# Title:“The Impact of Fin Tech on Access to Finance for MSMEs in Emerging Markets”

**ABSTRACT**

The advent of Financial Technology (FinTech) has brought about a significant transformation in the global financial services industry, providing hitherto unattainable prospects for augmenting financial accessibility, specifically for Micro, Small, and Medium-Sized Enterprises (MSMEs) situated in developing economies. This research explores the potential and obstacles that FinTech poses as it looks at how it can significantly improve MSMEs' access to financing in emerging.  
  
This study synthesises insights into the different ways FinTech solutions have changed the financial inclusion paradigm for MSMEs by a thorough analysis of the body of existing literature. It looks at how FinTech innovations—like digital payment systems, peer-to-peer lending, crowdfunding platforms, and mobile banking—have helped MSMEs in emerging nations get more credit, save money on transactions, become more financially literate, and reach a wider market.

# INTRODUCTION

Financial technology, popularly known as FinTech, has transformed financial markets globally. It is an “umbrella term” that encompasses innovative financial solutions, start-ups providing those solutions, and traditional financial service providers. FinTech refers to emerging technologies and innovative business models capable of transforming the financial service industry. It is often described as disruptive technology because it threatens the existing structure of financial service providers by offering similar services but by exploring new technology.

Despite their significant contribution toward the economy, SMEs have traditionally been underserved considering the bank's limited capabilities to assess their financial position. Moreover, after the global financial crisis, several regulations aimed at resilience of banks also resulted in the reduced flow of funds to the SME sector. FinTech firms stepped into this gap created by banks with respect to SME lending. However, the objective of FinTech is not merely to provide an alternative mode of financing. There is also a possibility that competition from FinTech platforms may prompt the banks to improve the services being offered to SMEs. Moreover, using technological innovation, banks will also be able to assess the risks better and thereby lend more and on appropriate terms. In this backdrop, the present study aims to understand the FinTech phenomenon with specific reference to SMEs using bibliometric surveys of the two leading academic databases. The study provides a state-of-art overview of the extant literature on FinTech with an exclusive focus on SMEs. Per Paul and Criado, there should not be a recent Systematic Literature Review (SLR) published on the study topic or if so, some novel insights should come from the chosen topic. Thus, the existing literature reviews conducted in the domain of FinTech were examined to place the existing review.

**THE FINTECH REVOLUTION IN INDIA**

# The “digital India” is the Indian government flagship programmed with a vision to convert India into a digitally empowered country. “Faceless, paperless, cashless” is one of supposed function of digital India. As part of government reforms Prime Minister Mr. Narendra Modi demonetized the high value currency of Rs 500 and 1000 in November 2016 and also launched the “digital India” initiative in2015.these initiatives have provided extensive boost up to the digital payment system in the country. Governments other initiatives like BHIM and UPI are supporting in transition and faster adoption of digital payments. Electronics consumer transactionmade at point of sale (pos) for services and products either through internet banking or mobile banking using smart phone or card payment are called as digital payment. India is transitioning into a dynamic ecosystem offering fin-tech start-ups a platform to potentially grow into billion dollar unicorns. From tapping new segments to exploring foreign markets, fin-tech start-ups in India are pursuing multiple aspirations. The Indian fin-tech software market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion, as per NASSCOM. The traditionally cash-driven Indian economy has responded well to the fin-tech opportunity, primarily triggered by a surge in e-commerce, and smart phone penetration. The transaction value for the Indian fin-tech sector is estimated to be approximately USD 33 billion in 2016 and is forecasted to reach USD73 billion in 2020 growing at a 5 year CAGR of 22 percent.

# AIMOFTHESTUDY

The aim of a study on **"The Impact of Fin Tech on Access to Finance for MSMEs in Emerging Markets"** would likely be multifaceted:

**1. Assessment of Fin Tech Adoption:** Evaluate the level of adoption of FinTech solutions among MSMEs in emerging markets, including the types of FinTech services being utilized and the frequency of usage.

**2. Analysis of Access to Finance:** Examine the current landscape of access to finance for MSMEs in emerging markets, identifying barriers and challenges faced by MSMEs in obtaining credit and other financial services from traditional financial institutions.

**3. Understanding the Impact of Fin Tech:** Investigate the impact of FinTech on improving access to finance for MSMEs, including its role in expanding financial inclusion, reducing transaction costs, streamlining financial processes, and enabling access to credit for underserved MSMEs.

**4. Exploration of Socioeconomic Implications:** Explore the socioeconomic implications of increased access to finance through FinTech for MSMEs in emerging markets, such as its effects on business growth, job creation, income generation, and overall economic development.

**5. Identification of Challenges and Opportunities:** Identify the key challenges and opportunities associated with the adoption and implementation of FinTech solutions for MSMEs in emerging markets, including regulatory constraints, technological barriers, and trust issues.

**6. Development of Policy Recommendations:** Formulate evidence-based policy recommendations for governments, financial regulators, FinTech companies, and other stakeholders to foster the positive impact of FinTech on access to finance for MSMEs while addressing existing challenges and mitigating potential risks.

# RESEARCHOBJECTIVES

The research objective of studying the **“Impact of Fin Tech on access to finance for MSMEs (Micro, Small, and Medium Enterprises) in emerging markets”** typically involves understanding the following aspects:  
  
**1. Assessment of Current Access to Finance:** Before delving into the impact of FinTech, it's crucial to assess the existing landscape of access to finance for MSMEs in emerging markets. This involves examining traditional financial institutions, government initiatives, and informal financing mechanisms.

**2. Identification of FinTech Solutions:** Identify and categorize the various FinTech solutions available for MSMEs in emerging markets. These can include peer-to-peer lending platforms, crowdfunding platforms, mobile payment solutions, digital banks, and others.

**3. Analysis of Impact:** Evaluate how FinTech solutions are changing the landscape of access to finance for MSMEs. This includes assessing whether FinTech is expanding access to credit, lowering borrowing costs, reducing transaction friction, or providing financial services to previously underserved MSMEs.

**4. Assessment of Challenges and Barriers:** Investigate the challenges and barriers that MSMEs face in adopting FinTech solutions. This can include issues related to regulatory frameworks, technological infrastructure, digital literacy, and trust in digital financial services.

**5. Exploration of Socioeconomic Implications**: Examine the socioeconomic implications of increased access to finance through FinTech for MSMEs. This involves studying how improved access to finance impacts business growth, employment generation, income inequality, and overall economic development in emerging markets.

**6. Policy Recommendations:** Based on the findings, propose policy recommendations for governments, financial regulators, and FinTech stakeholders to foster the positive impact of FinTech on access to finance for MSMEs while mitigating potential risks and challenges.

# SCOPEANDLIMITATIONS

PHONEPE app collapse RBI moratorium on yes bank has triggered a panic among financial technology startups that used yes bank’s services. Yes bank was one of the few banks with an online platform for the developers and was most aggressive among banks to build relationships with fin-techs. Non-banking payments firms need a banking partner to access UPI. For PHONEPE, it chose only yes bank, which issued all its UPI handles to make or receive payments. PHONEPE QR-codes are issued by yes bank too and they are failing in offline merchant locations. Replacing all QR codes would be a tough challenge for PHONEPE.

Losses facing by UPI applications after removing MDR charges The number of debit cards has stagnated at 900 million, while the number of UPI transactions nearly doubling every month until 2018 has also stabilized at single digit monthly growth rates. “The debate on how zero MDR will help in expansion of payment networks is for another day. There is no doubt, however, that operating a payment company without any fee income would eat into revenues, at least in the short run. Pay tm is the largest payments gateway in the country by far, with over 40% market share in terms of the number of transactions processed. In fy19, just its cost of acquiring new customers and merchants exceeded its revenue. The soft bank-backed payments major had spent almost half its total expenditure on customer acquisition, at Rs 3,508cr, which is Rs 275.88cr more than its total operational revenue of Rs3,232cr. Net loss came at Rs 4,217cr. Similarly, Google pay spent Rs 1,028cr just for cash back on daily transactions in fy19. PHONEPE loss of Rs 1,905cr was nearly five times its revenue, whereas Amazon pay had Rs 1,161cr loss. MDR is the collective transaction fee levied from merchants processing the digital transactions by payments companies, banks and network providers such as VISA and MASTERCARD. Until 2019, this was capped at 0.3% of the transaction amount on payments made through UPI above Rs1,000 and 0.6% for debit card transactions above Rs 2,000.

# LITERATUREREVIEW

Fintech is divided into categories based on their services. Those categories are lending and payments. Any financial technology in lending and borrowing activities or fintech lending is organized by the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK). Whereas financial technology in payments services or fintech payments in Indonesia is organized by the Central Bank of Indonesia (*Bank Indonesia*/BI). Most of the MSMEs use financial services for payment transaction ([Wening Perwitasari, 2022](https://www.redalyc.org/journal/1230/123075340004/html/#B62)). This research focus only the fintech lending that are registered and licensed in Indonesia.

Based on the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises, Micro

Business is defined as productive businesses owned by individuals and / or individual business entities that meet the criteria of

micro businesses as regulated in the Act. Small business is a productive economic business that stands alone, which is carried out

by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become part, either

directly or indirectly, from micro businesses or large businesses that fulfill small business criteria as referred to in the Act. Whereas

a medium-sized business is a productive economic business that stands alone, which is carried out by an individual or business

entity that is not a subsidiary or branch company that is owned, controlled, or is a part, either directly or indirectly, from micro

businesses, small businesses, or large businesses that meet the criteria for medium-sized businesses as referred to in Law

Based on the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises, Micro Business is defined as productive businesses owned by individuals and / or individual business entities that meet the criteria of micro businesses as regulated in the Act. Small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become part, either directly or indirectly, from micro businesses or large businesses that fulfill small business criteria as referred to in the Act. Whereas a medium-sized business is a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch company that is owned, controlled, or is a part, either directly or indirectly, from micro businesses, small businesses, or large businesses that meet the criteria for medium-sized businesses as referred to in Law.

A research study titled “Fin-tech: A new revolution in India” was conducted with the focus on learning about digitization of payment in India and its importance in the current economic scenario. Financial Technology (Fin-tech) is the new technology that aims to compete with the traditional financial methods in the delivery of financial services. Fin-Tech has developed as a new financial services industry in India. This industry consists of companies that use technology to provide financial services. These companies operate in various sectors like wealth management, insurance, payments sector etc. This study is undertaken to understand the growth of fin-tech industry and the challenges faced by Fin-tech industry. This article offers the conceptual understanding and groundwork to understand the rapid and successful growth of newly emerging financial technologies. Fin-tech helps to boost up the business in MSME sectors, banks transformation, digitally cashless economy, startups on India. This paper relates with the challenges faced by fin-tech industry in India

# METHODOLOGY

Quantitative methods, such as survey questionnaires, serve as a structured approach to gather numerical data from a large sample of MSMEs. These surveys are designed to collect information on FinTech usage, access to finance indicators, perceptions of FinTech impact, and demographic characteristics of the respondents. Utilizing Likert scales and multiple-choice questions allows for the quantification of responses, enabling statistical analysis techniques such as regression and correlation analysis to identify relationships between variables. Additionally, descriptive statistics provide insights into the prevalence and distribution of FinTech adoption among MSMEs.

Qualitative methods, including in-depth interviews and focus group discussions, offer a deeper exploration of the experiences, motivations, and challenges associated with FinTech adoption among MSMEs. Semi-structured interviews with MSME owners, FinTech entrepreneurs, financial regulators, and industry experts allow for the collection of rich, context-specific insights. These qualitative approaches facilitate a nuanced understanding of the drivers and barriers to FinTech usage, as well as the perceived impact of FinTech solutions on access to finance for MSMEs. Focus group discussions further encourage interactive dialogue among MSMEs, providing opportunities for participants to share diverse perspectives, exchange experiences, and generate in-depth discussions on key themes and issues.

# TYPESOFRESEARCH

**Thebasictypesofresearchareasfollows:**

* **Descriptivevs.Analytical:**

Descriptive research aims to describe the characteristics, behaviors, or conditions of a particular phenomenon. In the context of FinTech's impact on access to finance for MSMEs, descriptive research may involve identifying and categorizing different types of FinTech solutions used by MSMEs, as well as describing the current state of access to finance in emerging markets.

Analytical research, on the other hand, seeks to understand the underlying factors and causal relationships behind the observed phenomena. Analytical research in this context may involve analyzing the correlation between FinTech adoption rates and changes in MSMEs' access to finance, as well as identifying the drivers and barriers influencing FinTech adoption among MSMEs..

* **Appliedvs.fundamental:**

Applied research focuses on addressing practical problems or issues, with the goal of generating solutions or informing decision-making. In the study of FinTech's impact on access to finance for MSMEs, applied research may involve developing recommendations for policymakers, financial institutions, and FinTech companies to enhance financial inclusion and support MSME growth.

Fundamental research, on the other hand, seeks to expand theoretical knowledge or understanding without immediate practical application. While fundamental research may not have direct implications for policy or practice, it can provide valuable insights into the underlying mechanisms driving FinTech's impact on access to finance for MSMEs.

* **Quantitative vs. Qualitative:**

Quantitative research involves the collection and analysis of numerical data to test hypotheses and identify patterns or relationships. In the context of studying FinTech's impact on access to finance for MSMEs, quantitative research may involve conducting surveys to quantify the extent of FinTech adoption among MSMEs and measure changes in access to finance indicators over time.

Qualitative research, on the other hand, focuses on exploring subjective experiences, perspectives, and meanings through methods such as interviews, focus groups, and case studies. Qualitative research in this context may involve exploring MSME owners' perceptions of FinTech solutions, as well as identifying the contextual factors shaping FinTech adoption and its impact on access to finance.

**Conceptual vs. Empirical or Experimental type of research:**

Conceptual research involves the development of theoretical frameworks, models, or concepts to explain or interpret phenomena. In the study of FinTech's impact on access to finance for MSMEs, conceptual research may involve developing theoretical models to elucidate the mechanisms through which FinTech influences access to finance and MSME growth. Empirical or experimental research, on the other hand, involves testing hypotheses and theories through observation or experimentation.

Empirical research in this context may involve conducting field experiments to evaluate the effectiveness of specific FinTech interventions in improving access to finance for MSMEs.

# DATACOLLECTIONMETHODS

To investigate the impact of Fin Tech on access to finance for MSMEs in emerging markets, researchers can employ various methods of data collection. Here are some commonly used methods:  
  
**1. Surveys and Questionnaires:** Designing surveys and questionnaires allows researchers to gather quantitative data directly from MSMEs, Fin Tech companies, financial institutions, and other relevant stakeholders. These surveys can inquire about MSMEs' usage of Fin Tech services, their experience with traditional financial institutions, their financing needs, and their perception of the impact of Fin Tech on access to finance.

**2. Interviews:** Conducting interviews with key informants such as MSME owners, Fin Tech entrepreneurs, financial regulators, and industry experts provides in-depth qualitative insights. Semi-structured or structured interviews can be used to explore specific themes related to Fin Tech adoption, access to finance challenges, and the perceived impact of Fin Tech.

**3. Case Studies:** Analyzing case studies of MSMEs that have adopted Fin Tech solutions can offer valuable insights into the practical implications of Fin Tech on access to finance. Researchers can examine factors such as the motivations for adopting Fin Tech, the benefits and challenges encountered, and the outcomes in terms of improved access to finance and business.

**4. Secondary Data Analysis:** Researchers can analyze existing secondary data sources such as financial reports, government publications, industry reports, and academic studies. Secondary data analysis can provide context regarding the state of access to finance for MSMEs in emerging markets, trends in Fin Tech adoption, regulatory environments, and macroeconomic.

**5. Field Observations:** Observing MSMEs and Fin Tech service providers in their natural settings can provide first hand insights into their behaviours, interactions, and challenges. Researchers can observe how MSMEs utilize Fin Tech platforms for financial transactions, the usability of Fin Tech interfaces, and the effectiveness of Fin Tech solutions in addressing access.

**6. Focus Group Discussions:** Organizing focus group discussions with representatives from MSMEs, Fin Tech companies, financial institutions, and policymakers facilitates interactive discussions on access to finance issues and the role of Fin Tech. These discussions can uncover diverse perspectives, identify common challenges, and generate ideas for addressing them.

# RECOMMENDATIONS

1. This recent problem is faced by PHONEPE UPI app because of the regulation in Yes bank, all theonline transactions were only regulated and powered by Yes Bank but now the problem has beenresolved as there is an option to choose the PHONEPE online transaction regulated and powered byICICI bank also. As PAYTM has its own bank facility, all UPI apps have to assure this situation will notarise in future because of failure of any network and irregularities in any particular bank.

2. All the startups like SWIGGY, ZOMATO, OYO, MAKEMYTRIP, UBER, OLA etc are stuck forsome time because of online transaction failure due to the moratorium in yes bank. The wholebusiness in India gets affected as one the bank faces any of the irregularities. Government has tomaintain balance in the failure of online transactions if any such types of discrepancies are faced innear future. Even UPI has to give access to customers to which bank they want to power by theironline transactions.

3. The government in India removed the MDR charges which were levied on the online transactionsthrough UPI and card payment. This step is taken by the government to promote the digital payment inIndia. Removing MDR charges helps to increase the number of users of digital payment which alsoresults in the overcoming of corruption in India. Because of this all UPI startups in India are facinghuge losses as the competition is also there to get more users. All UPI are facing five times loss incomparison to their revenues this quarter. There can be an increase in the number of users but thesestartups will not survive for long as they are already having losses. Government should have to find away where they can promote digital payment as well as the survival of UPI startups. Even thegovernment can give benefits to these startups in tax rebates or if possible to give those financial support as well.

4. Regulations in Balancing Act to foster innovation in the financial technologies.

5. Gain trust and improve perceptions through literacy among the people related to the fin tech industries.

6. Improving financial structures and utilities for the sector.

7. Awareness and updating in cyber and data security

# CONCLUSION:

Indian Fin-tech companies have the potential to reshape the financial services. The Fin-tech startups are likely to reduce costs and improve quality of financial services. Not being burdened with legacy operations, IT systems, and data to underwrite credit and develop credit scores for customers with limited credit history, will improve the penetration of financial services in India. Fin-tech will expensive physical networks, benefits of leaner operating models can be passed on to customers. The Fin-tech industry will develop unique and innovative models of assessing risks. Fin-tech companies are less homogenous than incumbent banks, and offer great learning templates to improve, both, capabilities and culture. Just as incumbents have a lot to learn from emerging Fin-tech companies. Fin-tech companies can also learn and adopt best practices around risk and internal controls, operational excellence, compliance culture, and employee engagement, that has stood the test of time for most the banks, and financial services providers in India.

This thesis contributes knowledge and insights about remittance and Fin Tech in emerging markets. It provides insights to remittance service providers and governments to build strategies and policies. It also contributes knowledge to other academics studying the dynamics of Fin Tech and remittance in the context of emerging markets. Fin Tech companies and regulators need to understand challenges that are related to digital remittance solutions.

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**Thank You**