

The Impact of Covid-19 on Micro, Small, and Medium Enterprises

Evidence of Early-State Losses From April to August 2020

Muhammad Zawil Kiram^{1,*} Muhammad Ikhwan Saputra² Fakhrurrazi³

¹ Marmara University

² Ar-Raniry State Islamic University

³ Malikussaleh University

*Corresponding author. Email: mzawil@marun.edu.tr

ABSTRACT

The COVID-19 novelty has affected our lives in various aspects and it has spread with alarming speed, infecting millions, and bringing economic activities to a near standstill. COVID-19 pandemic is not just a health crisis, but it is also affecting societies and economies at their core. Small businesses tend to be vulnerable during the economic crisis, in part because they have fewer resources with which to adapt to a changing context. The aim of this research is to explore the impact of COVID-19 on the micro, small, and medium enterprises (MSMEs) in Dewantara Aceh Indonesia, focusing on three questions. Firstly, how did the coronavirus affect the activities of economic societies? Secondly, how did small businesses adjust to the economic disruptions resulting from COVID-19? Thirdly, what were the estimated first-stage losses that were caused by the COVID-19 pandemic? The data were collected in a time scale of five months from April to August 2020. This research was conducted through a qualitative method with primary data collection techniques including socio-economic surveys, participant observations, and interviews. Meanwhile, the research data were completed with a comprehensive secondary literature review that has a correlation to the research topic. The result of this study showed that the COVID-19 pandemic caused income of MSMEs decreased due to lack of costumers and instability of economic activities. In order to survive, the MSMEs entrepreneurs used online marketing strategies (Instagram and Facebook) and provided free delivery system. For the last five months, the MSMEs did not experience any losses due to COVID-19 because they adjusted the selling products based on market demands so that expenses can be proportional to their income.

Keywords: Covid-19, Micro, Small, Medium, Enterprises, Aceh

1. INTRODUCTION

2020 is one of the years that will be recorded in history as a difficult time. The spread of the deadly virus from the city of Wuhan, China, to the rest of the world has made human life change drastically. The virus was identified as a new Coronavirus (Severe Acute Respiratory Syndrome Coronavirus 2, or SARS-CoV-2), and later named as Coronavirus Disease-19 or COVID-19 (Qiu et al., 2020). The coronavirus has not only affected social life, politics, education, health, but also hit economy badly. According to the International Monetary Fund, the global economy contracted about 4.9 percent in June 2020. The report mentioned that the

reasons for this contraction are greater persistence in social distancing activities, lower activity during lockdowns, a steeper decline in productivity amongst firms that have opened up for business, and greater uncertainty (International Monetary Fund, 2020). Production has plummeted, investment plans are being shelved, consumer spending has fallen sharply, and job losses have surged. Financial market sentiment has deteriorated, foreign direct investment inflows are dropping, and emerging market countries are experiencing large capital outflows (Biswajit, 2020)

Although some high-income countries are also having difficulty coping with the effects of COVID-19 pandemic, it is worse for low- and middle-income

countries which do not have the institutional capacity and or the contingency mechanisms and funds to stimulate their economic and protect the livelihoods of the most vulnerable people during the global crisis. Low- and middle-income countries are also losing trade and suffering from significant capital outflows, as investors look for safer havens. Remittances are decreasing and tourism revenue is collapsing.

Covid-19 pandemic has had an impact on changes in the social order of life and decreased economic performance in most countries in the world, including Indonesia. Indonesia confirmed the first case of the coronavirus infection in early March 2020. Since then, various countermeasures have been carried out by the government to reduce the impact of the Covid-19 pandemic in various sectors which have affected almost all sectors, not only health, economic sector has also suffered from serious impacts due to the corona virus outbreak. Restrictions on community activities give an effect on business activities which in turn have an impact on the economy.

The Indonesian Central Bureau of Statistics (BPS) stated that Indonesia's economic growth in the second quarter of 2020 was minus 5.32 percent. The economic turmoil caused by the Covid-19 pandemic hit Indonesia, which had at least three major impacts on the economy. Firstly, household consumption or purchasing power, which is a 60 percent support for the economy, falls quite deep. BPS recorded that household consumption shrank from 5.02 percent in the first quarter of 2019 to 2.84 percent in the first quarter of this year (BPS, 2020).

Secondly, the Covid-19 pandemic has caused prolonged uncertainty so that investment will also weaken and have implications for the cessation of business. Lastly, the whole world is experiencing a weakening economy, causing commodity prices to fall, and Indonesian exports to several countries to stop (BPS, 2020). In Indonesia, the impact of COVID-19 is not only felt by large businesses but also has a remarkable impact on micro, small, and medium enterprises (MSMEs).

On a national scale, around 37,000 micro, small and medium enterprises have reported that they have been very seriously affected by this pandemic which includes around 56% having reported a decrease in sales, 22% reported problems with the aspects of financing, 15% reported problems related to the distribution of goods and 4 % report difficulties in meeting raw materials (Rahman, 2020). These problems is experienced by many micro, small, and medium enterprises around Indonesia including in Dewantara, Aceh Province.

In order to find out how COVID-19 affect micro, small, and medium enterprises in Dewantara District, North Aceh, researchers conducted surveys on 220 enterprises. The data collected is a five-month scale

from April to August 2020 because this will provide researchers with an understanding of how the spread of Covid-19 affects economic activities during those five months. Furthermore, this five-month calculation will provide an overview of the magnitude of losses suffered by entrepreneurs.

2. METHOD

Methodology of this research was based upon qualitative descriptive research method. The primary data was collected through socio-economic survey, participant observation, and key informant interview. The informants were chosen purposively based on considerations such as the size of the business and the length of time the business has been carried out by the entrepreneurs. In interview, researchers used an unstructured interview method in which there was in-depth interview technique which allows informants to provide in-depth information. Meanwhile, secondary data obtained through library research with a comprehensive secondary source review that related to the study.

3. DISCUSSION

3.1. Characteristics of Micro, Small, and Medium Enterprises in Dewantara North Aceh

In the Republic of Indonesia Law No. 20 of 2008 concerning micro, small and medium enterprises, it is stated that micro enterprises are productive businesses owned by individuals and/or individual business entities. Small Business is a productive economic business that stands alone, which is carried out by an individual or a business entity that is not a subsidiary or branch of a company that is owned, controlled, or is part of either directly or indirectly from a Medium or Large Business.

Medium Enterprises are productive economic enterprises that are independent, carried out by individuals or business entities that are not subsidiaries or branch companies. Meanwhile, large enterprises are productive economic enterprises carried out by business entities with a higher net worth or annual sales proceeds than Medium Enterprises, which include state-owned or private national businesses, joint ventures, and foreign businesses carrying out economic activities in Indonesia.

A business is included in the criteria of a micro business if the business entity has a turnover or net worth of IDR 50,000,000, excluding buildings and land. In addition, the proceeds from the sale of the micro-business must reach a minimum of IDR. 300,000,000, - within one year. Small business if the business has a net worth of IDR 50,000,000 with maximum use of IDR 500,000,000. The sales results obtained for one year are

at least IDR 300,000,000 and a maximum of IDR 2,500,000,000. Many define medium-sized businesses as big businesses for some people because the wealth of medium-sized businesses reaches IDR 500,000,000 to IDR 10,000,000,000, excluding land and buildings. With the result of annual sales, it must reach IDR 2,500,000,000 to IDR 50,000,000,000. (DPR, 2008).

The characteristics and criteria of micro, small, and medium enterprises (MSMEs) in Dewantara North Aceh can be categorized as follows.

1. Human Resources (HR) in the business are not yet qualified and education level is relatively low.
2. The business does not yet have a business license and taxpayer identification number (*Nomor Pokok Wajib Pajak, NPWP*).
3. Businesses do not yet have a complete administrative system, and finances have not differentiated which ones are private and which are business.
4. The location of the business is still in the home area and not strategic enough.
5. Management is still carried out in a simple manner, and there are still a few employees who work around 5 to 10 people (usually family member).
6. The business is still small in scope, and the proceeds from sales are re-used as business capital.
7. Most micro, small, and medium enterprises still depend on sales proceeds (benefits) to support these business activities.

In North Aceh, there are 3,660 micro, small and medium enterprises consisting of various businesses. Meanwhile, in the Dewantara sub-district, there are approximately 450 MSMEs with more than 30 types of businesses (Aceh, 2017). However, in this research, we only took 220 businesses as the research object, which are the most frequent businesses that carry out by people in Dewantara North Aceh, as presented below.

Table I
Types of Micro, Small, and Medium Enterprises (MSMEs) in Dewantara

No	Types of Businesses	Frequency
1	Brick Maker Businesses	70
2	Grocery Businesses	40
3	Coffee Shops	45
4	Restaurants	15
5	Street Vendors	50

Total	220
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Source; Research Survey, 2020

3.2. Impact of COVID-19 on Economic Activities and Small Businesses Strategies in Facing the Pandemic

To overcome the COVID-19 pandemic, the Indonesian government issued Government Regulation No. 21 of 2020 concerning Large-Scale Social Barriers with the aim of reducing the spread of the corona virus. The COVID-19's effect on economic activities of MSMEs can be found in many various ways. Such as disrupting the operation of MSMEs and reducing consumers (Hardilawati, 2020). In the aspect of public consumption and purchasing power, this pandemic has caused a large number of workers to decrease or even lose their income. Therefore, it has a remarkable impact on the level of consumption and purchasing power of the community, especially those in the category of informal workers and daily workers.

Furthermore, COVID-19 has also caused MSMEs income to decrease even in some cases, they have to be closed during the pandemic such as small shop workers, hawkers, traders in the market, and other workers who depend on their daily income, including in shopping centres. Many micro-businesses receive financial support from financial service institutions or banks, and only around fewer than 70 percent are able to pay their credit instalments because their businesses are affected by Covid-19.

During this pandemic, MSMEs are required to be able to adapt to changes in order to continue to carry out activities. In North Aceh, most MSMEs have come with some strategies and innovative ideas to survive from COVID-19. In order to understand how micro, small, and medium businesses adjust to disrupting caused by the coronavirus, we have interviewed the businesses owner. The survey question that we asked the owners, "is this business currently operates and what are the strategies that have been used to overcome this pandemic?"

When the survey was conducted, across the sample, 95% of brick maker businesses around Dewantara District were still operational and only 5% of them were in temporary closed because of the lack of raw material. The brick entrepreneur acknowledged that the number of brick production has remained stable since the spread of the coronavirus began. Under normal circumstances the number of bricks produced in a month can reach to 50,000 bricks. With the Coronavirus, there has been no significant reduction and they can still produce more than 40,000 bricks per month.

These activities can run smoothly because brick making is done in a separate place away from the crowd

and does not require many employees. The only obstacle faced by bricklayers is the lack of raw materials and it does not have a direct impact on the spread of COVID-19. In addition, the selling price of the bricks has not changed. In fact, there has been an increase in prices over the last few months from IDR. 200 to IDR 250-270 per brick. Therefore, we found that there is no significant effect of COVID-19 on brick maker businesses in Dewantara.

Meanwhile, the majority of grocery businesses, restaurants, and coffee shops were facing different situation. The COVID-19 pandemic has made MSMEs entrepreneurs such as grocery stores and food stalls one of the sectors affected. Grocery stores that sell daily necessities, such as rice, cooking oil, flour, sugar and several similar products, complain that they have experienced a very significant decrease from their usual sales revenue.

From the survey, we found out that 65% of grocery businesses, coffee shops and restaurants were affected by COVID-19. It is simply because the number of customers was decreasing and it affected their income as well. From April to August, most of grocery businesses, coffee shops and restaurants in Dewantara lost their customers. People were afraid to go and having meal at restaurants or hang out at coffee shops. As the consequences the profit dropped to almost 75% then usual profit.

The Covid-19 pandemic has left many traders losing their livelihoods. The closure of selling locations or the lack of buyers is the reason many traders are forced to quit their business. In Dewantara, the impact of the spread of the coronavirus has had a major impact on street vendors. April, May and June were the most difficult times for them because in the early days of the spread of COVID-19, many government policies such as lockdowns and self-isolation caused instability in their economic activities.

Thirty street vendors admitted that during the last three months (April, May, June) their sales activities had been disrupted and sometimes they did not open at all. This is because their activities are in the crowded areas such as the Krueng Geukuh market. Meanwhile, those who live in rural areas did not face a significant impact. To overcome and survive during the pandemic, small businesses (especially restaurants owners, and street vendors) in Dewantara have implemented some strategies namely digital marketing, home delivery service, and selling at home. Digital marketing is a promotional activity and digital media marketplace, by utilizing various applications such as social networks (Purwana, D., Rahmi, R., & Aditya, 2017). The digital marketing method is often used by entrepreneurs at Dewantara by using social media such as Instagram and Facebook. Digital marketing has a positive and significant effect in increasing the sales performance of

MSMEs. 70% of restaurants entrepreneurs said that digital marketing will become the main communication platform in marketing, and offline stores will be complementary, due to the ease and ability of digital marketing to reach more consumers (Hendrawan, A., Sucahyowati, H., Cahyandi, K., Indriyani, & Rayendra, 2019).

The forms of digital marketing that were done by MSMEs to promote their products consisted of; 1) Intensive promotion of product videos and photos on social media. The usage of social media is also adjusted to the product segment they have. 2) Using Facebook ads and Instagram ads, which can be easily accessed and can reach consumers with the criteria they have previously determined. 3) Involve consumers in product selection, conduct education and introduction to product quality intensively. In addition, restaurant entrepreneurs and street vendors also provide free delivery service to customers who are in close proximity to the business location, so that they can attract consumers. At the same time, they also open the business and sell their products at home and their store.

Meanwhile, Coffee and grocery shop entrepreneurs have adapted by opening their shops at certain times and implementing health protocols in their daily activities. Most of the coffee shops in Dewantara, for the past five months, also do not allow consumers to sit together in the crowd in the shop and still pay attention to social distancing and this is also has done by grocery store owners.

3.3. Estimate Losses from April to August 2020

Small companies tend to be vulnerable during an economic crisis, in part because they have fewer resources which to adapt to a changing context (International Monetary Fund, 2020). At national level, based on the results of a survey by the Central Statistics Agency (BPS) of 34,599 business actors who were affected by the corona virus pandemic in July 2020, more than 80% of respondents admitted that they experienced a decrease in income due to the covid-19 pandemic.

Business actors surveyed consisted of Large, Medium Enterprises, Small, Medium Enterprises, and Agriculture. The results showed that 84% of micro, small businesses and 82% of medium, big businesses have tended to experience a decline in earning since the pandemic has occurred. In Dewantara, 85% of MSME entrepreneurs admitted that from April to August, their income decreased due to unstable economic activities. However, they also stated that they did not suffer any losses during the pandemic. This is because UMKM entrepreneurs in Dewantara do not invest large capital in their business. In fact, most of them use the income and profits they get as capital to buy merchandise.

A business is categorized as experiencing a loss if the amount of expenses is greater than the income received. This loss can be caused by damage to materials, goods, the inability to use business property, or due to bad investments, loss of business due to competitors, the loss of reputation and goodwill in a community. In the case of MSMEs in Dewantara, we found that there were differences in the impact of pandemics on economic activity and income.

The brick makers, for example, said that they did not experience losses during the pandemic because the expenditure on buying raw materials was smaller than the profit they received. In addition, the cost of paying employee salaries also does not take too much of the income. Brick entrepreneurs also admitted that between April and August there was an increase in the selling price of bricks.

Grocery entrepreneurs, coffee shops, restaurants, and street traders have experienced different things where during the past five months they have experienced a decrease in income but there has been no significant losses. During the pandemic, they only provide merchandise according to market demand, especially street vendors and restaurants. With the reduction in the number of visitors and buyers, they also make adjustments by reducing merchandise so that their expenses can be proportional to their income and avoid losses. Meanwhile, coffee and grocery shop entrepreneurs do not experience losses even though their income is reduced because the goods they use can be stored for a long time such as oil, rice and other foodstuffs, so they can sell them at another time.

4. CONCLUSION

The global pandemic of COVID-19 has affected people's life in many ways and it has caused economic crisis and has affected thousands of micro, small, and medium enterprises in Indonesia including in Dewantara North Aceh. Most MSMEs in Dewantara depend on sales profit to support the business activities. With the spread of coronavirus the income decreased due to instability of economic activities, lack of costumers and the uncertainty of operational time. During the pandemic, MSMEs entrepreneurs have come with some innovative strategies in order to survive.

The result of survey shows that they have changed their business strategies from conventional to online marketing by using Instagram and Facebook. Moreover, the MSMEs also provided the free delivery system for customer who are relatively close around the neighbourhood. As a result, they could attract the costumers, and earn more income. Although the pandemic hit micro, small, and medium enterprises badly, for the last five months there were no losses experienced by the business actors because they only

provided the goods to sell based on markets demand. Therefore, their expenses can be proportional to their income and avoid losses during the pandemic.

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