FINANCIAL CONSTRAINTS ON MSMES IN COVID-19 SITUATION(INDONESIAN CASE)

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Abstract
The COVID-19 is unavoidable; not only by global companies but also by the Micro Small Medium Enterprises (MSMEs). The impact of it is felt by Indonesia and all countries in the world. Focusing on financial constraints that MSMEs have been facing, we tried to examine the effect of (1) entrepreneurial experience, (2) Type of enterprises, (3) Type of industry, (4) Financial Constraints towards (5) Growth of MSMEs in the COVID-19 condition. In this study, we can see that entrepreneurial experience and innovation such as online sales will be more helpful to reduce an obstacle that has a terrible impact on the business while the enterprise type and industry type do not make a difference in the severity of financial constraints felt by MSMEs. In addition, the result shows a positive influence between financial constraints and firm growth during the pandemic.

Keywords: *financial constraint, MSMEs, entreprenurship*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a big influence in encouraging the growth and the development of a country's economy because MSMEs make a major contribution to entrepreneurship and create jobs. MSMEs in the global perspective are acknowledged as the economic growth engine in both developed and developing countries, so the performance of MSMEs has become the main priority in all countries in the world (Latifah, 2020). In this statement, we know the development of MSME will not only affect developing countries, even globally MSME is recognized as being able to help the world's economic growth. Based on the data of the Ministry of Cooperatives and MSMEs, the number of MSMEs currently reaches 64.2 million with a contribution to GDP around 61.07% or worth 8.573.89 trillion rupiah (coordinating ministry for the economy of the republic of Indonesia, 2021). This data shows how important the MSMEs are to the development of the Indonesian economy, as a developing country the existence of MSMEs with a good development is the best way to help the country's economy.

COVID-19 was first reported in Wuhan, China, and subsequently spread worldwide. In Indonesia, this case was first announced in early March 2020. This virus is spread in tiny fluid particles through the mouth or nose of an infected person when they cough, talk, sneeze or breathe. Because this virus spreads quickly, as of September 29, 2021, WHO noted there had been 232,636,622 confirmed cases of COVID-19, including 4,762,089 deaths (WHO coronavirus (COVID-19) Dashboard 2021). Apart from being the cause of the loss of millions of human lives worldwide, the COVID-19 pandemic has also put tens of millions of people at risk of falling into extreme poverty, hundreds of millions of people are malnourished, disrupted food systems, existential threat to millions of companies, and destroys jobs and

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puts millions of livelihoods in danger (Chriscaden, 2020). The international lockdown in the pandemic caused socio-economic shock and affected citizens and SMEs because it hindered their operational and trade (Zazou, 2021). Even the government imposes restrictions on community activities to prevent the spread of the Coronavirus, which has a significant impact on the global economy and the domestic economy; it causes fewer people to shop outside so that MSMEs incomes also decline. The study of international trade centers (2020) also mentioned that SMEs are on the front lines. The customer must stay at home, the supply chains shut down, and the small industries have been put under severe stress. COVID-19 era is indeed a tough time for the world, not only a problem for health but COVID-19 also has a destructive impact on the economy, especially MSMEs.

In pandemic era, the most affected industry is small and medium companies. It is proven by the declining of financial performance if we compare with other industry (Rababah et al, 2020). Based on this explanation, the researcher wants to focus on examining the impact of COVID-19 on the financial constraints of MSMEs and the factors that affect the severity of these financial constraints. Based on the formulation of the problem, this research is aimed to examine what things can affect the financial constraint and MSMEs development in COVID-19 situation (study cases for Indonesia). Researchers expect that the results of this study can be helpful for MSME owners or prospective MSME owners in running their business to avoid financial constraints, both during general situations or pandemic situations.

LITERATURE REVIEW
Constraints Theory
This theory is refers to business theory that directly related to the process of achieving profit, and we must identifying what constraints that are usually faced by the business. One important thing that must be known in this concept is every company always have an obstacle that must be overcome immediately.

Definitions
Micro, Small, and Medium Enterprises (MSMEs)
According to law number 20 of 2008 concerning Micro, Small and Medium Enterprises, MSMEs are small companies that are owned and managed by a person or owned by a small group of people with a certain amount of wealth and income. Micro Enterprises are productive businesses owned by individuals and/or individual business entities that have a net worth of a maximum of Rp. 50,000,000 excluding land and buildings for business premises, or have annual sales of a maximum of Rp. 300,000,000. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly of Medium Enterprises or Large Enterprises. A business can be categorized as a small enterprise if it has the criteria stipulated in the law, namely having a net worth of between Rp. 50,000,000 to Rp. 500,000,000 excluding land and buildings where the business is located or having annual sales between Rp. 300,000,000 to Rp. 2,500,000,000. Medium Enterprises are productive economic businesses that stand-alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly with Small Businesses or Large Businesses. A business can be classified as a medium enterprise if it has a net worth of more than Rp. 500,000,000 to Rp. 10,000,000,000 excluding land and buildings for business premises or has annual sales of more than Rp. 2,500,000,000 to a maximum of Rp. 50,000,000,000 (law no. 20 of 2008)

Gross Domestic Product (GDP)
Based on the international monetary fund, real GDP is used as an indicator of the economy's general health, and the increase of GDP shows the economy is doing well; GDP is important because it indicates the size and performance of the economy. Based on the OECD, GDP is a standard measure of value-added through the services and goods in a certain period. GDP is significant because, through this, we

can assess how far behind our country is from other countries in terms of the economy, we can also find out which sectors we have to improve an economy. If people's purchasing power is high, the production rate will also be high, and GDP will increase. It is also used as an indicator of a country's welfare.

Financial Constraints

Financial and non-financial constraints such as limited knowledge of marketing techniques, low bargaining capabilities of the firm managers, stiff market competition, non-existent advertising and promotional campaigns, poor control over cash flow management, and strict regulatory environment are responsible for inconsistent growth among small firms (Huang and Brown, 1999; Marwa, 2014; Mukherjee, 2018). Financial constraints are often characterized as an inelastic supply for external finance, and it implies the constraint on the firm decisions whenever the internal finance is insufficient (European Central Bank, 2020). Financial constraints could impact the reduced availability of long-term financing that will affect the firms' capital expenditure (Campello et al., 2010). Financial constraints are something that most businesses avoid because financial constraints will negatively impact a business. The financial problem of the firms can directly influence the growth and the performance of the firms (Mittal and Raman, 2020). Based on the statement, the financial problem can have an impact on the growth of the business, especially the MSMEs.

COVID-19 Situation

The COVID-19 pandemic was first diagnosed on 1st December 2019 in Wuhan of China and reported to the World Health Organization's (WHO) regional office in China on 31st December 2019 (Gossling et al., 2020). COVID-19 attacks everyone from various aspects of life, both health and economy. COVID-19 plays a significant role in lifestyle changes; work that is usually done in the office or other workplace can now be done at home. COVID-19 came as an obstacle to social life, affecting communication and even the economy. In this pandemic era, it is ubiquitous to hear that many businesses choose to close for financial reasons, resulting in increased unemployment. Therefore, COVID-19 has had a significant effect on global life today.

There are several previous studies that focus on financial constraints and MSMEs, some of which are presented in Table 1.

Table 1. Summary of Previous Research

Author	Topic	Method	Object	Results

Huan Cong Hoang, Qin Xiao and Saeed Akbar (2019)	Trade credit, firm profitability, and financial constraints (SMEs in East Asia and the Pacific)	Panel data methodology	SMEs from nine countries or territories located in the East Asia and Pacific region	This study implies the existence of an optimal trade credit level that balances costs and benefits in order to maximize profitability. According to the findings of this study, the optimal level of more financially constrained firms is lower than that of less financially constrained firms.
Barkat Ullah (2019)	Financial constraints, corruption, and SME growth in transition economies	Data analysis	(SMEs) in 28 Eastern European and Central Asian countries	According to the findings of this study, financial constraints have a negative impact on both firm sales growth and employment growth, whereas corruption has no direct impact on growth.
Darush Yazdanfar and Peter Ohman (2019)	Financial distress determinants among SMEs	Several statistical methods, especially multiple binary logistic regression, it used to analyse a longitudinal cross-sectional panel data set	Swedish SMEs operating in five industries over the 2008–2015 period.	According to the findings, financial distress is influenced by macroeconomic conditions (i.e., the global financial crisis) and, more specifically, by various firm-specific characteristics (i.e. performance, financial leverage and financial distress in previous year).

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Lyna Latifah, Doddy Setiawan, Y. Anni Aryani and Rahmawati Rahmawati (2020)	Strategy and MSME's performance relationship	-Research respondents -Operational definition and variables measurement-Data analysis technique and hypothesis test	MSMEs owners throughout Solo, Yogyakarta and Semarang, Indonesia.	The findings indicate that business strategy has an indirect impact on the performance of SMEs. Innovation and AIS both positively mediate the relationship between business strategy and the performance of SMEs.
Vibhuti Mittal and T.V. Raman (2021)	Financial and cash flow constraint	-Sample design and data collection	MSMEs of India	The findings support the role of owner and firm characteristics in the severity of financial constraints faced by MSME owners. Furthermore, the study establishes a strong relationship between owner and firm characteristics and cash flow constraints. Moreover, the paper validates the negative impact of financing and cash flow issues on the firm's growth.

Based on the explanation and findings from the previous studies above, we propose some hypotheses below:

Independent Variable 1a Ho	The owner's entrepreneurial experience is not influencing the severity financial constraint in pandemic situation.

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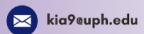(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

Independent Variable 1a Ha	The owner's entrepreneurial experience influences the severity financial constraint in pandemic situation.
Independent Variable 1b Ho	The enterprise type is not influences the severity financial constraint in pandemic situation
Independent Variable 1b Ha	The enterprise type is influencing the severity financial constraints in pandemic situations
Independent Variable 1c Ho	The industry type is not influences the severity financial constraint in pandemic situation.
Independent Variable 1c Ha	The industry type is influencing the financial constraint in pandemic situation.
Independent Variable 1d Ho	The online sales is not influence the severity financial constraints in pandemic situations.
Independent Variable 1d Ha	The online sales is influence financial constraints in pandemic situations.
Independent Variable 2 Ho	The financial constraints in pandemic have influence on the MSMEs growth.
Independent Variable 2 Ha	The financial constraints in pandemic have not influence on the MSMEs growth.

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METHODOLOGY

Research Methodd

The survey questionnaire is an effective method of collecting data in the case of a geographically scattered population (Robson and McCartan, 2016). In this survey we will use a quantitative approach, this is to test the severity of financial constraint in the COVID-19 era and entirely based on the primary data. Using this method will be easier for the researchers to cover more respondents from MSMEs.

Research Objects

Our object in this research is MSMEs in Indonesia; based on Badan Pusat Statistik 2020, West Java, East Java, Central Java, DKI Jakarta, and North Sumatra have the highest number of MSMEs. So, we only focus on these five province only to share the survey. The respondents of this research are 100 MSMEs owners from West Java, East Java, DKI Jakarta, and North Sumatra. 49% of the respondents have entrepreneurial experience for less than five years, 41% have entrepreneurial experience for between 5 years and ten years, and 10% have entrepreneurial experience for between 11 years and 20 years. Furthermore, the distribution of MSME locations as objects is as follows: 36% in East Java, 17% in West Java, 21% in Central Java, 13% in Jakarta, and 13% in North Sumatra. In this survey, 74% of the objects are micro-businesses, 21% are small businesses, and 5% are medium businesses. In addition, 69% of respondents are trading businesses, 17% are service businesses, and 14% are manufacturing businesses. 61% of respondents are making online sales, while the other 39% are not.

Research Instrument

The questionnaire is a research instrument that consists of a list of questions to obtain helpful information from respondents through a survey or statistical study. In this research, the researchers use the questionnaire to measure and determine the impact of business' type, entrepreneurial experience, and government regulation on the financial constraint and MSMEs development in Indonesia in the COVID-19 situation. The respondents answer the questions in short answers. Besides, this research uses a five-point Likert scale to measure the variable. The choices of alternatives for respondents' answers are:

section 1 Profile of respondent (UMKM)

Last education	- Elementary school - Junior high school - Senior high school - Bachelor
Experience owning a business	- Less than 5 years - 5 - 10 years - 11- 20 years - More than 20 years

section 2

The location of MSMEs	- West Java - East Java - Central Java - DKI Jakarta - North Sumatra
Enterprise type	- Micro - Small - Medium

Business type	- Manufacturing - Service - Trading
Online sales	- Yes- No

section 3 (Interval scale)

Question	Scale
Difficulty in obtaining internal finance	1= extremely low severity 2 = low severity 3 = neutral 4 = high severity 5 = extremely high severity
Difficulty in obtaining external finance	1= extremely low severity 2 = low severity 3 = neutral 4 = high severity 5 = extremely high severity
Change in sale	1 = highly declined 2 = declined 3 = neutral 4 = increased 5 = highly increased
Change in profit	1 = highly declined 2 = declined 3 = neutral 4 = increased 5 = highly increased
Change in asset growth	1 = highly declined 2 = declined 3 = neutral 4 = increased 5 = highly increased

Operating Variable

Variable	Indicator
Growth of MSMEs (GROWTH) (dependent)	MSMEs growth is measured on the parameters of change in sales, profit and asset growth, where 1 represented highly declined and 5 represented highly increased. ((Wu, 2009))
Entrepreneurial experience (ENTEX) (independent)	Entrepreneurial experience (Exp) was measured on the basis of the number of years spent in owning and managing a business (Robb and Walken, 2002)

Type of enterprises (TYPEEN) (independent)	It was measured by classifying MSMEs into the size. MSMED Act (2006)
Type of business (TYPEBS) (independent)	It was measured by classifying business industry into manufacturing, service and trading enterprises. (Mittal and Raman, 2021)
Financial Constraints (FC)	It measures the difficulty in obtaining internal and external finance, where 1 represents extremely low severity and 5 represents extremely high severity (Huang and Brown, 1999)

Data Analysis

The survey questionnaire is an effective method of collecting data in the case of a geographically scattered population (Robson and McCartan, 2016). The conceptual model is examined through the SmartPLS using partial least squares-structural equation modelling (PLS-SEM) approach. The PLS-SEM technique is an exploratory method to measure the hypothesized effect of exogenous constructs on the endogenous constructs (Reinartz et al., 2009; Hair et al., 2012; Wong, 2013).

RESULTS AND DISCUSSION

Measurement Model Assessment

The reflective measurement model was assessed based on reliability and validity parameters (Coltman et al., 2008; Hair et al., 2011). The indicator's reliability was tested using the values of the outer loadings, and it was found to be less than the prescribed threshold of more than 0.9, as shown in Table 1. The internal consistency of the model was assessed using Cronbach's alpha values, which were found to be within the acceptable range of 0.9–1.0. (Nunnally and Bernstein, 1994). As a result, the measurement model was found to be internally consistent (Urbach and Ahlemann, 2010). Additionally, the adequacy of convergent validity was examined using composite reliability (CR) and average variance explained (AVE) values (Fornell and Larcker, 1981) The CR values obtained were in the acceptable range of 0.9 and above. According to (Hair et al., 2010), an acceptable CR value is 0.7 or higher. Furthermore, the AVE values were found to be very good, as suggested by Bagozzi and Yi (1988). To ensure the degree of differences between the constructs, discriminant validity was checked using Fornell and Larcker (1981) criteria (Hair et al., 2012). Off-diagonal values in Table 2 represent the inter-correlations between the latent constructs, while diagonal values explain the AVE square root. The discriminant validity of the reflective measurement model was also confirmed because the square root of AVE values was found more than the inter-constructs correlations.

Table 1. Indicator reliability, internal consistency and convergent validity of measurement model

Construct	Items	Outer loadings	AVE	CR	Cronbach alpha
Ent	Type of enterprise	NA	NA	NA	
Eks	Entrepreneurship experience	NA	NA	NA	

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FC	Difficulty in obtaining internal finance	0.975	0.948	0.974	0.946
	Difficulty in obtaining external finance	0.972			
FG	Change in sales	0.985	0.946	0.981	0.971
	Change in profit	0.983			
	Change in asset growth	0.949			
Ind	Type of industry	NA	NA	NA	

Discriminant validity

Structural model assessment

The structural model (Figure 1) is evaluated based on collinearity, structural model significance, coefficient of determination (R^2 value), and predictive relevance (Q^2 value) (Cohen, 1988). To investigate the problem of multicollinearity among the exogenous constructs, the collinearity check was performed using variance inflation factors (VIFs) (Henseleret al., 2009; Hairet al., 2012). The VIF values obtained using SPSSv23 and latent variable scores were found to be less than 5, as shown in Table 3; thus, the absence of multicollinearity was ensured (Hair et al., 2012). Because the collinearity test results were satisfactory, the significance of structural model relationships was evaluated. The PLS-SEM bootstrapping algorithm was used, and a sample of 5000 random cases was generated using the original cases to test the significance of the relationship of constructs (Henseler et al., 2009; Hair et al., 2012). Table 4 displays the results of significance testing for associations between exogenous and endogenous constructs. Following hypothesis testing, Cohen's coefficient of determination (R^2 values) was found to be adequate (1988). Finally, predictive relevance (Q^2 values) was calculated using the blindfolding algorithm and $D = 7$ as the omission distance. Table 5 shows that the Q^2 values (cross-validated communality) were more significant than 0 and were deemed adequate (Hair et al., 2012).

Figure 1. Structural model

Table 3. Multicollinearity examination

Constructs	VIF values
Ent	1.872
Eks	1.564
FC	1.717
Ind	1.306
Onl	1.701

Table 4. Hypothesis testing

Hypotheses	Path coefficients	T-statistics	p-value	Decision
Exp - FC	-0.193	2.131	0.034	Supported
Ent - FC	0.1	0.948	0.344	Not supported
Ind - FC	-0.034	0.395	0.693	Not supported
Onl - FC	0.63	10.979	0.000	Supported
FC - FG	-0.926	66.801	0.000	Supported

Discussion

The result of table 4 is about the relationships between firm characteristics and the financial constraints in the pandemic era that the MSMEs faced. Based on the data analysis, H1a and H1d fulfill the hypothesis that Entrepreneur experience and online sales have a negative effect on the severity of financial constraints in the pandemic era ($t = 2.121$, $p < 0.05$; $t = 10,979$, $p < 0.05$). This study shows that the owner's entrepreneurial experience and online sales will tend to be able to maintain their finances or not have financial constraints as severe as owners who have no experience and do not have online sales. While H1b and H1c have a positive influence on the financial obstacle of MSMEs, therefore from this research, we know that enterprise type and industry type do not make a difference in the severity of financial constraints felt by MSMEs.

Based on the last hypothesis H2, regarding the relationship of financial constraints to firm growth, The result shows a positive influence ($t = 66.80$, $p < 0.05$), which explains that the more severe the financial constraints experienced during the pandemic, the less likely a business will grow. Therefore, financial constraints during this pandemic have a significant influence on the difficulty of a company's growth.

Table 5. R^2 value and Q^2 value

Endogenous variable	Coefficient of Determination (R^2)	Predictive Relevance (Q^2)
FC	0.417	0.373
FG	0.857	0.803

CONCLUSION

A business has its own problems, but the main problem that is most often faced is money or capital to continue the business. There are many situations that affect sales of MSMEs, one of which is this unexpected situation, namely COVID-19. In this study, we can see that business experience and innovation such as online sales will be more helpful to reduce an obstacle that has a terrible impact on business. COVID-19 is unavoidable; not only internal income but even loans such as banks may not necessarily help us in a crisis like this. The impact of COVID-19 is not only felt by Indonesia but also by the world. Besides, it does not only affect the MSMEs, but several other forms of business also feel

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the impact of this COVID-19. A situation like this cannot be predicted when it will be finished; therefore, every business must be able to manage the business and start to innovate and run according to customer needs.

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