

# The Initial Impact of COVID-19

on Balinese vs. Indonesian Employment







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### Executive Summary

As the COVID-19 pandemic spread across the world most countries have suffered **significant economic impacts**. In response to the crisis, the Indonesian government enforced large scale restrictions beginning in April 2020 in order to protect the public. However, the risks to Indonesia's economy are not only from local and national measures. Many countries have been impacted by uncertainty and turbulence in the global economy and it's likely other nation's measures have impacted Indonesia.

One such consequence is the **collapse of international tourism**. We believe it's likely that regions in Indonesia that are reliant on international tourism were impacted ahead of the government restrictions. To test this assumption we compare our employment data from Bali to data from the rest of the country.

All groups analysed exhibit shifts in behaviour that are likely to be driven by the initial economic impacts of the pandemic.

- The trends in micro and small businesses indicate **more companies are reducing their headcount** in March 2020.
- There was a net decrease in the median headcount per company in **Bali's micro, small and medium-sized company** groups.
- The rate of decrease for all three groups was worse than that reported from companies in the rest of Indonesia.

These trends indicate that **businesses in Bali have been more vulnerable** to the economic impacts caused by the COVID-19 pandemic.

Even the trends in the **large business** group in Bali indicated **some negative impacts** in March this year. However the sample size is too small to speculate the impact across the wider group of large enterprises in Bali.

## Methodology

**Population :** thousands of businesses, of all sizes and industries across the country.

**Time-Frame :** February and March, 2019 and 2020.

- We have grouped companies by size\* and calculated the change in total number of employees per company.
- We have identified businesses that are situated in Bali in order to compare the changes reported in Bali with the national trend.

For each company we calculated the difference in the number of employees reported in February and March of each year and categorised their behaviour as follows:

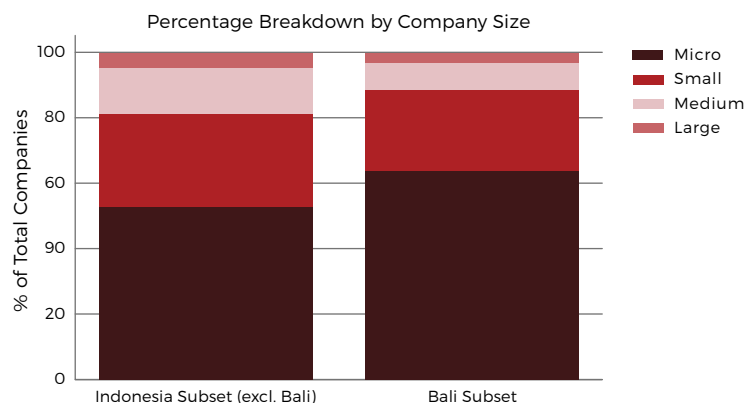
- Companies with **less employees** in March were labelled '**Reported Decrease**'
- Companies with **more employees** in March were labelled '**Reported Increase**'
- Companies with **no difference** between Feb and March were labelled '**Reported No Change**'

For analysis we split the company data according to company size and compared the behaviour patterns by region (Indonesia and Bali) and by year (2019, 2020).

There were some limitations to the data we used in our analysis which are outlined in the appendix.

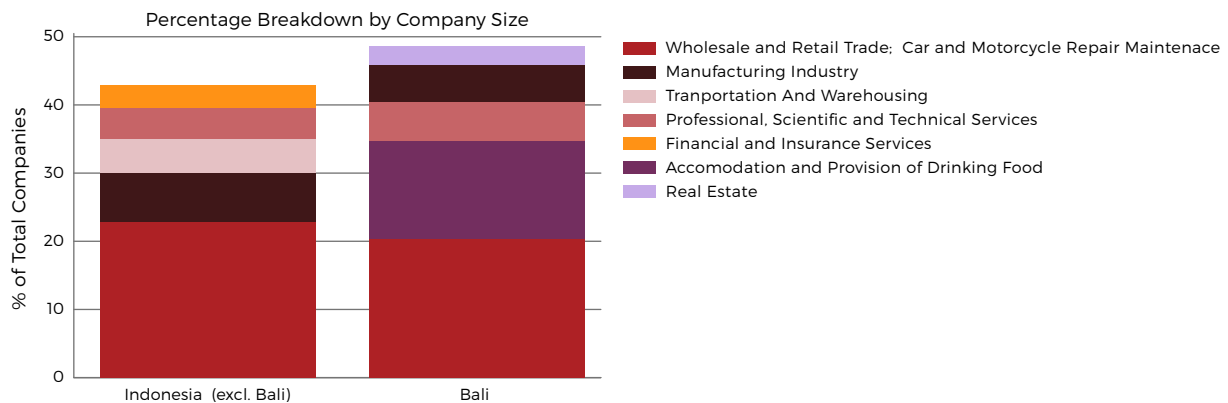
## Distribution of Companies by Size

Compared to our national data sample our Bali data indicates that Bali has a higher proportion of micro businesses, with approximately 65% of Bali companies using OP being classified as micro-sized.



\* size is based on total employees reported in February 2019, company size classifications were chosen from the OECD definition [1]

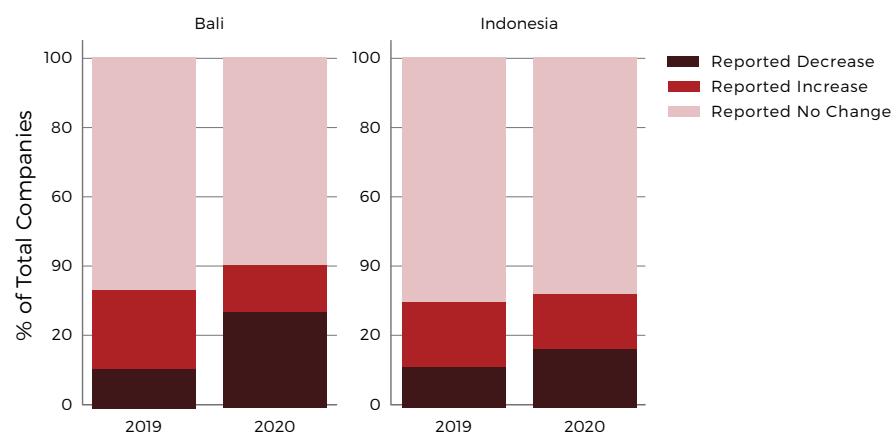
## Distribution of Companies by KLU (Company Industry)



Our Bali sample also differs from the rest of Indonesia in its industry distribution. While both groups are dominated by Wholesale and Retail businesses, Bali has a significant portion of 'Accommodation and Provision of Food & Beverage' companies.

## Negative Impact on Balinese Micro\* Businesses

If we consider 2019 to be a representation of a 'typical' year, the data indicates that typically February to March is a stable period for the majority of micro businesses across Indonesia. The proportion of companies expanding their workforce is almost twice that of companies who are reducing headcount for this period. Bali seems to roughly follow the same breakdown of company behaviour although there's a higher percentage of businesses experiencing growth in March compared with the national group. This could be due to the increasing tourist numbers Bali typically receives as the rainy season ends [2].

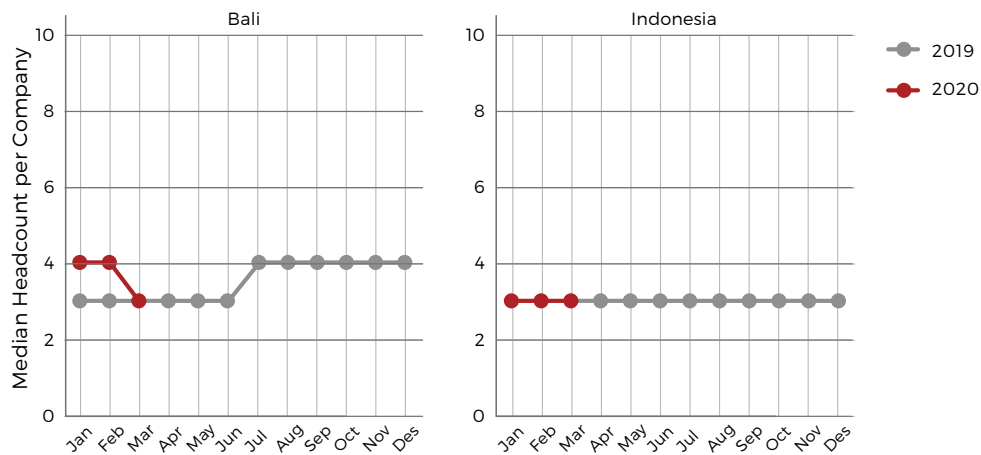


\* Less than 10 employees in February 2019

In 2020, there is a noticeable shift in the behaviour of both groups. More companies from Indonesia report a reduction in staff numbers and less companies report growth in March in comparison to the same period in 2019. Our Bali data sample indicates an even more dramatic change. The proportion of **micro businesses reducing their workforce** in March has **increased** from 11% in 2019 to 27% this year.

The distribution of KLU's (business industry classification) shows the Bali group's largest industries are 'Wholesale and Retail Trade' and 'Accommodation and Provision of Food and Beverages'. It is likely that these **industries are more vulnerable to the decrease in tourist numbers**.

While the shift in company behaviour has not changed the median headcount figures in Indonesia, the trend for the median **headcount per micro business in Bali indicates a detrimental impact**. This year micro businesses reported a median decrease in headcount of 1 employee per company.

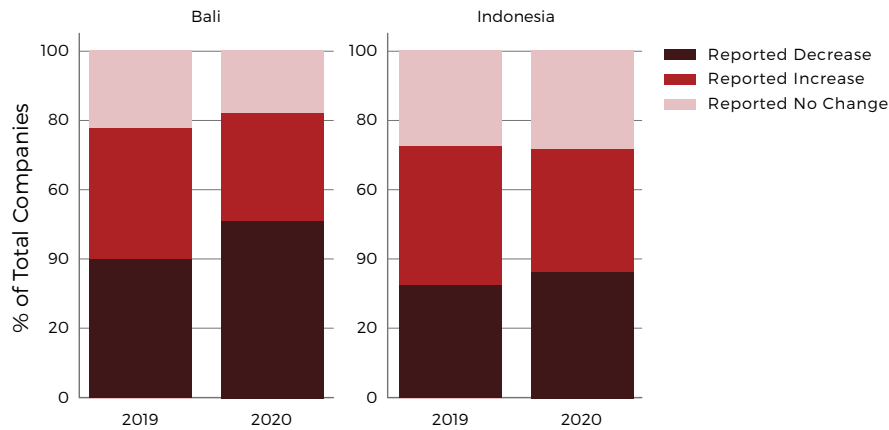


Bali is a region that is heavily dependent on tourism, and tourist arrivals have dropped dramatically since January of this year. With foreign tourist arrivals in Indonesia slumping to an all-time low in March 2020 [2], it seems possible that our trends indicate the adverse impacts of COVID-19 related restrictions on businesses in Bali.

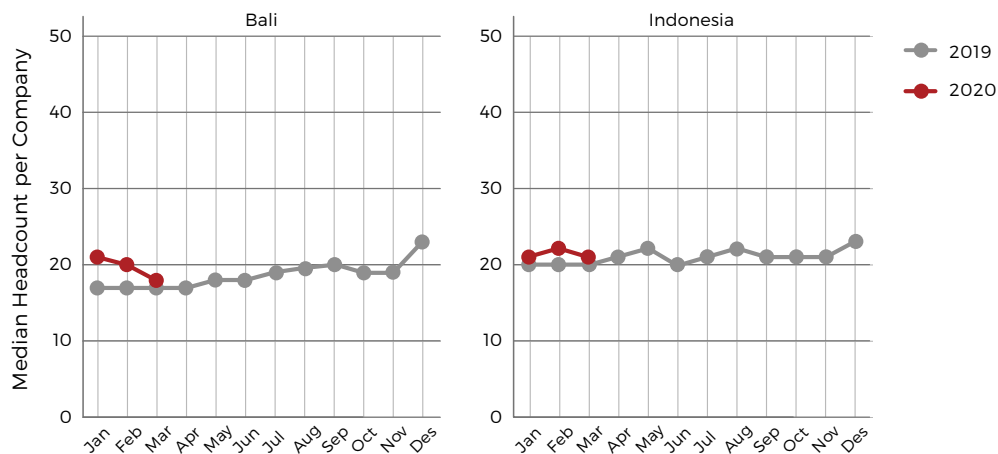
## Negative Impact on Balinese Small\* Businesses

Taking the 2019 data as our benchmark, our users in the small business category show a relatively high level of seasonal volatility by comparison to micro companies. However our **data from 2020 suggests a pandemic related behaviour shift** in both groups as the number of **companies laying off staff in March has increased** from last year. As in the previous group, there is a more marked effect in the Bali group

\* Less than 50 employees in February 2019



In addition to a shift in company behaviour, **the median headcount per company has dropped.** Across Indonesia on average 2020 has not followed the trend from the previous year, instead there has been a slight decrease in the median headcount per company in March. Businesses in Bali have reported an increasingly steep decline since January of this year.

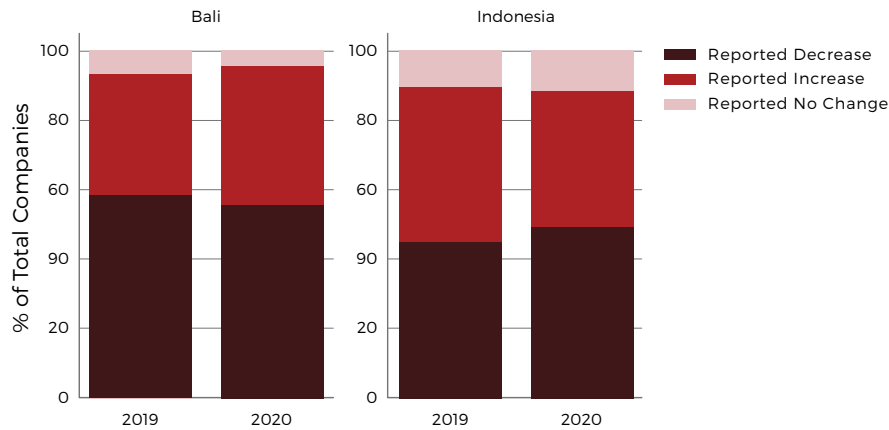


Again, the difference in the figures reported for each group can be linked to the industry distribution of the groups. The **largest industry from the Bali companies** is the 'Accommodation, Provision of Food & Beverages' industry which is **very likely to be impacted** by the decrease in tourism due to COVID-19.

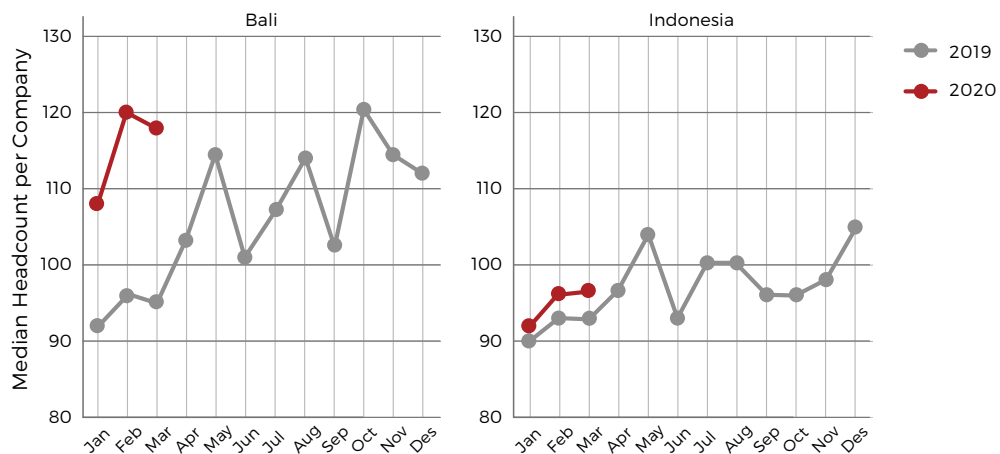
## Medium\* Businesses Indicate some Resilience

Interestingly, figures for medium-sized companies show **the least amount of change** between 2019 and 2020. The majority of businesses in Bali and a high proportion across Indonesia typically reduce staff numbers at this time of year and this trend indicates no major impact on that behaviour. In fact there is an indication of a positive shift as a **higher proportion of Balinese companies report hiring** than in 2019.

\*Less than 250 employees in February 2019



Despite more companies hiring in Bali **there's no net positive impact** on headcount. This suggests that while more businesses report expansion than this time last year, others **may be laying off staff at a greater rate than before**.

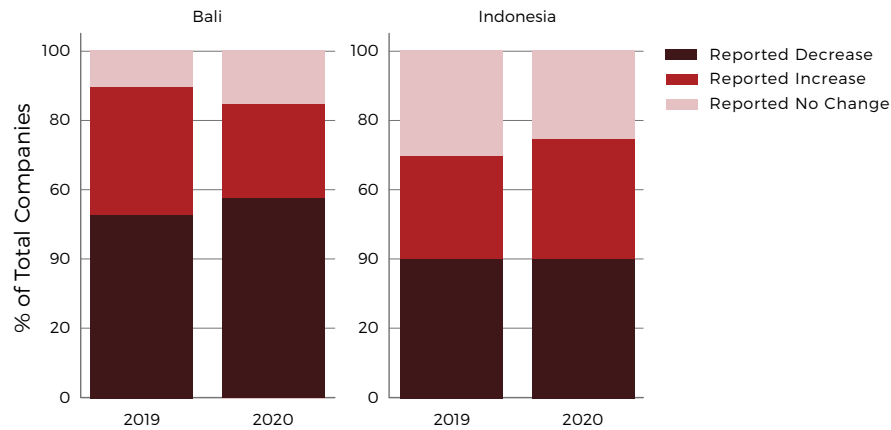


The distribution of company industries is much more similar in this group compared to the micro and small groups so it's unsurprising that Bali follows the national trend much more closely.

## Detrimental Impact on Large\* Businesses in Bali

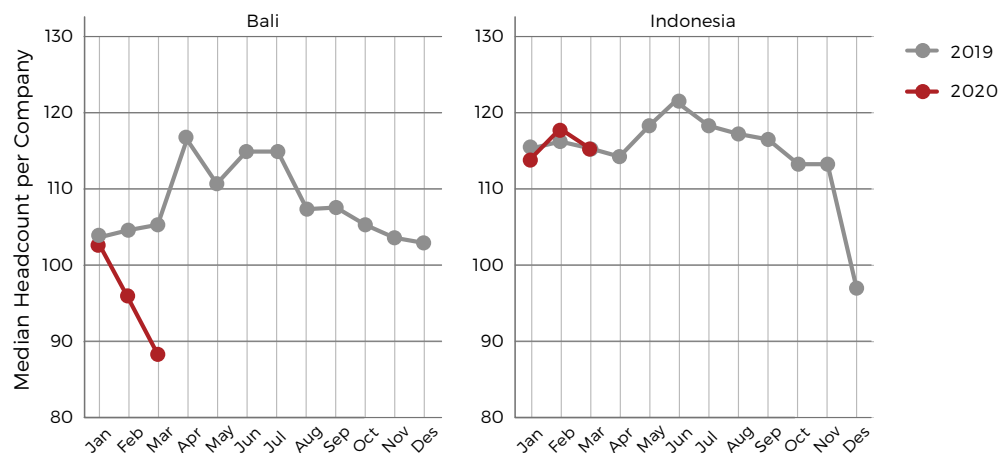
2019 figures show a lot of employee turnover between February and March. In 2020, large companies were the only group from our Bali data that reported an increase in the number of companies with no net change in their headcount, while more large companies across the rest of Indonesia reported expanding their workforce.

\* 250+ employees in February 2019



An increase in companies hiring across Indonesia only seems to balance the number of layoffs, as the median headcount per company shows there is little change.

In Bali, 2020's **headcount has dropped significantly compared to last year**. The figures suggest the negative impact began in February 2020. The sample size for large Balinese companies is very small however and therefore unlikely to provide an accurate indication of large enterprises across Bali.



## Key Takeaways

**International tourist numbers have been dropping since January** as international travel restrictions were enforced so it seems realistic that companies from industries related to tourism should show earliest signs of the adverse economic effects of the pandemic.

For micro and small businesses the Bali and Indonesia data is trending in the same direction, with both groups showing **more companies reducing their workforce** compared to this time last year. However, the Bali group reported more detrimental figures than the rest of Indonesia with median **headcount for micro and small companies falling by 25% and 15%, respectively**.

For medium-sized companies, Bali companies report a positive trend with more companies hiring compared to the same period last year. However, there was an **increase in the overall rate of attrition** (median rate of 3 employees per company). Again the figures from the **Bali group are worse than the Indonesia group**, with a median decrease of 1 employee per company.

For large companies, the national data indicates that there is an increasing number of companies hiring compared to last year. While the company data from Bali indicates a negative trend the sample size is too small to draw any conclusions.

Our figures from the Bali group could be influenced by the higher proportion of companies belonging to **industries that are dependent on tourism** (e.g. Accommodation, Food and Beverages) which are **likely to experience greater economic hardship** due to the falling visitor numbers.

## OnlinePajak

As part of our efforts to simplify tax compliance for Indonesian corporate taxpayers amidst the pandemic, OnlinePajak is conducting a series of macroeconomic studies to help users mitigate the effects caused by the changes in working habits.

There's a need for a coping mechanism in regards to the current economic situation. Digitalization and automation are a couple of the solutions, especially since Large-scale Social Restrictions (PSBB) has been rolled-out, businesses have been finding ways to stay operational while applying Work from Home policy.

Since its inception in 2014, OnlinePajak has been facilitating easier tax compliance through an integrated cloud-based application to process invoices, payroll, and tax management (prepare, pay, and file tax). Thus, enabling companies to carry on the operation mentioned while practising social distancing and work from home.

By leveraging digital automation, OnlinePajak has helped enterprises of all sizes and even individuals to simplify their invoice, payroll and tax processes through applications such as e-Faktur, PPh21, e-Billing, e-Filing and more.

Approved and monitored by Indonesian tax ministry (DJP), OnlinePajak has processed more than 123 Trillion rupiah in tax revenue for Indonesia in the last 6 years, aiding Indonesian government to increase their tax collection .

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## Appendix

### Limitations

- The 2020 data contains estimates (which our users may or may not revise until the annual PPh21 deadline in 2021). To limit the inclusion of incorrect data we have only included PPh21 data successfully filed with the DJP where companies have declared  $> 0$  employees for the tax period.
- As a further measure against outliers and the variety of ‘quirks’ and bad practises we have observed in some user data, we use the median values to compare rates of change rather than the average to reduce the impact of these outliers.
- Some of the patterns in our data are due to seasonality, so we have included data from the data in 2019 as a benchmark for comparison, the underlying assumption is that 2019 data represents the ‘norm’. Unfortunately one historical data point does not allow us to capture the range of normal seasonal variability but for the purposes of this analysis and the limitations of our data we will use 2019 data as a rough benchmark for seasonality.
- As the tax office is closed we are also seeing different filing behaviour from our customers, many filed after the extended reporting deadline for March. Therefore we extended the data collection until the 12th of May to include as many late filings as possible.

**Note:** Employers are not obliged to report PTKP employees monthly (those with earnings of less than 4.5 million rupiah per month), these figures are typically only included in December tax reporting each year. We have excluded these numbers therefore the company size is based only on the employees types that are declared monthly.

Given the limitations outlined above the analysis cannot be taken as a true representative of the entire Indonesian economy as it's only based on a small subset of our users.

### External References

[1] <https://data.oecd.org/entrepreneur/enterprises-by-business-size.htm>

[2] <https://tradingeconomics.com/indonesia/tourist-arrivals>

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