



Fintech: Unlocking the Potential of MSMEs in Indonesia's Digital Era

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Abstract. This article aims to investigate the role of financial technology (Fintech) in increasing the number of cooperative members in the digital era. The study is conducted using descriptive qualitative research, where secondary data from various sources such as books, websites, social media, and government regulations are used. The study explores how Fintech can facilitate the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia by analyzing several case studies. The results of the study suggest that Fintech has significant potential in enhancing the MSMEs' financial management processes, including digitizing financial reports, online payments, and providing online-based loans. However, the application of Fintech in MSMEs also faces several challenges such as infrastructure, legislation, and limitations. The implication of this study highlights the importance of implementing Fintech in MSMEs to improve their financial management processes and overcome the challenges associated with its adoption.

Keywords: Financial technology · MSMEs · Indonesia · digitalization · potential

1 Introduction

Realizing the Bantul Smart City, it is necessary to fulfill the facilities for access to information from and for the community. The use of information technology in various fields and elements of society is needed for the efficiency and effectiveness of human work. Digitalization era or called as revolution industry 4.0 become a important factor especially in business purposes. FinTech innovations as part of digital era of Industry 4.0 proved as a breakthrough phase, with the essence to decrease the conventional barriers and transform the traditional way of performing financial transactions with greater security [1]. Information technology is defined as the hardware and network infrastructure needed in implementing a smart city-based system. Currently, in addition to being a tourist destination that offers various natural tourist attractions to tourist villages, there is also a cooperative that uses financial technology, namely Cooperative Adil. Based on the Cooperative data report as of December 31, 2020 published through the website of the Ministry of Cooperatives and SMEs, a total of 127 active cooperatives spread throughout Indonesia. 124 cooperatives with a total membership of 25,098,807 members. The

majority of cooperative members are engaged in the MSME sector. Cooperatives indirectly have a role in promoting MSMEs where Indonesia is famous for the diversity of MSMEs. MSMEs in Indonesia, which are diverse, have various problems and obstacles [2].

MSMEs need technology to thrive today. Technology simplifies transactions. MSMEs still struggle with technology use, according to a study [3]. By changing the traditional cooperative savings and loan business pattern into a Fintech platform business pattern, members will find it easier to get loan funds and use their excess funds to loan or invest in MSME actors. The ASEAN Economic Community (AECfree)'s trade and rapid technology and information growth have changed many industrial sectors. Strategic economic potential development includes boosting the MSME sector. Technology can quickly provide many conveniences in every business action. Technology has created new uses, including in finance. Fintech—digital financial services—is a sign of technical progress [4]. Financial Technology has changed company development today (Fintech). Literature studies, research journals, and secondary data were used to gather data. This study discusses how Fintech helps MSMEs grow using case studies. The study found that Fintech can boost Indonesian MSMEs. Fintech can help MSME actors streamline financial management with digital financial records, payment technology, and online loans. Fintech in MSMEs faces infrastructure, regulation, and limitations.

Fair credit cooperatives in Dlingo are professionally managed financial services companies that use cooperative principles to help members and the community use their money in a healthy and safe way to finance economic activities, improve education, and improve welfare. This cooperative's mission is to strengthen the organization of credit cooperatives, improve the welfare of members and the community, help the community increase family income, help members and the community improve formal and non-formal education, help the community create and develop businesses, create human resources for management, competent supervisors and managers, quality human resources for members, and instilling a sense of community. This Fair Cooperative aims to create a society with decent schooling, potential human resources for potential and innovative members, competitive management, and human resource management. Only the Fair Credit Union in Bantul uses Fintech. Cooperative Fair runs village markets to alleviate poverty for Consumer Sector Achievement Cooperative members and the community. Fair Cooperatives have made successes in the Savings and Loans, Consumer, Service, and Producer sectors.

2 Literature Review

2.1 Economic Digitalization

Economic Digitalization focuses more on transactions and markets that occur in the internet world. The concept of the digital economy was first introduced by Don Tapscott, which is a sociopolitical and economic system that has characteristics as an intelligence space, including information, various access to instruments, capacity, and information processing. The digital economy is part of the economic output that combines internet-based multipurpose technology that is applied in various digital goods or services business models. Humans no longer need to go to the market to get goods and services, but

enough with their smartphone then the goods can arrive at home to fulfill their wishes [5]. Virtual market transactions are not only profitable between sellers and buyers but also have an impact on the economy of the region concerned. This technology-based economy is known as the digital economy. [6] also adds that the digital economy is based on three pillars: infrastructure (hardware, software, telecommunications, networks, etc.), e-business (processes that organizations carry out through computer-mediated networks) and e-commerce (transfer of goods online). E-Commerce (electronic commerce), refers to the use of the internet and its ecosystem to be able to run a business of trading goods and services, ranging from ordering (optional), peddling to goods or services transactions, payment instruments, even to delivery and after-sales services, [5]. In contrast to E-Commerce, E-Business has a large volume of resources, with complete functional modules as a payment gateway service. The more people who do their business with the digital economy, it will lead to growth for the national economy. [5] in their research say that the digital economy continues to develop and is even predicted to increase eight times and it is projected that the value of Indonesia's digital economy in 2024 will reach 1796 trillion rupiah. Minister of Communications and Informatics, Johnny G. Plate also projects that Indonesia's digital economy will exceed US\$124 billion or Rp. 1.796 trillion by the end of 2024 (www.apatika.kominfo.go.id).

2.2 Fair Cooperative (Savings and Loans)

Fair Cooperative (Savings and Loans) business activities refer to the provisions contained in the Regulation of the Minister of Cooperatives and Small and Medium Enterprises Republic of Indonesia Number: 11/PER/M.KUKM/XII/2017 regarding the implementation of savings and loan business activities and sharia financing by cooperatives. The definition of Savings and Loans Cooperatives and Fair Cooperative Financing whose business activities are savings and loans and financing according to the principles of the Ministry of Cooperatives. Financial cooperatives have several potential advantages according to the aforementioned principles as proprietors of the financial cooperative, saving members and borrowing members are indissolubly linked to its success. This could lessen the rivalry between savers and borrowers, who desire to obtain credit at the lowest feasible cost, that is evident in shareholder-based financial organizations (who want as high a return on savings as possible). Because membership is organized around a shared identity, typically one based on locality, information asymmetry (also known as adverse selection) is reduced, which improves lending decisions because borrowers are less likely to understate risk. Additionally, because borrowers are connected to other members on a social and professional level through their shared identity, defaulting on loans may carry significant informal penalties. This allows for the use of social capital as "collateral" in lending, which lowers the moral hazard [7]. The implementation of Fair Cooperative business activities, whether in the form of financing, must be sourced from funding with applicable principles. Financing cooperation through partnerships can also be carried out by Fair Cooperatives with other parties. Fair Cooperatives in carrying out business activities must be guided by principles that uphold the principles of prudence, compliance, good governance and other regulations related to Fair Cooperative operations and apply risk management in business aspects.

2.3 Financial Technology (Fintech)

Fintech is technology-based financial service innovation. Phillipon (2017) defines Fintech as finance sector digital and technology-enabled business model innovations. Fintech simplifies and improves digital payments, loans, investments, and insurance. Fintech helps you make payments without meeting, choose and know the best financial products, invest more simply, and get financial planning advice. Fintech helps financial institutions gauge credit ratings and electronically get to know consumers to help MSMEs get loans and other financial services. Financial services Fintech includes: Third-party payments. Third-party payment methods include crossborder EC, online-to-offline (O2O), mobile, and platforms for bank payments and transfers; P2P (P2P) Lending connects lenders and debtors online. P2P lending manages credit and risk. This platform helps lenders and borrowers meet their goals and save money; Crowdfunding is a form of Fintech that allows interested parties to financially support a design, program, content, or creative work. Crowdfunding can lower startup costs and predict market demand.

The Financial Services Authority (2016) says FinTech has pros and cons. Fin-Tech helps Indonesians who cannot be served by the traditional financial industry due to strict banking laws and the industry's inability to serve the community in certain areas. Then, Fin-tech can provide a more democratic and transparent option to traditional financial services. Fin-tech also lacks a license to transfer funds and is less experienced in managing big capital than banks. Several Fintech companies lack real offices and security and product integrity experience.

3 Methodology

3.1 Research Design or Design

Design this research is a descriptive qualitative research. The descriptive qualitative research method is intended to determine the role of fintech in realizing the digitalization era of Fair Cooperatives in Dlingo, Bantul. Cooperative Fair is the only cooperative that has used Fintech in Bantul. The initial step taken was to look for data related to fintech and the implications of fintech in cooperatives which were then analyzed qualitatively to describe the steps for optimizing fintech in digital-based cooperatives so that their usefulness could have a positive impact on the progress of MSMEs.

3.2 Data Types and Sources

The type of data in this study uses secondary data. Sources of data were obtained through Cooperative Fair, the OJK website, Bank Indonesia, books, internet, social media, laws and regulations as well as information from the Indonesian Ministry of Cooperatives and SMEs.

3.3 Data Analysis Method

The research method used is library research, library research is a theoretical study, references and other scientific literature related to culture, norms that develop in the

social situation under study. The research in this article uses a literature study instrument that is carried out by collecting data information related to the Advantages of Financial Technology in increasing the number of Cooperative members in the Digitalization Era.

4 Results and Discussion

According to Fay [9] a cooperative is an association that has a common goal of doing business consisting of those who are weak and always endeavored with a spirit of not thinking of themselves in such a way, so that they are able to carry out their obligations as members and receive rewards in proportion to their use of the community. Organization. The definition of a cooperative according to Law Number 17 of 2012 is a legal entity established by an individual or a cooperative legal entity, with the separation of the wealth of its members as capital to run a business, which fulfills shared aspirations and needs in the economic, social and cultural fields in accordance with the values and cooperative principles. Meanwhile, the definition of credit according to the Banking Law Number 10 of 2002 is the provision of money or equivalent claims, based on an agreement or loan agreement between a bank and another party which requires the borrower to pay off his debt after a certain period of time by giving interest [10] adds are the types of loans that must be paid with interest by the borrower in accordance with the agreed agreement.

The Fair Credit Cooperative was founded on April 20, 1983 with an initial capital of Rp. 106,000, with 76 members in a village called Terong, Dlingo District, Bantul Regency, Special Region of Yogyakarta. The Dlingo Adil Credit Cooperative Tag Line "Spread Trust, Reap Prosperity". The cooperative was founded on the guidance of an International Non- Governmental Organization, namely, Child and Family Welfare Trustees (PKAK). Fair credit cooperatives have a vision, namely, a professionally managed Financial Services institution, based on cooperative principles, as the main destination for members and the community in utilizing money in general and as a source of economic financing for members.

Financial technology (fintech) is already being utilized by the Fair Credit Union. All transactions at the Fair Credit Cooperative are still conducted face-to-face despite the fact that the cooperative has been working on fintech with Rabobank since 2007 and has gotten a grant of Rp. 254 million for the capacity building system. There has been regular reporting to the Fair Credit Cooperative from the village treasury account (rkd) since 2012, when multiuser was implemented. Sakti.link was created by the Fair Credit Union, a group that began operations in 2017. On October 13, 2018, the sakti.link app will be fully functional for administration and cooperative members. The sakti.link app has a 24-h server that can be used to check the balance of each deposit member and borrower, make payments for things like credit and energy, and move money between different banks.

In the running of the sakti.link application, the Fair Credit Cooperative must pay Rp. 1,400,000 for maintenance costs every month by charging Rp. 5,000.00 to members. As long as the sakti.link application is running, there are approximately 500 members who have used the application out of a total of 3,900 members of the Fair Credit Cooperative. The maximum loan at the Fair Credit Cooperative is Rp. 3,000,000,000.00 and the lowest loan is Rp. 1,000,000.00, and can be returned in a maximum of 5 years (see also the capacity of the members).

The target of the Fair Credit Cooperative is IDR 3,500,000,000.00 per month. The Fair Credit Cooperative only conducts savings and loans, there is no business unit as a business financier and has 26 officers from 3 branches, namely (1 Dlingo center, 2 branches in Playen and Imogiri).

In the introduction of the sakti.link application to cooperative members, problems were found so that not many members made transactions on the application, one of which was the absence of a special officer in the socialization of sakti.link, even though members could apply with the Sakti.link application.

In addition to using sakti.ink for administrators and members, the Adil Credit Cooperative also makes Sikundo core which is used in the office for financial reports and Sikundo mobile (only accessible with Android) which is used by field officers to print using Bluetooth. In the future, sakti.link will develop the market place as a forum for MSME members to carry out promotions can also attract other MSMEs so that they can add to the membership of the Fair Credit Cooperative and develop the sakti.link application.

Cooperatives that already have a mobile application can improve their services by registering the application with the OJK so that its legality can be trusted. The thing that must be avoided by cooperatives is not to act as illegal online loans that can damage the reputation and public trust in cooperatives. This is also confirmed by a statement from the Minister of Cooperatives and Small and Medium Enterprises (SMEs) that cooperatives acting as illegal online loans will have their Cooperative Identification Number (NIK) revoked [2].

Cooperatives that apply information technology systems and use them efficiently and effectively are able to win the competition. [11]. Therefore, the steps that can be taken in optimizing the role of financial technology towards the era of digitalization of cooperatives by [2] are: Cooperatives must have a clear legal entity and legality; Cooperatives must have management consisting of administrators, supervisors, managers if the cooperative is run with sharia principles, it must form a Sharia Supervisory Board which has a recommendation from the MUI DSN; Cooperatives must have a good administrative system and have financial technology applications; Cooperatives must have a business both in the savings and loan sector or in the real sector; Cooperatives must have qualified human resources in the field of technology; Cooperatives must have SOPs in implementing good cooperative governance; Cooperatives must hold Annual Member Meetings (RAT) regularly and invite the agency in charge of it; Cooperatives must obtain a health assessment as a basis for consideration to determine the condition of the cooperative;

If these things can be met, then the cooperative can then register the application of financial technology to the OJK to obtain legality that is patent and official. Cooperatives must be managed professionally. Things that must be avoided by cooperatives are: There should be no family ties between supervisory officers and cooperative managers; Cooperatives must be run in a trustworthy manner, there should be no misappropriation of funds which results in the cooperative not being trusted by the community. Cooperatives with a bad reputation can have a domino effect on other cooperatives, therefore it is necessary to have a strong trust so that people believe in using the services of products from cooperatives. Cooperatives must maintain the financial aspect by suppressing NPL/NPF in terms of non-performing financing so that it is not too high [2].

5 Conclusions

The Fair Credit Cooperative is the only cooperative in Bantul that already uses fintech technology, namely sakti.link, by using the sakti.link the Fair Credit Cooperative can be operated, especially in DIY. The fintech technology can help MSMEs in the form of food stalls, mahogany wood craftsmen, and bamboo craftsmen. The Fair Credit Cooperative uses fintech technology, namely sakti.link, which can be utilized such as; see the balance of each deposit member and borrower, pay or make transactions such as credit, electricity, transfer between banks with a 24-h server, which can be used at any time. With the use of Sakti.link per person is charged IDR 5 thousand/month from 3900 members, which already using sakti.link, it is estimated that more than 400, for loans at the Fair Credit Cooperative the maximum is Rp. 3 billion and the lowest is Rp. 1 million and can be returned for a maximum of 5 years.

Savings and loans actors and managers of Fair Credit cooperatives are advised to optimize the development of technology and information to the maximum in order to make it easier to use the Sakti link.Sakti.link in order to create more features, such as a Marketplace to facilitate MSME actors in their promotion.

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