

STRENGTHENING FUNDING FOR SMALL MEDIUM ENTERPRISES (SMEs) WITH THE EQUITY CROWDFUNDING MODEL THROUGH THE ANDROID-BASED PEER-TO-PEER LANDING APPLICATION

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ABSTRACT

Funding problems are one of the most acute problems for SMEs in Indonesia. This funding problem is due to SMEs having difficulty accessing capital from banks and other official funding institutions. Problems in the funding sector will ultimately hinder the progress of SME businesses in general. This study aims to provide solutions to the above problems through an equity-based crowdfunding model through an Android-based Peer-to-Peer Landing application. This application was built to make it easier for SMEs to meet investors by offering their respective SME business plans. This study uses a development approach (Research and Development). The stages in this research include 1). preliminary study stage and data collection; 2). the planning and preparation of the application. This study involved 10 model SMEs as respondents in Blitar district. This research was started from the preparation stage by conducting literature studies and field strategies. Field study activities were carried out to analyze the character of SMEs as application materials and literature studies were carried out as a basis for studies in building an equity crowdfunding-based funding application. The results of this study were an Android-based Peer-to-Peer Landing Application as a funding solution for SMEs based on Equity Crowdfunding.

Key words: SMES_Q, Equity Crowdfunding and SMESCO

INTRODUCTION

SMEs has an important and strategic role in national economic development (Munandar, 2016). It is proven that the number of SMEs in Indonesia reached 62,922,617 business units in 2017 or the equivalent of 99.99% of the total number of business units in Indonesia (Ministry of Cooperatives dan SMEs, 2007). Not only that, the large number of SMEs has also contributed 60% of the Gross Domestic Product (increasing the current price) to the country, with a labor absorption rate reaching 97% of the entire national workforce. (BPS RI, 2017). These various conditions indicate that the position of SMEs is very strategic and can be a strength for the national economy (Mutmainah, 2015). The main role of SMEs in the Indonesian economy is as a major player in economic activity and a provider of employment in various sectors. (Ministry of Cooperatives and SMEs, 2005).

The potential of SMEs in Indonesia is enormous, because SMEs have an important and strategic role in national economic development (Munandar, 2016). Especially at this time the development of economic development based on broad community participation as a business actor is the government's commitment in economic development (Heliantina, 2017). Apart from their strategic role, SMES still has many obstacles. The main problems faced by SMEs are financial and non-financial problems (Ibrahim & Verliyantina, 2012). Urata (2000) in Ibrahim & Verliyantina (2012) SMEs financial problems include: (1) mismatch of funds available and accessible to SMEs, (2) there is no systematic approach to SME funding, (3) high transaction costs due to complicated credit procedures while the amount of credit extended is small, and (4) the number of SMEs is not bankable.

These various problems cause the competitiveness of SMEs to be limited and the welfare of the perpetrators is not guaranteed (Mutmainah, 2015). In a company, this funding decision plays a very important role for the sustainability of its business (Darmayanti & Suryantini, 2017). Meanwhile, according to Sundana (2011) this funding decision is related to the process of selecting the source of funds used to spend the planned investment with various alternative sources of funds available, in order to obtain the most effective combination of spending.

Debt financing is financing that involves an interest-bearing medium, usually a loan, whose payments are only indirectly related to the sale and profit of the business. Meanwhile, equity financing does not require collateral and offers an offer to investors in the form of business ownership (Hisrich, 2008). Therefore, the equity financing model is one of the best solutions to solve the problems of SMEs.

Departing from the above problems, the researchers are interested in building an SMEs financial marketplace platform that is able to bring SMEs together with investors. This thought arises because currently the financial technology model is very familiar to the public. Through Fintech, the capital needs of a person or business entity will be more practical and effective. This study also follows up on previous studies where most of them are still testing variables that affect the performance of SMEs (Adirinekso, 2011 and Irmawati, S et al, 2013). Apart from being a medium for funding and investment for SMEs, the added value of this application compared to existing applications is that this application is also capable of being a medium for literacy and developing market share for SMEs.

Based on the description above, it can be seen that the main problem faced by SMEs is the need for easy access to finance with a light repayment system and a simple administrative process. Therefore, the problem raised in this study is how to design, build and

implement application-based Peer to Peer Lending for access to SME financing. The objectives to be achieved in this study are the realization of application-based Peer to Peer Lending for SME financing that can be accessed easily, with a light return system and a simple administrative process so that it can make it easier for SMEs to get financing that can increase their business productivity.

METHOD

In accordance with the research objectives, this study uses a development approach (Research and Development). Borg and Gall (1983: 772) contains a systematic guide of the steps taken by researchers so that the products they design have a standard of feasibility. The purpose of this descriptive study is to make a systematic, factual and accurate description, description, or painting of the facts, properties and relationships between the phenomena investigated.

The techniques used in collecting data used in this study are,

a. Documentation Study

Study documentation that is looking for sources of written data in the field relating to the problem under study. Documentation studies can be used to test, interpret and even predict.

b. Literature Study

Literature study is a data collection tool to reveal various theories that are relevant to the problems being faced or researched as a discussion of research results taken from various books that are considered relevant to the contents of the research.

This research was conducted for 5 months starting from June to October 2020 with the entire population of SMEs in Blitar district. The research sample used the case study method by taking 25 SMEs in Rejowinangun village. The 25 UKM in Rejowinangun village consist of 7 types of products, namely: (1). Geti products, (2). Jenang products, (3). Kerpuuk products, (4). Tofu products, (5). Dodol products, (6). Opak Products and (7). Dairy products. The type of data in this development uses qualitative descriptive data. Data generated from media expert responses, SME plans and plans regarding the right plans for SMEs through a financing application.

RESULT AND DISCUSSION

SMEs_Q has an advantage compared to conventional financing because of the existence of a platform for marketing in addition to the funding platform. This platform is also equipped with features that present all information about the development of SME businesses as a basis for investment for investors. This concept is able to create a Smart Management Business which can further ensure the sustainability of SME businesses amid and after the pandemic. The focus is that this application is able to be a medium for investment, because there is no such thing as a capital market for SMEs, so with this application every individual can invest with a transparent return in the application and even features information that can be considered by investors in choosing the SME to be given. cash injection.

Consequently, through the involvement of investors in the SME business, it is expected to be able to help SMEs in making business decisions so that they are wiser and more profitable in making decisions. The further impact that is generated when sales of SMEs increase, the more trusted by investors, increasing their productivity so that they can absorb more labor. SMEs_Q will create a very healthy SME business ecosystem and make the continuity of SMES business more secure, so that it can reduce unemployment due to the pandemic and become one of the accelerators to save the Indonesian economy due to the impact of the COVID-19 pandemic. The results and discussion in this study are described in 3 points as follows:

a. Preliminary studies

The preliminary stage begins with a literature study then continues with a field study. The literature study was conducted by looking for references on the concept of SME financing which includes aspects of funding and investment. While the field study is to make observations in the field by identifying the character of financing and investment in SMEs. In addition, field observations serve to identify the need for application preparation.

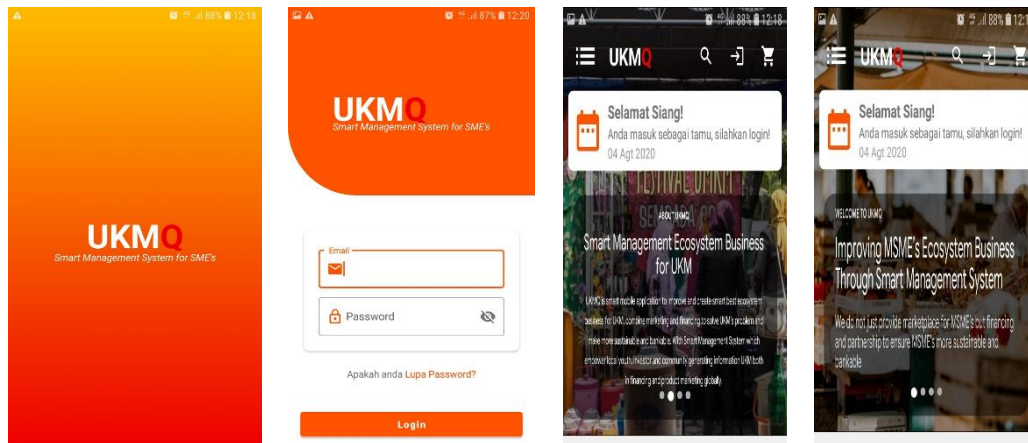
Literature studies are conducted to obtain qualified references related to the process of building an application system. In the literature study, the researcher collected various kinds of books related to the planning and development process. Through this literature study, researchers get an overview of how to build an application. The process of collecting data in the literature study was carried out using documentation techniques. Through this technique the researcher is able to collect literature that supports the research. From the results of the literature study conducted, it is known in building an Android-based application. This is necessary to make it easier to build the SDK framework from the applications that are made. From this base, several modules for notification, login, and other modules will be equipped to complete the system being built.

The field study was conducted to identify the problems and needs of the researchers in accordance with the research problems expressed in the above background. Through this field study, researchers get the material to compile the content needed in the application to be built. The collection process carried out in the field study is carried out using interview techniques to researchers and application-based communication media experts. After the literature study and field study process, the next step is the researcher will analyze and formulate application content based on the results of the analysis of the literature test and field test. In addition to formulating content, the results of field tests and literature tests provide an overview of the steps in compiling the application

b. Application Building

Data obtained from field surveys and supported by the basics of theory from the results of literature studies then researchers compile applications. The preparation of the application is preceded by the drawing up of a flow cart diagram related to the application's operational procedures. The next process is that the programmer will start compiling the application based on the data that has been compiled by the researcher. The following is an overview of the SMES_Q application

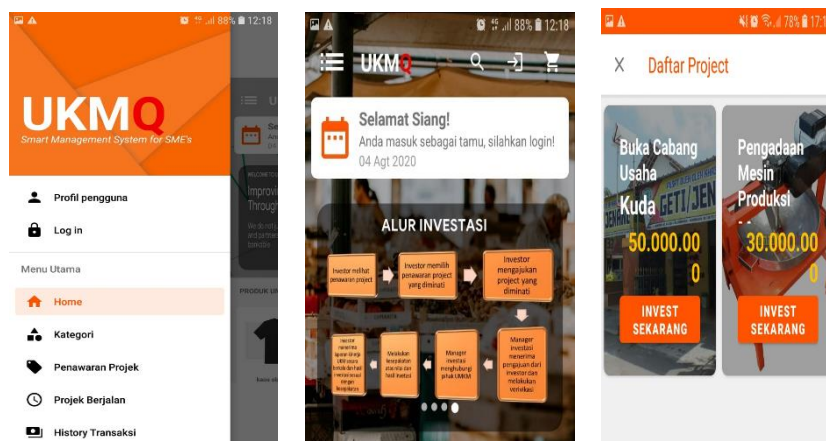
Figure 1. Home Screen Login Screen – Menu Screen



Based on the image shown in Figure 1, the SMES_Q application starts with a start page containing the SMES_Q application title and 3 main buttons that will lead to another page, namely the SMES_Q Start button to enter the main page (home screen). We can see in Figure 1 (login screen), to be able to enter the case, we must register first by entering the initial data and then the user will get a username and password.

On the next page we will display a menu of options for investors regarding project offerings from SMEs. Our decision to choose the investor menu will give us the opportunity to place funds on the business that will be displayed on the next page. The business that will be displayed is the user who enters the application as a party that requires capital. To make it easier for investors to determine the business that will become an investment partner, this application will provide various information needed to make investment decisions for investors. The following is a menu display of project offerings and investment flows for SMEs.

Figure 2. Main menu and the project specification offer page



When we enter the menu as investor, the menus displayed include; capital status, view daily data, balances, forums, news and reports. Furthermore, when the user chooses to be the party who needs capital / debtor, the menu that must be done is that they have to upload a proposal for submitting funds related to the business that has been run. The proposal submitted by the debtor will later be submitted to the investor. Investors can opt for an attractive and profitable venture. In addition, in order to increase investor confidence in the fund manager, this application provides reports to investors periodically. The reports displayed in the application are financial reports, through this report it is hoped that the company's performance will be known in a certain period. On the page above, after the user selects a project offer on the main menu, the user will be presented with a list of projects and details of project offers. Investors can contact SME entrepreneurs to communicate in more detail about the SME project offers.

c. SMEs_Q as an Application-based Equity Crowdfunding Model

Inclusive finance has become a post-crisis trend in 2008, mainly based on the impact of the crisis on groups in the bottom of the pyramid which are generally unbanked, which are recorded to be very high outside of developed countries. The crowdfunding concept is actually intended for those who want to expand their business but are constrained by their capital. The rapid development of technology and the ease of accessing information, data exchange and transactions via the internet should be able to make this crowdfunding platform grow faster and be widely recognized by the public. However, many Indonesian people do not know about this information, so that entrepreneurship in Indonesia is less developed. This should be a source of funding for the SME (Small and Medium Enterprises) sector to expand and develop their businesses.

In the current era of digitalization, all activities require using technology for cost efficiency. Digitalization in the financial sector has made institutions in the financial sector compete to increase financial technology innovation to increase efficiency and market share. Fintech is a financial technology which is a financial service model through the development of information technology innovations. Fintech with financial services such as crowdfunding, mobile payments, etc. has revolutionized various innovations in technological developments. Fintech with financial services such as crowdfunding, mobile payments and money transfer services is causing a revolution in the startup business. With crowdfunding, you can get funds from all over the world easily, even from people you have never met, although Fintech also allows global or international money transfers.

In Indonesia, the regulation regarding Fintech has been accommodated by the Financial Services Authority Regulation Number 77 / POJK.01 / 2016 concerning Information Technology-Based Borrowing and Lending Services and Regulation Number 31 / POJK.05 / 2016 concerning Pawnshop Business. This proves that the Indonesian Government has seriously responded to the development of Fintech in Indonesia. With accommodating regulations, it will certainly create legal certainty and a sense of security for investors and fund seekers. The regulations issued by Bank Indonesia through Bank Indonesia Regulation Number 18/40 / PBI / 2016 concerning the Implementation of Payment Transaction Processing were made to support the implementation of Fintech and ECommerce in Indonesia. This BI regulation regulates several things regarding accommodation for Fintech and E-Commerce innovations, safety and consumer comfort and maintaining equal distribution of Fintech industry players in Indonesia.

SMEs_Q was born as a solution to funding problems for SMEs. There are at least 2 advantages of the SMEs_Q application, among others (1). for consumers, SMEs_Q provides benefits, such as getting better service, more choices; and a cheaper price, (2). For SMEs_Q players it provides the benefit of simplifying the transaction chain; Reducing operational costs and capital costs, and freezing the flow of information. Existence of SMEs_Q for SMES Entrepreneurs Hope for Small Menengah Business (SMEs) entrepreneurs in developing their business. One of them is related to SMEs to access financing. "Fintech in the form of P2P (peer to peer) lending makes access to unbankable MSMEs. In the end, this Fintech can increase business capacity. In addition to the positive impact of the existence of Fintech for SMEs, the financing application also has a negative impact on it for SMEs and investors.

Therefore, it is necessary to have the role of Bank Indonesia (BI) in minimizing the risk of this fintech. The strong flow of technology in the payment system is what drives Bank Indonesia as the central bank of the Republic of Indonesia to ensure that technology-penetrated payment traffic continues in an orderly and safe manner and supports the pillars in achieving the vision and mission of Bank Indonesia. Bank Indonesia's policies in maintaining order of payment traffic related to Fintech are as follows,

- 1) In terms of providing a market for business actors, Bank Indonesia ensures the protection of consumers, particularly regarding guarantees of confidentiality of consumer data and information via cybersecurity networks.
- 2) In terms of savings, loans and equity participation, Bank Indonesia requires every business actor to comply with macroprudential regulations, deepening financial markets, payment systems to support operations and cybersecurity to safeguard consumer data and information.
- 3) In terms of investment and risk management, Bank Indonesia also requires every business actor to comply with macroprudential regulations, deepening financial markets, payment systems to support operations and cybersecurity to safeguard consumer data and information.
- 4) In terms of payment, settlement and clearing, Bank Indonesia ensures the protection of consumers, particularly regarding the assurance of the confidentiality of consumer data and information through cybersecurity networks.

Based on the above discussion, it can be concluded that in this crowdfunding system, there is a correlation between investors who have funding sources and those who have business projects or those who have creative ideas for a particular business that requires a pooling of funds or a request for financial sources. Crowdfunding is a platform that can be integrated practically in every sector of economic activity. One sector where crowdfunding can play a positive role is in the Micro, Small and Medium Enterprises sector. Apart from bank loans or capital from families, crowdfunding can be an alternative financing for startups / SMEs that are effective and solution in overcoming difficulties in obtaining funding. This fundraising practice is an attempt to gather roles or contributions from the wider community to realize a particular program or project that is carried out online

CONCLUSION

Based on the objectives and discussion above, the conclusions will be described as follows.

- a. The realization of application-based Peer to Peer Lending for SME financing that can be accessed easily under the name SMEs_Q.
- b. The SMEs_Q application adopts the crowdfunding method which provides convenience in the administrative process so that it can make it easier for SMEs to get financing that can increase business productivity
- c. This crowdfunding method supports the correlation between investors who have sources of funds against those who have business projects that require funds or demand for funding.

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