
THE EFFECT OF COVID-19 ON THE ECONOMY OF MSME CLUSTERS

Amin Sadiqin

STIE Mahardhika Surabaya, Indonesia

Abstract

The COVID-19 pandemic has economic, social, and political implications not only for big countries but almost all countries in the world. Indonesia is one of the countries affected especially on the economic side. Indonesia, which is dominated by Micro, Small and Medium Enterprises (MSMEs), needs to pay special attention to this sector because the contribution of MSMEs to the national economy is quite large. The decrease in Turnover of MSMEs and cooperatives due to covid-a9 is very significant since its appearance at the end of 2019. Purpose This study is to determine and analyze the impact of the corona virus pandemic on MSMEs in Indonesia. The method of analysis used in this research is descriptive qualitative method. The business activities of MSME players are really affected by the COVID-19 pandemic that is currently happening. Evidenced by changes in turnover, decreased orders, and decreased income as well as other constraints related to business activities such as disrupted production processes and hampered marketing and distribution activities. Short-term policies that can be implemented are financial assistance in the form of soft loans or cash assistance. directly by involving the government and the private sector. Meanwhile, the long-term strategy is focused on the introduction and use of digital technology for MSMEs as well as preparation for entering the Industrial 4.0 era.

Keywords: Covid-19, MSMEs, Economy, Indonesia

INTRODUCTION

The COVID-19 pandemic that is currently happening inevitably has an impact on various sectors. At the global economic level, the COVID-19 pandemic has a very significant impact on the domestic economy of the nation-state and the existence of MSMEs. The report *Organization for Economic Co-operation and Development* (OECD) states that this pandemic has implications for the threat of a major economic crisis marked by the cessation of production activities in many countries, falling levels of public consumption, loss of consumer confidence, falling stock exchanges which ultimately leads to uncertainty. (OECD 2020, accessed August 18, 2020) If this continues, the OECD predicts a decline in levels *output of* between a fifth and a quarter in many countries, with consumer spending potentially falling by about a third.

This prediction also threatens Indonesia's national economy. Aknolt Kristian Pakpahan said there were three implications for Indonesia related to the COVID-19 pandemic, namely the tourism, trade and investment sectors (*Pikiran Rakyat*, accessed 18 August 2020). Indonesia, which is dominated by the existence of Micro, Small and Medium Enterprises (MSMEs) as the backbone of the national economy, has also been seriously affected not only in terms of total production and trade value but also on the number of workers who have lost their jobs due to this pandemic. Data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM)

shows that in 2018 there were 64,194,057 MSMEs in Indonesia (or around 99 percent of the total business units) and employed 116,978,631 workers (or around 97 percent of the total workforce). work in the economic sector) (<http://www.depkop.go.id>, accessed August 18, 2020).

In overcoming the problems faced by MSME players, the government has made several efforts. One of them is including MSME actors as recipients of government assistance programs, such as Pre-employment Cards, electricity tariff subsidies, and the Family of Hope. The government also provided tax payment relief for six months, from April 2020 to September 2020. Also relaxed and restructured loan payments for MSME players, the ministry of internal cooperatives and MSMEs in an international seminar held online through Zoom by the Indonesian Cooperative Institute (Ikopin) in the framework of commemorating the 38th Anniversary of Ikopin, Friday 8 May 2020.

Even though the pandemic *COVID-19* raises several problems for MSME players and cooperatives, on the other hand there are opportunities that also arise. MSME players and cooperatives can take advantage of information and communication technology, given that electronic commerce in 2020 will reach US \$ 130 billion. Electronic trading transactions have drastically increased during the pandemic *COVID-19*. Products whose sales have increased include health products by 90%, hobby support products by 70%, food by 350%, and herbal foods by 200%. The purpose of this study was to determine and analyze the impact of the corona virus pandemic on MSMEs in Indonesia.

LITERATURE REVIEW

Theory of Covid-19

COVID-19 is an infectious disease caused by acute respiratory syndrome *coronavirus 2 (severe acute respiratory syndrome coronavirus 2 or SARS-CoV- 2)*. This virus is a large family of *Coronaviruses* that can attack animals. When it attacks humans, *Coronavirus* usually causes respiratory infections, such as flu, MERS (*Middle East Respiratory Syndrome*), and SARS (*Severe Acute Respiratory Syndrome*). *COVID-19* itself is a new type of coronavirus found in Wuhan, Hubei, China in 2019 (Ilmiyah, 2020; Hui, et al., 2020). Therefore, *Coronavirus* this new type of is named *Coronavirus disease-2019* which is shortened to *COVID-19*. *COVID-19* has since been found to have spread widely, resulting in a global pandemic that has continued to this day. Symptoms of *COVID-19* are generally in the form of fever 38 ° C, dry cough, and shortness of breath and the worst impact for humans is death. Covid-19 cases worldwide Wednesday (19/8/2020) reached 22,292,658 cases. Meanwhile, deaths due to Covid-19 now number 783,348. Not only the number of cases and deaths, the number of recovered patients has also increased. Currently, 15,035,489 people have recovered from Covid-19.

Micro, Small and Medium Enterprises (UMKM) Sector Theory

There are several definitions regarding micro, small and medium enterprises. The following is the definition of MSMEs according to several agencies:

Definition of MSMEs according to Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises Chapter 1 Article 1: Microenterprises are productive businesses owned by individuals

and/or individual business entities that meet the criteria of Microenterprises. Small business is a productive business that stands alone, which is carried out by an individual or a business entity that is not a subsidiary of a company that is owned, controlled, or is a part, either directly or indirectly, of a medium or large business that meets the criteria of a small business. Medium-sized enterprises are productive economic enterprises that are independent, carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part of, either directly or indirectly, with small or large businesses with total net assets or annual sales results.

Definition of MSMEs according to the Ministry of Cooperatives and MSMEs in Aufar (2014: 8): Small Business (UK), including Micro Enterprises (UMI) is a business entity that has a net worth of at most Rp. 200,000,000, excluding land and buildings for business premises and has annual sales of not more than Rp. 1,000,000,000. Meanwhile, Medium Enterprises (UM) are business entities owned by Indonesian citizens who have a net worth greater than Rp. 200,000,000 to Rp. 10,000,000 excluding land and buildings.

Definition of MSMEs according to Bank Indonesia in Aufar (2014: 9): Small businesses are productive enterprises owned by Indonesian citizens, which are in the form of individual business entities, business entities that are not legal entities, or legal entities such as cooperatives; is not a subsidiary or branch that is owned, controlled or affiliated, directly or indirectly with a medium or large business. Has a net worth of at most Rp. 200,000,000, excluding land and buildings or having sales of at most Rp. 200,000,000 per year, while the business is a business that has the criteria for its fixed assets with sizes that are differentiated between the manufacturing industry (Rp. 200,000,000 to Rp. 500,000,000) and non-manufacturing (Rp. 200,000,000 to Rp. 600,000 .000).

Based on the above definition, it can be said that MSMEs are businesses owned by individual business entities that are not subsidiaries or branches of other companies with the criteria of having business capital that have certain limitations.

RESEARCH METHOD

The research method used in this research is descriptive qualitative method. Researchers collect and describe all the phenomena that occur due to Covid-19 and their impact on MSME businesses in Indonesia.

In addition, due to limited time and material related to this study, the authors collected several related articles and then draw conclusions from those articles.

RESULTS AND DISCUSSION

Data on the Sustainability of MSMEs during the Covid-19

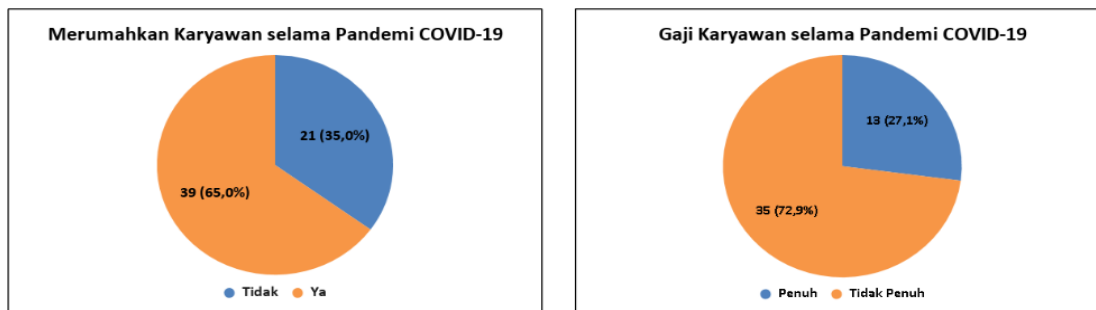
Pandemic Business Activities during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

During the COVID-19 pandemic, business activities carried out by some MSMEs did not run as usual and even had to temporarily halting business activities during the pandemic period due to several reasons related to decreased purchasing power, quiet market share, and other constraints in the production and distribution process.

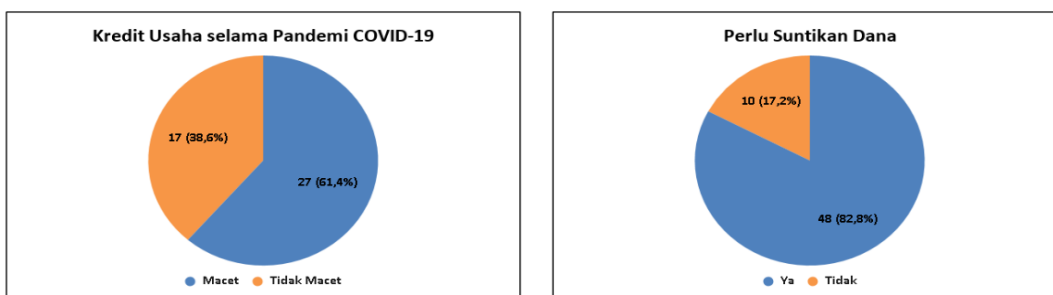
Responsibility for Employees during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

Some MSME actors decided to lay off employees and provide partial salaries to employees during the COVID-19 pandemic.

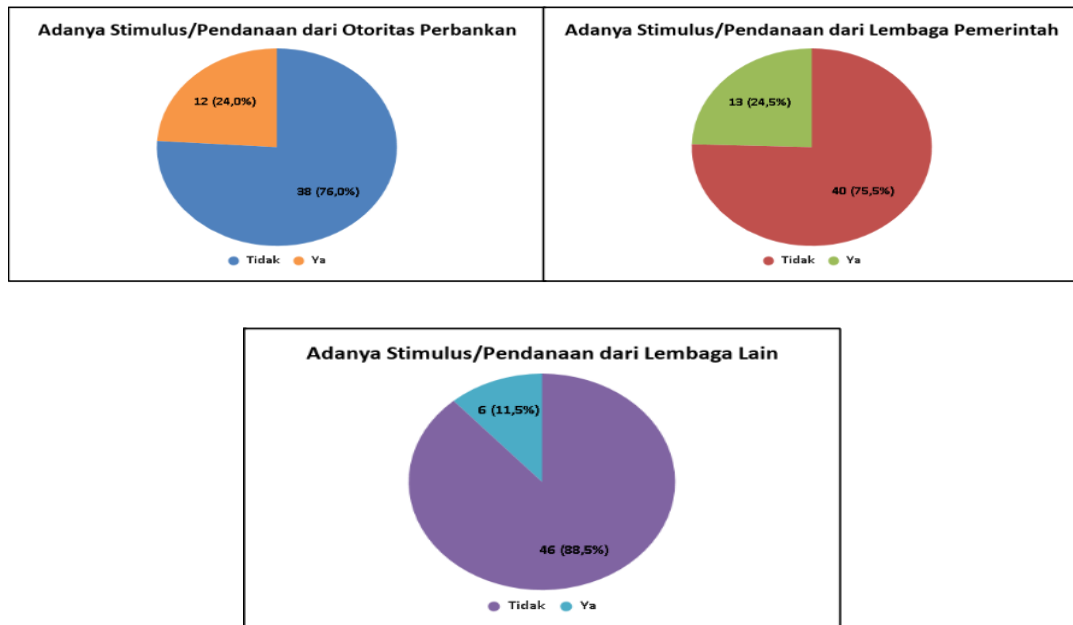
Business Stimulus during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

The COVID-19 pandemic also has an impact on business credits taken by some MSME players. Those whose business credits experienced congestion during the COVID-19 pandemic needed an injection of funds/venture capital so they could survive during the pandemic period.

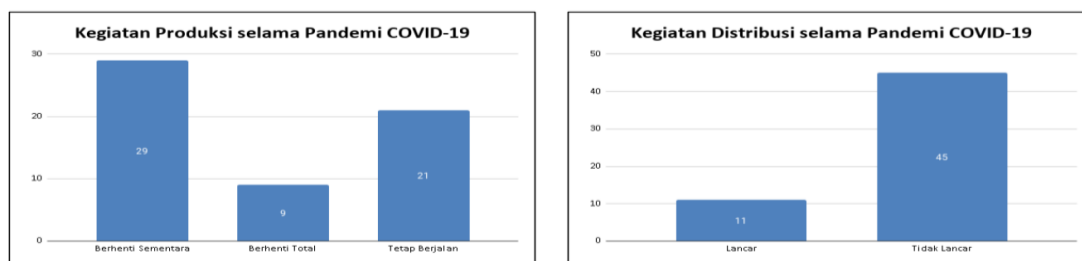
Stimulus from Banking Authorities, Government Institutions, and Other Institutions



(Source: Team Yanmas DPKM-UGM May 2020)

During the COVID-19 pandemic, most MSME actors did not receive stimulus/funding from either banking authorities, government agencies or other institutions. However, there are reliefs in the form of deferment of principal installments and an extension of the loan term.

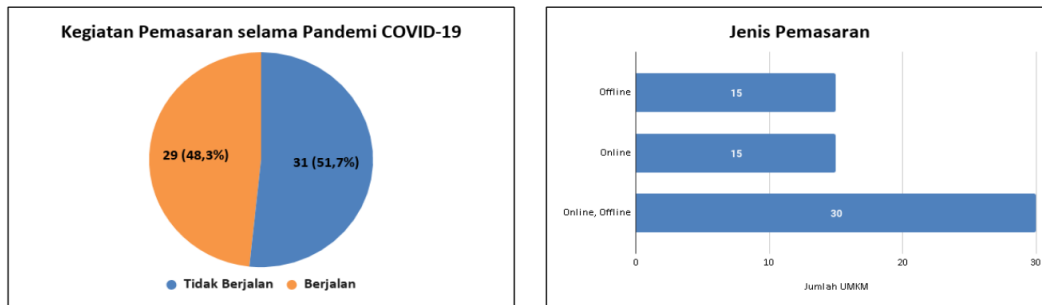
Production and Distribution Activities during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

The COVID-19 pandemic also has an impact on production and distribution activities which causes MSME players to temporarily stop production activities and disruption of distribution activities due to restrictions related to handling pandemic COVID-19 and declining purchasing power and availability of raw materials.

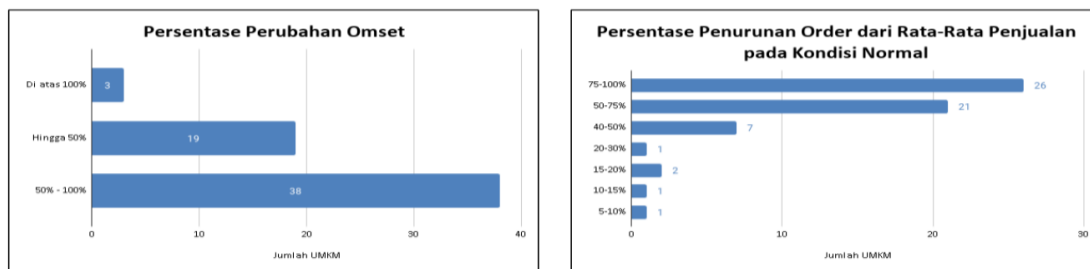
Marketing during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

Marketing activities for some MSME players did not run during the COVID-19 pandemic because the market share was quiet and related to social restriction regulations imposed during the pandemic so that business people had to close the shop for a while which caused marketing activities to not run optimally.

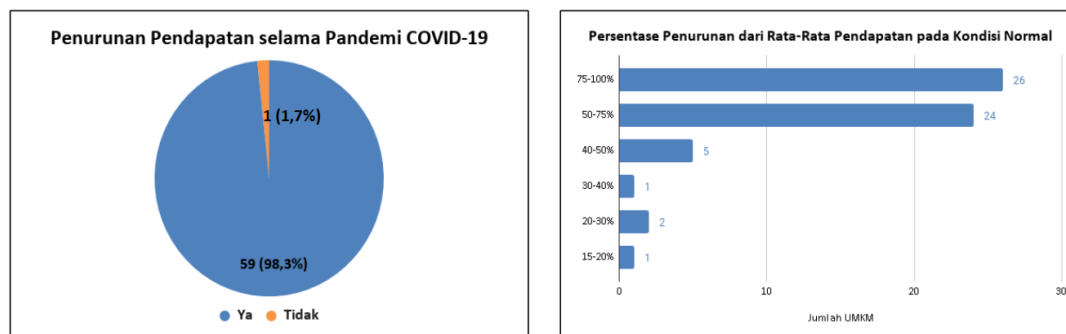
Constraints during the COVID-19 Pandemic



(Source: Team Yanmas DPKM-UGM May 2020)

During the COVID-19 pandemic, most MSME players experienced turnover changes that reached 50-100% and the percentage of decreasing orders reached 75-100% of the average sales under normal conditions.

Decrease in Income



(Source: Team Yanmas DPKM-UGM May 2020)

During the COVID-19 pandemic, almost all respondents (59 out of 60 MSMEs) experienced a decline in income due to decreased consumer purchasing power and lack of raw materials. Based on the income reduction graph, the percentage of decline in the income of MSME actors mostly reaches 75-100% of the average income under normal conditions.

The Impact of the Economic Slowdown Due to Covid-19 on MSMEs

Since its appearance at the end of 2019, the Covid-19 virus has spread throughout the world. With the rapid spread of Covid-19, the effects of the global economic slowdown are starting to be felt at home. Starting from the price of petroleum which fell to its lowest since 1991 two days ago, the stock market is in free fall, and the prices of other commodities such as gas and palm oil are also expected to be pulled down if demand does not recover immediately (Kompas, 11 March 2020). The tourism industry is one of the industries affected by the spread of this virus. Chairman of the Bali Tourism Board (BTB) / Association of the Indonesian Tourism Industry (GIPI) Bali, Ida Bagus Agung Partha Adnyana, said that there had been 40,000 hotel cancellations with losses of up to Rp1 trillion every month (Kontan, March 5, 2020). The sluggishness of the tourism sector has a domino effect on the MSME sector. Based on data processed by P2E LIPI, the impact of the decline in tourism on MSMEs engaged in micro food and beverage business reached 27%. Meanwhile, the impact on small food and beverage businesses was 1.77%, and medium enterprises was 0.07%. The effect of the Covid-19 virus on handicraft units made of wood and rattan, micro-businesses will be at 17.03%. For small businesses in the wood and rattan handicraft sector 1.77% and medium enterprises 0.01%. Meanwhile, household consumption will also be corrected between 0.5% to 0.8% (katadata.co.id, March 2, 2020). In fact, Micro, Small and Medium Enterprises (MSMEs) have a very strategic role in the Indonesian economy. Data from the Indonesian Ministry of Cooperatives and Small and Medium Enterprises in 2018 shows that the number of MSME business units is 99.9% of the total business units or 62.9 million units. MSMEs absorb 97% of the total employment, 89% of which are in the micro sector, and contribute 60% to gross domestic product (Kemenkop and UMKM, 2018).

So far, MSMEs have proven their ability to survive in difficult economic situations. Most of the MSMEs have not had direct contact with the domestic financial sector, let alone global. This situation has made MSMEs able to withstand the global financial crisis such as in 1998. Although it is known that their resilience is known to face the economic slowdown, related to the current condition, the Chairman of the Indonesian MSME Association (Akumindo) Ikhsan Ingrabatun estimates that the turnover of MSMEs in the non-culinary sector will fall 30-35 % since Covid-19 the cause is that sales of these products rely on face-to-face or physical meetings between sellers and buyers. MSMEs that sell non-culinary products target foreign tourists as a market (Kompas, March 10, 2020). An appeal from the Government regarding social distancing which will be launched starting March 15, 2020 is also predicted to have a serious impact on the absorption of MSME products. Therefore, it requires more attention from the government to the UMKM sector as the main driver of the nation's economy.

What can be done?

The COVID-19 pandemic situation provides both a challenge and an opportunity for the government to maintain the existence of MSMEs. Challenges are defined as the need for short-term solutions to help MSMEs and workers who are members of it. Opportunity means that short-term solutions need to be followed by long-term solutions, especially when it is related to the industrial era 4.0 which requires the availability of digital technology to support economic activity. There are several short-term solutions to maintain the existence of MSMEs. According to the OECD, several solutions need to be considered, namely: strict health protocols in carrying out economic activities by MSMEs, delaying debt or credit payments to maintain MSME financial liquidity, financial assistance for MSMEs, and structural policies.

First, strict health protocols can be applied when the government gives permission for MSMEs to carry out their activities. The obligation to use masks, gloves, and a safe distance between workers can be a requirement for MSMEs to continue carrying out their activities. Of course there needs to be cooperation from MSME actors and tight supervision from the competent agencies so that this health protocol can run well. In this context, the government can involve civil servants at the village office in collaboration with the village supervisors (Babinsa / TNI) and community security and order guards (Babinkamtibmas / police) in monitoring the implementation of health protocols for MSMEs who are allowed to carry out their activities.

Second, the government can issue a policy to provide leniency in the payment of debt or credit installments for MSMEs or even postpone the payment process for the next six months taking into account the financial liquidity of MSMEs. This includes simplifying the administrative process for obtaining a loan in the midst of this emergency situation. This can be done so that MSME actors including workers can maintain the level of consumption and purchasing power as well as support the running of the national economy.

Third, financial assistance to MSME players. The Indonesian government has disbursed a budget of Rp. 70.1 trillion for tax incentives and stimulus for people's business credit from the total budget of Rp. 405.1 trillion overcoming the Covid-19 pandemic through the 2020 State Budget (Kompas, accessed August 19, 2020). The distribution of the budget must be transparent, clear, and on target so that the existence of MSMEs and real economic activities is maintained. In addition to the predetermined budget, the government can also encourage the banking sector, both state-owned and private banks, to be able to provide soft loans to MSME players, of course with strict mechanisms who are entitled to loans with this soft interest rate. Do not let this loan be misused and ultimately harm the performance of the lending bank.

Regarding assistance to MSMEs, two government agencies that deal directly with MSMEs, namely the Ministry of Cooperatives and Small and Medium Enterprises (KemenkopUKM) and the Ministry of Industry (Kemenperin) have designed several strategies to help MSMEs. KemenkopUKM has provided at least three stimuli for MSMEs during this pandemic to maintain the sustainability of MSME activities, namely: leniency in loan payments, six months of MSME tax relief, and cash transfers for micro-scale businesses. Meanwhile, the Ministry of Industry plans to: provide loans at low interest rates (lower than the interest rate for micro enterprises) to

small and medium enterprises (SMEs), link SMEs with online technology shops to help with the marketing and sales of SME products such as Tokopedia, Shopee, and Blibli, collaborating with local industries that provide raw materials for SME production needs, and collaborating with the Ministry of Foreign Affairs and Industrial Attaches abroad to continue to carry out the trade negotiation process to continue export activities of the products produced by Indonesian SMEs.

Fourth, structural policies for long-term interests. This policy is not only used to deal with the COVID-19 pandemic but also the Industrial 4.0 era in the future. This policy includes short-term policies for MSMEs, namely the introduction of digital technology and training for MSME actors and workers as well as long policies for MSMEs to adapt to the use of technology for production processes, use of digital technology media to promote MSME products, and find potential markets for the resulting product. In the short term, there needs to be assistance for MSME players to be able to take advantage of media *e-commerce* (online shopping) to sell their products. Data from the Central Statistics Agency shows that in 2018 only 3.79 million MSMEs (or around 8 percent) used *online platforms* to market their products. Of course a situation like this can be a way out to increase the number of MSMEs utilizing *the online platform*. Then, the short-term policies were followed by long-term policies.

The government can start by making a road map for the development of MSMEs in facing the Industrial 4.0 era, starting from *re-training* of MSME workers to adapt to the use of new production technology and digital technology, development of telecommunications infrastructure and internet programs to enter villages, involving academia and large businesses in assisting the introduction and use of production technology and digital media, as well as reviving the partnership program for large enterprises and MSMEs. This structural policy was carried out to support the strengthening of MSMEs while at the same time supporting the development of MSMEs in the Industrial 4.0 era.

Another way that can be done to help MSMEs survive this pandemic situation is to utilize Social and Environmental Responsibility (TJSL) funds owned by private companies and state-owned enterprises (BUMN). The government needs to issue instructions and guidelines for all BUMNs to divert existing TJSL funds to directly help MSMEs affected by the COVID-19 pandemic. BUMN can also involve MSMEs in the production process of products that can be filled by MSME workers. For example, state-owned enterprises engaged in the production of pharmaceuticals and personal protective equipment (PPE) such as masks and medical clothing could involve MSME workers engaged in clothing production to produce large-scale PPE needs. Seeing the market potential regarding the need for PPE for both domestic and international needs, this opportunity can be exploited at the same time providing a sense of security in the threat of termination of employment or production closure experienced by MSMEs in the short term. For private companies, TJSL funds can also be diverted to help MSMEs around the company. The form of assistance can be in the form of direct assistance, such as providing basic food packages or purchasing UMKM products to be distributed to other places. Actions like this, at least in the short term, can provide a sense of security for MSME actors.

CONCLUSION

The business activities of MSME players are really affected by the COVID-19 pandemic that is currently happening. This is evidenced by changes in turnover, decreasing orders and decreasing income as well as other constraints related to business activities such as disrupted production processes and hampered marketing and distribution activities. In this regard, some of the MSME players who have been affected by the COVID-19 pandemic are still trying to maintain their business and some are trying to shift their business activities to other types of businesses so that they can still earn income.

The short-term policy that can be implemented is financial assistance in the form of soft loans or direct cash assistance by involving the government and the private sector. Meanwhile, the long-term strategy is focused on the introduction and use of digital technology for MSMEs as well as preparation for entering the Industrial 4.0 era.

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