

THE IMPACT OF FINTECH AND FINANCIAL LITERACY ON MSME DEVELOPMENT THROUGH ACCESS TO FINANCE

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are the backbone and driving force of economic growth, the development of Technology is a new opportunity in the development of financial technology, but to be able to achieve the full benefits of Fintech, financial literacy to achieve financial access is a critical aspect that cannot be ignored. Researchers reviewed articles related to economics, accounting, management and finance indexed by Scopus and Sinta. Researchers realize that it is very important to analyze and reflect to develop research on Fintech and Financial Literacy on MSME Development. This research uses a literature study or literature review method. Based on the results of the study, it shows that the existence of fintech and financial literacy through financial access can affect the development of MSMEs.

Keywords: Fintech, Financial Literacy, MSME, Financial Access
JEL Classification:

INTRODUCTION

In the era of increasingly sophisticated and constantly evolving technology, digital transformation represents the fourth industrial revolution and will bring fundamental changes to business models and their performance. Industry 4.0 is not only the digitization of manufacturing through the networking of various information and communication technologies (ICT), but also the digitization of production between ICT and production systems such as machines, products, and production systems. It also features Driving digital transformation is based on the belief that new technologies have great potential to drive innovation and achieve competitive advantage (Dziallas & Blind, 2019).

Innovation is generally understood as the successful implementation of new ideas resulting from organizational processes that combine different resources. Innovation makes it easier for companies to introduce new products and systems quickly (Rajapathirana & Hui, 2018). Technological innovation is essential to improve the productivity of MSMEs through time savings, increased cost effectiveness, better presentation, information exchange, improved worker skills, improved company communication with external parties, and improved access to trade information (Putri et al., 2022). The combination of these resources

is a multi-step process that results in an improved or new product, service or process that differentiates the firm in the market (Costa & Matias, 2020; Farzaneh et al., 2022; Radicic, 2023; Rauter et al., 2018).

Micro, Small, and Medium Enterprises (MSMEs) continue to dominate the business scene. Business performance is defined as financial, operational, and organizational performance. Business performance is critical to the success or failure of a business. (Andonov et al., 2021; Rehman, 2023; Sarwoko & Nurfarida, 2021). Micro, Small and Medium Enterprises (MSMEs) have an important role in increasing economic growth in Indonesia, MSMEs are the backbone of the economy, and the driving force of growth, but in carrying out their role, MSMEs also face obstacles. The problem of capital is one of the obstacles faced by MSMEs, due to limited public access to financial institutions which has an impact on MSME capital where MSME entrepreneurs find it difficult to obtain capital from financial institutions (Rika et al., 2021).

Access to finance challenges faced by MSMEs are often an obstacle to their development and sustainability. Now, with the emergence of financial technology (Fintech) and increased financial literacy, there are new opportunities to improve financial access for MSMEs (Doni, 2022; Junaidi, 2023). Fintech is emerging as a promising solution. Fintech with all its innovations such as peer-to-peer lending, digital payments, and technology-based financial services, has great potential to overcome traditional obstacles in gaining access to finance (Loe&Ratnawati, 2023; Nugraha et al., 2022; Rika et al., 2021; U. Gupta, b. Agarwalb, 2022). This transformation not only presents new alternatives, but also opens up opportunities for increased efficiency, speed and transparency in financial services for MSMEs. The transition to a dual work system (online and offline) has created opportunities for companies to make profits quickly, work remotely, and cover large areas (Aptika.kominfo.go.id, 2022; Fachrurozi, 2023; Moerdijat, 2023).

In this context, this research aims to explore the "The Impact of Fintech and Financial Literacy on MSME Development through Access to Finance". By detailing the role of Fintech in facilitating access to finance and the importance of financial literacy in utilizing it optimally, this research is expected to provide valuable insights for the government, business practitioners, and financial institutions in creating an enabling environment for MSME growth.

METHOD

This research is a research using the literature study method or literature review. Literature review is a comprehensive overview of research that has been done on a specific topic to show readers what is already known about the topic and what is not yet known, to find rationales for research that has been done or for further research ideas. Literature studies can be obtained from various sources including journals, books, documentation, the internet and libraries. The type of writing used is a literature review study that focuses on the results of writing related to the topic or writing variable (Adlini et al., 2022).

The data used in this study come from research results that have been conducted and published in national and international online journals. In conducting this research, researchers conducted a search for research journals

published on the internet using the search engine mendeley.com and scholar.google.com. The data collection process is carried out by filtering based on the criteria determined by the author of each journal taken. The criteria for collecting journals are as follows:

1. The year of the literature sources taken from 2019 to 2023, the suitability of the writing keywords, the relevance of the writing and discussion results.
2. Strategies in collecting various literature journals by using mendeley and Scholar journal sites. Effective writing methods for journal settings by entering keywords according to the writing title and searching.

RESULTS AND DISCUSSION

RESULTS

Based on previous studies, there are factors that influence the development of MSMEs. There are several articles analyzed that are related to the factors of MSME development.

The development of digital transformation has also clearly triggered the emergence of fintech (financial technology) initiatives which are recognized as one of the most important innovations in the financial industry (Suryono& Budi, 2020), Fintech companies consistently innovate in developing customized products and services for users and SMEs to increase access and financial inclusion to achieve Indonesia's national financial inclusion target of 90 percent by 2024 (Nugraha et al., 2022). The development of MSMEs can be seen from their ability to access funding, through fintech there are many facilities that MSMEs have, such as research that has been conducted by MSMEs in India (U. Gupta, b. Agarwal, 2022). Based on the presentation of the results of previous research, the results of this study can also be concluded that Fintech has an impact on the ability of MSMEs to access finance.

Financial literacy is a critical aspect that cannot be ignored, a good understanding of financial management allows MSME players to make smart decisions in utilizing Fintech services and access to finance. Financial literacy opens the door to a better understanding of risks, opportunities and wise financial management strategies. Financial literacy is a term that refers to the knowledge and skills needed to make informed and effective financial decisions, such as budgeting, saving, investing, debt management and retirement planning. Financial literacy is important for people of all ages and income levels because it can help them make better decisions and improve their financial well-being (Junico et al., 2022; Lusardi& Mitchell, 2011; Xu, 2012; Zaniarti et al., 2022), several previous studies have shown that financial literacy has a positive effect on financial access (Shofi, 2022; Ye & Kulathunga, 2019; Zaniarti et al., 2022). Based on the results of previous research, it can be concluded that the financial literacy of MSME actors has an impact on the ability to access finance.

The results of previous research conducted in various countries also show that there is an influence of Fintech on the development of MSMEs, this is like research that has been conducted on the performance of Cameroonian MSMEs, which shows that there is an influence of fintech has a positive and significant effect on the performance of SMEs (Lontchi et al., 2023), Other research in Jordan also shows that fintech has a positive effect on SME performance (Younis et al., 2023). The findings of research conducted in Indonesia show that the

perceived benefits of Fintech have a direct impact on the intention of SMEs to use Fintech during the pandemic (Nugraha et al., 2022), the advancement of SMEs and MSMEs will ultimately affect economic growth, this is in line with research conducted by (Kireyeva & Kredina, 2021). Other research shows that people already know the usefulness of fintech and its development. (Putri et al., 2022), as well as other studies that show a positive relationship between fintech and MSME development through financial access (Fasano & Cappa, 2022; Gunawan, 2023; Kurniasari et al., 2021; Rika et al., 2021). From some of the research results that have been conducted by previous researchers, it can be concluded that with the existence of Fintech, MSME actors can develop MSMEs through their ability to access finance.

Previous research shows that financial literacy and access to finance affect the sustainability of MSMEs (Zaniarti et al., 2022), SMEs that apply financial literacy to their entrepreneurial activities at a higher level have the opportunity to achieve more success in running their business because they can make the right financial decisions (Junico et al., 2022), the ability to analyze small business risks to improve financial performance and sustainability of your company (HC, 2023). The results of these studies show that financial literacy has an impact on the development of MSMEs through their ability to access finance.

In a study conducted by Ye found that there was an effect of access to finance on the sustainability of MSMEs (Ye & Kulathunga, 2019), other studies show that access to finance affects the sustainability of MSMEs (Zaniarti et al., 2022), access to finance is very important in driving the performance of SMEs (Junico et al., 2022). The results of previous research indicate that the ability to access finance in MSMEs will have an impact on the development of MSMEs.

DISCUSSION

FINTECH ON MSME DEVELOPMENT

MSMEs have a very important role in increasing regional and national economic growth. So far, the problems that often arise in the development and sustainability of MSMEs are related to capital. Capital is one of the problems that is the main focus considering that the number of MSMEs that can access capital is still very small (Ye & Kulathunga, 2019). An external factor inhibiting the growth of MSMEs is limited community access to financial institutions.

Advances in information technology are currently encouraging to be able to play a role in providing solutions to capital problems in MSMEs. The technology that is often used for transaction processing needs today is financial technology (Fintech). Fintech provides financial solutions by providing access to financing to MSMEs that have been constrained by bureaucracy in other financial institutions, namely banks. Fintech simplifies the financing process because it can provide loans without collateral. Fintech is an emerging phenomenon with broad boundaries because it has various definitions. Fintech involves various ways where finance and technology meet, broadly speaking fintech companies can be defined as technologically advanced companies that utilize digital business models. According to Bank Indonesia, Financial technology is the use of technology in the financial system that produces new products, services, technology and/or business models that can have an impact on monetary stability,

financial system stability, and/or the efficiency and reliability of the payment system.

Research on the effect of Fintech on the development of MSMEs has been carried out by many previous researchers, Dinar et al (Dinar et al., 2021), the results of their research reveal that Financial technology has a significant positive effect on capital development and also the development of MSMEs. Lontchi et al, (Lontchi et al., 2023), (Younis et al., 2023), Gunawan et al (2023) in their research findings explain that Fintech has a positive effect on financial performance. The use of fintech has enabled financial institutions in Jordan to offer faster, cheaper, and more convenient services to their customers, resulting in improved financial performance. In accordance with the results of research by Daud et al (2022); Zhou et al (2022) that fintech adoption can have a positive impact on financial performance. This is because the adoption of fintech can increase financial inclusion, thus providing access to financial services to underserved communities.

Fintech adoption can also improve financial efficiency, as it can reduce transaction costs and increase the speed and accuracy of financial transactions (Zhao et al 2022). This can lead to improved financial performance, as individuals and businesses can manage their finances more effectively. In addition, FinTech adoption can improve financial transparency, as it can provide individuals with better access to financial information and enable them to make more informed financial decisions. This can lead to improved financial performance, as individuals can make better financial choices and avoid costly mistakes (Nguyen, 2022). However, the impact of FinTech adoption on financial performance can be affected by various factors, such as a person's financial literacy or their access to financial services. Moreover, as FinTech adoption grows, it is likely that its impact on financial performance will evolve over time (Gofwan, 2022).

Widyastuti & Hermanto (2022), Eca et al (2021), that financial technology has a positive effect on MSME capital. The presence of fintech companies also contributes to the development of MSMEs. This is because MSMEs are greatly helped by the services and products provided by fintech companies and the facilities provided can help develop MSME capital. According to the results of research by Ica et al (2021), it shows that the accessibility variable has a significant influence on the development of capital for MSME actors. MSME access to financial technology that is getting better will increase the development of MSME capital and accessibility plays a role in the development of MSMEs. MSMEs with technological advances should be able to take advantage of the easy access or accessibility to facilities provided by fintech companies and can increase company capital. Not only limited to helping venture capital financing, the role of fintech also extends to various aspects such as digital payment services and financial arrangements.

FINANCIAL LITERACY ON MSME DEVELOPMENT

Financial literacy of MSMEs is the ability of managers to record financial statements, manage debt, and prepare budgets. Recording financial statements requires MSME managers to have the ability to record business activities, business income and costs, business profitability, and other performance-related topics. Financial literacy is one of the key abilities and skills that MSME business owners need to manage their finances and achieve successful

business performance. Most MSME owners lack insight and knowledge; hence, they lack long-term focus. Due to the lack of management knowledge, efforts to improve effectiveness are usually based on convention. As a result, actors often mis-measure business productivity, which ultimately impacts business performance. The development of MSMEs is hampered by various challenges, both internal and external. First, internal factors include inadequate capital, production, marketing and human resources. Second, external variables in the form of difficulties posed by SME developers and managers. Some of these problems will affect the performance of MSMEs if not addressed.

From research conducted by Claude et al (2023) that financial literacy is an important mechanism that needs to be passed to access fintech services for financial operational performance. Maria & Budi (2022) that financial literacy has a positive and significant effect on financial technology. Ade et al (2023) that financial literacy, financial technology, and financial inclusion affect the performance of MSMEs. Florentina (2021) that customer decisions in choosing financial technology services are strongly influenced by customer knowledge. Customer knowledge is formed from information gathered from social networks, formal guarantees by the government, financial service facilities, and financial inclusiveness. A high level of financial literacy is needed to prevent financial difficulties.

Financial difficulties are not only caused by low income, but also by mistakes in financial management, such as misuse of credit, lack of financial planning, and lack of savings. Financial literacy is therefore a prerequisite for prosperity. Financial literacy influences the way one thinks about financial conditions and affects the decision-making and strategic financial management of business owners. The ability of business owners to manage their finances is important for business performance and survival. Business owners must acquire financial knowledge to improve their company's performance. This is important because MSMEs are often unable to prepare their own financial statements, the majority of commercial banks are reluctant to provide capital loans. Financial reporting is crucial for MSMEs to determine the success of their business. Small and medium enterprises can fund their working capital and investment in two ways, according to the debt management literature, there are two main sources of funding. First, SMEs can utilize savings; second, they can contract obligations to third parties. When a business decides to borrow, the percentage of private capital to external capital/debt decreases. Budget planning skills can be used to plan future business activities.

For MSMEs, financial literacy is the manager's ability to record financial statements, manage debt and prepare budgets. Recording financial statements requires MSME managers to record business activities, business income and expenses, business profitability, and other performance-related topics. When MSMEs are unable to prepare their own financial statements, most commercial banks will not provide capital loans. The ability to present financial statements is important so that MSMEs can measure the success of their business. Based on the debt management literature, MSMEs can fund their working capital and investment in two ways: first, they can utilize their savings; second, they can go into debt to a third party. When a business decides to borrow, the proportion of private capital to external capital/debt decreases. Financial literacy is the ability of entrepreneurs and company/MSME managers to organize and make financial

reports on their business activities, including income and expenses, debts, and future budgets.

CONCLUSION

Fintech can have a positive impact on financial performance, can increase financial inclusion, financial efficiency, financial transparency, and avoid costly mistakes. Financial technology has a positive effect on MSME capital, and the presence of fintech companies contributes to the development of MSMEs. Accessibility has a significant influence on the capital development of MSME players. The better access of MSMEs to financial technology will increase the development of MSME capital and accessibility plays a role in the development of MSMEs. Fintech also helps venture financing, the role of fintech extends to various aspects such as digital payment services and financial arrangements.

Financial literacy is an important mechanism that needs to be passed to access fintech services for financial operations. Financial technology, financial technology, and financial inclusion affect the performance of MSMEs. Financial literacy is a prerequisite for prosperity. The ability of business owners to manage their finances is important for business performance and sustainability. Business owners must acquire financial knowledge to improve their company's performance.

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