



The MSME Sector At A Glance



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Micro, small and medium enterprises (MSMEs) have a very important role in developing the Philippine economy. They help reduce poverty by creating jobs for the country's growing labor force. They stimulate economic development in rural and far-flung areas. They serve as valuable partners to large enterprises as suppliers and providers of support services. They serve as breeding ground for new entrepreneurs and large corporations. A vibrant MSME sector is thus an indication of a thriving and growing economy. Despite policies that aim to provide an enabling environment for MSME development, the sector still faces various constraints that prevent it from realizing its full growth and potential.

Sector profile

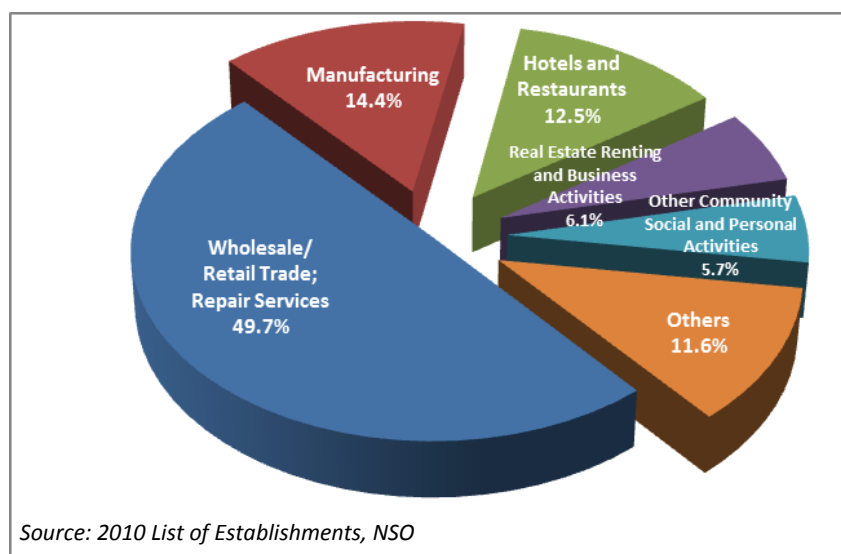
An MSME in the Philippines is defined as any business activity or enterprise engaged in industry, agri-business and/or services that has: (1) an asset size (less land) of up to PhP100 million; and (2) an employment size with less than 200 employees.¹ Based on these categories, it is classified as micro, small or medium (Table 1) regardless of the type of business ownership (i.e., single proprietorship, cooperative, partnership or corporation).

As of 2010, there were a total of 777,687 business enterprises in the Philippines. Of this figure, MSMEs represented 99.6 percent with 774,664 establishments while large enterprises represented 0.4 percent with 3,023 establishments. Micro enterprises comprised 91.6 percent (709,899) of the total number of MSMEs while small and medium enterprises accounted for 8 percent (61,979) and 0.4 percent (2,786), respectively.

Table 1: MSME Classification

Enterprise	Category	
	By Asset Size	By Number of Employees
Micro	Up to P3,000,000	1 - 9 employees
Small	P3,000,001 - P15,000,000	10 - 99 employees
Medium	P15,000,001 - P100,000,000	100 - 199 employees

Figure 1. Percentage Distribution of MSMEs by Industry, 2010



Overall, 49.7 percent of MSMEs are engaged in the wholesale/retail trade and repair services with 384,746 business establishments while 14.4 percent (111,366) and 12.5 percent (96,989) are in the manufacturing and hotels/restaurants industries, respectively (Figure 1). MSMEs in real estate, renting and business activities represent 6.1 percent (47,569), and those involved in other community, social and personal service activities account for 5.7 percent (44,209). Other MSMEs (11.6%) are engaged in health and social work (31,547); financial intermediation (26,350); education (13,930); transport storage and communications (9,010); agriculture, hunting and forestry (3,829); construction (2,292); electricity, gas and water (1,307); fishing (1,126); and mining and quarrying (394).

In terms of employment generation, MSMEs provided a total of 3,532,935 jobs² in 2010 or 62.3% of the total jobs generated by all types of business establishments. Large enterprises generated 2,136,362 jobs. Among MSMEs,

¹ Based on the definition under Republic Act No. 9501 or the Magna Carta for MSMEs, which amended RA 8289 and RA 6977 (Magna Carta for Small Enterprises); and on the establishment category used by the National Statistics Office (NSO), respectively.

² Refers to actual total employment of establishments included in NSO's 2010 List of Establishments; and is different from the employment statistics generated from the Labor Force Survey.

micro enterprises created 1,729,100 (30.5%) jobs while small and medium enterprises generated 1,417,672 (25%) and 386,163 (6.8%) jobs, respectively. MSME employment by industry generally follows the same structure as the number of establishments per industry, with MSMEs engaged in the wholesale and retail trade generating 1,237,917 jobs in 2010 followed by 617,634 jobs in manufacturing, and 479,668 jobs in hotels and restaurants (Table 2).

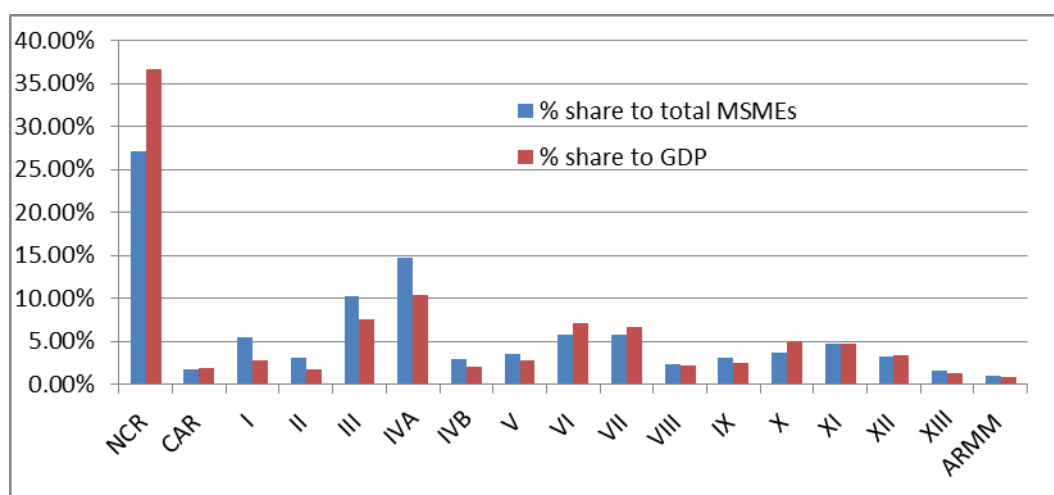
Table 2. Number of Employees by Industry and Firm Size, 2010

Industry	No. of Employees					Total
	MICRO	SMALL	MEDIUM	MSMEs	LARGE	
Agriculture, Hunting and Forestry	9,855	31,213	16,515	57,583	81,594	139,177
Fishing	3,408	5,705	4,377	13,490	14,227	27,717
Mining and Quarrying	930	3,878	1,960	6,768	21,201	27,969
Manufacturing	259,204	244,156	114,274	617,634	685,410	1,303,044
Electricity, Gas and Water	2,608	20,924	17,086	40,618	56,397	97,015
Construction	5,305	27,781	17,391	50,477	92,819	143,296
Wholesale/Retail Trade; Repair Services	816,095	364,164	57,658	1,237,917	139,032	1,376,949
Hotels and Restaurants	233,525	224,963	21,180	479,668	22,883	502,551
Transport Storage and Communications	26,161	49,399	16,671	92,231	106,331	198,562
Financial Intermediation	80,706	85,395	12,377	178,478	152,970	331,448
Real Estate, Renting and Business Activities	109,214	122,428	46,104	277,746	578,239	855,985
Education	31,516	154,515	37,695	223,726	98,770	322,496
Health and Social Work	51,006	35,240	15,615	101,861	57,000	158,861
Other Community Social and Personal Service Activities	99,567	47,911	7,260	154,738	29,489	184,227
Total	1,729,100	1,417,672	386,163	3,532,935	2,136,362	5,669,297

Source: 2010 List of Establishments, NSO

In terms of regional distribution, the top five regions with the most number of MSME establishments and MSME employment are: (1) National Capital Region (NCR) with 209,223 establishments and 1,324,847 jobs; (2) Region 4-A (CALABARZON – Cavite, Laguna, Batangas, Rizal, Quezon) with 113,859 establishments and 459,564 jobs; (3) Region 3 (Central Luzon) with 79,019 establishments and 312,507 jobs; (4) Region 7 (Central Visayas) with 45,322 establishments and 232,408 jobs; and (5) Region 6 (Western Visayas) with 45,176 establishments and 188,932 jobs. Figure 2 shows that the regional distribution of MSMEs is in line with economic activity or income level distribution as estimated by the gross regional domestic product (GRDP).

Figure 2: Distribution of MSMEs by Region vs Regional Contribution to Philippine GDP



Sources: 2010 List of Establishments, NSO and 2009 GRDP, National Statistical Coordination Board (NSCB)

Despite representing an array of industries and its capacity to generate employment, the MSME sector in the Philippines has relatively low value added to the economy. The Department of Trade and Industry estimated that MSMEs in the country contribute only 35.7 percent of value added, lower than in other Asian economies such as Indonesia (53.28%), Vietnam (39%) and Thailand (37.8%).

Barriers to MSME Growth and Development

The constraints that MSMEs often face can generally be categorized as: (1) non-financial barriers (cost of getting electricity, heavy regulation, high tax rates, and corruption); and (2) financial barriers (access to finance). Based on the World Bank's indicators on the ease of doing business, the Philippines lags behind its neighboring countries in reducing the number of start-up procedures, cost to start a business (measured in terms of percent of gross national income per capita or GNI pc), and number of tax payments per year (Table 3). These non-financial barriers to MSME development translates to high cost of doing business or poor business environment, and discourages the formation of new MSMEs or the entry of existing MSMEs into larger markets, among others. Other countries with lower costs of doing business have been observed to have larger MSME sectors.

On the other hand, the lack of access to financing has been identified as the most serious constraint to MSME growth and development.

Financing, particularly from external sources such as banks, becomes more important as firms start expanding. Though funds have been made available by government financial institutions (Table 4) and private banks, most MSMEs still have difficulty accessing these funds because of:

(1) insufficient collateral, limited credit histories and banking relationships; (2) inadequate financial records and business plans; and (3) high interest rates. MSMEs would thus tend to rely on informal non-banking channels for financing support (NEDA, 2010).

On mandatory lending to MSMEs, the Bangko Sentral ng Pilipinas (BSP) reported the over-compliance of banks on the provision of the law to allocate portions of total loan portfolio to MSMEs.³ Total bank loans to MSMEs have exceeded the mandatory

allocation by an average of 11.84 percent (PhP117 billion) from 1991 to 2010 (Figure 3). It has been noted, however, that the bank compliance report does not represent the real situation in bank lending to MSMEs; and that the BSP data represent an aggregate figure and do not show individual bank performance (Lagua, 2012). It would also seem that few MSMEs are benefitting from these bank loans given that only 33.2 percent of all Philippine enterprises (Table 5) have been estimated to have access to financing from formal financial institutions. Table 5 also shows how the Philippines compares to East Asia and the Pacific, and World averages on selected finance indicators.

To attain sustainable MSME growth, there is a need to improve the overall business environment, and more importantly, increase access to finance. This would require strong coordination among the national agencies and local government units in effectively implementing MSME-related policies (e.g., Magna Carta for MSMEs, Barangay Micro Business Enterprises Act or RA 9178), particularly on enhancing the provision of MSME credit and other finance services from financial institutions as well as nongovernment organizations engaged in MSME financing.

Table 3. Doing Business Indicators

Country	Number of start-up procedures		Time to start a business (days)		Cost to start a business (% of GNI pc)		Cost of getting electricity (% of GNI pc)		Number of tax payments per year	
	2005	2011	2005	2011	2005	2011	2005	2011	2005	2011
	Philippines	17	15	47	35	23.9	19.1	-	762	48
Indonesia	12	8	151	45	101.7	17.9	-	1,379	51	51
Malaysia	10	4	37	6	26.6	16.4	-	95.5	35	13
Singapore	6	3	6	3	0.9	0.7	-	31.1	5	5
Thailand	8	5	33	29	9.2	6.2	-	77.6	35	23
Vietnam	11	9	50	44	27.6	10.6	-	1,343	32	32

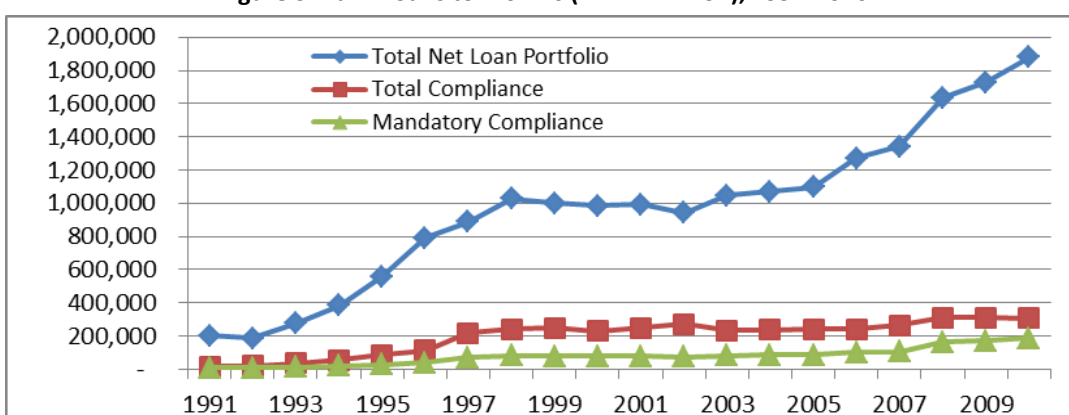
Source: Doing Business 2006 and 2012 (<http://www.doingbusiness.org>), The World Bank

Table 4. Loans by Government Financial Institutions to MSMEs (in PhP million), 2006-2011

GFI	2006	2007	2008	2009	2010	2011	Total
DBP	11,051	8,515	11,630	7,592	3,282	3,434	45,504
LBP	16,214	16,353	20,001	21,883	21,937	21,126	117,514
NLDC	60	47	36	32	28	39	242
PhilExim	202	328	283	276	204	252	1,545
QUEDANCOR	1,133	548	184	15	-	-	1,880
SB Corp	3,443	2,690	3,005	1,825	2,459	1,784	15,207
SSS	304	97	455	186	171	160	1,373
Total	32,407	28,578	35,594	31,809	28,080	26,795	183,264

Source: Small Business Corporation

Figure 3. Bank Loans to MSMEs (in PhP million), 1991-2010



Source: Supervisory Data Center, BSP

Table 5. Selected Finance Indicators, 2009

Indicator	Philippines	East Asia & Pacific	World
Percent of firms with a bank loan/line of credit	33.2	40.4	36.1
Percent of firms using banks to finance investments	21.9	27.5	26.5
Percent of firms using banks to finance working capital	19.1	30.9	30.4
Proportion of working capital financed by banks (%)	8.8	15.6	12.6
Value of collateral needed for a loan (% of the loan amount)	238.4	172.9	161.8

Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank

³ Aggregate mandatory allocation was 5 percent of total net loan portfolio for small enterprises in 1991 (RA 6977); 8 percent for SMEs in 1997 (RA 8289); and 10 percent for MSMEs in 2008 (RA 9501).