



IMPACTS OF COVID-19 on FIRMS IN VIETNAM

Results from the 2nd Round of COVID-19 Business Pulse Survey

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Key findings

- Firms are recovering on average with further reopening and lower revenue loss. Firms also reported lower incidence of reduced hours worked, reduced demand, and input disruptions. However, the extent of sales drop is still extensive (-36% relative to last year) and net employment has not recovered, staying significantly below the January level.
- Further, recovery has been mixed and uneven:
 - Some firms have improved sales level but many experienced even more severe revenue loss than in June. Sales has recovered faster for wholesale/retail sector, and medium & large firms.
 - Reduced demand appears to be the most important channel of impact. Competition has increased for some firms while decreased for others.
 - Firms relying on foreign inputs, especially from China, are more likely to experience supply chain disruptions.
 - Liquidity has improved but firms are still at significant risk of arrears, particularly those in the “other services” sectors (non-wholesale/retail businesses).
- Firms have become more pessimistic about sales and employment growth in the next 6 months – those experiencing higher sales drop are more pessimistic.
- Firms continue to adapt to the crisis by adopting digital platforms – close to 60 percent of firms have now reported having adopted or increased use of digital platforms in response to COVID-19, from about 50 percent reported in June. SMEs are gradually catching up to large firms in making investments for digital solutions.
- Health protocols, mainly for workers and customers, are almost universally adopted, at negligible costs.
- Access to government support has increased significantly between Sept-Oct and June. While awareness of government programs remains an issue, it has improved since June. However, there has been no evidence so far that having access to government support is correlated with firm’s current performance (sales, likelihood of hiring workers, laying off workers, or having cashflow shortages).

Vietnam reacted early to the spread of COVID-19 by imposing social distancing measures and mobility restrictions. A combination of early measures – targeted testing and tracking as well as innovative information campaigns – has proved to be highly effective. The country entered a 2-3 weeks lockdown in April, and experienced subsequent mobility restrictions in July after the Da Nang outbreak. In September, the economy is slowly returning to a “new normal” as businesses and workers return to work. However, international entries into Vietnam are still largely restricted.

In order to understand the impacts of COVID-19 on Vietnamese firms, the second round of the Business Pulse Survey (BPS) was implemented at the end of September to mid-October to ascertain the extent of this recovery. The second round follows up with respondents from the first round, covering close to 97% of all respondents in the Round 1 survey. Round 2 survey tracks results on key firm outcomes from Round 1 and includes additional questions to better understand the impacts on supply chains, finance, market competition, and firm’s implementation of public health protocols. The survey collected responses from 501 firms through a mix of phone and in-person interviews. The firms are located across 15 provinces, representative at three different firm size categories and four broad sectors - agriculture, manufacturing, wholesale and retail, and other services (see Figure A1 and Table A1, Appendix).

Impact on firms



OPERATIONAL STATUS

There is continued business reopening in September-October (Figure 1). An additional 13% of firms are now fully opened, bringing the total share of fully opened businesses to 94 percent. The pace of reopening appears similar across all firm sizes and is somewhat higher in services sectors, where there was the highest rate of firms closed or partially open in June.

While most firms are opened, many are still running below normal (pre-crisis) capacity. Almost 1 in 4 firms still have decreased operating hours. On average, firms' operating hours are 6.7 percent lower than last year. There is no difference across sectors, firm sizes, and regions.

Figure 1: Businesses continue to return to normal operations

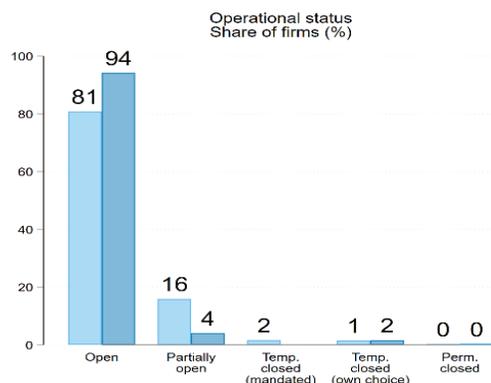
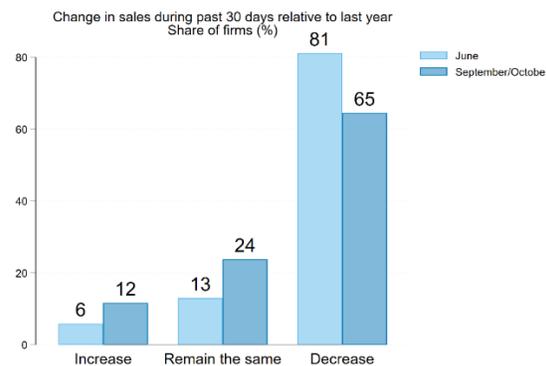


Figure 2: Almost 2 in 3 firms reported a sales reduction but the situation has improved since June



Note: Firms that are closed, including "permanently closed" are among survey respondents and do not take into account potential closures in the non-responding firms. Thus, this is likely a lower bound estimate, especially for permanent closures.

Figure 3: Firms continue to rely on temporary employment adjustments but to a smaller extent

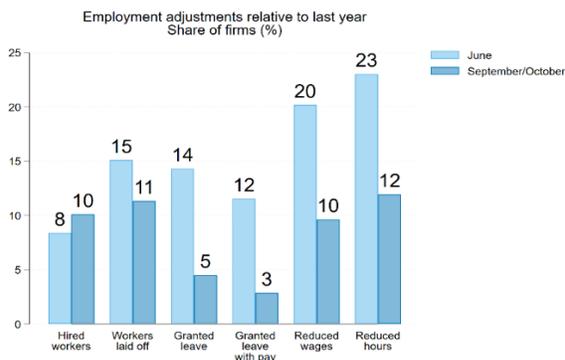
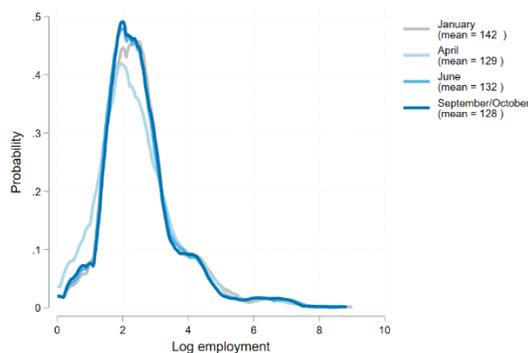


Figure 4: Overall level of employment is at similar level in April, June and significantly below January level



DEMAND SHOCKS

Almost 2 in 3 firms reported a reduction in sales during September-October, but the situation has improved since June (Figure 2). Sales has continued to recover, but firms are still experiencing significant revenue loss. On average, firm sales are about 36 percent lower than the same period last year. The recovery has been mixed and uneven with firm's sales both improving and deteriorating compared to June. While the extent of revenue loss in June was similar across firm sizes and sectors, the Sept-Oct conditions for medium and large firms and wholesale/retail sector have improved. On average, small firms and firms in manufacturing and agriculture continue to experience revenue shocks as severe as in June.



IMPACT ON EMPLOYMENT

Downward employment adjustments have eased but overall level of employment are at similar levels to June. Firms continue to rely on temporary adjustments to their labor force by granting leave, reducing wages, and reducing working hours (Figure 3). However, the share of firms making these adjustments on the intensive margin has reduced substantially. Firms continued to lay off workers (10 percent) but a similar share have also hired new workers. With the mixed responses to employment, in general, the level of total employment has stabilized in Sep/Oct, after a significant drop in April and partial recovery in June (Figure 4).

Mechanisms of Impact

Firms reporting issues with reduced demand, supply, and working hours in September/October have all decreased relative to June. (Figure A2, Appendix)



DEMAND AND PRODUCT MARKET

Falling demand remains an issue, largely from reduced new orders. Falling demand remains the most prevalent channel of impact. Firms are facing payment delays and cancellation of existing orders, but the most important issue with demand is reduced new orders (Figure 5).

There are countervailing pressures on competition from negative demand shocks and exiting firms (Figure 6). Most firms (60 percent) did not experience a change in competition relative to last year. A quarter of firms experience an increase in competition, which is mainly due to a reduction in demand. A significant portion of firms (16 percent) experience a decrease in competition mainly due to the exit of competitors. Firms facing increased competition are also more likely to reduce prices.



SUPPLY AND INPUT MARKET

There is also a mix of changes in production cost: production costs increased 19 percent firms, by an average of 14 percent; and decreased for 13 percent of firms, by an average of 20 percent.

Close to 40 percent of firms experienced a decrease in availability of inputs, and 10 percent have had to canceled sales due to lack of inputs (Figure 7). Firms also experienced issues with lead time and logistics operations. Large firms experienced relatively less impact on their supply chains.

Firms sourcing mainly from China are more likely to have experienced decreased input availability (Figure 8). The majority of firms source locally or from China. Logistics issues are more common among firms relying on foreign inputs. The lead time did not change for most firms. However, 1 in 10 firms experienced an increase of an average of 25 percent in lead time in September compared to last year.



ACCESS TO FINANCE AND LIQUIDITY

With continued below normal demand, liquidity is a persistent issue despite some slight improvements (Figure 9). About half the firms have under 3 months of cashflow and close to 60 percent have under 6 months of cash flow before facing shortages. Liquidity issues are the most severe for firms in other services (i.e. non-retail or wholesale trade) sectors.

Lack of access to finance, a chronic concern in Vietnam, becomes a bigger issue with liquidity issues. Over 60 percent of firms have reported some difficulties with access to finance. Main difficulties related to access to finance are interest rate, fear of repayment risk, and lack of collaterals (Figure 10). Large firms are more likely to report having no difficulty having access to finance, whereas SMEs report issues with collaterals. All firms are similarly concerned about interest rates and repayment risks.

Firms with higher revenue loss are also more likely to have difficulty in accessing finance.

Figure 5: Firms are facing payment delays and cancellation of existing orders, but most importantly is reduced new orders

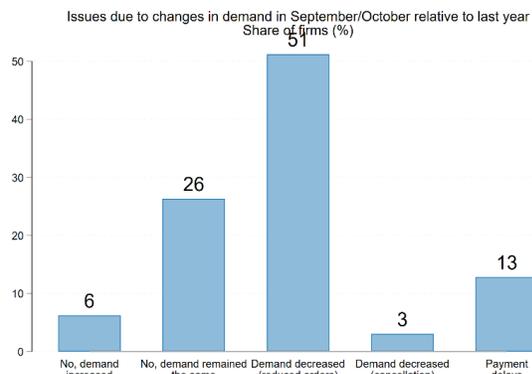


Figure 6: Countervailing pressures on competition from negative demand shocks and exiting firms

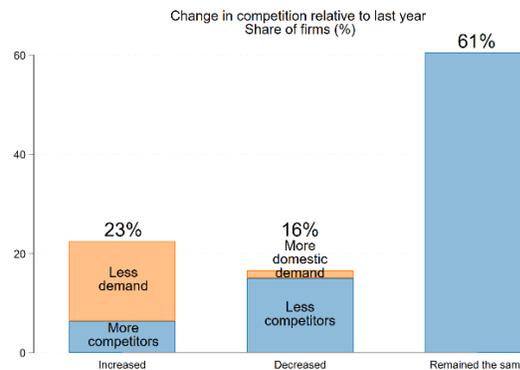


Figure 7: Close to 40 percent of firms experienced decrease in availability of inputs, and some have had to canceled sales due to lack of inputs

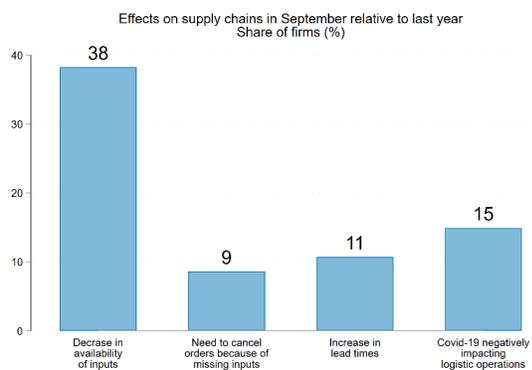


Figure 8: Firms relying on foreign inputs (especially from China) are more likely to report supply chain difficulties

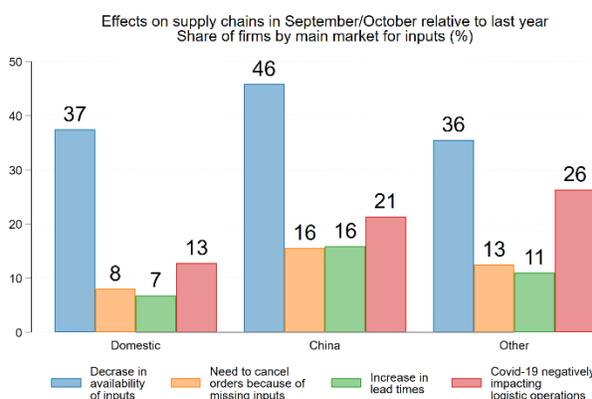


Figure 9: Liquidity is a persisting issue despite some slight improvements

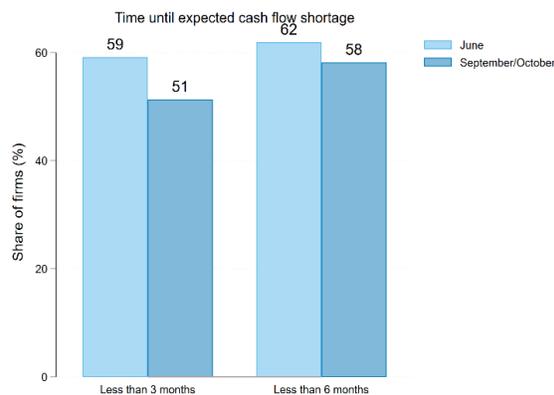
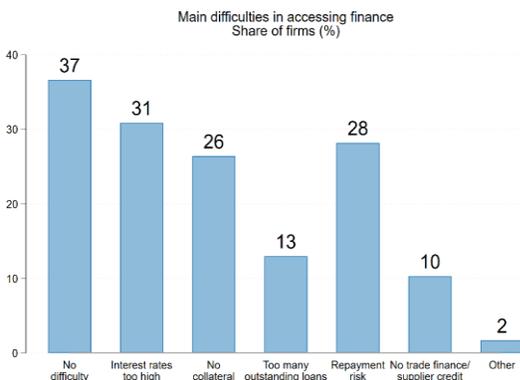


Figure 10: Main difficulties related to access to finance are interest rate, fear of repayment risk, and lack of collaterals



ADJUSTMENTS



Investments in Health Protocols

There is almost universal adoption of health protocols, mainly for workers and customers (Figure 11). While manufacturing firms and large firms are making the most investment in health protocols, these investments are not significant. The average investment on health protocols is only 0.9 percent of 2019 sales.



USE OF DIGITAL PLATFORM

Firms continue to adapt to the crisis by adopting digital platforms - by Sep/Oct, close to 60 percent have adopted or increased use of digital platforms in response to COVID-19 (Figure 12). There was a large initial uptake of digital platforms (48%) reported in June. The rate of new adoption has slowed down in Sept-Oct but still significant, with an additional 11% of new firms reported increased use of digital platforms. Similar shares of firms are investing in digital solutions and switching to new products/services.

SMEs are more likely to use digital platforms for less complex front-end business functions, suggesting potential capacity or resource constraints. Most digital adjustments are in customer-facing functions such as sales and payment methods, which are likely less complex and cheaper to implement than changes in other business functions. Large firms, however, are more likely to use digital platforms for more sophisticated functions such as production planning and Supply Chain Management, suggesting a capacity or resource constraints among small-size firms. At the same time, SMEs are gradually catching up in investments in digital solutions. (see Figure A3, Appendix)

Figure 11: Adoption of health protocols mainly for workers and customers

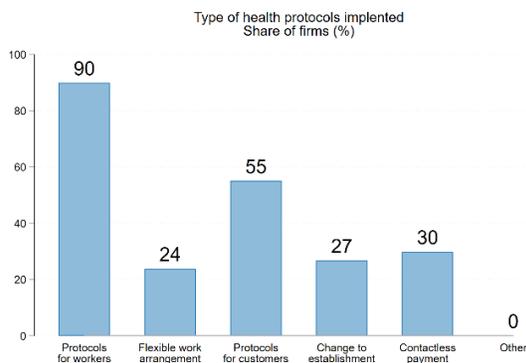
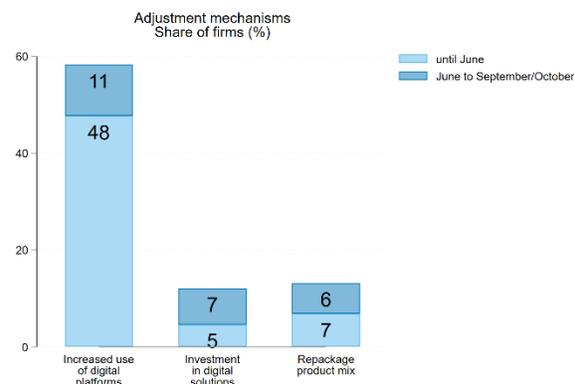


Figure 12: Uptake of digital platforms has slowed down



Looking ahead



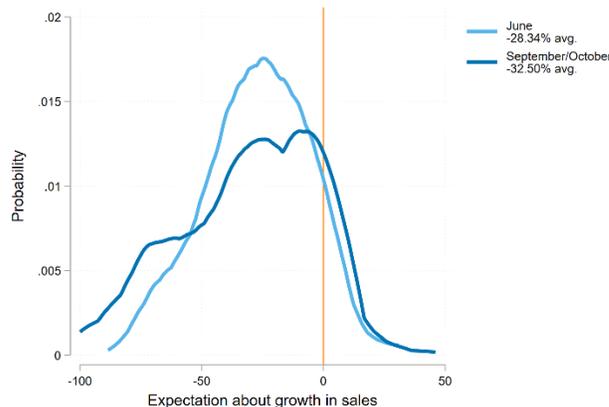
UNCERTAINTY

Most firms expect negative sales and employment growth in the next 6 months. On average firms are expecting highly negative growth in the next 6 months of 11-51 percent for sales and 7-61 percent for employment. The median medium firm expects more negative sales (by 5 p.p.) and employment growth (by 10 p.p.) relative to other firm size categories.

Firms have become more pessimistic about growth prospects in Sept-Oct as they adjust their expectations. Despite the fact that revenue has partially recovered since June, firms' expectations about sales in the next 6 months have become more negative. This downward adjustment in sales expectations maybe due to lower than

expected sales in the last 3 months: actual sales growth in Sep/Oct are significantly lower than firms' expected sales growth in June. In addition, firms experiencing a higher sales drop in the last months are more also pessimistic about the future.

Figure 13: Firms' expectations about sales in the next 6 months has become more negative



Policy support



GOVERNMENT SUPPORT

The share of firms accessing support policies has increased significantly between Sept-Oct and June (Figure 14). There is an increase of 10 p.p. between the two survey rounds in the share of firms accessing to support policies. The vast majority of support is in the form of tax and other payment deferrals (17% of firms). Large firms and manufacturing firms continue to have higher access to government support, with considerably more agriculture firms receiving support.

Lack of awareness and difficult procedures remain barriers to access government support, but firms' awareness has improved since June (Figure 15). Reasons for not receiving support are similar across sectors and firm sizes. So far, there has been no evidence suggesting that firms previously receiving government support is correlated with current sales, likelihood of hiring workers, laying off workers, or having cashflow shortages.

Figure 14: Share of firms accessing support policies has increased significantly

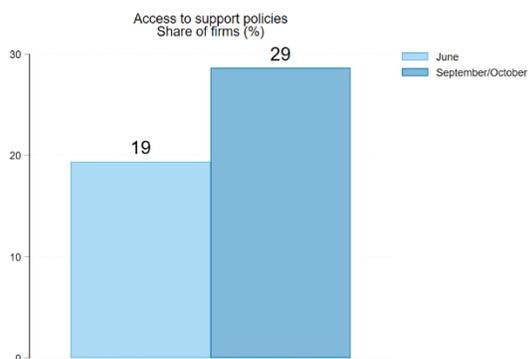
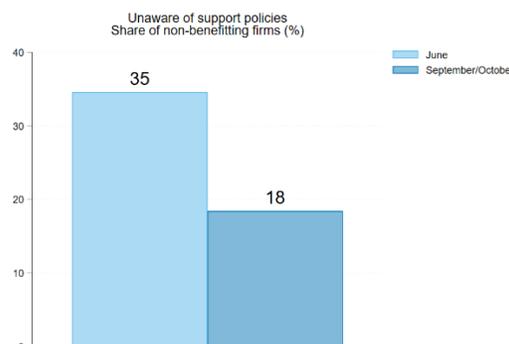


Figure 15: Lack of awareness of support policies remains an issue but it has improved since June



Next Steps

Continued monitoring of the situation is required to understand how firms in Vietnam are recovering from and adapting to the COVID-19 crisis. Three more rounds of the BPS is planned between December 2020 and April 2021. The fieldwork for Round 3 of BPS is planned in December 2020 to January 2021. In addition, a separate brief to examine the gender differences in the effects of COVID-19 is planned for end November.

The outputs and information about the BPS is available on the Vietnam COVID Monitoring website: <https://www.worldbank.org/en/country/vietnam/brief/monitoring-households-and-firms-in-vietnam-during-covid-19>

Box 1: Methodology of the Business Pulse Survey

These results presented in this note are from the Business Pulse Survey, conducted by the General Statistics Office (GSO) and the World Bank. The Business Pulse Survey is a global initiative of the World Bank and partners to survey the impact of COVID-19 on the private sector and is conducted or planned to be conducted in more than 40 countries. For the first round of the Vietnamese survey, 501 firms were interviewed by phone in September-October 2020 across 15 provinces, and representative at three different firm size categories and four broad sectors (agriculture, manufacturing, wholesale and retail, and other services).

Acknowledgements

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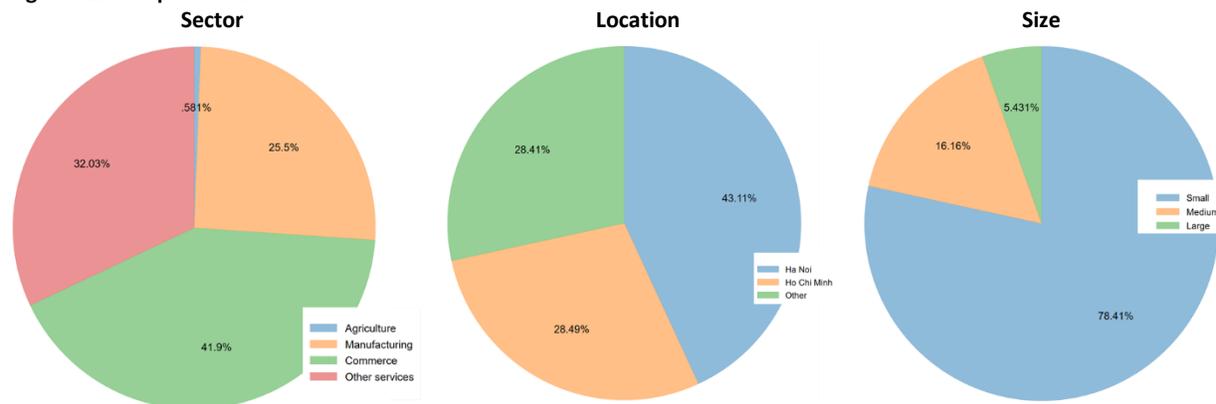


The accompanying slides are prepared by Shawn Tan (Senior Economist, EEA1), Trang Tran (Senior Economist, ETIFE) and Sarah Hebous (Consultant). The survey was implemented by Trang Tran and Xavier Cirera (Senior Economist, ETIFE). Survey implementation and data processing was supported by Tanay Balantrapu, Sarah Hebous, and Kyungmin Lee (Consultants, ETIFE). Hoa Chau Nguyen (Program Assistant, EACVF) provided excellent administrative support.

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Appendix

Figure A1: Sample distribution



Note: Firm size categories are defined by the number of workers and as follows: small (5-19), medium (20-99) and large (>100). The Commerce sector includes wholesale and retail trade, and Other services sectors include all other services sector except wholesale and retail trade.

Figure A2: Channels affecting operations relative to last year (shares of firms)

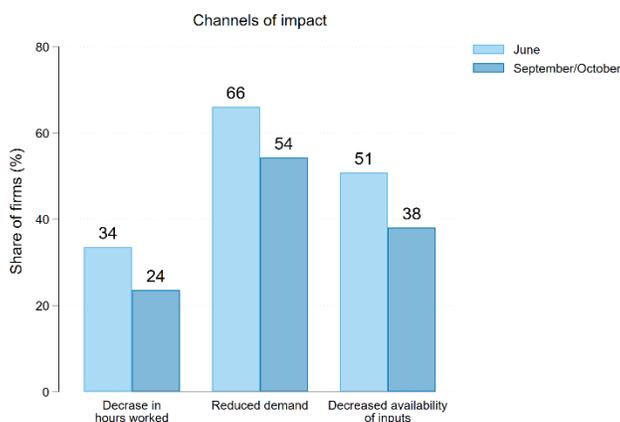


Figure A3: Use of digital platforms by business function & Investment in digital solutions, by firm size

