

# CHAPTER 1

## INTRODUCTION

### 1.1 Research Background

The daily life of people has grown to be closely linked to technology. Technology is becoming easier and more practical to use in resources, making it more popular among the general public. Indonesia's financial sector has also been affected by technological advances. Financial technology is a term used to describe the convergence of technology and finance (Fintech). The rise of various financial service companies seems to be a new trend in society, which has the potential to improve people's lives. As the digital age evolves, technology continues to play an important role in the financial sector, as Khiewngamdee and Yan (2019) emphasize in their study of the impact of FinTech on the financial industry. Indirectly this is a manifestation of the development of the business world which continues to move dynamically and renew. In today's digital era, the financial industry is gradually becoming one of the industries with the biggest impact on the growth of technology and information.

Digital financial services, namely FinTech, are experiencing rapid development globally. Not only the market share of capital loans, currently FinTech has several sectors in the field of financial services that handle capital loans, payments, crowdfunding, aggregators, personal financial planning and others. The rapid development of Financial Technology (Ardiansyah, 2019) can be seen with the increase in Financial Technology in many fields departing from Start-Up payments, Lending loans, financial plans (Personal Finance), retail investment, crowdfunding, remittances and financial research. Fintech utilizes media applications and websites in its services. Fintech is able to serve electronic money, virtual accounts, aggregators, lending, crowdfunding and other online financial transactions. This condition is different from the services provided by conventional banks. The ease of access to this fast service has succeeded in increasing public demand and interest.

Fintech, on the other hand, provides the economy with a new way to expand its economic activities more efficiently and effectively (Afifah, 2018). Fintech companies offer fast and easy-to-use capital financing options. FinTech activities in Indonesia are currently still dominated by the payment business as much as 42.22%, the second place with 17.78% is FinTech with the loan business, and the rest are in the form of aggregators, crowdfunding, and others. Based on the explanation above, the P2P Lending fintech industry must continue to innovate through access to financing for the community and MSMEs actors.

Fintech can bring great opportunities and potential in economic development in Indonesia through MSMEs. In Indonesia, MSMEs represent 97% of the total existing business forms, contribute about 57% of the Gross Domestic Product (GDP) and absorb 96.9% of the total workforce. However, in carrying out its role, MSMEs face many obstacles. One of the obstacles faced by MSMEs is capital. Difficulties in accessing capital or limited amounts of capital dominate many problems. Capital is needed to increase business and expedite its business. In developing MSMEs additional capital is needed, the size of the capital will affect business development in achieving income.

Business capital can be obtained from two sources, namely own capital and external capital, namely from credit institutions. Capital is a key aspect in the manufacturing process since it is needed when entrepreneurs want to start a business, and capital loans can be used to expand and develop a larger company. Without sufficient capital, the smooth running of the business will be affected, and the enterprise would be unable to grow effectively.

The lack of use of digital payment technologies, which makes it difficult to pay for goods or services, is another productivity issue that MSMEs face as they grow their businesses. The implementation of modern payment technologies by MSME actors will help accelerate the turnover of commodities and maximize earnings. MSMEs will be easier to develop if profits are high.

Payment technology advancements will increase the industrial world's productivity, both in terms of receiving and departing cash flows. Productivity can be boosted through smart technology, which can boost both productivity and income. Payment technology implies a change in the visible function of an existing manufacturing technique; as a result, always aim for technical advancements to ensure maximum utilization. It can deliver more sophisticated technologies by acquiring current money.

Based on data from Bank Indonesia, currently 70% of MSMEs do not have access to financing from banks. This gap between banks and MSMEs causes many MSME actors to choose moneylenders as a source of business financing with very high loan interest rates. The reason MSMEs choose moneylenders is because the process of providing credit is easy and capital loans are quick cash. In addition, MSMEs do not need to provide collateral or financial history.

The problem of limited access to financing to banking and conventional business activities as well as low productivity supported by technology for MSMEs is expected to be resolved by the presence of Fintech which can bring great opportunities and potential in the development of MSMEs in Bandarlampung City. Fintech can be used by entrepreneurs as a source of funding. The role of fintech is not only limited to venture capital financing, but there are also those that penetrate various aspects such as digital payment services and financial regulators.

Based on the description above, the authors are interested in conducting more in-depth research with the title "The Role of Fintech in the Development of MSMEs in Bandarlampung City ."

## **1.2 Literature Reviews**

Preparation conducts a review of existing research. The preparation found several studies that have similarities with the title raised in connection with how the influence of fintech on the development of MSMEs that can be used reference and input in this research.

1. Research conducted by Nisak (2014), it was found in the research that there were positive influence of capital loans on city MSME income Mojokerto by 82.1%, from the explanation it is very clear that Capital loans are very important for entrepreneurs to develop business, so as to increase their business income. Study previously and now both examine the dependent variable of the development of MSMEs. While the difference between previous research and now has a difference in the independent variable, namely the effect of capital loans only, while what is being studied now is the influence of fintech.
2. Research conducted by Wicaksono, Adjie (2019), the results of this research show that financial literacy has no role in development. Financial technology and government assistance play a role in the development of MSMEs. Previous and current research both examine the independent variable, namely Financial Technology and the dependent variable is the development of MSMEs.
3. This research was researched by Purwanti (2013), the conclusion of this study is that there is a characteristic influence of entrepreneurship and business capital to the development of MSMEs in the village Dayaan and Kalilondo Salatiga, which means the higher the characteristics entrepreneurship, the higher the development of MSMEs in Dayaan Village and Kalilondo Salatiga and venture capital have the most influence dominant. While the marketing strategy was not proven to have an effect on development of MSMEs in Dayaan and Kalilondo Villages, Salatiga. Study previously by jointly examining the variables, namely development of MSMEs, while the differences between previous research and now has a difference in the independent variable, namely the characteristic entrepreneurship, venture capital, and marketing strategy.
4. This research was conducted by Utari, Dewi (2021), there are conclusions that can be drawn in this study, namely the first results show that capital, education level, and technology simultaneously have a significant effect on the income of 54 MSMEs in the Imam Bonjol area, West Denpasar and second, the greater the capital consumed, the greater the income received

by MSMEs. , the higher the level of education, the higher the level of income received, and the more modern the technology used, the greater the income received. Previous research examines the independent variable, namely technology, while the current study examines Financial Technology. The difference in the independent variables, namely capital, education level and the dependent variable, namely the income of the MSMEs studied is the dependent variable on the development of MSMEs.

### **1.3 Research Objective**

In accordance with the main problems above, the objectives of this research are:

- a. To explain the effect of crowdfunding on development of MSMEs.
- b. To explain the effect of digital payments on development of MSMEs.
- c. To explain the effect of Crowdfunding and Digital Payment simultaneously on the development of MSMEs.

### **1.4 Research Methodology**

This research is included in quantitative research with survey method. This research is a type of quantitative research because it has met scientific principles, namely concrete/empirical, objective, measurable, rational and systematic. As well as research data in the form of numbers and analysis using statistics. Study a survey is a study that takes a sample from one population and using a questionnaire as a data collection tool that principal (Sofian and Tukiran, 2014: 130). The survey method focused on a descriptive survey approach. Approach Descriptive survey is research that provides an overview about a phenomenon that occurs in society. Technique data collection in descriptive surveys can be through interviews, questionnaire or observation (Soehartono, 2000:54).

Based on the opinion above, it can be concluded that the quantitative method is a research approach to test hypotheses through more thorough statistical data testing. Referring to the background and problem formulation that has been explained, this study uses quantitative methods to analyze the data that has been collected, then answers the research problem formulation and

determines the hypothesis, and will ends with the formulation of research conclusions.

### **1.5 Object and Scope of Research**

In achieving the desired goals and objectives of this research, this research only discusses matters relating to the research variables that have been determined. This research only focuses on the role of Fintech in the development of MSMEs in Bandarlampung City. The object of this research is MSMEs in Bandarlampung City.

### **1.6 Contribution Of The Research Paper**

This research is expected to provide benefits to the parties:

#### **A. For Academics**

The results of this study are expected to provide input and become reference material for further researchers who are implemented to determine the role of Fintech in the development of MSMEs.

#### **B. For Researchers**

Provide opportunities for researchers to apply the knowledge and experience gained during the study period and to add insight and knowledge.

#### **C. For MSMEs**

As scientific information and consideration for MSME actors for the development of their business.

### **1.7 Structure Of The Study**

In general, this research consists of 5 chapters accompanied by several sub-chapters. To get an idea of what is written, the systematics of writing in this study are as follows:

#### **CHAPTER 1: INTRODUCTION**

This introductory chapter contains the research background, literature reviews, research objectives, research methodology, object and scope of research, contribution of the research paper, structure of the study.

## **CHAPTER 2: THEORETICAL FOUNDATION**

This chapter describes the theoretical basis, relevant research or research that has been done previously related to the research conducted by the author, and the framework of writing, as well as hypotheses.

## **CHAPTER 3: DATA AND METHODOLOGY**

This chapter contains methods for solving problems proposed in the research objectives.

## **CHAPTER 4: RESEARCH RESULTS AND FINDING**

This chapter describes the results and discussion of the influence of Financial Technology on the Development of MSMEs in Bandarlampung City.

## **CHAPTER 5: CONCLUSION AND IMPLICATIONS**

This chapter contains conclusions and suggestions that are expected to provide benefits for the parties concerned and for readers in general.

## **REFERENCES**

## **APPENDIX**