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The government's alignment to MSMEs in the new normal era: A review

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Abstract---This study intends to determine the level of the Indonesian government's involvement in addressing the economic issues brought on by COVID-19, particularly the support program for MSMEs in Indonesia. Using the library study approach, the author has concluded that the Indonesian government has implemented several programs or supports to lessen the effects of COVID-19, particularly for MSMEs. The National Economic Recovery is in charge of these numerous supports (PEN). These assistance programs include tax breaks, interest subsidies for loans to MSMEs, regional incentive funds, working capital stimulus, placement of state funds in banks, and productive funds for the president's help.

Keywords---MSMEs, Government of Indonesia, COVID-19, Policy.

1. Introduction

The resilience of Micro, Small, and Medium Enterprises (MSMEs) during prior economic crises as well as their contribution to the country's economy as a whole have shown the significance of MSMEs to the Indonesian economy. In times of economic turbulence like the Asian financial crisis of 1997–1998 and the global financial crisis of 2008–2009, MSMEs have shown resilience (Sandee, Andadari & Sulandjari 2000; Mavrodieva et al. 2019). However, the COVID-19 breakout in March 2020 has led MSMEs worldwide to go through a more difficult economic catastrophe (Cowling, Brown & Rocha 2020). Due to social limitations imposed by the government and a drop in activity and movement of people brought on by worries about virus transmission, MSMEs' offline commercial operations are affected (Reardon et al. 2020)

Baldwin and Mauro (2020) demonstrate how the pandemic affects both the supply and demand sides of the market (such as raw commodities and labor migration) (i.e., consumer purchasing power). The pandemic has thus had a substantial impact on MSME enterprises, leading to a decline in revenues or company

closures. In the early phases of the pandemic, 68 percent of MSMEs in Indonesia had operational disruptions, 65 percent ceased operations, and 3 percent closed their doors, according to the ILO (2020). In addition, according to ABDSI (2020), 48.3 percent of MSMEs in Indonesia struggle to sustain their supply chains, 92.6 percent require debt restructuring, and 26.6 percent experience cash flow issues that result in debt the majority of business owners lose the majority of their revenue, while 28% just lose half. Numerous studies have been done to look at how the pandemic has affected MSMEs globally and in Indonesia (see, for example, ILO 2020; ABDSI 2020; Gunadi et al. 2021; UNDP & LPEM FEBUI 2020; World Bank & Bappenas 2021; Tambunan 2020). The purpose of this study, however, is to conduct a more thorough investigation of the following issues: (1) the degree to which SMEs' internal strategies are dealing with the pandemic; (2) attitudes toward MSMEs' economic recovery; (3) MSME business recovery strategy; (4) MSME business transformation strategy in anticipating the post-pandemic business landscape; and (5) identifying the government assistance required to aid MSME enterprises in their recovery and transformation.

There are still gaps in the corpus of literature that need to be addressed even though numerous studies have examined how the pandemic has affected MSMEs in Indonesia, which also emphasizes the contribution of this research. This study will first gather some literature before creating a narrative of the literature review process. Second, the research that is currently available only examines the effectiveness of government support measures during epidemics to a limited extent.

2. MSMEs before COVID-19

The majority of Indonesian MSMEs were more able to preserve their business operations during the Asian Financial Crisis (AFC) in 1998 than their larger rivals (terWengel & Rodriguez, 2006; Mavrodieva et al., 2019). Their human production techniques and modest production machinery are primarily to blame for their robustness. MSMEs have been less affected by currency and exchange rate crises since they rely less on outside capital, particularly foreign capital, to keep their businesses operating. MSMEs were able to contribute significantly to the Indonesian economy before the pandemic by creating 99.9% of business entities and 96.92% of all employment, but their contributions to GDP, investment, and exports were less significant (60.51%, 60.03%, and 15.65%, respectively) (Ministry of Cooperatives and SMEs, 2020). As a result, the preceding investigation included primarily two research streams. The first area of research focuses on initiatives to increase the operations of MSME businesses, such as but not limited to access to financing (see, for instance, Rosavina et al., 2019; Susan, 2020; Revindo & Gan, 2017) and the efficacy of government support (see e.g., Hill, 2002; Tambunan, 2007; Revindo et al., 2019). The internationalization of MSMEs is examined in the second research topic, with a focus on networking, market access, entrepreneurship, and product competitiveness (see, for example, Tambunan, 2009; Revindo et al., 2017, 2019; Wengel & Rodriguez, 2006; Sulistiyani & Rahardja, 2018; Rekarti et al., 2018; Bhasin & Venkataramany, 2010).

3. MSMEs during COVID-19

The effects of the pandemic on MSMEs have received scant preliminary examination. Nevertheless, as people adapt to shifting laws and restrictions, more and more mainstream study on the effects of pandemics has been undertaken globally over time. The pandemic has harmed MSMEs in numerous nations. SMEs in 32 nations lost between 70 and 80 percent of their income between February 2020 and April 2021. (OECD 2021). Other than MSMEs that create completed goods, MSMEs that supply processed raw materials, components, spare parts, auxiliary items, semi-finished goods, and other inputs are impacted by the pandemic's effects on demand and supply. MSMEs in Pakistan have experienced difficulties with money, issues with the supply chain, diminishing demand, and declining sales and profitability (Shafi, Liu & Ren 2020). Moreover, two-thirds of poll respondents claimed they couldn't endure two months of imprisonment. Most people don't have any plans or preparations in place in case of a pandemic. In Sri Lanka's Batticaloa district, the majority of MSMEs encountered difficulties with marketing and sales, decreasing production, rising material costs, and disruptions in customer communication (Santhirakumar, Narmilan & Puvanitha 2021). The declaration of a state of emergency and the suspension of economic operations harmed MSMEs' performance in Nigeria (Ambrose 2021). The government's subsidy program policy has a beneficial impact on the survival of MSMEs in terms of the medium-term economic effects. MSMEs in emerging Asia saw a fall in sales revenue and a workforce reduction during the first few months of the epidemic (Sonobe et al. 2021).

The COVID-19 outbreak there officially started on March 31, 2020, when the Indonesian government issued Government Regulation 21/2020, initiating extensive COVID-19 actions. MSMEs are impacted by these measures, which include (1) social and physical isolation, (2) home study and work, and (3) temporary termination of operations in the non-strategic sector. The government and local governments issue them orders to temporarily halt or limit their commercial activity, which naturally affects the business activities of MSMEs, which primarily consist of offline enterprises and labor-intensive industries. This suggests that supply-side market policies are being impacted. MSMEs were initially hardest hurt by the COVID-19 measures' economic effects compared to larger companies. The physical unavailability of workers is brought on by MSMEs' inability to adopt remote work in their working spaces, sufficient physical distancing measures, or health standards in the workplace. Some employees are also unable to travel to the corporate offices due to stringent limitations. Nearly 70% of Indonesia's MSMEs have stopped operations, either temporarily or permanently, according to the ILO (2020) poll (The Strait Times 2020). Many MSMEs acknowledge that physical constraints that prohibit around half of their employees from working are the root cause of labor shortages (UNIDO 2021)

Due to their reliance on offline commerce and the cash economy, MSMEs find it challenging to generate revenue during the epidemic, particularly under tight social isolation policies. As schools transition to online education and most employers change their rules to permit working from home, the demand for the goods and services provided by MSMEs, which typically cater to kids and the labor population, has unavoidably decreased (WFH). Most businesses indicate

that declining market demand is their top worry at this time, with 82 percent of those surveyed admitting to a drop in orders and 92 percent expecting a drop in revenue (UNIDO 2021). The survey also showed that 81% of companies anticipate a 50% decline in sales from 2019 to 2020. A cash flow crisis has resulted from the pandemic's considerable drop in demand for the goods and services provided by MSMEs, particularly when the lockdown was put into place.

The lack of cash flow has affected all forms of payments, including wages and salaries, interest, loan repayments, and taxes (Gunadi et al. 2021). They had to reduce staff, and put off loan and interest payments, among other things, due to financial difficulties. Many MSMEs must bargain with banks, suppliers, and employees to keep their firms operating.

Lower MSME financing flows have harmed employment. Many Indonesian employees lost their jobs as a result of the pandemic, particularly during the first year. Many MSMEs have started to halt or scale back their activities to fulfill the post-pandemic market demand for their products. Most companies emphasized that they could not endure the severe early pandemic restrictions for longer than six months (UNIDO 2021). In 2020, a survey of 5,800 small firms in Indonesia found that 43% of all temporary closures were attributable to COVID-19 (Bartik et al. 2020). As a result of increased unemployment and an increase in the number of workers adopting pay cuts, the local market demand continued to fall, which was particularly hard for MSMEs. Additionally, when the pandemic expanded around the world, there was a fall in demand, which in turn caused Indonesia's exports to decline (Asian Development Bank 2020).

The problems are further made worse by a shortage of raw materials and adequate transportation systems. The COVID-19 laws have caused travel restrictions and economic interruptions in several regions. Due to limitations with input materials, some MSMEs also suffered supply shortages and issues with the delivery of final items. The pandemic is a contributing factor in more than 45% of MSME distribution and access challenges to raw materials, according to a joint UNDP and LPEM report from FEB UI (2020). Several MSMEs have been compelled to scale back or cease operations as a result of the issue with importing raw materials and auxiliary components, particularly from China.

Local government regulations were put into place in Indonesia after the strict lockdown was lifted, resulting in partial lockdowns and restrictions. The state policy nevertheless harms business, particularly for MSMEs who still conduct the majority of their operational activities offline. The COVID-19 outbreak affected 87% of MSMEs, and the majority of these MSMEs had a substantial fall in sales, according to Bank Indonesia data as of March 2021. The government had a digital and MSME adoption strategy even before the pandemic as a way to support MSMEs by extending their market reach. However, due to their lack of experience navigating the digitization of MSMEs and the lack of internet infrastructure in some areas of Indonesia, some MSMEs find it challenging to move to digital platforms. As a result of the epidemic's severe physical restrictions, MSMEs must improvise to survive. Switching to an online marketplace is part of this. Following the pandemic, nearly 44% of MSMEs surveyed by UNDP & LPEM FEB UI (2020) joined an online market or e-commerce platform, compared to only 28% of

MSMEs before the pandemic. Additionally, by October 2021, 15.9 million MSMEs, or 24.9% of all MSMEs, would have participated in the digital ecosystem (Afifa 2021). However, many businesses that primarily conduct offline business may suffer from the increased digitization of MSMEs.

4. Government Supports

The Indonesian government initiated a national economic recovery program (PEN) aimed at various economic sectors, including MSMEs, to reduce the impact of the epidemic on MSMEs. The MSME business finance component is primarily the focus of support initiatives.

The Indonesian central government contributed Rp. 695.2 trillion to the PEN program budget in 2020, of which Rp. 123.46 trillion was designated exclusively for the recovery of MSME enterprises and reducing the pandemic's effects (Ministry of Finance, 2020). Beneficiaries received a total payout of Rp30.22 trillion in the second quarter of 2020. Only Rp0.98 trillion more was paid out in July, and significant additional spending was once more recorded in August and September. The financial realization for the PEN program didn't catch up to the budgeted amount until the end of 2020 when it did so at 82.83 percent. More than 90% of the budgetary allotment for PEN funds for MSMEs—Rp112,44 trillion—has been directed toward 2020. The government's programs are summarized here based on the findings of the literature review (Andayani et al., 2021; Emiliani et al., 2021; Gitiyarko, 2020; Handini & Choiriyati, 2021; Hanim et al., 2022; Islami et al., 2021; Jayani, 2020; Marlinah, 2021; Masrurroh et al., 2021; Mujiyanto et al., 2022; Ministry of Finance, 2020).

1) Delay in payment of loan principal and interest

Economic activity and commercial activity have decreased in Indonesia as a result of the COVID-19 virus, particularly for micro, small, and medium-sized businesses (MSMEs). To aid MSMEs, the government has decided to forgo interest payments and defer the Communities' Business Credit (KUR) installments for a maximum of six months for business entities impacted by COVID-19. The KUR regulations will also be loosened by extending the duration and raising the ceiling after the suspension of principal and interest payments.

The MSME Financing Committee's Coordination Meeting decided to rescind the KUR guidelines and the interest and principal payment deadline on April 8, 2020. Head of the Financial and Development Supervisory Agency (BPKP), Minister of Cooperatives and MSMEs, Minister of Maritime Affairs and Fisheries, Minister of Manpower, Minister of Industry, Minister of Trade, Deputy Governor of Bank Indonesia, and Echelon One representative of the Minister who is a member of the MSME Financing Committee attended the coordination meeting, which was presided over by the Coordinating Minister for Economic Affairs in her capacity as chair of the MSME Financing Committee.

“April 1st, 2020 will mark the implementation of this policy. Those who will get interest exemption and postponement of KUR principal installment payments

for a maximum of 6 months must pass an evaluation from each KUR distributor” (Airlangga Hartarto, Coordinating Minister for Economic Affairs)

Financial Services Authority Regulation (POJK) No. 11/POJK.03/2020, which among other things stipulates that debtors harmed by the spread of COVID-19, particularly MSME debtors, may restructure credit or funding that was supplied before or after that time.

The coordinating minister for the Economy additionally emphasized that the requirements for restructuring KUR will be loosened with a policy of extending the KUR period and/or a policy of raising the KUR ceiling for existing KUR debtors who are affected by COVID-19 (specifically for Small KUR). Debtors that owe KUR and Non-Production Micro KUR).

Prospective new KUR debtors are exempt from the administrative requirements for applying for KUR, such as obtaining a Business License, Taxpayer Identification Number (NPWP), and additional collateral documents. All of these documents are temporarily suspended till the situation permits. KUR is additionally accessible online.

2) Tax Incentive

According to the Ministry of Finance, the National Economic Recovery (PEN) program's tax advantages are still accessible to MSMEs until 2022 (Kemenkeu, 2021). From the start of the pandemic until December 2021, the government has provided PEN tax incentives to MSMEs in the form of a 0.5 percent final income tax (PPh) exemption.

3) MSME's Loan Interest Subsidy

MSMEs, or small and medium-sized businesses, are among the groups most impacted by the COVID-19 outbreak (MSMEs). MSMEs face challenges that include decreased turnover, disturbing material sources, and capital that is in danger of becoming scarce.

The restructuring plan, which is based on POJK 11/POJK.02/2020, contains measures to boost interest subsidies, raise interest subsidies, provide social cash assistance that boosts purchasing power, and receive support from other national economic recovery programs. To hasten the recovery from the pandemic, the government has given Rp 162.40 trillion to the corporate and MSME sectors. This has led to the development of the [Indonesia.go.id](https://www.indonesia.go.id) webpage.

Even more, to support and promote the growth of the MSME sector, the government has agreed to grant bank financing loans of up to 30% of the entire loan. Naturally, the money will be dispersed till 2024 in phases. This move by the finance minister demonstrates more direct support for the industry than a simple bank loan. The Minister of Finance has issued Minister of Finance Regulation Number 150/PMK.05/2021. According to PMK, MSMEs would continue to get interest breaks and credit margins through December 31, 2021. Some conditions must be followed to receive interest subsidies or credit margins, and the maximum loan amount for

MSMEs is IDR 10 billion. It is crucial to keep in mind that, as of February 29, 2020, clients who get loan interest subsidies fall within the existing group.

4) Regional Incentive Fund (DID)

The government has once more pumped Regional Incentive Funds into the economy as one of the measures to hasten economic recovery (DID). However, local governments must take into account several factors to obtain more DID. The submission of an adjustment to the 2020 APBD in compliance with PMK 35/PMK.07/2020 is one of these demands. Second, reports on social assistance spending and health spending based on PMK 19/PMK.07/2020 and PMK 35/PMK.07/2020, respectively, in the context of managing or avoiding COVID-19

An evaluation will be done following the declaration of eligibility. An evaluation will be done following the declaration of eligibility. The province/district/city that achieves a minimum score of 80 in the calculation of the development of the epidemiological score is correct, as is the regency/city that maintains the green zone within a predetermined period, the regency/city that switches from the red zone to the green zone within a predetermined period, and so on. one standard for evaluation. The current DID evaluation has been finished, according to the Director General of Fiscal Balance. It depends on how each region manages COVID-19 control.

5) Working Capital Stimulus

Several ministers, deputy ministers, and members of the bank's board of directors participated in the official introduction of the Micro, Small, and Medium Enterprises (UMKM) Working Capital Credit Guarantee in the Context of National Economic Recovery (PEN). The event, which may be attended in person or online, is one approach to hasten the rollout of the PEN program for MSMEs. Guaranteed working capital loans from different banks owned by this State-Owned Enterprise range in size from 100 to 600 million rupiahs (BUMN).

Given the effects of the COVID-19 epidemic, particularly in the second quarter, on the Indonesian economy, PEN is anticipated to take the lead in the third and fourth quarters. According to the coordinating minister for Economic Affairs, MSMEs are given priority by the government in the PEN project. The PEN program is executed within the context of economic recovery through a guarantee system, including loan guarantees for business players, particularly MSMEs. A plan for regulating working capital loan guarantees for MSMEs is governed by PMK 71/2020, and PT Jamkrindo and PT Askrindo have been designated as guarantors. By paying the Guarantee Service Contribution (IJP), containing losses, and State Capital Participation, the government assists PT Jamkrindo and PT Askrindo (PMN). In the context of PEN, the goal of working capital loan guarantees is to preserve, preserve, and enhance real and financial sector business actors' capacity to conduct profitable operations. This guarantee is also meant to lower credit risk for MSME actors as a result of the COVID-19

epidemic and promote the transfer of working capital loans from banks to MSMEs.

Numerous stimulus measures have been meticulously planned by the administration, but they must be swiftly and precisely implemented. This program was implemented to halt additional layoffs and keep the rate of economic growth steady. The government has offered a full menu of resources to assist MSMEs in getting back on track, being productive, and remaining safeguarded from COVID so they can drive the economy, particularly at the local level.

Up to 21% of the PEN budget has been set aside by the government to assist MSMEs impacted by the COVID-19 epidemic. This demonstrates the government's dedication to supporting one of the sectors that underpin the Indonesian economy. The overall PEN budget for MSMEs is Rp 123.46 trillion, of which Rp 35.28 trillion is allocated for interest subsidies, Rp 78.78 trillion is allocated for credit restructuring fund placements, Rp 5 trillion is allocated for IJP, and Rp 1 trillion is allocated to finance cooperative investment through MSMEs. The government is responsible for funding the Cooperative Revolving Fund Management Agency (LPDB) and Rp 1 trillion in MSME income taxes.

The government is solely responsible for resource distribution. The intention is to boost the economy. The PEN program benefits business, particularly MSMEs. All business sectors in Indonesia are anticipated to recover quickly. serve as the nation's economic engine.

6) Placement of State Fund in Banks

The National Economic Recovery (PEN) program has placed Rp. 66.7 trillion in banks, with an impact multiplier of Rp. 218.9 trillion in support for MSMEs, according to the Minister of Finance. The Government Securities (SBN), which are non-public goods and were created as a consequence of a partnership between the government and Bank Indonesia (BI), according to the Minister of Finance, offer to finance the use of capital in the banking industry. This was stated during the third plenary meeting of the first session of the 2021–2022 legislative year of the Indonesian House of Representatives, which was held at the Parliament Complex in Senayan.

However, Sri Mulyani, the minister of finance, acknowledged that bank savings were not a long-term solution. Sri Mulyani acknowledged that the change in the budget year in one fiscal year required the transaction to be reported as a cash management transaction or non-budgetary transaction. The placement of the funds will be part of SILPA (the remaining budget finance) at the end of 2020, he added. In addition to being kept in banks, there is still Rp 57.1 trillion in SBN (State Securities) money from Bank Indonesia (BI) and the government for PEN that will not be used in the 2020 fiscal year incentives for medical professionals, reimbursement for healthcare costs, and support for MSMEs in 2021 through interest rate reductions on People's Business Credit (KUR) and non-KUR. Sri went on to say that Indonesia is one of the few nations that has been able to purchase

the COVID-19 vaccine before the end of manufacture owing to this cash reserve. This is because of the support and financing from the DPR that the State Securities provided directly to Bank Indonesia.

As a result, Indonesia might immunize even earlier than the nearby nations. To finance sources of Over Budget Balance (SAL) equivalent to Rp139.4 trillion in the Fiscal Year 2021, SILPA cash for the Fiscal Year 2020 of Rp245.6 trillion will be used. Sri claims that the funds will be utilized to pay for a variety of costs associated with the rise in COVID-19 brought on by the delta variation this year. Additionally, he added that the SILPA's 2021 Over Budget Balance from the prior year functions as a trustworthy and efficient fiscal reserve or fiscal buffer and can lower the issue of government bonds. To lessen the burden of increasing interest rates when we are required to maintain a significant deficit. In addition, from the perspective of crucial investment funds.

7) President's Earning Fund

The government has once again appointed PT Bank Negara Indonesia (Persero) Tbk. or BNI to distribute Productive Presidential Assistance (Banpres) in the form of Productive Micro Business Assistance (BPUM) in 2021. The official distribution of BPUM 2021 will be held at the Jakarta State Palace on Friday, July 30, 2021, under very strict health restrictions. The president of the Republic of Indonesia, Joko Widodo, the minister of cooperatives and small and medium-sized businesses, Teten Masduki, the president director of BNI, Royke Tumilaar, and representatives of the beneficiaries were also present at the occasion. Participants included representatives of four BNI outlets in Medan, Tasikmalaya, Pasuruan, and Denpasar that are connected online.

"BNI has been given the green light by the Ministry of Cooperatives and SMEs to provide IDR 1.2 million per person in 2021 in the form of Productive Presidential Assistance for micro-enterprises. Entrepreneurs are chosen as recipients by the Ministry of Cooperatives & SMEs. The 2.1 million winners are dispersed throughout several Indonesian provinces.

Because it can offer a well-integrated distribution system, from opening communal accounts to monitoring disbursements, BNI was chosen as the channeling bank. BNI can further simplify the account opening process for recipients (using the burekol system or by opening a collective account) so that recipients only need to complete the account activation process before taking debit cards and passbooks from BNI locations.

The aid can be used right away for constructive endeavors in the context of the National Economic Recovery (PEN). The account activation process takes place in a designated space at each BNI branch. A specific location for account activation will also be made available by BNI for places that are quite a distance from the closest BNI branch. All BNI services adhere to health laws and employ a disciplined line-up process. Additionally, BNI is knowledgeable about how social assistance programs are distributed or how they affect the local community. First, the Family Hope Program, which has

benefited 4.1 million people since 2016, is distributed through a collaborative effort between BNI and the Ministry of Social Affairs. Additionally, since 2017, BNI has given 5.5 million clients money for the Basic Food Program support.

Second, is the collaboration between the Ministry of Education and Culture and the Smart Indonesia Program, which since 2012 has funded 3 million participants. Third, administrative support for the Smart Indonesia Program, which started in 2018 and has reached 1.5 million pupils. To distribute Pre-Employment Cards, collaborate with the project management office for Pre-Employment Cards. Since 2020, BNI has given out 8.4 million recipients in total. In this instance, the Pre-Employment digital system development was solely carried out by BNI. Fifth, aid Kemenristek/National Research and Innovation Agency in helping 818 thousand students since 2018.

Sixth, work with the Ministry of Public Works and Public Housing to develop a Self-Help Housing Stimulant Assistance program. A total of 12,000 aids have been given since 2018. Seventh, 1,709 farmer organizations have received social aid in the form of seeds from the Ministry of Agriculture since 2019. BNI provides features and convenience for the distribution of aid while also upholding standards for the security of financial transaction data. Royke concluded by expressing his gratitude to the government for keeping BNI on the government's list of banks qualified to disburse various social assistance programs, the president's support (*banpres*), and subsidies. All advancements in digitalization for the provision of social aid, government assistance, and subsidy programs are a result of BNI's efforts in its capacity as a development agent.

He continued, "BNI is required to succeed every government program, including making sure all social assistance programs, *banpres*, and subsidies are distributed cashless to fulfill the 6T, which stands for right on target, right quality, right quantity, the right price, right time, and right administration.

5. Conclusion

For the nation's MSMEs as well as all industries, COVID-19 has turned into a catastrophic catastrophe. The government must take calculated action to lessen the effects for economic activity to proceed even as a pandemic is in progress. The Indonesian government has implemented several initiatives or forms of assistance to lessen the effects of COVID-19, particularly for MSMEs. The National Economic Recovery is in charge of these numerous supports (PEN). There are various forms of assistance available, including tax breaks, interest subsidies for loans to MSMEs, regional incentive funds, working capital stimuli, placement of state funds in banks, and productive funds from the president.

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