Impacts of COVID-19 on Small- and Medium-Sized Enterprises in the Indonesia Food System

RESULTS OF AN ONLINE SURVEY OF 36 SMALL AND MEDIUM ENTERPRISES
JUNE 2020
GAIN and partners, including the Scaling Up Nutrition (SUN) Business Network (co-convened by the World Food Programme (WFP)), undertook a survey of food system SMEs in 17 SUN Countries in early May 2020, aiming to assess the impacts of the COVID-19 pandemic and associated control measures on their businesses and their support needs (the survey results can be accessed here). This report presents the results for businesses based in Indonesia specifically (10% of total global survey respondents).

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All 36 firms that participated in the survey reported changing their production volume as a result of the pandemic, generally decreasing it; 89% of respondents had changed their product’s sales price.

92% of respondents anticipated future impacts on their supply chains, including shortages of supplies (82%), short term changes in production focus (42%) and production stoppage/suspension (12%).

97% of firms reported taking actions to mitigate the impact of the pandemic on their business, and 100% of firms took action to support the health and safety of their employees.

81% and 92% of firms reported urgently needing financial and technical support, respectively, to cope with the effects of the pandemic.

Based on these results, we recommend that government, development partners, and others take steps to support these crucial yet vulnerable food systems SMEs during this period, to ensure they remain in a position to provide nutritious, safe foods in the future.

Executive Summary

1. GAIN and partners, including the Scaling Up Nutrition (SUN) Business Network (co-convened by the World Food Programme (WFP)), undertook a survey of food system SMEs in 17 SUN Countries in early May 2020, aiming to assess the impacts of the COVID-19 pandemic and associated control measures on their businesses and their support needs (the survey results can be accessed here). This report presents the results for businesses based in Indonesia specifically (10% of total global survey respondents).

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7. 81% and 92% of firms reported urgently needing financial and technical support, respectively, to cope with the effects of the pandemic.

8. Based on these results, we recommend that government, development partners, and others take steps to support these crucial yet vulnerable food systems SMEs during this period, to ensure they remain in a position to provide nutritious, safe foods in the future.
Methodology

1. **ELIGIBLE RESPONDENTS**
   Owners and/or managers of micro, small-and medium-sized businesses (SMEs) in the food system in Indonesia, including firms that directly produce, process, or sell food as well as those providing supporting services.

2. **TOPIC & FRAMING**
   Respondents were asked how the COVID-19 coronavirus pandemic and any measures to control it (e.g., movement restrictions, border closings) were impacting their business, referencing the period since the pandemic began affecting their country.

3. **DISSEMINATION**
   The online survey was shared via email and WhatsApp with firms in two food system networks convened by GAIN and/or WFP from 29 April to 19 May 2020. 36 eligible firms responded. All respondents provided written informed consent to participate. Of the businesses approached, the survey response rate was 36/70 (51%).

4. **ANALYSIS**
   Data were cleaned and analysed using Stata SE15 (StataCorp, 2017). This rapid assessment report presents descriptive statistics across 36 responding Indonesian firms; all data are presented in an anonymised form.
Responding Firm Characteristics

- **Number of Firms**: 36 responses were received from 18 cities across Indonesia, with the majority coming from Surabaya (13/36)

- **Small /Micro Sized Firms**: 83% of participating firms are small or micro-sized, with less than $100,000 USD in annual turnover and fewer than 50 staff

- **Women Owned Firms**: 19% of respondent firms were women-owned businesses and 0% of the businesses were jointly co-owned by women and men

- **Years in Operations**: 50% of participating firms have been in operation for less than 8.5 yrs (median: 8.5 yrs, IQR: 4-10.5, range: 1-30)

- **Distribution Sector**: Majority of firms were involved in distribution (53%)

- **Fish Value Chain**: Largest share of firms (78%) surveyed operate in the fish value chain
The majority of firms were in the distribution sector (53%), followed by processing (25%) and crop farming (14%). The main food category represented was fish (78%) and vegetables (17%), with the representation of grains, baked goods/ready-to-eat foods, fruit, eggs, dairy, legumes and condiments/sweeteners/spices/oils ranging from 2-10%. Firms could work in more than one sector or food category.
All 36 firms that participated in the survey recorded that the pandemic had an impact on their business. 67% reported that the impact was moderate but manageable; 22% reported the impact as being difficult to manage; 8% reported the impact as minor; and only 3% reported a severe impact that would likely lead to business closure. The main impact cited by firms was decreased sales (97%), followed by limited financial reserves (19%) and difficulty accessing financing (19%).
All 36 surveyed firms reported changing their production volume as a result of the pandemic. **69% reported a moderate reduction (15-30%) in production volumes**, 19% reported a considerable (>30%) decrease in production volumes, 8% a smaller decrease (<15%) in production volumes, 3% stopped production entirely, whilst no firms reported an increase in production. Considering the firm’s product sales price, **32 respondents (89%) had changed their product price** as a result of the pandemic; of those making changes, **75% of respondents noted a moderate (15-30%) reduction in product prices**, 19% reported a considerable decrease (>30%) in product prices, 6% reported a slight (<15%) decrease, whilst no firms reported increasing their product prices.
Of the surveyed firms, 33 respondents (92%) expected impacts of the pandemic on their supply chains over the next 6 months. The main anticipated impacts cited were shortages of supplies (82%), short term changes in production focus (42%) and production stoppage/suspension (12%).
Additional Impacts & New Opportunities

Some respondents elaborated on the impacts of the pandemic on their business. Representative quotes include:

"COVID-19 has had both positive and negative impacts on the business. The pandemic has raised the awareness of health in Indonesia. However, there are several problems to overcome such as limited mobility, making adjustments to optimise digital marketing and our business model. But in our opinion, these challenges open new business opportunities and we think we could adapt to this new condition given the time to do so." – retailer based in Banten

"We were unable to provide religious annual bonus for employees (Eid al-Fitr)." – crop farmer based in West Java

Only 8% of respondents noted wanting to explore new business areas as a result of the pandemic. Those commonly named included:

- **Digitising Operations**
  Explore the introduction of online sales and delivery, including use of smartphone apps.

- **New Product Range**
  Firms are actively considering how to expand their product portfolios such as developing shelf-stable and immune boosting nutritious foods.

- **New Business Strategies**
  Firms are looking to optimize their supply chain by exploring upstream, midstream and downstream investments.
35 firms (97%) reported taking actions to mitigate the impact of the pandemic on their business. Of these firms, 51% reported reviewing/adapting supply chains, whilst other actions included; promoting online sales (40%), downsizing staff (23%) and changing sales hours (20%). All 36 surveyed firms reported taking actions to support employee health and safety. These actions included providing personal protective equipment (94%), cleaning work areas more frequently (64%) and taking special precautions for high risk staff (28%).
29 respondents (81%) reported urgently needing financial assistance to cope with the effects of the pandemic on their business; most required less than 50,000 USD (65%) or 50,000–100,000 USD (25%). Main uses of such financing included refinancing (83%), working capital (69%), inventory purchase (58%) and staff development (28%). 33 firms (92%) reported urgently needing technical assistance to cope with the effects of the pandemic on their business. Of these, 61% of respondents sought advice mainly on updating business plans, 58% on quality assurance/control, 52% on business resilience planning, 39% on price information, 33% on sales/distribution and 27% on marketing advice.
34 firms (94%) felt that government actions were needed to help firms weather the effects of the pandemic. Recommended actions included procuring firm food products (68%), facilitating trade (24%), providing financial support (18%), providing unemployment insurance/pay support (18%) and supporting workforce continuity e.g., permitting travel, keeping public transport open (18%).
Conclusions

This rapid assessment has shown that:

1. Food system firms in Indonesia are experiencing financial hardship as a result of the pandemic and related control measures.

2. In many cases, the pandemic has resulted in decreased or stopped production, which could have negative impacts on the food supply in the short and medium term.

3. A sizeable minority of firms also report or anticipate layoffs or pay cuts for staff, exacerbating the pain of the existing economic slowdown on workers.

4. Many firms do, however, see opportunities for new business models or products as a result of the pandemic.

While not assessed here, these changes could have negative impacts on consumer access to safe, nutritious foods and may risk increasing food loss.
Recommendations

Based on these conclusions, it is essential for the government and development partners to support these crucial yet vulnerable SMEs to ensure they remain in a position to provide nutritious, safe foods in the future. To that end, we make the following recommendations:

1. Particularly important is partnering with local financial services providers to develop a comprehensive package of financial support for SMEs, including grants or short-term low-interest bridge loans to meet critical needs (e.g., payroll), prevent bankruptcy, and support investment in production post-lockdown.

2. The government can also provide subsidies to banks to enable them to waive loan fees or extend payment deadlines and inject capital into the agri-food sector to help SMEs and their workers stay afloat.

3. Technical assistance can be provided to help SMEs adapt business models, reach consumers online, or adopt processing or packaging to extend products’ storage or shelf life.

4. Ensuring the free movement of food-related goods and equipment within and across national borders is also essential.
This survey, a rapid assessment, is subject to certain biases: opt-in response bias, imperfect representativity (especially of smaller, less internet-savvy firms) within the networks studied; imperfect representativity of the networks themselves (especially of firms producing less-nutritious foods); and potential misinterpretation of questions, given the online survey mechanism.

Certain provinces are also over-represented in the responses, due to the greater presence of the surveyed networks in those provinces. In addition, firms in the fish value chain are also over-represented in the responses, due to one of the surveyed networks focusing on the fish value chain.

The situation is also likely to change rapidly; the information presented here can only be considered a snapshot in time.

Due to the small sample size, the survey was not powered to analyse gender differences.
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