



POLICY BRIEF

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The Impact of COVID-19 and the ECQ on Low-income Households in Microenterprises: analysis of the ASA Philippines Client Survey

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This policy brief discusses the findings and policy recommendations arising from a survey of 97 thousand low-income households in microenterprises conducted in May 2020, who are clients of the microfinance institution ASA Philippines. The objective of this policy brief is to describe the conditions faced by these low-income households and how they are coping with the situation.

To summarize the findings briefly: households in the surveyed microenterprises suffered severely from the lockdown, through lower earnings and through instances of having inadequate and even outright no food; most households coped by finding other income sources, and others by spending less and by borrowing money; most households received aid during the ECQ, but primarily in the form of relief goods; a substantial share of the microenterprises either closed operations or cut operating hours during the ECQ; to help them recover, most households plan to borrow money, mainly from the microfinance institution, but most are concerned their sales will be down even post-ECQ; almost one-fifth of households did not use any money transfer service and a third were not registered with any local government unit office, severely limiting their access to aid and their capacity to adjust their business in the new normal.

Methodology

The sample size of 97 thousand corresponds to a little more than 5 percent of ASA Philippines' total 1.9 million clients in the country. Given the difficulties of conducting a survey during the ECQ, the sampling method was convenience sampling and was limited to those who were willing and available to respond to the survey during the lockdown. There was no probability sampling undertaken, so the percentages reported here pertain only to the survey respondents rather than as estimates for the population of all microenterprises in the country.

Profile of household respondents

The survey respondents were spread across all the 17 regions of the country, and varied in size by region from 2,034 respondents in ARMM to 9,881 respondents in Region 4A.

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Majority of the households surveyed (54%) had a monthly income of Php10,000 and below pre-ECQ. Another 32 percent had monthly income from Php10,001 to Php20,000 pre-ECQ, and 10 percent had monthly income from Php20,001 to Php30,000. Only 5 percent had monthly income above Php30,000.

All respondents were females, reflecting the target client base of the microfinance institution. By age group, 57 percent were 31-50 years of age, 20 percent were 51-60 years of age, 19 percent were 18-30 years of age, and 7 percent were 61 or older. Almost all respondent households were average in size, with 4 to 7 members.

Impact on households in microenterprises

Earnings level. The respondent households reported their monthly income pre-ECQ and during the ECQ only in terms of the income range where they belong, which is in increments of Php10,000 (starting from Php10,000 and below) up to Php100,000, and a highest category of Php100,000 and above. Of the total households, 35 percent reported moving to a lower income category during the ECQ and only 3 percent reported moving to a higher income category. But note that 54 percent of the households were in the lowest income category already pre-ECQ, so it is not possible for them to move to a lower income category. If the sample is limited to households who were at least in the second income level pre-ECQ, then 76 percent reported moving to a lower income category during the ECQ. This movement occurred across all regions of the country and not just in Luzon and other localities where the ECQ was imposed.

Provision of basic needs. Close to half of all households (47 percent) reported they were not able to provide enough for their families' basic needs (food, water, medicine, etc.) during the ECQ. Only 39 percent said they were able to provide the same as before, and 14 percent said they were able to provide more than enough. The share of those reporting they were not able to provide enough was especially high in NCR, Region 4A, CARAGA, Region 6, and Region 10, and ARMM, all at 50 percent or more.

Eating less and having no food. Close to a third of all sample households (31 percent) reported at least one member experiencing eating less than they wanted during the ECQ because they lacked food. The shares were especially high in NCR (42 percent) and CARAGA (39 percent). Among those who experienced eating less than they wanted because of lack of food during the ECQ, 26 percent experienced it twice, and another 26 percent experienced it at least three times. By region, the share of those who experienced this at least twice is especially high in NCR at 67 percent (of the 42 percent who experienced eating less than they wanted).

About 12 percent of all sample households reported experiencing having absolutely no food to eat in the house during the ECQ. By region, the shares were especially high in CARAGA (20 percent) and Regions 10 and 11 (each 17 percent). Among those who reported experiencing having absolutely no food to eat in the house during the ECQ, 43 percent experienced it at least twice. By region, the share of those who experienced this at least twice is especially high in NCR at 62 percent (of the 13 percent who experienced having absolutely no food).

Adjustments made and assistance received

How family provided for needs during ECQ. To be able to provide for their family during the ECQ, 38 percent of the sample households, as a primary answer, said they either got another job or tapped into other sources of income (such as pension), 27 percent said they spent less, and another 27 percent said they borrowed money. By region, the share of those who borrowed during the ECQ were a little higher in CAR (33 percent), CARAGA (32 percent), and Region 8 (30 percent).

Receipt of aid. Of all sample households, 89 percent said they received some form of aid during the ECQ, and 11 percent said they did not receive any aid at all. By region, the share of those who did not receive any aid was especially high in Region 3 (18 percent) and NCR and Region 4A (each 15 percent).

Kind of aid received. For those who received some form of aid, when asked what kind of aid they received, as a primary answer 73 percent said relief goods (typically rice and canned goods), 17 percent said cash aid from government (DSWD other than 4Ps, DOLE, SSS, LGU, etc.), 9 percent said 4Ps, and one percent said cash aid for other source (relatives, employer, etc.). By region, the share of those reporting receiving cash aid from government, including 4Ps, was especially low in Region 9, NCR, and ARMM (each at 19 percent).

Adjustment in livelihood. When asked what adjustments they made to their livelihood during the ECQ, as a primary answer 23 percent said they closed operations, 19 percent said they cut operating hours, 4 percent said they changed livelihood, 4 percent said they added other sources of income, and 2 percent said they temporarily laid off workers. By region, the share of those who closed operation was especially high in NCR (35 percent), Region 3 (32 percent) and Region 4A (31 percent).

Household and enterprise recovery needs

Amount of capital needed. When asked how much capital they would need to bring their families out of their predicament and back to their pre-ECQ condition, 39 percent said they would need Php10,000 or less, 34 percent said they would need more than Php10,000 but less than Php20,000, 13 percent said they would need more than Php20,000 but less than Php30,000, and the other 12 percent said they would need more than Php30,000. Overall, the amount of capital the household enterprises said they would need is quite small, possibly reflecting the amount of loans they have historically received from microfinance institutions rather their actual needs, and also possibly reflecting an underestimation of how long the economic difficulties arising from the pandemic would last. This merits further examination possibly through a follow-up survey. By region, the share of those who said they would need more than Php10,000 was highest in CAR (76 percent).

Where to source capital. Most of the respondents (86 percent) said they would source capital from borrowing, mainly from the microfinance institution. A much smaller 12 percent said they would use their savings and 3 percent said they would try to get capital from other sources. By region, the share of those who said they intend to get capital from borrowing was highest in CAR and Regions 2, 4A, and 5 (each at 88 percent).

Primary hurdles. When asked what they see as the primary hurdle to maintaining their business post-ECQ, close to three-fourths (74 percent) of the sample households said a decline in sales, 14 percent said a stoppage of production or supply, another 9 percent said lack of capital, and 2 percent said loan and bill payments. By region, the share of those who said lack of capital was high in NCR (13 percent), and Regions 1, 3, and 4A (each at 11 percent), while the share of those who said a decline in sales was high in ARMM (80 percent) and Region 6 (79 percent).

Support needed post-ECQ. When asked what kind of support they will need after the ECQ, as a primary answer 36 percent said they would need a loan at a lower interest rate, another 8 percent said they would need a loan at the same interest rate but for a longer term, 10 percent they would need to restructure or re-schedule their current loan, and 42 percent said they would need to withdraw their savings, including from the microfinance institutions. It is interesting to note that even though the main difficulty cited by the enterprise respondents was lack of sales, the aid they request is in terms of bolstering capital rather than in looking for marketing or sales channels. By region, the share of those who said they would need soft loans, either in the form of a loan at a lower interest rate or a loan at the same interest rate but for a longer term, is high in CAR (54 percent) and Regions 4A and 8 (each at 50 percent).

LGU registration and access to e-payment

LGU registration. Access to e-payment. Close to one-fifth (19 percent) of respondents said their households were not using any money transfer service. The most popular money transfer service among the respondents who did use a money transfer service was Palawan Express, followed by Cebuana Lhuiller and Smart Padala. By region, the share of

households who did not use any money transfer service was high in CAR (35 percent), Regions 1 and 2 (33 percent), and Region 3 (31 percent). A third of respondents said they did not have any member in their households registered in any LGU office. The share of unregistered household enterprises and members is high in both developed and underdeveloped areas, but especially in Region 3 (48 percent), ARMM (43 percent), NCR (41 percent), and Region 4A (41 percent).

Disproportionate effect on lowest-income microenterprises

Statistical analysis using logistic regression, show those earning the lowest income level (Php10,000 and below per month) , even after controlling for region of residence, were significantly more likely to have experienced eating less than they wanted because of lack of food during the ECQ and significantly more likely to have experienced having no food at all at least once during ECQ.

Recommendations

The survey gives evidence that households in microenterprises, as represented by clients of ASA Philippines, especially those in the lowest income category, were severely affected by the ECQ and likely are still suffering from the economic fallout from COVID-19. Given the lack of state support, the pandemic has likely contributed to increased poverty and inequality in the country.

Given the limited economic activity, the most urgent response is direct support to households. For those in danger of hunger, especially, cash aid for basic food and nonfood needs should be provided.

Immediate registration should be undertaken for households (and their enterprises) not registered in any local or national government office to prevent the re-occurrence of what happened when the Luzon ECQ was imposed and cash aid was tied to registration, and so many unregistered households either did not get aid or got them very late.

Expert advice should be provided the households, whether by an MFI or a government agency such as the Department Trade and Industry, in assessing the viability of their enterprise in the current environment and moving forward. The assessment will include whether to continue the enterprise or not, how to access new markets and supply sources, and whether and how to move to an alternative enterprise. Capacity building activities could be undertaken to support these enterprises where they are weak. Additionally, microenterprises should be provided a Guide on business continuity planning to help them establish good occupational safety and health practices and manage potential business risks during the pandemic.

Marketing channels could also be developed in specific areas, such as ARMM and Region 6, where enterprises reported lower sales as primary concern.

Immediate enrollment in an e-payment system should be undertaken for households without access to such. Not only will this facilitate receipt of cash aid but this could also help facilitate the transactions between the households and the MFIs, and help households adjust their enterprises in the new normal. Relatedly, MFIs should move to greater digitization of its transactions with clients to reduce costs and minimize COVID-19 risks. Training in the use of digital platform for online commerce should also be provided the households.

Soft loans, in the form of lower interest rates or a longer loan term, should be made available to viable microenterprises to help them in their recovery. A reasonable restructuring or re-scheduling of current loans will also help microenterprises. Both of these imply that financial support should be provided to MFIs who are often the primary or the only source of loans for microenterprises.