

FINANCIAL TECHNOLOGY AS A STRATEGY FOR MSME DEVELOPMENT TO INCREASE CAPITAL AND CONSUMERS

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ABSTRACT

MSMEs are vital to Indonesia's economy. Funding, technology adoption, and marketing are just a few of the development challenges that MSMEs face. The purpose of this research is to determine the impact of financial technology on the growth of MSME businesses, either directly or indirectly, by using increased capital and the number of consumers as intervening variables, as well as to comprehend financial technology-based business development strategies. The research was carried out in the city of Garut, with data collected through questionnaires. The sample was chosen using purposeful sampling, which resulted in 76 samples. SPSS software version 22.0 was used to analyze the data, which included path analysis. The findings show that financial technology has a positive and significant impact on MSME business development, both directly and indirectly, by increasing capital and the number of consumers as intervening variables. As a result, financial technology can be one of the strategies for the development of MSME businesses. Because it will be used as a reference by a variety of decision-makers, including the government, MSMEs, and fintech operators, this research has practical implications.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises are one of the factors that contribute to Indonesia's economic growth and development. MSMEs are self-contained business units run by individuals or other entities. The Micro, Small, and Medium Enterprises (MSMEs) Law Number 20 of 2008 divides MSMEs into three types. JDIH BPK RI (2008)[1] MSMEs play an important role in increasing economic growth and development in Indonesia, as evidenced by the increased accessibility of employment opportunities in order to reduce Indonesia's unemployment rate. Furthermore, MSMEs support other sectors, such as the banking service industry, and contribute to GDP (Putri Rusadi & Benuf, 2020)[2]. MSMEs account for 61.07% of Indonesia's GDP, 97% of total workforce, and 60.4% of total investment (Limanseto, 2021)[3]. History also records that the role of MSMEs was one of the business fields that were able to survive the 1998 monetary crisis when compared to other large corporations (Putri Rusadi & Benuf, 2020). MSMEs continue to face a number of challenges in the absence of increased economic growth. According to World Economic Forum (WEF) findings for 2014-2015, the issues impeding MSMEs' progress in Indonesia are access to finance, corruption, and inflation (Wilantara, 2016). External and internal impediments to the development of SMEs are classified. Internal barriers that many MSMEs face include a lack of capital, production, product marketing, and human resources (Candraningrat et al., 2021)[4]. Meanwhile, external barriers include limited access to finance, high infrastructure costs, and inefficient bureaucratic services (Wilantara, 2016).

The ongoing development of information technology, particularly digital financial services, can be used as an alternative to address the issues confronting Indonesian SMEs (Putri Rusadi & Benuf, 2020). Technology is a tool that allows humans to use the resources they need (Rahardjo, Ikhwan, & Siharis, 2019), perform various tasks quickly, precisely, and accurately, and increase productivity (Wardiana, 2022). At the moment, technological advancements have an impact on Indonesia's financial sector (Ningsih, 2020)[5]. Financial technology is an alternative form for financial institutions and their users to provide and obtain services for users who have not previously been reached by existing financial institutions or financial services (Candraningrat et al., 2021)

Crowdfunding, Microfinancing, P2P Lending Services, Market Comparison, and Digital Payment System are the five types of services available to the fintech community (Financial Services Authority). Fintech has made significant progress in Indonesia. According to data presented by the Indonesian Fintech

Association, Indonesia will have 505 Fintech companies by 2021, with online loans dominating (44%) in fintech development (Fintech Indonesia, n.d.). To address the issue of MSMEs, FinTech in Indonesia offers two services: the ease of obtaining loans and the ease of making payments (Lestari et al., 2020). Fintech Peer 2 Peer Lending is a service provided by fintech to provide access to loans. FinTech P2P Lending is a type of service that assists individuals in need of funds in overcoming financial difficulties through loans that are more effective and faster than those found in traditional banks (Otoritas Jasa Keuangan (OJK), n.d.). The existence of Fintech P2P Lending is expected to boost business growth and solve formal loan problems such as credit rationing, a lack of financing, or even high-level financing due to a lack of supply (Lestari et al., 2020). Several previous studies have demonstrated the existence of fintech as an alternative to increasing capital and developing MSMEs, as evidenced by findings from research on the role of financial technology in the development of MSME capital (Candraningrat et al., 2021). MSMEs, demonstrating that this has a positive impact on the development of MSME capital in Denpasar City's textile industry.

The fintech a digital payment system is a type of fintech service that provides convenience in the payment system. A fintech digital payment system is a type of fintech that provides services in the form of payments for all types of accounts, including credit and postpaid, credit cards, electricity tokens, and other payments (Financial Services Authority (OJK), n.d.). Digital payments are one solution to the inefficiency of traditional banking payment systems. Digital payment services provided by fintech companies make business transactions more effective, fast, safe, and simple; additionally, digital transaction processes can attract more consumers and provide benefits to MSME actors (Lestari et al., 2020). Several findings were discovered in previous studies that focused on digital payment systems, such as the research conducted (Rizkiyah et al., 2021), which stated that digital payment variables contributed up to 62.5% and had a significant influence on consumer behavior variables.

Apart from solving MSMEs' problems, the presence of this fintech is expected to help MSMEs grow their businesses. Business development is a type of business activity that is carried out in order for the business to grow and achieve the desired business goals[6]. Companies that are proactively starting their business and have the potential to expand engage in business development. Several indicators can be used to track the growth of an MSME business, including: a) an increase in capital, b) an increase in production, c) an increase in the number of consumers, d) an increase in the length of the business, e) an expansion of the marketing area, f) infrastructure improvements, and g) an increase in work income (Riyanti, 2003). In this study, business development is measured by the increase in capital and the number of consumers. Business capital serves two purposes: it supports production activities and it covers the need for fixed business funds and other costs that are not incurred during the manufacturing or sales process. Consumers are people who buy goods or services. Consumers are people who buy services and products from others to solve their problems (Rizkiyah et al., 2021). According to several studies, the factors that influence sales growth are costs and capital; regression analysis results show that these two factors have a significant positive effect (Hartono & Hartomo, 2016)[7]. Then (Rahmatia et al., 2019) stated that capital has an indirect effect on operating profit through business turnover, which means that an increase in working capital can result in an increase in operating profit if trade turnover increases. (Prawira D. & Dewi, 2019)[8] stated the capital variable with a probability of 0.000 0.05 in his research, indicating that capital contributes significantly and positively to the development of MSMEs in Denpasar. Furthermore, research results (Purwanti, 2012)[9] show that the business capital factor has a statistically significant and positive effect on the development of MSMEs in Dayan and Kalirond Villages, Salatiga.

This study clearly differs from previous studies based on several similar studies. The difference is in the scope of the discussion and the variables used; this study addresses the issue of developing MSME business strategies using financial technology. The urgency of the study is to discover how financial technology influences MSME business development and what strategies MSMEs can use to develop their businesses through financial technology. The author hopes that this research will be used as a reference by academics conducting additional research, as well as by the government in order to improve educational quality[10].

2. LITERATURE REVIEW

2.1. Financial Technology

Fintech is an abbreviation for Financial Technology and refers to technologically based financial service innovation. Fintech is a digital service that provides customers with access to various financial services such as investment and insurance (Indonesian Fintech Association, 2021). The National Digital Research Center (NDRC) in Dublin defines FinTech as financial services innovation, and FinTech is a combination of technology and financial services. 2017 (Marantiani) (Winarto, 2020). Furthermore,

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Fintech is a viable option for gaining access to financial services in a practical, efficient, convenient, and cost-effective manner (Financial Services Authority) The existence of fintech, which is a combination of efficiency and technology, is extremely influential and has a positive impact on society as a whole.

The following are the fintech classifications (according to the Financial Services Authority (OJK)):

- 1) Crowdsourcing: A well-known fintech model in many countries, including Indonesia. People can easily raise funds and donate to social programs thanks to this technology. Kitabisa.Com is an example of a crowdfunding start-up.
- 2) Microcredit: FinTech services that meet the daily and financial needs of the lower middle class by providing financial services. Amarnya is an example of a startup that connects micro entrepreneurs in rural areas with online investors.
- 3) Peer-to-Peer lending this is more commonly known as [10] lending money. This fintech technology assists those in need of financial assistance in meeting their needs. Consumers can easily borrow money using this fintech technology without having to go through a lengthy process like traditional banks. Cloud cash is an example of a fintech P2P lending start-up.
- 4) Market Assessment This type of fintech is used to compare various financial products from various financial service providers, and it also acts as a financial advisor. Users can obtain a variety of investment options that meet their future needs with the help of FinTech.
- 5) Electronic Payment System FinTech services include bill payment for credit cards, postpaid cards, credit cards, and PLN electricity tokens. Payfazz, an agency that assists Indonesians, particularly those without access to a bank, in paying various bills each month, is an example of a FinTech working on this digital payment system.

2.2. MSME

Micro, Small, and Medium Enterprises (MSMEs) are divided into three categories (JDIH BPK RI, 2008)[11]. SME's can also be understood. as a small-scale economic activity carried out by the community, both in groups, families, and individuals (Ridhiyawati, Avia, & Gunardi, 2022).

2.3. MSME Business Development

Business development is a type of business activity that is carried out to help a company grow and achieve its objectives. Businesses that are proactively starting up and have the potential to grow engage in business development. According to Kim's research (Bastian, 2020), several indicators of business development, such as increased sales turnover, workforce growth, and customer growth, are identified. Furthermore, indicators such as: a) an increase in capital, b) an increase in production, c) an increase in the number of consumers, d) an increase in the length of business, e) an expansion of the marketing area, f) infrastructure improvements, and g) an increase in work income can be seen.

2.4. Startup Capital

Capital is an important factor in the development of a business; if high capital is accompanied by high consumer demand, income will be maximized and the business will grow. As a foundation for running a business, business capital is essential. A company's income is determined by its capital. In other words, capital can have an impact on how a company grows (Ridhiyawati, Avia, & Gunardi, 2022). Furthermore, business capital serves two purposes: it supports production activities and it covers the need for fixed business funds and other costs not incurred during the production or sales process. The more capital they have, the more opportunities for business actors to earn more money because they have a greater ability to purchase business raw materials (Marantiani, 2017)[12].

2.5. Number of Consumer

One of the most important factors influencing a company's income and growth is the number of customers. Consumers are individuals who purchase goods or services. Consumers are people who use others' services and products to solve their problems (Rizkiyah et al., 2021). Customers who buy and use the company's products are known as traditional consumers (Marantiani, 2017). The increasing number of consumers shopping and transacting in stores or through online media can affect revenue and increase the company's business.

3. METHOD

From the end of 2021 to the beginning of February 2022, the City of Garut, West Java Province, Indonesia, was chosen as the research location. Garut City, West Java Province's second-smallest city, has significant economic potential, particularly in the field of micro, small, and medium enterprises.

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All MSME entrepreneurs who use fintech in Garut City, which is divided into three sub-districts: Karangpawitan, Cikajang, and Cibatu, comprise the research population. The sample is a significant subset of the population with specific characteristics or conditions that must be investigated (Kuncoro & Riduwan, 2011)[13]. A purposeful sampling method was used to sample the population based on several criteria (Arikunto, 1992)[14]. MSME actors from the Garut City area are included in the sample, as are MSME actors who have used Fintech Peer 2 Peer Lending and Digital Payment Systems in their operations. The research uses both primary and secondary data. Data is collected using both offline and online questionnaires, as well as a Likert scale measurement scale. Questionnaires are used to collect data from respondents for future research purposes[15].

Data quality tests, classical assumption tests, and data analysis models, specifically path analysis, are among the data analysis stages. T assumption tests, as well as data analysis models, particularly path analysis.

4. RESULT AND DISCUSSION

Fintech is critical to the development of Indonesian SMEs. Fintech techniques such as financial reporting digitization, online payments, and lending technology can increase the convenience and efficiency of financial management techniques. Fintech can also reach new customers by offering convenient and simple digital financial transaction services to non-banking customers. There are various approaches to developing MSMEs using financial technology.

- 1) The expansion of FinTech. There will be opposition to the costs of implementing Fintech services in the face of offers and evidence of FinTech implementation. Prices for business actors must be tailored to their products. As a result, businesses can employ and continue to employ profitable fintech services in their operations (Mukhtar & Rahayu, 2019)[16]. (2018). (Luckandi)[17].
- 2) Fintech is used to increase capital and make financing more accessible. Fintech peer-to-peer lending is a novel and innovative approach to increasing MSME market share and overcoming loan capital, financial reporting, financing and marketing, financial transactions, and other financial literacy challenges. Users benefit from the use of technology, according to a study (Mukhtar & Rahayu, 2019). Fintech is thought to be suitable for influencing MSME funding requirements.
- 3) Through the use of digital payments, fintech enables MSMEs to gain access to new consumers and facilitate transactions. This is due to the fact that fintech provides a wide range of financial services, including market expansion. Several shifts in consumer thinking, such as the desire to obtain products and services quickly and easily, advances in digitalization, and decreased loyalty to specific brands and institutions, are examples of opportunities that MSME actors must seize in order to grow their businesses (Fajar & Larasati, 2021)[18].

5. CONCLUSION

Several tests and analyses have found that increasing capital and the number of consumers have a positive and significant direct effect on the development of MSME businesses. According to the path analysis test, the financial technology variable has an indirect and significant effect on the development of MSME businesses via the variables of increasing capital and the number of consumers. According to the study's findings, financial technology can be used as a strategy for developing MSME businesses by increasing capital and consumer numbers, while the MSME development strategy can be carried out by collaborating among fintech organizers, the government, and MSME business actors. It is hoped that by implementing this strategy, MSMEs will be able to overcome some of the challenges they face, such as difficulty obtaining financing, a lack of technological knowledge, and a lack of marketing access, and that MSMEs will be able to develop their businesses in line with the times[19].

This fintech's presence is expected to help MSMEs grow their businesses in addition to solving their problems. Business development is a type of business activity that is performed in order for the business to grow and achieve its objectives. Businesses that are proactively starting up and have the potential to grow engage in business development.

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