

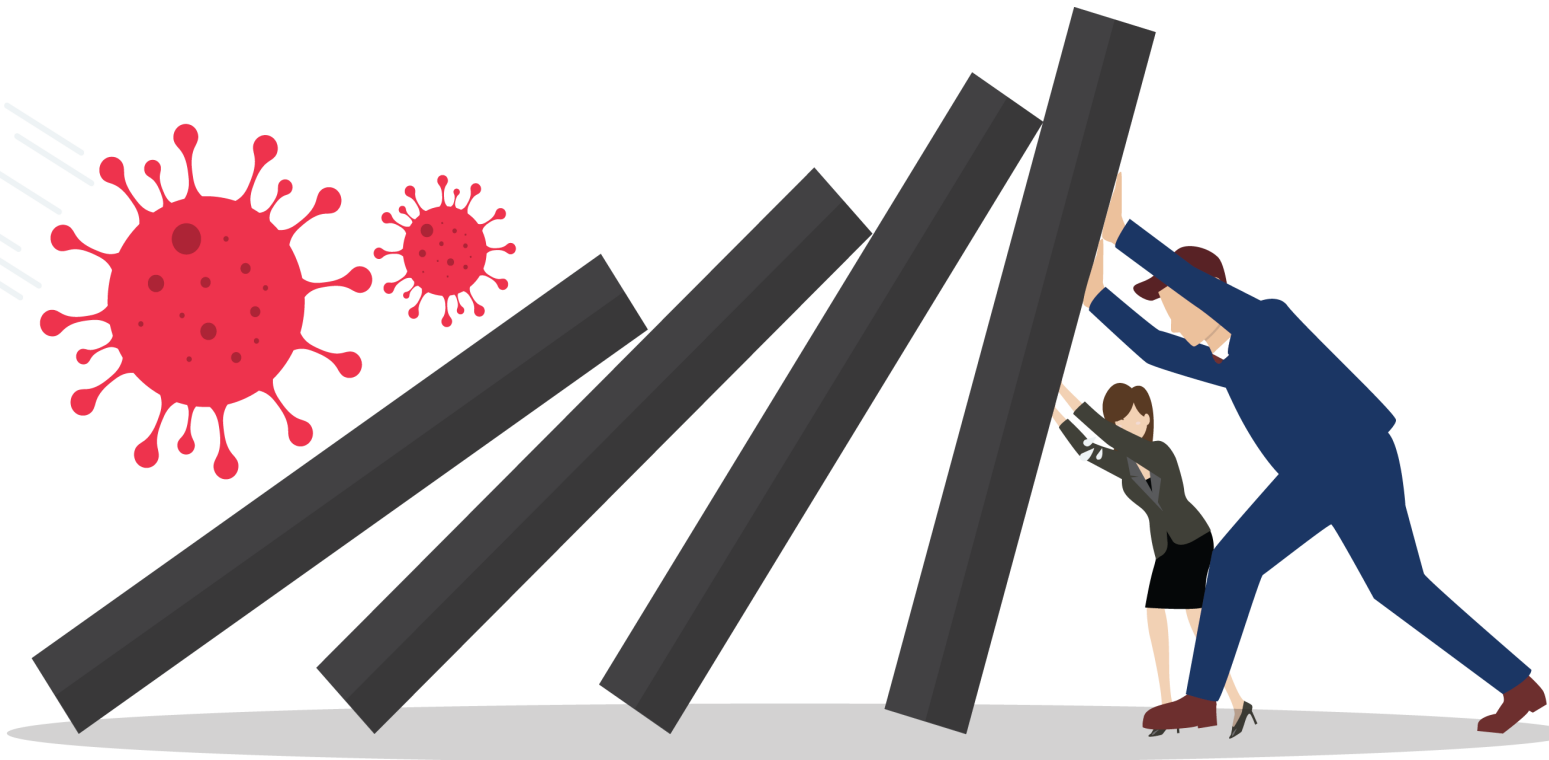


LPEM FEB UI
UNIVERSITAS INDONESIA



REPORT

Impact of COVID-19 Pandemic on MSMEs in Indonesia



2020

REPORT

IMPACT OF COVID-19 PANDEMIC ON MSMEs IN INDONESIA

Preface

UNDP INDONESIA

2020 was a challenging year which altered the dynamics of global economy. The COVID-19 pandemic has forced governments around the world to take drastic measures to halt the spread of the virus by imposing varying degrees of lockdown. As a result, a new norm was established with protection and social distancing measures in conducting economic activities

The COVID-19 pandemic has also drastically affected the Indonesian economy. Indonesia experienced an economic slowdown last year and the economy is expected to remain under pressure in 2021, as the pandemic showed no signs of abating. Sectors requiring direct interactions have been the hardest hit, such as tourism, transportation, logistics, as well as hospitality industry. With the economy taking a downturn path, millions of Indonesians are at risk of losing their jobs. Much of the unemployment rise will happen in the Micro, Small, and Medium Enterprises (MSMEs), a key sector that accounts for about 61 percent of the country's Gross Domestic Product (GDP). The sector also employed 97 percent of Indonesia's workforce in 2018.

Beyond the number and statistics, we should be mindful that there are people and communities grappling with the loss of income and access to basic services. As part of our COVID 19 response, UNDP is committed to provide evidence-based studies that could inform policymakers to make well-informed decision to cushion the negative impact caused by the pandemic. UNDP Indonesia, in partnership with the University of Indonesia – Institute for Economic and Social Research (LPEM FEB UI) conducted a study on the impact of the COVID-19 pandemic on MSMEs in Indonesia, focusing on the impact on the MSMEs, the coping strategies employed and their plans for future growth. The study reveals some eye-opening findings which confirm the ferocity and the depth of COVID-19 pandemic to Indonesia's economy. Most importantly, the findings also offer some much-needed clues and areas of opportunities that could set the agenda of national response agenda.

UNDP Indonesia hopes that this report will provide stakeholders, particularly policymakers, insight on the situation and could, perhaps, help develop programmes that can assist MSMEs withstand the impact of situations such as the current pandemic and any future calamities.

Jakarta, September 2020

Norimasa Shimomura
UNDP Indonesia Resident Representative

LPEM FEB UI

This is the final report of the study on the Impact of the COVID-19 Pandemic on MSMEs, prepared by the Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia (LPEM FEB UI) in collaboration with the United Nations Development Programme (UNDP). This study aims to analyze how the COVID-19 pandemic affects MSMEs in Indonesia and formulates appropriate policy responses, which include a gender-responsive/sensitive policy for SMEs actors, accordingly.

We collected preliminary data via a survey of around 1,100 MSMEs and conducted follow-up in-depth interviews and Focus Group Discussion (FGD) to gain a comprehensive perspective on the results of the study. Carried out by a research team led by Jahen F. Rezki, the study was supported by team members Dewi Meisari, Hilda Fachrizah, Sulistiadi Dono Iskandar, Hamdan Bintara, and Nia Kurnia Sholihah, under the supervision of Mohamad D. Revindo, the head of Business Climate and Global Value Chain Research Group. This report is also prepared by the assistance of Nadya Rahmi Maghfira and Yoshua Caesar Justinus.

On behalf of the LPEM FEB UI, we would like to convey our gratitude to UNDP for their cooperation and support in organizing this study. We also thank the Fiscal Policy Agency from Ministry of Finance and Ministry of Cooperatives and SMEs for giving valuable input which enriched the analysis. We also appreciate the FGD participants including government officials, MSMEs and associations from Jakarta, West Java, West Nusa Tenggara, Gorontalo and Riau, as well as all of our in-depth interview respondents (Susilaningsih – DDSatoe, Andromeda Sindoro – Sweet Sunday Ice Cream, Ir. E. Noor Suryanti – Pelanusa, Dini Khoirinnisa – Arfeena.id, Khilda – Sampahkoe, Titik Winarti – Tiara HandiCraft, Ervina Eduarsyah – RV Wooden Craft, Ni Made Roni – Made Tea). Finally, we thank Cak Samsul, LUNAS and MSMEs mentors for their assistance

We hope our study can contribute to better policy making on MSMEs.

Jakarta, September 2020

Riatu Mariatul Qibthiyyah, PhD
Director of LPEM FEB UI

Executive Summary

The Institute for Economic and Social Research (LPEM-FEB UI) and the United Nations Development Programme (UNDP-Indonesia) conducted a survey between July and August 2020 to understand the repercussions of the coronavirus disease (COVID-19) on micro, small, and medium enterprises (MSMEs) in Indonesia. The survey focused on particular aspects such as supply and demand, production, revenue, finance, employment, supply chains, marketing, distribution, and others. This study also investigated the needs of the MSMEs and the assistance received from the government, as well as the medium and long-term plans of the MSMEs (e.g. expanding their business, digitalization, entering a new market, etc.).

Chapter 1 contextualizes the existing studies on the impact of COVID-19 on MSMEs. This study conducted surveys in 15 provinces in Indonesia. Around 60% of MSMEs surveyed in this study were located in Java, while 40% of MSMEs were located outside Java. There were 1,180 MSME respondents. Around 43% of MSMEs surveyed in this study were small enterprises, followed by micro-enterprises (31.2%), and medium and large enterprises (25.9%). In terms of ownership, over half of MSMEs (51%) in this study were owned by women., 40% of MSMEs in this study had been in business less than four years.

Chapter 2 explains the impact of the COVID-19 pandemic on MSMEs in Indonesia. First, we look at the supply shocks. More than 45% of MSMEs surveyed noted that they had problems obtaining raw materials. Nine out of ten MSMEs faced lower demand for their products during the pandemic. Most of the MSMEs found it difficult to distribute their products as a result of the pandemic. Nonetheless, around 44% of the MSMEs joined the online marketplace (e.g. Tokopedia, Shopee, etc.) during the pandemic, a significant increase from the 28% of MSMEs in the online marketplace before the pandemic hit.

Related to revenue for MSMEs during the pandemic, around two-thirds of the MSMEs took in less revenue. More than 80% had lower profit margins during this crisis, and around 53% of MSMEs experienced a decrease in asset value. This study found that more than 37% of female-owned MSMEs faced a decrease in revenue between 40% and 60%. Furthermore, around 29% of female-owned MSMEs indicated that they expect 40% to 60% decrease in profits.

One of the alternative strategies adopted by MSMEs to minimize their expenses in the short term was by reducing consumption of utilities, thus lowering their expenses (e.g. electricity, water, gas, and communication). Around 40% of MSMEs had been selling or planning to sell their products through the online marketplace.

Chapter 3 discusses the medium-term strategies adopted by MSMEs during the COVID-19 crisis. This study found that the majority of MSMEs believed they could survive between four and ten months if the pandemic persisted in the long term. Eight out of ten MSMEs had plans to increase the marketing and promotion of their products. In fact, more than 90% of respondents in micro-enterprises noted that they promoted their products on social media. Around 73% medium and large enterprises noted that they would promote their products on social media.

This chapter also discusses the effectiveness of government assistance programs. Unfortunately, only 17% of the MSMEs surveyed received or sought assistance during the pandemic. More than half of the respondents were not aware of government assistance programs for MSMEs impacted by the COVID-19 pandemic. Around 30% of the owners of MSMEs planned to seek help from either banks or relatives. In terms of the government of Indonesia's assistance for MSMEs during the COVID-19 pandemic, micro-businesses are less likely to receive income-tax subsidies. The majority of MSMEs expected financial aid from the government to be on target. Meanwhile, for non-financial assistance, better access

to the market and assistance in the distribution process were the most common forms of nonfinancial assistance needed by the majority of MSMEs in this study.

Chapter 4 provides long-term strategies that would be implemented by MSMEs. The majority of MSMEs said that the most challenging problems in the future are related to cost. Almost half the MSMEs are preparing medium- and long-term plans in case the pandemic were to recur in the future, while around 30% of MSMEs are planning to have reserve funds. In the long run, more than 80% of micro-businesses are planning to formalize their business, while only a third of them plan to switch their business to other sectors. For small enterprises, more than 55% answered that they are planning to postpone their business expansion. In terms of funds needed, almost 40% of small businesses seek to obtain around IDR100 to 500 million in funds to keep their business afloat. Similar to the results observed for small enterprises, the majority of medium and large businesses also postponed their expansion plan, while the majority of these enterprises do not have any plans to change their market orientation.

Chapter 5 summarizes the key takeaways and discusses the policy implications obtained from the survey's findings. Several current forms of government assistance seem to be suboptimal due to the lack of information about the programs. Moreover, there is a mismatch between the needs of the MSME during the pandemic and the kind of assistance provided by the government. Further assistance, for example utility subsidies and training will empower the MSME coaches and mentors.

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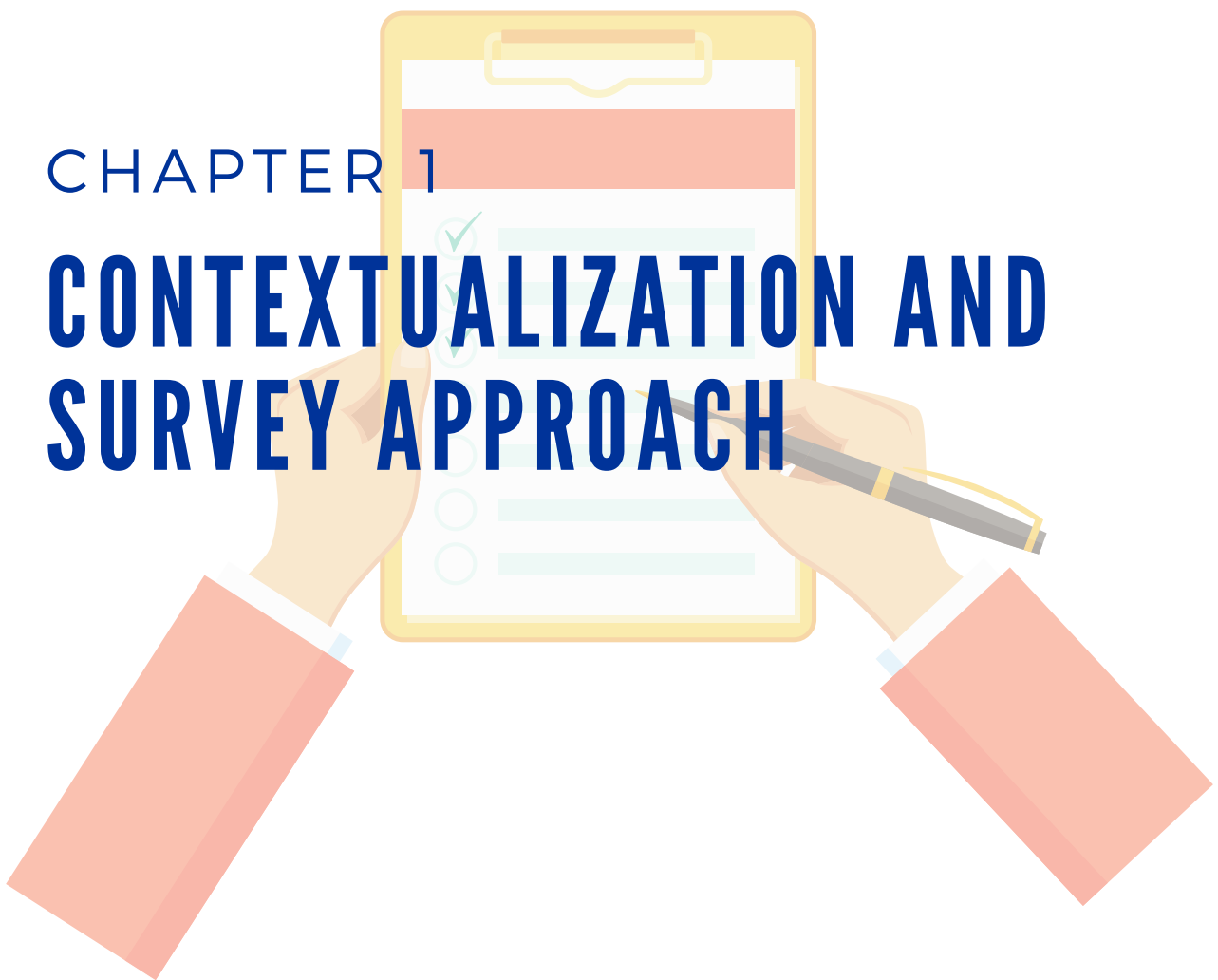
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CHAPTER 1

CONTEXTUALIZATION AND SURVEY APPROACH



Chapter 1

Contextualization and Survey Approach

MSMEs play an influential role in the Indonesian economy. In 2016, the financial contribution of MSMEs to the GDP of Indonesia increased to 60.34%. Furthermore, these enterprises play an important role by providing 97% of the employment opportunities (BPS, 2016). During economic turmoil, especially during the 1997–1998 Asian economic crisis, MSMEs have shown tremendous resilience, and have performed better in terms of crisis management compared to medium-sized and large businesses.

The COVID-19 pandemic has significantly affected the global economy, including Indonesia. This outbreak might push the Indonesian economy into another crisis, possibly deeper than the 1997–1998 Asian financial crisis because it affects both demand and supply. Statistics Indonesia (BPS) announced that Indonesia's economy grew by (-5.32%) in the second quarter of 2020. In the full year of 2020, several prominent financial organizations expected Indonesia's GDP to contract: IMF (-0.3%), ADB (-1%), World Bank (-2%), and OECD (-2.8–3.9%).

Without doubt, COVID-19 has hit MSMEs hard. Some initial reports suggest that MSMEs are affected because of their dependence on external input (OECD & ASEAN, 2020). MSMEs faced a dramatic reduction in demand, which led to lower revenue. At the same time, these enterprises might experience a sudden loss of labor supply due to movement restrictions following the implementation of large-scale social restrictions (colloquially termed PSBB in Indonesia).

The problems faced by MSMEs in Indonesia due to the COVID-19 pandemic require special attention. Around 98.68% of approximately 64 million MSMEs in Indonesia are self-employed micro businesses that are vulnerable to internal and external economic shocks. While small enterprises constitute only 1.2%, and medium-sized enterprises constitute even less. Despite the importance of MSMEs in Indonesia, the extent of the impact of the pandemic on these enterprises is still unknown. Moreover, there is still no clear strategy to mitigate the impact and to speed up the recovery after the pandemic. Nonetheless, MSMEs and their employees need support to survive the COVID-19 pandemic.

In this regard, LPEM FEB UI will estimate the extent to which the COVID-19 pandemic affects MSMEs in Indonesia, and will formulate appropriate policy responses (that include a gender-responsive/sensitive policy for SMEs actors) accordingly. Specifically, the study aims to:

- measure the impact of COVID-19 on MSMEs in targeted sectors which were most affected, and analyze its implications for the men and women who work in the sectors and its value chain;
- analyze the possibility of alternative opportunity and innovation to fulfill the domestic market while the global value chains are disrupted.
- examine the gender and women's economic initiatives of the selected MSMEs, SDG achievement, and other social implications due to the pandemic;
- analyze the right support and incentives, and recommend pathways to recovery following the pandemic (including consideration of the different needs and conditions of the owners affected by the COVID-19 pandemic).

This assessment will not only provide a bigger picture of potential impacts but will also look at the opportunities that might arise due to the pandemic through two stream impact channels: the disruption of the global value chain and reduced demand as a result of large-scale social restrictions. This study focuses on several sectors, such as wholesale and retail, hospitality, processing industries, agriculture and fisheries.

The analysis will consider the impact of the pandemic in the short, medium, and long term. The short-term impact mainly concerns current operating pressures of MSMEs. In the medium and long term, the assessment must comprehensively evaluate multiple factors such as the enterprise's response measures, existing policy support, industrial chain synergies, and prospects for future development.

Approach and Methodology

This study combines both qualitative and quantitative approaches. For the quantitative approach, we will use both primary and secondary data.

1. Desk review and secondary data analysis, context and other analysis.
2. Primary data to investigate the following key issues:
 - The change in profit and turnover, employment, and business model and operation due to the pandemic;
 - Enterprise response measures and strategies during and after the pandemic;
 - Support needed;
 - Perceptions of existing government support, confidence in business continuity, potential opportunities and innovations; and
 - The change in gender roles (gender-disaggregated data analysis to look at gender impacts in the MSME sector), mental health and other indicators such as access to information, capital, networks, and other social indicators due to the pandemic.

The assessment framework of this study is as follows:

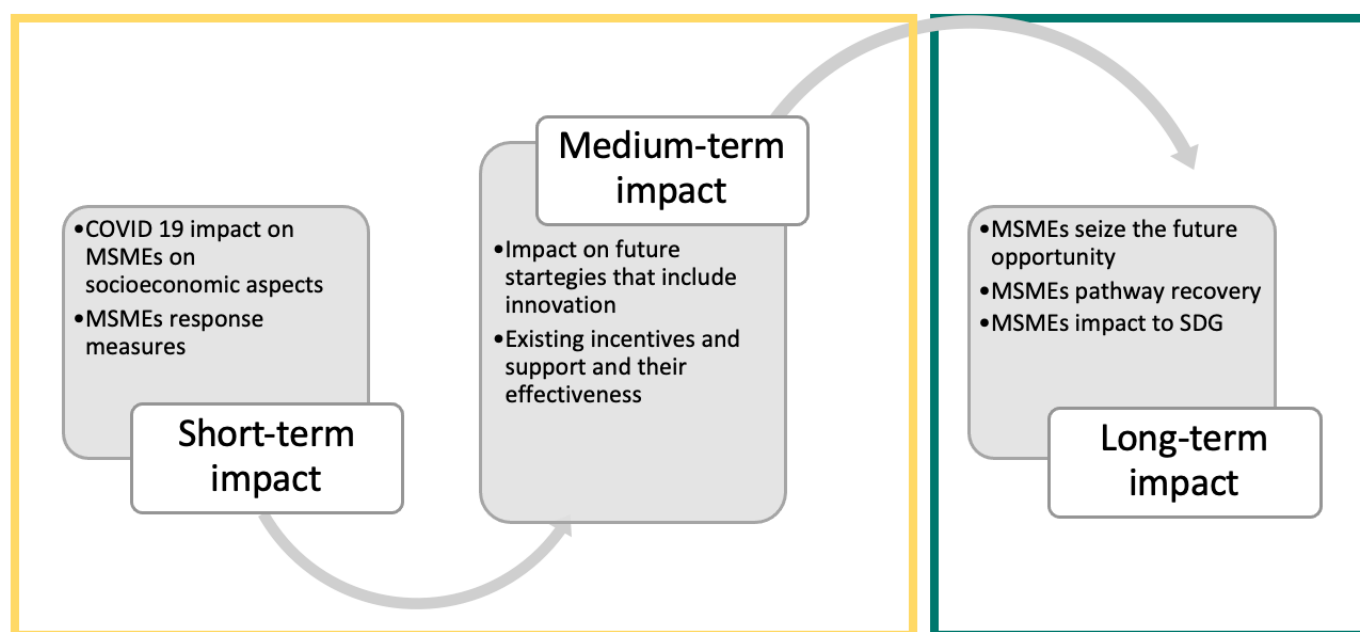


Figure 1. Study Framework

Source: Adapted from Assessment Report of COVID-19 Impact on Chinese POEs and SMEs framework (2020).

This study measures the size of the enterprise based on three criteria. MSME size based on the number of jobs created set by Statistics Indonesia (BPS). Based on Indonesia's law on MSMEs i, we also classify MSMEs based on yearly assets and turnovers. Hence, a micro MSME is classified if it has 1 to 4 employees or IDR 50 million in total assets or IDR300 million in total yearly turnover. An enterprise is classified small if it has 5 to 19 employees or IDR50 to 500 million in total assets or IDR 300 million to 2.5 billion in total yearly turnover. Finally, an enterprise with 20 to 99 employees or IDR 500 million to 10 billion in total assets or IDR 2.5 to 50 billion in total annual turnover is classified a medium enterprise.

This study conducted a survey of 15 provinces in Indonesia (Figure 1). Around 60% of MSMEs surveyed in this study are located in Java (e.g. Banten, Jakarta, West Java, Yogyakarta, Central Java, and East Java). 40% of MSMEs included in this survey are located outside Java (e.g. North Sumatra, Riau, West Kalimantan, Gorontalo, Central Sulawesi, South Sulawesi, Bali, West Nusa Tenggara, and Papua). The total number of respondents in this study is 1,180 MSMEs.



Figure 2. Survey Area

Table 1. Sample Survey Distribution

Province	Micro	Small	Medium & Large
NORTH SUMATRA	42	81	17
RIAU	21	26	2
JAKARTA	21	34	25
WEST JAVA	78	51	53
CENTRAL JAVA	41	40	23
YOGYAKARTA	8	52	31
EAST JAVA	34	70	87
BANTEN	21	11	14
BALI	6	14	4
WEST NUSA TENGGARA	20	42	19
WEST KALIMANTAN	20	14	2
SOUTH SULAWESI	25	10	8
CENTRAL SULAWESI	12	18	2
GORONTALO	16	26	8
PAPUA	3	17	11
Total	368	506	306

Sample Distribution

Based on data from the Ministry of Cooperatives and SMEs, in 2018, there were 64.2 million enterprises categorized as MSMEs. As many as 98% of them belonged to groups of micro enterprises, and the others are small (1.2%) and medium enterprises (0.1%). In this survey, we do not focus solely on micro enterprises. As we can see by firm size, small enterprises accounted for 42.9% of MSMEs surveyed in this study, followed by micro enterprises (31.2%), and medium and large enterprises (25.9%) (Figure 3).

Although this study does not represent the actual distribution of MSMEs in Indonesia, the representation of small and medium enterprises in this study will help us better understand the challenges they face. Moreover, existing studies about COVID-19 and MSMEs have focused on micro enterprises. Therefore, this survey will fill in the gap and provide comprehensive information about small, medium, and large enterprises.

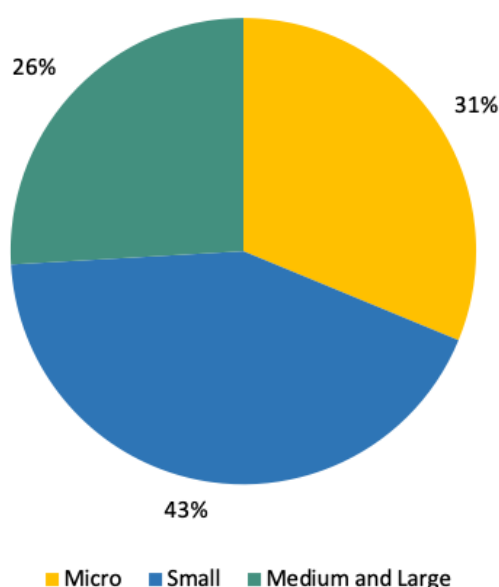


Figure 3. MSMEs Surveyed Based on Firm Size

Around one third of MSMEs surveyed are in the processing industry. 34% MSMEs were in the processing industry, followed by wholesale and retail trade, motor vehicle repair and motorcycle industry (23%); accommodation and food service (21%); agriculture, fisheries, plantations (13%); and transportation, warehousing, and other services (9%). By firm size, micro enterprises in the processing industry held the largest share (35%), followed by accommodation and food service (30%); wholesale and retail trade, motor vehicle repair and motorcycle industry (19%); transportation, warehousing, and other services (9%); and agriculture, fisheries, plantation (7%). A third of small enterprises were in the processing industry (33%), followed by wholesale and retail trade, motor vehicle repair and motorcycle industry (25%), accommodation and food service (20%); agriculture, fisheries, plantations (12%); and transportation, warehousing, and other services (10%). Finally, medium and large enterprises were mainly involved in the processing industry (33%); wholesale and retail trade, motor vehicle repair (25%); agriculture, fisheries, plantation (21%); accommodation and food service (12%); and transportation, warehousing, and other services (9%) (Figure 4).

In terms of the owner's gender, most MSMEs surveyed were owned by women (57%), while male ownership was around 49.3%. Medium and large enterprises surveyed were largely owned by men (60%), while male ownership of small enterprises was slightly higher (51%) than that of women (49%). Nonetheless, female-owned micro enterprises in our survey are more prominently represented (62%) than male-owned micro businesses (38%) (Figure 5).

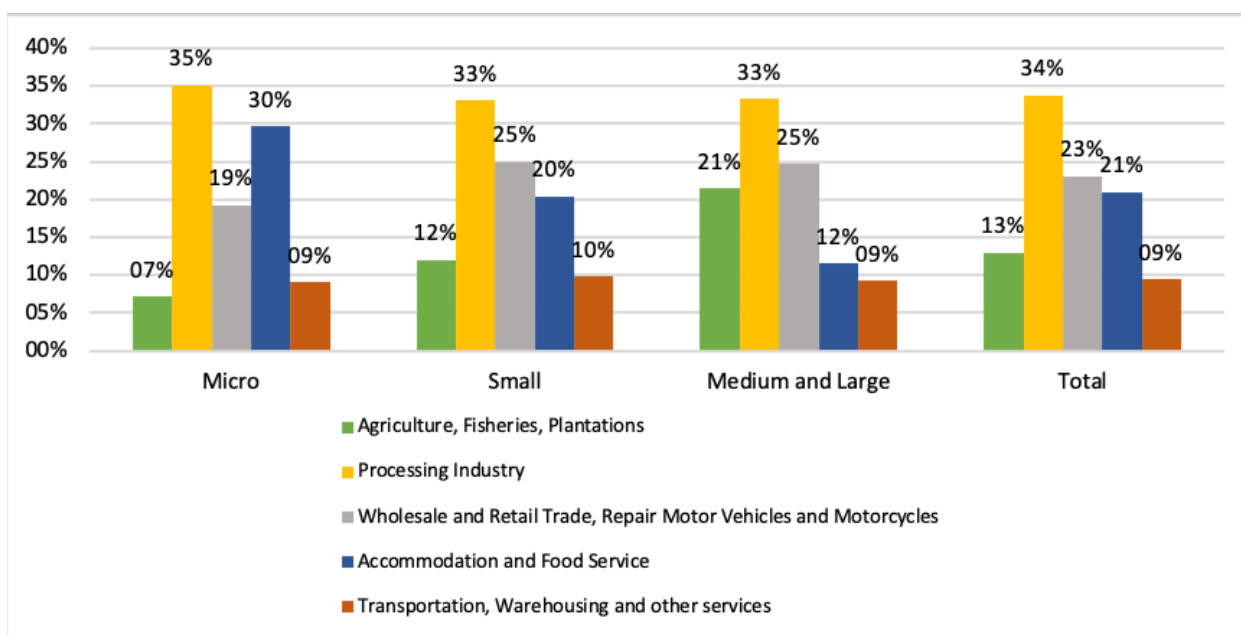


Figure 4. MSMEs Surveyed Based on Sector

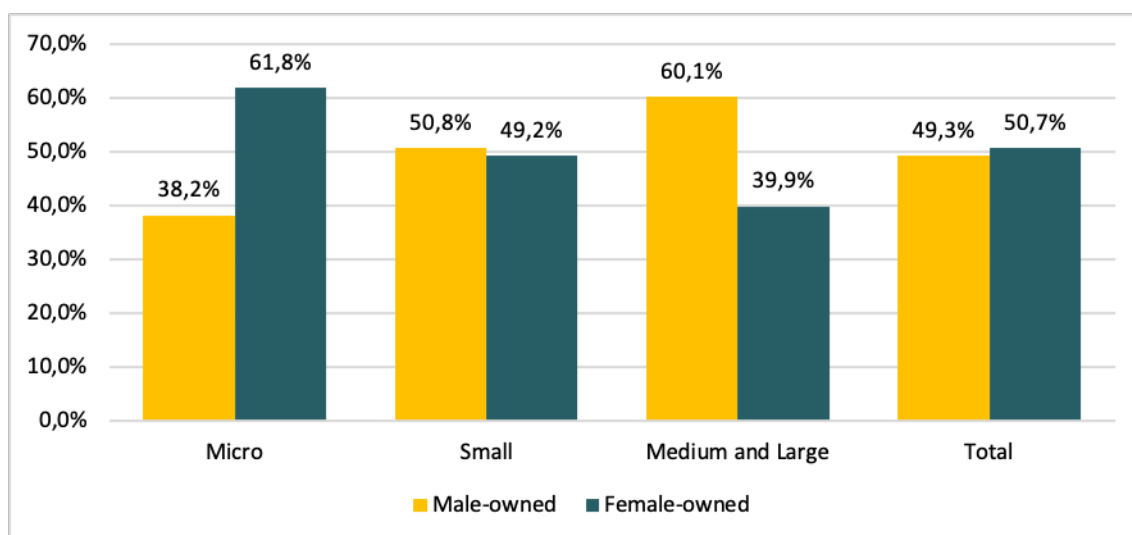


Figure 5. MSMEs Surveyed Based on Owner Gender

More than half (58%) of MSMEs surveyed were male-dominated enterprises (more than 50% of the employees are male). Medium and large enterprises tended to be male dominated. Where 68% of medium and large enterprises surveyed employed more male workers, the share of female workers is more equal to the male share as the size of the enterprise gets smaller. With micro enterprises, the ratio is 52% for male dominated and 48% for female dominated; and in small enterprises around 56% of MSMEs surveyed employ more males, and around 44% employ more females (Figure 6).

This pattern where female entrepreneurs tend to own smaller MSMEs concurs with studies that highlight the distinct performance between male and female entrepreneurs (such as Brush [1992] and Klapper and Parker [2010]). There are at least two arguments that account for the underperformance of female-owned MSMEs compared to male-owned MSMEs. The first is the “constraint-driven gap” perspective, which argues that there are substantial gender-specific external barriers to female entrepreneurs such as in accessing credit markets or forming essential business networks. The second is the “preference-driven gap” perspective that emphasizes a distinction between male and female entrepreneurs in terms of motivation and approach to business (Bardasi, et al., 2011).

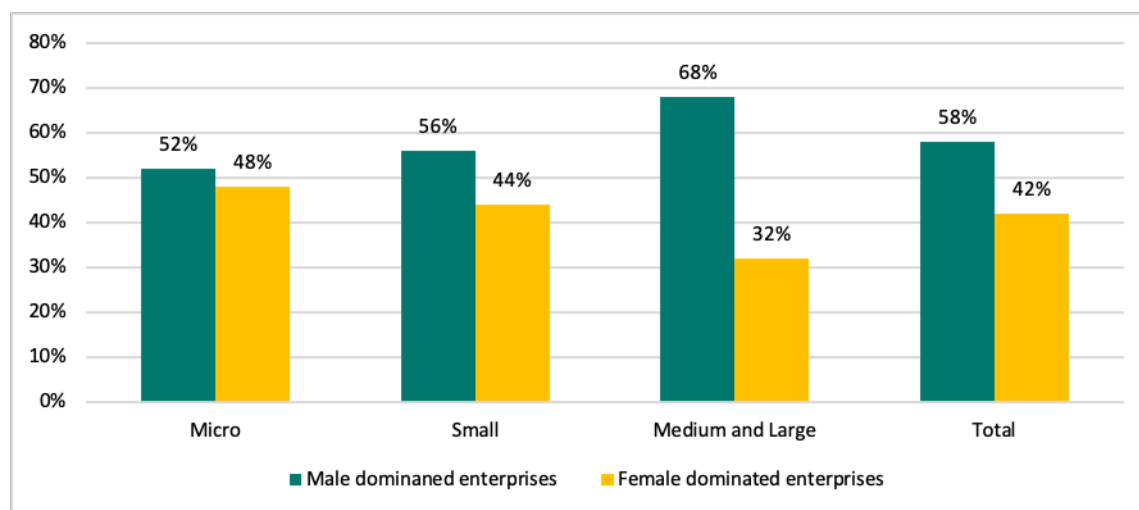


Figure 6. MSMEs Surveyed Based on the Share of Female Workers

Around 42% of the MSMEs have been around for less than five years. More than half the micro enterprises surveyed had not existed five years previously, while 35% of small enterprises had been around for 5 to 10 years. As for medium and large enterprises, 41% of them had existed for more than a decade. (Figure 7). In terms of MSME age and gender ownership, around 45% of MSMEs owned by women were founded less than four years ago. On the other hand, more than 44% of MSMEs with male owners were established more than ten years ago. Therefore, there is some heterogeneity in terms of how long MSMEs have been established based on owner gender (Figure 8).

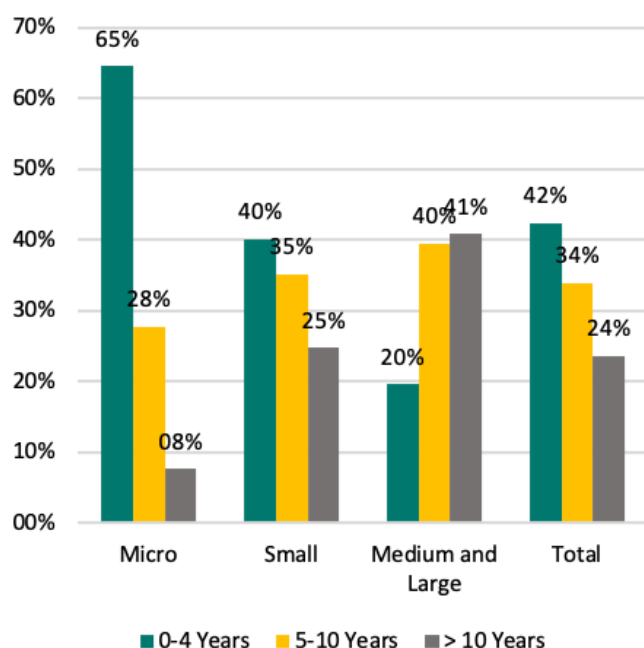


Figure 7. MSMEs Surveyed Based on Year Founded

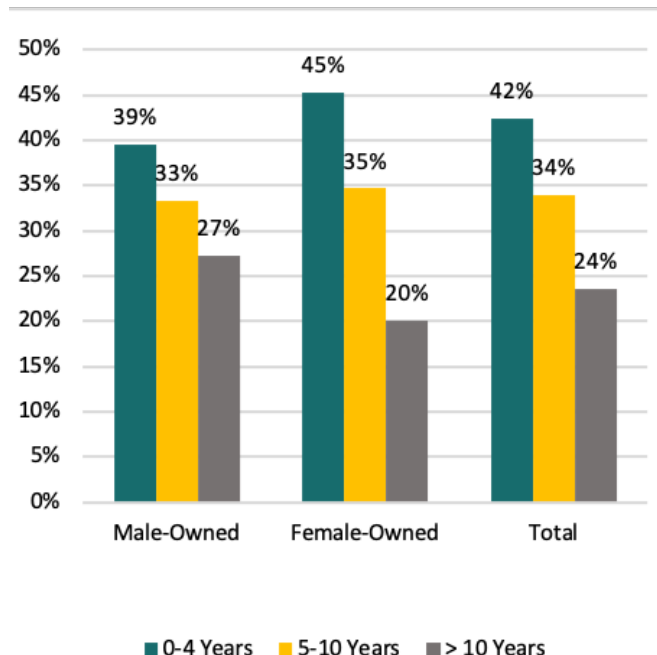


Figure 8. MSMEs Surveyed Based on Year and Owner Gender

Most MSMEs in this study have a business license. More specifically, more than half the MSMEs surveyed held a business license. However, when we look at the distribution, it is obvious that most micro and small enterprises have not had a business license, while only about 26% of medium-size and large enterprises had no business license (Figure 9). In terms of ownership and licensing, there is no discrepancy between MSMEs owned by women (55% have business licenses) and MSMEs with male owners (50% have business licenses) (Figure 10).

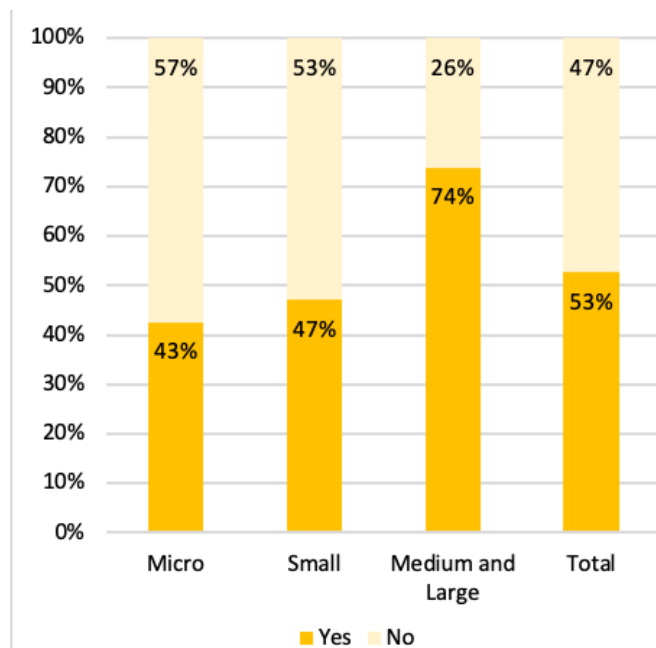


Figure 9. MSMEs Surveyed Based on Ownership of Business License

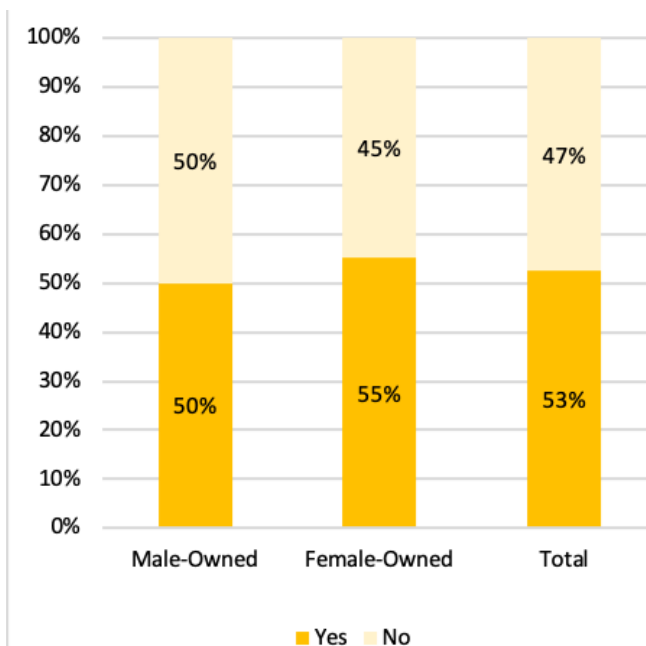


Figure 10. MSMEs Surveyed Based on Ownership of Business License and Owner Gender

Finally, looking at the commodities produced by MSMEs in our study, most MSMEs were in the food and beverage sector (40%). The composition applies in all categories of the MSMEs, except in medium and large enterprises. As for medium and large enterprises, most were engaged in construction services, basic needs, logistics, and warehousing. Specifically, around 19% of MSMEs were producing other products; 10% in agriculture products; 9% in crafts; 7% in fashion accessories; 6% in garments; and the rest comprise furniture, household items and husbandry, machine components, and leather products (Figure 11). In terms of gender ownership, MSMEs owned by women mostly produced food and beverages. On the other hand, only 20% of MSMEs owned by men are involved in the food and beverage sector (Figure 12).

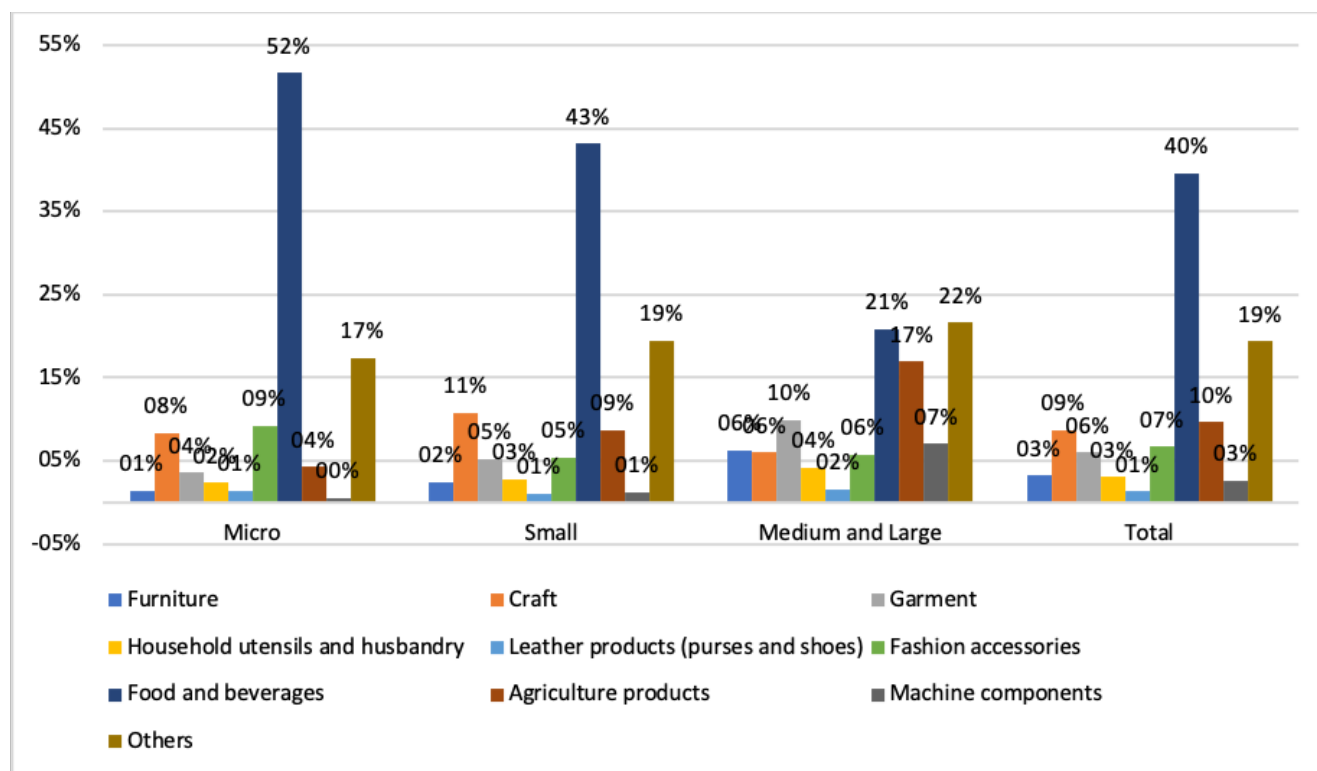


Figure 11. MSMEs Surveyed Based on Type of Business Product

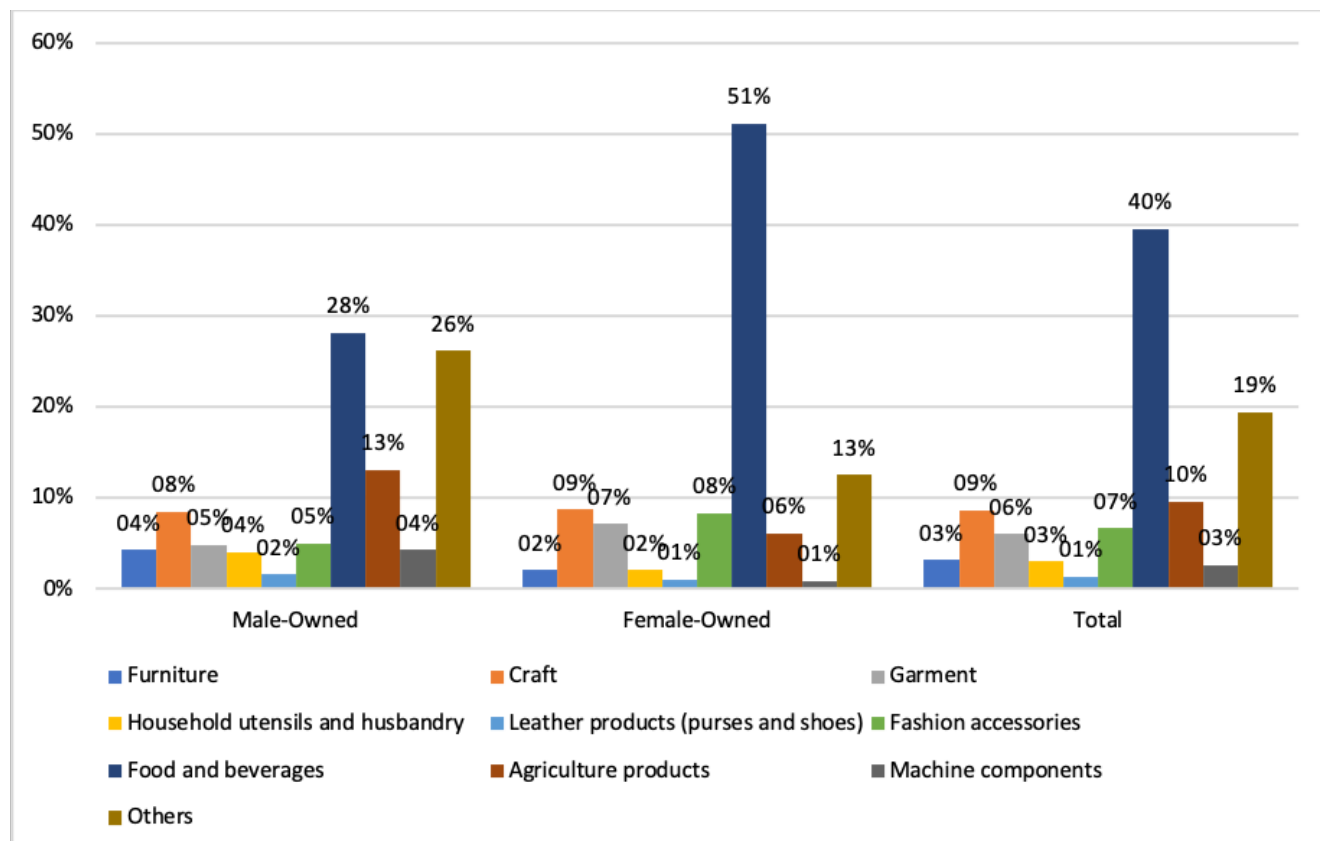


Figure 12. MSMEs Surveyed Based on Type of Business Product and Owner Gender

A faint, light red map of Indonesia is positioned in the background, spanning across the middle of the page. It shows the main islands and surrounding archipelago.

CHAPTER 2

COVID-19 IMPACT ON MSMES IN INDONESIA

Chapter 2

COVID-19 Impact on MSMEs in Indonesia

Key Findings

- More than 45% of MSMEs surveyed noted that they had problems obtaining raw materials.
- Nine out of ten MSMEs faced lower demand for their products during the pandemic.
- Most of the MSMEs found it difficult to distribute their products due to COVID-19.
- Around 44% of the MSMEs surveyed had joined the online marketplace or e-commerce channels (Tokopedia, Shopee, etc.) during the COVID-19 pandemic.
- There were more female MSME owners (32% before pandemic, 47% after pandemic) than male MSME owners (25% before pandemic, 40% after pandemic) in the online marketplace.
- Two-thirds of MSMEs took in less revenue during the pandemic, while more than 80% had lower profit margins during COVID. More than 53% of MSMEs experienced a decrease in asset value.
- In terms of the impacts by gender, more than 37% of female-owned MSMEs faced a decrease in revenue between 40% and 60%.
- One of the alternative strategies adopted by MSMEs to minimize their expenses is reducing consumption of utilities, thus lowering their bills.
- More than 40% of MSMEs had been selling their products through the online marketplace.

In this chapter, we explore numerous aspects of the impact of COVID-19 on the supply and demand side, business management problems (e.g. financial problems), business performances (e.g. revenue, profit margin, assets, and number of workers), and MSME strategies to mitigate the aftermath of the COVID-19 crisis.

Supply shocks. First, to understand supply side problems during the COVID-19 pandemic, MSME owners were asked if they had problems accessing raw material. Around 45% of the MSMEs surveyed noted that they could access raw materials during the pandemic. However, around 47% of MSME owners noted that they found this process difficult. The difficulty is particularly noticeable in micro and small enterprises, as the majority of those enterprises have struggled compared to around a third of medium and large enterprises (Figure 13). In terms of the heterogeneity impact based on the owner's gender, we did not find any significant difference. However, the share of female-owned (50%) businesses that are on record as having problems accessing raw materials is higher than the share of male-owned businesses with similar difficulties (44%) (Figure 14).

Given the difficulty in accessing raw materials, respondents were also asked if they had to pay more for input. Around three-quarters of the MSMEs surveyed noted that they experienced an increase in the price of raw materials during the pandemic. The larger these enterprises got, the more they experienced an increase in costs (81% for medium and large enterprises; 73% for small enterprises, and 72% for micro enterprises) (Figure 15). In terms of the magnitude of change, more than one third of MSMEs experienced higher costs of raw materials—up to 20%. The gender of the owner did not make a difference in this case (Figure 16).

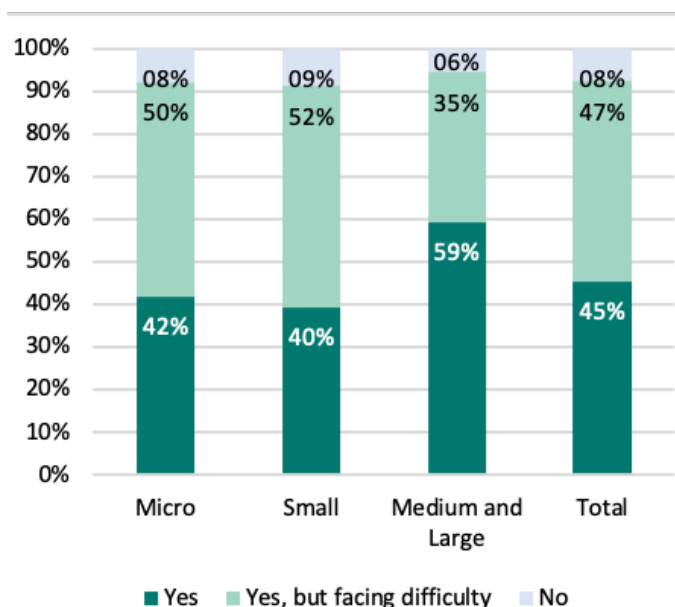


Figure 13. Supply Shocks: Access to Raw Materials

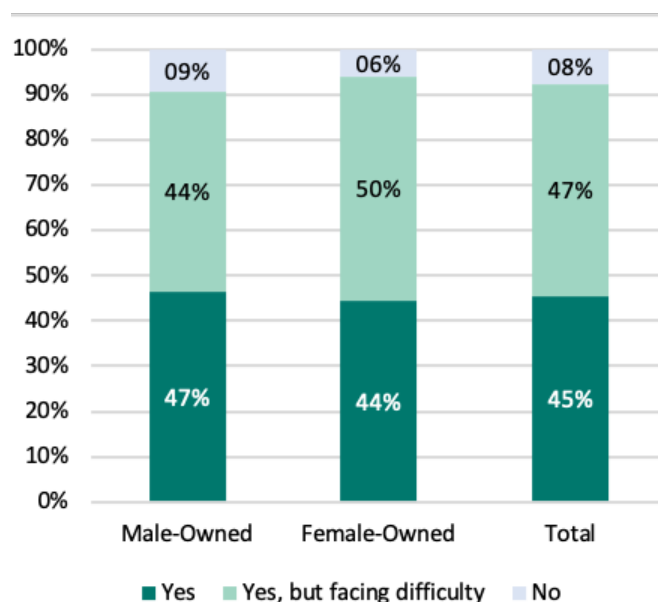


Figure 14. Supply Shocks: Access to Raw Material and Owner Gender

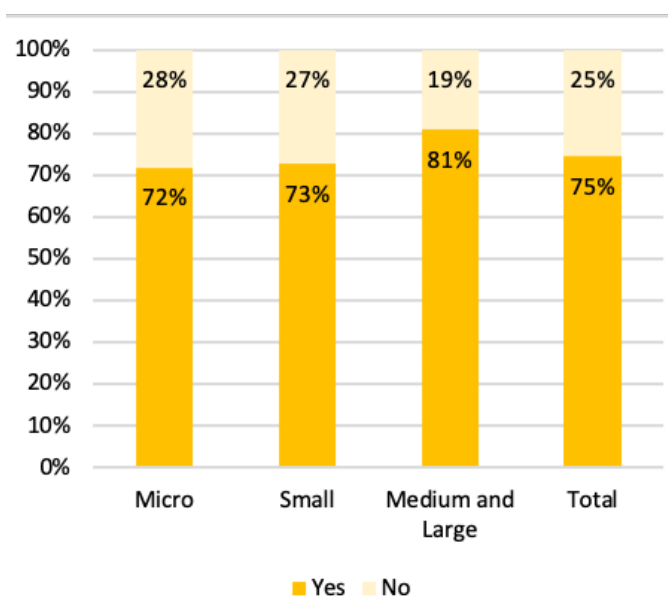


Figure 15. Experiencing an Increase in Price of Raw Material

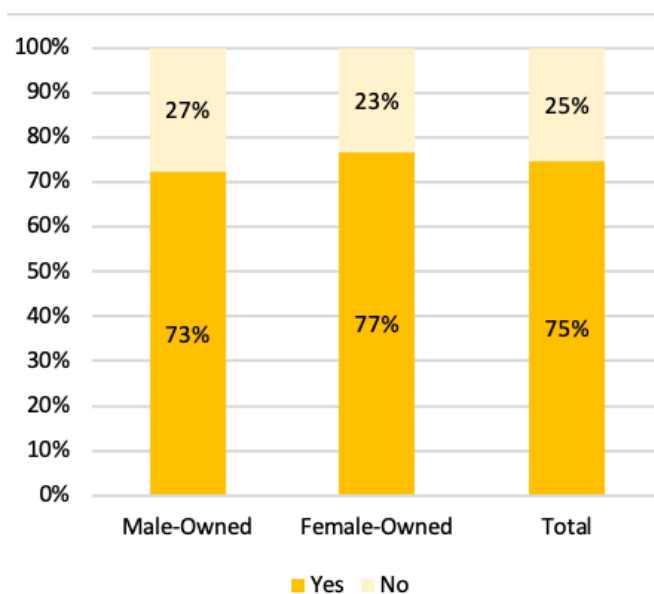


Figure 16. Experiencing an Increase in Price of Raw Material and Owner Gender

At the same time, around 23% of these businesses experienced a 20% to 40% increase in the cost of raw material (Figure 17). The cost increase in materials used by MSMEs was due to logistical issues which arose from the implementation of social restrictions by the government. During the early period of the government's social restrictions, it was almost impossible to have materials sent from other cities. Therefore, many MSMEs could not obtain material from their regular suppliers. As a result, they were forced to switch to other suppliers who could deliver material. This meant that supplies, though geographically closer, cost more. Finally, the impact on MSMEs was relatively similar for both male- and female-owned businesses (Figure 18).

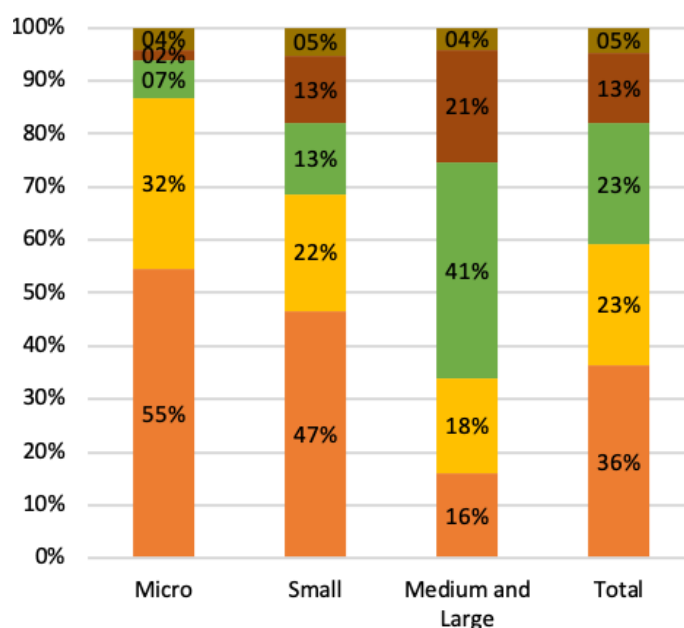


Figure 17. Percentage Increase of Price of Raw Materials

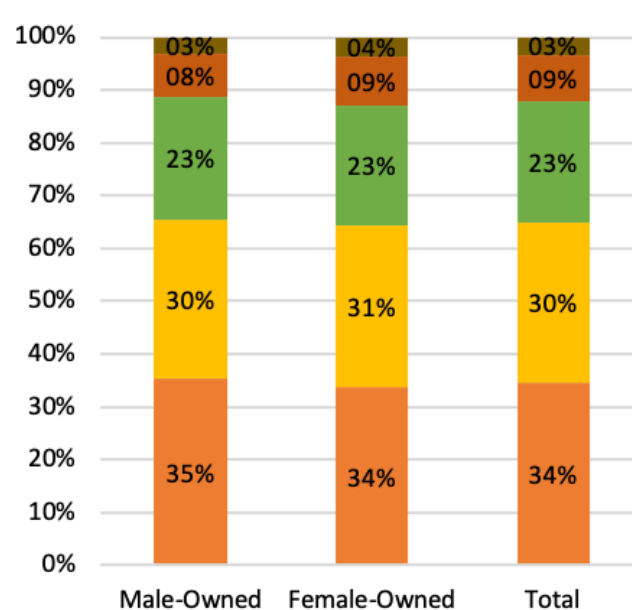


Figure 18. Percentage Increase of Price of Raw Materials and Owner Gender

Demand shocks. Regarding demand side, owners of MSMEs were asked if they experienced difficulties in product pricing during the COVID-19 pandemic. More than 70% of the MSMEs reported experiencing difficulty pricing their products, with 79%, 70%, and 69% of medium, small, and micro enterprises, respectively, answering in the affirmative (Figure 19). In terms of the gender of the owner, more than 70% of the MSMEs for both male- and female-owned businesses answered that they found it difficult to determine the prices for their products (Figure 20).

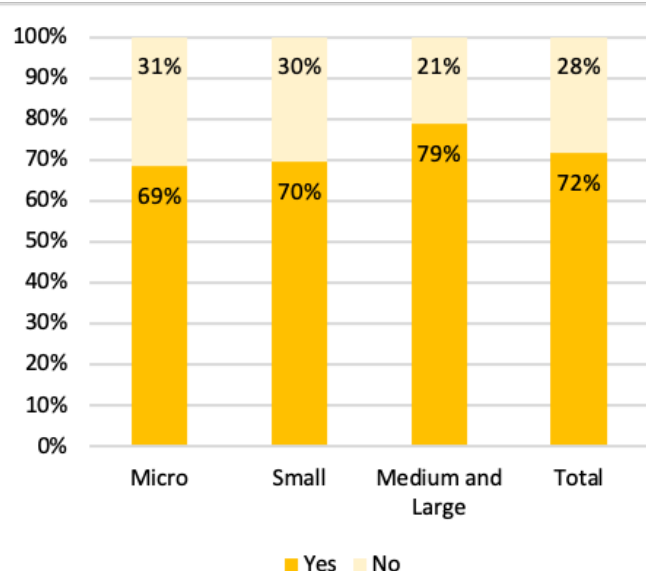


Figure 19. Businesses That Experience Difficulties in Determining Price of Product During Pandemic

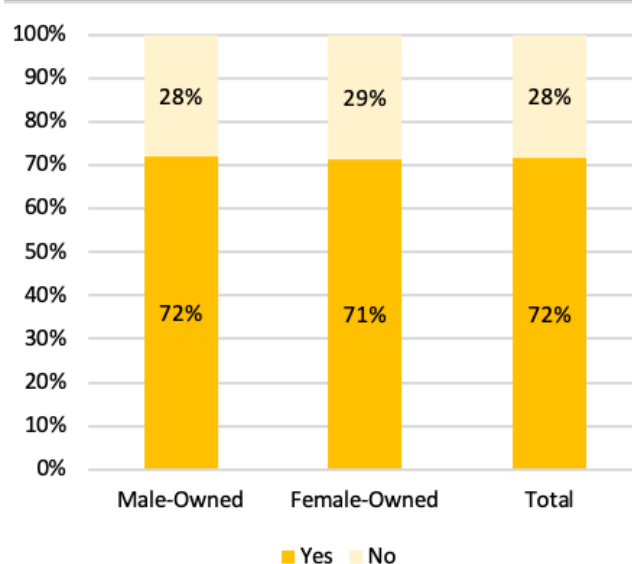


Figure 20. Businesses That Experience Difficulties in Determining Price of Product During Pandemic and Owner Gender

Also, around 88% of the MSMEs experienced a decrease in demand during the pandemic. As for medium-size enterprises, the figure is even larger, standing at 91%. Micro and small enterprises experienced 86% and 87% lower demand, respectively (Figure 21). A similar pattern could be discerned when we look at the heterogeneity impact in terms of the gender of the owner (Figure 22). Related to the percentage decrease in demand for products, a third of all MSMEs reported a 40% to 60% decrease in demand for their products. The 40% to 60% drop is felt by 45% of medium-size enterprises,

while the same drop was experienced by 29.1% and 28.3% of micro and small enterprises, respectively (Figure 23). In terms of gender, more than 30% of MSMEs owned by both males and females experienced a 40% to 60% decrease in demand (Figure 24).

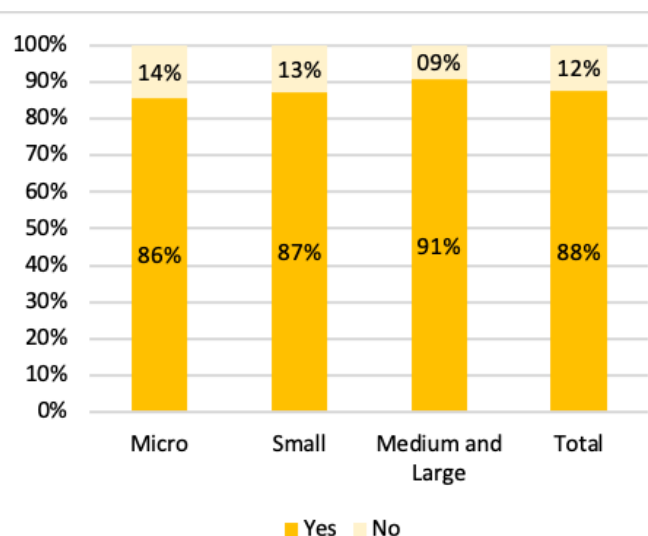


Figure 21. Businesses That Experienced Decreased Demand during Pandemic

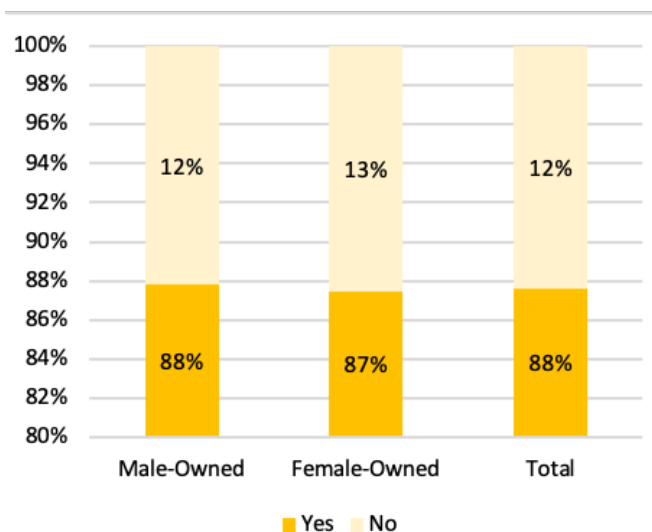


Figure 22. Businesses That Experienced Decreased Demand during Pandemic and Owner Gender

Decreased demand is expected to be caused by two major factors, including PSBB (Pembatasan Sosial Berskala Besar/ large-scale social restriction) by governmental and other precautionary measures in society. PSBB leads to a drastic decrease in economic activity, as people are restricted from traveling across countries and regions, cannot attend school or work in offices, and cannot organize major social activities, etc. Meanwhile, people also tend to reduce their consumption due to economic uncertainty. They are more prone to build up their savings and emergency funds in order to survive the pandemic period. These tendencies resulted in decreased demand for MSME products in general.

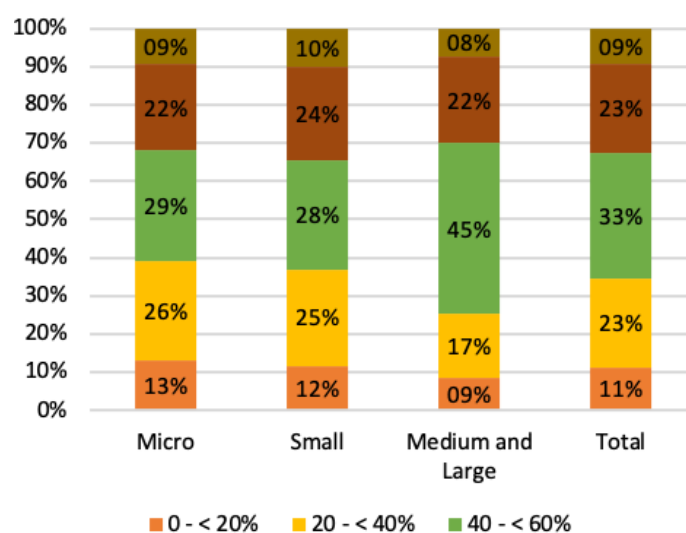


Figure 23. Percentage of Decreased Demand

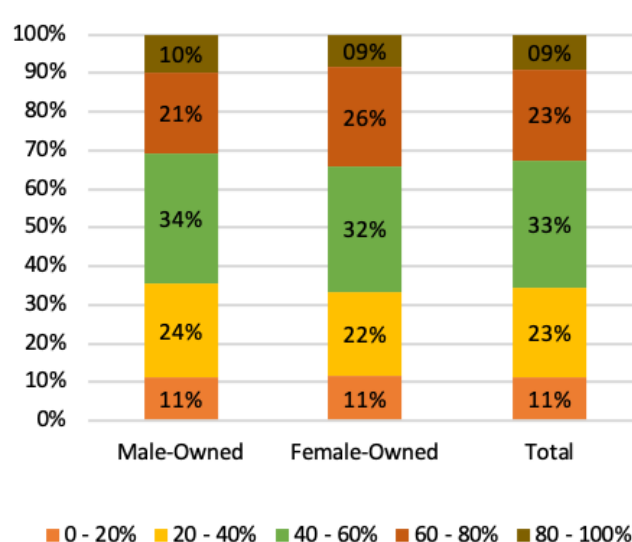


Figure 24. Percentage of Decreased Demand and Owner Gender

Product distribution. Around 81% of the MSMEs surveyed reported that the pandemic affected their product distribution. The percentage is even higher for medium enterprises, with 84.6% of them experiencing a disruption in their product distribution and fewer for small enterprises (Figure 25). In terms of the owner's gender, 82% of male-owned MSMEs claimed they had issues related to the distribution. Similarly, around 80% of female-owned MSMEs found it difficult to distribute their products (Figure 26).

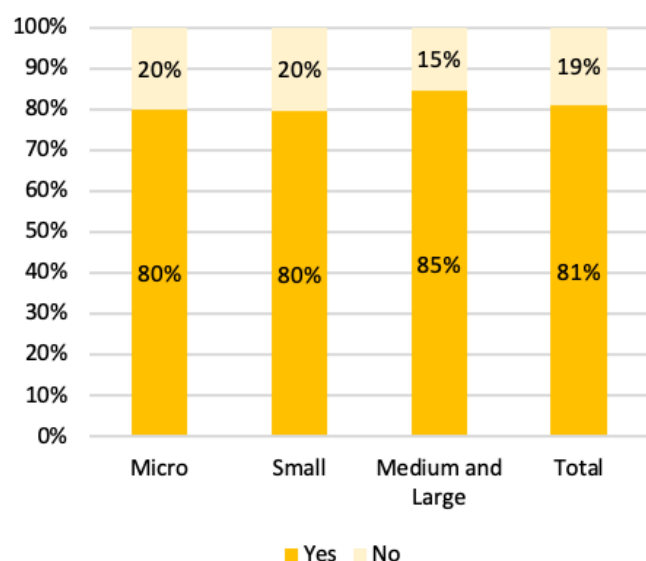


Figure 25. Business That Face Difficulties in Distributing Products During Covid-19

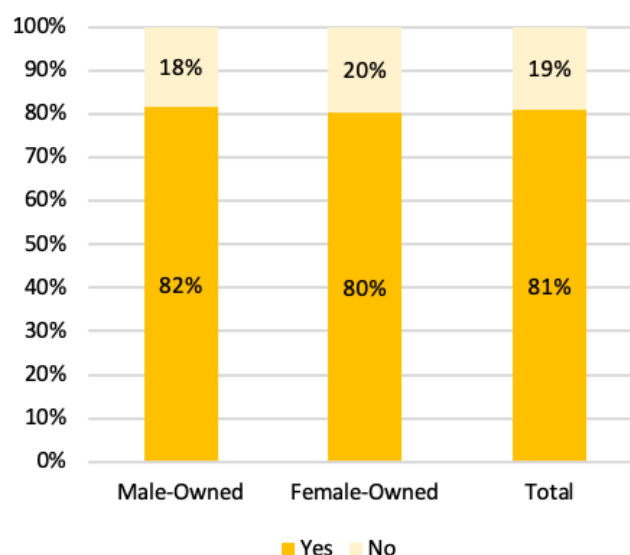


Figure 26. Business That Face Difficulties in Distributing Products During Covid-19 and Owner Gender

BOX 1.

COVID-19 and the Online Marketplace

During the COVID-19 pandemic, there have been many success stories among MSMEs that took their businesses online or engaged in e-commerce channels. Most of the MSMEs surveyed had not joined the online marketplace before the pandemic. Only 28% were part of the online marketplace before the pandemic hit Indonesia. The bigger the enterprise, the less likely it would have been a part of the online marketplace before the pandemic. Only 18% of medium and large MSMEs had already joined the marketplace before the pandemic, followed by 32% for small enterprises, and 31% for micro enterprises.

Since the start of the pandemic, however, the number of enterprises that have joined the online marketplace has gone up to around 16%. Medium and large enterprises experienced the largest increase at 44%. This was expected, since medium and large companies also consist of enterprises that sell their products in large quantities through B2B marketing, thus they had no urgent need for access to the online marketplace before the pandemic. Despite increasing participation, the number of MSMEs that have not joined the online marketplace is still high, especially for micro and small enterprises, where the difference between those who joined the online marketplace prior to the epidemic and those who joined afterward is relatively small (4% increase for micro-enterprises and a 6% increase for small enterprises) (Figure 27).

There are least two reasons for the reluctance of smaller enterprises to join online marketplace platforms during the in-depth interview and FGD. Firstly, the technological barriers experienced by the entrepreneur. This was mainly an issue for older entrepreneurs, although there were also a few younger entrepreneurs who had this problem. Secondly,

the entrepreneur's perception that the benefits of online marketing will not be worth the trouble, since there are already many sellers with better reputation who sell similar products, or they are wary of high delivery fees that could prevent a potential buyer from purchasing their product.

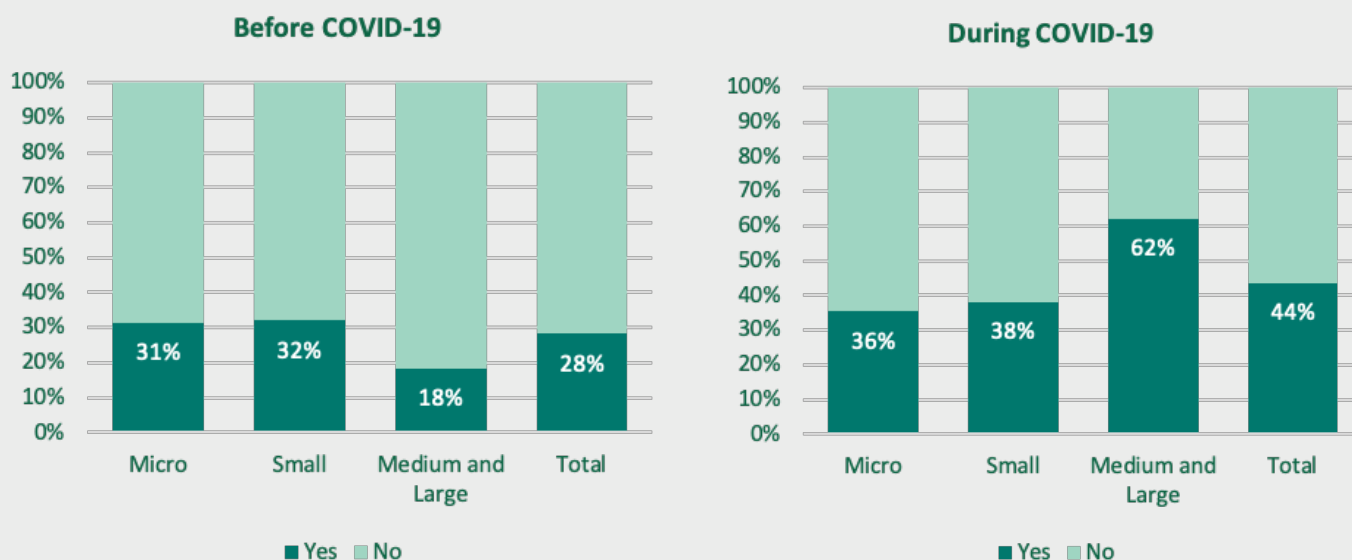


Figure 27. Joining Online Marketing or E-Commerce (Tokopedia, Shopee, etc.)

Meanwhile, based on gender disaggregation, female-owned MSMEs are more likely to have joined online marketplace platforms both before and after the pandemic. However, the increase in MSMEs that joined online marketplace platforms either before or after the pandemic is identical when owner gender is factored in (15% increase) (Figure 28).

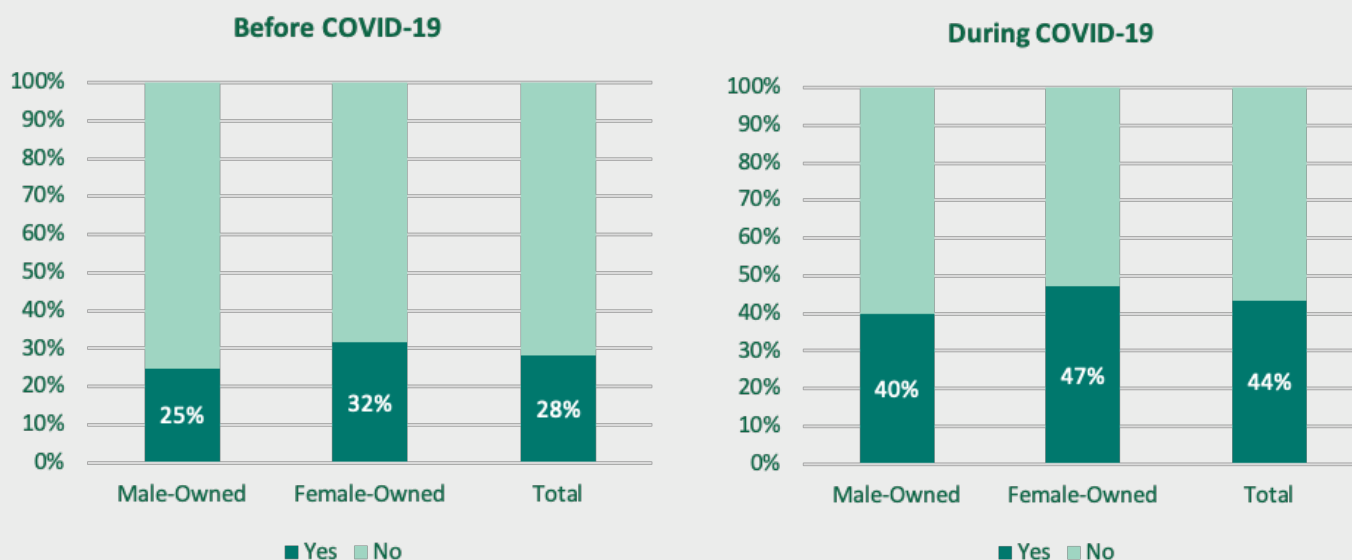


Figure 28. Join Online Shop or E-Commerce (Tokopedia, Shopee, etc.) and Owner Gender

Business management problems. In general, the three most challenging problems the MSMEs have faced so far are fixed costs (e.g. rental costs), invoice payments, and loan repayments. Medium and micro enterprises have found fixed costs to be the most challenging problem, while invoice payment has become the biggest issue for small enterprises. However, challenges for medium enterprises are more evenly distributed.

Other problems faced by MSMEs so far are those associated with raw materials, employees' wages, utility charges, shipping charges, household needs for micro enterprises, tax for small enterprises, increasing raw material costs, refunds, and instalment payments for medium enterprises (Figure 29). We did not find any difference between either female or male

owners in this area (Figure 30).

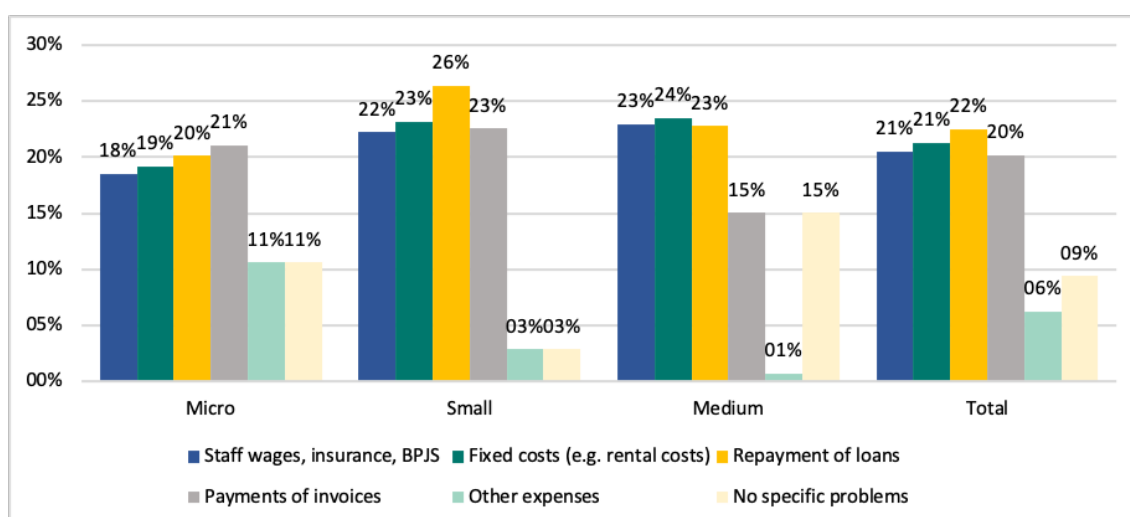


Figure 29. Most Important Financial Problems Businesses Face because of COVID-19

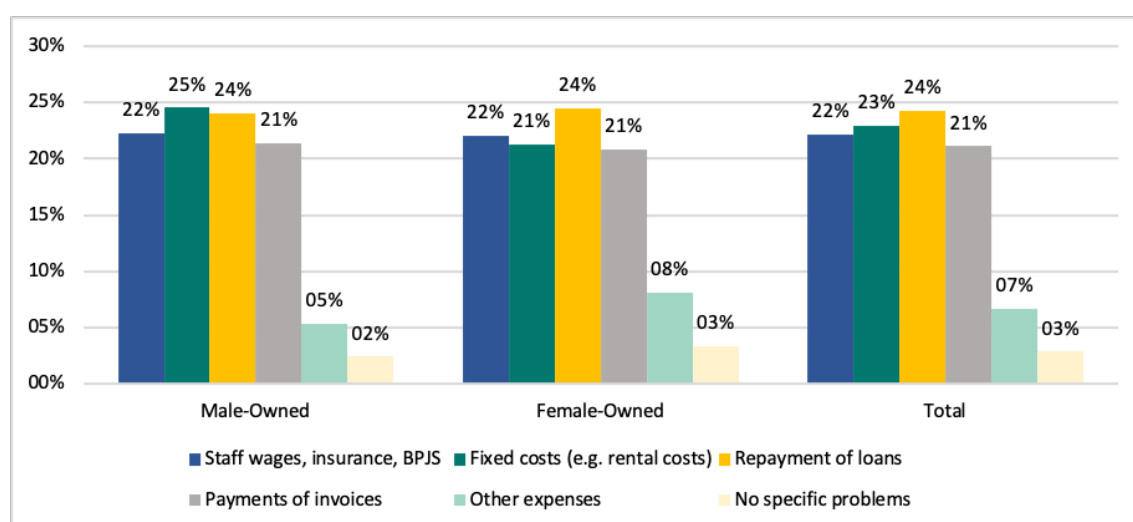


Figure 30. Most Important Financial Problem Businesses Face because of COVID-19 and Owner Gender

Business revenue. Most MSMEs indicated that their total revenue in 2020 dropped as a result of the pandemic. Only a handful of MSMEs believed they would not be impacted by the pandemic, or they believed they could experience an increase in revenue. Some MSMEs have not been able to predict their revenue, as they have focused on monitoring the spread of the pandemic. Around 77% of MSMEs expect they will have lower revenue in 2020. Based on firm size, 74% of micro enterprises indicated they will have a dip in revenue; further, the figures were 74% for small enterprises, and 88% for medium and large enterprises (Figure 31). Nonetheless, we found that MSMEs owned by females suffered more drops in revenue (80%) compared to male-owned MSMEs (73%) (Figure 32).

When it comes to changes in revenue, almost 34.6% of the MSMEs expected a 40% to 60% decrease in their revenue in 2020, followed by 28.5% saying they expected revenues to drop by 20% to 40% in 2020. In terms of firm size, 16% of micro enterprises expect they will have a drop in revenue by 0% to 20%, followed by 28% who expected to have a 20% to 40% decrease in revenue; while 32% of those micro enterprises expect a 40% to 60% slump in their revenue. For small enterprises, 9% expect a 0% to 20% drop in revenue, 31% predict a 20% to 40% slump in revenue, and 28% predict a 40% to 60% decline. Finally, more than 40% of medium and large enterprises expect a 40% to 60% decrease in revenue. Around 25% expect a slump in revenue by 20% to 40% (Figure 33). If we look at the ownership, more than 37% of female-owned MSMEs faced a decrease in revenue between 40% and 60%. Moreover, the number for male-owned businesses is around 32%. More than a third of male-owned MSMEs indicated that they have a 20% to 40% decrease in revenue (Figure 34).

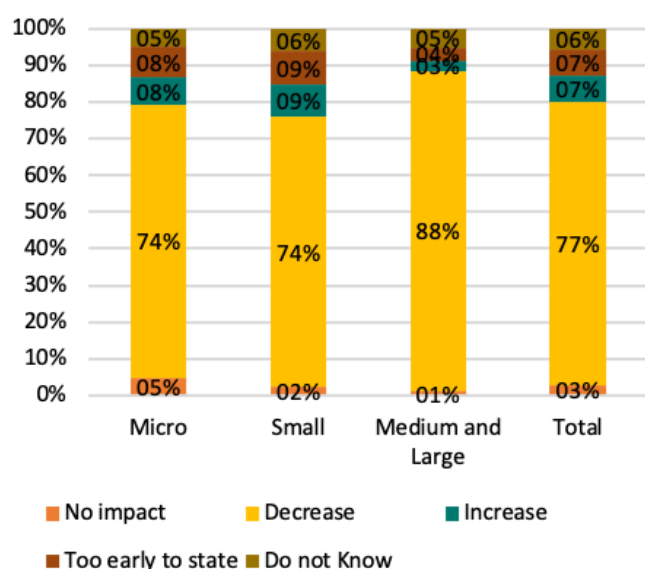


Figure 31. Impact of COVID-19 on Business Revenue

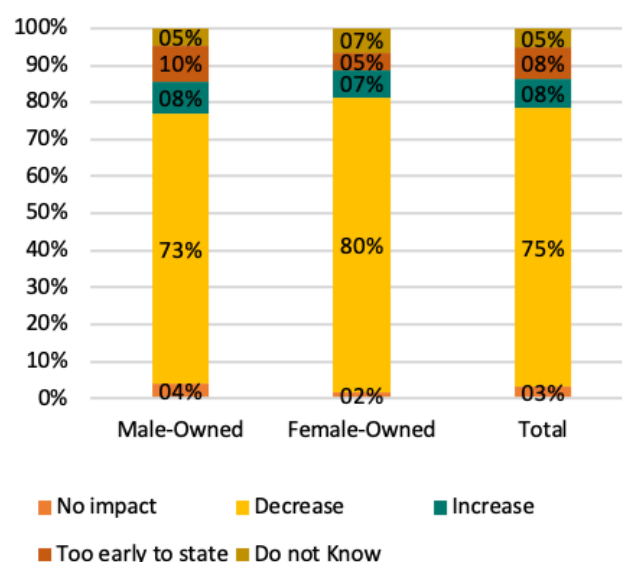


Figure 32. Impact of COVID-19 on Business Revenue and Owner Gender

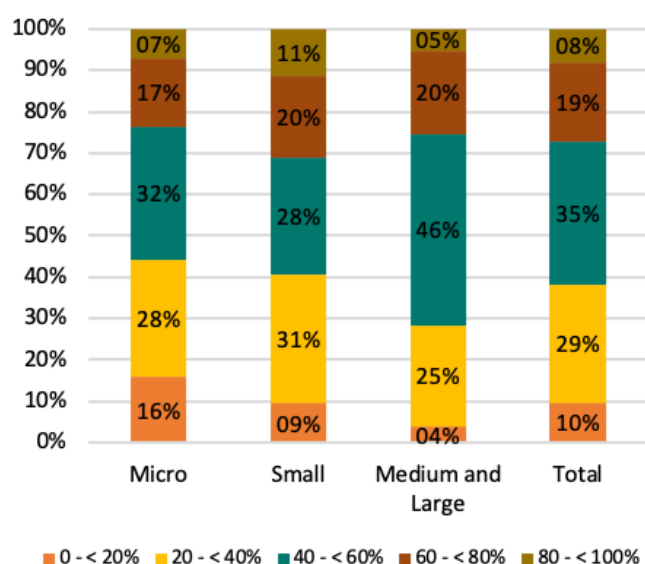


Figure 33. Percentage Decrease in Revenue

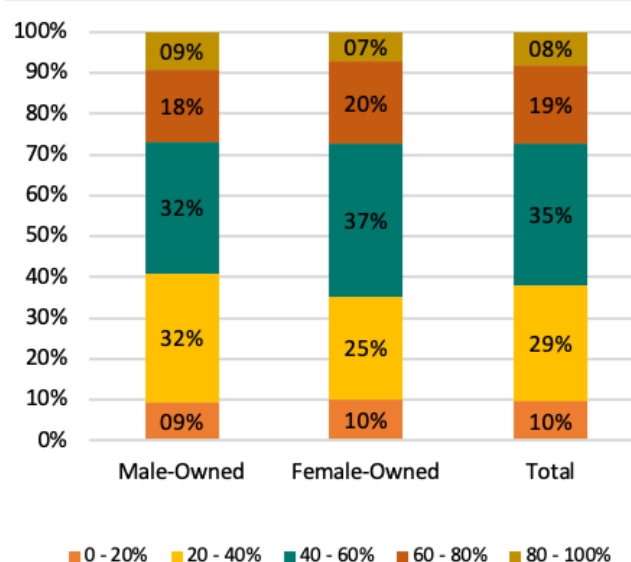


Figure 34. Percentage Decrease in Revenue and Owner Gender

Profit margin. More than 88% of the MSMEs experienced changes in their profit margin during the pandemic, while 3% experienced an increased profit margin, and 8.7% experienced no changes at all. The share of medium enterprises indicating their profit margin decreased reached 92%. For small enterprises, around 88% said they expect a lower profit margin, while 86% of micro enterprise predicted lower profits (Figure 35). In terms of gender-specific issues, we did not find any differences between male- and female-owned MSMEs (Figure 36).

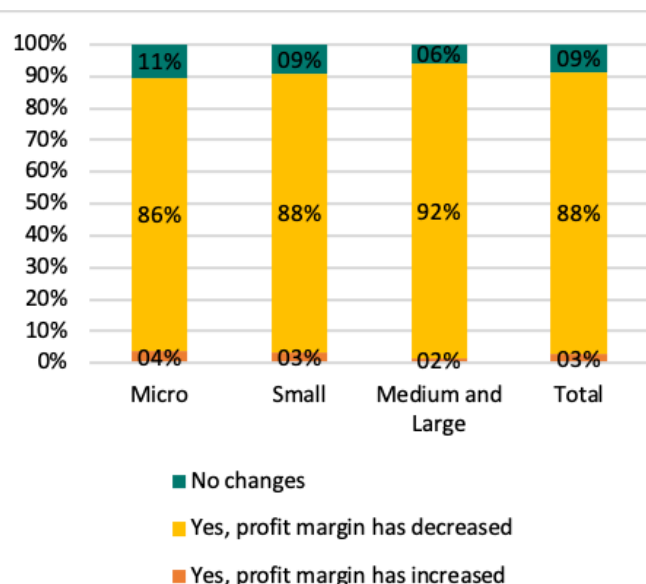


Figure 35. Experienced Change in Profit Margin

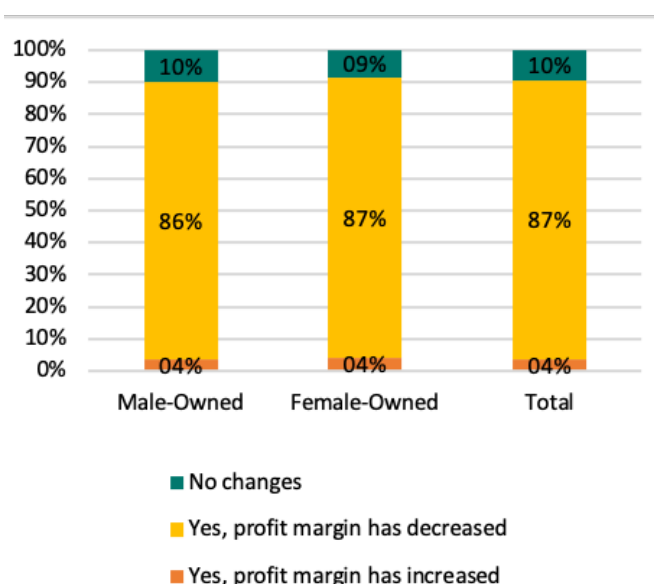


Figure 36. Experienced Change in Profit Margin and Owner Gender

In terms of the magnitude of change in profit margin, 30% of MSMEs reported that they experienced a 40% to 60% decrease in their profit margin in 2020, followed by 28% reporting that their profit margin slumped by 20% to 40%. The majority of the medium enterprises experienced a drop of 40% to 80%, while most small and micro enterprises saw their profit margin slump by 20% to 60% (Figure 37). Similarly, when the gender dimension is factored in, more than 30% of male-owned MSMEs reported that they expect a 20% to 40% decrease in profit margin. On the other hand, around 29% of female-owned MSMEs indicated that they expect 40% to 60% decrease in profits (Figure 38).

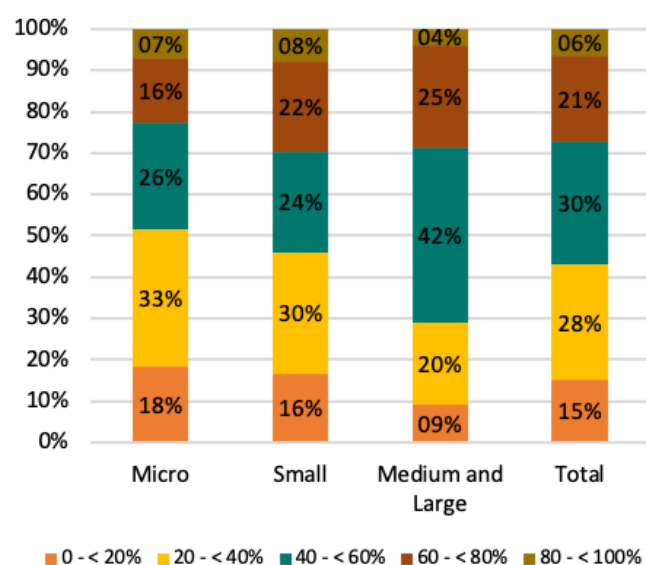


Figure 37. Percentage Change in Decrease in Profit Margin

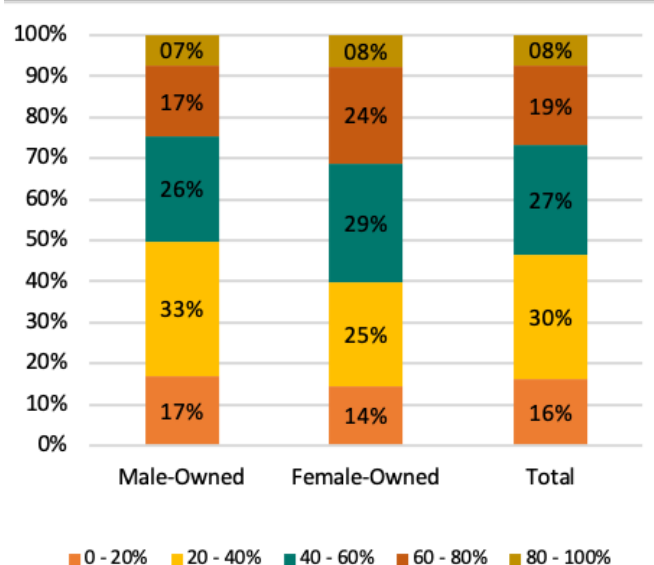


Figure 38. Percentage Change in Decrease in Profit Margin and Owner Gender

Asset value. The majority of MSMEs experienced decreasing asset value, while only 3% of managed to increase their asset value. This composition holds for small and medium enterprises. However, more than half of micro enterprises say that there were no changes in their asset value (Figure 39). We did not find any difference related to the gender dimension. Around 47% of male-owned and 43% of female-owned enterprises indicated that they will have a decrease in asset value due to the pandemic (Figure 40).

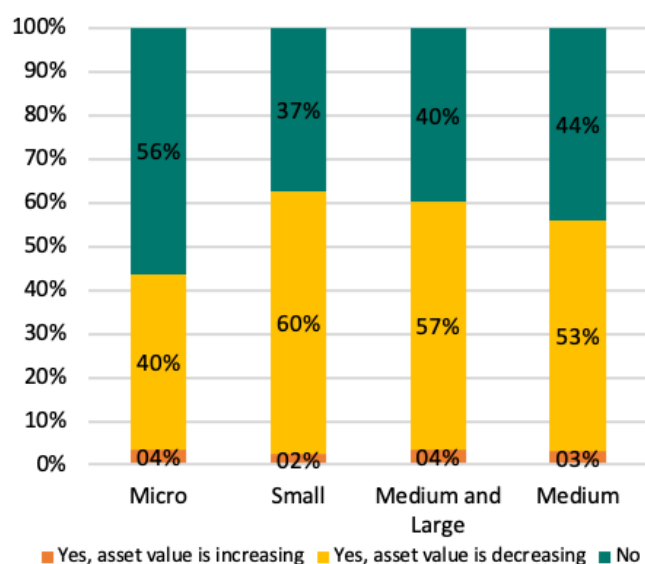


Figure 39. Change in Asset Value

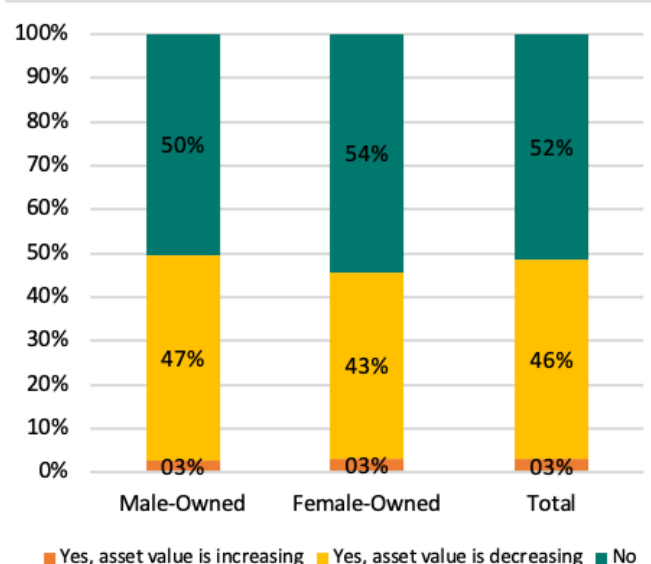


Figure 40. Change in Asset Value and Owner Gender

In terms of the percentage change in decrease of assets, more than a third of the MSMEs that experienced a drop in their asset value reported that their asset value decreased by 20% to 40%, followed by nearly 30% saying that their asset value decreased by 40% to 60%. Each MSME category showed a similar pattern, with most experiencing a 20% to 60% decrease in their asset value (Figure 41). When factoring in the gender dimension, more than 36% of male-owned MSMEs indicated they will have a 20% to 40% decrease in asset value. While around 33% of female-owned MSMEs predict a steeper decrease in the value of their assets (Figure 42).

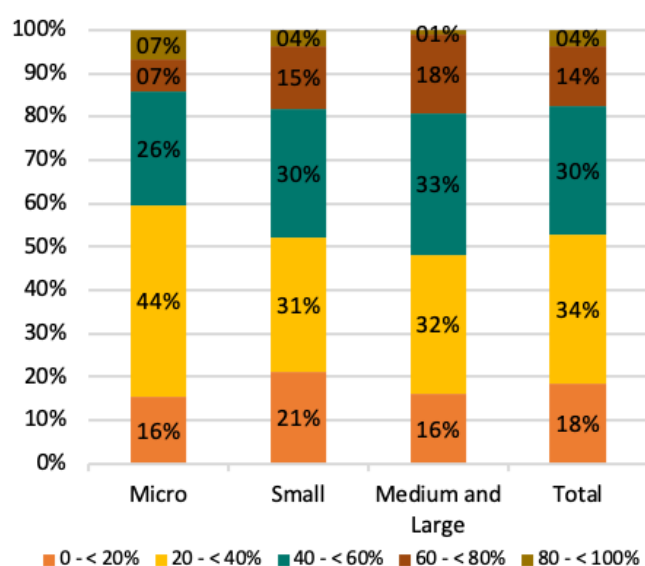


Figure 41. Percentage Change in Decrease of Asset Value

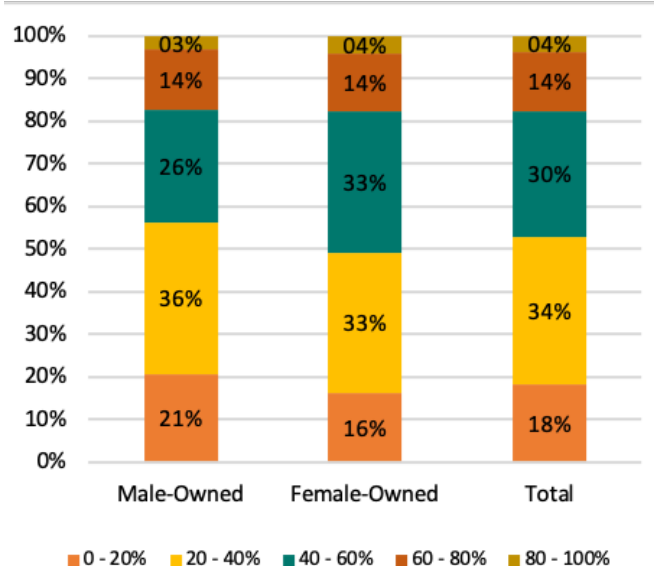


Figure 42. Percentage Change in Decrease of Asset Value and Owner Gender

Number of workers. The majority of MSMEs surveyed (or more than 56%) reported that there have been changes in the number of staff. This holds true for small and medium enterprises. Around 67% of the micro enterprises have not seen any changes in employee numbers (Figure 43). There were no significant differences when the gender dimension is figured in. More than 50% of both male- and female-owned MSMEs reported that they have fewer workers during the pandemic (Figure 44).

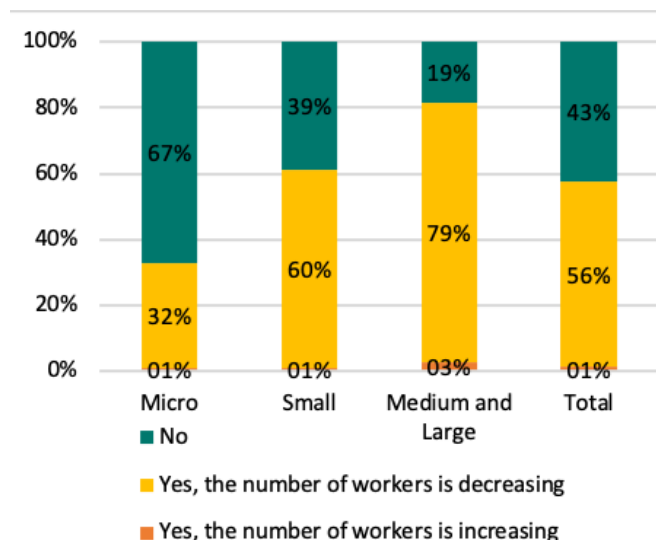


Figure 43. Change in Number of Workers

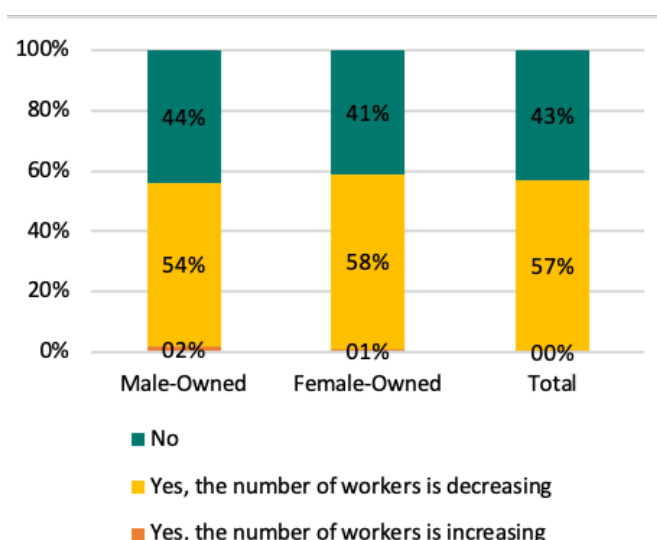


Figure 44. Change in Number of Workers and the Owner Gender

In general, the MSMEs surveyed have seen employment decrease by 20% to 60%. Most of the medium and small enterprises have seen numbers of employees drop by 40% to 80%, while micro enterprises experienced a 0% to 40% drop in their workforce (Figure 45). More than 30% of female-owned MSMEs said they have experienced a 40% to 60% decrease in the workforce. Around one third MSMEs noted that they had to reduce their workforce by 20% to 40%.

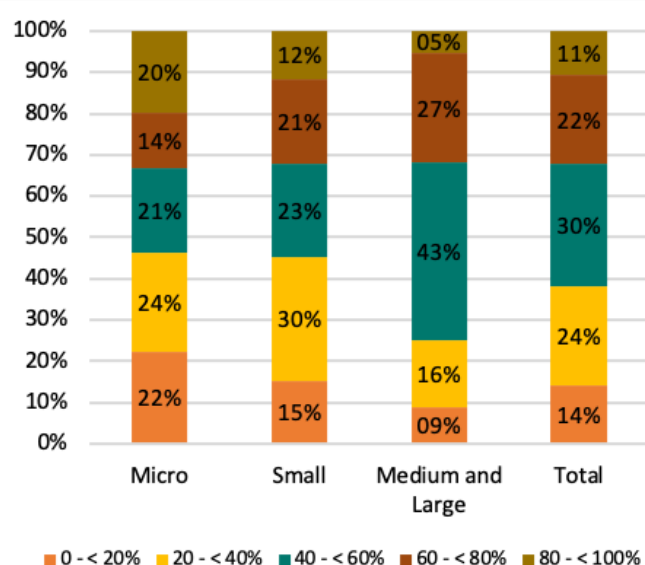


Figure 45. Percentage Change in Decrease of Number of Workers

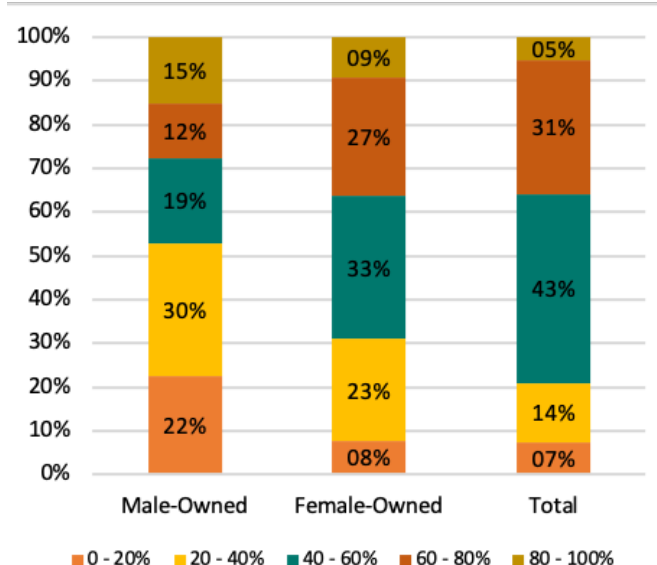


Figure 46. Percentage Change in Decrease of Number of Workers and Owner Gender

COVID-19 and its Impact on Female Workers. In general, around 60% of MSMEs surveyed said that all their female employees were still able to be physically present in the workplace. Nonetheless, almost 40% of MSMEs surveyed answered that between 1 and 9 of their female workers could not be physically present at work. Around 13% of micro-enterprises said that between 1 and 9 employees could not come to work in person. For small enterprises, the number is quite high. More than 40% of MSMEs answered that between 1 and 9 workers cannot be present physically at work. Finally, almost 60% of the medium enterprises said that between 1 and 9 female employees cannot be physically present. Moreover, specifically for medium and large enterprises, around 12% answered that 10 to 19 of their female employees could not come to work, and 3% reported that more than 20 employees could not be present at work (Figure 47). More

than 31% of male-owned MSMEs said that between 1 and 9 female workers could not be present in the workplace. For female-owned MSMEs, the numbers are relatively lower. Only 12% answered that between 1 and 9 of their female employees could not be physically present in the workplace (Figure 48).

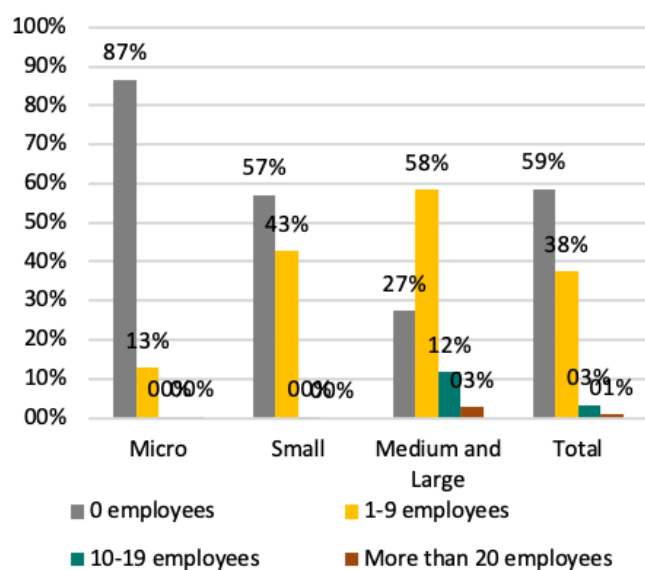


Figure 47. Percentage of Female Workers Unable to Be Physically Present at Work and Cannot Adequately Work from Home at Present

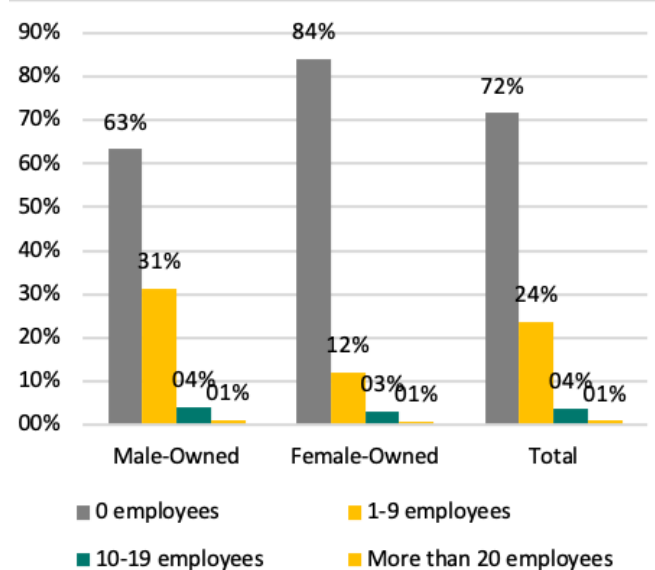


Figure 48. Percentage of Female Workers Unable to Be Physically Present at Work and Cannot Adequately Work from Home at Present and the Owner Gender

Short-Term Strategy

Cost reduction. According to our respondents, three cost reduction actions that have been taken by MSMEs regarding production are as follows: modifying their products (25%), temporarily closing their business (22%), and changing their production techniques and/or raw material composition (19%). Other actions MSMEs have taken include conducting new research related to production, rotating staff jobs, and maximizing current production capacity (Figure 49). A similar pattern of preference toward cost reduction strategy could be seen between male-owned and female-owned MSMEs. The only pattern that significantly deviates is that temporarily closing the business was the most common strategy for male entrepreneurs, while female entrepreneurs preferred to modify their product to reduce cost (Figure 50).

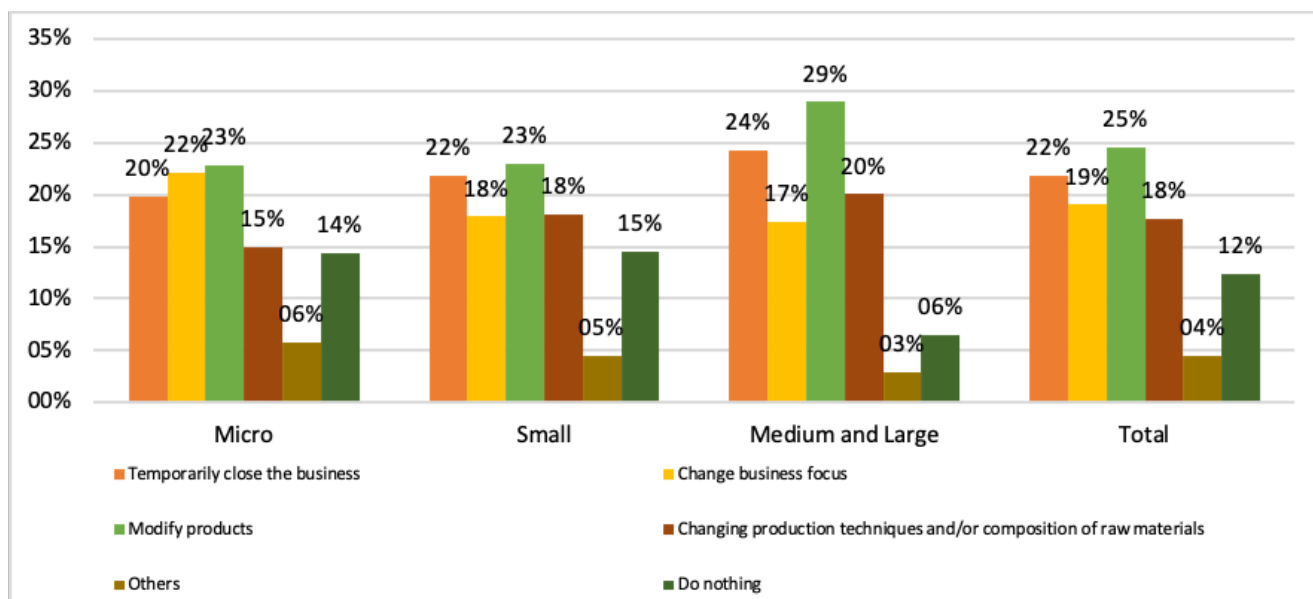


Figure 49. Cost Reduction: Production Side

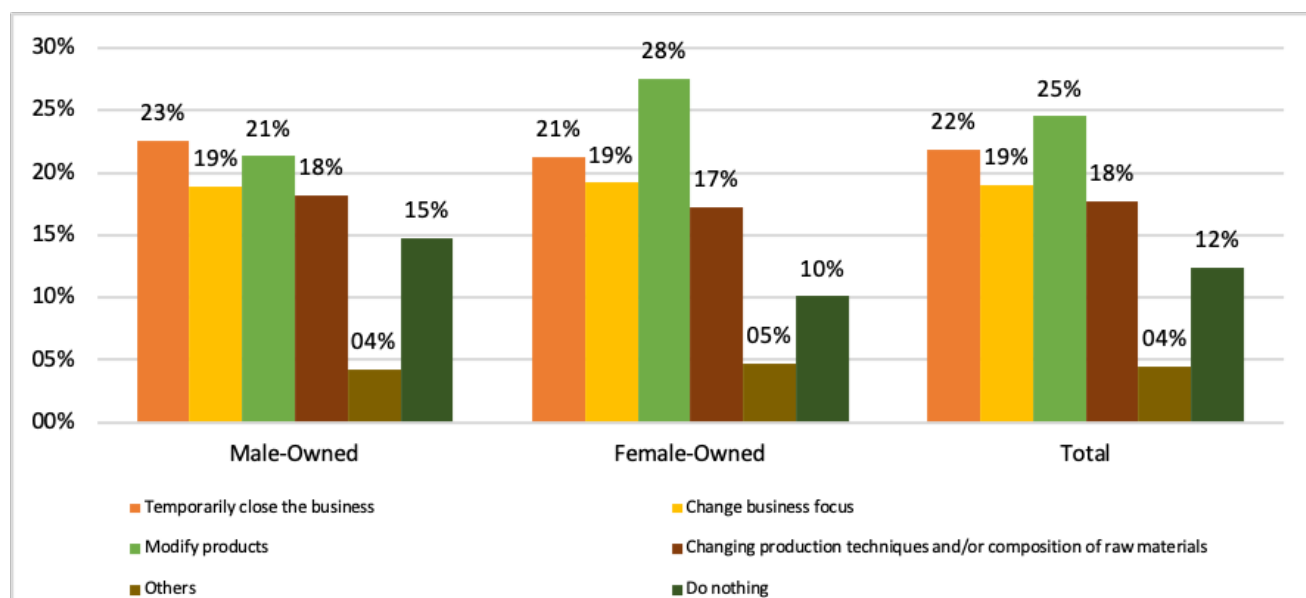


Figure 50. Cost Reduction: Production Side and Owner Gender

Employment. In terms of employment, actions MSMEs have taken are as follows: reducing workers' salaries (30%), doing nothing (22%), lowering bonus or religious holiday allowance/ (20%), and paying workers' salaries in instalments (15%). However, there are differences in the actions of each category. The most common action taken by micro enterprises has been doing nothing (39%), followed by reducing worker salaries (17%) and reducing bonuses (17%).

For small enterprises, the most common action has been reducing workers' salaries (28%), doing nothing (21%), and reducing bonuses (20%). Meanwhile, the most common action taken by medium enterprises has been reducing worker salaries (45%), followed by reducing bonuses (22%), and paying salaries in instalments (15%). Some MSMEs have also postponed salary increases (7%) (Figure 51). When disaggregating by gender of the owner, there was no distinct pattern found. Both male and female owners preferred to reduce worker salaries to cut costs (Figure 52).

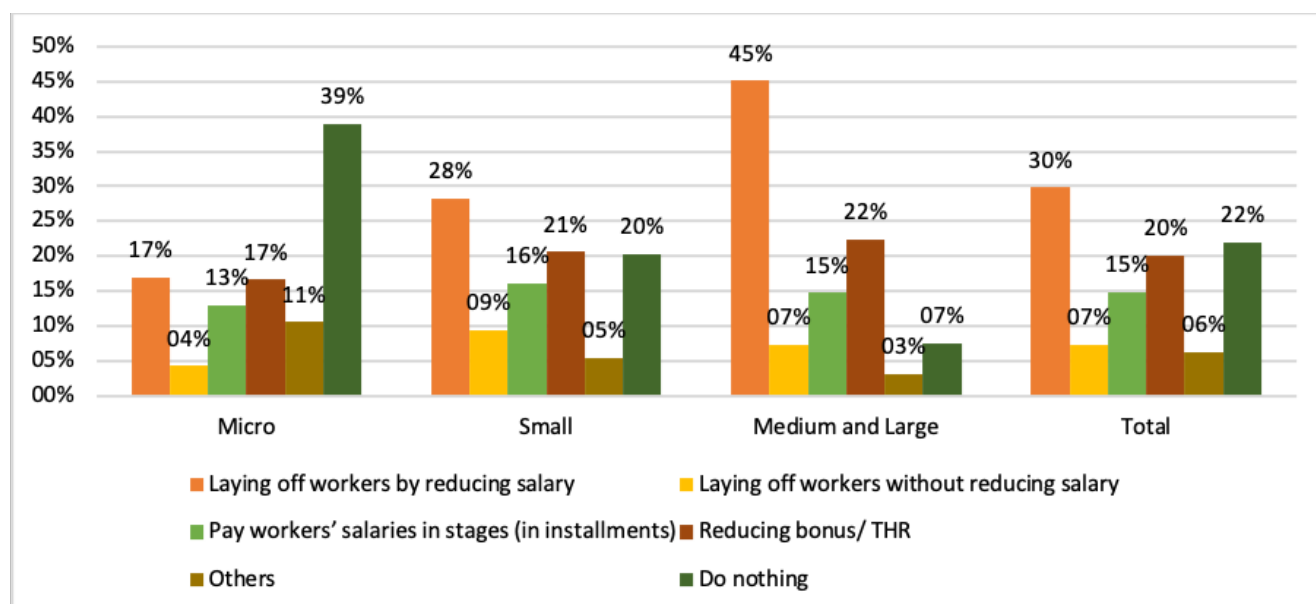


Figure 51. Cost Reduction: Employment Side

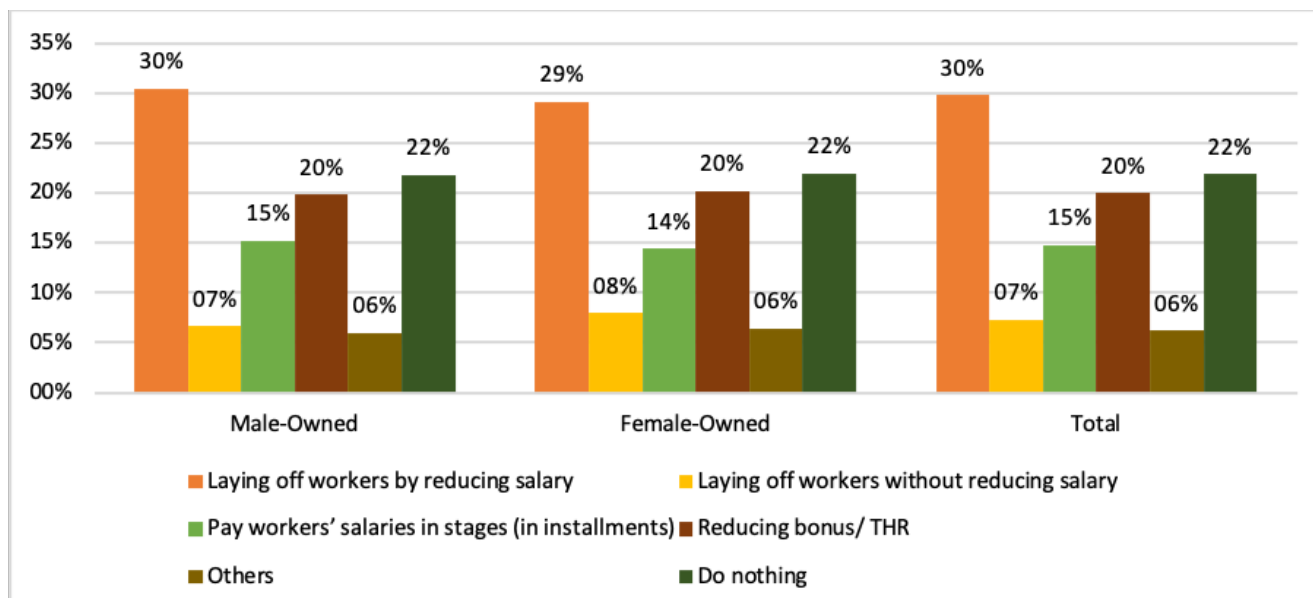


Figure 52. Cost Reduction: Employment Side and Owner Gender

Finance. In general, the most common action taken by MSMEs to reduce costs has been reducing utility costs, such as electricity, water, gas, and communication (42%), followed by reduction in transportation costs (31%) and reducing rental costs (11%). Other actions taken by MSMEs have been laying off employees, postponing any outgoing payments, reducing operational hours, and asking for debt restructuring.

For micro enterprises, the most common action regarding financing is reducing utility bills (39%) and reductions in the cost of transportation (31%). Similarly, around 39% of small enterprises choose to reduce utility expenses, and around 32% of them cut transportation costs. A similar pattern could be found for medium and large enterprises, where almost 50% reduce expenses related to electricity, water, gas, and communication. While almost a third of them cut transportation costs (Figure 53). This pattern also applies both for male- and female- owned MSME with no distinct pattern found among the two groups (Figure 54).

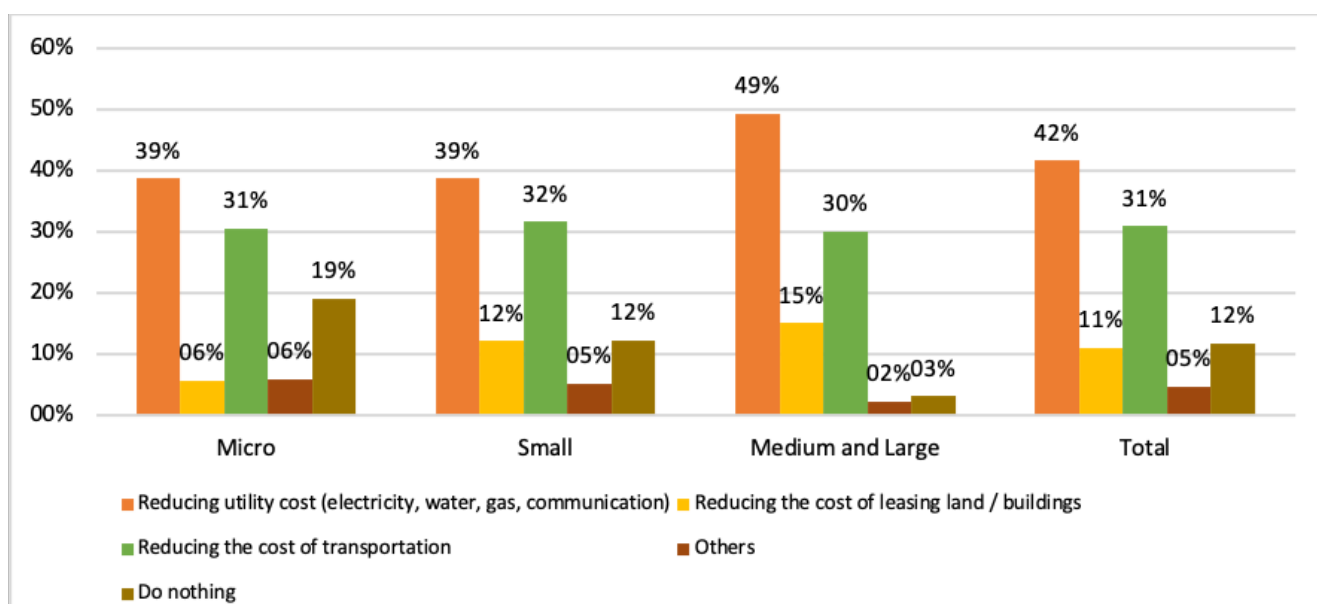


Figure 53. Cost Reduction: Finance Side

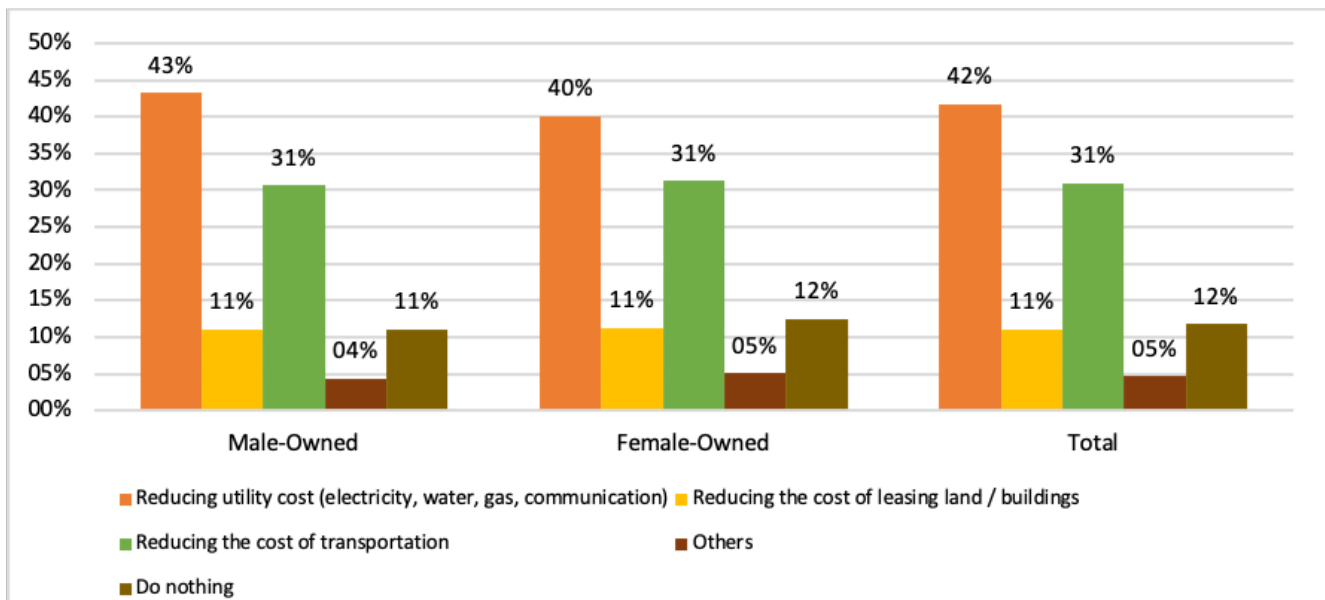


Figure 54. Cost Reduction: Finance Side and the Gender of the Owner

Marketing. The most common action taken by MSMEs has been selling their products through other methods, particularly through the online marketplace (38%), followed by providing discounts or gifts for their customers (27%), and making a specific product package (Eid edition, etc.) (22%). There is a similar pattern if we look at the firm-size classification. Around 39% of micro-enterprises were selling their products online. While for small and medium, the number of enterprises that used an online platform to sell their products is around 39% and 49%, respectively (Figure 55). Similarly, with most other short-term strategies, in terms of marketing, there are also identical patterns between male and female owners of MSMEs (Figure 56).

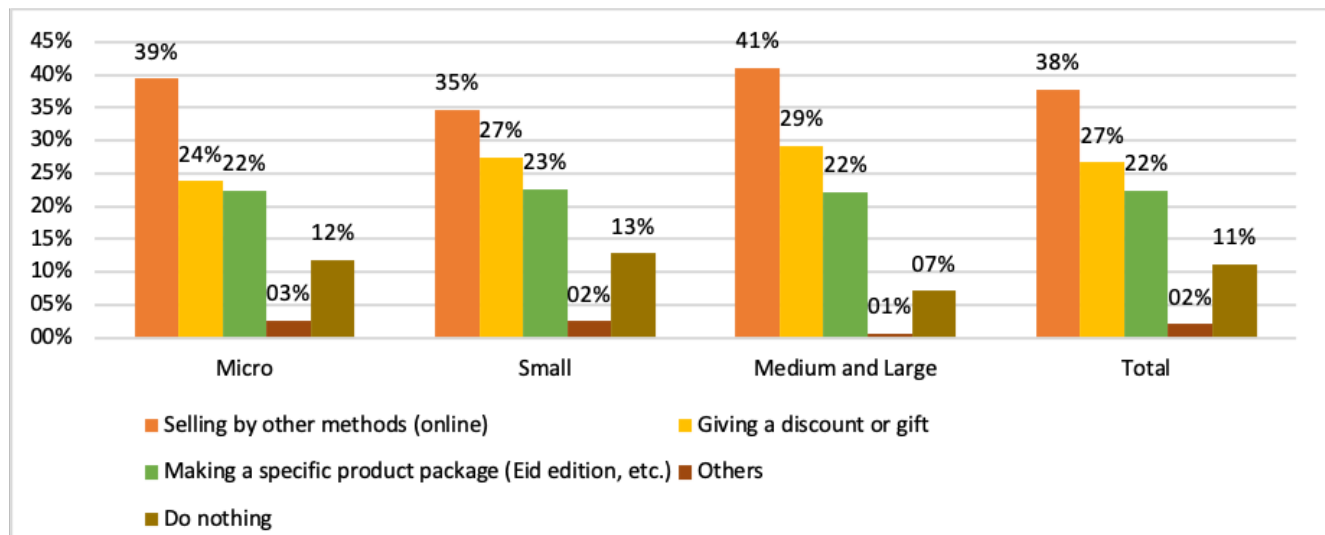


Figure 55. Cost Reduction: Marketing Side

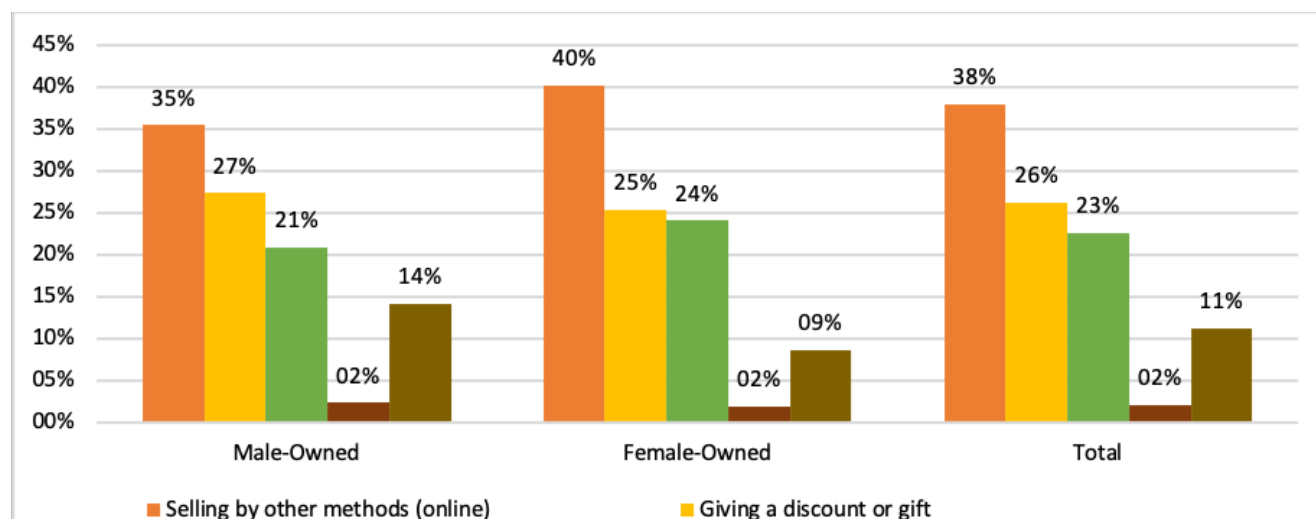


Figure 56. Cost Reduction: Marketing Side and Owner Gender

BOX 2.

Social and Community Approach to Waste Management: A Success Story

Sampahkoe is a community-turned-social enterprise initiated in 2006 by Khilda Baiti Rohmah, inspired by three decisive events. Rohmah had encountered a garbage picker who had been forced to sell his wife when he lost a IDR2 million bet to a loan shark. Driven by her empathy for the man's wife and her own personal experience of being sexually harassed, she thought of the ways she could help this woman. At that time, she was working five jobs to make ends meet. However, her efforts were not enough to pay the debt. As a result, she sought help from her neighbors, but no one helped because they did not believe she could pay them back. After having saved IDR 1.2 million from her salary, she approached the loan shark to pay off the debt and free the picker's wife. Still, it was not enough, and the picker's wife ended up in a brothel. Subsequently, she stumbled upon abandoned twins who lived in a dumping ground because their parents could not afford to support them financially. Then she had an encounter with an old garbage collector, a father of eight who was not able to send his kids to school due to his monthly earnings of only 350 thousand rupiah. Such encounters led Rohmah to think of ways to help them achieve a better life through something they lived very closely with: trash. Subsequently, she decided to study environmental engineering to help her achieve her career goals in waste management.

Today, Sampahkoe employs nine full-time workers and 20 freelancers, offering its services in several areas of specialization, including the development of environment-related applications, environmental service (waste processing, waste studies, and environmental studies), composting, portable biogas, and waste processing products. The company currently processes the waste in Sukabumi, West Kalimantan, Jambi, and South Sumatra. Moreover, Sampahkoe currently exports its products to 12 countries, including India, South Korea, and Australia.

Aside from the environmental sector, Sampahkoe is also moving into the IT sector, producing apps like Si Abah, a waste-bank app, and Si Mantan, a clean water app. It is also helping local governments' programs all over the country regarding waste management, the latest being the collaboration between Sampahkoe and the local government of Sukabumi.

In running its business, Sampahkoe has five core values that serve as its pillars: action, research, education, empowerment, and entrepreneurship. These values provide a direction for Sampahkoe in reducing waste, managing waste more efficiently, upcycling, community empowerment, and promoting a sense of entrepreneurship.



Figure - Box 2. Activities of Sampahkoe

Source: Documentation of CNN Indonesia (<https://www.youtube.com/watch?v=SgqR-wKSaYM&t=264s>)

How COVID-19 has affected business

Since the start of the COVID-19 pandemic, Sampahkoe implemented health protocols in its workplaces, such as mandatory use of masks, handwashing, and the use of hand sanitizer for its workers. The pandemic has also created an opportunity for Sampahkoe to raise public awareness of the importance of good hygiene, in line with Sampahkoe's mission. Additionally, Sampahkoe has not had to lay off any workers, as the project had been ongoing for a long time, but freelancers are now paid on a project basis.

As for revenue, Rohmah admitted that it has dropped slightly. Currently, the company takes in IDR 250 million from their projects, around IDR 50 million short of their usual revenue. However, the last four months of 2019 saw them making IDR 500 million each month. The significant increase in the last four months of 2019 has helped Sampahkoe to continue its business. Rohmah stated that composter sales are still high, while crafting sales have slumped. Logistics for their products have also been affected, as materials for their portable biogas product need to be imported from Germany.

Although the COVID-19 pandemic has been tough on her business, Rohmah stated that this is not the biggest challenge she has ever faced. Back in 2017, she went through an unimaginable tragedy when one of her employees ran off with the equivalent of five hundred thousand dollars of Sampahkoe's money, leaving the enterprise almost completely broke. As a result, only one employee stayed with Sampahkoe, and others decided to find new jobs. Also, Rohmah had to sell her assets: house, vehicles, galleries, and so on. Sampahkoe has since bounced back and is on course to achieve its previous levels of income.

Collaborating with the government

When asked about government assistance or support, Rohmah made clear that Sampahkoe has never received any kind of support from the government throughout its existence. In fact, Sampahkoe has been consistently helping the government. She acknowledges that government intervention in foreign trade during the pandemic would help Sampahkoe tremendously, as it would allow for more access to raw materials. Rohmah added that as a woman entrepreneur, she recommended that the government provide a child-friendly office to accommodate women who are on double duty as homemakers and career women. She argued that women entrepreneurs are generally more flexible, making the task easier for them to expand the network. Therefore, the government needs to support women so that more of them can thrive in the business world.

BOX 3.

Pelangi Nusantara: Empowering Women through Social Entrepreneurship

Pelangi Nusantara

Pelangi Nusantara (or Pelanusa) is an MSME based in Malang, East Java, established by Noor Suryanti. After graduating from Universitas Brawijaya with a fisheries degree, Suryanti chose to become an entrepreneur and also wanted to satisfy her husband's recommendation for her to not work outside the home. At first, Suryanti started a clothes-making business from her hobbies, and then she developed her skills in crafts and applied it to her business making products. Then she went on to meet many unfortunate women around her city. In one of the villages located near Suryanti's house, underage marriages were common, and this has become traditional in some. There were teenagers who became mothers at the age of 17, and the divorce rate was also high, which can be more disadvantageous for women. They can't work to support themselves in their daily lives because they do not have the skills, so they need to gain expertise and experience. Another problem encountered in South Malang is that most of the women become migrant workers because they have few options. In collaboration with the Zakat institution, Suryanti began to improve by training the women in these communities and teaching them crafts. Furthermore, the cooperation with the British Council inspired Suryanti to become a "socio-preneur" in the hopes that the impact can spread throughout different communities.



Figure - Box 3. Titik and Workers of Tiara HandiCraft

Source: Documentation of Pelanusa

Empowering Women through Business

Pelanusa was established with a vision to create a business that empowers women across communities. In the process of this empowerment, Pelanusa applied the “learning by doing” process and built six steps of holistic empowerment. The process started by potency mapping in each community, hard and soft skills training, transferring knowledge through communities, accompaniment, building a value chain for production, and evaluation and monitoring. Pelanusa also adopted a cooperative business model to monitor employees and also create social value for the product through “Blou Green Business.” Blou Green Business encourages Pelanusa to create a product that is environmentally friendly and that must have some kind of significant social impact and independence. Pelanusa uses the fabric waste textile from the garment industry or home convection as its material, minimizes waste production, and converts waste into income. Pelanusa also helps to campaign for the “zero waste” movement indirectly.

As the business grows and employment opportunities at Pelanusa expand—currently the company has ten assisted groups and around 400 members at the end of 2019, Pelanusa’s revenue from sales had reached IDR 500 million. Pelanusa’s employees note that family react negatively when they are first hired but later understand that their work can generate income, and they fully support Pelanusa’s work. Pelanusa’s employees are mostly women, Pelanusa also hired a man to handle technology and information (Suryanti’s husband). In addition, there are male volunteers on the soft-skills team.

Business Growth

To develop Pelanusa’s business, Suryanti registered her company, and the company’s social activities are under foundational sponsorship. The registration has also allowed the business to join the global market. Pelanusa had also obtained an ISO certificate and was waiting for the follow-up, as the SNI certificate cannot be given to all Pelanusa’s products. Suryanti hopes Pelanusa can receive fair trade certification because it can help her products thrive in the global market. Pelanusa also had received IDR 100 million in assistance from Badan Ekonomi Kreatif (BEKRAF).

Impact of COVID-19 Pandemic on Pelanusa

The COVID-19 pandemic impacted Pelanusa’s revenue, which decreased by 30% to 50% compared to the previous year. Production was delayed, and market demand decreased drastically. The revenue stream, which typically came from the wedding and event souvenirs, was adversely affected. The other activities that were stopped due to the pandemic were tourist visits, which affected the sale of souvenirs at Pelanusa. According to Suryanti, many MSMEs had to stop production, and some of them had to sell their equipment because they lost their main source of income. Some decision makers at Pelanusa were also impacted and chose to shift their production to other sectors like food and beverage, even though there is no exact number of how many are struggling because of the pandemic.

‘How Pelanusa Copes with the Pandemic

Although the first six months of 2020 were quite difficult for Pelanusa, according to Suryanti, by July, the company’s activities resumed. Pelanusa had strategies to cope during the pandemic. Firstly, the management was transformed, which created better cashflow. Pelanusa shifted their production focus to items that would be useful during the pandemic, such as masks and personal protective equipment to help their revenue stream and keep production going. Pelanusa also tried to innovate in the craft and home decoration sector. Pelanusa also used this opportunity to conduct online training, free for members. Second, marketing approaches associated with their products shifted to social media platforms such as Facebook and Instagram, and marketplaces such as Lazada and Tokopedia. Pelanusa had

access to volunteers, mostly individuals in the millennial generation, to consult with the company on best practices to effectively engage in online marketing. Recently, Pelanusa received an order from Malaysia, which surprised Suryanti as she had found gaining overseas customers a challenge. The order proved the importance of online marketing. Thirdly, collaborating with millennials helped expand the youth market. The company used products designed by millennials but were marketed with other brands. This collaboration helped Pelanusa maintain production and provide employment. Other ways the company targeted young people was the Do-It-Yourself or DIY package that received a positive response in the market. The fourth strategy was to sustain empowering activities, which have to be adjusted occasionally. Monitoring the company's employees now can only be performed via Whatsapp, while training is done using Zoom.

Recently it was mandated that company training could be held offline, but it must follow rigorous health protocols and only include ten people at a time. At the production site or in the boardroom, activities are also being adjusted. The workers have to follow strict health protocol by wearing masks and washing hands periodically. Equipment must be owned by each worker, not borrowed. The use of disinfectant spray also became routine before packing products for the buyer. Despite the challenges, Suryanti said that transportation and operational costs have reduced because many activities can be done online. Also, she now found it easier to get needed materials because some factories that would, in normal circumstances, not sell fabric waste openly are now, during the pandemic, many putting this surplus fabric on the market.

Role of Government Assistance for MSMEs

The role of government for MSMEs in this pandemic has proven to be important. Government help for MSMEs has come in the form of tax incentives and also loan restructuring. But MSMEs need to file taxes themselves to get these perks, which is difficult because not all MSMEs know about this information. For this reason, Suryanti does not believe this government policy is sufficient. There are offers for low-interest rest to MSMEs; but this is not the answer. What MSMEs need is a viable revenue stream. According to Suryanti, what MSMEs need in this pandemic condition is government participation in promoting MSME products and help for MSMEs in connecting with prospective buyers, providing information about market opportunities, and granting easier access to the information itself. Although Pelanusa's business has slowly recovered, many MSMEs still need assistance from the government.



STRATEGY

CHAPTER 3

MEDIUM-TERM STRATEGIES

Chapter 3

Medium-term Strategies

Key Findings

- The majority of MSMEs can survive between four and ten months if the pandemic persists.
- Eight out of ten MSMEs have plans to do marketing and promotion.
- 90% of respondents in micro and small enterprises will promote their products using social media.
- Female entrepreneurs are more likely to prepare marketing plans as a strategy (85.1%) compared to male entrepreneurs (79.7%).
- Only 17% of the MSMEs surveyed received or sought assistance during the pandemic.
- More than half of the respondents did not have any knowledge about government assistance for MSMEs by the COVID-19 pandemic
- Despite being better informed regarding the government's social assistance program, female entrepreneurs are less likely to seek/receive social assistance.
- More than 30% of MSMEs were planning to seek funding from banks and families.
- Micro and small businesses are less likely to receive income tax subsidies from the government.
- The majority of MSMEs expected financial aid from the government to be right on target. Meanwhile, better access to the market and assistance in the distribution process are the most common forms of nonfinancial assistance requested by the majority of MSMEs in this study.

In this chapter, we examine the medium-term strategies adopted by MSMEs. We will explore questions concerning how long MSMEs will survive if the pandemic persists, their promotion strategies, funds needed to keep their business afloat, type of government assistance received during the pandemic, and what kind of financial and nonfinancial assistance is needed by most MSMEs.

Survival period. According to the survey, MSMEs in all sectors can survive no more than ten months on average if the pandemic persists. While micro businesses in the agriculture sector cannot last for more than 4.5 months. Among the five sectors of MSMEs being surveyed, MSMEs in service sectors seem poised to survive the longest, particularly in small, medium, and large businesses that are expected to last for 9.35 and 8.82 months, respectively. Medium and large businesses in manufacturing sectors claim to be able to last for almost ten months. In the accommodation and culinary industries, as well as industrial sectors, businesses are expected to last for 6.5 and 6 months on average, respectively, regardless of size. Meanwhile, medium and large businesses can survive the longest, at 5.39 to 9.87 months, and the shortest survival time is for micro businesses, which could only hold out for 4.5 to 6.35 months (Figure 57).

Plans for promotion/marketing. For MSMEs to recover, one of the strategies can be devising marketing or promotional plans for the business. According to the survey (Figure 58), most MSMEs plan marketing or promotional campaigns for the business, while only 17.5% do not have such plans. Micro enterprises particularly have plans to ramp up marketing and promotion of their business (87.3%) while the rest do not. About 80% of small, medium, and large enterprises have strategies for marketing. Female-owned MSMEs tend to have plans for marketing and promotion compared to male-owned enterprises (Figure 59).

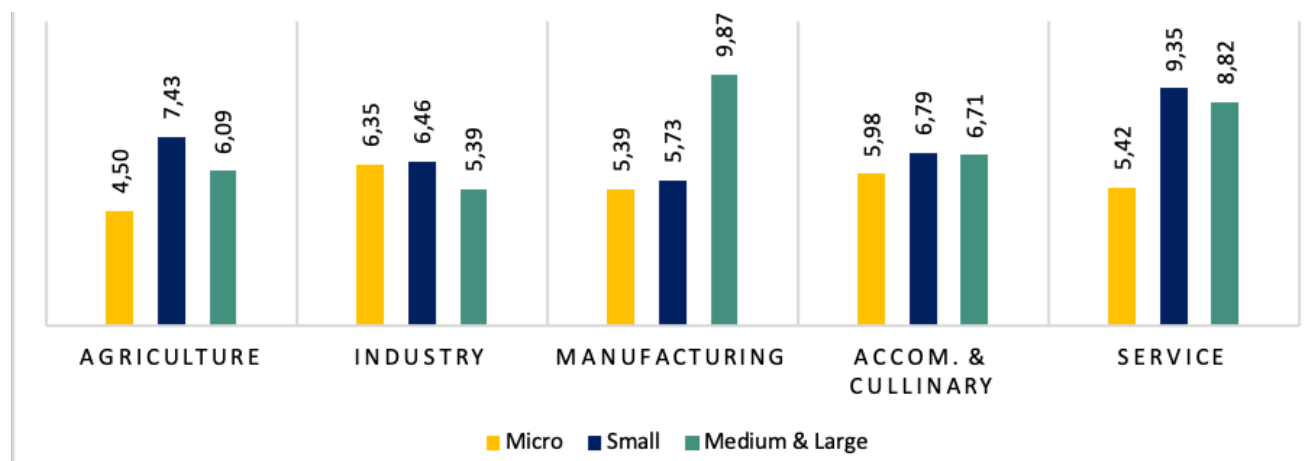


Figure 57. Period of Time Businesses can Survive during COVID-19 Pandemic (Average in Months)

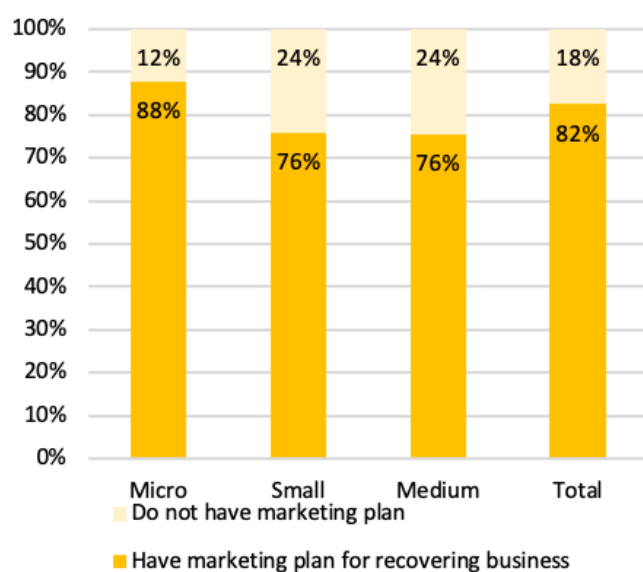


Figure 58. Business That Have Plans for Marketing/Promotion and Recovering Business

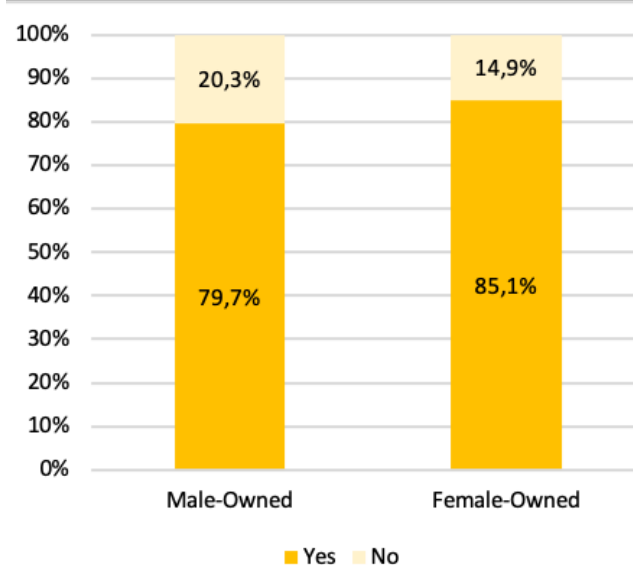


Figure 59. Business That Have Plans for Marketing/Promotion and Recovering Business plus Owner Gender

Besides the marketing plan, MSMEs also need to choose the channels (Figure 60). The marketing channel most commonly chosen by MSMEs is free advertising on social media, particularly micro and small enterprises, with 94.1% and 92.9% respectively, with 72.8% of the medium and large business using social media. The second most popular channel is paid advertising on social media, with more than 30% of the business in each size category choosing this route. The third most-used channel is print-based media, which is still chosen by 32.5% of medium and large businesses. For micro and small business, only 18% and 20.4%, respectively, chose this method. Female MSME owners tend to be more prepared, having a marketing plan in mind to recover their business (85.1%), while only 79% of male MSME owners were prepared to do so. However, as for the preferred marketing channel, there is no distinct pattern between the two groups, with social media as the most preferred marketing channel (Figure 61).

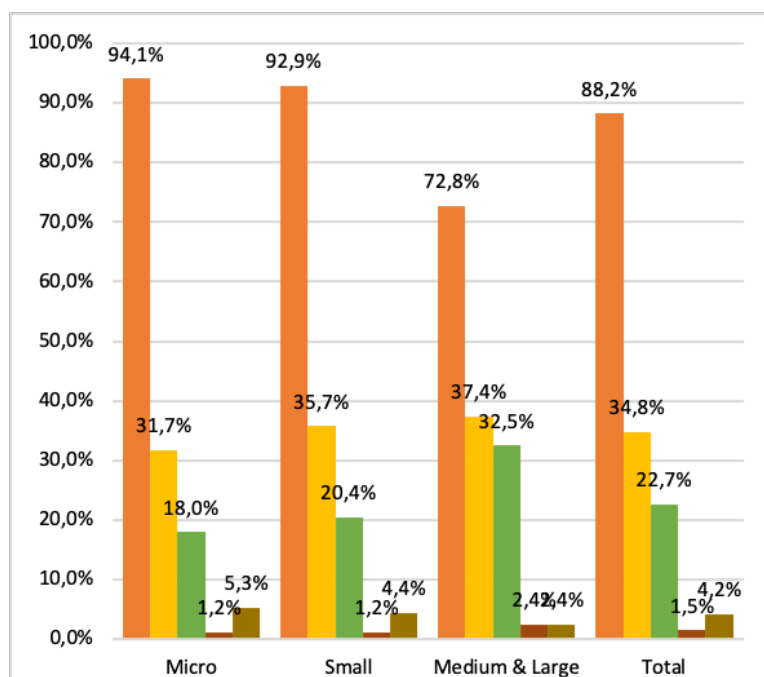


Figure 60. Marketing Channels

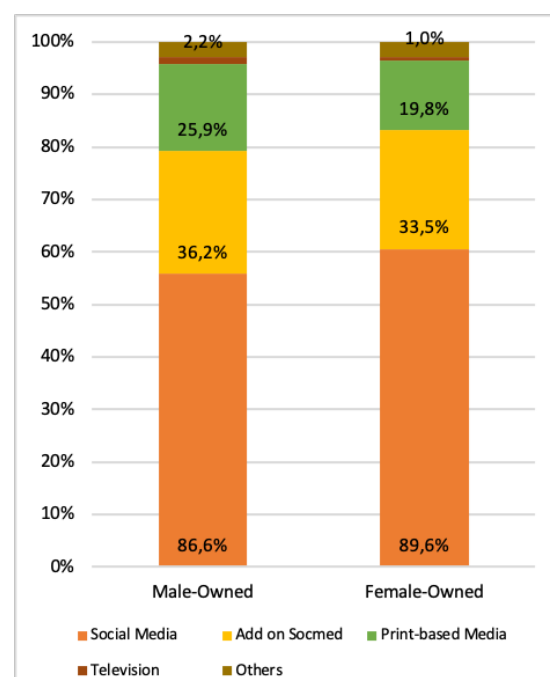


Figure 61. Marketing Channels and the Owner Gender

Funds Needed. To cope with the pandemic, and to get back on track with various planning and adaptation strategies, businesses need funding. MSMEs may access several funding sources such as banks, cooperatives, family, and fellow entrepreneurs. According to the survey, more micro businesses still tend to secure funds from their families (36.7%) followed by funding from banks (33.2%). Many small, medium, and large businesses choose to get funds from banks, particularly medium and large businesses. Most medium and large businesses have access to financing from the bank (73.5%), while only 8.4% get funding from cooperatives, and about 7% get funding from family and fellow entrepreneurs. At the same time, several owners of businesses get funds from private assets (Figure 62).

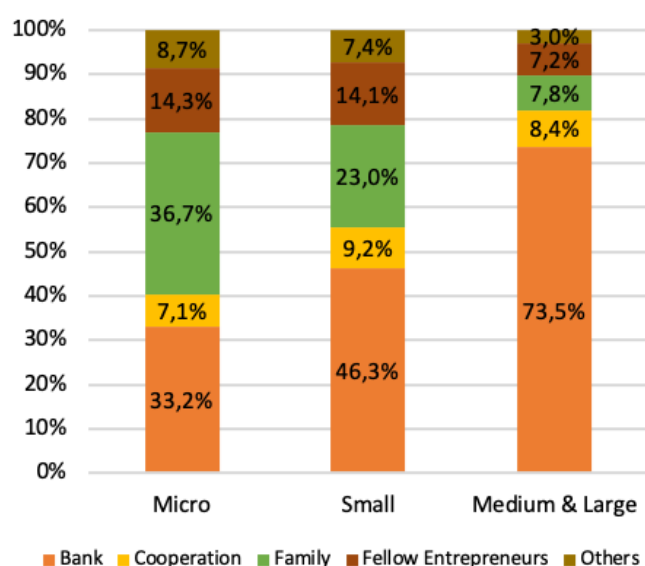


Figure 62. Source of Funding

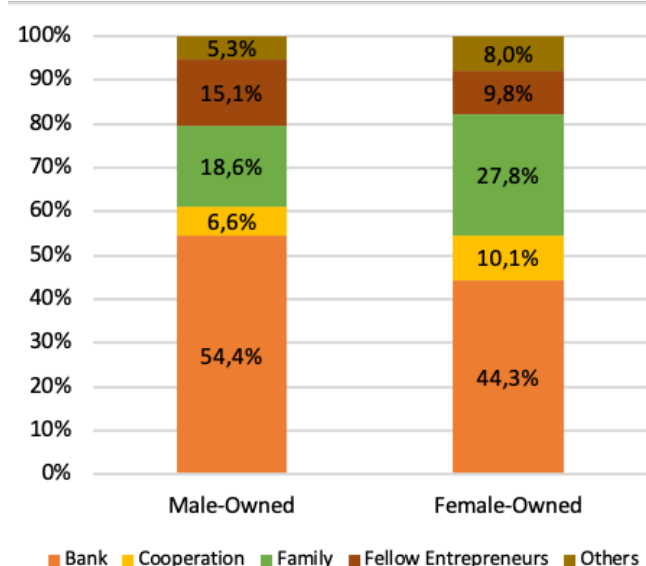


Figure 63. Source of Funding and Owner Gender

Although the order of preference is the same between male and female MSME owners in terms of sources of funding, there is an interesting pattern discernible between those two groups. Compared to male MSME owners, female owners of MSMEs are less likely to get funds from banks (the difference is around 10% between male and female MSME owners). However, when it comes to accessing funds from family and colleagues, female owners of MSMEs are not far removed from male MSME owners (9.2% and 5.3%, respectively). This result perhaps suggest that female entrepreneurs have a

better reputation and social bonds that allow them to access funds through their family and colleagues (Figure 63). Nonetheless, this finding suggests that female-owned MSMEs are less bankable compared to male-owned ones. This evidence is also consistent with existing literature about women and access to finance. For example, a study by Ghosh and Vinod (2017) suggests that female headed households are less likely to access formal finance. Moreover, Demircuc-Kunt, Klapper and Singer (2013) found that there is significant gender gaps in account ownerships as well as savings and credit products usage.

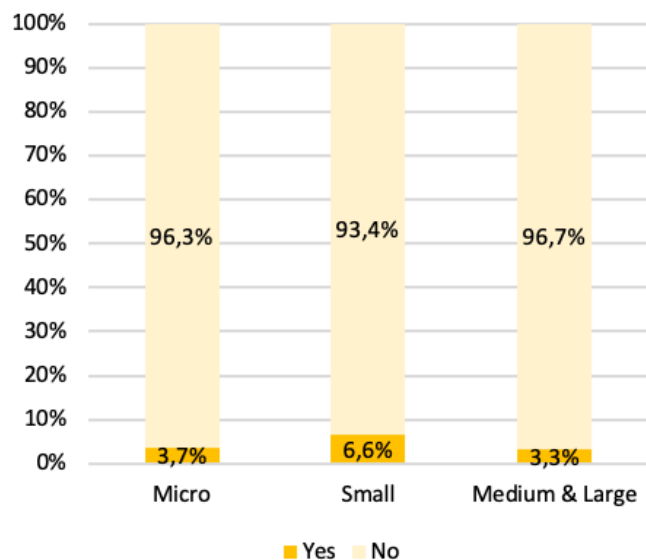


Figure 64. Shutdown Planning

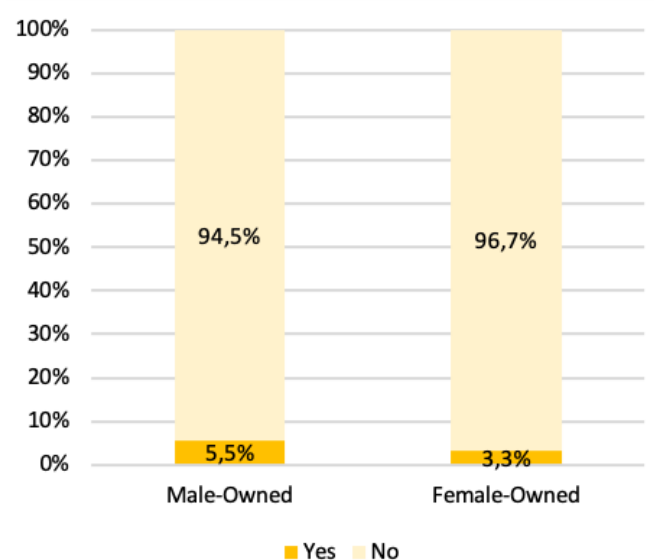


Figure 65. Shutdown Planning based on Owner Gender

Shutdown planning. Despite the difficulties and challenges that have cropped up during this pandemic, and the many aspects that need adjustment, based on the survey, the majority (or more than 95% of MSMEs) do not have plans to shut down their businesses, while only about 4% do have a plan in case of a business shutdown. More than 96% in micro enterprises expressed that they have no plan to close down their businesses, followed by 93% and 96.7% for small and medium-to-large enterprises, respectively (Figure 64). When disaggregating by gender, female MSME owners are less likely to plan for shutting their business down, although the number may not be significant (Figure 65).

BOX 4.

Adapting during the COVID-19 Pandemic

The current pandemic has impacted the business continuity of most MSMEs, which face various challenges in terms of production, human resources, marketing during an uncertain time. Through several in-depth interviews conducted with several MSMEs, we found that the pandemic conditions required MSMEs to quickly adapt to survive. MSMEs, whose business usually depends on a specific type of product, can innovate by utilizing the same raw materials but adapting these to the demands of the market. For example, before the pandemic MSMEs that engaged in crafting and using cloth waste as raw material and were focused on making event souvenirs chose to shift to home decoration products. Some shifted to making masks and PPE, which are in high demand at this time. Changes in market demand force MSMEs to be adaptable to change, although this also does not ensure that their businesses will thrive as they did before the pandemic.

Apart from changes in product types, there are also adaptations made in marketing approaches. Most MSMEs have not been part of a marketplace before and tend to prioritize sales through B2B environments of exhibitions. Mean-

while, during this pandemic, when there are no exhibitions, many MSMEs are forced to enter the digital market. Several businesses have benefited from shifting to the online market: now they can attract buyers from abroad and are able to expand their consumer network. On the other hand, some MSMEs feel the competition in the marketplace is too heavy because of the added costs. Collaboration with online delivery services to create collaborative products with millennials is also one of the steps MSMEs have taken.

Other challenges for the human resources departments of MSMEs come with decreases in revenue, decreasing production capacity, and the presence of health protocols that forced some MSMEs to lay off their employees. Based on in-depth interviews, MSMEs that carry out dismissals do not specifically consider the gender of their employees but rather look at their production needs. Jobs that require high precision and flexibility tend to employ women, while skills related to heavy equipment or IT-related are more male oriented. Overall, MSMEs also adapt to change by continuing to carry out their production activities as normal but while still paying attention to health protocols such as the use of masks, providing hand sanitizer, limiting the number of employees in one room, maintaining cleanliness, and reducing contact with other people outside of production. Besides, MSMEs also prepare plans for post-pandemic business recovery such as strengthening managerial practices and cash flow, planning for market expansion at both national and international levels, and creating and updating websites.

Government Assistance Programs

During the pandemic, the government of Indonesia (GoI) has launched numerous stimulus programs to support the MSME sector such as interest subsidy, placement of funds for restructuring, Government-Borne Final Income Tax, disbursement of credit schemes, and even the most recent IDR 2.4 million direct cash transfer. However, there are at least two major issues that need to be addressed by the government in order to increase the effectiveness of such programs. First, the targeting process should ensure that eligible MSME will be covered by the programs, and secondly, every stimulus program should be devised according to the real needs and problems faced by each type of MSME.

Knowledge of the programs. Previously, we have discussed the general impact of COVID-19 on MSMEs such as difficulty in accessing raw material as well as declines in revenue. To soften the impact of the pandemic for the private sector as well as MSMEs, GoI has launched several programs. However, the effectiveness of such program implementation is still in question. Before discussing the reach of the programs, it is necessary to discuss how well the GoI disseminated the information regarding the programs themselves.

Unfortunately, based on the survey, more than half of the respondents stated that they were not aware that such assistance programs existed, with only 43% of respondents aware of the programs. Where Female MSME owners (46%) tend to be better informed about the programs compare to male MSME owners (40%).

It is worth noting that this type of information spreads relatively widely, particularly among smaller MSMEs compared to larger ones. Medium and large-scale enterprises are the least-informed group with only 30.1% of respondents aware that GoI has provided assistance programs to soften the impact of the pandemic. On the other hand, more than half respondents from micro enterprises (51.8%) said they are already aware of the existence of the government assistance programs. This indicates that GoI has placed more emphasis on assistance aimed at the smaller-scale enterprises (Figure 66 and Figure 67).

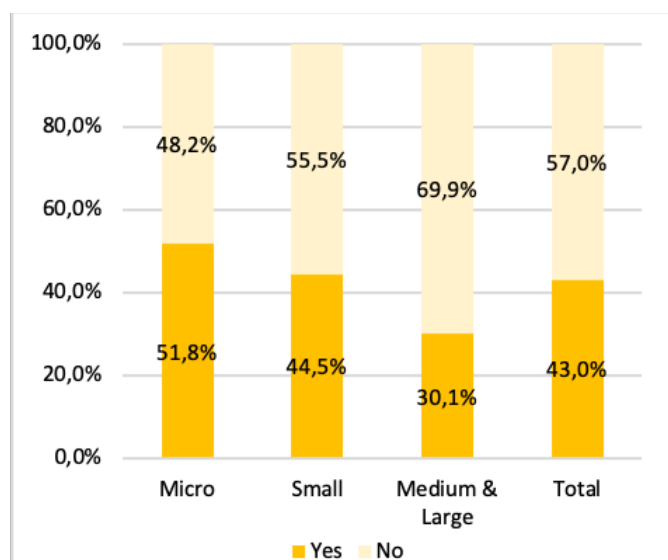


Figure 66. Knowledge about Government Assistance for MSMEs Impacted by the COVID-19 Pandemic

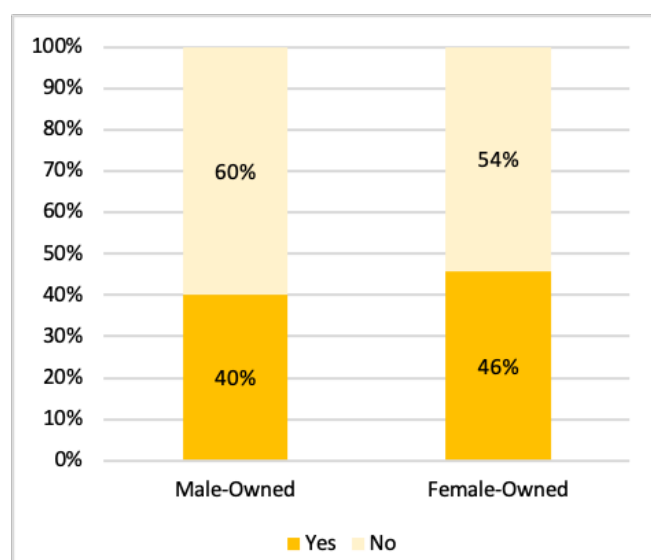


Figure 67. Knowledge about Government Assistance for MSMEs Impacted by the COVID-19 Pandemic and Owner Gender

Lower number of recipients of government assistance. Having discussed how widely the information circulated among MSMEs, now we will discuss the effectiveness of the distribution and the disbursement of the government assistance itself. The results are disheartening: only 17% of the respondents said that they sought/received assistance during the pandemic (Figure 68). This number is considerably lower than the number of those who were informed about the existence of the program itself (43%). This figure indicates that other factors caused MSMEs to not apply/receive assistance from the government.

Based on the in-depth interviews and also focus group discussions held with the MSME owners, there were several reasons expressed:

- They were told they were not eligible for assistance.
- They applied and did not receive assistance.
- There were difficulties applying for the program due to lack of resources (devices, mobile phones, internet quota, etc.).
- They thought other businesses were more eligible than they were.

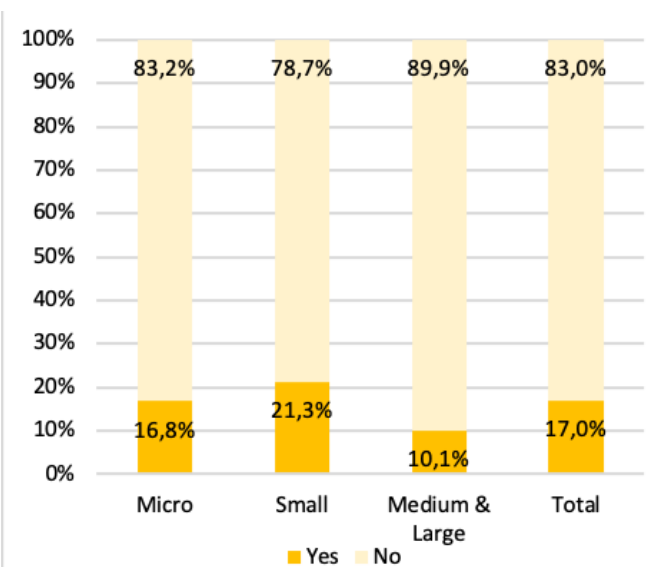


Figure 68. Seeking/ Receiving Assistance during the Pandemic

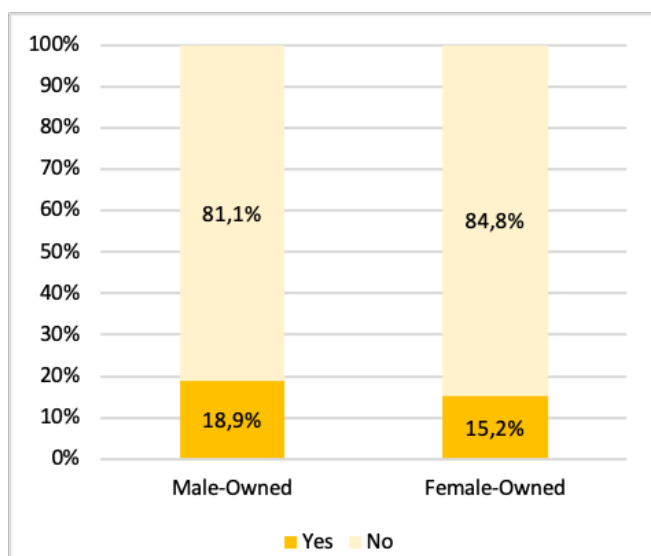


Figure 69. Seeking/ Receiving Assistance during the Pandemic and Owner Gender

There is also an interesting pattern that developed: despite the fact that women entrepreneurs are better informed regarding the assistance program, more male entrepreneurs sought/received assistance from the government (19%) than females (14%) (Figure 69). This result suggests that female MSME owners are more likely to be denied assistance than male MSME owners, supporting the “constraint-driven gap” arguments highlighted by Bardasi et al (2011).

Type of assistance. For those who had received assistance during the pandemic, government assistance is the most common source of aid obtained across all scales of MSME with a percentage of 70%. Meanwhile, other sources of assistance only benefited around 40% of those MSMEs (Figure 70). In terms of the type of assistance, distribution of goods was the most common type received by large, medium, and small enterprises, while for micro enterprises this is the second most common type of assistance, slightly less than other forms of assistance (Figure 71).

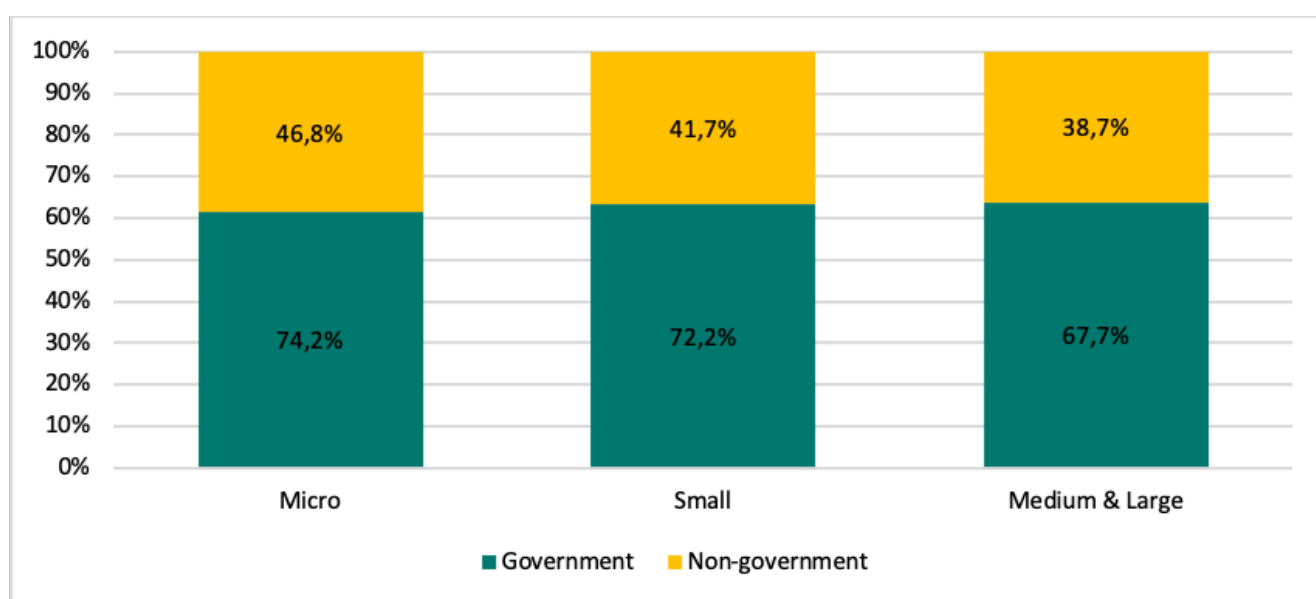


Figure 70. Source of Assistance

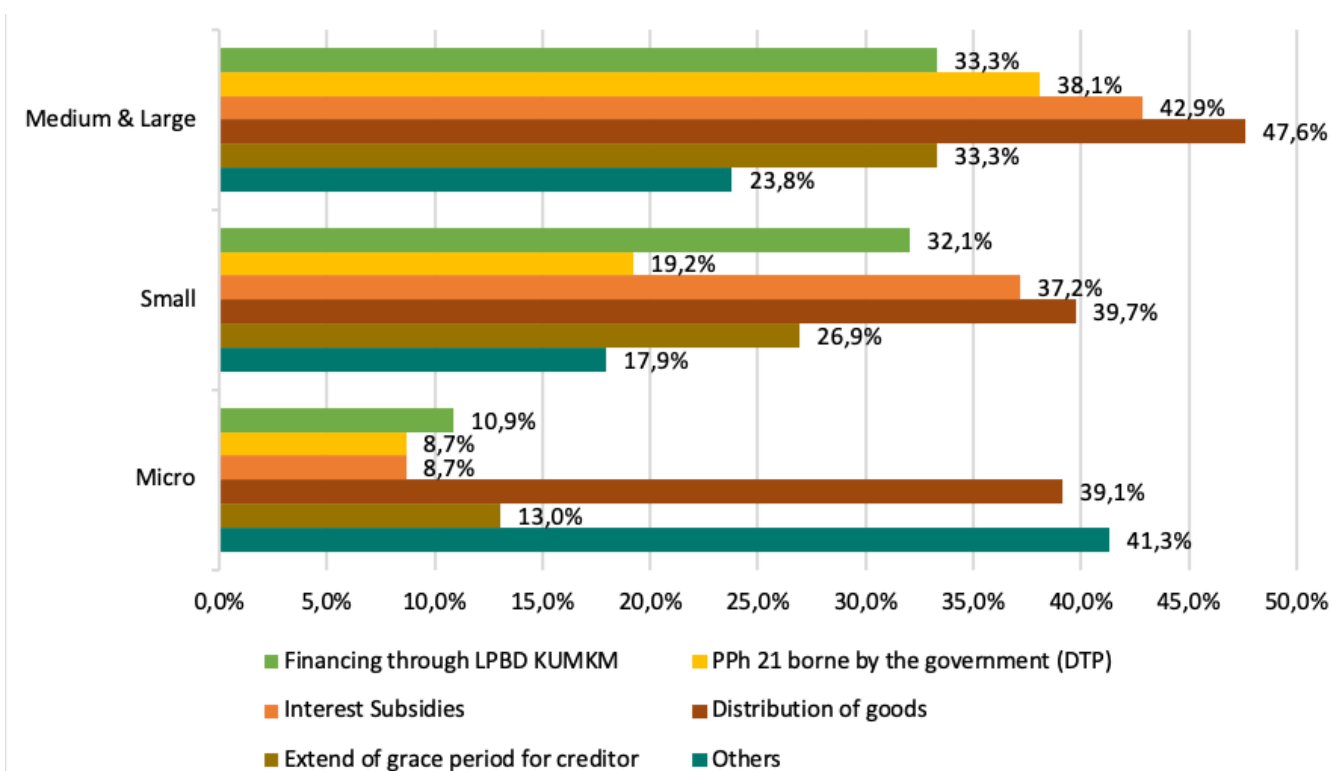


Figure 71. Types of Government Assistance

As for assistance related to credit (e.g. such as interest subsidy and financing through LPDB), credit-based assistance is mostly enjoyed by larger companies and is less common as the size of the enterprise becomes smaller. This result is concordance with qualitative information obtained in the in-depth interview and FGD, where most of the micro enterprise owners are not concerned with access to loans, since their main problem is a significant decrease in demand. Thus, getting access to a financing scheme will not solve their problem.

Another interesting result is the fact that smaller enterprises are less likely to pay government-borne income tax. One may argue that this is due to small and micro enterprises that often do not have a legal business permit, thus they are not eligible for this type of assistance or because their revenue is simply too low and does not exceed the threshold of taxable income. However, among all small enterprise respondents who have a business permit, only 13.3% receive government-borne income tax. This result suggests that there are other factors that limit smaller enterprises to receive income tax borne by the government such as limited information or administrative requirement that considered to be too complicated for smaller size enterprise.

Expectation of future financial and nonfinancial assistance. The majority of respondents across business types expect that the government should enhance the targeting process of those recipients potentially eligible for the programs. While the second most popular expectation is that they expect that the government should do a better job of publicizing such a program (Figure 72 and Figure 73). As for the nonfinancial assistance, access to the market and the distribution process is the type of assistance that is expected the most across MSMEs, strengthening the previous result that the most damaging blow of this pandemic to the MSME is a significant drop in sales (Figure 74 and Figure 75). This pattern is identical both for male and female MSME owners.

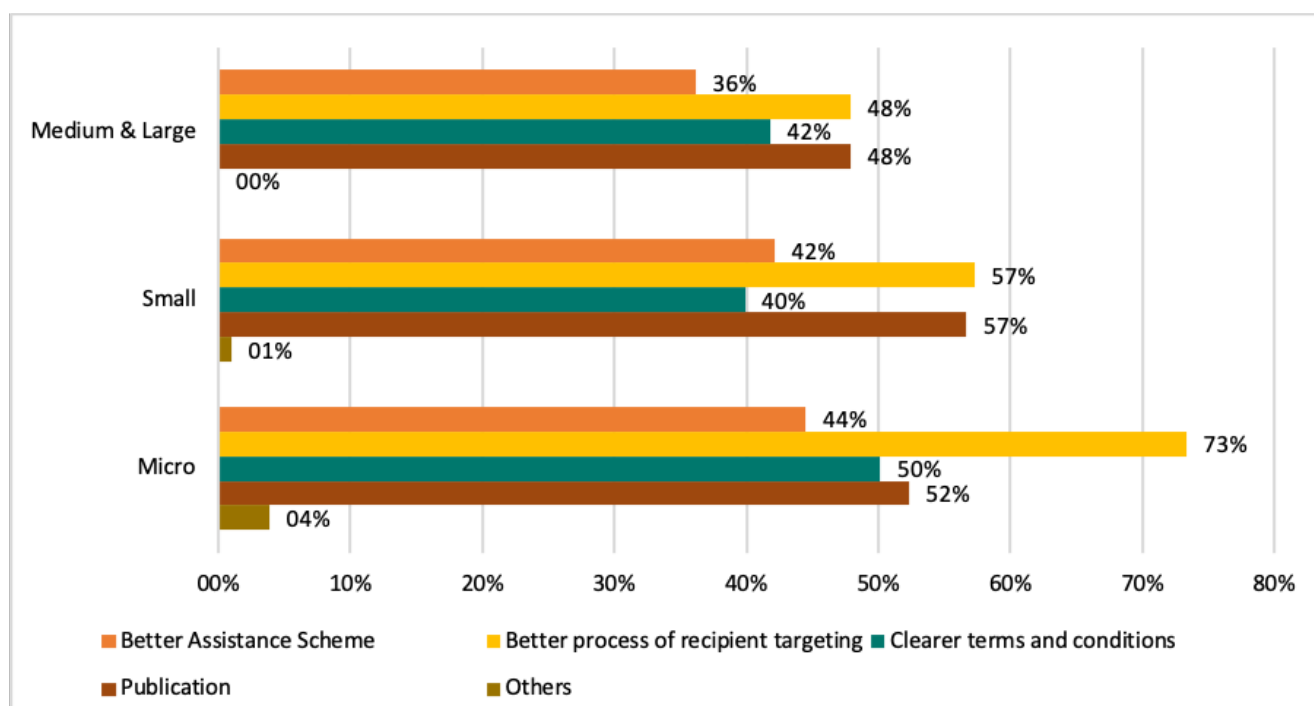


Figure 72. Expected Financial Aid

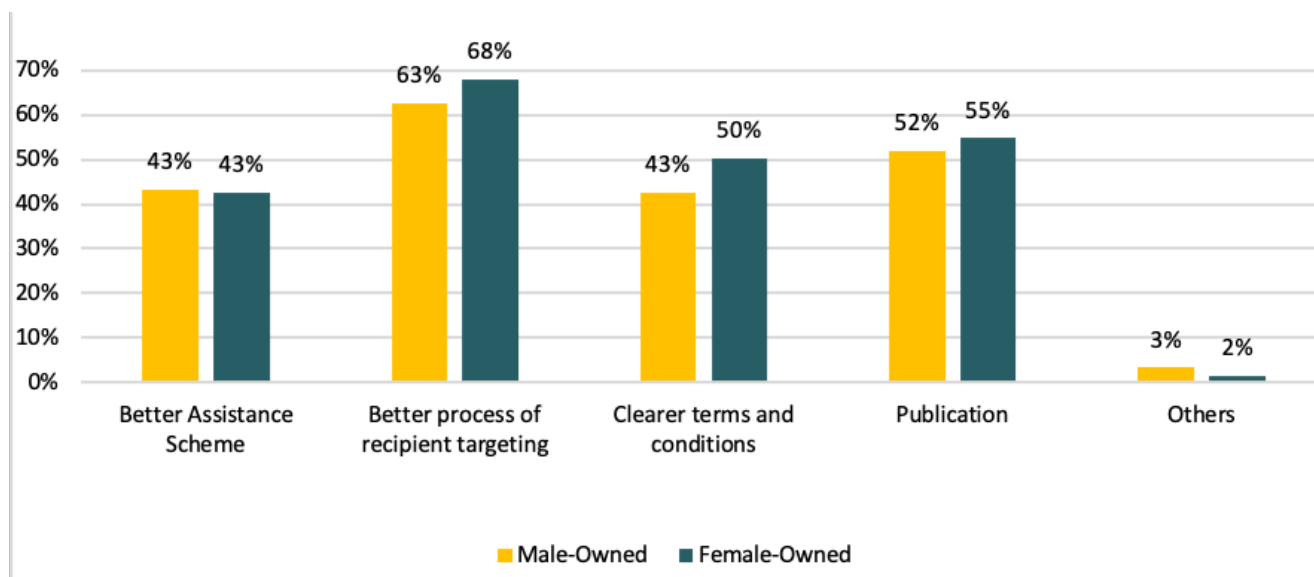


Figure 73. Expected Financial Aid and Owner Gender

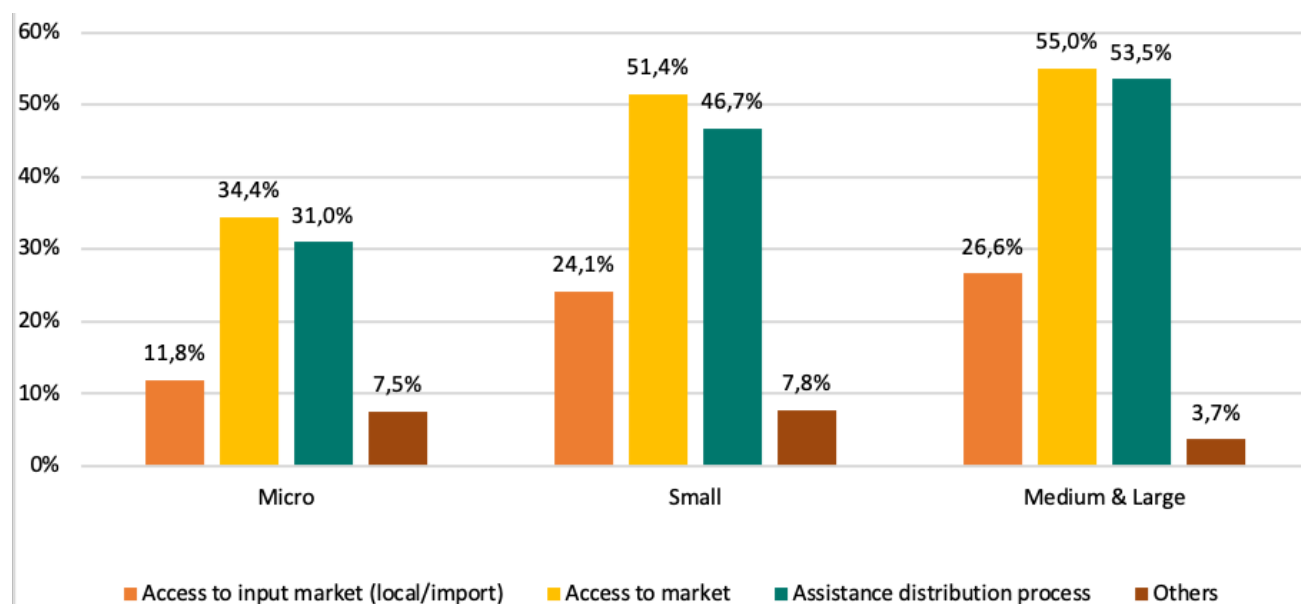


Figure 74. Expected Nonfinancial Assistance

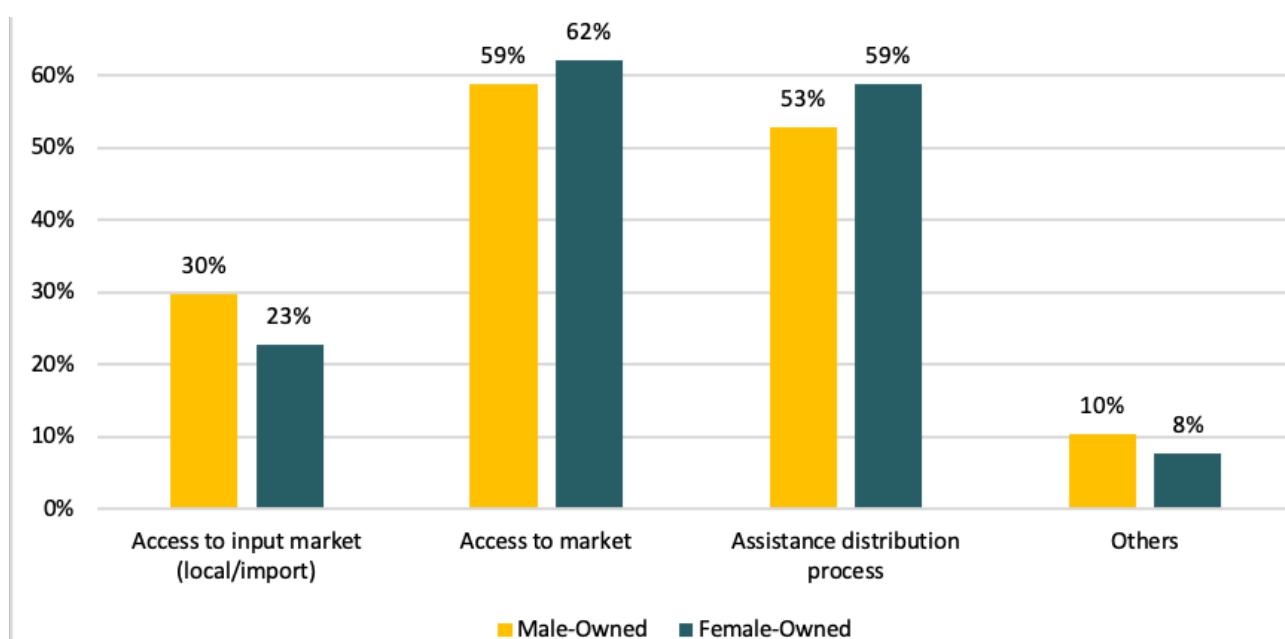


Figure 75. Expected Nonfinancial Assistance and Owner Gender

BOX 5.

Government Assistance during the Pandemic, What Have We Learned So Far?

The government of Indonesia (GoI), like many other governments worldwide, has launched many stimulus programs in response to the economic impact of the COVID-19 pandemic, aimed at individuals as well as at the business sector, including MSMEs. Making significant contributions to the economy, MSMEs have been getting much attention as being in need of “saving” during the pandemic. In response, numerous stimulus programs have been launched, such as interest subsidies, placement of funds for restructuring, Government-Borne Final Income Tax, disbursement of credit schemes, and even the most recent IDR 2.4 million direct cash transfer. Unfortunately, the effectiveness of these programs has yet to be confirmed.

The most urgent problem relates to the targeting process, which has been a concern raised by many MSMEs. The abovementioned programs simply were not publicized widely enough. This was due to lack of information, out-of-date databases, and complicated application processes, among others. It had also been reported that in some cases after applying for the program, some MSMEs did not receive clear follow-up information regarding their application status. The second problem is whether the government aid programs above indeed were effective in helping MSME survive this pandemic. It is true that direct cash transfers are useful, but measures like this are not enough to overcome the challenges faced by these companies, while a credit-related program or another similar program is deemed irrelevant for smaller-scale businesses such as micro and smaller enterprises.

High Variation in Local Government Initiatives

Other than assistance programs initiated by the central government as previously mentioned, local government also initiated stimulus programs in response to the COVID-19 pandemic, both at the provincial and district level. Some of the notable forms of assistance initiated by the local government are (i) the local online marketplace, (ii) subsidies for raw material, (iii) subsidies for delivery/shipping cost intracity, and (iv) purchase orders to MSMEs from the government itself. However, while there is a strong indication that assistance initiated by local government is better in terms of targeting and disbursement processes, the assistance programs from local government are highly dependent not only on the amount of resources but also the commitment of the local government itself. Therefore, the quality of the assistance programs could vary from one program to another. Therefore, some form of guidance from the central government regarding the standard or compulsory assistance from the local government could be used to decrease the variation among programs.

What Should Be Improved

Based on the current findings, there are several things the government could do to increase the effectiveness of future assistance programs:

1. **Better publication strategies of programs.** More publications and a wider circulation are indeed essential, since the majority of the MSME are still not aware of the government assistance program.
2. **Better targeting process.** Still common are cases of inclusion and exclusion errors related to the recipient of the programs. Therefore, a reliable database of the target recipient is a necessary condition to solve this issue. Better application and verification procedures that allow the database to be updated as frequently as possible should be

devised in order to reduce errors over time.

3. **Clearer terms and conditions.** Terms and conditions should be clearer when it comes to such things as application procedures, required documents, eligibility, waiting periods, etc. Despite being aware of the existence of government assistance programs, many MSMEs become sceptical due to a lack of detailed information regarding the application procedure. They become even more sceptical when they hear that their colleagues who have to apply for programs still haven't received the benefits and may not even know the status of their application.
4. **Simplification process for a smaller business.** While larger enterprises have adequate resources to follow the application procedure, smaller ones often do not have those kinds of luxuries and even have to cease their business activity to just complete the application process.

CHAPTER 4

LONG-TERM IMPACT

Chapter 4

Long-Term Impact

Key Findings

- The majority of MSMEs said that the most challenging problems in the future are related to cost.
- Across all five aspects, female entrepreneurs face higher challenge compared to the male entrepreneurs, although the differences are not substantial.
- Almost half of MSMEs are preparing medium- and long-term plans if the pandemic recurs in the future. Around 30% of MSMEs are planning to have reserve funds.
- Around 80% of micro businesses are planning to formalize their business with female entrepreneurs having a higher likelihood of having such a plan.
- Only a third of micro businesses plan to switch their business to other sectors, with male entrepreneurs being more likely to have such a plan.
- More than 55% of small enterprises are delaying their business expansion. Almost 40% of small businesses need around Rp100–500 million in funds to keep their business afloat.
- The average value of the delayed investment is higher for male entrepreneurs compared to female entrepreneurs.
- The majority of medium and large businesses are also postponing their expansion. Meanwhile, these enterprises do not have any plans to change their market orientation.

This chapter discusses long-term challenges that MSMEs would face related to marketing, competition, cost, production, and human resources. Moreover, we also explain what MSMEs' anticipation strategy will be in the future if another pandemic or crisis occurs again in the future. In the last part of this chapter, we summarize the long-term plans based on MSME sizes.

Long-term challenges. In the long term, we also asked respondents about their thoughts on the potential challenges in the event that the pandemic persists. The aspects itself consist of (i) cost, (ii) marketing, (iii) competition, (iv) production, and (v) labor. On a scale of 1 to 6 where 1 is “experience no challenge” and 6 is “experience major challenge” Cost is the aspect that is considered to be the most challenging aspect faced in the long term, followed by the marketing aspect with scores of 4.33 and 4.26, respectively. Meanwhile, labor is the aspect that the least worrying for the respondents.

The pattern is identical between male and female entrepreneurs where cost is deemed as the most challenging aspect. However, it is worth noting that for all aspects, MSME female owners perceive a slightly higher impact of COVID-19 compared to the male MSME owner. Another interesting result is that larger enterprise is more likely to think that they will have a more significant challenge in the future if the pandemic persists, with all five aspects scoring higher than 4.5 (Figure 76).

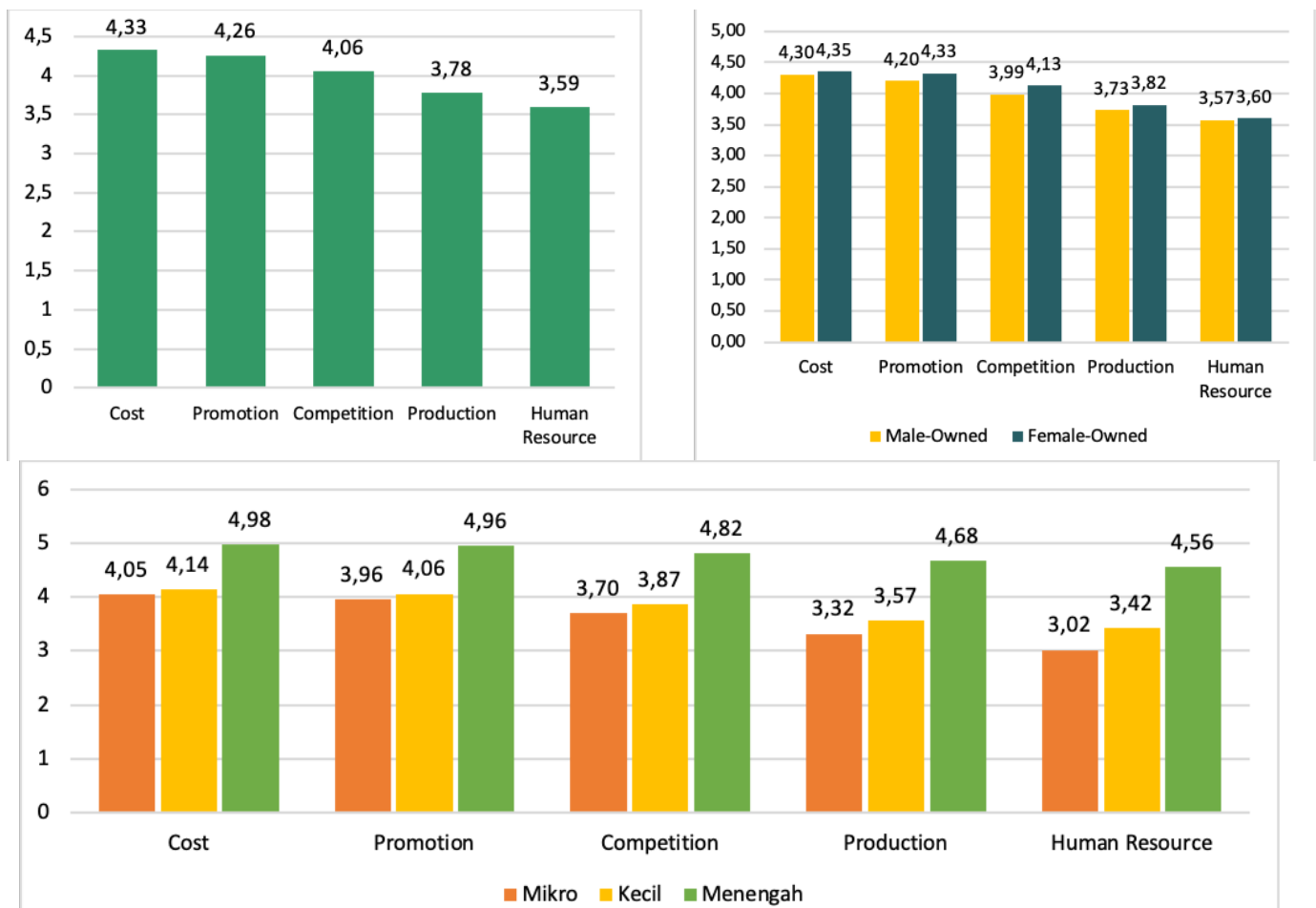


Figure 76. The Most Challenging Aspect in the Future

Production. Production is one of the biggest challenges faced by MSMEs in this pandemic era. From a scale of 1 to 6, with 1 meaning “no challenge experience” and 6 meaning “experienced a major challenge,” more than 50% of each business being surveyed experienced challenge on a scale of more than 3. Medium and large enterprises are the most impacted in the production aspect, with 51.5% experiencing challenges in production on a scale of 6 (or a major challenge) while 13.4% and 25.2% answered with a scale of 4 and 5, respectively. The other 10% of medium and large enterprises answered the challenge in production question on a scale of 1 to 3, with only 1.3% having never experienced a challenge in production. Micro and small enterprises experienced relatively similar results in the challenge for production, according to the survey. The majority of them experienced production challenges on a scale of 4 with 39.9% and 34.4%, respectively, while 4.1% of micro businesses and 5.9% of small businesses experienced no challenge in production (Figure 77).

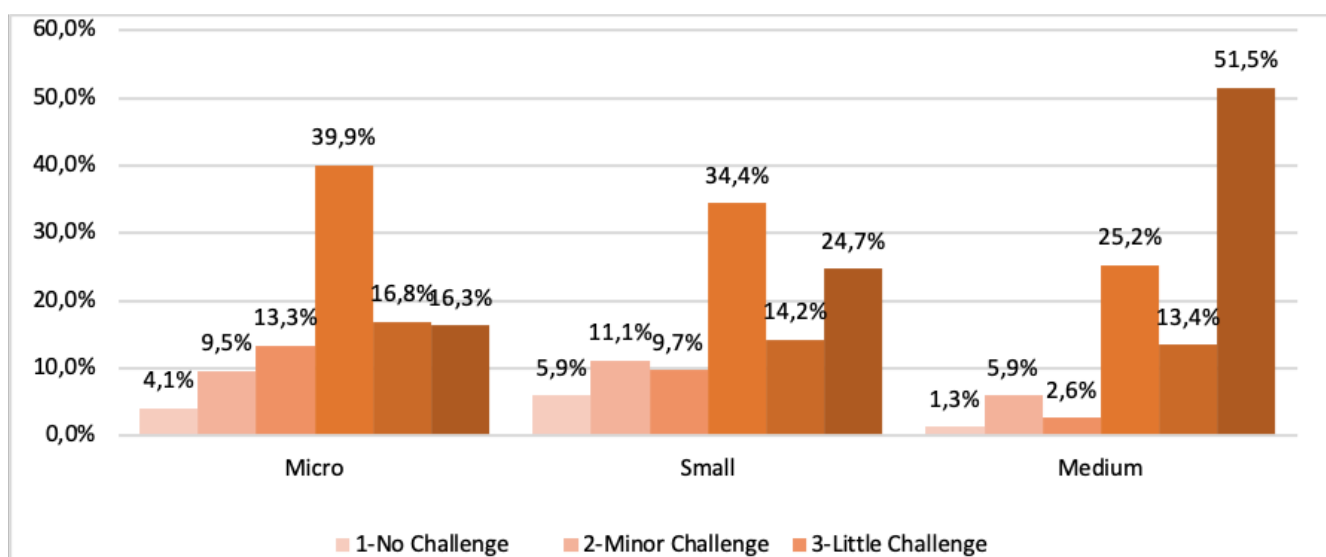


Figure 77. Perception in Future Challenges: Production Aspect

Marketing. Most MSMEs faced challenges with competition. Particularly in the medium and large businesses, 56.3% said that marketing will be a major challenge in the future. For small businesses, around a third said that marketing will be a major future challenge, followed by around 26.3% who said that it will be a moderate challenge in the future. For micro businesses, evidence shows a different story. More than 40% answered that the marketing aspect would be a significant challenge in the future (Figure 78).

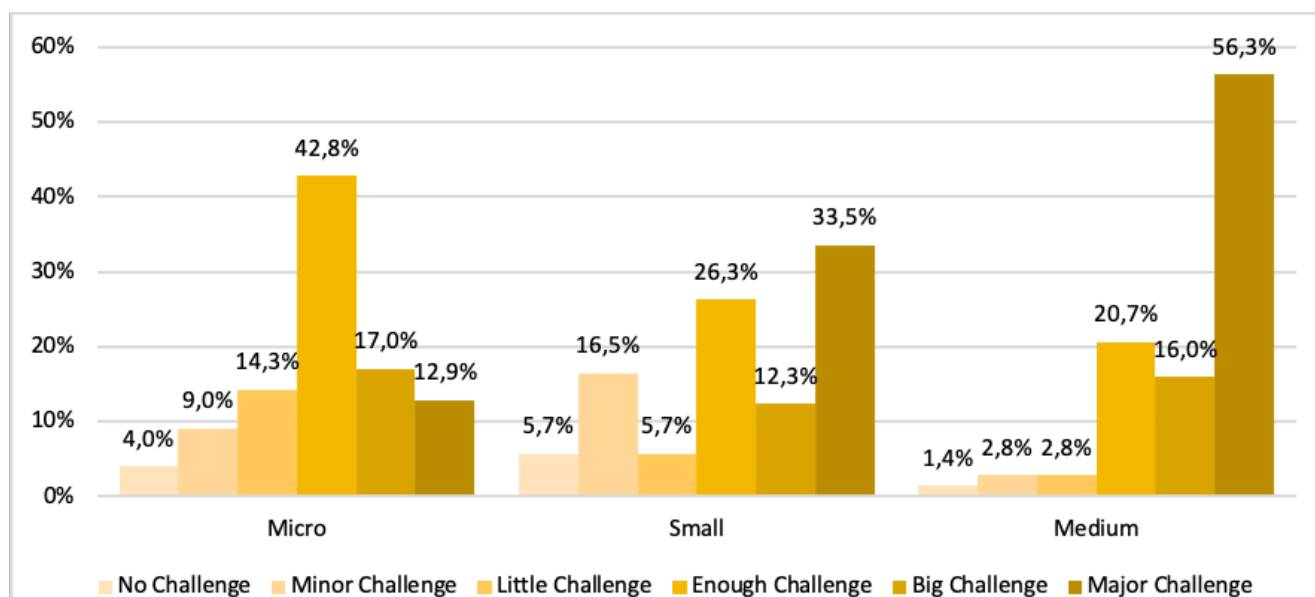


Figure 77. Perception in Future Challenges: Production Aspect

Human resources. Human resources of MSMEs also face major challenges in this pandemic era, but the level varies according to size. Medium and large enterprises experienced a number of major human resource challenges (47.7%). Meanwhile, only 5.4% of micro enterprises and 17.2% of small enterprises faced the same. In medium and large enterprises, most of the business faced challenges in human resources recording in the 4 to 6 range, while only 7.9% experienced no challenges whatsoever. On the other hand, micro and small enterprises have different experiences. Small enterprises faced human resource challenges between 3 and 4, while most micro enterprises recorded their experiences as between levels 2 and 4. About 20.9% of micro enterprises and 17.4% small enterprises have not experienced human resources challenges (Figure 79).

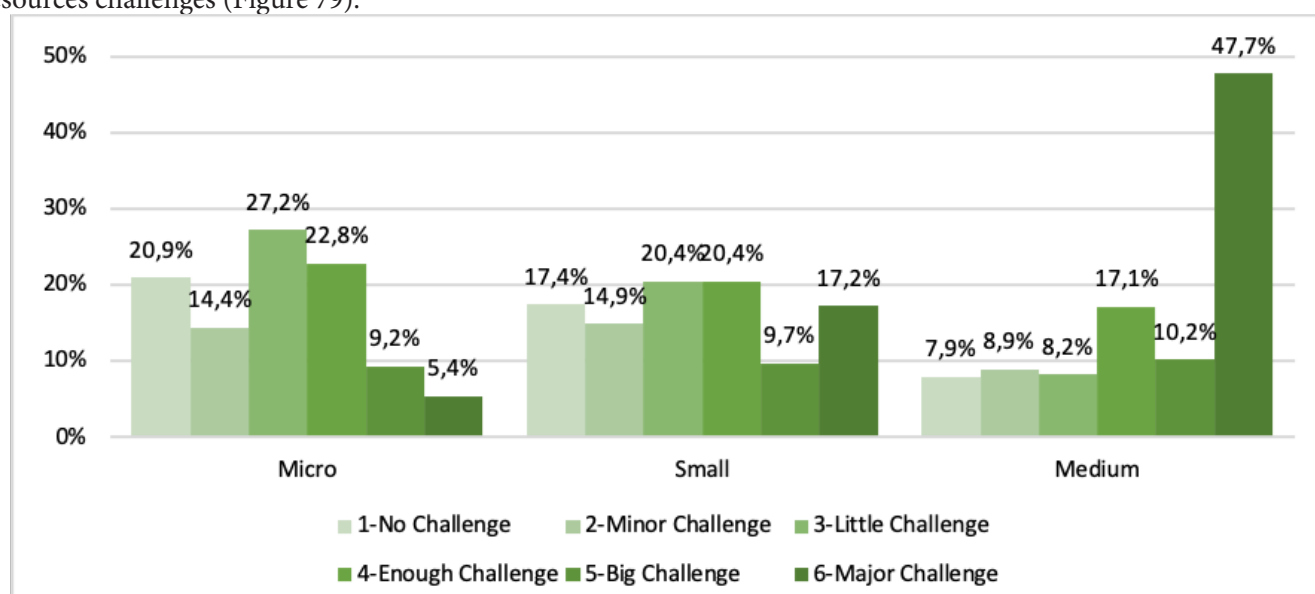


Figure 79. Perception in Future Challenges: Human Resource Aspect

Competition. The next aspect of the long-term challenge is related to competition. Most MSMEs faced challenges related to competition. In particular, in medium and large enterprises almost 57% answered that competition would be a major challenge in the future. Evidence was also found among small enterprises, where a third answered that competition will pose a major challenge in the future. Finally, for micro enterprises, around 40% answered that competition will pose at least some challenges in the future (Figure 80).

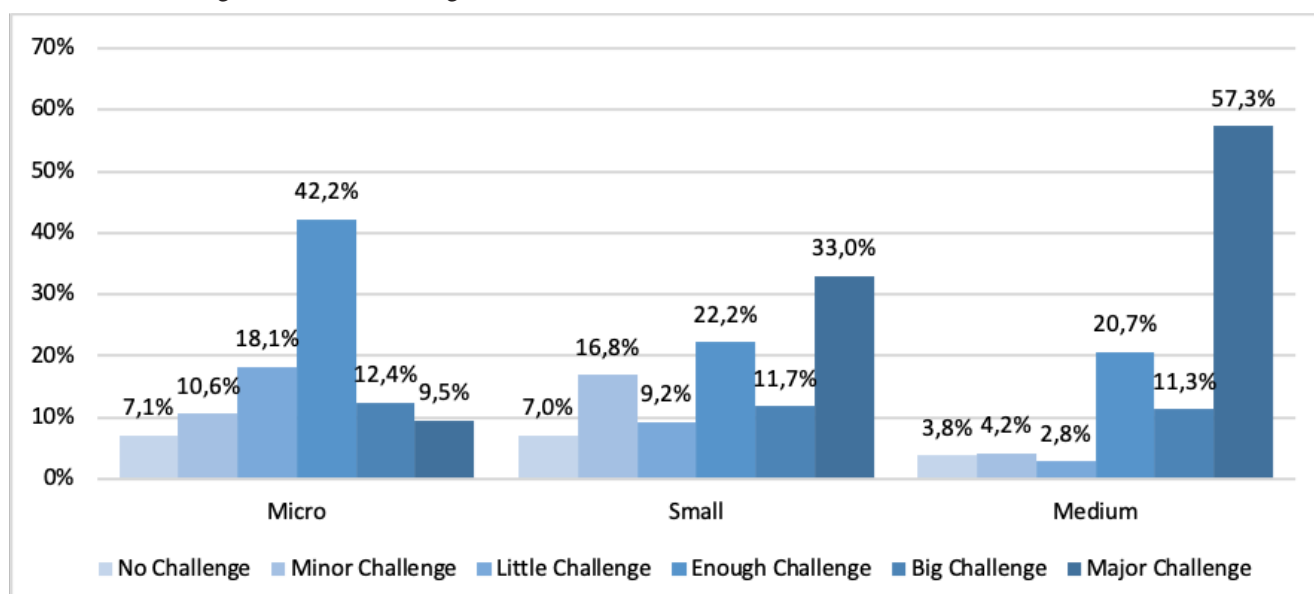


Figure 80. Perception in Future Challenges: Competition Aspect

Cost. The final aspect of the long-term challenge is related to cost. Most MSMEs faced cost-related challenges in this pandemic era, but the level varies according to the size of the MSMEs. Medium and large enterprises would seem to have the most concerns regarding cost aspects with more than 51% of respondents stating that they faced major challenges with expenses. Meanwhile, only 25% and 16% of small and micro enterprise respondents said that they faced major challenges related to costs. The results indicate that smaller businesses could adapt better in term of cost issues brought on by the pandemic. This result is expected, since smaller businesses are more flexible in terms of cutting burdensome costs compared to larger businesses. (Figure 81).

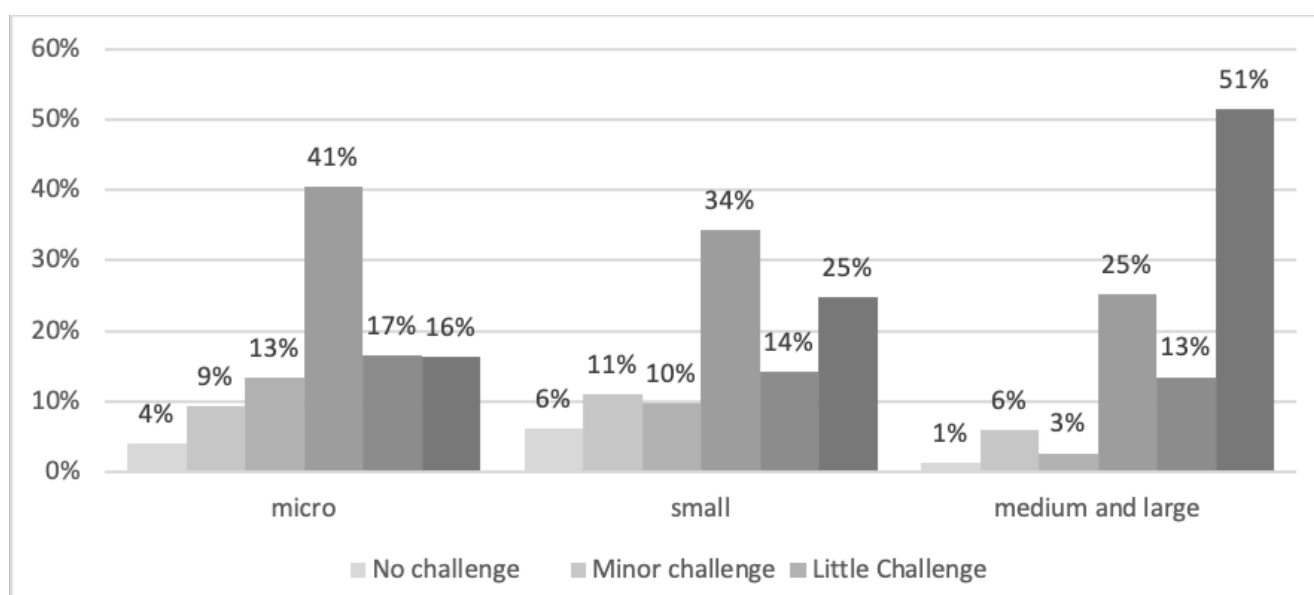


Figure 81. Perception of Future Challenges: Cost Aspect

Coping strategy. According to the survey shown in Figure 82, to minimize the impact of another pandemic, MSMEs plan to have a medium and long-term business plan, a reserve of funds, and consultation with a business companion. In micro businesses, 44.2% plan to have a medium and long-term business plan, 29% are prepared with a reserve of funds, and 20.6% consult with a business companion. It is almost the same in the smaller businesses, where 39.9% have a

medium and long-term business plan, 29.3% have a reserve of funds, 23.3% consult with a business companion, and 7% choose business insurance and other plans. The medium and large business plan is a little different. Thirty-three percent of these businesses prefer to prepare with reserves of funds, while 32% would consult with a business companion, followed with 25.7% opting for a medium- and long-term business plan (Figure 82).

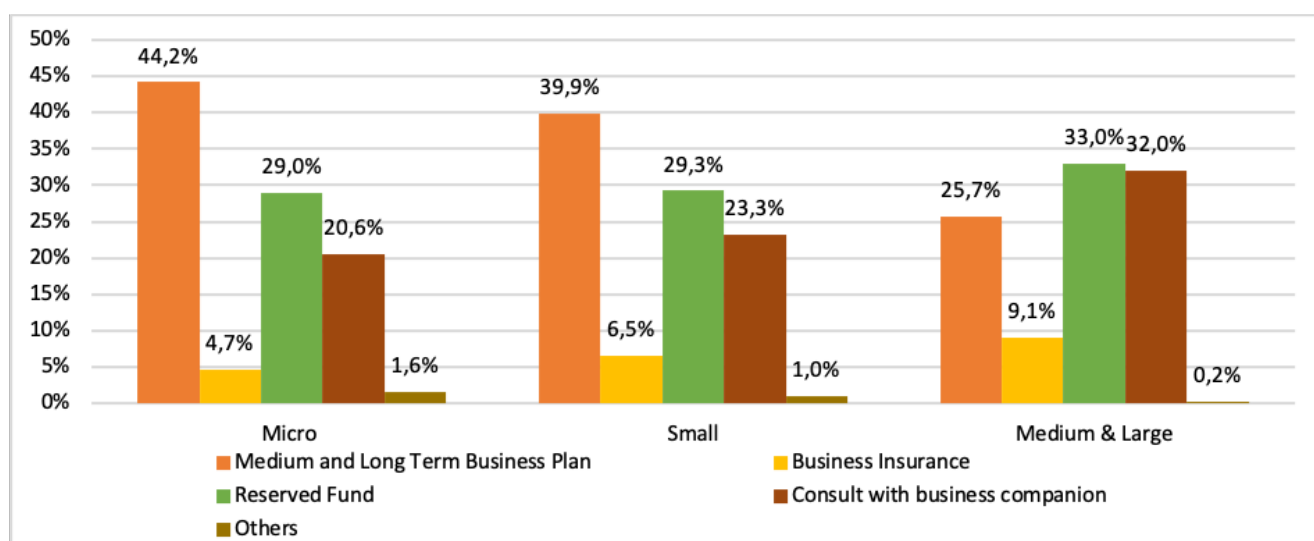


Figure 82. Plan to Minimize the Impact on Business in a Future Pandemic

Long-term plan based on sizes

Micro Enterprise. According to Rothenberg et al. (2016) based on the 2015 Doing Business Report for Indonesia, one of the obstacles faced by enterprises in formalizing their business is completing the required procedures. To officially register a business in Indonesia, there are at least 10 different procedures that firms are required to comply with, depending on the industry and the location of the business operation. The entire process takes about 53 days to complete on average and costs 21.1% of annual per capita income. Although many of these processes are officially free of charge, some firms partially complete the registration process, taking some steps but not others, while other firms avoid registration entirely.

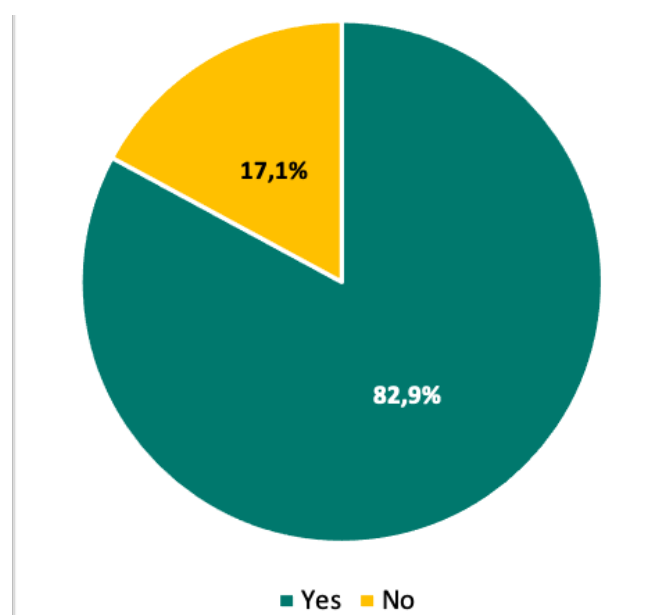


Figure 83. Plan of Micro Enterprise to Formalize their Business

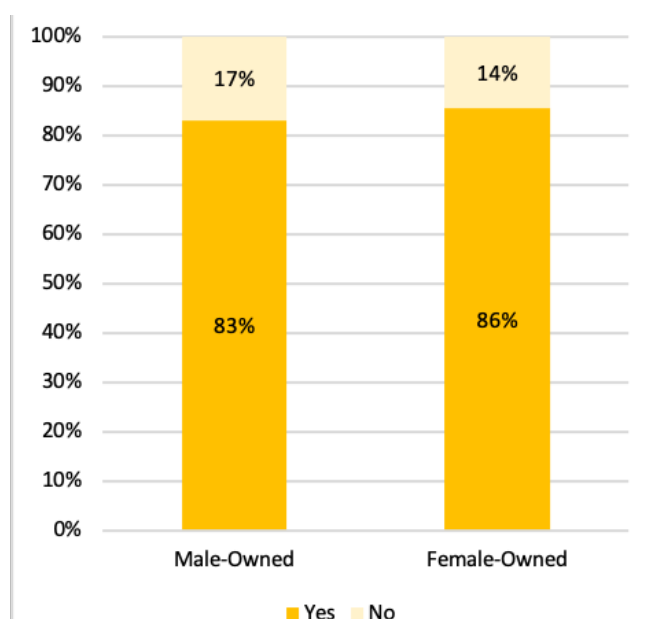


Figure 84. Plan of Micro Enterprise to Formalize their Business based on Owner Gender

From this survey, in the long-term, more than 83% of micro enterprises plan to formalize their businesses (Figure 83). Female MSME owners seem more likely to have such plans, although the differences between male and female MSME owners are not substantial in this regard (Figure 84). This high number is probably due to the many government assis-

tance programs that only formalized enterprises have access to. Besides, regardless of the procedure and enabling infrastructure to support this, business permits and licenses can provide legal certainty and become a means of empowerment for micro business actors in developing their business. A formal business license can also minimize the risk of a company being shut down by the government and can be a powerful tool to support access to a formal funding source that can help micro enterprises boost their performance. Moreover, legalized enterprises can also participate in public bids or act as suppliers or retailers of larger companies. ILO (2017) point out that the formalization of businesses will also benefit governments and society by promoting a robust business environment, economic growth, and better working conditions. Overall, formalized businesses will also lead to more tax revenue, which in turn leads to better public goods and services.

Conversely, about 17% of respondents from micro enterprises do not plan to formalize their business. Some of them considered the cost of getting business permits or licenses to be prohibitively high (39%) and some cited the complicated procedures and specialized documents that need to be prepared (21%). Others think that their businesses are running relatively well without any formal licenses (40%). Therefore, socialization and active assistance regarding the importance and benefits of a formalized business is important for the micro enterprise.

On the other hand, the impact of COVID-19 might lead to a switch in business sectors for many enterprises. One of the FGD participants of this study in West Java had to switch from selling coffee to farming to support his family and so had to return to his native village where he could live more cheaply. This dramatic change in the way he did business is due to a steep drop in sales as the government started to confirm cases of COVID-19 and promote physical distancing. The lower sales and decrease in profits from his coffee business made it so he could not cover the operational costs of running such a business anymore.

Donthu and Gustafson (2020) found that the COVID-19 pandemic has changed the behavior of the market. Demand from the consumer is more likely shifting, for example, from consumption of ready-to-eat food to more demand for fresh food to cook at home. A shift was also identified from secondary and tertiary needs to fulfil basic needs because of the uncertainty of the pandemic era. This shift in demand is followed by adjustment on the part of businesses, for example, by focusing on selling products and services related to promotion of a healthy lifestyle, a booming trend since the COVID-19 pandemic. Switching to a more profitable business sector is possible with MSMEs, especially micro enterprises that are flexible enough to remodel their business more easily compared to large businesses.

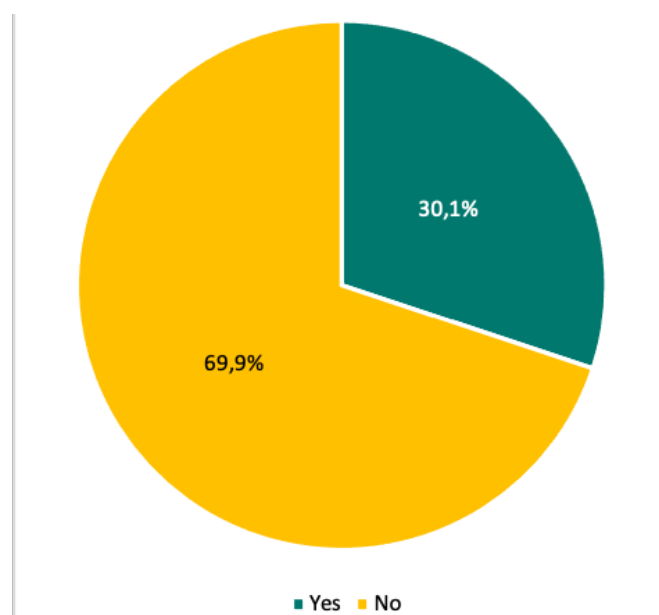


Figure 85. Plan of Micro Enterprise for Switching to Other Sectors

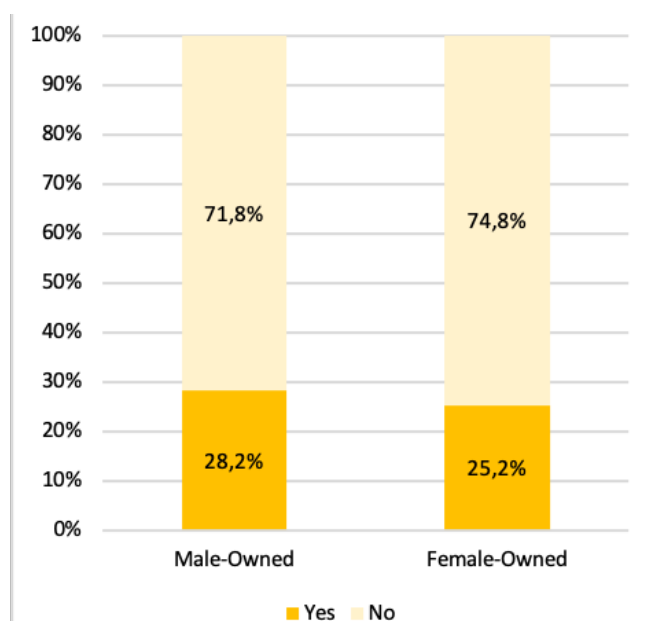


Figure 86. Plan of Micro Enterprise for Switching to Other Sectors and Owner Gender

This survey found that only 30% of respondents from the micro enterprise planned to switch to other sectors. Female owners are less likely to have plans to switch to another sector, which may be due to the nature of women, since they tend to be more risk averse than men. (Eckel & Grossman., 2008).

Nearly half the respondents from micro businesses tend to switch to the food-and-beverage business sector. Meanwhile, 70% of the remaining businesses are not planning to switch to other sectors (Figure 85). From further confirmation through in-depth interviews and FGDs, a reluctance to switch business sectors is motivated by investment in fixed capital such as machinery, operational systems, as well as skill development. For example, some business owners in Riau, in an in-depth interview, admitted that they try to survive by running their current business although they cannot predict how long they can survive doing this. They prefer to make potentially profitable adjustments to the products they offer such as going from producing clothing to producing anti-viral masks to fulfil the demand from consumers. But this adjustment falls short of switching to another business sector altogether, and they do not have any plans to do so in the future.

Small Enterprise. Cruz et al. (2020) divided the impact of the COVID-19 pandemic on MSMEs into two major phases: phase 1 is outbreak (first six months) and phase 2 is a recovery (next 18 months). One adverse effect that might be experienced by businesses during this time, especially MSMEs, is the financial shock that leads to delayed investment due to credit restraints. Besides, in relation to uncertain conditions that may still occur in phase 2, investment recovers only gradually as uncertainty dissipates. Therefore, firms avoid investing in risky projects.

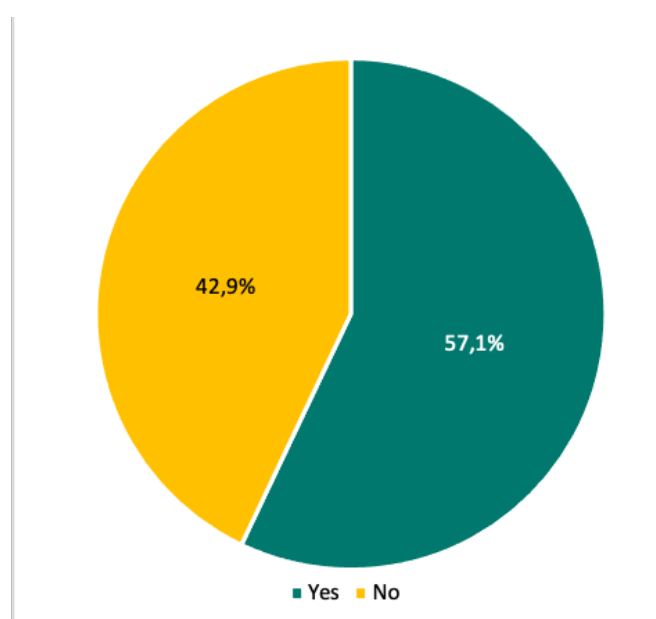


Figure 87. Change/Cancel/ Delay on Investment or Expansion Planning (Small Business)

The framework from Cruz et al (2020) is in line with the results of the survey. According to the survey, 57% of respondents from small enterprises admit that they have changed, cancelled, or delayed investment and/or expansion planning during the COVID-19 pandemic. Meanwhile, the other 43% of respondents from small enterprises said that the COVID-19 pandemic has not affected their plans related to investment or expansion (Figure 87). For respondents who have postponed investment or expansion plans, nearly half of them admit that the investment value is around IDR 100 to 500 million (Figure 88). When owner gender is factored in, the value of investments delayed seems to be higher for male entrepreneurs compared than for female entrepreneurs (Figure 89). This result again indicates that women are more risk averse than men (Eckel & Grossman, 2008) and less motivated to expand their businesses. According to Aidis (2007) women are more likely to cite “push” factors such as “necessity” or “needs” (e.g. the need to supplement household income) as important reasons for running a business. While men are more likely than their female counterparts to cite “pull” factors such as a potentially lucrative business opportunity.

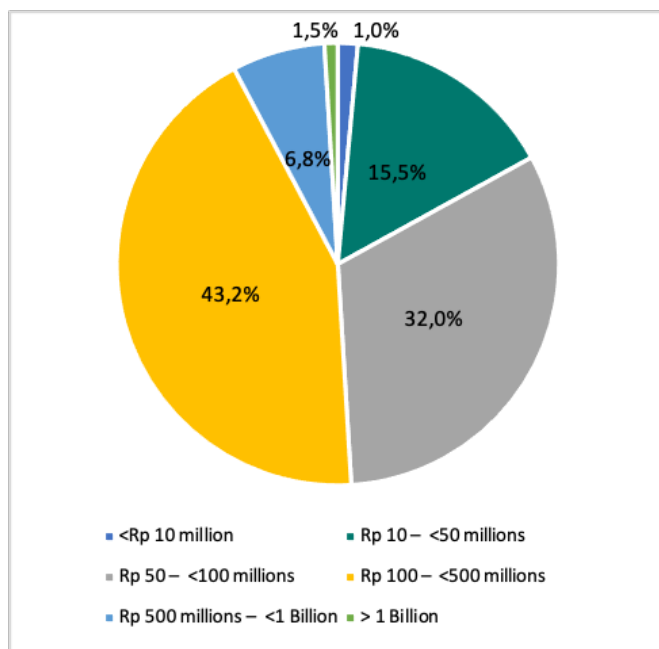


Figure 88. Estimated Value of Pending Investment or Expansion (Small Businesses)

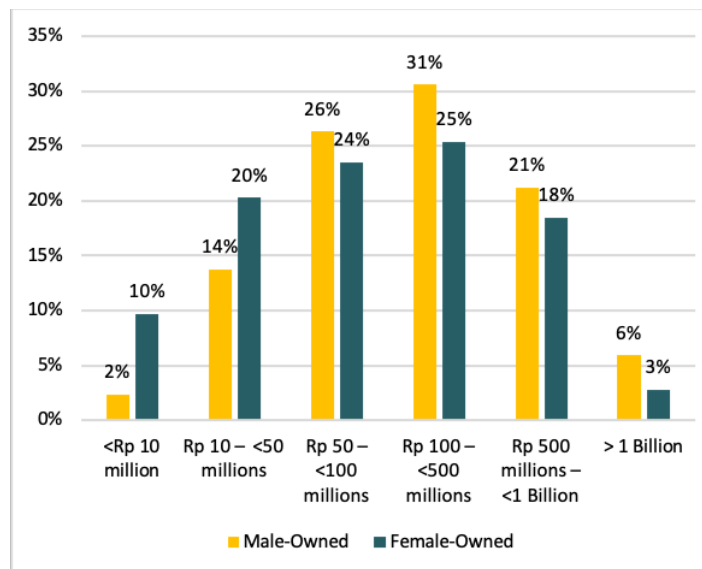


Figure 89. Estimated Value of Pending Investment or Expansion (Small Businesses) and Owner Gender

Medium enterprise. As for medium enterprises, there is only slightly different from the small enterprise. As many 44% of the respondent from medium enterprises said that they do not change, cancel, or delay in investment and expansion planning due to the COVID-19 pandemic. Meanwhile, the other 57% confirmed that the COVID-19 pandemic affects their investment and expansion planning. There is no big difference between small and medium enterprises regarding this issue (Figure 90).

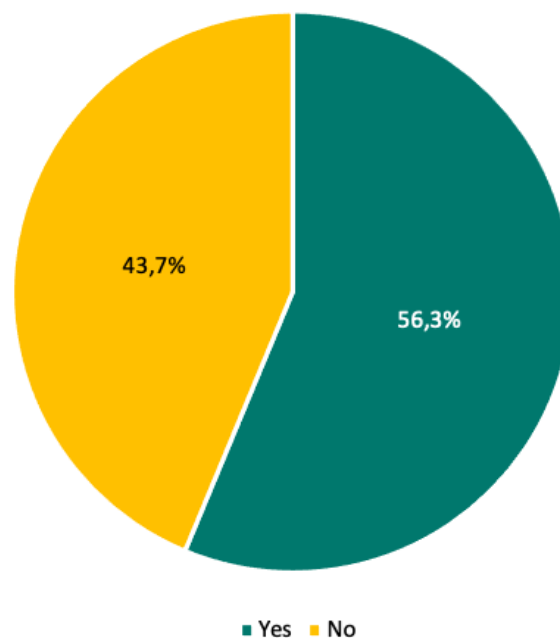


Figure 90. Change/Cancel/ Delay on Investment or Expansion Planning (Medium and Large Businesses)

Responding to such an impact on investment, Cruz et al. (2020) suggested several actions that can be performed to improve MSME investment in the recovery phase. To boost investment, the government needs to restore credit flows through MSMEs' credit guarantee scheme and expanded credit factoring programs. Ensuring a supply chain for MSME expansion also needs to be addressed by expanding import- and export-credit arrangements and keeping import duties low to facilitate access to imported inputs. Other actions related to investment that are urgently needed are recalibration of tax incentives to promote investments in innovation technologies, as well as implementation of support programs that

promote firm and productivity growth: for example, promoting investments for training (worker, management training, BDS, technology adoption).

Having a long-term economic plan is also important for boosting investment, especially when it comes to small and medium enterprises. Besides promoting demand and economic stability, expanding markets can also improve business performance during the recovery phase. Change of market orientation, both in domestic goods and exports, should be considered as the behavior of the market drastically changes due to the COVID-19 pandemic. However, a long-term plan for changing market orientation is only considered by around 30% of the respondents from the medium enterprise, where most think the domestic market is the best option for market change orientation. Another 71% do not have a plan to change their market orientation (Figure 91). Although the majority of both male and female MSME owners are including changing market orientation in their long-term planning, female MSME owners seem to be more likely to have a plan to change their market orientation compared to male MSME owners (Figure 92).

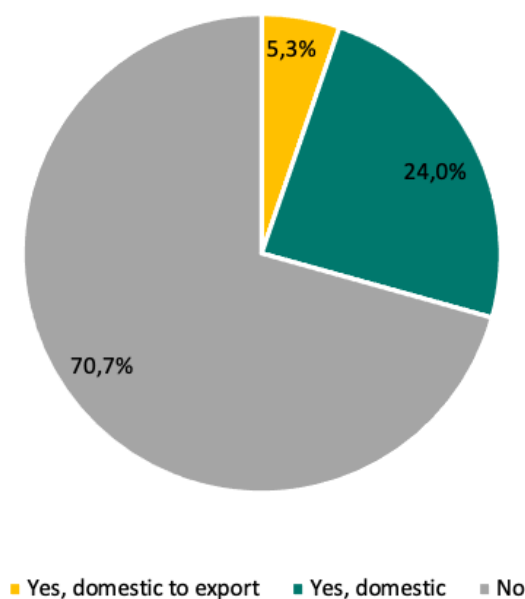


Figure 91. Change in Market Orientation (Medium and Large Businesses)

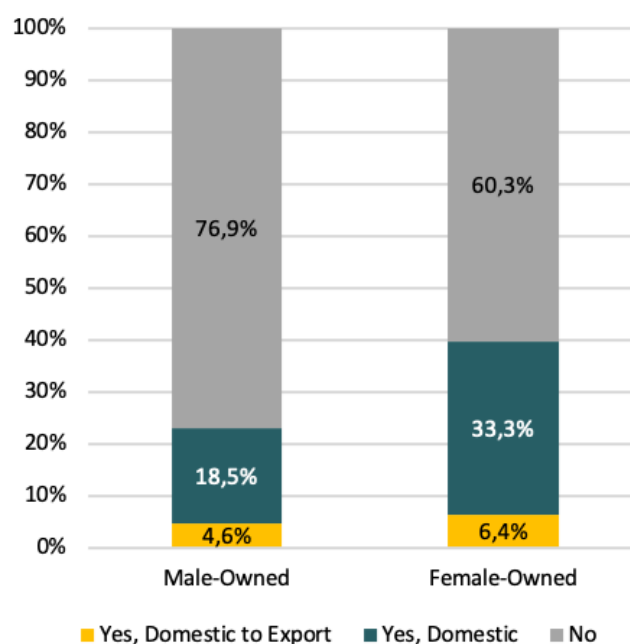


Figure 92. Change in Market Orientation (Medium and Large Businesses) and Owner Gender

Using data obtained through FGD and in-depth interviews, it can be confirmed that most MSMEs do not have plans to export their products in the event of uncertain market conditions and disruptions in the supply chain. Meanwhile, for the domestic market, the consideration of the high cost of product delivery when the consumers from the business location might lead to less willingness to go through with transactions, which will make market expansion less viable.

BOX 6.**Empowering the Disabled Community****Business that Humanized Humans**

Established in Surabaya in 1995, Tiara HandiCraft focuses on developing its product line using textile waste as their production material. In their first two years in business, the employees of Tiara Handicraft were no different than those in other businesses. But Tiara HandiCraft eventually began to employ workers with disabilities. Titik, the owner, is an equal opportunity employer and does not discriminate against those with disabilities. She often finds that people with disabilities are more eager to work, not afraid to learn new skills, and have a better work ethic than those without disabilities, but they do not always come equipped with sufficient skills.



Figure - Box 6. Titik and Workers of Tiara HandiCraft

Source: Documentation of Tiara HandiCraft

Titik trained the people from the nursing home to prepare them to work for the company. However, people with disabilities have fewer productive years overall than those who are not handicapped, which makes companies reluctant to employ them. Knowing this, Titik chose to train them, hire them, and emphasize an independent work ethic. This one of the reasons why Tiara HandiCraft decided to focus on processing textile waste because this work can be done efficiently even by people with disabilities. Besides, the utilization of textile waste products will also help to save our ecosystems, and Titik's ability to develop Tiara HandiCraft's business and empowering people with disabilities led to her receiving the first Global Entrepreneurship Award in Indonesia and had an opportunity to give a speech in the United Nations Forum.

When expanding their business, Tiara HandiCraft also needs to consider market trends. Titik tries to follow market trends in running her business but also still adjusts to her workers' capacities. Titik points out that the most critical aspect of working with disabled people is to emphasize the human aspect of the job. It is necessary to not only properly train the workers but to also nurture them: Titik realized that society often considers disabled people a disgrace to their family. She wants their families to be proud and wants to prove that people with disabilities could do import-

ant work despite their limitations. She also encourages her male workers to work extra hard because they will be the backbone of the family. For this reason and because of increased media exposure, the families of the Tiara HandiCraft workers fully support their activities, and many of the workers come from various regions in Indonesia. In terms of facilities, Titik's business environment has not been able to properly cater to workers with disabilities. However, the workers still feel comfortable because the work environment is decent, and Titik treats them with dignity.

Titik also proved that women can become successful entrepreneurs. At first, she faced some difficulties because many important legal documents needed to be in business are under the name of the husband, and many people think that an entrepreneur should be a man. Titik thinks that the participation of women in the business sector, particularly as entrepreneurs, needs to be encouraged. And she believes they can be successful without having to sacrifice their role as a wife or a mother.

Striving during COVID-19 Pandemic

In this pandemic era, the most significant impact on Tiara HandiCraft has been the 40% drop in sales at the beginning of the pandemic. This happened because most of their sales are from souvenirs for weddings and events that, due to the pandemic, are mostly delayed or cannot be held. Recently, the company's sales figures started to go up, but they are still lower than what they were before the pandemic. Declining sales and income require Titik to utilize her stock of materials and adjust to the needs of consumers. Her business shifted to the production of reusable masks and personal protective equipment to keep things running. Besides shifts in production, the marketing strategy also had to be adjusted from offline to online. However, Titik thinks that her products, which are handicrafts, are not suitable for online marketing. There are also many options for learning about business, particularly for MSMEs, through online seminars. But Titik prefers to learn from YouTube because she felt it was more effective. The workers at Tiara HandiCraft were also impacted by the current COVID-19 conditions. Although there were no layoffs, many of the workers still in their hometown could not work at Tiara HandiCraft. Now, there are only ten workers at the official site of the business, consisting of seven women and three men; however, only three of these employees have the capacity for work because the others are autistic. Titik was also very concerned about her workers' health, so she applied health protocols at her place of business to prevent disease transmission.

Role of Government Assistance for MSMEs

In the last five months, many things had to be adjusted at Tiara HandiCraft. The role of government assistance is required to keep the continuity of MSMEs. At the beginning of the pandemic, there was a listing of MSMEs in each sector, but there has been no government assistance received by Tiara HandiCraft in the form of capital. There was one offer from the government to supply reusable masks, but the price offered was very cheap and could not be of help to the business at all. If the government can give MSMEs work, it will help the other MSMEs, too, as long the prices are reasonable. Based on Titik's experience, government assistance is also needed for reducing the export costs for small-scale exports by MSMEs. She believes that in this current condition, the business's recovery process can only be done after one to two years after the pandemic ends.

BOX 7.

Who is Most Likely to be Laid Off?

Layoffs are difficult for everyone, especially during a pandemic. The coronavirus outbreak has prompted mass layoffs and furloughs for many workers and enterprises. This condition would also be the case for many MSMEs in Indonesia. The damage of Covid-19 on the labor market is seemed to be long-lasting and deep. Owners are dealing with a large number of workers that need to be laid off. The question would be who is most likely to be laid off first?



Figure - Box 7-1. Who is Most Likely to be Laid-off?

We asked this specific question: what is the type of workers that would be laid off first? The majority of the MSMEs surveyed answered that they will lay off workers with lower productivity first. This finding seems to be obvious because keeping workers with lower productivity is not an ideal decision during this unprecedented period. The second group is people who do not have dependents. This group will be the most likely type of workers that would be released from the job by their owners.

Finally, and it shows how this pandemic affects women massively, around 11.9 percent of the enterprises in this study answered that women employees will be the first to be laid off during this crisis. This evidence again suggests that women would be one of the most vulnerable groups due to COVID-19. Even though the number is not as high as for workers with lower productivity and workers without dependents, but this result shows that women are one of the most vulnerable groups that will have a higher probability to lose their job during this pandemic.

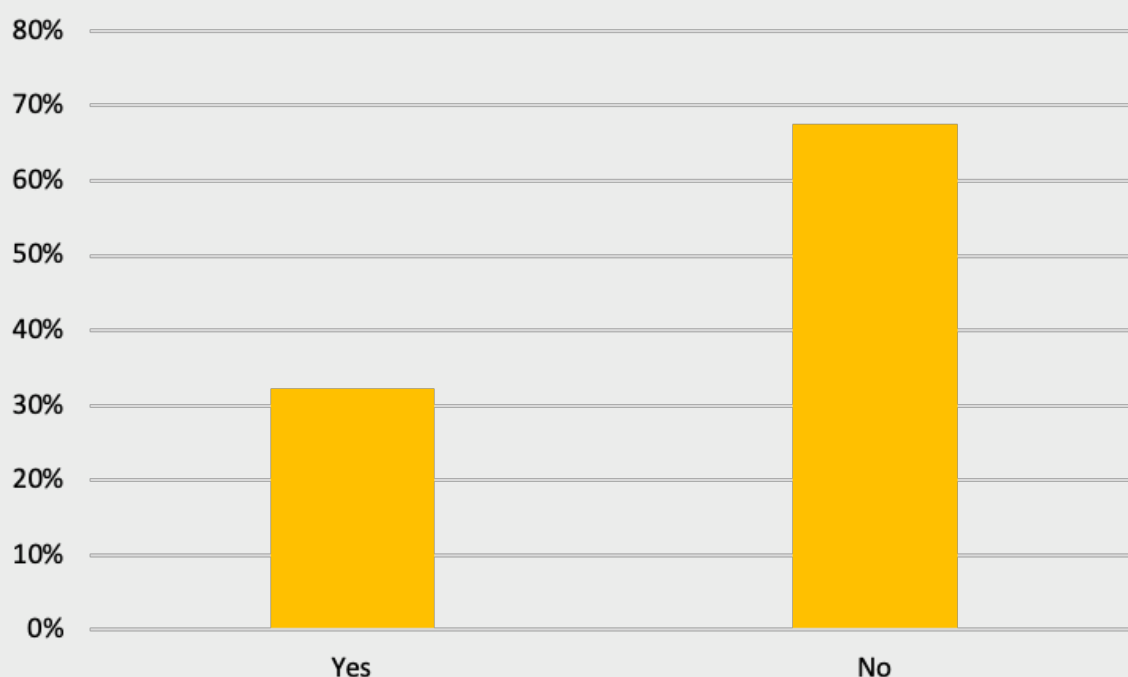
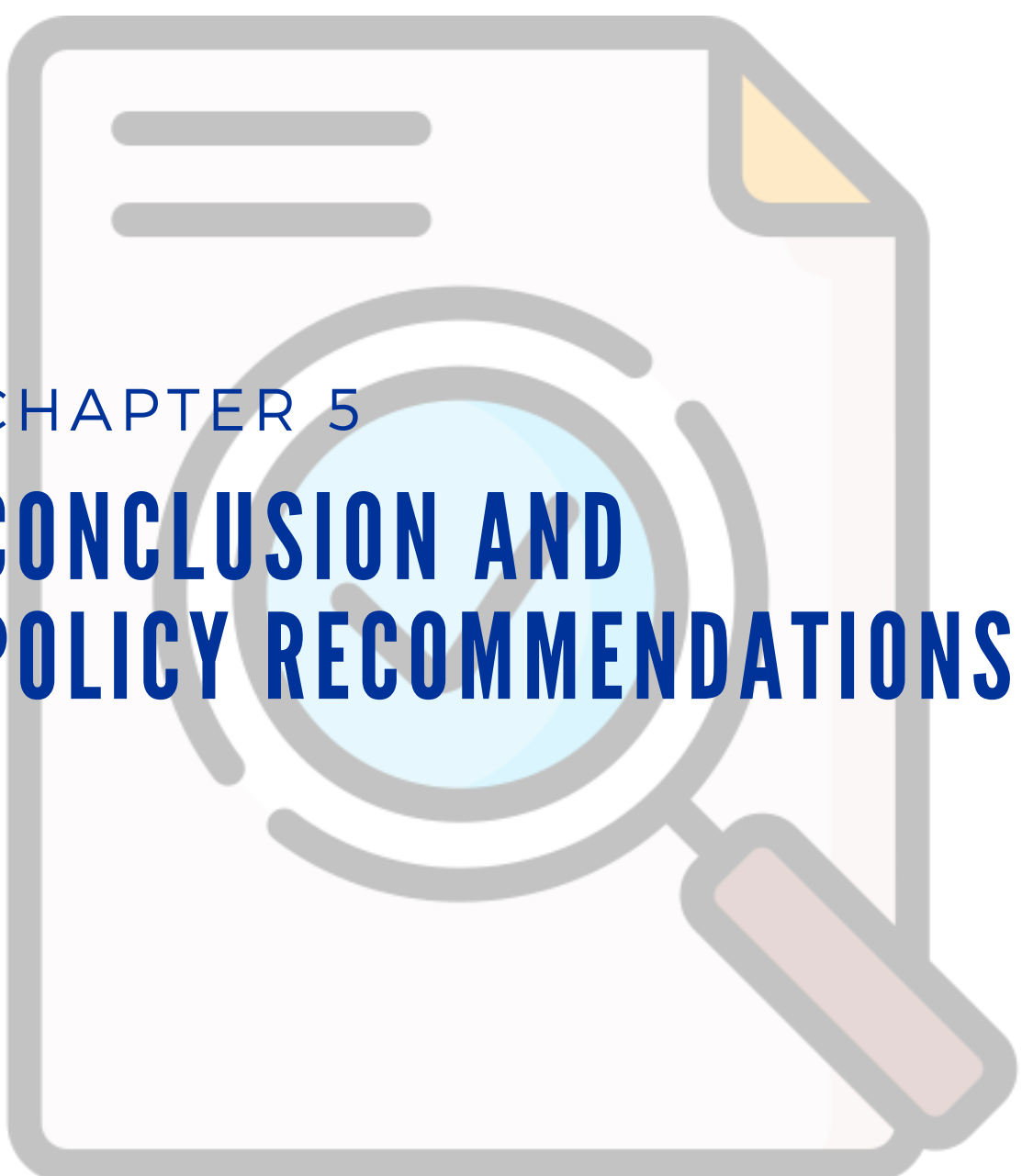


Figure - Box 7-2. Would Marginalized Workers be the First to be Laid-off?

We also asked whether other types of marginalized groups (elderly, people with disabilities, ex-convict, etc.) would be the first in line to be fired due to COVID-19. The majority of the MSMEs answered that they would not dismiss these groups. Nonetheless, more than a third of these enterprises are more likely to fire these marginalized workers. This result would again be evidence that marginalized people will suffer greatly due to COVID-19 compared to other less vulnerable groups. Therefore, further attention needs to be provided for these groups to ensure that they will not lose their jobs and therefore could fulfill their basic needs and will get through this difficult time.

A stylized background illustration of a document with a magnifying glass. The document is light gray with a yellow corner tab. A magnifying glass with a light blue lens and a brown handle is positioned over the document. The text 'CHAPTER 5' is written in a dark blue, sans-serif font above the main title.

CHAPTER 5

CONCLUSION AND POLICY RECOMMENDATIONS

Chapter 5

Conclusion and Policy Recommendations

5.1. Conclusion

MSMEs are a key contributor to economic activity in Indonesia. Nonetheless, we have limited knowledge about how these businesses were affected by the COVID-19 crisis. This report provides results from a large-scale survey on the impact of COVID-19 on micro, small, and medium enterprises in Indonesia.

Our survey was conducted between July and August 2020 and obtained around 1,180 responses across the country. We asked about the impact of COVID-19 for MSMEs in the short run and also what their strategy would be in the medium- and long-term to mitigate the aftermath of COVID-19 for their business. This study also combined information gathered from in-depth interviews with several MSMEs across Indonesia and from focus group discussion in several areas (Jakarta, West Java, Riau, West Nusa Tenggara, and Gorontalo).

5.1.1 The impact of COVID-19 on MSMEs

Consistent with many predictions and similar studies, this study suggests that in the short run, COVID-19 has impacted almost all of the MSMEs in our sample. For the supply sides, MSMEs found it difficult to obtain raw materials and also have been hit by an increase in raw material prices. If we look at the demand side, MSMEs found issues with determining the price of their products, decreasing demand for these products, and also problems with product distribution. This survey shows that almost 88% of the MSMEs surveyed experienced a decrease in demand during the pandemic. A third of these MSMEs have experienced a 40% to 60% decrease in demand for their product. In terms of gender, more than 30% of female-owned MSMEs faced a decrease in demand by 40% to 60%, a similar figure for male-owned MSMEs.

This study found that the three most important financial problems businesses experienced during the pandemic are fixed costs (e.g. rental costs), invoice payments, and loan repayments. Micro and medium enterprises have found fixed costs to be the main problems. We also asked the MSMEs about their business performance. We found that around 77% of the enterprises in this study have had to cope with lower revenues. Almost 35% of the MSMEs expect a 40% to 60% decrease in their revenue due to COVID-19. Similarly, almost 88% of the MSMEs experienced a lower profit margin during the pandemic. A third of the MSMEs encountered a 40% to 60% decrease in their profit margin.

In terms of the heterogeneity effect based on gender, almost 40% of female-owned MSMEs noted that they will experience a 40% to 60% decrease in revenue. Around 25% of them predict that they will experience a 20% to 40% decrease in revenue. On the other hand, more than 30% of male-owned MSMEs answered that their revenue will decrease by 20% to 40%.

COVID-19 also affects MSMEs' assets. This study suggests that the majority of MSMEs experienced a decrease in their asset value. More than 34% of MSMEs faced a drop in their asset value by 20% to 40%. Another 30% experienced a decrease in their asset values of 40% to 60%. We also asked the enterprises whether COVID-19 affected their employees. We found that almost 60% of the MSMEs report that there have been changes in the number of their workers. It means that many of the MSMEs have had to reduce their employee numbers due to the COVID-19 crisis.

For the medium-term strategy following the aftermath of COVID-19, we asked about how long their business can survive during a pandemic. Based on the survey, it was mostly service sector MSMEs that were confident they could ride out the pandemic and still be solvent. Most of the MSMEs in the service sector are confident that their business could stay afloat for nine months in this condition.

5.1.2. MSMEs strategy to cope with the hardship

During the pandemic, one of the strategies used by MSMEs to distribute and promote their products is joining the online marketplace. The number of enterprises that began selling their wares online has risen to 44% compared to only 28% who were part of the marketplace before the pandemic. There are more female-owned MSMEs doing business online than MSMEs owned by males after COVID-19 pandemic. More than 80% of the MSMEs have plans to do marketing promotion. Most of the MSMEs in our study choose social media channels for their marketing promotion, followed by ads on social media. Social media marketing strategies are more likely to be carried out by female-owned MSMEs. This finding suggests that many MSMEs are planning to shift their strategy into the digital marketplace.

This study also asked the MSMEs about their plans for accessing working capital. More than 50% of MSMEs had a strategy to access working capital: female-owned MSMEs have tended to have more access to additional working capital than male-owned businesses. Meanwhile, most of the MSMEs relied on banks for capital access, but male-owned MSMEs are more likely to get capital access from banks compared to female-owned MSMEs. The next most popular method was getting financial assistance from cooperatives and family. We also asked whether the enterprises have any plans to shut down their businesses during the pandemic. We found that the majority of MSMEs do not have a plan to shut down their businesses, and there is only a slight percentage difference between female- and male-owned MSMEs in this regard.

5.1.3. The effectiveness of external assistance, including government assistance

This survey suggests that only 17% of MSMEs receive or apply for assistance. This number is very low compared to the effort that has been made by the government in promoting the programs. Despite being better informed about the Indonesian government's social assistance programs, female entrepreneurs are less likely to seek/receive government social assistance. The result is relatively similar when considering the size of the MSME: for micro enterprises only 16.8% receive or apply for assistance, 21.3% for small enterprises, and only 10.1% for medium and large businesses. One reason why these MSMEs did not get assistance could be that they simply did not know about the program. We found that almost 57% of the respondents had adequate information about government assistance.

For MSMEs who received assistance from the government, most of this assistance was for the distribution of goods, followed by extensions of the grace period for the creditor and also help with interest subsidies. The main problem we find with government programs is that many of these MSMEs are reluctant to apply for the assistance because their needs go beyond that of mere financial subsidy.

In terms of expectations of financial and nonfinancial assistance there is no distinct pattern when it comes to the gender of the MSME owner. Both male and female owners expected the financial aid from the government to be right on target. Second, the information about the program seems to be suboptimal as it suggests the majority of the MSMEs do not know about these assistance programs. For nonfinancial assistance, respondents expected assistance in the form of better access to the market and assistance in the distribution process. We find from the in-depth interviews that these two types of assistance are helpful for the majority of the MSMEs.

5.1.4. Long-term perception and strategy

In the last part of the study, we also asked MSMEs to give their predictions of what the future holds. Most of the MSME owners agreed that issues concerning marketing, competition, production, and human resources will be challenging in the long run. Out of these four challenges, marketing, competition, and production will be the most problematic for MSMEs in the future. Female- and male-owned MSMEs seemed to have the same concerns in this regard.

In terms of MSME owners' plans to minimize the impact of COVID-19 on their businesses, micro and small enterprises usually made a medium- to long-term business plan. Most MSMEs are planning to open a reserve fund. These are the two strategies adopted by the respondents to ensure they could cope if and when there is another pandemic or crisis in the future. In terms of the estimated amount of funds or capital working needed, around 43% of the businesses needed additional funds of IDR100 to 500 million and a third of the MSMEs require around IDR50-100 million in working capital. In addition, both female- and male-owned MSMEs have relatively the same proportion of additional funds need.

In the last part of the survey, we asked MSME owners about their long-term plans. For micro businesses, more than 80% of them planned to formalize their business activity by getting a business license. Female-owned MSMEs tend to be more willing to formalize their businesses compared to male-owned MSMEs. Only one third of these micro businesses planned to switch their business to other sectors, and male-owned MSMEs are more likely to change their business strategies and delve into other sectors in order to stay up and running during the pandemic. Most small businesses had to change, delay, or even cancel their plans to expand their businesses because of the pandemic. Lastly, for medium and large businesses, around 56% are planning to delay expansion. Most of the medium and large businesses were not planning to change their market orientation.

There is also a pattern that indicates female MSME owner is more keen than male MSME owner to apply new strategy when the strategy possess minimum risk. The survey shows that female MSMEs are more likely to formalize their business, join digital platforms, develop a marketing plan or expand their market orientation. Meanwhile, strategies with higher risks involved such as switching to another business sector is the less popular approach for women MSME owners.

5.2 Policy recommendation

Based on our analysis and conclusion, this study offers several recommendations to support MSMEs during this crisis, such as (i) the appropriate types of government support, (ii) increasing the effectiveness of government supports in place and (iii) Organizing and coordinating stakeholders' support on MSMEs.

Most required types of government support

Promoting and enhancing demand for MSME products. Since one of the biggest impacts of COVID-19 on MSME is the significant drop in the demand for their products. Consequently, this leads to lower revenue for the majority of MSMEs. Thus, such a policy is essential to allow the MSME to survive the pandemic. This could be done by conducting a policy that will remove (or at least reduce) the barriers potential customers could face, such as by initiating a local online marketplace or subsidize delivery fee for intracity purchase as has been done in some local governments. Other than that, the government also can contribute directly by buying the products of MSMEs directly.

Cost burden relief policy. The cost aspect is deemed as the most challenging aspect in the long term by the majority of respondents. The government could contribute by providing assistance that provides relief in terms of cost for the MSME. For example, the government could subsidize some costs that are deemed significant, such as rental costs or utility costs. The government could also provide mediation to the renter/landlord association to lessen the rent burden on the tenant, since there would now be a co-operative arrangement between tenant, renter, and the government.

Coaching/ training policy. The COVID-19 pandemic has forced many MSME to innovate and make adjustment in their business practices to survive. However, such moves often require skill beyond the current skill set of the MSME employees. Therefore, the government could play an important role by providing training that is essential for MSMEs during the pandemic. For example, the government could provide training for online marketing, digital business, or even how to shift business sectors temporarily such as moving to the production of simple health equipment (e.g. personal mask, or personal protective equipment). Other than that, coaching or training related to legalizing business may also be relevant and has been requested by several MSMEs. Legalization of the businesses could help in accessing the potential market, but it would also help in building a more reliable database to ensure the effectiveness of other assistance programs.

Increasing the effectiveness of government supports in place

Better communication or publication via a targeted channel. Better quality of and distribution of government publications are essential, since the majority of the MSMEs are still not aware of government assistance programs. It is also relevant to use different channels of marketing for each target group of the program since there is asymmetric information regarding government assistance across a group of MSMEs where larger enterprises tend to be less aware of the existence of such assistance. Moreover, the government not only has to widely publicize these assistance programs but also has to ensure the clarity of the details such as application procedures, terms and conditions, waiting periods, etc.

Better targeting and application procedure. A reliable database of recipients is necessary to ensure effective disbursement of government assistance. Therefore, the government should devise application and verification procedures that allow the database to be updated as frequently as possible, in such a way as to reduce inclusion and exclusion errors over time. Some distinctions regarding the application procedure are needed, whereas the process for smaller enterprises should be less intricate since smaller business will have fewer resources and time to complete the application.

Organizing and coordinating stakeholders' support of MSMEs

Synchronization of central and local government assistance. To increase the effectiveness of government assistance, there should be synchronization between local and central government. This is necessary not only to prevent overlap between both types of assistance but also to avoid confusion among MSMEs themselves. To do this, the central government could provide guidelines regarding local government contributions to assisting the MSME sector. Moreover, the central government can even oblige the province or district governments to provide minimum compulsory assistance that should be adjusted based on each local government's ability and fiscal capacity.

Engaging the private sector. Engagement of various stakeholders, especially in the private sector, is a must, knowing that there is a budget limitation of how much stimulus the government could give to MSMEs. The government could provide mediation and discussion among associations across the business sector, enabling sectors such as the financial and the logistic sectors to map the needs and potential contributions from each party.

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