

Effect of COVID-19 on Social Enterprises

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Introduction:

The Philippine government announced a community quarantine of Metro Manila on March 12, 2020, and an enhanced community quarantine (ECQ) of the entire Luzon Island on March 16, 2020, in an effort to contain the spread of the coronavirus disease (COVID-19) in the Philippines. It was scheduled to remain in place until April 14, 2020, but was further extended to April 30, 2020, for experts to be able to measure the ECQ's full effects, according to the government.

Following the extension for Luzon, local government units in the Visayas and Mindanao also announced an extension of their enhanced community quarantine periods for two more weeks to contain the spread of COVID-19.

The lockdowns include suspension of public transportation, school closures, and work suspension for non-essential businesses not providing basic necessities like food, utilities, and medicine.

This report covers the results of FSSI's survey of its partner social enterprises. The survey aims to determine the impact of COVID-19 and subsequent measures put in place to contain its spread on the operations of FSSI's partner social enterprises (SEs)¹. With this, it also aims to help identify appropriate and feasible response/s to support partner SEs to cope with the COVID-19 impact on their organizations.

The survey started with efforts by some FSSI staff to get information from partners starting on March 17, 2020, and was intensified and expanded to target 45 partner SEs and involve other staff on April 1-8 and April 13, 2020. It was done through phone and/or email interviews with a questionnaire with both close- and open-ended questions.

The final number of respondent SEs is 35. Of these, 24 are engaged in lending, including 21 cooperatives, most of which are agriculture-based cooperatives; 2 are engaged in coffee production and trade; 3 are in organic vegetable production and distribution; 1 is engaged in handicrafts manufacturing; and the rest are in agri-business. Fourteen of the respondents are based in the Visayas, 11 in Luzon and 10 in Mindanao.

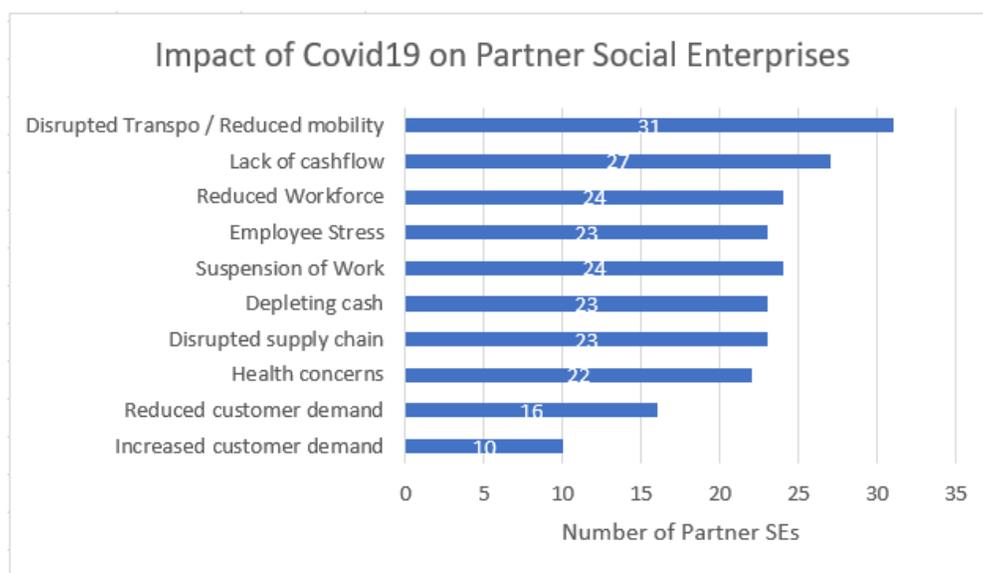
¹ FSSI defines social enterprises (SEs) as enterprises that have triple bottom lines (3BL) such that they are economically sound, environmentally-friendly and clearly pursue a social mission. FSSI prefers enterprises owned and governed by the poor, and organized as cooperatives, but also supports other enterprises, including single proprietors, partnerships and corporations, that adhere to 3BL.

The survey is an exploratory research, a rapid assessment of the effects of COVID-19 and may not be statistically valid. It is limited to active partner SEs of FSSI and used a questionnaire which was self-administered (thru email) or administered thru telephone/ internet call. Sources of bias are unavailable data from incomplete survey answers and errors in accomplishing the questionnaire.

Summary of Results:

1) Effect on SEs' Operations

The survey asked SEs whether COVID-19 has affected their enterprise's operations and the extent of the impact. Thirty-four (34) out of the 35 respondents said COVID-19 has affected their operations. An enterprise in Benguet province engaged in organic vegetable production, which answered that it was not affected, said operations in their farm are continuous and that they are "peaceful".



Twenty-four (24) have had to suspend work (partial and total work suspension).

Also, 24 SEs reported that they experienced reduced workforce or available staff. Thirty-one (31) respondents said the disruption in transportation/reduced mobility affected their enterprise; some employees had to walk to work or to reduce work hours as some barangays were already implementing strict quarantine and curfew.

Twenty-three (23) reported a disruption in their supply chain. A microfinance NGO in Western Visayas said there have been delays in the release of government purchase orders and disruption

in access to external services. A cooperative in Benguet also engaged in organic vegetable production noted a decrease in orders in the first week of the ECQ implementation; restaurants canceled their orders and the 'free' or easy passage of cargoes carrying food items was not followed. In Biliran province, a multi-purpose cooperative said the 'redundant' barangay, municipal, and provincial checkpoints caused a temporary shortage in processed foods and agricultural products. It also said business activities were limited and farmers were afraid to leave their town to do business because of differing policies of local government units (LGUs). It noted there was no dissemination of the implementing rules for the Bayanihan to Heal as One Act, which was enacted in March 2020 granting the Philippine president additional authority to combat COVID-19.

Reduced Revenues

All SEs except one enterprise in Benguet said COVID-19 has affected their organization's sales/revenues since the quarantine – from a minimum of Php 7,000 to a maximum of Php 25 million (average of 60% reduction compared to the same period last year). A microfinance institution in Southern Mindanao, which reported a Php 15 million decrease in sales/revenue, said the two-week work suspension in March resulted in negative 50% in loan disbursement and collection.

All except the same Benguet enterprise expect sales/revenues to be affected in the next six months. In Davao del Sur, a savings and credit cooperative which posted a Php 25 million decrease (50%) in sales/revenues in March 2020 expects this drop to further continue to Php 51 million due to the slowdown in business. A credit cooperative in Biliran, meanwhile, expects the COVID-19 situation to have improved in six months and store and collection activities to return to normal.

Sixteen (16) of the SEs said there was reduction in customer demand, while 10 said there was an increase in customer demand, e.g., an increase in loan releases but low collection and an increase in savings withdrawals of members. A corporation engaged in the production, processing, and distribution of organic vegetables reported higher customer demand but a reduced supply in the week of March 16-22. It said the conflicting implementation of community quarantine and food lane passes caused delays in their operations.

Among the 24 lending organizations in the survey, 8 reported a decrease in loan collection, while 10 reported zero loan collection with the temporary suspension of operations. In Biliran, an agrarian reform cooperative said farmer, vendor, and sari-sari store members had less incomes, while *habal-habal* and tricycle drivers' livelihood was disrupted because of social distancing regulations. A cooperative in Benguet said farmers will not be able to pay their loans since they were not able to sell their produce. In Isabela province, a multi-purpose cooperative reported an increase in delayed loan payments and past due loans, as it also deferred loan releases. In Cebu province, a market vendors' cooperative said cash reserves were drained because of members' withdrawals; the co-op is worried that they would not be able to pay their payables on time.

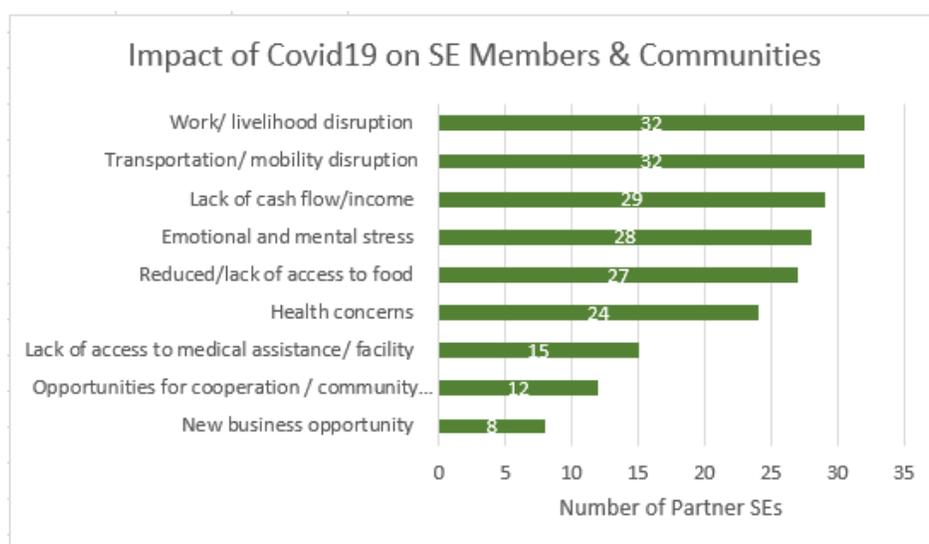
Affected Income

Meantime, 31 out of the 35 SEs said net profit/surplus has been affected. Of the four that did not say profit/surplus has been affected, two are still not able to make an estimate of the lockdown's impact on their profit/sales; a rural development foundation in Bukidnon province explained that their enterprise's net surplus will not be significantly affected if purchase orders from government agencies are released and served within the year; while one enterprise said COVID-19 has no impact on their operations.

Twenty-seven (27) SEs said they expect net profit/surplus to be affected in the next six months if businesses continue to be closed. On average, respondents expect a 63% loss in profit/surplus (low of Php 60,000 to high of Php 6 million) in the next 6 months compared to the same period last year. A coffee enterprise in South Cotabato noted that coffee shops, hotels, and resorts that account for 60% of their sales are closed. Meanwhile, an integrated farm in Isabela said 6 months is not enough for livestock operations to recover.

Twenty-seven of the 35 SEs reported problems with cash flow while 23 said they have depleting cash reserves because of the COVID-19 situation. Based on their current cash flow position, the SEs said they will be able to sustain fixed costs only for an average of 4 months (low of 0 or less than a month and high of 24 months). Two SEs answered 0 – one said it now has zero cash reserves but also zero costs, and the other said it would need fresh funds to re-start their operations. A farmers' multi-purpose cooperative in Bohol also said it will be able to sustain fixed costs for less than a month, since the cooperative is still recovering from its past due account.

2) Impact on Members and Communities



Thirty-two (32) out of 35 SEs said their members and the community they serve are affected by the disruption in public transportation and reduced mobility, as well as work and livelihood disruption. In Negros Occidental, a financial services organization said most of their partners are in inaccessible areas/barangays and, with the suspended public transportation, they are having difficulty accessing basic needs.

Health concerns and emotional and mental stress were also reported as concerns of 24 and 28 partners, respectively. A rural multi-purpose cooperative in Davao region noted, with salaries suspended, staff are focused on being able to secure basic necessities and have “fear of the unknown”. Another multi-purpose cooperative in Isabela province said staff will not be able to have salaries after March 2020. Meanwhile an SE that works with indigenous peoples and rural poor in Davao is apprehensive and thinking of how it would keep afloat after COVID-19.

Based on survey results, on average, 81% (or 58,797) out of the total 72,762 members of the respondents are estimated to have been adversely affected by COVID-19.

Assistance to their Members

Seventeen (17) of the 35 SEs said they were able to provide assistance to their members, with an average of 58% of members per partner provided with assistance, and a total of 5,266 members who were able to receive support.

Among the aid SEs gave to their members are financial assistance, rice and food assistance, and disinfectants including alcohol and face masks. Lending organizations also suspended collection of payments and waived penalties and surcharges. One microfinance institution said it continues to give micro-insurance coverage to members and information campaign on COVID.

3) Business Continuity Plan

Of the 35 respondents, only 11 said they have a business continuity plan in place, especially on a worst-case scenario of a prolonged ECQ. A coffee enterprise based in South Cotabato said it will identify other COVID-19 related enterprises like production of handmade face masks so some of their staff can still be employed. Two of the SEs responded that they are ‘focused on survival’ and are ‘surviving on a week to week basis’. A handicraft company in Negros Occidental said it has invited a credit cooperative to give an orientation to their staff; it has also identified several other opportunities so their members can be economically empowered should there be a prolonged quarantine.

4) Assistance Received or Pledged

Of the 35 respondents, only 6 were able to receive support related to COVID-19. Among the support received are loan extension from banks, employee assistance from the Department of Labor and Employment (DOLE), and market linkage for rice trading from a co-op federation. Three SEs said they are also expecting support from government (DOLE and LGUs).

5) Support Needed by Partner SEs



Meanwhile, in response to an open-ended question, the SEs identified the following assistance that their organization needs at this time:

1. Additional loan/fund/financial assistance (calamity loan/rehabilitation fund/for lending to members) (20 SEs) and increased credit line (5 SEs)
2. Loan moratorium until recovery/loan restructuring/longer period of amortization/grace period/lower or zero interest (15 SEs)
3. Employee assistance/cash or food relief for members affected (6 SEs)
4. Medical supplies (2 SEs)
5. Real time information on COVID-19 and emergent government agency policy responses (especially in and on Mindanao) to enable planning, advocacy and adjustments as required (1 SE)
6. Moral support (1 SE)
7. Office equipment (1 SE)

Summary of the Major Findings:

1. Despite the order of the Department of Trade and Industry (DTI) to ensure unhampered movement of cargo and transit of personnel related to food and essential businesses, varying quarantine regulations implemented by different LGUs caused difficulties for some enterprises which resulted to disruptions to their supply chain and/or shortage in processed foods and agricultural products.
2. The ECQ implemented and the subsequent suspension of work has affected the incomes of SEs and the livelihood and income of their members.
3. Only one-third of SEs surveyed have business continuity plans in place. COVID-19 has highlighted the need for SEs to develop sustainability plans for their businesses.
4. Digital marketing and doing business online have proved to be beneficial to a few SEs. At least one SE has reported an increase in digital sales despite the strict implementation of ECQ. A few SEs are also planning to venture into COVID-19 related enterprises, like production of face masks, to keep staff/members employed.
5. Only a few enterprises have so far received support related to COVID-19. These assistance include loan extension and employee assistance from government, and market linkage from a coop-federation. Based on the expressed needs of SEs, support to help their businesses recover from the impacts of COVID-19 is still much needed.

Recommendations:

Social enterprises like every other form of business have been affected and are among the worst hit by COVID-19, and often with people who need the most support.

Given the impact of COVID-19 on FSSI's partner SEs and their expressed needs to cope with the situation, the following are recommendations to help support these enterprises:

A) For Government

- 1) Provide low interest credit to SEs for their business recovery plans

An example of this is the Agriculture Credit and Policy Council's 1-billion-peso loan program for agri-fishery micro and small enterprises and marginal farmers and fishers under its "*Ahon Lahat, Pagkaing Sapat (ALPAS) Kontra COVID-19*" Program of the DA.

2) Provide wage support to SE workers

DOLE's COVID-19 Adjustment Measures Program (CAMP) and the recently launched Small Business Wage Subsidy (SBWS) Program through the Social Security System (SSS) are important programs along this line.

CAMP is a one-time cash assistance for displaced workers in the formal sector while SBWS is a two-month cash aid for workers of small businesses affected by the enhanced community quarantine.

- 3) Ensure effective information dissemination about government's support programs for SEs through print and broadcast news outlets, social media, government websites and other means.
- 4) Involve and partner with SEs in the implementation of their support programs for enterprises; this will be facilitated by working with the networks of social enterprises, cooperatives and other civil society organizations (CSOs).
- 5) Practice transparency and accountability by making regular progress/accomplishment reports on the government's support programs readily available to the public.

B) For CSOs supporting Social Enterprises

- 1) Ensure that reader-friendly information on government support programs for MSMEs/co-ops which SEs can tap reaches them promptly, and assist SEs in preparing requirements for these programs, if needed.
- 2) Support SEs in their preparation of risk management / business continuity plans given the possibility of a prolonged COVID-19 pandemic and/or the future re-emergence of COVID-19 or the occurrence of similar health emergencies or other disasters. This would include, among others, strengthening the capacity of SEs in occupational safety and health and in online banking and other business transactions.
- 3) Continue and strengthen collaborative and partnership efforts among CSOs in supporting SEs and providing assistance to the families of their members and partners.

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