

## Covid-19 Crisis: The Impact on Micro Entrepreneurs [Case of Malaysia]

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### ABSTRACT

*The Coronavirus disease 2019 (Covid-19) which first identified in December 2019 in Wuhan, China is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease is not only caused global health emergency but also global economic slowdown. As a preventive measure to reduce the outbreak, Malaysian Government has implemented Movement Control Order (MCO) or Malaysia partial lockdown. A partial lockdown started 18 March 2020 has impacted the businesses especially among Small Medium Enterprise (SME) industry. This paper examines the impact of Covid-19 health crisis on Malaysia's micro entrepreneurs specifically on their cash reserves. Majority of the respondents have very low cash reserve and it can be sustained in two month which is from April until May 2020 only.*

**Keywords:** microcredit, micro entrepreneur, Covid-19

### INTRODUCTION

Malaysia has implemented the Movement Control Order (MCO) started on 18 March 2020 as a preventive measure to control the COVID-19 virus in this country (Bunyan, 2020). Adherence to the MCO includes the closing of business premises, except those deemed to be of utmost importance to the nation. Citizens have been directed to stay at home are only allowed to go out to buy food supplies and medication.

Obeying the directives in the implementation of the MCO has had tremendous impact on the commercial sector. The closing of doors into the country has stunted trading activities while temporary closure of hawker activities business premises have affected entrepreneurs. Sales figures have been affected throughout the MCO period

despite the fact that operational costs such employee wages, utility costs, rental of premises and other overheads need to be paid for as usual.

The government however has provided financial aid to Malaysian citizens in addressing the economic situation affected by COVID-19. The aid provided has been through the Prihatin Rakyat Economic Stimulus Package worth RM 250 billion announced on the 27th March 2020 (NST, 2020). Acknowledging the importance of the SME sector and the financial difficulties faced during the COVID-19 crisis, an additional allocation of RM 10 billion has been provided through the Prihatin Tambahan Package (Nuradzimmah, 2020).

### Micro Entrepreneurs Malaysia

Bank Negara Malaysia defines micro businesses as businesses that have an annual sales figure of less than RM 300,000 or business that have less than 5 employees (BNM,2020). Micro entrepreneurs may be divided into several categories. According to a microcredit agency in Sabah, i.e. Yayasan Usaha Maju (YUM), borrowers or micro entrepreneurs are divided into 3 categories namely M1, M2 and M3 (YUM,2020). These categories are based on the following criteria:

M1	M2	M3
Annual sales of less than 60,000 or less than RM 5,000 per month.	Annual sales of less than 150,000 or less than RM 12,500 per month.	Annual sales of less than 300,000 or less than RM 25,000 per month.

The M1 category consists mainly of hawkers (for example those selling nasi lemak, banana fritters, fish, meat, vegetables etc) and are categorised as 'start-up' businesses. The M2 category on the other hand refers to small businesses (provision shops, eateries, restaurants, motor workshops, laundry shops, etc.) M3 refers to businesses based in manufacturing or supply i.e. SME (for example bakeries that bake bread, business making merchandise for sale from basic agricultural products such as sweet potato or banana chips etc.) They are no longer just producers who sell their merchandise but also suppliers. However

<sup>1</sup> This study was conducted during the first phase of MCO (18 March-31 March 2020). To date Malaysia has implemented 4 phases of MCO: (I) 18 March-31 March; (II) 1 April -14 April; (III) 15 April-

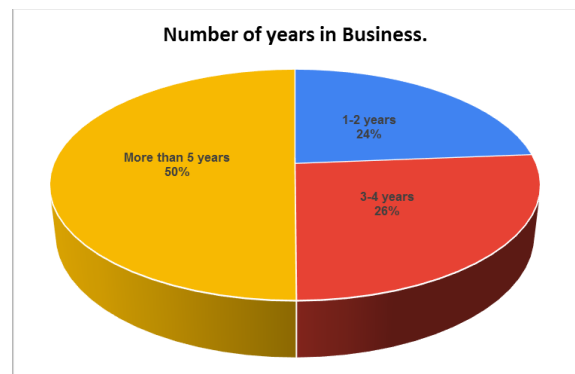
most micro entrepreneurs in Malaysia are in the M1 and M2 categories.

### A SURVEY CONDUCTED ON THE AMOUNT OF CASH KEPT BY MICRO ENTREPRENEURS

After the outbreak of the COVID-19 virus and the implementation of the MCO, a study was conducted on the liquidity among micro entrepreneurs and how long their cash reserves would last<sup>1</sup>. There were 650 responses of micro entrepreneurs from the M1 and M2 category were received. A statistical report results of the above survey is as follows:

#### Number of Years in Business

Most of the respondents (50%) involved in this study are micro entrepreneurs who have been in business for more than 5 years.

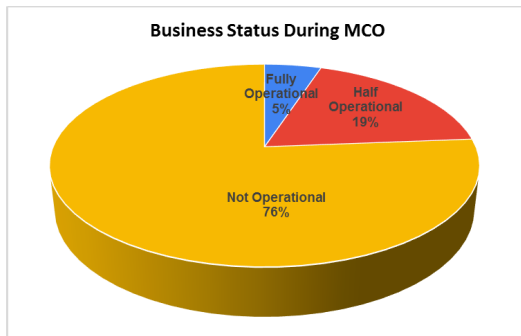


#### Business Status Throughout the MCO

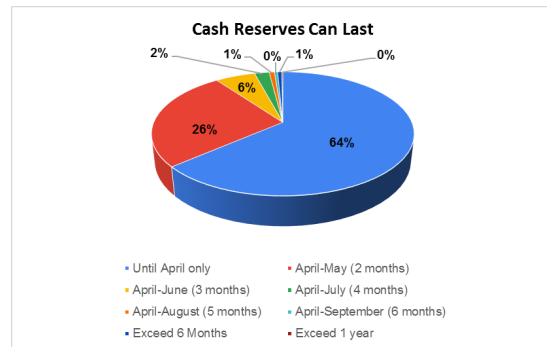
In keeping with the directives issued for MCO, 76% of respondents did not conduct

28 April; (IV) 29 April -12 May and 1 phase of Conditional Movement Control Order (CMCO) on 13 May – 9 June 2020.

their businesses while 19% were half operational. Only 5% operated their businesses fully during the MCO.



(April-May), while 6% said it would last for 3 months (April-June) and 2% said it would be sufficient for 4 months (April-July).



**Amount of Cash Kept for the Month of May 2020**

This survey requested information from respondents on how much cash they had with them for the month of March. A large majority of respondents, 81% said that the amount of cash held was less than RM 1,000.00. Another 16% of respondents said that they had cash reserves of between RM 1,000-5,000 while 2% said they had RM 5,000-10,000. Meanwhile only 1% said they had RM10,000-RM15,000.



**How Long Cash Reserves will Last**

Based on the cash reserves they own, more than half of the respondents (64%) said that their cash can only last until the month of April. A further 26% said their cash reserves can last for two months

Based on this survey, it may be seen that the micro entrepreneurs have very low cash reserves. As a result of no sales throughout the MCO and the expected weak economy that follows, their ability to survive is also quite short. There are many contributing factors to this condition, some of which are as follows:

**a. They are in business to pay for groceries**

Micro entrepreneurs in the M1 category are mostly in business to pay for groceries. Many of them are wives who are helping their husbands make a livelihood. Many are also single mothers. They are doing business to find money to pay for food and support their family’s basic needs (Suraya, 2011). When asked how much of their daily sakes is saved, they say that it isn’t much. It’s normally just enough money to help them continue business the next day or for 2-3 more days. The rest of the income generated is used for family expenses.

**b. Poor management of cash in business**

There are some hawkers and petty traders however, who are able to generate very encouraging sales figures. Factors

such as a strategic business location, the sale of trendy and high demand products as well as marketing products through social media enables them to generate a good income. However poor cash management in the business often means that the business capital is often insufficient. In my own experience giving the Financial Management for Micro and Small Entrepreneurs since 2012 to the present, many *Bumiputera* entrepreneurs are not efficient in managing cash in their businesses (Suraya and Zariyawati, 2015). Many are still ignorant of how they can set aside income obtained into several funds.

Cash from sales need to be set aside and allocated into a fund for business capital, a fund for an entrepreneur's own salary, as well as a savings fund. The fund for business capital is the life of a business. All entrepreneurs, whether they operate micro, small or large businesses need to set aside at least six months worth of business capital. For example, if you need RM 5,000 a month to pay for operational costs such as raw material, rent, salaries and loan instalments then you need to have RM 5,000 x 6 months = RM 30,000 as the total amount in your capital savings fund.

The capital savings fund needs to be in a separate bank account and under no circumstances must it be mixed up with personal funds. If this is so, then when faced with unforeseen circumstances (as we are facing today with COVID-19) an entrepreneur would not need to panic. The capital savings fund is there to help support business operations. If you also has personal savings account specifically for family needs, you will live with greater peace of mind in these times. This is the financial management method used by successful entrepreneurs, i.e. separating business expenses from family expenses.

What often happens more often today is the case of entrepreneurs who put all their business proceeds in one bank account. Funds for business capital, groceries, school expenses, online shopping and household expenses are all in the same bank account. In such cases it is easy for money that should be meant for business capital to slowly be used up and this happens quite often. Apart from that the practice of keeping records of money that comes in and out of a business has yet to become a tradition amongst *Bumiputera* business people in Malaysia.

Most micro borrowers are entrepreneurs from rural areas who do not have much formal education (Suraya, 2011). They are able to conduct buying and selling activities well enough but do not possess much knowledge of how to manage business finances. This may be seen by what is currently happening. With a lack of knowledge of how to manage business finances as well as a lack of business capital, they may be categorised as entrepreneurial who are fragile and vulnerable when financial crises occur, be it due to internal factors within their own businesses or from external factors such the COVID-19 crisis.

As microcredit institutions have been introduced in Malaysia in 1987, it is high time that these institutions help borrowers and entrepreneurs to save for business capital. Perhaps one of the conditions for new loans should be a clause that the microcredit institutions will keep 10% of the approved loan sum. This amount may be used should a business face financial difficulties. When entrepreneurs need to take an additional loan, they need to show evidence of an adequate business capital fund, i.e. at funds with at least 6 months of business operating costs. This could be made a

condition for the additional loan to be approved. This business capital fund is a specific savings fund made to sustain daily business operations and is separate from personal savings accounts.

### CONCLUSION

The landscape of the micro loan industry in this country has undergone many changes. While it was established in the early days as a means of eradicating poverty, today micro loans are given as a stepping stone especially for youths who wish to become successful entrepreneurs. If micro credit borrowers comprised the 'Makcik' generation (who are above the age of 40) and from rural areas, today many micro credit borrowers are from the younger generation with some as young as 18 years old. They include people from both urban and rural areas.

In fact, there are microcredit institutions such the Yayasan Usaha Maju (YUM) in Sabah which offers a Loan Scheme Graduates i.e. a micro loan scheme specially for graduates to start businesses. The change in landscape is an encouragement from the government to create many more successful *Bumiputera* entrepreneurs in this country. Whether the economy is prospering or in state of crisis,

allocations of funds by the government for micro loans are always available. For example, in the Prihatin Rakyat Economic Stimulus Package, RM 700 million has been allocated to help micro entrepreneurs. Interest free loans as well as simple loan application procedures enable many micro entrepreneurs to benefit from this initiative.

However, through my research and observation, micro entrepreneurs as well as new entrepreneurs are lacking not only in terms of business capital but also in terms of how to manage their business (Suraya and Zariyawati, 2015). This type of knowledge is crucial in helping them to manage the loans they have received. Knowledge of money management and marketing especially digital marketing and knowledge of how to build a business should be imparted to them. Micro entrepreneurs should take the initiative to upgrade their knowledge and personal skills. We do not wish to see micro entrepreneurs remain at the M1 category through their business career. Financial skill together with a base knowledge and understanding can help lift them into the M2 (small business) and later the M3 (SME) categories in a short period of time. This can be the yardstick used to measure the effectiveness of micro loans provided by the government.

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