

# 2018 SURVEY OF ENTREPRENEURS AND MSMES IN THE PHILIPPINES

| Building the Capacity of MSMEs  
| Through Market Access



ASIA PACIFIC  
FOUNDATION  
OF CANADA

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# Executive Summary

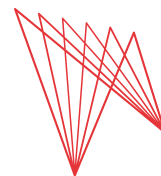
BASED ON THE SURVEY RESULTS OF 437 ENTREPRENEURS INVOLVED IN MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN THE PHILIPPINES, the Asia Pacific Foundation of Canada's 2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs Through Market Access report provides an analysis of business development in the country with a specific focus on market access. This survey report comprises three sections: company and entrepreneur profiles in the Philippines, growth plans and barriers to growth for MSMEs, and obstacles to market access. Each section identifies age-, gender-, and industry-specific data and trends.

Key findings include:

- Survey respondents in the Philippines are increasingly young entrepreneurs and reflect the trend of the Philippines being a regional and global leader for gender parity in entrepreneurship.
- Survey respondents are unlikely to have extensive international experience, with only 9% of all founders having some form of relevant international experience.
- Survey respondents overall have limited export aspirations, with 63% of MSMEs expressing no future plans to export.
- Female survey respondents are less likely to have access to and/or use online business tools such as social media or support services such as online business advisory or networking services.
- Survey respondents are largely unaware of export policies and trade agreements available to them, despite large, nationwide policy initiatives for development and training.
- Despite regional vulnerability to the impacts of climate change, only 28% of Philippine MSMEs identify environmental sustainability as a top priority.

Key recommendations include:

- Improve public accessibility and awareness of existing government led support services (such as Go Negosyo Centers) in order to reach entrepreneurs trying to grow their MSMEs;
- Re-evaluate and recalibrate existing policies under the Department of Trade and Industry to better help MSME entrepreneurs, especially in their early stages, be more strategic about international and local market need;
- Scale initiatives led by the government, banks, innovation hubs, business associations and universities that support opportunities for new and aspiring entrepreneurs to gain international experiences and improve market knowledge (such as exchanges and representation in trade delegations); and,
- Improve online learning applications (ranging from mentor matching to platforms about accessing markets) to be more accessible to aspiring women and older entrepreneurs.



# About the Asia Pacific Foundation of Canada

**THE ASIA PACIFIC FOUNDATION OF CANADA (APF CANADA)** is dedicated to strengthening ties between Canada and Asia, with a focus on expanding economic relations through trade, investment, and innovation; promoting Canada's expertise in offering solutions to Asia's climate change, energy, food security, and natural resource management challenges; building Asia skills and competencies among Canadians, including young Canadians; and improving Canadians' general understanding of Asia and its growing global influence.

The Foundation is well known for its annual national opinion polls of Canadian attitudes regarding relations with Asia, including Asian foreign investment in Canada and Canada's trade with Asia. The Foundation places an emphasis on China, India, Japan, and South Korea while also developing expertise in emerging markets in the region, particularly economies within the Association of Southeast Asian Nations (ASEAN).

Visit APF Canada at <http://www.asiapacific.ca>.

# About The Evidence Network

**THE EVIDENCE NETWORK (TEN)** was founded in 2009 by Dr. Brian Barge and Dr. Margaret Dalziel, and focuses on conducting impact assessments for innovation enablers, both large and small, across North America, Europe, and Asia. TEN has provided assessments to innovation enabling organizations that range from business incubator programs, research and development organizations, to innovation funding programs, and economic development organizations.

# The APEC-Canada Growing Business Partnership

**THE APEC-CANADA GROWING BUSINESS PARTNERSHIP** is a four-year initiative jointly implemented by the Asia Pacific Foundation of Canada (APF Canada) and the Asia Pacific Economic Cooperation (APEC) Secretariat. Funded by Global Affairs Canada, this initiative helps build the potential of micro, small, and medium enterprises (MSMEs) to promote poverty reduction and sustainable economic growth in the APEC region.

The Partnership offers best practice tools, ideas, knowledge and critical connections derived from Canadian experience, tailored to local APEC markets. The current economies of focus are: Indonesia, Peru, the Philippines, and Vietnam. The focus areas of the Partnership aim to address key challenges faced by MSMEs and aspiring entrepreneurs from APEC developing economies in the areas of technology and innovation, market access, human capital, and social entrepreneurship, with an emphasis on the crosscutting themes of women, youth, governance and the environment.

Visit the APEC-Canada Business Partnership at <https://apfcanada-msme.ca/>

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# Methodology

**IN TOTAL**, information was collected from 437 entrepreneurs (founders and non-founders working in a MSME) from various areas of the Philippines through face-to-face and online surveys. The survey population was randomly chosen through existing entrepreneurial networks identified by TEN, including networks of entrepreneurs identified by the Department of Trade and Industry (DTI) in the Philippines.

The sample population covers diverse areas of the Philippines, with a high concentration of entrepreneurs in the National Capital Region around Manila and the Calabarzon Region. This is consistent with the distribution of MSMEs in the country, with 40% of MSMEs in the Philippines being concentrated in these regions.<sup>1</sup> Gathering data from entrepreneurs throughout the country ensured a level of representation of the attitudes, barriers, and opportunities facing the sample population in a variety of contexts within the Philippines.

Survey data has been contextualized in this report with information from research conducted by various international and regional organizations and experts.



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<sup>1</sup> Department of Trade and Industry Philippines, 2016, MSME Statistics, <https://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>.



# Introduction

## MSMES: THE BACKBONE OF APEC ECONOMIES

Within the 21 economies of the Asia Pacific Economic Cooperation (APEC), MSMES are the drivers of economic growth and innovation, representing more than 97% of businesses and employing more than 50% of the workforce across the region.<sup>2</sup> In the Philippines, MSMES account for 99.57% of all business and provide 63.27% of total employment in the country.<sup>3</sup> As one of APEC's fastest-growing economies with a projected 6.7% gross domestic product (GDP) growth rate over the next two years, the economic prosperity in the Philippines relies heavily on small businesses.<sup>4</sup>

As a result, the government has developed significant and widespread policies and programs to support the development and growth of MSMES. The cornerstone policy, the Magna Carta for Micro, Small, and Medium Enterprises, came into force 2008. The policy is geared toward developing an entrepreneurial ecosystem and supporting a business environment conducive to the country's dominant MSME sector. Guided by the high-level, strategic policy direction developed for the country, in 2014 the Philippines enacted the Go Negosyo Act that provides practical, on-the-ground support for entrepreneurs and growing MSMES in the form of support centres, a start-up fund, and training in various areas such as marketing and management. Despite best efforts in this policy space, gaps still exist in training and delivery of services.

## MARKET ACCESS: ACCESSIBLE FOR MSMES?

Market access refers to the ability of businesses (in this case, micro, small, and medium sized enterprises) to participate in international trade, markets, and supply chains. In the past few decades we have seen a rise in global trade, and patterns have shifted in terms of the quantity, type, and manner of trade we see. While there has been a large increase in the share of global exports from developing economies – specifically in South East Asia – MSMES tend to be underrepresented in this space.<sup>5</sup>

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<sup>2</sup> Asia-Pacific Economic Cooperation, 2018, Small and Medium Enterprises Working Group, <https://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises>.

<sup>3</sup> Department of Trade and Industry Philippines, 2016.

<sup>4</sup> Asian Development Bank, 2017, Asian Development Outlook 2017 Update: Sustaining Development through Public-Private Partnership.

<sup>5</sup> United Nations Industrial Development Organization, 2017

APEC has identified some of the major challenges that MSMEs in the region experience accessing markets, such as integrating into global value chains, developing capacity to export and internationalizing their operations, and finding sustainable collaborations with larger enterprises.<sup>6</sup>

This report uses data disaggregated by gender, age, and industry to understand the specific issues entrepreneurs in the Philippines experience regarding market access. Major findings include:

- Most MSMEs lack the knowledge required to access international markets;
- MSMEs are largely unaware of or underutilizing export policies and trade agreements available to them; and,
- Women entrepreneurs are less likely to have access to support services and to use online business tools such as social media or learning applications.

Further, this survey report identifies policy recommendations such as:

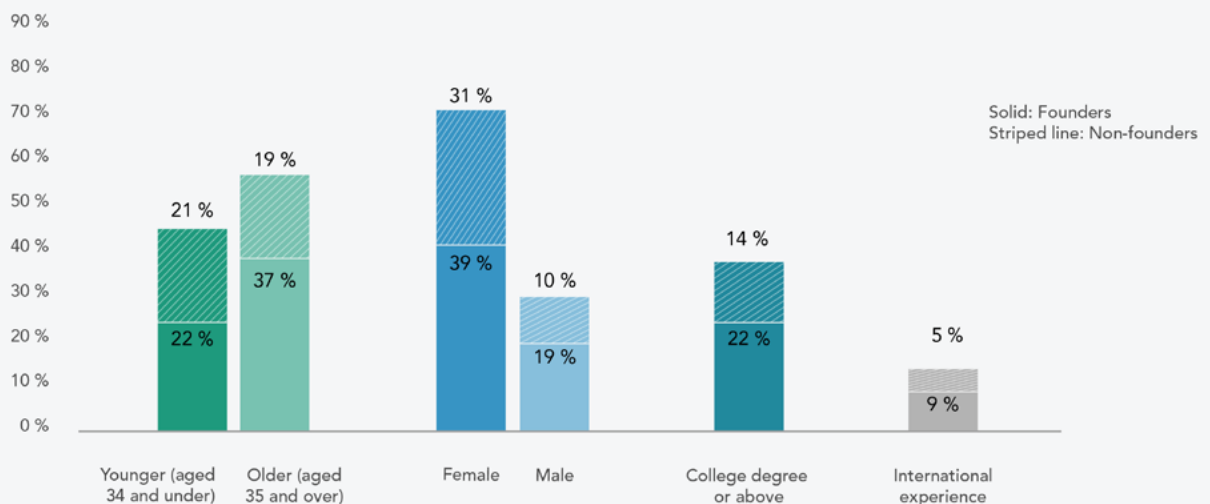
- Improving government led support services in order to reach entrepreneurs trying to grow their MSMEs. While the impact of the service-oriented policies (specifically the Magna Carta), and physical support infrastructure throughout the country (Go Negosyo Centers) may facilitate international opportunities for MSMEs in the Philippines, entrepreneurs indicate that there needs to be improvement around the public accessibility and awareness of these services.
- Government-led support services should reward and encourage a broad range of international experience to support aspiring entrepreneurs with strategies for their particular market context, and include training on how to leverage trade shows, utilize e-commerce, and access market information online for specific country and regional economies.
- The government, together with universities and the private sector, should continue to lead and develop business service organizations, incubators, and accelerators that facilitate market access and share market knowledge.
- With social media and online learning platforms playing an increasingly important role in business development, platforms developed by governments, universities, and business associations need to be accessible to women and older entrepreneurs

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<sup>6</sup> Asia-Pacific Economic Cooperation, Small and Medium Enterprises Working Group, 2018.

# Section 1: COMPANY AND ENTREPRENEUR PROFILES

## Profiles of Respondents



All Respondents (n=437)

Q 1.1: Are you the founder of your company?

Q 1.2: What is your current age?

Q 1.3: What is your gender?

Q 1.4: What is your highest level of education?

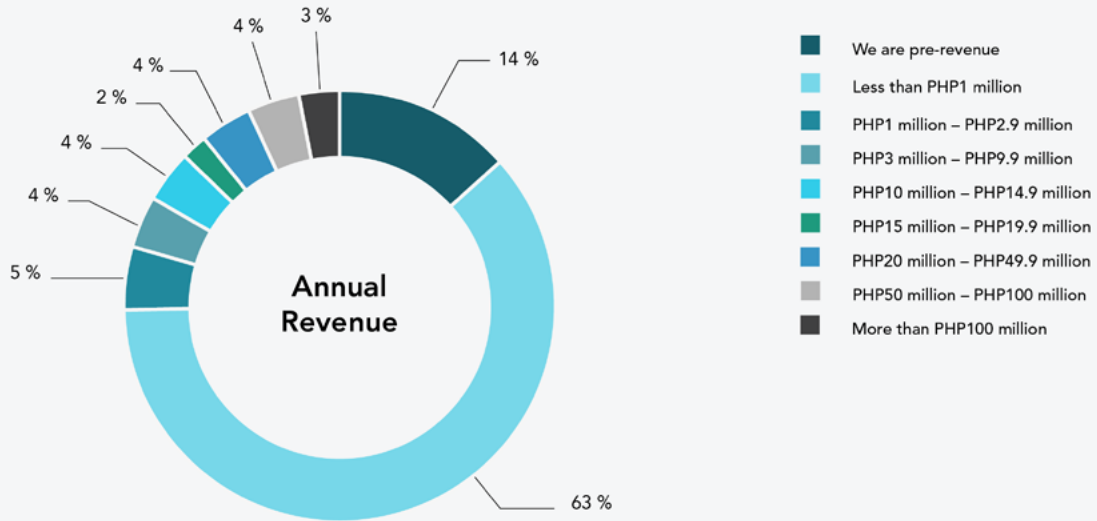
Q 1.6: Have you studied, worked, or participated in relevant professional development experiences outside of the Philippines?

## MORE WOMEN ENTREPRENEURS, BUT MICRO IN SIZE

The 2018 Survey of Entrepreneurs and MSMEs in the Philippines includes respondents who identify as either founders (59%) or non-founders (employees; 40%) of MSMEs. MSMEs in the Philippines fall largely into the 'micro' categorization, with 63% of respondents identifying their businesses as micro-enterprises<sup>7</sup> with fewer than 10 employees and less than 1 million PHP annual revenue.

<sup>7</sup> The Philippine Statistics Authority classifies MSMEs based on number of employees and revenue size: an enterprise is micro in size if it has fewer than 10 employees; small with 10 to 99 employees; and, medium with 100 to 199 employees.

## Annual Revenue



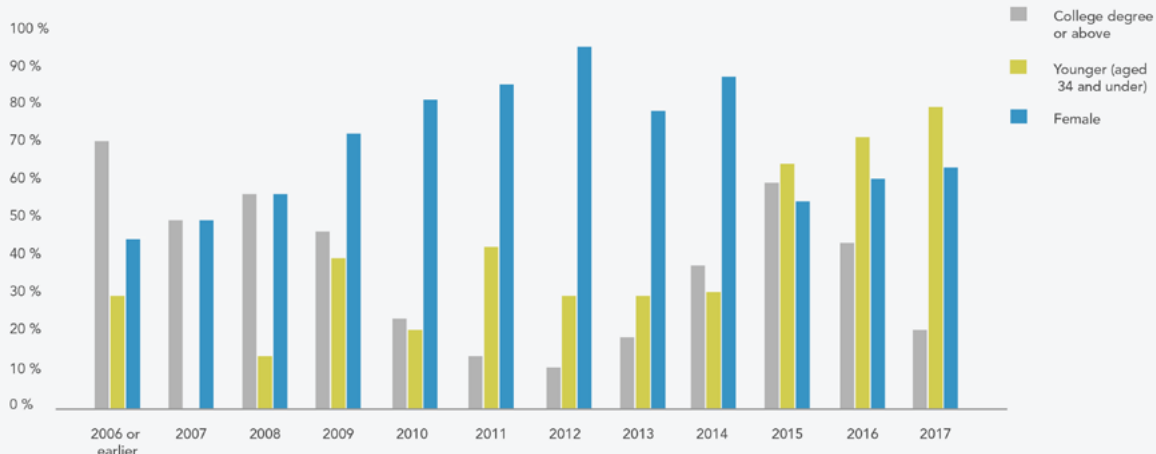
All respondents (n=313)

Q 2.13: What were your company's annual sales revenues for the past fiscal year?

Women entrepreneurs comprise 70% of total respondents as both founders (39%) and non-founders (31%). The Philippines consistently ranks within the top 10 in the world for gender parity in political and business leadership<sup>8</sup> and as regional leader around gender parity in entrepreneurship, with women recently overtaking men entering the entrepreneurial space.

<sup>8</sup> World Economic Forum, 2017, The Global Gender Gap Report 2017.

### MSMEs Founded Each Year By Age, Gender, and Education



All respondents (n=437); Age 34- (n=187); Education (n=434); Female (n=306)

Q 2.2: When was your company founded?

There is no shortage of young workers as the Philippines is by no means an ‘old country,’ with a median age of 23.5 years.<sup>9</sup> Entrepreneurs under the age of 35 founded 30% of all MSMEs established in 2006 or earlier, and women entrepreneurs founded 45% of all MSMEs in that same timeframe. These numbers increased to 80% and 64%, respectively, in 2017. Notably, survey data shows a spike in the number of MSMEs founded in 2017 from 18 in 2016 to 70 in 2017.

According to the Global Entrepreneurship Monitor, the Philippines has a business discontinuance rate of 12.6% (compared to the ASEAN average of 4.8%).<sup>10</sup> This indicates that while more MSMEs are being founded, their likelihood of failing is quite high. The Global Entrepreneurship Monitor attributes this high business discontinuance rate to several factors including businesses being unprofitable, difficulty in securing financing, and personal reasons such as poor health of the entrepreneur.<sup>11</sup> Some of the major barriers to longevity faced by new MSMEs in the Philippines include poor profitability in saturated markets, lack of access to capital, and poor and/or inconsistent information dissemination regarding support programs and policies for MSMEs.<sup>12</sup>

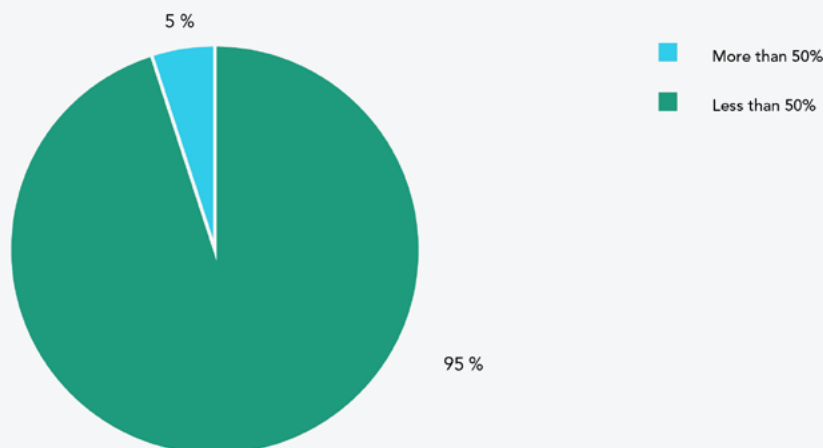
<sup>9</sup> CIA, 2018, The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>

<sup>10</sup> Global Entrepreneurship Monitor, 2014, Entrepreneurship: An Emerging Career Path for Filipinos, <https://www.gemconsortium.org/country-profile/98>

<sup>11</sup> Global Entrepreneurship Monitor. 2017. Philippine Entrepreneurship Report 2015-2016.

<sup>12</sup> Ibid.

### Companies With Less Than 50% of Employees Having Studied or Worked Outside the Philippines



All respondents (n=242)

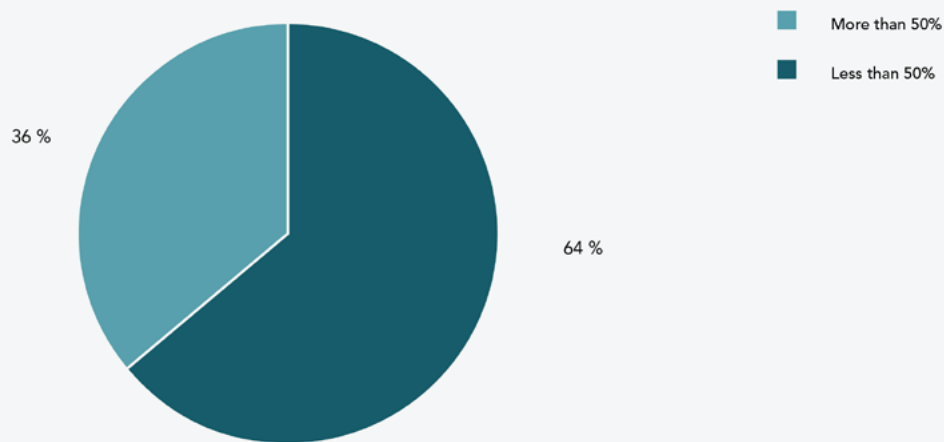
Q 2.11: What percentage of your company's employees (including founders) have studied or worked outside of the Philippines?

Ninety-five per cent of all entrepreneurs surveyed indicate that less than 50% of their workforce, including founders, has worked or studied abroad. While founders have marginally more international experience than non-founders, as a group only 14% of all respondents identify as having international experience. In the context of market access, the lack of international experience among entrepreneurs in the Philippines is a notable barrier to reaching international markets. Being able to support opportunities for relevant international exposure in the MSME sector will need to be a key pillar for policy intervention for government support services (under the Department of Trade and Industry) moving forward. Beyond linking MSMEs to larger companies and governments as a policy strategy, increasing the opportunities for exposure of these companies to international experiences through promoting international studies or relevant professional development can lead to a greater ability to access foreign markets.<sup>13</sup>

<sup>13</sup> Department of Trade and Industry Philippines, 2017, MSME Development in the Philippines, [http://www.microfinance-council.org/wp-content/uploads/2017/08/Empowering-MSMEs\\_Alice-Opena.pdf](http://www.microfinance-council.org/wp-content/uploads/2017/08/Empowering-MSMEs_Alice-Opena.pdf)

Furthermore, 36% of all survey respondents have a college degree or above, with founders representing 22% of that total. The majority (64%) of MSME founders indicate that less than 50% of their employees hold a college or university degree.<sup>14</sup> While founders have a higher incidence of college completion, the overall MSME sector represented in the survey data is not highly educated. This could be a possible feature of the industrial makeup of the Philippines, whereby our survey results indicate that the dominant industry in terms of number of MSMEs, retail and wholesale, has a median education of high-school completion. In contrast, survey respondents in the industries of software development, education services, and professional services have a median education of college or above.

### Companies With Less Than 50% of Employees Having College and University Degrees



All respondents (n=255)

Q 2.12: How many employees (including founders) with college or university degrees are there in your company?

<sup>14</sup> Contextually, the Philippines has a 35% enrolment rate in post-secondary education and a 30% completion rate of post-secondary education and above. (UNESCO, 2018)

On a similar note, the Philippines rates highly in primary and post-secondary education as an enabling factor for entrepreneurship.<sup>15</sup> It is ranked first among ASEAN economies by the Global Entrepreneurship Monitor for the teaching of entrepreneurial skills at the primary school level.<sup>16</sup> The country has recently reformed the education system to require courses in entrepreneurship at the high-school level in conjunction with an increasing level of university degrees in entrepreneurship.<sup>17</sup> This follows a larger trend in Southeast Asia to push for increased educational capacity for entrepreneurs.<sup>18</sup> This finding raises an interesting avenue for further research to measure the effectiveness of the educational reforms and initiatives in the MSME space in the Philippines.

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<sup>15</sup> Global Entrepreneurship Monitor, Philippines Economy Profile, <http://www.gemconsortium.org/country-profile/98>

<sup>16</sup> Global Entrepreneurship Monitor. 2017.

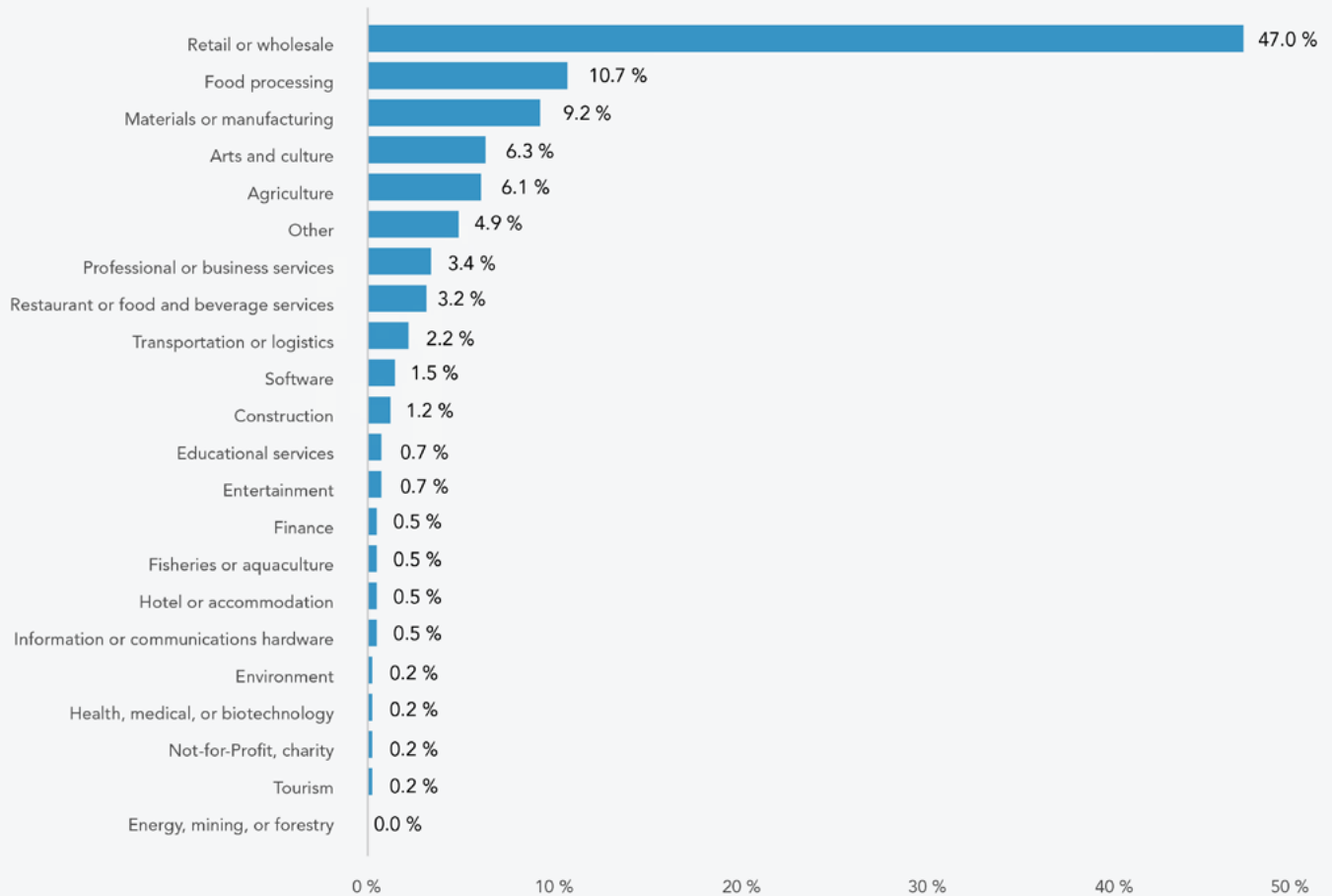
<sup>17</sup> Velasco et al., 2017.

<sup>18</sup> Xavier et al., 2015, ASEAN Regional Entrepreneurship Report 2014/15, <http://www.women-entrepreneurship.org/download/2015-sea-asean-regional-report-2014-1433941176.pdf>



## RETAIL AND WHOLESALE INDUSTRY LEAD MSME SECTOR

### Industry of MSMEs



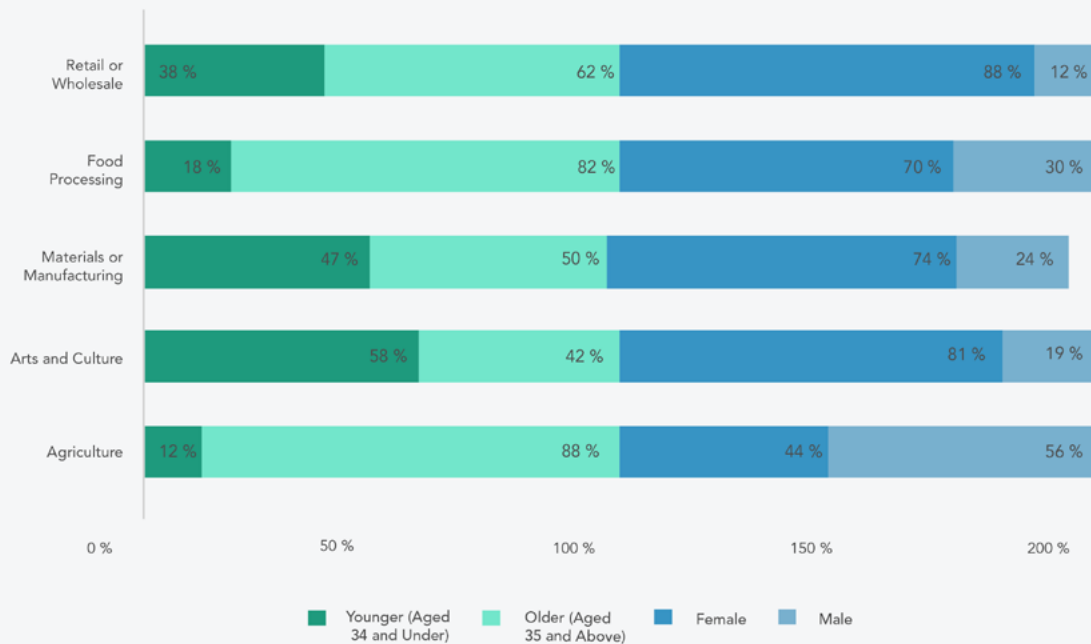
All respondents (n=437)

Q 2.8: Which of the following categories best describes the industry in which your business primarily operates?

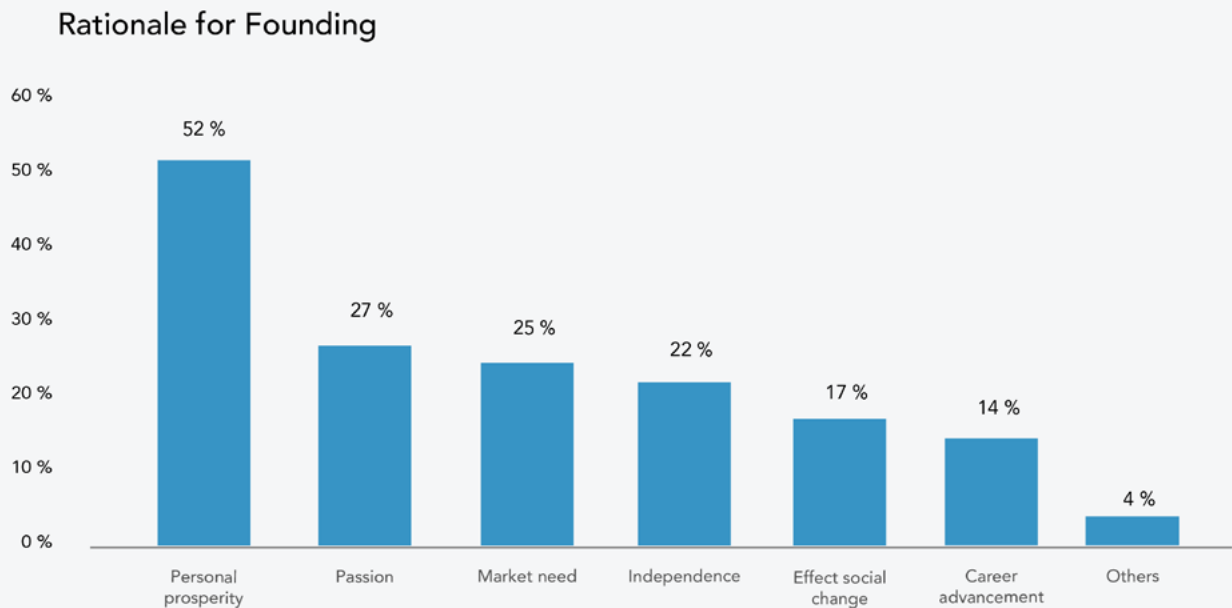
The MSME sector in the Philippines is dominated by the retail and wholesale industry (47%), followed by food processing (10.7%), materials and manufacturing (9.2%), arts and culture (6.3%), and agriculture (6.2%). Women entrepreneurs (88%) are highly represented in the retail and wholesale space. Within the top five industries, with the exception of agriculture, women represent more than the majority.

Further, with the exception of arts and culture, survey respondents in the top five industries were 35 years or older at the time of the survey. In the retail and wholesale industry, only 38% of respondents were 34 and under. Notably, only 12% of respondents in agriculture were younger than 35 at the time of the survey, which suggests a possible shift in the industries that younger people are entering in the Philippines' MSME sector.

### Demographics of Top 5 Industries



## PERSONAL PROSPERITY LEADS THE WAY FOR ENTERING MARKET



All respondents (n=305)

Q 2.7: Why did you create your company? Please select all that apply.

The 2018 Survey of Entrepreneurs and MSMEs in the Philippines indicates that those entering MSME sectors are largely pursuing personal prosperity. Passion and market need, in comparison, lag behind as reasons for founding an MSME. Given the focus on market access for this survey, it is noteworthy that only 25% of respondents checked 'market need' as a rationale for founding an enterprise. This could be indicative of a variety of factors, and different interpretations of the term, 'market need.' However, knowledge of the market context that an aspiring entrepreneur is entering is key to achieving success in that space. A policy intervention ought to focus on helping new and aspiring entrepreneurs to think strategically about their particular market context, and include training on how to leverage trade shows, utilize e-commerce, and access market information online for different country and regional economies.

# Section 2: GROWTH PLANS AND CHALLENGES TO GROWTH

## GENDER AND DIVERGENT GROWTH PLANS

Men surveyed in the 2018 Survey of Entrepreneurs and MSMEs in the Philippines are significantly more likely than women to be looking for modest (52%) to high (18%) revenue growth for their companies. Women, on the other hand, are more likely to be interested in no growth (22%) or lower growth (18%).

Existing structural barriers for women entrepreneurs and women-led MSMEs may influence how they interpret and articulate their ideas and ambitions of growth; frequently cited barriers include access to financing, security issues, social support and familial constraints, and lack of access to technology and relevant skills training.<sup>19</sup> Studies show that gender equality has a positive impact on economic growth. However, research that explores the impact of economic growth on gender equality are less consistent.<sup>20</sup>

Overall, only 8% of survey respondents are looking for high revenue growth. However, younger male respondents (under 35) and male respondents generally tend to be more

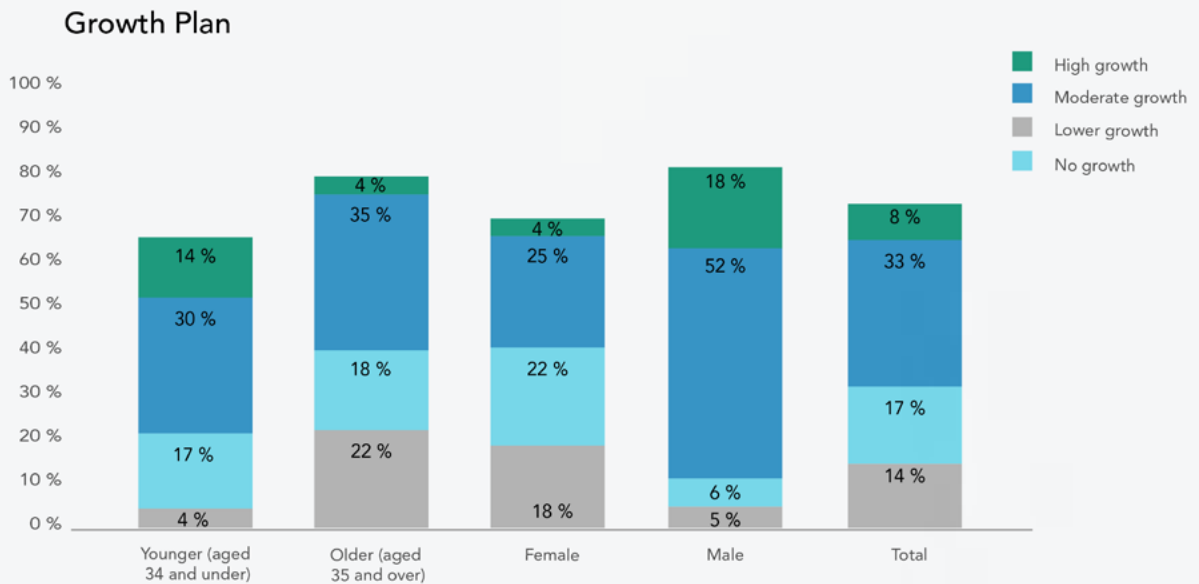
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<sup>19</sup> Asia-Pacific Economic Cooperation, 2014, Policy Partnership of Women and the Economy Strategic Plan 2015-2018.

<sup>20</sup> Kabeer, 2016, Gender quality, Economic Growth, and Women's Agency: the "Endless Variety" and "Monotonous Similarity" of Patriarchal Constraints, *Feminist Economics* 22(1): 295-321

ambitious than their counterparts.

Of the top five industries in the Philippines, the survey indicates that only respondents in food processing are looking for modest to high growth (75%). Comparatively, survey respondents in retail and wholesale (22%), arts and culture (35%), materials and manufacturing (37%), and agriculture (48%), are less likely to be seeking modest to high revenue growth. Given the dominance of the retail and wholesale space in terms of the number of MSMEs, the lack of interest in revenue growth within this industry is an important area for the Philippines government to better understand if they want to improve overall economic growth.



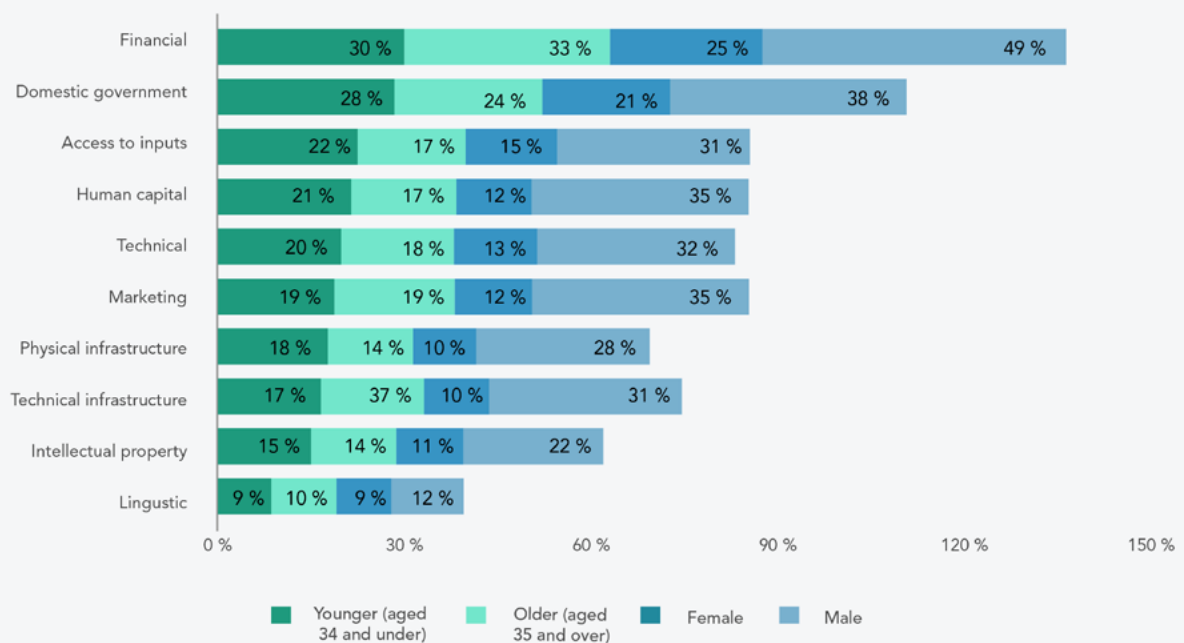
Age 34- (n=187); Age 35+ (n=248); Female (n=306); Male (n=129)

Q 2.14: What are your company's plans for revenue growth?

## FINANCES A COMMON BARRIER TO GROWTH

Access to finance is the highest barrier to growth among survey respondents, with domestic government cited as the second most common obstacle. The least common barrier to growth was linguistic barriers, which is consistent with the Philippines' high literacy rate of 96.4%.<sup>21</sup>

### Demographics and Barriers to Growth



All respondents (n=232)

Q 8.1: What are the barriers to your company's overall growth?

## GROWTH AND THE ENVIRONMENT: ENVIRONMENTAL SUSTAINABILITY A CONCERN FOR THE YOUNGER GENERATION

Understanding the barriers MSMEs face in building environmental sustainable practices is vital when implementing support policies. MSMEs in the APEC region that are in the early stages of business development would benefit greatly from adopting a greener approach, as they tend to rely heavily on natural resources for their development and are vulnerable to

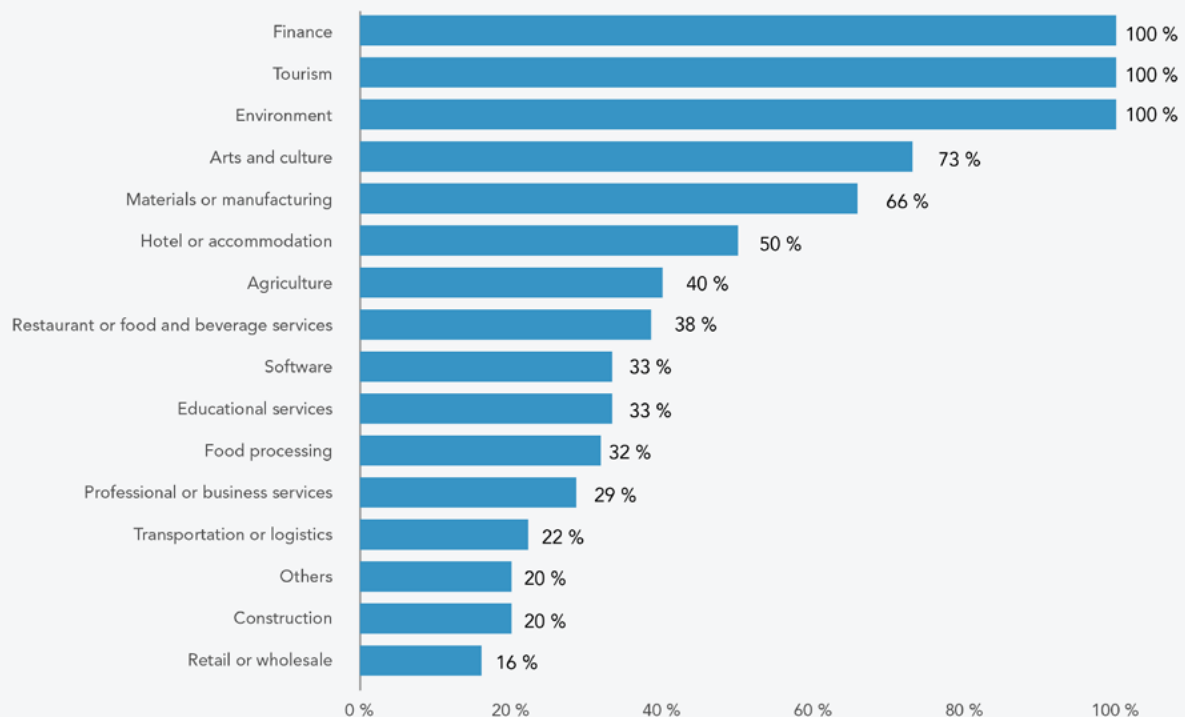
<sup>21</sup> UNESCO, 2018.

environmental changes.<sup>22</sup> While APEC economies currently pollute less per capita than more developed economies, adopting environmentally sustainable business practices will be highly beneficial and help avoid further compounding of global environmental challenges.<sup>23</sup>

However, MSMEs in APEC face more challenges in pursuing environmental sustainable strategies than larger firms, mainly:

- A lack of awareness;
- Limited access to information and technology;
- Strict regulatory requirements;
- Lack of qualified personnel;
- Limited access to finance; and,
- High barriers to international markets to benefit from demand for global green goods and services.<sup>24</sup>

### Percentage of Companies Seeing Environmental Sustainability as a Top Priority by Industry



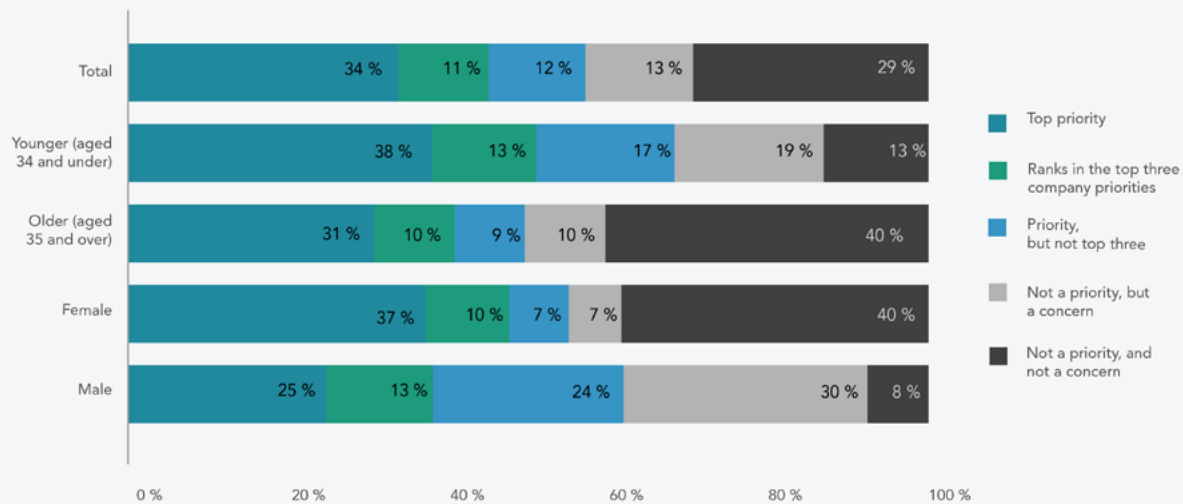
<sup>22</sup> Asia-Pacific Economic Cooperation, Identifying Green, Sustainable and Innovative MSMEs in APEC – Policy Brief No.19, February 2018.

<sup>23</sup> OECD and Cedefop, 2014, Greener Skills and Jobs, OECD Green Growth Studies, [http://www.oecd.org/cfe/leed/Greener%20skills\\_Highlights%20WEB.pdf](http://www.oecd.org/cfe/leed/Greener%20skills_Highlights%20WEB.pdf)

<sup>24</sup> Asia-Pacific Economic Cooperation, February 2018.

Overall, 47% of survey respondents in the Philippines see environmental sustainability as a general priority, a top-three priority, or their top priority. However, not all survey respondents are prioritizing environmental sustainability. Notably, only 16% of those within retail and wholesale see environmental sustainability as a top priority.

### Percentage of Entrepreneurs Seeing Environmental Sustainability as a Top Priority



Age 34- (n=145); Age 35+ (n=218); Female (n=258); Male (n=105)

Q 6.1: To what extent is environmental sustainability a concern for your company?

Overall, younger (under 35) survey respondents (87%) are more likely to be concerned about environmental sustainability, reporting it as at least a concern, if not a priority, compared to older (over 35) survey respondents (60%).

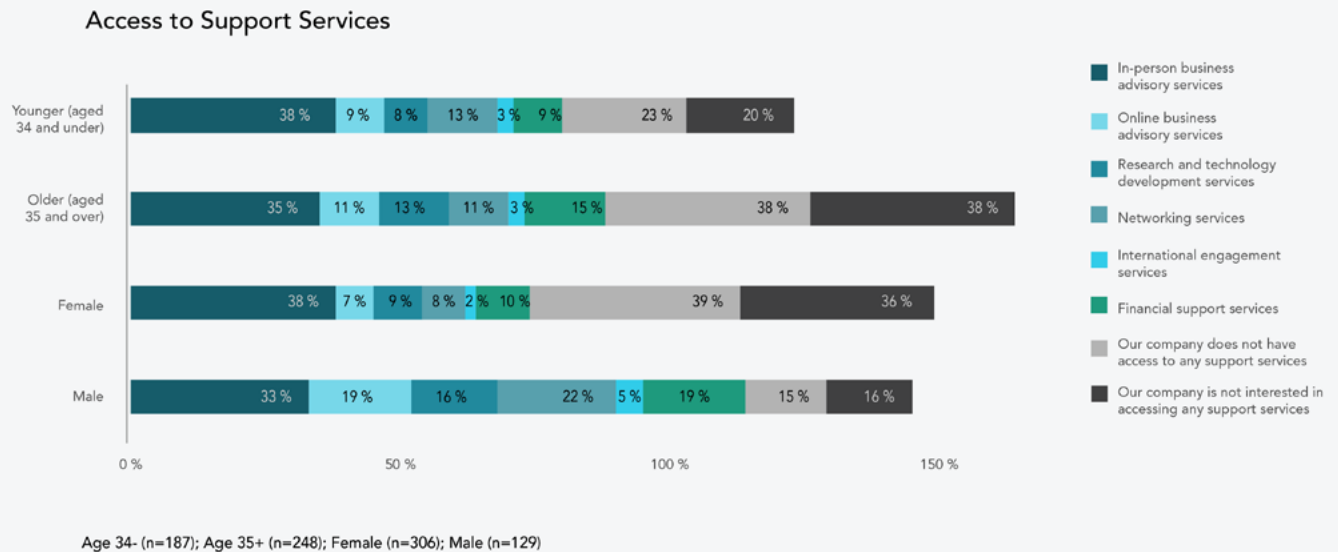
Women (37%) noted environmental sustainability as a top concern more often than men (25%), although women are divided on the issue of environmental sustainability, with 37% seeing it as a top priority and 40% not seeing it as priority or a concern.

Moving forward, increasing the awareness and supporting the development of environmentally sustainable business practices must be a key pillar in preparing MSMEs for market access outside of the Philippines. This should include providing training in sectors that focus specifically on the environment such as agriculture, food services, and other natural-resource-dependent sectors. Additionally, sectors that are most at risk from climate change and natural disasters, such as tourism and coastal businesses, must be supported to include environmentally sustainable business practices in their operations. This is in line with the Philippines' stated goals as part of the United Nations Framework



Convention on Climate Change (UNFCCC) to support a systematic transition to climate- and disaster-resilient social and economic growth.<sup>25</sup>

## SUPPORTING WOMEN ENTREPRENEURS TO CONNECT TO SUPPORT SERVICES



Q 7.1: To which of the following support services does your company have access? Please select all that apply.

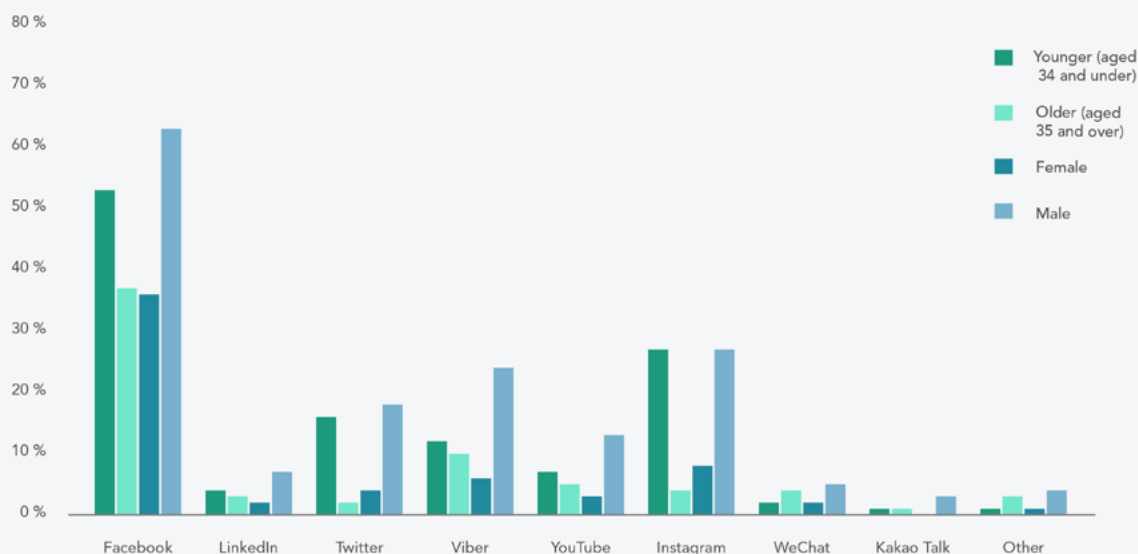
Overall, the 2018 Survey of Entrepreneurs and MSMEs in the Philippines found that women are more than twice as likely to lack access to any support services (39%) or be uninterested in accessing support services (36%) than men. Further, survey findings show that women entrepreneurs are less likely to access online tools (7%) compared to men (19%). With the exception of in-person business advisory services, women surveyed are far less likely to have access to specific support services compared to men,<sup>26</sup> which is consistent with trends across Southeast Asia.<sup>27</sup> This includes research support, technology training, mentorship programs and networking, international experiences, and financial support services – all of which are vital to improving access to international markets. Older survey respondents (over 35) are more likely to access support services as compared to the younger survey respondents (under 35) interviewed.

<sup>25</sup> Republic of the Philippines, Intended Nationally Determined Contributions, 2015, <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Philippines/1/Philippines%20-%20Final%20INDC%20submission.pdf>

<sup>26</sup> An important aspect to all this is also the efficacy of these support services. While the survey data does not address this specifically, research is currently being undertaken by the Asian Institute of Management in partnership with the APEC-Canada Growing Business Partnership Project to better understand the efficacy of business service organizations and networks.

<sup>27</sup> Xavier et al., 2015.

## Demographic Breakdown of Social Media Use



Age 34- (n=187); Age 35+ (n=248); Female (n=306); Male (n=129)

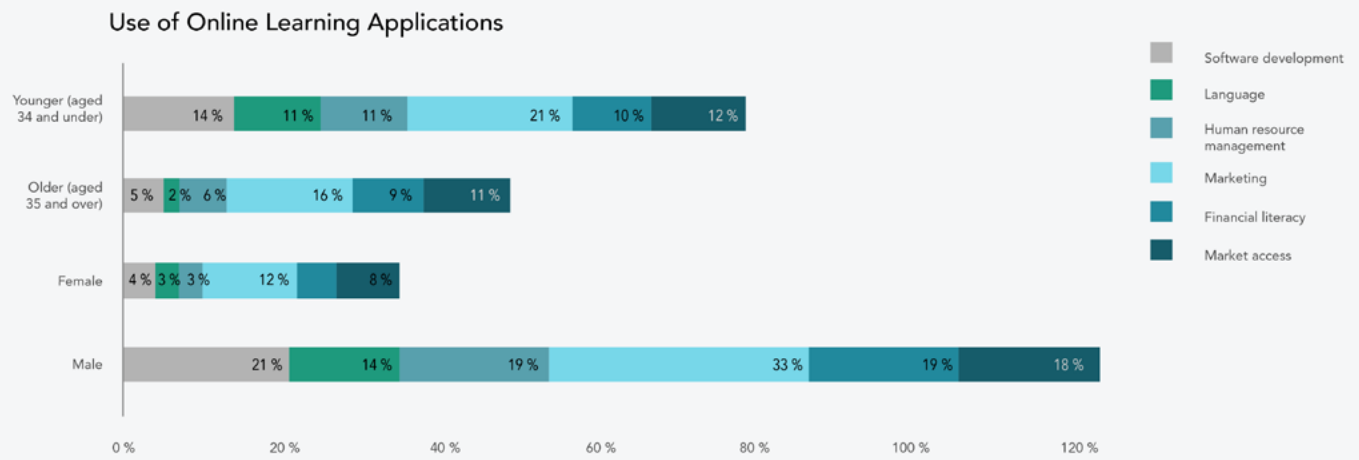
Q 3.5: Please identify which of the following social media applications your company uses, and for what purposes?

Similarly, compared to men, women entrepreneurs surveyed are less likely to use social media applications for business purposes. For instance, 63% of men surveyed reported using Facebook, compared to 36% of women. Further, 27% of men reported using Instagram for company purposes compared to 8% of women.

Taking age into consideration, the 2018 Survey of Entrepreneurs and MSMEs in the Philippines found that younger respondents (under 35) are more likely to use social media platforms than older respondents (over 35).

Male survey respondents were significantly more likely to use online learning applications compared to women. With regard to market access, 33% of men surveyed use online marketing applications and 18% use online market access applications, compared to 12% and 8% for women, respectively.

Overall, Internet use for women in the Asia Pacific is 39.5%, compared to 47.5% for men.<sup>28</sup>



Age 34- (n=187); Age 35+ (n=248); Female (n=306); Male (n=129)

Q 5.2: In the past year, have you used online applications to learn any of the following topics? Please select all that apply.

Younger respondents (under 35) are more likely than older respondents (over 35) to access online learning applications. Younger survey respondents are more likely to use software development, language, and human resource management learning applications.

With social media and online learning platforms playing an increasingly important role in access to marketing, networking, business development, and other useful services connecting women and older entrepreneurs to online support services – such as online mentorship, social media platforms, and online learning applications – they need to be a key pillar of MSME capacity development policies and initiatives in the Philippines.

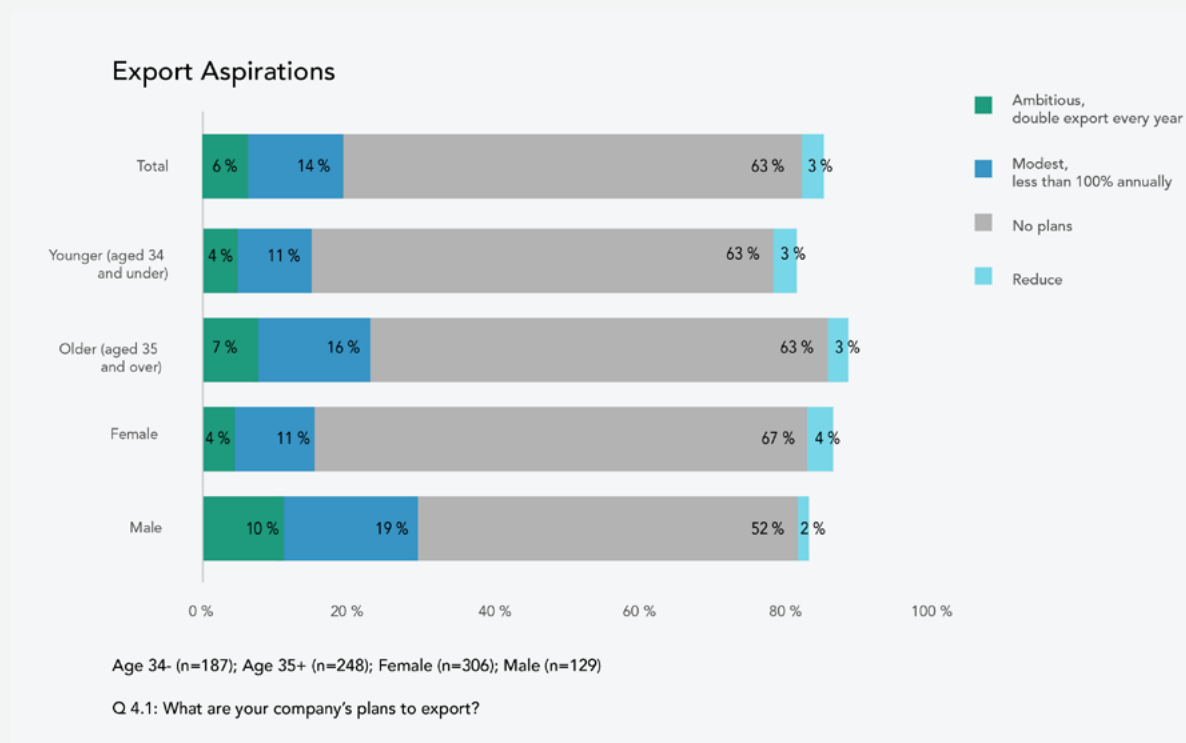
<sup>28</sup> United Nations Economic and Social Commission for Asia and the Pacific, 2017, Closing Gender Gaps in Asia and the Pacific Requires Transformative Change, <http://www.unescap.org/op-ed/closing-gender-gaps-asia-and-pacific-requires-transformative-change>

# Section 3: OBSTACLES TO MARKET ACCESS

MSMEs account for 25% of all export revenue in the country.<sup>29</sup> Increasing their capacity to deliver goods and services to international markets will significantly benefit MSMEs and those employed by them in the Philippines. There are, however, significant barriers for MSMEs to overcome in reaching international markets. The results of the 2018 Survey of Entrepreneurs and MSMEs in the Philippines show that survey respondents are not engaging with international markets to improve business outcomes, and are largely unaware of exporting support services available to them.

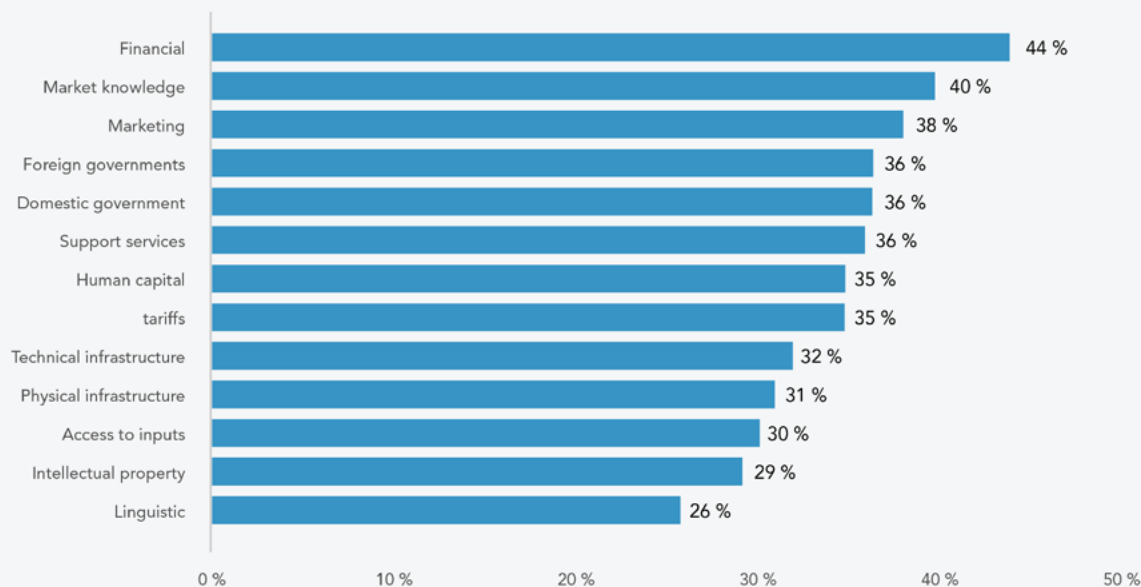
## MSMES ASPIRING TO REACH INTERNATIONAL MARKETS

Overall, 63% of survey respondents do not intend to export in the future. However, of this sample, male respondents (29%) are more likely to have ambitious or modest export plans than female respondents (15%). Further, younger (under 35) respondents (15%) are marginally less likely to indicate aspirations to export compared to older (over 35) respondents (23%).



<sup>29</sup> Department of Trade and Industry Philippines, 2016.

## Barriers to International Market Access



All Respondents (n=216)

Q 8.2: What are the barriers to your company's ability to sell goods and services across international borders?

### MSMES REQUIRE KNOWLEDGE OF INTERNATIONAL MARKETS

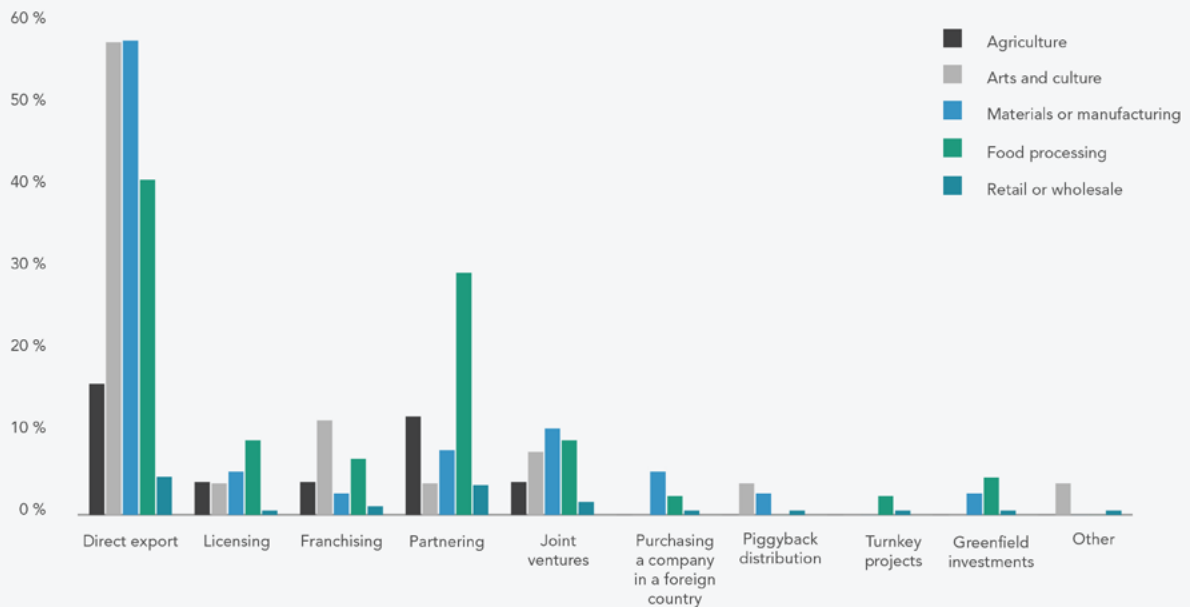
Finances represent the greatest barrier to market access, with 44% of survey respondents citing it as an issue. Importantly, market knowledge (40%) follows closely behind as an identified barrier to accessing international markets. In the 2018 Survey of Entrepreneurs and MSMEs in the Philippines, market knowledge was more commonly cited than tariffs as a barrier to market access. This may be due to a lack of survey respondents currently exporting and encountering tariffs, or to an overall lack of awareness of how to engage with trade agreements.<sup>30</sup> In either case, this aligns with the low number of survey respondents who identify market need as the rationale for founding an MSME.

It is important to note that each barrier can be linked to financial concerns. For instance,

<sup>30</sup> Aldaba, 2017, Philippines SME Participation in ASEAN and East Asian Regional Economic Integration, Journal of South-east Asian Economies 34(1):39-76.

accessing support services, establishing physical infrastructure, and acquiring human

### Exporting Methods of Top Five Industries



All Respondents (n=382)

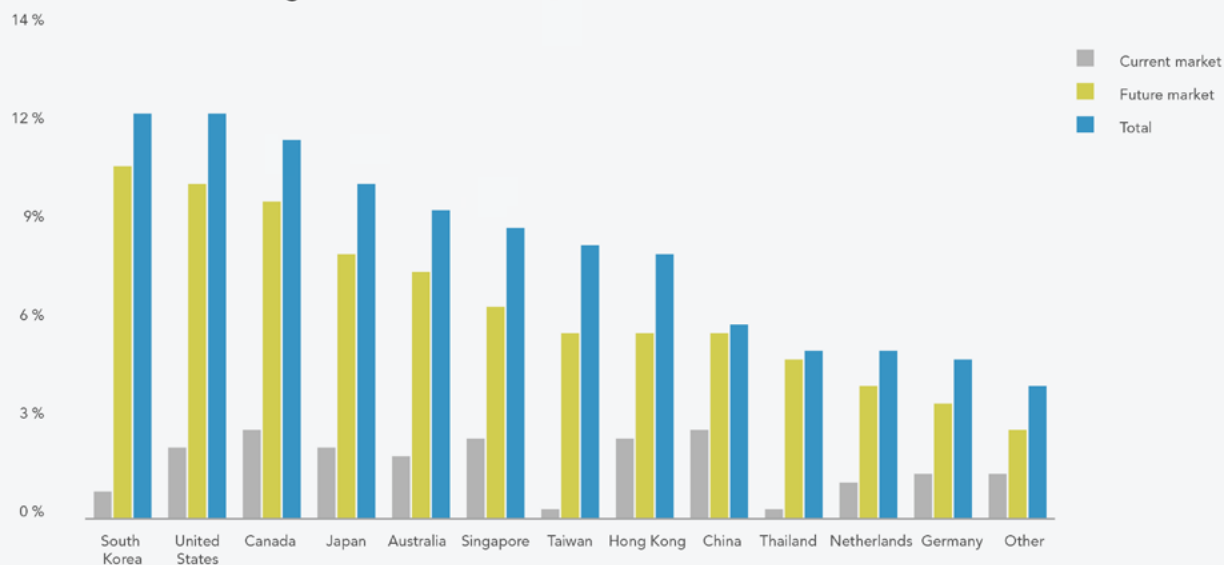
Q 4.4: Which of the following export strategies does your company currently, or plan to, employ? Please select all that apply.

capital are all challenging without sufficient finances.

### TOP INDUSTRIES DOMESTICALLY FOCUSED

Survey respondents that reported export activities engaged in direct export to international markets. Food processing and materials and manufacturing were the two main categories of exports reported. Food processing firms are more likely than other

## Current and Future Target Markets of MSMEs



Base: Age 34- (n=187); Age 35+ (n=248); Female (n=306); Male (n=129)

Q 4.2: To which economies does your company plan to, or currently, export?

categories to form partnerships in their exporting pursuits, with 30% of food processing survey respondents partnering with other firms to export their products. Forty per cent of agricultural MSMEs surveyed are exporting products, while only 14% in the retail and wholesale sector reported they were currently exporting.

Canada and China are the most sought-after markets for survey respondents (33%) who are exporting or planning to export. At the time of the survey, 2.7% of respondents were currently trading with China and Canada.

Interestingly, South Korea is the second-smallest market based on survey respondents current exporting at 0.8%, but is the most sought-after future market, with 10.7% of survey respondents indicating a desire to enter the South Korean market. This is followed by a desire to expand business into the United States (10.2%) and Canada (9.7%). It is unclear what is driving the interest in exporting to South Korea, as the country represents 4.2% of overall Philippines export revenue – a 1% decrease over 2016.

<sup>31</sup> Asia-Pacific Economic Cooperation, Small and Medium Enterprises Working Group, 2018.

Regardless, the survey responses indicate a lack of awareness and/or understanding of international markets in tandem with an underwhelming enthusiasm for reaching international markets. This may be due to any number of factors, but is part of a larger trend in the APEC region, with 35% or less of direct exports originating from MSMEs, and a large need to build capacity to engage in international trade.<sup>31</sup>

## EXPORT POLICIES AND TRADE AGREEMENTS GOING UNNOTICED

The 2018 Survey of Entrepreneurs and MSMEs in the Philippines survey responses indicate a lack of awareness of export policies and trade agreements. There is an overall low awareness (48%) of the Philippines' signature policy for MSMEs, the Magna Carta for Micro, Small, and Medium Enterprises. However, some of the signature initiatives that derive from that policy have the highest, albeit still relatively low, awareness compared to other policies and treaties — namely, the Go Negosyo Act (40%) and the Barangay Micro Business Enterprises Act (29%). This may be attributed to the service-oriented nature of these policies. The Negosyo Act led to the building of physical infrastructure throughout the country to deliver support services to MSMEs, and the Barangay Act provides financial incentives for micro enterprises to register their company.

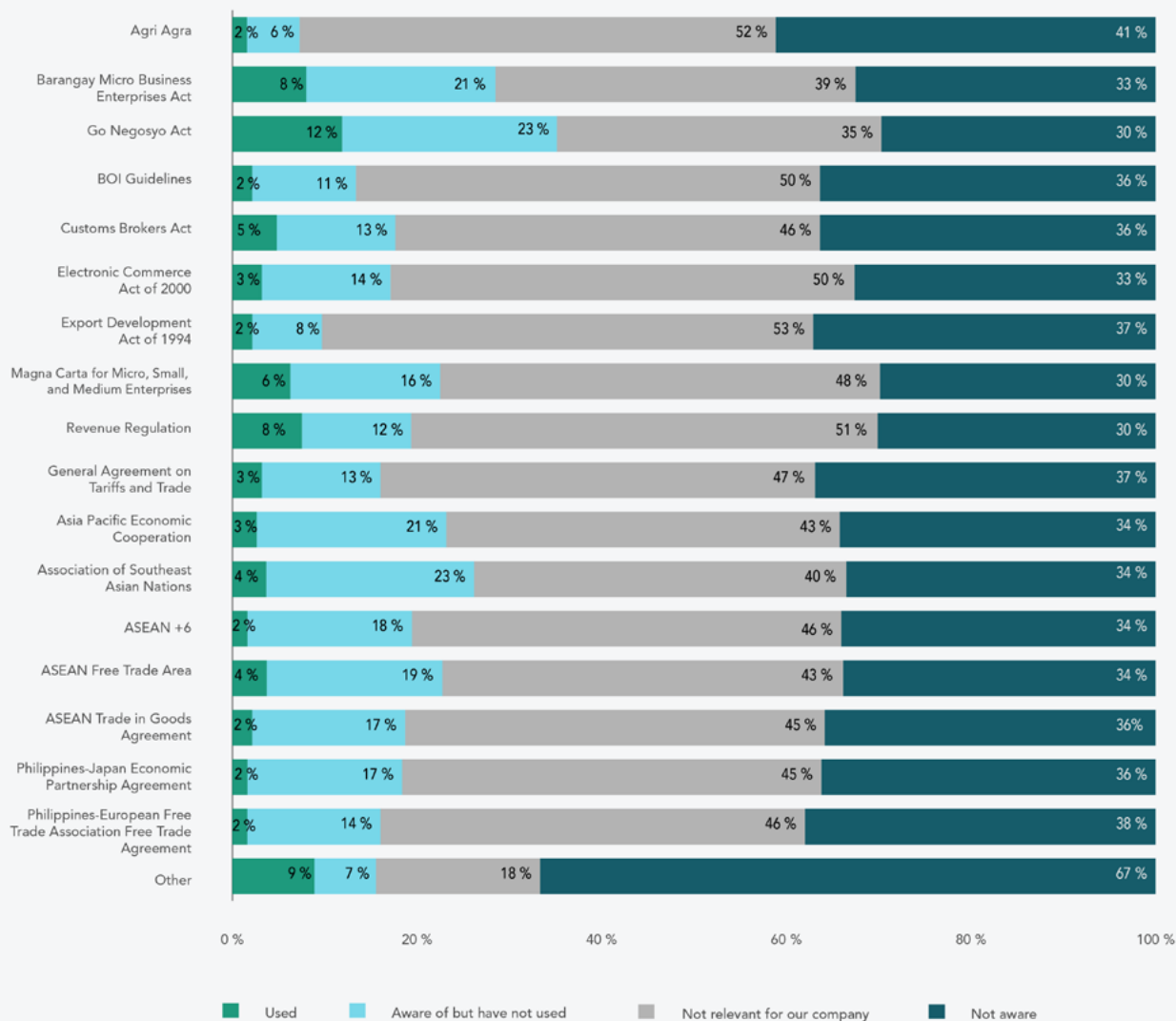
In general, survey respondents being unaware of the network of policies and agreements surrounding access to international markets is concerning. It becomes even more so when coupled with a lack of concern for market need and a high incidence of market knowledge as an acknowledged barrier to market access.

While the impact of the service-oriented policies listed (specifically the Magna Carta), and the prevalence of physical support infrastructure throughout the country (the Negosyo Act and centres across the country) is perhaps suggestive of a way forward for opening up international opportunities for MSMEs in the Philippines, the survey responses indicate that there needs to be improvement around the public accessibility and awareness of these services.

Certainly, there may be room for improvement of the Negosyo Act — and the Magna Carta — in terms of overall public awareness, but it provides a useful framework for business support and management training. Creating programming that articulates the benefits of reaching international markets while providing knowledge and skills for developing international capacity can only improve these initiatives for MSMEs in the Philippines.



## Awareness of Export Policies and Trade Agreements



Base: All respondents (overall mean n=187)

Q.4.5 Which of the following export policies, support organizations, or trade agreements does your company leverage?

# Conclusion and Recommendations

Having access to international markets is imperative in the Philippines to support MSMEs to develop and grow. Findings from the 2018 Survey of Entrepreneurs and MSMEs in the Philippines highlight the urgent need to assist MSMEs to overcome significant barriers to market access and gain an edge in an increasingly globalized marketplace.

## SUPPORT OPPORTUNITIES FOR INTERNATIONAL EXPERIENCE

A lack of international experience reduces the opportunities for MSMEs to have first-hand knowledge of international markets and opportunities. This is an identified weakness across all key demographics in the study and ought to be the focus of widespread action. Government policies looking to promote international experience do not necessarily have to result in sending more entrepreneurs abroad, rather ensuring they have access and representation at trade expos, international delegations, relevant international business development conferences, workshops, and trainings for those already in the labour force. In tandem with opportunities to study abroad or work abroad established by universities, business associations and innovation hubs, these measures can increase exposure to international markets and increase knowledge for those in the entrepreneurial space looking to expand their operations.

## ADDRESS GENDER-SPECIFIC BARRIERS TO ONLINE ACCESS

The 2018 Survey of Entrepreneurs and MSMEs in the Philippines suggests that men are more ambitious in their plans for exporting and growth, and possess greater access to support networks – especially online. While the Philippines has excellent gender parity when it comes to representation in the entrepreneurial space, women need to be better supported in accessing online tools and support required for success. This will require gender-focused efforts to connect women entrepreneurs to existing government policies, online learning applications for entrepreneurs established by innovation hubs, and business support networks.

## MORE ATTENTION PAID TO MARKET KNOWLEDGE

Improved market knowledge requires attention to two equally important undertakings: first, a focus on the knowledge gap present between MSME entrepreneurs in the Philippines and international markets; second, a re-evaluation and of existing policies and support networks.

A policy encouraging MSMEs to join business service organizations and trade associations would be useful. Beyond referring MSMEs to these associations, the Philippine government should document best practices from successful start-ups that have access to international markets and prepare a reference model for other MSMEs and entrepreneurs.

Special attention should be paid in the early stages of business development to ensure adequate information is provided to assist MSMEs to reach international markets. A lack of understanding of international markets and “market need”, suggests an overarching lack of market and context awareness. Efforts to fill this knowledge gap can improve the outcomes of MSMEs in the Philippines and assist them in fulfilling their potential as more active and successful participants in the global economy.

Providing this information and knowledge to MSMEs requires a well-co-ordinated, consistent, and robust policy regime across the country. The Magna Carta for Micro, Small, and Medium Enterprises provides a useful framework to deliver resources and support needed to reduce knowledge barriers for accessing international markets. However, the Philippines Export Development Plan 2015-2017 pays little attention to the needs of MSMEs, with the exception of noting the need for financing.<sup>32</sup> To develop the exporting capacity of MSMEs to reach international markets, it is vital that the Philippines government – and its responsible agencies – not only provide financing, but also information and training on best practices for internationalization. This will require strong collaboration with trade associations, educational institutions, and training institutions, to improve capacity to access markets in the global trading system.

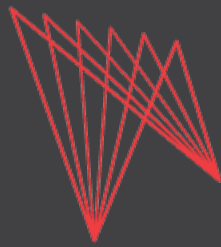
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<sup>32</sup> Philippines Export Development Plan 2018-2022 has been approved but is yet to be published.

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