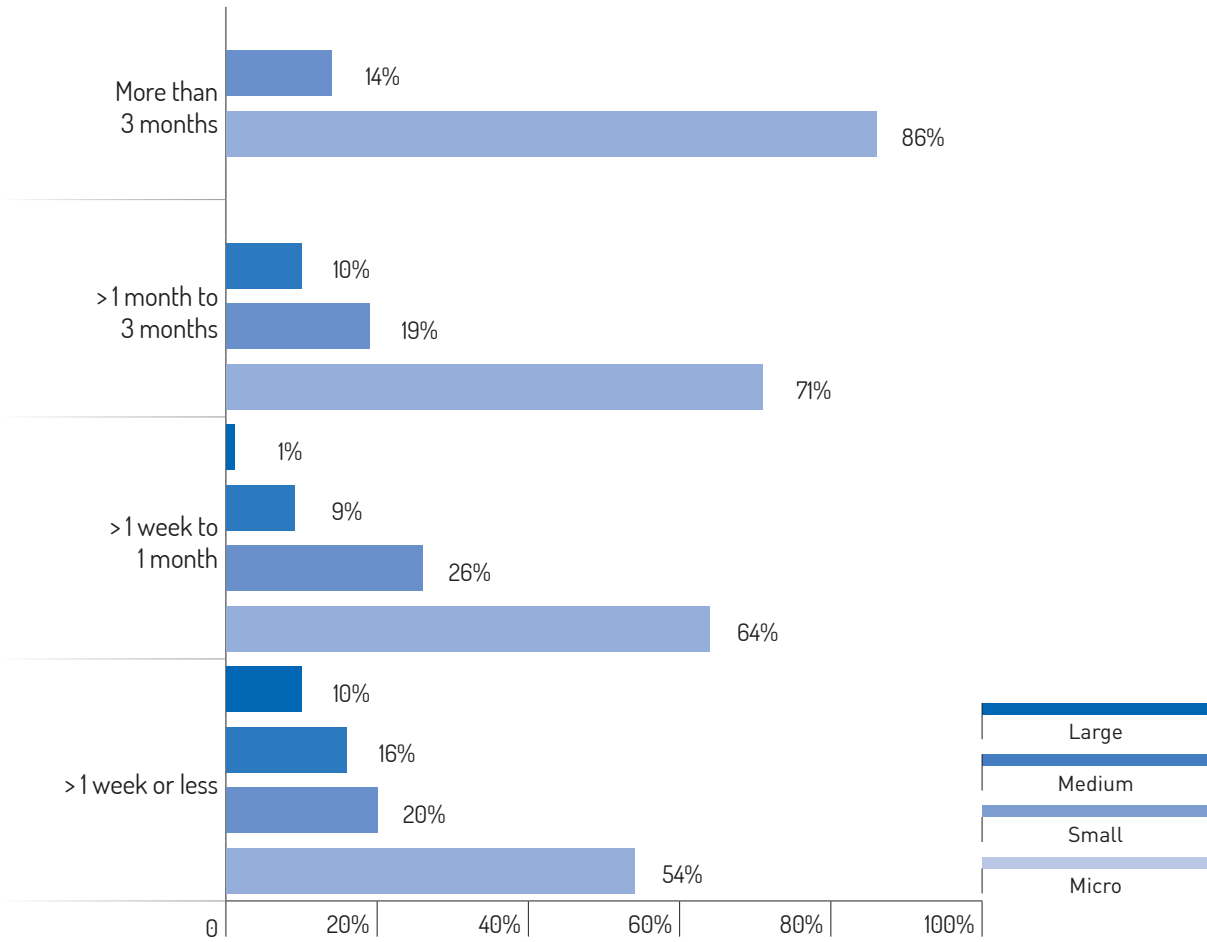
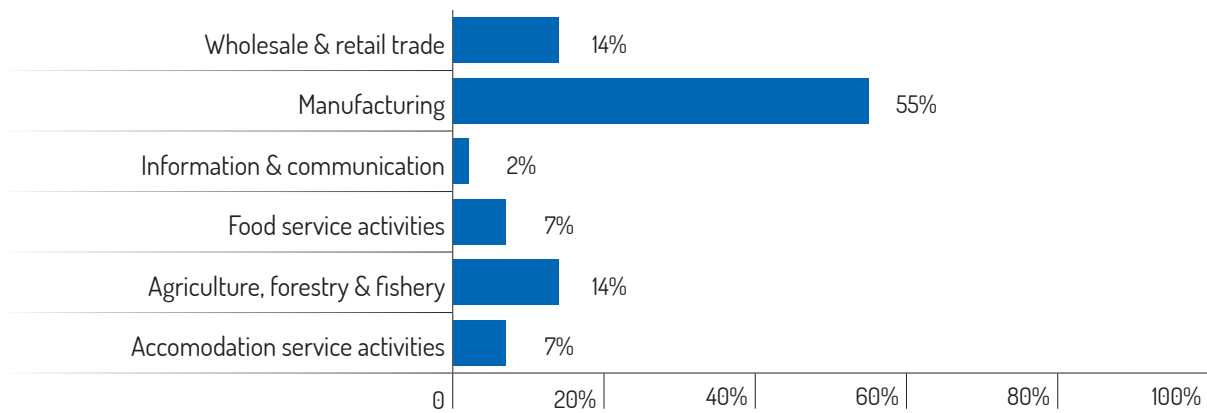


Figure 8 Industry distribution of respondents that stopped business operation for more than one month (264 responses)





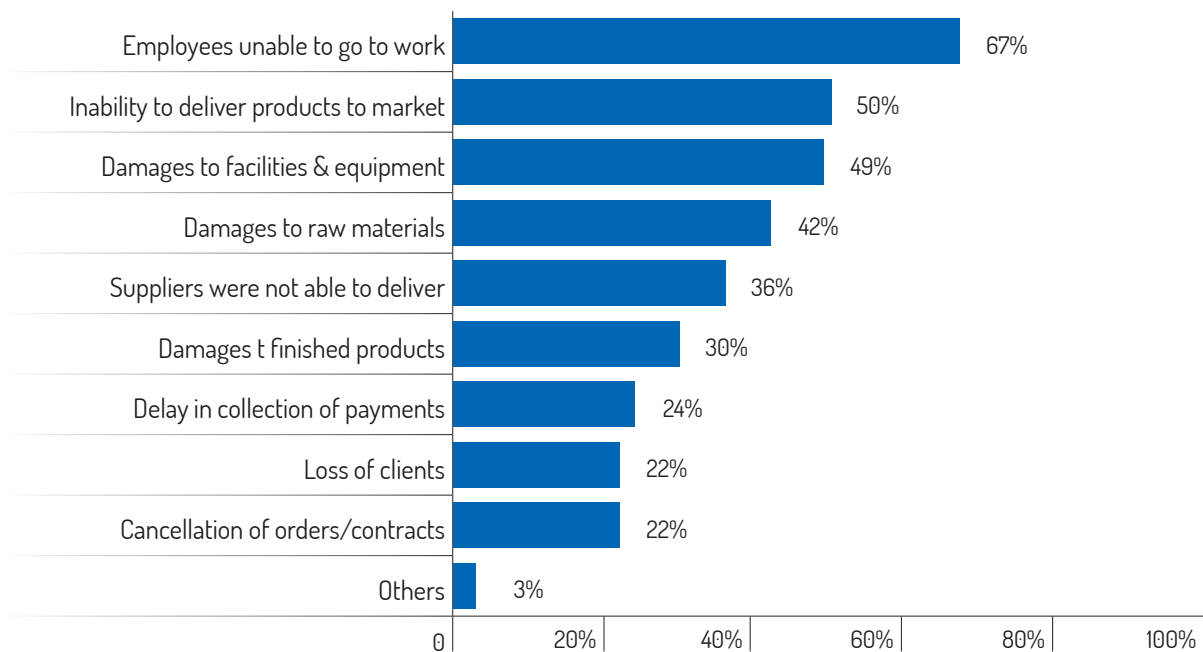
Other aspects of reported stoppages by industry sector were:

- › Of those reporting one week or less stoppage in operation due to disruption, most were from wholesale and retail, manufacturing and food services sectors.
- › Of those reporting more than a week to one month stoppage in operation due to disruption, the majority came from the manufacturing sector followed by agriculture, forestry and fishery.
- › Of those reporting more than a month to three months stoppage in operation due to disruption, the majority were again from manufacturing, followed by those in wholesale and retail.
- › Of those reporting more than three months stoppage in operation due to disruption, the majority of the responses came from the manufacturing sector followed by agriculture, forestry and fishery.

How past disasters impacted business operations

In terms of how past disasters impacted their business, there were 385 respondents that provided answers (75%). Their top responses were: (1) employees were unable to go to work; (2) inability to deliver products to market/customers; and (3) damages to facilities and equipment. However, other impacts that rated highly were (4) that raw materials and finished product were damaged, and (5) that suppliers were unable to deliver materials or services. That is, in addition to the specific interruptions to production or service delivery during the worst period of past disasters, respondents reported significant interruptions in the supply chain to their businesses, and from their businesses to their markets. Figure 9 shows the disaster impacts on business based on the 385 respondents ranking the top three impacts from a list provided.

Figure 9 Disaster impacts on business (385 respondents)



Costs of damage

There were 229 respondents (45%) that reported disaster losses. Within this group, 121 were micros (53%), 50 small (23%), 24 medium (11%) and 14 large (5.5%) (with 10 answering the question but not reporting on their asset value.³⁵) In terms of the cost of damage caused by previous hazards, the top response overall was below PHP50,000. This possibly reflects that most of the respondents were micro-enterprises with relatively low value assets and turnover.

Notable aspects of reported stoppages by enterprise size were:

- › For micro enterprises, the top answers for cost of damages reported from previous hazards were below PHP50,000. However, there were 12 micro enterprise respondents that reported much higher losses of between PHP250,001 – PHP500,000..
- › For small enterprises, the top answers for cost of damages reported from previous hazards was also below PHP50,000.
- › For medium enterprises, the majority reported losses of PHP500,000 and below (31%), but a large group reported losses of between PHP1 million to PHP2 million (19%), and a significant 14% reported figures of more than PHP10 million in losses.

Figure 10 summarizes the cost of damage caused by previous hazards according to the enterprise size for the 229 respondents. Considering their small asset value, it is notable that 26% of micro enterprises incurred damages of more than PHP100,000. Micro enterprises which reported these losses were those in the sectors of manufacturing (37%), agriculture forestry and fishery (20%), and wholesale and retail trade (17%). Notably, these are also the top three sectors among enterprises that had more than one month disruption due to a disaster, suggesting the

high losses may have been due to loss of business operations as well as damage to assets.

BCP Adoption

On BCP adoption, seventy-seven percent (395) of respondents had no written BCP, twelve percent (62) were currently preparing a BCP, and only six percent (32) already had a BCP (31 did not answer). These figures are close to those of a two smaller studies on BCP adoption in the Philippines undertaken in 2012, by DTI-Negros Oriental and APEC respectively.³⁶ As BCP is increasingly viewed as a key component in building disaster resilience, the low percentage of enterprises that have BCP suggests a need for continued efforts in promoting BCP and other forms of BCM.

Enterprises without written BCP

Most of the 77% (395) businesses that did not have a written BCP were micro enterprises. The top reasons given for not preparing a BCP were: (1) they had not heard of BCP before; (2) they lacked information on how to prepare a BCP; and (3) management's awareness was low. All three top answers indicate a need for general awareness on the need for BCP, increased dissemination of information, training on BCP preparation, and general awareness on the need for BCP. The 4th and 5th top responses also related to expertise/human resources, including lack of knowledge and expertise and lack of human resources to handle BCP. Figure 12, gives a breakdown of the 395 respondents without a written BCP by industry size.

In terms of reasons that would encourage them to prepare a BCP, the top answer was to avoid economic losses. Other responses of high frequency were: to protect employees, to gain clients' confidence, and fear of not being able to meet orders.

It should be noted that there are ongoing efforts to promote BCP amongst MSMEs. The DTI includes

35 For this question the enterprises were categorized according to asset value: (a) micro, with P3,000,000 or less worth of assets; (b) small, with P3,000,001-P15,000,000 assets; (c) medium, with P15,000,001 –P100,000,000 assets; and (d) large, more than P100,000,000 asset value.

36 DTI-Negros Oriental study to assess BCP adoption in the Philippines, which covered 50 respondents: 73%15% 12%. In another survey done by APEC in 2012 with 40 respondents, the results showed that 70% don't have BCP, 8% are in the process of preparation and 22% have BCP.



Figure 10 Cost of damage according to enterprise size (229 respondents).

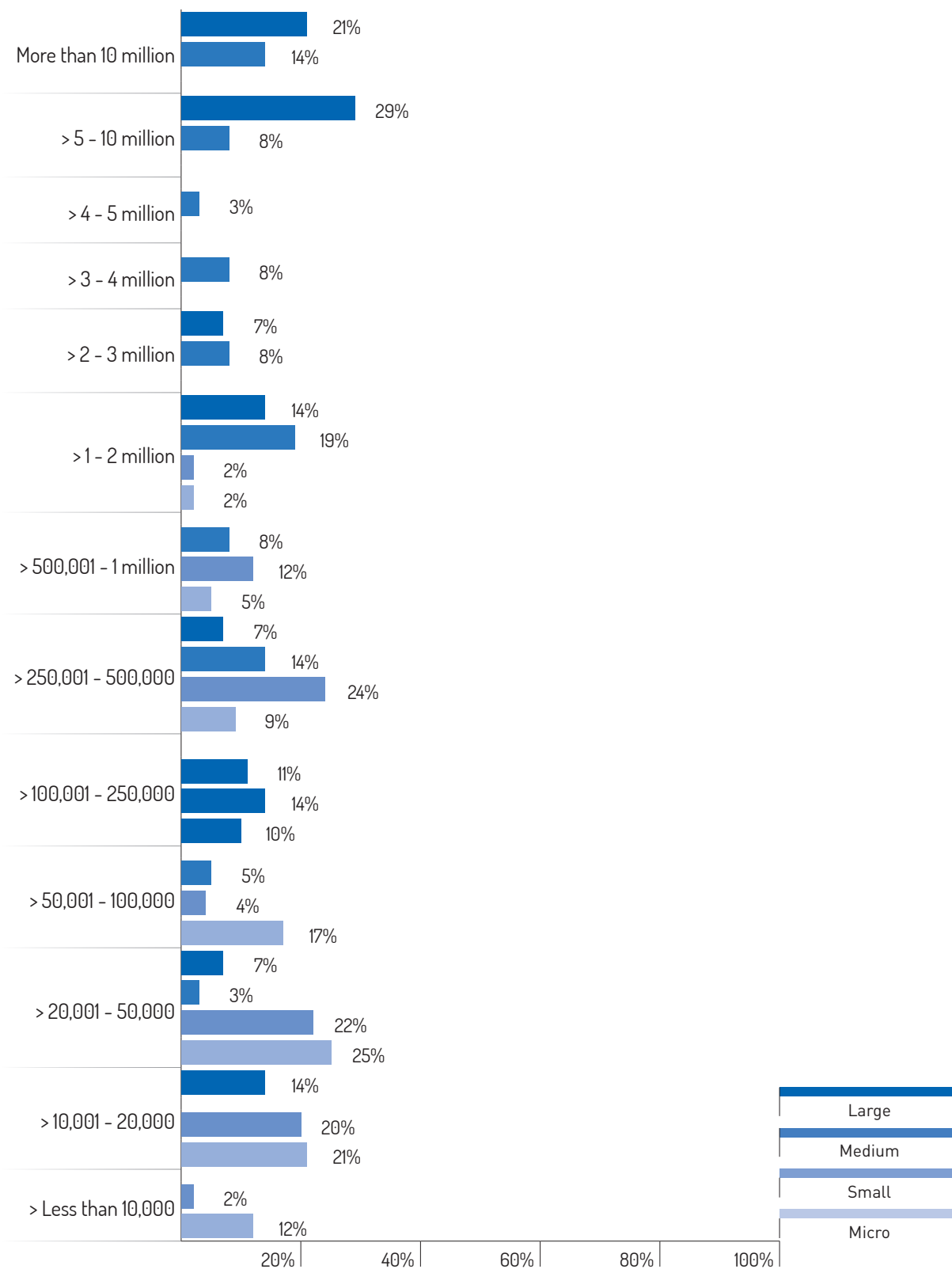


Figure 11 Enterprises and written BCP

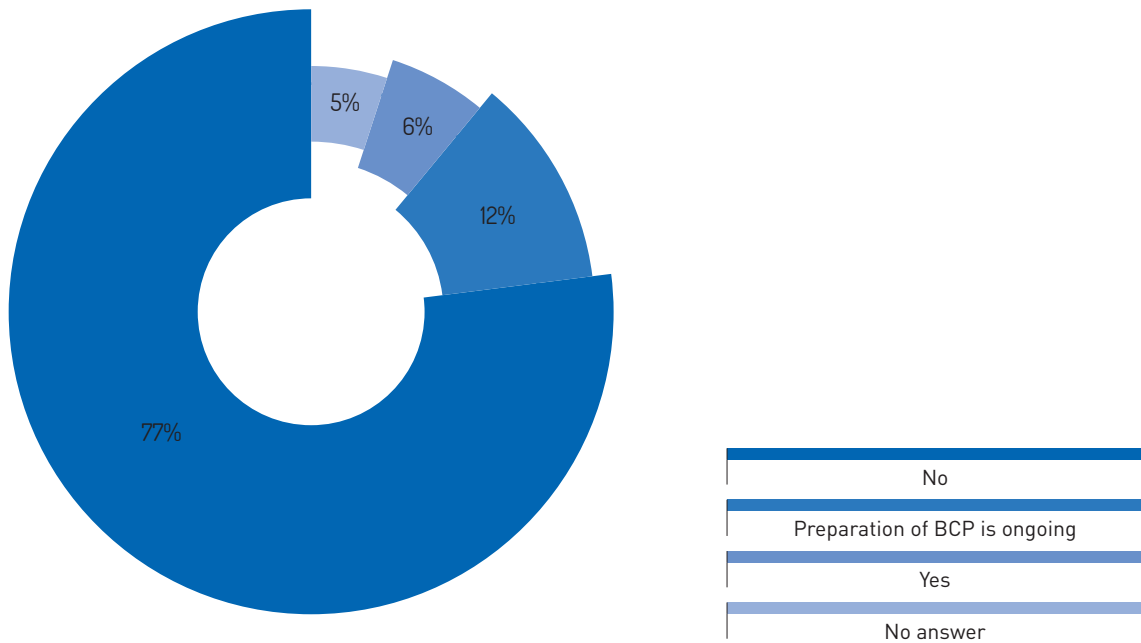


Figure 12 Distribution of enterprises with no written BCP

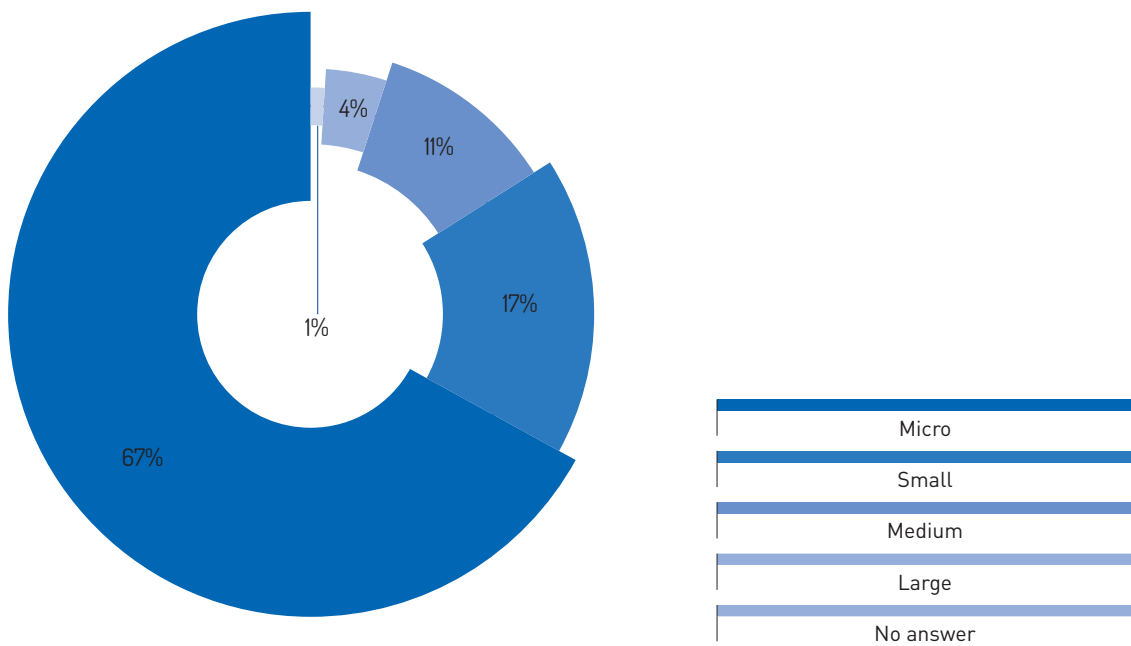
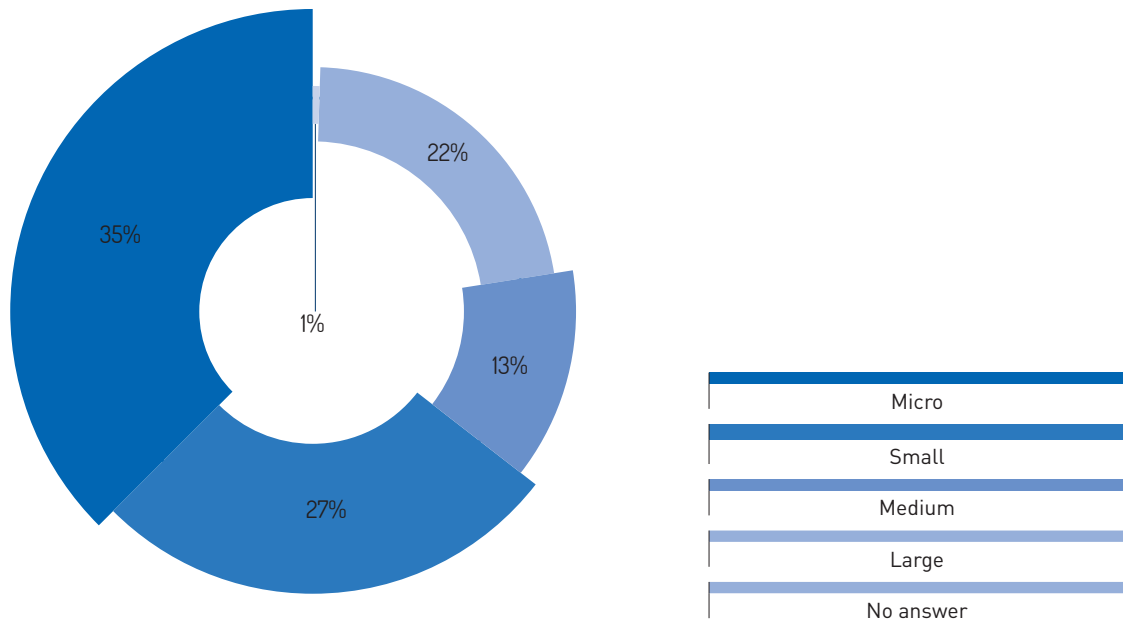




Figure 13 Distribution of enterprises with written BCP according to size



BCP preparation as one of the courses in their MSME Roving Academy program. The Philippine Trade Training Center, an office under the DTI, also conducted a BCP orientation/seminar as part of the SMED Week celebration for 2015. There are also ongoing efforts by the private sector and academe, particularly the Philippine Disaster Resilience Foundation (PDRF), and the University of the Philippines-Institute of Small-Scale Industries (which implements BCP training for DTI), respectively, to provide BCP training. But the survey results indicate a need to further expand these initiatives in the future.

Enterprises with written BCP

As presented earlier, only six percent (32) of the respondents have a written BCP. Of this percentage, and in line with the sample group, the majority of those with BCP are micro enterprises, which is a remarkable achievement for such small business operations. However, for the thirty-two enterprises with BCP (Figure 13), there are proportionally fewer micro enterprises and many more large enterprises compared with the respondent group as a whole.

In terms of sectoral distribution of the thirty-two enterprises with a written BCP, most of them came from wholesale and retail, manufacturing and accommodation services, as indicated in Figure 14.

Twelve of the thirty-two respondents with a written BCP did not answer the question of when it was first prepared, but for those who did provide a date, sixteen of them had prepared them very recently, between 2010 and 2015 (six of them in 2010), and only four had done so earlier.

For top hazards addressed by BCP, the most common answers were fire, typhoon, accidents, earthquake, flood, theft, and power blackout. These results generally resemble the responses on the hazards that can potentially affect business operation shown above.

The top reasons that motivated the thirty-two firms to prepare a BCP were to avoid economic losses and protect their employees. These responses are the same as the top answers for what would motivate those without BCP to prepare one.



Figure 14 Distribution of enterprises with written BCP according to sector

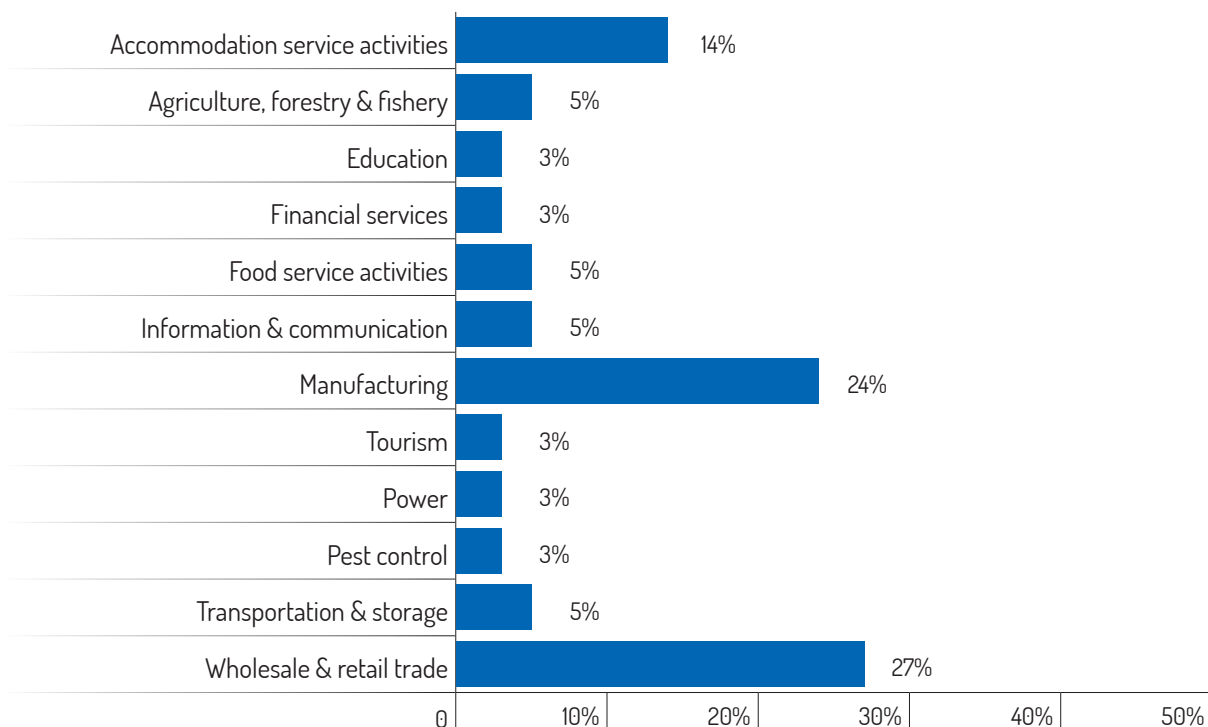


Table 2 Reasons that motivated or compelled enterprise to develop a BCP

| Reasons for Developing BCP | Number of Respondents (n=32) |
|---|------------------------------|
| To avoid economic losses | 15 |
| To protect employees | 15 |
| BCP is a good business practice | 12 |
| Fear of not being able to meet supply or service commitments if business is interrupted | 8 |
| To gain our clients' confidence | 5 |
| BCP is a symbol of reliability | 4 |
| BCP will help us gain competitive advantage | 4 |
| It is a legal or mandatory requirement | 4 |
| Having a BCP will attract more business | 2 |
| Because of a previous disaster experience | 2 |
| It is a customer's requirement | 1 |
| An enterprise-level BCP is needed to participate in area-level BCP | 1 |
| If an will employee propose that we prepare a BCP | 1 |
| It is prestigious to have a BCP | 1 |



Of the thirty-two respondents with written BCP, there were only nine enterprises that had already used their BCP during an actual disruption; six of these rated them very useful, and 2 rated them useful (1 no answer). Although a very small sample group, these results support the viability of BCP as a tool for building disaster resilience for business enterprises. Amongst these, there were seven businesses that received government support in preparing their BCP. The type of assistance given by the government mostly came in the form of training support and provision of disaster risk information.

In terms of the methods used to develop BCP, most of the firms in this group of 32 referred to guidelines published by government (10), while others used consultants (5), guidelines published by NGOs (5), the internet (3) and guidelines published by industry associations (3). Two others actually hired employees with BCP expertise, two referred to textbooks, and one used a BCP standard (example given in the questions was such as ISO 22301). It should be noted that DTI uses the APEC 10-step BCP preparation guidebook in their BCP seminars. This is also being used by the UP-Institute of Small Scale Industries (UP-ISSI) which is the organization engaged by the Philippine Disaster Resilience Foundation to conduct lectures and workshops on BCP.

Incentives and Training Needs

On whether the government should make BCP compulsory, fifty-eight percent (298) of all 513 respondents answered yes, thirteen percent no, and seventeen percent 'don't know' (twelve percent no answer). For those who answered yes, the top reasons cited included (a) increasing readiness for disasters, (b) preventing losses, and (c) improving coping abilities.

For the thirteen percent of respondents that answered "no" on making BCP compulsory, the top reasons indicated included (a) BCP should be optional/voluntary, (b) their operation is too small to prepare a BCP, (c) it would be another

burden imposed by government, and (d) more information and training is needed for them to prepare BCP (though forty-nine percent did not provide a reason). For those who answered that they did not know, the main reason given was their lack of information on BCP.

On the support needed from the government to promote disaster resilience amongst MSMEs, the top answers chosen when selecting three from an extensive list provided were (1) tax credits/incentives for MSMEs with BCP; (2) subsidies and grants for MSMEs for BCP preparation; and (3) provision of technical assistance, consultancy services, or training in BCP preparation and disaster preparedness. Figure 15 shows the incentives that respondents felt the government should provide to MSMEs to encourage them to be disaster resilient (based on 513 respondents).

On training courses attended, most of the respondents (74%) had not attended BCP training. Figure 16 shows the proportions of responses from the whole survey group.

It is noted that there are ongoing courses from the government to promote BCP. The DTI MSME Roving Academy and Philippine Trade Training Center have recently conducted BCP training courses. Also, the Philippine Disaster Resilience Foundation is conducting a series of BCP training for earthquake risk in Metropolitan Manila.

For general DRM training, fifty-nine percent had not attended any relevant training and fourteen percent did not provide an answer. These figures suggest a need to have more DRM-related training targeted towards MSMEs.

For what type of training related to BCP or DRM is most needed to improve their business, the top answer chosen was disaster preparedness (including conduct of drills for various hazards). The other top training topics selected were disaster risk management, BCP preparation, and emergency response. There were also a number of respondents who indicated general business management-related topics such as accounting, improving competitiveness and marketing. Figure 17 shows responses from the whole survey group,

Figure 15 Incentives that respondents felt the government should provide to MSMEs to encourage them to be disaster resilient

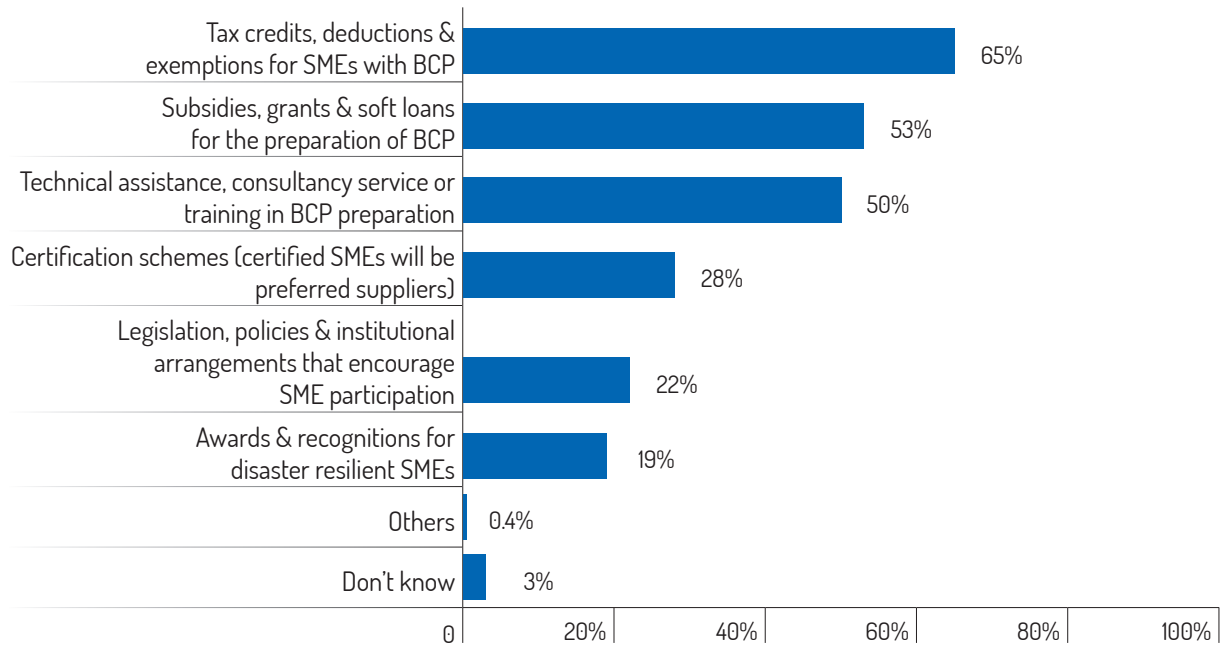


Figure 16 Attendance at BCP-related training

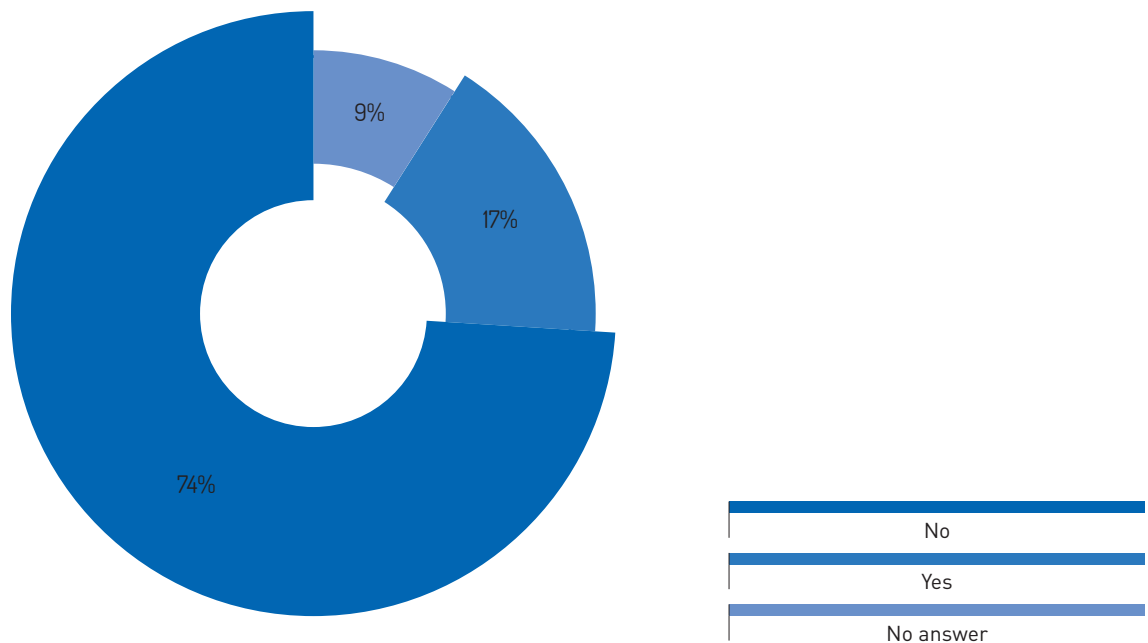
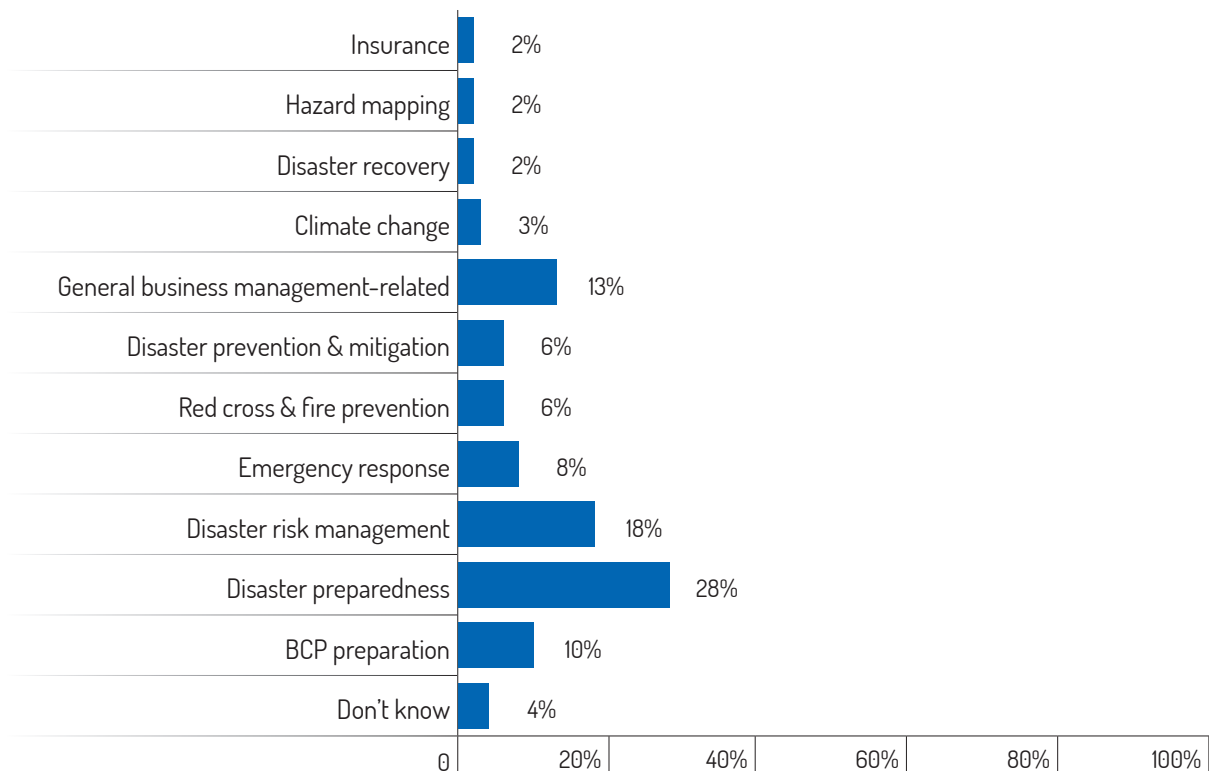




Figure 17 BCP and DRM-related training needed to improve their business



based on each one rating the top three areas of need for training on DRM and BCP.

Current disaster coping mechanisms

Risk financing

Many respondents indicated that they have in place some form of insurance or risk financing mechanism. Figure 18 shows that the top responses from the whole survey group were motor and vehicle insurance, fire insurance, insurance for employees and natural catastrophe insurance (respondents were asked to nominate their top three from a list). Although only eleven percent reported having natural catastrophe insurance, and twenty-four percent reported having no risk financing mechanisms (among those that did

not have any existing risk finance mechanism, 74% were micro enterprises), many held motor vehicle insurance (43%), fire insurance (31%) and insurance of employees (18%).

Written DRM Plans

Figure 19 shows that fifty-eight percent of the survey respondents (298) did not have any written disaster preparedness plans. Of these, seventy-four percent (222) were micro enterprises, thirteen percent small and eight percent medium.

For the forty-two percent (218) that had a written plan, their top answers as to the types of plans they had (with each nominating their top 3) were: emergency response plans (19%), evacuation plans (18%), emergency communications plans (11%), risk reduction measures (8%), system recovery and/or system down manuals (7%), and risk assessments (6%).



Figure 18 Risk finance mechanisms

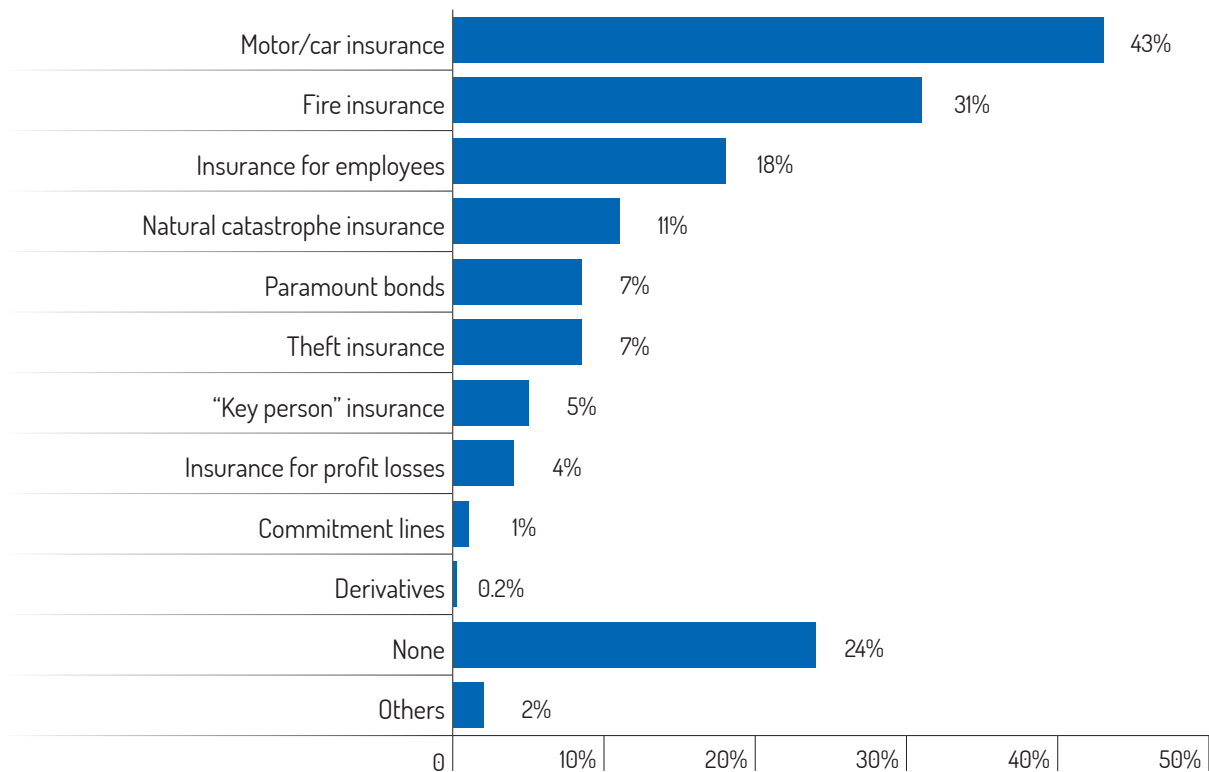
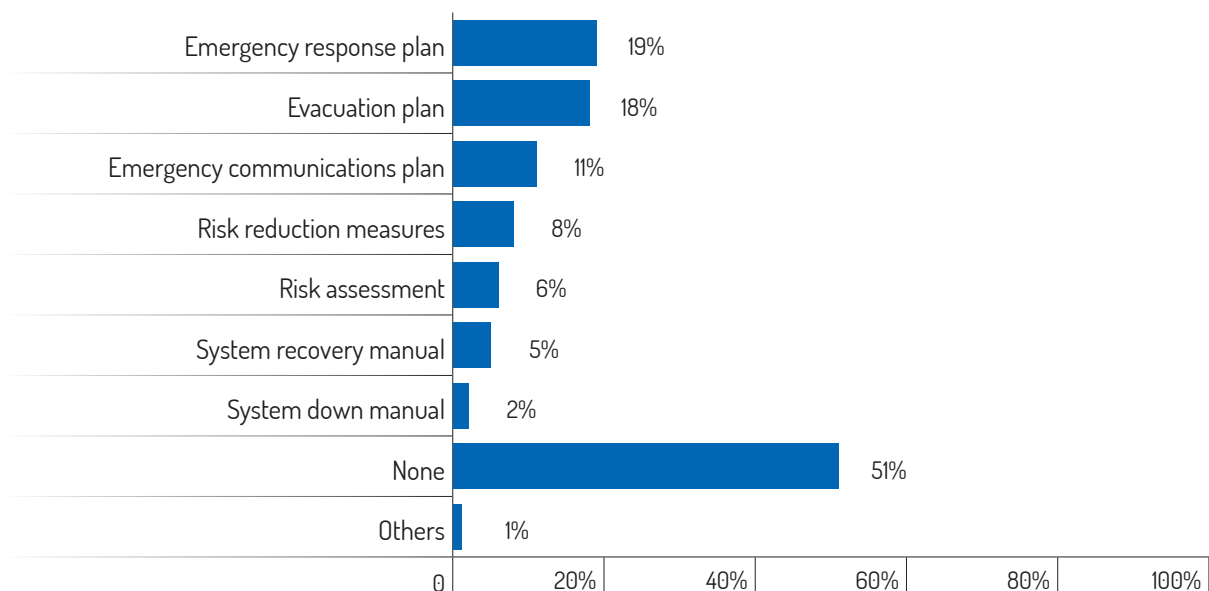


Figure 19 Written disaster preparedness plans





Additional DRM Concerns

Participation in local DRRM system

There are no published figures on the number of Barangay or Local DRRM Councils with official private sector representatives. But on the question of their participation in a Barangay or Local Disaster Risk Reduction and Management Councils, a large minority of respondents reported that they were actually involved with their local DRRM system in some way – at twenty-eight percent (along with sixty-two percent no and ten percent unknown). The question was not whether they were aware of them, but whether they were involved, and this therefore represents a remarkably high rate of MSME participation in the DRRM system at local level. However, the survey data could not provide details on what form such involvement took, as to whether it was formal representation on Local DRRM Councils, or less formal participation in meetings or events.

Interest in participation in a roadmap

On the willingness to participate in a national planning process to support MSMEs to prepare for and recover from disasters, around three-quarters (74%) of the respondents answered yes. Considering that contact information was provided, some of the respondents may be considered as participants in future consultations, although it is also understood that few MSMEs are likely to have a great deal of available time, and that such participation may best be done at the local level and/or through MSME organizations.

Survey overview and conclusions

The SME Survey results indicated respondents had a relatively high awareness of disaster risks, which largely matched their recent experience of disasters that had significantly disrupted their business operations. Natural hazards were regarded as a high and increasing business risk for the survey group, which was broadly representative of Philippine MSMEs (albeit

somewhat over-representing manufacturing and agriculture, and under-representing retail and also micro enterprises compared with national statistics). A large majority reported experiencing hazards that affected their business operations – 364 respondents (71%). The main hazards they highlighted were typhoon, power blackout, flood, earthquake, fire and accidents (Figures 3 and 4). A majority, 288 respondents (56%), also reported a major business disruption, and most (69%) reported that this occurred in the past three years, with 2013 being the year that one-third of them reported such a disruption (Figure 5).

In terms of the business effects of disruptions, 264 respondents (51%) reported they had lost days of operation due to disasters. Of these, the lost days ranged from less than a week to more than three months, but these impacts varied between business size and industry (Figure 6). In terms of enterprise size, those that reported complete stoppage for more than three months were all micro and small enterprises, suggesting medium (and large) enterprises had more capacity to recover from major setbacks (Figure 7). Manufacturing was the most affected for the longest periods by complete cessation of operations, with retail following, and then agriculture (Figure 8).

The effects of past disruptions to business operations were not by any means confined to cessation of operations. A large majority reported on other types of business impacts – 385 (75%). In terms of how these impacted their business, aside from shutting down, their top responses were: employees were unable to go to work; inability to deliver products to market/customers; damages to facilities and equipment; raw materials and finished products were damaged; and suppliers were unable to deliver materials or services (Figure 9). That is, in addition to the specific interruptions to production or service delivery during the worst period of past disasters, these respondents reported significant interruptions in the supply chain to their businesses, and from their businesses to their markets.

The cost of damage from previous disruptions also varied widely, with 229 respondents (45%) reporting they had experienced financial losses due

to disaster (53% micro, 23% small, 24% medium, the remainder large or no reply on asset value). The most common response as to the amount of loss was below PHP50,000, probably reflecting the high proportion of micro enterprises, (Figure 10). But in some cases losses were surprisingly high, given the small size of the assets and small number of employees used to classify them as MSMEs. For example, of the 229 respondents to this question, 12 micro enterprises reported losses of between PHP250,001 – PHP500,000. Within the medium enterprises, thirty-one percent reported losses of PHP500,000 and below, but nineteen percent reported losses of between PHP1 million to PHP2 million, and a surprising fourteen percent reported figures of more than PHP10 million in losses. Not only are these losses very significant, but they also suggest that turnover in some of these enterprises may be quite high, and that it would therefore be a useful addition to the statistical base for MSME policy implementation to collect and publish data on turnover.

In terms of risk management and preparedness for disasters, seventy-seven percent of respondents did not have a formal BCP, leaving only a small proportion who reported having a BCP (6%) or being in the process of developing one (12%). However, a substantial minority of twenty-seven percent had attended BCM training. BCP is of course one tool amongst others for BCM and disaster resilience, and it is notable that one or more other disaster preparedness plans were in use by just over half the respondents, including emergency response plans, evacuation plans, emergency communications plans, risk reduction measures, system recovery and/or system down manuals, and risk assessments (Figure 19). A large minority of respondents – forty-one percent – also reported attending some form of training on disaster risk management. In fact, the top answer given for the type of training they felt was most needed to improve their business was disaster preparedness (including conduct of drills for various hazards).

Many respondents also indicated that they have in place some form of insurance or risk financing mechanism. Although only eleven percent reported having natural catastrophe insurance, and twenty-four percent reported having no

risk financing mechanisms, many held motor vehicle insurance, fire insurance and insurance of employees (Figure 18). However, when asked to list their top three coping mechanisms in dealing with business disruptions and emergencies, use of their own savings was listed by sixty-one percent of respondents, followed by support from family and friends (which 27% listed in their top 3), reducing expenses, or working more to generate income (21% and 19% respectively). Access to formal risk finance in the form of a loan with interest, a bank loan, or a loan from suppliers or traders came in as a second-rung coping strategies, with a much lower proportion listing these in their top three coping strategies (19%, 17%, and 11% respectively). This may reflect a lack of access to loans for MSMEs as much as an actual preference for informal financing mechanisms, and is a question requiring further research. The proportion who included claiming insurance as one of their top coping strategies was only nine percent which, again, may reflect a lack of available and affordable insurance products for MSMEs (especially in rural areas), as much as any MSME preference for self-insurance through personal savings.

These findings indicate a strongly self-reliant approach to disaster risk, with low uptake of insurance accompanied by the use of personal savings, working more and using networks of family and friends to recover from disaster losses. While these indicate a high level of resilience, they may also reflect the lack of available financing and insurance for MSMEs, so that these informal risk financing coping mechanisms are perhaps a necessity. In addition to these coping mechanisms, twenty-four percent also reported having established a mutual aid agreement with another organization to help each other during emergencies (examples given in the questionnaire were privately-run emergency teams, fire brigades, search and rescue teams, mutual help associations, etc.). While these coping mechanisms reflect a high level of resilience, and may continue to work well for micro and some small enterprises, they have inherent limitations. For owners of micro and small enterprises who wish to grow their business (and it cannot be assumed that all do), less ad hoc disaster risk financing mechanisms may be necessary.



Even more significantly for MSME engagement with the official DRRM system, more than a quarter (28%) reported that they are participating in a Barangay or Local Disaster Risk Reduction and Management Council.³⁷ This is a very high level of participation by MSMEs in DRRM at the most local level, however, the survey responses do not provide data on what form such participation takes, as to whether it is membership or attendance at meetings or events. Three-quarters of respondents also said they would be interested in participating in a national planning process to support MSMEs to prepare for and recover from hazards and disasters.

Overall, these results indicate a low awareness of BCM as a risk reduction mechanism, and a low uptake of external risk financing or other formal coping mechanisms, but a high level of awareness of disaster risk, and a significant degree of engagement with the DRRM system at local level.

³⁷ Local committees with community representation established under the NDRRM Act, R.A. No. 10121 of 2010.

Including MSMEs in the National DRRM /CCA Systems

Inclusion of MSMEs in legal, institutional, and policy frameworks for climate and disaster risk reduction and management is important in addressing their shared community disaster risks, while the risk mapping efforts of these government institutions is also an essential underpinning for business continuity risk management.

Overview of the National DRRM System

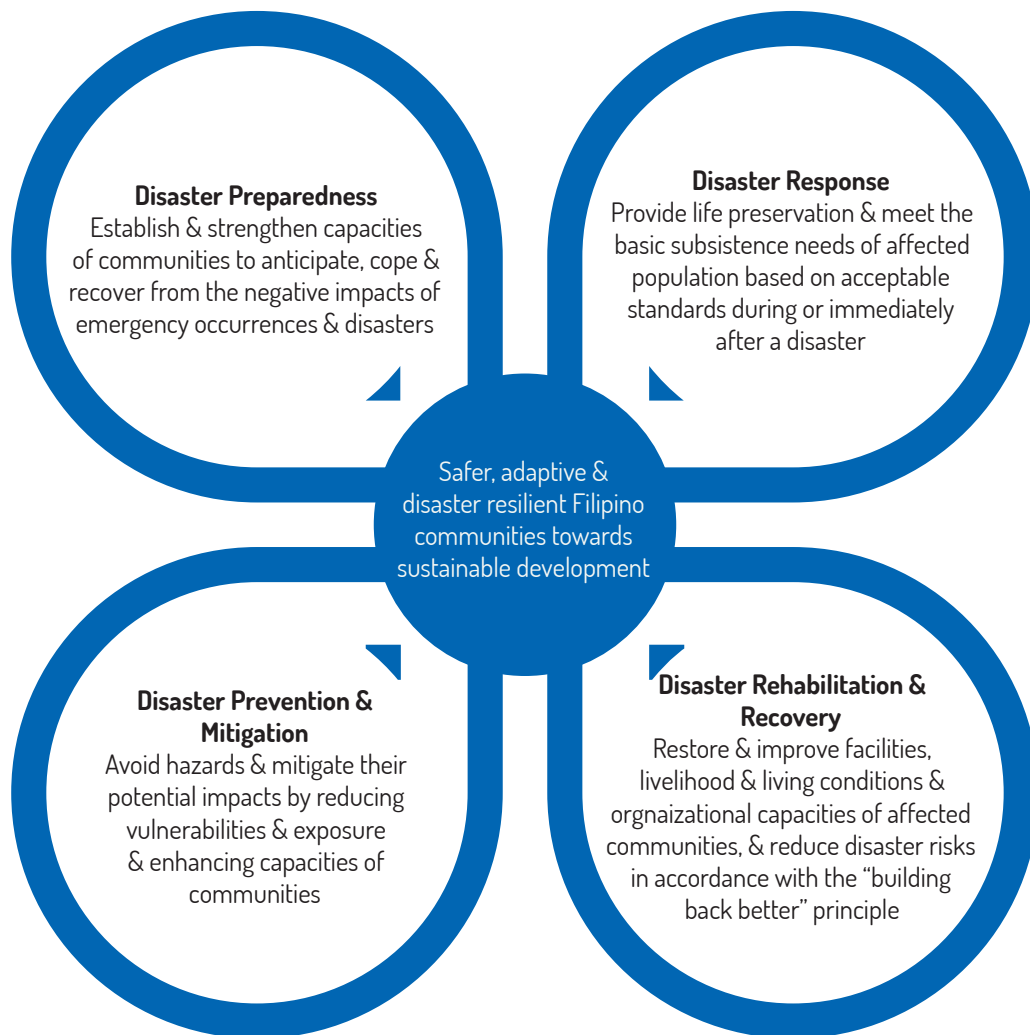
The Philippine framework for managing climate and disaster risk is made up of two main laws:

- › The Philippine National Disaster Risk Reduction and Management Act (NDRRMA) of 2010, Republic Act No. 10121; and
- › The Climate Change Act of 2009, Republic Act No. 9729 (as amended

by the People's Survival Fund Act of 2012, Republic Act No. 10174).

Each of these laws establishes institutional and policy frameworks to oversee their implementation, but neither law was intended to create a new sector or a standalone system. Rather, both laws are concerned with coordination and mainstreaming of their objectives into a whole of society approach, from national to local level, including other government agencies, the private sector, civil society and communities. Thus, it may be expected that the disaster resilience needs of MSMEs will be included within these frameworks at relevant points, and also that MSMEs will be aware of DRRM/CCA initiatives in their local communities and participate in them as necessary.

Figure 20 The Objectives of the Philippine disaster risk reduction and management system



Source: National Disaster Risk Reduction and Management Plan (NDRRMP) 2011-2028

DRRM Legislation and Institutions

Republic Act No. 10121, the Philippine National Disaster Risk Reduction and Management Act (NDRRM Act) of 2010 aims to 'mainstream disaster risk reduction and climate change in development processes such as policy formulation, socio-economic development planning, budgeting, and governance (s.2(g)). It creates both national and local level institutional structures which are cross-sectoral in nature, with structures at all levels but with the aim of integration with the work of Local Government Units (LGUs).

The highest-level structure in the DRRM system is the National Disaster Risk Reduction and Management Council (NDRRM Council), chaired by the Secretary of the Department of National Defense (DND), with the Secretary of the Department of the Interior and Local Government (DILG) as Vice Chairperson for Disaster Preparedness. With almost 40 members, it includes the national ministries central to national planning, including the National Economic Development Authority (NEDA) and the ministries responsible for budget, finance, public works and highways, environment and natural resources, energy, transport and communications, as well as the Department of Trade and Industry (DTI) and a private sector representative (S.5). Similarly

composed cross-sectoral councils are established under the NDRRM Act at provincial and local levels, including the Barangay or Local DRRM Councils, although not all of these are yet functional at local level. MSMEs are presumed to be represented at national level by the private sector representative on the NDRRM Council, and although the national position is occupied, there is no prescribed process for filling the private sector positions on this or the Local DRRM Councils (by contrast, there is a Memorandum Circular regulating how civil society representatives are to be chosen.)³⁸ Nevertheless, it is notable that twenty-eight percent of the MSME respondents in the SME survey said they were involved in a Local DRRM Council in some way, so there may not be an issue with MSME engagement in the DRRM system at local level.

The DRRM Councils are advisory and policy bodies, and the Office of Civil Defense (OCD), through national and subnational offices, is the secretariat that is also required to implement many of the outcomes, as well as to coordinate with other agencies. OCD's role under the Act is somewhat more narrowly defined as "administering a comprehensive national civil defense and disaster risk reduction and management program" (S.8), including the development of the National DRRM Plan (S.9(b)).

The NDRRM Act also establishes two funds, the National Disaster Risk Reduction and Management Fund (NDRRMF), and the Local Disaster Risk Reduction and Management Fund (LDRRMF). These are intended to be used for the entire range of DRM activities by government agencies, and are not part of any system of private risk financing or loans.

There are two other pertinent aspects of the DRRM system for MSME disaster resilience, both of which are brought out by looking at the priority actions and responsible agencies in the National Disaster

Risk Reduction and Management Plan (NDRRMF) 2011- 2028.³⁹

- › This NDRRM Plan envisages a high level of integration between DRRM and CCA policies and activities, including risk assessments, risk mapping and other technical data, from national to local level, all of which helps to underpin risk reduction for MSMEs shared community risks. The data, in particular, is potentially important for cross-referencing with national statistics to improve our understanding of MSME exposure.
- › MSMEs or 'economic activities' appear not to be part of the NDRRM Plan except concerning recovery, and DTI is not named as a participating agency in any aspect of the plan. A focus on MSME needs and participation in the thematic areas on disaster prevention and mitigation, disaster preparedness and disaster response could be an important underpinning for better integration of MSMEs into the DRRM system.

Climate Change Legislation and Institutions

The Climate Change Act of 2009 (as amended by the People's Survival Fund Act of 2012) (the CC Act) has the essential policy objective of systematically integrating the concept of climate change into national policy formulation and development planning by all government agencies and instrumentalities.⁴⁰ It establishes the Climate Change Commission (CCC) (s.4) the Climate Change Office (CCO) (s.8) as its secretariat, and a Panel of Technical Experts (s.10). The Act recognizes in s.2 on policy that:

38 NDRRM. Memorandum Circular No. 3 Series of 2012 " Guidelines for the Selection of Representatives from the Civil Society Organizations (CSOs) to the National and Local DRRM Councils." http://www.ndrrmc.gov.ph/attachments/article/1868/NDRRM_Memorandum_Circular_No_03_Series_of_2012.pdf

39 NDRRM. 2010. "National Disaster Risk Reduction and Management Plan (NDRRMF) 2011- 2028". http://www.ndrrmc.gov.ph/attachments/article/41/NDRRM_Plan_2011-2028.pdf

40 S.2, Republic Act No. 9729, the "Climate Change Act of 2009." (As amended by Republic Act No. 10174, People's Survival Fund Act of 2012). http://www.lawphil.net/statutes/reports/ra2009/ra_9729_2009.html



...climate change and disaster risk reduction are closely interrelated and effective disaster risk reduction will enhance climate change adaptive capacity, the State shall integrate disaster risk reduction into climate change programs and initiatives.

The CCC is a high level body chaired by the President of the Republic, and is made up of 27 members from a very broad range of sectors – essentially government – 15 Departmental Secretaries and four League Presidents (of provinces, cities, municipalities, Barangays), with one representative from the National Commission on Women, three Presidential appointees and one from each of academe, the business sector and NGOs (s.5). There is some deliberate overlap with the DRRM system, in that the Secretary of Defense serves on the Commission in the capacity of Chair of the NDRRM Council, and one of the sectoral representatives must be ‘from the disaster risk reduction community’ (s.5). But it is in the powers and functions of the Commission that both its overall mainstreaming and coordination role is more apparent (s.9).

The CCC functions that refer particularly to DRRM include the need for: ‘synergy with disaster risk reduction’ (s.9(a)); a concern with the development of ‘risk-sharing and risk-transfer instruments’ (s.9(g)); an important requirement to ‘coordinate and establish a close partnership’ with the NDRRM Council to ‘increase efficiency and effectiveness in reducing the people’s vulnerability to climate-related disasters’ (s.9(j)); to coordinate with LGUs to address vulnerability to climate change impacts at all levels of administration (s.9(m)); and also to facilitate capacity building for CCA, and oversee dissemination of information on ‘local vulnerabilities and risks, relevant laws and protocols and adaptation and mitigation measures’

(s.9(n) and s.9(p)). These provide a good basis for cooperation with the DRRM system institutions, although consultations during the country mission for this report indicated that interactions at the implementation level were rather limited.

The CC Act also requires the CCC to develop a Framework Strategy and Program on Climate Change (s.12), a National Climate Change Action Plan (s.13) – both of which were completed by 2011⁴¹ – and to support LGUs to develop Local Climate Change Action Plans (s.14) – in coordination with government but also civil society and (s.16). This is the aspect where there is an opening for both greater cooperation with the DRRM system and new linkages with MSMEs, especially at the local levels.

The National Climate Change Action Plan (NCCAP) was completed in 2010. Although its chapter on ‘climate-smart industries and services’ has a major focus on green industry (mitigation, emission reductions), it is also about adaptation, including through the types of businesses that can be sustainable.⁴² The actions in the plan do not have an obvious focus on risk reduction for business per se, and there appears considerable room for greater engagement with DTI and the business sector on the question of adaptation.

The technical research and data-gathering that the CCC/CCO are undertaking under NCCAP could be an invaluable contribution to risk assessments and risk mapping under the DRRM system. If it is possible to share and cross-reference this technical mapping data on climate risk with DRRM mapping and research and the national statistical data, this would greatly strengthen our knowledge about MSME exposure to risk, and how MSMEs can reduce their vulnerability through DRR, mitigation and preparedness.

41 The Climate Change Commission. “Policy Milestones”. <http://climate.gov.ph/index.php/the-ccc#policy-milestones> accessed 20 November 2015.

42 Climate Change Commission. 2010. “The National Climate Change Action Plan, pp 19-22 (NCCAP)”. Manila: CCC. http://adaptationmarketplace.org/data/library-documents/NCCAP_TechDoc.pdf



Including disaster resilience in Philippine support for MSME development

Overview of MSME Development System

At least since the passage of the original Magna Carta for Small Enterprises in 1991, the Philippine Government has recognized the potential of MSMEs to generate employment and promote sustainable economic growth, and policy has aimed to “promote, support, strengthen and encourage” their growth and development “in all productive sectors of the economy particularly rural/agri-based enterprises.”⁴³ It now has in place a complex and extensive system of MSME support and promotion, as well as minimum levels of credit and finance for MSMEs required by law.

The key elements of the MSME development approach are:

- › Streamlining the business environment (registration, compliance systems, especially for barangay registration of micro enterprises)
- › Creating efficiencies and better access to markets through economic zones
- › Providing information, capacity-building and support, including through one-stop-shop ‘Negosyo Centers’ that are currently being established in the regions
- › Providing financial support in the form of incentives and access to finance

The main national government financial institutions engaged in MSME credit and finance, by virtue of their statutory obligations, are the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), the Small Business Guarantee and Finance Corporation (SBGFC) and the People’s Credit and

⁴³ S.2, Republic Act No. 6977, “Magna Carta for Small Enterprises Act of 1991” (Passed January 24, 1991, subsequently amended by R.A. 8289 of May 6 1997 and R.A. 9501 of May 23 2008, the “Magna Carta for Micro, Small and Medium Enterprises (MSME) Act of 2008”).



Finance Corporation (PCFC). Their obligations come from both the Magna Carta law which establishes a minimum lending quota, and the Barangay Micro Business Enterprises (BMBEs) Act.⁴⁴ In addition, the Bangko Sentra ng Pilipinas (BSP) has a key role in the financing arrangements for the agricultural sector, along with industry-based financial institutions and facilities such as the Comprehensive Agricultural Loan Fund under the Agricultural Credit Policy Council (ACPC) within the Department of Agriculture,⁴⁵ the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), the Philippine Crop Insurance Corporation (PCIC) and rural financial institutions, including cooperatives. This report does not attempt to describe the complex system of institutions and credit facilities for MSMEs, but refers to some major schemes by way of example, to consider the potential for inclusion of DRRM/CCA issues to mainstream MSME resilience into MSME business development.

Legislation and Institutions for general MSME Promotion

The Magna Carta was the first major policy initiative to generally support small business development in the Philippines (although it was predated by similar efforts in the agricultural sector). As noted above, the scope of the Magna Carta law was amended in 2008 to cover micro, small and medium enterprises as specific categories. It was also supplemented in 2002 by the Barangay Micro Business Enterprises (BMBEs) Act, intended to bring micro enterprises into the formal system through simplified low cost registration and incentives, and thereafter to develop their business potential as a way to create more employment and alleviate poverty.⁴⁶

The policy Governance body for the Magna Carta is the Micro, Small and Medium Enterprises Development (MSMED) Council, which is a cross-sectoral body with responsibilities for national oversight of MSME development, including facilitating a range of types of business training.⁴⁷ It is chaired by the Secretary of DTI and its membership includes departmental secretaries from Agriculture, Interior and Local Government, Science and Technology, and Tourism; the Small Business Corporation (SBCorp); three MSME sector representatives (representing Luzon, Visayas and Mindanao); as well as representatives from the labor sector and the private banking sector.⁴⁸ The MSMED Council is also required to ensure that even if there are plans and programs for MSMEs as a whole, the specific needs of each size of enterprise ('sector') need to be addressed, in part to encourage MSMEs "to graduate from one category to the next or even higher category."⁴⁹

The Government agency with overall responsibility for supporting the MSMED Council and implementing MSME policy and programs is the Department of Trade and Industry (DTI), the Secretary of which is also responsible for determining the implementing rules and regulations of the laws. Within DTI, the Bureau of Small and Medium Enterprise Development (BSMED) has a specific role in promoting the development of MSMEs, and also includes the DTI-Rural Micro-Enterprise Promotion Program (DTI-RUMEPP). BSMED is part of the DTI Regional Operations Group, and all the regional and provincial offices of DTI have a key role in implementation of the MSMED policy initiatives.⁵⁰

Although part of the MSMED Council's powers and functions include a general requirement to 'coordinate and integrate various government and private sector activities relating to MSME

44 Republic Act No. 9178, the "Barangay Micro Business Enterprises (BMBEs) Act of 2002".

45 Established under "Executive Order 113, Establishing the Comprehensive Agricultural Loan Fund, Creating the Agricultural Credit Policy Council" (1986): <http://www.acpc.gov.ph/wp-content/uploads/2015/11/EO113.pdf>

46 S. 2, Republic Act No. 9178.

47 S. 7-B(c), R.A. Act No. 6977 as amended by R.A. 8289 and R.A. 9501.

48 S. 7-A, R.A. Act No. 6977 as amended by R.A. 8289 and R.A. 9501.

49 Section 3, R.A. 6977 of 1991 as amended by R.A.9501 of 2008.

50 The DTI website provides details of its structure and offices: www.dti.gov.ph. (The observation on the role of regional offices is based on discussions during the mission and other project contact with DTI).

development,⁵¹ it does not have representation or a formal coordination mechanisms with its national policy counterparts in DRRM or CCA – that is, the National DRRM Council) or Climate Change Commission (although the Secretaries of both DTI and DA, and a business sector representative, are members of the 27-member CC Commission, as well as DTI being represented on the National DRRM Council). Specific information was not obtained for this report on informal coordination or information sharing mechanisms between DTI and the government agencies concerned with DRRM and CCA – the Office of Civil Defence and the Climate Change Office. However, the understanding gained from consultations during the country mission was that these three mandates are largely implemented in quite separate spheres, with few occasions for the governing bodies and agencies to become aware of each other’s initiatives. While this is not surprising as between the business-oriented sector and the other two, it does highlight the importance of making institutional connections in order to manage effectively the cross-cutting issue of MSME disaster resilience. The MSME disaster-resilience road mapping process may therefore be an opportunity to share information and approaches between these spheres, as well as to establish mechanisms for continuing partnership on this issue. This may be an important process to strengthen the resilience of the private sector by providing the right enabling environment, since the private sector has historically borne a large percentage disaster losses.

In addition to the financial assistance provisions of the Magna Carta discussed below, that law also mandates the establishment of a strategic policy approach to MSME development, in the form of the Micro Small and Medium Enterprise Development Plan (MSMEDP).⁵² The current plan for 2011–2016 mentions disasters only once, as an example of a business environment issue (p.23), amongst other factors that might be regarded as external to the business operator. However, while the hazards are external, the resilience of the enterprise is largely

internal and engineered, and this can be a useful focus for the policy revision. This planning process is another potential policy vehicle for giving priority to disaster resilience as a core part of MSMEs economic resilience, which could emphasize the importance of having (a) good information about exposure to hazards, and (b) business continuity management that takes on those risks proactively.

Two specific initiatives and approaches to MSME development should be mentioned. These are:

- The Negosyo Centers currently being established under the MSMED Council across the Philippines under the mandate of Republic Act No. 10644, the Go Negosyo Act of 2013. These are intended to be one-stop-shops for MSMEs (some to be established as public-private partnerships), where they can undertake all necessary registrations, and receive information and support on business development. They are replacing MSME Centers mandated by the Magna Carta. These provide obvious mechanism for communication with MSMEs and, if they become the hubs intended, could also be places to locate training on DRRM, CCA and disaster-resilient BCM, and to distribute local risk information.
- There are special economic zones, industrial estates/parks, export processing zones and other economic zones that have been established for many years under the Republic Act No. 7916, “The Special Economic Zone Act of 1995” (as amended by Republic Act No. 8748), as well as others in the tourism and agricultural sectors. The economic zones are administered by the Philippine Economic Zone Authority (PEZA), administratively housed within DTI. There are currently 277 of these areas that are operating. They are intended to increase market efficiency through a concentration of businesses, and develop areas that are undeveloped. An important aspect of them for international trade is customs exemption. Their relevance for MSME resilience is that they represent concentrations of MSMEs, sometimes in large numbers, which share the same exposure to natural hazards in their locality and are likely to have similar vulnerabilities. They provide an opportunity for

51 S. 7-B(c), R.A. Act No. 6977 as amended by R.A. 8289 and R.A. 9501.

52 MSMED Council. 2012. “Micro, Small, and Medium Enterprise Development Plan for 2011 to 2016.” <http://www.dti.gov.ph/dti/index.php/msme/smed-plan>.



area risk assessments, tailored DRRM / CCA and disaster-resilient BCM training and support, and in some cases potentially formal area BCPs.

Legislative Basis and Institutions for MSME Finance

There are many public financial institutions and MSME or other business financing options in the Philippines, which cannot be described in a short overview report concerning MSME disaster-resilience. However, it is worth looking at four key examples. The first is the financial benefits under the Magna Carta law, intended for any and all MSMEs. Although not detailed here, these benefits and other financing can be accessed through a range of micro credit facilities, ranging from rural cooperatives to the large government banks and financial institutions. The second is the financial incentives under the Barangay Micro Business Enterprises (BMBEs) Act. The third is a regime for the entire agricultural sector, described because that sector is very predominantly made up of MSMEs. The fourth is a new initiative on recovery finance from SBCorp, which it created in response to Typhoon Yolanda (Haiyan). These are potential avenues for making the benefits they provide conditional on improved disaster resilience, or as institutional partners in promoting and encouraging disaster-resilient BCM or other tailored training related to DRRM/CCA.

The Magna Carta for MSME development

The Magna Carta requires banks to allocate 10% of their loan portfolios to MSMEs (8% to micro and small, and 2% to medium). This mechanism is monitored by the BSP. Banks have struggled to meet these requirements, with the compliance rates falling short, and only being met by the rural and cooperative banks in 2013.⁵³ However, these funds are a major source of finance for MSMEs, which opens up two potential entry points for improving MSME disaster resilience. One is for banks

to include hazard assessments and evidence of disaster-resilient business continuity management in their enterprise risk assessments for borrowers. Consultations during the project have indicated that this is not current practice, in part because it has not been considered a significant aspect of credit risk, and in part because it is difficult for financial institutions to obtain what they regard as sufficiently reliable data on such risks. Another is for MSMEs themselves or others in support of them to access these funds on the basis that they will be used to provide information and disaster-resilient BCM training.

Barangay Micro Enterprises Financial Incentives

The 2002 Barangay Micro Business Enterprises (BMBEs) Act also establishes financial incentives for micro enterprises registered at Barangay / LGU level under its provisions. These are defined according to the same assets criteria used in the Magna Carta law, that is, up to PHP 3 million in business assets, excluding the land on which the business is conducted (thus bringing many farming businesses into the micro category).⁵⁴ LGUs are encouraged to establish 'one stop shop' registration, to charge only moderate registration fees, and to exempt the BMBEs from local taxes and charges, but that is for the LGUs to determine as they have autonomous revenue-raising powers. The business incentives prescribed in the law for BMBEs include:

- Exemption from income tax (s.7)
- Credit delivery via a 'special credit window' for BMBEs (s.9) – to be established by the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), the Small Business Guarantee and Finance Corporation (SBGFC) and the People's Credit and Finance Corporation (PCFC). The point of access for this credit could be used to communicate with MSMEs about disaster resilience, and offer other services.
- An intended PHP 3 hundred billion BMBE Development Fund (s.9) administered by the MSME Council – for the purposes of 'technology

53 ADB. 2015. Asia SME Finance Monitor 2014. Manila, Philippines p. 215.

54 S.3, R.A. No. 9178.

transfer, production and management training and marketing assistance'. On the face of it, it is likely such a fund could be used for DRRM, CCA, and disaster-resilient BCM information, training and implementation.

Agricultural Sector

The 1975 Presidential Decree, known as “The Agri-Agra Law,” was arguably the first MSME development law. Although it was couched in terms of agrarian reform, the dominance of MSMEs in the sector meant that it was in fact establishing a credit and finance system to encourage MSME development in the farming sector.⁵⁵ It has now been replaced by the Agri-Agra Reform Credit Act of 2009, which covers both farming and fishing, but which has essentially the same aims – to encourage sustained growth and increase productivity through equitable access to financial services and programs to increase market access and modernization (s.2).⁵⁶ The sector also has its own Magna Carta of Small Farmers.⁵⁷ Given the continuing dominance of MSMEs in this sector, these laws and the policies and financing regimes they establish should be considered part of the framework for MSME development through financial instruments, although its target group of small farmers would also include many that may not necessarily be described as enterprises or employers.

The Agri-Agra law initiates the development of the “agriculture, fisheries and agrarian reform credit, insurance and financing system” for a list of beneficiaries who can be broadly described as individuals and small-scale participants in these industries, along with their cooperatives, organizations or associations (s.4). This law retains

the same high credit quotas as the original law, stating (s.6):

“All banking institutions, whether government or private, shall set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10%) of the loanable funds shall be made available for agrarian reform beneficiaries...”

There are different modalities for financial institutions to comply with these provisions (s.7), many of which are not direct loans, and the implementing rules and regulations provide more detail.⁵⁸ These options include investing in bonds issued by the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) and/or to open special deposit accounts (SDAs) with accredited rural financial institutions; or invest directly in rural financial institutions, in Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), or in the Philippine Crop Insurance Corporation (PCIC) (s.7). The law also provides that the quota and the alternative modes of investment are subject to a joint review by the key institutions, the Department of Agriculture (DA), the Department of Agriculture Reform (DAR) and the Bangko Sentral ng Pilipinas (BSP) after three (3) years of operation to determine its effectiveness (s.6)⁵⁹ This creates a major financial resource for business development that is primarily accessible by rural MSMEs and their own cooperatives or organizations.

Access to finance in the agricultural sector is also supported at a governance level by the Agricultural Credit Policy Council (ACPC) within the DA, which has oversight of agricultural credit implementation.⁶⁰ It is the responsible body for the

55 Presidential Decree No. 717, May 29, 1975, “The Agri-Agra Law” (It required all banking institutions (government and private) to allocate 25% of all loanable fund to the agricultural sector, and to ensure a minimum of 10% be made available to the beneficiaries described in s.1 of the Decree): http://www.lawphil.net/statutes/presdecs/pd1975/pd_717_1975.html

56 Republic Act No. 10000, “The Agri-Agra Reform Credit Act of 2009” (repealing Presidential Decree No. 717): http://www.lawphil.net/statutes/repacts/ra2010/ra_10000_2010.html

57 Republic Act No. 7607, “Magna Carta of Small Farmers” 4 June 1992. <http://www.acpc.gov.ph/wp-content/uploads/2015/11/RA7606.pdf>

58 “Implementing Rules and Regulations of Republic Act No. 10000, The Agri-Agra Reform Credit Act of 2009”. http://www.bsp.gov.ph/regulations/laws/RA10000_IRR.pdf

59 No published information was found to confirm that such a review has occurred.

60 Established under “Executive Order 113, Establishing the Comprehensive Agricultural Loan Fund, Creating the Agricultural Credit Policy Council” (1986): <http://www.acpc.gov.ph/wp-content/uploads/2015/11/EO113.pdf>



Comprehensive Agricultural Loan Fund established by the Magna Carta of Small Farmers law.⁶¹

The legislative base for the agriculture sector finance assistance system described above does not include specific criteria for loan risk assessments based on exposure to natural hazards or climate change risk. Overall, its focus is also on development loans rather than disaster risk finance, although organizations such as the Philippine Crop Insurance Corporation (PCIC) clearly focus on insurance as a key form of risk financing. It would be worthwhile to explore whether policy implementation has a greater focus on disaster risk, and also whether the funds generated by the quota system could be used for:

- › MSME disaster recovery loans, available at short notice and on repayment terms suitable to a period of recovery; and
- › Improving disaster resilience, either by individual MSMEs, their credit unions or organizations, or bodies such as QUEDANCOR or PCIC, including for purposes such as enterprise/farm risk assessments, mitigation measures, BCM training and implementation, and DRRM/CCA awareness, technical training or even scientific research on matters such as pest or drought-resistant crop varieties, or fish farming methods more resilient to disease, or sea storms.

Two recent innovations in support of MSME resilience

Innovation in Reconstruction Finance for MSMEs – SBCorp recovery loans

SBCorp is established by the Magna Carta Law. In response to an immediate need following Typhoon Yolanda (Haiyan), it established an ad hoc scheme of rapid loans with soft interest rates, and a one year pause before repayments commenced. The post-disaster needs assessment estimated that the MSME sector lost around PHP 7 billion in Typhoon Yolanda. Initially SBCorp used its own funds for reasons of speed, and later received supplementary funding from the Government to provide a capital base for credit guarantees. This type of recovery finance could be an important resilience mechanism for MSMEs if it can become sustainable and also retain its rapidity.

Private Sector Initiative – Philippine Disaster Resilience Foundation (PDRF)

The Philippine Disaster Recovery Foundation (PDRF) was established by a group of large manufacturing corporations focusing on supply chain issues in Metro Manila in the event of an earthquake. Originally focused on recovery, it has now changed the third word of its name to 'resilience' and broadened its focus beyond earthquake risk. The PDRF has identified a lack of knowledge on BCM as well as a demand for BCM training and has begun offering an introductory training course.

61 Ch. VII, Republic Act No. 7607, "Magna Carta of Small Farmers" 4 June 1992. <http://www.acpc.gov.ph/wp-content/uploads/2015/11/RA7606.pdf>

Towards a Road Map for MSME Disaster Resilience in the Philippines

Overview

The enabling environment for Philippine MSME disaster-resilience encompasses two main groupings of laws, policies and institutions. These are, on the one hand, the systems of disaster risk reduction and management and climate change adaptation (DRRM/CCA) which focus on hazards, risk reduction, response and recovery and, on the other hand, the array of policy and financial support mechanisms in place to encourage and support MSME development. There are few formal linkages between these two pillars of DRRM/CCA and MSME development, in terms of their legal and policy mandates. Consultations during the Manila mission for this report indicated that there are also few practical linkages, with the relevant institutions working largely in their separate spheres (indeed, at present the practical linkages between the DRRM and CCA systems themselves are reportedly minimal). This is not surprising, as both of these are broad policy areas with a large

scope and yet also with a particular type of expertise. But neither MSME development nor DRRM/CCA are 'sectors' as both are intended to support broad societal change, and implementation involves a range of actors, public and private, national and sub-national. However, the issue for MSMEs is that, at a government policy level, the question of their disaster resilience can easily be seen as both everybody's business, and nobody's business. Therefore, one of the key challenges for an MSME disaster-resilience roadmap, is to disaggregate the global question of "MSME disaster-resilience" into a series of policy bundles or activities that are implementable, and for which specific government agencies, private sector organizations, or other partners, are willing to take the lead.

In moving towards a roadmap to promote MSME disaster-resilience, it will be important to engage the relevant stakeholders, including private sector organizations or other groupings that can represent MSMEs across all key sectors,



and also to link with Government institutions' legal mandates, planning, policy and budgetary processes, as well as to access their expertise. Accordingly, this report does not make specific recommendations but, rather, raises issues for consideration during the process, some of which have been identified in the foregoing report as "roadmap issues". These are intentionally open-ended, as it is not the purpose of this report to provide answers, but to give a strategic policy analysis, identify issues, and propose a framework for the roadmap process.

The practical components of "MSME disaster-resilience" can be categorised according to the following four questions:

1. What more do we need to know about MSME disaster resilience?
2. Who needs to be concerned with a roadmap towards MSME disaster resilience?
3. How can the policy and institutional environment better enable MSME disaster resilience?
4. Where or through what mechanisms is it feasible to communicate with and access MSMEs?

What do we need to know?

What do we know about the extent and type of MSME disaster losses, their risk of exposure to hazards, and their vulnerability to different types of hazard? Do different categories of MSME have different risk factors? What do we know about the current level of knowledge, disaster-preparedness and disaster risk management of MSMEs? What support do they need to become more resilient to disasters? Do MSMEs in different sectors or regions, or of different size or type of business structure have different support needs? In addition to the survey results from the present project, and other available research on Philippine MSMEs needs, what else do we need to know?

1. The overall national data set and published analyses for MSMEs as a group remains limited. For example, PSA and BSMED appear to be using

different data sets to classify MSME size; the survey results indicate that the two criteria may give significantly different results on enterprise size, making it harder to determine the appropriate policy approach. There is scope for more detailed published analyses of the existing data, and also for collecting new data such as turnover and other enterprise characteristics. It may then be possible to undertake more specific policy targeting by size and type of enterprise if the national business census (or its reporting) also included:

- › enterprise assets
- › annual turnover
- › gender of owner
- › date of establishment of enterprise
- › other qualitative data on enterprise characteristics to enable more specific targeting

2. Increased data links between the MSME business development system and the DRRM and CCA institutions could also enhance the information available as the basis for improving MSMEs resilience. For example, PSA data on MSMEs by industry and geography could be correlated with risk mapping undertaken under the DRRM and CCA mandates, to identify background or shared community risk of MSMEs. In addition, this could be matched with climate change risk projections, especially sea level rise, and more intense cyclone effects, to clarify the background risk of MSMEs according to their location.

Who needs to be engaged?

Who are the MSME target groups? Who are the wider stakeholders? Who are the experts who can support the process, and help to fill the knowledge gaps? Who can implement the different policies, strategies or activities that may emerge from a roadmap process?



3. It may be useful to extend participation in the roadmap process beyond the current consultative group, to also engage with:
 1. MSMEs directly - three-quarters of the SME Survey respondents said they would be interested in participating in a national planning process to support SMEs to prepare for and recover from hazards and disasters. While some individual MSMEs may be available for such participation at a local level, it is understood that individual MSMEs have little time for such direct engagement, and it may be necessary to support greater development of MSME organizations to ensure they have a voice in ongoing policy formulation and implementation concerning MSME resilience
 - › MSME organizations or divisions within larger industry bodies
 - › Organizations of women in small business
 - › Key industry sectors where MSMEs are in significant numbers and/or which are most vulnerable to natural hazards:
 - › manufacturing
 - › retail
 - › tourism
 - › agriculture & fishing
 - › NGOs engaged in micro-credit
 - › Insurance industry
 - › LGUs
 - › DRRM Councils at Regional and Local level, to Barangay level (in addition to NDRRMC/OCD which are part of the existing group)
 - › Philippine Statistics Authority
 - › CCC/CCO
 - › Academia and technical institutions
 - › BCM trainers – institutions, certified consultants, large enterprises
 2. In particular, during the roadmap process, consideration should be given to specific regional consultations with MSME, LGUs and local DRRM Councils, sampling areas with different levels of socio-economic development, and a range of natural hazards including floods, storms, earthquakes, and vulnerability to sea level rise, including regional cities, rural and coastal areas.
- How can we create an enabling environment for MSME disaster resilience?**
1. Greater institutional integration between MSME development and the DRRM/CCA system institutions could enhance support for the cross-cutting issue of MSME disaster resilience. For example:
 - › Establish a more formal system to improve links between DTI, OCD and CCO at national level concerning MSME disaster resilience
 - › Include MSME needs in national DRRM policies, plans, strategies and resource allocations for DRR, awareness-raising, community-based disaster risk reduction and management (CBDRM), risk assessments, and risk mapping. In particular, include more specific references to MSMEs in the National DRRM Plan and Strategy, especially in DRR, prevention and preparedness.
 - › Institutionalise representation of MSMEs in the national DRRM system and bring MSMEs into the local DRRM system. As noted above, more than a quarter (28%) of SME Survey respondents reported that they are participating in a Barangay or Local Disaster Risk Reduction and Management Council. These local structures within the DRRM system are clearly an avenue for MSME education, awareness and participation in shared community disaster risk management. LGUs and local OCD offices could encourage sustained participation of MSMEs, by engaging with those already participating as communicators with other



- MSMEs in their locality or business sector. At the national level (and also regional and provincial), the private sector representation on the National Disaster Risk Reduction and Management Council is another avenue for advocacy of MSME needs in DRRM as well as dissemination of information to MSME constituents. It may be useful to clarify how private sector representatives become part of DRRM Councils, how many Barangay or Local DRRM Councils have private sector representation, and what criteria or process is used to appoint them (noting that criteria for appointment of CSO representatives is set out in NDRRMC memo Circular 3 of 2012).
2. Ensure DRRM and CCA risk assessments are part of the legal requirements, and are implemented, for planning all new Economic Zones or other industrial precincts intended to cluster MSME and foster enterprise development, and undertake risk assessments and any necessary mitigation measures to reduce exposure in existing economic zones.
 3. Better adapt existing disaster risk and recovery financing to MSME disaster resilience needs, leading through policy and implementation of the current legal framework and engaging private sector providers. For example, other financial institutions could tailor small loans for MSME disaster recovery, such as those developed by SBCorp following Typhoon Haiyan (Yolanda), which feature streamlined procedures, rapid payment, a repayment exemption period, and incremental increases in repayment amounts as the business recovers, over five years. Microfinance institutions and programs may be well placed to offer specific recovery products to MSMEs.
 4. Evaluate current developments in different types of affordable disaster risk insurance and risk financing as a basis for developing a wider range of risk financing options that are tailored to the budgets and risk needs of MSMEs. For example, there have now been a number of pilots of parametric or event-based insurance with a fixed schedule of payments for natural hazards (with the benefit of lower cost due to simplified claims procedures). The Philippines, Viet Nam and Indonesia, with technical assistance from the ADB, are reaching the end of projects looking at parametric insurance solutions for earthquake and/or typhoon risk in selected cities.⁶² GiZ also supports a Philippine-based project (RFPI).
 5. Use of greater MSME disaster resilience policy targeting based on geographical and industry sector characteristics may increase effectiveness of such interventions. For example, they could focus on:
 6. Regions or provinces: As noted earlier in the report, over sixty percent of all Philippine MSMEs are concentrated in just five regions, with forty-seven percent in the National Capital Region (NCR) and the two adjacent provinces, CALABARZON and Central Luzon. Information from multi-hazard risk assessments and risk mapping across these three regions could therefore provide crucial baseline information to almost half the nation's MSMEs about their exposure to hazards. A significant amount of this mapping work has been done or is being carried out by LGUs and the OCD, especially in Metro Manila/NCR, and with added effort since Typhoon Haiyan (Yolanda). It is timely now to make an overview study of progress so far, as such information can be used by both the government and the private sector. For example, government mapping of seismic fault lines in Metro Manila, combined with knowledge of the 2015 Kathmandu Valley earthquake, was one of the triggers for the establishment of the private sector initiative, PDRF described above; and while it began with a focus on the single hazard,

62 ADB. TA 7812, Developing a Disaster Risk Financing Capability (Indonesia, Philippines); ADB TA 8012, Disaster Risk Financing for Total Climate Risk (Viet Nam).



earthquakes, and out of concern for supply chain resilience, its focus is now much broader.

- › Industrial zones: Geographical concentrations of MSMEs in similar or related industries could be target groups, for example, those in special economic zones, such as the Agro-Industrial Economic Zones, or Technology Parks and Centers and Tourism related zones managed by the Department of Tourism. In such concentrations, the MSMEs are easier to gather, they share the same environmental exposure to hazards, and they will tend to have similar business continuity disaster risks because they are similar types of enterprise. Then, for example, DRM and BCM information and training could be tailored for them, and offered in or near those locations, or an area-specific insurance and/or other risk financing package could be negotiated for their particular risk profile and location. In some cases it may even be viable to undertake formal 'area business continuity plans' (area BCP) that take into account the local natural and technological hazards and supply chain vulnerabilities.⁶³
- › Industry sectors: Even where the MSMEs in a sector are widely dispersed, in the more organized industries, existing structures and institutions may be willing partners in communication and dissemination within their sector concerning disaster resilience. For example, the agricultural sector has many long-standing specialist organizations, financial institutions and systems in place to support the sector, which is principally made up of MSMEs. The criteria for accessing these support systems could include disaster and climate change resilience requirements, or these institutions could become partners in MSME resilience initiatives, or host training on BCM tailored for the agricultural sector, or disseminate information. The Department

of Agriculture (DA) also has an "e-Learning for Agriculture and Fisheries" initiative which could offer another platform for tailored distance education and training on DRM and BCP for disaster resilience in the dispersed MSMEs of the farming, fishing and forestry industries.⁶⁴ It may also be worthwhile to explore whether funds from the financial institutions' lending quotas under the Agri-Agra Reform Credit Act (discussed above) could be validly used for disaster resilience, either by individual MSMEs, their credit unions or organizations, or bodies such as the QUEDANCOR and PCIC. This type of sectoral focus could potentially look at a sectoral (or sub-sectoral) disaster risk assessment, and tailored information and training for the sector, along with including DRRM/CCA in new or existing risk financing options through sectoral government and finance facilities.

7. Support the further development of MSME business organizations as part of enhancing MSME disaster resilience by providing them with their own voice and advocates in the policy process. Larger corporations and/or government agencies could encourage and support the establishment of MSME sections or organizations, such as the nascent National Small Business Association, Philippines (NSBA PH).
8. Develop and disseminate targeted tools and training. For example, promote, use, or develop BCM manuals and training programmes that are based on a full risk assessment that includes natural and industrial hazards - disaster-resilient BCM. These need to be tailored to the requirements of different sizes, locations and sectors of enterprises.
9. Facilitate engagement by large Philippine enterprises and foreign companies who are interested in both their supply chain security and corporate social responsibility to support

63 Baba, Hitoshi, Taisuke Watanabe, Masafumi Nagaishi, and Hideaki Matsumoto. 2014. "Area Business Continuity Management, a New Opportunity for Building Economic Resilience." *Procedia Economics and Finance*, 4th International Conference on Building Resilience, 8th – 11th September 2014, Salford Quays, United Kingdom. 18: 296–303.

64 Department of Agriculture. "The e-Learning for Agriculture and Fisheries is a major component of the Philippine's Department of Agriculture's e-Extension Program, with the Agricultural Training Institute as the lead implementing agency, in collaboration with other government agencies, state universities and colleges and nongovernment organizations." <http://e-extension.gov.ph/elearning/>



disaster-resilient BCM for MSMEs in their supply chain. This modality is especially suitable for the manufacturing sector, where there is a very clear commercial interest for large corporations' own business continuity in ensuring that the MSMEs in their supply chains are disaster-resilient. It is thus a worthwhile investment for large businesses, for both national and international supply chains, which many have now recognized.

Where and through what mechanisms can MSMEs be accessed?

1. Existing channels in MSME development and business registration provide contact points to support disaster resilience. MSMEs routinely access government-business systems for reasons of compliance or for information or training. Such access points could also be utilised to provide MSMEs with information on topics such as: contact points for local DRRM structures, where to find local risk assessments and risk maps (where available), and how to interpret them, area emergency procedures, BCP, risk financing, disaster insurance, and public or private training opportunities in these areas. Such access points include:
 - › Negosyo Centers
 - › Point of registration of business name (DTI)
 - › Registration of enterprise
 - › Registration as a barangay micro enterprise (LGUs),
 - › BSMED / DTI training and other business capacity building for MSMEs
 - › Submission of taxation documents
 - › Application for business loan (various government and other financial institutions, especially the DBP)
 - › Application for insurance, risk finance or disaster compensation
2. Existing business financing, insurance and taxation mechanisms may be channels for the use of financial incentives, exemptions, conditions, and/or requirements for disaster risk assessments and evidence of disaster-resilient BCP. For example:
 - › Application for various industry standards certification
 - › Access to some forms of business registration and/or grants, training, or other business development support could be made dependent on investment in disaster-resilient BCP
 - › Investment in development and updating of disaster-resilient BCP could be tax deductible, along with associated BCP-preparation training
 - › Micro credit and small business loans criteria could include environmental and enterprise disaster risk assessment and/or BCP or other mitigation measures as part of the credit assessment. Although this could make access to credit more difficult, depending on how it is applied, it could also be used as a positive assessment tool to help MSMEs with such measures in place to get access to business capital and risk financing.
3. There is potential to mainstream disaster-resilience into health and safety compliance mechanisms. Since MSMEs already have compliance obligations and contact with the relevant standards and safety agencies, it may be effective in some industries for the relevant government agencies and standards bodies to incorporate assessment and mitigation of natural hazard and climate risks into standards, inspections, training, and compliance manuals, for hazards such as fire and industrial safety.

Tackling the identified roadmap issues

The specific roadmap issues identified in this report, which can be used as a starting point, are summarised below

Roadmap issue 1 • Enhancing MSME general and disaster risk data

The availability of different MSME statistical information and analysis could add important tools for a more targeted approach to MSME disaster-resilience policy interventions (as well as wider MSME development support). This could include:

- › A wider range of quantitative information and more large-scale qualitative data collection on MSME characteristics to allow more targeted policy interventions on disaster resilience, taking into account factors such as vulnerability by size, business structure, ownership, or industry sector, as well as exposure due to location.
- › The production of accessible national and local risk maps showing MSME concentrations cross-referenced with risk assessments and risk mapping from the DRRM system or other technical studies.

It is proposed that a review of the statistical basis for decision-making on MSME policies form part of a roadmap for promoting disaster-resilient MSMEs. This would dovetail with the current mandate of the PSA under its 2013 law to establish the consolidated Philippine Statistical System (PSS), including preparing a Philippine Statistical Development Program (PSDP), as well as undertaking other functions that the PSA Board requires.⁶⁵

Roadmap issue 2 • DRRM and BCM awareness and training

The SME Survey findings on MSME awareness of disaster risk and resilience strategies indicate there is a continuing need for awareness-raising and policy support for MSME disaster-resilience, especially:

- › Locally based MSME training on DRRM, including risk assessment, emergency drills, and awareness of local community DRRM structures and systems, including early warning
- › MSME training on business continuity management (BCM) that includes natural hazard risk assessments, as well as the development of relevant emergency procedures and drills for the enterprise

Roadmap issue 3 • Tailored Risk Financing

The SME Survey findings on the low uptake by MSMEs of formal risk financing mechanisms indicate:

- › A need for further research on the effectiveness of current self-help and informal financing, the reasons why so few MSMEs access formal risk financing mechanisms, and alternative modes of risk financing that MSMEs would welcome.
- › A need for further research on barriers to MSMEs accessing formal insurance, loans, and other risk financing, and on the current availability of suitable and affordable products from both private sector and government financial institutions and insurers.
- › Greater targeting of MSME disaster risk financing options at a policy level, based on the above further research, potentially as part of the mandatory lending frameworks for MSMEs under the Magna Carta law.

⁶⁵ S. 6., Republic Act No. 10625, the Philippine Statistical Act of 2013.



Roadmap issue 4 • MSME inclusion in DRRM and CCA policy, planning and local institutions

The DRRM system is intended to work cross-sectorally and at all levels of administration, with different agencies taking the lead on specific issues. At present, its policy planning does not identify DTI as a participating agency in any of the 4 key areas, and the needs of enterprises are addressed only in relation to the recovery phase. The roadmap process could be used to discuss ways in which MSMEs could be better integrated into the DRRM system, both in terms of meeting their needs and ensuring they have a voice in the institutional structures, especially at local level.

The Climate Change Commission's primary focus is integration of climate change awareness into all areas of government, and it also has a mandate to work with the private sector. Its public planning framework does not so far substantively address private sector vulnerability and reduction of climate risk through adaptation such as climate-risk-aware BCM. A question to consider during the road mapping process, is how relevant work and technical data from the CCC can be better integrated into both the DRRM system and the MSME development system with a focus on MSME disaster resilience.

Roadmap issue 5 • Effectiveness of broad-brush approaches to MSME support

One of the recurring themes in this report is that differentiation between MSMEs on the basis of size, industry, location, business structure etc. may be necessary to target effectively awareness-raising, training and other tools for increasing their disaster resilience. A potential focus for the roadmap process is to assess the extent to which common MSME policy approaches are effective, and to what extent greater targeting is needed.

Roadmap issue 6 • Financial assistance, risk assessments, DRRM and CCA

These first three examples of institutionalized mechanisms for business development finance in the MSME sector do not specifically include DRRM/CCA resilience, at least at the level of legislation and implementing regulations. They could potentially be tailored to increase MSME disaster resilience as a key aspect of business development, given the impact of disaster losses in the Philippines. This could be done through methods such as financing risk assessments including disaster risk, sector-specific disaster insurance, and tax exemptions for enterprise investment in disaster-resilient BCM. These structures may present many other potential options for including disaster resilience, which MSMEs and expert stakeholders could explore as part of a roadmap process.

Roadmap issue 7 • Rapid and flexible recovery finance

The innovative and flexible recovery loans scheme established by SBCorp could potentially be scaled up with greater government and private sector investment, as it has clearly filled a need for rapidly available recovery finance for MSMEs following a devastating event such as Typhoon Yolanda. However, in considering the future potential of such a scheme, stakeholders in the roadmap process may wish to consider how best to keep the rapidity and flexibility that characterised this scheme, as well as its sustainability.

Roadmap issue 8 • Large enterprise role in MSME resilience

There may be mutual benefit in larger enterprises or their foundations – such as the PDRF – in undertaking industry or supply-chain based awareness and BCM training. These initiatives are likely to be most effective if well-coordinated with government institutional support for MSMEs, and with the DRRM system institutions and risk mapping.



List of organizations met during the September 2015 mission

Consultative group

The mission commenced with a consultative group meeting, followed by a series of separate meetings to discuss the organizational policy portfolios in more depth. The consultative group meeting was attended by representatives from the OCD, PDRF, PTTC, DBP, SBCorp, DTI-BSMED, LBP, GIZ, ADB and Canadian Embassy.

Separate meetings were held with:

1. Office of Civil Defense (OCD)
2. Philippine Disaster Recovery Foundation (PDRF)
3. Philippine Trade Training Center (PTTC)
4. Development Bank of the Philippines (DBP)
5. Small Business Corporation (SBCorp)
6. DTI-Bureau of Small and Medium Enterprises Development (DTI-BSMED)
7. Land Bank of the Philippines (LBP)
8. Climate Change Office (DBP)
9. Makati City Disaster Risk Reduction and Management Office and Makati Business Council
10. Canadian Embassy
11. German Agency for International Cooperation (GIZ)
12. Asian Development Bank (ADB)

Annex 1

Selected Philippine laws and policies relevant to SME Disaster Resilience

Acts, Regulations, Decrees

“Agri-Agra Reform Credit Act of 2009,” Republic Act No. 10000 http://www.lawphil.net/statutes/repacts/ra2010/ra_10000_2010.html

- › “Implementing Rules and Regulations of Republic Act No. 10000, The Agri-Agra Reform Credit Act of 2009”. http://www.bsp.gov.ph/regulations/laws/RA10000_IRR.pdf

- › Executive Order 113, Establishing the Comprehensive Agricultural Loan Fund, Creating the Agricultural Credit Policy Council (1986). <http://www.acpc.gov.ph/wp-content/uploads/2015/11/E0113.pdf>

- › “The Agri-Agra Law” Presidential Decree No. 717, May 29, 1975, (repealed by R.A. 1000 of 2009 – of historical interest): http://www.lawphil.net/statutes/presdecs/pd1975/pd_717_1975.html

“Barangay Micro Business Enterprises (BMBEs) Act of 2002”, Republic Act No. 9178 http://www.lawphil.net/statutes/repacts/ra2002/ra_9178_2002.html.

“Climate Change Act of 2009”, Republic Act No. 9729, http://www.lawphil.net/statutes/repacts/ra2009/ra_9729_2009.html

“Credit Information System Act (CISA) of 2008,” Republic Act. No. 9510 <http://www.creditinfo.gov.ph/sites/default/files/downloads/RA%209510.pdf>

“Go Negosyo Act of 2014,” Republic Act No. 10644 <http://www.dti.gov.ph/dti/index.php/msme/sme-laws-and-incentives>

“Magna Carta for Small Enterprises Act of 1991,” Republic Act No. 6977 (As amended by R.A. 8289 of 1997 and R.A. 9501 of 2008). http://www.lawphil.net/statutes/repacts/ra1991/ra_6977_1991.html

- › R.A. 8289 of May 6 1997, An Act to Strengthen the Promotion and Development of and assistance to Small and Medium Enterprises (amending R.A. No. 6977, Magna Carta for Small Enterprises Act of 1991). http://www.lawphil.net/statutes/repacts/ra1997/ra_8289_1997.html

- › Republic Act No. 9501, the “Magna Carta for Micro, Small and Medium Enterprises Act of 2008” (amending R.A. No. 6977 of 1991 as amended by R.A. 8289 of May 6 1997, Magna Carta for Small Enterprises Act of 1991) <http://www.gov.ph/2008/05/23/republic-act-no-9501>.

“Magna Carta of Small Farmers,” Republic Act No. 7607, 4 June 1992. <http://www.acpc.gov.ph/wp-content/uploads/2015/11/RA7606.pdf>

“Philippine Disaster Risk Reduction and Management Act of 2010”, Republic Act No. 10121, the <http://www.gov.ph/2010/05/27/republic-act-no-10121/>



- NDRRMC Memorandum Circular No. 3 Series of 2012 “ Guidelines for the Selection of Representatives from the Civil Society Organizations (CSOs) to the National and Local DRRM Councils.” http://www.ndrrmc.gov.ph/attachments/article/1868/NDRRMC_Memorandum_Circular_No_03_Series_of_2012.pdf
 - PSA. 2013. “2012 Updating of the List of Establishments (ULE) 2012: Final result”. <http://census.gov.ph/content/2012-updating-list-establishments-ule-final-result>
 - MSMED Council. 2004. “SME Development Plan 2004-2010.” <http://www.dti.gov.ph/dti/index.php/msme/smed-plan>
- “Philippine Statistical Act of 2013,” Republic Act No. 10625 <http://www.nscb.gov.ph/psaNew/RA10625.asp>
- “Implementing Rules and Regulations of Republic Act No.10625, the Philippine Statistical Act of 2013.” <http://www.nscb.gov.ph/psaNew/irr.asp>

Policies, Strategies and Guides

Climate Change Commission. 2010. “The National Climate Change Action Plan (NCCAP)”. Manila: CCC. http://adaptationmarketplace.org/data/library-documents/NCCAP_TechDoc.pdf

BMSMED (Bureau of Micro, Small, and Medium Enterprise Development). Undated. “Catalog of Information Materials for MSMEs.” <http://philippines.smetoolkit.org/philippine/en/file/content/6882/en/cataloginformationmaterials.pdf>

BMSMED. 2010. “Guide to R. A. 9178: Barangay Micro Business Enterprises (BMBEs) Act of 2002.” <http://www.dti.gov.ph/dti/index.php/msme/sme-laws-and-incentives>.

MSMED Council. 2012. “Micro, Small, and Medium Enterprise Development Plan for 2011 to 2016.” <http://www.dti.gov.ph/dti/index.php/msme/smed-plan>.

NDRRMC. 2010. “National Disaster Risk Reduction and Management Plan (NDRRMP) 2011- 2028”. http://www.ndrrmc.gov.ph/attachments/article/41/NDRRM_Plan_2011-2028.pdf

SME Resilience Survey Sample and Methodology

Annex 3

The SME Survey was based on 513 MSME respondents from 17 of the 18 regions. It aimed to identify Philippine MSME perceptions of disaster risk, their experience of disasters that disrupted business, and their exposure to and practice concerning business continuity management (BCM) that incorporates disaster risk assessment and contingency planning. The survey was conducted through four modes with the help of project partners.

The respondents were reached through email, Survey Monkey and at events like conferences, trainings and seminars. A total of 513 enterprises responded to the survey, coming from the following sources: email, 31%; Survey Monkey, 28%; mail 23%; and events 18%.

The survey questions were grouped into seven parts.

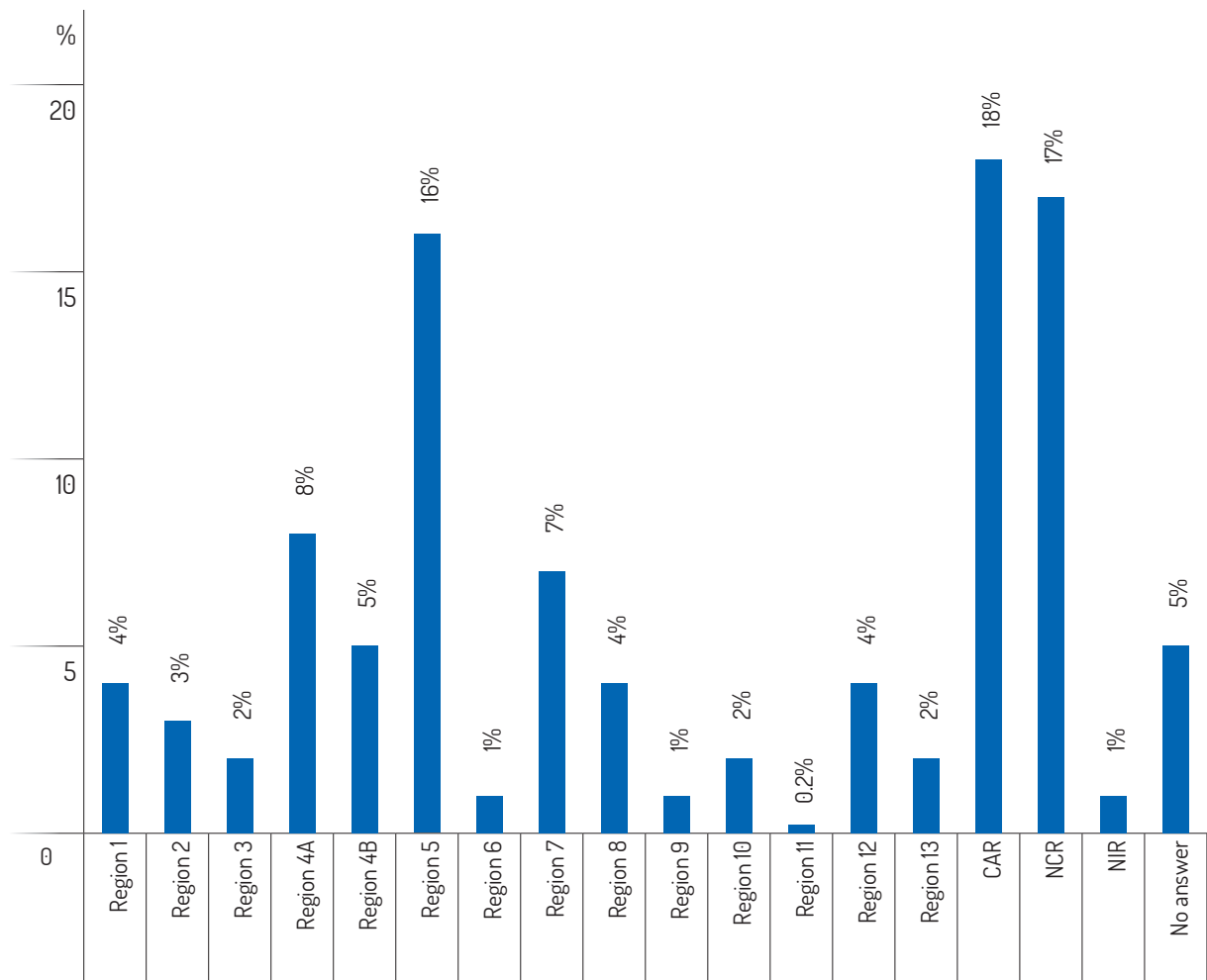
| | |
|--------|--|
| Part 1 | Basic information about the survey respondent |
| Part 2 | Risk exposure and previous disaster experience |
| Part 3 | BCP adoption |
| Part 4 | Incentives and training needs |
| Part 5 | Additional DRR information |
| Part 6 | Contact information |
| Part 7 | BCP implementation |

The first set of questions sought basic information about the business operations of the respondents, such as type of the business, gender of owner, year of establishment, location, number of employees and value of assets. These questions make it possible to classify the respondents according to sector and enterprise size (i.e., micro, small, medium, or large). Then, there were questions about perceptions of risk exposure and actual disaster experiences. The intent was to identify which among the many potential natural and human-made hazards are of concern to SMEs, including those which have actually affected them in the past including the extent of damages and how it impacted their businesses. The next category of questions sought to assess the status of BCP adoption and implementation by identifying by respondents. The questions also solicited inputs from respondents on what government can do to promote BCP amongst SMEs. The last group of questions dealt with existing risk reduction measures, previous relevant training and current training needs. These provide additional information on the level of resilience of respondents and their capacity to the mitigate impacts of future disasters.

There was a conscious effort to get representation across the country. To do this, DTI regional and provincial offices provided assistance in order to gather respondents from different parts of the country. Out of the 18 regions, 17 are represented. There is no respondent from the Autonomous Region of Muslim Mindanao (ARMM). The most of the respondents came from Cordillera Autonomous Region (CAR), National Capital Region (NCR) and Region V.



Figure A1 Geographic distribution of respondents according to region



This publication is an output of the regional project “Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia”. The overall objective of the project is to build disaster-resilient capacities in SMEs in Indonesia, the Philippines, Thailand and Viet Nam by undertaking the following activities: 1) Identifying actions to strengthen resilience of SMEs; 2) Providing technical assistance in strengthening resilience to selected SMEs on a demand-driven basis; 3) Supporting governments in strengthening the enabling environment that promotes risk sensitive and informed investments by SMEs; 4) Facilitating knowledge sharing; 5) Up-scaling, leveraging and formalizing business resilience tools, platforms and initiatives.

National Partners

Indonesia

- Ministry of Cooperatives and SMEs (MoCSME)
- Indonesian National Board for Disaster Management (BNPb)

Philippines

- Department of Trade and Industry (DTI)
- National Disaster Risk Reduction and Management Council (NDRRMC)

Thailand

- Office of Small and Medium Enterprises Promotion (OSMEP)
- Department of Disaster Prevention and Mitigation (DDPM)

Viet Nam

- The Ministry of Planning and Investment (MPI)
- The Disaster Management Center (DMC)