

The Impacts of COVID-19 Pandemic on the Business Performance of Savings and Loan Cooperatives: Empirical Study of the Early Period in Indonesia

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ABSTRACT

This study is carried out to show the impact of COVID-19 on business performance and resilience characteristics of savings and loan cooperatives during the early stages of the pandemic's declaration in Indonesia. Furthermore, this study focuses on savings and loan cooperatives in the food, batik craft/industry, and tourism clusters. The results show that (1) there are contractive (decreasing) and expansive (increasing) impacts of the pandemic during its early period on the business performance of savings and loan cooperatives in terms of assets, capital, volume, collectability, and profit surplus. (2) Contractive impacts are observed in the tourism and food clusters, while normal-expansive impacts are reported in the batik craft/industry cluster. (3) The resilience response characteristics include uncontrollable and well-controllable cooperatives.

Keywords: Impact, COVID-19 Pandemic, Savings and Loan Cooperatives, Business Clusters.

INTRODUCTION

COVID-19 pandemic was declared a pandemic by the Indonesian government on March 2, 2020, and affected various countries worldwide since the middle of the third quarter of 2019. Similar to many other countries, the government has implemented large-scale restriction policies through the enforcement of health protocols, such as maintaining physical distance, avoiding crowds, handwashing, wearing masks, and restricting public mobility. Policies have also been issued to prevent and mitigate the impacts of the pandemic on the general population and the business world, particularly Micro, Small, and Medium Enterprises (MSMEs), including savings and loan cooperatives vulnerable to the impacts. According to the United Nations Development Programme (UNDP-2020), the pandemic has significantly impacted the global economy. This outbreak might push Indonesia's economy into a crisis potentially more severe than the Asian financial crisis of 1997–1998 since the impacts penetrate both demand and supply aspects.

The Ministry of Finance (2020) reported that in the first quarter, the economic growth managed to stay positive. However, with the implementation of large-scale social restrictions in various regions, an unavoidable contraction occurred, resulting in a -5.3% year-on-year (YoY) economic growth in the second quarter of 2020. Meanwhile, the situation improved in the third and fourth quarters at -3.49% and -2.19%, respectively. This reflects increased pressure on economic sectors from the demand and supply sides such as public consumption and productive activities by businesses, respectively. According to the Central Statistics Agency (2021), the deepest contraction in growth occurred in transportation, accommodation, restaurants, and warehousing at 13.42% on the production side (y on y). Quarterly (q to q), the deepest contraction occurred in agriculture, forestry, and fisheries at 20.15%.

For companies in the real sector, the ongoing impact is certain to disrupt cash flow, reduce business performance, lead to job layoffs, and threaten bankruptcy. In the financial sector, comprising banking and non-banking institutions, disruptions in business activities have the potential to affect performance, leading to liquidity and

insolvency issues. Debtors face difficulties in fulfilling loan obligations, while financial institutions struggle to disburse loans.

Savings and loan cooperatives represent a form of non-banking financial institution with a focus on serving members, typically engaged in various MSMEs. According to the Agency for International Development (USAID-2021), the weakening ability of cooperative members to repay loans and deposit funds has led to an increase in Non-Performing Loans (NPL) and a decrease in liquidity. Therefore, this disrupts operations as well as weakens savings and loan cooperatives in Indonesia. The impact of COVID-19 pandemic early period on business performance and response of savings and loan cooperatives should be examined, considering business clusters that experienced contraction as a consequence. These clusters include manufacturing and warehousing for the industry/craft cluster, agriculture, forestry, and fisheries for the food cluster, as well as transportation, accommodation, restaurants, and hotels for the tourism cluster. This specific study is important to understanding the characteristics of response patterns and the impact of the pandemic on business performance of savings and loan cooperatives based on clusters.

LITERATURE REVIEW

Cooperatives are a preferred choice for organizing businesses due to distinctive characteristics, primarily being member-based. The members, who function as both owners and customers or users are well served. According to Billiet A. (2021), cooperatives are hybrid organizations that maximize value, instead of profit. These organizations are owned, governed, and controlled by members, who are more resilient than conventional enterprises in times of crisis due to peculiar characteristics that ensure centrality. Furthermore, the embeddedness of cooperatives in local environment and a global movement enhances mission centrality as well as trust and solidarity among members, and local communities. Based on Government Regulation Number 9 of 1995, savings and loan activities can be conducted through primary or secondary cooperatives.

Savings and loan cooperatives, as financial institutions, are controlled by a management team commonly referred to as "board members," selected and accountable to the members in the general meeting. The internal oversight is carried out by a cooperative supervisory body, also selected by the members. According to a study by the World Bank and the Ministry of Cooperatives and SMEs in Indonesia (2016), there are seven models of the business, distinguished by elements such as ownership, fundraising methods, fund disbursement procedures, and membership characteristics. In considering the basic operational patterns, savings and loan cooperatives consist of two main types, namely conventional and sharia-based financing.

According to the Ministry of Cooperatives' statistics (2021), the total number of savings and loan cooperatives with various business model backgrounds is 16,549 units, accounting for 13.45% of the 123,048 total and the membership is reported at 22,463,738 individuals. According to the World Cooperatives Monitor (WCM-2020), out of the world's 300 largest cooperatives, 59 or 19.67%, 101 or 33.67%, and 100 or 33.33% are in the financial services sector, insurance cooperatives, and operate in the fields of agriculture, food industry, and fisheries, respectively. Even though none of these largest cooperatives are from Indonesia, the nation has many large-scale savings and loan cooperatives measured by wealth and business volume. These include Kospin Jasa in Pekalongan (Central Java), Lantang Tipo Credit in East Nusa Tenggara, and Benteng Mikro Indonesia Sharia (BMI) in Banten, among others. The large as well as medium-small-scale savings and loan cooperatives are crucial in providing members with loans/credit or financing. According to Suwandi (2018), 92% of member responses using loans/credit or financing from cooperatives are due to easy access, fast processes, and lower interest rates compared to loans provided by others. Approximately 98.4% of member responses are driven by easy access, allowing members to deposit money at any time. However, there is still hope for improvement in implementing digitalization in managing its businesses.

According to the United States Agency for International Development (USAID-2021) in study The Diagnostic Study on Liquidity of Savings and Loan Cooperatives impacted by COVID-19 pandemic in East Java and South Sulawesi Provinces, Indonesia (2021) showed that from a financial performance perspective: (1) The liquidity ratio of respondents was not subjected to significant changes but the post-pandemic ratio level increased by 25%. (2) The capital ratio of respondents experienced significant strengthening from 28% to 41%, or an increase of

46.43%. (3) The profitability ratio of respondents experienced a significant decrease (almost 100%) from a ratio of 6.38% to 3.36%. Therefore, the pandemic did not have a negative impact on the aspects of liquidity and capitalization but affected profitability, decreasing almost 100%.

Empirical facts regarding the impacts on financial aspects of savings and loan cooperatives should be complemented with information on the impacts from the business perspective, specifically concerning fund disbursement, loan quality, and profit surplus. The objective of the study is to synchronize savings and loan cooperatives within vulnerable sectors impacted by the pandemic, specifically in the areas of food, batik industry/craft, and tourism. A good understanding of the implementation of loan disbursement is expected in business sectors as an instrument for controlling and maintaining resilience (durabilities) during the pandemic.

METHOD

Study Stages

This study was conducted in two stages to ensure data adequacy and accuracy. The First Stage was Secondary Data Analysis focused on obtaining information from the Ministry of Cooperatives and SMEs related to monitoring savings and loan cooperatives affected at the onset of the COVID-19 pandemic. Raw secondary data was collected and classified as needed to show business performance variables, namely Total Assets, Capital, Business Activities and Results, and the Collectability of Loans/credits provided to Members.

The second stage included a survey of selected savings and loan cooperatives selected as the sample for this study, namely 30 cooperatives located in Bali Province for the dominant tourism business cluster, Solo and surrounding areas (Central Java) for the dominant craft/batik industry business cluster, and the Ciamis region (West Java) for the dominant agriculture-based food cluster. The survey was conducted to (1) ensure the accuracy of the data in the first phase through interviews and limited focus group discussions (FGD) and (2) obtain primary data related to the responses of the managers or administrators to COVID-19 pandemic.

Data Analysis Technique

A quantitative approach presents secondary data on the cooperative's business performance, including Total assets, Cooperative capital and liabilities, Business volume, and Loan/Credit collectibility. This data is presented based on the time before January/February 2020 and during the pandemic in March/April 2020. The technique for calculating the net growth of the variables is outlined in Table 1. Meanwhile, the calculation of loan or credit collectibility refers to the Financial Services Authority (OJK) Regulation Number 40 of 2019, divided into 5 categories. However, in the analysis of loan/credit collectability of savings and loan cooperatives, only 4 categories are used, namely current, substandard, doubtful, and special mention.

Table 1: Technique for Determining the Net Growth of Cooperative Savings and Loan Business Performance Variables

Asset Growth	=	Total Assets During the COVID-19 Pandemic - Total Assets Before the COVID-19 Pandemic	X100%
		Total Assets Before the COVID-19 Pandemic	
External Capital Growth	=	External Capital During the COVID-19 Pandemic - External Capital Before the COVID-19 Pandemic	X100%
		External Capital Before the COVID-19 Pandemic	
Own Capital Growth	=	Own Capital During the COVID-19 Pandemic - Own Capital Before the COVID-19 Pandemic	X100%
		Own Capital Before the COVID-19 Pandemic	

Outstanding Loan Growth	=	Outstanding Loans During the COVID-19 Pandemic - Outstanding Loans Before the COVID-19 Pandemic	X100%
		Outstanding Loans Before the COVID-19 Pandemic	
Profit Surplus Growth	=	Profit Surplus During the COVID-19 Pandemic - Profit Surplus Before the COVID-19 Pandemic	X100%
		Profit Surplus Before the COVID-19 Pandemic	

A cross-data comparison analysis is also used for the business performance of savings and loan cooperatives based on the dominant business clusters, namely food, craft/batik industry, and tourism.

RESULT AND DISCUSSION

Result: Business Performance of Savings and Loan Cooperatives

Net Growth of Assets and Capital

The net growth of assets in savings and loan cooperatives, calculated as the difference before and during COVID-19 pandemic, shows positive development in the food sector business cluster at 3.73%. In contrast, in the craft/batik industry and tourism business clusters, there is a negative net growth. The net growth of external capital, which includes funds from members' savings, tends to be negative in the food, batik, and tourism clusters. However, the negative growth in cooperatives at the batik cluster is relatively smaller than in food and tourism. Own Capital (Equity) of savings and loan cooperatives in the food business cluster shows positive development. Meanwhile, the batik and tourism business clusters both experienced negative growth, as shown in Table 2.

Table 2. The Growth of Assets and Capital in Savings and Loan Cooperatives

Asset and Capital Variables	Net Growth (%) Before and During the COVID-19 Pandemic Based on Clusters		
	Food	Batik	Tourism
1. Assets	3.73	-12.17	-0.19
2. External Capital			
a. Voluntary Savings	- 0.74	- 1.29	- 5.46
b. Time Deposits	- 3.06	0.00	- 8.68
3. Own Capital (Equity)			
a. Primary Savings	3.67	- 0.28	- 14.98
b. Mandatory Savings	0.56	- 0.13	- 18.98

Source: Processed from study data

Net Growth of Business

The business performance of savings and loan cooperatives is analyzed based on the following variables, namely Business volume, outstanding loans, and business surplus. Generally, the result shows positive net growth, except for the business volume and surplus in the food and tourism cluster, which experienced significant contractions, namely -9.44% and -98.05%, respectively. The business volume aspect of the savings and loan

cooperatives in the food and tourism clusters experienced a decrease during the early period of the COVID-19 pandemic with negative growth of 9.44% and 100%, as shown in Table 3.

Table 3. Growth of Savings and Loan Cooperatives

Business Variable	Net Growth (%) Before and During the COVID-19 Pandemic Based on Clusters		
	Food	Batik	Tourism
a. Business Volume	- 9.44	0.50	6.58
b. Outstanding Loans	3.69	9.24	6.58
c. Profit Surplus	5.99	60.26	- 98.05

Source: Processed from study data

Loan Collectability

Loan collectability is analyzed using four categories, including current, slightly overdue, doubtful, and bad debt. The growth rate in the savings and loan cooperatives of batik industry cluster has a lower potential risk profile compared to food and tourism clusters. This is because the growth of collectability in category 1 (current) is positive at 1.36%, much larger than the decline in food and tourism clusters at -12.23% and -4.32%, respectively.

For the slightly overdue category, loan collectability in the batik industry cluster is better compared to food and tourism. The growth in tourism cluster exceeds reasonability at over 600%, showing high risk and potential loan defaults. The same risk threatens the sustainability of loan disbursement in food cluster, where the growth in loan collectability in category two is above 50%.

Loan collectability in categories 3 (doubtful) and 4 (bad debt) in the batik industry cluster grows at 0%, meaning the pandemic does not pose a risk of doubtful or bad debt. Conversely, savings and loan cooperatives in food and tourism clusters experience such risks due to doubt and bad debt risks at 9.68% and 3.64%, as well as 3.77% and 26.29% in tourism cluster, respectively.

Table 4. Net Growth of Loan Collectability

Loan Collectability Variable	Net Growth (%) of Loan Collectability Based on Cluster		
	Food	Batik	Tourism
a. Current	-12.23	1.36	-4.32
b. Slightly Overdue	50.53	1.36	619.12
c. Doubtful	9.68	0	3.77
d. Bad Debt	3.64	0	26.29

Source: Processed from study data

DISCUSSION

The Impacts of the COVID-19 Pandemic

The entry of the COVID-19 pandemic into Indonesia had an impact on the fluctuation of business performance of the Savings and Loan Cooperative, as shown in Table 5 and the most significant effect was on tourism cluster. Furthermore, the cooperative's assets and business capital simultaneously decreased, but the volume and outstanding loans increased. This shows that members, as customers, started withdrawing savings or deposits while increasing loans from the cooperative. However, members also delayed loan repayments, causing the performance of collectability categories 2 (slightly overdue), 3 (doubtful), and 4 (bad debt) to increase, meaning Non-Performing Loans (NPLs) became uncontrollable.

In food cluster, there are similarities with tourism performance, such as the weakening (decline) of collectability in category 1 and the increase in potential risky loans in categories 2, 3, and 4. External capital decreased, while business volume, outstanding loan assets, and internal capital increased. Therefore, members started withdrawing savings or time deposits to meet the obligation of capital or equity. To meet the availability of funds, members increased the portion of loans but also took action to delay the repayments. Similar to tourism, savings and loan cooperatives in the food cluster faced a liquidity shortage. This is because funds from loan repayments and third-party funds are not proportionate to the withdrawal of savings and loans by members and other short-term obligations. Savings and loan cooperatives are positioned in the food cluster in the early period of the pandemic to control business activities.

Even though total assets and external capital slightly decreased, internal capital, business volume, and outstanding loans increased positively, specifically with Profit Surplus growing strongly by 60.26%. Loan collectability also shows good performance, except for the slightly overdue category, which increased with the current category. The doubtful and bad debt categories remained unchanged or zero, positioning the savings and loan cooperatives of batik industry cluster in a better position to control business activities (well-prepared).

Table 5: The Impacts of COVID-19 Pandemic on the Business Performance of Savings and Loan Cooperatives Based on Clusters

Variable	The Impacts of the COVID-19 Pandemic on the Business Performance of Savings and Loan Cooperatives Based on Clusters		
	Pangan	Batik	Pariwisata
1. Assets	Increase	Decrease	Decrease
2. Capital			
a. External Capital	Decrease	Decrease	Decrease
b. Internal Capital	Increase	Zero	Decrease
3. Business			
a. Business Volume	Decrease	Increase	Increase
b. Outstanding Loans	Increase	Increase	Increase
c. Profit Surplus	Increase	Increase	Decrease
4. Loan Collectability			

a. Current	Decrease	Increase	Decrease
b. Slightly Overdue	Increase	Increase	Increase
c. Doubtful	Increase	Zero	Increase
d. Bad Debt	Increase	Zero	Increase

Source: Processed from study data

Resilience Characteristics of Savings and Loan Cooperatives

A key point from the discussion is the different resilience characteristics of savings and loan cooperatives in each cluster in facing the pandemic. The resilience characteristics are well-prepared and uncontrollable for savings and loan cooperatives in batik industry and tourism clusters, respectively

The fundamental characteristics of well-prepared resilience are not surprised, having strong internal capital, strong management, focus on member service, and monitoring of loan risk. Meanwhile, the characteristics of uncontrollable resilience are easily surprised, immature in business management planning, lack of loan risk mitigation, and lack of focus on member service, as shown in Table 6.

Table 6. Characteristics of the Resilience of Savings and Loan Cooperatives in the Early Period of the COVID-19 Pandemic

Uncontrollable		Well-Prepared
Savings and Loan Cooperatives		Savings and Loan Cooperatives
Surprised, unprepared	1	Not surprised, well-prepared
Lack of business management planning	2	Adequate internal capital
Lack of loan risk mitigation	3	Monitoring/mitigation of loan risk
Lack of focus on member service	4	Strong management, Focus on member service

Source: Summarized from data analysis.

CONCLUSION

In conclusion, the COVID-19 pandemic in the early period of entry into Indonesia was reported to have an impact on the contraction or expansion of business performance in terms of assets, capital, volume, and loan distribution collectability to members. The most significant contraction in the performance of savings and loan cooperatives was in tourism and food clusters. Meanwhile, the savings and loan cooperatives in batik industry cluster remained stable or normal in terms of loan collectability and experienced increased growth in internal capital, business volume, outstanding loans, and Profit Surplus, which grew strongly by 60.26%. The impacts of the pandemic during its early period of entry were responded to differently. This resulted in distinct resilience characteristics of savings and loan cooperatives, which could be dichotomously divided into two categories, namely uncontrollable and well-controllable.

Limitations and Future Studies

This study has been able to explain its findings that: (1) there are contactive (decreasing) and expansive (increasing) impacts of the Covid-19 pandemic in the initial period of its presence on the performance of Savings

and Loan Cooperatives in the aspects of assets, business capital, business volume, business collectibility and surplus business results. (2) a contractionary impact was found in the tourism and food and craft/batik industry Savings and Loan Cooperative clusters, while a normal-expansive impact was found in the craft/batik industry Savings and Loan Cooperative clusters. (3) The character of the resilience response, namely: Savings and Loan Cooperatives that are less/unable to carry out control (uncontrollable) and Savings and Loan Cooperatives that are able to control and carry out control well (well controllable). However, this important finding is methodologically new and can only explain the impact of the Covid-19 pandemic on the performance of Savings and Loan Cooperatives in the initial period and only covers three clusters and with a small sample (30 analysis units/Cooperative). Furthermore, this research method is descriptive in nature. Although the results are presented in quantitative data format, correlational testing between variables was not performed. Therefore, further research should focus on the post-COVID-19 impact over a longer time span (more than one year), including broader clusters and larger samples. Correlational or other statistical tests should also be used to provide findings with a reliable level of significance.

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