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## Summary of COVID-19 Impact Assessment on SME in Indonesia

### Key Message:

This summary presents the major findings of the UNIDO study which assessed the impacts of COVID-19 for Small and Medium businesses in Indonesia in the period of June — August 2020.

### 1. Background

The Government of Indonesia has implemented large-scale social distancing measures (PSBB) since March 2020, in an effort to curb the transmission of COVID 19. The impact of these measures has affected social movements and economic productivity. The government's containment efforts have impacted national and global supply chains, businesses, and employment. Due to the scale and nature of businesses, many small and medium enterprises (SMEs) have been severely hit. The impact on SMEs is important in Indonesia, as 90% of business entities in the country are categorised as SMEs. Thus, these economic difficulties for individual businesses will have a greater effect on the health of the Indonesian economy.

As part of the Country's Program to support the development of SMEs in Indonesia, UNIDO has conducted an online survey, entitled: "Impact Assessment on COVID 19 - SME in Indonesia" from June – August 2020, in order to assess the levels of socio-economic damage. In light of the online survey, UNIDO seeks to explore strategies to assist in mitigating the negative impacts on SMEs. A similar study also has been conducted in other Asian countries.

### 2. Highlight finding

The study demonstrates that Small and Medium Enterprises (SMEs) have suffered the most from the COVID-19 pandemic and the containment measures. 60% of survey respondents reported that at least half of their employees have been unable to return to work. Nearly 90% of micro-enterprises and 66% of SMEs reported the shortage of workers as one of their main operation difficulties. The study indicates that if the COVID-19 restrictions remain in place there is a significant risk that SMEs could be forced to close their business within six months, as testified by 60% of respondents. In spite of this, the survey's participants shared a degree of optimism that growth and recovery will be possible if the containment conditions were lifted.

The shortage of cash flow is reported as the main operating problem during the pandemic. This perspective was shared amongst participant, as more than 90% agreed on the severity of this impact on SME operations. Financial concerns for SMEs, including the payment of wages and BPJS, payment invoice, loans, and fixed costs were reported to have led to a shortage of cash flow, which businesses are likely to experience in the coming months. Alongside the issue of cash flows, SMEs are likely to be more vulnerable to 'social distancing' than other businesses. The survey showed that 81% of respondents expected an extreme revenue loss, with more than 50% loss of revenue expected in 2020

compared to last year. The dramatic and sudden drop in market demand has posed the biggest threat to the survival of SMEs. The containment strategy in the context of the pandemic directly affects business functions. The primary causes of this include severe liquidity shortages and the consequences of which can lead to mass unemployment. This situation requires further attention as it is paramount to the future stability of socio-economic framework in Indonesia.

In contrast, one-third of participants believe that they are able to survive economically in the course of a possible year-long restriction period. The reason for this divergence in opinion is that there is a technological divide between SMEs and MSEs. A number of MSMEs are already using digital platforms, created either prior to or during the COVID-19 crisis. The shift from the physical to the digital has enabled businesses to continue as usual in a remote fashion, as restrictive measures caused the physical business to cease operating. And many MSMEs are currently selling their products through their own websites, as well as using social media platforms, such as Instagram and Facebook, and online marketplaces including: Tokopedia, Shopee, Bukalapak, Blibli, and Lazada.

In order to offset the impacts of cash flow shortages, the majority of respondents have chosen to reduce their operating costs and have attempted to negotiate with their lenders. The other respondents have chosen to obtain more cash by taking out loans from commercial banks and microfinance, as well as equity financing. Coping with the existing condition, majority of Medium & High (M&H) Tech firms opted to delay the delivery of orders, as they have to limit the amount of staff coming into work. The majority of respondents (80%) reduced their production as a way to deal with a shortage of inputs. An additional attempt to mitigate the shortage of inputs is by exploring new procurement channels, which help businesses to identify key areas requiring modification in order to improve business performance. The majority (56%) of firms opted to settle the difficulty of fulfilling existing contracts through mutual agreement, while a smaller percentage of firms expected the government to coordinate with businesses and to provide clear disclaimer agreements.

The report examined various types of supports and the subsidies provided by the Government of Indonesia. The survey result indicated that 64% of the firms emphasized that the interest subsidy and recap guarantee relief programmes were most appreciated type of support. On the other hand, the exemption of MSME income tax (to 0%) for six months was recognized as slightly less beneficial in comparison to the other support schemes. The study report also highlighted that SMEs expect the government to help overcome their problem on liquidity shortage and help the business continuity. Around 40% of respondent stressed that they received government support and that they find it beneficial, in particular the policies focusing on financial schemes for MSMEs for capital loans and operations. Further steps are needed to develop the SMEs to be more resilient towards any future problems.

*Complete report can be download from [UNIDO Ins Report](#)*