



Application of Financial Technology and Increasing Literacy Finance for MSME Business Strengthening Strategy

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Abstract. Micro, Small, and Medium Enterprises (MSMEs) have a strategic role in national economic development, including in the region of Kediri City. Covid-pandemic 19 is a challenge for SMEs, not even a few business units which must stop operating. The new recovery adaptation period is an opportunity for the MSME sector to improve strategies, one of which is a strategy in the financial area such as capital and payment transactions. Financial Technology (Fintech) can be used as a tool that can help the development of MSME businesses, especially on the financing side. Financial Literacy must also be improved in line with the usage of fintech so that MSMEs are careful in choosing and using financial access to help their business. Besides that, understanding financial literacy is expected so MSMEs will be able to use and manage their financial resources. The method used in this paper is descriptive qualitative analysis and study literature to explain the application of Financial Technology (Fintech) and reinforcement of financial literacy to restore MSME businesses in the new adaptation period in Indonesia. The results of the literature study of previous research journals and data from sources show that Fintech can support the limited needs of MSMEs only at banks or other financial services, especially in funding. Literacy Finance along with the use of Fintech will strengthen the MSME business in the future new adaptation. In addition, financial literacy is also needed by MSMEs to manage their financial resources wisely.

Keywords: Financial Technology, MSMEs, Financial Literacy.

1 Introduction

In 2020, corporations faced significant challenges attributed to the economic downturn resulting from the Covid-19 pandemic. The Kediri Region's economy was similarly impacted, leading to a rise in unemployment due to layoffs and the inability of businesses, including the MSME sector, to sustain their operations. MSMEs play a crucial role in supporting the economy of the Kediri region, with a recorded total of 5,808 such businesses documented by the Office of Cooperatives and MSMEs in the City of Kediri.

The recovery of MSME businesses during the post-pandemic period is crucial, as the MSME sector plays a vital role in reducing economic and social inequality by increasing people's purchasing power for domestic goods. However, MSMEs in the

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Kediri region faced several obstacles during their development resources (Aziz, 2021), including limited capital, technology, marketing, access to markets, and low soft skills among human resources (Wongso et al., 2020). Addressing the challenges posed by the new recovery era requires wise strategies from MSME business actors. One such strategy involves financing for business recovery due to Covid-19, utilizing Financial Technology (Fintech), and enhancing the financial literacy of MSME actors. Access to capital is essential for the success of MSME development in any country. Fintech, a technological innovation in the financial sector, can provide convenience and efficiency in managing financial matters for MSMEs. As businesses, including MSMEs, adapt their operations during this new era, there is a need for a recovery strategy that promotes economic growth and maintains social order in society. This includes changes in payment transactions, financing, and other financial dealings to align with the evolving landscape of the financial services industry, which has been significantly influenced by the global phenomenon of Financial Technology or Fintech (Rusadi & Benuf, 2020).

Due to the continuous advancements in financial technology, it has become essential for the community, including MSME players, to enhance their financial literacy. They should diligently study and understand the various financial services, products, and decisions they will implement. This step is crucial to ensure that they can fully benefit from accessing finance, including through fintech, without facing any harm. Financial literacy refers to the competency a person possesses in handling financial matters (Eire et al., 2019). Individuals with strong financial literacy skills perceive money from a different perspective and can effectively manage their financial situations (Yank et al., 2022). Moreover, financial literacy entails knowledge about compound interest, distinguishing nominal value from real value, basic understanding of risk diversification, the time value of money, and other related concepts (Nugraha et al., 2020).

In this paper, the author will describe strategies to strengthen MSMEs in Kediri City by utilizing the role of fintech to help matters related to MSME finance, including post-mortem capital. Covid-19 pandemic. In addition, the author also wants to explain the importance of financial literacy for MSME actors and the community in Kediri City so that technological innovations in the financial sector can be understood and put to good use and no harm. Previous research on the benefits of fintech on the sustainability of MSMEs in various regions in Indonesia can be used as a reference for the Kediri City area.

2 Method

This paper uses a descriptive analysis method with a qualitative approach and a literature study. Descriptive qualitative analysis is a method used when researching a natural object where the researcher is the main instrument (Kiger & Varpio, 2020). This analysis is used to explain the concept of synergizing the application of Financial Technology and increasing financial literacy to recover the MSME business strategy during the new adaptation period (JATMIKO et al., 2021).

The data used is secondary data obtained from publication data. Data sources were obtained from data from the Financial Services Authority (OJK), Bank Indonesia, the Central Bureau of Statistics (BPS), Data from the Ministry of Cooperatives and SMEs, the MSME Office of Kediri City, and references from journals or previous research.

3 Result and Discussion

MSMEs play a vital role in both the Indonesian and ASEAN economies, constituting approximately 88.8-99.9% of businesses in the ASEAN region and providing employment to 51.7-97.2% of the workforce. In Indonesia alone, MSMEs make up 99.99% of all business entities, accounting for around 56.54 million units. To ensure the growth and resilience of MSMEs in the post-Covid-19 transitional period, collaborative efforts are crucial. As per the data gathered from Kediri City's Cooperatives and MSMEs Service, there were 5,070 MSME actors in the city by the end of 2020. One of the primary challenges faced by MSMEs during the Covid-19 pandemic is related to financing and capital. Adequate capital is a key factor in the development of a business unit.

The lack of capital for SMEs is primarily due to their nature as individual businesses or private companies, relying on limited funds from owners. Acquiring loans from banks or other financial institutions is challenging because they often impose strict administrative and technical requirements that many SMEs cannot fulfill. The major hindrance for MSMEs lies in the collateral requirements, as not all of them possess sufficient assets to be used as collateral, making it difficult for them to access financing sources.

The development of Indonesia's MSME potential is closely tied to the support from banks in providing credit to these businesses. However, data from Bank Indonesia reveals that despite annual growth in credit to MSMEs, a significant percentage (around 60%-70%) of the entire MSME sector lacked access to financing through banks in 2015.

To address these limitations, financial technology (Fintech) innovations offer promising long-term opportunities for the MSME sector. Bank Indonesia defines Fintech as the fusion of financial services and technology, transforming conventional business models. According to Bank Indonesia regulation number 19/12/PBI/2017, Fintech refers to the use of financial system technology that generates new products, services, technology, and/or business models, impacting monetary stability, financial system stability, efficiency, smoothness, security, and payment system reliability.

Fintech offers a more effective and efficient alternative to traditional banks for financing MSMEs, particularly in remote areas accessible to MSME business owners. Its impact on the payment system has helped start-up companies reduce initial capital and operational costs. Consequently, Fintech is now capable of replacing the role of formal financial institutions, like banks.

As a new payment system, Fintech has served multiple purposes: (1) providing a market for business actors, especially MSMEs relying on digital media for marketing; (2) serving as a tool for payment, settlement, and clearing; (3) assisting in implementing

more efficient investments; (4) mitigating risks associated with conventional payment systems; (5) facilitating savings and borrowing for those in need; and (6) supporting equity capital.

Moreover, Fintech offers cost advantages through reduced administrative expenses, eliminating the need to visit physical service offices. It applies competitive interest rates and fees based on modern credit risk analysis, resulting in a relatively easier and faster process without requiring collateral in the form of assets. As a result, Fintech significantly assists the growth of MSMEs, empowering them to carry out their business operations effectively and becoming stronger entities. Its contribution to empowering MSMEs and stimulating the local economy is substantial.

Based on previous research conducted by Winarto in 2022, it is evident that Fintech has contributed to financial inclusion in Indonesia by empowering MSMEs in Pekalongan Regency, Batang Regency, and Pemalang Regency. This is evidenced by the widespread adoption of Fintech applications and collaborations with various Fintech platforms, making it easier for people to access loans and business financing. The research findings suggest that Fintech has proven to be an effective alternative to formal financial services, such as banks, in providing access to financing. This successful model can be adapted by MSMEs in the City of Kediri, particularly considering that many remote areas in West Kalimantan still lack access to traditional financial services.

Similarly, in their research titled "Influence of Financial Technology (Fintech) for the Development of MSMEs in the City of Magelang," Rahardjo et al. in 2019 also highlight the significant role played by Fintech in supporting MSME performance. Fintech contributes to increased operational efficiency and cost-effectiveness for its members. By offering non-cash transactions through applications, Fintech helps MSMEs reduce operational costs, avoiding traditional bank administration fees. Furthermore, Fintech provides unsecured loans, offering ample opportunities for MSMEs to obtain essential business capital.

One of the available Fintech Lending services that can serve as a valuable tool for MSME business capital is peer-to-peer lending (P2PL). P2PL is a Fintech platform that facilitates online capital loans or financing. In addition to providing online funding, P2PL platforms also handle risk analysis (Pranata & Farandy, 2019). The high demand for funds in Indonesia has led to the rapid development of peer-to-peer lending platforms compared to other Fintech platforms. Notable examples of financial technologies with dominant peer-to-peer lending platforms in Indonesia include Investree, Amarta, Modalku, among others.

In conjunction with utilizing Fintech, it is crucial to enhance the financial literacy of MSME actors. While Fintech offers potential benefits to the financial industry, such as improved stability and increased access to services (Octavina & Rita, 2021), some financial and startup sectors view Fintech as a gateway to expanding business opportunities. However, it's essential to acknowledge the simultaneous rise in security threats, which poses challenges for Fintech users, especially if they lack a solid understanding of financial literacy (Chemmanur et al., 2020).

Understanding the concept of financial literacy holds great significance for MSMEs. It enables them to grasp the value of money in the present and comprehend its future

impact, facilitating strategic efforts to enhance their performance and sustainability (Duma et al., 2020). According to the National Financial Literacy Survey (SNLK) conducted by the Financial Services Authority (OJK) in 2019, the national financial literacy index stands at 38.03%, and the financial inclusion index is 76.19%. However, the City of Kediri falls below the national level with a financial literacy rate of 36.48% and a financial inclusion rate of 75.33%. This highlights the low awareness among Kediri City residents regarding the financial services and products available to them.

In a previous research study titled "The effect of financial literacy on the performance and sustainability of MSMEs in Central Java" (Sari & Nugraha, 2020), it was observed that financial literacy significantly influences the performance and sustainability of creative MSMEs in Central Java. To overcome their limitations, MSMEs adopt a cooperative approach, collaborating to complement each other's strengths and gain a competitive edge in the global marketplace.

The study further emphasized the need to analyze MSMEs' performance using an approach based on three key assumptions: [1] Quantitative measurement of SME performance is often challenging due to limited resources (financial understanding and labor); [2] Traditional performance measurements focusing on financial indicators might not fully reflect the overall business condition; [3] Performance measurements commonly used are more suitable for large companies structured with formal management systems. Furthermore, (Sari & Nugraha, 2020) provides several indicators for measuring financial literacy, MSME performance, and business sustainability in Table 1.

Financial management should be a special concern for someone to achieve progress in life. Even in this case, for the corporate context, finance is a crucial sector for the company. This is then known as behavioral finance. Financial behavior is a person's attitude and behavior in managing his finances which is characterized by the act of consumption as well as saving (Fadilah & Purwanto, 2022). Managing personal finances is a process it will at least experience several things such as the use of funds, determining the source of funds, risk management, and planning for the future.

The important goal of financial literacy is basically to conduct education in the field of finance for the people of Indonesia so that they can manage their finances smartly. Smart in this case is not demanding one becomes very proficient in finance, but at the very least they can plan their future finances. Therefore, low knowledge of the financial industry can be overcome (Indriyati, 2020). For SMEs, good financial management will impact the sustainability of their business in the future.

Table 1. Indicators for Measuring Financial Literacy, MSME Performance, and Business Sustainability

Description	Indicators
Financial Literacy	<ol style="list-style-type: none"> 1. Ownership of an account in the name of the company 2. Identify the company when opening the account 3. Minimum deposit of funds when opening an account 4. Knowledge of savings guarantees

Description	Indicators
<ol style="list-style-type: none"> 5. An understanding of the potential return on internal savings one year 6. An understanding of the potential return on internal savings multi years 7. Understanding of the calculation of credit interest per year 8. Knowledge of the premade between the two choices of product 9. Knowledge of the effect of inflation on the value of money 10. Knowledge of the time value of money 11. Understanding of the effect of inflation on company growth 	
Performance MSMEs	<ol style="list-style-type: none"> 1. There is work that is planned and running accordingly work plan 2. Frequent work errors that cause repetition 3. There is sales growth 4. There is a decrease in fixed costs 5. Ability to anticipate production when requested increase 6. Timeliness guarantee to customers 7. Conformity of the product with the specifications offered
Business Sustainability	<ol style="list-style-type: none"> 1. BEP has been achieved 2. There is a customer satisfaction tracking system 3. There is a satisfaction tracking system for employee/manager

Source: (Sari & Nugraha, 2020)

4 Conclusion

From the data obtained through previous research and data on the condition of MSMEs in Indonesia, especially in the City of Kediri. It can be concluded that Fintech is a breath of fresh air to help MSME businesses, especially in the area of business finance. Fintech in various regions helps MSMEs in carrying out their operations such as payment, investment, financing, insurance (Risk Management), and cross-process transactions, as well as Security Infrastructure. Where these conditions greatly help the effectiveness and efficiency of SMEs in running their business. Particularly in terms of capital, Fintech can be a solution to open access to financial services, especially for areas where there are no formal financial services such as banks. Unsecured financing, small administrative costs, and accessible anywhere are the advantages of Fintech that can be utilized by MSME players in Indonesia. However, the application or use of Fintech must be followed by an increase in financial literacy by the community, including MSME actors. Such as checking legality and Fintech permits, conformity with business needs, and risk management. So that the benefits of Fintech can be felt properly and can help the sustainability of MSMEs in the City of Kediri. In addition, with good financial literacy, MSMEs will be able to manage sources of financial funds properly and can pay attention to the value of money in the future so that long-term business continuity can be felt. The limitations of this research are due to not observing directly in the field and the lack of analytical material to answer the effect of applying Fintech and increasing financial literacy on strengthening MSMEs in Kediri City. The research is only limited to the study of literature and descriptive analysis. So, it is hoped that further research can observe directly in the field and analyze the effect with a more accurate method. It is hoped that deeper research will provide references to the

community and especially MSME actors in using Fintech with the provision of financial literacy to strengthen their business.

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