

# Alternative Funding Sources for MSMEs in Tasikmalaya City in the Digital Era

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## ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy, including in Tasikmalaya City. However, limited access to capital remains a major obstacle for MSME actors. Alongside the development of digital technology, various alternative sources of financing have begun to emerge, such as banks, cooperatives, fintech lending, and crowdfunding. This study aims to analyze alternative capital sources for MSMEs in Tasikmalaya City and to examine the level of utilization and characteristics of each financing source. The research method used is descriptive quantitative with a survey approach involving 100 respondents selected through purposive sampling technique. The results show that banks remain the main source of capital (52%), followed by cooperatives (36%), fintech lending (12%), while crowdfunding has not yet been utilized. Each financing source has different advantages and limitations. This study confirms the importance of improving financial and digital literacy, as well as synergy among stakeholders in promoting financial inclusion for MSMEs.

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## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a strategic sector in the Indonesian economy. According to data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia (2023), the number of MSMEs has reached more than 65.4 million units, or approximately 99.9% of all national business actors. MSMEs also contribute 60.5% to the Gross Domestic Product (GDP) and absorb more than 96.9% of the national workforce. This contribution demonstrates that MSMEs play an important role as the main driver of the national economy.

At the regional level, Tasikmalaya City is known as one of the growth centers for MSMEs in West Java. Based on data from the Tasikmalaya City Cooperative, MSME, Industry, and Trade Office for 2024, there are approximately 72,500 MSME units spread across various sectors, such as trade, handicrafts, apparel/convection, and culinary. Despite having great potential, MSMEs in this region still face various obstacles, particularly in terms of capital.

Access to formal financing remains a major challenge for MSMEs. Limited collateral, low financial literacy, and suboptimal business management make it difficult for many MSME actors to obtain credit from formal financial institutions. Furthermore, the ability to adapt to digital technology developments is still relatively low, thus hindering the utilization of digital-based financial services.

Alongside technological developments, the financial sector has undergone a significant transformation through digitalization. The emergence of digital financial services such as peer-to-peer lending (fintech lending), crowdfunding, and digital banking provides new alternatives for MSMEs in obtaining financing. These services offer ease of access, faster processes, and broader reach compared to conventional financing.

Nevertheless, the utilization of digital financial services by MSMEs is still not optimal. Based on a survey by the Financial

Services Authority (Otoritas Jasa Keuangan) in 2022, the financial literacy index in West Java reached 51.7%, while the financial inclusion rate was 87.2%. This indicates a gap between access to financial services and the public's understanding of financial management. This condition results in low utilization of digital financing by MSME actors, particularly in regional areas.

Based on these problems, this research is important to examine alternative capital sources for MSMEs in Tasikmalaya City in the era of digitalization. This study not only identifies various financing sources but also analyzes the level of utilization as well as the advantages and disadvantages of each capital source.

Based on the background described above, the problem formulation of this study is as follows:

1. What alternative capital sources are available for MSMEs in Tasikmalaya City in the era of digitalization?
2. What is the distribution of utilization of capital sources by MSMEs in Tasikmalaya City?
3. What are the advantages and disadvantages of each capital source for MSMEs?

The objectives of this study are:

1. To identify alternative capital sources for MSMEs in Tasikmalaya City in the era of digitalization.
2. To describe the distribution of utilization of capital sources by MSMEs in Tasikmalaya City.
3. To analyze the advantages and disadvantages of each capital source.

This study is expected to provide the following benefits:

### Theoretical Benefits

This study is expected to contribute to the development of knowledge, particularly in the fields of entrepreneurship and MSME financial management, especially regarding capital and financial digitalization.

### Practical Benefits

This study is expected to serve as a

consideration for MSME actors in choosing appropriate capital sources. Furthermore, the results of this study can also provide input for local governments and financial institutions in formulating policies that support the development of MSMEs.

## 2. LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) Micro, Small, and Medium Enterprises (MSMEs) are productive businesses owned by individuals or business entities as regulated in Law of the Republic of Indonesia Number 20 of 2008. The classification of MSMEs is based on criteria of assets and annual turnover. In detail, micro-enterprises have a maximum net worth of IDR 50 million with an annual turnover of up to IDR 300 million. Small enterprises have a net worth of more than IDR 50 million up to IDR 500 million with an annual turnover between IDR 300 million and IDR 2.5 billion. Meanwhile, medium-sized enterprises have a net worth above IDR 500 million up to IDR 10 billion with an annual turnover between IDR 2.5 billion and IDR 50 billion.

MSMEs have distinctive characteristics, including individual or family ownership, relatively small business scale, high flexibility, and diverse business locations, including home-based operations. In the economy, MSMEs play a strategic role in creating jobs, improving income distribution, and strengthening local economies.

MSME Capital, Capital is a primary factor in the sustainability and development of MSMEs. Sources of capital are generally divided into two types: internal capital and external capital. Internal capital comes from the business owner's personal funds, such as savings, retained earnings, and family support. This capital is typically used at the initial stage of the business because it is more flexible and does not create repayment obligations.

Meanwhile, external capital comes from outside parties, such as banks, cooperatives, financial institutions, and digital platforms such as fintech and c

crowdfunding. The choice of capital source is influenced by various factors, including risk, cost of capital, and ease of access to financial institutions.

According to Tambunan (2019), one of the main obstacles for MSMEs is limited access to formal financing. This is caused by low financial literacy, limited collateral, and a lack of business legality. Sources of MSME Capital

### Banks

Banks are financial intermediary institutions that collect funds from the public and distribute them in the form of credit. Banks are the main source of financing for MSMEs because they have a structured system and are supported by regulations.

The required literacy includes understanding of credit requirements, digital banking products, and borrowing costs. Good literacy can improve MSMEs' access to formal financing.

### 2. Cooperatives

Cooperatives are business entities based on the principle of kinship. Savings and loan cooperatives are an alternative financing source for MSMEs because they are more flexible and community-based.

Understanding cooperative principles, savings and loan mechanisms, and the distribution of remaining business results (SHU) is important so that MSMEs can optimize the use of these services.

### 3. Fintech Lending

Fintech lending is a technology-based lending service that brings together lenders and borrowers digitally. This service offers ease of access and a fast process.

However, MSMEs need to understand the platform's legality, interest rates, and the risk of late payment to avoid potential losses.

### 4. Crowdfunding

Crowdfunding is a digital-based fundraising method that involves many individuals. This model includes donation-based, reward-based, equity-based, and debt-based crowdfunding.

The success of crowdfunding depends heavily on promotional ability, transparency, and digital literacy of business actors.

#### Factors Influencing Access to Capital

MSMEs' access to financing is influenced by internal and external factors. Internal factors include managerial ability, financial literacy, business legality, and business feasibility. External factors include financial institution policies, interest rates, and access to technology and information. Low financial and digital literacy is one of the main barriers to improving MSMEs' access to financing.

#### The Era of Financial Digitalization

The development of digital technology has driven transformation in the financial sector, including the emergence of digital banking services, fintech lending, and crowdfunding. Digitalization provides ease of access, time efficiency, and expanded reach of financial services. However, the level of technology adoption among MSMEs remains limited. This is due to low digital literacy and a lack of trust in technology-based financial systems.

#### Previous Research

Previous studies have shown that access to capital is an important factor in the development of MSMEs. Most MSMEs still rely on internal capital due to limited access to formal financial institutions.

Furthermore, although fintech lending is beginning to develop, its utilization rate remains low due to limited digital literacy. Cooperatives continue to be a dominant source of financing, especially in regions with strong social characteristics.

On the other hand, crowdfunding has potential as an alternative financing source, but its utilization is still limited to certain sectors.

#### Conceptual Framework

MSMEs in Tasikmalaya City face limitations in accessing traditional capital.

The development of financial digitalization offers various alternative financing options that are more flexible and easily accessible. However, the effectiveness of utilizing digital financing sources is strongly influenced by the level of financial and digital literacy of MSME actors.

### 3. METHOD

#### Research Design

This study employs a descriptive quantitative method with a survey approach. This method is used to describe the distribution and level of utilization of capital sources by MSME actors in Tasikmalaya City.

#### Population and Sample

The population in this study consists of all MSME actors in Tamansari District, Tasikmalaya City, totaling 1,850 business units based on data from the Tasikmalaya City Open Data. The sample size was determined using the Slovin formula with an error margin of 10%, resulting in a sample of 95 respondents. To facilitate the research process, the number of respondents was rounded up to 100 MSME actors.

#### Sampling Technique

The sampling technique used was purposive sampling, which is the selection of samples based on specific criteria. The criteria for respondents in this study were MSME actors who had accessed capital sources, whether from formal or informal institutions.

#### Research Variables

The variables in this study include capital sources, level of utilization, and MSME actors' perceptions of the advantages and disadvantages of each financing source.

#### Data Collection and Analysis Techniques

Data were collected through the distribution of questionnaires and brief interviews with respondents. The data analysis technique used was descriptive statistics in the form of percentages to describe the distribution of data. Additionally, SWOT analysis was used to identify the strengths, weaknesses, opportunities, and threats of each capital source.

#### 4. RESULTS AND DISCUSSION

Distribution of MSME Capital Utilization  
Based on the research results from 100 respondents, the distribution of capital sources is as follows:

Table 1. Capital Sources

Capital Source	Number of Users	Percentage
Bank	52	52%
Cooperative	36	36%
Fintech Lending	12	12%
Crowdfunding	0	0%

The results show that banking remains dominant, although online financing, particularly fintech lending, is beginning to develop.

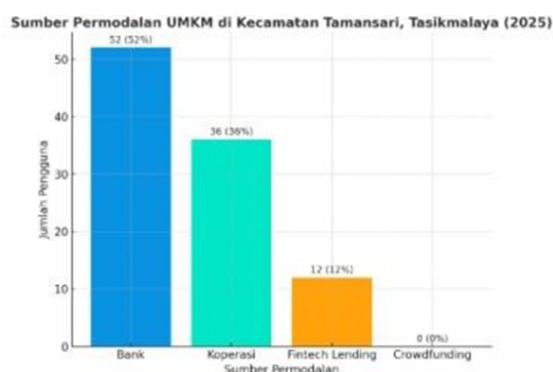


Figure 1. Capital Sources

Banking remains the most dominant source of capital with a percentage of 52%, followed by cooperatives at 36%, fintech lending at 12%, and crowdfunding has not been utilized at all.

The dominance of banking indicates that MSME actors still have a high level of trust in formal financial institutions. Additionally, the existence of the People's Business Credit (KUR) program also facilitates easier access to financing through banks, although administrative requirements remain an obstacle for some business actors.

Cooperatives occupy the second position as a fairly significant source of capital. This indicates that community-based approaches remain relevant and appealing to MSME actors, especially due to more flexible processes and relatively affordable interest rates.

Fintech lending is beginning to show development as an alternative financing source. Ease of access and speed of process are the main factors attracting MSME actors' interest. However, its utilization rate remains low due to limited digital literacy, concerns about data security, and lack of socialization.

The absence of crowdfunding usage indicates that this financing model is not yet widely known by MSME actors in Tamansari District. Furthermore, the characteristic of businesses that are not yet innovation-based or digital also serves as an inhibiting factor in the utilization of crowdfunding.

#### Analysis of Advantages and Disadvantages of Capital Sources

Each capital source has different characteristics. Banking has the advantages of relatively low interest rates and security guarantees as it is under the supervision of official authorities. However, lengthy processes and collateral requirements are the main obstacles.

Cooperatives offer ease of access and flexibility, as well as being based on the principle of kinship. However, limited capital capacity and still traditional management systems are their weaknesses.

Fintech lending provides ease in the application process without collateral and is digital-based. However, relatively high interest rates and the risk of fraud pose their own challenges.

Meanwhile, crowdfunding has the advantage of supporting innovation and business promotion simultaneously. However, its success greatly depends on the ability of business actors to utilize technology and digital marketing strategies.

#### Discussion

The results of this study indicate that MSME actors in Tasikmalaya City still tend to rely on traditional financing sources, namely banks and cooperatives. Nevertheless, the development of

digital technology has opened up new opportunities for diversifying capital sources.

The low utilization of digital financing suggests that financial literacy and digital literacy remain the main obstacles. Furthermore, factors such as trust and regulatory readiness also influence the level of financial technology adoption.

Therefore, an active role is needed from the local government, financial institutions, and other relevant parties in improving literacy and providing assistance to MSME actors so that they are able to adapt to the developments in financial digitalization.

## 5. CONCLUSION

Based on the research results, it can be concluded that the capital sources for MSMEs in Tasikmalaya City include banks, cooperatives, fintech lending, and crowdfunding.

Banks and cooperatives remain the main sources, while digital-based financing is still in the development stage.

Each capital source has its own advantages and disadvantages. Therefore, MSME actors need to consider their business needs, capacity, and risk level in determining the appropriate financing source.

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