

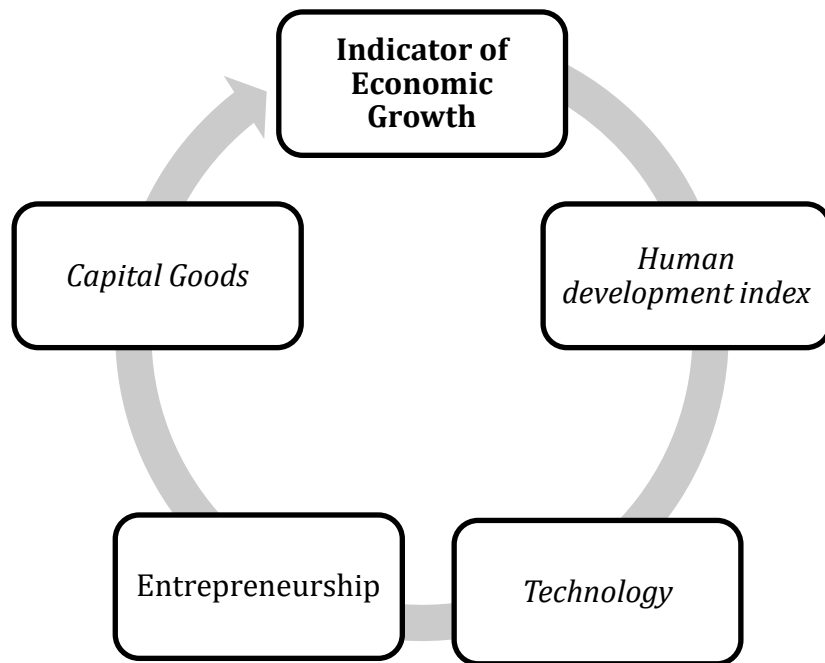
# FINTECH PEER TO PEER LENDING AS APPROACH TO ENCOURAGE ECONOMIC INCLUSION FOR RURAL COMMUNITIES IN INDONESIA

*“Fintech Case Studies in Asia”*

**Nor Anisa**  
**Mulawarman University**  
**East Kalimantan, Indonesia**

# Introduction

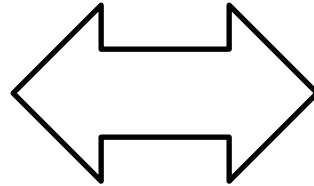
## ***“Economic Growth”***



Economic Growth → the process of changing economic conditions of a country on an ongoing basis towards a better condition during a certain period. Economic growth can also be interpreted as a process of increasing the production capacity of an economy which is manifested in the form of an increase in national income.

# Main Factors Driving the Success of Economic Development

Economic Growth



Financial Sector

# Big Question

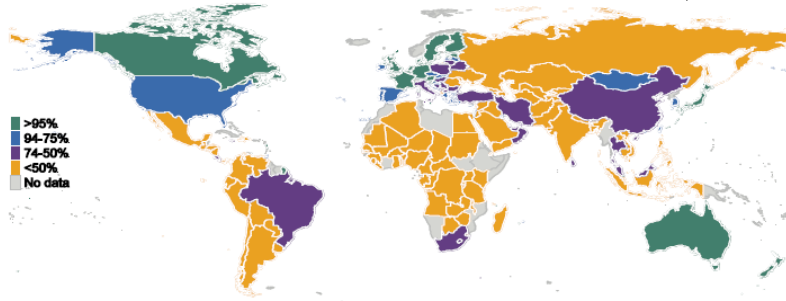
- *Why Financial Sector?*
  - a) Investment Financing and National Development (Macro Economy)
  - b) Platform of economic productivity for small society.**

# Global Case Studies of Exclusion of Financial 2011

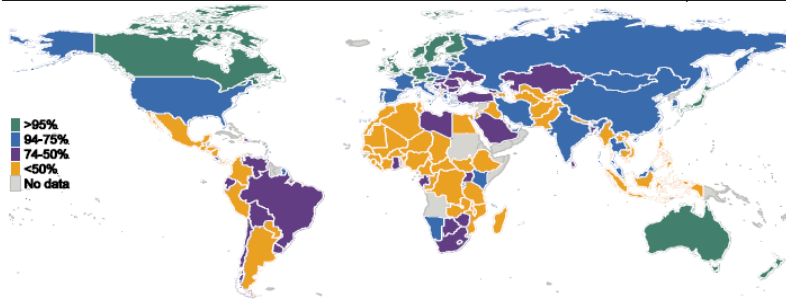
Evolution of the financial inclusion index in 2011–17<sup>1</sup>

Graph 2

Account access in 2011



In 2017



<sup>1</sup> Respondents aged 15+ who report having an account (individual or joint) at a bank or another type of financial institution or report personally using a mobile money service in the past 12 months.

Source: World Bank Global Findex Surveys 2011 and 2017; A Demirgüç-Kunt, L Klapper, D Singer, S Ansar and J Hess. *The Global Findex Database 2017: Measuring financial inclusion and the Fintech revolution*, World Bank, 2018.

*The phenomenon of the influence of low levels of financial inclusion globally is experienced by the Southeast Asian Region. This is proven by the KPMG report in 2020 that around 470 million people are without a bank account or 73% of the Southeast Asian region. This causes several ASEAN countries to experience a decrease in microeconomic productivity that can affect macro growth.*

*According to the 2014-2016 World Bank Report that globally, around 2 billion people do not use formal financial services. In Southeast Asia, there are 264 million adults who still "don't have a bank account"*

# Financial Inclusion in ASEAN



Source: ASEAN

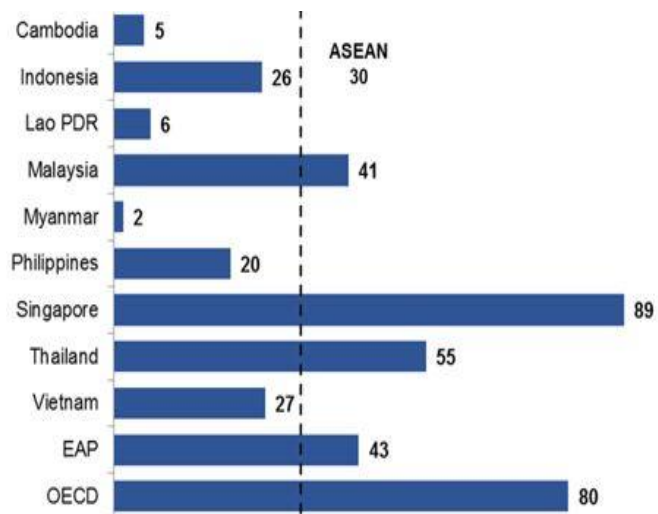
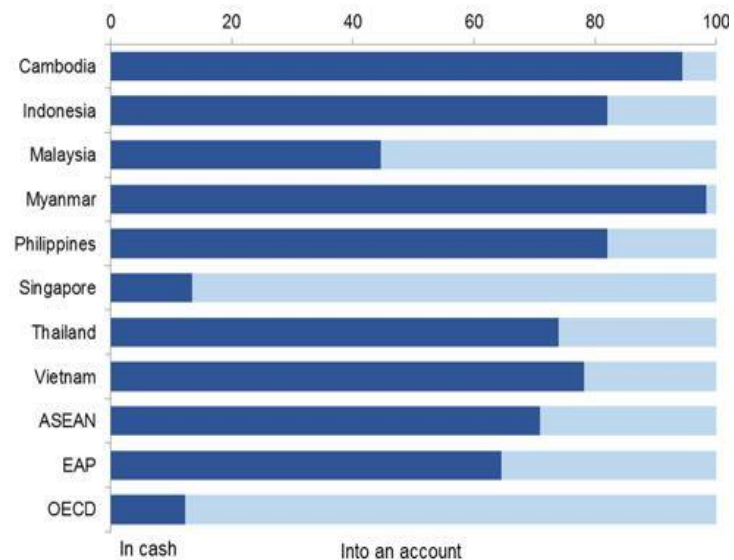
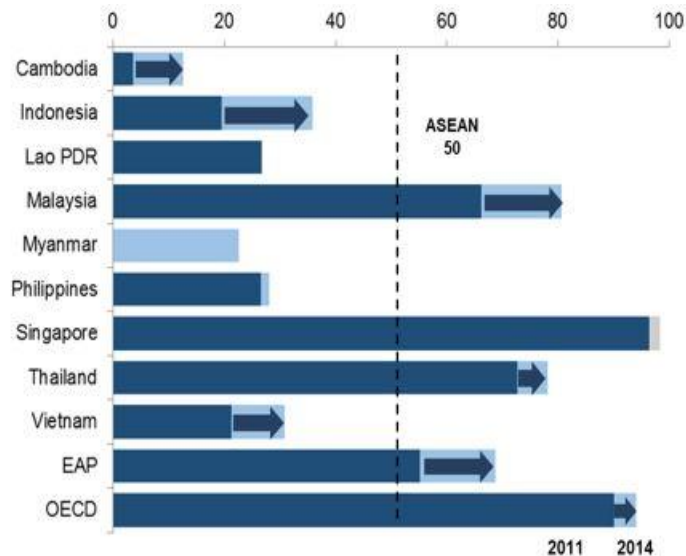
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# Case Studies in Southeast Asia

**There are 3 issues of financial inclusion that occur in the Southeast Asia Region;**

- **A. Low Levels of Bank Ownership;** Since 2014 only 50% of adults in ASEAN have accounts in financial institutions.
- **B. Wage payments made mostly cash;** only 29% of workers reported receiving their monthly salaries through accounts from financial institutions
- **C. Low levels of debit and credit card penetration;** In ASEAN countries, only 30% of adults reported having a debit card and 9% reported having a credit card

# Data in Southeast Asia





# Financial Inclusion In Indonesia

Indonesia is predicted to experience stunted financial inclusion growth if it is assessed from the perspective of population growth and sizable geographical area among ASEAN countries. But according to Finleap to measure the success index of digital financial growth can be seen from smartphone users, then the temporary hypothesis shows that smartphone users are the highest in Indonesia. The hypothesis is measured from a high growth rate. Therefore this research will focus on Indonesia to analyze inclusive economic growth through the level of financial inclusion.

# Financial Exclusion in Indonesia



The Future of South Asia's Digital Financial Services, as many as 92 million adults in Indonesia have not been touched by financial or banking services. This amount is more than half of the total adult population which reaches 182 million people. 2 factors affect the low level of financial inclusion in Indonesia, namely geographical and population growth.

# Geographically in Indonesia



Geographically, Indonesia is an archipelagic country that has the highest population growth in the Southeast Asian region. Then Based on information from the Geospatial Information Agency, the total area of Indonesia for the mainland is 1,922,570 km<sup>2</sup> and 3,257,483 km<sup>2</sup> waters. If in total, the total area of Indonesia in Indonesia is 5,180,053 km<sup>2</sup>. Large geographical area and population growth emphasize that Indonesia is known as an "agrarian society".

Sources: Indonesian Islands

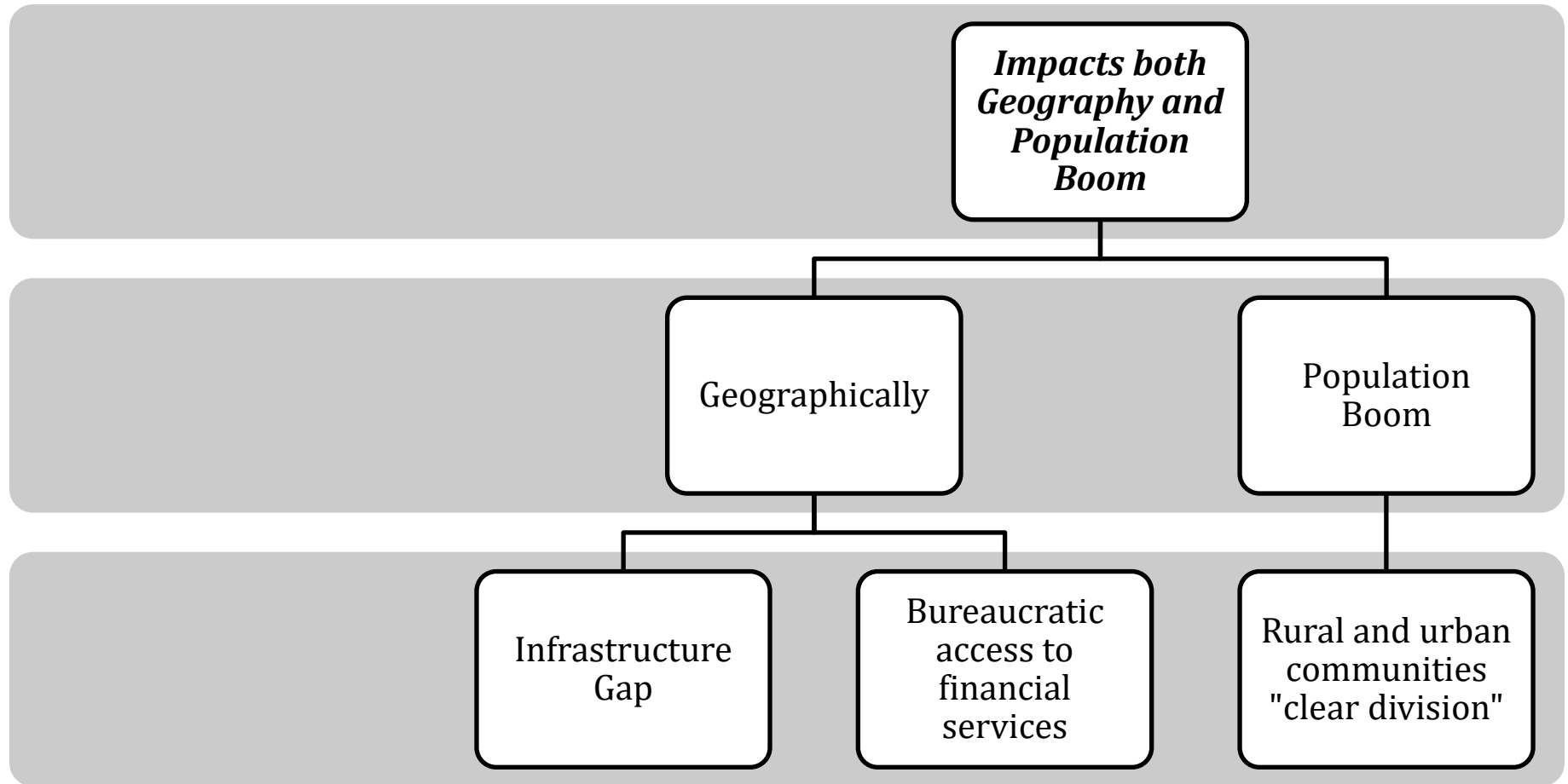
# Population Boom in Indonesia



Population growth rate in Indonesia is considered dense, whereby 2019 the population will reach 270 million. This figure places Indonesia as the highest populous country in the Southeast Asia Region and ranks fourth globally. Therefore factors geographically and population growth divide the structure of social society in Indonesia, namely urban and rural areas.

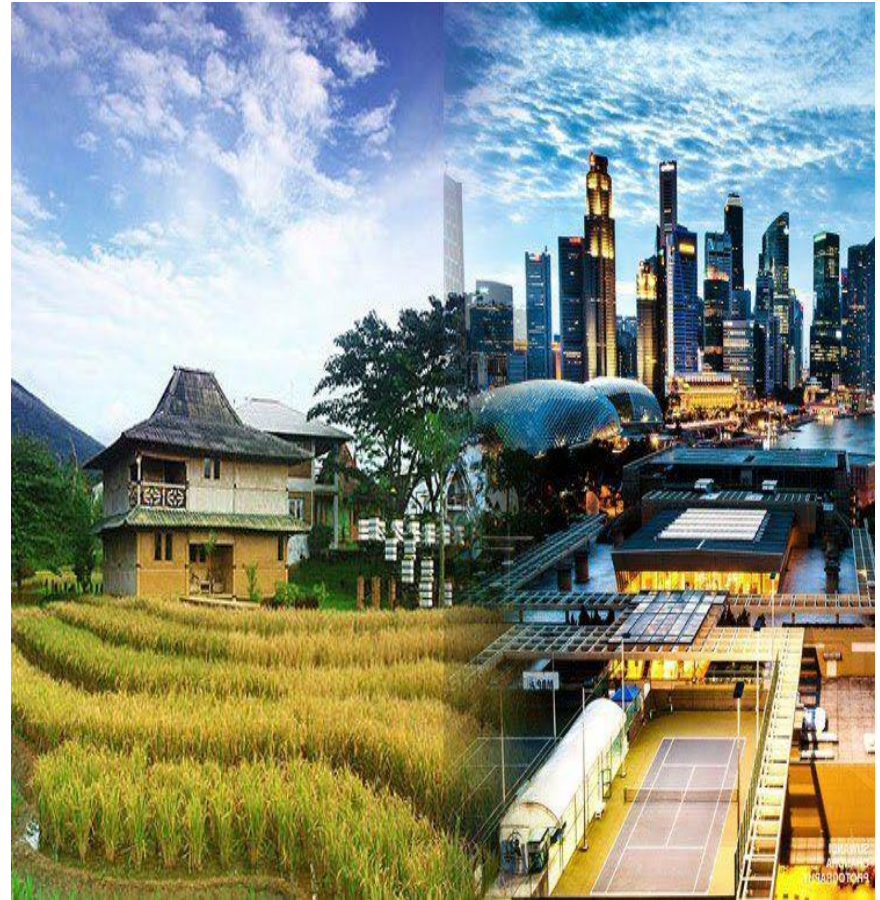
Source; Beritatagar.id

# Data Facts;





- Since 2015, according to the Director of Urban and Rural Affairs, at present, the composition of the Population in Indonesia is dominated by village residents by 56%, while for city residents it reaches 44%. The difference in composition causes a difference in terms of development between villages and cities, where there are differences in growth and contribution to social and economic development. These differences create different characteristics of economic behavior. Broadly speaking, economic behavior in rural areas has lower growth compared to urban areas, so based on the results of *the Financial Literacy shows the lowest financial inclusion is occupied by rural communities.*



Source; Kompasiana

# Characteristics of Rural Economic Behavior in Indonesia

As an archipelagic country and has an agrarian society, Indonesia still faces challenges in increasing the growth of financial inclusion. Geographically, infrastructure growth that has not yet been massive has caused public economic service facilities to remain a top priority in rural areas. Besides, in general, Indonesia is an agrarian country that depends on the agriculture and fisheries sector, but the designation of an agrarian country is common in the Southeast Asia Region, so the problem that can be studied more deeply is the limitations of economic service facilities. Where this condition is rural and coastal communities are still difficult to reach banking access.

# Agrarian Society



Source: TheDiplomat

As an agrarian society, in general, it has a minimal level of educational productivity for rural communities affecting financial inclusion in the village. First, geographical factors where Indonesia is an archipelagic country consisting of other small islands so that the distribution of education and technology is uneven. Second, the limitation of teachers in rural areas due to limited professional human resources who have academic skills is one of the causes. Third, Inadequate infrastructure has hampered access to adequate education for rural communities. From these 3 factors, villagers experience minimal economic and financial knowledge, therefore economic productivity is considered minimal.



# Rural Communities vs Financial Service in Indonesia



Source: RadarSumsel

According to the Indonesian Katadata report in 2018, the number of villages registered in Indonesia reached 83,931. While the number of conventional banking services amounted to 31,618 for the period 2014-2018 based on Statistics Central Agency Data. Then, the data found ATM services in urban areas totaled around 47,000 since 2010. Based on the data obtained shows the economic imbalances in Indonesia experienced by most rural communities.

# Results;



NewsOkezone

- 74% of rural MSMEs in Indonesia still did not have access to finance
- according to a report from the Ministry of Cultural Education that from 2016 to 2019 reached 285,404 children who dropped out of school. This is due to unstable economic income and the lack of educational investment strategies among the middle to lower classes.

# Policy Recommendation



Source: Pasardana

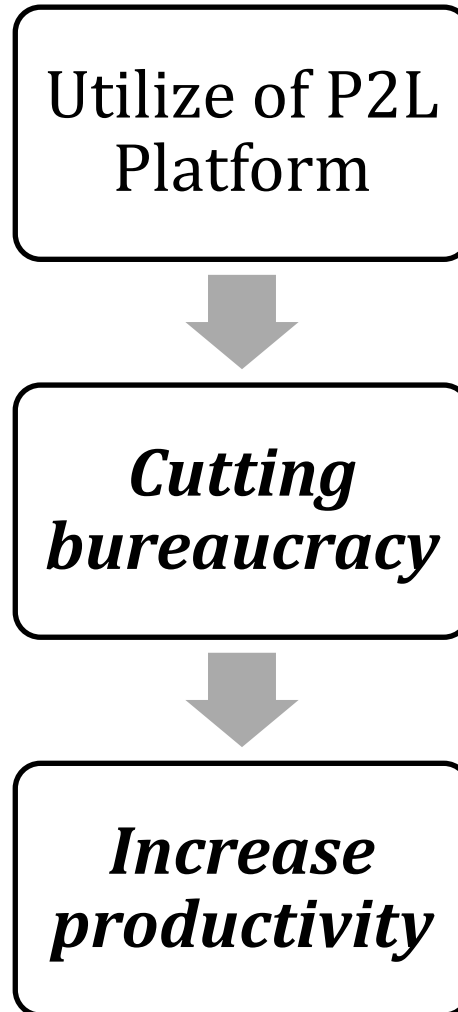
Based on the review that has been reviewed, in general, the Southeast Asia Region still has low financial inclusion growth. This is because most of the community is located in an agricultural area. But in its development, Indonesia is one of the countries most vulnerable to the growth of financial inclusion. This is seen from differences in geographical location and population growth which refers to economic inequality more dominant in rural areas, therefore to respond to these challenges a Peer-to-Peer Lending or P2PL-based approach to reach unlimited financial and economic cycles.

# ***Peer to Peer Lending***

In general, the Peer To Peer Lending platform is a new platform in financial transactions that simplifies the conventional intermediary function by directly bringing together those who need funds with those who have excess funds (Yum, Lee, & Chae, 2012). P2PL is the development of a sharing economy business model based on technology. Then P2PL can be alternative financing that has been considered complicated, with the P2PL financing and investment can be done easily.

P2PL is an investment practice where there is a pooling of funds for people who have excess funds (lenders) with people who need funds, both MSMEs and individuals, which are done online through gadgets (smartphones, tablets, or laptops) that can be done anywhere and anytime. Therefore this platform can be used as an effort to reduce economic and social inequalities for rural communities.

# ***Peer to Peer Landing***





# Cutting Bureaucratic



source; Radar Madura

*Based on the explanation on the background which emphasizes that the factor of limited education affects the lack of financial and economic knowledge, so this results in the lack of rural communities participating in banking. Then, in general, conventional banking has administration and regulations such as requirements, documents that make it difficult for the middle to lower classes. In addition to education issues, infrastructure services and public transportation are also a problem. This is due to the lack of equitable development. Then, as an archipelagic country and has a high geographical area, so that the limitations of public transportation and adequate infrastructure cause rural communities in Indonesia to have difficulty getting to the city in the destination of banking affairs. Therefore, the platform can overcome difficulties for villagers both bureaucratic and outreach infrastructure.*

# Increase productivity



Most villagers have uncertain income due to sectors that are considered unproductive. This is due to the dependence on the results of the agriculture, plantation, and fisheries sectors. This type of income is considered uncertain because it depends on the products produced. The product yield also depends on the weather, soil fertility, and various other aspects. According to a report from the Ministry of Communication and Information since 2019, there has been an increase in the workforce in 3 sectors. First, Agriculture at 27.33%, trade at 18.81%, most recently occupied by the processing industry at 14.96%. Based on these data shows that the labor sector in rural areas is still high in Indonesia so that the P2PL approach can create sustainable economic activities that refer to micro, small and medium enterprises, where this sector can balance agricultural income which is always predicted to be uncertain.

*Source: Republika*

# Short Conclusion

## *Geographically*

The large geographical area has divided the structure between rural and urban areas, whereas a whole of 56% of the rural population, while urban residents reached 44%. As many as 56% of Indonesian people are still at a low-income level, especially in rural areas. Besides, reaching 49 million MSMEs and more than 80% of rural communities are still not registered in banking. Therefore the P2PL approach as a digital financial and economic platform can reach the limitations of rural communities in creating unlimited financial inclusion both geographically and socially

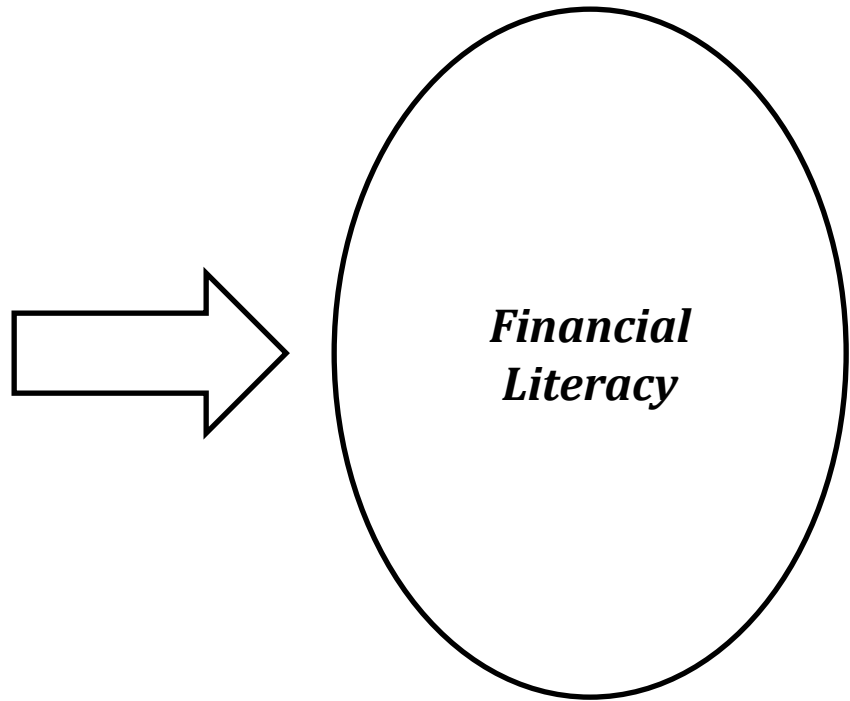
## *Increase Productivity*

Due to the uncertain income of rural communities, the existence of P2PL can increase economic productivity both sustainable entrepreneurial capital lending. In addition to economic productivity, this platform can be an asset to the education of young people in the village. Referring to the data of the 2017 National Economic Survey (Susenas) revealed that school dropouts in rural areas are still dominant at 1.43 percent compared to urban areas at 0.92 percent. The dropout rate was issued at high school (high school equivalent) of 4.74 percent elementary school and equivalent of 0.32 percent and junior high school at 1.54 percent. This is caused by uncertain economic factors and financial cycles that are not planned strategically, causing young people in rural areas to lose education. Therefore, the existence of the P2PL platform can be used as an investment asset that is easy to reach for the middle and lower generation of young people.



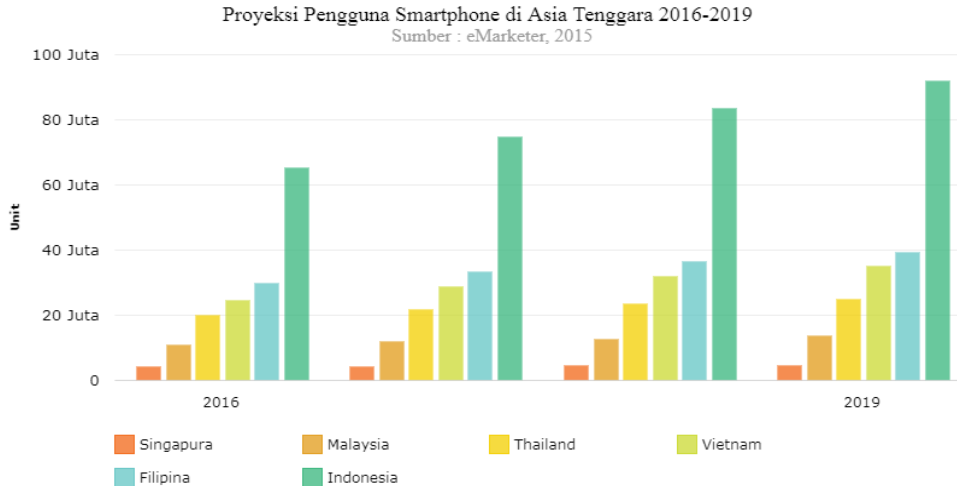
# THE CHALLENGE AND OPPORTUNITY OF P2PL POLICY

- In general, the concept of P2PL has 2 risks. First, in the event of a default by the borrower, the fintech company as the organizer can only seek and help with billing. This fact is certainly a fundamental reason for the risk of loss for lenders (investors). Failure to pay can occur due to inaccuracy in selecting, analyzing, and approving loan applications submitted by loan recipients to be offered to Lenders. Second, regarding data security. All lending and borrowing mechanisms through P2PL fintech are carried out by electronic databases. As is known, electronic data systems are still vulnerable to leakage. This risk will be a big consequence if dealing directly with the middle to lower classes, so from this risk, an outline can be drawn that the importance of carrying out a digital financial literacy approach in the main indicators of P2PL policy among rural communities.



- To carry out a digital financial literacy approach for rural communities it is necessary to survey the literature in advance whether the results of this approach can approach the policy of the expected research. Survey data will be taken based on literature data taken from the media and related research sites. There are 2 surveys to be analyzed namely the level of cellular users and the potential unbankable population in Indonesia.

# Survey SmartPhone Projection in Southeast Asia 2016-2019".



The first survey, despite the limitations in the infrastructure of public services and transportation, however, Indonesia ranks highest in the use of smartphones in the Southeast Asia Region from 2015-2016.

*Chart in Translated: Graphic Title "SmartPhone Projection in Southeast Asia 2016-2019". From these data, users are measured based on the number of units whose range is from below 20 Million to reach 100 Million Smartphone Units. The lowest number in smartphone usage is occupied by Singapore where the period since 2016-2019 is just under 20 Million users. Then, on the contrary, a significant increase in smartphone usage was occupied by Indonesia, where since 2016 the increase has been above 60 million to 100 million users.*

# Survey Results



- Based on the growth projection graph of smartphones in the Southeast Asia Region from 2016 to 2019, Indonesia is considered to have the highest smartphone user growth above 60 million to reach 100 million users in 2019. This indicates that there is a massive potential of P2PL even though the level of education in general and the economy is still low.
- The next potential is broad opportunities for agrarian societies which still lack many obstacles in developing micro, small and medium businesses. Based on INDEF's research, as many as 180 million people in Indonesia are still classified as *unbankable* since 2016. More than 80% of the *unbankable* are located in rural areas. Besides, if it is reviewed again, there were only 11 million MSMEs that were bankable that were eligible for bank financing, while the majority, namely 49 million MSMEs, were still *unbankable* and according to the report said the total national financing needs were Rp 1,649 trillion, while banking capacity was only Rp 660 trillion, so that the difference of Rp. 989 trillion can be filled by Fintech. In Indonesia, for the middle class and above, more than 40 percent of Fintech still do business in payment alias payment systems such as e-money, wallets, and so on. Returning to the core of the research is to target poor rural communities in an inclusive economic approach through mobile-based fintech. Then based on a graph of high smartphone user growth in Indonesia shows that there is a high opportunity for the P2PL platform in creating an inclusive economy with the right target is the rural community.

Source: Barita Rayo Post

# Preparation of the P2PL Policy Framework

- In general, Indonesian education tends to be more general and does not set specifications in predicting future needs, so it is necessary to instill economic, financial, and digital education starting at the elementary school level both in theory and practice.
- In general, public education about finance can improve 2 things; first, increasing the literacy of someone who was previously less literate or not literate to well literate, second; can increase the number of users of financial products and services. Then other benefits so that the wider community can determine financial products and services that suit their needs, the community must properly understand the benefits and risks, know their rights and obligations, and believe that the selected financial products and services can improve people's welfare. Besides the concept of digitalization or fintech, it is necessary to recall the limitations of the community in accessing finance and economic justice, so that digital financial literacy can create an economic cycle that is inclusive for all groups so that the main stage in the drafting of the P2PL policy framework, in general, takes an educational approach.

# Table 1.1

## Work Procedure Methodology

| Phase    | Activity  | Indicator  |
|----------|---|--|
| <b>1</b> | Education about Financial Technology b. In this activity, participants listen to the presentation and conduct discussions/questions and answers | Tests are carried out by giving a questionnaire to assess the achievement of understanding the material. |
| <b>2</b> | Practicing how to use financial applications through smartphones b. In this briefing, the participants immediately participated to practice     | Be able to practice downloading and opening applications through smartphones.                            |

- This approach method *Fintech* activists first carry out field research to examine more deeply to establish their companies in rural areas. The research conducted a field survey and considered several aspects of both the area of the village, the population of the population, and the type of their income.
- The next step is to *Fintech* activists conduct licenses to carry out community service programs to partners by conducting field studies to study issues that are priority problems of partners, learning the local culture of existing community problems, collaborating with each Village Head to implement community education programs as solutions to partner priority problems. Furthermore, the implementation phase is by conducting learning to the public about Fintech, conducting training to the community both in entrepreneurship and capital lending to utilize Fintech facilities through smartphone media. The last step is reporting the results of the implementation of the village community service program to partners by monitoring the sustainability of the community service program implementation to the partners, publishing a report on the implementation of the community service program as a material for consideration for the company to implement the program.

# Conclusion

The conclusion that can be drawn from this research is that the application of Peer to Peer Lending fintech can improve financial access and productivity of rural ASEAN communities and especially in Indonesia.

Especially Indonesia; Based on the results of the data obtained, even though inequality in education and banking access is low, smartphone users are considered high and the potential for SMEs that have not been registered means that one of the strategic approaches is to carry out digital financial literacy education from an early age.



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