

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

Indonesia • Philippines • Thailand • Viet Nam



**REGIONAL  
SYNTHESIS  
REPORT**



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.



The Asian Development Bank (ADB) is a multilateral development finance institution dedicated to reducing poverty in Asia and the Pacific. ADB assists its members, and partners, by providing loans, technical assistance, grants, guarantees, and equity investments to promote social and economic development. With support from the Government of Canada, ADB established the Integrated Disaster Risk Management (IDRM) Fund in 2013, to assist the development of proactive IDRM solutions on a regional basis within ADB's developing member countries in Southeast Asia, including Cambodia, Indonesia, Laos, Myanmar, Philippines, Thailand and Viet Nam. The Fund provides a strong mechanism for supporting ex ante investment in IDRM and complements the existing financing modalities of ADB for supporting ex post relief and recovery activities.



In order to respond more effectively to the global challenges posed by disaster risks, the German Government, led by the Federal Ministry for Economic Cooperation and Development (BMZ), has founded the Global Initiative on Disaster Risk Management (GIDRM). The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has been commissioned to manage the GIDRM. The aim of the Global Initiative is to bring together German and regional experts from the public and private sectors, civil society and the academic and research community, to facilitate mutual learning across national boundaries as well as to develop and pilot innovative disaster risk management solutions. The Global Initiative focuses on three priority areas including Disaster Response Preparedness and Civil Protection; Critical Infrastructure and Risk-sensitive Economic Cycles; and Early Warning Systems.



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## Acronyms

- ADB** Asian Development Bank
- ADPC** Asian Disaster Preparedness Center, Bangkok
- AEC** ASEAN Economic Community
- AED-MPI** Agency for Enterprise Development (Viet Nam)
- A-PAD** Asia-Pacific Alliance for Disaster Management
- APBSD** ASEAN Policy Blueprint for SME Development
- APEC** Asia-Pacific Economic Cooperation
- APINDO** The Employers' Association of Indonesia (for Bahasa, Asosiasi Pengusaha Indonesia)
- ASEAN** Association of Southeast Asian Nations
- ASEC** ASEAN Secretariat
- BAPPENAS** National Development Planning Agency (Indonesia - known by its Bahasa acronym)
- BCP** Business continuity plan
- BCM** Business continuity management
- BNPB** National Disaster Management Agency (Indonesia - for Bahasa Badan Nasional Penanggulangan Bencana)
- BMZ** German Ministry for Economic Development and Cooperation
- BOI** Board of Investment (Thailand)
- BSMED / BMSMED** Bureau of Micro, Small and Medium Enterprise Development, DTI (Philippines)
- CBDRR** Community Based Disaster Risk Reduction
- CBDRM** Community Based Disaster Risk Management
- CCA** Climate change adaptation
- CCC** Climate Change Commission (Philippines)
- CCO** Climate Change Office (Philippines)

- DBD** Department of Business Development.
- DBP** Development Bank of the Philippines
- DMC** Disaster Management Center, MARD (Viet Nam)
- DPM** Disaster prevention and mitigation (Thailand, equivalent to DRM)
- DDPM** Department of Disaster Prevention and Mitigation (Thailand)
- DRR** Disaster risk reduction
- DRM** Disaster risk management
- DTI** Department of Trade and Industry (Philippines)
- GIDRM** Global Initiative on Disaster Risk Management
- ECOP** Employers Confederation of the Philippines
- GIZ** Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
- GVCs** Global Value Chains
- IDRM Fund** Integrated Disaster Risk Management Fund, ADB
- IPCC** Intergovernmental Panel on Climate Change
- KADIN / CCI** Indonesian Chamber of Commerce and Industry (for Kamar Dagang dan Industri Indonesia)
- LGU** Local Government Unit (Philippines)
- MARD** Ministry of Agriculture and Rural Development (Viet Nam)
- MNDP** Ministry of National Development Planning (Indonesia)
- MoFE** Ministry of Forestry and the Environment (since 2015) (Indonesia)
- MOCSME** Ministry of Cooperatives and SMEs (Indonesia)
- MONRE** Ministry of Natural Resources and Environment (Thailand and Viet Nam)
- MPI** Ministry of Planning and Investment (Viet Nam)
- MSMEs** Micro, Small and Medium Enterprises

- NCIF** National Catastrophe Insurance Fund (Thailand)
- NDPC** 'Natural disaster prevention and control' (used when referring to the specific scope of the Viet Nam law, otherwise the term DRM is used) (Viet Nam)
- NDRRMA** Philippine National Disaster Risk Reduction and Management Act
- NDRRMC** Philippine National Disaster Risk Reduction and Management Council
- NEDA** National Economic Development Authority (Philippines)
- OCC** Office of Climate Change, Office of Natural Resources and Environmental Policy and Planning (ONEP), MonRE (Thailand)
- OCD** Office of Civil Defense (Philippines)
- OSMEP** Office of Small and Medium Enterprise Promotion (Thailand)
- PCCI** Philippine Chamber of Commerce and Industry
- PDRF** Philippine Disaster Recovery Foundation
- PDP** Philippine Development Plan
- PhilExport** Philippine Exporters Confederation Inc.
- PTTC** Philippine Trade Training Center
- SBCorp** Small Business Corporation (Philippines)
- 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
- TAC-Hanoi** Assistance Center for SME-North Viet Nam, MPI
- UNFCCC** United Nations Framework Convention on Climate Change
- VINASME** Vietnam Association of Small and Medium Enterprises
- VCCI** Viet Nam Chamber of Commerce and Industry





# 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 organizational 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 – (UNISDR)<sup>1</sup>**

“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.”

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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.



### **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 analyze 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.”

### **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 (IPCC<sup>2</sup>)**

“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.”

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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](http://www.ipcc.ch/pdf/special-reports/srex/SREX-Annex_Glossary.pdf)

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## Executive Summary

In 2015, the iPrepare Business facility began working with country partners in Indonesia, the Philippines, Thailand, and Viet Nam to implement a regional project on “Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia.” The project aimed 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 project has been supported by the Integrated Disaster Risk Management Fund of the Asian Development Bank (ADB), a 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). All partners are listed on the back cover of this report under the project partners.

The key elements of the project were:

In each project country:

- a. One or more initial consultative meetings or workshops hosted by government partners
- b. A survey of SME perceptions of risk, disaster experience, preparedness for likely hazard events, and business continuity planning for disaster risk reduction and recovery, and preparation of a report of each country survey results;
- c. A country policy report providing a strategic policy analysis of the enabling framework for disaster-resilient SMEs, analyzing the policy implications of the SME survey results, and based

- on research on the laws, policies and institutions relevant to SME disaster resilience, as well as on country consultations.
- d. Preparation of Roadmaps for promoting SME disaster resilience in each country, based on the country policy reports as well as national partner and stakeholder meetings

At the regional level:

- e. The April 2016 “Asian Business Forum 2016 – Risk Reduction and Resilience Building,” held in Bangkok, which was an opportunity to share some of the work-in-progress from the country work.
- f. The present regional synthesis report, which updates and expands a summary provided in April, giving a more detailed overview of project outputs for each country, including the country Roadmaps developed since that time. It identifies key themes that emerged from the country projects that are of relevance to the broader Asian region, both in terms of the characteristics and needs of SMEs, and the policy approaches that seem likely to be most successful.

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## The surveys

The country survey results identified a need to promote greater awareness and understanding of disaster risk as part of business continuity, as well as reinforcing the need for BCM as such. Respondents reported:

- a. Low awareness of natural hazards as potential risks to business continuity in Indonesia, Thailand and Viet Nam, but much higher in the Philippines, which is also the country that has been struck most recently by extreme weather events.
- b. Significant losses from disasters, although for Indonesia the recent economic downturn at the time of the survey was more prominent
- c. Little knowledge or use of business continuity planning
- d. Relatively low awareness or training in DRM, although some use of disaster contingency planning was noted

The surveys also indicated that SMEs respondents used very little formal risk financing, especially disaster insurance, and that they tend to rely on personal savings, family and informal financing to recover from disasters. Based on the surveys and country consultations, it appears that the reasons for this are a combination of traditional self-reliant approaches, and a lack of access to

risk financing products that are affordable and flexible enough for micro and small enterprises. These findings suggest there would be much more uptake of risk and recovery financing by small enterprises if the products were available, whereas currently SMEs face a general lack of access to capital because of their lack of assets to guarantee loans. In the Philippines and Indonesia the increased use of credit guarantee schemes for institutions lending to SMEs is one approach that is showing a degree of success, and which has the potential to be extended to disaster risk financing.

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## The enabling environment

### Good practice national law and policy

SME disaster resilience is a cross-cutting issue for governments, in that it is not the core business of any one government agency. At government level, there tend to be (a) agencies that support SME commercial development but not their resilience to disasters, and (b) disaster and climate risk management institutions that have broad mandates for government and community, but do not focus on the specific needs of SMEs. The SME surveys, country consultations, policy reports and roadmap processes during this project nevertheless revealed a high level of interest and commitment to SME disaster resilience by governments and the private sector in all four countries, even though the project's approach of combining disaster risk awareness and business development was a new way to conceptualize the issue.

All the project countries have laws and/or policies and institutions for:

- a. disaster risk management, with broad institutional mandates at all levels of government, including some scope for private sector participation.
- b. climate change adaptation (CCA).
- c. SME development in general

There is thus a very solid foundation in each country for supporting SME disaster resilience provided the relevant institutions are able to work together to this end. To varying degrees there are also mechanisms to support SME access to finance, especially in the Philippines and Indonesia, which have extensive systems of government lending institutions with mandates to provide finance to SMEs for business development, as well as credit guarantees for SME loans.

## Gaps in support for SME disaster resilience

Six key gaps were identified:

1. **The government responsibility gap - SME disaster resilience as 'everybody's business and nobody's business.'** The question of SME resilience to disaster and climate risk is often falling between the two main policy pillars of, on the one hand, DRM and climate change and, on the other hand, SME development. Therefore, at present, this cross-cutting issue can often be characterized as 'everybody's business and nobody's business.' These findings highlight the need to create new mechanisms for cross-sectoral cooperation within government, and between government and industry to support SME disaster resilience.
2. **The SME data gap:** More detailed national data collection and publication on the characteristics of SMEs may be required to underpin more targeted and nuanced policy initiatives, including statistics on gender of SME ownership/management.
3. **The hazard risk data gap:** More of the data from disaster and climate risk assessments and risk mapping needs to be made available to communities and SMEs in ways that are (a) easily understood by non-experts and (b) specific to local areas and types of industries. Cross-referencing of such data with national data on SMEs could provide invaluable information for SME disaster risk assessments.
4. **The SME organizational gap:** SMEs are widely dispersed and currently not well organized in industry sectors or as national groupings of small businesses. While the larger industry organizations have endeavored to advocate for SME interests, there is a need to encourage more specific sections within them and/or the establishment of separate organizations, to speak for SMEs in the policy process. This representation is also important regarding women owners and operators of SMEs.
5. **The SME knowledge gap:** The overwhelming feedback from SMEs surveyed was that they did not yet know enough about either BCM or DRM, and were keen to receive more information, training and incentives to become resilient. This can be described as the SME knowledge gap.
6. **The SME risk financing gap:** The study countries varied in the reported levels of risk financing and access to disaster insurance, but on the whole SMEs reported little use of and little access to risk financing. Government initiatives, where they exist, have primarily focused on SME access to capital, but the country reports indicated a need to focus more on flexible small-scale risk financing, especially affordable disaster insurance products aimed at the SME market.



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## The way forward

The roadmap processes provided an opportunity to address these gaps, especially how to institutionalize cooperation between the different government sectors, and to look at concrete ways for government and the private sector to work together to improve SME disaster resilience. But this is only the beginning of a longer process within each country.

The key contributions of this project have been to look at the situation of SMEs in four countries, Indonesia, the Philippines, Thailand and Viet Nam, both for the purpose of recommending strategies in each country, and to draw out common regional issues. The project has:

- provided new insights through surveys on SMEs perceptions of their own disaster resilience and their needs for awareness and training
- identified key policy and institutional barriers in government support for SME disaster resilience
- clarified a range of practical concerns that can be addressed by the private sector and governments acting together to improve SME disaster resilience

It is hoped that this project will contribute to making SME disaster resilience part of the mainstream concept of business development in the Southeast Asian region, and, ultimately, that the conversation and practical initiatives now begun will lead to a real improvement in resilience demonstrated by a reduction in SME economic losses due to disasters.

## Introduction

A disaster-resilient enterprise is one that has the capacity to resist, absorb and recover from a disaster that affects it, in a way that enables it to continue to grow and develop, and even improve. Many of the negative business impacts of natural and other hazards can be reduced if small and medium enterprises (SMEs) and governments understand and reduce disaster risk where possible, and prepare well for the hazards that cannot be avoided.

In 2015, the iPrepare Business facility began working with country partners in Indonesia, the Philippines, Thailand, and Viet Nam to implement a regional project on “Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia.” The project aimed 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 project has been supported by the Integrated Disaster Risk Management Fund of the Asian Development Bank (ADB), a 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). All partners are listed on the back cover of this report.

In April 2016 the Project partners convened “The Asian Business Forum 2016 – Risk Reduction and Resilience Building,” in Bangkok, which was an opportunity to share some of the work-in-progress of the regional project. At that time a brief Progress Report on the Regional Project was provided. The present Regional Synthesis Report updates and expands the April progress report, providing a more detailed overview of project outputs for each country, including the country Roadmaps developed since that time. Its aim is to identify key themes that emerged from the country projects that are of relevance to the broader Asian region, both in terms of the characteristics and needs of SMEs, and the policy approaches that seem likely to be most successful.



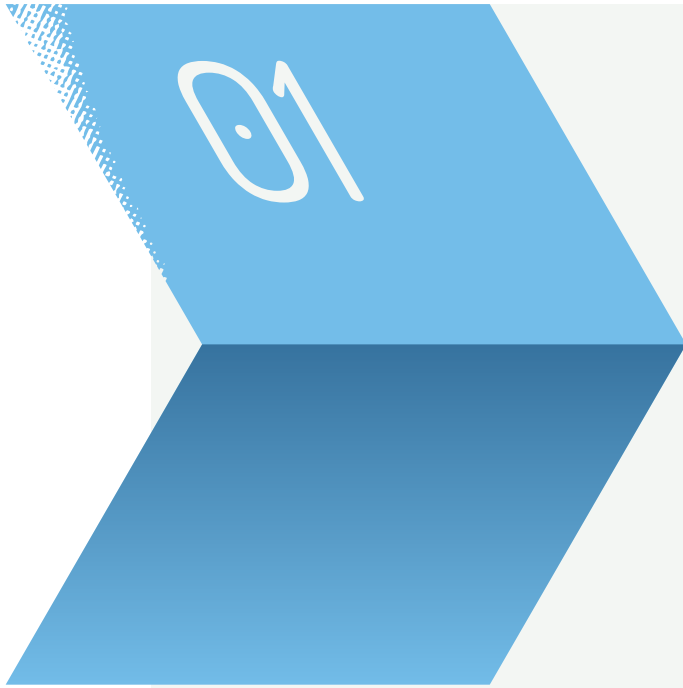


The regional project commenced and advanced in a different way in each of the four countries. The iPrepare Business facility had been working on the issue of SME disaster resilience with partners in Thailand for over two years before this project commenced, while the Philippines, Viet Nam and Indonesia projects began progressively from mid 2015.

Each country project involved:

1. One or more consultative meetings or workshops hosted by government partners
2. A survey of SME perceptions of risk, disaster experience, preparedness for likely hazard events, and business continuity planning for disaster risk reduction and recovery (sampling around 500 SME respondents in each country);
3. Preparation of draft reports for consultation, based on the SME survey results, desk research on the laws, policies and institutions relevant to SME disaster resilience, and consultation meetings and workshops. These reports provide a strategic policy analysis of the enabling framework for disaster-resilient SMEs. Before finalization, they were discussed with country partners and other stakeholders as the starting point for national roadmaps for SME disaster resilience.
4. Specific meetings and consultations around the preparation of Roadmaps for promoting SME disaster resilience in each country.
5. National forums which brought together key stakeholders from government, private sector, development partners and academia working on the issues of SME Development and DRM

SME disaster resilience is a cross-cutting issue for governments, in that it is not the core business of any one government agency. At government level, there tend to be (a) agencies that support SME commercial development but not their resilience to disasters, and (b) disaster and climate risk management institutions that have broad mandates for government and community, but do not focus on the specific needs of SMEs. The roadmap process since April 2016 has engaged the government institutions involved with SME development and trade, disaster risk management (DRM), and climate change adaptation (CCA), as well as private sector organizations, SME financing institutions, and other stakeholders, including civil society, academic and technical organizations. The objective was to bring together the many actors who support SMEs in different ways.



## The regional and global context

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### SME development

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.<sup>3</sup> 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.<sup>4</sup> 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,<sup>5</sup> and they have thus been identified as requiring additional support for development and promotion.

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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.

SMEs have been identified by both ASEAN and APEC as central to the economic development of the Southeast Asian and Asia-Pacific economies, respectively. Accordingly, both of these regional organizations have developed plans, strategies and resources for member countries to support SME development. The policy interventions advocated at regional level recognize that SMEs have particular challenges to their growth and development as well as their overall resilience, such as limited access to finance, to new technologies, and to export markets. This is of concern because a competitive SME sector is now widely regarded as a precondition for sustainable development, given that this sector generates so much employment, contributes to diversity in economic activities and to development at the local level.<sup>6</sup>

ASEAN's support for SMEs is based on support for 'inclusive and broad-based economic and social development' in the

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6 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. 2.

region, and a vision of regional prosperity generated through the establishment of the ASEAN Economic Community (AEC).<sup>7</sup>

Business continuity has been a key focus for APEC, especially through its Small and Medium Enterprise Working Group (SMEWG),<sup>8</sup> while the APEC Emergency Preparedness Working Group (EPWG) has focused on 'Preparing SMEs for Disasters', and research and tools have been developed by the APEC SME Crisis Management Center.<sup>9</sup> The APEC initiatives aim to enhance SME development and also address the question of preventing disaster losses.

Notably, all of the four priority areas of the Sendai Framework for Disaster Risk Reduction 2015–2030 (SFDRR)<sup>10</sup> highlight areas where the private sector, including SMEs, can support resilience building efforts, including at the national and local levels. These are: (1) Understanding Risk, (2) Strengthening disaster risk governance, (3) Investing in DRR resilience and (4) enhancing disaster preparedness for effective response and building back better in recovery, rehabilitation and reconstruction.

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## SME Disaster Resilience

The concept of resilience can be applied to economic shocks and SME 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.<sup>11</sup> In addition to purely economic and business challenges, SMEs

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.

As the concept of resilience is used extensively in this report it deserves a brief explanation. A useful definition is that resilience refers to:

*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.*<sup>12</sup>

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 SMEs 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 SMEs. A widely accepted definition of disaster is:

7 ASEAN. 2010. "ASEAN Strategic Plan of Action for SME Development (2010-2015)". P. 2.

8 APEC-SMEWG (Small and Medium Enterprise Working Group). 2013. "Guidebook on SME Business Continuity Planning." Taipei, Taiwan: APEC.

9 For example, a special edition on SME business continuity planning in the face of disasters of the "APEC SME Monitor", Issue 16, June 2014. Taipei, Taiwan: APEC-SCMC (SME Crisis Management Center).

10 UNISDR. 2015. Sendai Framework for Disaster Risk Reduction 2015-2030 (adopted at the Third UN World Conference on Disaster Risk Reduction in Sendai, Japan, on March 18, 2015), at <http://www.unisdr.org/we/inform/publications/43291>

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

12 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](http://www.ipcc.ch/pdf/special-reports/srex/SREX-Annex_Glossary.pdf)

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.<sup>13</sup>

Thus, the disaster risk of SMEs 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),<sup>14</sup> 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, 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 SMEs is not just about how they respond to hazards and recover from disasters, it is also about SMEs 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 has been to address, so far as possible, a range of hazards and their consequences that SMEs 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 SME 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 SMEs themselves and by government policies intended to support SME 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 SMEs need to consider, while noting that climate risk alone does not describe all relevant natural hazards (e.g. earthquakes).

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#### A note on terminology - SMEs or MSMEs?

As noted, the regional project has used the term "SMEs" rather than the micro, small and medium enterprises ("MSMEs"), which is the preferred term in the Philippines. However, each project country (and indeed each country in the Southeast Asian region) has a different set of definitions, based on a range of criteria including capital value, employee numbers, industry sector and annual turnover. Indonesia, the Philippines, Thailand and Viet Nam, all define micro/very small, small and medium enterprises differently; and in Thailand there is no distinction made between micro and small enterprises. Hence, the SME terminology used in this report should be understood as including micro and very small enterprises, as well as small and medium enterprises.

In fact the term 'MSME' is being used increasingly in the region. The ASEAN Strategic Action Plan for SME Development 2016–2025 recognizes that definitions of micro, small, medium and large enterprises vary considerably between member states, and there is a lack of comparable and reliable data. However, it states that due to the importance of micro enterprises in the region, the plan incorporates initiatives related to them, and

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13 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.

14 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>.

it uses the term MSME throughout.<sup>15</sup> The two key APEC policy statements adopted in 2015 also refer to MSMEs. These are the Iloilo Initiative, and the Economic Leaders' Declaration, both made under the Philippines' chairmanship of APEC.<sup>16</sup>

The MSME approach can be used to sub-divide the small enterprise category in order to better differentiate the characteristics of micro and small enterprises, and the types of support needed. Used in this way, the recognition of micro enterprises has the effect of putting a minimum size on small enterprises, something which Gibson and van der Vaart argued would be a useful addition, especially in countries where small or SME classifications have comparatively high maximum sizes.<sup>17</sup>

Use of MSME as a policy classification may also take account of micro enterprises that have not have been included in statistical data and policy initiatives in the past, due to being part of the informal sector, or because their sheer numbers and dispersal are a challenge for both data collection and policy interventions at scale. Increased understanding of micro enterprise development could also help understand small enterprise development. There is evidence that micros not only provide consistent employment and family livelihoods over many

years, but a significant proportion also mature into small and medium businesses over time, (although this is an area requiring further research).<sup>18</sup> The MSME approach has the potential to enable more precise policy interventions as between micro and small enterprises, as well as encouraging micros to enter the formal sector to take advantage of initiatives aimed at their growth and development. As noted below, the disaster resilience needs of micro enterprises may also be rather different from those of small and medium enterprises, as they are more likely to be embedded in local communities and family homes, and more reliant on general community response for the physical safety of owners and employees, as well as stock.

Ultimately the needs of the various sized enterprises regarding support for disaster resilience may be different from each other, just as the needs in different industry sectors and geographical regions may vary, but it is important to include the whole spectrum of enterprise size from micro to medium. The regional trend appears to be towards separating out the micro/ very small enterprises from small enterprises to enable better policy targeting, both for SME development and disaster resilience.

15 ASEAN. 2015. "ASEAN Strategic Action Plan for SME Development 2016-2025." P.

16 "The APEC Iloilo Initiative: Growing Global MSMEs for Inclusive Development: Statement of the 22nd APEC Small and Medium Enterprise Ministerial Meeting, September 25, 2015." Iloilo City, the Philippines; and "The 23rd APEC Economic Leaders' Declaration - Building Inclusive Economies, Building a Better World: A Vision for an Asia-Pacific Community, November 19, 2015." Manila, the Philippines.

17 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. 5. (Even while they argue against using the term MSMEs).

18 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).



## What the surveys told us about SMEs and their disaster resilience

**S**urveys of SME disaster resilience and their knowledge of business continuity planning were conducted in the four countries in late 2015. The same survey questionnaire was used in each country, with translation to the national language and some small adaptations made to use locally understood terminology. Sample sizes ranged from 400 to over 500. Sampling methods varied slightly and these are noted where relevant. In particular, the Indonesia survey was a targeted survey, while the other three were randomized to the greatest extent possible in each situation.

Highlights of the survey findings for each country are outlined below. It is clear from all of them that SMEs in the four countries suffer considerable disruptions and losses from both natural and human-made hazards, but their awareness of disaster risk is low, except in the Philippines. In general, SMEs report that they lack the tools and knowledge about how to become more resilient to disasters. There is a demand for training on both DRM and how to develop business continuity plans (BCPs). On the other hand, SMEs are also concerned with

a range of purely economic risks. They do not want to spend time and money on risks they do not think are real, or which they do not think they can reduce. So part of the challenge is to convince SME owners that natural and other hazards do not inevitably cause disruptions or even complete closure of smaller businesses, but are business risks that they can often manage. For this understanding to grow, SMEs need access to technical knowledge about the risks posed by such hazards, to assess how much these do affect the bottom line, and to understand what they can do to reduce those risks to a reasonable level.

The following paragraphs provide a brief summary of the main survey findings in each project country, and a small selection of the data in graphic form. A more extensive summary is provided in each country policy report, while the full SME survey reports are also available for those seeking more detail.



Table 1 Definition of SMEs in Indonesia under Law No. 20 of 2008

Enterprise size	Value in IDR of Assets (excluding land and buildings) OR Total annual sales	Approx. Value USD March 2016
Micro	Assets less than 50 million OR Sales less than 300 million	Assets less than 3,740 OR Sales less than 22,440
Small	Assets 50-500 million OR Sales 300 million – 2.5 billion	Assets 3,740 to 37,400 OR Sales 22,440 to 187,000
Medium	Assets 500 million – 10 billion OR Sales 2.5 – 50 billion	Assets 37,400 to 747,999 OR Sales 187,000 to 3.74 million

## Indonesia Survey

The majority of the 400 respondents from Indonesia were micro enterprises – 75% – with small enterprises making up 24% and medium and large each less than 1% (there are no equivalent government figures published to compare whether this is similar to the national breakdown). The SME respondents also demonstrated a high level of gender balance in ownership of the enterprises, consistent with the overall gender balance in self-employment in Indonesia.

The legal definition of SMEs in Indonesia is provided in Law No. 20 of 2008 on Small and Medium Enterprises. An SME is a productive entity owned by an individual or individual business unit, excluding foreign-owned or foreign-invested firms, and is defined by both assets (excluding land and buildings) and annual sales, as set out in Table 1. For government policy purposes, this single definition has replaced a range of different methods of categorization by different agencies, paving the way for greater policy consistency.<sup>19</sup> The same definition of small and medium is now also used for taxation purposes,<sup>20</sup> although capital markets use a different definition. Unlike SME definitions

in many other countries, it does not include any measure of number of employees.

The Indonesian survey was a targeted survey rather than a random sample across the country. It focused on urban SMEs in the hazard-prone areas of Aceh, Jakarta, West Java, and Yogyakarta. The survey results therefore reflect the disaster preparedness needs of Indonesian SMEs in urban areas of three localities in three disaster-prone regions.

The survey indicated that both the use of BCP and awareness on natural hazard risks, were low. This may be partly attributable to the fact that urban SMEs are less directly exposed to natural hazards, compared with the agricultural sector for example, but also because most survey respondents represented relatively young enterprises (53% had been in operation less than 5 years, and a total of 80% had commenced since 2005, after the December 2004 Indian Ocean Tsunami). A lack of direct experience may have led to a lack of awareness or preparedness for future natural hazards and climate change stresses.

➤ The top 5 most mentioned hazards that the Indonesia respondents indicated had the greatest potential to disrupt their business operations were: regional/global economic crises (45% listed), then in descending order, fire, theft, foreign currency fluctuations and power blackout (26% listed). Natural hazards appeared as a second tier of concern, albeit still significant, with the next 5 most mentioned hazards

19 Machmud, T. M. Z. and R. N. Siregar (2010), "Small and Medium Enterprises in Regional Production Networks: An Indonesian Case", in Vo, T. T., D. Narjoko and S. Oum (eds.), *Integrating Small and Medium Enterprises (SMEs) into the More Integrate East Asia*. ERIA Research Project Report 2009-8, Jakarta: ERIA. pp.334-373, at 336.

20 Mourougane, Annabelle. 2012. "Promoting SME Development In Indonesia." OECD Economics Department Working Papers No. 995. Paris: OECD. P.6.

being accidents, flood, data loss, earthquake and drought. The pre-eminence of economic concerns likely reflects the economic slow-down and currency devaluation experienced in Indonesia in 2014-15 due to regional and global economic factors. While it is natural that SMEs report on the most recent high-impact disruptions, this also highlights the fact that awareness of natural hazard risks can easily be lost without recent personal experience of them, and that it is a constant challenge to maintain this awareness, even though the objective risk of catastrophic natural hazards still remains very high.

- › A similar question on the hazards that had in fact disrupted their business operations also saw a high response for economic hazards, with 31.5% listing regional/global economic crises in their top 3, and 14% nominating foreign currency fluctuations. The hazards of flood, power blackout, thefts, fire and accidents were the second tier of experienced hazards that disrupted business (each listed in the top 3 by between 7 and 10% of respondents). This shows that indeed the most recent personal experience of respondents was of economic disruption.
- › For those that had experienced disruptions, these were mainly due to economic downturns, and the periods of stoppage were very high, with the majority reporting shutdowns of more than a month (11% more than a year); and 34% reported losses in excess of 10 million IDR (approx. USD 750).
- › Although only 14% of the Indonesian SME respondents had a BCP, a quarter of them were in the process of developing one. For those who had not prepared a BCP, the main reasons given were that they had not heard of BCP, or they lacked the information or human resources to prepare one. For those who had prepared one, their main motivations were to avoid economic loss, to protect employees, to gain clients' confidence, and fear of not being able to meet supply or service commitments.

The Indonesian survey indicates there is a need for SME awareness and training on both natural

hazard risk and BCP as 9 out of 10 respondents had not attended either any training related to BCP or any DRM training.

### Top disaster and emergency coping mechanisms

SME mechanisms for coping with disruptions are an important aspect of their disaster resilience. Figure 1 shows that use of personal savings was the highest ranked coping mechanism to deal with disaster losses reported by the Indonesia respondents (61% listed it in their top 3 coping strategies), followed by obtaining a loan without interest, presumably from their family and friends, (34%). The next two main coping strategies were to generate more income by working more (21% listed in their top 3) and reducing expenses (19%). Hence, the respondents' coping mechanisms were very self-reliant and dependent on close connections and support from family and friends. Such mechanisms are obviously effective for micro and some very small businesses, but they could be less effective following major disasters with large losses for small and medium enterprises – especially if the entire community is affected and those support mechanisms are not available because everyone has the same need.

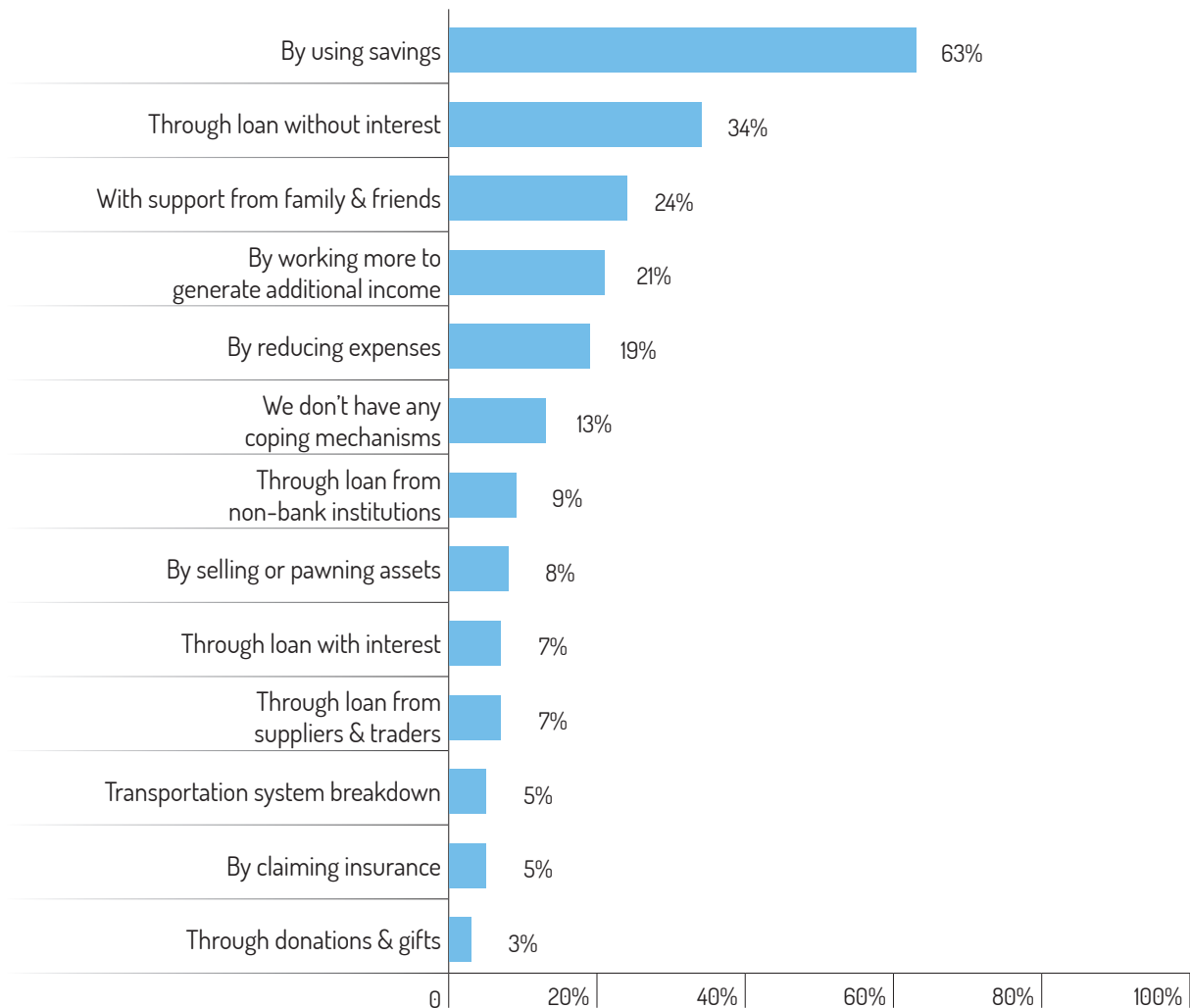
In addition, 21% of respondents reported establishing a mutual aid agreement with another organization during and after emergencies; and 14% of respondents had participated in DRM activities organized by BNPB. But on other questions concerning risk financing, 43% of respondents listed 'no risk financing mechanism', while 18% said they had fire insurance, and a small 8% listed motor vehicle insurance and 7% insurance for employees. This shows a very low uptake of formal risk financing mechanisms, in the form of the most basic types of insurance cover, and then only by a minority.

The top 5 incentives towards greater disaster resilience that were identified by Indonesia respondents as something the government could provide to SMEs were: provision of technical assistance, consultancy services, or training in BCP preparation and disaster preparedness; subsidies, grants, and soft loans for disaster preparedness; tax





Figure 1 Indonesia survey - top coping mechanisms used to deal with business disruption and emergencies



credits, deductions, and exemptions for having BCP; certification schemes; and awards and recognition for disaster resilient SMEs.

### Philippine Survey

In contrast with Indonesia, the Philippine 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. This was a random nation-wide survey of 513 micro, small and medium enterprises (MSME – using the preferred national terminology). It included respondents from 17 of the 18 regions, and was broadly representative of Philippine MSMEs in terms of size and industry distribution. Business ownership within the surveyed group was also gender balanced, although gender was not part of the sampling criteria, suggesting this may reflect the gender balance within MSMEs more broadly.

The main hazards they highlighted as potentially and actually disrupting business were typhoon, power blackout, flood, earthquake, fire and accidents,

Table 2 Legal and statistical definitions of enterprise size in the Philippines

	<b>Magna Carta for MSME, by asset size (excluding the land on which the business is operated) in PHP</b>	<b>Approx Value USD<sup>21</sup></b>	<b>Philippine Statistics Authority, classification by number of employees</b>
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

and these had reportedly caused more business disruptions in the past three years than previously.

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 2. The employee-numbers criteria are used in the Philippine Statistics Authority (PSA) census, and this is the classification used for the MSME economic statistics cited below.<sup>22</sup> 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”);<sup>23</sup> and the Barangay Micro Business Enterprises Act (the “Barangay MBEs Act”) in defining micro enterprises.<sup>24</sup>

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:

MSMEs shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative,15 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...<sup>25</sup>

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 2, shows the

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

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

23 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.

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

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

hazards that the 364 respondents reported as actually affecting business operations.

Respondents reported days of business operation lost to disasters ranged from no days to more than

Figure 2 Hazard that caused the disruption experienced by survey respondents (364 responses)

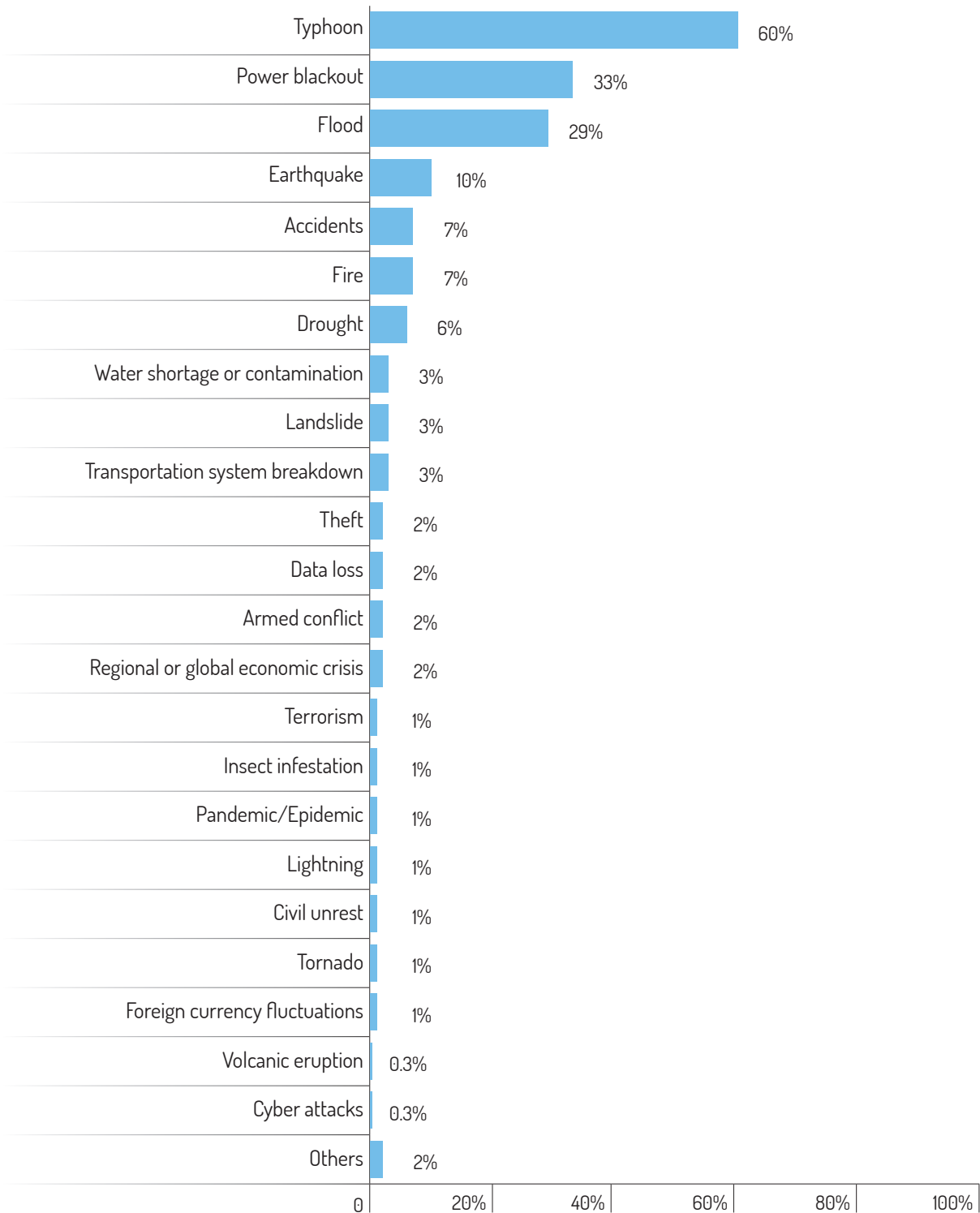
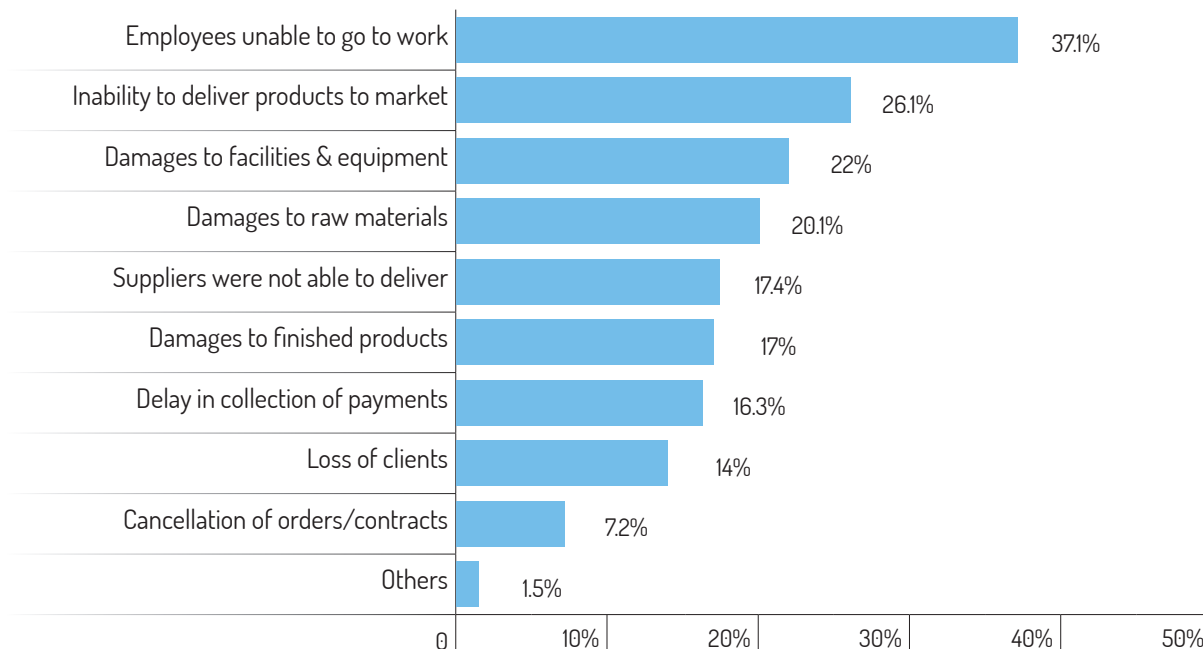


Figure 3 Top impacts of hazards causing actual disruption of business



three months. The longer stoppages were reported by micro and small enterprises. Manufacturing was the most affected for the longest periods by complete cessation of operations, with retail following, and then agriculture.

The other top impacts reported 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. These are all significant interruptions in supply chains.

The cost of damage from previous disruptions also varied widely, although the top response overall was below P50,000, (USD 1,080) probably reflecting the high proportion of micro enterprises. But in some cases losses were surprisingly high. For example, 12 micro enterprises reported losses of between P250,001 – P500,000 (USD 5,400 – 10,800). Within the medium enterprises, 31% reported losses of P500,000 and below, but 19% reported losses of between P1 million to P2 million (USD 21,600 – 43,200), and a surprising 14% reported figures of more than P10 million in losses (over USD 216,000).

In terms of BCP and DRM amongst Philippine MSMEs:

- Only 6% had a formal BCP and a further 12% were in the process of developing one, but more than a quarter had attended BCM training.
- 41% reported attending some form of DRM training, and half reported using one or more other disaster preparedness plans (emergency response plans, evacuation plans, emergency communications plans, risk reduction measures, system recovery and/or system down manuals, and risk assessments).
- 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).
- They also said there was a need for government incentives for SMEs to become more disaster resilient.

Many of the Philippine MSME respondents also indicated that they have in place some form of



insurance or risk financing mechanism, although only 11% reported having natural catastrophe insurance, 24% reported having no risk financing mechanisms, and insurance was named as the top coping strategy for disasters by only 9%.

The top coping strategies reported were: use of their own savings, support from family and friends, reducing expenses, or working more to generate income. 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.

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.).

Significantly for MSME engagement with the official disaster risk reduction and management (DRRM) system, more than a quarter (28%) reported that they are participating in a Barangay or Local Disaster Risk Reduction and Management Council, which is a very high level of participation.

Overall, these results indicate a low awareness of BCP/BCM as a risk reduction mechanism amongst the Philippine MSME respondents, and a low uptake of external risk financing or other formal coping mechanisms, but a high level of awareness of

disaster risk, a strongly self-reliant approach, and a significant degree of engagement with the DRRM system at local level.

### Thailand Survey

The definition of SMEs in Thailand is determined according to the Ministry of Industry's 2002 regulation, which divides SMEs into four industry categories.<sup>26</sup>

In summary, SMEs in the manufacturing and services sectors are defined as having no more than 200 employees or less than B200 million fixed assets (just over USD 5.5 million), excluding land. In wholesale trade an SME has up to 50 employees or B100 million assets, and in retail trade it has up to 30 employees or B60 million assets as shown in Table 3. All the asset values exclude the land on which the business is conducted.

The 425 SME respondents in Thailand were made up of 47% small, 35% medium, and 18% large. The survey sample group also indicated that there was a large gender gap in SME leadership, with only 25% of the SMEs surveyed being led by women.

<sup>26</sup> Table from Bank of Thailand, 2011. "Key Challenges for financial SMEs financial access in Thailand". PP 1-10 at p. 3. Available at <http://www.adfiap.org/wp-content/uploads/2011/06/Economy-Presentation-Thailand.pdf>

Table 3 Definitions of SME size in Thailand<sup>26</sup>

Type	Number of employees		Fixed assets (ThB million)*	
	Small	Medium	Small	Medium
Manufacturing	< 50	51-200	< 50	50 < ThB mil < 200
Services	< 50	51-200	< 50	50 < ThB mil < 200
Wholesale	< 25	26-50	< 50	50 < ThB mil < 100
Retail	< 15	16-30	< 30	30 < ThB mil < 60

*Ministry of Industry's 2002 regulation categorization depends on the enterprise having up to a certain number of employees or up to a certain value in fixed assets, excluding land.*

Respondents were most concerned about the disruptive effects of floods, then regional or global economic crisis, with fire, civil unrest, and power blackouts also of high concern, for both anticipated and experienced disruptions. These findings indicate that SMEs in Thailand are likely to be most receptive to an all-hazards approach to disaster resilience rather than one focused on natural hazards only.

Such disruptions have had a major impact on business continuity, profitability and long-term viability of SMEs. The 2011 floods and other past disasters' main business impacts were reported as lengthy cessation of operations (45 days on average in the 2011 floods) and high costs of damage (29.9 million Baht on average in 2011, or USD 852,000). More precisely the reported disruptions meant: employees were unable to go to work; enterprises were unable to deliver products; there was damage to facilities and equipment; suppliers were not able to deliver materials/ services; and raw materials were damaged.

For the impacts on business, affected respondents reported how past disasters had disturbed their business, by selecting their top 3 from a list. The top five major impacts listed by the respondents were: 1) employees unable to go to work (37.1%); (2) inability to deliver products (26.1%); (3) damages to facilities and equipment (22%); (4) suppliers were not able to deliver materials/ service; and (5) damages to raw materials (17.4%).

#### On BCP adoption and use:

- › Although only about 15% of small enterprises and 21.5% of medium enterprises surveyed had a written BCP, this compared favorably with a 2012 survey that showed none of the Thai SME respondents had a BCP. This is a very similar level of BCP adoption to that reported in the Indonesia survey, and double that reported in the Philippines survey.
- › For enterprises without a BCP, the main reported reasons for not preparing one were lack of knowledge or capacity to prepare one or, of more concern given the number of major business disruptions in recent years, a belief

that they were not likely to experience any disaster disruption. BCP was of interest to them if it could help them avoid economic loss in the event of business disruption, to meet customer requirements, to be seen as having good business practices, to improve on their experience in a previous disaster, and to gain client confidence. Thai SME respondents expressed a need to see a competitive advantage in developing a BCP.

- › Enterprises that had developed written BCPs reported they had done so to avoid economic losses, to gain client confidence, and to protect employees, as the top reasons, along with ensuring they could meet commitments during disruptions, due to customer requirements and to improve on previous disaster experience; and they had found their BCPs useful during actual disruptions.
- › Just over one-third of the group with BCPs reported their BCP had connected to the community or local disaster preparedness plan, suggesting that BCP of itself may encourage greater engagement with the local disaster prevention and mitigation system due to increased awareness of risks. This is a high level of engagement with the DRM system by SMEs that have BCP. This finding was reinforced by the fact that enterprises with BCPs also reported more use of risk financing mechanisms.

Setting aside the question of BCPs, the Thai SMEs surveyed reported very limited use of other contingency plans. Most of the small enterprises, and almost half of the medium enterprises, did not have any written disaster preparedness plans. To the extent that such plans were used at all, the main types were plans concerned with emergency response, evacuation, risk assessment, and emergency communication.

In terms of BCM and disaster-resilience capacity, fewer than one in five Thai survey respondents had attended either BCP-related or DRM-related training. This, along with the low uptake of BCP and the low level lack of other emergency planning, indicates that SME disaster resilience would be improved by training on both DRM and BCP, especially when the two are linked as key



elements of BCM. Respondents also supported tax and financial incentives as key measures the government should provide to encourage SMEs to prepare BCPs, along with consultancy services or incentives for BCM capacity building, and non-financial incentives such as certification schemes and award recognition.

In terms of existing risk finance mechanisms, surveyed Thai enterprises reported their top mechanisms included fire insurance, motor/car insurance, insurance for employees, and natural catastrophe insurance. Small enterprises had fewer risk financing mechanisms than medium and large enterprises. Similarly to Philippine SMEs, they tended to deal with disruptions and emergencies by reducing expenses and using savings, but they also used loans from banking institution, as well as using other types of loans with interest, along with support from family and friends. Large and medium enterprises were more likely to have insurance mechanism to deal with business disruption.

### Viet Nam Survey

Vietnamese law defines SMEs according to criteria set out in Decree 56/2009/ND-CP (Decree 56) on Support for Development of SMEs.<sup>27</sup>

Under Decree 56, SMEs are defined as registered establishments and divided into the following sub-categories: very small (also often described as micro), small, and medium, according to the size of their total capital (equivalent to the total assets identified in an enterprise's accounting balance sheet) or the average annual number of employees. Total capital is the key criterion (Table 4).

In Viet Nam, the survey group of 442 respondents was random and nationwide. The majority were micro or small, and also mostly young private enterprises established since 2009, with the vast majority also owned by men (71%). The respondents came from a range of sectors and from across the nation. Wholesale and retail trade made up over 40%, construction 17%, 'other' (non-classified or multi-sector) 26%, and the remaining sectors 17%.

Table 4 Legal definition of very small (micro), small and medium enterprises in Viet Nam under Decree 56

Enterprise size	Very small enterprises	Small-sized enterprises		Medium-sized enterprises	
	Number of labourers	Total capital	Number of labourers	Total capital	Number of labourers
Agriculture, forestry & fishery	10 persons or fewer	VND 20 billion or less	Between over 10 persons & 200 persons	Between over VND 20 billion & VND 100 billion	Between over 200 persons and 300 persons
Industry & construction	10 persons or fewer	VND 20 billion or less	Between over 10 persons & 200 persons	Between over VND 20 billion & VND 100 billion	Between over 200 persons and 300 persons
Trade & service	10 persons or fewer	VND 10 billion or less	Between over 10 persons & 50 persons	Between over VND 10 billion & VND 50 billion	Between over 50 persons and 100 persons

Table graphic by Business-in-Asia.com 2016.

<sup>27</sup> This replaced the single definition of an SME in Decree 90/2001/ND-CP of 2001 - as a business with registered capital up to 10 billion VND or up to 300 employees.

The survey indicated that both the use of BCP and the level of awareness on natural hazard risks, were low. This may be partly attributable to the fact that most of the SMEs began operation since the last major disaster in Viet Nam in 2009, suggesting lack of direct experience may have led to a lack of awareness or preparedness for future natural hazards and climate change stresses:

- › Each SME was requested to indicate the 3 hazards with the greatest potential to disrupt their business operations, with 5 hazards emerging overall. These were: power blackout, regional/global economic crises, fire, typhoon, and flood.
- › More than 90% of the respondents confirmed that they have never experienced a business operation disruption due to a hazard or disaster (which may be because they are young business and there have been no major disaster since 2009).
- › Almost 80% of the respondents said they have not yet developed a BCP, although 14% said they were preparing one.
- › The top 3 reasons for not preparing a BCP given by the respondents were that: they had not heard of BCP before, they lacked a budget to

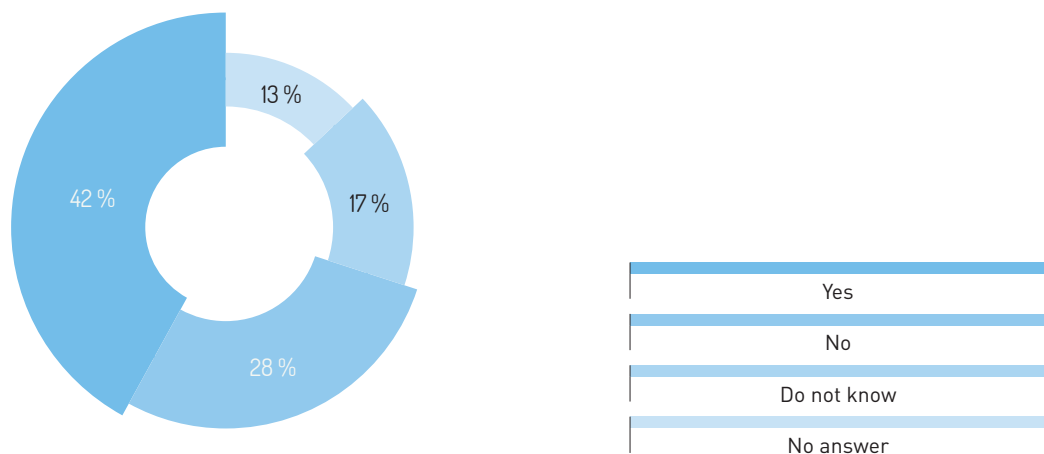
prepare a BCP, and they lacked information on how to prepare a BCP.

The top 3 incentives identified by respondents that the government could provide to encourage BCP and disaster resilient were: tax credits, deductions, and exemptions; subsidies, grants, and soft loans for disaster preparedness; and provision of technical assistance, consultancy services, or training in BCP preparation and disaster preparedness.

Figure 4 shows that more than 40% of respondents felt that the government should make it compulsory for SMEs to prepare a BCP to avoid or reduce the impacts of disasters, while 28% said no, and 17% did not know. Those who replied that BCP should not be compulsory believed that the government should help the SMEs increase their awareness on BCP and its benefits and then let the SMEs choose whether or not to have a BCP, but that the government should not force SMEs to have BCP at this stage.

The survey indicates there is a need for SME awareness and training on both natural hazard risk and BCP, as 9 out of 10 respondents in Viet Nam had neither attended any training related to BCP nor participated in any training related to disaster risk management.

Figure 4 Whether BCP should be compulsory







## How the policy frameworks currently address disaster resilience for SMEs

Country reports were prepared for each project country, to:

1. present the results of the country's SME Resilience Survey in summary form
2. identify aspects of the national legislative and policy environment for SME 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 roadmap for SME disaster resilience.
3. propose issues for consideration in a "roadmap" process for SME disaster resilience.

The policy analysis in the country reports takes into account relevant national laws, policies, and government institutional frameworks as well as private sector initiatives that interact with government policy. Although the focus is on SME

resilience in the face of the major natural hazards that often cause disasters in Southeast Asian countries, including a projected worsening of weather hazards due to climate change, the reports adopt a multi-hazard approach.

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### Characterizing SME disaster risk in the policy context

The underlying question of the project has been how government policy interventions and private sector initiatives can promote and support SMEs to attain disaster resilience. In this regard it is therefore helpful to divide the disaster risks faced by SMEs into two broad categories: (1) shared community disaster risks and (2) business continuity disaster risks.

#### 1. Shared community disaster risks

SMEs, 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 SMEs 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 management (DRM) laws, policies and institutions, including those addressing climate change adaptation, and disaster risk financing.

As most of the SMEs in the project countries are micro and small enterprises, that are very much part of their local communities, owners and employees need to be aware of the hazards in their locality and how to reduce their risk from them. This may include SME 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 SMEs. SMEs 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 regional natural hazards of typhoons, floods and earthquakes (in some regions), disaster preparation for SMEs 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 SMEs 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, SMEs 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.<sup>28</sup> 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 SMEs 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 SMEs

<sup>28</sup> 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].

from a community following a disaster also impacts livelihoods and prosperity in the wider community.

These business continuity disaster risks 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 SME supply chains or distribution networks. Preparation for such eventualities requires SMEs to consciously factor disaster risk information into their business planning.

For business continuity disaster risks, the policy tools used to encourage SME development and to support their broader economic resilience may be the best starting points. For example, they can build capacity in SME 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 SMEs in order to provide information about disaster risk, offer training and other capacity building, and potentially provide incentives for SMEs to become disaster-resilient.

This categorization of SME risks led to two guiding questions for the country policy analyses, in considering that SME disaster resilience may fall in between the two policy pillars of SME development and DRM:

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?

Many aspects of SME disaster resilience are an interaction between the underlying economic health of the enterprise, and measures taken to

reduce disaster risk and survive disaster shocks. A clear theme that has emerged in all four country policy studies, is that SME disaster resilience tends to fall between the two main policy systems of 1) SME business and trade development and training, and 2) national and local systems for general and community-based disaster risk reduction and management, including climate change adaptation. The legislative, policy and institutional mandates in these areas tend to operate very separately, but there is a need to bring them together in order to maximize support for SME disaster resilience.

These systems in the four countries are described briefly below. More detail is provided in the country policy reports.

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### Indonesia – Policy Framework

In Indonesia, DRM policy is under the National Disaster Management Agency (known by its Bahasa acronym BNPB) based on the Law No. 24 of 2007 on Disaster Management. CCA policy is under the joint stewardship of the Directorate General of Climate Change in the new Ministry of Forestry and Environment and the Ministry of National Development Planning with the National Development Planning Agency (BAPPENAS, for its title in Bahasa). CCA policy is not based on a single law, but on a series of ministerial decrees. The preliminary project findings for Indonesia indicate that SME and private sector needs are not considered specifically in the policy and implementation processes for DRM.

In Indonesia, the system for SME promotion, support and development as business enterprises is under the Ministry of Cooperatives and SMEs. The preliminary project findings for Indonesia indicate that disaster resilience is not currently a central concern in this system for SME development. The picture that has emerged so far, is that the legislative and policy mandates of the DRM and CCA systems, and the SME promotion system, do not currently interact to any significant extent at either a policy or operational level. A roadmap process presents an opportunity to establish ongoing mechanisms

for cooperation towards SME disaster resilience as a significant cross-cutting issue.

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### The Philippines – Policy Framework

In the Philippines, the DRM system is underpinned by the Philippine National Disaster Risk Reduction and Management (DRRM) Act of 2010. This law is implemented by the National Disaster Risk Reduction and Management Council (and sub-national councils) and the Office of Civil Defense within the Department of National Defense. As at September 2016, the DRRM Act was under review, opening the potential for greater inclusion of the private sector and MSMEs. 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) then provides the mandate for the Climate Change Commission and the Climate Change Office as its Secretariat. Both of these systems are established as coordinating mechanism to mainstream the issues into government across sectors and at all levels, but the structural links between these institutions and DTI, and with private sector organizations, appear minimal at present.

For MSME development support in the Philippines, the key law is the Magna Carta for Micro, Small and Medium Enterprises Act of 2008 (amending the earlier laws of 1991 and 1997), as well as the Barangay Micro Business Enterprises Act of 2002. The policy governance body for the Magna Carta is the Micro, Small and Medium Enterprises Development Council, supported by DTI national and regional offices, and specifically the Bureau of Small and Medium Enterprise Development. For this policy sphere also, there appears to be little crossover to the DRM/CCA systems, and the roadmap process provided an opportunity to make stronger institutional links, which was in fact taken up in the Philippines, as described

below. The system of MSME development already provides many opportunities to access MSMEs and provide information, training and incentives for them to undertake risk assessments, and BCM that addresses these risks. However, the DRM/CCA system information and expertise needs to be a part of this to support disaster resilience of MSMEs.

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### Thailand– Policy Framework

The DRM system in Thailand is supported by the Department of Disaster Prevention and Mitigation (DDPM), under the Disaster Prevention and Mitigation Act 2007. The Office of Climate Change, in the Office of Natural Resources and Environmental Policy and Planning, Ministry of Natural Resources and Environment (MonRE), leads on CCA under the Environmental Protection and Promotion Act 1992.

The key laws underpinning the role of the Office of Small and Medium Enterprise Promotion (OSMEP) are the SME Promotion Act 2000, and its Ministerial Regulation 2002. OSMEP also supports the overall policy and governance body for SMEs, the National Board of SME Promotion. These mechanisms are, in turn, supported by government financial institutions with specific mandates for SMEs.

OSMEP and other SME support institutions demonstrated a high capacity to support SME disaster recovery following the 2011 floods. Future endeavours could also usefully concentrate on the disaster risk reduction, prevent and mitigation component of business continuity to prevent such loss and damage in future disasters. As with Indonesia and the Philippines, the country report indicates there is room for a greater level of integration of DRM and CCA knowledge and expertise into the system for SME support, in order to enhance their disaster resilience.



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## Viet Nam- Policy Framework

In Viet Nam, the DRM system is under the coordination of the Ministry of Agriculture and Rural Development (MARD), based on the Law on Natural Disaster Prevention and Control 2013. The Ministry of Natural Resources and the Environment (MONRE), is responsible for climate change policy, based on the climate change adaptation strategy. The policy report for Viet Nam indicates that SME and private sector needs are not considered specifically in the policy and implementation processes for CCA and DRM, although some projects with private sector and non-government organization partners are moving in this direction.

In Viet Nam, the system for SME promotion, support and development is under the Ministry of Planning and Investment (MPI), in particular the Agency for Enterprise Development (AED-MPI). Its mandate is conferred by Decree No. 56/2009/ND-CP on Assistance to the Development of

SMEs, which is currently under review. Decree 56 both defines SMEs and gives MPI a general mandate to coordinate government efforts on SME development. Disaster risk is not currently a central concern in this system for SME development.

The picture that emerges so far is that, although the legislative and policy mandates of the DRM and CCA systems, and the SME promotion system are cross-sectoral in intent – the key high-level committees in each include all of MARD, MONRE and MPI – these systems do not currently interact to any significant extent at either a policy or operational level. The development of a new law on SMEs, currently being undertaken by MPI, provided an opportunity for Viet Nam to lead the region in creating a new focus on disaster resilience as a key component of business continuity for SMEs. As at September 2016 this new law on SME promotion had been drafted and was available in the Vietnamese language for public consultation.

## National roadmaps for SME disaster resilience

Following the SME survey, consultations on the policy reports and the information sharing at the regional forum in April 2016, the project supported national stakeholders to begin developing roadmaps for SME resilience. These processes provided an opportunity to address the questions of what needed to be done next, and which organizations would carry it forward at the national level.

Specific roadmap thematic areas as identified in the country policy reports were summarized in tabular format along with suggested key actions, potential pilot initiatives, as well as suggestions on the relevant actors, stakeholders or policy owners responsible for each of the identified roadmap issues. These drafts were then subject to consultation with relevant stakeholders in each country.

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### Indonesia – Roadmap process and status

The Indonesia SME survey was conducted in late 2015 and the initial workshop for the project was held in January 2016. It was

thus the last of the country projects to commence, and is not due for completion until later in 2016. Following the April regional forum, consultations were held based on the survey data and the draft country policy report, to consider the content for the Indonesia SME roadmap.

Specific roadmap thematic areas as identified in the country report were summarized in tabular format along with suggested key actions and potential pilot initiatives, as well as suggestions on the relevant actors, stakeholders or policy owners responsible for each of the identified roadmap issues. In terms of existing government support for SME disaster resilience, a key finding for Indonesia, as with the other project countries, was that the institutional and legislative systems for DRM, climate change adaptation (CCA) and SME business development have not yet joined hands to provide the necessary support to improve SME disaster resilience. The country reports also pointed to the need for improved access to national statistics on SMEs, increased awareness of natural hazard risks by SMEs, and the need to build SME capacity in risk assessment and business continuity management. The



issues of access to risk financing and participation in policy formulation by the private sector were also identified.

From 12-15 July meetings were held in Jakarta to collect inputs for the roadmap with the Ministry of Cooperatives and SMEs (MOCSMEs), Oxfam Indonesia, and Jamkrindo (credit assurance SME specialists). Further consultations took place from 18-19 August with these same stakeholders as well as the Asia Pacific Alliance for disaster management (A-PAD) / Planas PRD who contributed, and the disaster management agency, BNPB. These meetings included planning as part of the roadmap process.

The Roadmap process in Indonesia was informed by technical sessions and panel discussions at the National Business Forum on SME Development and Disaster Resilience in Indonesia convened on 23rd November 2016 in Jakarta. 80 participants from relevant government agencies, development partners and NGOs and private businesses, in particular SMEs as well as academia as well as academia gathered to exchange best practices and lessons learned for private sector engagement in DRR efforts in the Indonesia context. Notably, these key stakeholders were able to provide inputs into identifying key actions, stakeholders and potential pilot initiatives towards the roadmap formulation.

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#### Philippines – Roadmap process and status

The Philippine Roadmap is the result of a range of initiatives conducted under the project. It was initially based on the findings of the survey on understanding MSME disaster vulnerability, and the policy review report on MSME development and disaster risk management. These findings pointed to the need for improved access to information on MSMEs, increased awareness by MSMEs, capability building, risk financing and participation in policy formulation by the private sector.

The activities for the roadmap that would meet these needs were identified during the National

Business Forum on MSME Development and Disaster Resilience in the Philippines held on July 26-27, 2016. The forum was attended by 215 officials and representatives from a range of government agencies, business associations, academe, financial institutions, development partner organizations, NGOs and CSOs. During the forum workshops, participants were asked to identify key actions, stakeholders and potential pilot initiatives. The outputs of the workshops were validated and refined by a core group of stakeholders, which included the Department of Trade and Industry, the Philippine Chamber of Commerce, Inc., the Philippines Disaster Resilience Foundation, PhilExport, the Employers Confederation of the Philippines, and the Asia-Pacific Alliance for Disaster Management.

At the July forum a number of organizations signed an MoU signaling their commitment to carry forward the Roadmap work over the next two years. These were: the Department of Trade and Industry (DTI), the Office of Civil Defense (OCD), the Philippine Chamber of Commerce and Industry (PCCI), the Philippine Disaster Resilience Foundation (PDRF), the Asia-Pacific Alliance for Disaster Management – Philippines (A-PAD Philippines), the Philippine Exporters Confederation Inc. (PhilExport), the Employers Confederation of the Philippines (ECOP), the Asian Disaster Preparedness Centre (ADPC), and the Global Initiative on Disaster Risk Management (GIDRM) implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). This initiative under the MoU is a very practical outcome for the project in the Philippines, especially the extent of engagement by the private sector itself.

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#### Thailand – Roadmap process and status

Specific roadmap thematic areas as identified in the country report were summarized in tabular format along with suggested key actions and potential pilot initiatives, as well as suggestions on the relevant actors, stakeholders or policy owners responsible for each of the identified roadmap issues.

In terms of existing government support for SME disaster resilience, a key finding for Thailand was that, so far, the institutional and legislative systems for DRM, climate change adaptation (CCA) and SME business development have not joined hands to provide the necessary support. The country reports also pointed to the need for improved access to information on SMEs, increased awareness by SMEs, capability building, risk financing and participation in policy formulation by the private sector.

The Roadmap process in Thailand was informed by technical sessions and panel discussions at the Thailand National Business Forum on Private Sector Investment in Disaster and Climate Resilience which was attended by more than 80 participants in Bangkok on 29 September 2016. The forum was attended by key ministries and planning agencies e.g. NESDB, OSMEP and DDPM, development partners as well as private sector organizations e.g. FTI, Chamber of Commerce and SMEs and large corporations. Drawing on this content, key actions, stakeholders and potential pilot initiatives towards the roadmap formulation were subsequently identified and validated by the project team in consultation with key stakeholders and experts working across the relevant fields of DRM, SME development and policymaking.

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#### Viet Nam – Roadmap process and status

For Viet Nam, the SME Resilience Survey identified a need for SMEs to have much greater awareness of the costs of disasters when they occur, and of the need to factor this into BCM, requiring training on both BCP and disaster risk management. It also identified the need to take a multi-hazard approach, given SMEs own preoccupations with the broader economic and business environment, in order to engage with them more effectively. The survey results indicate the importance of demonstrating to SMEs that BCM which improves disaster resilience also improves the bottom line. SMEs surveyed were also interested in receiving support and advice from the government, as well

as tax relief and other financial incentives based on BCP and demonstrated disaster resilience capacity.

In terms of existing government support for SME disaster resilience, the key finding of the Viet Nam policy report was that so far the institutional and legislative systems for DRM, CCA and SME business development have not joined hands to provide the necessary support. The roadmap process is an opportunity to create both mutual understanding and awareness, and to establish specific mechanisms for such coordination into the future.

The draft Viet Nam Roadmap draws on the findings of the survey on understanding SME disaster vulnerability and the policy review on SME development and disaster risk reduction in the country. These findings also pointed to the need for improved access to information on SMEs, increased awareness by SMEs, capability building, risk financing and participation in policy formulation by the private sector.

The activities for the Roadmap that would meet these needs were identified during the Viet Nam Business Forum – Identifying ways forward for Private Sector Engagement in Disaster Risk Reduction held on September 30, 2016. The forum was attended by over 100 officials and representatives from a range of government agencies, business associations, academe, financial institutions, development partner organizations, NGOs and CSOs. During the forum workshops, participants were asked to identify key actions, stakeholders and potential pilot initiatives towards the Roadmap formulation.

In Viet Nam the project has coincided with a Government initiative to draft a new law on SME development. That law is now available as a formal draft, and the roadmap process provides national stakeholders with an opportunity to develop proposals for appropriate inclusion of support for SME disaster resilience within the new law. Such inclusion would make Viet Nam a regional leader in underpinning business development with natural hazard risk management, now understood as an important part of economic development in the most hazard-prone region of the world.





## Summary and conclusions

**T**he SME surveys, country consultations, policy reports and roadmap processes during this project revealed a high level of interest and commitment to SME disaster resilience by governments and the private sector in all four countries, even though the project's approach of combining disaster risk awareness and business development was a new way to conceptualize the issue.

Although the project looked at small and medium enterprises (SMEs), the category of 'small' enterprise can also be divided again to identify 'micro' enterprises. This is part of the legal and policy categorization of SMEs in Indonesia, the Philippines (where the term MSMEs is routinely used), and Viet Nam (where 'very small enterprises' and single 'household businesses' are also recognized separately), although Thailand's policy approach does not use the micro category. When this is done, it becomes apparent that the vast majority - in the high 90 percentages - of SMEs in the three countries that count them separately are micro enterprises, and the next largest group are small enterprises, while there are very few medium sized enterprises in the

four countries. Nevertheless, SMEs account for the majority of private sector jobs and make a significant contribution to both GDP and export earnings. They are recognized by governments, ASEAN and APEC, as the key to economic growth and development in Southeast Asian economies. In the most natural-hazard-prone region of the world, it is clearly time to focus more attention on the economic impacts of disasters on SMEs, and for governments, private sector organizations and development partners to support SMEs in becoming more resilient to disasters.

The country surveys of SMEs indicated that SME awareness of natural hazards as potential risks to business continuity was very low in Indonesia, Thailand and Viet Nam, but much higher in the Philippines, which is also the country that has been struck most recently by extreme weather events. In all of the countries SMEs reported significant losses from disasters, although for Indonesia the recent economic downturn at the time of the survey was more prominent. Bearing in mind that the majority of respondents were small and micro enterprises, it was perhaps

not surprising that they also had not invested in business continuity planning in general. However, these survey findings identify a need to promote greater awareness and understanding of disaster risk as part of business continuity, as well as reinforcing the need for BCM as such.

The surveys also showed that SMEs use very little formal risk financing, especially disaster insurance, and that they tend to rely on personal savings, family and informal financing to recover from disasters. The reasons for this are a combination of traditional self-reliant approaches, and a lack of access to risk financing products that are affordable and flexible enough for micro and small enterprises. While self-reliance is an essential aspect of resilience, these informal mechanisms are also limited to small-scale ventures and are unlikely to suffice for businesses that aim to grow from small to medium. The surveys and project consultations also suggest there would be much more uptake of risk and recovery financing by small enterprises if the products were available, whereas currently SMEs face a general lack of access to capital because of their lack of assets to guarantee loans. The country reports for the Philippines and Indonesia indicate that increased use of credit guarantee schemes for institutions lending to SMEs is one approach that is showing a degree of success, and which has the potential to be extended to disaster risk financing.

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### Good practice national law and policy

From the government side, the policy reports showed that all four project countries have established laws, policies and institutions to promote SMEs, although their implementation is at different stages. The Philippines has had such a legislative and policy framework in place since the 1990s, Thailand made it a high priority after the 2011 floods, while Indonesia and Viet Nam are at an earlier stage in the process of establishing frameworks to promote SME development. Viet Nam is also currently developing a new law on SMEs.

To varying degrees, there are also laws and policies in place to support SME development through access to finance, especially in the Philippines and Indonesia, which have extensive systems of government lending institutions with mandates to provide finance to SMEs for business development.

All the project countries have also established laws, policies and institutions for disaster risk management, with broad mandates at all levels of government, including some scope for private sector participation. The four countries also have either legislative or policy platforms, and institutional mandates, concerning climate change adaptation (CCA). There is thus a very solid foundation in each country for supporting SME disaster resilience provided the relevant institutions are able to work together to this end.

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### Gaps in implementation

Based on the four country reports, it can be observed that the question of SME resilience to disaster and climate risk is often falling between the two main policy pillars of, on the one hand, DRM and climate change and, on the other hand, SME development. Therefore, at present, this cross-cutting issue can be characterized as ‘everybody’s business and nobody’s business.’ These findings highlight the need to create new mechanisms for cross-sectoral cooperation within government, and between government and industry to support SME disaster resilience. The country reports also identified key practical gaps in effective policy implementation for SME resilience.

Six key gaps were identified:

1. **The government responsibility gap - SME disaster resilience as ‘everybody’s business and nobody’s business.’**

A general observation made in all the country policy reports is that, in practice, the climate change institutions are not yet significantly engaged with the DRM systems, and also do not involve the private sector to any degree. The project consultations

indicated that the private sector is more often seen as a potential contributor in disaster response and recovery operations than as a sector requiring support. In turn, the SME support institutions have not been engaged with the DRM/CCA sectors, as disaster resilience for SMEs has not been seen by them as part of their mandates.

Recurring observations made in the policy reports for all four countries were that:

- a. The institutions established to support SME business development are currently not including natural hazards in BCM training and methodologies, and appear not to be factoring in the economic impacts of disasters on business success even though they are operating in high disaster risk environments. There is insufficient focus on disaster resilience as a basic business survival strategy; and
  - b. The institutions and policy frameworks on disaster risk management and climate change adaptation are not currently focusing on SMEs as stakeholders in disaster risk reduction. However, small and micro enterprises in particular have both (1) shared community disaster risks in the sense that they have the same physical vulnerabilities as their surrounding communities because they tend to be based in small or temporary structures embedded in communities, and (2) business continuity disaster risks, arising from supply chain disruption and loss of customers when their communities are devastated and dislocated, and due to direct damage to plant, equipment and stock. They need to be better integrated into local plans and strategies for reducing disaster and climate risk, and responding and recovering well.
2. **The SME data gap:** More detailed national data collection and publication on the characteristics of SMEs may be required to underpin more targeted and nuanced policy initiatives, especially in Indonesia and Viet Nam, but also in Thailand, where the micro category is not identified, and in the Philippines with respect to industry and enterprise type characteristics. Collection and publication of statistics on gender of SME ownership/management could also be the basis for more effectively targeting policy interventions in support of SME development, if women are concentrated in particular types or size of enterprise.
  3. **The hazard risk data gap:** More of the data from disaster and climate risk assessments and risk mapping needs to be made available to communities and SMEs in ways that are (a) easily understood by non-experts and (b) specific to local areas and, if possible, types of industries. Cross-referencing of such data with national data on SMEs could provide invaluable information for SME disaster risk assessments, and requires mechanism for cross-sectoral cooperation.
  4. **The SME organizational gap:** By their nature, SMEs are widely dispersed and currently not well organized in industry sectors or as national groupings of small businesses. While the larger industry organizations have endeavored to advocate for SME interests, there is a need to encourage more specific sections within them and/or the establishment of separate organizations, to speak for SMEs in the policy process. This representation is also important regarding women owners and operators of SMEs.
  5. **The SME knowledge gap:** The overwhelming feedback from SMEs surveyed was that they did not yet know enough about either BCM or DRM, and were keen to receive more information, training and incentives to become resilient. This can be described as the SME knowledge gap. Three main types of initiatives that would assist in addressing these emerged from the policy reports and country consultations. These were (a) the need to integrate disaster risk awareness into general SME business training provided by government or the private sector, (b) the need to include natural hazard risk assessments in standard BCP/BCM procedures, and (c) the great potential for mutual benefit when large enterprises take action and commit resources

to ensure that SMEs in their supply chain are resilient to disasters.

6. **The SME risk financing gap:** The study countries varied in the reported levels of risk financing and access to disaster insurance, but on the whole SMEs reported little use of and little access to these types of financing. Government initiatives, where they exist, have primarily focused on SME access to capital, but the country reports indicated a need to focus more on flexible small-scale risk financing, especially affordable disaster insurance products aimed at the SME market.

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### The way forward

The roadmap processes provided an opportunity to address these gaps, especially how to institutionalize cooperation between the different government sectors, and to look at concrete ways for government and the private sector to work together to improve SME disaster resilience. But this is only the beginning of a longer process within each country.

During the brief period of this project, the Philippine national stakeholders and the iPrepare Business team have been able to advance to the stage of establishing an ongoing mechanism to carry forward the work on SME resilience, through a multi-party MoU. This is a very constructive outcome in response to the concerns that emerged during the project. The other three countries remain engaged in further developing their roadmaps and deciding how best to proceed to ensure SMEs are

able to build their disaster resilience and contribute even more to national economic development. These processes will continue beyond the life of the present project.

The key contributions of this project have been to look at the situation of SMEs in four countries, Indonesia, the Philippines, Thailand and Viet Nam, both for the purpose of recommending strategies in each country, and to draw out common regional issues. The project has:

- › provided new insights through surveys on SMEs perceptions of their own disaster resilience and their needs for awareness and training
- › identified key policy and institutional barriers in government support for SME disaster resilience
- › clarified a range of practical concerns that can be addressed by the private sector and governments acting together to improve SME disaster resilience

The project has worked with government partners and private sector organizations through a series of consultation workshops, sharing of survey results and the draft policy reports, and finally support for development of the national roadmaps. However, the roadmaps are just the beginning of a longer-term process that must be owned by national stakeholders and carried forward by them. It is hoped that this project will contribute to making SME disaster resilience part of the mainstream concept of business development in the Southeast Asian region, and, ultimately, that the conversation and practical initiatives now begun will lead to a real improvement in resilience demonstrated by a reduction in SME economic losses due to disasters.



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)