

P R A K A R S A Policy Brief

November 2020

Key Points:

- The negative impact of COVID-19 pandemic on MSMEs, particularly women-led MSMEs are: business shutdown, mass layoffs and reduced working hours for workers.
- Women-led MSMEs have not received enough support both from the government, private sectors as well as civil society organisations. Moreover, formal financial institutions is still lacking in providing access to finance for women-led MSMEs.
- The utilization of technology enables MSMEs to sustain and minimize loss amid COVID-19 pandemic, however digital literacy has been understood only by a small number of women-led MSMEs.



Women-led MSMEs Contribution to the National Economy

Women contributes largely to MSMEs sector. Although gender-disaggregated data for MSMEs is still very limited, the number of MSMEs actors can be predicted based on the existing data. According to World Bank's survey, 42,8 percent of MSMEs are owned by women. Meanwhile, the national labor force survey (Sakernas) which had been released by the Central Statistics Agency (BPS) found that female workers in the formal sector has reached 46,7 percent. Therefore, with a formal employment ratio of 47 percent in 2013, it is estimated that 43 percent of MSMEs are led by women (IFC, 2016).

Similar to other countries, the majority of women-led MSMEs in Indonesia are small scale enterprises. In terms of percentage, women entrepreneurs in Indonesia is recorded relatively high at 21%. This number is way above the global average of 8% (Sasakawa Peace Foundation & Dalberg, 2020):

In terms of business scale, using the regulatory definition of MSMEs, IFC (2016) found that women-led enterprises can be categorized as follows: 52,9 percent of micro-scale enterprises, 50,6 percent of small-scale enterprises and 34 percent of medium-scale enterprises in urban district. The total number of MSME and the number of MSMEs owned by women can be illustrated in the following graphic:

If women-led enterprises and female employment in the formal sector remain the same as for the period 2013 to 2015, it can be assumed that women-led MSMEs contributed Rp 443 trillion rupiah (36,5 billion) and women-led medium scale enterprises contributed Rp 421 trillion (\$34,6 billion) to the Indonesian economy. This equivalent to 9,1 percent of Indonesia's GDP (IFC, 2016). However, this contribution is relatively smaller compared to private sector that is much

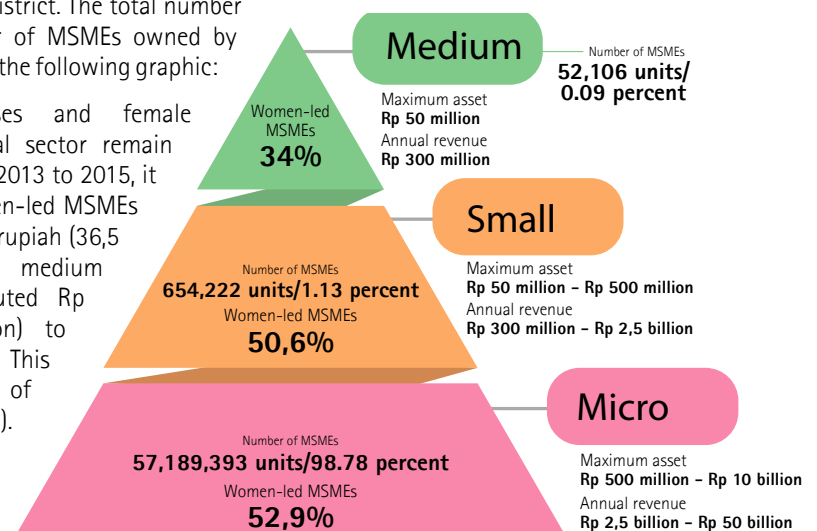
fewer in terms of numbers with only 5,066 units/ 0.01% (KemenKop UKM, 2017). Hence, it is necessary to improve women-led MSMEs empowerment to achieve better quality and productivity.

The Impact of COVID-19 Pandemic on Women-led MSMEs

Covid19 which began to spread in March 2020 has brutally hit the business sector in Indonesia. To study this, PRAKARSA conducted an online survey on women-led MSMEs which aims to : 1) to find the impact of Covid19 pandemic on women-led MSMEs, 2) to find out about the financial institutions support on women-led MSMEs during the pandemic, 3) to find out about the government and civil society organisations support on women-led MSMEs. Based on the survey, the important findings can be described as follows:

First, only a few number of MSMEs still run their business. By looking at the type of the businesses, women-led MSMEs that remain survive amid the pandemic are : culinary 50%, groceries 20%, craft 10%, floriculture 10% and fashion 10% (The Prakarsa, 2020).

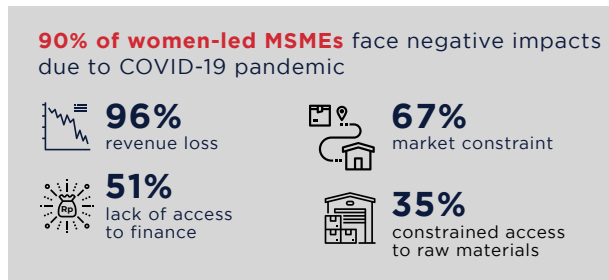
Second, the driving factors which enable women-



led MSMEs to maintain their business is their ability to develop innovations and strategies to cope with the Covid-19 pandemic by : online marketing, business switch, financial management, product diversification and product innovation (The Prakarsa, 2020).

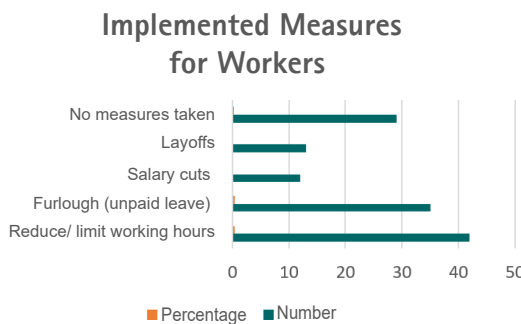
Third, the impact of Covid19 pandemic on women-led MSMEs are as follows: revenue loss, market constraint – especially during large scale social restrictions (PSBB), lack of capital and limited access to finance, and difficulty in sourcing raw materials.

Figure 1. Illustration of the Impact of the Pandemic on Women-led MSMEs based on survey.



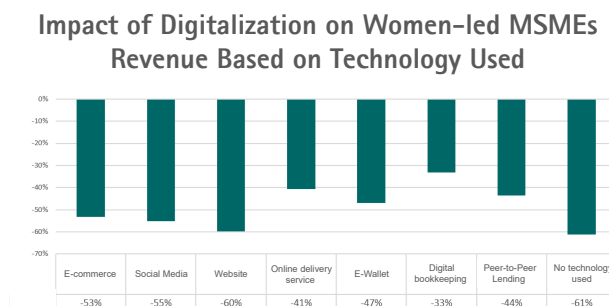
Fourth, due to such constraints facing women-led MSMEs, they took measures on its workers which are as follows:

Graph 1 : Measures Taken by Women-led MSMEs during Covid19 Pandemic



Fifth, technology is the backbone of MSMEs during the pandemic, MSMEs who survived and kept their business running utilize technology either before or after the pandemic has occurred. It is noted that 92% of MSMEs who survived mentioned technology as the main factor behind a sustainable business. Despite, in general, only a few number of MSMEs use technology. According to the Ministry of Communication and Information Technology's (keminfo) data in 2020, there are only about 16% or 9,4 million MSMEs who use online platforms.

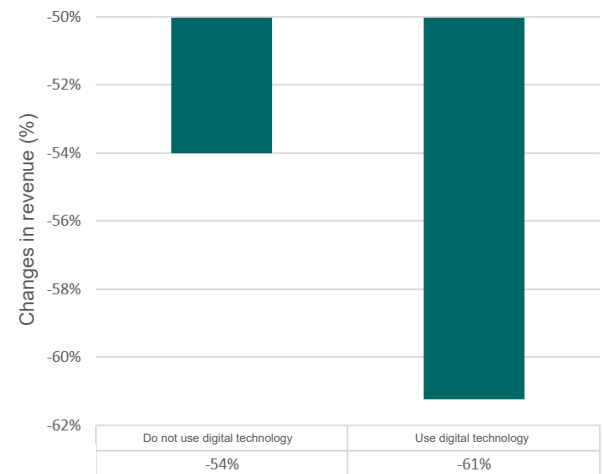
Graph 2. Forms of Digital Technology Used by Women-led MSMEs



Based on the survey, the use of technology does not only maintain the sustainability of a business but also minimize loss during the pandemic.

Graph 3. Changes in Revenue From the Use of Technology

Impact of Digitalization on MSMEs Revenue



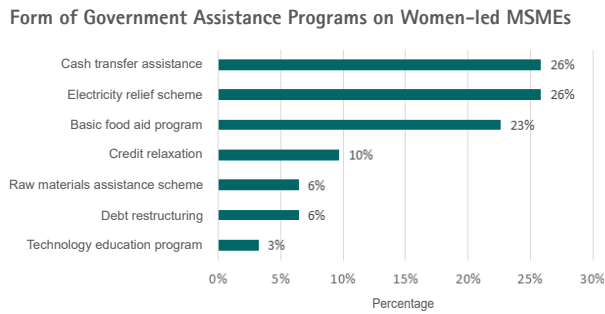
Low digital literacy among women-led MSMEs has long become a public secret. The main problem is rooted from gender stereotype and inequality of access between men and women which prevent women from getting the opportunity to learn and have a career in the field of STEM (Asriyani & Ramdlaningrum, 2019). Unfortunately, those parties responsible in empowering MSMEs are yet to optimally promote the utilization of technology whether in terms of providing an educational support or by facilitating technological means. Main sources of learning for women-led MSMEs on digital technology are: self-taught 87%, taught by friends and families 35%, participated in training held by MSMEs community 34%, received training from the government 20% and received training from civil society organisations 9% (The Prakarsa, 2020).

This survey also captures women's realization on the importance of technology utilization. The desired training course around technology as mentioned by the respondents are: online marketing 76%, digital finance 57%, production technology 48% and accounting technology (The Prakarsa, 2020).

Support from the Government and CSOs

So far, the government and CSOs (civil society organisations) play a dominant role in providing support and help to MSMEs. Forms of government assistance that has been provided are : technology education program, credit restructuring, raw materials assistance scheme, credit relaxation, basic food aid program (sembako), electricity relief scheme, cash transfer assistance, capital assistance, socialization regarding Covid-19 protocols and training on entrepreneurship. In the meantime, between 70% - 83% claimed to have not received any kind of assistance both from the government and CSOs during the pandemic. The followings are the numbers of respondent who received assistance as stated above:

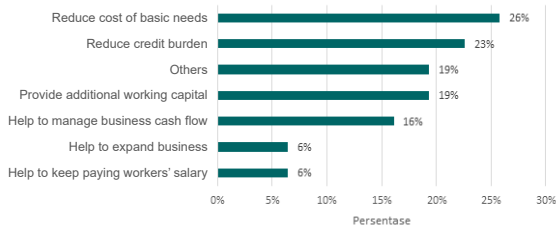
Graph 4: Government Assistance Program Received by Women-led MSMEs



The support from CSOs have quite an impact on women-led MSMEs, those are : developed business, increased capacity in entrepreneurship, improved operations management, improved access to market and raw materials (The Prakarsa, 2020). Meanwhile, the impacts of the government supports are:

Gambar 5. Dampak Bantuan Pemerintah terhadap UMKM Perempuan

The Impact of Government Assistance on Women-led MSMEs



Women-led MSMEs and Financial Institutions

Survey indicates that women-led MSMEs still have limited access to formal financial institutions. Financial institutions (bank and non-bank) play a central role in promoting growth and expansion of MSMEs. However, on the other hand, formal financial institutions are considered lacking in providing support towards women-led MSMEs. This analysis is further strengthened by a study conducted by The PRAKARSA (2019) on People's Business Credit (KUR) for women in Indonesia. This study explains that although KUR policy has been revised several times to fill the implementation gap in the field, especially after 2014, KUR policy has no longer touched the gender affirmative approach in terms of providing credit or any other kind of financial assistance. The revision of KUR policy has not explicitly raised gender inclusivity. Women are facing difficulty to access credit from formal financial institutions due to collateral requirements.

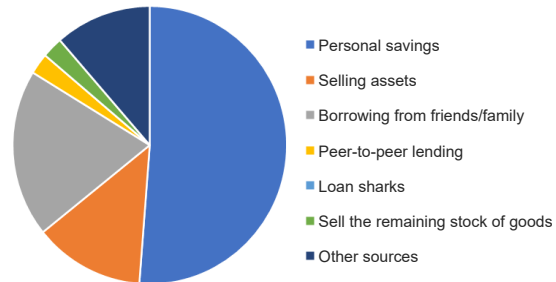
In a patriarchal society, the possession of a family asset tends to belong to men. Apart from that, women as marginalized group do not have any valuable asset to be traded as collateral, as a consequence they are ineligible for credit. In cases where women are granted credit, they typically use KUR funding not only to raise capital for their micro enterprises but also to meet their family needs. At the policy level, KUR as an instrument to increase financial inclusion have yet to accommodate the varying needs of KUR recipients, particularly for the marginalized group including women (The Prakarsa, 2019).

This survey confirmed previous studies which highlights women's limited access to formal financial institutions. From

the overall respondents, only 27 percent women-owned MSMEs obtain credit from formal financial institutions, meanwhile 73 percent do not have access to credit from formal financial institutions. The reasons why women-led MSMEs do not have access to formal financial institutions are : lack of financial literacy in terms of submitting credit applications which is recorded 30%, do not want to apply for a credit which is recorded 22%, do not require an additional capital which is recorded 30%, unwilling to apply for a credit which is recorded 7%, having their credit application rejected which is recorded 7%, fear of credit default which is recorded 5% and other reasons which is recorded 11%. The inability of women to understand terms of credit demonstrates lack of financial literacy and understanding towards the importance of raising capital for business expansion among women-led MSMEs. In this case, financial institutions have yet to perform their roles.

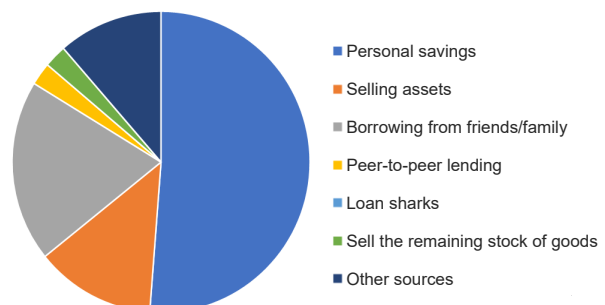
In details, the survey also mentioned about the sources of finance accessed by women-led MSMEs before the pandemic. The breakdown can be explained in the following:

Sources of Finance Used by MSMEs Before Pandemic



Meanwhile, during the pandemic, there were no respondents confirming to receive any credit from formal financial institutions besides from other informal sources as follows:

Number



Conclusion and Recommendation

Based on the previous survey and analysis, it can be seen that Covid19 has brought negative impacts on MSMEs especially women-led MSMEs. Apart from causing sharp revenue losses, Covid19 is also responsible for wage losses facing many workers. In worst scenario, workers also lose their job due to permanent shutdown of businesses. This study was conducted in August 2020 where supports from various stakeholders were still not present. During that time, the number of assistance received by MSMEs was still very limited. Only a few number of women-led MSME confirmed to have received assistance, namely 30% while 70% have not received any kind of assistance.

Penanggungjawab Pelaksana:

Ah Maftuchan
Perkumpulan PRAKARSA Executive Director

Ditulis oleh :

- Herni Ramdianingrum
- Fiona Armintasari
- Cut Nurul Aidha
- Dwi Rahayu Ningrum

PRAKARSA Policy Brief adalah analisis dan rekomendasi kebijakan tentang berbagai hal krusial yang berkaitan dengan pembangunan dan kesejahteraan.



P R A K A R S A
Welfare Initiative for Better Societies

Jl. Rawa Bambu I Blok A No.8-E
Pasar Minggu, Jakarta Selatan
Indonesia 12520

Phone +6221 781 1798
Fax +6221 781 1897
perkumpulan@theprakarsa.org

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Some women-led MSMEs have managed to survive and even saw their revenue increase during the pandemic because of their ability to innovate and adapt for instance, by diversifying products and utilizing technology. Women-led MSMEs access to formal financial institutions credit is still a source of concern. CSOs need to continuously advocate both at the policy and the implementation level so that access to credit can be provided sufficiently to women-led MSMEs. Government which in this regard refers to the Ministry of Cooperatives and SMEs (Kemenkop UKM), Ministry of Women Empowerment and Child Protection (KPPA) and Financial Services Authority (OJK) should synergize to promote stronger policies to ensure formal financial institutions that are in favour of women-led MSMEs.

Technology is proven to help MSMEs to survive during the time of crisis. However, only a small number of women-led MSMEs have fully embraced technology. The government and civil society organisations should recognize the importance of building knowledge and capacity for women-led MSMEs on digital technology. If women-led MSMEs are not familiar enough with digital technology, their enterprise will not be able to awaken economic agents and national economy more broadly.

The economic crisis caused by the Covid19 pandemic is different from any other type of crisis that happened in the past. The crisis not only hit the financial sector, but brought along a major pain to the real sector. Although, MSMEs will keep playing an important role in recovering the national economy considering Indonesia's economic growth that is heavily reliant on domestic consumption rather than global demand. To ensure that MSMEs have an adequate capacity and capability in responding to the crisis, the following are PRAKARSA's policy recommendations:

- The government should encourage an active role of financial institutions in providing credit to MSMEs sector The revitalization of People's Business Credit (KUR) program is urgent especially through the extensification of KUR channelling to the unbankable MSMEs, including women-led enterprises by adopting the principles of inclusivity.
- The government should create effective monitoring and evaluation tools by optimizing credit information system to ensure that KUR is well distributed and right on target as well as to prevent credit overlapping on MSMEs.
- The Government should build synergies between the ministries and the institutions (Coordinating Ministry for Economic Affairs, Ministry of Cooperatives and SMEs, Ministry of Social Affairs, Ministry of Manpower, Ministry of National Development Planning of the Republic of Indonesia/Bappenas), state-owned enterprise (BUMN), regional owned enterprise (BUMD), and village-owned enterprise (BUMDes) to support the MSME sector by strengthening access, capacity and connectivity of MSMEs.
- The government should build a strategic partnership with civil society organisations, academicians, and private sector to provide an entrepreneurial assistance especially on production technique that comply with health protocols, adoption of technology and digital marketing so that MSMEs can cope with changing consumer behaviour and preferences during the episode of new normal era post Covid-19 pandemic.

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