

MSMEs Recovery after the COVID-19 Pandemic through Profit-Sharing System

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ARTICLE INFO

Article history:

Received August 30, 2023

Revised October 30, 2023

Accepted November 13, 2023

Available online December 31, 2023

Keywords:

MSMEs; Economic Recovery; COVID-19; Profit-Sharing System; *Musharakah*



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ABSTRACT

This research aims to analyze the recovery of MSMEs after the COVID-19 pandemic through a profit-sharing system from the perspective of MSMEs actors. The urgency of this research is because the impact of COVID-19 on MSMEs is very significant on the ability to earn profits, so it is necessary to analyze MSMEs' recovery. The research used a quantitative approach with a population of 260,762 MSMEs in Surabaya; 100 samples were taken using an accidental random sampling technique. Data collection techniques use documentation through questionnaires. MSME recovery is an endogenous variable, the principle of profit-sharing distribution is a mediating variable, and the profit-sharing system (*musharakah* contract) is an exogenous variable. The data analysis technique used is Partial Least Square (PLS). The research findings show that MSME recovery can be carried out using a profit-sharing system with *musharakah* contract and mediated by the principle of profit-sharing distribution. The existence of a profit-sharing system carried out with *musharakah* contract can give confidence to MSME actors to collaborate with sharia financial institutions where there is profit-sharing based on an agreement. If losses occur, they are borne together based on the portion of capital paid in.

1. INTRODUCTION

Condition of the COVID-19 pandemic shows that there is an impact on the real sector and the financial sector. As explained (Setiawan, 2021) sharia financing provided to MSMEs does not contribute to profits in sharia banking. The impact of the COVID-19 pandemic has had an impact on MSMEs in terms of income uncertainty resulting in difficulties in meeting living needs (Hanoatubun, 2020). This shows that during the COVID-19 outbreak it had an impact on the banking sector and MSMEs.

Impact of the COVID-19 pandemic hitting Indonesia with various kinds of economic pressures (Haryanto, 2020) allows for an economic crisis which eventually becomes a network of social crises (Yumna et al., 2020) thus impacting the business environment and affecting the growth of MSMEs (Ščeuľovs & Gaile-Sarkane, 2014). The need to maintain MSMEs because they are classified as business activities, but now along with the times and have economic contributions that in the future need the right scenario to make a greater contribution (Khan & Khalique, 2014).

Post-Pandemic, economic recovery of Micro, Small and Medium Enterprises (MSMEs) is of special concern after 2 years of the COVID-19 pandemic. MSMEs are one of the important efforts in improving the economic welfare of small and medium enterprises in the transition period after the COVID-19 pandemic (Farisi et al., 2022). MSMEs actors can apply strategies to use strength to take advantage of opportunities so that income will increase during the COVID-19 pandemic (Sularsih & Nasir, 2021). On the other hand, MSMEs actors in developing their businesses, in addition to having to take advantage of their opportunities, also have difficulties in finance, especially capital (Syahsudarmi, 2018). This condition is shown by several MSMEs contributing to the economy of East Java below 50%, one of which is the city of Surabaya.

The growth and development of MSMEs in East Java can be supported by a suitable financing model and does not impose a material burden through mutually beneficial cooperation. So far, MSMEs have been difficult to develop because access to capital is very difficult (Sakur, 2011) so it requires the role of financial institutions that provide convenience and trust. Difficult capital problems coupled with the COVID-19 pandemic situation have caused the income of MSMEs actors to decrease.

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The point of view of MSMEs actors in developing their business can be seen from the financing scheme, that the *musharakah* contract is more dominant than other schemes, because *musharakah* is a type of financing that provides opportunities for MSMEs actors to continue business when the contract has ended with the more preferred *musharakah mutanaqisah* contract scheme. customers rather than being provided with full financing by Islamic banks (Afkar, Purwanto, et al., 2021). It is a contract entered into by two parties who mutually deposit capital, but at the end of the contract period, the business being run can be owned by the MSMEs actor with a portion of the capital returned to the first party (in this case the Islamic Bank) (Afkar, 2015). The *mudharabah* contract also provides opportunities in developing MSMEs to diversify their business, because with the *mudharabah* contract scheme, MSME actors can freely manage financing into diverse business forms but still guided by halal business (Afkar, Purwanto, et al., 2021). It can be explained because *mudharabah* is a type of contract entered into by both parties, where the first party is the owner of the capital (*shahibul maal*) and the second party is the fund manager (*mudharib*) (Karim, 2018). With *mudharabah* contract, the customer will return 100% of the financing, whereas with *musharakah* the return will be in accordance with the portion of capital paid in, so it is more interesting to use *musharakah*, namely cooperation between both parties who mutually deposit capital and share the profits according to the agreement (Afkar, Purwanto, et al., 2021). However, it is possible that MSMEs actors must have strategies to survive for business continuity such as sharia business soft skills (Fauzia, 2016), as (Fauzia, 2016) (Kholidah & Hakim, 2018).

Mudharabah and *musharakah* financing schemes are part of profit-sharing schemes where profits and losses can be borne according to the agreement (Nurhayati & Wasilah, 2015). The principle in the *mudharabah* contract is for profits to be divided according to the agreement, while losses are borne by capital owners. Meanwhile, *musharakah* for profits is divided according to the agreement, while losses are borne by each according to the capital deposit (Karim, 2018). Research shows that the development of MSMEs can be carried out with the role of sharia financing which provides opportunities for MSMEs actors to participate in business capital participation (Afkar, Purwanto, et al., 2021) this model can be done with *musharakah* and *mudharabah* contracts, with the principle of profit sharing distribution (National Sharia Council - Indonesian Ulema Council, 2000) as mediation in MSMEs development.

The problem that occurs in MSMEs in East Java is the same as other regions, namely declining income, which threatens their business continuity. Revenue is one measure of the sustainability of a small and medium business which ultimately leads to acquisition (Istikhoroh et al., 2018) The impact of the COVID-19 pandemic for two years illustrates the decline in MSMEs income in East Java. From 2016 to 2019 there was an increase until 57,26%, but in 2020 there was a decrease in contribution to the East Java economy become 57,25% (DinkopUKM, 2021). Meanwhile, in 2021 and 2022, in nominal terms, there will be an increase from 191 million to 209 million (DinkopUKM, 2022). Its shows the growth in the contribution of MSMEs to the East Java economy, therefore it needs to be seen from the perspective of MSMEs actors in terms of sustainable economic recovery.

The problem of declining income must be given the right solution so that MSME actors do not experience economic difficulties, because MSMEs also have a share in national economic development (Asngari & Andaiyani, 2018). Given the impact of the COVID-19 pandemic for two years has made it difficult for MSMEs to move forward (Hanoatubun, 2020). It is necessary for the role of financial institutions to provide easy access to capital while providing opportunities for MSMEs actors to manage finances in accordance with their schemes and needs. So whether the profit-sharing scheme with *musharakah* financing can develop the business of MSME actors. Likewise, can the principle of profit-sharing distribution mediate the business development of MSME actors through *musharakah* financing.

The problem-solving approach seen from the problems of studies before the COVID-19 pandemic explained that Islamic financial institutions have contributed to the development of MSMEs. Meanwhile, during the pandemic, it was seen that the MSME sector experienced a decrease in income due to difficulties moving with economic restrictions. MSME actors still have the confidence to rise from the slump of the impact of the pandemic, there are several reasons that underlie this belief, one of which is that it is the main job or the only business they have. This is what is interesting to conduct research on the perspectives of MSMEs actors to develop their businesses through sharia financing with the principle of profit sharing. So far, it has only been seen from the point of view of Islamic financial institutions, when viewed from the point of view of MSMEs actors, it is expected to provide an overview of cooperation between Islamic financial institutions and MSMEs actors so that both parties can carry out their respective roles to contribute to the national economy.

Good financial management can provide lessons for MSMEs actors to find out the increase in income (Afkar, Widodo, et al., 2021) so that the separation between needs for business or for family will be known. Along with the impact of the pandemic on the national economy, there are still opportunities and strategies

in maintaining business (Ibrahim et al., 2019) as happened in Thailand where MSME growth is very rapid because more entrepreneurs are paying attention to their efforts to develop it (Rojsurakitti, 2015).

Musharakah and *mudharabah* agreement is actually a profit-sharing scheme, where financing with the principle of ideal profit sharing for MSMEs but the obstacle that is feared is the existence of information asymmetry so that it will cause fraud (Bhakti, 2013), because businesses with this profit-sharing model require high trust, because the risk is in Islamic financial institutions that provide financing schemes (Afkar et al., 2020). In addition to requiring high trust in managing financing with profit-sharing schemes, because agencies appear in this financing scheme that can allow information asymmetry to occur (Alghamdi, 2017).

This research was conducted to analyze MSME actors in developing their businesses by utilizing *musharakah* financing through the principle of profit-sharing distribution from the perspective of MSMEs actors. It is hoped that the profit-sharing system can provide a balance in the development of MSMEs with the synergy between MSMEs actors and financial institutions as intermediation institutions, especially Islamic financial institutions that are more engaged in the real sector. It means that when this method is done from the point of view of MSMEs actors, there will be cases of adjustments and discrepancies in products needed by MSMEs actors and offered by Islamic financial institutions. In the end, the ideal design will be found in the financing scheme through the principle of profit-sharing distribution.

Hypothesis Development

The perspective of MSMEs actors in developing their business explains that using *musharakah* contract is more attractive than *mudharabah* contract because the actors deposit capital into each other and MSMEs actors can have a business at the end of the contract period by returning the capital according to the portion paid in. The impact of the COVID-19 pandemic hitting Indonesia with various kinds of economic pressures (Haryanto, 2020) allows for an economic crisis which eventually becomes a network of social crises (Yumna et al., 2020) thus impacting the business environment and affecting the growth of MSMEs (Ščeułovs & Gaile-Sarkane, 2014). The need to maintain MSMEs because they are classified as business activities, but now along with the times and have economic contributions that in the future need the right scenario to make a greater contribution (Khan & Khalique, 2014). Good financial management can provide lessons for MSMEs actors to find out the increase in income (Afkar, Widodo, et al., 2021) so that the separation between needs for business or for family will be known. Along with the impact of the pandemic on the national economy, there are still opportunities and strategies in maintaining business (Ibrahim et al., 2019) as happened in Thailand where the growth of MSMEs is very rapid because more entrepreneurs are paying attention to their efforts to develop them (Rojsurakitti, 2015). *Musharakah* and *mudharabah* contract is actually a profit-sharing scheme, where financing with the principle of ideal profit sharing for MSMEs but the obstacle that is feared is the existence of information asymmetry so that it will cause fraud (Bhakti, 2013), because businesses with this profit-sharing model require high trust, because the risk is in Islamic financial institutions that provide financing schemes (Afkar et al., 2020). In addition to requiring high trust in managing financing with profit-sharing schemes, because agencies appear in this financing scheme that can allow information asymmetry to occur (Alghamdi, 2017). Thus, it can be assumed that recovering the business and contribution of MSMEs after the pandemic requires a mutually beneficial profit-sharing system.

2. METHODS

The quantitative approach is the method used in this research with the aim of obtaining accurate generalizations of MSMEs recovery after the COVID-19 pandemic through profit-sharing system. The population in this research was 260,762 MSMEs in Surabaya with a sample of 100 MSMEs actors using calculations from Slovin.

$$n = \frac{n}{1 + n \cdot e^2}$$

$$n = \frac{260.762}{1 + 260.762 \times 0.10^2}$$

$$n = \frac{260.762}{1 + 2.607,62}$$

$$n = \frac{260.762}{2.608,62} = 99,99 = 100$$

The sampling technique uses accidental sampling. The data collection technique uses documentation with questionnaires given to respondents of MSMEs actors in Surabaya randomly but in accordance with the targets needed in this research namely MSMEs.

Endogenous variables in this research are MSMEs Recovery (Y) using indicators of Income Increase (Y₁), Business Scale (Y₂), Business Diversification (Y₃). For exogenous variables in this research, the profit-sharing system with *Musharakah* contract (X) measured by Permanent *Musharakah* (X₁) and *Musharakah Mutanaqisah* (X₂). Meanwhile, to form a profit-sharing system, there is mediation: The principle of profit-sharing distribution (Z) is measured by net revenue sharing (Z₁), profit sharing (Z₂), and risk sharing (Z₃). The analysis technique used in this reasearch is Partial Least Square (PLS) to make it easier to analyze mediation variables. Hypothesis testing is carried out on condition that the significance level ≤ 0.05 .

Outer Model

The Outer Model shows a fit model to determine the validity and reliability of each indicator of each variable used in this research. The validity level of each indicator is measured by an outer loadings value of ≥ 0.700 . While the level of reliability is measured by Composite Reliability ≥ 0.700 .

Inner Model

The Inner Model is used to show the fit model of each variable used with the aim of knowing the influence, relationship, and dominance between variables. The path coefficient is used to determine the variable that is most dominantly affected. Hypothesis testing was carried out on condition that $T_{Statistics} > T_{Tables}$, with a significance level_of ≤ 0.05

3. RESULTS AND DISCUSSIONS

Goodness of Fit Outer Model

Tabel1. Outer Loadings

Indicator	Musharakah (X)	Principle of Profit-Sharing Distribution (Z)	MSMEs Recovery (Y)
X ₁	0.838		
X ₂	0.896		
Z ₁		0.775	
Z ₂		0.751	
Z ₃		0.778	
Y ₁			0.752
Y ₂			0.851
Y ₃			0.847

Table 1 shows the fit model of this research seen from the results of each variable indicator. Model fit is acceptable when the outer loadings value > 0.700 or can be said to meet validity. The outer loadings value > 0.700 for all indicators of each variable, so it can be said that all indicators used in this research are valid. For the *Musharakah* variable (X), the most dominant indicator is *Musharakah Mutanaqisah* (X₃), which is 0.896. For the variable principle of profit-sharing distribution (Z), the most dominant indicator is risk sharing (Z₃), which is 0.778. While the MSMEs Recovery variable (Y), the most dominant indicator is business scale (Y₂), which is 0.851.

Table2. Reliability

Variables	Composite Reliability
Musharakah (X)	0.859
MSMEs Recovery (Y)	0.812
Principle of Profit-Sharing Distribution (Z)	0.858

Reliability is a measure to see the consistency or consistency of the research instrument used. Reliability is acceptable if the Composite Reliability value > 0.700 . Table 2 shows the value of Composite Reliability > 0.700 from the variables *Musharakah* (X), MSMEs Recovery (Y), Principle of Profit-Sharing Distribution (Z). The results of this calculation show that all variables in this research are reliable and can be used in data analysis.

Goodness of Fit Inner Model

Table3. Path Coefficient

Variables	Path Coefficient	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Musharakah (X) -> MSMEs Recovery (Y)	0.444	0.110	4.036	0.000
Musharakah (X) -> Principle of Profit-Sharing Distribution (Z)	0.307	0.098	3.134	0.002
Principle of Profit-Sharing Distribution (Z) -> MSMEs Recovery (Y)	0.237	0.105	2.249	0.025

Table 3 shows the path coefficients and significance values on each variable used in this research. To be able to determine the recovery of MSMEs, it can be seen from the dominant path coefficient with significant results ≤ 0.05 .

The recovery of MSMEs (Y) through *musharakah* contract (X) can be seen in table 3 showing the results of Statistical T 4,036 > table 1,196 with p value 0.000 < 0.05. These results show that the recovery of MSMEs can be carried out using *musharakah* contracts with a significant *musharakah* permanent and *musharakah mutanaqisah* profit sharing schemes. Path coefficient of 0.444 indicates the most dominant coefficient and a standard deviation of 0.110 indicates a low deviation.

Principle profit-sharing distribution (Z) is influenced by *musharakah* (X) can be seen in table 3 showing the results of Statistical T 3.134 > T table 1.196 with p value 0.002 < 0.05. These results show that the profit-sharing scheme with *musharakah* contract can be carried out through the media of principles of profit-sharing distribution with indicators of net revenue sharing, profit sharing, and significant risk sharing. Path coefficient of 0.307 indicates a mediation path coefficient and a standard deviation of 0.098 indicates a low deviation.

MSMEs Recovery (Y) influenced by the principle of profit-sharing distribution (Z) can be seen in table 3 showing the results of Statistical T 2,249 > T table 1,196 with p values of 0.025 < 0.05. These results show that MSMEs recovery can be carried out by mediating significant the principle of profit-sharing distribution. Path coefficient of 0.237 indicates the lowest path coefficient and a standard deviation of 0.105 indicates a low deviation

Table4. Coefficient determined

	R Square	R Square Adjusted
MSMEs Recovery (Y)	0.318	0.304
Principle of Profit-Sharing Distribution (Z)	0.094	0.085

Table 4 shows the coefficient of determination of the R Square value of the variables used and the R Square Adjusted with consideration of the adjustment of the sample used in this research. R Square value of MSMEs Recovery (Y) of 0.318 means that the profit-sharing system through *musharakah* (X) contracts is directly able to affect the recovery of MSMEs by 31.80%. While the R Square value of the Profit-Sharing Distribution Principle (Z) of 0.094 means that the profit-sharing system through *musharakah* contracts (X) is directly able to affect the recovery of MSMEs through the media principle of profit-sharing distribution is 9.40%. While the rest were influenced by other variables that were not used in this research. R square adjusted value is an adjustment to each sample used from each research variable. The fewer samples used, the less ability to influence them.

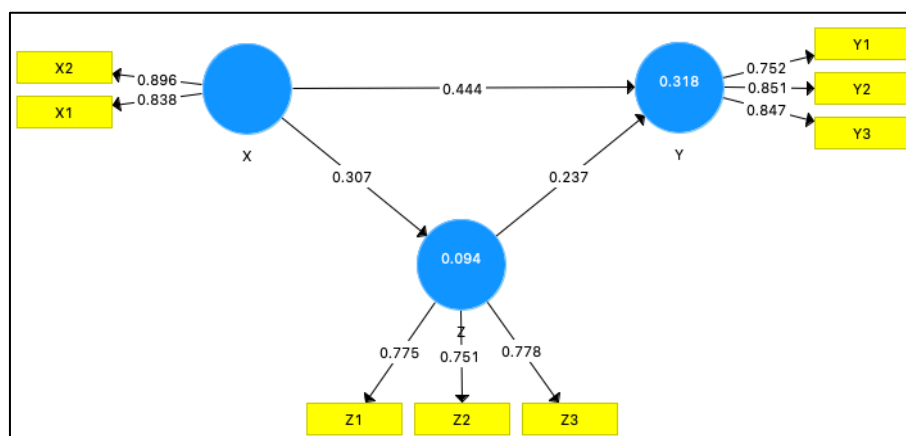


Figure 1. MSMEs Recovery Model After the COVID-19 Pandemic through the Profit-Sharing System

Profit-Sharing System in MSMEs Recovery After the COVID-19 Pandemic

Recovery of MSMEs from the perspective of MSME actors in this research can be carried out directly through profit-sharing system with *musharakah* contract, because both parties are bound by one contract to complement each other by depositing capital. *Musharakah mutanaqisah* is the most dominant because at the end of the contract, one of the parties (in this case the customer) can have a business that is run jointly. MSMEs recovery in this research can be directly carried out through profit-sharing system with *musharakah* contract. The results of this research are in line with (Afkar, Purwanto, et al., 2021) which explains that MSME development can be done with *musharakah* contracts and become the most dominant compared to other contracts. In addition, income is one of the main factors for MSMEs during the COVID-19 pandemic (Rapii et al., 2023). Although in this research, the most dominant main indicator in the recovery of MSMEs is business scale, meaning that MSMEs actors need to increase their business scale in order to recover quickly from the impact of COVID-19. This must be done by MSMEs actors because the impact of the COVID-19 pandemic on the economic sector is very significant (Pakpahan, 2020).

Another research explains that national economic recovery can be carried out with the Triple-Helix method by optimizing the role of MSMEs (Datupalinge et al., 2022). Triple Helix in question is the role of the three elements, namely Government-Privates-Higher Education. Thus, the results of research on the profit-sharing system in the context of MSMEs recovery enable the role of Islamic financial institutions and Islamic banks from the government and private sector to optimization of MSMEs to be stronger in dealing with situations such as COVID-19. The role of Islamic banks has been very large for MSMEs during the COVID-19 pandemic by providing light financing in accordance with the agreed contract (Ertiyant & Latifah, 2022). The profit-sharing system is a form of the role of Islamic banks in the development of MSMEs to be stronger after the COVID-19 pandemic.

The profit-sharing system using *musharakah* contracts in this research was carried out with permanent *musharakah (tsabitah)* and declining *musharakah (mutanaqisah)* contract schemes (Nurhayati & Wasilah, 2015). For permanent *musharakah*, it means that both parties (MSMEs Actors and Islamic Financial Institutions) in conducting business cooperation, the amount of capital deposited from beginning to end remains the same so that the distribution of profits and losses is adjusted to the agreement. Meanwhile, *musharakah mutanaqisah* can decrease in its capital ownership, so that it can be owned by one of the parties when it ends its contract, of course, with an agreement in the distribution of capital portions (Karim, 2018).

First finding in this research is that from the perspective of MSMEs actors in Surabaya they prefer the *musharakah mutanaqisah* scheme because as the contract progresses until it ends, MSMEs actors can own assets and continue their business because the sharia financial institutions have agreed to pass on their assets to MSME actors. This is because MSMEs actors in Surabaya who have been affected by the COVID-19 pandemic are trying to restore their business but need financial assistance in the form of cooperation, therefore this profit-sharing system is suitable for the economic recovery of MSMEs actors. Thus, the recovery of MSMEs after the COVID-19 pandemic can be carried out by implementing a profit-sharing system through *musharakah* contracts, both in the *musyarakah tsabitah* (permanent) scheme as well as *musharakah mutanaqisah* (declining).

The point of view of MSMEs actors sees that the profit-sharing system is a suitable model in the context of MSMEs development such as increasing income, developing business scale, and diversifying business which is more diverse (Afkar, Purwanto, et al., 2021). The profit sharing system is basically a product of Islamic financial institutions (Islamic banks) through *mudharabah* and *musharakah* contracts. The difference is that *mudharabah* is full financing from capital owners, while *musharakah* is financing with cooperation according to the portion of capital of each party (Afkar, 2015). (Afkar, 2015)

The impact of the COVID-19 pandemic on the economic sector is felt (Nasution et al., 2020), including (Nasution et al., 2020) sector and the world economy (Iswahyuni, 2021) (Iswahyuni, 2021) requires rapid recovery so that MSMEs are able to increase again income and develop its business. The results of this research show that the recovery of MSMEs after the COVID-19 pandemic can be assisted by profit-sharing system which is also mediated by the principle of profit sharing distribution through net revenue sharing, profit sharing, and risk sharing. This means that the economic recovery of MSMEs is very important because it is the key to national economic recovery (Dwiputra & Barus, 2022) through the (Dwiputra & Barus, 2022) economy, such as in diversifying businesses and Increase the scale of a larger business so that it can increase revenue.

Another research explains that the economic recovery of MSMEs can also be done by improving the quality of human (Lubis, 2022), this shows that good quality will Provide the ability to manage the business. Managing a business, of course, for sustainability by paying attention to the level of profit each period. The goal is to restore the MSMEs economy in a new adaptation period (Venesia, 2020). In the context of the

profit-sharing system, there is a principle in profit sharing and risk sharing so that no one is harmed all based on the agreement in the contract (Dewan Syariah Nasional- Majelis Ulama Indonesia, 2000).

Second finding of this research show that the recovery of MSMEs in Surabaya to increase income, diversify their business, and increase business scale can be done directly with a profit-sharing system and can be mediated by the principle of profits-sharing distribution. Its result is the point of view of MSMEs actors in Surabaya, because after pandemic started to rebuild its business where cooperation through agreements in profit sharing and loss risk is something that needs to be considered in restoring MSMEs after the COVID-19 pandemic.

4. CONCLUSIONS AND RECOMMENDATIONS

MSMEs recovery after the COVID-19 pandemic can be carried out with profit-sharing system using *musharakah* contracts with mediation of the principle of profit-sharing distribution. With the profit-sharing system carried out with *musharakah* contracts, it can give confidence to MSMEs actors to cooperate with Islamic financial institutions in the form of *Musharakah tsabitah* (permanent) and *musharakah mutanaqisah* (declining). The recovery of MSMEs can be seen from increasing income, the ability to develop businesses, and increasing business scale where MSMEs actors can do it with permanent profit-sharing system or declining. The profit-sharing system with permanent *musharakah* means that the parties involved in the contract do not need to worry when the contract ends because of the amount of capital deposited and received by the time the contract expires the amount remains the same. Meanwhile, when using the *musharakah mutanaqisah* (declining) profit sharing system, MSMEs actors can continue their business because there is an agreement that assets will be lowered and owned gradually until the contract ends to MSMEs actors, of course, this is based on an agreement. The recovery of MSMEs after the COVID-19 pandemic can not only be done with the *musharakah* profit sharing system, but it can also be mediated with the principle of profit-sharing distribution. It principle prioritizes revenue sharing with a net revenue sharing system or profit-sharing can be calculated from net income obtained in its business. In addition, it can also be done with profit sharing or profit-sharing can be done by taking into account the profits obtained. In addition to profit sharing, there is also loss risk sharing, where each party will win the risk according to the paid-up capital, so that no one is harmed. Thus, the recovery of MSMEs can be carried out with a profit-sharing system.

5. ACKNOWLEDGEMENT

Thanks to:

- 1) The Ministry of Education and Culture, Research and Technology of the Republic of Indonesia, Directorate General of Higher Education, Research and Technology has provided research funding.
- 2) The Surabaya City Office of Cooperatives and Small and Medium Enterprises and Trade has granted research permits.
- 3) Institute for Research and Community Service (LPPM) University of PGRI Adi Buana Surabaya which has assisted the research process
- 4) Students who have been petrified in collecting research data.
- 5) MSMEs actors in Surabaya who are willing to be respondents in this research
- 6) Faculty of Economics and Business, University of PGRI Adi Buana Surabaya who has provided support in this research.

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