

**MSMED**  
**COUNCIL**



# MICRO, SMALL, and MEDIUM ENTERPRISE DEVELOPMENT PLAN

**2023-2028**





**Micro, Small, and  
Medium Enterprise  
Development Plan  
2023-2028**





**Office of the President**  
**Malacañang**

**MEMORANDUM CIRCULAR NO. 73**

**APPROVING AND ADOPTING THE MICRO, SMALL, AND  
MEDIUM ENTERPRISE DEVELOPMENT PLAN 2023-2028, AND  
DIRECTING THE IMPLEMENTATION THEREOF**

**WHEREAS**, under Section 7 of Republic Act (RA) No. 6977, as amended by RA No. 9501 or the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)," the MSME Development (MSMED) Council shall be attached to the Department of Trade and Industry (DTI), and shall be tasked to, among others: (a) help establish the needed environment and opportunities conducive for the growth and development of the MSME sector; (b) coordinate and integrate various government and private sector activities relating to MSME development; and (c) recommend to the President and Congress all policy matters affecting MSMEs;

**WHEREAS**, Section 6 of RA No. 6977, as amended, mandates the DTI, in consultation with the private sector, to formulate and submit for the President's approval a six-year MSME Development Plan (MSMEDP);

**WHEREAS**, the MSMED Council, through Resolution No. 2 (s. 2024), resolved to endorse the MSMEDP 2023-2028 for the President's approval;

**WHEREAS**, the MSMEDP 2023-2028 will serve as the blueprint towards empowering the MSME sector to become more robust and globally competitive, taking into consideration the role of said sector in fostering sustainable and dynamic economic development;

**WHEREAS**, under the Philippine Development Plan 2023-2028, accelerating digitalization and innovation of MSMEs and startups are among the key strategies to revitalize the country's industry sector;

**NOW, THEREFORE**, the following are hereby ordered:

Pursuant to Section 6 of RA No. 6977, as amended, the MSMEDP 2023-2028 is hereby **APPROVED** and **ADOPTED**.

As the lead agency in charge of formulating and adopting policies and programs for the development of the MSME sector, the DTI, through the MSMED Council, is hereby directed to:

1. Coordinate, collaborate and establish institutional partnerships with concerned government agencies and other stakeholders to ensure the attainment of the goals and objectives set forth in the MSMEDP 2023-2028;

2. Monitor and assess the implementation of the MSMEDP 2023-2028 and submit annual reports to the Office of the President, through the Office of the Executive Secretary, on the progress, emerging concerns, and ways forward, in the implementation thereof; and
3. In coordination with the Presidential Communications Office, disseminate official copies of the MSMEDP 2023-2028 to all concerned government agencies, and undertake information and awareness campaigns on the plans and programs specified therein.

In accordance with their respective mandates, all concerned agencies and instrumentalities of the National Government, including government-owned or -controlled corporations are hereby directed, and all local government units are hereby encouraged, to undertake efforts in support of the implementation of the MSMEDP 2023-2028, and the plans and programs specified therein.

The roles and responsibilities of agencies relative to the implementation of key programs under the MSMEDP 2023-2028 are enumerated in Annex A of this Circular.

This Circular shall take effect immediately.

**DONE**, in the City of Manila, this 7<sup>th</sup> day of November, in the year of our Lord, Two Thousand and Twenty-Four.

By the President:

  
LUCAS P. BERSAMIN  
Executive Secretary



## ANNEX A

PROGRAMS	DESCRIPTION	AGENCY-IN-CHARGE
Digitalization of MSMEs	Digitalization of MSMEs shall be pursued by simplifying access to AI-driven systems and ensuring access to a wide-range of state-of-the-art laboratories and testing facilities for the enhancement of MSME operations.	DTI, Department of Science and Technology (DOST), and Department of Information and Communications Technology (DICT)
Streamlining of Business Process Registration	The Electronic Local Government Unit System shall be promoted and implemented at the local level, towards a more efficient registration process for MSMEs. The said system aims to streamline and improve the delivery of local government services such as, issuance of business permits and processing of business tax payments.	Department of the Interior and Local Government, DICT, and Anti-Red Tape Authority
Expansion of the Machine Learning-Based Credit Scoring Model	The Machine Learning-Based Credit Scoring Model, an AI tool used to improve credit assessments and loan approval processes for microenterprises, shall be expanded to include small and medium loan applications.	Small Business Corporation, in coordination with <i>Bangko Sentral ng Pilipinas</i>
Full Implementation of RA No. 11057 or the "Personal Property Security Act"	Section 26 of RA No. 11057 mandates the establishment of a national registry to facilitate the registration of, among others, movable assets as collateral, and enhancing MSME access to loans and financial transactions.	Land Registration Authority
Elevating Capabilities for Higher Productivity	Programs and initiatives aimed at strengthening financial literacy and skills, and upskilling programs shall be conducted with the aim of enhancing the productivity and competitiveness of the MSME sector.	DTI, DOST, Department of Labor and Employment - National Wages and Productivity Commission, and Technical Education and Skills Development Authority
Revamping the One Town, One Product (OTOP) Program and its facilities <sup>1</sup>	The OTOP program, which aims to drive local economic growth by enabling communities to determine, develop, and promote products that are rooted in its local culture, shall be expanded to include other locally produced products and services across the country.	DTI, in coordination with local government units

<sup>1</sup> Including, among others, the (a) OTOP Retail and Learning Center; (b) OTOP Grand Food Hall; (c) OTOP Lifestyle Store; and (d) *Bagong Pilipinas* Marketplace.



MALACAÑAN PALACE  
MANILA

## FOREWORD



As the bedrock of the Philippine economy, our micro, small, and medium enterprises (MSMEs) drive our country's progress and prosperity forward. They also hold multifaceted roles in jobs generation and poverty alleviation, contributing significantly to the holistic welfare of our people. It is only fitting that we continue to work for the empowerment of MSMEs so that we can build a more robust, inclusive, and sustainable economy.

The **Micro, Small, and Medium Enterprise Development Plan 2023-2028** features our comprehensive strategy to boost the agility and resilience of our MSMEs in an increasingly interconnected and innovation-centric business environment. It is a systematic roadmap that lays out the necessary steps that we have to take to fortify our position at the forefront of international commerce. It also aligns seamlessly with our shared goal of harnessing the intrinsic entrepreneurial spirit and dynamism of our people to propel our nation towards a trajectory of exponential advancement.

In line with the government's eight-point socio-economic agenda, this initiative calls for our harmonized efforts to ensure the success of our MSMEs amidst the promising business opportunities we see today. By embracing a whole-of-nation approach, we optimize the power of MSMEs and mold them into active agents of transformation with the aid of groundbreaking digital ecosystems. We likewise strive to further our competitiveness by fostering more beneficial partnerships among MSMEs in Asia Pacific and the rest of the world.

I thus recognize our key stakeholders, particularly the **Department of Trade and Industry**, for exerting their utmost efforts in bringing this cohesive publication to fruition. Let this plan guide us as we nurture a *Bagong Pilipinas* where our entrepreneurs and MSMEs bear abundant fruits for all.

  
FERDINAND R. MARCOS JR.

MANILA  
May 2024

THE PRESIDENT OF THE PHILIPPINES



## Preface

On behalf of the Department of Trade and Industry (DTI), it is with great pride and a profound sense of purpose that I present the Micro, Small, and Medium Enterprise Development Plan (MSMED Plan) 2023-2028. Crafted under the visionary leadership of President Ferdinand R. Marcos, Jr., this comprehensive roadmap embodies our steadfast commitment to nurturing and propelling the MSME sector, recognizing its pivotal role in achieving inclusive and sustainable economic growth for the Philippines.



In the face of unprecedented challenges brought forth by the COVID-19 pandemic, the resilience and ingenuity of our MSMEs have shone brightly. While the pandemic disrupted traditional business models and tested the resolve of entrepreneurs nationwide, it also underscored the critical importance of innovation, adaptability, and collaboration in navigating uncertain times.

The MSMED Plan 2023-2028 is a testament to our collective resolve not only to rebuild what has been disrupted but also to emerge stronger and more resilient. Anchored upon the foundational principles of revitalization, empowerment, and forward-looking strategies, this plan is designed to equip our MSMEs with the necessary tools and continued support they need to thrive in the digital age.

As we embark on this transformative six-year journey, we acknowledge the challenges that lie ahead. However, filled with optimism for the countless opportunities that await us—opportunities to foster a digital-first ecosystem, fortify business resilience and crisis preparedness, and unlock the full potential of our MSMEs as engines of innovation and growth.

I extend my sincerest gratitude to all stakeholders - entrepreneurs, the National MSME Development Council, policymakers, industry leaders, and development partners – for their unwavering support for our MSME. Let us chart a course towards a brighter, more prosperous future for our MSMEs and our nation.

In the years ahead, let us seize the opportunities to optimize the potentials of MSMEs, to harness the transformative power of entrepreneurship, and to build a future where every Filipino entrepreneur can dream, innovate, and succeed.

Through a whole-of-government approach, let us embark on this journey towards a more resilient, competitive, and forward-looking Philippines.

A handwritten signature in black ink that reads "Alfredo E. Pascual". The signature is fluid and cursive.

**ALFREDO E. PASCUAL**

Secretary, Department of Trade and  
Industry Republic of the Philippines

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## List of Abbreviations and Acronyms

AI	Artificial Intelligence
AFMech	Agricultural and Fisheries Mechanization
AEC	ASEAN Economic Community
APEC	Asia-Pacific Economic Cooperation
BSP	Bangko Sentral ng Pilipinas
BMBE	Barangay Micro Business Enterprises
BSMED	Bureau of Small and Medium Enterprise Development
BIR	Bureau of Internal Revenue
BCP	Business Continuity Plans
CE	Circular Economy
DTI	Department of Trade and Industry
FDA	Food and Drug Administration
GNP	Gross National Product
HACCP	Hazard Analysis Critical Control Points
ICT	Information and Communication Technologies
IFC	International Finance Corporation
IMF	International Monetary Fund
IoT	Internet of Things
LGU	Local Government Unit
MSME	Micro, small, and medium enterprise
MSMEDC	Micro, Small, and Medium Enterprise Development Council
MSMEDP	Micro, Small, and Medium Enterprise Development Plan
NEDA	National Economic and Development Authority
NGOs	Non-government organizations
OTOP	One Town, One Product
PPE	Personal Protective Equipment
PDP	Philippine Development Plan
PSA	Philippine Statistics Authority
PaaS	Product-as-a-Service Models
PPP	Public-Private Partnership
RCEP	Regional Comprehensive Economic Partnership Agreement
R&D	Research & Development



# **EXECUTIVE SUMMARY**

# EXECUTIVE SUMMARY

## Background

Micro, Small and Medium Enterprises (MSMEs) form the foundation of the Philippine economy. MSMEs comprise 99.59% of business establishments in the Philippines, and are most commonly engaged in retail trading, food service, and manufacturing activities. MSMEs employment ranges from 1 to 199 per establishment, and accounts for 65.1% of total employment in the Philippines. Despite being a statistical majority, MSMEs contribute only 45.49% to the country's Gross Domestic Product (GDP). MSMEs experience diverse challenges such as bureaucratic inefficiencies, limited liquidity, market information asymmetry, among others. The MSME Development Council developed the MSME Development Plan 2023-2028 to address the present challenges of the MSME sector to foster their growth and advancement. This six-year plan enjoins the entire ecosystem of entrepreneurship enablers, such as government, private sector, academe, and more.

The MSME Development Plan 2023-2028 aligns with the Philippine Development Plan 2023-2028 fostering economic and social transformation through job creation and poverty reduction. The Plan builds on the strategies of its predecessors for expanding MSME employment, enhancing MSME productivity, and lowering the barriers to accessing government support. The Plan likewise addresses development gaps either unaddressed by previous MSME Development Plans or challenges arising from recent developments, such as technology advancements, supply chain disruptions. With both proven strategies and new approaches, this new MSME Development Plan will be responsive and transformative to the current needs of MSMEs.

The strategic shift of MSME Development Plan 2023-2028 is leveraging digitalization to revitalize and elevate MSMEs. The digital transformation strategy is a timely major pivot due to the heightened demand for digital services including use of Artificial Intelligence (AI) technologies and increased supply of cost-efficient digital tools. Digitalization cuts across all aspects of MSME development, such as increasing interconnectedness of government agencies to streamline business registration and licensing, or use of emerging technologies to enhance the productivity of MSMEs. This primary strategic shift is illustrated by the MSME Digital Transformation Path which identifies three stages of digital technology adoption and the appropriate level of support to upgrade MSMEs.

The strategic shift on digitalization will transform the key development areas of the new Plan. The three focus areas of the MSME Development Plan are (1) legal and regulatory MSME environment for registration, licensing and financing; (2) personnel and technological MSME competencies; and (3) MSME prospects in both domestic and international markets.

Vision	Innovative and resilient MSMEs thriving in a digitally sustainable ecosystem, creating sufficient number of quality jobs and driving high levels of continued inclusive national growth towards global competitiveness.					
Focus Areas	MSME Environment		MSME Competencies		MSME Prospects	
Strategic Goals	MSME Ecosystem Strengthened	Financing Prospects Increased	Knowledge and Skills Upscaled	Technology and Innovation Accelerated	Domestic Market Optimized	Global Markets Penetrated
Strategies	Supportive policies, automation, streamlined regulatory processes	Innovative financing, financial inclusion	Skills upgrading across sectors, mentorship	Technology and digital tools adoption accelerated through private-public partnership	Connectivity, regulatory standards compliance	International standards and certification, entry to export, global value chain participation
Action Plans	Modernize regulations, enhance MSME information system, upgrade industry roadmap	Craft innovative financing policies and alternative sources of capital, foster financial access	Provide specialized training, equip Negosyo centers for online learning	Introduce Industry 4.0 technologies, promote product development and innovation, foster digitalization	Promote product branding, support e-commerce onboarding, strengthen OTOP Program	Support standard compliance and certification, international trade fair participation, global e-commerce onboarding
Cross-cutting Strategies	Expedite Digitalization   Enhance Connectivity   Enable Transition to Service-Oriented Models   Foster Public-Private Partnership (PPP)   Promote Circular Economy and Green Growth   Strengthen Business Resilience   Encourage greater collaboration between Local and National Government.   Promote Women Entrepreneurship   Develop Customized Support per Enterprise Level					
Institutional Support	Budget Allocation   Policy Review   Collaboration between national government agencies, LGUs, and the private sector   Network Infrastructure   Streamlined Processes   Data/Information Availability   Monitoring and Evaluation					

The focus areas have strategic goals that determine the direction of interventions delivered to support this Plan. The MSME environment needs its ecosystem strengthened by modernizing regulations and formulating supportive policies, and financing prospects increased by providing innovative financing through alternative sources of capital. MSME competencies need their knowledge and skills upscaled by upgrading skills, and technology and innovation accelerated by introducing the latest technological advancements. MSME prospects must either have the domestic market optimized by strengthening programs such as the One Town, One Product (OTOP) Program, franchising, business diversification, and promoting e-commerce, or global markets penetrated by assisting compliance with international certification and exporting final goods or integrating into global value chains (GVCs).

Cross-cutting strategies contribute to achieving the strategic goals of the MSME Development Plan 2023-2028. These strategies enable the major pivot of the Plan — such as expediting digitalization, enhancing connectivity, and transitioning to service-oriented models. They also cultivate the participation of key stakeholders — such as fostering public-private partnerships and collaboration between local and national governments. Other cross-cutting strategies of the Plan respond to the specific needs of certain sectors — such as promoting women entrepreneurship and customizing support for each enterprise level. The interventions of the MSME Development Plan 2023-2028 are dependent on institutional support that will mobilize fiscal resources, ensure collaboration across government, and enable data sharing in relevant fields.

Determining the success of the MSME Development Plan 2023-2028 hinges on effective monitoring and evaluation. Outcome measures will be monitored through economic metrics, such as the contribution of MSMEs to gross domestic product (GDP). Output measures will be monitored through the accomplishments of relevant programs, projects and activities. The MSME Development Plan 2023-2028 will be evaluated at the midpoint and towards the end of its six-year implementation. The mid-term evaluation will reconsider recent developments and identify lagging indicators to adjust the action plans when necessary. The end-of-term review of the Plan will determine the level of successful transformation achieved by the Administration.



**PART 1:**  
**INTRODUCTION**

## Part 1. MSME Landscape in the Philippines

The Micro, Small and Medium Enterprise Development Plan (MSMEDP) 2023-2028 is the Philippines' strategy to revitalize and empower MSMEs through policy reforms and targeted support programs such as optimizing the use of AI technologies, and customized support for each enterprise level. It fosters a digital-first ecosystem to equip MSMEs for the demands of the 21st century economy, while strengthening business resilience and crisis preparedness to navigate future challenges effectively. The MSMEDP 2023-2028 reflects the commitment of the Administration to propel the MSME sector as the cornerstone of inclusive and sustainable economic growth in the Philippines.

### A. MSMEs in the Philippines: A Statistical Overview

The MSME sector forms the foundation of the Philippine economy, contributing to about 40% of the country's gross domestic product (UNDP, July 2020). In 2022, the Philippine Statistics Authority (PSA) documented a total of 1,109,684 business establishments nationwide, 99.59% of these establishments are classified as MSMEs. Shown below is the classification of MSMEs:

*Table 1. MSME Classification based on the Number of Employees and Asset Size*

Size of Enterprise (1)	In terms of:	
	Number of Employees (2)	Asset Size (based on RA No. 9501) (3)
Micro	1-9	not more than PhP3,000,000
Small	10-99	PhP3,000,001.00 - PhP15,000,000.00
Medium	100-199	PhP15,000,001.00 - PhP100,000,000.00
Large	200 and above	PhP100,000,001.00 and above

Sources: PSA List of Establishments Explanatory Notes and Section 3 of the Republic Act No. 9501 or the Magna Carta for MSMEs

Microenterprises comprise 90.49% of all establishments. Meanwhile, small enterprises constitute only 8.69% and medium enterprises are merely 0.40%.

*Table 2. Number of Establishments 2022*

Size of Enterprise	Number of Establishments	% to Total
Micro	1,004,195	90.494%
Small	96,464	8.692%
Medium	4,484	0.404%
Large	4,541	0.409%
<b>Total</b>	<b>1,109,684</b>	<b>100%</b>

Source: PSA, 2022 List of Establishments



At an aggregate level, 86.9% of all MSME contribute to the top five industries: (1) Wholesale and Retail Trade (49.48%); (2) Accommodation and Food Service Activities (14.31%); (3) Manufacturing (12.08%); (4) Other Service Activities (6.44%); and (5) Financial and Insurance Activities (4.60%).

*Table 3. Distribution of MSMEs by Industry Sector*

Industry Sector	Number of Establishments	% to Total
1. Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	546,863	49.48%
2. Accommodation and Food Service Activities	158,113	14.31%
3. Manufacturing	133,504	12.08%
4. Other Service Activities	71,145	6.44%
5. Financial and Insurance Activities	50,782	4.60%

Source: Philippine Statistics Authority, 2022 List of Establishments (Distribution of MSMEs by Industry Sector)

MSMEs account for 65.10% of the country's total employment, generating 5,607,748 jobs. Microenterprises contribute 32.69% of all jobs generated by MSMEs, whereas small and medium enterprises contribute 25.35% and 7.06%, respectively.

*Table 4. Contribution of Establishments of Total Employment*

Size of Enterprise	Number of Employment	% to Total
Micro	2,816,091	32.69%
Small	2,183,667	25.35%
Medium	607,990	7.06%
Large	3,006,821	34.90%
<b>Total</b>	<b>8,614,569</b>	<b>100%</b>

Source: Philippine Statistics Authority, 2022 List of Establishments (Contribution of Establishments to Total Employment)

*Table 5. Total Employment by Industry and Employment Grouping*

Industry Sector	Total Employment by Industry and Employment Grouping							
	Micro	Small	Medium	Total MSMEs	% Share	Large	% Share	Total
<b>Philippines</b>	2,816,091	2,183,667	607,990	5,607,748	65.10%	3,006,821	34.90%	8,614,569
Agriculture, Forestry, and Fishing	22,799	69,076	23,722	115,597	58.55%	81,822	41.45%	197,419
Mining and Quarrying	1,896	9,010	2,906	13,812	36.33%	24,201	63.67%	38,013
Manufacturing	349,993	295,914	136,848	782,755	51.16%	747,158	48.84%	1,529,913
Electricity, Gas, Steam, and Air Conditioning Supply	2,261	19,726	14,199	36,186	53.55%	31,387	46.45%	67,573

Water Supply; Sewerage, Waste Management and Remediation Activities	3,692	20,698	4,660	29,050	68.32%	13,473	31.68%	42,523
Construction	8,527	58,356	31,905	98,788	36.72%	170,265	63.28%	269,053
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,362,740	695,309	133,628	2,191,677	92.62%	174,579	7.38%	2,366,256
Transport and Storage	29,356	104,095	32,134	165,585	55.92%	130,514	44.08%	296,099
Accommodation and Food Service Activities	428,092	259,928	16,375	704,395	96.80%	23,268	3.20%	727,663
Information and Communication	25,680	43,306	21,651	90,637	50.32%	89,492	49.68%	180,129
Financial and Insurance Activities	162,415	145,488	19,854	327,757	74.06%	114,798	25.94%	442,555
Real Estate Activities	35,436	50,878	8,990	95,304	65.12%	51,041	34.88%	146,345
Professional, Scientific and Technical Activities	41,552	45,197	15,380	102,129	62.87%	60,304	37.13%	162,433
Administrative and Support Service Activities	31,436	80,881	65,254	177,571	14.23%	1,070,007	85.77%	1,247,578
Education	32,200	162,575	46,608	241,383	72.82%	90,098	27.18%	331,481
Human Health and Social Work Activities	66,664	60,741	27,686	155,091	60.03%	103,270	39.97%	258,361
Arts, Entertainment, and Recreation	38,722	25,629	3,785	68,136	68.77%	30,944	31.23%	99,080
Other Service Activities	172,630	36,860	2,405	211,895	99.91%	200	0.09%	212,095

## B. Legal and Institutional Framework

The Philippine Constitution embodies the government's commitment to bolstering MSMEs through the equitable distribution of opportunities, augmented production of goods and services, heightened productivity, attainment of full employment, and safeguarding against unjust foreign competition.

Furthermore, several laws and institutions are in place to support MSME development, including:

- **Philippine Development Plan (PDP) 2023-2028:** Sets the national development agenda, aligning with MSME goals.
- **Republic Act (RA) No. 6977 or the “Magna Carta for Small Enterprises”, as amended by Republic Act No. 8289 and further amended by Republic Act 9501 otherwise known as the “Magna Carta for Micro, Small and Medium Enterprises”:** Established the MSME Development (MSMED) Council as the primary policy-making body tasked with the development and promotion of MSMEs in the country and mandated the preparation of the six-year MSME Development Plan which must be approved by the President.

Laws addressing specific needs of MSMEs at various stages:

- **One Town, One Product (OTOP) Philippines Act (RA 11960)** institutionalized the OTOP Philippines Program, which aims to develop a self-reliant and independent national economy by supporting MSMEs in promoting and improving their locally produced goods and services.
- **Philippine Creative Industries Development Act (RA 11904)** establishes the Philippine Creative Industries Development Council to promote and support the development of the creative industries in the Philippines, providing various forms of support, incentives, and infrastructure development for entities in the creative industries, while emphasizing the importance of creative instruction and education, and establishing a One-Stop Registration Center and a Creative Industry Development Fund.
- **Innovative Start-up Act (RA No. 11337)** aims to provide incentives and remove constraints to encourage the establishment and operation of innovative businesses, and to strengthen, promote, and develop an ecosystem that fosters an innovative entrepreneurial culture in the Philippines.
- **Philippine Innovation Act (RA No. 11293)** establishes a national council to develop the country's innovation goals and strategy, promoting a culture of strategic planning and collaboration among sectors to drive economic growth through innovation.
- **Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (RA No. 11032)** streamlines the current systems and procedures of government services. This law aims to make it easier for businesses to start operating in the country. The most important

measure that this law introduces is the automation of the business registration process.

- **Credit Surety Fund Cooperative Act of 2015** (RA No. 10744) enables the Cooperative Development Authority to create Credit Surety Fund Cooperatives to enhance accessibility to bank credit for MSMEs, cooperatives, and non-government organizations (NGOs).
- **Microfinance NGOs Act** (RA No. 10693) strengthens microfinance NGOs in the Philippines by establishing a regulatory council, setting standards and requirements, and providing access to government programs as well as preferential tax treatment.
- **Youth Entrepreneurship Act** (RA No. 10679) promotes a culture of business and financial education among Filipino youth. The Youth Entrepreneurship Program (YEP) will help young Filipinos develop their entrepreneurial skills by offering them a comprehensive package of interventions.
- **Go Negosyo Act** (RA No. 10644) establishes Negosyo Centers nationwide to provide MSMEs support and services such as business registration facilitation, business advisory, business information and advocacy.
- **Barangay Micro Business Enterprises (BMBEs) Act of 2002** (RA No. 9178) grants incentives and benefits to certified BMBEs such as minimum wage exemption, income tax exemption, access to special credit window, assistance on technology transfer, production and management training, and marketing assistance.

Similarly, the following strategy document and national policy prioritize the MSME sector as key target group:

- **The Comprehensive National Industrial Strategy (CNIS)** seeks to enhance Philippine industries for global competitiveness. By upgrading manufacturing and integrating it with agriculture and services, the CNIS aims to establish strong forward and backward linkages, driving the economy's structural transformation. Key industrial policies will boost firm productivity, strengthen connections between domestic SMEs and large companies, and attract more investment.
- **National Strategy for Financial Inclusion (NSFI) 2022-2028** serves as the principle-based blueprint to achieve the vision of driving financial inclusion toward and financial resilience by pursuing strategic objectives

which include enhancing the agriculture and MSME financing ecosystem.

- **Philippine Export Development Plan (PEDP) 2023-2028** designed to develop and position the Philippines and our exporters as an agile export powerhouse in key industries.

These frameworks demonstrate the government's comprehensive approach to fostering a conducive environment for MSME growth and their contribution to the national economy.

### C. Challenges

MSMEs face a variety of issues and challenges. These can be broadly categorized into regulatory, financial, operational, technological, and market access challenges.

MSMEs navigate through complex and often inconsistent local, regional, and national regulations. A major stumbling block for all entrepreneurs across the nation is the absence of a reliable, transparent, and efficient business registration process.

In addition, MSMEs have difficulty obtaining loans and financial assistance due to stringent collateral requirements and high interest rates. Studies show that MSMEs, due to limited financial knowledge, do not access available finance schemes and rely on personal funds. Microenterprises often lack the appropriate financial records, business plans, and collaterals required by various financing institutions. This further limits their access to credit.

In navigating operational challenges, MSMEs contend with restricted access to professional development opportunities, which hampers their capacity for skill acquisition and adaptation to evolving market landscapes. This limitation underscores a critical weakness in their agility and responsiveness to shifting consumer preferences and industry trends. Furthermore, the inadequacy in capability development is compounded by the absence of tailored, multi-modal training programs that effectively address the diverse needs and contextual nuances of MSMEs.

Technological barriers exacerbate the predicament for MSMEs, with the pervasive digital divide impeding their ability to leverage digital tools and platforms for enhanced competitiveness. This divide is particularly pronounced in rural and remote areas, where access to fast satellite internet remains deficient,

thereby impeding MSMEs' effective utilization of online resources and digital services. Consequently, MSMEs face compounded challenges in modernizing their operations and tapping into the vast potential of the digital economy.

Market access presents yet another formidable obstacle for MSMEs, as high entry costs serve as a deterrent, particularly for smaller enterprises with limited financial resources. Beyond the economic ramifications, addressing this challenge necessitates a broader consideration of equity and inclusion, ensuring that barriers to entry do not disproportionately affect certain segments of the entrepreneurial ecosystem. Additionally, MSMEs encounter hurdles in embracing logistical apps and technological advancements, with factors such as infrastructure limitations and unfamiliarity with emerging technologies hindering their adoption efforts.

These multifaceted challenges confronting MSMEs underscore the need for comprehensive and targeted interventions.



PART 2:

**THE MSME  
DEVELOPMENT PLAN  
2023-2028:  
BOOSTING AGILITY AND  
RESILIENCE**



## Part 2. The MSME Development Plan 2023-2028

### A. The MSMEDP 2023-2028 Framework

The MSME Development Plan (MSMEDP) 2023-2028 charts the path for the growth and transformation of the MSME sector in the Philippines over the next six years.

#### Vision

*“Innovative and resilient MSMEs in a digitally sustainable ecosystem, creating a sufficient number of quality jobs and driving high levels of continued inclusive national growth towards global competitiveness.”*

By 2028, this vision for the MSME sector implies:

- Competitiveness among MSMEs in domestic and global markets, characterized by innovation in products and processes, supported effectively by government at local and national levels.
- Expansion of the MSME landscape, with a significant number of enterprises operating at Industry 4.0 standards, utilizing AI, fostering entrepreneurship across diverse sectors nationwide.
- Full integration into domestic and international markets, forging strong connections with upstream (suppliers) and downstream (customers) partners, and embracing diversification and franchising strategies imperative for the sustainable growth and resilience of MSMEs.
- Resilient and sustainable MSMEs capable of navigating operational challenges arising from VUCA (volatile, uncertain, complex, and ambiguous) situations.
- Promotion of a culture of innovation among all MSMEs, fostering the creation of novel products and services that captivate customers both domestically and internationally, while nurturing a dynamic, motivated, and productive workforce.



By the end of the plan period, Philippine MSMEs are poised as frontrunners in the realm of international commerce, generating job opportunities and fostering sustained, inclusive economic growth. Ultimately, this contributes to the country's economic competitiveness on the global stage. Leveraging digital technologies is pivotal in empowering MSMEs to compete effectively in a disruptive marketplace. The plan is focused on cultivating MSMEs capable of thriving in a dynamic business environment while prioritizing environmental and social sustainability. MSMEs will be agile in responding to shifting market demands by continuously innovating, introducing novel business models, and demonstrating resilience in the face of disasters and disruptions.

Achieving the overarching vision of a prosperous Philippines depends on the growth of MSMEs across diverse sectors. These include food processing, agriculture, intermediate goods assembly, handicrafts, textiles, and clothing, as well as emerging sectors like information technology, e-commerce and online retail, artificial intelligence, healthcare, education, and finance. These enterprises, dispersed throughout the country, will foster innovation, create compelling products and services that resonate with both local and international consumers, and maintain a vibrant, motivated, and productive workforce.

### **Medium-term Plan for the 2040 Agenda**

The vision for the MSMEDP 2023-2028 is anchored in *AmBisyon Natin 2040*'s statement: "By 2040, the Philippines shall be a prosperous, predominantly middle-class society where no one is poor. Our people will enjoy long and healthy lives, are smart and innovative, and will live in a high-trust society."

Among other key characteristics of prosperity in the Philippines in 2040 will be opportunities for entrepreneurship. The MSMEDP seeks to realize this vision by building a thriving ecosystem of MSMEs that are competitive both domestically and globally, resilient and sustainable in the face of operational challenges brought about by uncertainties and volatilities, and innovative, adapting to such challenges and thereby forming the basis of inclusive Philippine economic growth.

At the core of this vision is the pivotal role of MSMEs in anchoring the country's economic structure, with countless entrepreneurs across various sectors contributing to economic prosperity. These entrepreneurs engage in diverse fields such as food processing, agriculture, handicrafts, and textile and clothing, fostering innovation, creating new products and services, and employing a dynamic workforce.

Towards this vision, Chapter 5 (Modernize Agriculture and Agribusiness) of the PDP 2023-2028 identifies opportunities for MSMEs to capitalize on, particularly in

value- adding activities for primary producers. These opportunities include initiatives such as toll-based processing facilities, investment in primary production activities, and fostering partnerships between the private sector and primary producers. The PDP also highlights the potential of the blue economy, emphasizing strategies for sustainable fisheries management and the promotion of viable livelihood options for coastal communities.

Furthermore, Chapters 10 to 14 of the PDP underscore the importance of a smart and sound regulatory system to encourage private sector investments, particularly in the basic production sectors essential to MSMEs. This regulatory system should align with global standards for product safety and quality, facilitate foreign investment, and promote partnerships between foreign and domestic investors. Strengthened implementation of policies such as RA No. 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act must be actively pursued.

The government will develop and put into operation a robust Early Warning System, prompt Rapid Assistance mechanisms, and proactive preventive measures to aid key export sectors and MSMEs during pivotal stages of development, such as transitioning to foreign markets or scaling up operations.

Finally, to foster the survival, growth, and expansion of local firms in both export and domestic markets, driving productive employment and income growth, Chapter 9 (Promote Trade and Investments) of the PDP calls for the government to establish and activate a robust Early Warning System, deploy prompt Rapid Assistance mechanisms, and implement proactive preventive measures. These initiatives aim to support vital export sectors and MSMEs during critical developmental phases, such as entering foreign markets or expanding operations.

### Key Focus Areas

These comprehensive plans for 2040 rest on MSMEDP 2023-2028 that is anchored on three key focus areas:

- **MSME Environment.** This focus area refers to the ecosystem in which MSMEs operate. A positive MSME environment is essential for fostering the growth and prosperity of this crucial sector. It ensures a level playing field, provides necessary resources and support, and removes obstacles hindering MSME success. This, in turn, contributes to job creation, economic development, and poverty reduction.
- **MSME Competencies.** This focus area pertains to the skills, knowledge, and resources required by MSMEs to operate effectively

and achieve sustainable growth. Robust MSME capacities are essential for thriving in today's competitive environment. They enable MSMEs to enhance productivity, efficiency, resilience, and responsiveness to market demands. Consequently, these fosters heightened profitability, job creation, and overall competitiveness within the MSME sector.

- **MSME Prospects.** This focus area focuses on understanding business prospects in local and international markets, including examining the opportunities and challenges encountered by MSMEs to flourish domestically and on a global scale. This domain scrutinizes the factors influencing success in each market segment, facilitating the development of tailored strategies and support mechanisms for MSME expansion.

The attainment of the MSMEDP vision will be accomplished through the implementation of concrete strategies, action plans, cross-cutting approaches, and institutional support. Each focus area is underpinned by strategic goals. By prioritizing these focus areas and strategic goals, the plan endeavors to empower MSMEs to emerge as the primary catalysts of inclusive and sustainable economic progress in the Philippines.

**Table 6. MSME Development Plan 2023-2028 Strategy Framework**

<b>Vision</b>	Innovative and resilient MSMEs thriving in a digitally sustainable ecosystem, creating sufficient number of quality jobs and driving high levels of continued inclusive national growth towards global competitiveness.					
<b>Focus Areas</b>	MSME Environment		MSME Competencies		MSME Prospects	
<b>Strategic Goals</b>	MSME Ecosystem Strengthened	Financing Prospects Increased	Knowledge and Skills Upscaled	Technology and Innovation Accelerated	Domestic Market Optimized	Global Markets Penetrated
<b>Strategies</b>	Supportive policies, automation, streamlined regulatory processes	Innovative financing, financial inclusion	Skills upgrading across sectors, mentorship	Technology and digital tools adoption accelerated through private-public partnership	Connectivity, regulatory standards compliance	International standards and certification, entry to export, global value chain participation
<b>Action Plans</b>	Modernize regulations, enhance MSME information system, upgrade industry roadmap	Craft innovative financing policies and alternative sources of capital, foster financial access	Provide specialized training, equip Negosyo centers for online learning	Introduce Industry 4.0 technologies, promote product development and innovation, foster digitalization	Promote product branding, support e-commerce onboarding, strengthen OTOP Program	Support standard compliance and certification, international trade fair participation, global e-commerce
<b>Cross-cutting Strategies</b>	Expedite Digitalization   Enhance Connectivity   Enable Transition to Service-Oriented Models   Foster Public-Private Partnership (PPP)   Promote Circular Economy and Green Growth   Strengthen Business Resilience   Encourage greater collaboration between Local and National Government   Promote Women Entrepreneurship   Develop Customized Support per Enterprise Level					
<b>Institutional Support</b>	Budget Allocation   Policy Review   Collaboration between national government agencies, LGUs, and the private sector   Network Infrastructure   Streamlined Processes   Data/Information Availability   Monitoring and Evaluation					

## B. Strategic Goals: Challenges, Opportunities, and Strategies



### Strategic Goal 1: MSME Ecosystem Strengthened

This strategic goal centers on establishing and improving the overall business environment for MSMEs, fostering an environment conducive to their growth, development, and sustainability. By creating an ecosystem that attracts and facilitates investments in the MSME sector, it aims to provide avenues for capital infusion and resource accessibility, vital for development.

#### Assessment and Challenges

*Lack of streamlined business processes.* The ease of doing business for MSMEs in the Philippines falls short of expectations. According to the World Bank's Doing Business Report 2020, the Philippines ranked 95th out of 190 economies in terms of ease of doing business. Specific areas such as starting a business, dealing with construction permits, and paying taxes remain particularly challenging. A major stumbling block for entrepreneurs across the nation is the absence of a reliable, transparent, and efficient business registration process. Each local government unit (LGU) employs its own policies, procedures, and guidelines for registering, renewing, and closing businesses.

While most LGUs have adopted Citizen's Charters to streamline bureaucratic processes, some lack automated licensing systems or any organized registration process. This lack of uniformity has resulted in delays, hidden costs, varied requirements, and unnecessary frustration for MSMEs, who should ideally encounter standardized transactions across all locations.

The IMD World Digital Competitiveness Ranking 2022, which positioned the Philippines 58th out of 63 countries, underscores the need for further digitalization. An upside to this challenge is the adoption of end-to-end online registration options. Government agencies like the Bureau of Internal Revenue (BIR) offer online platforms for business registration, making transactions faster, easier, and more efficient, with reduced human error. Digitization presents opportunities for optimized processes for both LGUs and MSMEs.

*Discrepancies in data, policy and resource allocation due to inconsistent MSME categories.* The Philippines currently uses two distinct operational definitions for MSMEs. The definition as provided by the RA No. 9501 or the Magna Carta for MSMEs refers to MSMEs as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship,

cooperative, partnership or corporation whose total assets must have value falling within specific ranges: micro (not more than PhP3,000,000.00), small (PhP3,000,001.00 to PhP15,000,000.00), and medium (PhP15,000,001.00 to PhP100,000,000.00), inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated.

On the other hand, the PSA categorizes MSMEs according to employee count: micro (1-9 employees), small (10-99 employees), and medium (100-199 employees). This criterion is utilized by the PSA in the Updating of List of Establishments. The PSA notes that classifying enterprises based on number of employees allows for easy adaptation for international comparisons, while the MSME definition outlined in RA No. 9501, which is based on asset size, presents challenges in cross-economy comparisons and may be considered unreliable, even if asset values are converted into a universal currency such as the US dollar. Additionally, a criterion reliant on asset size may require periodic adjustments to its definition due to fluctuations in price levels over time.

Moreover, the MSME Development Council adopted the following International Finance Corporate definition of women-owned or -led businesses: "Women-owned businesses are those where at least fifty-one percent (51%) of the company is owned by a woman or women. On the other hand, Women-led businesses are as those with at least twenty percent (20%) of it is owned by a woman or women; and at least one (1) woman acts as Chief Executive Officer (CEO), or President, or Vice-President AND at least thirty percent (30%) of the Board of Directors, where a board exists, is composed of women.

The inconsistent definitions of MSMEs erode data integrity, weaken policy effectiveness which lead to inefficient resource allocation, and ultimately hamper the development and support of these crucial enterprises.

## **Strategies**

Amidst regulatory complexities, enforcement gaps, and technological transformations, fostering a conducive ecosystem for MSMEs requires strategic interventions tailored to address specific barriers. This outlines actionable strategies to strengthen the MSME ecosystem, fostering resilience and unlocking their full potential in driving economic progress.

Table 7. Strategic Goal 1: MSME Ecosystem Strengthened

Action Plans
<ul style="list-style-type: none"><li>• Modernize Government Regulations to Streamline Transactions and Expedite Assistance Delivery for MSMEs</li><li>• Review and redefine MSME categories to ensure more accurate classification</li><li>• Establish a national MSME information system</li><li>• Upgrade MSME industry roadmaps for long-term development</li><li>• Align regional strategies with national MSME development plans</li><li>• Introduce incentives to encourage investments in MSMEs and job creation</li><li>• Conduct regular assessments to evaluate the impact of legislative measures on MSMEs</li></ul>

**Modernize government regulations to streamline and expedite assistance delivery for MSMEs.** MSMEs in the Philippines face numerous challenges, including bureaucratic red tape, lengthy processing times, and cumbersome regulatory requirements. These obstacles hinder their growth and efficiency, making it difficult for them to compete in both local and global markets. For instance, the process of registering a business, obtaining permits, and complying with various regulatory requirements can be time-consuming and costly. This often leads to delays in starting operations and accessing essential government assistance. Additionally, the lack of streamlined processes can result in missed opportunities for MSMEs to benefit from government programs designed to support their development and sustainability.

To address these challenges, the Philippine government has implemented several key initiatives aimed at modernizing regulations and expediting transactions for MSMEs. The Ease of Doing Business and Efficient Government Service Delivery Act (RA 11032) mandates the simplification of regulatory processes and the reduction of processing times across all government agencies, with oversight from the Anti-Red Tape Authority (ARTA). Initiatives like the Business One-Stop Shop (BOSS) promote predictability and efficiency in service delivery. The Department of Trade and Industry's Business Name Registration System (BNRS) and the Central Business Portal (CBP) provide online platforms for business registration and compliance, significantly reducing the need for physical visits to government offices. Moreover, leveraging digital platforms such as the Bureau of Internal Revenue's Electronic Filing and Payment System (eFPS) can facilitate tax compliance for MSMEs, although broader adoption requires addressing awareness and technical barriers. Furthermore, legislative updates like the Revised Corporation Code, which enables the creation of One-Person Corporations, demonstrate the importance of aligning laws with contemporary business needs, fostering formalization, access to financing, and legal protections. These efforts, along with the electronic payment and collection system and the unified business permit application

system, collectively aim to create a more conducive business environment for MSMEs, promoting their growth and ensuring timely delivery of government assistance.

***Review and redefine MSME categories to ensure more accurate classification.*** The current definitions often fail to accurately reflect the diversity and complexity of businesses within different sectors, leading to misclassification and inappropriate allocation of resources. This inconsistency can result in some MSMEs not receiving the support they need or being subjected to regulations that do not fit their actual operational scale. Additionally, the existing classification system may not adequately capture emerging industries, thereby neglecting sectors that could benefit substantially from targeted assistance. Addressing these issues is crucial for ensuring that policies and programs are effectively tailored to the needs of all MSMEs.

Reviewing and redefining MSME categories based on more accurate criteria such as sales, income, sector, and other relevant factors can significantly enhance the support and development of these enterprises. A more precise classification system would allow for better-targeted policies, ensuring that resources are allocated where they are most needed. This would help in providing appropriate regulatory frameworks and support mechanisms for various types of MSMEs, fostering a more conducive environment for their growth. Additionally, accurate classification can facilitate more reliable data collection and analysis, enabling policymakers to track the progress and impact of MSME development initiatives more effectively. Ultimately, redefining MSME categories will contribute to a more vibrant and resilient economy, with MSMEs playing a crucial role in driving innovation, job creation, and inclusive growth.

***Establish a national MSME information system.*** Establishing a national MSME information system is pivotal for consolidating data collection, storage, and dissemination, thereby enhancing accessibility and reliability of information for stakeholders. This system would combat the current fragmentation in MSME data, streamlining processes, and enhancing decision-making both at policy and enterprise levels. Currently, disparate data across government agencies and local government units (LGUs) lead to inefficiencies, with agencies like the Department of Trade and Industry (DTI), Philippine Statistics Authority (PSA), and Bureau of Internal Revenue (BIR) maintaining separate databases. A centralized system would unify these sources, providing a single repository for accurate tracking of MSME numbers, distribution, sectoral classification, and economic contributions, essential for effective policy formulation and resource allocation. Emphasis is placed on the data repositories of Local Government Units (LGUs) because they contain up-to-date business information, mandated by annual local business registration and compliance monitoring. Integrating this



data into a centralized system is crucial for formulating timely and relevant policy directions.

Moreover, this centralized system can bolster policymaking by furnishing policymakers with timely and precise data, crucial during crises like the COVID-19 pandemic. Real-time monitoring enabled by such a system can facilitate swift government response and aid distribution to MSMEs in need. Additionally, mapping value chains within this system can pinpoint optimization opportunities, enhancing MSME competitiveness by identifying inefficiencies and promoting collaboration. Furthermore, the system can foster knowledge-sharing and innovation among MSMEs, providing insights into market trends and technological advancements, thereby empowering businesses to make informed decisions and adopt cutting-edge practices to boost productivity and competitiveness.

***Upgrade MSME industry roadmaps for long-term development.*** Developing sector-specific industry roadmaps is essential to address the diverse challenges and opportunities across different sectors. While initiatives like the Philippine MSME Development Plan (2017-2022) identified critical sectors such as manufacturing, agriculture, and information technology, the implementation revealed the inadequacy of a uniform approach. Each sector faces unique hurdles; for instance, manufacturing grapples with technological adoption, while agriculture struggles with modernization and market access. Tailoring policies to meet these distinct needs is imperative for effective support.

Furthermore, integrating long-term development goals into these roadmaps ensures sustainable growth by addressing underlying structural issues rather than solely focusing on short-term interventions. Emphasizing market expansion and export readiness is crucial, particularly for MSMEs confined to local markets. Initiatives like the DTI's RIPPLES Plus program aim to equip MSMEs with the skills and resources to enter global markets, highlighting the need for comprehensive strategies encompassing export processes, compliance with international standards, and participation in trade fairs. Monitoring and evaluation mechanisms, including clear metrics and regular assessments, are vital to ensuring the relevance and effectiveness of these upgraded roadmaps, with indicators such as increased productivity and technology adoption among MSMEs serving as measures of success.

***Align regional strategies with national MSME development plans.*** Addressing regional economic disparities requires customized strategies that account for local contexts while supporting national objectives. While the Philippine MSME Development Plan (2017-2022) outlines priorities such as enhancing the business climate and fostering innovation, implementation at the

regional level varies due to economic conditions and institutional capacities. By aligning regional strategies with national plans, local governments can adapt priorities to their contexts. For instance, the DTI Negosyo Centers customize programs to cater to the unique needs of MSMEs in different regions, ensuring equitable support distribution. Additionally, a convergence mindset encourages collaboration among government agencies and private stakeholders, exemplified by initiatives like the “One Town, One Product” program, which benefits from coordinated efforts across levels of government and private sectors, optimizing resources and enhancing program effectiveness.

Furthermore, aligning regional strategies with national plans facilitates knowledge sharing and best practice dissemination, promoting accelerated development across regions. Successful initiatives like the Metro Cebu Development and Coordinating Board's promotion of MSME clusters serve as models for other regions. Sharing insights and lessons learned enables regions to avoid common pitfalls and adopt proven approaches, fostering the growth of the MSME sector. This alignment is evident in digitalization initiatives, where regions like Central Visayas develop localized e-commerce training programs aligned with the national "e-Commerce Roadmap 2022," tailored to the capabilities and needs of local MSMEs.

***Introduce incentives to encourage investments in MSMEs and job creation.***

Tax incentives, such as those implemented through the CREATE Act in the Philippines, alleviate the financial burden on MSMEs, with reductions in corporate income tax rates from 30% to 20%. This substantial decrease provides MSMEs with additional capital for reinvestment, expansion, and employment generation. Similarly, direct financial support programs like the DTI's P3 Program enable MSMEs to access microfinance loans at lower interest rates, facilitating business growth and modernization initiatives.

Moreover, initiatives like credit guarantees from the Agricultural Credit Policy Council (ACPC) mitigate investment risks for MSMEs, particularly in sectors like agriculture, encouraging financial institutions to extend credit to high-risk borrowers. Furthermore, the establishment of special economic zones (SEZs) with targeted incentives, facilitated by agencies like the Philippine Economic Zone Authority (PEZA), attracts investments to specific regions, fostering localized economic development. Incentives such as income tax holidays and duty-free importation of capital equipment within SEZs have catalyzed significant investments, notably in manufacturing and IT-BPM sectors, resulting in job creation and economic growth in regions like CALABARZON and Central Visayas.

***Conduct regular assessments to evaluate the impact of legislative measures on MSMEs.*** Regular assessments offer empirical insights into the effectiveness of legislative measures aimed at supporting MSMEs. For example, evaluations of the Ease of Doing Business Act revealed improvements in business startup times but highlighted ongoing challenges with local government compliance. Similarly, reviews of the Barangay Micro Business Enterprises Act identified low registration rates due to awareness gaps and perceived registration complexities.

These assessments inform legislative alignment with MSME needs and guide the development of new laws to address evolving challenges, such as those arising from digital economies. Moreover, they enhance accountability and transparency in the legislative process by publicly disclosing evaluation outcomes, demonstrating the government's commitment to supporting MSMEs and ensuring stakeholder awareness.

Collaborative efforts involving government agencies, academic institutions, industry associations, and MSMEs are essential for the successful implementation of regular assessments, fostering a comprehensive understanding of legislative impacts and promoting continuous improvement in MSME support frameworks



## Strategic Goal 2: Financing Prospects Increased

This strategic goal aims to bolster MSMEs' access to funds and the availability of loans from both private and public financial institutions. This necessitates the formulation and development of alternative portfolios tailored specifically for MSMEs, thereby contributing to the increase in investor confidence.

It centers on empowering MSMEs to access the funds they need for growth, requiring a multi-pronged approach. Financial literacy training and workshops can equip them to make informed financial decisions while exploring alternative financing models like crowdfunding, venture capital, and angel investors can offer access beyond traditional loans.

### Assessment and Challenges

*Low loan uptake.* According to the PSA, MSMEs receive only 4.6% of the total outstanding loans, compared to 21% in benchmark countries, as reported by the World Bank. Data from the Bangko Sentral ng Pilipinas (BSP) shows that in 2023, banks lent around PhP78 billion to micro-enterprises, PhP129 billion to small enterprises, and PhP296 billion to medium enterprises, representing only 0.6%, 1.0%, and 2.4% of banks' total loan portfolios, respectively.

Despite available financing facilities from the Small Business Corporation, Land Bank of the Philippines, and Development Bank of the Philippines, with flexible terms, interest rates, and fees tailored to MSME needs, public financing schemes remain limited in scope and reach. As a result, many MSMEs still face challenges in accessing adequate financial support. This is compounded by the fact that many MSME owners are hesitant to seek loans due to limited financial literacy, overreliance on personal funds, fear of high interest rates, and stringent collateral requirements.

*Previous successes with alternative financial schemes and business models.* Recognizing microfinance as a crucial instrument for poverty alleviation and financial inclusion in the Philippines, the government has enacted laws and regulations to support and regulate the sector.

The BSP has issued several circulars to develop the microfinance industry in the country, including Circular No. 7441<sup>1</sup> which expanded the microfinance loan

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<sup>1</sup> Circular No. 744 dated 28 December 2011 included "Microfinance Plus" in the types of microfinance loans to finance the growing microenterprises and small businesses. This loan ranges from PhP150,001 to PhP300,000. The eligible borrowers shall have a savings account, a track record of at least two loan cycles in the PhP50,000-150,000 range demonstrating success of the business, its increasing credit

category to meet the rising demand for larger loans from growing microenterprises. Republic Act No. 10693, also known as the Microfinance NGOs Act, establishes regulations for non-governmental organizations engaged in microfinance activities. Moreover, sector-specific laws mandate banks to allocate a portion of their loanable funds to specific sectors. One such law is Republic Act No. 11901 or the Agriculture, Fisheries and Rural Development Financing Act of 2022 which mandates banking institutions, whether government or private, except newly established banks for a period of five (5) years from the date of commencement of the bank's operations, to set aside a credit quota, or a minimum mandatory agricultural and fishery financing requirement of at least 25% of their total loanable funds<sup>2</sup>.

Today, thousands of microfinance institutions cater to the needs of Filipinos, showcasing the impact of effective microfinance in the national landscape. For instance, the Microfinance Council of the Philippines generated a gross loan portfolio amounting to P76 billion in 2022, providing access to financing to about 8.1 million microenterprises.

However, microfinance, while impactful, may not cater to all financing needs of the MSME sector. SMEs require larger loans or different financial products. This gap underscores the need for innovative solutions such as credit guarantees and movable collateral, which are gaining traction.

During the onset of COVID-19, the Philippine Guarantee Corporation was mandated to provide credit guarantee facilities to MSMEs in support of the government's recovery program to bounce back the economy. P120 billion in working capital loans to MSMEs was approved to fund the MSME Credit Guarantee Program. The Medium and Large Enterprises (MLE) Credit Guarantee Facility was also developed in response to Bayanihan Law II to support such entrepreneurs.

Meanwhile, despite the enactment of Republic Act No. 11057 in 2018, also known as the Personal Property Security Act, progress has been limited. The implementation of the law is crucial as it will empower MSMEs to utilize movable properties as collateral for loans, incentivizing financial institutions to extend more credit to the MSME sector. However, the effective execution of this Act hinges on the establishment and functionality of a fully operational Personal Property Security Registry (PPSR). The soft launch of the Registry by the Land Registration Authority (LRA) on 25 March 2021 underscores the need to

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demand and subsequent increased capacity to pay.

<sup>2</sup> Republic Act No. 11901 repealed Republic Act No. 10000 or the Agri-Agra Reform Credit Act 2009 which requires banks to allocate at least 25% of the total loanable funds for agriculture and agrarian reform credit. In November 2022, the BSP issued Circular No. 1159 which provides the Implementing Rules and Regulations governing the mandatory AFRD financing under RA No. 11901.

expedite its full implementation.

## Strategies

Amid the challenges faced by MSMEs in accessing sufficient financial support, ongoing efforts are evident in addressing these hurdles. Building upon these initiatives, a comprehensive strategy framework is crucial to further enhance financing prospects for MSMEs.

*Table 8. Strategic Goal 2: Financing Prospects Increased*

Action Plans
<ul style="list-style-type: none"><li>• Formulate and Implement policies that advocate for innovative financing mechanisms</li><li>• Streamline and simplify loan requirements and processes</li><li>• Launch campaigns to promote financial inclusions through fintech initiatives and raise awareness among MSMEs about formal financial channels</li></ul>

***Formulate and Implement policies that advocate for innovative financing mechanisms.*** The government will formulate and implement policies that advocate for innovative financing mechanisms, prioritizing the transition from traditional mortgage and commercial lending to innovative methods. These policies will encourage and/or incentivize financial institutions to explore new approaches like project financing schemes, risk-based lending, and AI credit systems. Moreover, such policies will promote the growth of alternative sources of capital-raising, including venture capital, angel investors, and white knights.

Although limited, there are existing initiatives on innovative financing schemes (e.g., movable asset financing)<sup>3</sup> for MSMEs that can also serve as blueprints for further development and expansion. The government will support the implementation of these existing initiatives while encouraging other financial institutions and entities to adopt innovative financing mechanisms. This support may include creating a network where financial institutions can share experiences and best practices, thereby enhancing the overall efficiency and effectiveness of financing mechanisms for MSMEs. The government may also explore possible areas for collaboration with local and international partners to build the capacities of regulators, financial institutions, and other relevant stakeholders on these innovative lending methodologies.

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<sup>3</sup> Movable asset financing is a lending methodology that leverages on movable assets such as receivables, warehouse receipts, inventory flows, and supply chain relationships to boost MSME and agriculture lending. It covers innovative financing approaches such as supply chain finance (SCF) and warehouse receipts finance (WRF).

Under risk-based lending, technical support will be provided to participating financial institutions in integrating the Credit Risk Database (CRD) Scoring Model into their loan evaluation processes. The CRD, which is a technical cooperation project between the BSP and Japan International Cooperation Agency (JICA), is a credit infrastructure that aims to improve access to credit for small and medium enterprises (SMEs). It involves the creation of a large-scale and anonymized database of SMEs and the development of a robust credit scoring model as a credit evaluation tool for risk-based lending. Once the CRD is institutionalized and fully implemented, potential incentives may be explored to encourage more financial institutions to use this credit infrastructure in their lending activities.

Moreover, the Machine Learning-Based Credit Scoring Model of the Small Business Corporation, an innovative model which emphasizes risk-based lending tailored for microenterprises and micro loans will be expanded to include a broader range of financial services and products for their small and medium clients. Other financial institutions, especially GFIS, will be encouraged to leverage such initiative, which uses AI, to improve their credit assessment processes.

Alongside these project initiatives, there will be a focus on expediting the implementation of the Personal Property Security Act (PPSA) to empower MSMEs in using movable properties as loan collateral. A key element of this law is the full operationalization of the Personal Property Security Registry (PPSR) as a centralized, nationwide online collateral registry. This will incentivize financial institutions to extend more credit to the MSME sector, thereby improving access to finance.

Furthermore, there will be efforts to amend the Warehouse Receipts Law of 1912 to improve efficiency and accessibility in warehouse receipt financing. This revision aims to support agricultural operations for farmers by eliminating constraints that hinder their productivity and resource optimization. The updated law will be tailored to modern agricultural practices, with a specific emphasis on benefiting MSMEs in the agricultural sector.

In connection to the amendments to the Warehouse Receipts Law of 1912, advocates and stakeholders will be encouraged to ensure the successful implementation and impactful utilization of the modernized warehouse receipts system by providing incentives to financial institutions to offer warehouse receipt financing.

The government will also enhance the implementation of the Credit Surety Fund<sup>4</sup> through the organization, development and/or enhancement of capacities, and registration of Credit Surety Fund Cooperatives with the Cooperative Development Authority to assist in credit risk mitigation for MSMEs.

Credit guarantee facilities of the PHILGUARANTEE will likewise continue to target priority MSME and agriculture segments, including women-owned and women-led enterprises to enhance their access to credit. Moreover, to diversify financing sources, especially for MSMEs and cooperatives, the Securities and Exchange Commission (SEC) will encourage crowdfunding by continuously promoting competition in the market through the promulgation of rules for registration (e.g., granting of more permits) and licensing of innovative and other trading markets for innovative securities, securities of small and medium growth and venture enterprises, and technology-based ventures.

The government will support the capacity building and digital transformation of microfinance and microinsurance companies and will promote the development of microinsurance products that cover disaster risks. The expansion of agriculture insurance will be promoted through greater private sector participation. The private sector can adopt insurance technology (InsurTech) to develop affordable and responsive financial products.

Lastly, BSP's Philippine Sustainable Finance Roadmap and Sustainable Financing Guiding Principles benefit MSMEs primarily through improved access to climate finance. By facilitating funding for green projects and adaptive infrastructure, these frameworks enable MSMEs to invest in sustainable technologies and practices. This access helps MSMEs manage climate risks, reduce operational costs, and enhance their resilience against environmental disruptions. Additionally, the principles encourage sustainable investment strategies and transparency, further supporting MSMEs in securing financing and building credibility with investors. These measures collectively enhance MSMEs' market position, operational efficiency, and long-term viability in the face of climate challenges.

***Streamline and simplify loan requirements and processes.*** Streamlining and simplifying loan requirements and processes is an ongoing endeavor aimed at enhancing accessibility to financial services.

The Standard Business Loan Application Form (SBLAF), initiated by the BSP, plays a crucial role in this effort. The government will ensure full compliance and adoption of the SBLAF by BSP-supervised financial institutions, facilitating

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<sup>4</sup> Credit Surety Fund is a credit enhancement tool providing a maximum surety cover of 80% to loans granted by banks to MSMEs.



streamlined and faster loan processing and supporting credit data requirements for credit registries.

Digital lending solutions will be promoted and integrated into the mainstream lending landscape to streamline document submission, evaluation, and approval processes, ensuring a more efficient and user-friendly experience for MSME borrowers. An example of such an initiative is the Borrower Registration System of the Small Business Corporation, which provides end-to-end online loan processes from document submission to funds delivery.

To significantly boost digital payment capabilities among MSMEs, it is imperative to tackle the statistic from the 2021 ADB survey that only 34.7% of MSMEs had digital payment systems. Essential strategies include delivering targeted training to empower MSMEs in implementing these systems effectively and forging partnerships with technology providers to deliver affordable, user-friendly solutions.

Raising awareness about the benefits of digital payments—such as faster transactions and improved security—can also encourage adoption. Collaboration between technology providers, industry associations, and government agencies like the Department of Trade and Industry (DTI) is essential for scaling these efforts and ensuring comprehensive support.

By increasing digital payment capabilities, MSMEs can achieve greater transaction efficiency, access new markets, and align with the move towards a cash-lite economy, thus driving growth and modernization.

***Launch campaigns to promote financial inclusions through fintech initiatives and raise awareness among MSMEs about formal financial channels.*** The government will develop alternative platforms for financial literacy programs, including for OFs e.g., through the BSP, Landbank and other government financial institutions, and other financial regulators, such as the Cooperative Development Authority, SEC, Insurance Commission, and Philippine Deposit Insurance Corporation. Private financial institutions (FI)—both banks and non-banks—can enhance the awareness campaigns on financial products and services.

The DTI, through its Negosyo Centers and Regional and Provincial Offices, will continue to provide training and capacity-building programs in business development to enhance the financial literacy of MSMEs.



### **Strategic Goal 3: Knowledge and Skills Upscaled**

This strategic goal aims to enhance management skills and leadership qualities, while also upskilling and reskilling the workforce, to cultivate a robust, motivated team capable of driving overall productivity and performance improvement, while also advancing adaptability to technology and innovation.

To support the unique needs of MSME entrepreneurs, the Department of Trade and Industry (DTI) and its attached agencies have formulated customized learning and development approaches. These initiatives provide industry-specific knowledge and cover a wide range of relevant topics to ensure holistic growth and competitiveness. Comprehensive technical assistance is available at every stage of the business life cycle through the Negosyo Centers, which offer services such as business registration, advisory support, and business matching. Additionally, the Cooperative Development Program provides technical and professional assistance to cooperatives for efficient operations and skills development.

Technology-driven MSME skills enhancement is addressed by initiatives like Startup Pilipinas, which supports the growth of the Philippine startup ecosystem, and the Philippine Skills Framework, which identifies future skills and competencies needed by industries to address skills mismatches. To gather insights into human resource capabilities, targeted data collection initiatives are implemented through programs like ARISE Plus Philippines.

### **Assessment and Challenges**

*Difficulty Adapting to Change.* MSMEs often struggle with adapting to rapidly changing market trends and situations. This can be attributed to various factors such as limited resources, lack of access to market information, and sometimes a conservative approach to business operations. The COVID-19 pandemic further exacerbated this challenge by introducing unprecedented disruptions to global supply chains, consumer behavior, and economic landscapes. MSMEs, which are often more vulnerable due to their smaller scale and limited resources, found it particularly challenging to navigate these uncertainties.

To address this, MSMEs need support in building resilience and flexibility into their business models. This includes fostering a culture of innovation, investing in technology and digitalization, and providing access to timely market intelligence. Capacity-building initiatives aimed at enhancing strategic planning, risk management, and agile decision-making can help MSMEs better anticipate and respond to changes in their operating environments.

**Lack of Comprehensive Capability-Building Programs.** Traditional capability-building programs for MSMEs often fall short in meeting their diverse and evolving needs. One-size-fits-all approaches may not be effective, as different contexts require tailored strategies and interventions. For example, MSMEs operating in rural areas may face unique challenges related to infrastructure, access to finance, and skill shortages, which may not be adequately addressed by generic training programs.

Comprehensive capability-building programs should consider the specific context, sectoral characteristics, and growth stage of MSMEs. They should offer a mix of training modalities, including classroom-based learning, mentorship, peer-to-peer networks, and hands-on technical assistance. Furthermore, these programs should be delivered in collaboration with local stakeholders, such as industry associations, academic institutions, and government agencies, to ensure relevance and sustainability.

## Strategies

Ongoing programs and projects are currently in place to tackle the challenges faced by MSMEs in cultivating management and workforce proficiency. Expanding on these endeavors, a comprehensive upskilling strategy plays a vital role in elevating the capabilities of MSME management and employees.

*Table 9. Strategy Goal 3: Knowledge and Skills Upgraded*

Action Plans
<ul style="list-style-type: none"> <li>● Customized MSME learning development programs</li> <li>● Comprehensive MSME technical assistance</li> <li>● Technology-driven MSME skills enhancement.</li> <li>● Targeted HR data collection initiatives</li> <li>● Inclusive entrepreneurship promotion</li> <li>● MSME labor awareness campaigns</li> </ul>

**Customized MSME learning development programs.** Formulate customized learning and development approaches to meet the unique needs of MSME entrepreneurs, including industry-specific knowledge, and ensuring they cover a wide range of relevant topics and skill sets.

Several programs are in place to contribute to this strategy. For instance, the Kapatid Mentor ME (KMME) program stands as a flagship initiative providing invaluable mentorship and business education to micro and small-scale

entrepreneurs. This program goes beyond generic training by delving into industry-specific knowledge, addressing a broad spectrum of relevant topics and skill sets crucial for success across various sectors. By focusing on these specialized areas, MSMEs can hone their capabilities, enhance their market competitiveness, and navigate industry challenges with greater confidence.

***Comprehensive MSME technical assistance.*** Provide comprehensive technical assistance to MSMEs at every stage of the business life cycle, including establishment, operation, and closure, along with the formulation of comprehensive business continuity plans.

The robust technical assistance provided through programs like the Negosyo Center is instrumental in helping MSMEs navigate the intricacies of their operations. As businesses progress through various stages, from initial setup to operational management, they encounter a myriad of challenges, from regulatory compliance to operational optimization. The support offered by the NC and similar initiatives equips MSMEs with the knowledge and resources to address these challenges proactively. This includes guidance on regulatory requirements, best practices in operations management, and strategies for sustainable growth, ultimately enhancing the resilience and competitiveness of MSMEs in dynamic market environments.

Furthermore, the comprehensive nature of technical assistance extends to supporting MSMEs during challenging times, such as business closure or transition phases. By providing tailored guidance and resources, programs like the NC ensure that MSMEs can navigate these transitions smoothly, minimizing disruptions and maximizing the potential for future success. In essence, the holistic approach to technical assistance underscores the commitment to fostering a thriving ecosystem where MSMEs can flourish and contribute significantly to economic growth and innovation.

***Technology-driven MSME skills enhancement.*** Utilize technology and specialized training to enhance the skills and capabilities of MSME workers, enabling them to take on more specialized roles and responsibilities.

In parallel, the DTI recognizes the importance of targeted data collection initiatives to gain a comprehensive understanding of human resource capabilities, including factors such as gender-related parameters. The Philippine Skills Framework serves as a valuable tool in this endeavor, providing a structured approach to assessing and analyzing skill levels across various sectors and demographics. By collecting and analyzing such data, the DTI gains valuable insights into the specific skill sets and training needs of MSME workers. This information becomes instrumental in shaping future capacity-building efforts, ensuring that skills development programs are inclusive, diverse, and

aligned with the evolving demands of industries.

Ultimately, the integration of technology-driven skills enhancement initiatives and targeted data collection strategies underscores the DTI's commitment to fostering a skilled and adaptable workforce within the MSME sector.

**Targeted HR data collection initiatives.** Implement targeted data collection initiatives to gather insights into human resource capabilities, including gender-related parameters, to inform future capacity-building efforts. Through programs like the Philippine Export Competitiveness Program (PECP), which involves seminars and information sessions for exporters, the DTI collects data on the skills, competencies, and demographics of MSME workers, ensuring a holistic understanding of workforce capabilities.

**Inclusive entrepreneurship promotion.** Accelerate the promotion of entrepreneurship and create equal opportunities for all individuals, regardless of gender or background, to participate in MSME development initiatives.

Programs like SheTrades Philippine Hub focus on increasing the capacity and competitiveness of women entrepreneurs, contributing to a more inclusive business landscape. Additionally, MSME labor awareness campaigns advocate for fair labor practices and promote gender sensitivity and equality in the workplace, fostering a conducive environment for sustainable growth and development in the MSME sector.

**MSME labor awareness campaigns.** Conduct advocacy and educational campaigns to increase awareness of labor laws and regulations among MSMEs, and fostering fair labor practices, including the promotion of gender sensitivity and equality in the workplace.

One notable program that supports this Trabaho, Negosyo, Kabuhayan (TNK) Sessions, which not only encourages Overseas Filipinos and their families to invest in MSMEs but also facilitates educational sessions on labor laws and ethical workplace practices. This initiative includes one-on-one consultations, webinars, and seminars that delve into crucial aspects of labor regulations, ensuring MSMEs are well-informed and compliant. Moreover, the Cooperative Development Program (CDP) contributes significantly to fostering fair labor practices and gender equality within cooperatives by providing technical and professional assistance to cooperatives.

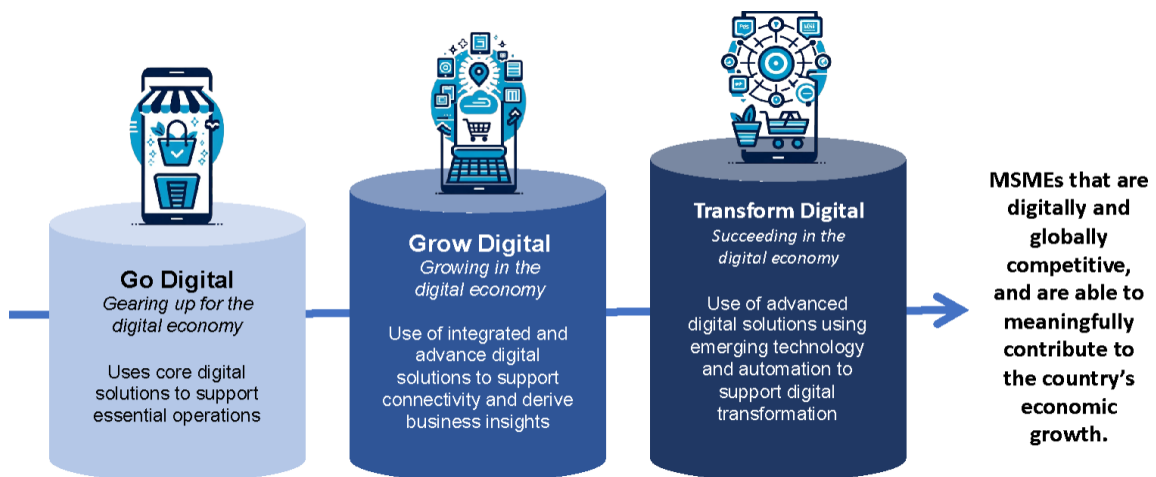


## Strategic Goal 4: Technology and Innovation Accelerated

This strategic goal aims to foster a culture of innovation and entrepreneurship by driving digital transformation and adopting green practices to build resilience, adaptability and sustainability in a rapidly evolving and highly digitalized environment, ultimately enhancing overall productivity and competitiveness. Strategies include accelerating technology integration and innovation to propel MSME growth, leveraging AI capabilities, implementing industry 4.0 principles, and adopting circular economy practices.

Driving digital transformation by accelerating the adoption of technology will increase MSME productivity, while fostering a culture of innovation will enhance MSME competitiveness. Trends toward a rapidly evolving, and highly digitalized environment calls for equipping MSMEs with tools, processes and systems to improve their operational efficiency, broaden their market reach, and adapt to future challenges.

The wide variety of technologies available allow for customized interventions appropriate to the level of digital maturity of MSMEs. The MSME Digitalization Transformation Path illustrates the specific integration of technology to propel MSME growth, starting with the use of core digital solutions to gear up for the digital economy, and culminating with the use of advanced technology for MSMEs to be globally competitive (MSME Digitalization Agenda 2023-2028, DTI).



Source: MSME Digitalization Agenda 2023-2028

## Assessment and Challenges

MSMEs face limiting circumstances such as lack of access to technology, limited R&D capabilities, constraints to digitalization, specific technology requirements per MSME sector, and job loss due to technology upgrades.

*Limited access to technology.* Digital technology adoption among MSMEs in the Philippines remains relatively low. In a survey by ERIA, only 10% of MSMEs in the Philippines are fully digitalized. These businesses make use of digital tools like Enterprise Resource Planning (ERP) – for inventory management, accounting, production scheduling, etc. – and Customer Relationship Management (CRM) software for big data analytics. Meanwhile, in the same survey, only 34% of MSMEs are digitalized to the degree where they use social media or e-commerce platforms. The remaining 56% of MSMEs in the sample use basic digital tools such as email, messaging apps and simple work software.

The COVID-19 pandemic spurred MSMEs to adopt digital technologies, particularly for customer-facing applications. When compared to complex productivity and performance improvement systems like CRM and ERP software, entrepreneurs discovered that customer-facing solutions were easier to implement and more advantageous to use. In a survey by the World Bank, MSME adoption of specific digital technologies were measured. In terms of percentages, MSMEs adoption of social media (60%) and online sales/payment solutions (70%) use outpace back-end ERP (20%) and CRM (30%) software<sup>5</sup>.

*Lack of access to fast satellite internet.* Connectivity impacts MSMEs differently depending on availability of infrastructure. Metropolitan areas provide sufficient physical and digital connectivity with the wide availability of freight ports and wireless internet connection. As such, MSMEs in developed areas can maximize the opportunity for digitalization and logistics integration. On the other hand, rural and remote areas – which comprise the vast majority of the Philippine archipelago – struggle with even basic road networks and electric connections.

The UN Broadband Commission has 2025 Broadband Advocacy Targets, among them Advocacy Target 6 focuses on improving the connectivity of MSMEs by 50%. While the UN Broadband Commission recognizes that disaggregated data by enterprise size is not widely available. The Philippines can approximate business connectivity data with the 2019 National ICT Household Survey<sup>6</sup>. It found that 51.6% of Filipinos use their internet connection for “work/business”. This could still be improved as it lags “social media”

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<sup>5</sup> Covid-19 Firm Survey (2021-2022), World Bank

<sup>6</sup> Expanded Data Analysis and Policy Research for National ICT Household Survey 2019, PIDS

(90.2%), “entertainment” (67.1%) and “studies” (66.4%).

The introduction of affordable satellite internet presents a crucial advancement in bridging the digital gap for MSMEs, especially those in remote regions. This high-speed connection facilitates various business operations, offering faster broadband speeds for activities like streaming, video conferencing, and online transactions. Additionally, satellite technology ensures reliable internet access regardless of location, enabling remote connectivity. With satellite internet, MSMEs can enhance their overall business operations by: (a) establishing a stronger online presence, reaching broader audiences and expanding market reach; (b) improving operational efficiency through streamlined processes and enhanced communication; and (c) capitalizing on e-commerce platforms to sell products and services online, creating new revenue streams and growth opportunities.

## Strategies

Challenges, along with the opportunities presented by the fast-changing digital era and ongoing efforts to support technology and innovation of MSMEs from the government and private sector, help identify key action plans to support its implementation. The strategies are outlined below.

*Table 10. Strategic Goal 4: Technology and Innovation Accelerated*

Action Plans
<ul style="list-style-type: none"><li>● Digitalization and improving AI capacities of MSMEs</li><li>● Establish Innovation Hubs and Support Facilities</li><li>● Support MSME-Large Corporations Ventures/Partnerships and Industry Clustering and Ecozones for MSMEs</li><li>● Create Financing Facilities to support Technology Acquisition and Increase funding for R&amp;D</li><li>● Incentivize Innovation and Circular economy adoption</li></ul>

***Digitalization and improving AI capacities of MSMEs.*** DTI developed the MSME Digitalization Agenda to create a cohesive strategy with customized support for MSMEs' adoption of digital technology. The MSME Digitalization Agenda pushes a holistic and whole-of-society approach by addressing various factors affecting MSMEs' digital technology adoption. It promotes AI and cutting-edge business solutions, enhances digital skills, and promotes the marketability of innovative MSMEs. Specifically for accelerating technology and innovation, it engages key stakeholders to rollout campaigns, trainings to address MSMEs fears and perceived risks from using digital technology, and to explore new business models to cope with increasing demand and market expansion.



The MSME Digitalization Agenda is bolstered by legislative support, such as the Internet Transactions Act of 2023 (RA 11967), by ensuring a robust e-commerce environment. Moreover, pilot factories demonstrating Industry 4.0 practices serve as learning centers, encouraging technology adoption among MSMEs, fostering competitiveness, and facilitating job creation. DTI hosting the “Mindfacturing and Creativity Summit” and initiatives like Centers for Artificial Intelligence Research (CAIR) aim to accelerate technological innovation and strengthen the country's position in AI research and development.

Lastly, a dedicated technology assistance portal acts as a centralized resource hub, offering MSMEs access to information, expert support, and government funding programs tailored to technology adoption needs.

***Establish Innovation Hubs and Support Facilities.*** Promote nationwide establishment of Fab Labs, digital laboratories pioneered by the Massachusetts Institute of Technology in 2001 to assist grassroots communities in translating design ideas into physical forms using technology. The first Fab Lab in the Philippines, located in Bohol, supports local innovation and enhances MSME competitiveness, facilitating co-creation and collaboration between academia, industry, and government. These facilities foster the development of new products, value addition, income generation, and low-cost solutions to community challenges. Currently spanning sixteen regions, DTI's Fab Labs contribute to inclusive innovation-led industrial strategy, leveraging local expertise to drive nationwide innovation.

Boost regional innovation through Regional Inclusive Innovation Centers (RIICs), collaborative networks aiming to commercialize market-oriented research and enhance regional competitiveness. RIICs unite various innovation agents including industries, universities, government agencies, startups, MSMEs, and investors to stimulate employment, entrepreneurship, and sustainable economic growth. DTI's RIIC initiative fosters a vibrant network of creative communities and innovative entrepreneurs, integrating the nation's innovation and entrepreneurial ecosystem.

Reinforce local creativity and innovation through the Center for Innovation and Technology for Enterprises (CITE) Incubator Facility or Marikina Creative and Innovation Hub. This hub promotes Philippine creative industries by providing a conducive resource center and integrated venue for startups and businesses in the creative sector, fostering collaboration, entrepreneurship, and innovation. With six major functions including exhibition spaces, makerspaces, co-working spaces, and business support services, the hub aims to become a leading force in Philippine creativity and innovation.

***Support MSME-Large Corporations Ventures/Partnerships and Industry Clustering and Ecozones for MSMEs.*** The DTI's collaboration with Google, SeeMeCV, and Jollibee signifies a concerted push for digital infrastructure, talent development, and MSME empowerment and mentoring in the Philippines. Through initiatives like the GCC program, individuals are equipped with industry-relevant skills, addressing workforce needs and fostering competitiveness. Similarly, partnerships with SeeMeCV streamline recruitment processes, while the alliance with Jollibee demonstrates DTI's commitment to supporting MSMEs, driving economic growth. Similarly, the collaboration with KIAT aims to automate export product qualification verification, aligning with the Philippine Innovation Act to establish innovation centers and facilitate technology transfer. Additionally, in line with BOI's 2022 SIPP, the project establishes innovation support facilities to enhance MSMEs' international competitiveness and promote the utilization of Philippine FTAs and trade arrangements.

***Create Financing Facilities to support Technology Acquisition and Increase funding for R&D.*** The Venture Financing Program (VFP), part of DOST-TAPI's initiatives, accelerates the commercialization of innovative technologies for technology-based MSMEs. Through accessible financing mechanisms, technopreneurs receive funding opportunities covering 70% of the project cost, up to a maximum of ₱2,000,000. Simultaneously, the LANDBANK-TAPI I-Tech Lending Program complements this effort by providing special lending windows for Filipino inventors authorized to use their patents, facilitating commercial production of patented inventions.

Furthermore, the Philippine Innovation Act promotes innovation development through the Innovation Development Credit and Financing program, allocating a minimum of 4% of total loanable funds for innovation-driven initiatives encompassing new technologies, product and process innovations, organizational changes, and marketing innovations in line with the National Innovation Agenda for Sustainable Development (NIASD).

***Incentivize Innovation and Circular economy adoption.*** Establishing circular economy (CE) pilot factories and businesses within the MSME sector presents a strategic approach to promoting sustainability while fostering economic growth. These pilot enterprises serve as practical examples of how businesses can integrate circular economy principles into their operations. By focusing on activities such as resource recovery, upcycling, waste reduction, and implementing Product-as-a-Service Models, these businesses demonstrate innovative ways to minimize environmental impact while maximizing resource efficiency.

Moreover, by fostering collaborative partnerships and addressing challenges encountered, these pilot initiatives provide valuable insights and learning opportunities for other MSMEs looking to embrace circular economy practices. Investing in CE pilot businesses not only aligns with environmental goals but also positions MSMEs to gain a competitive edge in a rapidly evolving market where sustainability is increasingly valued.

Ultimately, these initiatives contribute to building a more resilient and sustainable economy while addressing pressing environmental challenges.



## Strategic Goal 5: Domestic Market Optimized

This strategic goal is dedicated to unlocking the immense potential of the Philippine domestic market for MSME growth and success. By addressing challenges related to market access, marketing, and regulations, and by promoting collaboration and partnerships, it aims to create a thriving local ecosystem wherein MSMEs can make significant contributions to economic development and job creation.

### Assessment and Challenges

*High Market Entry Costs.* MSMEs, especially micro and small enterprises, often face formidable barriers to market entry due to prohibitively high costs. Addressing this issue is not merely an economic challenge but one of equity and inclusion. Rural MSMEs are particularly disadvantaged, struggling with communication and connectivity issues, and logistical challenges in marketing their products, sourcing raw materials, and managing inventory. Additionally, they have limited access to capital and financing needed for crucial investments in equipment, marketing, and inventory necessary to penetrate new markets. Complex and time-consuming regulatory processes further dissuade new entrants, hamper productivity, and stifle innovation. Infrastructure deficiencies such as unreliable transportation, communication networks, and storage facilities pose significant logistical impediments, particularly for rural MSMEs. Limited access to market information and best practices exacerbates information asymmetry, placing MSMEs at a disadvantage compared to larger competitors.

*Lack of Capital and Skills for Digitalization.* MSMEs face significant hurdles in adopting digital technologies and logistics apps due to several factors. The costs of subscriptions or licenses for these apps can be substantial, making them less accessible for smaller enterprises. While app-based services can be cost-effective, they may not always be the best choice for smaller shipments. Connectivity issues and service availability can also pose challenges, as the reach and reliability of these services can vary by location. Managing and integrating multiple applications for different needs can be complex, requiring efficient management strategies to ensure seamless operations.

*Underdeveloped Halal Market.* Despite substantial domestic demand, the Halal market in the Philippines remains largely underdeveloped. This untapped opportunity is driven by a growing Muslim population and increasing demand for certified Halal goods. The Philippines imported USD 120 million worth of Halal products in 2022, underscoring the potential for local producers to fill this gap. However, MSMEs face challenges in capitalizing on this market due to a lack of

infrastructure, knowledge, and certification processes needed to produce and distribute Halal products domestically.

*Technological and Logistical Barriers.* While advancements in app-based logistics and delivery services offer potential benefits, MSMEs face significant challenges in accessing and utilizing these technologies effectively. High subscription costs, connectivity issues, and the complexity of managing multiple applications can hinder MSMEs from fully leveraging these tools. Additionally, the logistical challenges of ensuring reliable, efficient, and cost-effective delivery solutions remain a significant barrier for many small enterprises.

*Limited Marketing Capabilities.* MSMEs often struggle with formulating effective marketing strategies due to a lack of resources and expertise. They face challenges in embracing digital marketing, leveraging social media, and executing comprehensive marketing campaigns. Additionally, they may lack the skills to craft persuasive messaging, measure campaign effectiveness, and adapt strategies based on data-driven insights. This limitation hampers their ability to reach and engage target audiences effectively.

*Difficulty in Meeting Market Standards.* Meeting international quality and standards compliance poses a significant challenge for MSMEs. Acquiring industry certifications such as ISO standards, HACCP, Halal, and FDA registration requires substantial investment and expertise. The complexity of the certification process, along with the need for improved labeling practices and compliance with regulatory requirements, can be daunting for small enterprises. This challenge limits their ability to access new markets and compete on a global scale.

*Challenges in E-commerce Enablement.* While e-commerce presents vast opportunities for market expansion, MSMEs often face difficulties in effectively utilizing these platforms. Understanding the functionalities, fees, and marketing strategies of various e-commerce platforms can be complex. Additionally, creating compelling product listings, managing online stores, and developing effective digital marketing strategies require skills and resources that many MSMEs may lack. These challenges hinder their ability to maximize the benefits of e-commerce and reach broader audiences.

*Connecting with Domestic Buyers.* Establishing connections with domestic buyers remains a significant challenge for MSMEs. Despite the potential benefits of a dedicated online platform to facilitate product discovery and transactions, many MSMEs struggle with limited access to market insights, data analytics, and networking opportunities. Integrating Industry 4.0 technologies and fostering collaboration among government agencies, private sector stakeholders, and the MSME community is crucial but challenging. Overcoming these barriers is essential for MSMEs to expand their market reach and enhance

their competitiveness within the domestic market.

## Strategies

Optimize access to the extensive potential of the Philippine domestic market by addressing challenges such as market entry barriers, ineffective marketing strategies, and regulatory compliance issues. Equip MSMEs with comprehensive market data and insights to empower them to capitalize on both local and global business opportunities.

*Table 11. Strategic Goal 5: Domestic Market Optimized Framework*

Action Plans
<ul style="list-style-type: none"><li>● Expand Regional MSME Support</li><li>● Enhance Business-Matching Platforms</li><li>● Upgrade Logistics Infrastructure</li><li>● Facilitate E-commerce Adoption</li><li>● Promote Market Compliance</li><li>● Institutionalize OTOP Policies</li></ul>

***Expand Regional MSME Support.*** Expanding support for MSMEs across diverse regions is vital for inclusive economic growth. The Go Lokal! initiative by the Department of Trade and Industry (DTI) in the Philippines exemplifies this strategy. Go Lokal! empowers MSMEs by providing retail space in high-traffic areas, such as malls and tourist destinations, without the burden of high overhead costs. It also offers targeted assistance in product development, marketing, and compliance with regulations, ensuring MSMEs in all regions have access to necessary resources and opportunities.

***Enhance Business-Matching Platforms.*** Business-matching platforms facilitate strategic partnerships and collaborations among MSMEs. Programs like Kapatid Mentor ME (KMME) mentor micro and small entrepreneurs, linking them to the value chain of medium and large corporations through inclusive business models. This mentorship focuses on developing business acumen and confidence, enabling MSMEs to sustain and scale their enterprises.

***Upgrade Logistics Infrastructure.*** Improving logistics infrastructure ensures the seamless transportation of goods, timely market data, and efficient local supply chain connections. The Shared Service Facilities (SSF) Project, managed by regional and provincial offices, increases MSME productivity and competitiveness by providing access to shared machinery and equipment. These facilities support a wide range of industries, from abaca processing to renewable energy, enhancing MSME capabilities across the board. Recent

advancements in apps-based logistics and delivery services are driving a notable transformation in the way MSMEs operate. These innovative platforms offer convenience, flexibility and cost-effective solutions, empowering even small businesses to compete in a fast-paced market.

***Facilitate E-commerce Adoption.*** Adopting e-commerce platforms is crucial for MSMEs to reach broader markets. The DTI's CTRL BIZ program supports MSMEs in establishing online stores, managing inventory, and processing online payments. By providing training and access to marketing platforms, the program helps MSMEs enhance their online presence and visibility, connecting them with new customers through social media, online marketplaces, and digital marketing strategies.

***Promote Market Compliance.*** Ensuring compliance with market standards is essential for MSMEs to compete effectively. The OTOP Next Generation project offers comprehensive assistance in product development, online marketing, standards compliance, and training. This project aims to alleviate poverty by promoting profitable goods and services, thereby developing MSMEs, creating jobs, and stimulating both local and international trade.

***Institutionalize OTOP Policies.*** The One Town, One Product (OTOP) policies aim to promote products unique to various towns and regions, fostering local entrepreneurship and preserving cultural heritage. Institutionalizing OTOP policies provides MSMEs with consistent support in product development, marketing, and compliance, ensuring that local products meet national and international standards.

The DTI will revamp the OTOP Program, expanding its scope and concept to promote inclusive growth and the advancement of local businesses, particularly micro, small, and medium enterprises (MSMEs). The revamped OTOP program now includes all products and services locally produced across the 16 regions of the Philippines. To ensure its successful implementation, DTI will launch an extensive information campaign highlighting the benefits of the OTOP program. This campaign will help communities identify, develop, and promote diverse products and skill-based services by establishing avenues for MSMEs to showcase Filipino products and services. To support this objective, the following facilities will be established:

### **1. OTOP Retail and Learning Center**

The OTOP Retail and Learning Center aims to transform the existing 330 OTOP Stores nationwide into multifaceted hubs. These centers will offer mentoring and learning sessions, and host various meetings within the store. Participants can explore and purchase OTOP products during their

visits and learning sessions. Additionally, the center provides a platform for entrepreneurs to present and showcase their existing and new products to potential buyers, fostering local and regional market exposure.

This business model will be implemented across all OTOP stores in the country, establishing a pioneering initiative in Asia. This model could also be shared with other ASEAN countries, promoting regional collaboration and development. The OTOP logo reflects the vibrancy of the Philippines, enhancing brand recognition.

## 2. OTOP Grand Food Hall

The OTOP Grand Food Hall will be launched in prime malls, starting with One Ayala Mall in Makati City. This unique food court will exclusively feature Filipino cuisine and delicacies, showcasing the finest food MSME products from Luzon, Visayas, and Mindanao. Inspired by the Icon Siam Food Hall in Bangkok, Thailand, the OTOP Grand Food Hall aims to attract both Filipinos and tourists, offering authentic dishes from various regions of the Philippines.

## 3. OTOP Lifestyle Store

The OTOP Lifestyle Store will be located in a mall, providing a venue for MSMEs to showcase their finest food and non-food products. These include home products, furniture, lighting, jewelry, bags, shoes, fabrics, and fashion items. Local and foreign buyers can visit this store to view and purchase high-quality products from various regions of the Philippines, with the potential to strengthen both local and global sales.

## 4. DTI-Bagong Pilipinas Marketplace

The DTI-Bagong Pilipinas Marketplace will be established as the largest B2B e-commerce platform for Philippine products. This platform will enable MSMEs to reach a global audience, facilitating bulk transactions and fostering international trade. By providing a comprehensive digital marketplace, the DTI-Bagong Pilipinas Marketplace will offer an extensive range of features, including secure payment systems, logistics support, and marketing services. This initiative will significantly enhance the visibility and accessibility of Filipino products, making them competitive on a global scale.





## Strategic Goal 6: Global Markets Penetrated

This strategic goal focuses on empowering MSMEs to tap into the vast potential of global markets and emerge as successful international players. By addressing challenges related to international market access, competitiveness, and risk management, and by fostering partnerships and networks, it aims to contribute to the diversification and growth of the Philippine economy by promoting the success of MSMEs in the global arena.

### Assessment and Challenges

*Below Par Export Volume Compared to ASEAN Neighbors.* Despite a 21% increase in Philippine exports, the participation of MSMEs in exporting has only grown by 2%. Over the past 21 years, while the country's export earnings have nearly doubled, the exports of neighboring ASEAN countries have multiplied by three to over twenty-three times. This disparity highlights a missed opportunity for MSMEs to tap into the expanding international market, especially in high-potential sectors like halal food, which is valued at USD 2.22 trillion and projected to reach USD 4.18 trillion by 2028.

To address this challenge, it is essential to build MSMEs' capacity through training on international trade regulations and export marketing strategies. Participation in trade fairs and exhibitions can provide MSMEs with the exposure needed to enter new markets. Additionally, tailored financial assistance for export activities, such as grants or subsidies, can help MSMEs cover the costs of certification and compliance. Support for logistics and compliance with international halal export standards is also crucial to help MSMEs meet global requirements and improve their competitiveness.

*Uncaptured Global Markets.* In 2021, only around 3,700 Philippine exporters accessed new markets. From 2016 to 2021, the country managed to export only 1,696 new product lines and tapped into seven new markets. This limited expansion underscores the immense growth potential for Philippine MSMEs to penetrate new global markets. Focusing on halal food as an example, Philippine MSMEs are well-positioned to succeed in the halal market within ASEAN countries due to several factors. The favorable demographics, with a Muslim population exceeding 10 million, provide an inherent understanding of halal requirements and preferences. Lower production costs enable competitive pricing compared to established halal exporters. However, currently, there is limited participation of Philippine MSMEs in the international halal trade. The Philippines' membership in strategic economic communities like the ASEAN Economic Community (AEC) and the Asia-Pacific Economic Cooperation (APEC) also provides opportunities to leverage vast markets for halal-certified

products. To overcome these challenges, MSMEs need technical guidance to meet international standards and obtain product certifications, enhancing product quality and market access. Conducting export readiness assessments and market research can help MSMEs identify and capitalize on new opportunities. Facilitating participation in trade missions, business matching events, and industry associations can help MSMEs build connections and gain market insights.

*Enhanced Market Access Support.* Export regulations and procedures can be daunting for MSMEs, potentially hindering their entry and profitability in foreign markets. The government can play a pivotal role by offering comprehensive capacity-building and skills development programs covering various aspects. Simplifying the understanding of key export concepts and providing training on the effective use of digital platforms can expand market reach. Equipping MSMEs with tools to identify and select the best markets for their products, developing robust marketing and sales strategies, ensuring compliance with international standards, and providing guidance on the necessary export documentation are crucial steps. Additionally, training on efficient logistics and supply chain practices and enhancing cross-cultural communication and negotiation skills can empower MSMEs to navigate the complexities of global trade and effectively compete in international markets.

*Mentorship, Coaching, and Networking.* MSMEs also require personalized guidance through mentorship and coaching, connecting them with experienced export professionals for tailored advice and support. Providing insights and research to help MSMEs understand market dynamics, and facilitating trade missions and business matching events, can help MSMEs build valuable connections. These networking opportunities are essential for gaining market insights and enhancing overall export capabilities.

*Enhancing Standards and Market Reach through International Certifications.* Offering technical support for MSMEs to obtain certifications such as ISO standards, HACCP, and Halal certifications is another significant challenge. Embracing these standards yields numerous advantages, including improved operational efficiency, enhanced product quality and safety, access to new markets, and bolstered national reputation by promoting industry self-regulation and preventing fraudulent certifications. Providing tailored support to MSMEs, including guidance on standards selection, gap analysis, implementation assistance, and post-certification support, can help them meet these certification standards and maintain compliance.

*Technical Assistance on E-commerce.* The e-commerce landscape holds vast potential for Philippine MSMEs to access international markets, yet it presents challenges that need to be addressed. Specialized technical assistance can empower MSMEs with the necessary skills, including mastering the features,

fees, and marketing strategies of global e-commerce platforms. Crafting compelling product descriptions, using high-quality images and keywords, and understanding international shipping regulations are critical components. Additionally, implementing effective digital marketing strategies and leveraging social media for international marketing are essential skills for MSMEs to thrive in this digital arena.

*Trade with the ASEAN Economic Community (AEC).* Engaging in trade with the AEC presents a golden opportunity for Philippine MSMEs to expand businesses, access new markets, and boost regional economic growth. However, to optimize trade with the AEC, MSMEs need government support in various crucial aspects. Streamlining customs procedures, providing clarity on market regulations, and implementing export promotion programs are essential steps. Training in marketing, e-commerce, and cross-cultural communication is imperative for their competitiveness within the AEC market. Participation in international trade fairs and business matching events, along with financial assistance in terms of access to funding and financing options, plays a pivotal role in supporting their expansion initiatives and investment endeavors.

## Strategies

Recognizing the challenges related to international market access, promoting the MSMEs in the global arena requires strategic efforts to empower them to embrace the massive opportunities the global market can offer. This outlines action plans to help the MSMEs emerge as successful international players.

*Table 12: Global Markets Penetrated Framework*

Action Plans
<ul style="list-style-type: none"> <li>● Promote regional industrialization to enhance MSMEs' integration into global value chains</li> <li>● Create a comprehensive trade services framework to maximize trade agreement benefits</li> <li>● Provide timely and relevant market data to help MSMEs identify new opportunities, connect with global supply chains, and access e-commerce platforms</li> <li>● Encourage MSMEs to adhere to international standards and obtain certifications</li> <li>● Facilitate MSMEs' participation in international trade events to showcase products, connect with buyers, and explore global partnerships</li> <li>● Enhance MSMEs' digital capabilities and leverage social media for global marketing and promotion</li> </ul>

***Promote regional industrialization to enhance MSMEs' integration into global value chains.*** Regional industrialization initiatives will be promoted to strengthen MSMEs' integration into global value chains, and awareness campaigns should be conducted to highlight the benefits of exporting for MSMEs, with incentives offered to those demonstrating export potential.

International standards and certifications are a priority in engaging in international trade. The majority of the MSMEs who are targeting to engage in international trade have always been lacking in information about the protocols and documents required for a specific export market. The government develops programs like the Doing Business in Free Trade Area (DFTA) that is designed to increase general awareness of MSMEs, government officials, civil society, and members of the academe and media about the benefits of the Free trade agreements (FTAs) and generalized scheme of preferences (GSP) as well as ASEAN integration. This program conducts massive information sessions on the country's existing FTA agreements covering market opportunities, tariff reductions, rules of origin and customs procedures. This program is designed to encourage the international business community that doing business in the Philippines is a lucrative option.

Philippine Export Competitiveness Program (PECP) is DTI-EMB's umbrella undertaking that seeks to boost the competitiveness stance of our domestic manufacturers and exports through seminars, information sessions, and activities that give them insights on productivity, innovation, and updates on export trade.

***Create a comprehensive trade services framework to maximize trade agreement benefits.*** Establishment of a comprehensive framework for trade services to maximize the utilization of trade agreements and facilitate international market access for MSMEs will be pursued. The Philippine Halal Export Development and Promotion Program (the Halal Program) stands as a strategic initiative to propel the Philippines into the global halal market. It functions as a comprehensive framework designed to cultivate a robust domestic halal industry and bolster the export of Philippine halal products. As such, said program shall provide the policy, regulatory, and coordinative structures and mechanisms for the promotion and export of Philippine Halal products. It will likewise institute measures that will ensure compliance and integrity of producers, manufacturers and providers of Halal products and services to national and international counterparts.

***Provide timely and relevant market data to help MSMEs identify new opportunities, connect with global supply chains, and access e-commerce platforms.*** The availability of timely and relevant market data should be ensured to assist MSMEs in identifying new business opportunities, connecting with

global supply chains, meeting diverse market requirements, and accessing e-commerce platforms. Data and statistics have been an important tool for the MSMEs to further engage their interest towards international engagement. The government through the DTI – Export Marketing Bureau’s Tradeline Philippines engages MSMEs and its stakeholders to be familiar on export trade-related information which aims to enable Philippines Business to make more strategic decisions on exporting, such as statistics, export guidebooks, export/supplier and buyer databases, market and product information and PH preferential trade agreements. The information in this website greatly helps in aiming for MSMEs who are well prepared in the international scene.

***Encourage MSMEs to adhere to international standards and obtain certifications.*** Assisting MSMEs to comply with international standards and obtain relevant certifications will enhance their credibility and competitiveness in global markets. There are programs of the government that lead to MSMEs obtaining the substantial qualifications and certifications to introduce their products to the global market and compete with the rest of the world. One of these programs is brought by the Department of Trade Industry – Export Management Bureau’s ARISE Plus Philippines which aims to foster inclusive economic growth in the Philippines through improved international trade performance and competitiveness as well as economic integration. It will focus as a priority on enabling the Philippine to take advantage of EU market access and of the trade privileges granted under the Generalized System of Preference (GSP+) as well as support the overall EU-Philippines trade relations and trade-related policies.

Additionally, the government also offers the Enterprise to Export Development Pathway which aims to assist exporters and potential exporters to have knowledge in diversifying export markers that MSMEs can compete globally based on quality, quantity and prices. The MSMEs will also have a chance to improve market access with existing production and export capacities, but there will be limitations on market access due to the inability to meet market requirements. The government will also help the MSMEs identify factors that can lead to an increase in export scale and scope for MSMEs with limited production and research and development.

***Facilitate MSMEs' participation in international trade events to showcase products, connect with buyers, and explore global partnerships.*** The government through the Center for International Trade Expositions and Missions (CITEM) conducts merchandise/technical consultancy programs for MSMEs who are willing to engage in international trade events and fairs. CITEM taps both local and foreign consultants to ensure the steady growth of manufacturers in merchandise development. The integrated technical and merchandise consultancy programs are undertaken in cooperation with funding agencies.

CITEM also continues its cooperation and networking with other relevant government agencies and private institutions. CITEM also organizes trade participation in selected trade fairs abroad, which opens valuable leads for Philippine exporters and provides opportunities for them to expand their market by introducing Philippine-made products and services directly to buyers and investors worldwide. CITEM organizes local and international trade fairs showcasing the Philippines' finest products and services. It also spearheads Philippine participation in overseas trade fairs. This is spearheaded by their MANILA Fame event and their International Food Exhibition (IFEX) Philippines conducted yearly.

***Enhance MSMEs' digital capabilities and leverage social media for global marketing and promotion.*** MSMEs with an online presence gain a significant advantage in promoting their products to the global market. This online space acts as a virtual storefront, accessible to anyone with an internet connection, shattering geographical limitations. Customers worldwide can discover unique products, fostering a platform for international sales. Additionally, social media and online marketing tools allow MSMEs to directly connect with potential customers, showcasing their products, brand story, and building relationships across borders. This not only increases brand awareness but also allows for targeted marketing efforts towards specific demographics or regions with an interest in their offerings. Overall, a strong online presence empowers MSMEs to compete on a global scale, reaching a wider audience and driving international sales.

To strengthen the online presence of MSMEs, the government has established two noteworthy e-commerce platforms that can be utilized. First is the *Philippine E-Commerce Platform (PEP)* managed by the National Development Company, it is the first government-owned platform launched in 2023. PEP focuses on promoting Filipino products and MSMEs across the country and abroad. It prioritizes businesses registered with DTI and other government agencies for added consumer protection.

The OTOP B2B Marketplace is another platform poised to become the robust B2B e-commerce platform dedicated to Philippine MSMEs' products and services. It will serve as an e-commerce site where businesses, both local and international, can seamlessly connect with Filipino MSME suppliers. This will encourage MSMEs to explore wholesale business, driving their growth and expansion into broader markets.

Another project is the oneSTore.ph run by the Department of Science and Technology which connects Filipino consumers with products made by DOST-assisted MSMEs. These two platforms are a start of assisting Philippine MSMEs in increasing their presence online and adopting digitalization in the Philippine

setting.

### C. Cross-cutting Strategies

Below are seven cross-cutting strategies that must be pursued to align with PDP 2023- 2028. These strategies are vital for addressing the challenges facing Philippine MSMEs and securing their long-term viability. They are significant because they have a broad impact across three key domains:

#### Expedite Digitalization

Digital technology adoption among MSMEs in the Philippines remains relatively low. In a survey by ERIA, only 10% of MSMEs in the Philippines are fully digitalized<sup>7</sup>. These businesses make use of digital tools like Enterprise Resource Planning (ERP) – for inventory management, accounting, production scheduling, etc. – and Customer Relationship Management (CRM) software for big data analytics. Meanwhile, in the same survey, only 34% of MSMEs are digitalized to the degree where they use social media or e-commerce platforms. The remaining 56% of MSMEs in the sample use basic digital tools such as email, messaging apps and simple work software.

The COVID-19 pandemic spurred MSMEs to adopt digital technologies, particularly for customer-facing applications. When compared to complex productivity and performance improvement systems like CRM and ERP software, entrepreneurs discovered that customer-facing solutions were easier to implement and more advantageous to use. In a survey by the World Bank, MSME adoption of specific digital technologies was measured. In terms of percentages, MSMEs adoption of social media (60%) and online sales/payment solutions (70%) use outpace back-end ERP (20%) and CRM (30%) software<sup>8</sup>.

Expediting digitalization is integral to the MSMEDP 2023-2028 strategic goals, as follows:

- **MSME Environment**: E-government enhances business climate by automating frontline government services, reducing regulatory burdens and re-builds trust in the bureaucracy. Digital finance tools enable cashless transactions and better financial inclusion. Digitalization also

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<sup>7</sup> Study on MSMEs Participation in the Digital Economy in ASEAN, ERIA

<sup>8</sup> Covid-19 Firm Survey (2021-2022), World Bank

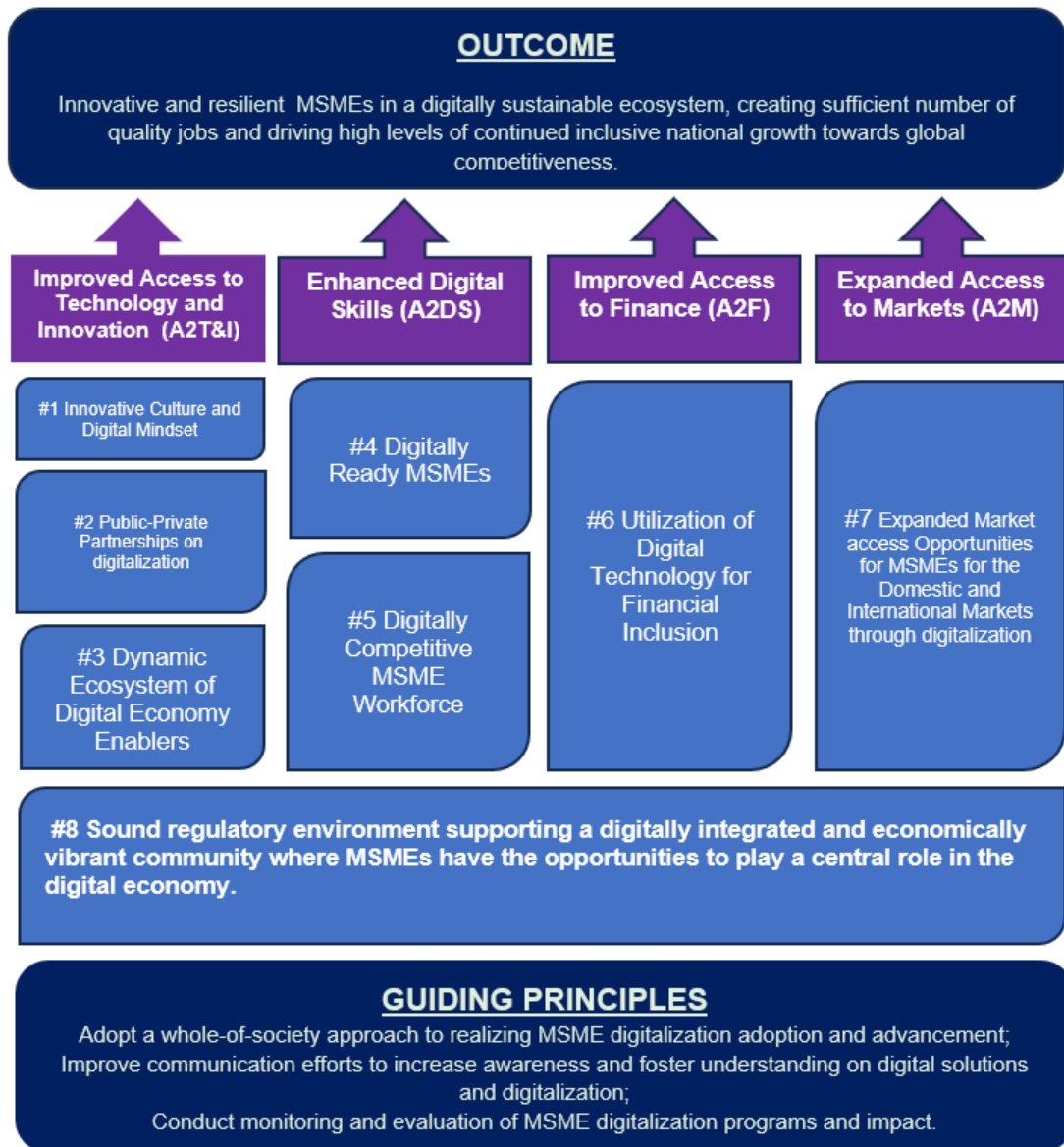
enables financial institutions to gather more data to determine the creditworthiness of MSMEs.

- MSME Competencies: Digital literacy and competence is fundamental in enabling entrepreneurs and their employees to utilize digital tools. Digital technology likewise enables MSME enablers to expand the reach of capacity building. Digital tools, such as ERP and CRM, significantly improve business operations.
- MSME Prospects: Onboarding MSMEs to e-Commerce platforms or integrating into supply chains of online consolidators enable better market access across the Philippines. Online international trade repositories provide MSMEs with clear information on regulations for cross-border transactions.

Leveraging the ecosystem of MSME digital enablers requires public-private partnerships. Big tech players, such as leading e-commerce platforms, business incubators and accelerators, and technology providers to facilitate MSME adoption of digital technologies. Development partners can likewise accelerate advancements that showcase the value of technology in MSMEs such as the use of Artificial Intelligence, Big Data, Automations, and Cloud Computing to drive operational efficiencies and develop new business models across industries. Building an innovation culture and digital mindset will employ the rollout of advocacy activities to address MSMEs perceived risks from using digital technologies and explore new business models to cope with increasing market demand. There is likewise a need to align international digital trade standards (such as the ASEAN Digital Economy Framework Agreement (DEFA) for both B2C and B2B business models.



**The MSME Digitalization 4-Point Strategic Goals and 8-Point Agenda**



**Enhance Connectivity**

The UN Broadband Commission’s 2025 Broadband Advocacy Targets include Target 6 which focuses on improving the connectivity of MSMEs by 50%. It acknowledges the lack of disaggregated data by enterprise size. However, the Philippines can use data from the 2019 National ICT Household Survey, which found that 51.6% of Filipinos use their internet connection for “work/business,” lagging “social media” (90.2%), “entertainment” (67.1%), and “studies” (66.4%).

Internet connectivity has been measured to have profound contribution to economic development. The International Telecommunication Union found that both fixed broadband and mobile broadband contribute significantly to

GDP growth<sup>4</sup>. Particularly in developing countries, for every 1% increase in mobile broadband penetration, GDP increased by 0.20%. As such, the importance of enhancing connectivity to support MSMEs cuts across the MSMEDP 2023-2028, with the following policy thrusts:

- **MSME Environment**: Inter-operability between and among online government service platforms will facilitate easier business registration, tax payment, and compliance to certifications or licenses. Reducing the regulatory burden in freight forwarding will likewise promote business activity. Connectivity contributes to a more robust credit information system to provide banks more data on MSME creditworthiness.
- **MSME Competencies**: Remote learning, knowledge exchange, and easier access to expert consultation and support services will diversify MSMEs options for capacity building. Internet connectivity will enable the adoption of Internet of Things (IoT) to automate manufacturing processes. Wider networks of innovation collaborators are likewise available with enhanced connectivity.
- **MSME Prospects**: Establishment of transportation infrastructure – such as farm-to-market roads, deep seaports, and domestic airports – will enhance mobility of raw materials, intermediate goods and final products across the economy. Enhanced connectivity facilitates cross-border trade and international market information-sharing.

National government, through Public-Private Partnership (PPP) projects, is largely responsible for infrastructure spending. The DICT has taken the lead in establishing internet connectivity in government. DTI has partnered with both DOTr and DPWH in ensuring logistics efficiency to support agribusiness, manufacturing centers, cold chain storages, among others. Measures to streamline accreditation requirements for the freight forwarding sector must be pursued to facilitate the flow of goods, which ultimately benefit MSMEs. The private sector has been a partner in contributing to enhanced internet and supply chain connectivity of MSMEs through initiatives that promote cost-efficient business solutions, such as the internet enterprise packages or financing terms for delivery vehicles.

### **Enable Transition to Service-Oriented Models**

A strategic approach that integrates services into manufacturing and other sectors, fostering innovation, competitiveness, and sustainable growth. Also known as “servicification” introduced in the Philippine Development Plan 2023-2028, refers to the building of ecosystems around manufacturing

clusters to enhance growth and adaptability. Priority areas for this strategy will focus on specific manufacturing clusters that can be high growth. These clusters will serve as hubs for innovation and value creation. The ICT industry is By integrating digital services, software development, and data analytics, the ICT sector can move up the global value chain. Creative industries, including design, media, and entertainment, can benefit from the strategy. These sectors contribute to economic growth and cultural development. Enhancing tourism services can boost the overall industry. By providing high-quality experiences and leveraging digital platforms, the tourism sector can attract more visitors. Efficient logistics services are crucial for trade and commerce and can improve supply chains and enhance competitiveness.

- MSME Environment. Encourage the transition to high-value, knowledge-based services, fosters innovation, and diversification within the MSME sector, supporting priority areas of manufacturing, ICT, creatives, tourism and logistics.
- MSME Competencies. Embracing digital tools, automation, and data analytics can enhance productivity. MSMEs can benefit from collaboration within industry clusters. Shared knowledge, joint initiatives, and collective problem-solving enhance competitiveness. Engaging with larger enterprises can provide access to resources, markets, and expertise. Large companies can help MSMEs build scale-related competencies.
- MSME Prospects. Transitioning to service-oriented models positions the Philippines within the global value chain by adding value through services. This strategic shift allows the country to compete internationally, attract investment, and create higher profit margins. By embracing services, businesses gain enhanced market adaptability and expanded opportunities for global competitiveness.

### **Foster Public-Private Partnership (PPP)**

PPPs involve collaboration between government and the private sector to achieve shared goals. By leveraging the strengths and resources of both sectors, PPPs can drive significant improvements in infrastructure, innovation, and service delivery, promoting a conducive environment for business growth. For MSMEs, PPPs offer access to essential resources such as funding, advanced technology, and infrastructure. These partnerships can enhance MSMEs' operational capacities, market reach, and overall competitiveness.

Specifically, PPP will support the realization of the plan's key domains and vision through the following:

- **MSME Environment:** MSME enablers to collaborate with private sector experts to design supportive policies, streamline access to finance, and develop necessary infrastructure. Developing logistics centers and Shared Service Facilities (SSF) that MSMEs can reduce operational costs and enhance efficiency.
- **MSME Competencies:** Develop training programs that enhance managerial and technical skills. Initiatives like Kapatid Mentor Me Online and Negosyo Centers offer valuable insights and practical guidance to MSMEs. Furthermore, facilitating access to advanced technologies through PPPs, enabling MSMEs to adopt innovative solutions that drive growth and productivity may also be explored.
- **MSME Prospects:** Leverage PPPs to open new market opportunities, promote joint ventures, and foster collaborations that can help MSMEs scale their operations and enter global markets. MSME enablers may also develop innovative financing solutions through PPPs, providing MSMEs with access to capital necessary for expansion and modernization.

### **Promote Circular Economy and Green Growth**

The circular economy emphasizes resource efficiency through practices such as recycling, reusing, and reducing waste. Green growth focuses on environmentally sustainable economic development. Together, these concepts aim to create a sustainable economic model that minimizes environmental impact while promoting growth. Adopting circular economy principles and green growth strategies helps MSMEs reduce production costs, improve resource efficiency, and attract eco-conscious consumers. These practices not only enhance sustainability but also open up new market opportunities and improve competitiveness. As early as 2013, the Ellen MacArthur Foundation reported that a transition to a circular economy has the potential to generate US\$1 trillion in annual savings by 2025.<sup>5</sup>

Specifically, Circular Economy and Green Growth will support the realization of the plan's key domains and vision through the following:

- **MSME Environment:** Encourage MSMEs to adopt resource-efficient and eco-friendly technologies and promote a business environment that supports green growth where MSMEs can attract environmentally

conscious consumers and investors, ensuring long-term viability. This can be facilitated through Green Lanes for strategic investments that will expedite the process of obtaining necessary licenses and permits for investments. The Bangko Sentral likewise introduced incentives to promote sustainable and green financing including an increased single borrower's limit and a zero-reserve requirement rate.

- MSME Competencies: MSME enablers may offer training programs such as the Green Economic Development (GED) that focus on green skills and sustainable practices and provide support to MSMEs through innovating clean technologies and developing new products that meet sustainability standards, driving competitiveness and growth.
- MSME Prospects: In a survey conducted by Nielsen, the demand for environment-friendly and naturally produced products increased by 72% in the last 3 years. By aligning MSMEs with global sustainability trends, they gain a competitive edge in international markets and meet the growing demand for eco-friendly products. The Pinyapel Initiative aims to attract investor interest while positioning the Philippines as a center for sustainable and innovation-driven manufacturing.

### Strengthen Business Resilience

Business resilience is the ability of enterprises to withstand and recover from disruptions such as natural disasters, economic downturns, and health emergencies. For MSMEs, building resilience is crucial to ensuring continuity and stability in the face of unforeseen challenges. Enhancing business resilience helps MSMEs maintain operations during crises, protect livelihoods, and contribute to economic recovery. Resilient MSMEs can better manage risks, maintain customer trust, and seize new opportunities even during disruptions.

- MSME Environment: MSME enablers may promote strategies that help MSMEs prepare for and manage risks associated with natural disasters and economic fluctuations. They can encourage MSMEs to adopt flexible business models and adaptive strategies that allow them to respond swiftly to changing conditions. The Strengthening Disaster Resilience Initiative (SDRI) provides MSMEs with access to Business Continuity Planning (BCP) that may help them minimize disruptions, maintain operations during crises, and recover more quickly from adverse events, thereby ensuring long-term sustainability and resilience.

- MSME Competencies: Involves providing training in crisis management, financial planning, and innovative problem-solving. Training programs like Creative Age for SDGs: Accelerating Growth of MSMEs in the Philippines Program, equip MSMEs to navigate challenges effectively and maintain operations during crises. Additionally, offering tools and training for financial planning helps MSMEs manage resources efficiently and prepare for uncertainties, ensuring they are better positioned to handle unexpected disruptions.
- MSME Prospects: Ensure MSMEs are protected against market fluctuations and unforeseen events, allowing them to maintain operations and seize new business opportunities and encourage resilience to build trust and loyalty among customers and partners, ensuring long-term business relationships and stability.

### Promote Women Entrepreneurship

In 2019 and 2020 alone, 64% of the MSMEs assisted by the DTI were women. The increase in the number of women venturing into MSMEs in the Philippines is a clear direction that reflects women's growing participation in economic activities. Since women make up 50% of the population, their active participation in entrepreneurial activities is a key determinant of socioeconomic growth.

- MSME Environment: The national policies or strategies undergo a gender lens review, inclusive of consultations with relevant stakeholders.
- MSME Competency: By leveraging the strengths and capabilities of women entrepreneurs, MSME enablers can drive MSME development, promote economic growth, and create opportunities for women to thrive in the business world. The E-TAAS ang Pinay MSMEs program offers comprehensive training, mentoring, and promotion support for Filipino MSMEs, especially women entrepreneurs.
- MSME Prospects: There is still much-untapped potential when it comes to the provision of support and resources they need to succeed. By leveraging the strengths and capabilities of women entrepreneurs, MSME enablers can drive MSME development, promote economic growth, and create opportunities for women to thrive in the dynamic business world.

## Develop Customized Support per Enterprise Level

Provide more customized support to MSMEs through a variety of interventions focused on achieving balanced support across different enterprise levels to foster a more inclusive and sustainable economic development.

- MSME Environment. Develop a comprehensive policy framework and advocate for reforms to create an enabling environment. Enhance the Enterprise Development Track (EDT) to strengthen and promote MSMEs domestically and internationally. Upgrade the MSME Client Profile and Monitoring System (CPMS) to track MSME progress.
- MSME Competencies. Provide customized financial resources, skills development programs, market access strategies, and regulatory assistance to address the unique challenges faced by MSMEs. Emphasize Industry 4.0 or the integration of advanced technologies into business operations and automation. This initiative involves leveraging disruptive technologies such as digitalization and smart use of information and communication technology (ICT) to address the unique challenges and needs of enterprises.
- MSME Prospects. Adopt a proactive approach to overcome specific challenges, capitalize on opportunities, and realize the full potential of MSMEs at each enterprise level. The RIPPLES program is designed to increase exports and investments and intensify small and medium enterprise (SME) development efforts. It uses the National Exporters Profiling Program (NEPP) as the database of exporters/manufacturers in the country, while the Export Performance Pathways (EPP) is being used by the DTI Export Marketing Bureau (EMB) to monitor the performance of export-oriented enterprises. Utilize the availability of global platforms such as the ASEAN Access which offers trade and market insights and provide demand-driven information and services for internationally oriented SMEs.

## Encourage greater collaboration between Local and National Government

Foster stronger partnerships between the National Government Agencies (NGA) and the Local Government Units (LGU) in facilitating the exchange of information, resources, and expertise to achieve shared objectives and maximize impact.

- MSME Environment: Aligning local policies and programs with national strategies ensures coherence and consistency in MSME support initiatives. Active participation of Local Chiefs in Provincial MSME Development Councils (PMSMEDCs) aligns council initiatives with provincial developmental goals, fostering a strategic approach to MSME support. Local governments must comply with Joint Memorandum Circulars (JMC) between National Government Agencies on business registration to create an efficient, transparent, and supportive regulatory environment for MSMEs. This compliance enhances inter-agency coordination, simplifies processes, and promotes adherence to regulations, essential for MSME growth and sustainability. For example, JMC No. 01 Series of 2021 (ARTA/DTI/DILG/DICT) outlines guidelines for processing business permits, clearances, and licenses in all cities and municipalities. Establishing Negosyo Centers in all provinces, cities, and municipalities with the support of local government units (LGUs) is crucial for promoting ease of doing business and providing essential services to MSMEs. These centers offer vital support, making it easier for MSMEs to meet regulatory requirements and access business development resources.
- MSME Competencies: Provide technical assistance, capacity-building support, and policy advocacy to strengthen institutional frameworks. Programs like the Livelihood Seeding Program – Negosyo Serbisyo sa Barangay (LSP-NSB) enhance reach and awareness of DTI services through partnerships with LGUs. The Small Enterprise Technology Upgrading Program (SETUP) encourages MSMEs to adopt technological innovations.
- MSME Prospects: Establish more focused market development initiatives and strengthen connections between local and national markets. The National Food, Trade, and Arts and Crafts Fairs, Manila Fame, OTOP Philippines Hub, Go Lokal! Program, oneSTore.ph, and CoopBiz are programs to support market development and globalization of businesses. These initiatives are strategically designed to propel businesses into wider markets and enhance their visibility on the national stage. The different national fairs provide platforms for showcasing products and fostering connections among MSMEs and large enterprises in the country.



## D. Institutional Support

To execute the action plans, it is crucial and necessary that institutional support from the national government, LGUs, large-scale businesses, and non-government organizations are strengthened.

The institutional support needed includes the following:

**Budget Allocation.** Equitable distribution of necessary funding across regions and relevant agencies is crucial for the effective implementation of specified plans, programs, and activities within the MSME sector.

**Policy Review.** Conducting thorough assessments of existing laws, regulatory frameworks, and procedures, along with formulating or amending timely, relevant, and efficient policies, promotes and supports sustainable initiatives conducive to MSME advancement. Reference to the Magna Carta for Small Enterprises (RA 9501) provides guiding principles for policy formulation.

**Collaboration between national government agencies, LGUs, and the private sector.** Achieving synergy and coordination among various economic catalysts across all levels are vital for institutionalizing and strengthening the MSME environment and infrastructure. This collaboration ensures effective planning and execution of programs aligned with the sector's overarching vision and action plans.

**Network Infrastructure.** Establishing robust network infrastructure is pivotal for MSMEs to adapt to digitalization and emerging technology trends, enhancing their capability to remain competitive in their markets.

**Streamlined Processes.** Agencies and personnel responsible for implementing services must provide prompt, responsive, effective, and graft-free assistance to MSMEs.

**Data/Information Availability.** Generating and analyzing relevant information/data from plan implementation enables timely dissemination to stakeholders and MSMEs, aiding in planning, budgeting, and monitoring and evaluation processes.

**Monitoring and Evaluation.** Close geographical and sectoral monitoring and evaluation of plan implementation are essential for making pertinent and timely updates and adjustment.



PART 3

**MEASURING THE  
SUCCESS OF THE  
MSMED PLAN  
2023-2028**

## Part 3. Measuring the Success of the MSMED Plan 2023-2028

### A. Monitoring and Evaluation

A monitoring and evaluation (M&E) framework has been devised to guide stakeholders in assessing the progress and achievement of the MSME development framework outlined in the Plan. M&E frameworks are essential components of all plans as they furnish proponents with the necessary information to gauge the effectiveness of implemented programs and activities.

Monitoring occurs at regular intervals to collect data that measure the Plan's outputs, while evaluation is more strategic, determining whether the Plan has achieved its broader goals and objectives. The M&E framework will assess the extent to which improvements in output levels identified in the Results Framework have been realized.

Aligned with the objectives of the PDP 2023-2028, the MSMEDP 2023-2028 aims to foster prosperity, well-being, and trust among Filipinos. It also contributes to *AmBisyon* 2040's goal of deep economic and social transformation, aiming to create quality jobs and reduce poverty.

### B. Key Performance Indicators

By 2028, we aim to realize the plan's vision through several outcome measures:

1. Increase in share of MSMEs to GDP
2. Increase in employment of MSMEs
3. Increase in the number of registered MSMEs
4. Increase the share of medium enterprises to the total number of MSMEs
5. Increase micro enterprises graduating to SMEs in the manufacturing sector

*Table 14: MSMEDP 2023-2028 Overall Outcome Indicators*

Outcome Indicator	Data Source	Baseline
Increase share of MSMEs to GDP	PSA GVA Computation	36% (2006)
Increase employment generation of Philippine MSMEs	PSA List of Establishments / PSA Annual Survey of Philippine Business and Industry	5,607,748 (2022) / 2,992,312 (2021)
Increase share of Medium Enterprises to total number of MSMEs	PSA List of Establishments / PSA Annual Survey of Philippine Business and Industry	0.40% (2022) / 1.14% (2021)
Increase Micro Enterprises graduating to SMEs in the manufacturing sector	PSA Special Computation	121,371 (2022)

Focus Areas	Strategic Goal	Outcome Indicator	Data Source	Baseline
MSME Environment	MSME Ecosystem Strengthened	Improve Score in DAP Business Satisfaction Survey (BizStat)	DAP BizStat Survey Report	82.58 (2021)
		Improve WEF Global Competitiveness Report burden of government regulation rank	WEF Global Competitiveness Report	Top 73% (2019)
		Improve WEF Global Competitiveness Report burden of government regulation score	WEF Global Competitiveness Report	33.2 (2019)
		Increase number of new business registrations	SEC and DTI Reports	417,107 (2021)
		Increase number of business owners (disaggregated by sex and marginalization)	LGU Reports	
	Financing Prospects Increased	Increase Percentage Share of Medium Enterprise Loans to Total Banking System Loans	BSP Report	2.4% (2023)
		Increase Percentage Share of Small Enterprise Loans to Total Total Banking System Loans	BSP Report	1.0% (2023)
		Increase Percentage Share of Micro Enterprise Loans to Total Total Banking System Loans	BSP Report	0.6% (2023)
		Increase in annual value of microfinance loans	PDP Chapter 11 Results Matrix	95.8 billion (2021)
		Increase proportion of business loans accessed by women entrepreneurs from formal financing sources	SBCorp and partner financing institutions	

		Increase in number of SMEs listed in the Philippine Stock Exchange or any organized market	SEC Report	9 (2022)
		Increase in SME stock market capitalization relative to GDP	BSP Report	0.10% (2023)
MSME Competencies	Knowledge and Skills Upscaled	Increase percentage of trained MSMEs that implemented productivity improvement program	DOLE reports	69% (2022)
		Increase number of establishments with apprenticeship program	TESDA reports	49 (2021)
	Technology and Innovation Accelerated	Percentage of Firms with product innovation increased	PIDS Survey of Innovation Activities	30.7% (2015)
		Increase number of business owners or entrepreneurs with new access to technology (disaggregated by sex)	DICT and DTI	
MSME Prospects	Domestic Market Optimized	Increase firms' adoption of e-commerce via the internet	PSA Survey on Information and Communication Technology	22% (2019)
	Global Markets Penetrated	Increase in percentage of Philippine Exports by Major Commodity Groups identified in the Philippine Export Development Plan	PSA Philippine Export and Import Statistics	3.2% (2020)

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