

# The Relationship of the Covid-19 Pandemic to the Small and Medium Micro Business Sectors in Indonesia

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**Abstract:- Corona virus, also known as covid-19, is a lethal illness that is currently wreaking havoc across the globe. Covid-19 has been labelled a global pandemic until now. Not only does the Covid-19 pandemic wreak havoc on public health, but it also threatens the global economy, including Indonesia's. The tourism industry is one of the areas that has been severely impacted by the pandemic, with a cascading effect on Indonesia's MSME industry. In Indonesia, the MSME industry is a significant contributor to the country's Gross Domestic Product (GDP). The aim of this research is to dig deeper into the impact of the Covid-19 pandemic on Indonesia's MSME industry. Due to bankruptcy, many MSME players have been forced to lay off employees. However, in order to stay in business, some MSME players have migrated to the digital era. The government is still looking for ways to keep MSMEs afloat so that the economy can recover. In this pandemic period, the government is still looking for ways to keep MSMEs afloat so that the economy can recover.**

**Keywords:- Corona virus, MSME, Industry, Digital Era.**

## I. INTRODUCTION

The outbreak of the corona virus pandemic will commence in 2020 all over the world. It is not only a public health fiasco, but it is also wreaking havoc on the economy. Thousands of Small and Micro Business actors in Indonesia have been affected by the Covid-19 pandemic. Micro, Small, and Medium Enterprises (MSMEs) are one of the most important industries of the Indonesian economy. Indonesia's economy suffered a sharp decline after being hit by the pandemic, especially after a year, until it entered a recession in 2020. The covid-19 pandemic had a major impact on several sectors in Indonesia, particularly the MSME sector.

Many government policies aimed at reducing cases of covid-19 transmission in Indonesia have had several negative consequences for the MSME industry. One of them is a decline in neighborhood buying and selling activities. The drop in public buying and selling operations resulted in a huge drop in small, micro, and medium-sized business turnover. Not only that, but due to bankruptcy and problems in turning around business capital, hundreds of MSME business actors have been forced to close their doors. Furthermore, large-scale social restriction policies stifle production. The rationale for this is that certain businesses

would adhere to these rules by reducing the number of workers who work directly in the office. This was said to have a cascading impact on production activities in sectors that supply MSME players with raw materials.

The industrial sector has suffered a severe decline as a result of changes in circumstances brought on by the Covid-19 pandemic attack in Indonesia. Obstacles in the distribution of goods from supplier firms also contributed to the decline. SME business actors, particularly those with a large presence outside the region, will suffer greatly if distribution activities are discontinued. According to studies commissioned by the Indonesian Ministry of Cooperatives, 20.01 percent of SME entrepreneurs have faced distribution limitations since the imposition of large-scale social restraints. As a result, if the total number of MSMEs in Indonesia is greater than 62.84 percent, the distribution industry constrains them, resulting in a reduction in sales profit and challenges with capital turnover.

SMEs in Indonesia have also noticed a drop in sales turnover. The majority of the slump suffered by the criminals was greater than 50%. The decision of SMEs to decrease the price of goods being sold in order to retain their company is a contributing factor in this decline. According to study findings released by the Ministry of Cooperatives, 19.93 percent of the total number of MSMEs still exist, battling to stay afloat in the face of the Covid-19 pandemic, which has caused problems with business capital. One of the attempts made to retain the offenders' effectiveness was to force the termination of some of their workers' employment relationships, resulting in a reduction in the number of goods generated.

In this case, the government is still working to provide incentives, particularly for SMEs, in order to help them survive in this pandemic period. Because MSMEs are the largest industry in Indonesia that is extensively involved by the community, MSMEs have been credited with helping to revive the Indonesian economy following the Covid pandemic. According to research by Pratiwi (2020), the government's efforts, which begin with the tourism sector, which has a significant impact on the MSME sector, include providing business credit to alleviate the burden and problems associated with business capital difficulties caused by the Covid-19 pandemic.

The current state of digital technology has a significant impact on the economy's rotation, particularly during a pandemic like this, when all human movement activities are severely restricted (Amri, 2020). Another study by Rosita (2020) claims that MSMEs are a type of economic enterprise that will be severely impacted by the Covid-19 pandemic, but that this industry will still be the most resilient when the pandemic strikes. As a result, there is a need for government protection of the MSME industry in Indonesia.

Based on this context, the aim of this research is to better understand the effect of the Covid-19 pandemic on Indonesia's MSME industry. Based on some of the literature and information that has been used, this research is intended to provide a precise solution to assess the current effect. In addition, this study is also expected to contribute to the world of education to increase insight and knowledge about cases that are happening at this time.

## II. LITERATURE REVIEW

The corona virus, which originated in China, has been declared a global pandemic that poses a serious threat to society. Since early 2020, Indonesia has been one of the nations affected by the virus. The Covid-19 pandemic has had a negative effect on the economic value chain and will continue to do so (Baldwin & Mauro, 2020). Not only does the Covid-19 pandemic have an impact on health, but it also has an effect on the economies of countries around the world, including Indonesia (Rosita, 2020). The world economy has slowed since the outbreak of the pandemic, and Indonesia's economy has slowed to the point where it will enter a slump in 2020.

There are many business cycles that experience losses not only in Indonesia, but also in other countries such as India (Himanshu Koshle et al, 2020). Because Covid-19 is such a new case, there isn't much literature to draw upon for this investigation. As a result, researchers are interested in investigating the effect of the Covid-19 pandemic on Indonesia's micro small businesses.

## III. RESEARCH METHOD

### A. Types and Data Bases

The cause of the Covid-19 pandemic in Indonesia is a relatively new case. Therefore, all quantitative data and information are not yet fully published. Therefore, this research uses descriptive qualitative research method with a phenomenological approach, namely research conducted by collecting information sources from articles and reports that have been published by several trusted institutions.

Among the data and information used in this study came from publications by the frontline unit for handling Covid-19 in Indonesia, the Ministry of MSMEs and Indonesian Cooperatives, as well as other related institutions and media that monitor Covid cases in Indonesia.

## IV. RESULTS AND DISCUSSION

### *The Impact of the Covid-19 Pandemic on the MSME Sector in Indonesia*

Since the Covid-19 pandemic entered Indonesian territory, now Indonesia is starting to feel the impact of a slowdown in economic activity, especially in the MSME sector. Most SME entrepreneurs or what can be called small industrial entrepreneurs terminate their employees. This is due to the extreme decline in business turnover due to the Covid-19 pandemic. In addition, some of them are also forced to work from home because of the large-scale social restriction or PSBB policy that limits community activities so as to reduce the crowds that occur.

In order to reduce the number of covid-19 cases in Indonesia, the government has made several policy efforts, one of which is to implement large-scale social restrictions. One of these policies had a major impact on MSMEs, which had a continuing impact on the Indonesian economy. Consumers are required to limit activities in the wild, so that some of them close themselves at home and choose to remain silent so as not to be infected by the corona virus. Likewise with SMEs and home industries who are required to impose restrictions so that they have to temporarily suspend their industrial activities.

The reduction in activities that occur in communities that have direct physical interaction is one of the effects of decreasing economic activity. The manufacturing, transportation and tourism sectors declined drastically. This is very worrying for the national economy. The amount of income or turnover received by business actors, especially small and medium enterprises, has decreased drastically, however, the amount of expenses such as electricity payments, employee payment costs and other operational costs have not decreased or even increased due to the lack of visiting consumers.

Indonesia is known as a tourist country where every year many local and foreign tourists visit, especially on the island of Bali. However, since the Covid pandemic took place, travel restrictions have caused the tourism sector to weaken. The sluggishness of the tourism sector in Indonesia has a domino impact on the MSME sector, especially those engaged in handicrafts, food and beverages. Approximately 27% of small-scale food and beverage businesses have closed their business stalls since the Covid-19 pandemic attack took place. Meanwhile, for small and micro businesses engaged in wood and rattan handicrafts, 1.77% of the total number of SMEs in Indonesia experienced the impact of the Covid-19 pandemic.

A small proportion of MSMEs are still able to survive and some are even developing by taking advantage of advances in social media. However, not all people understand the use of online media, so only a few SMEs can survive in an era of pandemics like this. In addition, MSMEs that are still surviving in this pandemic era are those who are able to adapt to products with high innovation. Likewise, small

industries engaged in retail are able to maintain their business because they utilize digital media for marketing.

#### *Solutions to Maintain MSMEs in the Covid-19 Pandemic Era*

Fortunately, most Indonesians have taken advantage of advances in digital technology in the era of the Covid-19 pandemic as it is today. Indirectly, the form of marketing and buying and selling transactions is transformed into online or what is called an online market. This is due to restrictions on the activities of people who interact physically directly. Computer and mobile phone technology has indeed been going on for a long time, but digital transformation is still relatively new and is forcing, especially for MSME players due to the conditions of the Covid-19 pandemic, which until now has not ended.

Based on a report from Bank Indonesia, as many as 72.6% of MSMEs in Indonesia were affected by the covid-19 pandemic. Entrepreneurs experienced a massive decline in turnover and difficulties with capital and raw materials. The Covid-19 pandemic has changed people's habits in various activities, especially buying and selling transactions in the market. The government policy that implements large-scale social restrictions to prevent the spread of the corona-19 virus case makes people prefer buying and selling transactions online. This encourages the acceleration of the digital economy. The sellers who understand and understand the advancement of digital technology switch to new strategies to maintain their business in this pandemic era.

The attack of the Covid-19 pandemic has made economic situations around the world worsen. Many workers in the formal and informal sectors have felt misery since the Covid-19 pandemic took place. Digital developments in globalization greatly affect the rotation of the economy. Digitalization and technological advances at this time are a savior for small business actors and home industries to survive in this very stifling situation. MSMEs have a very strategic role in the Indonesian economy. MSMEs absorb approximately 97% of the total workforce in Indonesia, 89% of which are in the micro sector and 60% contribute to Gross Domestic Product (GDP).

To save and protect the MSME sector in Indonesia, the cooperative and UMKM minister provided several solutions to maintain MSMEs in Indonesia during the Covid-19 pandemic, including: Indonesian people must love local products or domestic products more to meet their needs, therefore making MSME players still exist in producing goods that are sold. In addition, they still comply with health protocols so that at the same time business actors continue to operate with security guarantees.

Although there are many solutions that have been attempted by the government to minimize and maintain MSMEs, as long as the Covid-19 pandemic has not ended, during that time the concerns of MSME actors will continue. Because the process of distributing goods is still constrained by the Covid-19 pandemic.

## V. CONCLUSION

Based on research on the influence of the Covid-19 pandemic on the MSME sector in Indonesia, several conclusions can be drawn. The Covid-19 pandemic has had a negative impact on the MSME sector in Indonesia. More than 50% of MSME players in Indonesia have closed their businesses due to difficulties in the distribution of goods, decreased demand for goods, resulting in business bankruptcy. Some MSME players have also switched and took advantage of digital progress to maintain their business. However, the government is also not just sitting there with the current conditions. Several efforts and solutions have been mobilized by the government. Because the MSME sector is one of the important sectors for the national economy.

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