Indonesia Covid–19 Observatory

BRIEF №4

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The World Bank's Indonesia Covid-19 Observatory is a multi-GP partnership that aims to generate usable and near-real-time insights on the impact of the pandemic to inform the Government of Indonesia's policy response to the crisis.

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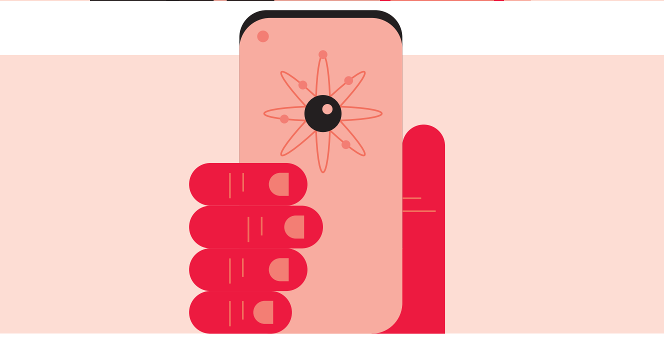
How COVID-19 is affecting firms in Indonesia

Results from the 1st round of the COVID-19 Business Pulse Survey (COV-BPS)
JUNE 15, 2020 – JUNE 23, 2020

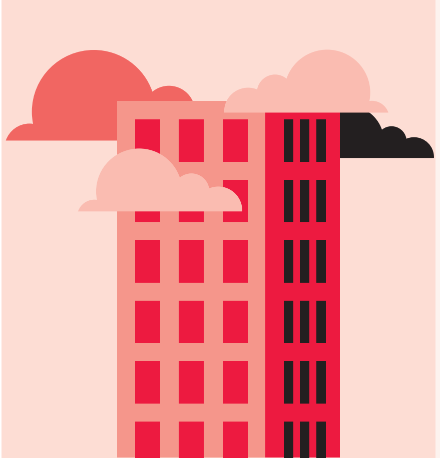
Key Messages

This brief presents findings from the first round of a survey of 850 firms in Indonesia. The survey was implemented through phone interviews and found that COVID-19 has had pronounced effects on Indonesia's private sector.

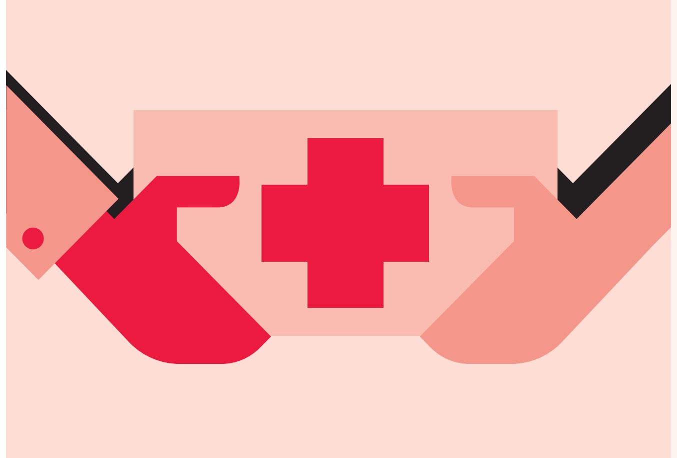
Firms across the provinces surveyed and in almost all sectors surveyed were negatively affected by the COVID-19 crisis.[1] They were affected simultaneously by multiple channels. 86 percent of firms reported a reduction in sales. 73 percent of firms faced a decrease in input availability. With falling demand, firms faced cash flow shortfalls and serious liquidity constraints.



Many firms (42 percent) have turned to the internet, social media, specialized apps or digital platforms in response to COVID-19, with a small share of firms investing in new equipment, software or digital solutions or changing their product mix.



Demand and supply shocks are widespread among all sectors and firm sizes,[2] but MSMEs particularly struggled to adapt.



Only 7 percent of firms accessed government support. Firms are largely not aware that assistance may be available.

1 Impact on firms

The COVID-19 crisis had a large temporary effect on the operational status of firms.[3] Only 36 percent of firms have been continuously open since March 2020. Nevertheless, about 40 percent of firms that were previously closed due to COVID-19 restrictions reopened in June 2020. A significant share of firms (22 percent) were still closed temporarily as of June 2020. Most of these firms were closed based on their own decision, not because they were mandated by the government to do so.

This crisis severely hit firms in all sectors but the information and communication sector. Around 86 percent of firms saw a reduction in sales in June 2020 compared to the same period last year. Most of them reported a sales drop of more than 20 percent (Figure 1). For most sectors, average sales halved or more. With an 87.5 percent sales drop, firms in the rental business experienced the worst impact of the COVID-19 crisis. One exception is the information and communication sector, which appears to have been able to take advantage of increased demand for digital products and services and saw a 60 percent average increase in sales. Compared to January 2020, 73 percent of firms experienced reduced supply of inputs.

With falling demand, 77 percent of firms reported a decrease in cash flow. While 30 percent of these firms did nothing, 24 percent tried to solve these cash flow shortages by reducing expenses. Only 16 percent of firms that experienced cash flow shortages utilized market-based financing (i.e., loans from commercial banks or non-banking financial institutions or equity finance). Notably, MSMEs reported having significantly more difficulties in meeting their payment obligations. Furthermore, 9 percent of firms also reported having filed for insolvency or bankruptcy (Figure 2).

1 Out of 850 surveyed firms, 280 were manufacturing firms in North Sumatra, West Java, Banten, Central Java, East Java and South Sulawesi provinces. 285 were high-value added services firms and 285 were low-value added services firms, all on Bali and Java islands.

2 Micro firms are firms with less than 5 workers. Small firms have 5-19 workers; medium-sized firms have 20-99 workers. Large firms are firms with 100 or more workers. Micro, small and medium-sized enterprises (MSMEs) are thus firms with less than 100 workers.

3 COV-BPS findings are likely a lower bound given that firms that are closed have a lower likelihood of responding.

2 Responses by firms

Around 64 percent of firms have responded to the crisis by reducing labor cost. 29 percent of firms adjusted by reducing working hours of workers. A similar share of firms (28 percent) granted unpaid leave or reduced wages. Notably, micro firms and firms in the tourism and creative economy sectors were much less likely to provide workers with paid leave. About 12 percent of firms reported firing workers, corresponding to close to 5 percent of total employment. MSMEs and firms in the tourism and creative economy sectors reported firing workers the most.

A significant share of firms utilized the internet or digital platforms to adapt to the negative shocks from COVID-19. 42 percent of firms started or increased their use of the internet, social media, specialized apps or digital platforms in response to COVID-19. A substantially smaller proportion of firms invested in new equipment, software or digital solutions (4 percent) or changed their product or services mix (5 percent). Micro firms were significantly less likely to make use of digital technologies and made almost no new capital investments. The uptake of digital platforms is higher among large firms: almost 9 in 10 reported having started or increased use of the internet, social media, specialized apps or digital platforms in the past month in response to the COVID-19 outbreak (Figure 3).

3 Policy Support

The Government's economic support programs for firms have yet to reach many of those affected firms, especially badly hit MSMEs. To support the private sector during the crisis, the Government of Indonesia implemented several programs, such as: reducing tax payments; reducing electricity expenses for small firms; facilitating loan restructuring, especially to MSMEs; providing interest rate subsidies and facilities for new working capital loans, especially for MSMEs and labor-intensive industries,[5] and—more recently (as of August 2020)—an income support scheme for employees earning below IDR5 million per month. As of June 2020, only 7 percent of firms surveyed reported receiving government support. While tax incentives are mostly enjoyed by large firms, MSMEs mostly reported receiving food vouchers and—in terms of firm support—mostly received credit-related assistance. Nevertheless, badly hit firms (i.e., firms with a sales drop of more than 20 percent) have a higher probability of receiving assistance. Among badly hit firms, large firms have received more assistance, largely because they can avail more of the tax instruments.

To further help the private sector during this crisis, the Government needs to improve the effectiveness of its support through better communication and easier access to support programs. Lack of clear information on programs and their eligibility criteria are the two main reasons for the low take-up rate of the existing programs. More than half of the firms not receiving support indicated that they were not aware of the existence of these programs. Others (21 percent) do not know the reasons for not getting support (Figure 4). This low take-up rate is consistent with the reported low utilization of the market financing scheme to solve liquidity constraints. This suggests the need for increasing and facilitating access to credit applications and other market-based instruments. Similarly, there is a need to improve the roll-out and expand the eligibility of the reduced or waived electricity expenses for small firms, as many of them still struggle to pay utilities.

The Government can also explore new or adjusted policies to reduce firms' costs. A plausible channel to reduce the ongoing costs of firms are wage subsidies, which have been used effectively in other countries to preserve valuable employer–worker relationships. However, these may need to be carefully targeted and time-bound, as widespread wage subsidies may be too onerous for the fiscal budget. Moreover, it may be challenging to implement in Indonesia's context of high business and worker informality. The government could also reduce input costs by eliminating non-essential checks and restrictions on imported inputs (e.g., pre-shipment inspections, third-party verification of SNI compliance, port-of-entry restrictions, state import monopolies), fast-tracking other checks, and waiving import duties.

Figure 4 Firms are largely not aware that assistance may be available

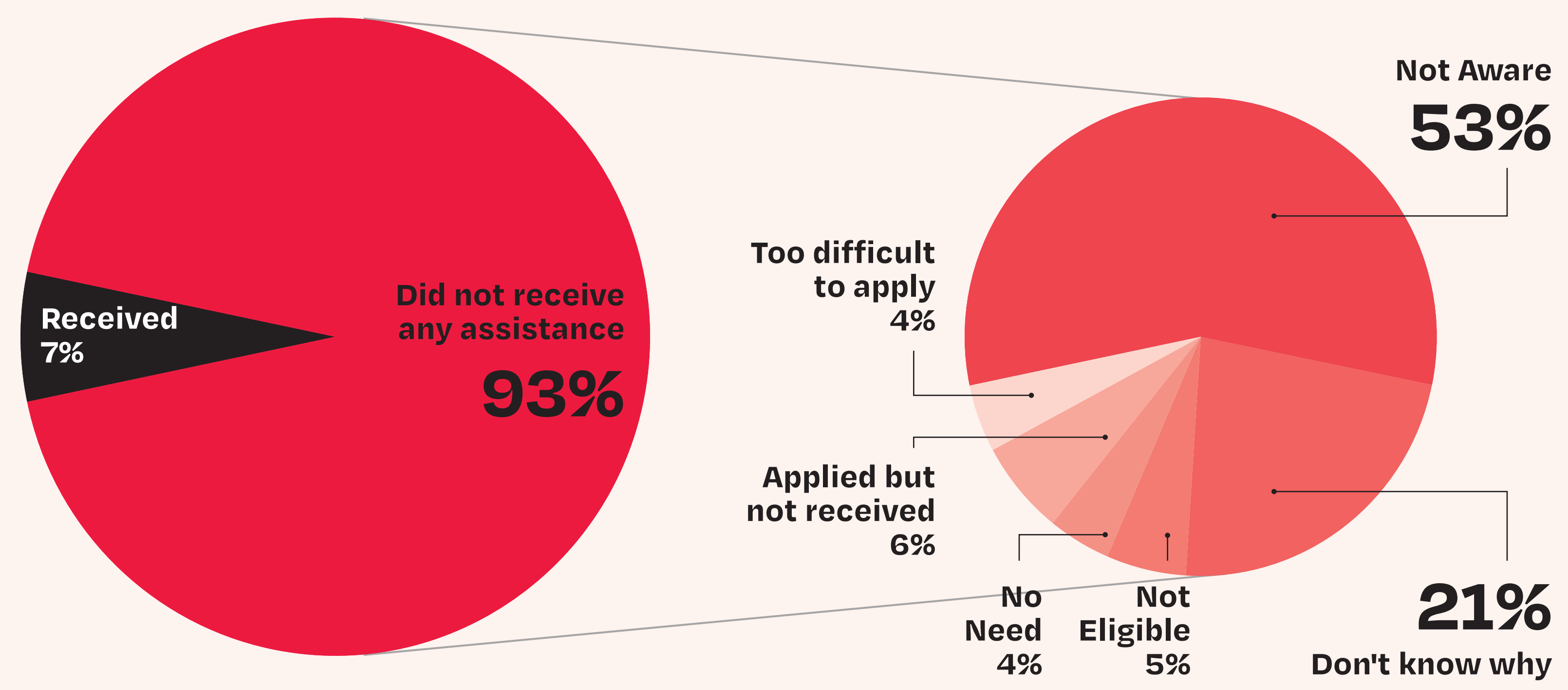


Figure 1 The COVID-19 crisis has hit Indonesian firms hard

Figure 2 Many firms, particularly micro firms, face difficulties to finance their operations

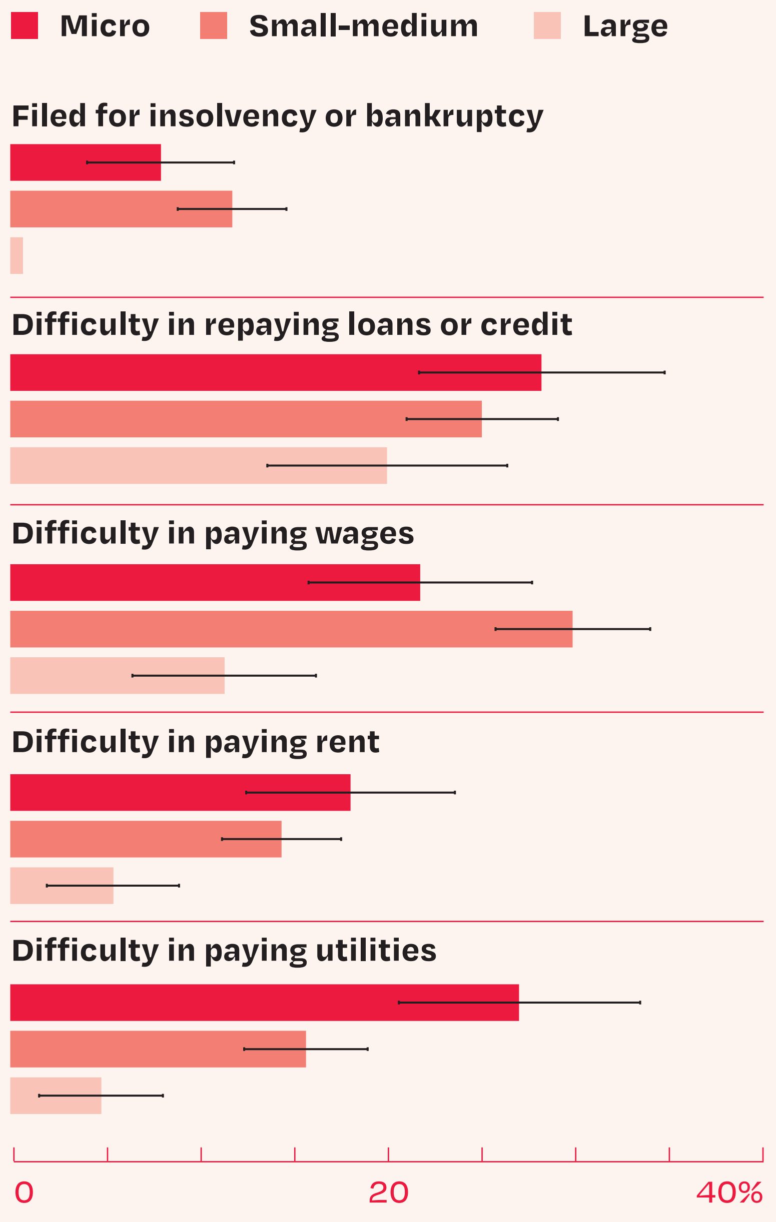
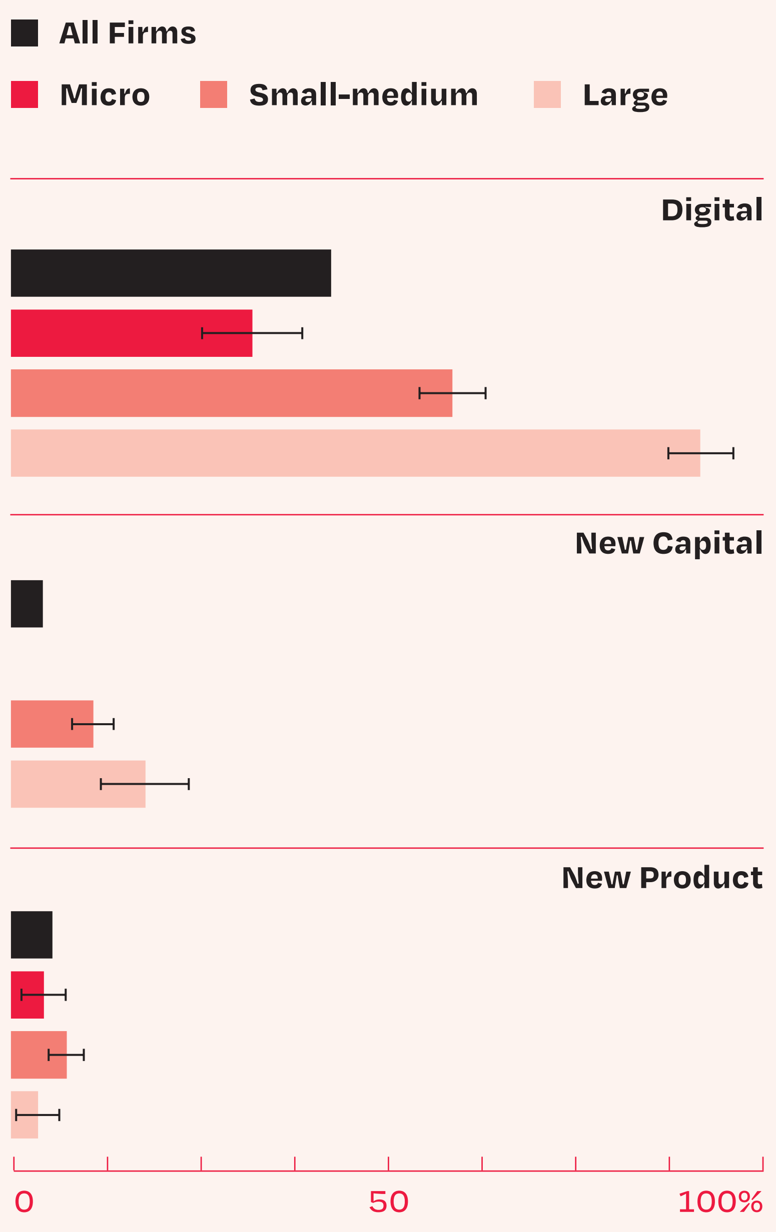


Figure 3 Share of firms reported making adjustments to respond to COVID-19*



* **DIGITAL**—starts to use or increased the use of internet, social media, specialized apps, or digital platforms;
NEW CAPITAL—invested in new equipment, software or digital solutions;
NEW PRODUCT—changed or is in the process of changing its products or services.

5 For more details see: World Bank. 2020. Indonesia Economic Prospects, July 2020: The Long Road to Recovery. World Bank, Washington, DC, pp. 41-42. http://hdl.handle.net/10986/34123