

STRATEGY FOR MSME DEVELOPMENT USING FINANCIAL TECHNOLOGY TO INCREASE CAPITAL AND CONSUMERS

By:

Sutrisno ¹⁾

Pandu Adi Cakranegara ²⁾

Fitriyah Astri ³⁾

Muhammad Yusuf ⁴⁾

Josua Sahala ⁵⁾

Universitas PGRI, Semarang ¹⁾

President University, Bekasi ²⁾

Universitas Madako, Toli Toli ³⁾

Sekolah Tinggi Ilmu Administrasi, Bandung ⁴⁾

Universitas Timor, Kefamenanu ⁵⁾

E-mail:

sutrisno@upgris.ac.id ¹⁾

pandu.cakranegara@president.ac.id ²⁾

fitriyah.astri@gmail.com ³⁾

yusuf.sukses2016@gmail.com ⁴⁾

jose.mid2kill@unimor.ac.id ⁵⁾

ABSTRACT

MSMEs are vital to the Indonesian economy. MSMEs face a number of development challenges, including funding sources, technology utilization, and marketing. The goal of this study is to determine the impact of financial technology on the growth of MSME businesses, either directly or indirectly, through the use of increased capital and the number of consumers as intervening variables, as well as to understand business development strategies through financial technology. The study was carried out in the city of Blitar, with data collected via questionnaires. Purposive sampling is used to select the sample, yielding 76 samples. SPSS software version 22.0, which included path analysis, was used for data 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 MSME business development. This research has practical implications because it will be used as a reference by various decision-makers, including the government, MSMEs, and fintech operators.

Keywords: *MSMEs, Business Development, Financial Technology, Capital Increase, Consumer*

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. MSMEs are classified into three

types under Micro, Small, and Medium Enterprises Law Number 20 of 2008. 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. MSMEs contribute 61.07% of Indonesia's GDP, 97% of total workforce, and 60.4% of total investment. 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. As an alternative to increased economic growth, MSMEs continue to face a number of challenges. According to World Economic Forum (WEF) findings for 2014-2015, the issues impeding MSMEs' progress in Indonesia are access to finance, corruption, and inflation. External or 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. Meanwhile, external barriers include limited access to finance, high infrastructure costs, and inefficient bureaucratic services.

The ongoing development of information technology, particularly digital financial services, can be used as an alternative to address the issues confronting Indonesian SMEs. Technology is a tool that allows humans to use the resources they need, perform

various tasks quickly, precisely, and accurately, and increase productivity. At the moment, technological advancements have an impact on Indonesia's financial sector. 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.

Crowdfunding, Microfinancing, P2P Lending Services, Market Comparison, and Digital Payment System are the five types of services offered 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. Several previous studies have demonstrated the existence of fintech as an alternative to increasing capital and developing MSMEs, as shown in 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. Companies that are proactively beginning to run their business and have the potential to expand carry out 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. 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. Then 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. 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 show that the business capital factor has a statistically significant and positive effect on the development of MSMEs in Dayan and Kalirond Villages, Salatiga.

Based on several similar studies, it is clear that this research differs from previous studies. The distinction is in the scope of the discussion and the variables used; this study raises the issue of how to develop MSME business strategies using financial technology. The study's urgency is to discover how financial technology influences MSME business development to discover 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 and by the government to improve educational quality.

2. LITERATURE REVIEW

Financial Technology

Fintech is an abbreviation for Financial Technology and refers to technologically based financial service innovation. Fintech is a digital service that allows customers to access various financial services such as investment and insurance (Indonesian Fintech Association, 2021). The National Digital Research Center (NDRC) in Dublin defines FinTech as innovation in the field of financial services, and FinTech is a combination of technology and financial services. 2017 (Marantiani) (Winarto, 2020). Furthermore, 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. Lending Peer-to-Peer Service this is more commonly as fintech 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. Fintech also acts as a financial advisor. With the help of FinTech, users can

obtain various investment options that meet their future needs.

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.

MSME

MSMEs are classified into three types: Micro, Small, and Medium Enterprises (JDIH BPK RI, 2008). SMEs can also be comprehended. as a small-scale commercial activity in the economic field carried out by the community, both in groups, families, and individuals (Ridhiyawati, Avia, & Gunardi, 2022).

MSME Business Development

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. Companies that are proactively beginning to run their business and have the potential to expand carry out business development. Kim's research (Bastian, 2020) identifies several indicators of

business development, including increasing sales turnover, workforce growth, and customer growth. Furthermore, it can be seen with 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.

Starup Capital

Capital is a deciding factor in a company's development; if high capital is accompanied by high consumer demand, income will be maximized and the business will grow. Business capital is critical as the foundation for running a business. The amount of income generated by a company is determined by its capital. In other words, capital can influence how a company's business grows (Ridhiyawati, Avia, & Gunardi, 2022). Furthermore, business capital serves two functions: it supports production activities and it covers the need for fixed business funds and other costs that are not incurred during the production or sales process. The greater their capital, the greater the opportunity for business actors to earn more money because they have a greater ability to purchase business raw materials

(Marantiani, 2017).

Number Of Consumer

The number of customers is one of the most important factors influencing a company's income and growth. 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). Traditional consumers or customers are people who buy and use the company's products (Marantiani, 2017). The growing number of consumers shopping and transacting in stores or through online media is a factor that can affect revenue and increase the company's business.

3. RESEARCH METHOD

This research was conducted from the end of 2021 to the beginning of February 2022, with the City of Blitar, East Java Province, Indonesia, chosen as the research location. Blitar City, the second-smallest city in East Java Province, has significant economic potential, particularly in the field of micro, small, and medium enterprises. The research population consists of all MSME entrepreneurs who use fintech in Blitar City, which is divided into three sub-districts: Kepanjenkidul, Sananwetan, and Sukorejo. The sample is a significant portion of the population with specific

characteristics or conditions that must be studied (Kuncoro & Riduwan, 2011). The population was sampled using a purposeful sampling method based on several criteria (Arikunto, 1992). The sample includes MSME actors who do business in the Blitar City area, as well as MSME actors who have used Fintech Peer 2 Peer Lending and Digital Payment Systems in their operations. The study includes both primary and secondary data. Data is gathered through the use of questionnaires, both offline and online, and a Likert scale measurement scale. Questionnaires are used to collect response data from respondents for later use in research. Among the data analysis stages are data quality tests, classical assumption tests, and data analysis models, specifically path analysis. T assumption tests, and data analysis models, specifically path analysis. This path analysis model is used to examine the pattern of relationships between variables in order to

MSME Development Strategy through Financial Technology

Fintech is critical to the growth of Indonesian MSMEs. Fintech techniques such as digitizing financial reporting, online payments, and lending technology can improve the convenience and efficiency of financial management

techniques. Fintech can also reach new customers by providing non-banking customers with convenient and simple digital financial transaction services. There are several approaches to developing MSMEs through financial technology.

- 1. FinTech growth. In the face of offers and evidence of FinTech implementation, there will be opposition to the costs of implementing Fintech services. Business actors must tailor their prices to their products. As a result, businesses can use and continue to use profitable fintech services for their operations (Mukhtar & Rahayu, 2019) (2018). (Luckandi).*
- 2. Using Fintech increase capital and make financing more accessible. Fintech peer-to-peer lending is a novel and alternative approach to increasing MSME market share, overcoming loan capital, financial reporting, financing and marketing, financial transactions, and other financial literacy issues. According to a study (Mukhtar & Rahayu, 2019), users benefit from the use of technology. Fintech is thought to be appropriate for influencing*

MSME funding needs.

- 3. Fintech enables MSMEs to gain access to new consumers and facilitate transactions through the use of digital payments. This is because fintech offers a wide range of financial services, including market expansion. Several changes in consumer thinking, such as the desire to obtain products and services in a convenient and easy manner, advances in digitalization, and decreased loyalty to certain brands and institutions, are examples of opportunities that MSME actors must seize in order to grow their businesses (Fajar & Larasati, 2021).*

4. CONCLUSION

According to the results of several tests and analyses, with the variables of increasing capital and the number of consumers also having a positive and significant direct effect on the development of MSME businesses. The financial technology variable then 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 path analysis test. Financial technology, according to the study's findings, can be

used as a strategy for developing MSME businesses by increasing capital and increasing the number of consumers, 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 access to marketing, and that MSMEs will be able to develop their businesses in line with the times.

Suggestion

Academics should conduct additional research on this topic, particularly to investigate what factors MSMEs may require in developing their businesses through fintech, and they can conduct other research on MSME development strategies through financial technology, albeit with more developed variables. Fintech operators must improve their strategies for building trust in the use of fintech and the use of fintech in Indonesia, as well as expand the types of services available to the community in response to various community needs, particularly for business actors. To the government, a genuine policy on the use of fintech as one of the strategies for

MSME development is required. Furthermore, the government must be able to educate business actors or MSMEs on current technology so that business actors do not fall behind and can improve their businesses.

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