

## Micro, Small and Medium Enterprises Development in The Post COVID 19 Pandemic: Case Study of MSMEs in Indonesia

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### ABSTRACT

*The regulation of the Ministry of Home Affairs No. 15 of 2021 concerning PPKM had an impact on the operational decline of several important economic sectors including food and beverage, transportation, retail and also the tourism sector. No exception, micro, small and medium enterprises (MSMEs) were also affected. As a result, they have significantly decreased performance of their operational. The objective of this study is to analyses current condition of MSMEs operation in the post COVID 19 crises. A quantitative approach was employed in this study. Around 371 MSME owners were selected as sample of this study. Descriptive analysis with SPSS tools was applied as analysis technique. The results show that there is an impact of COVID 19 on the decline in the performance of MSMEs, particularly Micro and Small businesses. There is a decrease in sales turnover and profit, unavailable or expensive raw materials as well as a reduction in staff or workers. The study suggests the need for capital assistance, relaxation of loan installments and increased sales via online to help continuity of their business in facing COVID19 pandemic.*

**Keywords:** Development; COVID19; Strategies; MSMEs

### A. INTRODUCTION

The outbreak of coronavirus diseases (COVID-19) pandemic has been extensive across the globe. So far, WHO recorded more than 521 million people have been confirmed to have COVID 19, including 6.2 million people died (Dennison Himmelfarb and Baptiste, 2020)

Studies indicated that social restriction can be seen as one of the best approaches to control the spread of COVID 19 (Wilder-Smith and Freedman, 2020; Chinazzi et al., 2020). Despite social restriction can minimize the spread of COVID 19, the approach may cause psychological impacts on the community (Ghani, 2020). Even the policy can also have an impact on the economic sector, such as temporarily closing of business operations and disrupting the distribution of goods (Karabag, 2020).

Likewise Indonesia, through the regulation of the Ministry of Home Affairs No. 15 of 2021 concerning PPKM has an impact on the operational decline of several important economic sectors including food and beverage, transportation, retail and also the tourism sector. No exception, micro, small and medium enterprises (MSMEs) are the sectors most vulnerable to resilience against this pandemic crisis. Most of these MSMEs sectors cannot fully implement work from home. As a result, they have significantly decreased performance of their operational (Milzam et al., 2020). A study revealed that MSMEs activities in Egypt have been severely hit by the impact of this pandemic (Egypt Management and consulting services, 2020).

Meanwhile, the degree of the impact varies depending on the size of the business and its geographical location (Egypt Management & Consulting Services, 2020). In line with these results, Zeidy's (2020) study indicated that most MSMEs in Africa are also significantly affected by COVID-19. In Indonesia, study on the impact of COVID 19 on MSME operations is limited. Therefore, this study attempts to highlight development of MSMEs' operating in the post COVID 19 pandemic.

## **B. THEORITICAL**

### **COVID 19 and Its Implications**

Coronavirus Disease (COVID 19) is an infectious disease caused by a virus that emerged at the end of 2019 (Waiho et al., 2020). COVID 19 has spread to almost all countries and had a significant impact on people's lives globally (Parnell et al., 2022). To minimize the spread, many countries implement PPKM, movement restriction of individuals to stay at home unless they have urgent need. With the implementation of this PPKM, it will have an impact on changes in the new normal of social and economic order.

Ratten (2020) revealed that new normal order including social distancing, hand washing, and personal hygiene should be implemented. Several

sectors of the global economy have been most affected by the restrictions, particularly the tourism and hospitality industries which rely on close contact between individuals as part of their business model. Most social impacts are the result of changes in living conditions and the work environment (Ratten, 2020).

At the same time, due to the increasing number of unemployed individuals, economic incentives including providing direct cash transfers and a policy of delaying loan payments have been put in place. This policy has been implemented in several countries when the virus is spreading rapidly globally (Ratten, 2020). No exception, MSMEs are the most vulnerable sector to resilience to this economic crisis caused by COVID 19. Decrease in sales and income, shortage or no work for fear of infection and high costs are among the factors affected by COVID 9 (Fabeil et al., 2020)

### **MSMEs and the Potential Impact of COVID19**

According to Law No. 20/2008, microenterprises are the enterprises which have net asset less than Rp.50 million, small enterprises have net asset between Rp.50 million and Rp.500 million, while medium-sized businesses have net asset more than Rp.500 million up to Rp.10 billion (Tambunan, 2019)

The development of micro, small and medium enterprises in Indonesia is much needed because it plays an important role in supporting the foundation of national economy. This is a real sector activity consisting mostly of low-income groups. There are more than 57.8 million MSME units, meaning that around 99.9 percent of the total number of businesses are dominated by MSMEs (Kemenkop and UMKM, 2019). In terms of employment, MSMEs absorb more than 112 million workers, which means around 96 percent of the working force employed in those microenterprises (Kemenkop and UMKM, 2019). However, MSMEs are the sector that is most vulnerable to the resilience of the economic crisis caused by a pandemic such as COVID 19. As an effect of covid pandemic, there has been a decrease in sales and income, a reduction in the workforce, and high operational costs for MSMEs.

Milzam et al. (2020) indicated that there was a 53.5% decrease in operating of total sales revenue during the pandemic. The type of business that experienced the biggest decline in sales was the fashion business. A study conducted by Egypt Management Consulting (2020) shows that all MSMEs activities in Egypt in terms of operational performance including sales revenue, labor and costs are affected by the COVID-19 crisis. They mentioned the level of

impact differs depending on economic activities and geographic location (Egypt Management & Consulting Services, 2020).

The results of Egypt Management Consulting (2020) are supported by Waiho et al. (2020) which revealed that COVID 19 caused a decrease in domestic and global demand including cutting off seafood supplies in aquaculture micro-enterprises in Malaysia. The study suggested that drastic changes at all levels from production to marketing strategies need to be carried out, especially in improving supply chain methods to adapt and potentially develop in a new life order (new normal).

### C. METHODOLOGY

Purpose of this study is to analyze present condition of MSMEs in the post COVID-19 crisis. To achieve the objective, a quantitative approach by distributing questionnaires was employed. The data were collected by self-administered questionnaires distributed to MSMEs respondents in three different provinces of Java mainland, namely, East Java, Yogyakarta & Central Java. A reason for selecting these provinces as the sample is due to large number of MSMEs in those provinces, which is arguably contributed significantly to the national economy.

Questionnaire items adapted from *Badan Pusat Statistik* (2021) with several modifications made to fit the purpose of this study. The questionnaire includes two parts with twenty four items. The first part consists profile respondents (gender, age, education, business experience), while the second part of the questionnaire covers information related business and COVID 19 (sales turnover, number of staff, current business status, obstacles of the business during the pandemic, assistance needed, etc.).

In terms of sample size, Sekaran, (2013) suggests that sample sizes larger than 30 and less than 500 were appropriate for most research. On this basis, it is set that number of sample of this study is 500 data. The questionnaires were distributed to each of the selected respondent by offline and online via goggle form. Data collection is managed for three months (January-April 2022) with usable responses of 371 from the total 500 distributed questionnaires (74 percent response rate).

## D. RESULT AND DISCUSSION

This study attempts to highlight development of MSMEs' operating in the post COVID 19 pandemic. Before addressing main objective, this section describes information related to respondents' profile of this study. Then, development of MSMEs' operation in the post COVID19 is presented in the next section.

### Profile of the Respondents

Demographic information describes gender, status, age, educational background including MSME business profiles. The following table presents the profile of respondents & businesses in detail from the results of distributing questionnaires.

**Table I.** Profile of the Respondent and Business

Item	Frequency	Percentage
<u><i>Gender</i></u>		
Male	125	33.7
Female	246	66.3
<u><i>Marital Status</i></u>		
Single	10	2.7
Married	354	93.0
Others	16	4.3
<u><i>Age</i></u>		
20-29	13	3.5
30-39	137	36.9
40-49	162	43.7
≥ 50	59	15.9
<u><i>Education</i></u>		
Elementary School	74	20.0
Secondary School	247	66.6
Diploma	22	5.9
Bachelor	24	6.5
Postgraduate	4	1.1
<u><i>Business Expertise</i></u>		
Yes	198	53.4
No	173	46.6
<u><i>Legal Form</i></u>		

Co-operative	2	0.5
Community based Business	3	0.8
Partnership	2	0.5
UD	12	3.2
Sole ownership	339	91.4
Others	13	3.5
<i><u>Business Sector</u></i>		
Consumer	245	66.0
Industrial	12	3.2
Plantation & Agriculture	4	1.1
Property	1	0.3
Trade/Service	40	10.8
Others	69	18.6
Total	371	100

As presented in Table I, the number of male respondents were 125 and female respondents were 246, indicating that the percentage of female respondents (66.3%) was greater than male respondents (33.7%). In terms of status, most respondents were married (354 or 93.0%) while only 10 respondents were single.

As for the educational level, 247 respondents (66%) graduated from secondary school and 74 respondents graduated from elementary school. The remaining 24 respondents are bachelor degree holders and 25 respondents hold a diploma. When asked whether they had entrepreneurial skills before opening a business, the majority of the respondents (58.1%) answered no. This indicates that they have no experience in operating their business. Based on the business profile; most of them are individual businesses (93.3%) and consumer goods (70.9) in terms of business sector.

### **MSMEs & COVID 19 Pandemic**

The section reports the development of MSMEs operation in terms of sales turnover, number of staffs and current business status in the post COVID 19. Business obstacle, type of assistance, business survival and current business status post COVID19 are also presented. Table 3 illustrates the details of current business for the MSMEs under study.

**Table 2.** Current business of MSMEs post COVID19

<i>Item</i>	Frequency	Percentage
<u><i>Sales Turnover (2019)</i></u>		
<Rp100 Million	302	81.4
Rp100 Million - Rp500 Million	30	8.1
Rp1 Billion – Rp1.5 Billion	1	0.3
Rp1.5 Billion – Rp2 Billion	26	7.0
Others	12	3.2
<u><i>Sales Turnover (during COVID19)</i></u>		
<Rp100 Million	320	86.3
Rp1 Billion – Rp1.5 Billion	3	0.8
Rp1.5 Billion – Rp2 Billion	31	8.4
>Rp2 Billion	1	0.3
Others	16	4.3
<u><i>Number of Staff (2019)</i></u>		
1-3	246	65.2
4-6	118	31.8
>6	7	1.9
<u><i>Number of Staff (during COVID19)</i></u>		
1-3	348	93.7
4-6	20	5.4
>6	3	0.8
<u><i>Current Business Status</i></u>		
Still operating as per usual	192	56.2
Operating with WFH (partly staff)	11	3.0
Operating with WFH (all staff)	54	14.6
Reduction in capacity	108	29.1
Stop in operating	6	1.6
<u><i>Business constraints affected by COVID19</i></u>		
<ul style="list-style-type: none"> <li>financial insufficient related to worker and operational</li> </ul>		
Yes	337	90.8
No	38	9.2
<ul style="list-style-type: none"> <li>Staff absence due to sick/to adherence government advice</li> </ul>		



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Yes	303	81.7
No	68	18.3
• Unavailable raw materials / be expensive price	345	93.0
Yes	26	7.0
No		
• Supplier unable to provide raw material as needed	319	86.0
Yes	52	14.0
No		
• Customers/clients affected by COVID19 which resulted in lower demand compared to normal conditions	341	91.9
Yes	28	7.5
No		
<u>What type of assistance needed</u>		
Relaxation of installment	34	9.2
Deferment of tax payment	12	3.2
Assistance for business capital	310	83.6
Easy procedure for loan administration	5	1.3
Reduction for electricity bill	10	2.7
<u>Business survive without assistance</u>		
<3 Months	4	1.1
1-3 Months	25	6.7
>3 Months	103	27.8
Do not know	239	64.4
<u>Current business profile</u>		
Still in the same sector	245	66.0
Doing diversification	86	23.2
Different sector	40	10.8
<u>Sales via online</u>		
Yes, since before COVID19	203	54.7
Yes, just starting at time of COVID19	103	27.8
Not using	65	17.5
<u>Impact of online sales</u>		
Yes	320	86.3



No	51	13.7
<i><u>Planning in business development</u></i>		
Yes, we have plan	115	31.0
Yes, still in idea	148	39.9
No plan	108	29.1
Total	371	100

Based on Table 2, in terms of sales turnover in 2019, 302 respondents (80.1%) had a turnover of less than Rp. 100 million and only 56 respondents (11.7%) had a turnover between Rp. 100 million to Rp. 500 million. When COVID19 surged, 320 (86.3%) respondents mentioned that their turnover was less than Rp. 100 million, indicating that there were 44 respondents whose turnover fell below Rp. 100 million during COVID19. Meanwhile, based on the number of staff before COVID, there were 246 respondents (65.2%) who had 1-3 staff, while 118 respondents (31.8%) had 4-6 staff and 7 respondents (1.9%) had more than 6 staff.

During COVID, there were 348 respondents (93%) who had 1-3 staff or an increase of 31%, only 20 respondents had 4-6 staff. When asked about the current status of the business (during COVID19), 192 respondents revealed that their business was still operating as usual, 108 respondents stated there was a reduction in capacity and only 54 respondents mentioned that they operate by working from home.

Table 2 also describes some of the business constraints caused by COVID19. The majority of respondents (90%) answered that financial of the business used to cover employees and operations were not sufficient. Raw materials are not available and the decline in their customers/clients is also among the obstacles faced by the majority of respondents. 81% of respondents mentioned employee absence due to illness as a result of the impact of COVID19.

When asked if there are problems, what kind of assistance is needed, the majority of respondents (310 or 83%) want business capital assistance, followed by relaxation of installments and tax delays. In terms of the current business/company profile (at the COVID19), most of the respondents (66%) stated that their business is still in the same sector, 23% of respondents mentioned they diverse their business.

As presented in the table above, most of the respondents (203 or 54%) also revealed that they had been using online sales since before COVID19.

However, 103 respondents (27%) just started using online sales during COVID19. When asked whether online sales had an effect on sales, the majority of respondents (320 or 86.3%) responded yes it had an effect while only 51 or 13% of respondents mentioned it had no effect.

## E. CONCLUSION

This study investigates development of MSMEs' operational in the post COVID 19 pandemic. From the survey conducted, this study found that COVID 19 cause declining in the operational of MSMEs, particularly Micro and Small Enterprises level. This decrease occurred in sales turnover and profit, reduction in capacity, inadequate finances to cover operational cost, unavailable or expensive raw materials, decreasing in consumer demand, as well as a reduction in staff or workers. The study also identified that sales through online is the most influenced on increasing in sales during COVID19. The study suggests the need for capital assistance, relaxation of loan installments and increased sales via online to help continuity of their business in the post of COVID19 pandemic.

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