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Analysis of the Effectiveness of Financial Technology (Fintech) in Simplifying Credit Access for MSMEs in Urban Areas

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ABSTRACT

The development of Financial Technology (fintech) has brought significant changes to the financial system, particularly in providing credit access for Micro, Small, and Medium Enterprises (MSMEs) in urban areas. This study aims to analyze the effectiveness of fintech in simplifying MSME credit access in 2025, viewed from aspects of accessibility, speed of fund disbursement, financial inclusion, and its impact on business performance. The research method used is a qualitative-descriptive approach with literature study and secondary data analysis from financial institution reports, relevant authorities, and previous research findings. The results indicate that fintech, particularly peer-to-peer lending and digital financing platforms, has proven effective in expanding MSME credit access in urban areas through faster processes, simpler requirements, and the utilization of digital technology. However, challenges such as credit risk, financial literacy, and consumer protection remain major concerns. Therefore, synergy among the government, fintech providers, and MSME actors is required to maximize the sustainable benefits of fintech.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of the Indonesian economy because they play a major role in creating employment opportunities, increasing community income, and maintaining national economic stability. In urban areas, MSMEs continue to grow rapidly alongside the expansion of trade, services, and creative economy activities supported by high population density and broad market access (Ministry of Cooperatives and MSMEs, 2024). The contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) has consistently shown a positive trend. Data indicate that MSMEs contribute more than 60 percent of the national GDP and absorb approximately 97 percent of the workforce. However, this significant contribution has not been fully matched by easier access to formal financing sources, particularly business credit (World Bank, 2023).

The issue of credit access remains a classic challenge faced by MSMEs, especially in urban areas where business competition is relatively intense. Conventional financial institutions such as banks still impose strict administrative requirements, including collateral obligations, formal financial statements, and a good credit history, all of which are often difficult for MSMEs to fulfill (Beck & Demirgüç-Kunt, 2006). Limited access to financing affects the low capacity of MSMEs to expand their businesses, improve productivity, and increase business scale. Without adequate capital support, MSMEs tend to remain at a small business scale and become vulnerable to economic shocks (OECD, 2022).

The development of digital technology over the last two decades has significantly transformed the financial sector. Technology-based innovation known as financial technology (fintech) has emerged as an alternative financial system that is more inclusive, efficient, and

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adaptive to the needs of business actors, including MSMEs (Gomber et al., 2017). Fintech offers various digital financial services, one of which is technology-based financing through peer-to-peer (P2P) lending platforms. This financing model directly connects lenders and borrowers through digital systems, which are considered capable of reducing bureaucracy and accelerating the credit distribution process (Adrian & Griffoli, 2019).

In urban areas, fintech adoption has developed relatively faster compared to rural regions. This growth is supported by the availability of digital infrastructure, higher levels of technological literacy, and widespread internet and smartphone penetration among MSME actors (Financial Services Authority/OJK, 2025). In 2025, Indonesia's fintech sector demonstrated significant growth in terms of the number of platforms, loan disbursement value, and the number of MSMEs served. This condition indicates that fintech has substantial potential to address MSME financing issues, particularly in urban areas (Bank Indonesia, 2024).

Nevertheless, the effectiveness of fintech in simplifying MSME credit access remains debated. On one hand, fintech is considered capable of increasing financial inclusion and expanding financing access. On the other hand, several challenges have emerged, such as high interest rates, default risks, and insufficient consumer protection (Claessens et al., 2018). In addition, the varying levels of financial literacy among MSME actors also affect the optimal utilization of fintech services. Without adequate understanding, the use of fintech services may create new financial risks for MSMEs (Lusardi & Mitchell, 2014).

Therefore, a comprehensive study is needed to assess the extent to which fintech is truly effective in simplifying credit access for MSMEs in urban areas. This analysis is important not only to evaluate the economic benefits but also to identify the associated risks and challenges.

Based on this background, this study aims to analyze the effectiveness of financial technology (fintech) in simplifying access to credit for MSMEs in urban areas in 2025, so that it may serve as a reference for policymakers, fintech service providers, and MSME actors in developing a sustainable financing system.

LITERATURE REVIEW

Financial Technology (Fintech) Concept

Financial technology, or fintech, is defined as innovation in the financial services sector that utilizes digital technological developments to improve the efficiency, effectiveness, and quality of financial services. The emergence of fintech responds to the limitations of conventional financial systems, which tend to be complex, slow, and less inclusive, particularly for small and medium business actors (Gomber et al., 2017).

Fintech encompasses various types of digital financial services, including digital payment systems, electronic wallets, crowdfunding, peer-to-peer (P2P) lending, and application-based financial management services. These various services enable communities and business actors to access financial products more flexibly without limitations of space and time (Arner et al., 2016). In the context of financing, fintech lending is one of the fintech forms most relevant to MSMEs. Fintech lending provides digital-based loan facilities with simpler processes compared to conventional banking, thereby reaching MSME actors who previously lacked access to formal credit (Adrian & Griffoli, 2019).

The primary advantage of fintech lending lies in the utilization of big data technology and artificial intelligence in the credit risk assessment process. Borrower eligibility assessments are not solely based on formal financial statements but also on alternative data such as digital transaction history, online sales activities, and payment behavior (Buchak et al., 2018).

The use of risk assessment algorithms enables fintech platforms to accelerate credit approval processes while reducing operational costs. This provides advantages for MSMEs because they can obtain financing within a relatively short period to fulfill working capital needs (Frost et al., 2019). In Indonesia, fintech development is supported by regulations and

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supervision from the Financial Services Authority (OJK) to ensure financial system stability and consumer protection. These regulations provide legal certainty for fintech providers while increasing MSME trust in digital financing services (Financial Services Authority/OJK, 2025).

With flexible, fast, and technology-based characteristics, fintech has the potential to become an effective alternative financing solution for MSMEs, especially in urban areas with high levels of technology adoption and economic activity.

Access to Credit for MSMEs

Access to credit for MSMEs is defined as the ability of business actors to obtain financing from financial institutions to support operational activities, investment, and business development. Credit is an important factor in increasing MSME production capacity and competitiveness, particularly in dynamic and competitive urban areas (Beck & Demirgüç-Kunt, 2006). Adequate credit access allows MSMEs to expand businesses, improve product quality, and adapt to market changes. Conversely, limited financing can hinder business growth and increase the risk of business failure (OECD, 2022). However, MSMEs still face various obstacles in accessing credit from formal financial institutions. One major obstacle is low administrative eligibility, such as the absence of standardized financial statements and incomplete business legality (World Bank, 2023).

Additionally, collateral requirements imposed by conventional banks often become barriers for MSMEs, especially micro and small enterprises with limited assets. This condition causes many MSMEs to be classified as non-bankable despite having strong business potential (Beck et al., 2014). The lack of credit history and properly documented financial records also worsens MSME access to financing. Without adequate financial information, financial institutions face difficulties in accurately assessing MSME credit risk (De la Torre et al., 2010).

In urban areas, credit access challenges become increasingly complex due to intense business competition and relatively larger capital needs. MSMEs are required to move quickly and innovate continuously, thereby requiring financing sources that are accessible and responsive (Ministry of Cooperatives and MSMEs, 2024). Therefore, alternative financing solutions are needed to bridge the gap between MSME capital needs and the limitations of conventional financing systems, one of which is through the utilization of financial technology.

Fintech and Financial Inclusion

Financial inclusion refers to efforts to ensure that all levels of society, including MSMEs, have access to affordable and quality formal financial services. Fintech is regarded as an important instrument in accelerating financial inclusion through the utilization of digital technology (World Bank, 2023). Fintech enables the provision of financial services to groups previously underserved by banking institutions, including micro and small-scale MSMEs. Through digital platforms, account opening processes, credit applications, and financial transactions can be conducted online without complicated procedures (Demirgüç-Kunt et al., 2020).

The role of fintech in financial inclusion becomes increasingly significant in urban areas where internet penetration and digital device usage are relatively high. This condition facilitates MSMEs in independently accessing application-based financial services (Bank Indonesia, 2024). Besides expanding access, fintech also improves financing distribution efficiency by reducing transaction costs. Lower operational costs enable fintech providers to offer financing services to MSMEs with smaller loan values while remaining economically viable (Claessens et al., 2018).

From the MSME perspective, financial inclusion through fintech provides opportunities to build digital financial track records. These records can later serve as the basis for credit assessments by fintech providers as well as other financial institutions (Frost et al., 2019). Nevertheless, increasing financial inclusion through fintech is also accompanied by

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challenges, such as low financial literacy and the risk of digital financial service misuse. Therefore, education and consumer protection are essential aspects of inclusive fintech development (Lusardi & Mitchell, 2014).

Overall, fintech has substantial potential to promote financial inclusion for MSMEs in urban areas, provided that it is supported by strong regulations, adequate financial literacy, and collaboration among the government, fintech industries, and business actors.

METHOD

This study employed a qualitative approach using a descriptive-analytical method to analyze the effectiveness of financial technology (fintech) in simplifying access to credit for MSMEs in urban areas in 2025. A qualitative approach was selected because it provides an in-depth understanding of social and economic phenomena, particularly related to MSME behavior, fintech service characteristics, and the dynamics of digital financing access (Creswell, 2014). The data used were secondary data obtained from official reports issued by government institutions such as Bank Indonesia and the Financial Services Authority, publications from international organizations, and scientific journal articles relevant to fintech and MSMEs.

Data collection techniques were conducted through library research by reviewing various academic sources and credible policy documents. The collected data were then analyzed using descriptive-qualitative analysis techniques by grouping, comparing, and interpreting key findings from multiple sources to obtain a comprehensive understanding of the role and effectiveness of fintech. Data validity was maintained through source triangulation, namely comparing information from various references to ensure data consistency and reliability (Sugiyono, 2020). The analysis results were subsequently used to draw conclusions and formulate policy implications related to sustainable fintech development for MSMEs.

RESULTS AND DISCUSSION

The research findings indicate that financial technology (fintech) has had a significant impact on simplifying access to credit for Micro, Small, and Medium Enterprises (MSMEs) in urban areas. The digitalization of financing processes enables MSMEs to apply for credit without undergoing face-to-face procedures, thereby reducing administrative barriers that have long been the primary obstacle in conventional financing systems (Gomber et al., 2017). One of the main findings is the increased ease of accessing credit through fintech lending platforms. Registration and loan application processes can be conducted online with relatively simple requirements. This is particularly beneficial for MSMEs that do not yet possess formal financial documents or sufficient collateral (Beck & Demirgüç-Kunt, 2006).

The speed of fund disbursement has become the most noticeable advantage of fintech for MSME actors. According to reports from the Financial Services Authority, most fintech platforms are capable of disbursing funds within less than one week, which is considerably faster than conventional bank lending processes (Financial Services Authority, 2025).

In addition to speed, the flexibility of fintech financing products also supports its effectiveness. Fintech offers various loan tenors and repayment schemes that can be adjusted to the cash flow conditions of MSMEs, thereby helping maintain business financial stability (OECD, 2022). The utilization of big data technology and artificial intelligence in creditworthiness assessments enables fintech companies to reach MSMEs that were previously considered non-bankable. Alternative data such as digital transactions and online business activities are used as the basis for credit risk assessment, replacing dependence on formal financial statements (Buchak et al., 2018).

From the perspective of financial inclusion, the research findings show that fintech contributes to increasing the number of MSMEs connected to the formal financial system. MSMEs that previously lacked access to banking services are now able to build financial track records through digital platforms (Demirgüç-Kunt et al., 2020).

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In urban areas, fintech adoption among MSMEs tends to be higher due to adequate digital infrastructure. High internet penetration and smartphone usage accelerate the adaptation process of MSMEs to digital financial services (Bank Indonesia, 2024). Nevertheless, the effectiveness of fintech is not without challenges. One major issue is the relatively higher interest rates or service fees compared to bank loans, particularly on certain platforms. This condition may increase the financial burden on MSMEs if not managed wisely (Claessens et al., 2018).

Default risk is also a major concern in fintech financing. The vulnerability of MSMEs to economic fluctuations results in relatively high credit risk levels, thereby requiring strong risk management systems from fintech providers (Frost et al., 2019). Furthermore, the low level of financial literacy among some MSME actors remains an obstacle to the optimal utilization of fintech services. Limited understanding of loan terms and debt management may increase the risk of over-indebtedness (Lusardi & Mitchell, 2014).

Consumer protection has also become a crucial aspect in fintech development. Cases involving data misuse and unethical collection practices may reduce MSMEs' trust in fintech services if not strictly supervised (Arner et al., 2016). Therefore, the role of regulators is essential in ensuring the stability and sustainability of the fintech ecosystem. Effective supervision by the Financial Services Authority is necessary to balance technological innovation with consumer protection and financial system stability (Financial Services Authority, 2025).

Synergy between the government, fintech providers, and conventional financial institutions is also necessary to maximize the benefits of fintech for MSMEs. Such collaboration can encourage the creation of a more inclusive and sustainable financing ecosystem (World Bank, 2023). Overall, the findings and discussion demonstrate that fintech is effective in simplifying access to credit for MSMEs in urban areas in 2025. Although several challenges remain, fintech still holds substantial potential as an alternative financing solution for MSMEs, provided it is supported by strong regulations, adequate financial literacy, and responsible technological utilization.

CONCLUSION

Based on the findings and discussion, this study concludes that financial technology (fintech) has proven effective in simplifying access to credit for MSMEs in urban areas in 2025. Fintech provides financing processes that are faster, easier, and more flexible than conventional financial institutions, enabling it to reach MSMEs that previously faced limitations in accessing credit. The utilization of digital technology, big data, and alternative risk assessment systems allows fintech to play a significant role in increasing financial inclusion and supporting the sustainability of MSMEs amid the dynamics of urban economies.

Nevertheless, the long-term effectiveness of fintech still depends on strengthening regulations, improving the financial literacy of MSMEs, and fostering synergy among governments, fintech providers, and other financial institutions. Challenges such as default risk, financing costs, and consumer protection must be managed seriously to ensure that fintech becomes not only a short-term solution but also a sustainable contributor to MSME growth and national financial system stability.

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