

PERSPECTIVE

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COVID-19's Impact on Micro, Small, & Medium Enterprises and Tourism in Indonesia

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EXECUTIVE SUMMARY

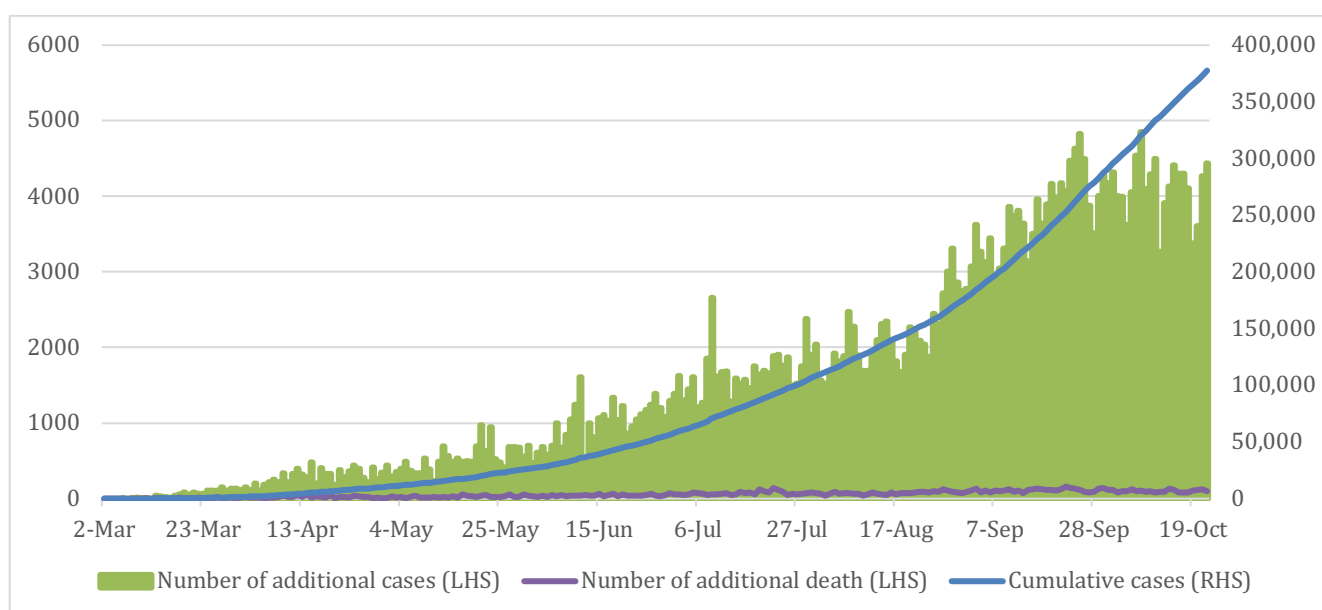
- The COVID-19 containment and social restriction measures sent the Indonesian economy into a severe contraction of 5.32 per cent in Q2-2020, the first negative growth since 1999. Faced with a severe policy challenge to reconcile the conflicting imperatives of public health and economic sustenance, the government has loosened the restrictions on people movements. This in turn has elicited criticism that this could be premature, since infections have yet to peak.
- Micro, small, and medium enterprises (MSMEs) and the tourism sector have been badly hit. Around half of MSMEs have temporarily closed mostly due to a sharp reduction in demand and disruptions in the supply chain. Indonesia's Chamber of Commerce has estimated that the potential loss to the tourism sector will reach USD35 billion, if the dire situation continues until the end of this year.
- Liquidity provision is critical for MSMEs and the tourism sector to survive the pandemic. The form of cash injection (e.g., grants, low-interest loans) is less important than making sure that funding is rapidly available with minimal administrative complexity.
- Digital technology can play a bigger role in enhancing economic resilience during the pandemic. Some SMEs have benefited from the digital ecosystem. In fact, e-commerce sales rose 26% and reached 3.1 million transactions per day during the pandemic. However, only 13% out of the 64 million existing MSMEs (ie., around 8 million MSMEs) are actively using digital platforms.
- Government capacity is limited, but innovation at the grassroots level, such as using social media to provide health and business solutions, has helped local communities to survive. While innovative solutions coming from the grassroots are heartening, effective government action in handling the pandemic is critically needed to restore public trust and economic confidence.

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INTRODUCTION

It has been seven months since Indonesia registered its first COVID-19 case. The government has since implemented a number of policies to control the pandemic and, later, to prevent the economy from collapsing. Measures from a large-scale social restriction at the national level, to ‘micro lockdown’ at the provincial, city, and municipal and even village levels; reallocation of state budget for pandemic response to distribution of social assistance, have been implemented. Yet, despite various containment and restriction measures, Indonesia has shown no signs of flattening the pandemic curve (Figure 1). In fact, it has now recorded the fastest infection spread in East Asia, with around 17 percent of people tested turning out positive, rising to almost 25 percent outside Jakarta.¹

Figure 1: Number of Daily COVID-19 Cases and Death, Indonesia



Note: LHS=left-hand scale, RHS=right-hand scale

Source: Ministry of Health

While the number of infection cases is still increasing, in June 2020, the government introduced a ‘New Normal’, i.e. lifting the nation-wide large-scale social restrictions. Arguing that the economy could not be allowed to collapse, Jokowi urged people to live ‘in peace’ with the virus, meaning they have to adopt new habits, such as wearing masks, washing hands, and maintaining physical distancing.² This policy has earned the government public criticism for giving a false signal to the public that the first peak of the pandemic had been reached and that the curve had been flattened. In reality, Indonesia remains in the ‘first wave’.

Figure 1 shows that the number of cases and deaths is still increasing. To date, total COVID-19 cases have surpassed 377,000. More worrisome, the true scale of the outbreak might be much larger, given that Indonesia’s testing capacity is relatively low. Even India and the Philippines are testing four times more per capita, while the US is testing 30 times more.

Indonesia ranked 83rd out of 86 countries surveyed for overall tests per capita, and 97th out of 100 countries for overall safety.³

The government has estimated that the pandemic will not be resolved this year. It is now faced with a difficult policy option to protect public health and at the same time people's livelihood. The government argues that the restrictions on people movements (*Pembatasan Sosial Berskala Besar* or PSBB) needs to be loosened as they are struggling to earn a living. The mobility restriction badly affects both the formal and informal sectors. As a result of PSBB implementation, Indonesia's economic growth has contracted by 4.19 per cent in Q2-2020.

Table 1: Gross Domestic Product by Industry, quarter on quarter %

	Q2- 2019	Q3- 2019	Q4- 2019	Q1- 2020	Q2- 2020
Agriculture, Forestry and Fisheries	13.77	1.05	-20.52	9.46	16.24
Mining & Quarrying	-0.61	3.38	-1.52	-0.73	-3.75
Manufacturing Industry	1.75	3.18	-1.63	-1.17	-6.49
Electricity & Gas Supply	1.19	4.94	3.68	-5.66	-7.89
Water Supply, Sewerage, Waste & Recycling Management	1.28	0.09	4.07	-0.89	1.28
Construction	0.75	4.76	4.74	-6.92	-7.37
Wholesale and Retail Trade, Repair of Motor Vehicles	2.54	2.85	-2.32	-1.38	-6.71
Transportation & Storage	3.66	3.24	1.09	-6.37	-29.22
Accommodation & Food Beverages Activity	1.56	1.56	2.47	-3.54	-22.31
Information & Communication	2.43	3.33	0.74	2.97	3.44
Real Estate	1.19	1.28	0.77	0.49	-0.26
Business Services	2.98	2.68	2.01	-2.28	-14.11
Public Administration, Defense & Social Security	3.78	-3.54	12.68	-8.54	-2.65
Education Services	3.91	4.36	8.97	-10.39	-0.68
Human Health & Social Work Activity	2.03	2.27	4.65	1.09	-4.15
Other Services	4.00	2.64	1.53	-1.19	-15.12
GDP	4.20	3.06	-1.74	-2.41	-4.19

Source: BPS via CEIC

Table 1 shows that almost all sectors have experienced contraction. The worst hit sectors are transportation, accommodation, and business services⁴ as people's mobility and physical interaction have been severely restricted. Three sectors remain growing during the pandemic, namely, agriculture, ICT, and water supply.⁵

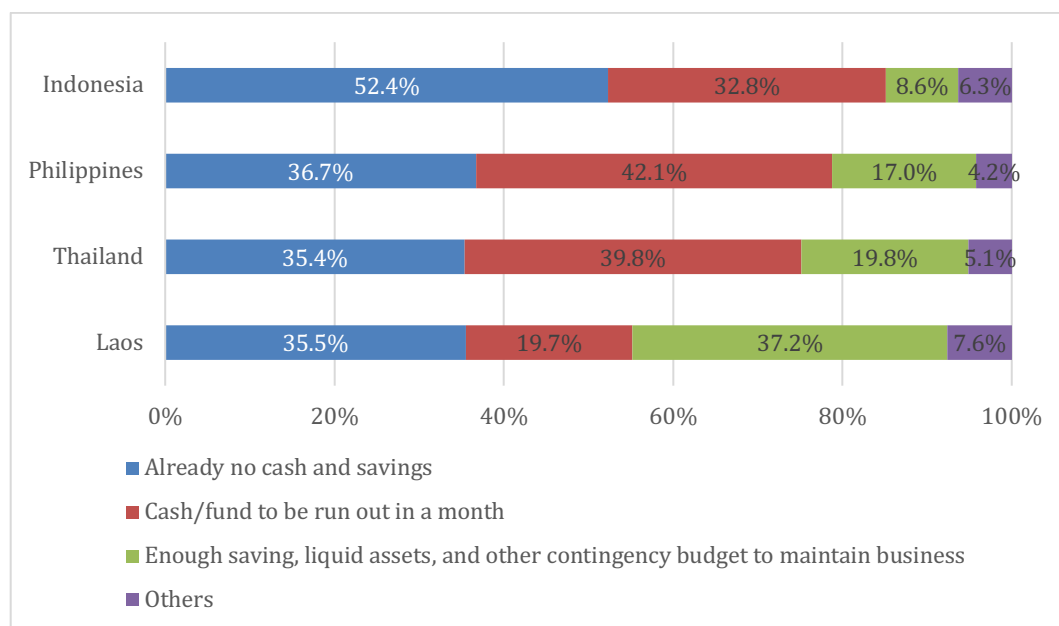
The large-scale social restriction (PSBB) has caused many businesses, particularly micro, small, and medium enterprises (MSMEs) to close down. According to the Ministry of Cooperative and SMEs, in 2018 there were around 64 million MSMEs employing around 117 million workers. Some of these MSMEs are also related directly or indirectly to the tourism sector, which is badly hit due to border closing. Since MSMEs and the tourism sector employ tens of millions of workers,⁶ it is important to examine how effective

government measures to support these sectors are. We argue that while recession is inevitable, quick and effective measures by the government are needed to support the two sectors. And although government capacity is limited, innovation at the grassroots level plays important roles in ensuring the survivability of the grassroots economy.

IMPACT ON MSMEs

Unlike during the 1997-98 Asian Financial Crisis when MSMEs had been the pillar for Indonesia’s economic resilience, but now, during the COVID-19 pandemic, MSMEs are the most vulnerable pillar of the economy. This pandemic has disrupted the traditional business ecosystem. Before the pandemic, micro business made up 98% (or 63.3 million) of total business, while SMEs constituted around 1.4% (or 843 thousand).⁷ In terms of number, MSMEs dominate total business in the country, contributing more than 90% of employment and 57.8% of the GDP.⁸

Figure 2: MSMEs’ Financial Condition after COVID-19 Outbreak in Select ASEAN Countries



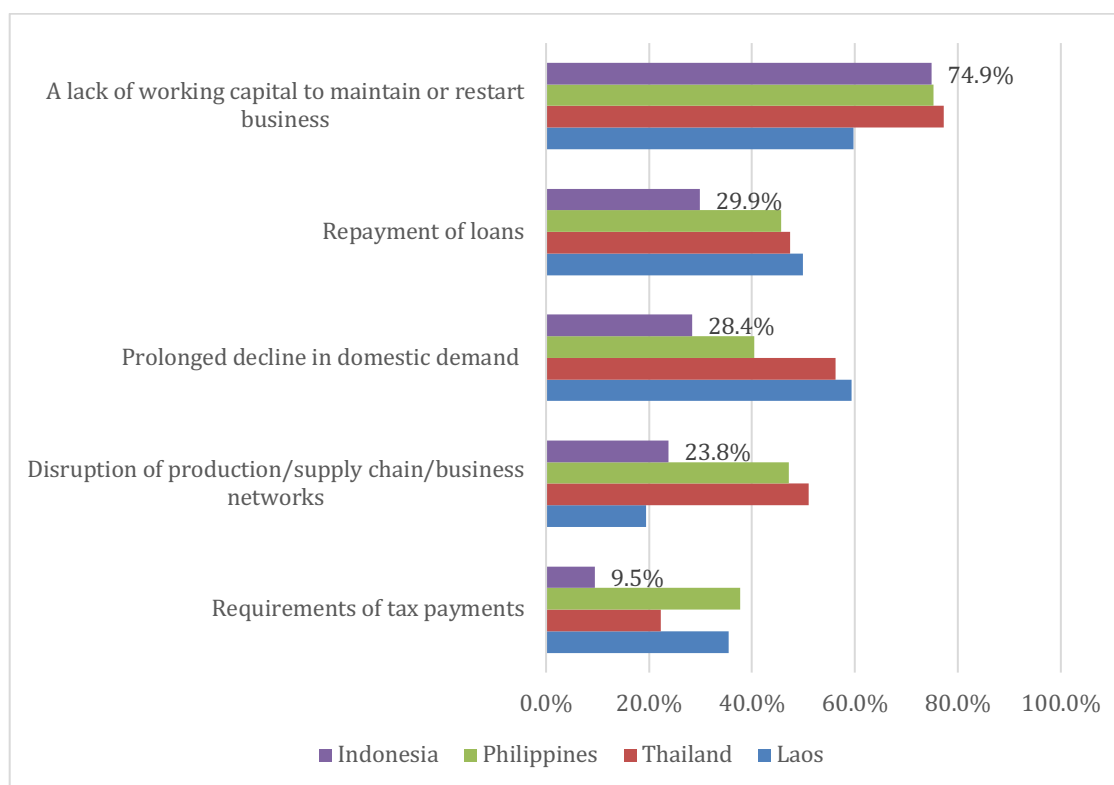
Source: ADB rapid MSME surveys in Indonesia, the Philippines, Thailand, and Lao PDR, April–May 2020.

The pandemic has caused around half of MSMEs to temporarily close,⁹ and most of these closures were due to sharp reduction in demand and disruptions in the supply chain. The closure of markets and shopping malls have a very serious impact on MSMEs. Around 60% of MSMEs reduced employees every month and more than half of MSMEs suspended wage payments to employees after the outbreak.¹⁰ The impact on employment was notably sharper in Java and Bali. Naturally, this was because of the concentration of the population and economic activities. If we look at the service industries, of which MSMEs constitute quite a large proportion, the impact varied across industries, particularly retail,

entertainment, arts and culture, personal services, food-and-beverages, and hospitality businesses. There have been no official reports on the scale, but it is apparent that these businesses suffered badly since they could not be carried out from home.

The core problem that is faced by MSMEs is their financial vulnerability. A survey, conducted by ADB between April and May this year, shows that 52.4% of MSMEs in Indonesia reported that they did not have cash or savings and 32.8% reported that their cash/savings would run out in a month (Figure 2). 75% of Indonesian MSMEs fear a lack of working capital to maintain or restart their businesses after the pandemic (Figure 3).

Figure 3: MSMEs’ Main Concerns and Obstacles in Select ASEAN Countries



Source: ADB rapid MSME surveys in Indonesia, the Philippines, Thailand, and Lao PDR, April–May 2020.

Loan repayments are the second ranked concern for Indonesia’s MSMEs. They have had difficulty in raising funds during the pandemic. Most relied on their own funds and on close relatives to repay loans and to continue their operations. Getting credit from banks was challenging for most MSMEs. Despite several new lending support measures initiated by the government such as KUR (*Kredit Usaha Rakyat*, which is a low-interest loan), not many businesses applied. This was due to fear of administrative complexity and eligibility.

The pandemic has accelerated the process of digital technology adoption. Some SMEs have benefited from digital platform, i.e. e-commerce. According to the Ministry of Cooperatives and SMEs, since the pandemic started, sales on e-commerce rose 26% or reached 3.1 million

transactions per day.¹¹ Nevertheless, only 13% out of the 64 million existing MSMEs (around 8 million MSMEs) are actively using digital marketplaces such as Shopee, Blibli, and Tokopedia.¹² This means that there is significant room for MSMEs to go digital.

IMPACT ON TOURISM

Since March, countries around the world have started to close their borders and introduced travel restrictions in response to the pandemic. As a result, global and regional tourism and travel industry have been badly hit. The number of flights globally took a huge dip starting in February and March 2020.¹³ Many companies in the tourism sector, especially those providing transportation, accommodation, and food services, are the ones hit the most by the pandemic.

In Indonesia, during the implementation of PSBB (April-June), 90% of tourism related industries (hotel, restaurant/café, entertainment venues, fitness and spa, travel agents, theme park, MICE services, etc.) have been forced to close. Businesses that are still open are also limited to only 20% of available capacity (hotels only open two floors), with occupancy rate below 5%, and as much as 90% of employees were sent home with unpaid leave.¹⁴

It is important to note that the tourism industry employs 16 million workers directly and another 80 million workers indirectly. And around 90% are MSMEs, which means the steep decline in tourism sector is likely to have spill-over effects on them. Indonesia's Chamber of Commerce (KADIN) estimates that the potential loss to the sector, if the dire situation continues until the end of this year, will reach USD35 billion in tourism revenue.¹⁵

Looking at the current infection rate and ineffective handling of the pandemic, it is expected that the peak of the pandemic in Indonesia will only be reached at the end of 2020 if not later. Moreover, according to KADIN, the recovery of the tourism industry depends largely on when the pandemic will be fully resolved; when the PSBB of an area will be fully revoked; when other countries begin to allow their citizens to visit Indonesia; and especially when the vaccine can be widely available.¹⁶ United Nations Conference on Trade and Development (UNCTAD) estimated that the tourism industry will fully recover by 2023, after the discovery of the vaccine.¹⁷

Bali, Indonesia's main tourist destination has been hit the hardest by the pandemic. International tourists, particularly from China, used to be the number-one source of income for the island. This flow has practically stopped since April. In 2019, two million tourists from China visiting the island. By February this year, that number plummeted to only around 4,000. The target of two million tourists visiting Bali is now impossible to meet. The beaches are quiet. Average hotel occupancy has dropped to less than 30%. Yet despite this hardship, the local government has urged the hotel and travel companies to do anything (like paying half of the salary) to survive, but not to lay off their staff.

In Yogyakarta, another main tourist destination, a similar situation is found. Not just international tourists – who used to flock the streets – but also domestic tourists have disappeared. Hotels are extremely quiet, with occupancy rate around 25%.¹⁸ The Indonesian Association of Hotels and Restaurants (PHRI) confirmed a number of cancellations and

delays. However, the local government is still optimistic that around half a million tourists will return in 2020 despite the virus. This is certainly questionable.

For regions like Bali and Yogyakarta, which depends very much on tourism, the huge drop in tourist arrivals has adversely affected their economic growth. According to official statistics, in Q2 Bali's GDP growth contracted by almost 11%.¹⁹ In Yogyakarta and Riau Islands, the regional GDP growth contracted by 6.7% in the same period.

POLICY RESPONSES

The government has allocated almost IDR 123.5 trillion (USD 8.4 billion) in stimulus packages for MSMEs. However, the disbursement of the fund has been slow. At the end of August, only around 38% of that amount had been distributed.²⁰ This is due to both bureaucratic hurdles and the reluctance of MSMEs to apply amidst concerns over administrative complexity and difficulties establishing eligibility. The main distribution channel for the stimulus package for MSMEs has been through bank transfers. As such, the designated banks need to verify the eligibility of each recipient. There are at least two major issues here: one, many MSMEs are not bankable, and banks have difficulty in verifying that their businesses have stopped due to COVID-19 or other factors. Second, there is no accurate and up-to-date data on MSMEs and their conditions. Therefore, without accurate data, it is difficult for banks to verify and distribute the stimulus fund.

To support the tourism sector's recovery, the government has prepared three strategies. First, boost domestic tourism; second, convert international airline routes (as China has done) into domestic ones; and third, promote alternative tourism modes and destinations²¹. The government has also allocated around IDR 3.8 trillion (USD 256 million) as an incentive to support the sector's recovery. The fund is to be used for promoting tourism events and for helping tourism workers with direct pay-outs.

The current stimulus for the tourism sector is arguably too small compared to the calculated loss of revenue of around US\$35 billion for the sector. Moreover, in contrast to the announced stimulus, there has, according to KADIN, been very little stimulus or direct assistance from the central government as well as local governments to help the tourism sector. The absorption of the stimulus budget is very minimal even though the pandemic has been going on for more than six months. The assistance available is limited to banks that are forced to provide relaxation to avoid bad credit. For business owners, the payment of debt even if it has been relaxed is still difficult because there is no income and there are some overhead costs that need to be covered. To survive, the industry needs stimulus funds to pay for its obligations while their incomes still remain minimal. Currently, banks are reluctant to provide funds if these are not injected by the government.

It is important to note that liquidity provision is critical for MSMEs to survive the pandemic. One lesson learnt from the 1997-98 crisis is that, during liquidity crunches with significant cash flow disruptions, the form of cash injection (e.g., grant, low-interest loans) may be less important than making sure that funding is rapidly available, and with little administrative complexity. Note also that even though the stimulus is much smaller than potential losses, if it is distributed quickly, it will help workers and MSMEs survive economically.

GRASSROOTS INNOVATIONS

Although MSMEs are struggling to keep afloat during this difficult time, some are innovating for solutions. For example, a grassroot initiative in Yogyakarta helps common people and small businesses join hands in overcoming the impact of the pandemic. SONJO (sonjo.id) has been growing organically in response to the pandemic, championing for resilient, sustainable living, and circular economy.²²

Using the WhatsApp Group (WAG) platform, it started with one—now ten—groups, and over 1,000 individuals have now joined. In this platform, ideas beyond survival have been growing continuously, independently, and with literally zero cost. This SONJO platform provides free online resources and workshops to educate and build capacity of the communities. Different interest groups from academics and activists to business owners and households, contribute their skills and know-how without any support from the government. From producing face shields for front liners, designing and making protective suits and medical gowns (that even were shown in virtual fashion catwalk²³ and known globally²⁴), to creating online markets to help farmers sell their produce directly to buyers,²⁵ facilitating medical innovations such as swab chamber²⁶ and a testing kit that is much cheaper than PCR/swab²⁷, and reviving tourism and hospitality SMEs creatively²⁸—all taking advantage of the Internet.

The tourism and hospitality industries in Yogyakarta are also among the hardest hit. Yet, they try to play their part in curbing the outbreak while keeping businesses running. Although not as many as in big cities such as Jakarta, Bandung, and Surabaya, some hoteliers in Yogyakarta have repurposed their premises as quarantine centres and changed their business models. Through collaboration and partnership, hoteliers, restaurants and caterers, and art communities—most if not all of whom are MSMEs—partly took advantage of SONJO's platform, to revive the MICE and tourism sectors while complying with health protocols. They came up with the idea of virtual or online weddings: only maximum 20-30 people from the family gather in one venue, and the matrimony celebrations are broadcasted live to all relatives and friends.²⁹ To promote this idea, Yogyakarta has been declared the 'Next Virtual Wedding Destination' in Indonesia.³⁰

Collectively, through SONJO, local communities have surprisingly generated billions of rupiah in revenue.³¹ More importantly, it helps local communities survive, MSMEs endure, and layoffs to be minimized. Creative resources also emerge in the process of collective brainstorming in these ten SONJO WAGs, which also serve as clearing house to check hoaxes and misinformation. In times like these, the speed and willingness of different sectors to think collaboratively, solve problems, organise themselves and innovate in a short span of time are heartening.

WAY FORWARD

The resilience of Indonesian MSMEs in the face of the current crisis and future shocks is very important since it is the only sector that can help the majority of workers during crises. The government can help strengthen such resilience by expediting its stimulus measures since prompt and effective spending is critical in boosting demand. This can be done by

minimising administrative complexity and difficulties in establishing eligibility requirement for MSMEs. It is also important to encourage SMEs to go digital to help them become more sustainable and resilient.

Tourism will remain an important sector in the country. Domestic tourism is expected to lead recovery and rejuvenate MSMEs through its supply chain. The international travel bubbles might also jumpstart the sector's recovery but this depends on the agreed appropriate health and safety protocols. At the moment, it is important to provide financial relief in the form of low interest loans or grants for the sector.

Lastly, while innovative solutions coming from the grassroots is heartening, what is also needed is effective government action in handling the pandemic, so that public trust and confidence can be earned, not just from its own citizens but also internationally.

¹ <https://www.reuters.com/article/us-health-coronavirus-indonesia-insight/endless-first-wave-how-indonesia-failed-to-control-coronavirus-idUSKCN25G02J>. According to WHO, the figures above 5 percent mean an outbreak is not under control.

² <https://nasional.kompas.com/read/2020/05/15/22185601/jokowi-kita-harus-hidup-berdampingan-dengan-covid-19>

³ <https://www.reuters.com/article/us-health-coronavirus-indonesia-insight/endless-first-wave-how-indonesia-failed-to-control-coronavirus-idUSKCN25G02J>

⁴ These sectors constitute around 9.6% of the economy.

⁵ These sectors constitute around 19% of the economy.

⁶ MSMEs employ around 117 million in 2018, according to Ministry of Cooperative and SMEs.

⁷ [http://www.depkop.go.id/uploads/laporan/1580223129_PERKEMBANGAN%20DATA%20USAHA%20MIKRO,%20KECIL,%20MENENGAH%20\(UMKM\)%20DAN%20USAHA%20BESAR%20\(UB\)%20TAHUN%202017%20-%202018.pdf](http://www.depkop.go.id/uploads/laporan/1580223129_PERKEMBANGAN%20DATA%20USAHA%20MIKRO,%20KECIL,%20MENENGAH%20(UMKM)%20DAN%20USAHA%20BESAR%20(UB)%20TAHUN%202017%20-%202018.pdf)

⁸ <https://finance.detik.com/berita-ekonomi-bisnis/d-5110727/duh-nyaris-30-juta-umkm-tutup-dihajar-corona>

⁹ Ibid

¹⁰ ADB-ADBI presentation on "Impact of COVID-19 on Micro, Small, and Medium-Sized Enterprises in Developing Asia: Evidence from the Rapid Surveys", 16 September 2020.

¹¹ <https://www.liputan6.com/bisnis/read/4346352/berapa-jumlah-umkm-di-indonesia-ini-hitungannya>

¹² Ibid

¹³ <https://www.flightradar24.com/blog/tracking-marchs-historic-drop-in-air-traffic/>

¹⁴ <https://kadin.id/news-event/news-detail/1076/paparan-kadin-terkait-perkembangan-pariwisata-pada-masa-pandemi-covid-19>

¹⁵ Ibid

¹⁶ <https://kadin.id/news-event/news-detail/1076/paparan-kadin-terkait-perkembangan-pariwisata-pada-masa-pandemi-covid-19>

¹⁷ https://unctad.org/en/PublicationsLibrary/ditcinf2020d3_en.pdf

¹⁸ <https://jogja.tribunnews.com/2020/06/18/tingkat-okupansi-hotel-di-diy-masih-rendah-phri-berharap-intervensi-dari-pemerintah>

¹⁹ <https://nasional.kompas.com/read/2020/09/01/13194291/jokowi-hanya-ekonomi-papua-dan-papua-barat-yang-tumbuh-positif>

²⁰ <https://money.kompas.com/read/2020/09/02/115053026/kata-pengamat-ini-penyaluran-stimulus-umkm-lewat-perbankan-tidak-tepat>

²¹ Such as shorter visits to destinations that are considered safer in terms of COVID infection risk, and with full health protocol.

²² SONJO was initiated by a renowned academic of Universitas Gadjah Mada (UGM) Dr Rimawan Pradipto and his colleagues in March 2020.

²³ <https://lifestyle.okezone.com/read/2020/08/03/194/2256032/apd-covid-19-melenggang-di-panggung-fashion-show-virtual-keren-ya>

²⁴ <https://www.telegraph.co.uk/news/2020/08/03/pictures-day-3rd-august-20201/medical-workers-showcase-designs-virtual-fashion-show-personal/>

²⁵ <https://kumparan.com/pandangan-jogja/pasar-sonjo-inisiatif-bangkitkan-ekonomi-umkm-lokal-jogja-kala-pandemi-1tZ8CDBE3W7>

²⁶ <https://www.kompas.com/tren/read/2020/04/17/133440965/lebih-dekat-dengan-bilik-swab-ciptaan-dosen-ugm?>

²⁷ <https://regional.kompas.com/read/2020/09/25/17582061/genose-ugm-mampu-deteksi-covid-19-dalam-80-detik?>

²⁸ <https://koran.tempo.co/read/nasional/458510/usaha-daging-lewat-aplikasi-daring>

²⁹ The idea of ‘virtual wedding’ or ‘online wedding’ was initiated by Yurry Apreto, the manager of GM Production, a local event organiser company, who also joins SONJO.

³⁰ <https://www.krjogja.com/berita-lokal/diy/sleman/yogyakarta-dikukuhkan-sebagai-wedding-destination/> After this event, which was also initiated by Yurry, hoteliers and other MICE-related business started joining SONJO.

³¹ Rough estimation by one of the authors, Yanuar Nugroho, who had joined the SONJO WhatsApp Group for research purposes.

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