

# Rethinking of Strategy Defending Small and Medium-Sized Enterprises (SMEs) During COVID-19 Pandemic

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**Abstract.** COVID-19 is an unusual scary virus and surprisingly affects the world economy. The condition demands that various countries in the world apply containment policies combined with various public health measures and make economic activities paralyzed, especially for Small and Medium-Sized Enterprises (SMEs). SMEs are considered to have potential innovation capabilities and can create new market opportunities, so governments should consider measures to relieve the burden of SMEs to stay afloat and keep growing during a pandemic. The purpose of this paper is to rethink the strategy of maintaining SMEs during a pandemic in the hopes that if such a situation occurs in the future then this strategy can be applied. This paper covers strategies from various countries that successfully retain SMEs during a pandemic. Qualitative methods with secondary data sources obtained from official government websites, media, economic bulletins, and international journals related to SMEs. This paper is expected to contribute to various countries to maintain SMEs, especially in countries whose economic growth has paralyzed the impact of the pandemic.

**Keywords:** COVID-19, strategy, economy, SMEs.

## INTRODUCTION

The COVID-19 crisis was different, beginning with the health crisis and then becoming an economic crisis that impacted financial problems and ultimately resulted in a political crisis in some countries [1]. Pandemic COVID-19 has evolved globally and countermeasures have been detrimental to the economy [2]. COVID-19 is a pandemic that affects all sectors of the economy, including small and medium enterprises (SMEs). SMEs play an important role in economic development [3], so the Government's role to defend it.

SMEs in crisis conditions suffer disproportionate suffering caused by the limitation of financial resources and dependence on bank loans, as well as paying such high interest [4]. For that, it takes a strategy to survive during the

COVID-19 pandemic, especially the Government's support in maintaining SMEs. Future research should not only evaluate the effectiveness of different policy measures on entrepreneurial activities in different countries but can also aim to understand the effect of short response time on the economic crisis [2]. Long and medium-term planning is required to supply energy to the economy after the crisis [5]. It is intended in the face of the COVID-19 crisis as it is today, SMEs can survive and grow. The study aims to analyze government actions in rethinking strategies in maintaining SMEs during Pandemic COVID-19.

Some countries have succeeded in fighting the COVID-19, making it faster in economic recovery. This research takes some strategies that are done by countries that are successful and are against the COVID-19. There have been differences in government strategy against SMEs before the COVID-19 caused by some control policies impacting SMEs' sustainability, so the government needs to rethink the right strategy and can be applied after the crisis. If this condition happens again the hope is the policy strategy applied when this pandemic can be reapplied, and this is an experience that must be learned so it is important to do this research to help some countries who have difficulty maintaining SMEs, and also as a material for future studies and information.

## METHOD

This research uses qualitative methods with secondary data sources obtained from official government websites, media, economic bulletins, and international journals related to Small and Medium-Sized Enterprises (SMEs). Once the data is collected then analysis uses a descriptive approach by describing the strategies of some countries that are the focus of the research.

## RESULT & DISCUSSION

Generally, in developed and developing countries, the Government has issued policies to promote the development of SMEs [6], [7]. Here are the categories of government policies that support SMEs to thrive in developed and

developing countries:

1. Macro objectives: the creation of employment, economic development, export growth.
2. Social objectives: income redistribution, poverty alleviation in developing countries.
3. Correction of market failure/inefficiency (static efficiency objectives): the presence of externalities, market access barriers, asymmetric information, small number of competitors, information imperfection (lack of access to information about potential markets), leveling the playing field.
4. Dynamic efficiency objectives: promotion of innovation.

The policy categories put forward are generally implemented by developed and developing countries. This indicates that there is a reciprocal relationship between SMEs and governments. SMEs require very important attention from the Government and SMEs are essential for the economy so that the government will ensure that SMEs will not face obstacles that impede their operations [8]. These policies have been issued by the Government for the promotion of SMEs development, but the category of policy is not applicable when the current conditions (pandemic), various countries have been experiencing difficult times because of infected COVID-19 with a level of rapid transmission through humans.

The pandemic COVID-19 had a huge impact on the sustainability of small and medium enterprises (SMEs). Based on the results of the survey, as many as 96% of SMEs claimed to have experienced the negative impact of Covid-19 on its business process. A total of 75% suffered significant sales decline impacts [9], [10]. Not only that, 51% of SMEs believe most of the business that runs will only last a month to the next three months. A total of 67% of SMEs are experiencing uncertainty in gaining access to emergency funds, and 75% do not understand how to make policies in times of crisis. Meanwhile, only 13% of SMEs are convinced that they have a crisis-handling plan and find solutions to maintain their business [9], [10].

Many countries have difficulty facing COVID-19 pandemic, which affects the economic sector, including small and medium enterprises (SMEs). SMEs are considered to possess potential innovation capabilities and can create new market opportunities [11]. Small businesses, in particular, tend to excel in adaptability and flexibility [12]. Nevertheless, during the COVID-19 pandemic, Many SMEs are having difficulty even one is closed. The condition is caused by extreme policies taken by Governments in some countries to break the spread of COVID-19. Suppose China is doing a lockdown policy, then followed by some states. Indonesia despite experiencing a significant economic impact but does not do lockdown but

applies other policies such as social restriction of large-scale, social, and physical distancing. Policies applied by some governments impact the growth of SMEs because the community is encouraged to stay at home, work, and worship at home, even schools, universities, and offices are dissolved. This makes the economy lame and impacts the SME's finances.

Such conditions require real action from the government, because if there is no action then the SMEs will close due to lack of capital. The characteristics of SMEs are different, so not all can survive. Generally, most SMEs are difficult to get enough loans from the bank [11], Including SMEs in China that have been supported by the government, but access to finance is one of the biggest challenges [13]. For that, it is a necessary strategy to maintain SMEs when and after the pandemic. Some countries have issued strategies through policies to maintain SMEs. Multiple state strategies to defend SMEs during COVID-19 in Table 1.

SMEs desperately need government attendance to issue policies that can sustain SMEs, because the government's policy to SMEs before COVID-19 differs from the time and after the COVID-19. In some affected countries, when pandemic experienced health and economic crises because of control policies that make SMEs not operate. Suppose during the lockdown, only a few important businesses can operate, such as food stores, pharmacies, and petrol stations [21]. Therefore, the Government's role is needed to rethink the strategy that makes SMEs can survive and grow during a pandemic (Figure 1).

Figure 1 shows strategies that various countries can apply during a pandemic, especially in the COVID-19 pandemic that impacts the economic crisis.

1. Encouraging banks to lend loans to SMEs  
Alleviate the difficulties of SMEs' financing, through monetary policy adjustments and encouraging banks to increase loans to small businesses.
2. The central bank supports small banks and non-Bank financial institutions  
The central banks should provide sufficient liquidity to non-bank banks and financial institutions, especially those lending to SMEs. The central bank will continue to give small and medium-sized banks cheap funds through a special loan program so that they will increase lending to small businesses [16].
3. Withholding and elimination of taxes  
Relaxation tax for SMEs and issuing profitable tax and fiscal policies, even withholding tax deductions to SMEs of important medical equipment makers.

Table 1: Multiple state strategies to defend SMEs during COVID-19

No.	Country	Economic Policy	Source
1.	China	Monetary policy adjustments and encouraging banks to increase loans to small businesses Central banks provide sufficient liquidity for small banks and non-bank financial firms Expanding loans and collateral loans to impacted SME Implementing a favourable tax deduction for medical equipment makers Encouraging local governments to offer discount rental and lower payment utilities, to help SMEs and entrepreneurs The company is encouraged to start operations normally by ensuring the health of employees	[13] [13], [14] [13] [15] [16] [15]
2.	Korea	Korea has expanded its loans to business operations and guarantees loans to the affected SMEs. Expanding loans and guaranteed loans to SMEs affected	[17] [17]
3.	Indonesia	Assistance package for small-scale SMEs and entrepreneurs, low interest loans and revolving credits with flexible installment payment systems 6 months of tax elimination for SMEs Restructuring and postponement of credit payment for 6 months for SMEs either through the people's business credit or through the Revolving Fund Management Board Credit lightening for informal workers, including earning daily, such as online Ojek driver, taxi driver, and small and medium enterprises, fishermen, with credit grades below Rp 10 billion Direct cash assistance for the poor	[18] [10] [19] [20] [20]
4.	Malaysia	Direct cash assistance to low-income communities Assistance for small and medium enterprises given by central Bank of Malaysia Stimulus package in the form of special allowance for health care providers, cash assistance, microcredit schemes for small and medium enterprises	[20] [20] [20]
5.	Singapore	Using state reserves to support the economy and health care in addressing corona-virus pandemic	[20]
6.	Japan	Country sales tax rate cuts distributed to communities in cash, subsidies, and coupons	[20]
7.	Australia	Hibernation strategy is to sleep the paralyzed economy and provide financial assistance directly to the workers, so that after pandemic passed the company can maintain its employees	[20]

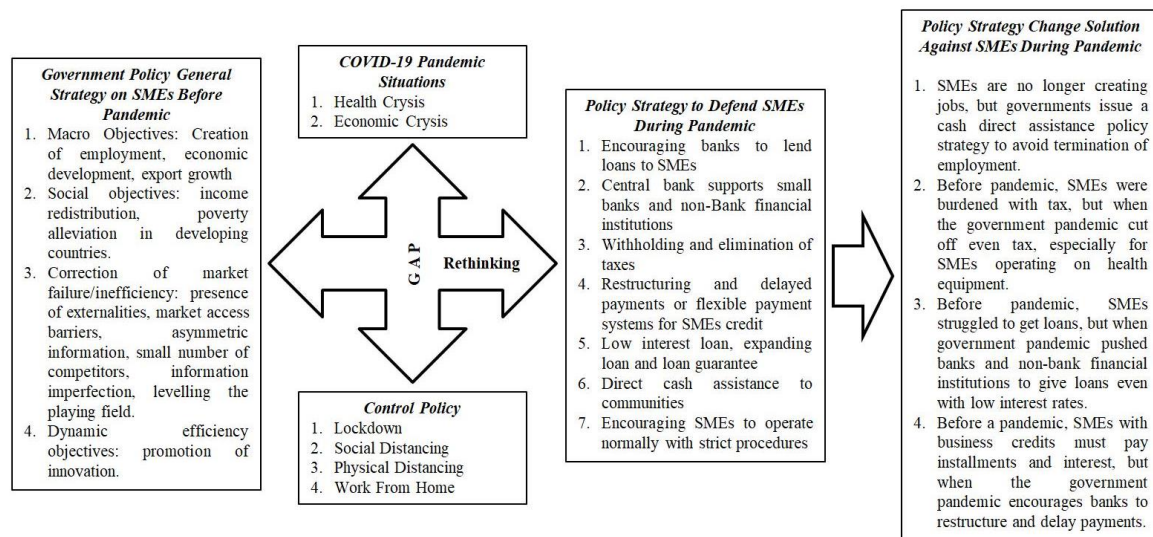


Figure 1: Government strategy maintains SMEs while Pandemic

4. Restructuring and delayed payment or flexible payment systems for SME credit. Providing credit lightening to informal workers, including earning daily, such as online Ojek driver, taxi driver, and small and medium enterprises, fishermen and providing the people's Business Credit (KUR) incentives in the form of delayed principal and interest payments for all KUR

5. Low-interest loan, expanding loan and loan guarantee  
Some SMEs do not have adequate working capital, so the difficulties of continuing efforts [16]. Governments can offer low-interest loans, temporary and targeted credit guarantees for the short-term liquidity needs of SMEs. For

example, expanding loans for business operations and lending guarantees to SMEs are impacted. The Regulator and the financial market supervisor may also encourage, at a temporary and time-bound, an extension of the loan maturity [17].

6. Direct cash assistance to communities  
Stimulus assistance, particularly in cash only to alleviate difficulties faced by low-income groups and those who get termination of employment during the pandemic period.
7. Encouraging SMEs to operate normally with strict procedures  
The company is encouraged to initiate normal operations by ensuring the health of employees and implementing COVID-19 protocols, such as providing handwashing, using masks, checking body temperature, keeping physical distances, etc.

The outlined strategy has been applied in several countries and was completed. Suppose in China, about 45 percent of Chinese SMEs have returned to work on March 2, 2020, when the country promoted the re-opening of the company regularly during the COVID-19 [22]. On March 23, 2020, as much as 89 percent of SMEs in Shanghai China had resumed its operations, with 79 percent of their employees returning to work on 24 March 2020 [23]. Besides, the Chinese government also detailed guidelines for encouraging the use of digital technology among SMEs as part of an effort to address problems during tough times [24]. China's country was made an example of having successfully fought the COVID-19 and has restored the economy through a new policy strategy and has even helped other countries affected.

### CONCLUSION

The results of the study concluded that the Government had an important role in maintaining SMEs so that government attendance was needed during a pandemic. Governments can issue policy packages that can make SMEs stay afloat and grow through policies. The government can rethink and create new strategies that have not existed before and can be used to retain SMEs because the strategy used before the existence of COVID-19 can no longer be used due to the application of control policies that make the economy become paralyzed.

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