

Sleman Regency Government Innovation in Empowering MSMEs during the Covid-19 Pandemic

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ABSTRACT

The Covid-19 pandemic has had a tremendous impact on various sectors. The Micro, Small, and Medium Enterprises (MSMEs) have felt a tremendous impact. Limited capital and the lack of market access have further aggravated MSMEs throughout the country. Sleman Regency of Yogyakarta Special Region is not an exception. In 2021, there were 68,382 MSMEs in the regency. The social restriction policy and the recommendation to stay at home during the pandemic have had a very significant impact on the survival of MSMEs in the regency. In these conditions, the role of the government is expected to be able to save their existence. Paying more attention and being closer to MSMEs will give hope in difficult times like this. To protect MSMEs so that they can survive the Covid-19 pandemic, the regency government is intensifying the role of the Integrated Business Service Center or Pusat Layanan Usaha Terpadu (PLUT). The PLUT was formed in 2019, the real goal is to facilitate MSMEs in the regency which are non-financial services that are comprehensive and integrated. Especially in a pandemic time like these days. This study used a qualitative approach, data collection using literature study and interview techniques. Interviewed parties are members of the Team at the PLUT. The data were analyzed through descriptive qualitative analysis. The results stated that the existence of the PLUT is relatively strategic in helping the MSMEs during this pandemic. However, several weaknesses must be followed up by the regency government, including increased the number of mentors, because the number of mentors is not proportional to the number of MSMEs that must be served.

Keywords: *pandemic covid-19, empowering, MSMEs, policy innovation.*

1. INTRODUCTION

MSMEs cannot be separated from the negative effects of the Covid-19 pandemic [1]. Unlike the 1998 crisis, where the negative impact was more on big businesses, the Covid-19 pandemic also affected MSMEs [2]. Many MSMEs have experienced a decreased income and have to stop running their business. Based on a survey conducted by the international labor organization (ILO) in Indonesia during the period April, 24 – 26, 2020, it was found that almost 70 percent of MSMEs stopped their production. As many as 63 percent of MSMEs ask their employees to take paid or unpaid leave. As many as 90 percent experienced cash flow problems (Katadata, 2020). As many as 82.9% of MSMEs experienced a negative impact from this pandemic. Only 5.9% of the perpetrators experienced a positive impact [3].

The problems faced by MSMEs were caused by the economic slowdown that emerged as a result of the

pandemic [4]. The economic slowdown occurred due to the effects of social and physical distancing. The practice of social and physical distancing then causes delays in products and services delivery from producers to consumers [5]. People are also unable to attend wedding receptions, conferences, lectures, business meetings, tourist visits, meetings, etc. At that time, People's interest in visiting restaurants, malls, and other crowd centers is getting low. As a result, the income of MSMEs is reduced.

Report from the Ministry of Cooperatives, Micro, Small and Medium Enterprises website, Indonesia MSMEs has a large contribution to Indonesia's GDP, with a total number of 61.07 percent or equivalent to Rp. 8,573.89 trillion. The contribution of MSMEs to Indonesia's economy includes the ability to absorb 97 percent of the total workforce and can collect up to 60.4 percent of the total investment. Cited from Tulus Tambunan's MSMEs in Indonesia (2020), they also have an important role in economic development and growth.

In the second quarter of 2020, Yogyakarta's economy came under increasing pressure. After growing -0.17% (yoy) in the first quarter of 2020, the performance of Yogyakarta's economy in the second quarter of 2020 decreased by -6.74% (yoy), lower than the national economy which contracted to grow -5.32% (yoy). The quite deep contraction of Yogyakarta's economy originated mainly from the decline in the performance of the tourism industry and several supporting sectors, namely MSMEs.

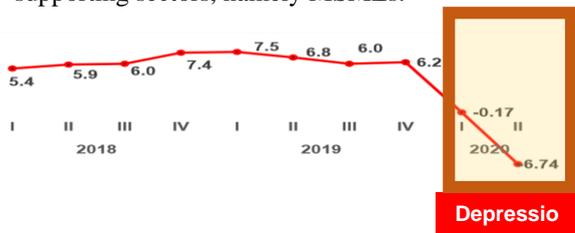


Figure 1. The contribution of MSMEs

Source: Yogyakarta Office of Cooperatives and MSMEs, 2020

In Yogyakarta, MSMEs are still the main pillar of the provincial economy. Data from 2019 shows that the contribution of MSMEs to the provincial economy reaches 98.4 percent. Meanwhile, MSMEs can absorb 79 percent of total employment. This data was supported by business actors with 248,499 business units in total. However, factors like the absence of activities in the tourist areas until the implementation of online learning have made the market of MSMEs in this city are jammed. More than 59 percent of MSMEs actors admit that they have difficulty in marketing because of the absence of tourism. Hotels are also closed. Education is furthermore carried out online so that MSMEs do not have any buyers. Not only from the culinary sector, but Yogyakarta also has around 78,000 small and medium industries that support the trade sector. This sector forms the informal workers or gig workers in Yogyakarta and forms the backbone of Yogyakarta's economy with a fairly large contribution. Moreover, the COVID-19 pandemic has also made MSMEs' actors unable to move. Apart from marketing difficulties, the Large-Scale Social Restriction (PSBB) policy in some regions also made it difficult for MSMEs in Yogyakarta to obtain raw materials. Regions that implement PSBB automatically cannot send the raw materials needed by MSMEs in Yogyakarta.

The number of policy developments that have responded to this problem has led to a lot of research on this topic. Among studies that have been conducted, research on steps that can be used by policymakers to help entrepreneurs faces the challenges of the COVID-19 pandemic has been done in 2020 [6]. Another study is about setting corporate financing policies during the decline in turnover in this pandemic era [7]. Another research conducted by Pakpahan (2020) analyzed the

impact of the COVID-19 pandemic on the existence of MSMEs in Indonesia and provided emergency solutions for MSMEs in surviving in a pandemic and post-pandemic era[8].

To fill the gap, this article will focus on policy innovation to make MSMEs survive and to make their products accessible to consumers in this pandemic era. While current literature has partially investigated strategic steps that must be taken by the government and other stakeholders that support MSMEs to survive in the pandemic era, policy innovations that specifically intervene in MSMEs are rarely discussed. Perhaps this is because innovation is more focused on government or MSMEs institutions and not on policy innovation from the government.

Innovation is an integral part of the demands of public organizations both in the central and regional governments. Public policy innovation responds to various changes and dynamics of community demands. At the government level, both local and central government, the ability to innovate, especially policy innovation, is part of the ability to utilize potential resources both locally and nationally, supported by bureaucratic creativity at various levels. There are several objectives for policy innovation, including increasing competitiveness and providing impact and benefits for the public interest. One of the important prerequisites for encouraging the growth of policy innovation is the creativity of the bureaucracy in creating the power for change and new ideas.

2. METHOD

The research method used in this research is the descriptive exploratory qualitative research method. According to [9], qualitative research is: (1) describing and analyzing phenomena, events, social activities, attitudes, beliefs, perceptions, thoughts of people individually or in groups, (2) planned activities to capture the practice of interpreting respondents or informants about their world (emic or verstehen) which is always diverse, different and dynamic, (3) describes, expresses and explains (to describe, explore and explain). Meanwhile, descriptive qualitative research aims to explain something through a study that seeks to describe it, not looking at relationships or comparing. This qualitative descriptive study explored how the Sleman Regency Government innovates to serve and protect MSMEs in the pandemic era so that MSMEs can continue to exist facing this uncertain situation. In addition, in this study, the researcher used two data collection methods: literature study and interview. The data analysis method is an integral part of data collection. This research is based on qualitative data. The study used data analysis to process, collect, and obtain some materials and interviews in collecting supporting data for this study.

3. BASIC THEORY

3.1. Previous Research

Research was conducted by [10] entitled MSMEs Survival Strategy in the Middle of the Covid-19 Pandemic. The COVID-19 pandemic that occurred in Indonesia had an impact on economic instability, especially for MSMEs. These MSMEs actors felt a direct impact in the form of decreasing in sales turnover due to the government's appeal and the implementation of the PSBB which urged the public to stay at home so that a lot of MSMEs had to stop operating for a while. For this reason, MSMEs actors must have a strategy to survive during this pandemic and are required to be able to adapt to the conditions that occurred. There are several recommended survival strategies that MSMEs can do to maintain their business, namely (1) selling through e-commerce because many people are now turning to online shopping. (2) Marketing products by utilizing digital technology (digital marketing) to reach more consumers. (3) improve product quality and quality and type of service. (4). Conduct customer relationship marketing to create consumer trust and foster customer loyalty.

Another research was also conducted by [11] entitled MSMEs Opportunities and Challenges in Efforts to Strengthen the National Economy in 2020 Amid the Covid 19 Pandemic. The government has provided various opportunities for MSMEs actors to run their business, full attention to MSMEs from the government by asking the Minister of Finance Sri Mulyani Indrawati to assist MSMEs actors in the form of interest subsidies, tax incentives for delaying principal payments, and providing additional working capital loans. Another opportunity for MSMEs is the launching of the 100,000 Micro, Small, and Medium Enterprises (MSMEs) Go Online movement together in 30 cities or regencies in Indonesia to make the realization of the Digital Energy of Asia. The challenge for MSMEs is how to deal with strategies to fill the needs of the domestic and global markets. How MSMEs have an entrepreneurship strategy based on IT technology (Information Technology) and maintain local wisdom. The opportunity that has been provided by the government is expected to be able to help and benefit MSMEs actors in the midst of the Covid 19 outbreak that is currently taking place both in Indonesia and in almost all countries in the world.

Research conducted by [12] entitled Innovation and Creativity of MSMEs Business Actors in the Covid-19 Era explained whatever the situation, MSMEs activities in Indonesia must be able to survive and even be improved so that community welfare can be achieved. In addition, in this COVID-19 pandemic, business actors must optimize the role of HR, especially increasing their power of innovation and creativity so that this business can continue to run.

The difference between previous research and this research is that the previous research still focuses on the basic concepts of survival and development strategies during the COVID 19 pandemic. Meanwhile, this study is not only provided the concept of strategy as the reference but also the concept of innovation in empowering MSMEs. This innovative concept will of course provide a new dimension in the efforts to survive and develop MSMEs during the pandemic.

3.2. Innovation Theory

Innovation is defined as the ability to apply creativity to solve problems and opportunities to improve or enrich life (innovation is the ability to apply

creative solutions to those problems and opportunities to enhance or to enrich people's lives)[5], [8]. Harvard's Theodore Levitt in Suryana (2014) suggests the definition of innovation is the ability to apply creative solutions to existing problems and opportunities to make people's lives more prosperous. So innovation is doing something new. According to [12] in the Harvard Business School book, there are several types of innovation:

- a. Incremental Innovation: Gradual innovation is an innovation that is carried out by developing either from the previous form or previous technology in a better direction (example: computer processor, starting from Pentium I, II, III, IV, Dual Core, Core). The thing that needs to be considered in carrying out incremental innovation is to avoid the "more bells and whistles" syndrome, which is to avoid issuing innovations all at once because incremental innovation must issue innovations gradually so that the product does not die immediately because it cannot innovate anymore. Second, do not place the whole concept of innovation on incremental innovation.
- b. Radical Innovation: Radical innovation is an innovation that is completely new to the world, both in existing technologies and in ways that already exist. (Example: Alibaba company uses a large number of robots, so this can save labor costs by as much as 70%) The Radical innovation specification is a completely new set of performance features. Second, improvements in performance features by five or three times greater and thirdly by 30 percent or greater reductions in costs.

The innovation process to carry out an innovation has several stages of a process that need to be done. According to [12], there are five innovation processes, namely Ideas Generation, Opportunity Recognition, Development, Commercialization, and Ideas Evaluation.

3.3. Empowerment

According to [5], empowerment is an effort made by elements originating from outside the order of order so

that the order can develop independently. In other words, empowerment is an effort to improve the form of interconnectivity contained in the order and or an effort to improve the elements or components of the order which is intended so that the order can develop independently. So empowerment is an effort aimed at making an order to achieve a condition that allows it to build itself [3].

According to [5], the purpose of community empowerment is basically to help authentic and integral human development of the weak, poor, marginalized, and small people and to empower these community groups socio-economically so that they can be more independent. They are expected to not only have the ability to meet their basic needs but also can participate in community development.

3.4. *Micro, Small and Medium Enterprises (MSMEs)*

According to Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises, the definition of Micro, small and medium enterprises is as follows:

- a. Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for Micro Enterprises as regulated in this Law.
- b. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or not branches of companies that are owned, controlled, or become part either directly or indirectly of Medium Enterprises or Large Businesses that meet the Business criteria. Small as referred to in the Act
- c. Medium Enterprises are productive economic businesses that stand-alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly with Small Businesses or Large Businesses with total net assets or annual sales proceeds as regulated in this Law.

Meanwhile, the criteria for MSMEs based on their capital are as follows:

Micro Business Criteria are as follows:

- a. has a net worth of at most Rp. 50,000,000.00 (fifty million rupiahs) excluding land and buildings for business premises; or
- b. have annual sales of a maximum of Rp.300,000,000.00 (three hundred million rupiahs).

Small Business Criteria are as follows:

- a. has a net worth of more than Rp. 50,000,000.00

(fifty million rupiahs) up to a maximum of Rp. 500,000,000.00 (five hundred million rupiahs) excluding land and building for business; or

- b. have annual sales of more than Rp.300,000,000.00 (three hundred million rupiahs) up to a maximum of Rp.2,500,000,000.00 (two billion five hundred million rupiahs)

Medium Enterprises are as follows:

- a. has a net worth of more than Rp. 500,000,000.00 (five hundred million rupiahs) up to a maximum of Rp. 10,000,000.00 (ten billion rupiahs) excluding land and building for business; or
- b. have annual sales of more than Rp.2,500,000,000.00 (two billion five hundred million rupiahs) up to a maximum of Rp.50,000,000,000.00 (fifty billion rupiahs).

The functions and roles of MSMEs in Indonesia are quite numerous both economically, socially, politically, culturally, and security. The economic-social-political functions and roles, for example, are to increase people's income, reduce unemployment and poverty as well as the flow of urbanization. MSMEs in Indonesia has become an important part of the economic system in Indonesia. This is because MSMEs are business units that are more numerous than large-scale industrial businesses and have the advantage of absorbing more labor and also being able to accelerate the process of equity as part of development. When the economic crisis hit the world in 1997, this condition automatically worsened the economic conditions in Indonesia. However, at that time in Indonesia, some sectors were able to survive during the economic crisis at that time, namely the MSMEs sector (Micro, Small and Medium Enterprises).

Data from the Central Statistics Agency released after the economic crisis stated that the number of MSMEs did not decrease, instead, their growth increased, even being able to absorb 85 million to 107 million workers until 2012. In that year, the number of entrepreneurs in Indonesia was 56,539,560 units. Out of this number, as many as 56,534,592 MSMEs units or 99.99% are small-scale businesses and the remaining 0.01% or 4,968 units are large-scale businesses. This phenomenon explains that MSMEs are productive businesses to be developed to support macro and micro economy development in Indonesia and influence other sectors to develop. One of the sectors affected by the growth of MSMEs is the banking services sector because almost 30% of MSMEs businesses use operational capital from banks. Seeing the strategic role of MSMEs in the economy of Indonesia, MSMEs should receive attention and protection from the Government to be more powerful in the face of any exposure.

Table 1. Number of MSMEs in Indonesia Year 2017-2019

Unit	2017	2018	2019
Micro Business	62.106.900	63.350.222	64.601.352
Small Business	757.090	783.132	798.679
Medium Business	58.627	60.702	65.465
Total Units	62.922.617	64.194.057	65.465.496

Source: Ministry of MSMEs (2020)

While in the Special Region of Yogyakarta the number of MSMEs over the last three years is as follows.

Table 2. Number of MSMEs in the Special Region of Yogyakarta Year 2018-2020

UNITS	2018	2019	2020
Micro Business	141,991	143,385	188.033
Small Business	64,896	65,533	58.980
Medium Business	39,196	39,581	30.664
TOTAL	246,083	248,499	277.677

Then in more detail the number of MSMEs based on business sector and scale of business in 2020 is as follows.

Table 3. Recapitulation of Sleman Regency MSMEs Data Based on Business Sector in 2020

No.	Business Sector	Scale Enterprises			Total
		Micro	Small	Medium	
1	Agriculture, Forestry and Fisheries	626	2	0	628
2	Mining and excavation	11	0	0	11
3	Processing industry	10.079	178	4	10.261
4	Procurement of Electricity, Gas	60	0	0	60
5	Water Supply, Waste Management, Waste and Recycling	76	0	0	76
6	Construction	385	23	3	411
7	Wholesale and Retail Trade, Car and Motorcycle Repair	19.669	572	19	20.260
8	Transportation and Warehousing	388	41	5	434
9	Provision of Accommodation and Food and Drink	18.245	48	0	18.293
10	Information and Communication	243	2	0	245
11	Financial Services and Insurance	10	1	0	11
12	Real Estate	25	0	1	26
13	Company Services	378	9	0	26
14	Government Administration, Defense and Social Security Mandatory	0	0	0	0
15	Education Services	71	0	0	71
16	Health Services and Social Activities	68	1	0	69
17	Other Services	17.101	38	0	17.139
Total					68.382

Source: MSMEs Agency of Sleman Region (2019)

According to data from the Ministry of Cooperatives and Small and Medium Enterprises, the total number of business units that fall into the category of micro, small and medium enterprises in Indonesia in 2018 was 64,194,057. This number increased by 2.02% from the number in the previous year which was only 62,922,617. If described in more detail, the number consists of Micro Enterprises as many as 63,350,222, then Small Enterprises with 783,132, and Medium Enterprises with 60,702. More detailed data can be seen in the following table 1.

4. FINDINGS AND DISCUSSION

The Sleman Regency Government currently has 68,382 MSMEs actors recorded by the Sleman Regency Cooperatives, Small and Medium Enterprises Office. The current increase in the number of MSMEs in the Sleman Regency is also related to the Micro Business Aid (BPUM) program. In order to accommodate problems arising from the implementation of MSMEs business activities due to the Covid 19 Pandemic, the Office of Cooperatives, Small and Medium Enterprises in Sleman Regency carried out several innovations, including:

4.1 Application of Data MSMEs

Sleman Regency has developed a single MSMEs data application that can be accessed by the public and also by all relevant Regional Apparatus Organizations (OPD) in charge of MSMEs. This single data system can be accessed through the android application or website. The general objective of this system is to be able to map the number of MSMEs in each sub-district and to be able to map the dominant business sectors in each sub-district. The benefits of these objectives are of course expected to strengthen each business sector, strengthen the unique values they have, and increase business competitiveness in the eyes of consumers.

4.2 Sleman Mart Application

Before the pandemic, Sleman Regency made the Sleman Mart application. The goal and purpose are that Sleman Mart can become a digital market and a learning tool as well as increase economic capacity, especially for MSMEs in Sleman. In Sleman Mart, MSMEs actors are not only required to sell products but also must be able to package products neatly and attractively and must be able to provide added value in each product.

4.3 MSMEs' Communication Forum

The Sleman Regency Government has established an MSMEs communication forum spreading to 17 sub-districts. The purpose is that each sub-district has a community that strengthens each other so that they can interact with each other and carry out economic activities both online and in-person while still complying with health protocols. In addition, the existence of a

communication forum is also expected to reduce the information bureaucracy so that information can reach MSMEs actors more quickly and can be followed up properly. In fact, the communication forum in Ngemplak District has been able to develop a "land coffee" market called "Pasar Srawung". The Srawung Market is held every Saturday-Sunday where the buying and selling interactions and information exchange occur. In addition to Ngemplak District, the application of the ground coffee market based on communication forums has also been carried out in Cangkringan and Minggir Districts. Using this forum, of course, is very helpful for business groups during the pandemic. Moreover, the government also appreciates active communication forums to be a priority in any related business training.

4.4 Establishment of Integrated Business Service Center (PLUT)

Another most interesting innovation carried out by the Sleman Regency Government is the establishment of an Integrated Business Service Center (PLUT). PLUT is equated to a mediator for MSMEs who are experiencing problems. PLUT provides comprehensive and integrated non-financial services for cooperatives and MSMEs. With this PLUT, it is expected that production performance, marketing performance, access to finance, entrepreneurship development through increasing entrepreneurial, technical, managerial, and institutional capacity will increase.

The types of services provided by PLUT Sleman are:

1. Business Consulting
Providing consulting services related to improving the performance and competitiveness of the MSMEs business, including the development of MSMEs human resources, business management, product quality improvement, intellectual property rights, business partnerships, and the use of information technology.
2. Mentoring
Provide business mentors who specifically provide assistance regularly, especially for MSMEs who want to advance to class and fix business problems they face. The business mentor function is for the development of MSMEs business.
3. Market access through Sleman Mart
In order to improve market access, Sleman regency also facilitates MSMEs actors who do not have the capacity in the IT field but has a good quality product and are salable by presenting an online shop platform Sleman Mart. Aside from being market access, through the Sleman Mart platform, MSMEs players can also learn and get to know the online market by utilizing the available computer laboratory. The existence of Sleman Mart is also supported by the MSMEs product

gallery which functions as a stockist and an offline store with administrative management like a modern store. With this concept, this title can be used as a living laboratory for market development for MSMEs players.

4. Facilitate Access Payment
PLUT provides facilitation to access credit to banking and non-bank institutions, from ministries/agencies and local governments, as well as from national and international donor agencies.
5. Business Training
PLUT provides training for MSMEs or prospective entrepreneurs to improve product quality, managerial skills training for business development, such as internet marketing, accounting, and taxation training.
6. Networking
PLUT provides networking facilities in terms of sharing experiences with large/medium entrepreneurs, and other institutions that can help MSMEs develop their business.
7. Entrepreneur Library Service
PLUT Provides multi-media facilities that provide e-business-based information, provides business books, journals, and business magazines as well as officers who are experts in library management.

In its journey, the Sleman Regency PLUT has faced numerous service dynamics during this pandemic which mainly related to efforts to restore the condition of MSMEs actors. In general, PLUT provides consultation for MSMEs actors in the fields of empowerment, financing, production, marketing which covers approximately 42,000 MSMEs actors in Sleman Regency. Currently, MSMEs actors generally come to PLUT to seek information related to capital. The momentum is right because, at the same time, there is a Micro Business Productivity Assistance (BPUM) program, where PLUT can also facilitate its registration. The use of BPUM funds must be accompanied by evidence of a report on the use and development of the business. In addition, PLUT also continues to provide training services for MSMEs actors, especially those related to changes in marketing patterns during the COVID 19 pandemic (digital marketing) because in general MSMEs actors have not mastered digital marketing. The problems encountered in Sleman Regency are even very basic, where most MSMEs actors cannot even access their respective emails. On the other hand, email is a basic tool used to access various assistance programs, information, and marketing. This fundamental problem then has an impact on the product introduction process of MSMEs actors in the Sleman Regency. For example, Gapura Digital which is affiliated with Google is not optimally used because MSMEs actors do not understand the basic concept of using email. Talking more about marketing, PLUT also facilitates and connects MSMEs players with Sleman Mart to maximize the marketing of existing products. Although in this context, there is the same basic problem, namely

technological stuttering, especially those related to email and mobile banking as payment support tools. In addition,

PLUT is also active in being a facilitator between MSMEs actors and large companies that will provide Corporate Social Responsibility (CSR). The existence of this PLUT is an interesting innovation because in the Special Region of Yogyakarta only Sleman Regency has it. In fact, the innovation for the establishment of PLUT has also been initiated by the Yogyakarta Special Region Government. It was even recorded that the "SiBakul free shipping" program became a leading innovation in PLUT DIY in addition to other services. Unfortunately, the service area is too wide and the budget is limited, so this program cannot be enjoyed by all MSMEs in DIY. Therefore, the establishment of PLUT in the Sleman Regency is a very excellent solution for MSMEs actors who feel it is too far to consult with PLUT of the Special Region of Yogyakarta.

5. CONCLUSION

The presence of PLUT in Sleman Regency received tremendous appreciation from MSMEs actors in Sleman Regency. It is proven that every day the PLUT consultants are busy with consulting activities from MSMEs actors who need solutions to their business problems. But unfortunately, this innovation has not been supported by a sufficient number of human resources. There are currently only 5 business consultants serving 42,000 business people. This condition makes the consultant's workload relatively high and it is feared that it will reduce the quality of service to business actors. Therefore, it is recommended that in the future the following things can be done to improve service quality:

1. Addition of business consultant personnel
2. Synchronization of programs and activities between PLUT Sleman Regency and PLUT Special Region of Yogyakarta.
3. Improvement of service facilities for MSMEs actors such as building facilities and infrastructure and better technical technology support.

ACKNOWLEDGMENTS

We would like to express our gratitude to Muhammadiyah Higher Education Council for supporting this research grant in the scheme of COVID-19 grant research in 2020 and Universitas 'Aisyiyah Yogyakarta for support.

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