COVID-19 impact on firms in Indonesia

Results from the Covid-19 Business Pulse Survey
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 size (as of January 2020):**
  - Micro: less than 5 workers
  - Small: 5-19 workers
  - Medium: 20-99 workers
  - Large: 100 or more workers
- **Round 1:** June 15, 2020 – June 23, 2020
  - Sample: 850 firms
- **Round 2:** October 16, 2020 – November 4, 2020
  - Sample: 716 firms (or 84.2%) of round 1 firms. 134 respondents (15.8%) from round 1 could not be contacted or refused to be interviewed in round 2.
- **Data collection method:** Phone survey

9 out of 10 firms are open in October 2020, 12% up from June.

- 73% of firms were open in June 2020 and in October 2020. 16% of previously closed firms are open in October 2020, resulting in 89% of firms being open.
- 7% of firms remained closed in October 2020. 4% of previously open firms were closed in October 2020, resulting in 11% of firms being closed.
While firms still experience significant negative impact from COVID-19, compared to June 2020, the situation is improving.

Share of firms that in the last month have experienced one of these instances or undertaken one of these actions in June and October 2020

- YoY sale drop: 86% in Jun-20, 75% in Oct-20
- Large sale drop (>20%): 82% in Jun-20, 74% in Oct-20
- Reduced labor costs: 64% in Jun-20, 43% in Oct-20
- Difficulty repaying loans/credit: 27% in Jun-20, 22% in Oct-20
- Difficulty in paying wages: 24% in Jun-20, 18% in Oct-20
- Difficulty paying utilities: 22% in Jun-20, 17% in Oct-20
- Difficulty paying rent: 16% in Jun-20, 12% in Oct-20
- Filed for bankruptcy: 9% in Jun-20, 3% in Oct-20

Indonesia Covid-19 Business Pulse Survey

Round 2
This relative improvement happened for firms of all sizes and for all survey strata.

Average change in YoY monthly sales in June and October 2020

Note: The strata (statistical subpopulations) of this survey are low value-added services, high value-added services and manufacturing.
Indonesian firms are hit hard compared to those in Vietnam & Malaysia.

Average change in last month's sales, relative to last year

<table>
<thead>
<tr>
<th>Country</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines, Jul</td>
<td>-59</td>
</tr>
<tr>
<td>Indonesia, Jun</td>
<td>-56</td>
</tr>
<tr>
<td>Vietnam, Jun</td>
<td>-44</td>
</tr>
<tr>
<td>Indonesia, Oct</td>
<td>-42</td>
</tr>
<tr>
<td>Turkey, Jun-Jul</td>
<td>-42</td>
</tr>
<tr>
<td>Vietnam, Sep/Oct</td>
<td>-36</td>
</tr>
<tr>
<td>Poland, Jun-Aug</td>
<td>-23</td>
</tr>
<tr>
<td>Malaysia, May-Aug</td>
<td>-12</td>
</tr>
<tr>
<td>Malaysia, Oct</td>
<td>-8</td>
</tr>
</tbody>
</table>

Results for Indonesia, Philippines & Vietnam are estimated with weights. Results for Malaysia, Poland & Turkey are non-weighted.
75% of firms report problems in paying at least one production cost.

- 75% of firms reported limited cash/ability to pay at least one production cost for more than the next 6 months, down from 81% of firms in June 2020.

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.
Financial distress decreased slightly, yet smaller firms still struggle the most to make ends meet.

Share of firms experiencing these problems in June 2020 and in October 2020

- Difficulty in repaying loans or credit
  - Micro: Jun-20 25%, Oct-20 20%
  - Small-medium: Jun-20 20%, Oct-20 15%
  - Large: Jun-20 15%, Oct-20 10%

- Difficulty in paying rent
  - Micro: Jun-20 10%, Oct-20 5%
  - Small-medium: Jun-20 5%, Oct-20 2.5%
  - Large: Jun-20 2.5%, Oct-20 1.25%

Note: A firm is categorized as having a problem if it has limited cash/ability to pay these production costs for more than the next 6 months.
More large firms report difficulty in paying wages compared to June.

Share of firms experiencing these problems in June 2020 and in October 2020

- Difficulty paying wages
- Difficulty in paying utilities
Compared to Malaysia & the Philippines, less firms in Indonesia & Vietnam fired workers or reduced work intensity.

Share of firms (%) that laid off workers last month

- Vietnam, Sep/Oct: 11%
- Indonesia, Oct: 13%
- Turkey, Jun-Jul: 26%
- Poland, Jun-Aug: 27%
- Indonesia, Jun: 30%
- Malaysia, Oct: 36%
- Philippines, Jul: 41%

Share of firms (%) that adjusted employment by granting leave/reducing wages/reducing hours last month

- Vietnam, Sep/Oct: 18%
- Indonesia, Oct: 34%
- Indonesia, Jun: 45%
- Philippines, Jul: 52%
- Poland, Jun-Aug: 57%
- Malaysia, Oct: 67%
- Turkey, Jun-Jul: 73%

Results for Indonesia, Philippines, and Vietnam are estimated with weight. Results for Malaysia, Poland, and Turkey are estimated without weight.
3 in 10 firms need loan adjustment.

- 37% of the firms that need loan adjustment are/will be in arrears in the next 6 months.
While 42% of firms have no problem accessing finance, current market uncertainty prevents 26% of firms from accessing finance. 

Share of firms based on main obstacle in accessing finance:

- No problem, 42%
- Some problems in accessing finance, 58%
- Repayment risk due to market uncertainty, 26%
- High interest rate, 4%
- No collateral, 12%
- Too many outstanding loans, 9%
- Other, 7%
By October 2020, 49% of firms reported receiving government assistance, up from only 7% in June 2020.
The share of firms receiving Government support increased significantly in Indonesia; it is higher than in Vietnam but lower than in Malaysia.
While awareness is still an issue, non-eligibility is another main reason for not getting government assistance.

Note: BPUM = Cash transfer for micro and small firms; Subsidy for BPJS = Subsidy for premium of compulsory health insurance and worker insurance; Subsidi upah = cash transfer to workers in coordination between firms and the Government.
Most large firms received some type of support, while this percentage is much lower for micro and small/medium firms.

Note: BPUM = Cash transfer for micro and small firms; Subsidy for BPIS = Subsidy for premium of compulsory health insurance and worker insurance; Subsidi upah = cash transfer to workers in coordination between firms and the Government.
Badly hit firms, large firms, and firms in the high-value added sector have a higher probability of receiving government support in October 2020.

Probability of receiving assistance in October relative to each reference categories

<table>
<thead>
<tr>
<th>Strata (reference: High Value Added)</th>
<th>Size (Reference: Micro firms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Value Added*** Manufacturing</td>
<td>Small and Medium Large***</td>
</tr>
</tbody>
</table>

Marginal effect of the severity of crisis in June on probability of getting assistance in October

Note: 1. *** significant at 1% confidence level. 2. Bar represents marginal effect after logit of receiving assistance at-means.

Note: 1. * significant at 10% confidence level. 2. Bar represents marginal effect after logit at-means 3. This measures the marginal effect of 1 percentage point change in YoY sales in June on the probability of receiving assistance in October.
Expectation of future sales and receiving fiscal and other assistance significantly correlate with higher hiring probability.

Note: 1. * significant at 10% confidence level. ** significant at 5% confidence level. *** significant at 1% confidence level.
In October 2020, more firms use internet and digital platforms.

- Compared to June 2020, more firms go digital as a coping mechanism.
- In October 2020, 66% of firms already used, started use or increased their use of the internet, social media, specialized apps or digital platforms in response to COVID-19.
Most firms adjusted to COVID-19 by going digital.

- The uptake of the internet, social media, specialized apps, or digital platforms is higher among large firms: almost all already used, started or increased use of digital in the past month.
- A substantially smaller proportion of firms invested in new equipment, software or digital solutions (10%) or changed their product/services mix (7%).

Note:
- Digital = already used, 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

- Since June 2020, more micro firms adjust by adopting the use of internet, social media, specialized apps, or digital platforms. In October, 59% of micro firms went digital, up 25% since June.
- During this same period, more firms in the low-value added and manufacturing strata go digital than in high value-added services.

Share of firms that use digital in June and October 2020 (LHS) and increased share of firms that use digital between June and October (RHS)

Note: Balanced panel only. Digital = already used, starts to use or increased the use of internet, social media, specialized apps, or digital platforms.

Indonesia Covid-19 Business Pulse Survey

Round 2
Policy implications

**Improve the impact of existing policies:**
- Improve the effectiveness of the current support through better communication, including on eligibility.
  - While awareness is still an issue, non-eligibility is another main reason for not getting government assistance.
- Continue support programs, which seem positively correlated with a firm's hiring probability.
- Improve **ease of access to existing programs**, such as “subsidi upah” for small and medium-sized firms.
  - SMEs have the most difficulty in paying wages, but are barely accessing this instrument compared to large firms.
  - To ease the financial burden for firms, improve the design of “subsidi upah” by linking the existing program to reduced wage payment.
- Expand **access to the loan restructuring program to viable firms**, with sufficient disclosure on the criteria banks use to assess creditworthiness and with a clear exit strategy.
- Expand the **role of regulated microfinance institutions** to serve micro enterprises in low value-added services.

**Consider new/adjusted policies:**
- Improve the existing legal framework and allow firms, in particular SMEs, to **access the insolvency system more easily and at a lower cost**.
  - 3 in 10 firms need loan adjustment. 37% of these firms that need loan adjustment are/will be in arrears in the next 6 months.
  - If default becomes widespread, consider introducing an emergency mechanism that would encourage firms to resolve their financial distress out-of-court during crisis, such as the current COVID-19 crisis.
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),
- 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.

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

*a* 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.

**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.
- The second round is panel data of the first round.

**Period of Survey:** 14 October 2020- 6 November 2020

**Attrition Rate:** In the second round, data was collected from 716 firms (84% of the round 1 sample). 134 firms from round 1 could not be contacted and/or rejected the interview for round 2. The characteristics of the non-panel is similar to the panel data firms.
Summary of sample in Round 2: the exit rate is 15%, yet no significant difference in sales changes and share of firms experiencing a sales drop between firms that remain in the sample and those that exit.

Sample by firm size - Round 1 and Round 2

<table>
<thead>
<tr>
<th>Size</th>
<th>Round 1</th>
<th>Round 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>168</td>
<td>134</td>
</tr>
<tr>
<td>Small and Medium</td>
<td>411</td>
<td>491</td>
</tr>
<tr>
<td>Micro</td>
<td>171</td>
<td>191</td>
</tr>
<tr>
<td>All</td>
<td>850</td>
<td>716</td>
</tr>
</tbody>
</table>

Sample by strata - Round 1 and Round 2

<table>
<thead>
<tr>
<th>Strata</th>
<th>Round 1</th>
<th>Round 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>280</td>
<td>221</td>
</tr>
<tr>
<td>Tourism and Creative Economy</td>
<td>285</td>
<td>256</td>
</tr>
<tr>
<td>High Value Added Services</td>
<td>285</td>
<td>239</td>
</tr>
</tbody>
</table>

Comparison between firms that exited and firms that were interviewed in Round 2

<table>
<thead>
<tr>
<th>Metric</th>
<th>Exit</th>
<th>Remain in the round 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>YoY Sales change in June</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Always open in YoY sale drop in June</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big drop in June</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: No significant statistical difference between firms that exit and firms that remain in the sample.
Dynamics of firms’ size between January 2020 and November 2020

Micro: 61.7%
Small and Medium: 37.8%
Large: 0.5%

Indonesia Covid-19 Business Pulse Survey
Round 2