



Fintech and MSME

Dr. Chandan Bandyopadhyay¹

¹ Associate Professor, Department of Economics, Asansol Girls' College, Paschim Bardhaman, West Bengal
chban_econ70@yahoo.com

Abstract:

Financial Technology, or Fintech, has become a key focus in the modern business world, making a substantial impact on various sectors of the economy. Fintech involves the integration of technology into financial services to enhance their accessibility and delivery to consumers. It combines specialized software and algorithms, typically accessible through computers and smartphones. Examples of fintech applications include robo-advisors, payment apps, peer-to-peer (P2P) lending platforms, investment apps, and cryptocurrency apps, among others. Macro-level studies demonstrate a significant impact of fintech on Micro, Small, and Medium Enterprises (MSMEs) by increasing access to finance, improving efficiency, and enhancing risk management. However, fintech also presents challenges, primarily the degree of technical knowhow, cybersecurity concerns, regulatory hurdles, and the digital divide. Despite these challenges, fintech offers MSMEs substantial opportunities to access financial resources and benefit from the latest advancements in financial services. Emerging fintech trends—such as blockchain technology, artificial intelligence, open banking, digital currencies, and embedded finance—are expected to further transform the financial services industry and provide additional benefits to MSMEs. MSMEs play a pivotal role in shaping the structure of an economy, and thus, this study aims to investigate the extent of accessibility of fintech solutions and awareness among people of the benefits of Fintech and knowledge required to use the solutions to amplify the impact of fintech on the performance of MSMEs in remote areas. Additionally, it seeks to measure the extent to which fintech solutions have supported MSMEs in accelerating regional economic growth through improved performance.

Keywords: Fintech, MSME, Blockchain, Cybersecurity.

Citation: Bandyopadhyay, D. C. .
(2024). Fintech and MSME. American
Journal of Social and Humanitarian
Research, 5(5), 35–39. Retrieved from
<https://globalresearchnetwork.us/index.php/ajshr/article/view/2867>

Received: 05 Mar 2024

Revised: 28 Mar 2024

Accepted: 20 Apr 2024

Published: 28 May 2024



Copyright: © 2024 by the authors.
This work is licensed under a
Creative Commons Attribution- 4.0
International License (CC - BY 4.0)

Introduction

Financial Technology (Fintech) is one of the most dynamic forces shaping the modern business landscape, making a profound impact across various economic sectors. Fintech refers to the integration of technology into financial services, transforming the way these services are accessed and delivered to consumers. By leveraging specialized software and algorithms, typically on computers and smartphones, fintech offers innovative solutions through applications like robo-advisors, payment apps, peer-to-peer (P2P) lending platforms, investment apps, and cryptocurrency apps, among others.

P2P lending platforms are benefitted from the availability of modern communication technology. More users can be accessed using internet facility and smart phones thereby increasing volume of transaction. It also increases total revenue which in turn generates more surplus to be invested either in the existing business or expand the business horizontally.

MSMEs (Micro, Small, and Medium Enterprises) play a crucial role in the Indian economy, and they have recently been redefined by the Central Government as follows:

- **Micro enterprises:** Investment in plant and machinery or equipment up to INR 1 crore and turnover up to INR 5 crore.
- **Small enterprises:** Investment up to INR 10 crore and turnover up to INR 50 crore.
- **Medium enterprises:** Investment up to INR 50 crore and turnover up to INR 250 crore.

The MSME sector is the backbone of India's economy, with approximately 63.4 million MSMEs as of 2021-22. These enterprises contribute about 6.11% of India's manufacturing GDP and 24.63% of the GDP from service activities. Additionally, MSMEs generate significant employment, accounting for around 45% of India's manufacturing output and 40% of the country's total exports. Despite their economic importance, MSMEs face persistent challenges in accessing finance. Traditional lenders often hesitate to extend credit to small businesses, primarily due to perceived risks and high transaction costs. However, the rise of fintech has introduced new, more inclusive pathways for MSMEs to access financial resources. Fintech has revolutionized access to finance for MSMEs, offering alternative funding sources through online lending platforms, crowdfunding, and peer-to-peer lending. These digital platforms have expanded MSMEs' ability to secure capital with more flexibility and accessibility than traditional financing options.

MSMEs in India are leveraging fintech solutions in numerous impactful ways, including:

- **Enhanced Credit Access:** Online lending platforms, crowdfunding, and P2P lending make it easier for MSMEs to secure funding.
- **Smarter Credit Risk Assessment:** Fintech uses artificial intelligence, machine learning, and big data to better assess and price credit risk, often providing a more comprehensive picture of an MSME's creditworthiness beyond conventional credit scores.
- **Global Financing Opportunities:** Blockchain technology enables MSMEs to access global capital, bypassing traditional intermediaries.
- **Operational Efficiency:** Automated financial processes, efficient payment solutions, and reduced operational costs streamline MSME operations.
- **Tailored Financial Products:** Fintech offers customized solutions like invoice financing, supply chain financing, and online accounting software suited to the unique needs of MSMEs.
- **Cash Flow Management Tools:** Digital tools allow MSMEs to manage cash flow effectively, critical to sustaining their business.
- **Business Analytics:** Data-driven insights enable MSMEs to make informed, strategic business decisions.

Fintech solutions are empowering MSMEs to overcome financial barriers, optimize operations, and enhance their competitive edge in today's marketplace. With fintech's expanding influence, MSMEs are not only more resilient but also better positioned to contribute to economic growth on both a local and national scale.

Recent studies highlight the transformative potential of Fintech in driving economic growth, enhancing MSME performance, and fostering sustainable development across different regions.

In Nigeria, Samuel et al. (2023) examined the impact of various Fintech tools, such as ATMs, web pay, mobile banking, and POS systems, finding a significant influence on financial inclusion indicators. Uma and Anbuselvi (2023) highlighted MSMEs' complementary role in supporting large industries, contributing to inclusive industrial development in India.

Utami (2023) focused on how Fintech adoption and financial literacy affect MSME development in Indonesia. Similarly, Putri, Isyanto, and Sumarni (2023) showed how Fintech facilitates MSME operations in Subang, specifically for BRI LINK agents.

Pulgam, Medhekar, and Vaidya (2023) explored opportunities and risks faced by Fintech firms, while Song and Appiah-Otoo (2022) used data from 31 provinces in China to confirm Fintech's positive impact on economic growth, specifically through third-party payments, credit, and insurance services. Sumani, Brain, and Prasetya (2022) revealed that Fintech funding, cashback, and promotional offers improve MSME performance in Indonesia, though other forms of Fintech support showed limited impact.

Feyen, Frost, Gambacorta, Natarajan, and Saal (2021) pointed out that despite technological advancements, search and assembly costs for consumers remain high. They suggested that regulatory bodies work together to balance stability, competition, and consumer protection.

Finally, Shelly, Sharma, and Bawa (2020) emphasized the MSME sector's pivotal role in India's GDP, employment generation, exports, and sustainable development, underscoring its status as the backbone of the Indian economy.

It is evident from past studies that fintech no doubt effects the performance of any enterprise may be big or small, the path breaking aspect of the project might be anticipated to be that since the study is an enquiry into the accessibility and adoption of fintech solutions, the results would reveal the core challenges in smooth applicability of Fintech solutions in a micro context, thus steering the way to overcome them and also help Governments adopt policies and take steps to remove any digital divide in micro level.

The literature reveals a rich body of work examining the influence of Fintech on MSMEs and economic growth, often with contrasting conclusions. While some studies highlight Fintech's positive impact on MSME performance, others present more nuanced findings, suggesting that outcomes may vary based on regional and contextual factors.

A common thread among these studies is their predominantly macro-level perspective, offering broad insights into Fintech's role across countries or regions. However, there is a noticeable gap when it comes to micro-level analyses focused on specific localities. Macro-level studies may overlook certain nuanced impacts, especially the challenges faced by MSMEs in accessing Fintech solutions in remote or underserved areas.

This paper seeks to address on the micro-level performance of MSMEs due to Fintech's solutions. This will bring to light hidden factors, such as the challenge of financial inclusion and accessibility to Fintech solutions, that may not be as evident in macro studies. Specifically, it will focus on the barriers and enablers of Fintech adoption in remote areas, contributing valuable insights to the understanding of Fintech's role in promoting regional MSME growth.

This paper identifies the following areas to be focussed for better understanding the relationship between fintech solutions and MSME.

A. Explore the effect of Fintech accessibility on MSMEs: This focuses on understanding how accessible Fintech solutions are to MSMEs and the challenges they face. Key variables to be examined include:

- **Lack of Technological Infrastructure:** Insufficient digital and physical infrastructure to support Fintech solutions.
- **Lack of Devices:** Limited access to devices such as smartphones or computers necessary for Fintech use.
- **Lack of Available Technological Software:** Gaps in affordable and accessible software tools tailored to MSME needs.
- **Fear of Fraud:** Concerns about cybersecurity and the risk of financial fraud.

Regulatory Changes: Impact of evolving regulatory requirements on the adoption of Fintech.

B. Evaluate the benefits of Fintech adoption by MSMEs, focusing on financial gains, operational efficiency, and market reach: This objective examines the financial and operational advantages that MSMEs gain from adopting Fintech, including revenue growth, market expansion, innovative product development, easier access to financing options, and cost reductions. Relevant variables include:

- **Financial Performance of MSMEs:** Increased revenues and profitability resulting from Fintech adoption.
- **Efficient Transactions and Payments:** Streamlined transactions, including cross-border payments, that enhance cash flow.
- **Ease of Access to Financing:** Faster and more flexible financing options, such as crowdfunding and alternative lenders.
- **Transaction Speed:** Reduction in processing times for payments and financial transactions.

C. Identify unexplored opportunities for MSMEs in Fintech adoption: This objective seeks to uncover potential areas for future growth and innovation for MSMEs in their Fintech journey. The main variable considered here is:

- **Future Expectations of MSMEs:** Anticipated Fintech advancements and opportunities that MSMEs believe could support their long-term growth and resilience.

Based on the above, the following observations are made:

- Technological infrastructure significantly impacts the accessibility of Fintech solutions by MSMEs.
- Concerns about fraud have a significant effect on the adoption of Fintech solutions by MSMEs.
- Technological know-how plays a significant role in the accessibility and adoption of Fintech solutions by MSMEs.
- The accessibility and adoption of Fintech solutions has a positive impact on the financial performance of MSMEs.
- The accessibility and adoption of Fintech solutions improves transaction speed for MSMEs.
- Fintech accessibility and adoption facilitates smoother and more efficient receipt and payment processes for MSMEs.

- The accessibility and adoption of Fintech solutions contributes to the economic advancement of the region under study.

This paper has shown that digital innovation in Fintech can bring meaningful changes in the production of financial services, with implications for financing MSMEs. Improvements in connectivity and computing can help to enhance efficiency and competition. Regulatory and supervisory policy tools will have to be adopted. Existing regulatory perimeters may not adequately cover emerging providers of financial services, and new players may pose challenges for day-to-day financial supervision. Regulatory measures have to be reformed to counter attack cyber threat. Thus, if an ecosystem can be created where MSMEs take advantages of Fintech in all sorts and grow exponentially then the developing economy where unemployment is a major concern will forward towards a self-sufficient and self-reliant economy which is the need of the hour.

References:

1. Feyen, E.; Frost, J.; Gambacorta, L.; Natarajan, H. and Saal, M (2021): Fintech and the digital transformation of financial services: implications for market structure and public policy by Monetary and Economic Department.
2. Rahadian, A; Thamrin, H (2023): Analysis of Factors Affecting MSME in Using Fintech Lending as Alternative Financing: Technology Acceptance Model Approach, BBR. Brazilian Business Review, vol. 20, no. 3, pp. 301-322, 2023, Fucape Business School
3. Samuel, U. E., Prince, A. I., Edet, I. V., Manasseh, C. O., Daniel, C. O., Okanya, O. C., Mgbobi, I. C., & Onwumere, J. U. J. (2023). Financial Technology And Economic: Quarterly Evidence From Nigeria. Seybold Report Journal, 18(07), 106-129. <https://doi-ojs.org/10-5110-77-9127/>
4. Song, N.; Appiah-Otoo, I (2022): The Impact of Fintech on Economic Growth: Evidence from China. Sustainability 2022,14, 6211.
5. Shelly, Richa & Sharma, Tanuj & Bawa, Singh, S (2020): Role of Micro, Small and Medium Enterprises in Indian Economy. International Journal of Economics and Financial Issues. 10. 84-91. 10.32479/ijefi.10459.
6. Sumani, Ignasius Brian Prasetya (2022): The Effect of Financial Technology on the Performance of Micro, Small, And Medium Businesses Review of Management and Entrepreneurship, Volume 06, Number 01, p-ISSN 2548-3536, e-ISSN 2548-3552,
7. Uma, R & Anbuselvi, R. (2023). Role of Micro Small and Medium Enterprises (MSME) in Employment Generation in India. Shanlax International Journal of Economics. 11. 22-27. 10.34293/economics.v11i2.5809.
8. Utami, N. (2023). Analysis of the Use of Financial Technology and Financial Literacy Among MSMEs. MBIA, 22(1), 11–21. <https://doi.org/10.33557/mbia.v22i1.2217>
9. Pulgam, Rachana & Medhekar, Nidhi & Vaidya, Akanksha. (2023). Role of Fintech in Development of Indian Economy.