



## Digital transformation and COVID-19: Policy imperatives for local governments and MSMEs in the Philippines

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### EXECUTIVE SUMMARY

The virulence of the Novel Coronavirus is expected to have a profound impact on the world. The Philippines is not immune to the looming global recession due to massive local lockdowns, work stoppages, and decline in economic activities. This enormous challenge requires the Philippines to look at new opportunities that can ensure its economic resiliency. The imminent shift in regional production and relocation of services can provide ample demand for digital offshore and manufacturing services.

For this, digital transformation (Dx) strategies can provide new ways of energizing the country's supply chain and customer relationship management. Likewise, public services can be improved through online systems that will encourage citizens and businesses to transact with the government within the safety of their homes. The adoption

of digital transformation strategies can open new opportunities in the Philippines. This policy brief proposes a Dx roadmap for local policymakers, local government executives, and entrepreneurs with a new perspective on how to use Dx to create stronger integration of local governments and Micro, Small, Medium-scale Enterprises (MSMEs). Specifically, it recommends the following:

- 1) Harmonization of policies:** There is a need for local governments to reexamine the Ease of Doing Business Act (RA 11032) and Philippine Innovation Act (RA 11293) to leverage the support programs from the national government.
- 2) Develop an online portal-single entry system:** LGUs must pursue the implementation of an online portal that will serve as the primary venue for its Dx projects. This can serve as a repository for its business registries, its automated business licensing and tax systems and an opportunity for LGUs to streamline their structure and processes.
- 3) Open new opportunities to create innovative and digitized MSMEs:** The establishment of innovation hubs and business incubators in partnership with the private sector, academe, and government must now be pursued. A great complement for the Philippine Innovation Act is the Innovative Startup Act (RA 11337).
- 4) Sustain Dx initiatives:** In order to sustain its implementation and guarantee its insulation from traditional political cycles, Dx initiatives must be supported by local ordinances and be integrated into the development plans of local governments. Moreover, the creation of the government-business innovation councils must be pursued.



## **| Background**

The COVID-19 pandemic has plunged the global economy into a deep recession. Due to national lockdowns combined with the restrictions on travel and trade, the World Bank estimates that production in emerging and developing economies will decline by 2.5% and push 20-50 million people into extreme poverty. Similarly, the International Monetary Fund (IMF) predicts that advanced countries will also experience a 3% decline in performance, placing the world in its deepest depression since World War II. Draconian measures adopted by states further exacerbated the situation by placing the global supply chain at risk. These actions favored nationalist tendencies that adhere to greater protectionism, immigration controls, and the closing of its national borders.

Meanwhile, the pandemic has forced governments and businesses to reexamine their relationship and explore ways to improve their business-governance models. Due to the power of information communications technology (ICT) and its ubiquity, Dx is viewed as an innovative strategy that can reinvent the delivery of public services, create new business opportunities, and inspire new forms of value-driven engagements with citizens.

### ***Digital Transformation and COVID-19***

Dx has paved the way for the profound transformation of societies. This is largely attributed to the exponential growth of cloud-based technologies, data-driven smart applications, and artificial intelligence. Dx is also changing customer relationships by creating user-centric environments that can facilitate demand and create new forms of engagement. Aside from its technology facet, Dx also entails strategic agility. This new mindset requires that organizations adopt a long term-problem centric approach in its use of digital solutions. Furthermore, Dx underscores the need to build capacity and adopt a new organizational culture. Dx, therefore, forces the organization to reexamine its philosophies, traditions, and practices in order to be more responsive to the changing environment.

For its part, the Philippine government initiated several programs aimed at improving the delivery of public services. Most notable among these programs is the Medium-term Information Technology Harmonization

Initiative (MITHI) which envisioned the digital integration of major government services. Projects aimed at automating business and licensing systems of local governments were also pursued. Moreover, the Duterte administration has unveiled its Philippine Digital Transformation Strategy (2019-2022) aimed at laying the groundwork for national Dx initiatives. The strategy calls for the synchronization of all past ICT projects to attain the government's socio-economic and societal reform targets.

However, these initiatives are often seen as disjoint and independent from one another. It also lacks a strategic governance framework that can identify long term goals and integrate key result areas. Previous administrations failed to institutionalize policies, define a new organizational culture, and break down organizational silos. At the local level, most local government units, especially those in the rural areas, remain non-digitized and continue to rely on their traditional-manual practices. Unfortunately, these old practices fail to fully leverage its relationship with its business partners and citizens.

The COVID-19 pandemic has surfaced governance challenges and underscored the need for the government to attain integration as well as foster collaboration among its national agencies, local governments, and the private sector. A good example of this is the government's efforts to strengthen the country's MSMEs. Regarded as a pillar of the Philippines' competitiveness and inclusive growth strategy by the World Bank, MSMEs comprise 99.5 % of the business enterprises operating in the country and account for nearly two-thirds of the labor force.

However, the stringent measures implemented to mitigate the effects of COVID-19 came with a huge price for this sector. The National Economic Development Authority (NEDA) estimates that more than 60% of MSMEs had to cease operations while 25.4% temporarily laid-off workers due to the business closures during the enhanced community quarantine (ECQ) period.

This paper underscores the importance of integrating services and creating new opportunities for local governments and its MSMEs through Dx. The COVID-19 pandemic provides a good opportunity to reexamine

the existing governance practices and adopt the appropriate digital solutions. For this, the Philippines can take advantage of existing laws like the Ease of Doing Business Act (RA 11032) and the Philippine Innovation Act (RA 11293) to pursue a genuine national digital transformation strategy.

## **Philippine Laws: The Ease of Doing Business Law and the Philippine Innovation Act**

Since 2018, the Philippines has enacted laws that were aimed to ensure the competitiveness of local MSMEs, improve the delivery of public services, and promote good governance. The law on the Ease of Doing Business (EODB) and the Philippine Innovation Act (PIA) were seen as landmark legislation that can further support the country's growth and improve its global competitiveness.

The EODB Act envisions the development of information systems that can improve the business licensing and issuance of permits of LGUs. The law also mandates the creation of digital business registries as well as encourage local governments to streamline its operations. The rationale behind this law is to attain the full integration of government services which can result in a unified (standardized) transaction process both at the local and national levels. The law also calls for the development of a national online portal that connects these digital registries into one nationwide system. This bold attempt to establish a unified national system is also viewed as an important step to transform public service and foster good governance.

Furthermore, a closer look at the law's implementing rules and regulations (IRR) showcases the adoption of a whole-of-government approach that is consistent with the existing e-Government Master Plan (2022) and Philippine Digital Transformation Strategy (PDTs). Therefore, this law provides the required legal muscle to further pursue these goals.

Complementing the EODB Act is the passage of the Philippine Innovation Act (PIA) which places innovation at the center of the country's development policies and fosters MSME development. The law also endeavors "to generate and scale up action at all levels and support MSME activities in the areas of education, training, research and

development towards promoting innovation and industrialization activities". Furthermore, the law creates the National Innovation Council (NIC) mandated to develop the country's National Innovation Agenda and Strategy that will lay down the visions and long-term goals for innovation and a roadmap of strategies to improve innovation governance.

In relation to MSMEs, the NIC's crucial responsibility is to develop strategies towards promoting MSME internationalization and participation in the local and global value chains. This is further enabled by the recognition of the role of innovation centers and business incubators in boosting skills and technology transfer, collaboration on innovation initiatives among businesses, supplier development, access to finance, and marketing opportunities. This view is similar to Singapore's approach to embracing Dx through the development of entrepreneurship hubs combined with grants, incentives, and mentoring programs. This is part of the country's strategy to position itself as a center of innovation and research development in the Asian region.

In addition, the PIA emphasizes the government's commitment to effectively incorporate innovation across all areas of government policy. Section 17 of the law highlights the "whole-of-government" approach to implement the country's innovation strategies and therefore facilitate the engagement with the broader community to ensure the full and effective implementation of the innovation agenda.

Overall, these laws and plans can provide the needed impetus for Dx in the Philippines. Policymakers and advocates can use the provisions on seamless integration of public services, creation of registries, clustering of MSME services, and the integration of supply chains, among others, to push for Dx-oriented strategies and solutions. In addition, Dx strategies can transform the current endogenous development model by promoting agility and innovation. This novel approach also requires that LGUs and MSMEs come up with structured goals that take into account locally diverse entrepreneurial concerns and maximize its resources to build a more competitive sector. This will also encourage local governments to develop new products and services to expand their market and revenue base.

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A good opportunity for this Dx-enabled development approach is the revitalization of the OneTownOneProduct (OTOP) program. This project exploits the unique assets of localities and turns them into globally accepted products and services that could take advantage of the shift in global value chains. Through the PIA, the local governments, with support from national agencies, can develop a digital environment that can integrate the market with its supply chain. This environment can also serve as innovation hubs. These hubs can accommodate the existing Go Negosyo Centers thus creating a digital portfolio of services that can support business registration and licensing, provide e-learning modules to local businesses, and develop online certification programs that support MSME development.

## ***Need to harmonize, organize, initiate and sustain***

The disruptive consequences of the 2019 coronavirus pandemic emphasized the need for both LGUs and MSMEs to harness the transformative power of digital solutions. Not only will this improve business productivity and workforce efficiency, it will also help LGUs and MSMEs address future business risks. Thus, Dx can be used as a strategy to integrate local government services and MSMEs needs. The items below are the possible activities that can be used to create a Dx roadmap for LGUs and MSMEs:

### **a) Immediate-Short Term Actions: Organize and Harmonize**

Immediate actions can be carried out in 1-3 months. During this period, local governments, with the support of concerned national agencies, must identify opportunities on how to use these laws to jumpstart its integration with MSMEs. LGUs can also harmonize the provisions of these laws and avail of national programs. This will enable them to consolidate activities and avoid duplication of effort. For instance, LGUs can opt to avail of the National Government Portal (NGP) services from the Department of Information and Communications Technology (DICT). The NGP can serve as the online venue for its websites and MSME repositories.

Another Dx-related activity that can be pursued is the identification of critical activities that has a direct and indirect impact on local stakeholders. For this, the LGU must encourage

the participation of MSMEs, its local business chambers, and the academe among others to define key result areas and map out its activities for its Dx roadmap. To further encourage the participation of the various sectors, stakeholders must work together for the creation of the local government business innovation councils.

### **b) Medium-term Actions: Initiate Projects**

The next phase of the Dx roadmap is to initiate ICT-enabled solutions that can be adopted by the stakeholders. For this, the development of online portals is an initial step. These portals can serve as repositories for the business registries and fulfill the requirement of business one-stop shops (BOSS) as required by the EODB law. The portal can also serve as a service gateway for local governments. For MSMEs, the portal can provide a venue for networking and marketing of their products and services. Other service providers can use these portals to aggregate demand for bridging services (e.g. Deliveries, marketing, sourcing of supplies, etc.). Existing business-members of One Town-One Product (OTOP) hubs can be the initial target for its pilot implementation.

In parallel, local governments should encourage participation in fostering innovation. Significantly, the Innovation Act also mandates the creation of a joint web portal to feature innovation policies, strategies, and programs, including services, grants and financial assistance for related trainings. Local academic institutions can take advantage of these financial grants by partnering with LGUs for the development of software applications and research that will innovate the way local public services are being delivered.

### **c) Long Term Actions: Sustain Dx initiatives**

After piloting local Dx projects, there will be a need to institutionalize and sustain the effort. For this, innovation councils must now initiate the creation and approval of local ordinances that guarantee the continuous support of the major stakeholders. Local governments must strive to insulate these councils from the local-traditional political cycles by encouraging multi-stakeholder participation. Stakeholders can also increase the scope of these councils to enable the expansion of their market and cut down on operational costs.

Other innovative technologies can now be used on top of the business portals. For instance, data analytics, supply chain management services, among others, can be part of an expanded service portfolio. This will further open new opportunities for the private sector to enter the scene and pour in investments. Finally, issues of cybersecurity and data privacy must also be addressed and resolved during this phase.

## Conclusion

In conclusion, the authors reiterate the importance of developing a Dx roadmap at the local and regional levels of governance. This roadmap should include the following activities:

### 1) Harmonization of policies

There is a need for local governments to reexamine the 2 laws and leverage the supporting programs from the national government. LGUs must now organize its Government-Business Innovation Councils at the regional-local levels to adopt a multi-stakeholder approach and increase participation. Local development plans must also reflect the importance of innovation and the need to integrate it to public services, the market, and supply chains;

### 2) Develop an online portal-single entry system

LGUs must pursue the implementation of an online portal that will serve as the primary venue for its Dx projects. The portal can also serve as a repository for its business registries, and its automated business licensing and tax systems. This is also a welcome opportunity for LGUs to streamline their structure and processes.

### 3) Open new opportunities to create innovative and digitized MSMEs

The establishment of innovation hubs and business incubators in partnership with the private sector, academe, and government must now be pursued. A great complement for the Philippine Innovation Act is the Innovative Startup Act (RA

11337), whose primary goal is to facilitate the entry and development of new and innovative businesses in the Philippines by providing them incentives and removing constraints. More significantly, the law aims to strengthen, promote, and develop an ecosystem where businesses, the government, and other non-government institutions all work together to achieve an innovative entrepreneurial culture.

### 4) Sustain Dx initiatives

In order to sustain its implementation and guarantee its insulation from traditional political cycles, Dx initiatives must be supported by local ordinances and be integrated into the development plans of local governments. Moreover, the creation of the government-business innovation councils must be pursued. These multi-stakeholder councils should link its priorities and initiatives to national programs and strengthen research and development efforts related to local Dx programs. Ultimately, this will enable the formation of best practices and increase the credibility of these projects.

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