

## **Enhancing the Entrepreneurial Finance on SMEs during COVID-19 Crisis**

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### **Abstract**

The existence of SMEs is a distinct advantage in the economy. A country with SMEs embedded in it has its own economic dynamics because it is independent and creative and provides opportunities to advance the welfare of life. The extraordinary benefits of SMEs are highly concerned where entrepreneurial finance is a necessity. The crisis experienced due to Covid-19 is a shock to SMEs. The need for funding sources is a thought that needs to be given a middle way to encourage SMEs to break of their worries about the crisis conditions due to Covid-19. So what should be paid attention is that the increase in financial resources will provide a support to rise from crisis conditions.

This study discusses enhancing funds attached to entrepreneurial finance due to the presence of Covid-19. The study was conducted on 30 production SMEs. The research method uses descriptive and quantitative. The results contributed to supporting funding solutions for SMEs during the Covid-19 pandemic.

**Keywords: entrepreneurial finance, funding, SMEs, crisis, Covid-19.**

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## **I. Introduction**

Finance is a factor that plays a big role in a business entity. The existence of an entrepreneurial finance provides a key to finance in doing entrepreneurship. The existence of finance in general focuses on one of the main points of funding, where the funding of business entity is a foundation that provides strength to business activities. Therefore, the interest in entrepreneurial finance is a factor that needs to be considered.

SMEs provide new focus in an economic dynamic. Creative, innovative, and independent business entities are very strong in resilience. However, the existence of Covid-19 which announced by the WHO from March 2020, which shook the world, had an impact on reducing business ventures both large and small business entities. SMEs have been significantly affected. The Covid-19 pandemic has prevented economic conditions from running even when the Indonesian government implemented a massive physical distancing, so that there were almost no sectors that could move. The economy is getting out of control.

The situation that has never found a way out provides a new policy that the economy have to live but with full health awareness. The opening of the economic activity illustrates that cleanliness is prioritized. Thus the business entity can restart the business but it is very limited action. This limitation provides the bait that not all closed businesses can be reopened in the same way. Therefore, the need for new funds becomes a major problem again.

Embracing entrepreneurial finance has become a staple in doing business. Entrepreneurial itself is the supply of entrepreneurial finance such as business angel investments and capital venture and how this impacts SMEs (Brown & Rocha, 2020). Relational nature of entrepreneurial finance, there are strong, a priori, theoretical reasons for expecting sources of equity finance to be hit hard by shocks such as pandemics given the need for face-to-face contact between investors and entrepreneurs. Previous research was conducted mainly in China where the country has experienced a pandemic before other countries and has done some things to do economic work before other countries. Some ways of financing can be run by the business angels, venture capital funds, different government support programs and seed funding. There could be solution of funding attraction, especially for new SMEs as in the Baltic States as over the world (Rupeika-Apoga, 2014).

Previous research shows that several places of province where the virus most acutely affected also suffered the heaviest decreases of entrepreneurial finance in China. The spatial data also shows that the funding stage most affected in these area (Brown & Rocha, 2020). Other research shows findings suggest that the impact of the Covid-19 crisis has dramatically affected entrepreneurial finance in China to an order of magnitude significantly surpassing other more established markets such as the US (Howell, Lerner, Nanda, & Townsend, 2020).

The funding needed by SMEs is very influential. Pecking Order Theory by investigating the role of start-ups' strategic posture for financial decision-making (Vaznyte & Andries, 2019). How then, hierarchically, funding is from internal, and if it is no longer biased then use external. This pattern in SME looks familiar, however entrepreneurship is very dynamic. Thus the research was conducted to determine how the impact of the crisis on the finances of MSMEs and to find out whether entrepreneurial finance had a role in strengthening SMEs.

## **II. Literature Review**

Entrepreneurial finance is the study of value and resource allocation, applied to new ventures (Cumming, 2007; Kerr, Lerner, & Schoar, 2014). The interest in financing a business is very important, because the main supply of a business is funds. Availability of funds is very basic. Entrepreneur finance can be done with angel investor funds, external financing, venture capital, etc.

SMEs are business entities with varying scales and with certain conditions such as the number of assets and labor. In this case in Indonesia, SMEs are categorized in the home to medium scale. According to BPS, or Bank Indonesia, and the Ministry of Cooperatives and SMEs.

## **III. Research Methods**

The study was carried out on 30 SMEs that did business during the COVID-19 pandemic. Disclose funding made during the COVID-19 crisis. The research variable uses debt and sales proceeds during the crisis. Due to limited research time, it was limited from the period April-August 2020. The study used descriptive analysis and simple linear regression with E-views.

## **IV. Result**

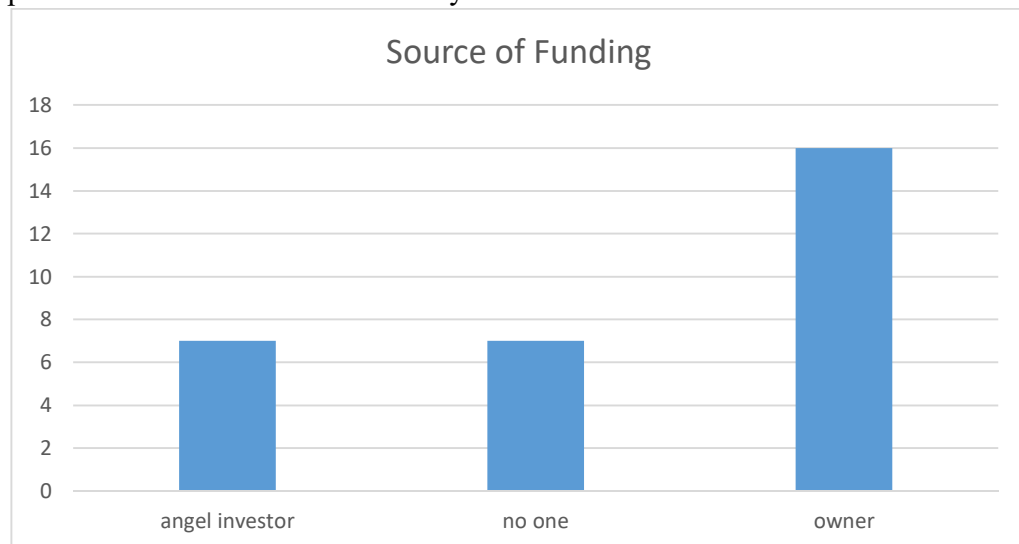
The results of the study provide a profile description as follows. The research uses 30 SMEs in production sectors. Averagely they are not fully stop doing the work, but the market demand is decline, that cause the very low revenue and very significant effect of mentality.

Figure 1 shows that the declining sales from April until August 2020 is randomly. Some point of time sales decline significant almost stop, but another time sales are demanded. So that, there is a hope if the economic activity is getting better.



**Figure 1. Declining Sales**

Figure 2 shows profile of source of funding of SMEs. The first is fully fund by the owner, whereas other fund by angel investor. It means that some other way funding from this side is needed in this situation, but this term will not work for the SMEs that not concern of how to getting better with the funding support. It means that economic activity can run even in slow motion.



**Figure 2. Source of Fund**

Then, the regression is used to analyze the data for this research. The result is shown below.

**Table 1. Regression Result**

Dependent Variable: Sales  
Method: Least Squares  
Date: 09/20/20 Time: 15:22  
Sample: 1 30  
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	690476.2	160981.8	4.289158	0.0002
Financing	3.571429	0.352693	10.12616	0.0000
R-squared	0.785505	Mean dependent var		1583333.
Adjusted R-squared	0.777844	S.D. dependent var		1565156.
S.E. of regression	737711.1	Akaike info criterion		29.92483
Sum squared resid	1.52E+13	Schwarz criterion		30.01825
Log likelihood	-446.8725	Hannan-Quinn criter.		29.95472
F-statistic	102.5391	Durbin-Watson stat		2.505804
Prob(F-statistic)	0.000000			

The results above show significance and provide direction that the existence of funding sources plays a role in providing income. In addition, doing entrepreneurial finance is quite an important thing to do in times of crisis due to Covid-19, because the existence of a fund provides a potential to emerge from stagnation in economic activity. Therefore, SMEs can produce and try to rebuild confidence in the dynamics of economic activity.

The result shows that the coefficient of regression is 78,55% that means the variable of financing is effected to the revenue as that much, then the rest 21,45% is effected by other factors that not include in the research. The research also give great significant result. From those statistic value, it means a lot for the implication. The funding for SMEs in this Covid-19 crisis is need attention more, because how the entrepreneurial finance engage with the funding is relative close. The low interest from the financial institution somehow give impact, but how they get the angel investor impact more. This situation would be better if the entrepreneurial factor from SMEs is strong enough to help themselves from this crisis. This result support the previous research (Brown & Rocha, 2020).

Some other research shows clearly that several provinces where the virus most acutely affected also suffered the heaviest decreases of entrepreneurial finance in China. The spatial data also shows that the funding stage most acutely affected in these area (Brown & Rocha, 2020). Another research shows findings suggest that the impact of the Covid-19 crisis has

dramatically affected entrepreneurial finance in China to an order of magnitude significantly surpassing other more established markets such as the US (Howell et al., 2020). Some ways of financing can be run by the business angels, venture capital funds, different government support programs and seed funding. There could be solution of funding attraction, especially for new SMEs as in the Baltic States as over the world (Rupeika-Apoga, 2014).

Contribution of this research give the clue that enhancing the entrepreneurial finance for SMEs from angel investor will be a huge preference for financing. One to another help each other and give solution how to manage the finance and make a bread new day with the combination of entrepreneurship, financing, and great strategy to overcome this crisis situation.

## **V. Conclusion**

The results above show significance and provide direction that the existence of funding sources plays a role in providing income. In addition, doing entrepreneurial finance is quite an important thing to do in times of crisis due to Covid-19, because the existence of a fund provides a potential to emerge from stagnation in economic activity. Therefore, SMEs can produce and try to rebuild confidence in the dynamics of economic activity. This research give the clue that enhancing the entrepreneurial finance for SMEs from angel investor will be a huge preference for financing. One to another help each other and give solution how to manage the finance and make a combination of entrepreneurship, financing, and great strategy to overcome this crisis situation. Embracing entrepreneurial finance has become a staple in doing business.

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