

ROUND 1: MAY-JUNE 2020

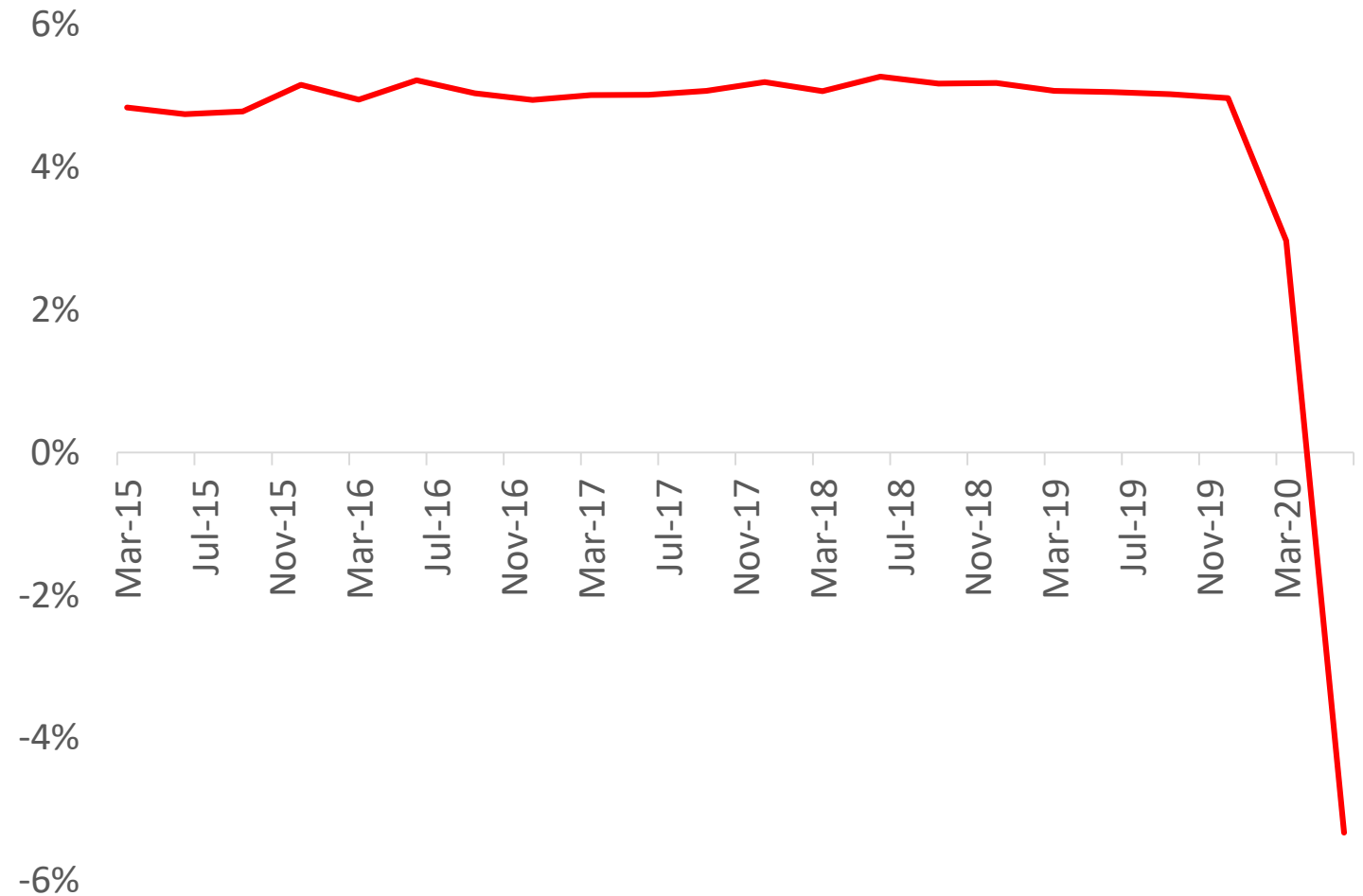
COVID-19 impact on firms in Indonesia

Results from the Covid-19
Business Pulse Survey



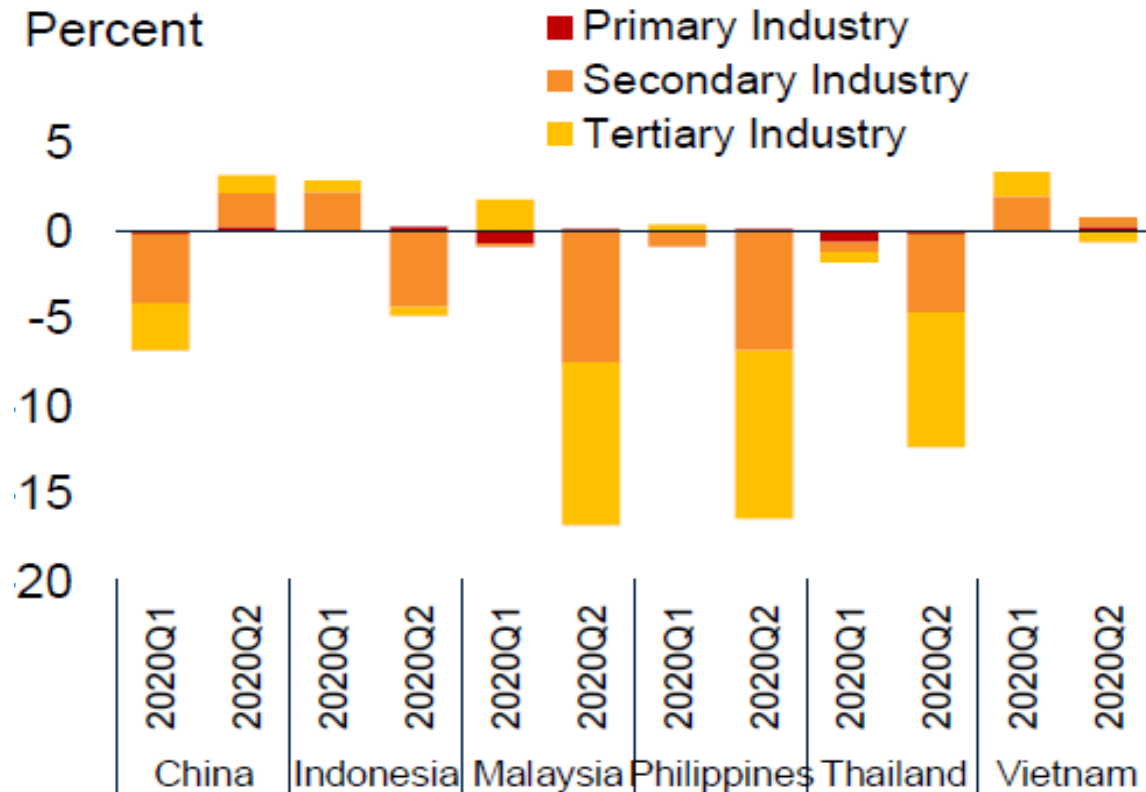
**COVID-19 crisis has hit
the economy hard...**

Y-o-Y quarterly GDP growth



...though not as hard as other countries in the region.

GDP growth by industrial sectors

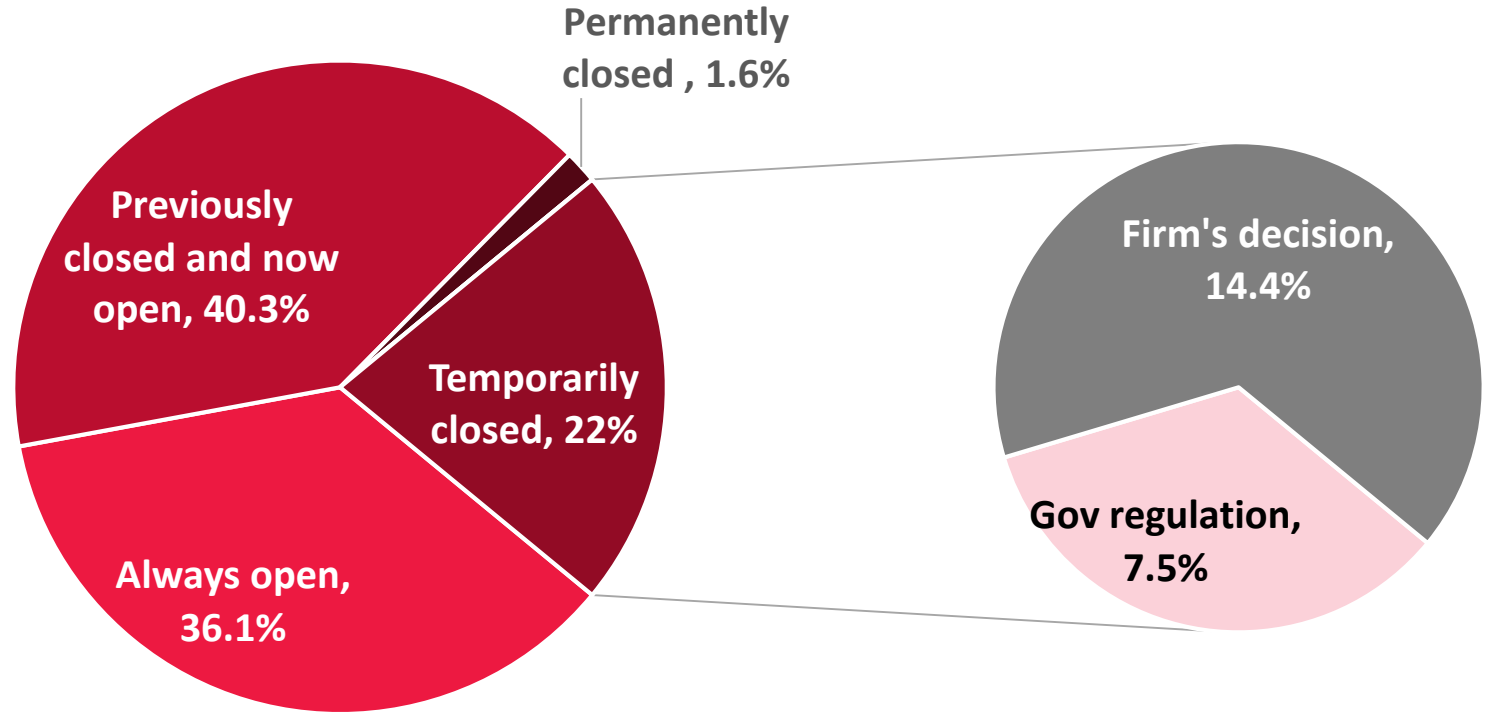


COVID-19 Business Pulse Survey in a Nutshell

- **Aim:** Monitoring COVID-19 impacts on firm operations and expectations
- **Frequency:** Every quarter for 4 rounds
- **Sectoral coverage:** 3 strata:
 - Manufacturing
 - High value-added services
 - Low value-added services
- **Firm's size:**
 - Micro: less than 5 workers
 - Small: 5-19 workers
 - Medium: 20-99 workers
 - Large: 100 or more workers
- **Sample:** 850 firms
- **Round 1:** June 15, 2020 – June 23, 2020
- **Data collection method:** Phone survey

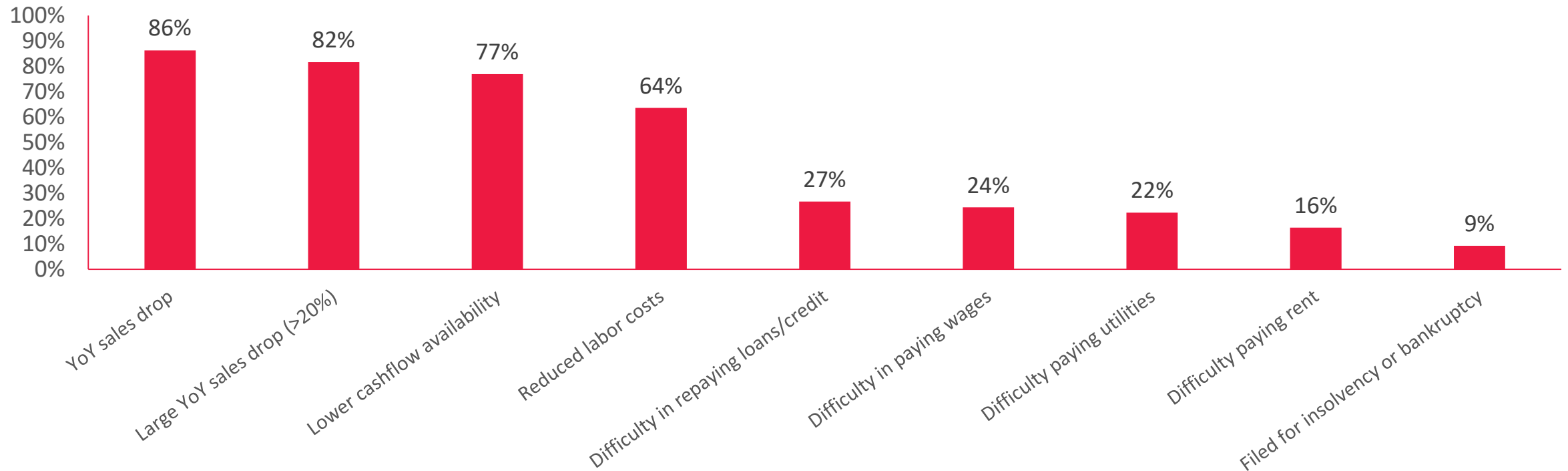
6 out of 10 firms have been or are closed due to the COVID-19 crisis.

- Only 36% of firms have been continuously open since March 2020.
- Still, 40% of firms that were previously closed due to COVID-19 restrictions have reopened in June 2020.
- 22% of firms are still closed temporarily as of June 2020, mostly based on their own decision.



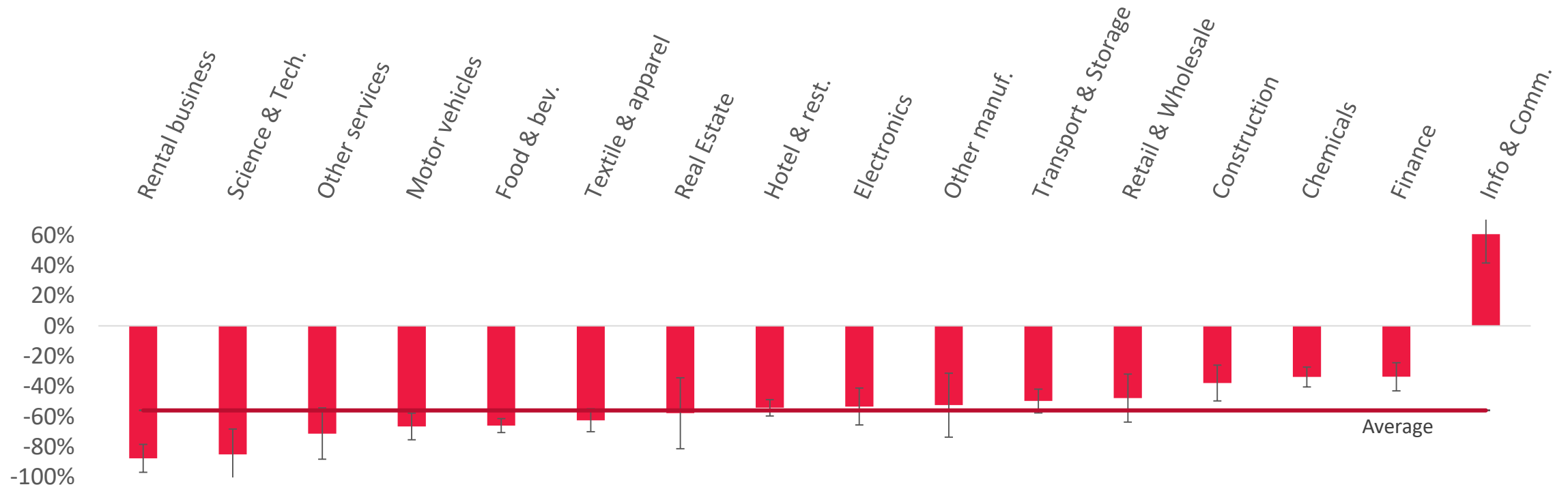
The crisis has hit Indonesian firms hard...

Share of firms that in the last month have experienced one of these instances or undertaken one of these actions:

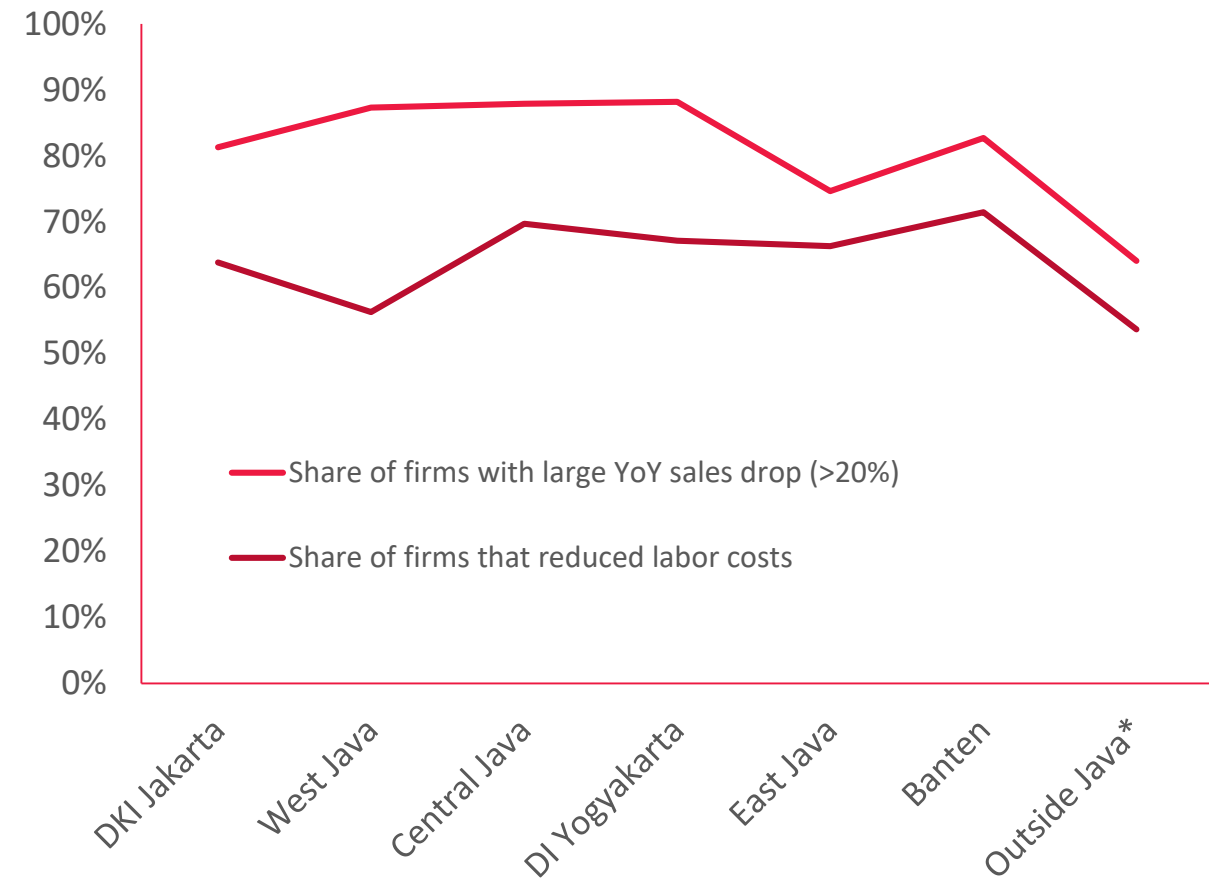
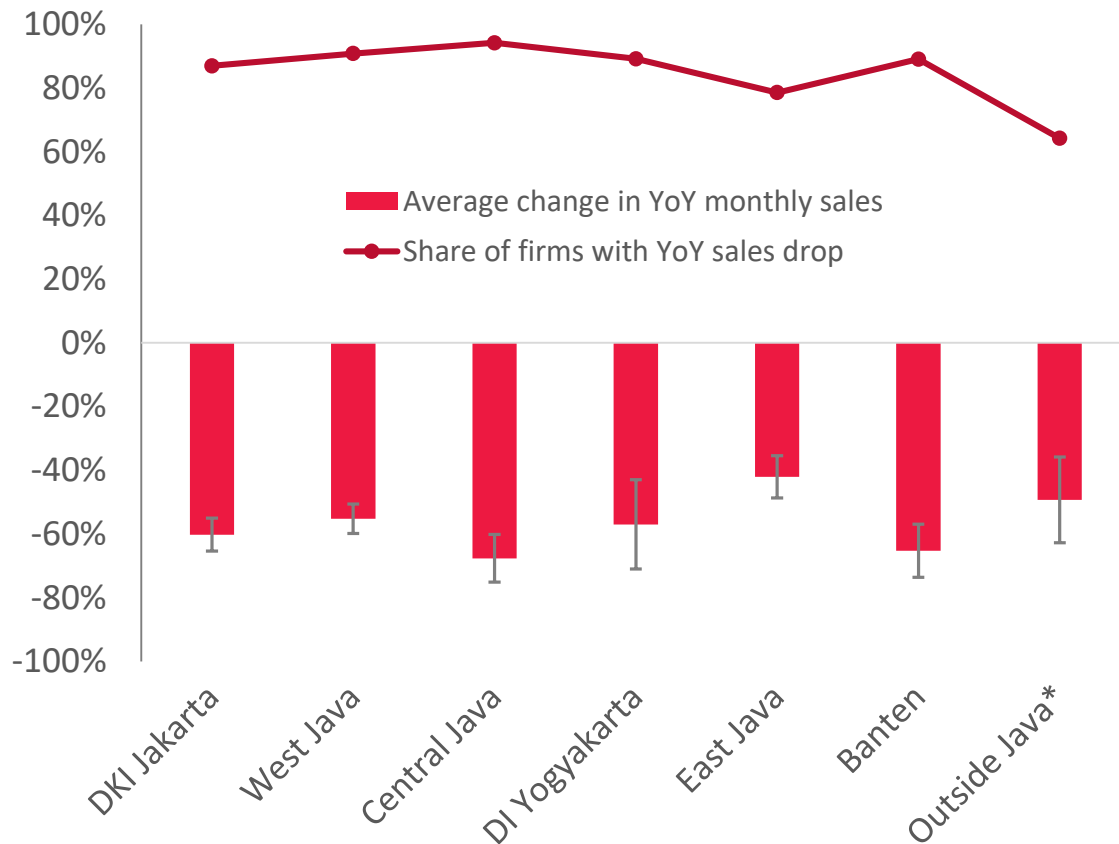


...in every sector of the economy but information and communication.

Average change in YoY monthly sales, May-June 2020

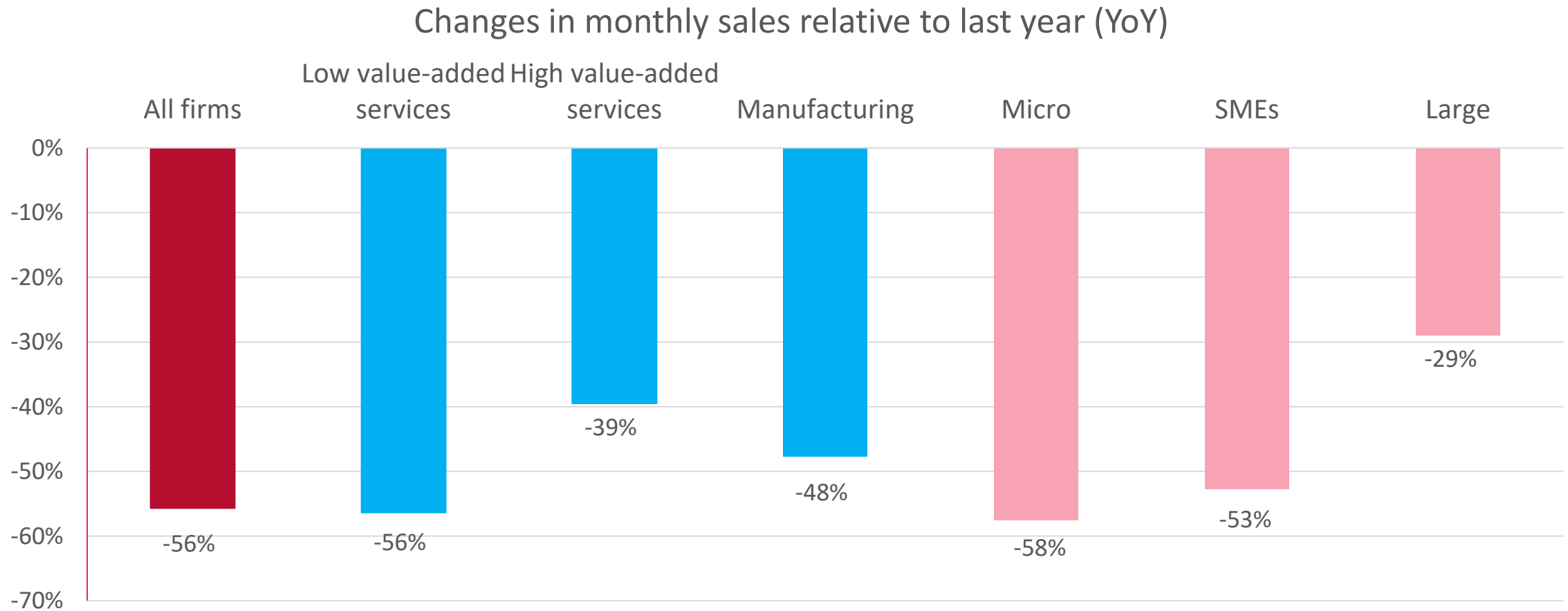


... in all provinces surveyed.

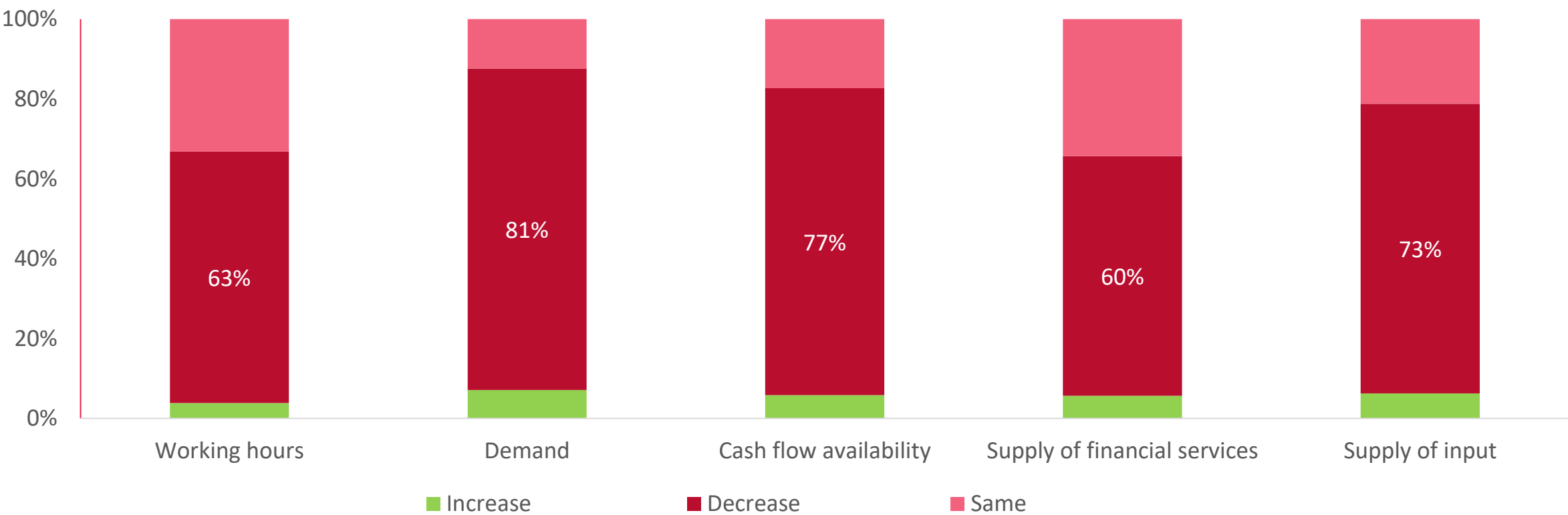


* Outside Java includes North Sumatra, Bali and South Sulawesi provinces, which due to the small number of firms from these provinces could not be presented by province.

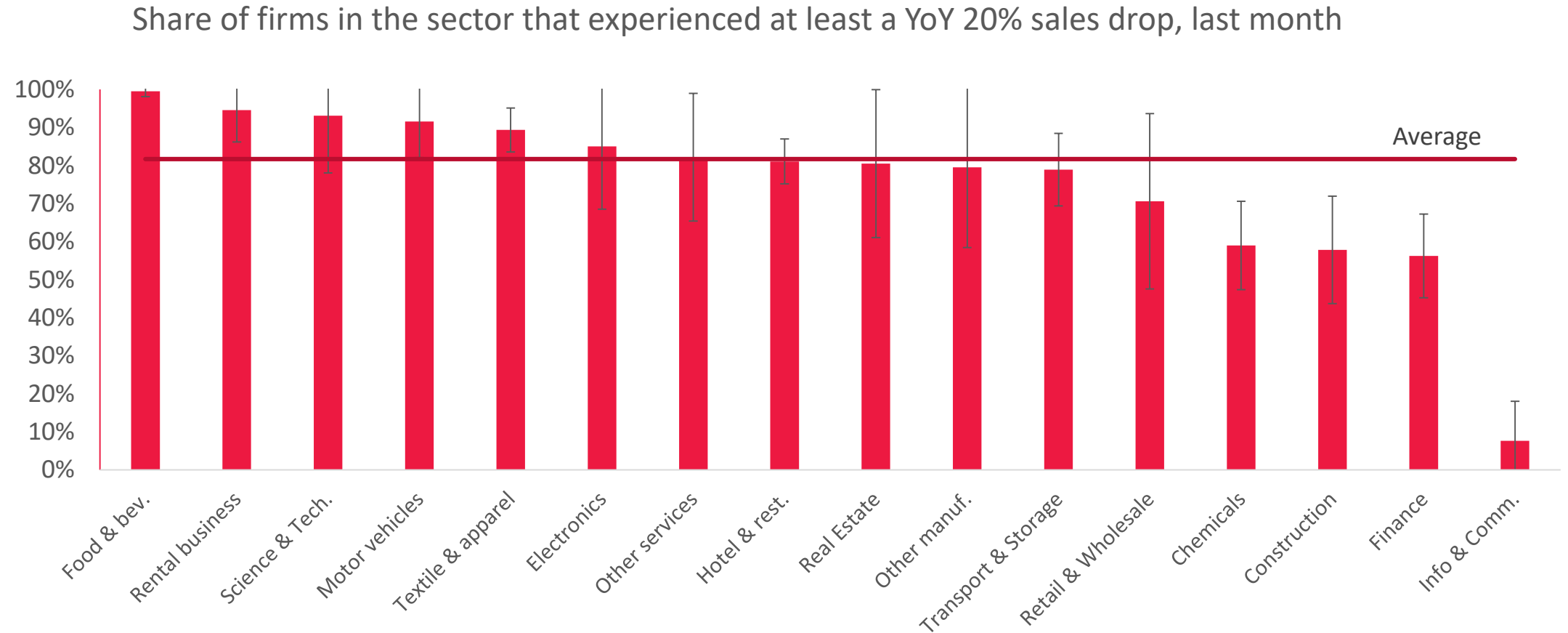
Tourism and the creative economy as well as MSMEs have been particularly hit.



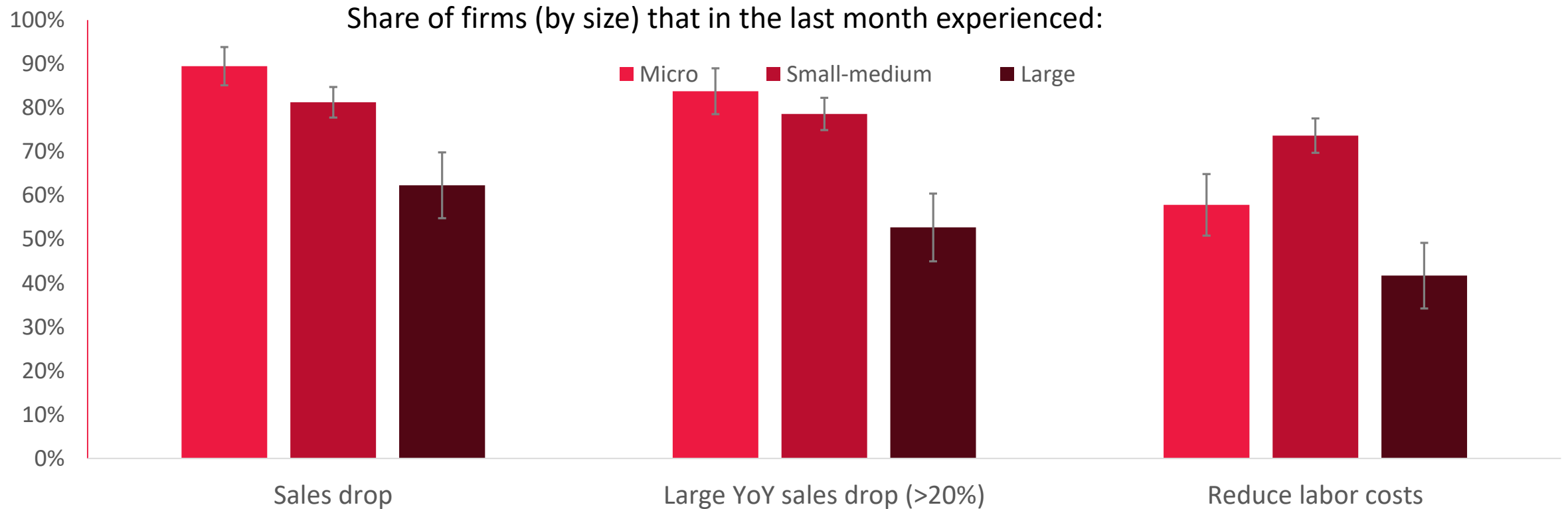
Compared to January 2020, most firms experienced lower demand and cash flow as well as input unavailability



Most firms in almost every sector experienced at least a 20% YoY sales drop in the last month.



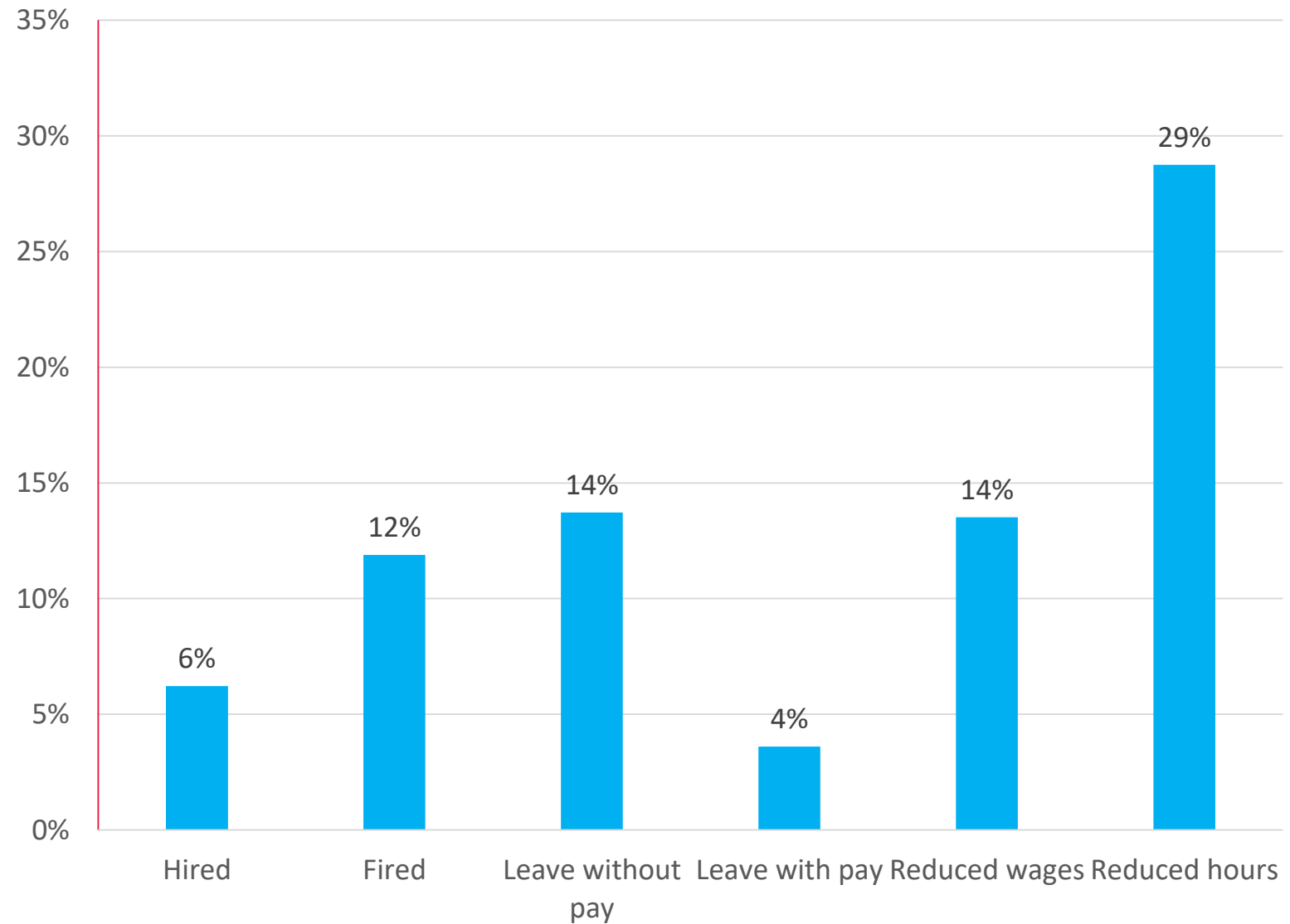
Micro firms have been more affected but are less able to adjust by reducing labor costs.



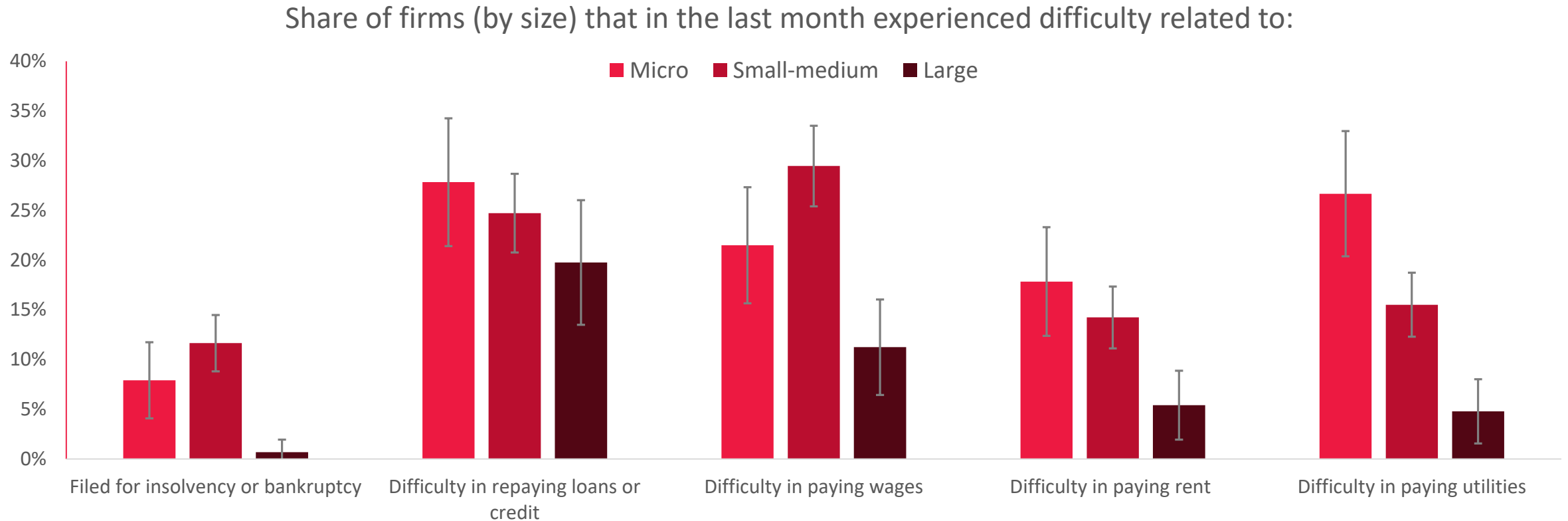
Note: Reduction in labor costs means the firm has undertaken at least one of these actions: i) fire workers; ii) reduce working hours (and hence pay); iii) reduce pay; iv) (forced) leave without pay.

**29 % of firms
reduced
labor costs by
adjusting
hours of
work.**

Employment adjustment in the last 30 days
(share of firms)

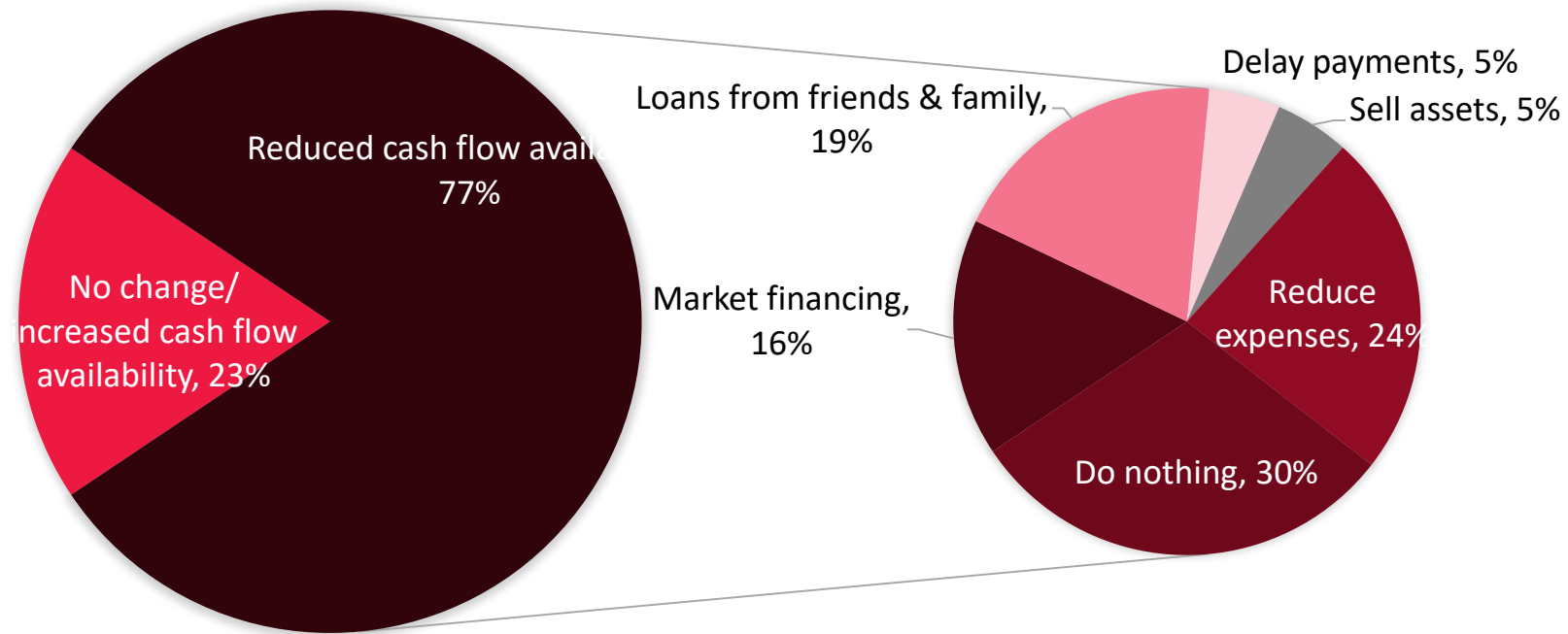


Many firms struggle to make ends meet, particularly micro firms.



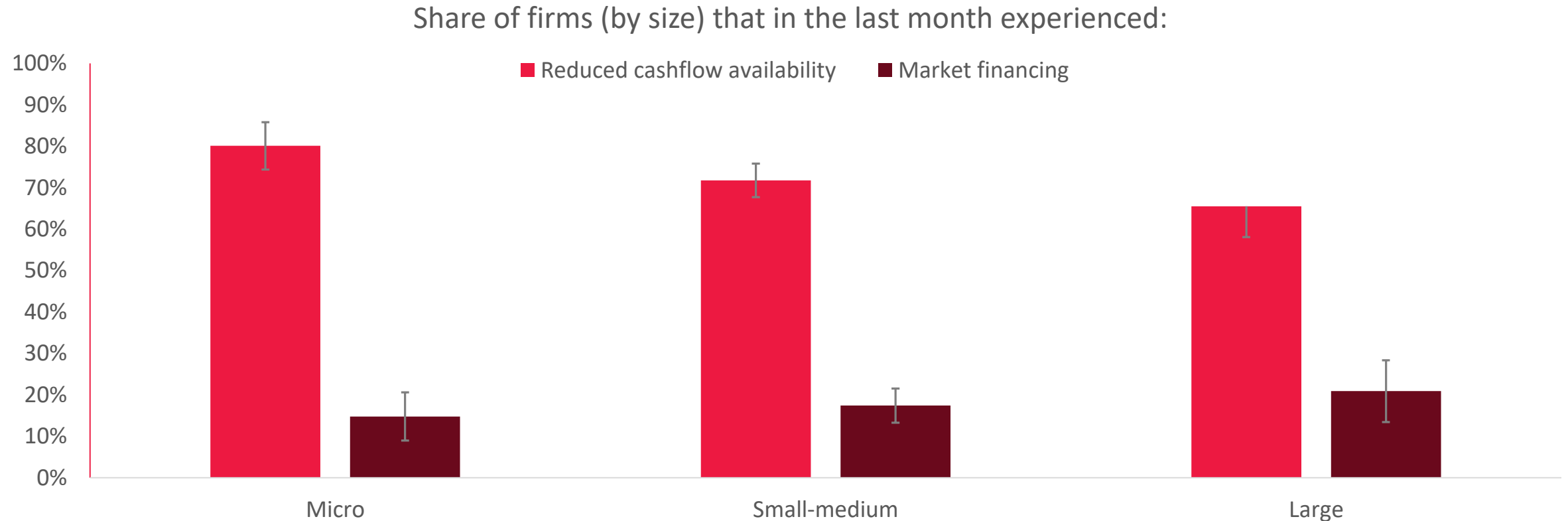
Most firms reported a decrease in cash flow, but only a few used market financing to deal with their cash flow situation.

Share of firms that in the last month experienced:



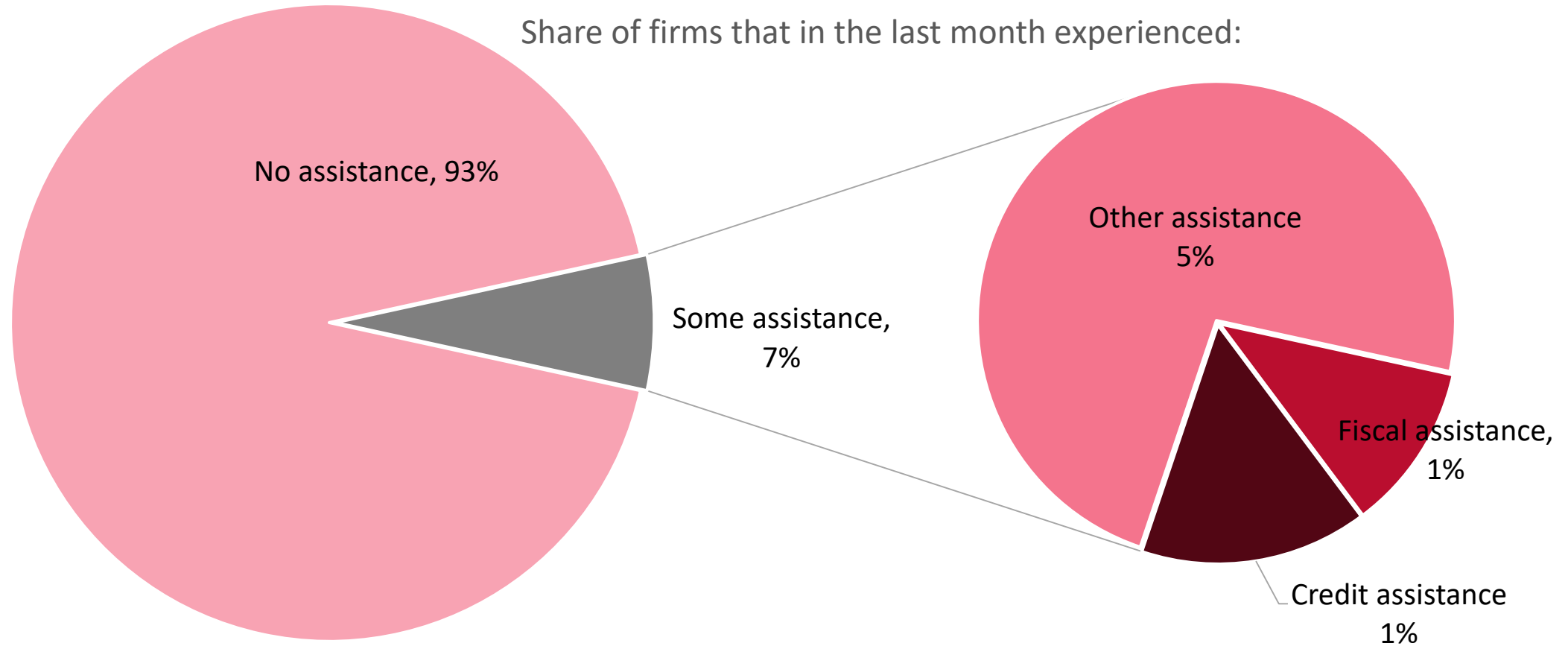
Note: market financing can involve loans from commercial banks or non banking financial institutions or equity finance.

Firms of all sizes make limited use of financial markets in response to reduced cash flow.



Note: market financing can involve loans from commercial banks or non banking institutions or equity finance

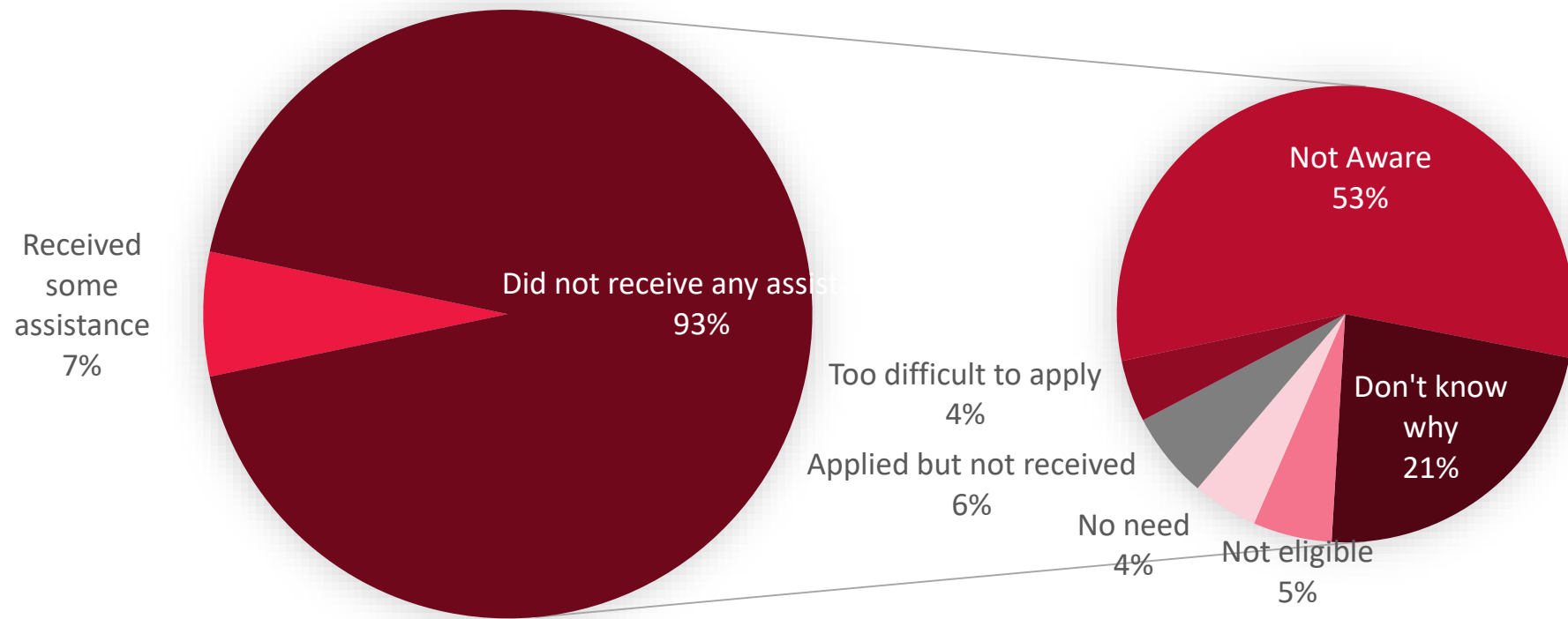
Only 7% of firms have received assistance from the government.



Note: Fiscal assistance includes: Fiscal exemptions or reductions and tax deferral; Credit assistance includes: Deferral of credit payments, suspension of interest payments, or rollover debt, access to new credit, and loans with subsidized interest rates; Other includes: Cash transfer assistance, deferral of rent, mortgage, or utilities and food assistance.

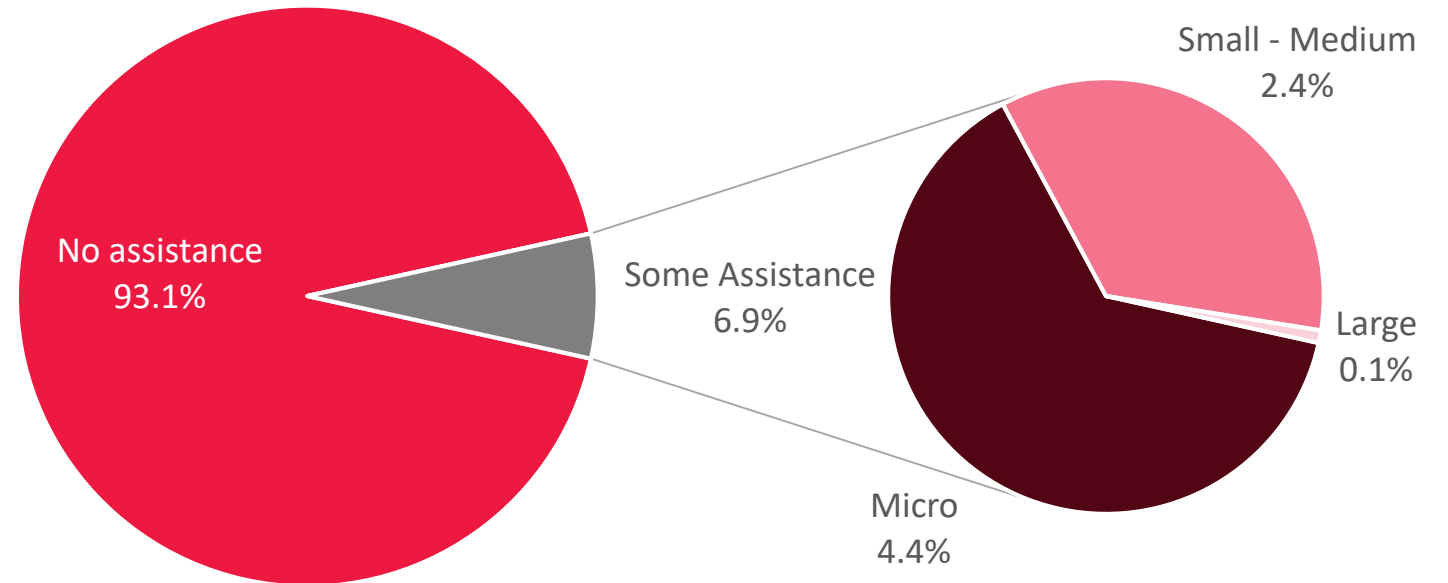
Firms are largely not aware that assistance may be available.

Reason why the firm has not received assistance from the government yet:



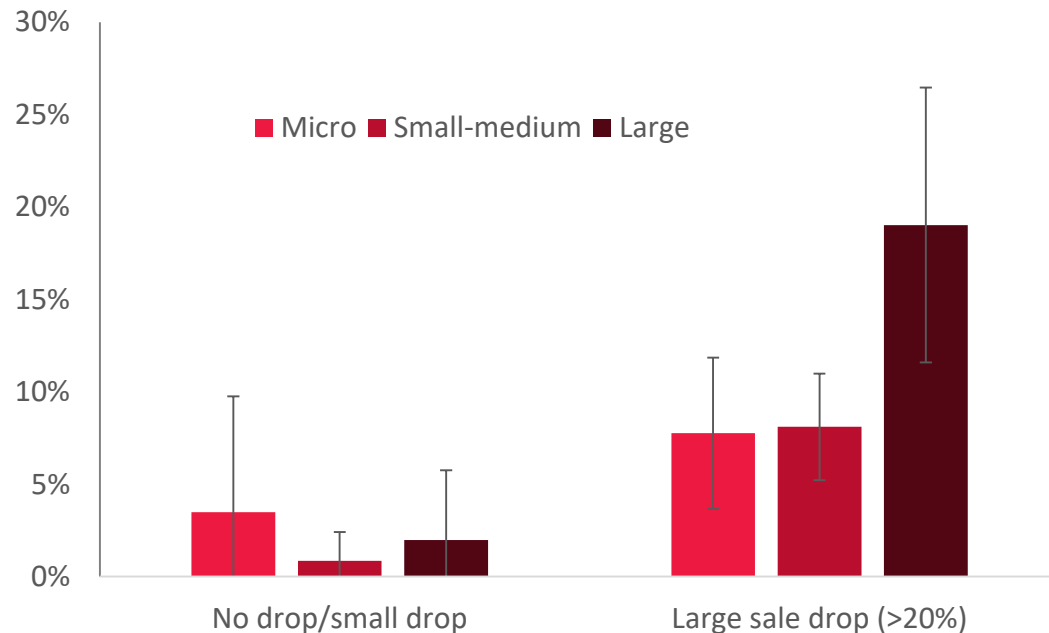
The majority of support goes to MSMEs.

Distribution of beneficiaries based on size



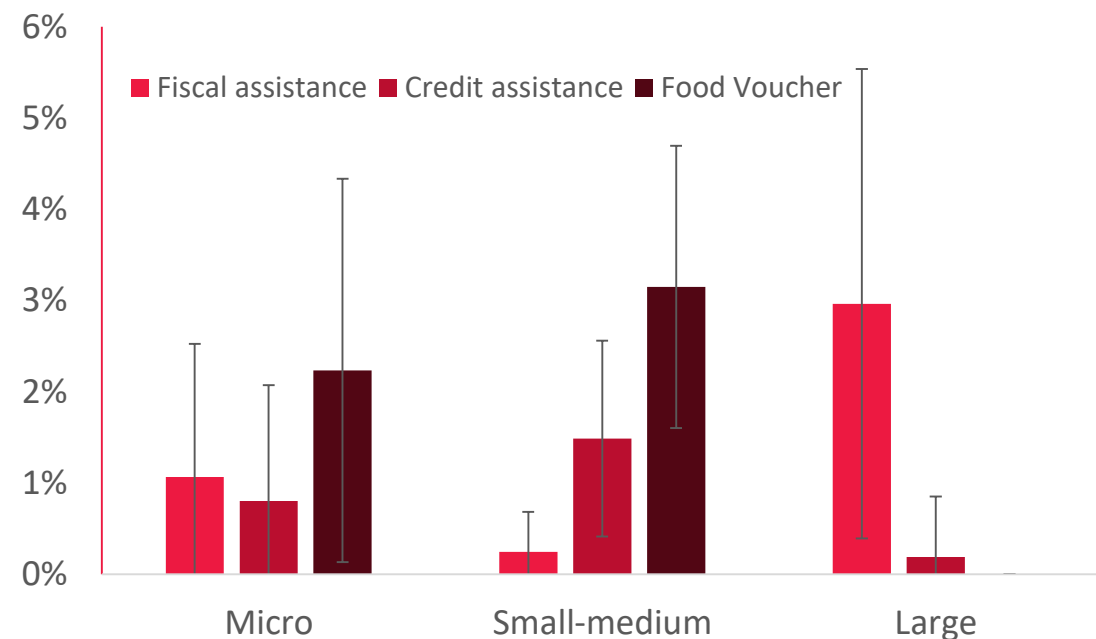
Among badly hit firms, large firms have received more assistance, largely because they can avail more of the tax instruments.

Share of firms (by size and severity of the hit) that have received assistance from the government:

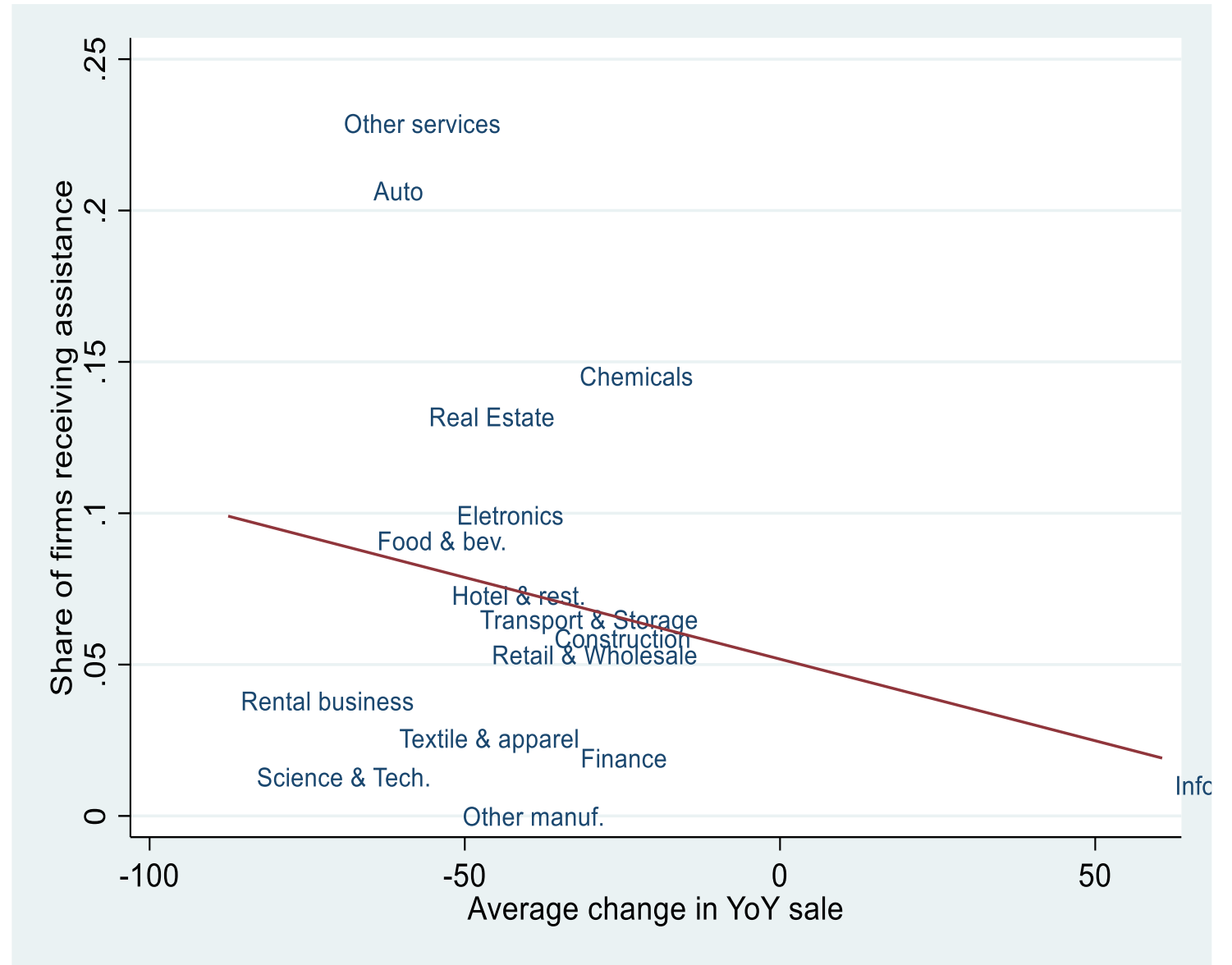


Note: A large sales drop consists of a YoY sales drop of at least 20% in the last month.

Share of firms (by size) and types of assistance received:

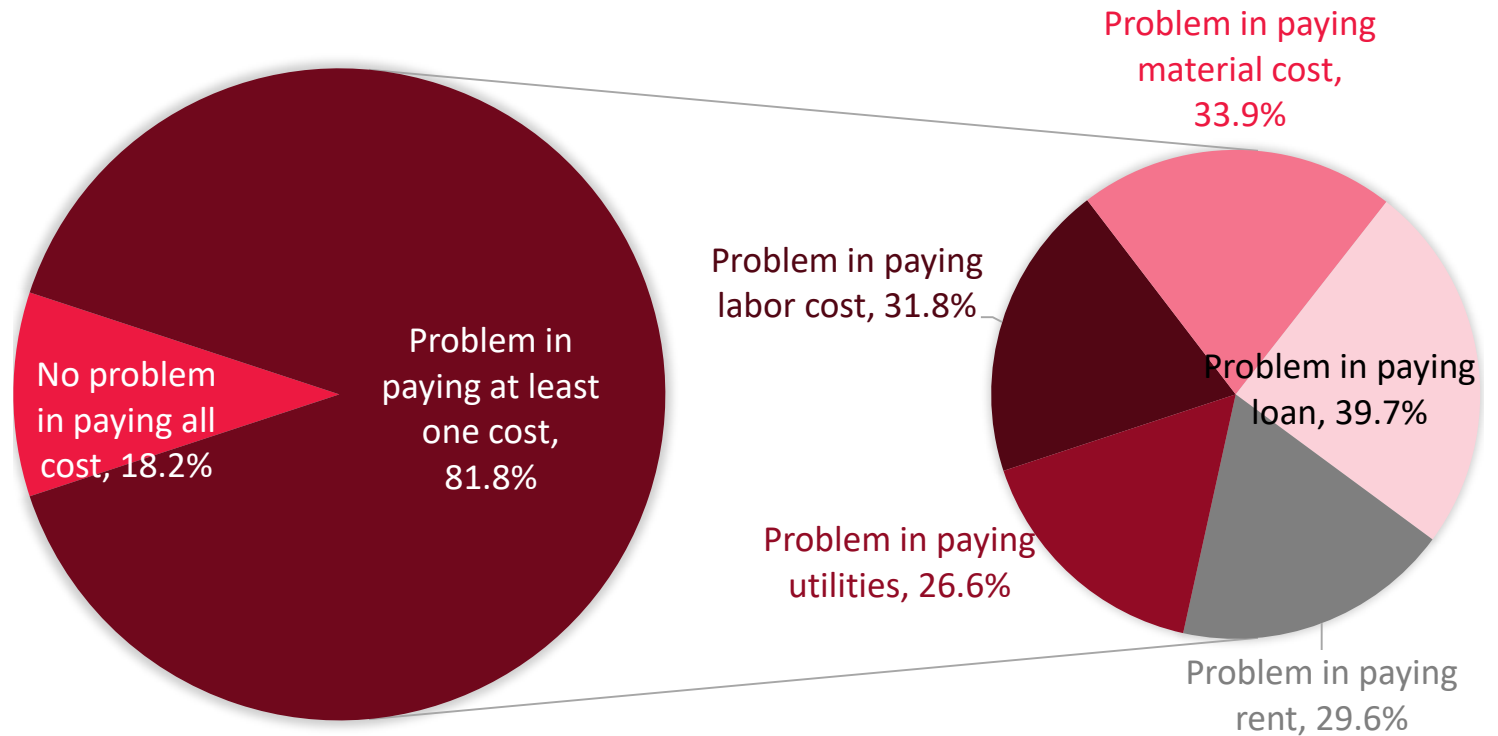


**More
assistance goes
to sectors more
negatively
affected by the
crisis.**



**8 out of 10 firms
have difficulty in
paying at least one
production cost for
more than the
next 6 months.**

Proportion of firms that can pay all production costs for more than 6 months and types of problematic cost



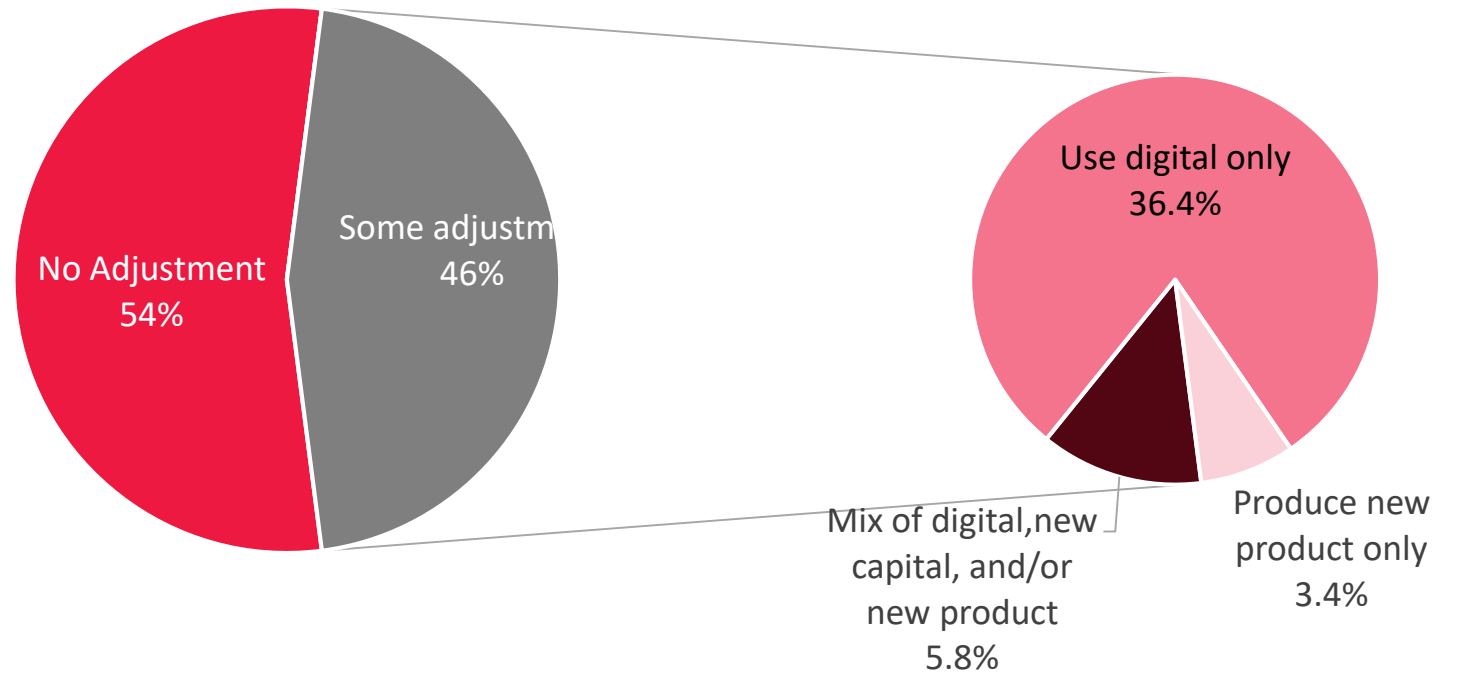
Note:

- Production costs include payments related to wages, raw materials, loans, rent and utilities.
- A firm is categorized as having a problem if it has limited cash/ability to pay at least one of the abovementioned production costs for more than the next 6 months.

Share of firms that adjusted their business process due to COVID-19, based on type of adjustments:

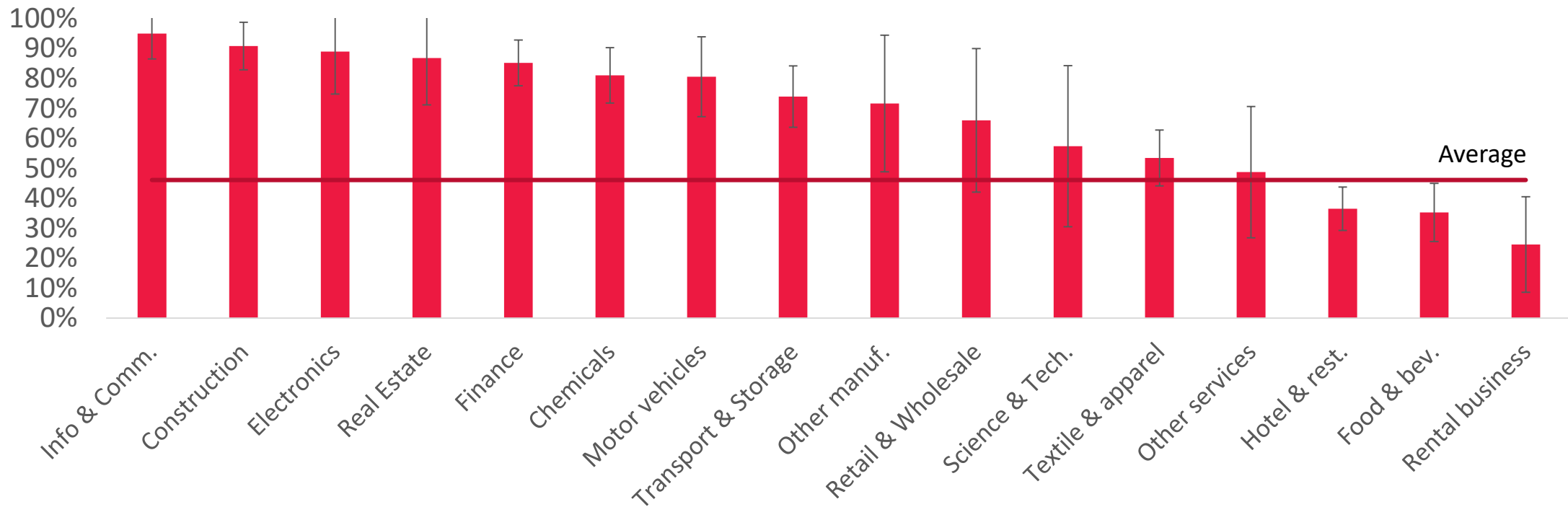
Most firms adjust by using a digital platform.

- 42% of firms started use or increased their use of the internet, social media, specialized apps or digital platforms in response to COVID-19.



Many firms make some adjustment, but less so in the rental services, food & beverage and hotel & restaurant sectors.

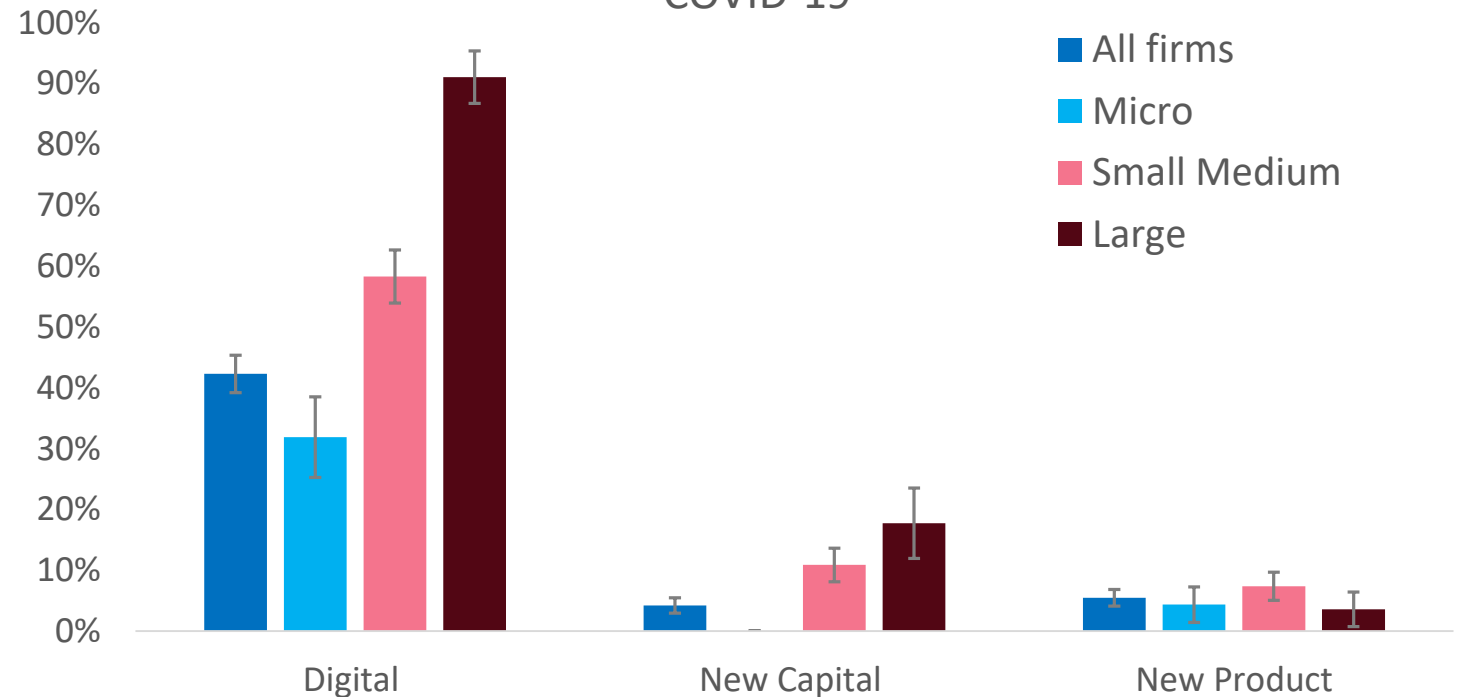
Share of firms (by sector) that adjusted their business processes as a result of the COVID-19 crisis:



Micro firms made few adjustments; large firms mostly go digital.

- The uptake of the internet, social media, specialized apps, or digital platforms is higher among large firms: almost 9 in 10 reported having started or increased use of digital in the past month.
- A substantially smaller proportion of firms invested in new equipment, software or digital solutions (4%) or changed their product/services mix (5%).

Share of firms reported making adjustments in response to COVID-19



Note:

- 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

Summary findings

- **Impact:** 86% of firms reported a reduction in sales. 73% of firms were affected by a decrease in input availability. With falling demand, 77% of firms faced a decrease in cash flow. Still, 40% of firms that were previously closed due to COVID-19 restrictions reopened in June 2020.
- **Responses:** Many firms (42%) 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.
- **Policy support:** Only 7% of firms accessed government support. Firms are largely not aware that assistance may be available.

Policy implications

Improve the impact of existing policies:

- Improve the effectiveness of the current support through **better communication**.
- Improve **ease of access to existing programs**, such as credit applications (e.g., Indonesia's microcredit program "KUR") and other market-based instruments.
- Improve the roll-out and expand eligibility of the **reduced/waived electricity expenses** for small firms, as many of them still struggle to pay utilities.

Consider new/adjusted policies:

- Provide targeted, time-bound assistance for **wage payment** to reduce the large income losses incurred by workers and to preserve valuable employer–worker relationships.
 - Use targeting, as widespread wage subsidies may be too onerous fiscally.
- **Reduce input costs** by eliminating non-essential checks and restrictions on imported inputs, fast-tracking other checks, and waiving import duties.
 - E.g., eliminate pre-shipment inspections, third-party verification of SNI compliance, port-of-entry restrictions, state import monopolies.

Annex

COVID-19 Business Pulse Survey in a Nutshell (further details)

Scope:

- COVID-19 impacts on firm operation's status (closed, temporarily closed, open, and if so, for how much longer; sales; and hiring/firing), through four main channels: (a) demand for products and services; (b) supply of labor and intermediate inputs/goods to resell; (c) cash flow and financial services; and (d) uncertainty.
- Expectations and uncertainty of businesses.
- Firm feedback on hypothetical and received government support measures/policies.
- Adjustment mechanisms in the business process (use of internet, etc.).

Sampling Frame

Data from the Occupational, Employment and Vacancy Survey (OEVS) collected in early 2020.

Sector	Source	Firm size*	Geographical coverage	OEVS sample Size	COV-BPS Sample Size
Manufacturing	Manufacturing Directory 2017	Medium and Large	North Sumatera, West Java, Banten, Central Java, East Java, South Sulawesi	843	280
Service - High Value Added	Economic Census Directory 2016	Medium and Large	Java and Bali	1481	285
Service - Low Value Added		Micro, Small, Medium and Large		1547	285

*Micro: less than 5 workers; Small: 5-19 workers; Medium: 20-99 workers; Large: 100 or more workers.

Instrument

For international comparability, the instrument builds on the global standardized COV-BPS. We added specific questions for Indonesia's COV-BPS.

Number of round of Survey

4 rounds: every quarter. The first two quarters are funded by the World Bank. For subsequent surveys, Bappenas aims to have them funded by an Australia-funded program (Prospera).

Sampling Methodology

- 3 strata: manufacturing, high value added services sector and low value added services sectors
- Total sample size is calculated using the economic census 2016 and directory of medium and large firms 2007
- Primary sample is selected using random sampling from each strata-substrata-province
- Replacement for an unavailable primary sample is drawn from the same strata, sub-strata and province
- *Note:* COV-BPS findings are likely a lower bound (of negative impact) given that firms that are closed have a lower likelihood of responding.

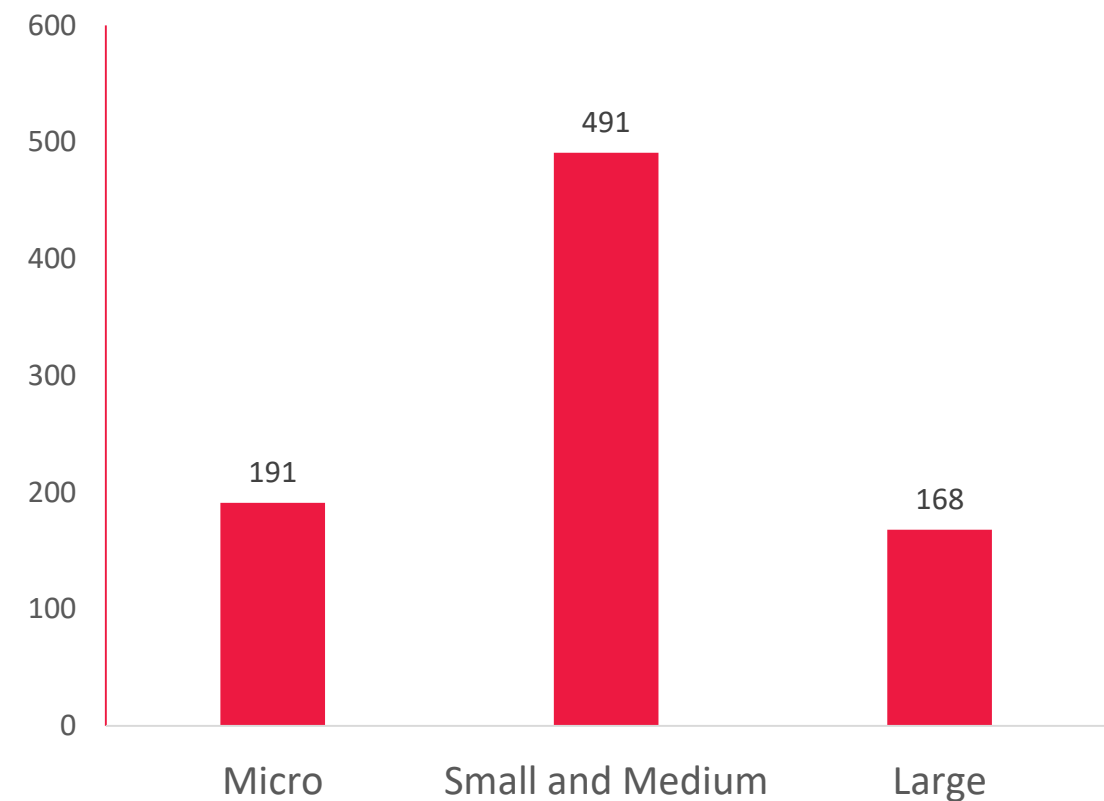
Data Collection Methodology

Phone Survey

Period of Survey:

June 15, 2020 – June 23, 2020

Number of firms: Sampled



Number of firms: Weighted Sample

