Spatial Distribution on Recovery Strategy Due to The Impact of The Covid-19 Pandemic on The Conditions of Micro Small Medium Enterprises (MSME’s) in Central Java Province, Indonesia

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Abstract. MSMEs are the backbone of the economy in Indonesia. However, most MSMEs were collapse due to the Covid-19 pandemic. Therefore, MSMEs recovery is needed to restore the real sector, particularly in Central Java. The study analyses the impact and economic recovery strategies during and after Covid-19 in the MSME sector. The research used a descriptive qualitative method. Data were collected by electronic survey and in-depth interviews and analyzed by SWOT. The results showed the Covid-19 pandemic significantly reduced MSME business actors’ profits due to decreased sales, while production costs remained or even increased. The vulnerability of MSMEs closes their businesses based on the subjective perceptions of business actors is that most of them can survive for more than a year ahead (33.1%) and the next six months to one year (30%). The rest can last for less than one month to the next six months, starting from December 2020. MSME entrepreneurs took several strategies to keep their business running. The methods include looking for new markets, providing discounts and bonuses, diversifying products, giving a consignment, looking for cheaper suppliers/raw materials, and purchasing raw materials with the last payment due. Potential risks when MSMEs are unable to maintain business are (1) lousy credit; (2) layoffs for workers and bankruptcy for business owners; and (3) supply and demand drop. The government should take action to recover MSMEs. The promising policies are (1) Facilitate MSMEs with capital for purchasing raw materials, (2) Development local supply chains through trading houses and regional logistics, (3) Facilitating access to financing, production, and marketing, (4) Encouraging product diversification according to the current needs of consumers, (5) Development of the MSME entrepreneurial ecosystem with a multi-stakeholder approach.

Keywords: covid-19 pandemic, economic recovery, MSME’s, impact, strategy.

1. Introduction

The Covid-19 pandemic has had a broad impact on the health crisis and the global economy throughout 2020. The Governments around the world are carrying out various mitigation measures and cooperation to suppress the spread of Covid-19 while accelerating economic recovery this year. Global economic performance is expected to grow positively in line with the economic stimulus program and accelerated vaccination.
The impact of the Covid-19 pandemic has had many negative impacts on the world economy, causing a world economic recession. This article also argues that every country is obliged to strengthen economic stimulus to maintain the nation's economic stability [1]. Supported by the research, that seeing the development and influence of the economy is not only limited to the scope of the economy itself but also can be affected by culture and health. This is evidenced by the spread of the Coronavirus which has had a negative impact on the world economy [2]. Also stated that the variables of pandemic cases, exposure time, population, regional differences, and differences in country status affect the economic growth of affected countries. If the pandemic is controlled and there are no governance disparities between regions and between countries, global economic growth has the potential to be positive 0.18%. However, pandemic governance in Asia, America, and Africa is significantly different from that in Australia. Poor countries are different from developed countries, but no different from middle countries, in managing pandemics in their regions. Relatively speaking, the impact of the pandemic in Asia, America, and Africa is heavier than in other regions [3].

In general, throughout 2020 the Covid-19 pandemic has harmed the national economy in Indonesia. This is reflected in Indonesia's economic growth which contracted to 2.07 percent. Economic growth had reached its lowest critical point in the second quarter of 2020, which was minus 5.32 percent, but then improved with a smaller contraction in the third quarter of 2020, which was minus 3.49 percent and minus 2.19 percent in the fourth quarter/2020. Signals for Indonesia's economic recovery began to appear in the first quarter of 2021, which was minus 0.74 percent and 7.07 percent in the second quarter. At the beginning of the pandemic, in line with global and national economic conditions, the economy of Central Java Province in the first and second quarters experienced a decline. In the first quarter, it decreased by 2.60 percent while in the second quarter it was -5.93 percent [4].

The government continues to make various efforts to handle Covid-19 cases so that there are no spikes and increases in cases. Currently, the government has prepared several main strategies in maintaining the momentum of economic growth in 2021, among others, first, continuing the National Economic Recovery Program (PEN). Second, the acceleration of vaccination as part of the PEN to restore public consumption confidence. Third, to encourage economic growth in the second quarter of 2021, the government will continue strategic sector incentives and several other incentive schemes, including relaxation of value added tax on luxury goods (Government-borne) for the automotive industry and Government-borne Value Added Tax (VAT) for the property/housing sector. In addition, the government will support the Hotel, Restaurant, Cafe (HOREKA) sector through credit restructuring and credit guarantees. Relaxation of Banking Credit Restructuring Policy, expansion of Corporate Credit Guarantee based on PMK-32/2021, interest subsidies for MSEs, both KUR and Non-KUR, as well as the addition of the 2021 KUR ceiling, optimizing the use of Special Economic Zones (KEK) and continuing the Pre-Employment Card Program.

The research results by Nasution et al. [5], stated that the impact of the Covid-19 pandemic caused low investor sentiment towards the market which in turn led the market to tend to be negative. Strategic measures related to fiscal and monetary are urgently needed to provide economic stimulation [1]. The research of Yamali and Putri [6] shows that the policies made by the government in handling Covid-19 can indirectly lead to a decline in economic growth in Indonesia. The impact on the economic sector due to the Covid-19 pandemic in Indonesia includes layoffs, the occurrence of PMI Manufacturing Indonesia, a decrease in imports, an increase in prices (inflation) and losses in the tourism sector which cause a decrease in occupancy [6].

The Covid-19 pandemic has not only resulted in a health crisis but also disrupted national economic activities. However, several indicators show the national economic recovery in the fourth quarter of 2020 and the first quarter of 2021. One of the efforts to restore the national economy is to encourage the MSME sector which has an important contribution to the national economy. The number of MSMEs in Indonesia reaches 64.19 million, with the composition of Micro and Small Enterprises (MSE) very dominant, namely 64.13 million (99.92%) of the entire business sector. This group also feels the negative impact of the Covid-19 pandemic.

Survey results from several institutions such as the Statistic Bureau, Central Planning of Indonesia, and the World Bank show that this pandemic has caused many MSMEs to have difficulty paying off loans and paying electricity, gas, and employee salaries. Some of them even had to do layoffs. Other
obstacles experienced by MSMEs include difficulty in obtaining raw materials, capital, declining customers, distribution, and production constraints. In addition, changes in Consumer Behaviour and the Business Competition Map also need to be anticipated by business actors due to activity restrictions. Consumers do more activities at home by utilizing digital technology. Meanwhile, changes in the industrial landscape and the new competition map are marked by four business characteristics, namely Hygiene, Low-Touch, Less Crowd, and Low-Mobility [7].

According to [8], the Covid-19 pandemic has had a major impact on the decline in the national economy, including the MSME sector. The MSME sector, the majority of which are the lower middle class, has been heavily affected by the Covid-19 pandemic. Companies that survive in the pandemic era are companies that can adapt to these four characteristics. Business actors including MSMEs need to innovate in producing goods and services by market needs [8]. This study analyzes the impact and strategy of economic recovery during and after Covid-19 in the MSME sector in Central Java. The economic downturn in Central Java, especially in the MSME sector, as a result of the impact of the Covid-19 pandemic requires appropriate, efficient, and effective local government policy intervention. Policy interventions must be prepared to take into account the wider impact of the pandemic on society, the policy directions of the Central and Regional Governments and are expected to accelerate the recovery of Central Java’s economic conditions during and after the pandemic.

2. Data and Methods
2.1 Research Area and Respondents

The research was conducted from September to December 2020, in Central Java Province (Figure 1). The sampling location was chosen purposively by considering the data representation in 35 districts/cities in Central Java.

![Central Java Administration Maps](image_url)
2.2 Method of Collecting Data

The data used include primary data. Primary data was collected through online surveys and Focus Group Discussions (FGD’s). The survey method is a research that utilizes primary information and data obtained directly from the subjects studied online by using structured questions in the questionnaire. Respondents are SMEs in Central Java. The FGDs were held three times, the FGD participants consisted of MSME actors, related agencies, and experts in the MSME sector.

2.3 Data Processing and Analysis Method

This research uses mix method analysis. Qualitative descriptive method to identify and analyze the economic recovery needs of the MSME sector. Meanwhile, the analysis of the economic recovery strategy during and post-Covid-19 in the MSME sector uses a SWOT analysis.

3. Results and Discussion

3.1 The Impact of Covid 19 on the MSME Sector in Central Java

In the MSME sector, the Covid-19 pandemic in Central Java has an impact on sales, profits, product/service selling prices, raw material costs, labor costs, transportation costs and other costs (Figure 2). The Covid-19 pandemic in Central Java has an impact on sales of MSME businesses (Figure 3). The biggest impact was a decrease in sales between 50%-75% and a decrease in sales of less than 50%. The largest impact of the Covid-19 pandemic on profits for MSME businesses in Central Java was a decrease in sales of less than 50% and a decrease in sales of between 50%-75%. The Covid-19 pandemic in Central Java has an impact on the selling price of products/services on MSME businesses with the biggest impact being a fixed product selling price, an impact on a decrease of between 50%-75%, and a decrease in selling prices of more than 75%

Most respondents from MSME business actors (96%) experienced a decline in sales at various levels during the Covid-19 pandemic in Central Java, 93% experienced a decrease in profits at various
levels and 65% experienced a decrease in the selling price of products/services in Indonesia. Various levels during the Covid-19 pandemic in Central Java. The Covid-19 pandemic has significantly eroded the profits of MSME business actors as a result of declining sales, while production costs remain or even increase. The costs that experienced an increase during the pandemic were raw materials (43.87%), other costs (36.53%), transportation (21.90%), and labor (6.37%).

The vulnerability of MSMEs closes their businesses based on the subjective perceptions of business actors is that most of them can survive for more than a year ahead (33.1%), the next six months to one year (30%) and can last for the next 3 to 6 months (19.4%). The rest can last for less than one month to the next three months, starting from December 2020.

MSMEs take several strategies to keep their business running, including through (1) Searching for new markets; (2) Providing discounts/rebates; (3) Providing a purchase bonus; (4) Diversifying products; (5) Giving consignment; (6) Looking for cheaper suppliers/raw materials; (7) Purchasing raw materials with payment due; (8) Reducing some of the workforces; (9) Changing the method of payment of wages; (10) Applying for credit/month installment relief; (11) Requesting a delay in payment of credit; (12) Requesting interest waiver. Potential Risks when MSMEs are unable to maintain their business are (1) Lousy credit; (2) Reduction of manpower and bankruptcy for business owners; (3) Supply & demand drop deeper.

![Figure 3. The Vulnerability of MSMEs to Survive in a Pandemic Condition Based on the Subjective Perceptions of Business Actors](image)

3.2 *Strategy Analysis using Strengths, Weaknesses, Opportunities and Threats (SWOT)* Analysis

The Micro, Small and Medium Enterprises (MSME) sector in Central Java is a sector affected by the Covid-19 pandemic (Table 1).

3.3 *The Results of the Evaluation of Internal and External Factors in the MSME Sector in Central Java*

Internal factor analysis shows that the cumulative index value for the strength element is 4,144 while for the weakness element it is 3,778. The total score of internal factors is 0.3345, meaning that it has a higher strength value than its weaknesses.

External factor analysis shows that the cumulative index value for the opportunity element is 3,870, while for the threat element it is 3,416. The total score of external factors is 0.455, meaning that it has an opportunity factor that has a higher value than the threat.
The results of the identification of these factors can be depicted in the SWOT diagram shown in Figure 4 and Table 1. From the results of the analysis, it is known that in economic recovery the MSME sector is in quadrant I (Aggressive) or is in a favorable position, meaning that the MSME sector has the power to take advantage of these factors existing opportunities.

Table 1. Identification of Strengths, Weaknesses, Opportunities and Challenges in the MSME Sector in Central Java

| Strengths                                      | Weaknesses                                      | Opportunities                                | Threats                                                                 |
|------------------------------------------------|-------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------|
| MSMEs produce goods and services that society needs | MSMEs management is carried out traditionally (MSMEs status, management, capital, skills, technology) | Local, national and global online marketing | The uncertainty of the COVID-19 pandemic and the impact of accelerating the national economic recovery |
| Utilizing local human resources                | Low demand during the COVID-19 pandemic (people's purchasing power drops) | MSMEs partnerships with various stakeholders | Competition with other products                                          |
| Using local raw materials                      | MSMEs have not yet established partnerships      | Reopening of commercial and tourist centres  | Changes in business patterns and consumer behaviour                      |

Source: Processed Primary Data, 2020.

The Cartesian diagram shows a map of the strength of economic recovery in the MSME sector in Central Java which is in quadrant I (Aggressive) or is in a favorable position, meaning that the MSME sector in Central Java has the power to take advantage of existing opportunities.

The strategy for economic recovery in the MSME sector in Central Java by utilizing strengths in the form of MSMEs producing consumer goods and services that are close to the needs of the community and opportunities in the form of reopening commercial and tourism centers is a short-term strategy (1 year), medium-term strategy (2-3 years), and long-term strategy (up to 5 years) (Table 2).
Short-term strategies for economic recovery in the MSME sector in Central Java include (1) Capital/financing facilitation for the purchase of raw materials so that MSMEs return to production; (2) Facilitation of function recovery and risk reduction of production, financing, and marketing; (3) Facilitating access to financing, production, and marketing; (4) Gradually opening and reorganizing commercial centers (markets, shops, restaurants, and malls) with strict implementation of health protocols specifically for the business sector; (5) Opening tourist attractions with strict implementation of health protocols; (6) Creating the “Let's Buy MSME Products” movement, which is carried out offline and online; (7) Development of digital-based MSME clinics; and (8) Utilization of research results to improve the quality of MSME products.

Table 2. Economic Recovery Strategy in the MSMEs Sector

| SO Strategy | Short-term (1 year) / Covid Pandemic Period | Medium-term (2-3 years) / Transition Period | Long-term (up to 5 years) / Post Covid |
|-------------|-------------------------------------------|------------------------------------------|--------------------------------------|
| MSMEs Produce Consumer Goods and Services that are Close With Community Needs | 1. Capital facilitation/financing for the purchase of raw materials so that MSMEs return to production | 1. Mapping the Leading Product/Potential of MSMEs and Market Potential | 1. Development of the MSME Entrepreneurship Ecosystem with a multi-stakeholder approach |
| 2. Facilitation of function recovery and risk reduction in production, financing and marketing | 2. Encouraging MSME Productivity & the ratio of product absorption to local and international markets | 2. Development of Creative Villages Based on Natural Resources & Local Culture |
| 3. Facilitate access to financing, production and marketing | 3. Encouraging product diversification according to the current needs of consumers |  |
| 4. Gradually open and reorganize commercial centers (markets, shops, restaurants and malls) with strict implementation of health protocols specifically for the business sector | 4. Adaptive Supply chain (for strategic goods) |  |
| 5. Opening tourist attractions with strict implementation of Health protocols | 5. Development of Local Supply Chain |  |
| 6. Creating the “Let's Buy MSME Products” Movement, which is carried out offline and online | 6. Improve the ability of MSMEs in technology to adopt the emergence of new normality which forces MSMEs to change production and marketing patterns |  |
| 7. Development of digital-based MSME clinics | 7. Special schemes and assistance in preparation |  |
8. Utilization of research results to improve the quality of MSME products

Source: Processed Primary Data, 2020

The medium-term strategy for economic recovery in the MSME sector in Central Java is (1) Mapping the superior products/potential of MSMEs and market potential; (2) Encouraging MSME productivity and the ratio of product absorption to local and international markets; (3) Encouraging product diversification according to the current needs of consumers; (4) Adaptive supply chain (for strategic goods); (5) Local Supply Chain Development; (6) Improving the ability of MSMEs in the technology sector to adopt the emergence of new normality which forces MSMEs to change production and marketing patterns; (7) Special schemes and assistance in preparing post-Covid-19 business development; (8) Provision of loan guarantees in the form of Government Guarantee.

The long-term strategy for economic recovery in the MSME sector in Central Java is (1) Development of the MSME entrepreneurial ecosystem with a multi-stakeholder approach; (2) Development of a creative village based on natural resources and local culture.

Based on the SWOT analysis, each sector has strengths and opportunities to bounce back. The main strength of the MSME sector is the ability of MSMEs to produce consumer goods and services that are close to the needs of the community but still face several weaknesses because they were generally carried out traditionally. The opportunity for MSMEs to grow again is driven by the opportunity to reopen various tourism destinations but face challenges in the form of changes in business patterns and consumer behavior. Integrated planning is needed to improve planning to implementation for economic recovery after the Covid-19 pandemic. Support from financial institutions is needed, including the provision of low-interest loans and socialization of non-cash transactions. A regional logistics system is also needed to support the recovery of MSME performance.

Due to the Covid-19 pandemic in Pakistan, most companies have been instructed by the government to close their businesses in order to contain the spread of the disease. As a result, many participating companies report higher business closing ratios. Furthermore, only 4% of the participating companies stated that they planned to change business lines and 2% of them stated that they would struggle to work remotely [9].

4. Conclusion

The government must take action to restore MSMEs. The strategy for economic recovery in the MSME sector in Central Java by utilizing strengths in the form of MSMEs producing consumer goods and services that are close to the needs of the community and opportunities in the form of reopening commercial and tourism centers is a short-term strategy (1 year), medium-term strategy (2-3 years), and long-term strategy (up to 5 years). Promising policies in short term include (a) Capital/financing facilitation for the purchase of raw materials so that MSMEs return to production; (b) Facilitation of function recovery and risk reduction of production, financing, and marketing; (c) Facilitating access to financing, production, and marketing. The medium-term strategy includes (a) Mapping the superior products/potential of MSMEs and market potential; (b) Encouraging MSME productivity and the ratio of product absorption to local and international markets; (c) Encouraging product diversification according to the current needs of consumers. The long-term strategy is (a) the development of the MSME entrepreneurial ecosystem with a multi-stakeholder approach; (b) the development of a creative village based on natural resources and local culture.

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