



Analysis of MSME Financial Intelligence Level in the Utilization of Peer-to-Peer (P2P) Lending as a Financing Alternative in Batam City

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Abstract. Micro, Small, and Medium Enterprises (MSME) is Indonesia's main corporate sector, with 97% of Indonesia's total workforce. Capital fulfillment is one of the obstacles to MSME's development. While most Indonesian MSMEs have various weaknesses in meeting banking requirements for financing, technological developments in the financial services sector have created peer-to-peer (P2P) lending service providers. However, the existence of P2P lending is not perfect for MSME alternative lending in Indonesia, including Batam city. The study aims to analyze SMEs' level of financial intelligence when using P2P lending as alternative lending. The location of this survey was Batam, with respondents from up to 150 SMEs in Batam. This study is related to data analysis techniques using the partial least squares (PLS) method using SmartPLS software version 3. The results show that the level of financial intelligence of MSME actors in Batam is still low to understand the benefits of P2P. Credit as an alternative. It can be used to raise funds to meet the business capital. This study concludes that MSMEs need to better understand peer-to-peer lending services as an alternative funding source for their capital sufficiency.

Keywords: Micro · Small and Medium Enterprises · Peer-to-Peer Lending · Financing · Capital

1 Introduction

MSMEs are one of the resilient cornerstones of the Indonesian economy, capable of supporting long-term economic growth. On the other hand, MSMEs can create new jobs and absorb energy labor, assisting government efforts in reducing unemployment in Indonesia. Moreover, MSMEs confront various challenges in their quest to grow their businesses, one of which is a cash shortage. According to the 2016 Economic Census results, more than 66% of MSMEs reported capital restrictions. Other issues, such as the presence of company competitors, marketing, raw materials, infrastructure, labor, fuel, rules, and government bureaucracy, are also higher on this list. According to the 2016 Economic Census, most MSMEs obtained their first capital from their own pockets or informal sources such as moneylenders, with only 7% relying on bank financing. According to Darwin [1], MSMEs have limited access to finance, mainly lending from

financial institutions. On the other hand, technological advancements have impacted the financial services industry; the presence of financial technology is one example of the use of technology in financial services (Fintech). Banking and trading companies were the first to adopt technology in the financial services industry, transitioning from paper-based media to more reliable electronic media [2].

Fintech products are often systems designed to carry out specific financial transaction mechanisms. Fintech Lending, also known as Fintech Peer-to-Peer Lending (P2P Lending) or Information Technology-Based Lending and Borrowing Services, is a Fintech service (LPMUBTI). Fintech lending uses existing technical improvements to allow lenders and loan receivers to conduct lending and borrowing operations without meeting in person. The Fintech Lending Operator has developed a system for lending and borrowing transactions, which can be accessed through the application and the Internet. The Financial Services Authority (OJK) certified this financing type in December 2016 after it was used in Indonesia since the end of 2015. In addition to the banking industry and other financial institutions, this financing approach could be an alternative [3]. P2P lending is distinguished by considerably higher interest rates than bank lending rates and enabling quick funding. The maximum loan interest rate authorized by the Indonesian Joint Funding Fintech Association (AFPI) is 0.8 percent per day or 24 percent per month.

Compared to conventional credit systems, this financing fintech approach can enable MSMEs to acquire finance easily. Many internet users may present an opportunity for the growth of internet-based financing. Furthermore, this internet-based financing model can make it easier for MSME actors to find investors to fund their businesses, and it tends to have less stringent requirements for MSME players to meet.

According to data OJK the total funding distributed through P2P Lending in Indonesia has reached IDR 137.66 trillion, with 38.96 million borrowers. The total distribution in the Riau Islands Province until October 2020 was IDR 745.85 billion, with 201,075 borrowers. This number indicates that numerous MSMEs and non-MSMEs have used P2P Lending to secure loans for business and personal needs.

Despite the availability of various formal financing options outside of the banking sector, MSME access to capital remains limited; only about 13% of MSMEs receive funding from formal financial institutions. Fintech financing plays a critical role in providing more accessible and affordable capital. Fintech lending gives faster, easier financing without the large guarantees that banks and other financial institutions provide. MSME actors can instantly access funding to keep their businesses afloat during a crisis [4].

2 Research Methods

This study type is associative research. This study employs a strategy of directly collecting data and information from MSME actors in Batam City, Riau Islands Province, either face-to-face or remotely, about their use of P2P lending as an alternative source of finance for their business development. The participants in this study were 150 Batam-based MSME actors who required funding to expand their businesses.

Data were collected by observation and direct distribution of questionnaires to responders via Google Form. The questionnaire used a Likert scale to assess respondents'

Table 1. MSME Actors Criteria.

	Number of respondents
Gender	
Males	57
Females	93
Education level	
High school	74
Diploma 3 and above	76
Business age	
<5 years	135
>5 years	15

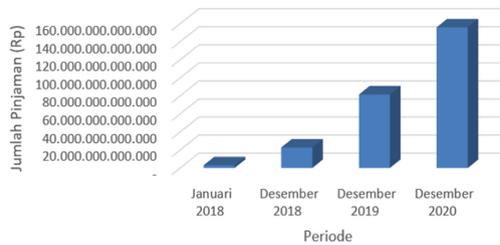


Fig. 1. Peer-to-Peer Lending distribution in Indonesia.

understanding of financial management and the availability of Peer-to-Peer Lending as a source of alternative finance. The Partial Least Square (PLS) approach analyzed the data with SmartPLS software version 3. PLS is a method of Structural Equation Modeling (SEM) that is more advanced than other SEM techniques in this context. Because it is not reliant on numerous assumptions, Partial Least Square (PLS) is a pretty robust analytical tool. The data does not have to be regularly distributed multivariate (indicators with categorical, ordinal, interval, and ratio scales used in the same model), nor does the sample have to be large [5].

3 Results and Discussion

The questionnaire was distributed to respondents who are MSME actors with the criteria is shown in Table 1.

Meanwhile, the development of Peer-to-Peer Lending distribution in Indonesia is shown in Figs. 1, 2 and 3.

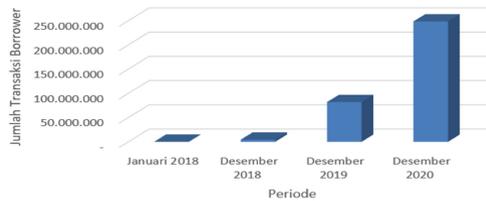


Fig. 2. Peer-to-Peer Lending (borrower) distribution in Indonesia.

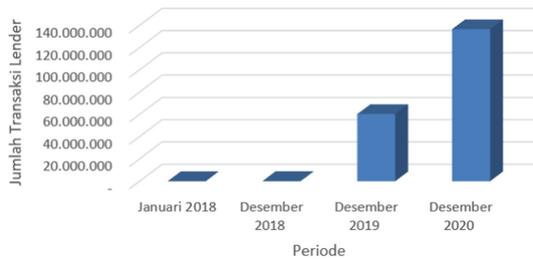


Fig. 3. Peer-to-Peer Lending (lender) distribution in Indonesia.

4 Conclusion

According to the research findings, MSMEs in Batam City have good financial management knowledge, particularly concerning their business development activities. However, the knowledge is not accompanied by an understanding of financial instruments other than banking products that can be used to solve capital difficulties. This lack of knowledge is also influenced by the education level of the MSME actors, with the lower the education level, the less understanding of alternate financing sources available. Furthermore, the lack of socialization of financial products outside of the banking sector impacts MSME actors' awareness and understanding of peer-to-peer lending as an alternative financing option.

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