

Impact of Covid-19 Pandemic: SMEs Financing Solutions through Fintech Lending Education

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ABSTRACT

The covid-19 pandemic has a very extraordinary impact on SMEs, especially on the decrease in income obtained resulting in business actors having to spend more for business capital owned to cover the losses experienced. The purpose of this study is to identify the impact of the covid-19 pandemic on SMEs. In addition, to analyze the problems in SMEs financing by providing Fintech Lending educational solutions. Research methods use methods of literary or literature studies (library research) with a descriptive analysis approach. Secondary data collection is done by collecting data from various sources through the internet, journals, research results, articles, and so on. The results of the study there are several problems including the lack of knowledge and understanding and information of SMEs actors about online loans. In addition, the public does not understand fintech P2P lending companies that are not registered, where those who do not have permission from OJK have a very high risk that can be detrimental. Some ways of education can be done by way 1) to socialize and counsel related to companies or platforms that have been given permission and supervised by OJK. 2) conduct assistance and training through academics when carrying out Village Service related to the workings of Fintech Lending applications to the community and SMEs actors. In addition, 3) for people in disadvantaged villages can introduce and provide understanding related to branchless banking.

Keywords: *fintech lending, financing, SMEs, covid-19 pandemic*

1. INTRODUCTION

The covid-19 pandemic that occurred made the education sector, economy, politics, and other sectors shaken. The economic sector has a significant impact on SMEs who experience stagnation and a decrease in their income. The economic decline in the pandemic period is a result of government policies that prioritize health so that all communities are required to implement health protocols such as social distancing, physical distancing, to Large-Scale Social Restrictions (PSBB) [1]. This indirectly makes the economy of the community also experience development, because between the market and the community becomes difficult to connect. Similarly, SMEs, with the limited behavior of the community because the implementation of health protocols resulted in their income is down. The impact of covid-19 on SMEs for banks is experiencing an increase in the number who want to make loans, while the negative impact is the inhibition of loan payments according to the

predetermined period [2]. This is because that SMEs actor is affected by declining income so that they experience obstacles when paying loans. In addition, there are cases where capital loans are misused to meet daily needs.

The existence of the covid-19 pandemic has a serious impact on MSMEs in Indonesia, where SMEs play an active role as the backbone of the economy. MSMEs are very high GDP contributors, but the covid-19 pandemic led to a decrease in GDP growth in Indonesia. According to the Central Statistics Agency (BPS) gross domestic product (GDP) growth in the first quarter of 2020 still reached 2.97% after the covid-19 pandemic in the second quarter of 2020 decreased by minus 5.32% and the third quarter of 2020 by minus 3.49% [3]. SMEs actors seek to increase their revenue in various ways such as marketing their products online. The SMEs strategy survives the covid-19 pandemic by utilizing e-commerce, promoting products through digital marketing,

improving product and service improvements to consumers, and maintaining the quality of existing products and customers [4]. In addition, now SMEs actors have been facilitated by the existence of business credit for business capital. Since the existence of business credit, SMEs actors are very facilitated in transacting because it can be done online. The emergence of new technologies in offering innovative financial services and products and reshaping the financial sector, namely FinTech (financial technology) [5]. Examples of activities in FinTech range from digital payment instruments, FinTech lending i.e., peer-to-peer lending (P2P lending) and crowdfunding, open banking, cryptocurrency, to Robo-advising.

The rapid change in digitalization is characterized by the emergence of technology-based financial services such as Fintech Lending which provides easy access to financial services, especially in terms of loans easily and quickly. Fintech Lending has been accommodated by Financial Services Authority Regulation No. 77/POJK.01/2016 regarding lending services to sharpen money funds based on information technology. In addition, Fintech Lending makes a tremendous contribution to the empowerment of SMEs and the local economy is improving the financial inclusion of SMEs. However, this service makes the public must be more selective in determining the company because many P2P Lending companies do not have permission from OJK. So that SMEs who need funds do not need to come to the bank to make loans, but simply by using several Fintech Lending applications such as amantha, investree, cekaja.com, and others, creditors can already make loan transactions [6]. In addition, SMEs have obstacles such as a lack of knowledge in how they work, as well as a lack of information about Fintech Lending. The lack of information about P2P Lending and other problems can be overcome by conducting education about Fintech Lending to SMEs actors.

Understanding regarding capital for MSME actors and the difference in the loan system between using Fintech Lending and bank-tangible lending institutions also needs to be known by all SMEs actors. It is necessary to strengthen regional organizations and increase the participation of community members to be active in productive activities [7]. From these problems, education and

increased understanding of Fintech Lending must be socialized to all SMEs. The activities are expected to contribute to the development of SMEs during the covid-19 pandemic and be able to reach the industrial revolution 4.0. In addition, with this industrial revolution, SMEs can also increase their business through social media and e-commerce, on the other hand, to survive the current covid-19 pandemic. Fintech Lending P2P Lending is a digital lender that expects competitive returns [8]. Digitalization is an important strategy that can be applied by SMEs to conduct marketing activities and improve relationships with customers and can make electronic payments and financing for SMEs.

There are previous studies that are very relevant as a consideration to support this research. The rise of Fintech has attracted increasing attention such as credit supply by banks and capital raising in the market, the innovation of payment services, and clearing [5]. There was an increase in the use of banking products and services, savings and loan cooperatives, and other financial institutions by 6.40% from before the development of Fintech [9]. However, there are SMEs problems that are problems about the capital that must be addressed immediately, therefore fintech is present to provide solutions to the problems that occur [10]. SMEs in Indonesia should be able to distinguish between legal and illegal fintech lending products. The existence of illegal peer-to-peer (P2P) lending in Indonesia, the findings of this study are that there are regulatory weaknesses in regulating illegal P2P lending [11]. In addition, there are no strict legal sanctions for P2P lending organizers who act less ethically to borrowers.

This problem arises because of the impact of the covid-19 pandemic which resulted in a drastic decrease in revenue, as well as financing institutions that provide programs to keep SMEs in business. The role of this financing institution is needed to increase the business of SMEs actors, especially regarding funding. However, SMEs are not widely aware of the provision of loans with technology or online. SMEs urgently need information about Fintech Lending and how the technology works. Thus, there needs to be education for SMEs actors to understand and be able to make loans through Fintech Lending. The purpose of this study is to identify the impact of the covid-19 pandemic on

SMEs. In addition, to analyze problems in SMEs financing by providing Fintech Lending educational solutions. This research literature review uses literature studies conducted by searching databases in the journals Scopus, ScienceDirect, and Google Scholar, according to keywords. This library review process is only on SMEs financing through fintech lending. Nearly 21 relevant papers identified more than 13 papers selected for inclusion in the review, which included several studies on fintech lending.

2. METHODS

This research using literature or literature study methods (library research) is systematically conducted by analyzing journals relevant to the research topic. The approach used by this study is a descriptive analysis approach to explain or describe the phenomenon of ongoing social symptoms according to data related to the problems studied. This research is limited only to the problem of SMEs, especially fintech lending financing during the covid-19 pandemic, and using education as a solution to the problem. This study seeks to describe or explain a phenomenon of social symptoms that are ongoing and associated with future conditions. Secondary data collection is done by collecting data from various sources through web-based electronic media, relevant journals, research results, and so on. In addition, data is obtained from research results relevant to the topic of cultivation in financing solutions through fintech lending education.

3. RESULT & DISCUSSION

3.1 Impact of Covid-19 Pandemic on SMEs

The impact of covid-19 has an impact on large to small business actors, ranging from the price of goods that fell sharply and various business actors have difficulty distributing and transactions directly. This is strongly felt in industry players, because of the enactment of Large-Scale Social Restrictions (PSBB) that can cause income to drop dramatically. The impact of the covid-19 pandemic is felt for culinary businesses because the government limits face-to-face transaction activities or eating on the spot so that it has an impact on the reduced income obtained [12]. The increasing number of covid-19 cases continues to increase and poses a public threat to livelihoods in the industrial, agricultural,

livestock, and other sectors [13]. The covid-19 pandemic is some businesses whose sales management decreased by 75% and this makes it difficult for businesses to meet their needs and the inability to pay employees' salaries so that there are employees who are laid off and salary reductions [14]. Therefore, SMEs actors must follow the development and progress that exist. This digitization can be used as an alternative to maintaining its business during the current covid-19 pandemic.

3.2 Fintech Lending Issues

Technological progress in the current era of globalization is the ease of people making loan funds with fintech lending. Financial Technology (Fintech) is a technology that can help SMEs through capital loans, social impact, and provide advantages in competing [8]. Fintech lending has made financial services cheaper, faster, and easier [15]. Here fintech provides convenience in transactions and financing systems that are more effective, efficient, and practical. However, there are some problems in fintech lending in Indonesia that can harm some parties. These problems include a lack of knowledge and understanding about fintech lending products, as well as the lack of public information about fintech lending. In addition, there are fintech lending companies that are not registered or do not have a permit in the Financial Services Authority (OJK). Behind this many offer online loans through short message services (SMS), which includes illegal platform practices that are not registered with OJK. Many people who become the korban of these illegal loans, people who do not have strong financial literacy who easily believe in the offer.

Indonesian Bank (BI) and the Financial Services Authority (OJK) have limited authority in the making of regulations and regulations produced by such institutions that cannot regulate the provisions of punishment, this resulted in inadequate consumer protection measure [16]. Meanwhile, Fintech as a technology-based online loan financial service is considered very profitable because the requirements to apply for it are very easy only with an Identity Card (KTP), borrower photos, and borrower account numbers can get funds in a short time [17]. Fintech has a more efficient way of working than conventional financial institutions, but

everything has its positives and negatives. Some of the negative sides of Fintech Lending can cause problems that are considered detrimental to some parties. With a more tightly regulated administrative, fintech lending still poses some problems in running its business such as in terms of services. Therefore, the need for Fintech Lending education for SMEs to better understand and not feel aggrieved.

The Task Force on Investment Alert reported 2,018 illegal P2P lending, 472 illegal investment companies, and 69 illegal pawnshops [16]. The accumulation of online loan transactions in December 2019 reached a total of Rp81.50 trillion, an increase of 259.56% from the previous year. Meanwhile, the number of bad loans reached Rp13.6 trillion, an increase of 169.48%. The Task Force on Investment Alert (SWI) found 126 illegal peer-to-peer lending, 32 investments, and 50 pawn companies operating without permission until the end of September 2020 [18]. There are 2,500 sites and platforms that have been blocked by the Investment Alert Task Force (SWI). Therefore, SMEs should be more careful with fintech lending companies that are not registered, because those who do not have permission from OJK have a very high risk that can be detrimental. In addition, there are issues regarding fintech lending including public awareness about P2P lending (user understanding), data leakage, and restrictions on data access, including personal data protection, personal data fraud, illegal fintech lending, and product marketing ethics [18].

Transportation, communication services, information access, and education in some villages are still very limited to being left behind villages [19]. The lack of facilities and infrastructure for access to information is still difficult and the problem of financial ensnaring citizens makes it more distant from the openness of public information. There are several problems related to money lending through fintech lending, such as the lack of internet access in disadvantaged villages. In addition, many people do not know, use, and get banking services or other financial services. This happens one of them because it is a distant residence with banking services. Most of the people who use banking financial services and know banking transactions [20]. This is because of some factors such as the distance of residence of residents with the nearest bank branch office and not evenly distributed

bank services to the region in Indonesia. In addition, banks are still seen as expensive for some rural communities because the service time of bank branch offices is limited to office hours only. From these problems, it is not only SMEs who need education about financial institutions. However, people in some villages are in dire need of information and understanding of existing technological advances such as fintech lending.

3.3 Fintech Lending Education on SMEs

The issue of illegal online loans can be minimized by the way OJK formed the Investment Alert Task Force (SWI) which is one of its duties to oversee illegal fintech. Later SWI will coordinate with relevant parties such as the Minister of Communication and Information to block, the police for enforcement in the criminal element, the bank to break the chain of illegal online loans when registering new accounts. From these problems, education is needed to the community and SMEs actors to minimize the problem of fintech lending that often occurs. In addition, educate the public to be careful in making online loans [21]. This education has a good influence on capital knowledge and knowledge of technological progress in the era of the industrial revolution 4.0 today. This education has the aim to introduce to SMEs about the importance of capital in the business, then introduce Fintech Lending as a capital solution for SMEs [8]. In addition, to provide understanding to the wider community regarding Fintech Lending. Do not forget to assist SMEs actors in using applications or companies that have been given permission and supervised by the Financial Services Authority (OJK) to minimize fraud that is rife.

Education plays a strong role in the identification of borrowers in the online lending market [22]. Following that, education has an important role for SMEs to better understand how Fintech Lending works and what are the benefits for them. His findings in the analysis of questionnaire calculations as many as 96% of respondents did not know about fintech lending. Meanwhile, 100% of respondents do not know the difference in lending systems through banks/cooperatives and fintech lending. There is a difference between banks and fintech, namely fintech comes with a variety of services, namely lending, crowdfunding services,

payment, and money transfer, investment, and personal financial management services [8]. This means that education about fintech lending has a good influence on capital knowledge for the community. Increasing literacy can be done through education such as 1) socializing and counseling to SMEs actors throughout Indonesia through regional organizations 2) giving more emphasis to SMEs

related to companies or platforms who have been granted permission and supervised by the Financial Services Authority (OJK). Then 3) to assist SMEs actors through academics for example when carrying out Village Service 4) held training both online and offline to SMEs actors related to how fintech lending applications work.

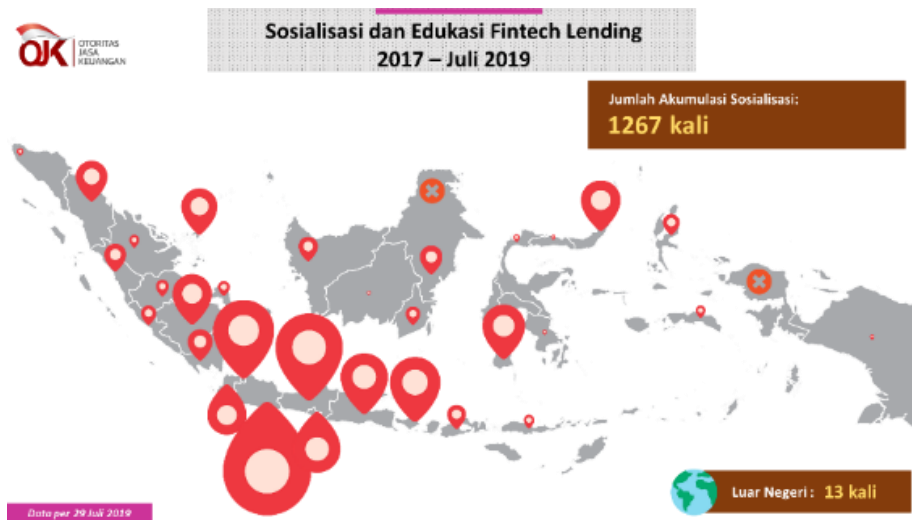


Figure 1 Implementation of Fintech Lending Socialization and Education in 2017-2019

Source: Financial Services Authority (OJK) website [25]

Based on the picture above that socialization and education have been carried out 1,267 times, but until now it is still not maximal in its application to SMEs actors. Therefore, it needs to be improved again and the achievement of targets is more widely disseminated so as not to cause information asymmetry by SMEs actors. Providing information to SMEs actors related to financing can be accessed through the OJK website is very necessary, maybe so that SMEs actors can get important information such as a list of companies or platforms that are supervised and given permission by OJK. In March 2020 the list of Fintech Lending companies as many as 161 companies was registered by OJK. Education about Fintech Lending is needed to increase and expand knowledge of the benefits of using financial services by using technology to facilitate financial transactions. Fintech education for the community, the percentage for the understanding of educating participants about Fintech reached 70.86%, and participants who managed to download financial applications by 68% [23]. This means that the public is very enthusiastic to utilize financial services facilities with today's technology.

Some villages in Indonesian are still included in the villages left behind, where internet access and financial institutions have not been able to reach the place. The government always tries its best, such as giving free internet to the public. It's just that the program has not been evenly distributed throughout Indonesia. From these problems, there are several solutions, especially the problem of the unavailability of financial services in disadvantaged villages. By counseling to associations or associations that are often held in the village for friendship or just various information between each other. In addition, the solution is to introduce and promote branchless banking in the village. Where branchless banking is a program of providing banking services or financial services through cooperation with other parties and supported by the use of information technology with the aim that the community can be touched by financial services to rural areas [24]. The solution is very instrumental for the people in the village because branchless banking provides convenience. Branchless banking has become an effective means to provide basic banking services for people with low economic conditions

and effective in cost savings and access time banking services to the community [24].

4. CONCLUSION

The covid-19 pandemic has a very extraordinary impact on SMEs, especially on the decrease in income obtained resulting in business actors having to reach more for business capital owned to cover the losses experienced. Technological advances in this era of globalization, provide convenience for SMEs actors in lending funds through Fintech Lending. The advantage of this is that people are given the ease in transacting about effective, efficient, and practical financing. However, on the other hand, Fintech Lending has several problems such as lack of knowledge and understanding and lack of public information about online loans. Then another problem is that SMEs must be careful with fintech lending companies that are not registered because those who do not have permission from OJK have a very high risk that can be detrimental. Therefore, fintech lending education is needed for the people in Indonesia. Several ways can be done by way 1) to socialize and counsel both the community and SMEs actors related to companies or platforms that have been given permission and supervised by the Financial Services Authority (OJK). Then 2) conduct assistance and training through academics when carrying out Village Service related to the workings of Fintech Lending applications to the community and SMEs actors. In addition, 3) For people in disadvantaged villages can introduce and provide understanding related to branchless banking.

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