

## ANALYSIS OF THE IMPACT OF THE COVID-19 PANDEMIC ON UMKM AND ADAPTATION STRATEGIES: A LITERATURE REVIEW

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### Abstract

The COVID-19 pandemic has changed the global economic landscape, having a significant impact on various sectors, including Micro, Small and Medium Enterprises (MSMEs). This study aims to systematically analyse and review the impact of the COVID-19 pandemic on MSMEs and identify adaptation strategies implemented by MSMEs in the face of this crisis. The results showed that the COVID-19 pandemic brought severe economic challenges to MSMEs, including decreased turnover, disruptions in the supply chain, and difficulties in accessing finance. However, the study also found that MSMEs that were able to adapt quickly, such as through business digitalisation, product diversification, and the use of e-commerce platforms, were able to minimise the negative impacts and even find new opportunities in the crisis. Based on this analysis, it is concluded that government support and access to resources are key in increasing MSMEs' resilience to the impact of the pandemic. This research provides insights for policymakers, practitioners, and academics in developing effective strategies and interventions to support MSMEs in the pandemic era and beyond.

**Keywords:** COVID-19, MSMEs, Adaptation Strategy, Economic Impact, Digitalisation, Literature Review.

### INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the important pillars in the economy of many countries, including Indonesia. MSMEs not only contribute greatly to the formation of Gross Domestic Product (GDP), but also to job creation and income distribution.

According to data from the Ministry of Cooperatives and SMEs, MSMEs contribute more than 60% of Indonesia's GDP and create 97% of total employment. This shows how important MSMEs are in sustaining the economy and providing extensive employment opportunities, thus becoming the backbone of the country's economy and social stability. In addition, MSMEs play a role in reducing economic inequality, through local community empowerment and regional economic development. (Wiliandri, 2020).

In the context of globalisation and the shifting digital economy, the urgency of MSMEs is also seen from their adaptive capacity and flexibility in facing market changes. With their local and personal characteristics, MSMEs are able to provide innovation and uniqueness to the products they produce, which often cannot be matched by large companies. (Anatan, 2021). This also opens up greater opportunities for MSMEs to access the export market, where unique and locally distinctive products have their own

appeal in the international market. Thus, the development of MSMEs not only has a positive impact on the local economy, but also has the potential to increase global market competition, increase foreign exchange, and increase the competitiveness of the national economy in the international arena. However, the sector is facing unprecedented challenges with the emergence of the COVID-19 pandemic that has changed the global economic landscape (Darmayanti & Abiyasa, 2022)..

The pandemic has had a significant impact on various aspects of life, especially the economic sector. MSMEs are particularly affected as most of them rely on daily operations for cash flow and have limited access to larger financial resources. Movement restrictions, lockdowns, and changes in consumer behaviour are the main factors affecting MSME operations and revenues. In addition, many MSMEs experience difficulties in maintaining their operations, accessing markets, and managing supply chains. (Gunawan, 2022).

The COVID-19 pandemic has had a significant impact on economic sectors globally, and Micro, Small and Medium Enterprises (MSMEs) are one of the most affected sectors. The social distancing measures put in place to curb the spread of the virus created huge challenges for MSMEs, given that most operate offline and depend on direct interaction with consumers. Many MSMEs experienced a drastic drop in sales and difficulties in accessing raw materials and supply chains due to lockdowns and movement restrictions. As a result, MSMEs are faced with reduced turnover and even threatened with closure, which further affects the income of business owners and employees who depend on the sector for their livelihoods. (Watini et al., 2022)..

On the other hand, the pandemic has also served as a catalyst for digital transformation among MSMEs. With physical restrictions in place, many MSMEs have been encouraged to move to digital platforms to run their businesses. Initiatives by the government and various organisations to provide digital training, access to e-commerce marketplaces, and financial support have also helped MSMEs to survive and adapt. MSMEs that previously did not utilise information technology are becoming more innovative, for example through the use of social media, instant messaging applications, or online buying and selling platforms to reach consumers. This digital transformation has not only enabled MSMEs to survive during the pandemic but also promises greater growth potential post-pandemic with broader market access and improved operational efficiency (Sukidin et al., 2022)..

In the face of this situation, adaptation is an important key for MSMEs to survive. They must be able to adapt their business models to the changing pandemic conditions. Strategies such as digitalisation, product diversification, increasing operational efficiency, and strategic collaboration are among the various approaches that can be taken. However, it is necessary to further analyse the effectiveness of these strategies and their impact on their business continuity. (Utami et al., 2021).

An in-depth and targeted literature review will be the method used to answer these research questions. Through this research, it is hoped that a comprehensive understanding of the ways in which MSMEs have coped with the pandemic and an analysis of the effectiveness of these adaptation strategies can be produced, so as to provide relevant recommendations for policy makers and MSMEs themselves in responding to the difficult times that may still be faced in the future.

## **Research Methods**

The study in this research uses the literature method. The literature research method is a research method that involves collecting, evaluating, and analysing scholarly publications, such as books, journal articles, and other related sources, to gain an in-depth understanding of the topic or research question being studied. In this method, researchers will search for relevant and credible literature sources, then synthesise the information collected to identify key findings, trends and debates in the existing literature. (JUNAIDI, 2021); (Abdussamad, 2022). This involves processes such as determining inclusion and exclusion criteria, coding and thematising the extracted data, and critiquing the resulting material. The aim is to establish a strong theoretical foundation, identify gaps in existing research, and provide recommendations for future studies. Literature research methods are essential in developing a conceptual framework, as well as in ensuring that the proposed research is grounded in a comprehensive understanding of recent developments and established knowledge in a particular field. (Wekke, 2020).

## **Results and Discussion**

### **The Impact of COVID-19 Pandemic on MSMEs**

Micro, Small, and Medium Enterprises (MSMEs) is a term used to describe various types of small businesses that have limited operational scale and assets. In the Indonesian context, in accordance with Law No. 20/2008 on Micro, Small, and Medium Enterprises, MSMEs are divided into three categories based on their assets and turnover: micro-enterprises with assets of up to IDR 50 million (excluding land and building of business premises) and an annual turnover of up to IDR 300 million, small-enterprises with assets of more than IDR 50 million to IDR 500 million (excluding land and building of business premises) and an annual turnover of more than IDR 300 million to IDR 2.5 billion, and medium-sized enterprises with assets of more than IDR 500 million to IDR 10 billion (excluding land and building of business premises) and an annual turnover of more than IDR 2.5 billion to IDR 50 billion. MSMEs have an important role in the economy because they are a source of job creation and innovation, and play an active role in economic development, especially in reaching local communities and the wider economic community. (Juniarti et al., 2021).

The COVID-19 pandemic has had a very significant impact on the Micro, Small and Medium Enterprises (MSMEs) sector around the world, including Indonesia. Large-scale social distancing measures (PSBB) and lockdowns implemented to limit the spread of the virus have restricted consumer activities and access to markets, causing a drastic drop in MSME revenues. As a sector that often lacks access to large funding sources and sufficient cash reserves, the economic impact of the pandemic has been swift. Many MSMEs have been forced to reduce production, lay off employees, or even shut down their business operations as they are unable to bear operational costs amidst the decline in demand. (Praptiwi et al., 2024)..

In addition, the pandemic has forced MSMEs to shift strategies and look for business models that can adapt to physical restrictions. There has been an acceleration of digitalisation among MSMEs as they begin to leverage digital platforms for online marketing and sales. While this transition opens up new opportunities, it also poses its own challenges, such as the need to have digital expertise and adapt to fierce online competition. MSMEs that can adjust quickly to more flexible and online operations are seen as more likely to survive and benefit from the pandemic. (Castro & Castro, 2023)..

In an effort to support MSMEs, governments in various countries, including Indonesia, have issued various stimulus and assistance programmes. These programmes usually include tax breaks, wage subsidies, and the provision of access to credit at lower interest rates or loan programmes with more lenient terms. However, not all MSMEs are able to access such assistance easily due to various barriers, such as administrative requirements, lack of information, or unmet loanworthiness conditions. (Yudha & Basya, 2024)..

Despite all these challenges, the COVID-19 pandemic has also brought important lessons for MSMEs on the importance of business resilience and adaptability. Many MSMEs have begun to recognise the importance of revenue diversification, prudent cash management, and building closer relationships with communities and customers. Initiatives such as technology utilisation, product innovation, and a focus on local markets have helped a number of MSMEs to not only survive crisis situations, but also to lay a stronger foundation for the future. (Andiana et al., 2021).

In addition, the pandemic has highlighted the importance of collaboration and networking in supporting the sustainability of MSMEs. Collaboration between MSMEs and various parties, such as the government, educational institutions, and technology companies, has intensified. This can be seen from the many initiatives and workshops that aim to increase the capacity of MSMEs, both in terms of production, business management, and digital marketing. This kind of collaboration not only helps MSMEs in maintaining business continuity during the pandemic, but also in preparing them to compete in an increasingly competitive global market. (Christian & Nurhajjah, 2024).

In conclusion, the COVID-19 pandemic has presented significant challenges for MSMEs, but it has also acted as a catalyst for innovation and digital transformation. In

the face of physical restrictions and economic uncertainty, MSMEs that are resilient and can adapt quickly to market changes are more likely to survive and thrive. Government support at various levels, intelligence in business strategy, and the ability to utilise digital technology are key in navigating their current and future challenges. MSMEs with these capabilities can not only weather the crisis but may also find new opportunities for growth and expansion. With that, the COVID-19 crisis, though harsh, can be converted into a springboard for future innovation and success for MSMEs.

### **MSME Adaptation Strategy**

The COVID-19 pandemic has encouraged Micro, Small and Medium Enterprises (MSMEs) to adapt quickly to the changes taking place. One important adaptation strategy is digitalisation. MSMEs that have traditionally operated offline have been forced to shift to online platforms to maintain their sales. (Christian & Nurhajjah, 2024).. This digitalisation includes website development, the use of social media for marketing, and the adoption of e-commerce for transaction management. Not only that, the use of local delivery applications that facilitate the distribution of products to consumers is also part of this strategy. By moving to the digital realm, MSMEs can increase their market reach and stay connected with customers despite social restrictions. (Supiyati et al., 2021)..

The second adaptation strategy relates to product and service diversification. In accordance with the changing market needs during the pandemic, MSMEs should be flexible in offering relevant products or services. For example, a clothing manufacturer that starts producing masks or PPE in response to market demand or a restaurant that adopts the cloud kitchen concept and prioritises delivery in place of dine-in services. This diversification not only helps in maintaining revenue but also opens the door to new opportunities that may not have been considered before. (Ramdani, 2020).

Collaboration and synergy with other MSMEs and larger institutions is an important third adaptation strategy. Through co-operation, MSMEs can access resources, knowledge and a wider market. For example, collaboration with raw material producers to get better prices, or partnerships with technology companies to develop a digital presence. Furthermore, synergies with government programmes and non-governmental organisations that offer funding, training and support are also crucial to stabilise business operations and consider expansion. (Supiyati et al., 2021).

Finally, increasing internal capacity and resilience is an equally important adaptation strategy. MSMEs must implement good financial management, make more careful business plans, and improve the quality of human resources through continuous training and learning to strengthen their business foundations. By having a strong foundation, MSMEs can be more resilient to economic shocks and at the same time capitalise on opportunities that arise quickly. Furthermore, the implementation of innovations in business processes, such as production efficiency or improved customer

service systems, is also a vital aspect in maintaining a competitive advantage. (Tee et al., 2022).

In the face of uncertain situations, adaptation is key to the survival and growth of MSMEs. Through the aforementioned strategies, MSMEs can expect not only to survive through the tough times but also to thrive in the post-pandemic.

As such, MSMEs can survive and thrive amidst economic uncertainty by implementing effective adaptation strategies. Digitalisation opens up opportunities to increase market reach and survive social distancing, while product and service diversification ensures relevance to changing market demands. Collaboration and synergies expand access to resources and markets, enhancing resilience through risk sharing. Internal capacity building and resilience ensure that MSMEs are not only able to face current challenges but also capitalise on future opportunities. Through proactive and strategic adaptation, MSMEs can successfully navigate change and build a strong base for long-term growth.

## **Conclusion**

The conclusion of the analysis of the impact of the COVID-19 pandemic on MSMEs and adaptation strategies based on the literature review can be summarised as follows:

First, the COVID-19 pandemic has had a significant impact on the operations and sustainability of MSMEs around the world, resulting in new challenges such as decreased sales, supply chain difficulties, and changes in consumer behaviour. MSMEs face barriers in accessing capital and markets, and must adapt to strict health protocols. However, this situation also encourages MSMEs to evaluate and adjust their business models to survive.

Second, in the face of these challenges, MSMEs adopted various adaptation strategies to ensure business continuity. These strategies include digitalisation to leverage e-commerce and social media to maintain engagement with customers, diversification of products and services to meet new needs arising from the pandemic, and increased collaboration with other businesses to optimise resources and reduce operational costs. MSMEs are also seeking assistance from government programmes and financial institutions to gain access to needed capital.

As such, the pandemic has pushed MSMEs to innovate and adapt to a rapidly changing environment. MSMEs that successfully adopt digital technologies, expand their networks, and adapt their offerings to changing markets are likely to be more resilient to economic disruptions and ready to grow post-pandemic. Governments and agencies supporting MSMEs should continue with appropriate assistance programmes to facilitate this transition, encourage education and training, and create an environment conducive to MSME innovation and development going forward.

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