

# Does Banking Waiver Help SMEs to Survive during the Pandemic? The Role of Innovative Financial Practices

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## Abstract

This research aims to examine the effect of policy-related factors in the form of banking waivers on the sustainable financial performance and survival-recovery of SMEs during the Covid-19 Pandemic. Besides, this research also highlighted whether the innovative financial practice has a mediating effect on the relationship between sustainable financial performance and the survival recovery of SMEs. The third edition of SMARTPLS software was used for the PLS-SEM analysis of the data. Purposive sampling was used to choose and collect samples using predetermined criteria implemented online and offline. A total of 1026 SMEs who met the eligibility criteria participated in the survey. Most respondents are based in the West Java Province of Indonesia, spread over several cities. The findings show that banking waivers provided by the Indonesian government positively affect the sustainable financial performance of SMEs, which in the end help them to survive and recover their business during the pandemic crisis. The innovative financial practices by SMEs have also proven to strengthen the positive effect of sustainable financial performance on their survival-recovery amid the pandemic crisis.

**Keywords** : Banking Waivers; Covid-19 pandemic; Policy-Related Factors; SMEs, Sustainable Performance.

**JEL Classification** : E5, G6, L26

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## 1. INTRODUCTION

Many enterprises across different economic sectors have been forced to shut down due to COVID-19 containment regulations. It has created a barrier that will likely remain in place for the foreseeable future between consumer demand and the ability of businesses to provide goods and services in some markets. The crisis significantly impacts small and medium-sized businesses (SMEs) (Salisu & Vo, 2020). Small and medium-sized enterprises (SMEs) constitute the economic lifeblood of the ASEAN member states. They account for between 95 and 99 percent of all businesses and create between 51 and 97 percent of all jobs in several ASEAN member states, making them crucial drivers and contributors to GDP (Djalante et al., 2020). A study conducted by the Central Bank of Indonesia (BI) in March 2021 shows as many as 87.5% of Indonesian SMEs were affected by the epidemic, and 93.3% of business players in the sector saw a drop in sales turnover as a result (Hidayati & Rachman, 2021).

Furthermore, because of the high default risk, poor profitability, and lack of collateral, small and medium-sized enterprises (SMEs) in developing nations have difficulty obtaining bank loans. As a result of the Covid-19 pandemic, small and medium-sized enterprises (SMEs) have had trouble accessing financing to restart production (Hartono & Raya, 2022). Therefore, the bank's preferential policies have been helpful to its continued existence and growth. Due to this circumstance, those involved in the Penta helix corridor are prompted to look for the most advantageous exit option to ensure long-term success and the revival of the SME sector (Nurrahma et al., 2022).

Many national governments launched aid programs in response. With an initial volume of US\$650 billion, the Paycheck Protection Program (PPP) in the United States is the most extensive program that funds small companies during the early stages of the pandemic. To keep small businesses operating and their staff employed, the Small Business Administration (SBA) program facilitated loans to small enterprises through banks, credit unions, and other financial institutions (Zhang et al., 2021). Most European nations also instituted steps to preserve the liquidity of SMEs, such as allowing them to delay payments and opening up new lines of financing. The latter have included government and central bank initiatives, including direct financing to SMEs and loan guarantees for commercial banks to encourage them to increase SME lending. In Indonesia, the National Economic Recovery (PEN) program has been implemented to execute government assistance programs, with help dispersed through taxes, banking waivers, social insurance, and fiscal financial aid, among other areas (Fadhli & Rohmah, 2021).

Many studies have observed the role of government support policy on the recovery process of big and small enterprises in banking waivers. For instance, the financial reactions of Chinese SMEs to the COVID-19 pandemic are analyzed in research by Liu et al. (2022). The study demonstrates the positive impact of state-owned banks in China on loan limits for small firms. These policy tools include loan guarantees, financing to small enterprises, grants and subsidies, and equity instruments. Taghizadeh-Hesary, Phoumin, and Rasoulinezhad (2022) also found that Credit Guarantee Scheme (CGA) is an essential policy to improve government instruments to help banks better finance SMEs. The optimal credit guarantee ratio allows SMEs to get cheaper and secure loans from the bank. Le et al. (2020) specifically tested the effect of preferential policies of the bank in the form of waivers such as lower interest rates, re-structuring, and re-scheduling for SMEs amid the pandemic of Covid-19. They found that those policy waivers significantly affect the survival-recovery of SMEs in Thanh Hoa Province, Vietnam.

Therefore, this research wanted to contribute to the existing literature by building a sharper research model from SME owners' perspective to validate and confirm whether the banking waiver policy support SMEs to survive and recover amid the pandemic crisis through the survey method. As a contribution, this research proposed that banking waivers can help SMEs survive and recover because they can maintain the sustainability of financial performance. It is measured by the subjective assessment of return on Asset (ROA), Return on Equity (ROE), and Return on Sales (ROS) (Alkahtani et al., 2020). Besides, thanks to innovative financial practices, they can help them adapt to digitalization enforcement amid the pandemic. Maximizing digital loans from peer-to-peer lending, using an e-wallet, and marketizing the product through Super-App like Grab, are some innovative practices explored in this research. These activities can help SMEs to improve sales performance, fasten transactions, and increase capital budget (Ganlin et al., 2021).

As a novelty, this research extended the research from Alkahtani, Nordin, and Khan (2020) by proposing that banking waivers are one of the predictors of sustainable financial performance. This research also intended to extend the analysis from Ganlin et al. (2021) to observe the moderating role of innovative financial performance that might strengthen the banking waiver policy's positive effect on SMEs' sustainable performance and survival recovery. In light of the preceding, the following questions are presented in the present investigation: (1) Do banking waivers from the government support SMEs to sustain their performance and to survive and recover amid the pandemic crisis? (2) If so, do innovative financial practices help moderate the policy's effect?

In particular, this work aims to construct a more precise model emphasizing the effect of banking waiver policy on survival-recovery SMEs. The authors highlighted the mediating and moderating role of sustainable financial performance and innovative financial practices that have been proposed to increase the policy effect and improve the ability of SMEs to survive amid the pandemic crisis.

## **2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **Crisis Management during the Covid-19 Pandemic and the Role of Preferential Policies of the Bank**

The global economic situation is highly challenging and complex, especially for SMEs, in the context of the COVID-19 pandemic due to economic and health concerns. It calls for a comprehensive preventative plan that includes internal and external actors (the government) (Ogundana et al., 2021). Economic upheaval is reflected in financial reports and indices which have decreased drastically (Ganlin et al., 2021). When a business faces ambiguity and rapid change, a crisis management strategy may be relied on for clarity and consistency. Transformations in management mindsets are necessary for effective crisis response (Csath, 2021). Businesses, especially SMEs, need to foster an entrepreneurial spirit, foster innovation, increase trust and build relationships with partners, and effectively use technology to manage crises (Ganlin et al., 2021; Najib et al., 2021).

Rapidly increasing crises have prompted an increase in the study into how micro, small, and medium-sized enterprises (SMEs) might manage crises. Katare et al. (2021), for instance, studied the coping strategies employed by small company owners in the wake of the pandemic crisis. He did so by analyzing the characteristics determining which small businesses were vulnerable and resilient. Small company owners may avoid losing their resilience if they keep their usual thinking and routines and instead develop a mindset of anticipation in the face of disaster. In the context of the Covid-19 pandemic, previous studies have revealed the various ways SMEs handle crises. The literature suggests that marketing and product innovation are crucial for micro, small, and medium-sized enterprises (SMEs) to keep their financial performance stable throughout the pandemic crisis (El Chaarani et al., 2022). Small and medium-sized enterprises (SMEs) may be able to keep up with crisis management and improve company performance if they implement new technologies and have high levels of resilience (Charoennan, Kowathanakul, and Chatbhumphong, 2022). Csath's (2021) research also indicates that establishing trust with a partner and working to improve communications with all relevant parties are crucial in times of crisis.

More specifically, Le et al. (2020) provide a framework for understanding how government action (at any level) affects the growth and viability of small and medium-sized enterprises (SMEs) during the crisis. One of the highlighted policies was the

preferential policies of the bank. It is defined as the relaxation (waivers) of payment requirements of SME actors as debtors to banks, granted by the government through banking relief mechanisms like interest rate reduction, re-scheduling, and re-financing facilities (Le et al., 2020). Literature shows that banking waiver policies such as re-scheduling, re-financing, interest discounts, credit guarantee schemes (CGA), and simple applications have proven to help SMEs to get easy funding and survive the crisis (Taghizadeh-Hesary et al., 2022).

However, it is rare to find clues to answer what makes preferential policies of the bank can save SMEs to survive and develop during the pandemic crisis, as revealed by Le et al. (2020) and Taghizadeh-Hesary, Phoumin, and Rasoulinezhad (2022). Hence, this research strongly followed and extended the research from Alkahtani, Nordin, and Khan (2020) and Le et al. (2020) to propose that banking waiver policies provided by the government have a positive effect on the sustainable financial performance of SMEs. The sustainable financial performance of SMEs is the reason why SMEs can survive and recover from the crisis. This research proposes that SMEs that can maintain financial performance have a bigger chance of surviving and recovering from the situation. Further discussion about it will be provided below

#### **What Literature Said on How SMEs Maintain Their Sustainable Financial Performance?**

Sheng, Zhou, and Li (2011) and Su, Guo, and Sun (2017) are pioneers who scrutinize determinant factors of sustainable competitive advantage of corporates. It defines as a measurement that compares a company's results to those of its top rivals in the same industry, taking into account such factors as return on investment, sales growth, market share expansion, and profit growth. Alkahtani, Nordin, and Khan (2020) then used this term to scrutinize determinant factors of the sustainable competitive performance of SMEs. It represents SME owners' feelings regarding the performance of the company during the past three years, which is subjectively measured by Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS). This research has adapted those definition and defined sustainable financial performance as an effort for maintaining a lucrative financial state and avoiding financial issues, as judged subjectively by a calculation of ROA, ROE, and ROS during the time of pandemic crisis. It is very important for measuring resilience performance of SMEs amid the Covid-19 pandemic.

Literature shows that the network density of SMEs has proven to positively impact SMEs' sustainable performance (Alkahtani et al., 2020). Organizational top managers and owners of SMEs in developing economies often strive to expand their networks nationally and internationally. Still, they often run into trouble due to a lack of government backing. Government supports financially and politically helps SMEs to grow their network to maintain their sustainable competitive performance. Government subsidies, tax breaks, and tax credit programs can help business owners and managers strengthen their professional networks and achieve their long-term objectives. Research from (Su et al., 2017) shows that differentiation strategies increase the positive effect of firm exploration on sustainable competitive performance.

Conversely, cost-leadership strategies negatively moderate the relationship between firm exploration and sustainable competitive performance. Furthermore, other findings from Su et al. (2015) show that market and technological capabilities complement each other to maintain firm performance amid turbulent events. Firms with better ability to expand markets and deeply embrace technology (in production and marketing) have a big

chance to keep their sales and profitability as they can increase the number of consumers and run output efficiently.

This research extends the body of literature by examining the effect of government policy in banking waiver facilities on sustainable financial performance in the context of the pandemic crisis. SMEs' sustainable performance will help them survive and recover amid the crisis. SMEs that perceived waivers from the bank could maintain their cash flow and capital structure to secure their business performance that in the end, they can save their financial performance and survive the crisis (Le et al., 2020; Taghizadeh-Hesary et al., 2022). Hence, based on those mentioned earlier, the hypotheses were proposed below:

**H<sub>1a</sub>:** Preferential policies of the bank positively affect the sustainable financial performance of SMEs significantly amid the pandemic crisis.

**H<sub>1b</sub>:** In an indirect effect, preferential policies of the bank positively affect the survival-recovery of SMEs through the mediating role of sustainable financial performance

**H<sub>2</sub>:** Sustainable financial performance positively affects the survival-recovery of SMEs in a significant way.

### **The Moderating Role of Innovative Financial Practices**

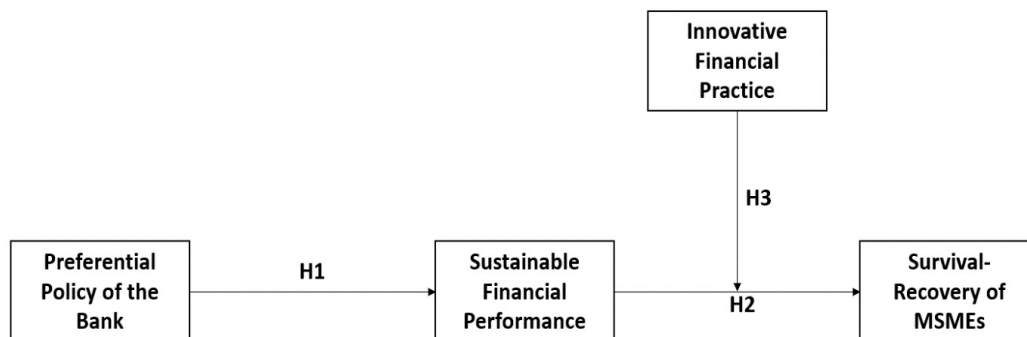
In 1962, Rogers proposed the idea of "innovation diffusion," which investigates how new ideas move across a population. Firms participate in innovation dispersion to cut costs, secure strategic ownership and achieve a competitive advantage. At the beginning of the 21<sup>st</sup> century, innovation in financial practices, especially in the banking and stock market ecosystem, emerged and rapidly developed. Business owners utilize mobile money to pay bills, buy supplies, and pay employees. Mobile banking services, designed to assist companies, have seen a massive uptake in developing countries. SMEs' prospects and growth were greatly facilitated by the ease with which they could obtain modern digital financial services. Small and medium-sized enterprises (SMEs) that adopt e-commerce practices, such as mobile banking, enjoy increased efficiency in settlement of financial transactions and more operational flexibility. According to the survey results, out of 865 business owners who operate small and medium-sized enterprises (SMEs), 861 (99.5%) use mobile money services for business and personal transactions; 67% do so for commercial reasons.

The advantages of modern electronic/digital financial service delivery have been examined at length by academics, who point to increased efficiency, reduced costs, higher sales, more focused attention on the client, and "virtualization" as just a few positive outcomes for SMEs. Additional significant advantages of effective electronic/digital financial service include increased sales and market share, a more positive corporate image, lower operating costs, higher profit margins, and better business performance thanks to satisfied and retained customers, opportunities for cross-selling, the attraction of new customers, development of customer relationships, and so on.

Many millions of individuals worldwide are experiencing "social distancing" due to quarantine protocols being put into place in most nations. People's routines are shifting as a result. The rapid increase in online shopping, home entertainment usage adoption (i.e., streaming services), and home delivery services are indicators of this shift. People have been obliged to utilize digital financial services and payment systems as crucial components of the online commerce sector. The COVID-19 pandemic has advanced worldwide movements toward greater digital financial inclusion. This crisis may also be a game-changer for digital financial inclusion as it propels an unprecedented acceleration of

economic digitalization in developing and emerging contexts. In this research, innovative financial practices are defined as the capacity of small and medium-sized businesses to employ digital financial products and services to maximize the effectiveness of their transactions, operation, and funding during the pandemic crisis (Ganlin et al., 2021). This study strongly followed the research from Ganlin et al. (2021), Mehta et al. (2021), and Caballero-Morales (2021) in measuring the engagement level of SMEs in innovative financial practices by using digital services such as m-banking, e-wallet, and digital loan applications or crowdfunding. It is assumed that SMEs with high involvement with innovative financial practices will have a greater probability of surviving and recovering from the pandemic crisis as it increases sustainable financial performance. Therefore, the authors propose a hypothesis as follows:

**H<sub>3</sub>:** Innovative financial practice positively moderates the relationship between sustainable financial performance and the survival-recovery of SMEs in a significant way.



*Figure 1.* Research Model

### 3. METHODS

#### Sample and Data Collection

Self-reported survey information is used as a significant data source. Online surveys are made easier with the help of Google forms. Students and volunteers were used as enumerators to hand out questionnaires in person during the offline survey. Over three weeks (5-26 June 2022), Bahasa Indonesia questionnaires were sent out to 1026 potential responders. Most of those who filled out the paper survey was from West Java, specifically the City and Sukabumi Districts. The enumerators who were familiar with this study escorted the respondents. At the same time, they filled out the questionnaires to eliminate any potential for self-report bias due to the respondents' lack of knowledge. Our online survey questions are organized in a way that is easy to follow and provides a quick summary of the operational description of each indicator item group that reflects the variable. To protect the respondents' anonymity and ensure that the questionnaire was filled out thoroughly, we instructed them to substitute their complete names with initials.

This study employed a sample strategy known as purposive sampling, in which participants were chosen according to a predetermined set of criteria designed to further the study's overarching goals. The following criteria must be met for samples of SME respondents to be selected:

1. Those who answered are the company's legal owners or top executives. The respondent's company must earn between \$3,900 and \$19,200 per year (the taxable income limit) and

no more than \$32,000,000 per year, following Law No. 20 of 2008 on Indonesian SME Criteria.

2. They use loans from commercial or savings banks (either privately or publicly held).
3. Having employees of at least one to five people (according to the SME Law).
4. From March 1, 2020 (the start of the pandemic) to the end of the sample period, the respondent's business must be open.
5. Directly or indirectly experienced or received government support through banking waivers.

Since most traders and street vendors who operate out of carts or tents do not have accounts in a financial institution, the authors tend to avoid choosing them (unbankable). According to (Hair et al., 2018), the recommended sample size for data analysis using the SEM-PLS approach is 5-10 times the number of indicators. The current study used 1026 samples, which aligns with these guidelines. Considering four variables with a total of 16 indicators, a sample size of 160 is required. Hence, the number of samples in this study is sufficient.

### **Variable Measurements**

A carefully designed questionnaire was created to gauge how people in the study felt about various indicators of the constructs developed in the research model. There was a total of four latent variables in this research: one dependent variable (survival-recovery SMEs), one independent variable (banking waiver policy), one mediating variable (sustainability financial performance), and one moderating variable (innovative financial performance). All the above factors were evaluated on a Likert scale, with one being strongly disagreeing and five representing strongly agreeing. The number of indicators and sources used when creating the survey instrument are detailed in Table 1 below:

**Table 1.** Measurement Items

<b>Construct</b>	<b>Code</b>	<b>Questionnaire Items</b>	<b>References</b>
		<b>Definition:</b> The relaxation of payment requirements of SME actors as debtors to banks, granted by the government through banking relief mechanisms like re-scheduling and re-financing facilities.	
<b>Preferential Policies of the Bank</b>	PPB1	Banks shortened the time and simplified loan application requirements during the COVID-19 pandemic.	(Alkahtani et al., 2020; Collier et al., 2020; Le et al., 2020; Najib et al., 2021)
	PPB2	Banks provide discounts (cuts) on loan interest for new customers during the COVID-19 pandemic.	
	PPB3	Banks provide interest reduction or exemption for ongoing customer loan debt during the COVID-19 pandemic.	
	PPB4	Banks provide re-scheduling (re-structuring) facilities for customer loan payments during the COVID-19 pandemic.	
	PPB5	Banks provide reduced or waived fees for using banking facilities during the COVID-19 pandemic.	
<b>Innovative Financial Practices</b>		<b>Definition:</b> The efficiency with which SMEs may leverage cutting-edge digital mobile financial services to streamline their operations and capital expenditures.	(Caballero-Morales, 2021;

<b>Construct</b>	<b>Code</b>	<b>Questionnaire Items</b>	<b>References</b>	
	IFP1	I use Mobile banking/internet banking more often for buying and selling transactions during the COVID-19 pandemic.	Ganlin et al., 2021; Mehta et al., 2021)	
	IFP2	I often use digital wallets (DANA, Shopee Pay, OVO, Gopay, and others) to make it easier for me to make transactions with consumers/suppliers during the pandemic.		
	IFP3	I use a legal and safe online loan application to meet my business capital needs during the COVID-19 pandemic.		
	IFP4	In general, using digital financial facilities that I do facilitate the transaction process and buying and selling of my business during the COVID-19 pandemic.		
	<b>Definition:</b> Maintaining a lucrative financial state and avoiding financial issues, as judged by calculating Return on Assets, Return on Equity, and Return on Sales.			
<b>Sustainable Financial Performance</b>	SCP1	In your view, what is the current condition of your business profit/net profit (after tax payments compared to total assets (ROA)) compared to the initial period of the COVID-19 pandemic?	(Su et al., 2017); Alkahtani et al., 2020)	
	SCP2	In your view, how is your business profit/net profit (after tax payments compared to total Equity (ROE)) currently compared to the initial period of the COVID-19 pandemic?		
	SCP3	In your view, what is the current condition of your business profit/net profit (compared to total sales (ROS)) compared to the initial period of the COVID-19 pandemic?		
	<b>Definition:</b> It is a self-evaluation of SMEs' recovery and long-term viability from the owners' point of view during the COVID-19 pandemic crisis.			
<b>Survival-Recovery of SMEs</b>	SRS1	I can maintain my business during the COVID-19 pandemic.	(Le et al., 2020)	
	SRS2	I was able to recover my business after being impacted (directly and indirectly) by the COVID-19 pandemic.		
	SRS3	My business has grown gradually after being affected (directly and indirectly) by the COVID-19 pandemic.		

### **Data Analysis**

The data from this study were analyzed using Partial Least Squares (PLS) and Structural Equation Modeling (SEM). To conduct the PLS-SEM analysis, SMARTPLS 3 is utilized. The PLS-SEM approach is appealing for assessing causality linkages between latent variables with convoluted association pathways, which is the primary purpose for employing this statistical method. Since the theoretical foundation for the created model and the indicators of each latent variable had already been established in prior research, the Confirmatory Composite Analysis (CCA) method was applied here (Hair et al., 2018).



The analysis began by making sure the preliminary conditions were appropriately laid. This research needs to be done under two conditions: no missing data and no violations of the model-fitting assumptions. The goodness of fit was determined by evaluating the SRMR, NFI, and Chi-Square. PLS-SEM was analyzed in two phases: testing the outside model and testing the inner model. The outer (measurement) model is a set of statistical tests used to evaluate the construct's reliability and validity as measured by a group of indicators on the survey questionnaire. Calculating the instrument's validity requires determining its convergent and discriminant validity.

The inner (structural) model was analyzed using four different measurements. A test of coefficient determination begins with calculating the R-squared ( $R^2$ ). Second, the significance of the direct and indirect correlations among the variables in route coefficients was evaluated using the bootstrapping method using a subsample of 5000 data points. Third, the inner VIF test result assesses the multicollinearity assumption. Fourth, a blindfolding method based on cross-validated redundancy is used to evaluate predictive significance (Hair Jr. et al., 2017).

#### **4. RESULTS**

##### **Respondent Profile**

Detailed profiles of the respondents' companies are included in Table 2. The vast majority of the SMEs that participated were micro-enterprises. The Law on SMEs in Indonesia defines micro-enterprises as having between one and five employees, a maximum annual income of US\$19,200, and a business asset worth no more than US\$3,200. The descriptive data reveals that 71.05 percent of respondents have between 1 and 5 employees, 52.53 percent have fewer than US\$3,200 in company assets, and 70.9 percent have annual revenue of at most US\$19,200. It kept with the actual situation, where over 62 million micro-enterprises (or 98.70%) make up the vast majority of businesses in Indonesia.

Individuals and families hold the vast majority (90.06%) of enterprises. It is followed by corporations (CV) and limited liability companies (PT/Ltd). Broken by maturity, over half of the respondents (57.41%) have been in operation for ten years or fewer. Almost a quarter (24.27%) have been operating for 10-15 years. 8.97% and 9.36% of respondents have been in operation for 20 years or longer. The majority of business owners have a bachelor's degree or above (20.08%), followed by those with an associate's degree (12.38%), then those with a high school diploma (9.45%), and finally, those with a master's degree or more (1.95%).

##### **Preliminary Considerations**

In this investigation, there are at least two criteria for SEM-PLS. First, it requires the absence of missing values and outliers as a prerequisite (Hair et al., 2018). The authors did not find any loss in the data set. Second, the model fit analysis should be tested to assess the overall efficiency of the measurement model (external model). Several threshold values for acceptable model fits are described on the official SMARTPLS homepage. RMS (Root Mean Square) Value of Theta is less than 0.102, the SRMR is less than 0.10 or equal to 0.08, and the NFI value is more than 0.9 or very near to 1 to consider that the model has fulfilled the Goodness of Fit assumption (GoF) (Hair Jr. et al., 2017). According to Table 3, the estimated model has an NFI value of 0.864 (very near to 1) and an SRMR value of 0.074 (<0.1). The GoF assumption is met, so the model constructed here passes muster.

Table 2. Respondent Profile

Business Profile	Frequency	Percentage (%)	Business Profile	Frequency	Percentage (%)
<b>Education</b>			<b>Number of Employees</b>		
Elementary School	97	9.45%	1-5	729	71.05%
Junior High School	127	12.38%	5-19	236	23.00%
Senior High School	576	56.14%	20-99	51	4.97%
Bachelor	206	20.08%	> 99	10	0.97%
Master / Ph.D.	20	1.95%	<b>Ownership</b>		
<b>Annual Revenue (USD)</b>			Individual/family	924	90.06%
3,900 - 19,200	789	76.90%	CV	64	6.24%
19,200 - 160,000	195	19.01%	PT/Corporate	38	3.70%
160,000 - 3,200,000	42	4.09%	<b>Age of Business</b>		
<b>Total Asset (USD)</b>			<10 years	589	57.41%
3,200 maximums	539	52.53%	10-15 years	249	24.27%
3,200 - 32,000	392	38.21%	15-20 years	92	8.97%
32,000 - 640,000	95	9.26%	>20 years	96	9.36%

Model acceptance can be achieved without using all possible index values, as explained by Hair et al. (2018). However, Kock and Hadaya (2018) explain that the model appropriateness test's use is context-specific. When the purpose of the SEM analysis is to conduct hypothesis testing, the model appropriateness test is not a high priority. Meanwhile, the model appropriateness test becomes crucial if the purpose of the SEM study is to evaluate alternative models.

Table 3. Model Fit Test Results

	Saturated Model	Estimated Model
SRMR	0.054	<b>0.074</b>
d_ULS	0.348	0.66
d_G	0.168	0.17
Chi-Square	1095.173	1078.617
NFI	0.862	0.864

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**Measurement (Outer) Model Test Result**

Instrument reliability, convergent, and discriminant validity are evaluated in this phase. The Average Variance Extracted (AVE) value was utilized to test convergence validity. To be valid, the value must be more significant than 0.50. Instrument reliability was determined using Composite Reliability (CR) and Cronbach's alpha (CA) values. To be deemed reliable, the values must be more than 0.70. In addition, the Heterotrait-Monotrait (HTMT) value was used to assess the validity of discrimination. To be recognized as valid, the HTMT ratio must be less than 0.90. All indicator items in this study had loading factors more than 0.70, as shown in Table 4. It indicates that the indicators properly reflect the construct. All latent variable's CR and CA values in this investigation are more significant than 0.70, as shown in the table. Each of the latent variables in this analysis also has an AVE of >0.50. Based on the ratio mentioned above values, it is clear that the instrument developed using the latent variables and indicators in this study is reliable and valid.

**Table 4.** Convergent Validity and Reliability Test Results

Variable	Item	Factor Loading	CA	CR	AVE	Outer VIF
Innovative Financial Practices	IFP1	0.845	0.78	0.858	0.61	2.181
	IFP2	0.829				2.175
	IFP3	0.626				1.172
	IFP4	0.872				1.779
Preferential Policies of the Bank	PPB1	0.804	0.912	0.934	0.738	2.000
	PPB2	0.878				3.372
	PPB3	0.881				3.406
	PPB4	0.858				2.274
	PPB5	0.872				2.680
Sustainable Financial Performance	SFP1	0.894	0.873	0.922	0.797	2.478
	SFP2	0.898				2.633
	SFP3	0.886				2.073
Survival-Recovery of SMEs	SR1	0.763	0.809	0.882	0.715	1.709
	SR2	0.880				2.180
	SR3	0.888				1.704

The instrument's discriminant validity was evaluated using the Heterotrait-Monotrait (HTMT) value. Henseler, Ringle, and Sinkovics (2009) claim that the HTMT ratio provides a more precise measurement of discriminant validity for reflective research models in PLS-SEM analysis. The HTMT ratio of a valid instrument must be less than 0.90. According to Table 5, all the HTMT ratios for the latent variables fall below 0.90, indicating that the research instrument used to evaluate the model is valid.

**Structural (Inner) Model Test Result**

Aiming to evaluate the conceptual model's capacity to foretell the variance of the independent variable and the dependent variable, the inner (structural) model measurement is taken. Four different types of measurement analyses were performed. As a first step, the authors examine the value of the R2 coefficient to see how well the model

predicts the data of the observed phenomenon. R2 values range from 0–1.00, with 0.75 indicating strong, 0.50 moderate, and 0.25 weak (Hair et al., 2018).

**Table 5.** Discriminant Validity Test (Heterotrait-Monotrait Test Result)

	1	2	3	4	5
1. Innovative Financial Practices					
2. Moderating Variable (IFP*SFP)	0.041				
3. Preferential Policies of the Bank	0.138	0.109			
4. Sustainable Financial Performance	0.294	0.148	0.099		
5. Survival-Recovery of SMEs	0.265	0.111	0.062	0.359	

According to Table 6, the R2 values for the survival-recovery SMEs (0.133) and Sustainable Financial Performance (0.007) are below the threshold of 0.25%, placing them in the weak determination. That is, the total contribution of the exogenous variables to explaining the three endogenous variables is only 0.7-13 percent, with the remaining variance explained by factors external to the model.

**Table 6.** Coefficient Determination Test Result

	R Square	R Square Adjusted
Sustainable Financial Performance	0.008	0.007
Survival-Recovery of SMEs	0.135	0.133

However, Hair et al. (2018) point out that R<sup>2</sup> is not the sole metric to consider when assessing a research model's prediction accuracy. It is because R<sup>2</sup> only describes in-sample explanatory power and says nothing about out-of-sample predictive ability. As a result, the PLS predict approach may be used as a supplementary method to evaluate an external sample's ability to predict. The RMSE/MAE value from the PLS technique is compared to the RMSE/MAE LM value to complete PLS predict feature. Suppose the RMSE/MAE value of each indicator of an endogenous variable using the PLS approach is less than that using the LM method. The model is said to have a good predictive ability (Hair et al., 2018). The study model has a high level of predictive power outside the model sample, as shown in Table 7 by the RMSE value of the PLS technique being less than the LM on each endogenous indicator.

**Table 7.** PLS Predict Test Result

	Q <sup>2</sup> _predict (PLS)	Q <sup>2</sup> _predict (LM)
SCP2	0.004	0.053
SCP1	0.009	0.064
SCP3	-0.001	0.05
SRS3	0.061	0.068
SRS2	0.031	0.033
SR4	0.023	0.028

The absence of multicollinearity is the second prerequisite for structural model analysis. The research used the PLS technique to calculate the inner VIF's value satisfies this criterion. For the inner VIF to be fulfilled, all latent variables must have a VIF of less than 3 (Hair et al., 2018). All latent variables in this analysis have VIF values below three, as shown in Table 8. Therefore, this study model does not have multicollinearity.

**Table 8.** Multicollinearity Test Result

	Sustainable Financial Performance	Survival-Recovery SMEs
Innovative Financial Performance		1.065
Moderating Variable (IFP*SFP)		1.023
Preferential Policies of the Bank	1.000	
Sustainable Financial Performance		1.086

Thirdly, analyzing the value of the Q<sup>2</sup> coefficient using the blindfolding method was used to determine how accurate a construct model's predictions are. If Q<sup>2</sup> is more than 0.05, a construct model can be considered significant (Hair et al., 2018). The Q<sup>2</sup> value for this study's endogenous variable (Survival-Recovery SMEs) is more than 0.05 (0.086), as shown in Table 9. Simply put, the predictions made using exogenous factors for accounting for endogenous ones are accurate. Thus, it's reasonable to infer that a construct model is applicable.

**Table 9.** Blindfolding Test Result

	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
Innovative Financial Practice	4104	4104	
Moderating Variable (IFP*SFP)	1026	1026	
Preferential Policies of the Bank	5130	5130	
Sustainable Financial Performance	3078	3059.595	0.006
Survival-Recovery SMEs	3078	2812.9	<b>0.086</b>

### Hypothesis Testing

The research utilized a subsample of 5000 data points from the original sample to conduct a bootstrapping significance test on the direct and indirect route coefficients. To determine a path association between latent variables is significant, a test is performed by looking at the p-value, which must be less than 0.1 and 0.05. In the fields of economics and management, this is considered a significant threshold. The study's hypothesis is being evaluated at this point (Hair et al., 2018). Table 10 shows the test result for a causal connection between latent variables.

**Table 10.** Direct Effect Test Result

Hypotheses	Path	Coefficient	Standard Deviation	T Statistics	P Values
H1 <sub>a</sub>	PPB → SCP	0.090	0.033	2.696	0.007**
H2	SCP → SRS	0.271	0.033	8.298	0.000**
H3	(Moderating Effect) IFP*SCP → SRS	0.061	0.032	1.917	0.055*
	IFP → SRS	0.173	0.030	5.766	0.000**
	PPB → SRS	0.020	0.021	0.557	0.578

\*\* Significant in 5% error \*Significant in 10% error

What has been shown above is evidence that the model's requirements for the mediation relationship have been accomplished. For an intervening variable to have any

mediating impact, the independent variable should affect the mediator. At the same time, the mediator is supposed to affect the dependent variable (Hayes, 2018). All of the aforementioned direct correlations between latent variables are statistically significant, except PPB to SRS ( $p=0.578$ ). The banking waiver policy has affected sustainable financial performance. Likewise, sustainable performance affects the survival-recovery of SMEs. Hence, it suggests that the two tested hypotheses ( $H1_a$  and  $H2$ ) have been supported.

Table 11. Specific Indirect Effect Test Result

Path	Coefficient	Standard Deviation	T Statistics	P Values
PPB -> SCP -> SRS	0.024	0.009	2.565	0.010**

\*\* Significant in 5% error \*Significant in 10% error

Table 11 displays the specific indirect effect between latent variables. The table demonstrates that sustainable financial performance mediates the relationship and increases positive effect between preferential policies of the bank on the survival-recovery of SMEs. As the direct effect of PPB on SRS is not significant, the mediation that occurred in this model is fully mediation (Hayes, 2018). Hence, it is concluded that banking waiver policies help SMEs survive and recover during the pandemic crisis because they improve financial performance. It is concluded that  $H1_b$  has been supported.

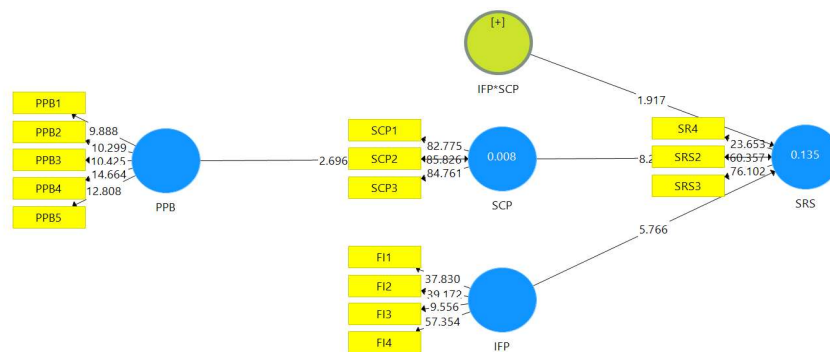


Figure 2. Structural Model Test Result through SMARTPLS

Table 10 also shows that innovative financial practices have significantly moderated the relationship between sustainable financial performance and the survival recovery of SMEs positively. Based on these findings, a type of moderation known as "quasi moderation" has emerged. This is due to the fact that innovative financial practice is a strong predictor of SMEs' ability to survive and recover, and that it interacts strongly with SCP to generate SCP\*IFP that also influence the survival-recovery of SMEs. According to Hayes (2018), this is in the "quasi-moderate" range. Figure 3 shows the interaction of the moderating effect of innovative financial practices. The figure shows that the chance to survive and recover from the pandemic crisis is higher for SMEs that practice innovative finance through high-intensity digital platforms. Likewise, SMEs with low intensity to practice innovative finance with digital media have a lower chance of surviving and recovering from the pandemic crisis. However, either high, standard, or low intensity, innovative financial practices always have a positive moderating influence on sustainable financial performance on the survival recovery of SMEs. Therefore, it is concluded that  $H3$  has been supported.

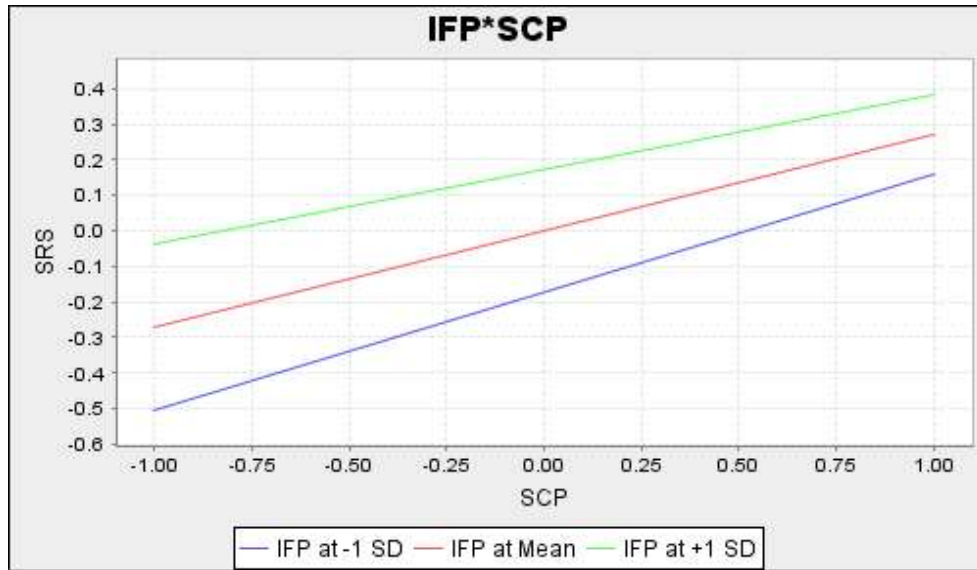


Figure 3. Simple Slope Analysis of the Moderating Effect of Innovative Financial Practices

## 5. DISCUSSION AND IMPLICATIONS

### General Discussion

The findings from the direct and indirect association tests allow us to definitively answer the two research questions posed at the outset of this investigation. The study's model successfully demonstrates the positive impact of banking waiver policies on the survival and recovery of SMEs through the mediating function of sustainable financial performance. This research has succeeded in supporting and extending the findings of Le et al. (2020), who revealed that preferential policies of the bank could help SMEs in Vietnam survive and develop amid the pandemic crisis. The difference is that this research provides additional insight by explaining that waivers from the bank improve the financial performance of SMEs, which is why they can help SMEs survive and recover from the pandemic crisis.

Interest reduction or exemption and re-structuring and re-scheduling facilities for ongoing customers provided by the government help SMEs to re-structure and re-organize their working capital and cash flow for expanding and maintaining their production and operation. Bank facilities to shorten or simplify the loan application requirements and provide interest discounts during the Covid-19 pandemic also support SMEs to get faster and soft loans amid the pandemic, which increases the business performance ability. This research also supported the findings from Alkahtani, Nordin, and Khan (2020), who revealed that financing support from the government (in general) increases (moderates) the positive effect of network structures owned by SMEs on sustainable performance. This research extended the findings by specifically examining government support in the form of banking waiver policies. Waiver features provided by the bank have proven to affect the sustainable financial performance of SMEs.

On top of that, the findings show that innovative financial practices carry out by SMEs positively moderate (quasi moderation) the relationship between sustainable financial performance and the survival recovery of SMEs. The result has supported the research from Ganlin et al. (2021), who revealed that among the many platforms that allow for the settlement of financial transactions without the need for a physical presence, an e-commerce app that combines M-banking offers the most significant degree of adaptability

and efficiency. During quarantine, SMEs working toward e-commerce integration kept their supplier-customer relationships stable through smooth financial transactions. Challenges may arise for small and medium-sized enterprises (SMEs) during COVID-19, but technology may help them get beyond them. This research also confirmed the finding from Tahir et al. (2018), who found that innovative methods of using the internet and digital payments help SMEs to maintain their efficiency ratio (ER).

This research expands that finding by showing that SMEs that embrace digitalization in financing using digital loans or peer-to-peer lending and digital transactions (m-banking and Super-App payments) increase their ROA, ROE, and ROS amid the pandemic. It also increases their possibility of surviving and recovering from the pandemic crisis. Digital mobile financial practices improve SMEs to make transactions faster, more flexible, and more accessible. Besides, utilizing digital funding such as peer-to-peer lending, digital loans, and digital micro-credit will increase the ability of SMEs to expand their working capital capacity amid the pandemic crisis. Hence, they can improve sales performance and maintain the survival of their operations.

### **Managerial and Policy Implications**

In the policy context, the findings suggest that developing countries governments should improve the banking waiver mechanism to be more accessible and more straightforward for SMEs in the crisis era. Especially for small and medium-sized enterprises (SMEs) with limited scale, limited resources, and limited market share, this is one of the crucial ways to assist businesses in combating the pandemic. Loans accruing from credit activities whose principal and interest are paid during the lockdown until the president announces the end of the COVID-19 pandemic shall be subject to reduced interest and fees. It is carried out when the customer cannot make the required payments on time due to a decrease in revenue and income. In the case of Indonesia, the government has spent more than 12 billion USD allocated for banking facilities to the SME cluster amid the pandemic crisis (Hidayati & Rachman, 2021). However, in general, most banks in Indonesia continue to assign a negligible share of their total loan portfolio to the micro, small, and medium-sized enterprise (SME) lending category. While overall bank loans had risen to IDR 6,155 trillion by August 2022, the SME loan portfolio had only reached IDR 1,214 trillion, or around 19.7 percent (Otoritas Jasa Keuangan, 2022). As SMEs have been a critical economic driver for Indonesia, soft loan credit for SMEs should be increased exponentially amid the pandemic crisis.

Regarding the positive impact of innovative financial practices, governments in developing countries like Indonesia must boost the digitalization of SMEs, especially in marketing and transactions. Among Indonesia's more than 65 million SMEs, only about 17.5 million (or about 26.5%) are part of the digital ecosystem, according to data from the Ministry of Cooperatives and SMEs. This number needs to grow to catch up with the growing popularity of online shopping among consumers (Otoritas Jasa Keuangan, 2022). One of the innovative strategies is the implementation of QRIS. The central bank of Indonesia has developed QRIS as a revolutionary new payment channel that can help small and medium-sized enterprises (SMEs) seize economic prospects. More than 16 million retailers, 90% of SMEs, use QRIS. In addition, Bank Indonesia has announced a regulation mandating using a zero percent Merchant Discount Rate (MDR) for QRIS transactions made by SMEs (Departemen Komunikasi Bank Indonesia, 2022). Other developing countries can emulate the success of this QRIS implementation.



In a managerial context, SME owners should increase their financial literacy, especially in banking systems and digital financing. They shall be aware of the updated situation and promotions related to the exemptions and discount facilities amid the pandemic crisis. There needs to be a significant boost in the speed at which data is collected and processed concerning government fiscal policy. The agility to gather information and learn about financing opportunities digitally determines whether SMEs could save amid the pandemic crisis.

## **6. CONCLUSION, LIMITATIONS, AND SUGGESTIONS**

### **Conclusion**

One of the strategic policies conducted in crisis management amid the Covid-19 pandemic is the preferential policies of the bank. Thirty-nine million (half of the total population) SMEs in Indonesia have access to credits and struggled during the Covid-19 pandemic. Preferential policies of the bank provided by the government help SMEs to re-structure and re-organize their working capital and cash flow for expanding and maintaining their production and operation. This research has proven that the banking waivers have positively affected the SMEs' sustainable financial performance (ROA, ROE, and ROS). At the same time, sustainable performance in the end positively affects the survival recovery of SMEs. This research also proved that innovative financial activities practiced by SMEs have increased (moderate) the positive effect of their sustainable performance on the survival-recovery condition. It means that digital mobile financial practices improve SMEs to make transactions faster, more flexible, and more accessible. Besides, utilizing digital funding such as peer-to-peer lending, digital loans, and digital micro-credit will increase the ability of SMEs to expand their working capital capacity amid the pandemic crisis. Hence, they can improve sales performance and maintain the survival of their operations.

### **Limitation and suggestions**

Even if the research questions and goals were answered, more work is needed to address some of the study's weaknesses. Firstly, only a single form of government financial policy was used in this analysis (preferential policies of the bank). Future research can investigate additional opportunities for future study debates, including other financial issues such as tax exemption and social insurance policies and the role of SME professional organizations. Furthermore, numerous external aspects, such as the influence of external parties, including customers, suppliers, shareholders, and owners, have not been noticed. Those parties need a deeper investigation into how they can save SMEs from the pandemic crisis with multi-analysis methods. Future research can also observe the role of workers and leaders in management and how they support the organization's transformation to be resilient amid the pandemic. Those factors will be observable in the future, providing some fascinating studies.

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