

## IMPACT OF MSMEs GROWTH AND RECOVERY STRATEGY DUE TO COVID-19

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### ABSTRACT

Micro, small, and medium-sized companies (MSME) are the major engines of the Indonesian economy, and they have shown again and again to endure all types of economic storms. However, with the COVID-19 epidemic that has decimated many sectors of life throughout the globe, MSMEs are now facing a worldwide issue. As a consequence of constraints, the reduction in MSME Sector Turnover is unavoidable. The goal of this research is to determine the effects and obstacles experienced by the MSME sector, as well as recovery methods that may be implemented as a consequence of COVID-19. This study used the descriptive technique, including descriptive analysis of research findings. The study's findings indicate that the present COVID-19 epidemic has had a significant impact on the MSME sector, and that this has a significant impact on Indonesia's overall economic development. The social restriction policy (PSBB) in particular has led in severe decreases in sales, difficulty in marketing goods, finance or capital challenges, diminished manufacturing and distribution activities, and difficulties in getting raw materials. The authors of this study propose anticipatory steps that the government can take in an effort to prevent the decline of MSMEs, namely that with the government being more focused on recovery efforts by making regulations that help the UMM Sector, the government must ensure that the flow of companies entering and leaving is carried out in stages and in an appropriate manner. Finally, the government is making itself more available to MSME players who can boost economic resilience..

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### 1. INTRODUCTION

As a result of the COVID-19 outbreak, a variety of societal and economic issues have arisen. Thousands of people have died as a consequence of the corona virus, which has caused widespread panic. In Indonesia, the corona virus has spread widely (Fitriyani et al, 2020). According to the World Health Organization, Coronaviruses (Cov) are respiratory viruses (WHO). From the ordinary cold to more serious ailments like (MERS-Cov) or SARS-Cov, Coronaviruses may cause a wide range of illnesses (Zendrato, 2020). 'Urgent notice on the treatment of pneumonia of unknown origins' was issued by the Wuhan Municipal Health Committee on December 30, 2019, according to the Indonesian Ministry of Health (Sohrabi et al, 2020).

The corona virus is not an outbreak that can be disregarded in the present situation. Ordinary people will assume it's simply a regular flu based on the symptoms, but according to medical experts, this virus is highly hazardous and lethal. In 2020, the evolution of this viral transmission is highly important since it has expanded globally and all nations, including Indonesia, are feeling the consequences (Sumarni, 2020). This transmission happens most often by droplets and viral contact, after which the virus may enter the open mucosa. The incubation period, symptoms, and length of time between symptoms and isolated persons are used to compute the transmission rate. When transmission is possible during incubation, the duration of patient-to-person contact is prolonged and so increases contact numbers from one person to around three others; this increases the chance of transmission from a patient to more individuals (Harahap, 2020). The number of corona virus victims has been reduced in every region of Indonesia. Restricting activities outside the home, canceling school events, banning work from home (work from home), and even canceling religious services are just a few examples. This is now a government policy, depending on a wide range of criteria (Pardiyanto, 2021).

Micro, Small, and Medium Enterprises, or MSMEs, are a form of productive company that has been growing fast in Indonesia. Currently, Indonesia has 62.9 million MSMEs in agriculture, animal husbandry, processing, commerce, services, and communications. MSMEs have a critical role and have a significant impact on national economic growth in Indonesia, employing about 116,978,631 individuals in 2018. (Hardilawati, 2020). MSMEs contributed 59.08 percent of GDP in 2012 and surpassed 60 percent in 2018. The overall contribution represents an aggregate of contributions from all MSME economic sectors (Soetjipto, 2020). agents capable of bringing about constant change in society through advancing, bringing innovation, and increasing creativity (Sholikan et al, 2021).

The COVID-19 outbreak has also affected MSMEs in Indonesia. COVID-19 has affected 1,785 cooperatives and 163,713 micro, small, and medium enterprises (MSMEs), according to the Ministry of Cooperatives (Situmorang, 2021). COVID-19-affected cooperatives tend to focus on everyday necessities, while the MSME sector most touched by the crisis is the food and beverage industry (Junus et al, 2020). According to the Ministry of Cooperatives and MSMEs, service and manufacturing cooperatives were the worst impacted by the COVID-19 pandemic, as were all other cooperatives. They're worried about a decrease in sales, a lack of funds, and an inability to distribute their products effectively. Meanwhile, the creative and agricultural industries were two of the MSME sectors that were impacted by the COVID-19 pandemic, in addition to the food and beverage business (Amri, 2020).

The Covid-19 epidemic has shown the importance of MSMEs in the Indonesian economy. The MSME sector is thought to be the most vulnerable to this epidemic since MSMEs often make money via daily goods turnover. When MSMEs were unable to endure the economic crisis caused by the pandemic, the Indonesian economy suffered greatly owing to the effect on the tourist and manufacturing sectors (Yulianti et al, 2022). MSMEs have proved their capacity to thrive under adverse economic conditions so far. Most MSMEs have had no direct interface with the local or global financial sectors. As a result of this circumstance, MSMEs have been able to endure global financial crises such as the one that occurred in 1998. (Komara et al, 2020).

Seeing the economic impact due to the outbreak of the Covid-19 virus, the government needs to take the most effective steps to keep the MSME sector in Indonesia stable because the MSME sector is one that has a high vulnerability to the economy in the midst of a pandemic. have income from trade turnover carried out every day.

Based on the above, it is possible to define the issues in this research, namely 1) What is the effect of the COVID 19 pandemic on MSMEs? 2) What are the methods that MSMEs may use to improve the economy in the aftermath of the Covid-19 outbreak in order to survive or perhaps grow? The goal of this study is to identify and assess the effect of the COVID-19 pandemic on MSMEs during the previous several months, as well as to provide solutions that MSMEs may utilize to improve the economy during the Covid-19 pandemic during the New Normal. As a result, the researchers hope that this research will provide useful and practical contributions to add insight, become additional references, and be used as reference material in future research to develop knowledge, particularly in the field of accounting for MSME business actors operating in the middle of the world. Covid-19 infection.

#### **A. METHOD**

This research belongs to the type of descriptive qualitative method section. According to Siyoto and Sodik (2015) explain that qualitative research is research that is closely related and closely related to an interpretation adapted to the phenomenon or event that occurs and is more likely to use analysis in conducting research. While descriptive research can be interpreted as a situation that describes (description) an event that refers to and focuses on the problems that occurred during the research. The object used is the MSME strategy (Micro, Small and Medium Enterprises) during the Covid-19 pandemic.

The data collection technique is done by choosing the use of literature study or literature review. Literature study is part of a data collection technique that emphasizes tracing historical data or records of a phenomenon that has occurred and can be in the form of writings, illustrations (pictures), articles, and the composition of a work related to the problem under study. to be processed and analyzed further (Sugiyono, 2011). Data collection in this study can be presented by searching for literature such as; scientific journals, essays or articles, news, regulations and policies regarding how the MSME strategy in improving the economy during the Covid-19 pandemic.

### **3. RESULT AND DISCUSSION**

### **Impact of the COVID 19 Pandemic for the MSME Sector**

Since the Covid 19 epidemic began, several nations, including Indonesia, have been dealing with a deteriorating economic situation, particularly for the country's Micro, Small, and Medium-Sized Enterprises (MSME) (MSMEs). When it comes to the corona virus as of July 11, 2020, there have been 12,237,085 persons confirmed positive in 216 countries and 74,018 people in Indonesia who have been diagnosed as positive (Task Force for the Acceleration of Handling Covid 19, 2020). The rapid spread of the Covid 19 virus in Indonesia has the effect of slowing down the economy, particularly among small and medium-sized enterprises (SMEs). As to KUMKM statistics, 99 percent of Indonesia's economy is driven by MSMEs, which is a major contributor to the country's overall growth and prosperity (Prasetyo, 2008).

Medium Enterprises (60,702 units) absorb 3,770,835 people or about 3.13% of the workforce. Meanwhile, Small Enterprises (783,132 units) absorb 5,831,256 people or about 4.84% of the workforce and Micro Enterprises (63,350,222 units) are able to absorb at least 107,376,540 or around 89.04% of the workforce (Ministry of Small and Medium Enterprises Cooperatives, 2018). Proving that MSMEs are the fulcrum of the Indonesian economy, with a pandemic like this MSMEs have difficulty marketing their products. According to Wahyuningsih (2009) MSMEs are the main drivers of the economy in Indonesia because they are able to provide new jobs in very large numbers, this is what makes them the main drivers of the local economy and community empowerment. The government finally issued a policy to break the chain of Covid-19 spread by establishing Large-Scale Social Restrictions (PSBB by carrying out physical distancing which is an action to be able to prevent the transmission of Covid 19 to one another. PSBB has a negative impact on MSMEs, because MSMEs are daily which must rely on direct interaction with consumers (Rosita, 2020), so that the implementation of PSBB makes MSMEs less than optimal in marketing their products, even consumer demand tends to decrease every day due to PSBB.

Business circumstances before and after the effect of COVID-19 may be compared in great detail. There were 92.7 percent of excellent/very good business circumstances, 6.3 percent of regular business conditions, and just 1.0 percent of terrible/extremely bad business conditions prior to covid-19 in the graphic taken from Katadata's Insight Center at the Virtual Seminar on August 11, 2020. Where the percentage was judged to be functioning smoothly before to the arrival of Covid-19, there were few impediments and no unfavorable business circumstances. As of June 2020, according to a poll that was published in a graph drawn from the Insight Center (KIC) data, it is obvious that awful/very bad business circumstances grew by 56.8% compared to the initial 1%. Where the percentage was judged to be functioning smoothly before to the arrival of Covid-19, there were few impediments and no unfavorable business circumstances. It is obvious, however, that awful/very bad business circumstances have grown by 56.8% from the initial 1.0 percent when looking at current business conditions as of June 2020, according to a poll shown in a graph drawn from the Katadata Insight Center (KIC). As a result, it can be argued that the COVID-19 pandemic had a wide range of effects on people's lives because of the circumstances (Soleha, 2020). With this in mind, a study by Himanshu Koshle, et al. (2020) studied the economic and policy effects of the Corona virus in India, and found that the trade sector suffered a loss of no less than USD 348 million.

According to Komara et al (2020), the General Chairperson of the Indonesian MSME Association (Akumindo), non-culinary MSMEs' turnover has decreased by 30 to 35 percent since Covid-19. In-person interactions between vendors and purchasers account for the vast majority of these items' sales, which is why we've seen a fall in their popularity. Many people are aware of Japan's ability to withstand economic downturns, but it's thought foreign tourists are a target market for MSMEs that sell non-culinary products (Kompas, 10 March 2020). MSME-produced goods are expected to be affected by the government's plea for social distancing, which was announced March 15, 2020. As a consequence, the government must pay more attention to the MSME sector since it is the key driver of the country's economy. The following are some of the impacts due to the Social Distancing policy or what is known as PSBB:

First, sales decreased drastically due to the PSBB which was implemented to prevent the spread of the Covid-19 virus. MSME business actors complained of a significant decline in sales, declining MSME sales followed by the implementation of PSBB for the last few months. People are required to work, worship, and study from home causing changes in people's consumption behavior. The activities of MSMEs which are in direct contact with consumers to offer their products are reduced every day because people are required to stay at home to comply with health protocols. The shift in people's consumption patterns has led to a decline in sales, nowadays people prefer to prioritize the needs for food and related medical devices rather

than buying other necessities that are considered less important and are not the main needs to deal with current conditions.

Second, given the present pandemic circumstances, developing a marketing strategy for SMEs is tough. Because, in the middle of the Covid-19 epidemic, MSMEs must shift their marketing approach from offline to online in order to survive. Because of the silence and lower market share caused by PSBB rules in several locations of Indonesia during the Covid-19 epidemic, MSME business operators were forced to shut their businesses and even lay off some of their staff. The Covid-19 epidemic has caused a shift and change in consumer purchasing behaviors; although some MSME business players offer online services, it is conceivable that many customers still choose to purchase offline (Hardilawati, 2020). As a result of societal constraints, individuals tend to minimize their activities outside the house; thus, MSME actors that sell their goods offline must also suffer the effect of diminished marketing.

Third, funding or capital. During the Covid-19 pandemic, MSMEs experienced obstacles in the form of capital, this was because the business loans taken by MSME actors were jammed so that injections and assistance related to capital were needed (Yanmas DPKM UGM Team, 2020). MSMEs experienced a decline in performance from the demand side so that the impact that occurred was termination of employment and also congestion in credit payments since the Covid 19 outbreak (Pakpahan, 2020, p. 20). Disruption of economic activities due to the Covid-19 pandemic has greatly affected MSME business actors who have small or limited funding or capital. Capital assistance is needed so that business actors are able to overcome the difficulties they face during the Covid-19 pandemic.

Fourth, the Covid-19 epidemic has had an influence on MSME business players' manufacturing and distribution operations, which have diminished and even ceased for some time. MSME company players halted production since market demand had dropped dramatically once Covid-19 started to enter Indonesian territory; yet, 26.7 percent of MSMEs survived despite having to temporarily halt production. Even MSMEs will reduce their output compared to before the Covid-19 epidemic. Furthermore, previous large-scale social constraints (PSBB) impeded the delivery process.

Fifth, the difficulty in obtaining raw materials. Since the Covid-19 pandemic took place, the raw materials needed by MSME business actors have experienced difficulties in obtaining them. This is due to the slowdown in imports, one of which is food, not because of the Horticultural Product Import Recommendation (RIPH), but because of the Covid-19 outbreak. Even before the current Covid-19 pandemic, the problems of MSMEs were also inseparable from the limited access to raw materials, so that many MSME business actors obtained raw materials of low quality.

#### **MSME Recovery Strategy during the COVID-19 Pandemic**

Various measures are required to deal with the economic and commercial problems caused by the COVID-19 pandemic, including a macro approach via government regulations and a micro one through the management of SMEs. According to the OECD's research, the government should take at least three critical steps in order to help MSMEs now and set the stage for a more resilient recovery. In the beginning, the government should declare the expiration of present economic and commercial assistance measures and gradually implement new plans. a greater emphasis on recuperation. The importance of timing and speed cannot be overstated. Slowly withdrawing economic and commercial assistance may lead to significant failures for enterprises and limit competition, while on the other hand, protracted measures can result in distortions and diminish incentives to adapt or develop.

Second, governments must ensure that the flow of businesses into and out of a nation is progressive and ongoing in order to encourage a more inclusive recovery (that is, without further burdening those most affected by the crisis, such as youth, women and migrants). Insolvency status can be improved, unproductive firms can be shut down faster and reorganization can be more successful, and entrepreneurs' ability to start new businesses after failure may be strengthened. Changes in legislation must be able to lessen the negative repercussions and decrease personal expenditures for honest failing firms since bankruptcy may have a significant impact on them.

As a result of all of this, a set of criteria for identifying which MSMEs need help recovering and transitioning to new business models must be developed. To identify "worthy" companies, traditional criteria like current balance sheet data or credit history may not work as well. It is possible to overcome the limitations of traditional techniques of corporate financing by using Fintech and digital technologies for more effective credit risk assessment, better service delivery, and extensive monitoring. As a result, the government hasn't taken full use of this resource. In addition, non-debt financing options should be used



more often to meet the more diverse needs of the MSME community and to strengthen their capital structure; (e.g. equity, mezzanine financing, leasing or factoring).

Third, entrepreneurs and small and medium-sized businesses (SMEs) should be the focus of government aid in the post-COVID era. New company ideas and start-ups should be fostered. While traditional MSMEs are swiftly disappearing, micro-enterprises that aren't taking advantage of the digital revolution must speed up the adoption of digital technologies, reorganize their organizations, and upgrade their skills. MSMEs need to be better equipped digitally and with a stronger workforce to emerge from the crisis stronger. Small and medium-sized businesses (SMEs) have few policy options to boost their long-term viability or their growth potential. Countries like Korea and Ireland have taken initiatives to help small businesses adapt new working methods, speed up digitization, and grow into new markets. The next phase in the policy response should include structural support measures, as well as sensible requirements.

#### 4. CONCLUSION

Covid-19 had a huge economic impact on Indonesia, which was affected by the pandemic's economic ripple effects throughout the world. Indonesia's MSMEs have been particularly severely hit by current economic crisis and their considerable role in the country's GDP contribution, labor absorption and exports and investment make it imperative for the government to aid in their recovery. During the PSBB policy era, the Covid-19 outbreak had a substantial impact on MSMEs. Business players are feeling the effects of a sharp reduction in sales, trouble selling goods, financial or capital challenges, diminished manufacturing and distribution operations, and difficulties getting raw materials.

MSME sector bankruptcy may be avoided on a macro level by implementing government policies via business management of MSMEs, which includes adopting essential actions such as Government must first proclaim that existing and progressive economic and business assistance policies will be phased down and then shift to a more targeted approach for economic recovery and job creation in the future. Second, governments must ensure that inflows and outflows of enterprises are gradual and continued in a way that supports inclusive recovery (i.e., without further burdening those most affected by the crisis, such as youth, women, and migrants) and that they do not negatively impact those who have been hardest hit by the crisis. Third, the government must assist entrepreneurs and small and medium-sized enterprises (SMEs) that can help the economy and communities recover from the COVID period. Entrepreneurship, fresh business models, and innovative businesses must be encouraged.

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