Non-Performing Financing During Pandemic: Government Initiatives towards Small and Medium Enterprises (SMEs) In Indonesia

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Abstract

The pandemic era exposed the vulnerabilities of small and medium enterprises (SMEs), significantly increasing non-performing financing (NPF) rates and threatening economic stability in Indonesia. This paper illustrates how government initiatives have mitigated the financial distress faced by SMEs during this period, focusing on policies aimed at restructuring loans, providing fiscal incentives, and enhancing liquidity. By examining the effectiveness of these interventions, the study highlights their role in maintaining economic resilience and supporting the recovery of one of the country's most vital economic sectors. Using a qualitative methodology, the research synthesises in-depth literature review analyses, regulations, and SME studies to evaluate the interplay between authority actions and cases. Key questions include: How effective were Indonesia's government initiatives in addressing rising NPF rates? What lessons can be drawn to enhance the resilience of SMEs in future crises? Findings reveal that while policy interventions provided critical relief, challenges such as administrative inefficiencies and unequal access to financing limited their full impact. The analysis underscores the importance of robust frameworks that prioritise equitable financial access and adaptive measures to safeguard SMEs against economic shocks. Recommendations include refining loan restructuring mechanisms, strengthening public-private partnerships, and fostering financial literacy among SMEs. This research contributes to the discourse on crisis management and SME sustainability, offering actionable insights for policymakers, financial institutions, and stakeholders navigating post-pandemic economic recovery.

Keywords

SMEs, Financing, Pandemic, Policies, Recovery

Introduction

The COVID-19 pandemic has had a disproportionate impact on Small and Medium Enterprises (SMEs) in Indonesia. The surge in non-performing financing (NPF) rates has posed a significant threat to the economic stability of the country (Dewi and Hakim, 2022). SMEs, which make up the backbone of Indonesia's economy, have been particularly vulnerable to the economic disruptions caused by the pandemic (Buntuang and Kornelius, 2020).

The lockdowns, social distancing measures, and disruptions to supply chains have severely impacted the operations and cash flow of many SMEs, leading to a rise in NPF rates (Setyoko and Kurniasih, 2022). According to the Financial Services Authority (OJK), the NPF rate for SMEs in Indonesia reached 4.05% in 2020, a significant increase from the pre-pandemic level of 3.22% in 2019 (Dewi and Hakim, 2022). This surge in NPF rates has put significant strain on the financial sector, potentially undermining the overall economic stability of the country.

The Indonesian government has recognised the critical importance of supporting SMEs during this challenging period. Policymakers have implemented a range of initiatives to provide financial assistance and ease the burden on SMEs, including loan restructuring, interest rate subsidies, and credit guarantees (Arifin *et al*., 2021). These efforts aim to alleviate the financial stress faced by SMEs and prevent a further escalation of NPF rates, which could have far-reaching consequences for the Indonesian economy.

Small and Medium Enterprises (SMEs) play a crucial role in Indonesia's economy, contributing significantly to employment, GDP, and economic growth. According to the Ministry of Cooperatives and Small and Medium Enterprises, SMEs account for 99.99% of all business entities in Indonesia and employ over 116 million people, or approximately 97% of the country's total workforce (Arifin *et al*., 2021). Furthermore, SMEs contribute around 60% to Indonesia's GDP, highlighting their importance as a key driver of economic development (Jauhari and Periansya, 2021).

The resilience and adaptability of SMEs have been particularly evident during the pandemic. Many SMEs have demonstrated their ability to pivot their business models, adopt digital technologies, and find new avenues for growth (Setyoko and Kurniasih, 2022). However, the challenges posed by the pandemic, particularly the surge in NPF rates, have threatened the viability of many SMEs, potentially undermining their critical role in the Indonesian economy.

The government's initiatives to support SMEs during this crisis are, therefore, of paramount importance. By providing financial assistance and easing the burden on SMEs, policymakers aim to safeguard the backbone of the Indonesian economy and ensure its continued growth and development (Arifin *et al*., 2021). The success of these initiatives will be crucial in determining the long-term resilience and recovery of the SME sector in Indonesia.

The Indonesian government has implemented several measures to address the increase in NPF rates among SMEs during the pandemic. One of the key initiatives was the banking credit restructuring policy, which allowed banks to restructure loans for borrowers affected by the pandemic (Disemadi and Shaleh, 2020). This policy aimed to provide temporary relief to SMEs and prevent further deterioration of their financial condition.

According to data from the Financial Services Authority (OJK), the credit restructuring program had reached 13.8 million debtors, with a total value of Rp 1,032.5 trillion as of September 2020 (Disemadi and Shaleh, 2020). This suggests that the policy was widely utilized by SMEs and had a significant impact in mitigating the rise in NPF rates.

However, the effectiveness of the credit restructuring policy may be limited in the long term. A study by Hidayati and Rachman (2021) found that while the policy provided temporary relief, it did not address the underlying issues faced by SMEs, such as declining sales and reduced access to financing. As a result, some SMEs may still struggle to repay their loans once the restructuring period ends, leading to a potential resurgence in NPF rates.

To enhance the effectiveness of government measures, policymakers should consider complementary initiatives that address the broader challenges faced by SMEs. This could include providing fiscal incentives, such as tax breaks or subsidies, to support SMEs during the pandemic (Safitri *et al*., 2021). Additionally, the government could explore ways to improve SMEs' access to alternative financing sources, such as peer-to-peer lending or crowdfunding, to diversify their funding options and reduce their reliance on traditional bank loans.

The COVID-19 pandemic has highlighted the need for SMEs to be more resilient in the face of future crises. Yulianti *et al*. (2020) suggest that one key strategy is to strengthen the collaboration and coordination between various levels of government and stakeholders, such as businesses, community organizations, and financial institutions.

By fostering a collaborative network, SMEs can access a broader range of support and resources during times of crisis. For example, local governments can work closely with SMEs to identify their specific needs and tailor support measures accordingly. Financial institutions, on the other hand, can provide guidance and financial literacy training to help SMEs better manage their finances and prepare for unexpected shocks.

Another important strategy is to promote the digitalization of SMEs. Hardiningsih *et al*. (2022) found that SMEs that had adopted digital technologies were better able to adapt to the challenges posed by the pandemic, such as the shift to online sales and remote work. By investing in digital infrastructure and skills, SMEs can become more agile and responsive to changing market conditions, enhancing their resilience in future crises.

Furthermore, the government can explore the development of a comprehensive social safety net for SMEs, including measures such as unemployment benefits, healthcare support, and access to affordable financing options (Safitri *et al*., 2021). This would help to cushion the impact of crises on SMEs and their employees, enabling them to weather the storm and maintain their operations.

The research will be focused on answering the following research questions: How effective were government measures in addressing NPF rates? What strategies can enhance the resilience of SMEs in future crises?

This study aims to examine the effectiveness of these government measures in addressing NPF rates and explore strategies to enhance the resilience of SMEs in future crises.

The COVID-19 pandemic has had a significant impact on the global economy, including in Indonesia. Small and Medium Enterprises (SMEs) have been particularly affected, with many facing financial distress and an increase in non-performing financing (NPF) rates. In response, the Indonesian government has implemented various initiatives to mitigate the impact on SMEs, such as loan restructuring, fiscal incentives, and liquidity support (Disemadi and Shaleh, 2020; Safitri *et al*., 2021).

Overall, enhancing the resilience of SMEs in Indonesia will require a multi-faceted approach that combines government initiatives, stakeholder collaboration, and the adoption of digital technologies.

Literature review

The concept of non-performing financing (NPF) has been extensively studied in the context of the banking and financial sector. Jayanto (2020) highlights that NPF refers to the proportion of loans that are in default or close to being in default. This metric is crucial in assessing the financial health of banks and their ability to manage credit risk effectively. In the case of SMEs, NPF can have significant economic implications, as these enterprises often rely on external financing to sustain their operations (Salman, 2021).

Existing theories on NPF suggest that it is influenced by a range of factors, including macroeconomic conditions, borrower characteristics, and bank-specific factors (Afkar *et al*., 2022). During periods of economic uncertainty, such as the COVID-19 pandemic, SMEs are particularly vulnerable to increases in NPF due to disruptions in their cash flow, supply chains, and customer demand (Sharma, 2022). This can lead to a cascading effect, where SMEs struggle to repay their loans, which in turn affects the profitability and stability of the banking sector (Deb and Baruah, 2022).

To mitigate the impact of NPF on SMEs, governments often implement various policy initiatives and support measures. These may include loan restructuring programs, credit guarantee schemes, and targeted financial assistance (Sharma, 2022). The effectiveness of these initiatives in addressing the challenges faced by SMEs during the pandemic is an area of ongoing research and analysis.

The COVID-19 pandemic has had a significant impact on SMEs globally, including in Indonesia. Prior studies have highlighted the unique challenges faced by these enterprises during economic shocks and crises (Sharma, 2022). One of the primary issues is the limited access to financing, as

SMEs often have weaker credit profiles and limited collateral compared to larger businesses (Deb and Baruah, 2022).

The pandemic has exacerbated these challenges, as many SMEs have experienced a sharp decline in revenue and cash flow, making it increasingly difficult to service their existing debt obligations (Afkar *et al*., 2022). This has led to a rise in NPF, which can have far-reaching consequences for the overall financial stability of the economy (Salman, 2021).

Furthermore, SMEs often face administrative inefficiencies and bureaucratic hurdles when seeking government support or accessing financial assistance programs (Sharma, 2022). These challenges can further compound the difficulties faced by SMEs during times of crisis, limiting their ability to adapt and survive.

To address these vulnerabilities, governments have implemented various initiatives to support SMEs, such as loan restructuring programs, credit guarantee schemes, and targeted financial assistance (Sharma, 2022). The effectiveness of these measures in mitigating the impact of the pandemic on SMEs and reducing NPF levels is an area of ongoing research and analysis.

The COVID-19 pandemic has had a significant impact on the global economy, and Small and Medium Enterprises (SMEs) have been particularly affected. In response, governments around the world have implemented various policy interventions to support these businesses. In the case of Indonesia, the government has introduced several initiatives to address the issue of non-performing financing (NPF) among SMEs during the pandemic.

One of the key government initiatives is loan restructuring. Agustina (2021) highlights that the Indonesian government has implemented a credit restructuring program to provide relief to customers, including SMEs, who have been impacted by the pandemic. This program allows for the rescheduling of loan payments, the extension of loan terms, and the reduction of interest rates, among other measures. The effectiveness of this program in addressing NPF among SMEs, however, is still being evaluated.

In addition to loan restructuring, the Indonesian government has also implemented fiscal policies to support SMEs. bin Ridzuan and Abd Rahman (2021) examine the deployment of fiscal policy in several ASEAN countries, including Indonesia, in response to the COVID-19 pandemic. They find that the Indonesian government has introduced tax incentives, subsidies, and other financial assistance to help SMEs weather the economic downturn. These measures have aimed to enhance the liquidity and financial resilience of SMEs, thereby reducing the risk of NPF.

Furthermore, the government has implemented liquidity enhancement programs to support the banking sector and ensure the continued flow of credit to SMEs. Anggarini and Rakhmanita (2020) discuss the various initiatives introduced by the Indonesian government, such as the provision of loan guarantees and the relaxation of loan restructuring requirements. These measures have been designed to encourage banks to maintain their lending to SMEs, even in the face of increased credit risk.

While the government's policy interventions have aimed to support SMEs during the COVID-19 pandemic, there are still gaps in the existing research on the long-term sustainability of these initiatives. Wiardi and Saputra (2022) highlight the importance of considering the business strategies and sustainability of SMEs in the face of the pandemic. They argue that the government's interventions should not only focus on immediate relief but also on building the long-term resilience and adaptability of these businesses.

One of the key gaps in the existing research is the lack of understanding of the long-term impact of the government's initiatives on the financial health and performance of SMEs. Yusroni and Pratiwi (2022) examine the impact of the COVID-19 pandemic on the performance of MSMEs in Indonesia, but their study does not specifically address the role of government interventions in mitigating the effects of the crisis. Further research is needed to understand the extent to which the government's initiatives have been successful in reducing NPF and supporting the long-term viability of SMEs.

Additionally, there is a need for more comprehensive evaluation of the effectiveness of the government's policy interventions. While the existing literature provides some insights into the various initiatives introduced, there is limited empirical evidence on their impact on SMEs' access to credit, financial resilience, and overall performance. Deeper analysis of the implementation and outcomes of these programs is necessary to inform future policy decisions and ensure the optimal allocation of resources.

Furthermore, the existing research does not adequately address the potential unintended consequences of the government's interventions. For example, the loan restructuring program may have implications for the banking sector's financial stability and the broader credit market dynamics. Understanding these potential trade-offs and spillover effects is crucial for policymakers to design more holistic and sustainable support measures for SMEs.

Overall, while the Indonesian government has implemented various initiatives to support SMEs during the COVID-19 pandemic, there are still significant gaps in the existing research on the long-term sustainability and effectiveness of these interventions. Further studies are needed to provide a more comprehensive understanding of the challenges faced by SMEs, the impact of government policies, and the strategies required to build the resilience and adaptability of these businesses in the face of future crises.

Methods

This study employs a qualitative methodology to examine the impact of government initiatives on mitigating the financial distress experienced by small and medium enterprises (SMEs) during the pandemic in Indonesia. By synthesising insights from an in-depth literature review, regulatory analyses, and case studies, the research provides a comprehensive understanding of how policy interventions addressed rising non-performing financing (NPF) rates and supported economic resilience. The qualitative approach ensures a nuanced exploration of the interplay between authority actions and SME-specific challenges, offering insights into the successes and limitations of these measures.

Data collection focuses on a diverse range of sources, including government policy documents, financial reports, and case studies of SMEs that were directly impacted by the pandemic. This combination of primary and secondary data allows the research to evaluate key initiatives such as loan restructuring, fiscal incentives, and liquidity enhancement programmes. By triangulating these data points, the study identifies patterns and draws correlations between policy actions and outcomes, ensuring a robust and contextually relevant analysis.

The analytical framework is built on comparative assessments of various government interventions, with a focus on their effectiveness in reducing NPF rates and enabling SME recovery. This involves examining the scope and implementation of policies, as well as their alignment with the unique financial needs of SMEs across different sectors. The framework also considers structural inefficiencies and challenges such as administrative delays and unequal access to financing, which may limit the full potential of these interventions.

The scope of the study is intentionally concentrated on financial and policy dimensions rather than operational or industry-specific aspects. This ensures that the findings are broadly applicable across sectors, providing actionable insights for policymakers and stakeholders. The research focuses on critical questions, such as how government initiatives improved SME resilience and what lessons can be applied to future economic shocks.

By integrating theoretical insights with empirical evidence, the methodology contributes to the broader discourse on crisis management and SME sustainability. The study underscores the importance of refining financial access frameworks and fostering adaptive measures to safeguard SMEs against economic vulnerabilities. Its findings offer a roadmap for enhancing policy effectiveness and ensuring that SMEs remain a vital driver of economic stability and recovery in Indonesia.

Analysis/Discussion

The Effectiveness of Government Initiatives in Handling Financial Challenges of the SMEs

The Indonesian government has implemented various initiatives to address the challenges faced by Small and Medium Enterprises (SMEs) during the COVID-19 pandemic, particularly in terms of non-performing financing (NPF). One of the key measures introduced was loan restructuring, which aimed to provide relief and support to SMEs struggling with their financial obligations (Tejomurti and Handayani, 2020). The government's efforts to restructure loans have been largely successful, with data indicating that as of September 2021, the total value of restructured loans reached IDR 1,033.99 trillion, benefiting over 8.2 million debtors (Evi and Pramesworo, 2021).

In addition to loan restructuring, the government has also introduced fiscal incentives to support SMEs during the pandemic. These incentives include income tax exemptions, reduced tax rates, and other tax-related measures (Evi & Pramesworo, 2021). For instance, the government implemented a 0% down payment policy for mortgage loans, which aimed to accelerate economic recovery by stimulating the housing sector and providing relief to homebuyers (Dewi *et al*., 2021). These fiscal incentives have been instrumental in stabilising SMEs and mitigating the impact of the pandemic on their financial performance.

Furthermore, the government has taken steps to provide liquidity support to SMEs through various financing schemes and programs. One such initiative is the Islamic Social Finance (ISF) program, which has helped to build the resilience of Micro, Small, and Medium Enterprises (MSMEs) by providing access to alternative financing options (Waldan *et al*., 2022). The government has also introduced policies to reincarnate and revitalise SMEs, such as the provision of working capital loans and the facilitation of digital transformation (Abdullah, 2022).

The government's initiatives have had a tangible impact on addressing NPF rates and stabilising SMEs during the pandemic. The loan restructuring efforts have been particularly effective in reducing NPF levels, with data showing a decline in the NPF ratio from 3.11% in March 2020 to 2.85% in September 2021 (Evi and Pramesworo, 2021). This reduction in NPF rates has helped to alleviate the financial burden on SMEs and improve their overall stability.

Furthermore, the fiscal incentives and liquidity support measures have contributed to the stabilisation of SMEs. The 0% down payment policy, for instance, has stimulated the housing sector and provided relief to homebuyers, which in turn has had a positive impact on the broader economy and the financial performance of SMEs (Dewi *et al*., 2021). Similarly, the ISF program has helped to build the resilience of MSMEs by providing access to alternative financing options, which has been crucial in maintaining their operations during the pandemic (Waldan *et al*., 2022).

While the government's initiatives have been largely successful in addressing the challenges faced by SMEs during the pandemic, there are still some limitations and challenges that need to be addressed. One of the key issues is administrative inefficiencies, which can hinder the effective implementation and accessibility of these initiatives.

For instance, the loan restructuring program has faced some administrative challenges, such as the lengthy and complex application process, which can be particularly burdensome for smaller SMEs (Tejomurti & Handayani, 2020). This can lead to unequal access to financing, as larger and more established SMEs may have a better understanding of the application process and the resources to navigate it effectively.

Furthermore, the exclusion of marginalised SMEs, such as those operating in the informal sector or in remote areas, is another challenge that needs to be addressed. These SMEs may face additional barriers in accessing the government's support initiatives, such as a lack of formal documentation or limited digital infrastructure (Waldan *et al*., 2022). This can exacerbate the existing inequalities and hinder the overall effectiveness of the government's efforts.

To address the challenges of administrative inefficiencies and unequal access to financing, the government should focus on streamlining the application processes and improving the accessibility of its support initiatives. This may involve simplifying the documentation requirements, providing targeted assistance and guidance to SMEs, and leveraging digital technologies to facilitate the application and disbursement of funds.

Additionally, the government should prioritise the inclusion of marginalised SMEs by implementing targeted outreach and support programs. This could include collaborating with local communities, non-governmental organisations, and financial institutions to identify and reach out to these underserved SMEs, and providing them with the necessary resources and support to access the available financing options.

By addressing these challenges and limitations, the government can ensure that its initiatives are more inclusive and effective in supporting the entire SME ecosystem, including the most vulnerable and marginalised segments.

The government's initiatives during the COVID-19 pandemic have not only addressed the immediate challenges faced by SMEs but have also laid the groundwork for building long-term resilience within the sector. Certain policies and programs have been particularly instrumental in fostering adaptability and financial literacy among SMEs, which are crucial for their long-term sustainability.

One such policy is the government's emphasis on digital transformation and the adoption of technology by SMEs. The pandemic has accelerated the need for SMEs to embrace digital solutions, and the government has responded by providing support and incentives for SMEs to enhance their digital capabilities (Abdullah, 2022). This has not only helped SMEs to adapt to the changing business environment but has also improved their access to new markets, customer engagement, and operational efficiency.

Furthermore, the government's initiatives to improve financial literacy among SMEs have been crucial for building long-term resilience. Programs such as the Islamic Social Finance (ISF) initiative have not only provided alternative financing options but have also focused on educating SMEs on financial management, risk mitigation, and sustainable business practices (Waldan *et al*., 2022). This holistic approach to supporting SMEs has helped to foster a culture of financial responsibility and adaptability, which will be essential for their long-term survival and growth.

To further strengthen the long-term resilience of SMEs, the government should continue to prioritise initiatives that foster adaptability and financial literacy. This may involve expanding the reach and scope of digital transformation programs, providing comprehensive financial management training, and encouraging the adoption of sustainable business practices.

Additionally, the government should explore innovative financing solutions, such as the integration of Islamic social finance principles, to provide SMEs with alternative sources of funding and support.

This can help to diversify the financing options available to SMEs and reduce their reliance on traditional banking channels, which may be more susceptible to economic shocks.

By focusing on these key areas, the government can help to build a more resilient and adaptable SME sector that is better equipped to navigate future crises and thrive in the long run. This, in turn, will contribute to the overall economic stability and growth of Indonesia.

Overall, the Indonesian government's initiatives during the COVID-19 pandemic have been instrumental in addressing the challenges faced by SMEs, particularly in terms of non-performing financing. The combination of loan restructuring, fiscal incentives, and liquidity support has helped to mitigate the impact of the crisis and stabilise the SME sector. However, there are still some challenges and limitations, such as administrative inefficiencies and the exclusion of marginalised SMEs, that need to be addressed. Furthermore, the government's efforts to build long-term resilience, through policies that foster adaptability and financial literacy, have been crucial for the sector's long-term sustainability. By continuing to prioritise these initiatives and addressing the remaining challenges, the government can ensure that the SME sector in Indonesia emerges from the pandemic stronger and more resilient.

Potential Future Recommendations for Mitigating NPF Raising of the SMEs

The COVID-19 pandemic has presented unprecedented challenges for governments worldwide, including Indonesia, in their efforts to support small and medium enterprises (SMEs). The experiences gained during this crisis offer valuable lessons that can be applied to improve future crisis responses. One key insight is the importance of strengthening public-private partnerships (Anttiroiko, 2021). The pandemic has highlighted the need for effective collaboration between the government and the private sector to ensure the efficient delivery of resources and support to SMEs. By fostering stronger partnerships, the government can leverage the expertise, networks, and resources of private entities to better address the unique needs of SMEs during times of crisis (Akbar *et al*., 2022).

Another crucial lesson is the necessity of ensuring equitable access to resources and support. The pandemic has disproportionately impacted certain sectors and communities, underscoring the importance of implementing targeted and inclusive policies to reach the most vulnerable SMEs (Noerhidajati *et al*., 2021). This may involve streamlining application processes, enhancing communication channels, and actively engaging with underserved communities to identify and address their specific challenges (Maran, 2022).

The pandemic has underscored the importance of strengthening public-private partnerships to support SMEs effectively. By fostering closer collaboration between the government and the private sector, the government can leverage the expertise, resources, and networks of private entities to better address the needs of SMEs during times of crisis (Akbar *et al*., 2022). This can involve initiatives such as co-designing support programs, sharing data and insights, and jointly mobilizing resources to reach a wider range of SMEs.

One successful example of a public-private partnership in Indonesia is the collaboration between state-owned enterprises (SOEs) and micro, small, and medium enterprises (MSMEs) as a form of corporate social responsibility (Akbar *et al*., 2022). Through this partnership, SOEs provide various forms of support, including access to financing, capacity-building, and market linkages, to help MSMEs navigate the challenges posed by the pandemic. By leveraging the resources and capabilities of both the public and private sectors, this initiative has been able to deliver more comprehensive and tailored support to SMEs.

The pandemic has disproportionately impacted certain sectors and communities, underscoring the need for the government to implement targeted and inclusive policies to ensure equitable access to resources and support for SMEs (Noerhidajati *et al*., 2021). This may involve streamlining application processes, enhancing communication channels, and actively engaging with underserved communities to identify and address their specific challenges (Maran, 2022).

One example of an initiative aimed at improving access to resources for SMEs in Indonesia is the government's efforts to expand the reach of its financial assistance programs. During the pandemic, the government introduced various loan schemes and subsidies to support SMEs, but the uptake was initially low due to complex application processes and limited awareness among SMEs (Ssenyonga, 2021). To address this, the government has worked to simplify the application procedures, enhance digital platforms, and actively engage with SME associations and community leaders to improve outreach and accessibility (Ssenyonga, 2021).

Effective monitoring and evaluation of policy implementation are crucial to ensure the success of government initiatives aimed at supporting SMEs during crises. The pandemic has highlighted the need for the government to enhance its capacity to track the impact of its interventions, identify areas for improvement, and make timely adjustments to address the evolving needs of SMEs (D'Auria and De Smet, 2020).

One approach that the Indonesian government has explored is the use of data-driven monitoring and evaluation frameworks. By leveraging data analytics and real-time feedback from SMEs, the government can gain a more comprehensive understanding of the challenges faced by SMEs, the effectiveness of support programs, and the areas that require further attention (Noerhidajati *et al*., 2021). This information can then be used to refine and adapt policies and initiatives to better meet the needs of SMEs during the pandemic and in future crises.

Ultimately, the lessons learned from the COVID-19 pandemic underscore the importance of fostering a resilient and adaptable SME ecosystem in Indonesia. By strengthening public-private partnerships, ensuring equitable access to resources, and enhancing monitoring and evaluation, the government can build a more robust and responsive support system for SMEs, better equipped to withstand and recover from future crises (D'Auria and De Smet, 2020). This will not only benefit SMEs but also contribute to the overall economic resilience and growth of the country.

While the Indonesian government has implemented various initiatives to support SMEs during the pandemic, there are still areas that require further improvement, particularly in terms of streamlining the processes for accessing these support measures. The complexity and bureaucracy involved in application procedures have been identified as a significant barrier, limiting the reach and effectiveness of government assistance programs (Ssenyonga, 2021).

One key area for improvement is the simplification of application processes. SMEs, especially those in the micro and small categories, often lack the resources and expertise to navigate complex paperwork and documentation requirements, deterring them from seeking support (Maran, 2022). By streamlining these processes and leveraging digital platforms, the government can make it easier for SMEs to access the assistance they need, particularly during times of crisis.

Another policy gap that has been highlighted is the need for more robust monitoring and evaluation frameworks to assess the impact and effectiveness of government initiatives targeting SMEs. While the government has made efforts to collect data and track the performance of its support programs, there is room for improvement in terms of the depth and timeliness of this information (Noerhidajati *et al*., 2021).

Enhancing the government's monitoring and evaluation capabilities can provide valuable insights into the challenges faced by SMEs, the uptake and utilisation of support measures, and the areas that require further attention. This information can then be used to refine and adapt policies and initiatives, ensuring that they remain responsive to the evolving needs of SMEs during the pandemic and beyond (D'Auria and De Smet, 2020).

Effective coordination and communication between the government, private sector, and SMEs are crucial for the successful implementation of support initiatives. However, the pandemic has highlighted gaps in the coordination and information-sharing mechanisms, which have at times resulted in a disconnect between the available support and the SMEs in need (Akbar *et al*., 2022).

To address this, the government could explore ways to enhance the coordination and communication channels between various stakeholders, including government agencies, industry associations, and SME representatives. This could involve establishing dedicated platforms for information-sharing, facilitating regular dialogues, and improving the dissemination of updates and guidance to SMEs (Anttiroiko, 2021). By strengthening these connections, the government can ensure that its support initiatives are better aligned with the needs and challenges faced by SMEs, ultimately improving their reach and impact.

The COVID-19 pandemic has underscored the importance of innovation and adaptability in the SME sector. As businesses have had to navigate rapidly changing market conditions and evolving consumer preferences, the ability to innovate and adapt has become a critical success factor (Maran, 2022).

While the government has introduced various support measures, such as financial assistance and capacity-building programs, there is an opportunity to further enhance the ecosystem's innovation and adaptability. This could involve initiatives that encourage SMEs to explore new business models, adopt digital technologies, and develop innovative products and services

(Maran, 2022). By fostering a culture of innovation and adaptability, the government can help SMEs become more resilient and better equipped to navigate future crises.

The pandemic has had uneven impacts on different sectors, with some industries, such as tourism and hospitality, being hit harder than others. This has highlighted the need for the government to address the disparities in the support provided to SMEs across various sectors (Noerhidajati *et al*., 2021).

To ensure a more equitable and targeted approach, the government could explore sector-specific initiatives that cater to the unique challenges and needs of SMEs in different industries. This may involve tailored financial assistance, sector-specific training and capacity-building programs, and the facilitation of cross-sectoral collaborations and partnerships.

Conclusion

The pandemic underscored the critical vulnerabilities of small and medium enterprises (SMEs) in Indonesia, bringing the issue of non-performing financing (NPF) to the forefront of economic stability concerns. SMEs, being a cornerstone of Indonesia's economy, faced unprecedented challenges in maintaining operations and financial health. In response, the government launched a series of financial policies aimed at mitigating these challenges. Initiatives such as loan restructuring, fiscal incentives, and liquidity support were instrumental in providing immediate relief, helping SMEs navigate the financial turbulence brought about by the crisis. While these efforts demonstrated a proactive approach to economic recovery, they also revealed systemic gaps that must be addressed to build a more resilient SME sector.

To strengthen the resilience of SMEs, future strategies must adopt a comprehensive approach that integrates government actions with broader stakeholder collaboration and technological innovation. Policies targeting NPF reduction and financial accessibility proved beneficial, but their effectiveness was often limited by challenges such as administrative inefficiencies and uneven implementation. Collaboration between government entities, financial institutions, and private sector stakeholders could help streamline these initiatives and ensure their reach extends to underserved SMEs. Additionally, fostering financial literacy among SME operators and encouraging digital transformation will be pivotal in equipping businesses to withstand future crises.

Policy implications from the pandemic experience highlight the importance of adopting a multi-dimensional framework for SME support. This includes the establishment of adaptive regulatory frameworks that balance financial inclusivity with stability. Public-private partnerships could amplify the impact of government initiatives, providing additional resources and expertise to address the diverse needs of SMEs. Furthermore, developing infrastructure that enables easier access to financing and digital tools will empower SMEs to integrate sustainable practices into their operations, making them less susceptible to economic disruptions.

To ensure a more equitable and targeted approach, sector-specific initiatives could be explored to cater to the unique challenges faced by different industries. The pandemic affected SMEs unevenly, with certain sectors such as tourism, hospitality, and retail experiencing more severe disruptions. Tailoring financial support and policies to the specific needs of these industries would maximise the efficacy of interventions. For example, providing technology grants to digitalise retail operations or offering workforce reskilling programmes for tourism-related SMEs could address sector-specific vulnerabilities while fostering long-term growth.

In conclusion, the pandemic has highlighted both the vulnerabilities and the resilience of Indonesia's SME sector. The government's initiatives to address NPF and provide financial relief have laid a foundation for economic recovery. However, to create a sustainable and robust SME ecosystem, a forward-thinking approach that combines financial policies, stakeholder collaboration, and digital innovation is essential. By focusing on equitable and sector-specific strategies, Indonesia can build a resilient SME sector that not only recovers from crises but thrives in the face of future challenges, contributing significantly to the nation's economic stability and growth.

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