

The Impact of Covid-19 on Micro, Small, and Medium Enterprises in Central Java, Indonesia: The Need for Economic Recovery

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Abstract

The Covid-19 pandemic that has occurred since March 2020 in Indonesia has had a severe impact on the condition of Micro, Small, and Medium Enterprises (MSMEs) in Central Java. The purpose of the study was to investigate the effect of the COVID-19 pandemic on MSMEs in Central Java and the need for economic recovery for Central Java MSMEs. The research used a descriptive qualitative method. Data were collected by electronic survey, in-depth interviews, and Focus Group Discussion. The results showed the Covid-19 pandemic has significantly eroded the profits of MSMEs in Central Java due to a decrease in sales, while production costs remain or even increase. There is a vulnerability to closing the business in the next one month to one year based on the subjective perception of business actors. When MSMEs cannot maintain their business, potential risks are bad loans, layoffs for workers and bankruptcy for business owners, and supply & demand drop deeper. The recovery of economic conditions during and after the Covid-19 pandemic for the MSME sector in Central Java includes assisting in the recovery of production functions, financing assistance, and access to financing; and assistance in the restoration of marketing functions by encouraging online marketing.

Keywords

Micro, Small, and Medium Enterprises, Covid-19 pandemic, Need for Economic Recovery, Central Java, Indonesia.

1. Introduction

Currently, the Indonesian global economy is experiencing uncertainty and is leading to an economic recession due to the impact of the Covid-19 pandemic (Amirudin, Urbański, et al., 2021; Syamruddin et al., 2021). Several major countries in the world experienced negative economic growth in the first and second quarters of 2020. The global economic slowdown will impact Indonesia's economic growth performance in 2020 (Susilawati et al., 2020). Indonesia's economic growth in the first quarter of 2020 was 1.26%, while in the second quarter of 2020, it contracted

minus 5,32%. The Central Java economy during the second quarter of 2020 contracted minus 5.94%, while during the first quarter of 2020, it still recorded a growth of 2.61%. The Covid-19 pandemic has a domino effect from health to social and economic problems (Central Bureau of Statistics, 2020). The Covid-19 pandemic impacts general economic conditions in Central Java, particularly Micro, Small, and Medium Enterprises (MSMEs). Weakening domestic consumer demand and foreign exports will further weaken the performance of MSMEs in Central Java. This study addresses the impact of the pandemic on MSMEs in Central Java Province. The research also answered the strategies for restoring the performance of MSMEs in the Covid-19 Era.

The Covid-19 pandemic has an impact on general economic conditions in Central Java. In particular, the pandemic affects micro, Small, and Medium Enterprises (MSMEs) and faces various complex problems (Amirudin, Saputra, et al., 2021; Syamruddin et al., 2021). Among others, there are uncertainty and tradeoff between health and economic problems, changes in supply and demand, growth contraction, unemployment, a decline in public welfare, and changes in business patterns and consumer behavior. On one side, MSMEs support production, a source of income, and community welfare. The complexity of the problems faced by MSMEs and how to save MSMEs affected by Covid-19 are the most important parts of economic recovery. It requires the government to have a strategy to protect the MSMEs.

Central Java's economic growth in the first quarter of 2020 reached 2.61% year on year, while in the second quarter of 2020, it contracted minus 5.32%. All major business fields in Central Java experienced a decline in performance, namely the processing, trade, and construction industries (BPS, 2020). The impact of the Covid-19 pandemic on the economy of Central Java, especially micro, small and medium enterprises, is the difficulty of marketing, access to financing, supply of raw materials, obstruction of distribution, and layoffs. Central Java's Micro, Small and Medium Enterprises (SMEs) have been affected as many as 26,586 SMEs consisting of Food & Beverage businesses: 19,191; Fashion: 2,092; Handycraft: 1,059; Trade: 1,802; Services: 1,067; Agriculture / Livestock: 983; Others: 392 (Central Java Province UKM Cooperative Office, July 2020).

1.1 Objectives

The purpose of the study was to investigate the effect of the COVID-19 pandemic on MSMEs and the need for economic recovery for MSMEs in Central Java Province, Indonesia.

2. Literature Review

Shafi et al. (2020) studied the impact of the COVID-19 pandemic on micro, small, and medium-sized Enterprises operating in Pakistan. They have proposed different recommendations to ease the adverse effects of the outbreak on MSMEs. This article aims to assess the impact of the COVID-19 outbreak on these businesses and provide policy recommendations to help MSMEs reduce business losses and survive through the crisis. Juergensen et al. (2020) suggested that policy interventions must also be sensitive to the different SME types rather than adopting a one-size-fits-all approach. The policy mix will need to shift from its initial focus on the survival of European SMEs in the short term towards a more structural and longer-term approach based on promoting their renewal and growth through innovation, internationalization, and networking. Sahoo & Ashwani (2020) find out that the impact of the pandemic across sectors and in different scenarios of complete, extended, and partial lockdown and at varying levels of capacity utilization is massive on the Indian economy. The impact is severe on trade, manufacturing, and MSME sectors. The likely impact (deceleration) of COVID-19 from the best-case scenario to the worst scenario is that MSME net value added (NVA) from 2.1 to 5.7 percent in 2020 over the previous year. The economy is heading towards a recession, demanding systematic, well-targeted, and aggressive fiscal-monetary stimulus measures.

3. Methods

This study uses the descriptive qualitative approach. The data collection method is an online survey questionnaire on micro, small and medium enterprises in districts/cities in Central Java, Indonesia, and Focus Group Discussion (FGD) with MSME's stakeholders. The data used are primary data and secondary data. Primary data is the result of data collection carried out through electronic surveys and the discussion results, while secondary data is in the form of survey data/data collection on MSMEs affected by Covid-19 by Cooperatives and SMEs Office, Central Java Province in 2020, as well as supporting data from Central Java Central Bureau of Statistics

4. Results and Discussion

4.1 The impact of the pandemic on MSMEs in Central Java Province

The decline in MSME turnover due to Covid-19 is very significant. The tourism industry is one of the industries affected by the spread of this virus. The decrease in the tourism sector has had 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 businesses reached 27%. While the effects on small food and beverage businesses are 1.77%, and medium enterprises is 0.07% (Amri, 2020)

According to Central Java Province Small and Medium Enterprises Cooperative Agency (2020), the most significant impact of COVID-19 on MSMEs in Central Java (See Table 1) is in the food and beverage business, followed by the fashion business, trading business, services, crafts, as well as agriculture and animal husbandry.

Table 1. Types of SMEs affected by Covid-19 in Central Java

Types of SMEs	Percentage
Food and Beverage	72,18
Fashion	7,87
Trading	6,78
Service	4,01
Craft	3,98
Agriculture and Livestock	3,70
Others	1,48

Source: Central Java Province Small and Medium Enterprises Cooperative Office (2020)

Also, the biggest impact of Covid-19 on MSMEs in Central Java is turnover decline, a decrease in the workforce(See Table 2), and a reduction of assets. Although, in general, the MSMEs in Central Java experienced a sharp decline in turnover, online-based MSMEs experienced a significant increase in turnover.

Table 2. The Impact of Covid-19 on the Decreased Performance of MSMEs in Central Java

Types of Decrease in MSMEs Performance	Percentage
Turnover	46,20
Labor	30,56
Asset	13,66

Source: Central Java Province Small and Medium Enterprises Cooperative Office (2020)

The distribution of Micro, Small and Medium Enterprises (MSMEs) affected by COVID-19 in Central Java is in 35 districts/cities in Central Java, with the highest number of affected MSMEs (See Table 3) being in Pekalongan Regency with 1,529, Banyumas Regency with 1,0423, Pekalongan City with 1,369 and Tegal Regency. a total of 1,064. The condition of Micro, Small, and Medium Enterprises in Central Java is mapped as: (1) unable to produce and unable to market; (2) can produce, cannot market; (3) cannot produce, can market; (4) can produce and can market. (Central Java Province SME Cooperative Service, 2020). The results of electronic data collection using online techniques on 881 MSME respondents in Central Java show that the enormous business scale of MSME actors is micro-scale, followed by ultra-micro scale, small and medium enterprises.

Table 3. MSME's Business Scale in Central Java

MSME's Business Scale	Percentage
Micro	59.02
Ultra-Micro	29
Small	8,4
Medium	3,41

Source: Central Java Province Small and Medium Enterprises Cooperative Office (2020)

MSME actors have 48% of 0-5 years of business, 28% of 6-10 years, and 23% of business years of more than 10 years. The condition of Central Java's MSME actors is mostly on the ultra-micro and micro-scale businesses that have limited resources so that they will be seriously affected (the hardest hit) by the pandemic conditions. Meanwhile, Central Java MSMEs' sales methods are more through offline media than online.

The Covid-19 pandemic in Central Java impacted the condition of MSMEs; more than 70% of MSMEs experienced a decline in sales and a decline in profits of more than 50%. Under these conditions, 43.81% of MSMEs decided to lower prices to maintain their business. When most business actors experienced a decline in sales, MSMEs that relied on various alternative sales channels experienced the greatest pressure, which experienced a decline in sales of more than 75%. From the various dimensions of the characteristics, most MSMEs experienced a decline in sales of more than 50%.

The Covid-19 pandemic has significantly reduced MSME profits due to decreased sales, while production costs have remained or even increased (See Figure 1). The costs that experienced an increase during the pandemic were raw materials (42.57%), other costs (38.71%), transportation (20.88%), and labor (4.77%).

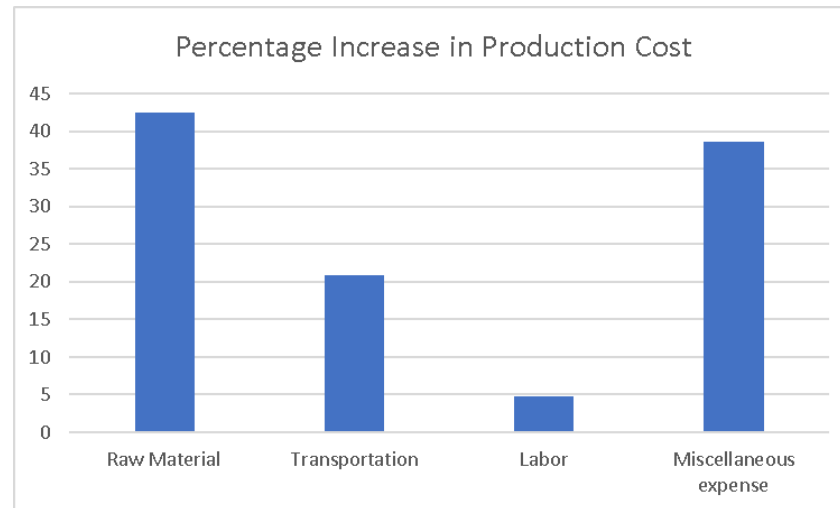


Figure 1. Increase in MSME Production Costs During the Covid-19 Pandemic

The objective perceptions of MSME business actors regarding the vulnerability to closing their businesses and the potential risks when MSMEs cannot maintain their business are (a) Bad loans; (b) termination of employment for workers and bankruptcy for business owners; (c) A deeper drop in supply & demand. The preference for strategic steps in maintaining business for MSME actors in Central Java, in almost all MSMEs is the same, namely (1) Looking for new markets/consumers, (2) Looking for cheaper raw material suppliers, (3) Reducing labor and, (4) Apply for a credit suspension. Meanwhile, the chosen strategy for medium-sized businesses to increase sales is to find new markets and provide discounts rather than other sales strategies.

4.2 The Need for Economic Recovery for restoring the performance of MSMEs

In dealing with the impact of the Covid-19 pandemic on Micro, Small, and Medium Enterprises (MSMEs), in general, steps are needed to maintain the economy by local governments, in this case, the Central Java provincial government. The prerequisites for economic recovery are (1) Continue to apply the social limitations and health protocol on a National Scale; (2) Socialization of Health Protocols and Implementation on an ongoing basis, especially in the business aspect; (3) Limiting activities that cause crowds; (4) Fulfillment of testing equipment (PCR and Swab) such as Laboratories & Health Workers; (5) Improving the Quality of Inpatient Facilities & Infrastructure (Hospitals, Clinics and Health Centers); (6) Flexibility for Implementation of Large-Scale Social Restrictions based on administrative area village, city/district, and province (Edward Flores & Nooruddin, 2009; Mallikamas et al., 2003; Petrović et al., 2016)

Substantial and measurable government intervention is the right step to restore economic conditions, especially MSMEs, because the balance will not return naturally (Hendayana et al., 2019; Widiartanto et al., 2020). Therefore, in order to strengthen MSMEs, the recovery strategy is a short-term priority policy in the form of (a) Initial stages: Loosening the movement of people to do business and work, local governments absorbing MSME products (specifically for the business sector), gradually open and reorganize commercial/market centers, shop houses, and

malls), gradually opening tourist attractions by implementing certain health safety procedures; (b) Further steps: Encouraging online platforms to expand partnerships with MSMEs, Encouraging local governments to strengthen local supply chain components (trading houses and regional logistics), Using research results from various institutions (LIPI, BPPT, etc.) to improve quality and competitiveness of MSME products, ease of importing raw materials for MSMEs, especially textiles, footwear, and food & beverages, as well as cheap credit for MSMEs (new and old prospective debtors). Therefore, the policy strategy in restoring the condition of MSMEs is (i) to implement an Adaptive Supply chain (for strategic goods); (ii) Increase the involvement of Non-Bank Financial Institutions (LKBB) in MSME financing; (iii) facilitate home trade and logistics for MSMEs, including farmers and fishers, Development of MSME clinics digitally based.

Government policy interventions need to be adjusted to the main needs of MSMEs affected by Covid-19, including increasing sales and distribution, capital, and human resource capacity (Muhamad et al., 2018). Efforts to increase sales and distribution can intervene through corporatization policies for MSMEs. Efforts to increase capital can be intervened through MSME financing policies, while efforts to increase human resource capacity can intervene through MSME capacity policies. In line with the recommendation of (Dai et al., 2020) that given the limited public resources, it is recommended that the government assist companies in resuming work and production as soon as possible. Supporting policies must be adapted to the unique characteristics of each sector (Klein et al., 2005).

The recovery of MSMEs is directly proportional to the economic recovery. Therefore, local governments need to encourage MSMEs as a new economic force through sustainable and innovative development. The MSME development process can be carried out with 4 main strategies. First the integration of the digital financial economy in all aspects of the MSME business. Second, strengthening the ecosystem that supports the development of MSMEs. Third, synergies between related agencies, such as harmonization of policies and partnerships. Fourth, education and literacy in a structured and systematic way to increase the capacity of MSMEs.

The results showed that the Covid-19 pandemic impacted a decrease in sales of more than 50%, a significant decrease in profit, and an increase in raw material costs. Therefore, there is a vulnerability for MSMEs in maintaining their business. Measures to maintain business are carried out by seeking new markets/consumers, finding cheaper raw material suppliers, reducing labor, and applying for credit delays. The balance will not return. Naturally, a strong and measurable government intervention is needed as an appropriate recovery step (Berke et al., 2014; World Health Organization, 2021). The recommended strategies for strengthening MSMEs are short-term and medium-term strategies. Short-term strategy: By loosening people's movement to do business and work, local governments absorb MSME products gradually open and reorganize commercial centers and tourist attractions.

Meanwhile, the long-term strategy includes encouraging online platforms to expand partnerships for MSMEs (Adam et al., 2022; Mayangsari et al., 2020; Yosep et al., 2021). Government policy interventions need to be adjusted to the main needs of MSMEs affected by Covid-19, including increasing sales and distribution, increasing capital, and increasing human resource capacity. Efforts to increase sales and distribution can intervene through corporatization policies for MSMEs. Efforts to raise capital can be intervened through MSME financing policies, while efforts to improve human resource capacity can intervene through MSME capacity policies.

Based on discussions with experts and stakeholders in the MSME sector in Central Java, the identified needs for economic recovery during and after the Covid-19 pandemic for the MSME sector in Central Java were (1) Assisting to restore production functions, (2) Providing assistance in procurement of production inputs, (3) Standardized production training (HCCP), (4) Financing assistance and access to financing, (5) Encouraging non-cash transactions, (6) Assistance in the restoration of marketing functions by encouraging online marketing, facilitating online platforms to partner with MSMEs, (7) Marketing access assistance. In line with the research results of Sugiri (2020), the recovery of economic conditions, especially MSMEs from the impact of the Covid-19 pandemic, a short-term strategy is needed related to the application of strict health protocols, providing opportunities and encouraging digital services to support MSMEs, socializing business associations, simplifying administrative processes as well as efforts to encourage changes in business strategy.

5. Conclusion

The Covid-19 pandemic has significantly eroded the profits of MSMEs in Central Java due to a decrease in sales, while production costs remain or even increase. As a result, there is a vulnerability to closing the business in the next 1 month to 1 year based on the subjective perception of business actors. Potential risks when MSMEs are unable to

maintain their business are bad loans, layoffs for workers and bankruptcy for business owners, and supply & demand drop deeper. The needs for recovery of economic conditions during and after the Covid-19 pandemic for the MSME sector in Central Java include aiding in the recovery of production functions, financing assistance and access to financing, and assistance in the restoration of marketing functions by encouraging online marketing.

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