

# CHAPTER I

## INTRODUCTION

### 1.1 Problem Identification

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered corona virus. Many people infected with the COVID-19 virus will experience mild to severe respiratory illness and will recover without the need for special care. More mature people, as well as those with fundamental clinical issues such as cardiovascular disease, diabetes, chronic respiratory infection, and cancer, are more likely to develop serious illness.

The COVID-19 infection spreads essentially through droplets of saliva or release from the nose when a contaminated individual cough or sneezes, so it's significant that you likewise practice respiratory ethic (for instance, by coughing cover by a flexed elbow) (WHO, 2020). COVID-19 has given rise economic shock, which affects individual economy, homestays, micro, small companies, medium or large, even affect the country's economy with coverage scale from local, national, and even global.

According to World Health Organization (WHO) data as of June 26, 2020, there are 213 affected countries, with 9.473.214 positive cases, and 484.249 deaths. Indonesia become the most affected country in ASEAN, with 50.187 confirmed cases, and 2.620 deaths. COVID-19 has become a major concern for the Indonesian people due to the problems it continues to cause, and COVID-19 has caused numerous damages that have an impact on the Indonesian economy. The key goal of the country's economic development is to achieve people's prosperity through fast economic growth and equal income distribution. This contrasts with the

situation in Indonesia in 1997/1998, when the exchange-rate crisis initially evolved into a banking crisis that spread to social and political crises that had significant implications for the Indonesian economy. The high rate of inflation at that time led to a decline in people's purchasing power, particularly for low-income groups (Silpa Hanoatubun, 2020).

Organization for Economic Co-operation and Development (2020) also stated that as a result of COVID-19's pandemic, a variety of sectors will be affected. COVID-19 pandemic has a significant impact on the domestic economy of nation-states, and therefore on the existence of MSMEs at the global level. Richard (2011) states that global pandemics and the economic health of a nation are both affected by the government's policies. A state of national emergency has been declared by the Indonesian government in March 2020.

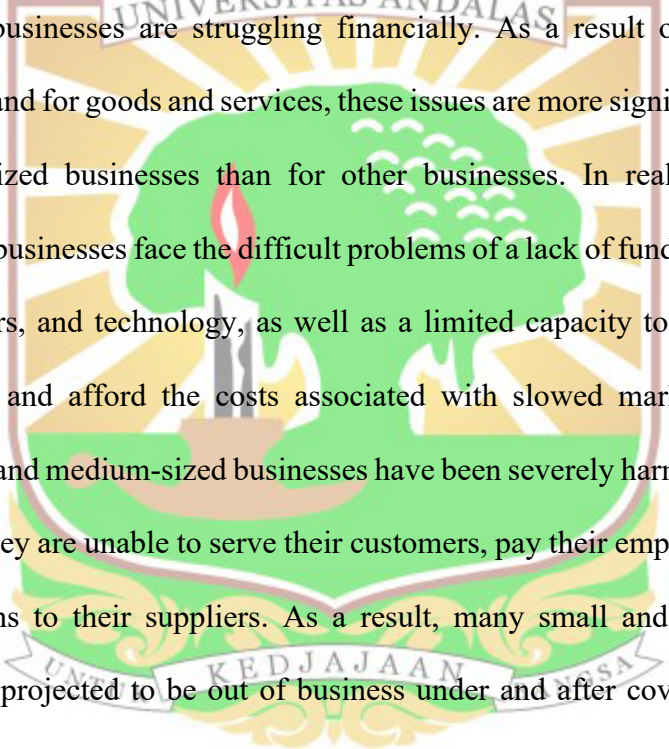
Micro, Small and Medium Enterprises (MSMEs) has become one of the most substantial pillars of economic strength in a region because it has strategic and important role in national economic development. This statement is supported by data from Indonesian Ministry of Cooperatives and Micro, Small and Medium Enterprises in 2018 stated that 99.9 percent business forms in this country are in the form of MSMEs. Contribution MSMEs in Indonesia also could be narrated as, job field pool because about 64,2 million MSMEs were operating in Indonesia in 2020, Approximately 97 percent of the total population is currently working in MSMEs while 99.9 percent of all Indonesian companies are MSMEs. MSMEs account for at least 60 percent of Indonesia 's overall GDP. Within its important role of MSMEs to economic development, it has ability to create job fields to the community, especially in rural area (Ismail, 2013).

Runyan (2006) stated that small firms are most severely affected by crises as a result of their own lower preparedness levels, higher vulnerability, greater government reliance and local agencies and greater psychological and financial impacts for owners. A study made by the Ministry of Finance shows that the COVID-19 pandemic has negative implications for the domestic economy like a decrease in consumption and buying power, a decline in corporate performance, threats to the banking and financial sectors, and the existence of MSMEs (Yusuf Santoso, 2020).

According to data from the cooperative ministry, one of the effects of the COVID-19 pandemic is the micro, small, and medium-sized enterprises (MSMEs) in Indonesia. The corona virus pandemic has affected 1,785 cooperatives and 163,713 micro, small, and medium-sized enterprises (MSMEs). The majority of the cooperatives impacted by COVID-19 are in the field of daily needs, with the MSME sector, namely food and beverages, bearing the force of the damage. According to the Ministry of Cooperatives and Small and Medium Enterprises, approximately 56% of national reports are about decreasing sales, 22% are about funding, 15% are about goods distribution, and 4% are about access to raw materials.

Padang with role as capital city of West Sumatera province has become one of business central with MSMEs total more than others district in West Sumatera. According on data from Statistics of West Sumatera Province (2017), MSMEs amount in Padang city is increasing from 78.298 MSMEs in 2016 to 89.699 MSME's in 2017 that showed significant improvement. Per May 2020, Cooperatives and MSMEs Offices of Padang city stated that the number affected

by COVID-19 reached 11.676 MSMEs in originating 11 sub-districts and 104 urban villages in the city of Padang with most of affected MSMEs are in culinary and craft area who had experienced loss of revenue, the difficulty to get raw material, disruption of capital side up to production activity (Tim Viva, 2020. *Perpanjangan Ekonomi Hantam Sosial Ekonomi Kota Padang*. Accessed from <https://www.vivanews.com/bisnis/48388-perpanjangan-psbb-hantam-sosial-ekonomi-kota-padang-nbsp>).



Many businesses are struggling financially. As a result of a significant decline in demand for goods and services, these issues are more significant for small and medium-sized businesses than for other businesses. In reality, small and medium-sized businesses face the difficult problems of a lack of funds and liquidity, staff, consumers, and technology, as well as a limited capacity to counteract the risks involved and afford the costs associated with slowed market operations. Because small and medium-sized businesses have been severely harmed for the past four months, they are unable to serve their customers, pay their employees, or meet their obligations to their suppliers. As a result, many small and medium-sized businesses are projected to be out of business under and after covid-19. Overall, both supply and demand would have a severe downturn, with major implications for public finance due to a decrease in tax revenues (Konstantinos Syriopoulos, 2020).

The above problems are also more widespread when linked to existence of PSBB was governed by Minister of Health Regulation No. 9 of 2020 on Guidelines for Large-Scale Social Restrictions in Accelerating COVID-19 Mitigation (Ministry of

Health, 2020). In the consumption and purchasing power side, this pandemic causes a great deal of labour to decrease or even lose income, which affects the level of people's consumption and purchasing power, particularly those in the informal and day-to-day workforce. Most people are very careful about managing their financial expenditure because of the uncertainty about the end of this pandemic. This causes a decline in people's purchasing power for consumer goods and puts pressure on producers and sellers. As far as the company is concerned, this pandemic has disrupted the performance of companies, particularly those engaged in the trade, transport and tourism sectors (Aknolt, 2020).

In the production side, the Indonesian government's social distancing strategy has affected production activities. Some companies pursue a work from home job, others plan to lay off their employees through mass layoffs. The continuation effect of the layoff workers has brought extreme decline in production capacity. Like it or not, this situation has led to lack of raw materials for manufacturing the home industry, or to drastic price rises. The Indonesian Chamber of Commerce and Industry (Kadin) noted that at least 6 million workers have been laid off due to the COVID-19 pandemic. If the cycle of economic crisis is not stopped immediately, the Indonesian economy will be dragged into a very deep crisis.

Some business actors have adjusted themselves by opening/selling online stores through e-commerce. E-commerce is a framework for the selling, procurement and promotion of electronics goods (Kotler, Philip and Amstrong, 2012). Certain culinary MSMEs also have made innovation by turning their products into frozen food or easy-to-cook product which eventually will be delivered to customer via courier or food delivery services. In addition to e-commerce trading, MSMEs are

also expected to be able to intensively communicate goods by selling products using digital marketing and using social media to directly target customers and minimize advertising costs. Digital marketing is marketing which uses internet access, social media or other digital devices. (Wan Laura, 2020). COVID-19 is going to be around for a while. We've got to deal with it, maybe for 2 or 3 years. This would definitely change our economies, our cultures and our lifestyles. The world will not go back to exactly the same 'normal;' the 'new normal' will arise. The penetration of digital technology will increase and the ASEAN countries will be able to take advantage of this significant change (Fukunari Kimura, 2020).

The Government has made a variety of attempts to address the problems faced by MSME players and cooperatives. One of them is to include MSMEs stakeholders and cooperatives as beneficiaries of government assistance services, such as Prakerja cards, energy tariff subsidies, and the Keluarga Harapan. The Government also provides for a six-month tax relief from April 2020 to September 2020. Another step that government made to minimize severe impacts of Indonesian MSMEs during pandemic, the government has issued 5 MSMEs Recovery Scheme packages. The five schemes are social assistance for highly vulnerable MSMEs, tax incentives, relaxation and credit restructuring and interest rate subsidies, expansion of working capital financing, and determination of BUMN and local governments as MSMEs buffers.

However, the program is not sufficient to answer and exclude MSMEs from the real problems that have plagued the performance of MSMEs. (Agus Sumarto, 2020. *Serius Membantu UMKM Terdampak Pandemi*. Accessed from <https://news.detik.com/kolom/d-5033063/serius-membantu-umkm-terdampak->

pandemi). These problems require stakeholders to work together to maintain the sustainability of MSMEs and conduct structuring revitalization as well after the COVID-19 pandemic in the MSMEs sector with the aim of giving birth MSMEs commitment and trust (Hadi et al, 2020). With regard to the COVID-19 pandemic, as well as its effect on the national economy, in particular micro, small and medium-sized business operations, most of them were paralyzed and on the edge of bankruptcy. So, it is necessary to do this research to see its impact empirically.

As far as could be determined, there have been few previous studies on the impact of Pandemic on SMEs and MSMEs and (OECD, 2020; Ika & Nining, 2020; Parilla, Liu, & Whitehead 2020), with most of these studies being focused on recovery after pandemic such as COVID-19 and SARS on SMEs; studies of the impact of COVID-19 on MSMEs are rare, especially in Padang city.

In the next section, study literature of COVID-19 and micro, small and medium-sized enterprises are discussed which make them particularly vulnerable to external shocks and may be advantageous in such situations. The study of literature is then introduced, and the findings are presented. This paper ends with a section of discussion which interprets the findings and suggests avenues for future study.

## 1.2 Problem Statement

Based on the background described, what will be focused on this study is:

1. How does COVID-19 affect Padang city MSMEs revenue in 2020
2. How does COVID-19 affect Padang city MSMEs market demand in 2020
3. How does COVID-19 affect Padang city MSMEs supply chain in 2020
4. How does COVID-19 affect Padang city MSMEs employment in 2020

### 1.3 General Research Objective

1. Analyzed the effect of COVID-19 against Padang city MSMEs revenue in 2020
2. Analyzed the effect of COVID-19 against Padang city MSMEs market demand in 2020
3. Analyzed the effect of COVID-19 against Padang city MSMEs supply chain in 2020
4. Analyzed the effect of COVID-19 against Padang city MSMEs employment in 2020

