Fintech Lending Support for Micro, Small and Medium Enterprises (MSME) in Indonesia

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Abstract. This study examines the effect of the number of borrower accounts and the effect of savings on fintech lending in Indonesia. The appearance of fintech lending can be alternative funding for Micro, Small and Medium Enterprises compared to banking because it is easy, fast and accessible to anyone. The community's response can be seen from the use of fintech to obtain funding and places to invest. This study employed a quantitative method to collect secondary data on fintech lending in Indonesia from January 2018 to August 2021. The results indicated a negative effect of the borrower accounts on fintech lending funding. The amount of savings did not affect fintech lending funding. In additional testing, it appeared that funding for the transportation and warehousing business has a positive effect on fintech lending funding. In contrast, the amount of bank funding for MSMEs has no effect. This research contributes academically and practically as part of the financial inclusion issue.

Keywords: Fintech Lending; Financial Inclusion; Alternative Financing

1 Introduction

Micro, Small and Medium Enterprises (MSMEs) have an essential role in a country's economy [1] [2]. It is just that their limited ability and access to funding make them have limitations in competing [3]. Fintech is growing fast with a wide range of fields. This condition has an important impact on MSMEs. The presence of fintech has proven to encourage the economy [4] and has a positive effect on the efficiency of MSMEs [1]. This study aims to determine the relationship between funding in fintech lending and the economic growth that occurs in Indonesian MSMEs. The existence of fintech lending provides hope for MSMEs to get alternative funding that is cheaper, faster and easier. Research result show that fintech can contribute to MSMEs in three aspects, namely operations, finance, and business expansion [5]. Banks have dominated funding loans for businesses in Indonesia compared to bonds and corporate equities [6]. In lending, banking is known to be quite complicated with quite a lot of requirements. This condition causes a lack of funding sources for long-term investment, especially in the infrastructure sector. Proposes various policies that encourage long-term savings and investment, such as tax incentives, social nets, deregulation of financial markets, and coordination of various sectors [6].

There have been many studies related to the relationship between savings and the economy. Research by [7] found a positive relationship between savings and economic

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growth. The existence of savings stimulates investment, production, and employment and ultimately increases economic growth. Economic growth does not always depend on foreign direct investment, but the local investment also plays an important role. If a country has a high level of savings, the volatility of foreign investment risk can be reduced. Most people still use savings as an instrument to place the income earned [8]. On the other hand, the existence of fintech has reached various groups, especially MSMEs. No research explores the effect of savings on fintech lending funding in Indonesia. This research is vital to find out the extent to which MSMEs are interested in utilizing the funding scheme provided by fintech lending. This aspect shows the attractiveness of fintech lending to alternative banking funding today. In addition, it is essential to know the extent of public interest in fintech lending as an alternative to direct investment in MSMEs. There are two main contributions of this research, namely the academic and practical aspects. On the academic aspect, this research contributes to opening up research related to the theme of fintech lending and MSMEs. It is preliminary research in this field. On the technical aspect, policymakers can encourage financial inclusion through fintech lending and provide education for the public in its proper use.

2 Literature Review

2.1 Fintech Lending

Fintech has an essential role in the economy. In addition, fintech also supports an easy and quiet payment system to help encourage the transmission of economic sector policies [9]. There are five critical roles of fintech in the payment system, first to provide a market for business actors. Second, being a tool for payment, settlement and clearing. Third, to assist in the implementation of the more efficient investment. Fourth, risk mitigation from conventional payment systems. Fifth, helping those in need to save, borrow funds and invest in capital. As technically for consumers and producers, the existence of fintech also provides advantages in the transaction process carried out. For consumers, there are three benefits of fintech; first, getting better service. With various types of fintech developing, consumers can get better services. Fintech has a variety of businesses ranging from integration of interbank payment systems (aggregators), warehousing and transportation services (business enabler), marketplaces, easy and secure access to customer data (E-KYC), and others. Second, it provides more choices. In the marketplace, consumers get more choices of products offered, sellers, and competitive prices. Third, the price offered is getting cheaper. The existence of more sellers and buyers and a broader reach further increases the competition so that the prices formed are getting cheaper.

For producers, the existence of fintech will provide various benefits. First, simplify the transaction chain. The more concise transaction chain will benefit producers since the costs can be reduced so that the prices sold are lower than traditional ones. Second, reduce operational costs and capital costs. The high operational cost is the high cost of acquiring raw material supply. Manufacturers get lower prices with shorter supply chains, thereby reducing operational costs. In addition, funding options are increasingly diverse with more competitive costs. Third, freeze the flow of information. The flow of information that is increasingly from direct users can be obtained readily to speed up decision making without any confusion. Based on [5] research on technological disruption faced by MSMEs, it appears that there are three critical pillars of fintech support in overcoming these problems. The three main problems are financial, operational, and business expansion aspects. In every aspect, several fintech applications have sprung up. In the financial aspect, developing fintech applications cover the fields of funding through peer-to-peer lending or equity crowdfunding, credit scoring, and accounting applications. In the operational aspect, several areas are developed, covering the application of human resource information systems (HRS), logistics, warehousing, and POS and payment gateways. The expansion aspect covers two main areas, namely e-commerce (platform) and e-commerce enabler. These aspects have given rise to various fintech applications that can support the improvement of MSMEs in Indonesia. In addition, fintech also forms and facilitates the formation of an information technology-based market.

2.2 Fintech and the Economy

Narayan's research [4] revealed that fintech has an impact on the economy. The research was conducted from 1998 to 2017 in Indonesia. The presence of fintech in the first year seemed insignificant. However, in the second year, the existence of fintech has had a significant and positive impact on the Indonesian economy. Narayan said that the presence of fintech in Indonesia did not have a direct impact but only appeared in the next period since fintech is considered a new variant in business and the economy. The delay in the response occurred because of the collaboration between traditional financial service providers and fintech startup companies. In general, the use of technology impacts the need for labour, especially in the financial industry. In the research of [10], it appears that the use of digital technology in the banking sector has impacted negatively on the need for labour in almost all types of banking. The application of technology can replace the role and function of the workforce that the company has used.

Micro, Small and Medium Enterprises (MSMEs) are the most significant part of the types of businesses in Indonesia, both in terms of contribution to the economy and employment. In 2018, MSMEs could absorb 97% of the total workforce, 99% of the total business players and contribute 57.24% of Indonesia's total GDP [2]. Compared to large companies, MSMEs have capital, skills, and technology limitations, so they are less competitive [3]. One of the main aspects of the obstacles faced by MSMEs is limited access to funds for capital. The existence of fintech can provide a way out, especially for micro-enterprises to be able to access funding cheaply, easily and quickly. In addition, the change in the form of traditional markets into digital markets is also a driving force for many MSMEs to scale-up, both operational efficiency and market expansion. MSMEs no longer need to rent business space, buy equipment and furniture and streamline operations with the presence of a marketplace. In addition, marketing reach can be done widely and unlimited time. The existence of fintech has made it easy for MSMEs in operational, financial and expansion aspects [11].

2.3 Hypothesis Development

The existence of funding from fintech will be able to encourage the economy. The main target of fintech users is individual users, both in terms of borrowers (borrowers) and lenders (lenders). For MSMEs, fintech lending provides an opportunity to get funding with a fast process and without difficult conditions. On the other hand, investment opportunities are formed for individuals because fintech lending allows investing with small funds. The investment requirements are also not complicated; fill in the identity on the chosen fintech platform. Hence, there is a positive relationship between the amount of funding in fintech and the number of borrower and lender accounts. The formulation of the hypothesis in this section is.

H1: The number of borrower accounts has a positive effect on funding for fintech lending in Indonesia

In the traditional transaction model, paper money (narrow money) is more widely used as a transaction tool. With the growing use of technology and changing behavior of economic actors, mainly due to the COVID-19 pandemic, more transactions are carried out non-cash. One of the platforms that are readily and widely used in transactions is fintech. The increasingly rapid use of fintech applications is driven by changes in consumer behavior and preferences, the use of digital and mobile devices, the rapid pace of change, decreased levels of trust, more complete digital access, more significant benefits, and support for government policies and regulations (Tuch, 2020). Thus, there is a negative relationship between the amount of fintech funding and the money supply. More and more trading outlets are using online media, and more and more transactions are being carried out using digital platforms. Fintech encourages broad investment patterns by using technology tools. The funds managed are also not significant, so that more and more parties are involved. The pattern of direct investment in the real sector that has been running has made it attractive to shift the savings held in the form of direct investment. In fintech, the profile of fund users is submitted in detail with a complete prospectus. Investors no longer need a third party as a liaison with fund users. Thus, there is a negative relationship between the amount of savings in banks and funding in fintech. The formulation of the hypothesis is as follows

H2: The savings has a negative effect on funding for fintech lending in Indonesia

3 Methodology

This research was a quantitative research with secondary data. Data were obtained from the Financial Services Authority [12] and Bank Indonesia [13]. The following was a technical explanation of the variables used in this study.

Table 1. Research Variables

Variables	Position	Unit of measurement	Sources
Funding (P)	Dependent	Rupiah	OJK
The number of borrower accounts (JRB)	Independent	Entity	OJK
Savings (T)	Independent	Rupiah	BI
Transportation and warehousing (TPBU)	Control	Rupiah	BI
Micro Business (UMBU)	Control	Rupiah	BI

Sources: author's description

Observations were made from 2018 to August 2021 based on monthly data, so there were 43 observations. To test the following hypotheses, the proposed model is

$$P_t = \sigma \quad + \beta_1 JRB_t + \beta_2 T_t + \beta_3 TPBU_t + \beta_4 UMBU_t + \varepsilon \tag{1}$$

4 Results and Discussion

Descriptive statistics in this study were shown in table 2 below:

Table 2. Descriptive Statistic

	Mean	Std. Deviation	N
P	16.6155	.72646	42
JRB	15122189.55	11823683.742	42

	Mean	Std. Deviation	N
T	1847488.17	183585.941	42
TPBU	35109.81	3126.853	42
UMBU	263396.10	64529.563	42

The following were the results of testing the proposed hypothesis using multiple linear regression, as shown in table 3 below

Table 3. Result

Variable	B	T	Description
Konstant a	1.365	0.807	
JRB	- 4.033E-008	- 3.020*	Negatively affect
T	3.770E-007	0.460	No affect
TPBU	0.000	5.657*	Positively affect
UMBU	7.670E-007	0.517	No affect
Total observation: 42 unit			
*significant at 5%			
R square 0.536, Adjusted R square 0.488			

The variable number of borrower accounts (JRB) negatively affects the amount of funding provided by fintech. The results of this test are different from the proposed hypothesis. The results of this test can be interpreted; the increasing amount of funding available at fintech is not accompanied by an increase in the number of existing borrower accounts. This condition shows that the users of funds available in fintech are not increasing. Users of fintech funding, primarily borrowers, are pointing in the opposite direction to the amount of available funding. Based on the latest fintech user statistics according to OJK in August 2020, it appears that most of the users are millennials, both lenders and borrowers [9]. Millennials are multi-tasking, achievement-focused, technologically savvy, team-oriented, and eager to be noticed and elicit feedback. It is just that they have shortcomings in terms of loyalty and practical learning [14]. When it comes to work, millennials tend to look for new challenges. This finding is in line with [15] which states that there are two main characteristics of millennials: work orientation related to family and fun and easy to change jobs (readiness to change jobs). This millennial character makes it easy for them to change jobs, especially if it does not match their preferences and interests.

Although access to funding in fintech is easy and cheap, using it for business purposes is a challenge in itself. Doing business requires passion and determination to face challenges. The OJK and BCG [12] research show that MSMEs in Indonesia has experienced a setback during the pandemic. It is just that there are still three responses to these conditions, namely survival, sustainability, and the future. This study is in line with [16] research, which shows the difficulties of MSMEs during a pandemic. Even though the government mandates banks to help, the administrative aspect is still quite tricky. Therefore, the presence of fintech lending (peer-to-peer) can be an alternative source of MSME funding. The amount of savings does not affect funding in fintech lending. This finding shows that fintech funding does not affect the pattern of savings and investment in the majority of the population. Compared to the outstanding value of fintech lending loans in August 2021 of IDR 25.5 trillion, this amount is far below the outstanding commercial bank loans for MSMEs, IDR 1,112.8 trillion [13]. The amount of funds circulating in fintech lending appears to be very small compared to the funds managed by commercial banks for MSMEs. It is just that the existence of fintech is not able to move funds in banking significantly. People still make savings and time deposit the primary preference for income placemen [8]. In line with [6] research, the dominance of banks in funding will impact long-term investment.

The additional testing results positively influence the number of outstanding loans for transportation and warehousing (TPBU) on fintech lending funding. This positive relationship can be interpreted that the increasing business in the transportation and warehousing sector was closely related to funding in fintech lending. One type of fintech familiar to the community is the marketplace [9]. A marketplace was an online market that brings together buyers and sellers in one digital platform. The development of this sector further encourages the development of transportation and warehousing. In e-commerce, there were two main types of fields, first, e-commerce platforms for direct buying and selling. Second, e-commerce enabler supports business models and transactions on e-commerce platforms. The transportation and warehousing business sector was part of the e-commerce enabler multiplying during technological disruption and pandemics. The amount of the loan value for micro-enterprises did not affected funding for fintech lending. The character of fintech that requires advanced infrastructure and adequate knowledge did not seem to reach the majority of MSME actors. MSME actors still prioritize funding sources from banks. In addition, according to [17], the behaviour of MSMEs in Vietnam facing challenging economic conditions during the 2008 financial crisis avoided risks. MSMEs tend to reduce investment for production and shift this investment to the financial aspect. In addition, they are also trying to find other types of business and avoid the main business that has been running so far

5 Conclusion

The existence of fintech affects the economy of a country and encourages the efficiency of MSMEs. This study reveals a negative effect of the number of borrower accounts on fintech lending funding, while savings have no effect. In additional testing, it appears that there is a positive influence on the transportation and warehousing business on fintech lending funding, while the number of MSME loans in banks has no effect. This study has limitations, including the inadequate number of observations. As a new field that is just growing, the data available at OJK is minimal. This study also does not directly compare loan funds in commercial banks with funding in fintech lending. This study does not compare the accounts of lenders and borrowers to determine how far the growth rate and character of the two are.

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