COVID-19 BUSINESS PULSE SURVEYS
ROUND 1 December 2020

Impacts of COVID-19 on firms in Malaysia

Results from the 1st Round of COVID-19 Business Pulse Survey

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Key findings

- **The nationwide Movement Control Order (MCO) and subsequent easing of restrictions under a Conditional Movement Control Order (CMCO) and Recovery Movement Control Order (RMCO) had a clear impact on business operations and sales in Malaysia.**
- **While large share of firms closed (35%) or operated only partially (49%) during the MCO period, there are signs of recovery.** Businesses have continued to reopen post the MCO, with more than 90% fully or partially open in October. There are some significant variations in operational status for firms in October, with small firms and firms in East Malaysia significantly more likely to remain closed.
- **The trend in sales mirrors the trend in business operational status, with large revenue drop (25%) during the MCO and gradual improvements since reopening.** In fact, Malaysian firms seem to be recovering faster than regional and global peers. In October, revenues were 7.5% lower than last year on average, with the biggest impact on smaller firms in the services sector.
- **Employment impact has been significant, with decrease in employment in most sectors since the start of MCO.** The most common employment adjustments made by firms in September-October 2020 were reducing hours for workers and reducing wages. However, there are also significant shares of firms making adjustments on the extensive margin, with a lot of churning (36 percent of the firms laid off workers and 43 percent of the firms hired workers).
- **Firms are impacted on both the production and demand sides**, with exporters most impacted by supply chain disruptions and non-exporters impacted by both reduced demand and supply chain disruptions.
- **Liquidity appears to be a pressing problem: the median firm has only 2 months of cashflow available.** Further, 60% of firms are either already in arrears or at risk of falling into arrears in the next 6 months. Firms appear to be less willing to borrow due to fear of repayment risks, and sellers are less willing to grant supplier's credit. Given low levels of liquidity, further direct support such as payment deferrals might need to be extended.
- **There has been widespread adoption of health protocols at small costs across firm types.**
- **Firms have used a number of adjustment mechanisms including the rapid adoption of digital solutions including in complex tasks such as supply chain management and production.** A higher share of small and medium sized firms increased use of digital platforms explained by the lower baseline pre-crisis. There have been investments in digital solutions across firms with a larger share of medium and large firms investing in digital solutions with the rates of investments (as a share of sales) higher in larger firms, followed by medium sized firms.
- **There is high demand from firms for government support for digital adoption.** Policies to support firms adopt digital solutions will need to focus on the use of digital solutions for customer-facing business functions. Financial and implementation support for digital solutions appear to be more relevant than advisory support for information alone.
- **A vast majority of firms have accessed some form of government assistance, where type of support received also appear to be well-aligned with firms' demands.** The share of small firms accessing support trails that of medium and large sized firms.
- **In terms of implementation improvements, the top priorities appear to be expediting the approvals and disbursements of *PRIHATIN/PENJANA* loans/grants** and improving predictability of the Standard Operating Procedure (SOP) regulations (instructions for business operations during various phases of movement restrictions).

Methodology

The **COVID-19 Business Pulse Survey (BPS)** is a rapid survey designed to measure the various channels of impact of COVID-19 on firms, firm adjustment strategies, and public policy responses. The World Bank, in collaboration with a private survey company, conducted the 1st round of the Malaysia BPS in October 2020. Firms were sampled randomly from an online business panel database, which consists of 100,000+ companies in all sectors and sizes, across Peninsular and East Malaysia. A minimum sample size was obtained for sectors that are important to Malaysia's economy and are sensitive to the COVID-19 crisis (export-oriented activities: electronics, automotive, tourism related activities) while preserving the sectoral shares in the sampling frame.[1] The survey was conducted online and yielded 1,500 responses from respondents in senior management positions at their company (i.e. owners, C-suite or Director level).

Malaysia and the "New Normal"

To combat the rising cases in the country, Malaysia imposed a Movement Control Order (MCO) on March 18, 2020. As the number of daily and active cases of COVID-19 reduced in Malaysia by mid-April, the government relaxed several measures of the MCO to enter the Conditional MCO (CMCO) that ended June 9. Malaysia entered the Recovery Movement Control Order (RMCO) phase on 10 June which allowed for interstate travel. Since the RMCO, the economy had been slowly returning to a "new normal" as businesses and workers return to work. But cross-border entry into Malaysia is still largely restricted. There has been a rise in cases since end of October and many parts of the country were under a re-instated CMCO phase until December 6, 2020.

The Government of Malaysia introduced the *PRIHATIN* economic stimulus package, followed by the *PENJANA* or the National Economic Recovery Plan to provide support to households and firms affected by the crisis.

Timeline of Various Stages of Movement Control Order

Terminology	Period
Movement Control Order (MCO)	18 March – 12 May 2020
Conditional Movement Control Order (CMCO)	13 May – 9 June 2020
Recovery Movement Control Order (RMCO)	10 June 2020 to 31 August, has been extended to 31 December 2020.

The first BPS was conducted in the month of October to ascertain the impact on firms with a view to provide insights into future policy making to help Malaysia's recovery. The survey was implemented in October 2020, prior to the re-imposition of CMCO for all states except Perlis, Kelantan and Pahang starting from November 9 to December 6, 2020. CMCO in Sabah was re-imposed earlier on October 13, 2020.

[1] Due to lack of statistics about the true universe of firm, all analyses are done without weights.

Impact on Firms

Malaysian firms have been impacted with 35 percent of firms not in operation during the imposition of the MCO. On average, firms experienced a drop in sales by about 25 percent compared to last year during the MCO. However, by October, 91 percent of firms were already back in operation, while between 1 to 2 percent of firms closed permanently.[2]

Operational Status and Impact on Sales

A large share of firms closed (35 percent) or were operating only partially (49 percent) during the MCO period in March-April 2020, as shown in Figure 1. The main reason for most firm closures were health concerns. Firms experienced sales revenue drop by 25 percent during the MCO. By October, when the MCO had been replaced by the RMCO, the number of firms that remained closed fell to 8 percent, with 91 percent of firms in operation, showing signs towards reopening the economy. Further, by October, 20 percent of the firms reported a positive growth in revenue, as shown in Figure 2, showing gradual signs of recovery. There are observable differences of impact by size of firms, with smaller firms being more likely to remain closed for business, confirming the belief that the pandemic has an asymmetric effect on smaller firms than large firms. Similarly, there are regional differences. Firms based in East Malaysia are more likely to remain closed due to a higher number of COVID-19 cases in Sabah in October and the subsequent imposition of a CMCO in Sabah since October 13, 2020.

FIGURE 1

Firms are returning to normal in October

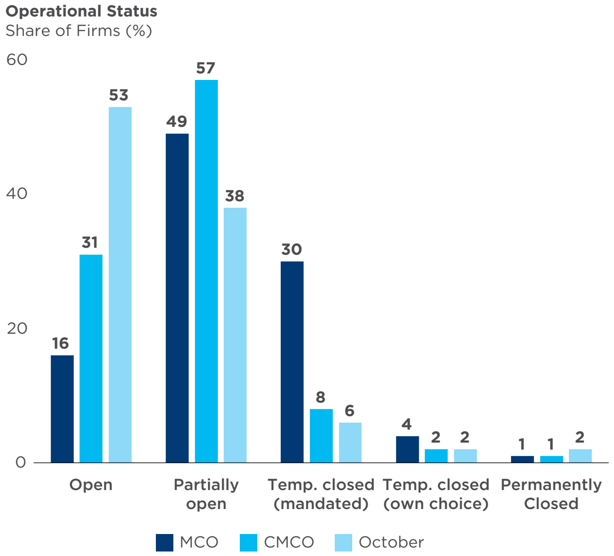
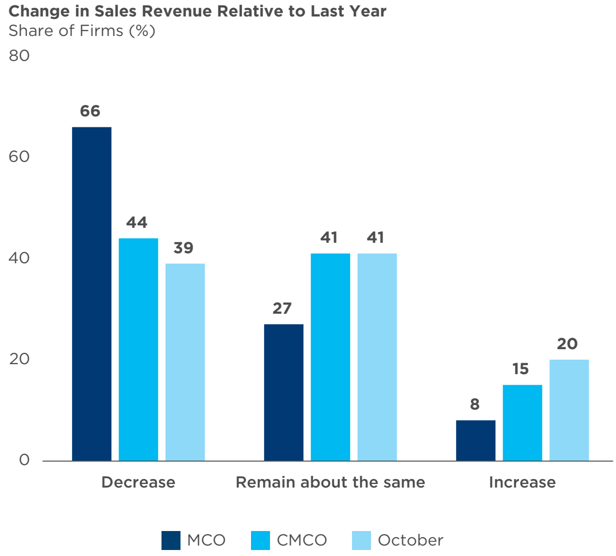


FIGURE 2

Revenues dropped by 25 percent during the MCO but have been recovering, with 20 percent of the firms reporting positive growth in October



[2] Note: share of permanently closed firms might understate the true extent of firm closure as they are less likely to have responded to the survey.

Revenues dropped by 25 percent during the MCO but have since been recovering (Figure 3). Substantially fewer businesses reported revenue loss in October and 20 percent reported an increase in sales. In fact, Malaysian firms seem to be recovering faster than regional and global peers (Figure 4). However, on average, sales in October are still 7.5 percent lower than last year. Medium-sized and large firms are recovering faster than small firms from a sales perspective (Figure 5). Compared to last year, the average decline across various periods of movement control for small firms are -24 percent compared to medium and large-sized firms, which both recorded an 11 percent decline in sales compared to a year ago (Figure 5). In general, firms in the manufacturing and agriculture sectors continue to experience revenue shocks as severe as in June.

FIGURE 3
Substantially fewer businesses reported revenue loss in October

Change in Sales Relative to Last Year

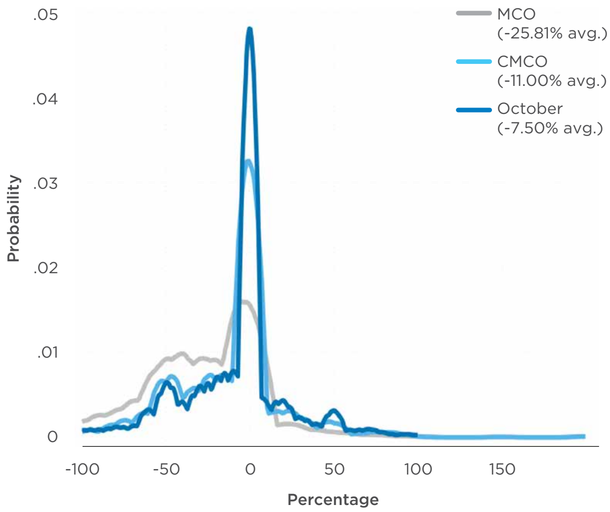


FIGURE 4
Malaysian firms seem to be recovering faster than regional and global peers

Average Change in Sales Relative to Last Year (%)

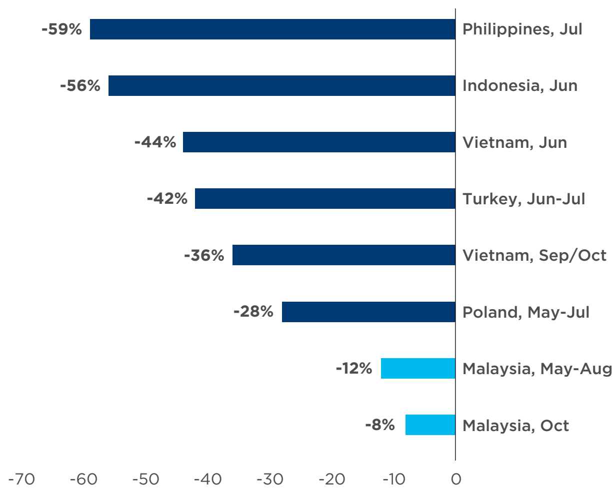
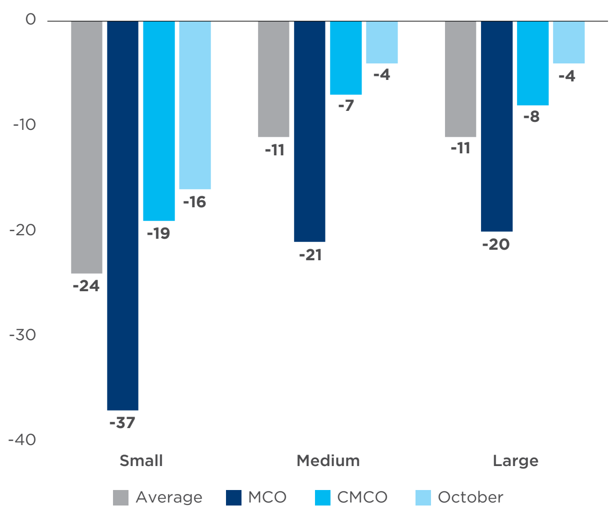


FIGURE 5
Recovery has been faster on average for medium and large firms

Change in Sales Relative to Last Year (%)



Supply shocks

Supply chain disruptions affected sales and operations in a majority of firms. About two-thirds of the firms that were affected by supply chain disruptions reported difficulties in fulfilling sales orders in October. Exporters were harder hit by these supply chain disruptions than non-exporters (Figure 6). Firms are relying on various strategies to deal with these disruptions, including expanding supplier networks and increasing in-house production (Figure 7).

FIGURE 6

Supply chain disruption was the most common supply shock and affects exporting firms more

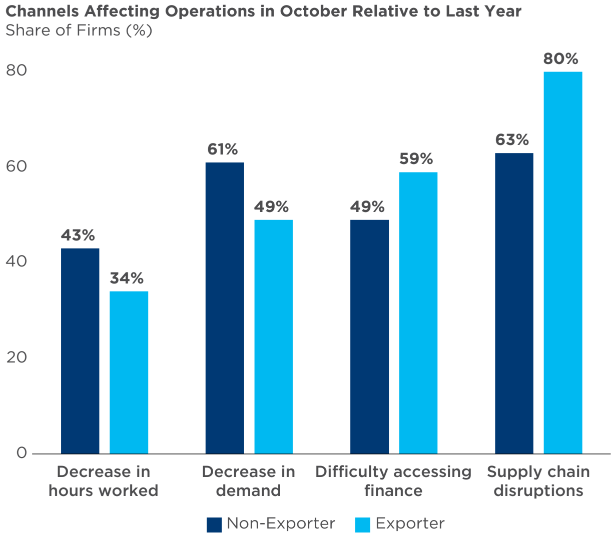
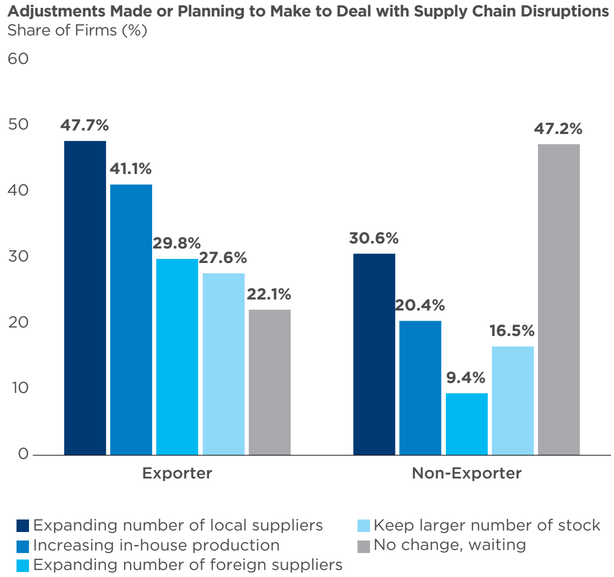


FIGURE 7

Firms made or are planning to make adjustments to deal with supply chain disruptions



Employment shocks

Employment impact has been significant (Figure 8), with most sectors experiencing a net decrease in employment since the start of the MCO. The most common adjustments made by firms in September-October 2020 were reducing hours for workers and reducing wages (Figure 9). However, there are also significant shares of firms making adjustments on the extensive margin, with a lot of churning (36 percent of the firms laid off workers and 43 percent of the firms hired workers). There is an aggregate employment gain for the automotive sector, which seems to be driven by (i) few firms that had big net gains and (ii) relatively fewer firms with net loss in employment. These could be due to the increase in demand in the sector due to the exemption of sales tax for auto purchases until Dec 2020 and the cyclical increase in demand due to the introduction of new car models that takes place in Sep/Oct. Employment is more affected in the services sector than the manufacturing sectors.

FIGURE 8
Most sectors experienced a decrease in employment

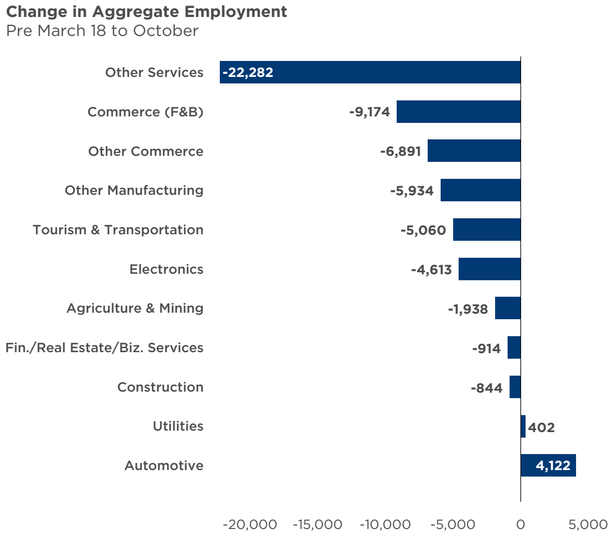
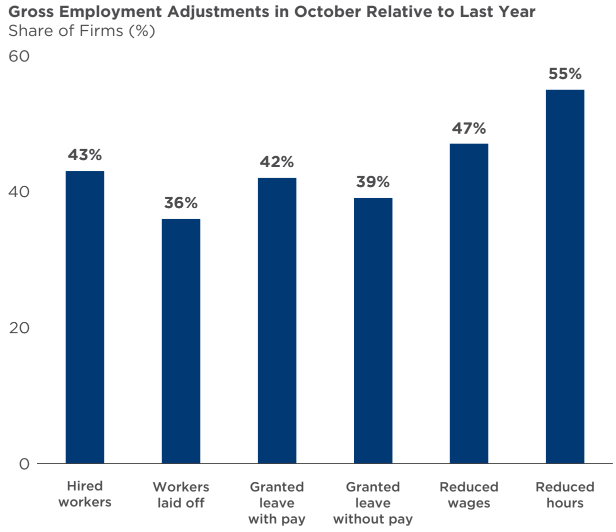


FIGURE 9
Most common adjustments made by firms in September-October 2020 were reducing hours for workers and reducing wages



Financial shocks

While there are signs of a gradual recovery compared to the early months of the crisis, liquidity appears to be a pressing problem with the median firm having only 2 months of cash flow available. By October, 60 percent of firms are either already in arrears or at risk of falling into arrears in the next 6 months. By sector, Tourism & Transportation has the highest share of firms in arrears currently, but automotive and construction sectors have the highest risk perception of falling into arrears (Figure 10). The increased risk amongst automotive firms

FIGURE 10
Automotive and Construction sectors have the highest risk perception of falling into arrears

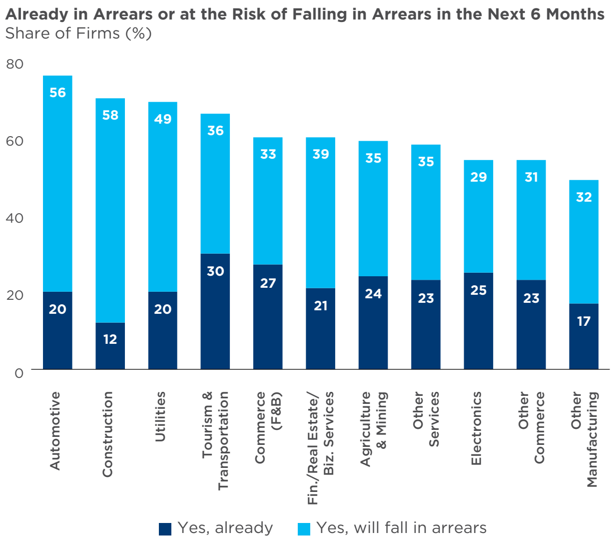
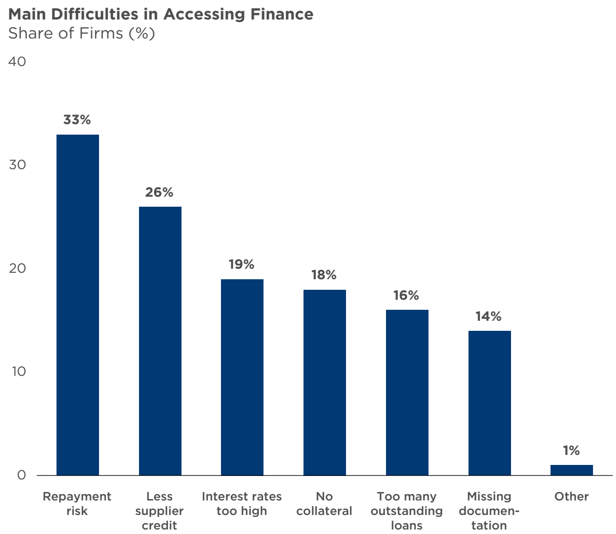


FIGURE 11
The most important difficulty in accessing finance for firms is the fear of repayment risk



could be due to the perceived decrease in demand that firms envisage after an initial short-term increase in demand due to the exemption of sales tax for auto purchases until Dec 31, 2020. For construction firms, the depressed real estate market coupled with the uncertainty around the duration of the perceived short-term increased public investments (when the firms were surveyed in October, before the budget was announced) could be a plausible explanation for this increased risk. This broad perception amongst firms of falling into arrears prevents firms from accessing loans for the fear of not being able to repay (Figure 11).

Adjustments by Firms

In addition to making employment adjustments and performing supply chain adjustments, firms responded to the challenges brought by the pandemic through investing in health protocols, and the increased use of digital tools.

Health Protocol Investments

There is widespread adoption of different health protocols amongst firms in Malaysia. More than 70 percent of the firms have established protocols for workers and customers; more than 60 percent have changed their establishment layouts and half the firms sampled had incorporated flexible work arrangements and contactless payments.

Use of digital tools

The increased usage of digital platforms came up as the most popular strategy being implemented by firms in response to the COVID-19 shocks. 57 percent of the firms surveyed increased use of digital platforms. A higher share of small and medium sized firms increased use of digital platforms explained by the lower baseline pre-crisis (Figure 12). Firms also made investments into digital solutions (Figure 12), with a larger share of medium and large firms making such investments and rates of investments in larger firms largest, followed by medium sized firms. While the most common use of digital platforms is related to sales and marketing, there has been significant adoption for more complex functions such as production and supply chain management (Figure 13). A key input for policy would be for the Government of Malaysia to promote more complex functions in the digitization agenda moving forward in order to gain productivity dividends at the level of the firm. The vast majority of firms (90 percent or more of firms surveyed) are interested in the government's assistance for the adoption of digital solutions to deal with the COVID-19 crisis. Firms interested in getting government support towards adoption of digital technologies seek implementation assistance and financial assistance (tax incentives and subsidized loans).

FIGURE 12

Increased use of digital platforms and investments made in digital solutions

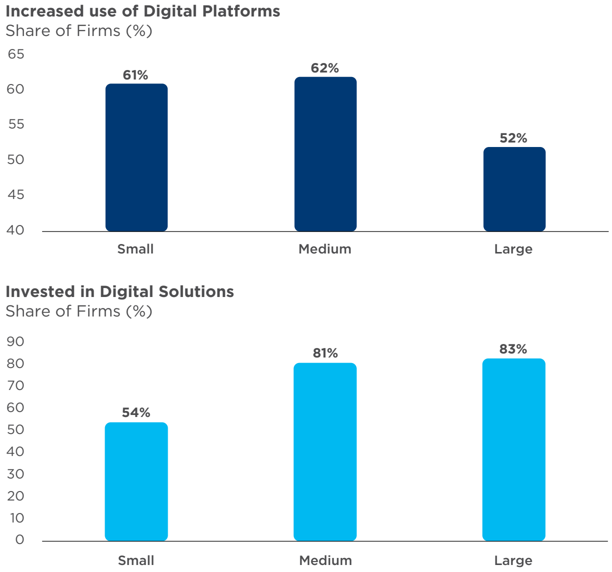
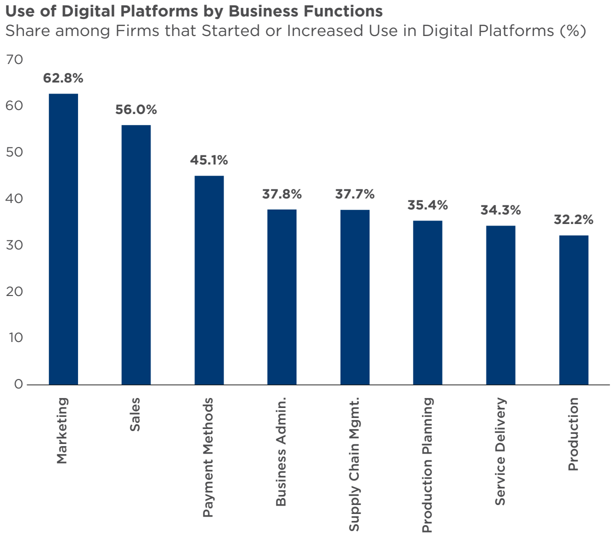


FIGURE 13

The most common use of digital platforms



Policy Support

A vast majority of firms were able to access government support programs that were introduced in the *PRIHATIN* economic stimulus and the *PENJANA* plan. Nearly all firms in the Auto sector (99 percent) have accessed government support programs (Figure 14), followed by Finance/Real Estate (97 percent) and

FIGURE 14

Nearly all firms in the auto sector have accessed government support programs

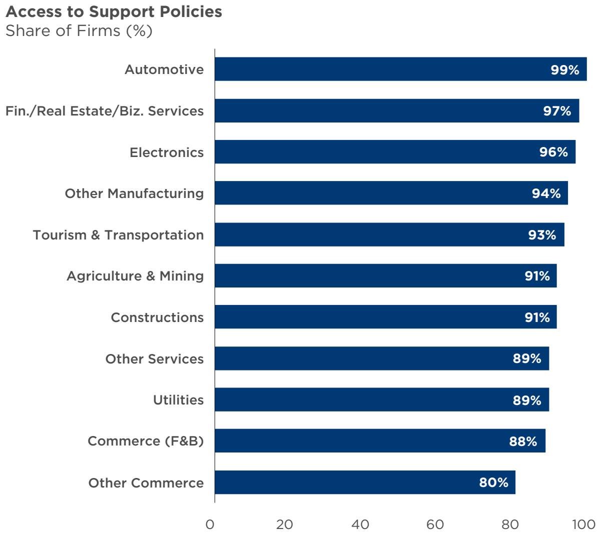
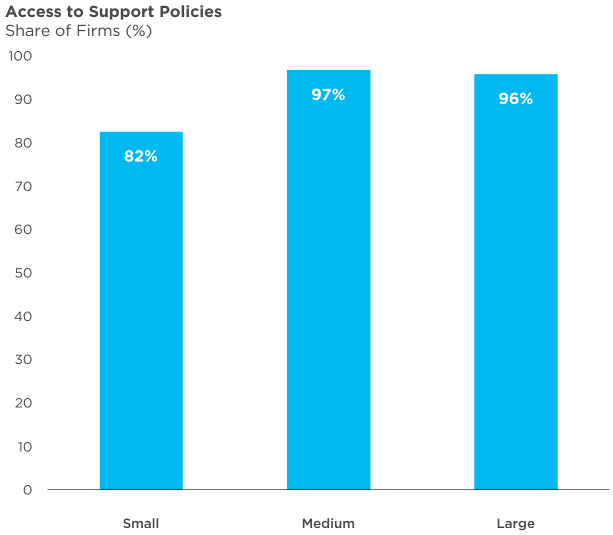


FIGURE 15

Share of small firms who accessed government support programs lagged that of large and medium sized firms



Electronics (96 percent). However, access to government assistance varied by size of firms with 80.5 percent of small firms reportedly received assistance compared to medium and large firms which are both above 95 percent (Figure 15).

The type of support received appeared relatively well aligned with the support desired by firms. Payment deferrals and wage subsidies are considered the most needed support policies by firms (Figure 16). Electricity deferral or discount and loan payment deferrals are the most accessed (Figure 17), followed by Employees' Provident Fund support (32 percent) and wage subsidies (28 percent).

FIGURE 16

Broadly the type of support received by firms...

Access to Support Policies
Share of Firms (%)

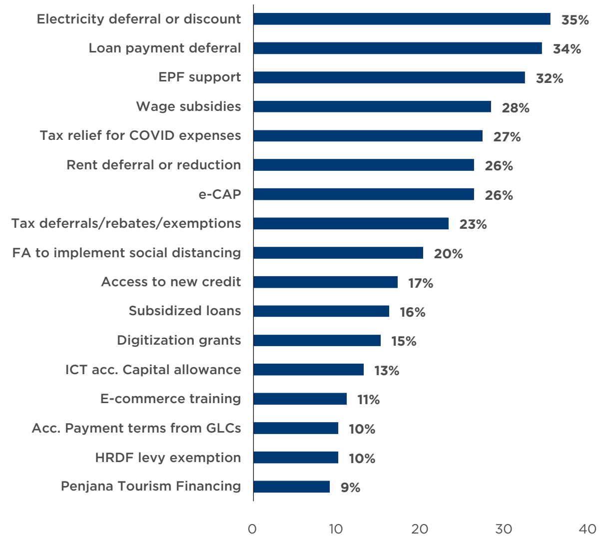
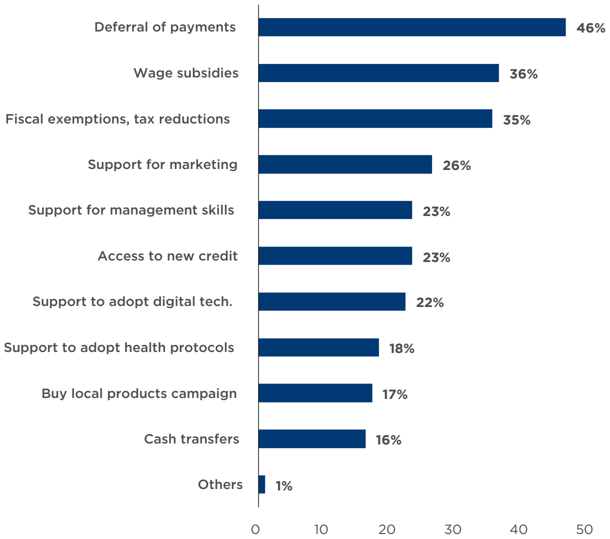


FIGURE 17

...are aligned with the type of supports received

Most Needed Support Policies
Share of Firms (%)



Businesses were asked which of the improvements in government policy implementation would benefit their business the MOST in the next six months. The top ranked implementation reform priorities for firms were expediting the approvals and disbursements for existing loans and grants under *PRIHATIN/PENJANA* (29 percent of firms) and improving predictability of the SOP regulations (26 percent of firms). These would be useful to keep in mind to successfully implement the economic recovery plan to ensure that firms are able to access the support they need to tide over this crisis.

Next Steps

Continued monitoring of the situation is required to understand how firms in Malaysia are recovering from and adapting to the COVID-19 crisis. Implementation for Round 2 of BPS is planned in February 2021 and the implementation for Round 3 of BPS is planned in June 2021. Efforts will be made to reach out to the same firms in the subsequent rounds to have a panel for the analysis. Once the results of Round 3 of the BPS are available, a final note that summarizes and analyzes all three rounds of the BPS will be produced.

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