

The Role of Fintech: Financial Inclusion in MSMEs (Case Study in Makassar City)

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ABSTRACT

The development of information technology which is supported by the rapid use of the internet has created several fintech that will make it easier for people to get digital financial services. The Financial Services Authority stated that the increase in national financial inclusion could be triggered by one factor, namely increased access to the use of fintech. The purpose of this study aimed to determine the role of fintech on financial inclusion in MSMEs in Makassar. The population in this study are MSMEs in Makassar with a sample of 335 informants. Researchers used primary data in the form of questionnaires that were distributed online and offline. Convenience sampling method is used in data collection in this type of quantitative research. Linear regression was used as an analytical technique. This study concluded that fintech has a positive effect on financial inclusion by 0,259.

ABSTRAK

Perkembangan teknologi informasi yang didukung dengan pesatnya penggunaan internet memunculkan beberapa fintech yang akan mempermudah masyarakat untuk mendapatkan layanan keuangan secara digital. Tujuan penelitian ini untuk mengetahui peran fintech terhadap inklusi keuangan pada UMKM di Kota Makassar. Populasi dalam penelitian ini adalah pelaku UMKM di Kota Makassar dengan sampel sebanyak 335 informan. Peneliti menggunakan data primer berupa kuesioner yang disebar secara online dan offline. Penelitian ini merupakan jenis penelitian kuantitatif yang menggunakan metode convenience sampling dalam pengumpulan data. Riset ini menggunakan regresi linier untuk menganalisis data. Penelitian ini menghasilkan kesimpulan bahwa fintech memiliki pengaruh yang positif terhadap inklusi keuangan, yaitu sebesar 0,259.

INTRODUCTION

The topic of financial inclusion has been one of the world's concerns since the 2008 United States economic crisis. Indonesia felt the impact of the crisis by experiencing a decrease in economic growth by 1.38% from 2008-2009 (Uchoa, 2018). Data from the Global Findex (Global Financial Inclusion Database) published in 2011 shows that one of the developing countries in the world including Indonesia has a fairly low level of financial inclusion of only 19.6% (Demirgüç-Kunt et al., 2018). Several efforts began to be made by the government in 2012 through the National Strategy on Inclusive Finance (SNKI), in order to improve the welfare of its people, Indonesia's level of financial inclusion has increased to 67.8% in 2016 (OJK, 2017). With the government's target in the National Financial Inclusive Strategy (SNKI) which is expected for the period 2019 the financial inclusion index can approach the figure of 75% is the urgency of this research. Financial inclusion

is one of the examples of financial access expansion programs in Indonesia that can provide solutions to a variety of factors that lead to low levels of financial literacy.

The definition of fintech according to OJK (2016) is "an innovation in the financial services industry that utilizes the use of technology". Some Fintech products are related to the system to run specific financial transaction mechanisms. Bank Indonesia (2019) defines Fintech as a combined result of financial services with technology that eventually changed the business model from conventional to moderate, which initially in paying must come face to face and bring some cash, now can make long-distance transactions by making payments that can be done in a matter of seconds. In addition, the definition of Fintech in order Alimirruchi (2017) is the application of the use of information technology related to financial problems.

So, it can be concluded that fintech is an innovation in financial services that uses technological advances in financial transactions as well as produces business models, applications, processes or products related to the provision of financial services. There are various types of fintech-based banking industry services such as mobile payment (m-payment), mobile banking (m-banking), internet banking and electronic money (e-money). These services can give hope to the public to transact easily, quickly and safely. In addition, it encourages government efforts in realizing financial inclusion, making it easier for people to apply for loans or seek funding.

According to BI (2014), financial inclusion is all efforts to improve public access to financial services by removing all forms of barriers both price and non-price". Understanding inclusion according to OJK (2017) namely the availability of access to various institutions, financial products and services in accordance with the needs and capabilities of the community in order to improve the welfare of the community".

Nengsih (2015) explained, "Financial inclusion is not an option, but it is a necessity and banking is the main driver to be able to implement it". The development of financial inclusion supported by technological developments has great power over financial markets, especially for business activities. The financial sector revolution has an important role to play in improving financial services that will affect financial system stability. The stability of the financial system can be seen through the performance of the banking sector such as credit and loans as well as improving people's welfare through financial inclusion. However, the role of financial inclusion through fintech integration has not been able to reach the broader Indonesian community and has not seen the contribution of dominant financial inclusion in affecting financial system stability.

MSMEs have a vital and fundamental role in national economic development, among others, to increase economic growth, increase employment opportunities, distribution of development results and others. MSMEs are one of the markets for financial services companies in this case banks that have the ability in financing distribution.

The number of micro-businesses in Indonesia in the period 2018 has reached more than 57 million. However, from the number of MSMEs that grow into Micro, Small and Medium Enterprises that have competitiveness of only 1%. This is an opportunity for Indonesia to implement financial technology in meeting the needs of funds, influence economic growth and produce positive effects for various communities or MSMEs. Financial technology is a new medium to be utilized in accelerating the financial inclusion index.

In the digital era 4.0 the development of financial technology or so-called fintech is expected to support the growth of the financial inclusion index so that it can reach the target set by the government of 75%" (Presidential Regulation No. 82, 2016).

According to the Law of the Republic of Indonesia Number 20 (2008), the definition of Micro Small and Medium Enterprises is as follows: " (a) Micro enterprises are productive businesses owned by individuals and / or individual business entities that meet the criteria of micro businesses have a net worth of at most 50,000,000 and annual sales results of at most 300,000,000. (b) A small business is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or non-branch of a company owned, controlled, or become a direct or indirect part of a medium-sized business or large business that meets the criteria of small businesses that have a net worth of more than 50,000,000 to a maximum of 500,000,000 and have annual sales results of more than 300,000,000 to a maximum of 2,500,000,000. (c) Medium-sized business is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or branch of a company owned, controlled, or become a direct or indirect part with small businesses or large businesses with a net worth of more than 500,000,000 to a maximum of 10,000,000,000 and have annual sales yields above 2,500,000,000 to a maximum of 50,000,000,000".

The role of MSMEs is very important in economic aspects, so it is expected to continue to be developed by various parties. Kemenkop UKM (2017) showed data that the total development of MSMEs units from 2016 to 2017 amounted to 2.06%, the number of workers absorbed in the period 2017 amounted to 97.02%, while the contribution to Gross Domestic Product was 60%. This reflects that MSMEs have strong potential to improve the economy of the Indonesian nation.

Capital is one of several factors constraints of MSMEs in developing their business, because the total MSMEs who get capital formally can be said to be still fairly low. The number of MSMEs in the territory of Indonesia as much as 62,922,617 units, where 62,106,900 units or as much as 98.70% domesticated Micro Enterprise units. However, 80.9% of the number of micro-businesses in Indonesia is still not strengthened by access to financing from banks (Kemenkop UKM, 2018). The role of financial technology (fintech) can bridge msme in capital to develop their business. The amount of capital owned by MSMEs if managed well through financial technology, it will realize progress in its business and increase the index of financial inclusion.

Makassar city is used as the object of this research because it looks like one of the areas in South Sulawesi which is the largest number of MSMEs units and is also considered the city to support MSMEs, so that the city of Makassar as the largest place of inclusion growth and target of financial technology companies.

The number of MSMEs in Makassar city as of 2019 as many as 2,049 business units. In developing or maintaining their business, MSMEs are often constrained by capital. Makassar Cooperative Office in 2019 has provided assistance facilities for 434 MSMEs with Financing Institutions. The implementation of the target of the Office of Cooperatives and MSMEs Makassar city has not been thorough, so it is possible that there are still small-scale MSMEs such as street vendors or small stalls oriented development usaha in the future but have not received assistance and coaching to obtain capital from financial institutions.

The need for coaching of small-scale MSMEs who have limited financial literacy, will be greatly helped by the presence of Fintech that can more practically and easily provide access to

capital to MSMEs. Muzdalifa & Irma research (2018) revealed that the presence of a number of fintech companies contributed to the development of MSMEs. Not only limited to helping business capital financing, the role of Fintech has also penetrated into various aspects such as digital payment services and financial arrangements". Rusdianasari Fitri (2018) stated that "the role of fintech has not been maximized in influencing financial inclusion and stability". Prima Sari & Rinofah research (2019) shows that financial achievements can mediate the influence of the use of financial technology on financial satisfaction.

The results of Evy Nur Sugiarti's research (2019) showed that simultaneous and partial variables of fintech (risk and investment management and market provisioning) have no effect on financial inclusion (financial knowledge, financial behavior, and financial attitude). Simultaneous and partial, fintech variables (cashless society) affect financial inclusion (financial knowledge, financial behavior, and financial attitudes. Budi Rahardjo research (2019) states that (1) customer trust has a positive effect on intention to adopt fintech, (2) fintech promotion positively affects intention to adopt fintech, and (3) intention to adopt fintech positively affects financial inclusion.

This study adopted Togar Laut research (2019). The study used cross section data in 34 provinces in Indonesia in 2019, while this study was conducted in Makassar City. Convenience sampling method is used with linear regression analysis. There is a research gap regarding Fintech finance that demands MSMEs to follow immediately, researchers want to carry out further research related to the Role of Fintech Towards Financial Inclusion in MSMEs in the city of Makassar.

Based on Muzdalifa's research, Irma (2018) stated that "Fintech is growing rapidly in various sectors, ranging from payment, borrowing, financial planning, retail investment, financing, remittances, financial research, and so on. The presence of a number of fintech companies contributes to the development of MSMEs". Based on research Evy Nur Sugiarti (2019) stated that the development of financial services information technology, the easier it is for MSMEs to conduct financial management that can improve business and welfare. Based on the description above, the role of fintech is expected to increase the financial inclusion index. Therefore, the hypothesis of this study was formulated that Fintech can positively affect financial inclusion.

RESEARCH METHOD

The object of the research is MSME actors in Makassar city which is located in 15 sub-districts. The data collection method used in this study is a survey method using questionnaire lists and interviews. This research uses a measurement scale in the form of a Likert scale method. Measurements are made to the informant's response using intervals of 1 to 5 of each informant response result will be adjusted to the question or statement asked.

The population in this study is all MSMEs in Makassar city in 2019 as many as 2,049 business units. Sampling using probability sampling method with random sampling technique, where all members in the population have the same probability or chance to be selected into a sample. Sample determination using Slovin Formula (Sujarweni, 2014:66), so that the number of samples as many as 335 business units.

The analysis method used is qualitative descriptive analysis to describe the role of financial technology and financial inclusion for MSMEs in Makassar City. As for knowing the influence of

financial technology on financial inclusion is analyzed using quantitative analysis, namely Simple Linear Regression Analysis :

$$Y = \alpha + \beta X + \varepsilon$$

where:

Y = Financial inclusion

α = Constant

β = Regression coefficient

X = Financial Technology

ε = Standard error

Table 1. Variables and Research Indicators

No	Variables	Indicators
1	Fintech (X)	Simpler process than conventional financial institutions Use of market aggregators Payment Settlement and clearing Risk and investment management
2	Financial Inclusion (Y)	Product holding such as savings, payment products, current accounts, e money, insurance, credit or mortgage products Product awareness Product selection Seeking alternative to formal financial services

Source: Researcher, 2020

RESULT AND DISCUSSION

The study examined financial technology and its impact on financial inclusion. Based on the characteristics of respondents, showed the results that the majority of businesses have an age between 23-65 years, with the women as much as 62% and dominated by the level of high school education of 59%, and has a business age between the ages of 2-27 years, to find out the influence of financial technology on financial inclusion in MSMEs in Makassar city, it can be seen in Table 2 below.

Table 2. Data Processing Results with Simple Linear Regression Model

Independent Variables	coefficient Regression	T-test Statistics	Sig Partial
Constant	0,942	2,474	0,016
Financial Technology	0,259	2,393	0,019
Correlation Coefficient (R)			0,759
Determination Coefficient (R2)			0,576
F- Value			25,152
Sig. Simultaneous			0,000

Source : Secondary Data processed, 2020

Based on table 11 it can be determined that the models of multiple linear regression equations in this study are as follows:

$$Y = 0.942 + 0.259 X + \varepsilon$$

The equation of the simple linear regression model can be interpreted as follows:

$\beta_0 = 0.942$ indicates that financial inclusion in MSMEs in Makassar will increase by 0.942 if financial technology as an independent variable does not change (constant).

$\beta_1 = 0.259$ indicates that if financial technology is improved or improved, then financial inclusion in MSMEs in Makassar will increase by 0.259 if other factors do not change (constant).

Proof of hypothesis is eligible to be implemented because the data validity test requirements have been done and obtained results that show that there is no outlier and have normal data, as well as classic assumption requirements that meet the requirements of BLUE (best linear unbiased estimation).

Also, on Table 2 above, it can be explained that financial technology has a positive and significant effect on financial inclusion in MSMEs in Makassar, as evidenced by the value of regression coefficient which is positive value of 0.295 and probability value of 0.019 which is smaller than 0.050. While the contribution of financial technology to financial inclusion is shown through the magnitude of the coefficient of determination (R^2) = 0.576 or 57.60%, and by 0.424 or 42.40% influenced by other variables that are not taken into account in this study.

The results of this study describe if more MSMEs are utilizing financial assistance on a technology basis, then it further encourages the implementation of financial inclusion echoed by the government and the increase in the financial inclusion index will also increase with the use of financial technology assistance that is growing. Support for financial technology companies must also be increased. Utilization of financial services on a technology basis is expected to provide support to the increasing level of financial inclusion. The accuracy of the way and ease of access in the use of aid and financial products can ease the efforts of MSMEs in obtaining capital and managing their business finances

The emergence of financial technology innovation provides a fresh wind for MSMEs in Makassar City. Financial technology will help MSMEs businesses to more easily gain access to financial products and improve financial literacy. Businesses can use financial technology as a way to finance their companies. Financial technology implemented by MSMEs directly influences the creation of increased financial inclusion. MSMEs feel helped by the existence of financial technology that can eliminate the limitations of access to financial services information because everything can be accessed online.

In accordance with the research by Muzdalifa, Irma (2018) that the presence of a number of fintech companies contributed to the development of MSMEs. Not only limited to helping business capital financing, the role of fintech has also penetrated into various aspects such as digital payment services and financial arrangements. In addition, in line with the research of Ian Evy Nur Sugiarti (2019) who said that the development of financial services information technology, the easier it is for MSMEs to manage finance that can improve business and welfare.

CONCLUSION

Based on the results of the study and description of the discussion obtained conclusions, namely fintech affects financial inclusion in MSMEs in South Tangerang. According to the results of the study there are several findings that can be used as a reference for improvement, including: 1) The government should provide consumer protection regulations for technology-based financial services so as to increase consumer confidence, especially MSMEs against fintech and avoid fintech crimes through the internet. 2) There needs to be strong synergy and cooperation between Bank Indonesia, the Financial Services Authority and companies engaged in financial technology must continuously carry out activities to introduce products (types of goods) and financial services assistance so that community groups, especially MSMEs, can get to know and understand so that financial inclusion will be increased.

However, for subsequent research, variable additions can be made to explain other factors that have an influence on financial inclusion. As for some limitations in this study, namely, 1) Research only uses one independent variable namely fintech so it has not been able to produce a thorough conclusion on financial inclusion. 2) Research uses sample selection with convenience sampling techniques because of the ease in obtaining samples so that it is less presenting the population.

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