



Indonesia: business confidence remains positive despite economic challenges

Atradius Payment Practices Barometer





The Payment Practices Barometer survey was completed by Indonesian businesses during March 2020. After reporting its first cases of coronavirus in early March, Indonesia applied a policy of partial lockdown focusing containment measures on specific affected areas across the archipelago.



**Jetse van Hee,
Country Manager for Indonesia
commented on the report**



The global economic downturn triggered by the coronavirus pandemic has severely affected Indonesia's economic performance and clouded the country's growth outlook for the coming months. This is because growth of household consumption, a key driver of Indonesia's economic expansion over recent years, is expected to deteriorate sharply compared to one year ago and exports are forecast to decrease significantly due to the sharp decline of global demand. The severe impact on the tourism sector and the anticipated contraction of investments with ongoing disruptions of major infrastructure projects add to the picture. Against this background, predictions over the economic outlook for Indonesia appear to be highly uncertain.



Introduction

Although the full impact of the coronavirus outbreak on the economy of Indonesia is still to be assessed, the country's trade links with China and the dependence of its exports on commodities has exposed Indonesia to downside risks to its growth and insolvency levels this year.

Key takeaways from the report

As a direct consequence of financial stresses and indebtedness, much arising out of the COVID-19 pandemic, the majority of respondents to our survey in Indonesia predict an increased dependence on bank finance. Many businesses also revealed that they would revert to requests for payments in cash and would strengthen their internal credit control procedures, including outsourcing debt collection, in response to a heightened risk of payment default.

This risk-averse tendency can also be found in other results of the survey such as the fact that Indonesia offers the shortest average payment terms of all of the countries surveyed in Asia. This may have been prompted by difficulties in collecting on invoices, with a sizable proportion of respondents reporting spending as much as 50% of the value of B2B invoices on collection.

Businesses that have struggled to manage cash flow in this way may benefit from avoiding collection challenges upfront by seeking robust payment guarantees. These can range from cash payments, to bank guarantees and other credit management processes such as credit insurance.



Survey findings for Indonesia

Use of trade credit as a source of short-term finance remains low compared to regional average

Indonesia is Southeast Asia's largest economy. Like all economies around the world, it faces the disruptive impact caused by the coronavirus pandemic to international trade, as well as the strain on domestic demand arising from lockdowns. Amid these economic stressors, use of trade credit as a source of short-term finance in B2B trade increased modestly. An average of 49% of the total value of B2B sales were transacted on credit, up from 47% last year, and 51% on a cash basis (down from 53% one year ago). Despite the growth in the use of trade credit, this is still significantly below the 56% average for Asia.

These small increases in the adoption of B2B trade credit may signify the start of a new trend. However, the modest nature of the uptick and the fact that Indonesia has largely been the most reluctant of the region's economies to offer trade credit or adopt risk suggests the status quo is likely to persist.

Payment duration in Indonesia



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – June 2020

Extended payment terms back up short-term finance role of B2B trade credit

Indonesia grants the shortest average payment terms of all of the countries surveyed in Asia. However, the country's 37-day average is three days longer than a year ago, which reflects trends indicating the use of trade credit as a source of finance. That said it is still six days shorter than the regional average (43 days). Indonesian SMEs and enterprises in the services sector report far longer average payment terms (both 45 days). Respondents from both SMEs and enterprises in the wholesale trade sector, who appeared to be the most inclined to grant trade credit to their B2B customers, call for shorter than average payment terms, both at 30 days from invoicing. 73% of respondents in Indonesia requested payment from B2B customers within 30 days of the invoice date, 15% in the range from 31 to 90 days and 12% of respondents reported having set payment terms of 90 days or more from invoicing.

When asked about the underlying criteria for setting payment terms, nearly half of respondents in Indonesia (67%), chiefly large enterprises and the manufacturing sector, reported that they set payment terms in accordance with their company standards and internal business practices (regional average: 51%). In contrast, 49% of respondents particularly SMEs and again in the manufacturing sector, set payment terms that are consistent with standards dictated by the competitive landscape of their industry (regional average: 36%).

Cash payments still more common in B2B trade than Asia average

Payments in cash, cash equivalents and on terms other than trade credit are the payment methods most often requested by survey respondents in Indonesia (75%). This is significantly higher than the regional average of 63%. This holds particularly true for large enterprises and in the manufacturing sector. Respondents who opted for selling on credit terms most often adjust granted payment terms (73% of Indonesian respondents, compared to a 60% regional average). This is most often the case for SMEs and businesses in the services sector.

Over 60% of survey respondents in Indonesia (67%) reported using two main techniques for managing customer credit risk: discounts for early payment and payment guarantees for credit sales. A similar proportion reported sending dunning letters (outstanding invoice remainders). In line with the average for Asia, Indonesian respondents display a strong focus on managing payment default risks. Exceptions to this include many small businesses and enterprises in the distribution sector that reported a lower than average use of credit management tools or techniques to safeguard cash flow and business profitability.



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Indonesian businesses hit by significant increase in late payments

Compared to one year ago, Indonesian respondents have working capital tied up in overdue receivables for a longer period (57 days from the invoice date, up from 52 days last year). In particular, respondents reported that they had the most difficulty in collecting outstanding debts from B2B customers in the chemicals, ICT/electronics and food & beverage industries.

For most Indonesian respondents (60%, lower than the 49% regional average) late payment from B2B customers is chiefly due to liquidity shortages. This was most often reported by large enterprises and the manufacturing sector. For 57% of Indonesian respondents (regional average: 49%) the most frequent reason for B2B customers' late payment is the use of outstanding invoices as a form of financing. This was most frequently reported by SMEs and the distribution sector. A sizeable proportion of late payments from B2B customers is caused by inefficiencies in their internal payment processes (53% of respondents).

To protect their business from credit losses arising from payment defaults, Indonesian respondents put in place measures aimed at strengthening their own credit control procedures. This included the increase in resources, costs and time to chase unpaid invoices (41% of respondents). As survey

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Indonesian businesses express concern over the fallout of the pandemic on the domestic economy, and anticipate a deterioration of their B2B customers' payment behaviour over the coming months. In response to this, as findings of our survey reveal, businesses plan on further strengthening their internal credit control procedures, confirming great attention to a strategic approach to credit management as the most effective way to protect the business from losses particularly, but not only, during an economic downturn. This protective stance may explain why their business confidence remains positive despite economic challenges.

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Jetse van Hee,
Country Manager for Indonesia



responses highlight, these latter amount to 50% of the total value of B2B invoices issued by respondents. This is 16 percentage points higher than last year, and below the current average of 52% for the region overall.

With 15% of invoices extending past 90 days overdue, respondents in Indonesia experience a rate of very late payments consistent with the regional average. This is reflected in the sizeable percentage of write-offs of uncollectable receivables, amounting to 4% of the total value of B2B invoices (twice as much as last year, and above the 3% current regional average). This suggests lower efficiency in collection of outstanding debts than one year ago, which is also comparable to the average rate for the region. When asked to indicate how long it takes, on average, to get paid after having initiated a PKPU proceeding for customer payment default, 40% said that it took on average 6-months to 1 year from the start of the proceeding to get paid, while for 38% the proceeding was completed earlier within 6 months from its start.

Majority of businesses in Indonesia expect increased dependence on bank finance

3 in 5 survey respondents in Indonesia are of the opinion that the fallout of the pandemic on the domestic economy will increase their industry's indebtedness, triggering an increased dependence on bank finance. However, on the positive side, nearly 70% of respondents believe that banks will continue to lend financial support to businesses, despite the uncertainties brought about in the economy by the virus outbreak. 53% of respondents, however, said they will continue to use distributor financing as a means to finance their B2B trade operations. Against this backdrop and amid measures undertaken to support Indonesia's economy during the pandemic, a surprisingly high percentage of respondents (85%) are convinced that the business performance of their industry, in terms of sales and profits, will remain unchanged or even improve over the coming months.

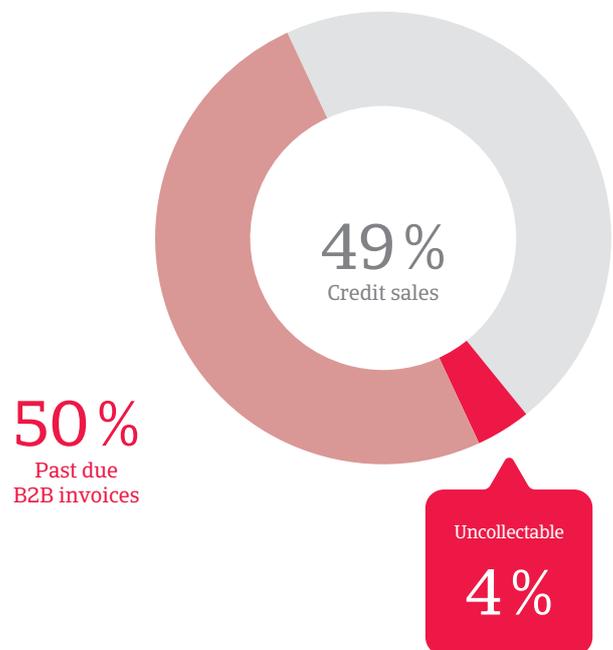
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The percentage of write-offs of uncollectable receivables, amounting to 4% of the total value of B2B invoices (twice as much as last year, and above the 3% current regional average).

Atradius Payment Practices Barometer – June 2020

Uncollectable B2B receivables in Indonesia

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

Due to the current trade challenges experienced at a global level, however, more Indonesian respondents (31%) anticipate a deterioration of their B2B customers' payment practices, (negatively affecting their DSO), than an improvement (27%). The remaining 42% anticipate no change. In response, the majority of Indonesian respondents plan on strengthening their internal credit control procedures (83%), and on outsourcing debt collection to legal offices or attorneys (70%). Respondents also anticipate increasing requests for payments in cash, cash equivalents and on terms other than trade credit, as well as the adjustment of payment terms as a key element of their credit policies.

Overview of payment practices in Indonesia

By industry



Chemicals

Over half of B2B invoices are overdue

According to respondents from the Indonesian chemicals industry, 52% of the total value of B2B invoices is overdue and 6% is written off as uncollectable. Just under half (42%) is paid on time. Due to late payments from their B2B customers, over one quarter of the respondents needed to delay payment of invoices to their own suppliers. In terms of debt collection, respondents reported they had the most difficulty in collecting outstanding debt from B2B customers in their industry.

For most of the respondents (65% in each case), B2B customers pay invoices late due to liquidity shortages, or because they use outstanding invoices as a form of financing. Reflecting greater efficiency in collecting long-term outstanding invoices of high value, 69% of respondents reported DSO (Days Sales Outstanding) figures up to 30 days, 14% up to 90 days and 17% of 90 days or more. This results in a 45-day average DSO for the industry.

Cash or cash equivalents still the most preferred payment method in the industry

The majority of respondents from the Indonesian chemicals industry (76%) reported they most often request payment in cash, cash equivalents and on terms other than trade credit. When it comes to their trade credit policy, most respondents (71%) adjust credit terms according to changes in the economy and the level of customer credit risk.

Respondents that retained and managed customer credit risk internally through self-insurance (73%) reported they had to increase time, resources and costs to chase overdue invoices (39%), or strengthen their internal credit control procedures (31%) or outsource debt collection to a specialised agency (29%).

Businesses plan to strengthen credit control procedures over the coming months

Survey respondents in the chemicals industry differ in their opinions about the outlook for payment practices over the coming months. About 40% expect their customers' payment practices to deteriorate and about the same percentage expect to see an improvement. Despite this uncertainty, most respondents told us that over the coming months they will be focused on strengthening credit control procedures to protect cash flow and the investment capacity of the business. This includes offering discounts for early payment of invoices (39%), increasing the use of dunning payment reminders and avoiding risk concentration through the reduction of reliance on a single buyer (33% in each case).

Nearly 7 in 10 respondents in the Indonesian chemicals industry believe that dependence on bank finance will increase over the coming months due to the increased indebtedness of the industry. The same percentage of respondents expect banks to keep on providing financial support to alleviate temporary cash-flow shortages. Against this background, 86% of Indonesian respondents are of the opinion that the industry business performance (sales and profits) will improve over the coming months.





Paper

Liquidity shortages cause late payments in the paper industry

B2B customers in the Indonesian paper industry pay invoices late most often due to liquidity shortages (67% of survey respondents) while for 52% of respondents, late payments are attributable to B2B customers using outstanding invoices as a form of financing. Late payments in the Indonesian paper industry correspond to an average of 48% of the total value of the B2B invoices issued (country average: 40%). Long-term outstanding receivables (those more than 90 days overdue) average 8% of overdue payments (well below the 15% country average).

In terms of debt collection, respondents reported they had the most difficulty in collecting outstanding debt from B2B customers in both their industry and in the food & beverage industry. The proportion of receivables written off as uncollectable averages 2% of the total value of B2B invoices (country average: 4%). 66% of Indonesian respondents in the paper industry reported DSO up to 30 days, 21% up to 60 days and 13% of 90 days or more, resulting in a 41-day average (country average: 45 days).

Majority of Indonesian paper industry suppliers requests cash payments in B2B trade

As it was observed in the chemicals industry, the vast majority of respondents in the Indonesian paper industry (85%) ask their B2B customers to settle invoices in cash, cash equivalents or in terms other than trade credit. However, when a trade credit decision is made, respondents most often offer discounts for early payment, or adjust payment terms to reflect the creditworthiness of the customer.

To minimise customer credit risk, respondents in the Indonesian paper industry reported they often ask their B2B customers for guarantees of payment, or a letter of credit (as stated by 64% of respondents in each case). In addition, 60% of respondents reported putting measures in place to avoid concentrating risk in a single buyer.

Paper industry optimistic about future payment habits

As survey findings reveal, Indonesian respondents in the paper industry are optimistic about the future trend of their B2B customers' payment habits. 40% of respondents expect no change and 36% foresee an improvement with a significant decrease in long-term outstanding invoices. However almost a quarter % of respondents anticipate a deterioration in payment practices (24%). However, in order to strengthen their credit control procedures in these challenging times, over half of the respondents (52%) reported they will more frequently offer B2B customers discounts for early payment of invoices, while a sizeable percentage of respondents (43%) plan on insuring receivables against the risk of customer payment default over the coming months.

Consistent with their optimistic view of about the improvement in B2B payment practices over the coming months, most Indonesian respondents in the paper industry (85%) believe that the business performance (sales and profits) of their industry will improve going forward. This will reduce businesses' overall indebtedness (as stated by 41%) and consequently their dependence on bank loans. Despite this, 67% of the respondents are confident that banks will continue to support businesses over the same period to alleviate pressure on cash flow.



ICT / electronics

Survey reveals 3 in 4 businesses affected by late payments caused by customer inefficiencies

According to survey findings, most of the respondents in the Indonesian ICT/electronics industry (75%) attribute late payments from B2B customers to inefficiencies of their internal payment process. For 64% of respondents, late payments were due to B2B customers using outstanding invoices as a form of financing. On average 49% of the total value of the B2B invoices issued in the industry remained unpaid when due (above the 40% country average). Long-term outstanding receivables (those more than 90 days overdue) average 16% of overdue payments. This in line with the country average.

The proportion of receivables written off as uncollectable averages 3% of the total value of B2B invoices issued in the industry, (country average: 4%). Respondents reported they had the most difficulty in collecting outstanding debt from B2B customers in their industry. When asked to indicate their average DSO, 58% of Indonesian respondents in the ICT/electronics reported DSO up to 30 days, 26% up to 60 days and 16% of 90 days or more, resulting into a 52-day average (above the 45 days country average).

ICT industry strengthens its internal credit control procedures

To minimise the impact of customer credit risk on their business, respondents in the Indonesian ICT/electronics industry focused on strengthening their credit control procedures through an increase in resources, costs and time to chase unpaid invoices and collect outstanding debts (as reported by 55% of respondents). To remain financially flexible and alleviate pressure on cash flow, many respondents pursued additional financing from external sources, or requested a bank overdraft extension (35% each).

In order to link the mitigation of customer credit risk with their trade credit policy decisions, most respondents in the Indonesian ICT/electronics industry (72%) reported that they frequently adjusted credit payment terms to reflect the credit quality of their customers. Moreover, when selling on credit, 70% of respondents said that they very frequently requested guarantees of payment for the goods and services purchased on credit terms from B2B customers.

Payment practices in the industry expected to remain unchanged over the coming months

Many Indonesian respondents in the ICT/electronics industry (41%) anticipate that their B2B customers' payment practices will not change over the coming months. However, 36% of respondents anticipate a worsening and with that an increase in write-offs. In response, nearly half of the respondents plan on turning to self-insurance, while many respondents (35%) plan on increasing their trade debts securitisation.

Over the coming months, dependence on bank finance by the Indonesian ICT/electronics industry will increase (according to 57% of respondents) due to increased levels of indebtedness. However, over half of the respondents believe that banks will continue to give financial support to the industry over the coming months. It is highly likely that this optimistic view be the reason for the positive outlook for the Indonesia ICT/electronics industry, which emerges from survey respondents. Most of these latter (83%) said they expect sales and profits in the industry to improve. 32% believe the improvement will be significant.



Survey design for Asia

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Asia, which is part of the 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed. Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results.

Using a questionnaire, CSA Research conducted 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and UAE) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of country data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=1,413 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

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Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)		
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)		
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia. This is part of the June 2020 Payment Practices Barometer of Atradius, available at

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