

Impact of Covid-19 on Micro and Small Entrepreneur (MSE) Graduates of the Kapatid Mentor Me Program of the Department of Trade and Industry

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Abstract— *The outbreak of the coronavirus disease (COVID-19) has severely affected the Micro, Small, and Medium-sized Enterprises (MSMEs). Unfortunately, small businesses are being hit hardest by the fall-out of the pandemic [1] and are being addressed by the Department of Trade Industry (DTI) with several measures and initiatives to mitigate its impact on the Philippine economy. This study was conducted to describe the status and effects of the pandemic to the Micro and Small Entrepreneur graduates of the Kapatid Mentor ME (KMME) Program of DTI in the province of Nueva Ecija, Philippines, as the agency's guide in streamlining the future direction of the program. The descriptive method of research was used with a semi-structured one-page online survey to determine the KMME MSE graduates' profile and the overall impact of COVID-19 pandemic particularly during the declaration of the community quarantine. The data gathered showed that most of the KMME MSE graduates continued their business operations amidst the pandemic. They are responding to the economic fall-out in several ways with optimism, government response and interventions that are significant to ensure MSEs survival. Likewise, they develop resilience through business continuity trainings, productivity improvements, and subsidies.*

Keywords— *Business continuity, COVID-19 impact, Department of Trade and Industry, Entrepreneurs.*

I. INTRODUCTION

The Micro, Small, and Medium Enterprise (MSME) sectors play a critical role as drivers of economic growth [2]. MSME is known as the backbone of Asia Pacific Economic Cooperation (APEC)'s 21 economies and in the Philippines,

was recognized as one of the fastest-growing economies [3]. Last 2018, it is projected that the gross domestic product (GDP) growth rate over the next two years will increase by 6.7% [4].

In 2015, MSMEs represented 99.6% of the total enterprises and provided 63.27% of the country's total employment. That makes the MSMEs a significant sector of the economy [2].

As catalysts of investment and employment generation in the Philippines, the government initiated and policies and development programs to strengthens the thrust on entrepreneurship through trade and investments. As stated Republic Act No. 10644: Go Negosyo Act, "An Act Promoting Job Generation and Inclusive Growth Through the Development of Micro, Small and Medium Enterprises" thus the DTI conduct Technology Transfer, Production and Management Training, and Marketing Assistance for SMEs [5].

However, the micro, small, and medium enterprises (MSMEs) are vastly affected by the Coronavirus disease (COVID-19) outbreak. COVID-19 is an infectious disease-causing global health crisis and economic downturn. DTI is assisting MSMEs to adapt to new business concepts amidst the challenges of the "new normal". This study shall contribute towards the determination of DTI's interventions and future plans on the implementation of its programs and services [6]. It is, thus, crucial to provide them with the necessary interventions in mitigating the pandemic's impact on MSMEs and improve business resiliency to quickly adapt to the disruptions caused by COVID-19 through providing business development support, capacity building, access to finance and market, and promote sustainable value chain [7].

The Kapatid Mentor ME (KMME) is one of the programs launched by DTI and the Philippine Center for Entrepreneurship (PCE) to help the country's micro and small enterprises (MSEs). The said program provides comprehensive training with ten modules designed to prepare Micro and Small Entrepreneurs (MSEs) for their integration in the value chains of medium and large enterprises and scale up their businesses through mentoring on different functional areas of entrepreneurship [4].

In June 2017, the DTI has successfully launched the said program in Nueva Ecija and has completed three batches as of August 2019 with a total of 60 graduates. After all the KMME runs, valuations and assessment valuations are necessary to provide information on how the program is contributing results to meet the objectives of the program deliverables.

As the COVID-19 pandemic was confirmed to spread in Central Luzon including the province of Nueva Ecija with 55 confirmed positive cases as of May 31, 2020, which posed

many challenges to MSMEs in the province, research efforts are targeted to identify the status and condition of the KMME MSE graduates amidst the pandemic, in order to determine the specific assistance necessary for business continuity and recovery. This study will contribute to streamline the future direction of the program in the province, highlighting the profile of the KMME graduates, its challenges during the nationwide community quarantine caused by COVID-19, and its present status.

Kapatid Mentor ME Program: Overview

The Kapatid Mentor ME program (KMME) is a coaching and mentoring program under the partnership between the Philippine Center for Entrepreneurship-Go Negosyo and the Department of Trade & Industry (DTI) as part of its strategy boost economic activity focusing on micro and small enterprises (MSEs) [6]. The program aims to assist small players to scale up their businesses and contribute to economic growth and address issues of unemployment, job mismatch, and migration through coaching and mentoring. Based on a study in the US, only 30% of MSEs survive their first ten years of operation not because of lack of government support but more of mismatched strategies in handling opportunities.

Go Negosyo, as the program's coordinating body will assign a mentor that specializes in a specific topic to a batch of mentees composed of 20 micro-business owners with potential for growth. This will be in close coordination with DTI representatives [4].

II. METHODOLOGY

The descriptive method of research and input-process-output (IPO) model were used in this study. According to Calderon (2012), "descriptive method involves the description, recording, analysis and interpretation of the present nature, composition or processes of phenomena which focuses on prevailing conditions, or how a person, group or thing behaves or functions in the present" [8]. According to the Six Sigma Daily website, "The Input-Output (IPO) Model is a functional graph that identifies the inputs, outputs, and required processing tasks required to transform inputs into outputs"[9]. This method was to determine the necessary actions to improve the KMME program implementation and to assist the KMME graduates.

The 60 KMME graduates were invited to participate in this study by responding to a quick online survey via Google forms. Considering the current community quarantine and health protocols, the researchers conducted the survey by

sending the survey link to KMME group chat messenger per batch as approved by the Executive Committee of the Department of Trade & Industry- Nueva Ecija Provincial Office. Participation in the survey was voluntary. The questions on a semi-structured one-page online survey form were kept as simple as possible to be answered with the below structure:

The first part determined the demographic data and profile of the respondents with questions on age, municipal address, KMME batch, industry, and year of establishment. The respondents were asked about the status of business operation prior to the March 17, 2020, enhanced community quarantine. The second part assessed the overall impact of the COVID-19 pandemic with items related to the status of business operations, cash flow, and challenges on raw materials and workforce requirements. The item on how the business operations were affected by the COVID-19 pandemic was measured using a Likert scale where (a) not

affected, (b) slightly affected, (c) Moderately affected, and (d) Strongly affected. The rehabilitation/loan facility under the Pondo para sa Pag-asenso and Pagbabago (P3) program of DTI was an option on an item no. 6 on how the respondent deals with cash shortages.

The survey and data collection were conducted on June 1-3, 2020 after the Modified Enhanced Community Quarantine was lifted. Descriptive statistical tools such as percentage and frequency distribution, tables, and graphs on Google Forms and Microsoft Excel were used to summarize, describe, and analyze the data gathered.

III. RESULTS AND DISCUSSION

Due to limitations brought by the pandemic, a total of 60 surveys were obtained but 21 respondents or 35% of the surveys conducted were successful. Table 1. Shows the demographic characteristics of the respondents.

Table 1. Descriptive Analysis for Study Sample

Category	Measure	Scores
Age	Mean	43.10
	Range	31 to 52
Gender	Male	9.00 (42.86%)
	Female	12.00 (57.14%)
KMME Batch	Mode	2 (90.48%)
Industry	Food	9
	Manufacturing	12

As presented in the table above, the age of the respondents ranges from 31 to 52 years old and the age mean is 43.10. Approximately, 57.17 % of the respondents were male and the remaining 42.86 % belongs to male respondents. The

respondents belong to the first three batches of KMME graduates in the province. Likewise, 9 of the respondents are engaged in the food industry while 12 of them belong to the manufacturing industry.

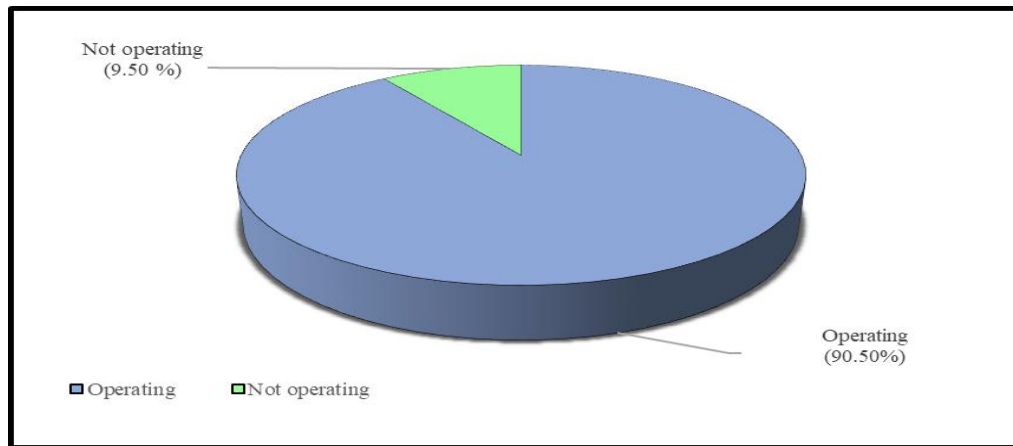


Fig.2: Percentage of Respondents' Business in Operation as of March 15, 2020.

The illustration above has shown the percentage of business of KMME graduates' business which still operates as of March 15, thus 90.50% of respondents answered that their

business operates on the said date while 9.50% answered no. This question is in relation to the imposition of lockdown on areas affected by the pandemic.

Table 2. Assessment of Overall Impact of Covid-19 Pandemic

Frequency	Percentage	Verbal Description
5	23.80 %	Not Affected
4	19.00 %	Slightly Affected
9	42.90 %	Moderately Affected
3	14.30 %	Strongly Affected

The illustration showed the percentage of how the business operations of KMME graduates' businesses were affected by the pandemic, only 14.3% of the respondents were strongly

affected while 42.9% of the respondents were moderately affected. In addition, 19% of the respondents were slightly affected while the remaining 23.8% were not affected at all.

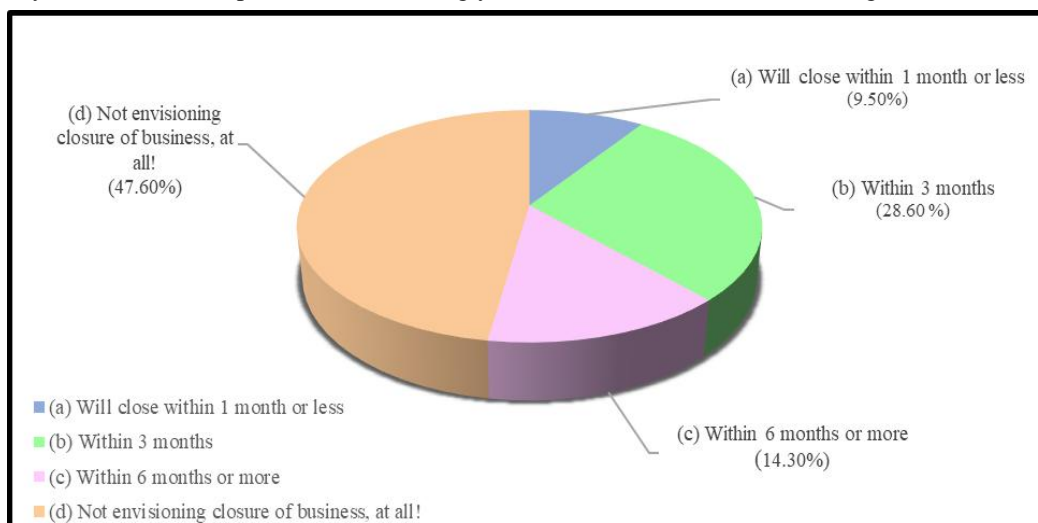


Fig.3: Assessment of Respondents on the Risk of Business Continuity due to Crisis

The illustration above shown the assessment of respondents on the risk of business continuity due to crisis. The majority of the respondents don't envision of business closure or shutdown with 47.60%, while 9.50 % of them predicted that

their business will close within a month or less, 28.80 % forecasted that their business will close with a month or three and 14.30 % thought that their business will last less than six months.

Table 3. Significant Factors of Financial Problems of the Business Encountered by the Respondents During the Covid-19 Outbreak

Cause of Financial Problem	No. of Respondents who encountered the stated problem	% of respondents who encountered the stated problem	Rank
A. Staff Wages and social security changes	12	57%	1
B. Rent	9	43%	4
C. Repayment of Loans	5	24%	5
D. Payment of Bills	11	52%	2
E. Other Expenses	10	48%	3

The table above shows the percentage and the ranking of respondents' most significant contributors to financial problems. According to the data presented, 57% of the respondents said that staff wages and social security changes cause the financial problem to their business. And it

is noticeable that the financial problems ranked higher are related to operating expenses. And only 10% of the respondents mentioned that they have no specific problem with their financial problems.

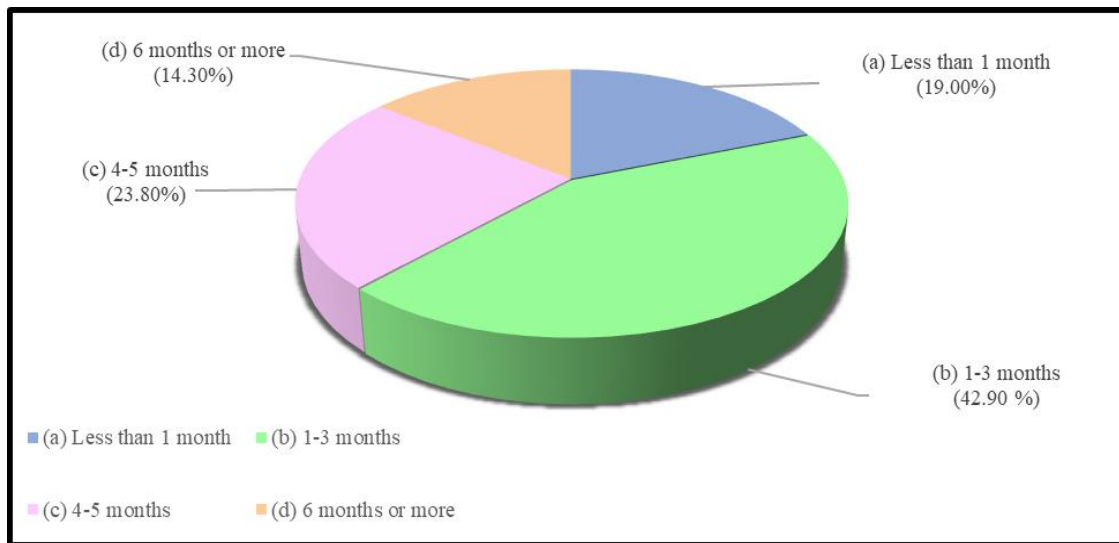


Fig.4: Percentage of Forecasted Span of Cash Flow Liquidity to Sustain Business Operation

The figure above shows the percentage of the forecasted span of cash flow liquidity to sustain its business operations. The majority of the respondents forecasted that their available cash will last for more than three months with

42.90 %, and 19.00 % of them assumed that their cash flow can only sustain business operations within a month or less. And 14.30% of respondents with high hopes that their cash can sustain their operation for more than six months.

Table 4. Financial Alternatives to Deal with Cash Flow Shortage

	No. of Respondents	% of respondents	Rank
A. Loans by Commercial Banks	7	33%	3
B. Loans by P3	12	57%	1
c. Reduction of Operating Cost	9	43%	2
d. Negotiating with Lenders to avoid	6	29%	4

As reflected in Table 4, 57% of the respondents say that they will ask for loans under DTI's P3. Doing so will aid the working capital. While 29% of the respondents say they will negotiate with their lenders. In times of financial woes, business owners need to be creative in times of disruptive

cash cycle. In connection with question number 5, business owners must find a way to prolong their working capital before it depletes. Question number 6 will identify the respondents' alternatives to meet their funding requirements to ensure smooth business operations.

Table 5. Solutions on how to deal with Shortage of Workforce

	No. of Respondents	% of respondents	Rank
(a) Wage increases	2	9.50 %	4
(b) Use of advanced equipment or software to reduce the amount of work,	1	4.80 %	5
(c) Outsourcing of orders	10	47.60 %	2.5
(d) Delay in delivery	11	52.40%	1
(e) No shortage of workers	10	47.60 %	2.5

The illustration above shown the solutions on how to deal with a shortage of workforce. One of the effects of the Pandemic the Business owners is the shortage of workers. In line with this, question 7 showed the possible effects of a labor shortage on their business. 52.4% of the respondents

tells that they will suffer from delivery delays while only 4.8% of the respondents will use advanced equipment or software to address the concern. Surprisingly, 47.6% of the respondents said that they do not have a shortage of workers even in the times of Pandemic.

Table 6. Alternatives Considered by KMME graduates in Dealing with the shortage of raw materials.

	No. of Respondents	% of respondents
(a) Reduction of production	11	52.40 %
(b) Outsourcing orders	10	47.60 %
(c) Increasing the procurement prices	4	19.00 %
(d) Seeking new procurement channels	12	57.10 %
(e) Delaying goods delivery	6	28.60 %
(f) No shortage of raw materials	1	4.80 %

The illustration above has shown the main means of how KMME graduates deal with the shortage of raw materials in their businesses. The respondents were given the chance to

choose up to two options. 11 answered that they had a reduction in their production while 10 answered that they outsourced orders. 4 answered that they had an increase in

the procurement prices while 12 of them sought new procurement channels. Furthermore, 6 of them delayed their

delivery while only 1 respondent answered that he/she did not have any shortage of raw materials.

Table 7. Assessment of the overall problems encountered by the businesses due to the pandemic.

	No. of Respondents	% of respondents
(a) Reduction of orders	14	66.70 %
(b) Inability to deliver existing orders	3	14.30 %
(c) Increased difficulty of financing	6	28.60 %
(d) Existing loans cannot be extended	8	38.10 %
(e) Disruption of logistics	6	28.60 %
(f) Upstream and downstream chain disruptions	2	9.50 %
(g) Insufficient protective equipment (e.g., masks)	7	33.33 %

As shown in the illustration above, all of the KMME graduate’s businesses faced various problems because of the pandemic. To be specific, 14 of the respondents had a reduction of orders while 3 were unable to deliver existing orders. In addition, 6 of the respondents had an increase of

difficulty with their finance while 8 of them had existing loans which cannot be extended. Moreover, 8 of them had disruption of logistics while 6 of them had upstream and downstream chain disruptions. Lastly, 7 of them did not have enough protective equipment like masks, face shields, etc.

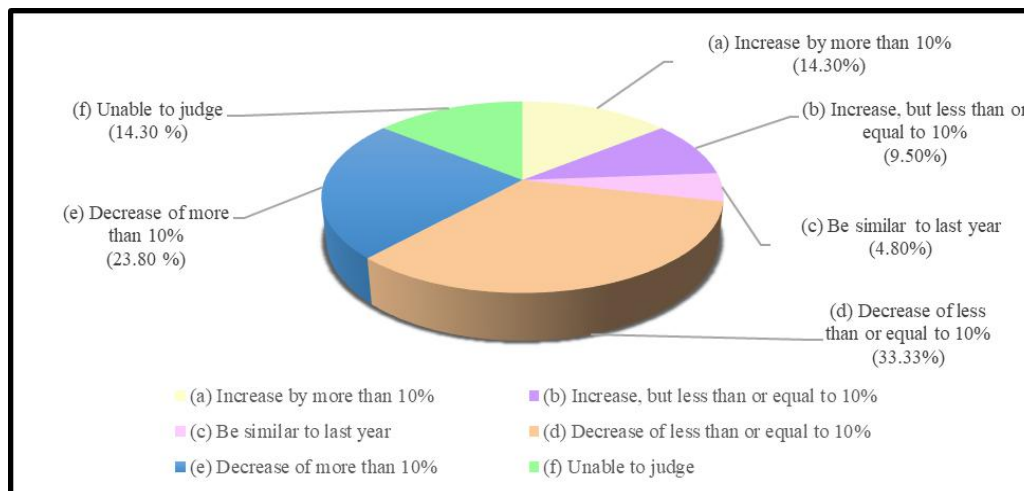


Fig.5: Percentage of Expected changes in company income over the recent year

The illustration above shown the Percentage of Expected changes in company income over the recent year. Almost one-third of the total population stated that the expected income will decrease by 10 %, and 23.80 % agreed that their business revenue will also decrease by more than 10 %. 23.80 % of the population believe that their income will increase despite the pandemic outbreak. However, 4.80 % said their income will be similar to last year' and 14.30% said that they are unable to determine the income changes.

IV. CONCLUSIONS AND RECOMMENDATIONS

During the start of Luzon Enhanced Community Quarantine (ECQ) dated March 17, 2020. The majority of the respondents comprising of 90.50% stated that they are operating on the start of the ECQ in Nueva Ecija. 9.5% were already closed during the said period.

Cash Flow is the total amount of money being transferred into and out of a business, especially affecting liquidity. It is

vital for business owners to have the right amount of liquidity to be prepared in emergency [10] to sustain continued business operations. Based on the study conducted the majority of them forecasted that their cash flow can only sustain three months or more of the business operations. However, most of the respondents consider loan financing to provide financial means to the business.

It is highly noted that despite the pandemic 47.6% of the respondents are still positive as they are not envisioning closure of their business while 28.6% of respondents expect the effect of the pandemic will make their business closed within 3 months. Despite the current business obstacles, they are facing, KMME graduates find solutions on how to make their business resilient.

The researchers recommend exploring possibilities to grant reinforced aid to the KMME graduates affected within three months of the pandemic to prevent the closure of their business. Considering the specific needs across different sectors, supportive and relevant policies should be taken into account. To help them overcome the crisis, program implementations should also be more transparent if they are to deliver subsidies directly to private entrepreneurs [11].

The researchers recommend further study and gather more information about the experience of KMME graduates to have beneficial repercussions to improve more the program implementation [12] and public assistance.

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