

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

In the year of 2020, it was the start of a pandemic caused by the Covid-19 virus. Almost all countries experienced the bad impact from this pandemic. An example of one of the sectors that is affected is the economy sector. In order to limit the spread of the virus, the Government of Indonesia implements Large-Scale Social Restrictions which are regulated in Government Regulation Number 21 of 2020 concerning Large-Scale Social Restrictions in the Context of Accelerating the Management of CoronaVirus Disease 2019 (GR Number 21/2020). Article 4 of GR Number 21/2020 explains that Large-Scale Social Restrictions at least include school and workplace holidays, restrictions on religious activities and or restrictions on activities in places or facilities generally.<sup>1</sup> The social restriction made the society unable to carry out activities outside their house. Stores, restaurants, and offices were closed temporarily in regards to implementing the regulation by the Government, as this creates a decline in businesses, especially the micro, small and medium enterprises or MSME. More than 80% of MSME experienced the negative impact that was caused by the pandemic.<sup>2</sup>

According to the data of the Ministry of Cooperatives and Small Medium Enterprise in March 2021, there are 63,955,369 micro business units in Indonesia, 193,959 small business units, 44,728 medium business units and 5,550 large

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<sup>1</sup> Article 4 of Government Regulation Number 21 of 2020

<sup>2</sup> Digitalisasi Umkm Di Tengah Pandemi Covid-19." *Digitalisasi UMKM Di Tengah Pandemi Covid-19*. <https://katadata.co.id/umkm>. Accessed September 11, 2022, Page. 1

businesses.<sup>3</sup> MSME has an important role for Indonesia's economy as they are a critical engine for the nation's economy that accounts 99% of all business units.<sup>4</sup> In history during the 1997-1998 monetary crisis that affected Indonesia's economy, MSMEs acted as the backbone of the economy as they helped with the economic crisis recovery. Furthermore, MSME contributes to the nation's gross domestic product (GDP) to an amount of 61.97% which is an equivalent to 8,573.89 trillion rupiah in the year of 2020.<sup>5</sup>

MSME plays a role in the nation's economy that could bring an advantage to economic growth with the following reasons:<sup>6</sup>

1. MSME is an actor in the economic activities as they have a large amount of MSME and they are also spread among the urban, rural up to remote areas.
2. MSME supports the nation's economy would be being one of the largest providers of employment, according to data there MSME absorbs a large amount percentage for employment which is up to 97% or as much as or as much as 120,590,000 people of the absorption capacity in the business industry in the year of 2020.<sup>7</sup> Due to the large amount of employment MSME allows potential for growth of both job opportunities and increase in income. Furthermore, with a large job potential, MSMEs can provide jobs to workers who do not have a high education.

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<sup>3</sup> Kementerian Koordinator Bidang Perkonomian RI. "UMKM and The Evolution Post Pandemic Era ." Jakarta , n.d.

<sup>4</sup> Ibid

<sup>5</sup> "Upaya Pemerintah Memajukan UMKM Indonesia | BKPM."

<https://www.bkpm.go.id/id/publikasi/detail/berita/upaya-pemerintah-untuk-memajukan-umkm-indonesia>. Accessed September 11, 2022.

<sup>6</sup> Ibid

<sup>7</sup> Ibid

3. MSME have an important role in the local economic development and community empowerment. Out of the many MSME, there are a few MSME in the agricultural sector as this could lead into supporting the development in Indonesia.
4. MSME also contributes in making new markets and sources of innovation and they are also able to quickly adapt to the progression of times as this is caused by a variety of investments.
5. MSME are able to quickly adapt to the progression of times as this is caused by a variety of investments. In relation to investment, MSME acts as the starting point for investment mobility in rural areas and a location for enhancing entrepreneur skill.
6. MSME contributes to the export growth in Indonesia up to 15.65%. Additionally, MSME may provide products at a reasonable price, which makes them a useful tool for helping rural populations switch from spending money on consumption to saving money.<sup>8</sup>

MSME experienced various obstacles caused by the pandemic of Covid-19 virus, such as: the difficulty to obtain raw materials for production, earning capital, decrease of customers and the delay of distribution and production.<sup>9</sup> According to

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<sup>8</sup> “Dampak Pandemi Covid-19 Terhadap Umkm Di Buleleng.” <https://balitbang.bulelengkab.go.id/informasi/detail/artikel/76-dampak-pandemi-covid-19-terhadap-umkm-di-buleleng>. Accessed September 11, 2022.

<sup>9</sup> “Upaya Pemerintah Memajukan UMKM Indonesia | BKPM.” <https://www.bkpm.go.id/id/publikasi/detail/berita/upaya-pemerintah-untuk-memajukan-umkm-indonesia>. Accessed September 11, 2022.

the Ministry of Trade there are five problems that occur to MSME during the pandemic:<sup>10</sup>

1. The decrease of purchase which leads to decrement of customers. According to the data of United Nations Development Programme and University of Indonesia Institute of Economic and Community Research surveys to 1,180 MSME an amount of 88% percent of MSMEs experienced a decrease in product demand. This problem caused MSME to experience a decrease in revenue that resulted in an amount of 77% MSME's from 1,180 MSME experiencing a decrease in income and 97% MSMEs experiencing a decrease in assets.
2. MSME's encounter restriction of mobility resulting in MSME having a distribution barrier. Due to this issue, it would be challenging for MSME to distribute their products ordered by the customers. Data shows that an amount of 84.6 MSMEs experienced difficulties in product distribution.<sup>11</sup>
3. Due to MSME not yet bankable; they have an obstacle in accessing capital and finance. Because of the difficulty in obtaining finance through traditional financial institutions, this issue forces MSME to turn to money lenders for loans. They also have obstacles in paying bank instalments, and this problem is mostly experienced by business actors of MSMEs. In this case, they experience the challenge to carry out their obligations to banks.<sup>12</sup>

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<sup>10</sup> "Dampak Pandemi Covid-19 Terhadap Umkm Di Buleleng."  
<https://balitbang.bulelengkab.go.id/informasi/detail/artikel/76-dampak-pandemi-covid-19-terhadap-umkm-di-buleleng>. Accessed September 11, 2022.

<sup>11</sup> Ibid

<sup>12</sup> Ibid

4. The challenge in obtaining raw materials, more than 48 out of 1,180 MSMEs were affected by this issue. Lastly would be the problem caused by the limit of labour movement as the report shows an amount of 56% of MSME that reduced their workforce as creates the delay in production.<sup>13</sup>

The occurrence of pandemic caused by covid has affected the condition of MSME in Indonesia as it turned into a bad condition and as many as 56.8% MSME experienced it. Due to the pandemic, it has an impact towards the business up to the MSME's turnover.

Impact towards the MSME business

1. 82.9% of MSMEs experience negative impacts
2. 5.9% MSME positive impact,
3. 11.2% of MSMEs have no impact.

Impact towards MSME turnover

1. 63.9% MSME decrease in turnover of more than 30%
2. 31.7% MSME decreased turnover from up to 30%
3. 3.8% MSME increase in turnover<sup>14</sup>

From the data shown above it is proven that the majority of MSME are experiencing a negative impact from the pandemic as their business and turnovers are decreasing, yet only a few MSME is impacted positively by an increase in turnover. As a result

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<sup>13</sup> Movanita, Ambaranie Nadia Kemala. "Kemendag Beberkan 5 Masalah Yang Dihadapi UMKM Selama Pandemi." *KOMPAS.com*. Kompas.com, <https://money.kompas.com/read/2021/08/25/125859826/kemendag-beberkan-5-masalah-yang-dihadapi-umkm-selama-pandemi>. Accessed September 11, 2022.

<sup>14</sup> "Digitalisasi Umkm Di Tengah Pandemi Covid-19." *Digitalisasi UMKM Di Tengah Pandemi Covid-19*. <https://katadata.co.id/umkm>. Accessed September 11, 2022.

of Covid 19, there have been many declines in the MSME sector, and therefore if not handled properly it can lead to a decline in the economy in Indonesia.

The negative economic impact that is experienced by MSMEs, business actors carry out several strategies to maintain their business. The methods of business actors in maintaining their MSMEs is by decreasing the production of goods and services, cutting working hours and the number of employees and sales and marketing channels. Business actors of MSMEs have taken strategic action in order to maintain their business during the pandemic. The steps that they took were to reduce the production of goods and services, reduce working hours and the number of employees and sales or marketing channels.<sup>15</sup>

In addition, the year 2020 has become a digital era, many MSMEs are taking the opportunity by utilizing online platforms to sell their products. There are various e-commerce platforms such as Tokopedia, Shopee, Lazada and others ecommerce platforms in Indonesia that can be utilized by business actors of MSMEs for their business activities. Not only e-commerce platforms, but social media platforms such as Instagram, Facebook, and Tik-Tok shops. This is done by several MSMEs to help their business so that it does not collapse and can be maintained. With a sales strategy through an online platform, MSMEs can survive a pandemic more than those who do not use an online platform.<sup>16</sup> With the use of the internet in

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<sup>15</sup> Ibid

<sup>16</sup> “Dampak Pandemi Covid-19 Terhadap Umkm Di Buleleng.” <https://balitbang.bulelengkab.go.id/informasi/detail/artikel/76-dampak-pandemi-covid-19-terhadap-umkm-di-buleleng>. Accessed September 11, 2022.

selling their products, 80.6% of MSMEs experience a good impact in carrying out their business.<sup>17</sup>

It is unfortunate that only 13% of the 64.2 million MSME units utilize digital technology to market their products online.<sup>18</sup> One of the causes of the low percentage of digital technology usage by MSMEs is due to internet access and digital readiness by business actors to switch into digital. One of the tools to access the internet is with smartphones and laptops. These tools are already owned by many MSME business actors although not all business users use smartphones and laptops to market their products on online platforms. The MSME digital readiness index in Jabodetabek is still classified as an intermediate stage due to the highest index scale being at number five.<sup>19</sup> The MSME digital readiness index is measured by indicators of optimism, competence, security, and comfort, and the total average of digital readiness stands at 3.6. The second obstacle is the age factor, the older the age of the business actor, the lower the digital readiness compared to the younger business actor. The third issue would be with consumers who are still unable to understand how to use the internet to buy products. Moreover, the constraint is the lack of knowledge of business actors to sell on online platforms.<sup>20</sup> With various problems inhibiting digitization, digitizing MSMEs can bring several benefits such

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<sup>17</sup> “Dampak Pandemi Covid-19 Terhadap Umkm Di Buleleng.” <https://balitbang.bulelengkab.go.id/informasi/detail/artikel/76-dampak-pandemi-covid-19-terhadap-umkm-di-buleleng>. Accessed September 11, 2022.

<sup>18</sup> Kominfo, Pdsi. “Tingkatkan Produktivitas Dan Nilai Tambah UMKM Melalui Tekonologi Digital.” *Website Resmi Kementerian Komunikasi Dan Informatika RI*. <https://www.kominfo.go.id/content/detail/30276/tingkatkan-produktivitas-dan-nilai-tambah-umkm-melalui-tekonologi-digital/0/berita>. Accessed September 18, 2022.

<sup>19</sup> Digitalisasi Umkm Di Tengah Pandemi Covid-19.” *Digitalisasi UMKM Di Tengah Pandemi Covid-19*. <https://katadata.co.id/umkm>. Accessed September 11, 2022.

<sup>20</sup> Ibid

as: expand marketing network, respond to lifestyle change, make an easier transaction for consumers, and increase income.<sup>21</sup>

The Government made an effort to optimize the productivity potential of MSMEs in order to be able to restore the national economy due to the declining economy caused by the pandemic which is dominated by small, MSME. One strategy used by the Government is to promote digitization or onboarding for offline MSMEs and offer various incentives for MSMEs that have already become digital.<sup>22</sup>

Furthermore, the Government has assisted in supporting MSMEs in the online platform by increasing them through the “BBI” (*Buatan Bangga Indonesia*) programme, “LKPP” (*Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah*) e-catalogue, and the “QRIS” (*Quick Response Code Indonesia Standard*) programme.<sup>23</sup> In addition, there are two approaches by the Government to encourage an increase in the participation of MSMEs in the digital economy ecosystem. The approach is strengthening the MSME ecosystem by facilitating easy access of licensing, financial incentives and financing, the second is by strengthening the e-commerce ecosystem through the creation of a healthy business climate, digital payments, logistics and personal data protection.<sup>24</sup> Minister of

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<sup>21</sup> “Digitalisasi UMKM Dongkrak Pendapatan Umkm Di 2022.” Pentingnya Digitalisasi UMKM Di Tahun 2022. <https://developers.bri.co.id/id/news/digitalisasi-umkm-dongkrak-pendapatan-umkm-di-2022> Accessed September 11, 2022.

<sup>22</sup> “Optimalisasi Produktivitas UMKM Melalui Go-Digital Dan Go-Legal - Kementerian Koordinator Bidang Perekonomian Republik Indonesia.” *Www.ekon.go.id*. <https://www.ekon.go.id/publikasi/detail/3016/optimalisasi-produktivitas-umkm-melalui-go-digital-dan-go-legal>. Accessed September 11, 2022.

<sup>23</sup> Kementerian Koordinator Bidang Perokonomian RI. “UMKM and The Evouution Post Pandemic Era .” Jakarta , n.d.

<sup>24</sup> Ibid



Trade, Muhammad Lutfi gave his support for increasing digital literacy towards MSMEs, because through digital literacy MSME has the potential to export their products. One way to achieve increased digital literacy is through an application created by SMEsHub Indonesia, namely a digital super application that is able to act as a supply chain instrument and provide advice for MSMEs related to business management.<sup>25</sup>

One of the Government's efforts to promote MSMEs in Indonesia is through the programme *Gerakan Nasional Bangga Buatan Indonesia* or Gernas BBI. This programme was launched in 2020 through Presidential Decree Number 15 of 2021 Concerning Gerakan Nasional Bangga Buatan Indonesia Team (PD 15/2021) with the purpose to encourage national branding of superior local products to create new industries and of course increase economic growth. Through this programme, the Government encourages MSME players to join the digital platform.<sup>26</sup>

Article 3 of the Presidential Decree 15/2021 concerning the Gernas BBI Team Made in Indonesia, it has the duties to:

1. Increasing the number of MSME and Small and Medium Industries including Creative Economy Actors who are included in the digital ecosystem;
2. Increase the number of sales or purchases of local products;

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<sup>25</sup> “Dukung Upaya Peningkatan Literasi Digital Pelaku UMKM.” *Kominfo.go.id*. Accessed <https://www.kominfo.go.id/content/detail/40788/dukung-upaya-peningkatan-literasi-digital-pelaku-umkm/0/berita>. September 11, 2022.

<sup>26</sup> “Upaya Pemerintah Memajukan UMKM Indonesia | BKPM.” <https://www.bkpm.go.id/id/publikasi/detail/berita/upaya-pemerintah-untuk-memajukan-umkm-indonesia>. Accessed September 11, 2022.

3. Increasing people's purchasing power, expanding markets, accessing capital, training, collecting data, and accelerating local economic cycles through local product spending;
4. Economic stimulus for MSME, Small and Medium Industries including Creative Economy Actors Gernas BBI in accordance with the provisions of the legislation;

When Gernas BBI was started by the Government millions of MSMEs joined it and received incentives like coaching, promotions, loans from the State-Owned Bank Association (Himbara), placement in Government procurement e-catalogues, and inclusion on various e-commerce platforms.<sup>27</sup> In addition, President Joko Widodo launched the National Digital Literacy Programme on May 21, 2021 which aims to encourage MSMEs to be more capable of using the internet for educational and productive activities. Additionally, the importance of go-legal for MSME is on par with that of go-digital. The Job Creation Law and its derived rules, Government Regulation No. 7 of 2021 concerning convenience, protection and empowerment of cooperatives and business considering micro, small and medium to support micro small and medium enterprises during the pandemic of covid 19 (GR Number 7 of 2021), have helped the Government overcome go-legal laws by removing different regulations in the Job Creation Law.<sup>28</sup>

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<sup>27</sup>Optimalisasi Produktivitas UMKM Melalui Go-Digital Dan Go-Legal - Kementerian Koordinator Bidang Perekonomian Republik Indonesia.” <https://www.ekon.go.id/publikasi/detail/3016/optimalisasi-produktivitas-umkm-melalui-go-digital-dan-go-legal>. Accessed September 11, 2022.

<sup>28</sup> Ibid

Currently the pandemic is still occurring and it has been for more than a year since when it first started. MSME in Indonesia have been badly affected and there was a decline in the business sector. Due to the decline in the first year that affected many MSMEs and the economic downturn, the Government made an action as they made an effort by holding a program which aims to restore the economy of MSME in Indonesia.

Therefore, due to the negative impact that is experienced by the majority of MSME it would be beneficial if business actors understand the regulations that have been made by the Government and implement it to support their MSME. Not only business actors but the Government should be aware of this condition and show an effort to help the businesses that experienced a downfall of their MSME due to the Pandemic as it would also affect the nation's economy.

In this research, the author would like to further discuss concerns and Analyse on Government Efforts Through the Government Regulation Number 7 of 2021 Concerning Convenience, Protection and Empowerment of Cooperatives and Business Considering Micro, Small and Medium to Support Micro Small and Medium Enterprises During the Pandemic of Covid 19, with the legal basis and regulations that have been implemented.

## **1.2 Formulation of Issues**

There are two questions that would like to be brought up for this thesis:

1. How does the Government of Indonesia show effort to support MSME in terms of financing during the pandemic?

2. How does the Government of Indonesia provide guidance to MSMEs in switching to digitalization to improve their condition during the pandemic?

The two formulation issues that author uses for her thesis would help her conduct her research further in order to answer the two questions and her goal to understand regarding the Government efforts to improve the MSME sector throughout the pandemic era.

### **1.3 Purpose of Research**

One of the first purposes of the author in conducting the research is for personal interest in order to graduate from law school. Despite her personal interest there is also a purpose of this research to see the development towards the MSME due to the occurrence of the pandemic. MSME plays an important role towards the nation's economy therefore this research is made to see how the regulation and legal basis helps support the MSME condition that could also benefit to recover the economy of Indonesia during the pandemic era.

Furthermore the research purpose is to give information for business actors of MSME concerning how to develop and increase their business during the pandemic era that has caused a negative impact towards MSME and Indonesia's economy. Therefore the highlight of the research purpose is to know the regulation that is able to help the development and Government's effort to improve the MSME condition in accordance with the regulation that has been implemented.

#### **1.4 Benefits of Research**

In relation to the goal of the research, the author hopes that by providing this research hopes to provide educational information for the business actors of MSME, law students, business students in Indonesia, concerning the condition of MSME during the pandemic era and how to develop the MSME and economy that has been negatively impacted in accordance to the Government regulation.

Moreover with this research the author is able to provide the implementation that has been done by the Government as an effort to help MSME throughout the pandemic through providing assistance in financing as well as providing educational materials and holding programs in assisting MSME to transition in digitization. The two efforts are done in order to improve the condition of MSME. From the information regarding MSME and implementation that has been provided by the author, it would be beneficial for business actors of MSME to develop their business.

#### **1.5 Systematics of Writing**

##### Chapter I: Introduction

In the first chapter, the author provides information regarding the title's background, formulation of issue, purpose of research, benefits of research, and lastly, the systematics of writing. In the first chapter, the author describes the current condition of MSME in the pandemic as well as provides explanations of how MSME affects the nation's economy. Furthermore, the author also describes the importance of digitization to help develop the MSME condition, especially during the pandemic.

The author states that there are two issues that are taken to conduct further research concerning the title, and in addition, the purpose and benefits of conducting research for the issue that has been stated are also included.

#### Chapter II: Literature Review

The second chapter of this thesis elaborates on the theory of both theory and conceptual review. The two reviews are used as a theory of substance Government program that helps MSMEs during a pandemic.

#### Chapter III: Research Methods

The research method chapter is where the author explains what method of research she will be using. As in this case, she states her research method which includes, types of research and data, data collection method, research approach, and data analysis method

#### Chapter IV: Discussion and Analysis

In this chapter, the author further discusses and analyse the topic in order to be answer the formulated issue that has been made, which is how does the Government show effort to support MSME financing during the pandemic and how do the Government provide guidance to MSMEs in switching to digitalization to improve their condition during the pandemic?

## Chapter V: Conclusion and Suggestion

The last chapter would conclude with the author's final outcome of her research regarding the Analysis on Government's effort to support MSME during the pandemic, in accordance with Government Regulation Number 7 of 2021. She also included her suggestion regarding this matter.

