



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



IMPACT ASSESSMENT OF COVID-19 ON INDONESIA'S MANUFACTURING FIRMS

SURVEY RESULTS MAY-JUNE

Acknowledgments

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Disclaimer

This report provides information about a situation that is rapidly evolving. As the circumstances and impacts of the COVID-19 pandemic are continuously changing, the interpretation of the information presented here may also have to be adjusted in terms of relevance, accuracy and completeness.

Key findings

- i) The study finds that **small- and medium-sized enterprises** have been hit hardest by the COVID-19 pandemic and containment measures. Nearly 60 per cent of all respondent firms reported that at least half of their employees have been unable to go to their workplace due to the government restrictions. This has led to a severe reduction in business operations, especially for SMEs and technology firms.
- ii) The majority of firms emphasize that if the COVID-19 restrictions continue, they **may be forced to close their business operations** within six months; however, some firms remained optimistic that **they would be able to recover quickly** if the pandemic and the related restrictions were to end soon.
- iii) **The drop in market demand** is the biggest threat to a company's economic survival. The majority of firms confirm a decline in demand and revenue. Around 82 per cent of firms reported a reduction in orders, while 92 per cent expected their revenues to fall. The impact of a decrease in demand will affect the ability of businesses to function properly and will cause severe liquidity shortages. Some businesses have considered a reduction of staff, as they are unable to continue paying their staff's salaries. Findings show that SMEs are more vulnerable to the economic consequences of 'social distancing' measures than larger companies.
- iv) **The shortage of cashflow is reported** as the second biggest problem businesses are facing due to government containment measures. The survey shows that 81 per cent of firms expect a loss of revenue of more than 50 per cent in 2020 compared to 2019, regardless of the firms' location (whether inside or outside the provinces with high infection rates).
- v) Around 40 per cent of businesses surveyed have received government support. The majority of those firms stated that **government support has been beneficial**. Of all firm types, low-technology firms account for the lowest share of businesses benefitting from government support compared to those in other industries, with only 34 per cent of low-technology firms reporting to have received government support. Small-size firms have less access to support provided by the government's stimulus schemes.

- vi) The government support received by the microenterprises in the form of interest subsidies and recap guarantee relief programmes (KUR, PMN, Pengadaian) was the **favoured form of government support**. The firms' second most favoured scheme is a 6-month tax exemption or tax-rate reduction. Firms have clearly benefitted from government assistance, which has yielded positive results for the continued survival of companies during the pandemic.
- vii) The majority of firms stated that the government should implement policies to **reduce the cost of rent and utilities**. This policy was proposed by 82 per cent of microenterprises and 72 per cent of food processing firms. In the context of the pandemic, firms would like to see the government provide additional support to businesses to remain afloat in the midst of the crisis.
- viii) This study highlights that **SMEs need direct support from the Government of Indonesia** in the form of new financial schemes for MSMEs, providing capital loans designed to stimulate business and complement existing MSME-related policies. SMEs outline their financial difficulties in the survey, and would like to see the government assist them with liquidity shortages and overall assistance to ensure the continuity of their business. However, further steps are necessary to help SMEs become more resilient to future challenges beyond the pandemic.
- ix) This study recommends several policy options, including leveraging the current government support schemes, employment retention, building SME productivity and competitiveness, driving innovation and technology adaptation.

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1 Rationale

The worldwide outbreak of COVID-19 poses unprecedented socio-economic challenges for countries around the world. Countries are not only facing a health and humanitarian crisis, but an economic crisis as well. Restrictive measures aim to contain the transmission of the virus by limiting social contact and ensuring that individuals infected with COVID-19 and potential contacts isolate to protect public health, but they have also slowed down most economic activities.

Lockdown measures have halted or reduced the production of goods and services. This has had serious implications on national and global supply chains, businesses and workers' livelihoods. Due to the nature and scale of firms, the output of production of many small and medium enterprises (SMEs) has experienced a significant blow. In Indonesia, over 90 per cent of firms are classified as SMEs, thus the challenges they face will influence the stability of Indonesia's economy.

The United Nations Industrial Development Organization (UNIDO) has supported the Government of Indonesia since the 1970s, focussing in particular on SMEs. UNIDO seeks to promote inclusive and sustainable industrial development (ISID) through the implementation of various programmes and projects in cooperation with national institutions. To arrive at sound policy recommendations and assess relevant programmes that can address the impact of the COVID-19 pandemic on SMEs, UNIDO launched the survey "COVID-19 – Impact Assessment on SME Businesses". The survey assesses the impact of COVID-19 on firms and explores strategies to overcome the challenges. This survey has also been conducted in other Asian countries, including Malaysia, Thailand, Afghanistan, Bangladesh, Cambodia, Iran, Lao PDR, Mongolia, Pakistan and Viet Nam.

2 Method and data

2.1 Online survey

UNIDO Indonesia launched the online survey from June to July 2020 to better understand SMEs' situation, challenges and needs. The survey was launched in collaboration with the Indonesian Chamber of Commerce and Industry, Ministry of Cooperatives and SMEs. UNIDO has sought to capitalize on the organization's regional networks in Indonesia, including project partners and firms, to gain in-depth insights. This report presents the findings of the Indonesian survey.

The survey questionnaire was designed by UNIDO’s Department of Policy Research and Statistics and the Regional Hub Office in Thailand. The survey itself was based on the 2020 ESIEC¹ questionnaire on the Resilience of Micro, Small and Medium Enterprises under the New Coronavirus Outbreak (COVID-19). The questionnaire contained 23 questions comprising four sections: i) expected impacts of COVID-19; ii) current impacts of COVID-19; iii) dealing with COVID-19, including government support; and iv) general information about responding firms.

UNIDO Indonesia targeted approximately 500 small enterprises to participate in the online survey. However, only 151 SMEs filled out the questionnaire. The likely reason for the low response rate among SMEs is the numerous requests they have received from various national research institutions seeking to obtain data. Unsurprisingly, repeated requests for data sharing may lead to weariness and a low response rate.

2.2 Typology of firms

The respondent SMEs are classified into three categories:

- i) Small and medium enterprises (SMEs) are considered firms with revenues, assets or a number of employees below a certain threshold. The category ‘firm size’ in the questionnaire is based on number of employees.

In accordance with SME Law 20/2008², SMEs in Indonesia are classified on the basis of net assets and annual revenue from sales.

Table 1 Firm categories in Indonesia

Category	Assets (excluding land and building)	Annual revenue from sales
Micro	Up to IDR 50 million	Up to IDR 300 million
Small	Over IDR 50 million to IDR 500 million	Over IDR 300 million to IDR 2.5 billion
Medium	Over IDR 500 million to IDR 10 billion	Over IDR 2.5 billion to IDR 50 billion
Large	Over IDR 10 billion	Over IDR 50 billion

Source: Central Information Commission of Indonesia

¹ Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC), led by Peking University.

² <https://komisiinformasi.go.id/?p=1830>

- ii) Market orientation – we distinguish between two types of market orientation:
- Exporter: firms that sell more than 25 per cent of their production to foreign countries;
 - Domestic: firms that produce more than 75 per cent for the domestic market. “Domestic upstream” firms refer to businesses that sell intermediate goods in the domestic market; “domestic downstream” firms denote businesses that sell finished goods in the domestic market.
- iii) Industry group and level of technology of firms. Firms are grouped into three industries: i) food processing; (ii) low-technology firms (low-tech); and iii) medium- to high-tech firms.

2.3 Data

While 151 firms responded to the questionnaire, the responses of only 147 firms were returned completed and used for analysis. Of the 147 firms, 22 per cent were microenterprises, 64 per cent were small and medium enterprises, and the remaining 14 per cent were large firms.

The answers to some of the questions were not quantifiable. In such cases, we only included valid responses that can be quantified, and excluded responses that could not be quantified, such as “don't know” or “too early to state”. Information on the precise response rate is provided for those questions.

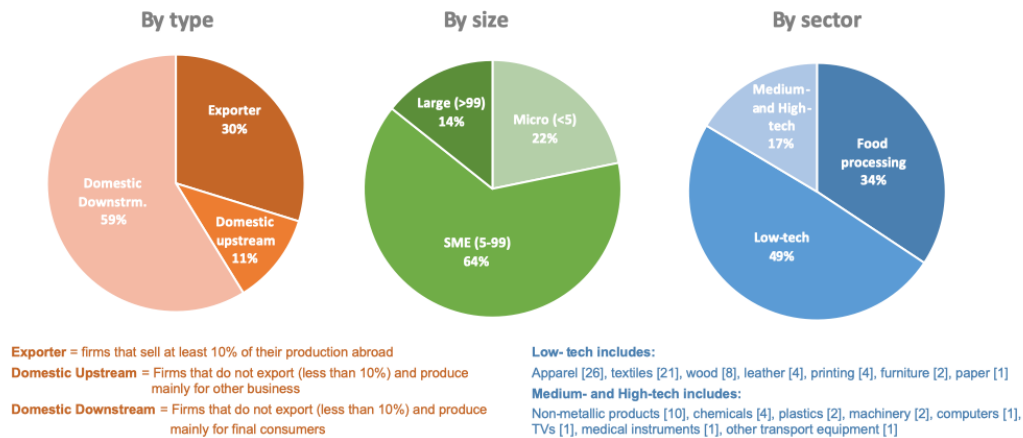
To complement the data derived from the online survey, we used secondary data from official sources, including government releases, news articles and related publications.

2.3.1 Respondent firms by type

Nearly 60 per cent of survey respondents were domestic firms that sold their products in the domestic market, primarily to final consumers; 30 per cent were exporter firms that sell at least 10 per cent of their products abroad. The remaining firms sell their products to other businesses in the domestic market.

Based on the survey results (Figure 1), half of the respondent firms were low-technology companies in various industries, such as apparel, textiles and wood products. Food processing firms made up 34 per cent of respondents, and the remainder (17 per cent) were medium- and high-technology firms.

Figure 1 Responses by firm type



2.3.2 Firms and COVID-19

The majority of firms are located in provinces with the highest number of COVID-19 cases: West Java (31.4 per cent of firms), Central Java (17.6 per cent of firms), and DKI Jakarta (16.3 per cent of firms), ranked 5th, 3rd and 1st in terms of COVID-19 case numbers. Information on the number of cases was obtained from the government’s official website, *Gugus Tugas Percepatan Penanganan COVID-19*³, or the COVID-19 task force established to deal with the pandemic. The task force was established by the Indonesian government to coordinate inter-agency activities to prevent and mitigate the impact of COVID-19 in the country. The task force was created on 13 March by Presidential Decree No.7 of 2020, and is directly accountable to the President of Indonesia. The task force coordinates the work of the National Disaster Management Agency, related ministries, agencies and other government units such as the Ministry of Health, the Indonesian National Police, the Indonesian National Army and local governments.

Information on case numbers was obtained from the task force’s website and WHO Indonesia reports at the end of July 2020⁴. The definition of provinces with high infection rates refers to provinces with more than 50 cases per day. Currently, the majority of provinces in Indonesia are dealing with a high COVID-19 infection rate, as illustrated in Figure 2 below.

³ <https://covid19.go.id/peta-sebaran>

⁴ https://www.who.int/docs/default-source/searo/indonesia/covid19/who-situation-report-18.pdf?sfvrsn=9fd5302_2

Figure 2 Geographic distribution of cumulative number of confirmed COVID-19 cases in Indonesia across provinces reported between 23 to 29 July 2020



Source: World Health Organization COVID-19 Situation Report)

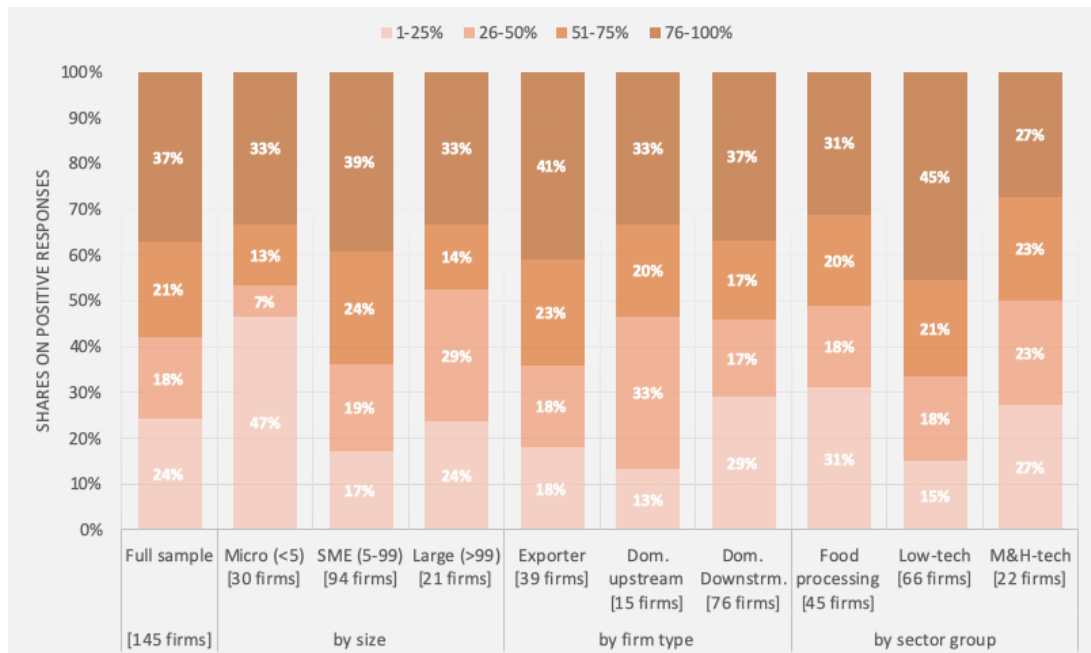
3 Findings and analysis

3.1 Current impact of COVID-19

a) The Government of Indonesia has been implementing extensive social distancing measures since 31 March 2020 to manage the COVID-19 pandemic by issuing Government Regulation 21/2020.⁵ Many local governments immediately followed suit, requiring companies to temporarily halt or reduce their business activities. The impact of this policy is reflected in the survey results (Figure 3), with nearly 60 per cent of respondents stating that half of their employees were unable to work. This is the case in particular for SMEs and low-technology firms since they are largely labour-intensive. Nearly 90 per cent of microenterprises and 66 per cent of SMEs reported a shortage of workers as one of their main operational difficulties (Figure 6).

⁵ https://jdih.setkab.go.id/PUUdoc/176085/PP_Nomor_21_Tahun_2020.pdf

Figure 3 Percentage of employees unable to work



b) The payment of wages and social security contributions were firms’ primary financial concern. The ability to pay invoices, loans and fixed costs was the second most reported problem by SMEs, especially because of expected cashflow shortages in the coming months, forcing them to make difficult choices and decide which payments to prioritize (Figures 4 and 5). A higher percentage of SMEs (66 per cent) and large companies (76 per cent) reported these financial issues to be their main problem, compared to microenterprises (44 per cent). Indonesian firms are required to contribute 2 per cent of their employees’ salaries (capped at a maximum of IDR 7,000,000 per month) to the Workers Social Security Fund (*BPJS Ketenagakerjaan* or *BPJS-TK*),⁶ which covers pensions, work accidents, death, and old age insurance. Large and medium-sized firms are more likely to have contributed to *BPJS-TK* in addition to other business expenditures compared to small and microenterprises. Microenterprises expect the biggest decline in revenue, with 92 per cent of respondent firms expecting a 50 per cent decrease. This figure is in line with the responses of the industrial groups, with 80 per cent of food processing and low-technology firms anticipating a 50 per cent decrease, as most of them can be categorised into one of the two groups.

When we look at firms’ market orientation, domestic upstream firms expressed the highest level of concern about the payment of wages (80 per cent), of invoices (73 per cent), and fixed costs (53 per cent) compared to other firm types. This may be one of the consequences associated with

⁶ <https://home.kpmg/xx/en/home/insights/2015/08/flash-alert-2015-104a.html>

firms' biggest business problem, namely a reduction in orders, with 93 per cent of domestic upstream firms citing this issue (Figure 7).

Figure 4 Main financial challenges

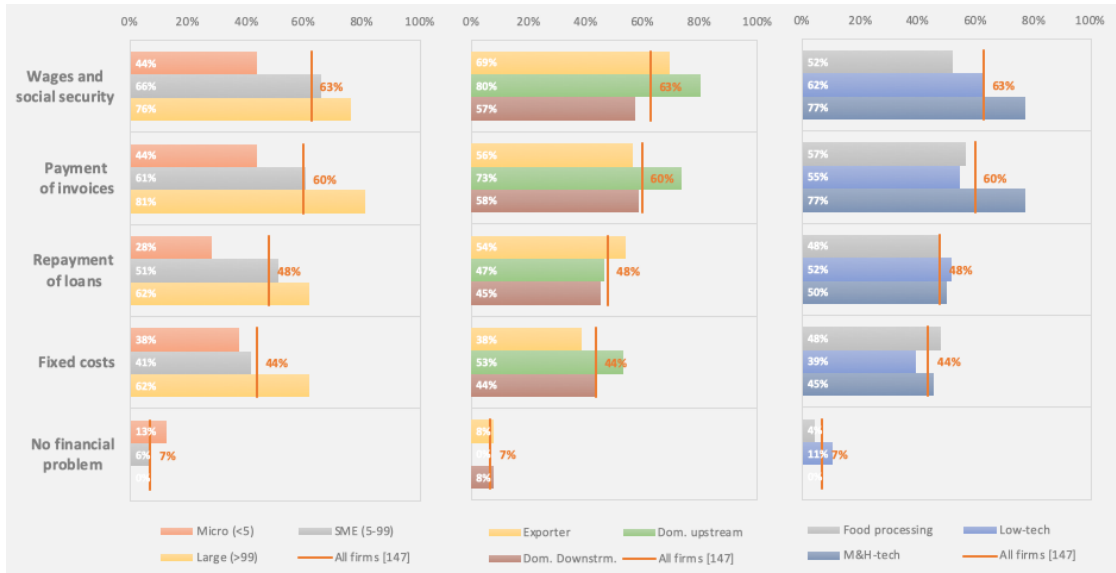
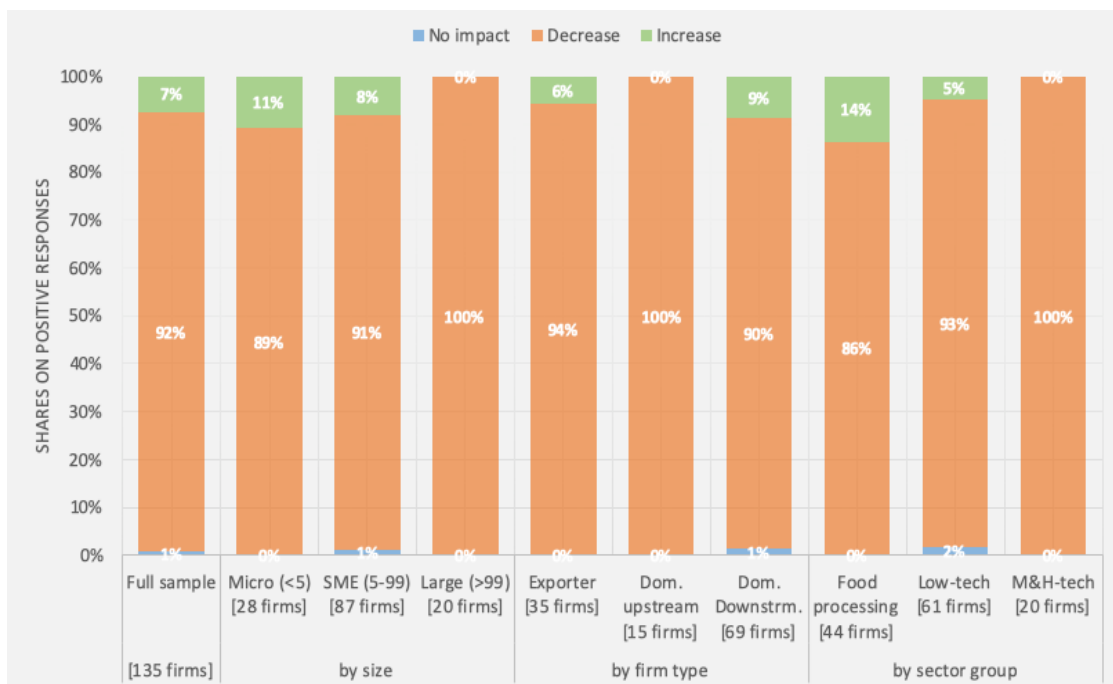


Figure 5 Impacts on revenue



c) Cashflow shortages represent the biggest operational challenge during the pandemic, with over 90 per cent of respondent firms of all sizes, types and levels of technology reporting this problem (Figure 6). The main cause, according to more than 80 per cent of firms, is a reduction in orders. One-third of firms, especially microenterprises and SMEs, also reported

increased difficulty in obtaining financing. Fulfilling contracts is also a major challenge for over 80 per cent of firms. Around 70 per cent of firms reported a shortage of inputs and workers, which may have been caused by the government’s containment measures preventing workers from returning to the workplace, thus disrupting value chains and logistics in the process. The disruption of logistics has affected large firms and medium and high-tech firms the most compared to other firms in their respective categories (Figure 7).

Figure 6 Main operational problems

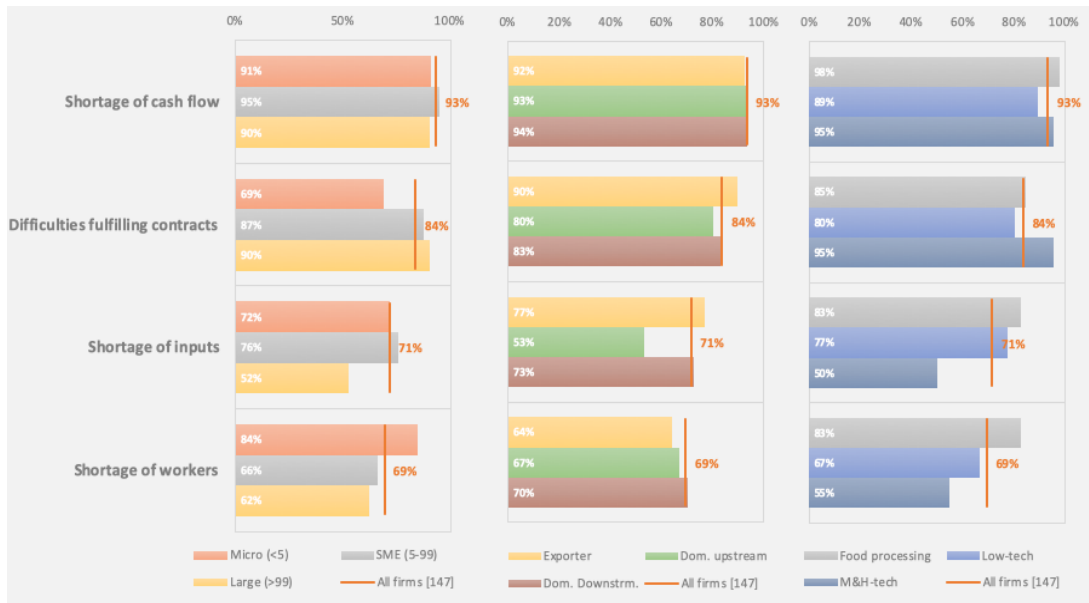
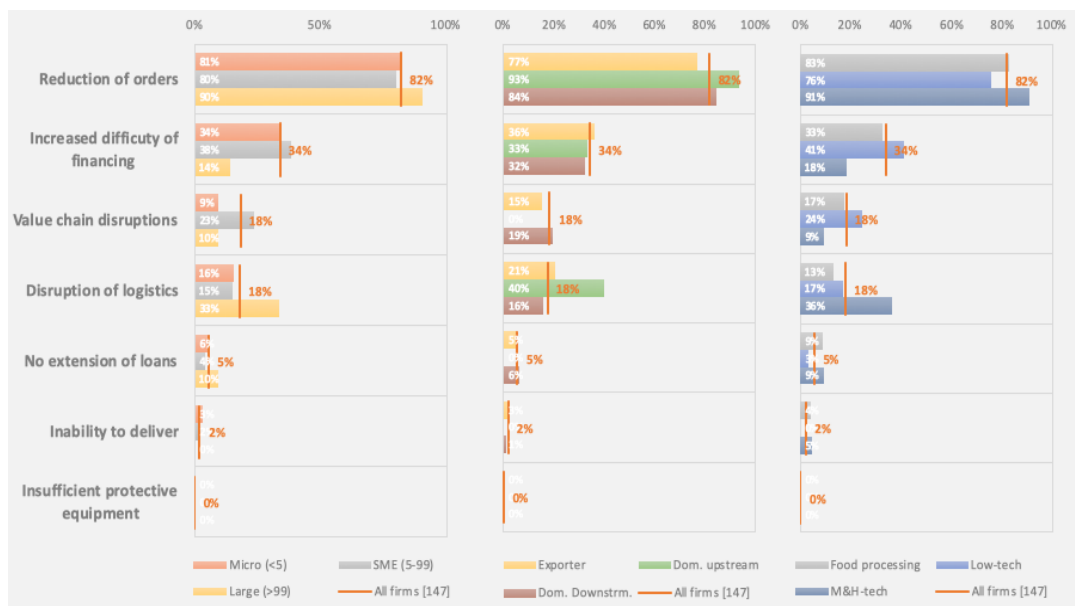


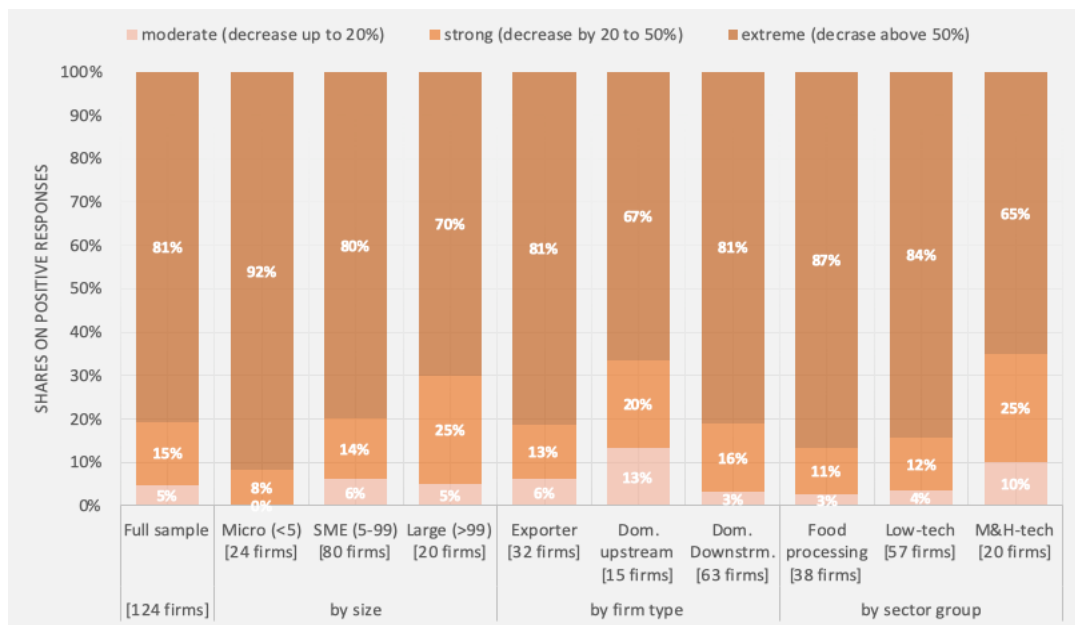
Figure 7 Main business problems



3.2 Expected impact of COVID-19

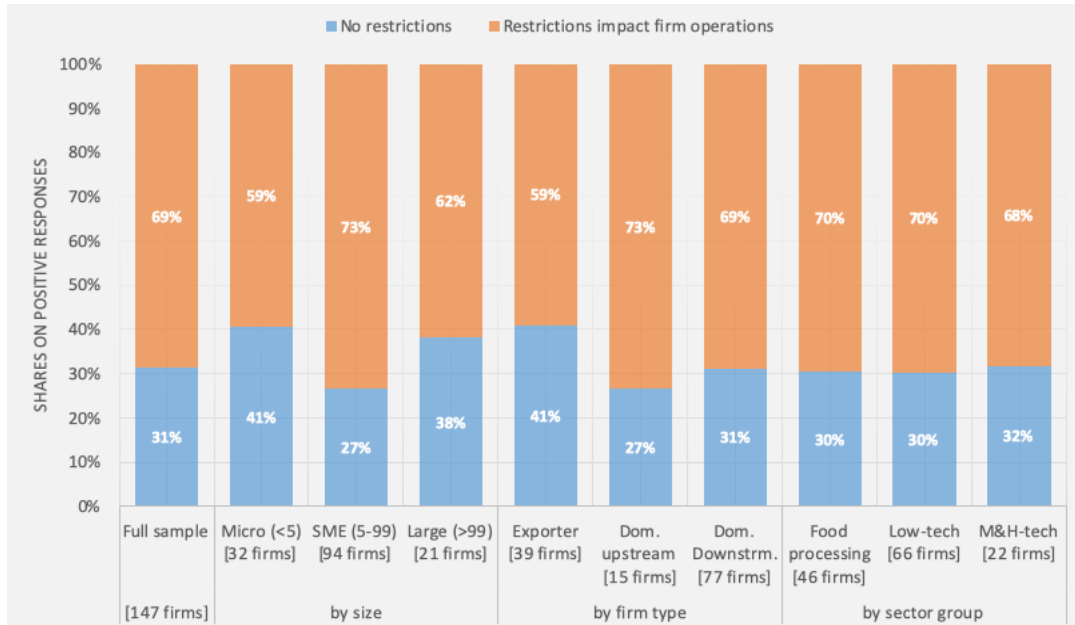
a) Many of the 124 respondents expected major losses in revenue this year, in particular microenterprises (92 per cent) stating that they anticipated a loss in revenue of over 50 per cent (Figure 8). Microenterprises did not favour layoffs as a means to save their business, with nearly 70 per cent of microenterprises stating that they were not considering layoffs. That said, half of the microenterprises that do expect to have to lay off employees might only be able to retain 25 per cent of their staff (Figure 9). This situation requires more attention, considering that major layoffs will lead to a high unemployment rate and could exacerbate the country's economic and social problems.

Figure 8 Expected loss in revenue (in %)



b) Furthermore (Figures 8 and 9), a quarter of large firms, as well as medium- and high-tech firms, demonstrated a level of optimism and expect a lower decrease in revenue for 2020, namely between 20 per cent and 50 per cent. Moreover, even those larger firms that expect to have to lay off staff are optimistic. More than 70 per cent of large firms expect to have to cut less than one quarter of their staff. There were slightly more exporter firms who are considering layoffs compared to domestic upstream and downstream firms, but there are more downstream firms that may have to lay off more than half of their staff compared to the other two firm types.

Figure 9 Government restrictions



c) Over two-thirds of respondents stated that the current restrictions (Figure 9) have an impact on them and nearly 60 per cent would have to shut down within six months, because their company’s cashflow would no longer be able to sustain their operations. Surprisingly, one-third of microenterprises and domestic upstream firms expected to be resilient enough to survive a year-long period of restrictions (Figure 10). Such resilience is shared with less than one quarter of large firms in the survey, while over half of the large firms stating that they would only be able to survive less than three months if the current restrictions continue. If large companies go out of business, the ripple effect could reach the national scale and last for an unpredictable amount of time, as their suppliers would also experience a number of business problems.

d) There are several possible reasons why an MSME could survive a year-long restriction:

- First, many MSMEs established their digital platform before the outbreak of COVID-19, and already successfully shifted from physical to digital work since the restrictions were imposed. This hypothesis is supported by data presented by Indonesia’s Coordinating Minister for Economic Affairs, Airlangga Hartarto, during a webinar on MSME adaptations to the ‘new normal’ in mid-July 2020. According to Minister Hartarto, as quoted by the state-owned news agency *Antara*, more than 300,000 micro, small, and medium enterprises had undergone a digital transformation⁷. Many MSMEs sell their

⁷ <https://en.antaranews.com/news/151032/over-300000-msmes-go-digital-amid-covid-19-pandemic>

products through their own websites, through social media such as Instagram and Facebook, as well as online marketplaces such as Tokopedia, Shopee, Bukalapak, Blibli and Lazada.

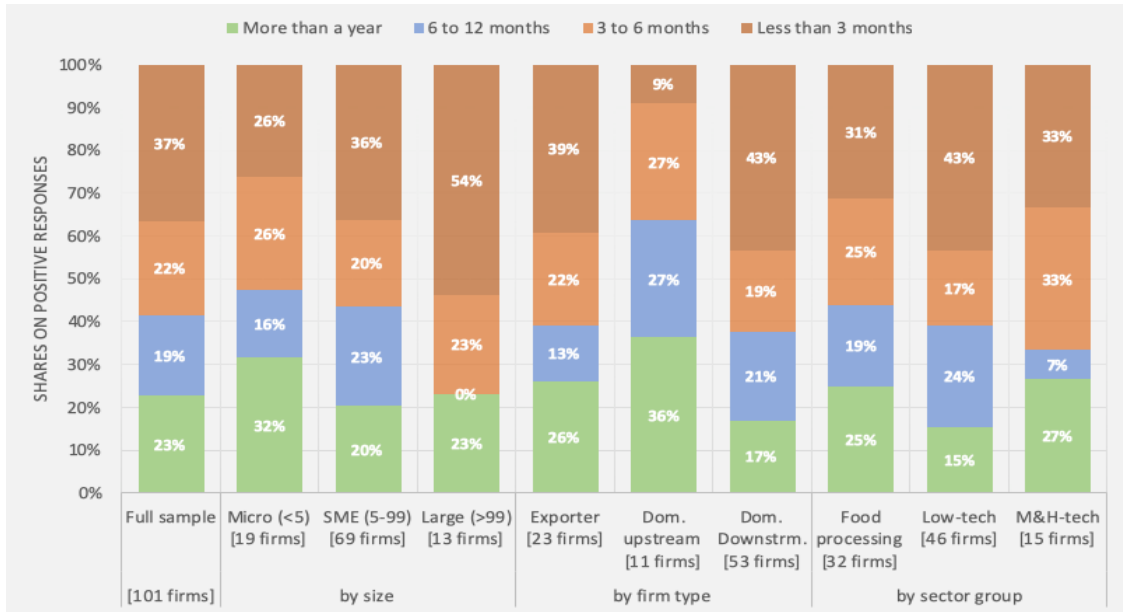
- Second, app-based delivery start-ups in Indonesia are thriving and can support MSMEs' digital transformation. Examples include Gojek, Grab, Paxel and Help. With the assistance of these goods delivery apps, especially of goods that are time-sensitive, such as food and beverages, MSMEs have continued to thrive during lockdown. The increase was recorded by Paxel, which offers flat-rate same-day inner city and intercity delivery through its Paxel Buy & Send Insight II with a network of 650 MSMEs⁸. Nearly 60 per cent of MSMEs surveyed reported an increase of new customers in other cities due to Paxel's intercity same-day delivery services.
- Third, many MSMEs demonstrated their agility by shifting away from their core products to the production of goods that are in demand. For example, restaurants and street food merchants have started producing frozen and vacuum-sealed food that customers can take home and enjoy. Many businesses have shifted their production facilities to produce and sell fabric masks and other personal protective equipment.⁹ Various skincare and wellness goods producers have started producing hand sanitizer and disinfectant products. These products have been highly sought after, with people being instructed to maintain a high standard of personal hygiene and sales of these products could help cushion the blow of the slump in demand for other products.

The combination of the three aforementioned factors could help many SMEs stay afloat amidst the ongoing coronavirus outbreak. It may also ignite a sense of optimism that their company could survive a year of restrictions

⁸ <https://industri.kontan.co.id/news/paxel-catat-57-ukm-alami-peningkatan-pelanggan-baru-di-tengah-pandemi-covid-19>

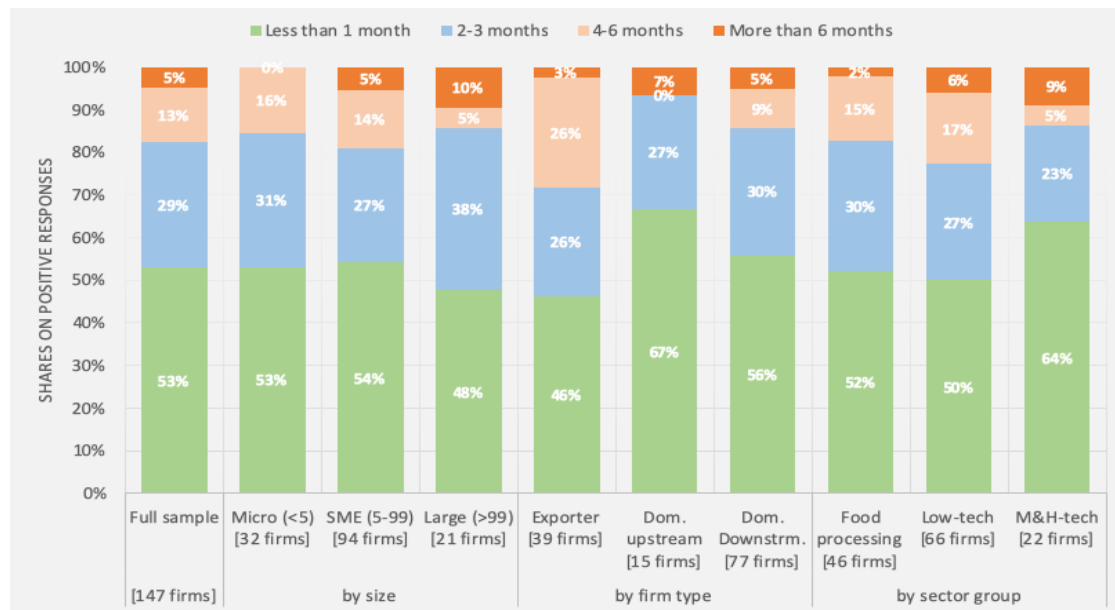
⁹ <https://katadata.co.id/agungjatmiko/berita/5ef5f20c333df/ragam-strategi-umkm-di-tengah-pandemi-covid-19>

Figure 10 Expected survival with current restrictions



e) It is encouraging that the majority of firms expect to recover quickly once the pandemic ends. More than half of the respondents estimate that they will be able to recover within one month, and nearly one-third of respondents expect to recover within two to three months after the pandemic ends (Figure 11). Only 5 per cent of 147 firms of all sizes, types and levels of technology expect their recovery period to take more than six months.

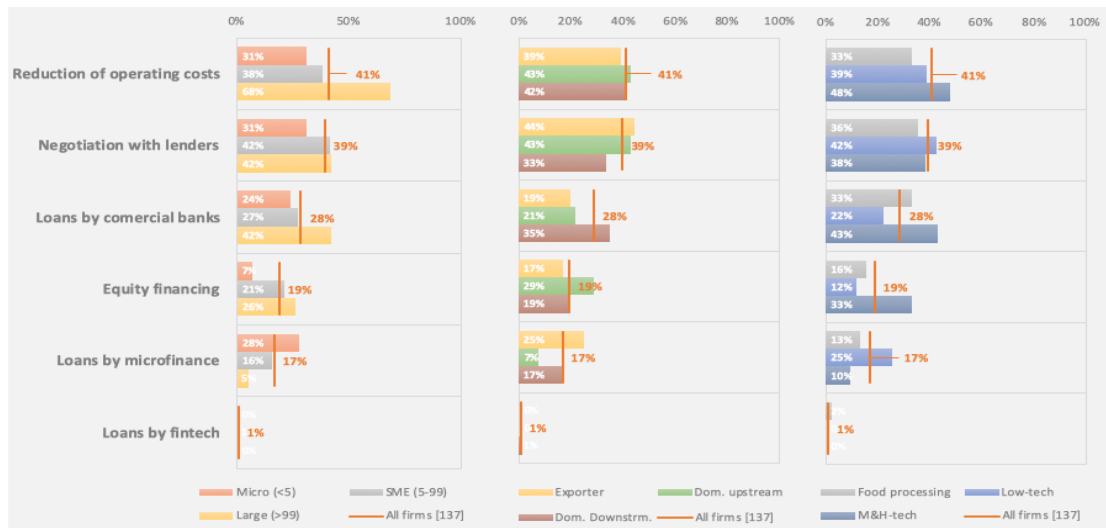
Figure 11 Expected recovery time



3.3 Dealing with COVID-19

- a) To offset the impact of the cashflow shortage, most firms chose to reduce their operating costs and negotiate with their lenders, while other firms chose to take out loans from commercial banks, microfinance loans and equity financing. Only a very small percentage of firms took loans offered by fintech companies.

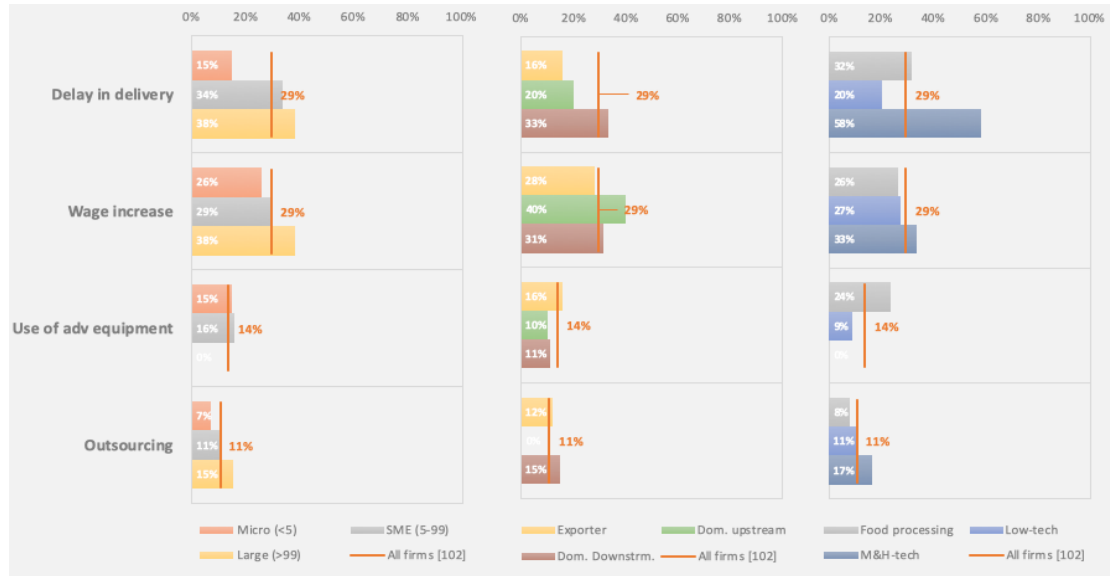
Figure 12 Dealing with cashflow shortages



- b) It is interesting to note that 42 per cent of large firms are considering taking loans from commercial banks, while less than 30 per cent of MSMEs are considering this option (Figure 12). This may partly be attributable to the fact that most Indonesian SMEs are not considered bankable¹⁰, do not have assets that can be made into collateral, and are concerned about high interest rates. Many microenterprises are considering taking microfinance loans instead, with a more manageable interest rate.
- c) SMEs and large firms have opted to delay the delivery of customer orders, a policy that is being implemented by one-third of downstream industry firms and nearly 60 per cent of medium- and high-tech firms, as they have to limit the amount of staff present at work. As Figure 13 illustrates, the majority of firms will delay the provision of services, which is the most favoured option for managing the shortage of workers due to government restrictions and containment measures. Across the board, large firms (38 per cent), domestic upstream firms (33 per cent), and especially medium- and high-technology firms (58 per cent) intend to delay delivery (Figure 14).

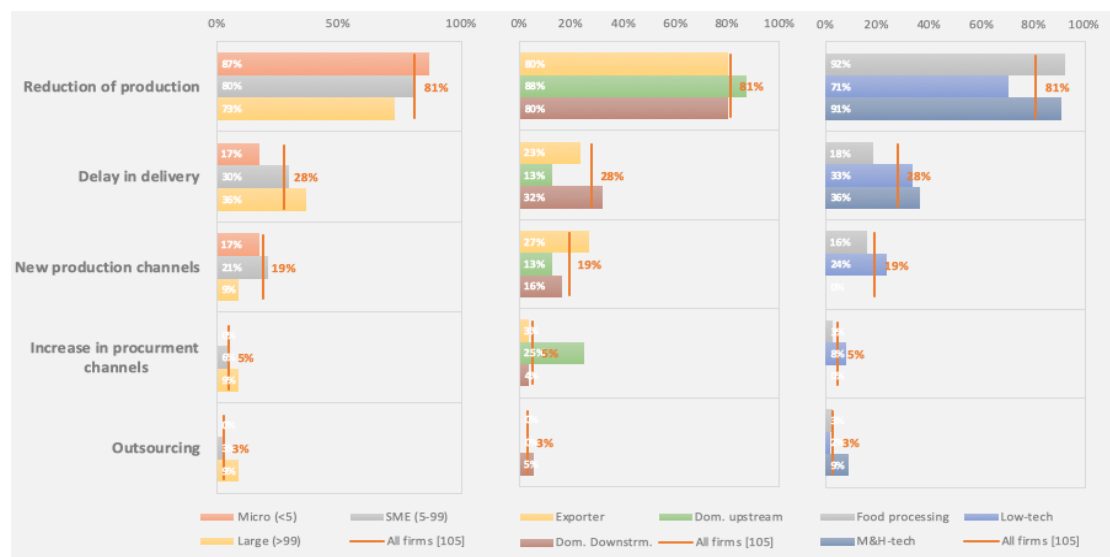
¹⁰ https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms_695134.pdf

Figure 13 Dealing with worker shortages



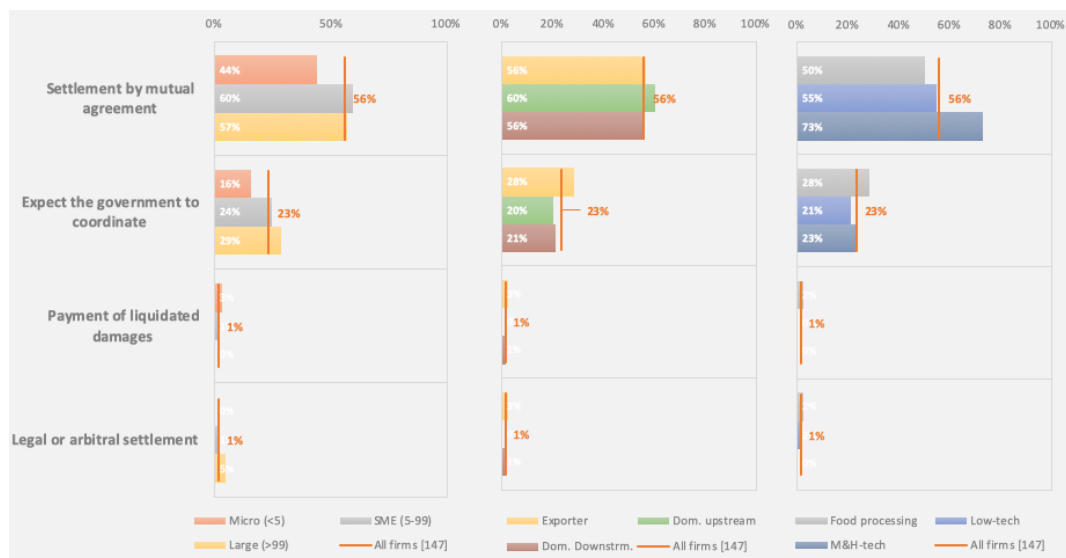
d) As Figure 14 illustrates, over 80 per cent of respondent firms of all sizes and types reduced their production to deal with the shortage of inputs. Domestic upstream firms (88 per cent) favour reducing their production, while the second most preferred option among the firms in this category is to explore new procurement channels to identify key areas that require modification to improve their business performance. Another coping measure preferred by 36 per cent of low-tech and 33 per cent of high-tech firms is to delay the delivery of their products, while exporters and domestic downstream firms considered the possibility of creating new production channels. The latter is an important strategy that can enhance business marketing and give companies an edge in terms of speed and efficiency

Figure 14 Dealing with input shortages



d) As regards difficulties fulfilling existing contracts, the majority of firms (56 per cent) opted to find mutual agreements, while a smaller percentage of firms expect the government to coordinate and provide clear disclaimer agreements. This strategy is used by a large amount of medium- and high-tech firms (73 per cent). Nevertheless, other potential options are available to deal with this challenge. These options include government coordination, payment of liquidated damages, and legal or arbitral settlement. Nearly 25 per cent of all firms support government coordination of solutions to these problems.

Figure 15 Dealing with problems to fulfil contracts



3.4 Government support

a) The Government of Indonesia has implemented some policies to help firms cushion the blow of the current health crisis on their business activities. At the end of April 2020, Indonesian President Joko Widodo announced five schemes to protect the economy and help it recover¹¹, aimed in particular at MSMEs. Furthermore, the President stated that a special programme for ultra-microenterprises and microenterprises, which have not yet been reached by any financial institutions, will be introduced.

The five schemes are as follows:

- i) Social support programmes for MSMEs that can be categorised as at risk and vulnerable to the impact of COVID-19. The scheme includes direct cash transfers, food packages, and the reduction or elimination of electricity costs;

¹¹ <https://setkab.go.id/5-arahan-presiden-soal-skema-program-perlindungan-dan-pemulihan-ekonomi-utama-umkm/>

- ii) Tax incentives for MSMEs with an annual revenue of less than IDR 4.8 billion;
- iii) Debt restructuring through a variety of schemes, such as coop credit restructuring and postponing loan repayment, including schemes for microenterprises that have already received business loans from the local government;
- iv) Financing schemes for MSMEs, including working capital for both bankable MSMEs and those that are not bankable.
- v) State-owned and provincial-owned enterprises are mandated to act as buffers of the MSME business ecosystem, especially in the context of initial recovery. They are expected to be the off-takers of MSME products in various fields, such as agriculture, fisheries, culinary and household industries.

Furthermore, the Government of Indonesia has prepared an economic stimulus programme for MSMEs and cooperatives ¹².

- b) As much as 41 per cent of respondent firms (Figure 16) stated that they have received government support, with more than half of domestic upstream firms and medium- and high-tech firms reporting that they have benefitted from support. Furthermore, nearly 50 per cent of microenterprises stated that they have received government support, suggesting that the support schemes have reached those that are most in need. The government support received by microenterprises has mostly been in the form of interest subsidies and recap guarantee relief programmes, which was the most favoured form of support among those firms, followed by a 6-month tax exemption or tax-rate reduction (Figure 17). Medium- and high-tech firms (27 per cent) stated that they had received government support mostly in terms of fiscal incentives; 33 per cent of domestic upstream firms benefitted from government support in the form of MSME tax exemptions. Around 17 per cent of all respondent firms reported that they had received interest subsidies and recap guarantee relief programmes (KUR, PMN, Pegadaian). Microenterprises and domestic upstream firms received the highest share of this type of support (above 30 per cent).

¹² <https://www.bi.go.id/en/iru/presentation/red/Pages/Republic-of-Indonesia-Presentation-Book-July-2020.aspx>

Figure 16 Who is benefitting from government support?

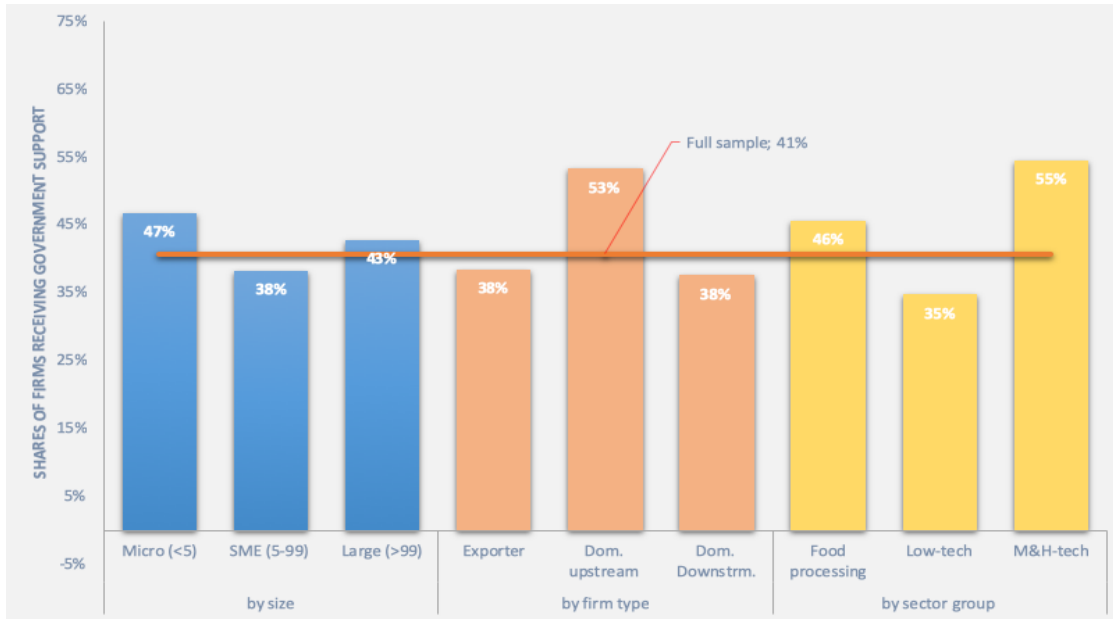
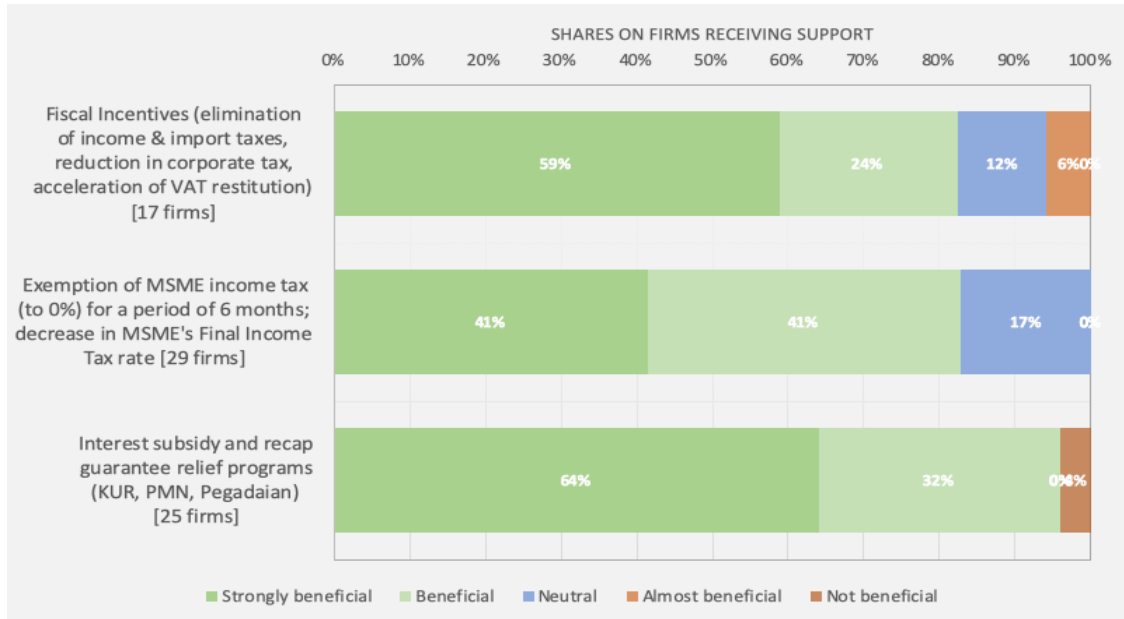


Figure 17 What form of government support are firms receiving?



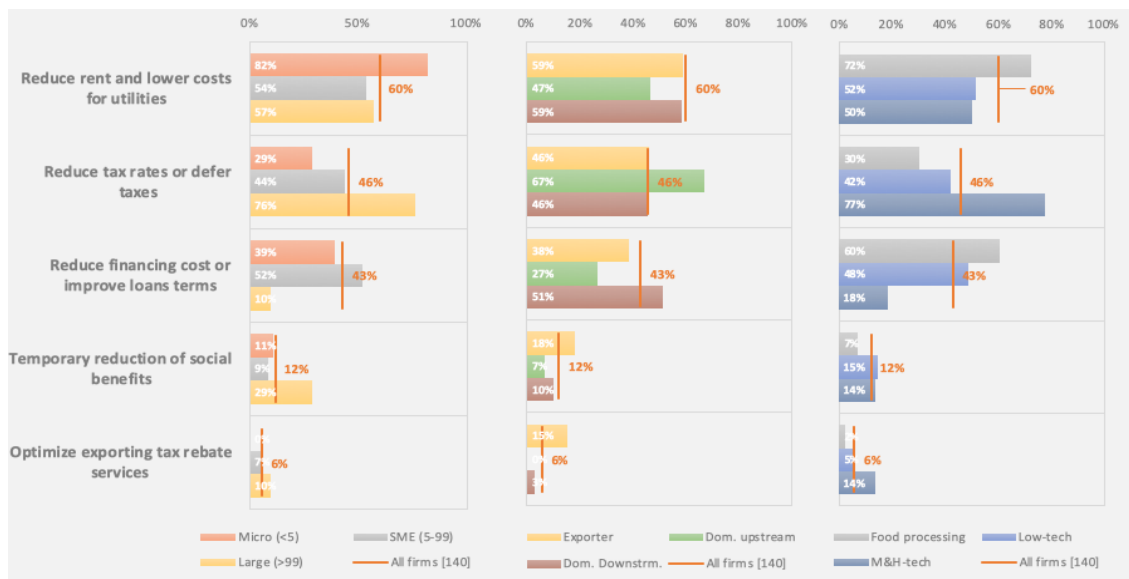
c) The report examined various types of support measures and subsidies provided by the government. The survey results indicate that the interest subsidy and recap guarantee relief programmes were the favoured form of support among the firms; 64 per cent of the firms emphasised that this type of support would be very useful in ensuring their sustainability (Figure 18). Fiscal incentives were also deemed a useful tool by the respondent firms. On the other hand, the exemption of MSME income tax (to 0 per cent) for six months was perceived as being slightly less beneficial in comparison to other support schemes.

Figure 18 How useful is government support for firms?



d) When looking at firm type, domestic downstream firms preferred government support in the form of reductions in rent and utility costs, followed by a reduction in financing costs or improvement of loan terms. On the other hand, domestic upstream firms preferred tax-rate reductions or tax deferrals over other support measures. When asked about the type of government support they believed to be most effective for their companies (Figure 19), most firms (especially microenterprises) preferred support in the form of reductions of rent and utility costs. Nearly 80 per cent of large firms preferred tax reductions or deferrals. The latter policy was also preferred by the majority of medium- and high-tech firms.

Figure 19 What policies should be applied?



4 Policy recommendations

COVID-19 restrictions have hit many MSMEs particularly hard from both the demand and the supply side. The survey's results indicate that recovery efforts should focus on stimulating demand and re-establishing disrupted markets. Over 80 per cent of firms participating in the survey reported a reduction in orders as their main business challenge during the pandemic and more than 90 per cent of them expected a drop in revenue. This situation can be remedied by analysing the psychological factors and the source of motivation that drives consumer demand in the context of a pandemic. This analysis can be used to determine the direction of product development and innovation to match customers' needs and demands as well as shape the MSMEs' marketing communications strategy to stimulate demand for goods and services, thereby re-establishing disrupted markets.

Policies tailored to mitigate the impact of the pandemic would help build a stronger economy as well as a resilient and competitive industrial sector, both of which would help Indonesia to achieve inclusive and sustainable industrial development as outlined in SDG-9. While coping with the "new normal", as suggested by the International Trade Centre in its most recent SME Competitiveness Outlook, the policy response should consider the following guiding principles¹³:

- i) The future will be about *resilience*, as societies will no longer accept being unprepared for external threats.
- ii) The future will be more *digital*. This virus has shown us the full power of these technologies in the context of the crisis.
- iii) The future must be *inclusive*. The inclusiveness in the context of globalization was a matter of concern even before the outbreak of the pandemic. Ensuring prosperity across society during the recovery phase will be crucial to maintain popular support for open economies.
- iv) The future must be *sustainable* to mitigate the challenges of climate change.

¹³ https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/ITC_SMECO-2020ExSummary_EN_web.pdf

The report outlines the following recommendations:

i. Leveraging the current government support schemes

The Government of Indonesia has taken steps to develop strong policies to support economic stimulus to address the SME liquidity gap and keep the MSME segment afloat. Around 41 per cent of surveyed firms stated that they have been receiving government support in various forms, with interest subsidies cited as the most useful support for firms.

Some improvements should be considered to make the schemes more effective and targeted:

- Improving awareness for access to government economic stimulus for SMEs, such as subsidies for loan repayments and direct assistance for business liquidity.
- Extending tax exemption for a minimum of another 5 years;
- Expand the possibility for reductions in the tariffs of electricity and water for firms.

ii. Employment retention scheme

The survey results show that wage and social security expenses are considered to be the highest financial burden for firms during the pandemic. Even though layoffs were not firms' favoured option to ease their financial burdens, the cashflow shortages along with other unsolvable business issues due to the containment measures could force businesses to close down. If MSMEs lay off workers, the country's unemployment rate will rise, which will cause financial difficulties for large shares of the population.

The government developed the wage subsidy scheme to sustain businesses, and consequently to retain jobs. We suggest channelling wage subsidies to micro, small and medium-size businesses as well as to domestic downstream firms. Channelling the wage subsidy to appropriate targets will improve the policy's effectiveness while at the same time increasing firms' confidence in their business continuity.

iii. Building up SME productivity and competitiveness

Prior to the pandemic, SMEs in Indonesia faced challenges in terms of improving their productivity. This is the result of several factors including the strong focus on traditional forms of marketing only, the lack of supporting infrastructure, a shortage of skills, the scarcity of capital goods, poor management, and the unavailability of adequate financing facilities. The generalized government support currently available—highlighted by the survey—means SMEs can choose between various schemes to expand their ways of doing business and to

improve their resilience in the face of crisis. Efforts to increase their productivity may include modernizing business operations through better management techniques, upgrading the skills of their employees, and adopting a higher level of technology for their business activities.

The results of the survey show that policies should prioritize the boosting of SMEs' productivity and competitiveness by supporting nature-based start-ups, programming a green stimulus and targeting high-carbon and resource-intensive industries. Priority should be given to measures that create jobs and have linkages with the climate, nature and resource efficiency agendas. Moreover, the policy priority should also demonstrate how investments in climate-friendly and nature-based actions will stimulate economic growth, create employment opportunities, and increase resilience to a recurrent zoonotic threat. There is a need for increased fiscal spending on public employment programmes to promote greater labour market resilience.¹⁴

iv. Innovation and technology approach

Supporting the recommendations made above, innovation is crucial, especially in the production and marketing stages. Strategies to strengthen the industrial sector can be improved by taking advantage of new technologies and standards for smart production and participation in global value chains. Linking with the UNSDCF innovation and technology component¹⁵ and the UN Framework on socio-economic response to COVID-19, government policies should highlight how innovative new technologies can be leveraged, considering the surge of digital capabilities, artificial intelligence, IoT and interconnectivity and cloud-based resources.

Innovation can be improved through:

- The use of advanced technology – acceleration of the fourth industrial revolution (Industry 4.0 or 4IR): the COVID-19 crisis is likely to result in the structural transformation of the manufacturing sector in the “new normal”. 4IR will be one of the defining factors in the “new normal”, helping industry return to becoming operational as soon as possible, and providing the platform to develop new, more resilient and sustainable operations, value chains and businesses.
- Digital platform collaboration: selling products in physical marketplaces is not effective in the context of the containment measures. Hence, SMEs have had to

¹⁴ Source from UN Framework for the Immediate Socio-Economic Response to COVID-19, INDONESIA, INNOVATION AND TECHNOLOGY ANALYSIS document

¹⁵ <https://un.or.id/publications/322-united-nations-sustainable-development-cooperation-framework-unsdcf-2021-2025>

accelerate their digitalization process and sell their products on digital platforms. The government initiated the SME platform that can be used as a marketplace and extend collaboration with the existing e-commerce marketplaces such as Bukalapak, Tokopedia and Shopee.

- Clustering for producers: by expanding their network among producers of similar products, SMEs can learn from each other by having interactive discussions and immediately addressing the problem of low productivity. If they face problems in fulfilling orders due to their currently limited capacity, they can utilize their network and share the production. Online networking discussions have become increasingly popular among SMEs amidst this pandemic.

Annex 1: Questionnaire

COVID19: IMPACT ON SMALL & MEDIUM ENTERPRISES SURVEY

This survey form was developed in order to collect socio-economic impacts from SME businesses sector and the supporting needs regarding Covid-19 pandemic.

Current impact of COVID-19

1. Because of the pandemic, what is the percentage of your company's employees who are unable to physically come to work and cannot adequately work from home at present?

<input type="text"/>	%
<input type="checkbox"/>	I don't know

- 1.1 If percentage can be estimated in Question 1, please specify percentage of woman employees (% women).

<input type="text"/>

2. Please indicate the most significant financial problems for your firm during the outbreak (please select all that apply):

<input type="checkbox"/>	Staff wages and social security charges
<input type="checkbox"/>	Fixed costs, e.g. rent
<input type="checkbox"/>	Repayment of loans
<input type="checkbox"/>	Payments of invoices
<input type="checkbox"/>	Other expenses, please specify: <input type="text"/>
<input type="checkbox"/>	No specific problem

3. Are there any other business problems your firm is facing due to the pandemic? (Up to two options)

<input type="checkbox"/>	Reduction of orders
<input type="checkbox"/>	Inability to deliver existing orders
<input type="checkbox"/>	Increased difficulty of financing
<input type="checkbox"/>	Existing loans cannot be extended
<input type="checkbox"/>	Disruption of logistics
<input type="checkbox"/>	Upstream and downstream chain disruptions
<input type="checkbox"/>	Insufficient protective equipment (e.g. masks)
<input type="checkbox"/>	Other, please specify: <input type="text"/>

Expected impact of COVID-19

4. What impact do you currently expect on your firm's revenue this year as a result of COVID-19?

<input type="checkbox"/>	No impact
<input type="checkbox"/>	Decrease
<input type="checkbox"/>	Increase
<input type="checkbox"/>	Too early to state
<input type="checkbox"/>	I don't know

4.1 Please specify percentage (%) of decreased or increased revenue

--

5. Is your firm currently considering layoffs, or has already done some because of the pandemic?

	Yes (go to question 5.1)
	No (go to question 6)

5.1. What percentage of staff are you expecting to (or have already) cut?

	___% (go to question 5.2)
	Too early to state (go to question 6)

5.2. Do you expect these layoffs to be temporary or permanent (total should sum up to 100%)?

___%	Temporary
___%	Permanent
___%	Too early to state

5.2.1 From temporary layoff, how many percentage of women, please estimate (% women)?

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5.2.2 From permanent layoff, how many percentage of women, please estimate (% women)?

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5.3. If possible, please indicate how these layoffs are distributed with respect to their qualification (please insert value as percent of total sales for every option; total should sum up to 100%)

___%	University degree
___%	Technicians
___%	Semi-skilled
___%	Unskilled
___%	Apprentice
	Unable to say at this stage

5.4. If possible, please indicate how these layoffs are distributed over the following areas (please insert value as percent of total sales for every option; total should sum up to 100%)

___%	Research and development
___%	Design
___%	Manufacturing / assembly
___%	Customer service
___%	Administrative
	Unable to say at this stage

6. Are there currently restrictions by your government that impact your normal way of operating as a business?

<input type="checkbox"/>	Yes (go to question 6.1)
<input type="checkbox"/>	No (go to question 7)

- 6.1. If the current restrictions in your country continue, how long can your firm's current cash flow maintain operation?

<input type="checkbox"/>	Indefinitely
<input type="checkbox"/>	More than 12 months
<input type="checkbox"/>	Between 6 and 12 months
<input type="checkbox"/>	Between 3 and 6 months
<input type="checkbox"/>	Between 1 and 3 months
<input type="checkbox"/>	Less than 1 month

7. If the international COVID-19 crisis were to end today, how long would you estimate it would take for your company to get back to business as usual?

<input type="text"/>	days
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Dealing with COVID-19

8. What is the main means you are considering to deal with the cash flow shortage? (Up to two options)

<input type="checkbox"/>	Loans by commercial banks
<input type="checkbox"/>	Loans by Internet finance
<input type="checkbox"/>	Loans by microfinance companies or private individuals
<input type="checkbox"/>	Negotiating with lenders to avoid withdrawing loans
<input type="checkbox"/>	Equity financing (adding new shareholders or capital increase of former shareholders)
<input type="checkbox"/>	Reduction of operating costs (e.g. layoffs and salary reductions)
<input type="checkbox"/>	No cash flow shortfalls problem
<input type="checkbox"/>	Other, please specify: <input type="text"/>

9. What is the main means you are considering to deal with the shortage of workers? (Up to two options)

<input type="checkbox"/>	Wage increases
<input type="checkbox"/>	Use of advanced equipment or software to reduce the amount of work
<input type="checkbox"/>	Outsourcing of orders
<input type="checkbox"/>	Delay in delivery
<input type="checkbox"/>	No shortage of workers
<input type="checkbox"/>	Other, please specify: <input type="text"/>

10. What is the main means you are currently considering to deal with the shortage of inputs such as intermediate goods and raw materials? (Up to two options)

<input type="checkbox"/>	Reduction of production
<input type="checkbox"/>	Outsourcing orders
<input type="checkbox"/>	Increasing the procurement channels
<input type="checkbox"/>	Seeking new production channels
<input type="checkbox"/>	Delaying goods delivery
<input type="checkbox"/>	No shortage of inputs
<input type="checkbox"/>	Other, please specify: _____

11. What is the main means you are currently considering to deal with difficulties in fulfilling contracts?

<input type="checkbox"/>	Settlement by mutual agreement
<input type="checkbox"/>	Legal or arbitral settlement
<input type="checkbox"/>	Expect the government to coordinate and provide clear disclaimer agreements
<input type="checkbox"/>	Payment of liquidated damages
<input type="checkbox"/>	No contractual performance issues
<input type="checkbox"/>	Other, please specify: _____

12 Are there currently any measures / support packages by your government that your company is benefiting from?

<input type="checkbox"/>	Yes (go to 12.1)
<input type="checkbox"/>	No (go to 13)

12.1. Please specify what measures/support you are receiving:

<input type="checkbox"/>	Fiscal Incentives; Elimination of Income Taxes & Imported Goods Taxes, Corporate Tax Reduction and the Acceleration of VAT Restitution
<input type="checkbox"/>	Non-Fiscal Incentives (Simplification and Acceleration of the Exim Process)
<input type="checkbox"/>	Exemption of MSME income tax (to 0%) for a period of 6 months: Tariff decrease in MSME's Final Income Tax from 0.5% - 0%
<input type="checkbox"/>	Interest subsidy and recap guarantee relief programmes (KUR, PMN, Pegadaian)
<input type="checkbox"/>	Other, please specify: _____

12.2. To what degree this support is useful to your company

<input type="checkbox"/>	Strongly beneficial
<input type="checkbox"/>	Beneficial
<input type="checkbox"/>	Neutral
<input type="checkbox"/>	Almost beneficial
<input type="checkbox"/>	Not beneficial
<input type="checkbox"/>	Other, please specify: _____

13. In the face of the impact of the pandemic, governments at all levels and financial institutions have announced relief measures. Which policy do you believe is the most effective for your firm? (Up to two options)

<input type="checkbox"/>	Reduce rent for small and medium-sized enterprises and lower costs for electricity, gas, logistics, etc.
<input type="checkbox"/>	Reduction of tax rates, reduction or deferral of taxes
<input type="checkbox"/>	Reduction of financing costs for SMEs, extension of loan terms or partial debt relief
<input type="checkbox"/>	Temporary reduction of social insurance premiums and reimbursement of unemployment insurance to enterprises that do not lay off staff
<input type="checkbox"/>	Optimization of exporting tax rebate services
<input type="checkbox"/>	Others, please specify: _____

Background Information:

Profile of the firm

14. When did the firm start to operate?

<input type="text"/>	<i>Insert year</i>
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15. Please select the industry that best describes the products your firm produces:

<input type="checkbox"/>	Food and beverages
<input type="checkbox"/>	Tobacco products
<input type="checkbox"/>	Textiles
<input type="checkbox"/>	Wearing apparel, fur
<input type="checkbox"/>	Leather, leather products and footwear
<input type="checkbox"/>	Wood products (excl. furniture)
<input type="checkbox"/>	Paper and paper products
<input type="checkbox"/>	Printing and publishing
<input type="checkbox"/>	Coke, refined petroleum products, nuclear fuel
<input type="checkbox"/>	Chemicals and chemical products
<input type="checkbox"/>	Rubber and plastics products
<input type="checkbox"/>	Non-metallic mineral products
<input type="checkbox"/>	Basic metals
<input type="checkbox"/>	Fabricated metal products
<input type="checkbox"/>	Machinery and equipment n.e.c.
<input type="checkbox"/>	Office, accounting and computing machinery
<input type="checkbox"/>	Electrical machinery and apparatus
<input type="checkbox"/>	Radio, television and communication equipment
<input type="checkbox"/>	Medical, precision and optical instruments
<input type="checkbox"/>	Motor vehicles, trailers, semi-trailers
<input type="checkbox"/>	Other transport equipment
<input type="checkbox"/>	Furniture; manufacturing n.e.c.
<input type="checkbox"/>	Recycling

16. What is the ownership structure of your company?

<input type="checkbox"/>	100% nationally owned enterprise
<input type="checkbox"/>	Foreign subsidiary
<input type="checkbox"/>	Joint venture
<input type="checkbox"/>	Other, please specify: _____

17. What was the number of employees of the firm at the end of 2019?

<input type="text"/>	<i>Insert the number of employees at the end of 2019</i>
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17.1 Please estimate percentage of woman employee (% women)

<input type="text"/>

18. In relation to the main production activity, the firm produces predominantly (please select one option):

<input type="checkbox"/>	Finished goods for consumers
<input type="checkbox"/>	Finished goods for industrial business
<input type="checkbox"/>	Intermediate inputs for agriculture
<input type="checkbox"/>	Intermediate inputs for manufacturing
<input type="checkbox"/>	Intermediate inputs for services

19. Which share of purchases of raw materials and intermediate goods corresponded to each of these categories in 2019? (please insert value as percent of total sales for every option; total should sum up to 100%):

<input type="text"/> %	Import: foreign suppliers
<input type="text"/> %	National: Multinational corporations/foreign-owned suppliers located in the country
<input type="text"/> %	National: domestic suppliers

20. Which share of sales/turnover corresponded to each of these categories in 2019 (please insert value as percent of total sales for every option; total should sum up to 100%):

<input type="text"/> %	Export: foreign costumers
<input type="text"/> %	National: Multinational corporations /foreign-owned customers located in the country
<input type="text"/> %	National: domestic customers

21. Has the firm run part of its production activity in another country in 2019 (offshores)? (please select one option):

<input type="checkbox"/>	Yes, through direct investment (i.e. foreign affiliates/controlled firms)
<input type="checkbox"/>	Yes, through contracts with domestic firms abroad (e.g. technical/manufacturing partnership agreement, licensing agreement)
<input type="checkbox"/>	No

22. Which regions does your company have offices or production plants in?

	Aceh
	Bengkulu
	Jambi
	Kepulauan Bangka Belitung
	Kepulauan Riau
	Lampung
	Riau
	Sumatra Barat
	Sumatra Selatan
	Sumatra Utara
	Banten
	Gorontalo
	DKI Jakarta
	Jawa Barat
	Jawa Tengah
	Jawa Timur
	DI Yogyakarta
	Kalimantan Barat
	Kalimantan Selatan
	Kalimantan Tengah
	Kalimantan Timur
	Kalimantan Utara
	Maluku
	Maluku Utara
	Bali
	Nusa Tenggara Barat
	Nusa Tenggara Timur
	Papua
	Papua Barat
	Sulawesi Barat
	Sulawesi Selatan
	Sulawesi Tengah
	Sulawesi Tenggara
	Sulawesi Utara

Follow up

23. We would greatly appreciate your participation in a follow-up survey in a few months. If you would like to participate, please leave your contact details:

Name:
Email:



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