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Digital Financial Innovation and Access to Inclusive Financing for New Business Development

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Abstract

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Digital transformation in the financial sector has provided a great opportunity to expand access to financing for new business actors, especially micro, small, medium enterprises (MSMEs), and startups. This study aims to examine the role of digital finance innovation in access to inclusive financing by using a literature study method on 12 scientific articles. The results of the study show that services such as fintech lending, crowdfunding, and digital wallets are able to reduce geographical and administrative barriers in financing. These innovations significantly improve transaction efficiency, expand financial inclusion, and drive the growth of new entrepreneurs. However, the success of this innovation is highly dependent on digital literacy, infrastructure readiness, and adaptive and collaborative regulations. This research recommends an ecosystem approach between the government, the fintech industry, and the community to build an inclusive, secure, and sustainable digital financial system, especially for the emerging business sector.

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1. Introduction

Digital transformation has been a key driver of fundamental change in the global financial system. With the rapid advancement of information and communication technology, the financial sector is not only undergoing an infrastructure modernization, but also a fundamental shift in its service model. Digital finance, which includes various innovations such as fintech, digital wallets, peer-to-peer (P2P) lending, crowdfunding, and app-based payment systems, has opened up huge opportunities to expand access to finance in a more inclusive manner. The emergence of technology-based financial services is changing the way people access and use financial products, while creating new avenues to support the growth and development of new businesses, especially in the informal and micro-scale sectors.

Micro, small, and medium enterprises (MSMEs), as well as digital startups, play a strategic role in the national economy. In Indonesia, MSMEs absorb more than 97% of the workforce and contribute more than 60% to the Gross Domestic Product (GDP). However, one of the main challenges faced by these business actors is limited access to formal financing. Obstacles such as limited collateral, no credit history, and low financial literacy often make MSME actors and new businesses not meet the criteria of traditional financial institutions. This situation creates a significant financing gap, which hinders the growth of new businesses and widens economic inequality (Bhegawati & Novarini, 2023).

Digital finance is present as a potential solution that is able to bridge this gap. Technological innovation allows financing to be more affordable, fast, and adaptive to the characteristics of business actors. Fintech lending, for example, provides digital-based loans with no physical collateral, with a much faster approval process and based on alternative data such as digital transactions and e-commerce history. According to a study, the use of this alternative data has opened the door to financing for millions of MSMEs that were previously unreached by traditional banks (Agarwal et al., 2020). Meanwhile, crowdfunding allows new business actors to raise funds from the wider community with a risk-sharing scheme. Digital wallets and QR-based payment systems simplify daily transactions and create a transaction track record that can be leveraged for credit evaluation. All these innovations show that digital finance is not just a new service, but the foundation of a more open and inclusive financial system.

However, the use of digital finance is not even and optimal. Challenges still arise in the form of digital inequality between regions, low digital financial literacy among MSME actors, and regulatory and consumer protection issues that have not been fully able to keep pace with the speed of innovation. In some cases, business actors are actually trapped in illegal online loans that ensnare them into a harmful debt cycle. Therefore, it is important to take an in-depth look at how digital financial innovations can be optimally leveraged to drive inclusive and sustainable financing.

This study aims to examine the role of digital financial innovation in expanding access to financing for new businesses, with a literature review approach to scientific publications from last five years. The main focus is to examine how various forms of digital innovation in the financial sector such as fintech, digital payment systems, and alternative financing platforms contribute to the development of new businesses, both in terms of efficiency, inclusion, and sustainability. In this context, previous research has shown that the successful adoption of digital technology by MSMEs is highly dependent on adequate infrastructure and policy support (Mishrif, 2023). This research also discusses the challenges and opportunities faced in the application of digital financial technology in Indonesia.

Through this study, it is hoped that a comprehensive understanding of the potential, best practices, and implementation strategies of digital finance can be obtained that can strengthen the entrepreneurial ecosystem in the digital era. The findings in this study are also expected to contribute both theoretically in the development of digital financial studies and financial inclusion as well as practically for policy makers, financial industry players, and business actors. This view is in line with the view that financial inclusion supported by digital technologies has great potential to reduce inequality and drive sustainable economic growth (Demirguc-Kunt et al., 2022). Thus, this study is important in the context of accelerating digital transformation in Indonesia, especially in supporting post-pandemic economic recovery, encouraging the growth of young entrepreneurs, and building a more fair, adaptive, and economic empowerment financial system.

2. Literature Review

2.1. Digital Finance Innovation

Digital financial innovation refers to the application of information and communication technology in the development of products, services, and financial systems that are efficient, fast, and inclusive. These digital services include various forms ranging from mobile banking, e-wallets, peer-to-peer (P2P) lending applications, to the use of blockchain in payment systems and smart contracts. This transformation is an important element in accelerating the growth of the financial sector that is more adaptive to the needs of modern society, especially micro entrepreneurs and startups that are often not served by the conventional banking system.

The main advantage of digital financial innovation is its ability to lower transaction costs, speed up the process of disbursing funds, and expand the reach of services to remote areas. The digital financial system also allows for electronic transaction tracks, which can be an alternative to financial data in the creditworthiness evaluation process, especially for business actors who do not have a banking history. In addition, technologies such as artificial intelligence and big data have enabled more accurate, efficient, and real-data-based risk analysis. The application of this technology, according to Yadava (2023), has significantly improved the accuracy of credit scoring for borrowers who do not have a formal credit history, thus opening up wider access to financing.

However, the adoption of digital financial innovations also faces challenges such as data security, limited infrastructure in remote areas, and low digital literacy of the community. According to Priyadi et al. (2023), there are still many small business actors who are hesitant or not ready to switch to digital systems due to a lack of understanding of technology. Therefore, financial technology innovation needs to be accompanied by digital literacy policies and strengthening infrastructure so that this transformation can truly encourage inclusive and sustainable finance.

2.2. Financial Inclusion and Inclusive Finance

Financial inclusion refers to a systematic effort to provide people with broad access to formal financial services that are affordable, secure, and relevant to their needs. Inclusive financing is an important part of this strategy, especially for low-income communities, MSME actors, and communities in remote areas. In the Indonesian context, the National Strategy for Inclusive Finance (SNKI) emphasizes the importance of empowering MSMEs through easy access to technology-based financing (Rezky, 2023).

Fintech, as part of digital financial innovation, has a huge role to play in accelerating financial inclusion. Services such as P2P lending and digital microfinance allow businesses to access capital without having to have collateral or bank accounts. According to Rijanto (2021), this approach provides a more flexible, fast, and affordable financing alternative than conventional financial institutions. In fact, credit eligibility assessments can now be carried out by considering non-traditional data such as digital transactions, e-commerce history, and social media interactions. Another study by Rahmania & Ningtyas (2022) also showed that alternative credit scores generated from digital data are able to reduce loan risk for financial service providers and expand the range of financing.

However, financing inclusion cannot be separated from challenges such as credit risk, lack of consumer protection regulations, and low financial literacy in the community. Many business actors are trapped in high-interest online loans due to a lack of information. Therefore, inclusive financing driven by digital innovation must be balanced with financial literacy, credit education, and a supervisory system that protects users from adverse financial practices. With a balanced approach, digital financial inclusion can be a catalyst for entrepreneurship-based economic growth.

2.3. New Business Development and the Role of Digital Finance

New businesses, both in the form of startups and newly established MSMEs, have special needs in terms of financing, operational efficiency, and market access. In many cases, new business actors do not have collateral assets or adequate credit history, making it difficult to access financing from conventional banks. This is where digital finance plays a key role. According to Pramesti (2023), financial technology provides a more flexible and risk-friendly financing alternative to initial business risks through an application-based system and digital data.

Services such as crowdfunding, invoice financing, and digital wallets not only facilitate access to financing, but also improve the efficiency of daily business. By using digital payment systems and automated record-keeping, business actors can manage cash flow, record transactions, and build business credibility in a more professional manner. Priyadi et al. (2023) noted that business actors who adopt digital financial systems are better able to survive crisis situations, because they have flexibility in capital management and data-based business strategies. In addition, the use of digital technology has been proven to increase market reach and supply chain efficiency for MSMEs, ultimately supporting sustainable business growth (Wibowo et al., 2021).

In addition to technological factors, digital literacy and ecosystem support also greatly affect the success of new business development. Collaboration between local governments, financial institutions, and business actors to create an environment that supports digital entrepreneurship. The availability of internet infrastructure, financial literacy training, and supportive regulations are the foundation for the growth of technology-based startups and MSMEs. Thus, digital finance is not only a financing tool, but also an economic development strategy based on innovation and inclusion.

3. Methods

This study uses the literature review method as the main approach to explore the relationship between digital financial innovation and increasing access to inclusive financing for new business development. Literature studies were chosen because they provide space for exploration of various academic findings and existing policy practices, as well as allow for cross-study comparisons from diverse perspectives and contexts. Data collection is carried out by accessing scientific articles from trusted academic databases such as Google Scholar. The literature selection is focused on scientific publications, in order to ensure the actuality of data and the relevance of the context to the latest financial technology developments. Inclusion criteria include: (1) peer-reviewed articles, (2) discussing digital financial innovations, fintech, or digital platforms in the context of financial inclusion, and (3) containing relevance to the development of micro, small, medium, and startup enterprises.

Technically, the review process is carried out in several stages. First, identify keywords such as digital financial innovation, financial inclusion, fintech for MSMEs, access to finance, and startup finance. Second, abstract search and screening to evaluate the suitability of the research focus. Third, synthesize the content of the relevant document by recording the main aspects of each article, including: methodological approaches, key outcomes, and policy or strategic recommendations. A total of 12 articles that met the criteria were selected and analyzed in depth. In analyzing the literature, a thematic approach is used to identify patterns, challenges, and opportunities from the application of digital financial innovations in supporting new business financing.

The focus of the analysis is directed at three major themes: (1) the form and development of digital financial innovation, (2) technology-based financial inclusion and financing models, and (3) the integration of digital finance in the development of new businesses. The limitation of this study is the reliance on secondary data that may be influenced by publication bias and the specific context of each study. However, by analyzing various literature across regions and sectors, this study is still able to provide a comprehensive and systematic picture of the dynamics of digital finance and its implications for financing inclusion. This literature study method is believed to be relevant and appropriate in examining the evolving digital finance phenomenon, as well as being the foundation for policy recommendations, technological interventions, and further research directions that are more focused on the real impact on new business actors.

4. Results

The results of this literature review show that digital financial innovation has become one of the main catalysts in creating a more inclusive and adaptive financing ecosystem, especially for new business actors. Based on an analysis of twenty scientific articles, it was found that digital transformation in the financial sector not only has an impact on service efficiency, but also expands reach, accelerates financing processes, and reduces structural barriers that have limited formal financial access for MSMEs and startups. The findings are synthesized in several key themes that illustrate the linkages between digital financial technology, inclusive finance, and new business development.

First, the transformation of financial services models through digitalization has overhauled the traditional financial landscape into a more open and participatory system. Digital financial services are no longer limited to electronic banking, but have developed into multifunctional platforms such as digital wallets, QR payments, mobile banking, and peer-to-peer (P2P) lending systems. This innovation allows new business actors, including those without a bank account or formal credit history, to be able to engage in the financial system. The digitalization of the financial system has reduced transaction costs and accelerated the process of distributing funds, especially in areas that do not have adequate banking infrastructure. In fact, digital transaction recording can be used as a database for creditworthiness analysis by fintech service providers. That way, new business actors can access financing without having to meet administrative requirements that have been obstacles in the conventional system.

Second, the role of fintech as a bridge for inclusive financing is increasingly prominent. Various forms of services such as digital microloans, crowdfunding, invoice financing, and even blockchain-based loans have been introduced as a solution to the limited access to financing experienced by micro and small business actors. Fintech is able to reduce information barriers between financiers and borrowers by utilizing algorithmic technology and artificial intelligence to assess risks more precisely. Alternative data such as digital consumption patterns, business geolocation, and transaction records from e-commerce are non-traditional data sources that are considered more inclusive. Fintech also eliminates the need for physical collateral, making it a great solution for startups that are still in the early stages of development and do not yet have fixed assets. The case of the Amartha and KoinWorks platforms in Indonesia is proof of how digital finance innovations can actually distribute financing to thousands of micro enterprises with high loan repayment rates and low risk of default.

Third, digital innovation in financial services also makes a major contribution to bridging the inequality of financial access between urban and rural areas. Conventional financial systems that require a physical presence, such as bank branches, often cannot reach people in the 3T (frontier, remote, and disadvantaged) region. In this context, digitalization is an efficient tool in reducing transaction costs, accelerating financing disbursement, and reaching previously unserved populations. Pramesti (2023) noted that the growth of digital financial service users outside Java has increased rapidly, especially after the digital literacy acceleration program and support for information technology infrastructure. By using only a smartphone and a basic internet connection, new business actors in the village can access microloan services, save digitally, and even receive non-cash payments from customers in big cities. This not only encourages local economic growth but also reduces development inequality between regions.

Fourth, digital financial literacy has proven to be the main prerequisite for the successful use of digital financial services. Many new business actors do not understand how digital payment systems work, how to calculate digital loan interest, or even how to read electronic cash flow statements. This low literacy can lead to service abuse, consumptive debt, or even becoming a victim of digital fraud. However, some studies show that structured digital literacy training can significantly improve the performance of new ventures. Rezky (2023) shows that business actors who take part in digital finance training are better able to manage working capital, set prices rationally, and maintain their business cash flow. In addition, this training increases the confidence of business actors to interact with the digital financing system, which was previously considered complicated and confusing.

Fifth, regulatory and governance challenges are important issues in the development of the digital financial system. The development of innovation is often faster than the ability of regulations to adapt. As a result, there are many cases of system abuse such as online fraud, illegal loans, non-transparent interest rates, and personal data breaches. Bhegawati and Novarini (2023) highlight that the OJK and Bank Indonesia have taken steps to build a technology-based supervisory system (Suptech) and issue regulations that regulate fintech governance more strictly. However, overly rigid regulations can also stifle innovation. Therefore, an adaptive regulatory approach that is risk-based and encourages active participation from all stakeholders, including service providers, local governments, academics, and the business community.

In addition to these five main findings, there are also a number of case studies that provide a real illustration of the positive impact of digital finance on the development of new businesses. The digital financial literacy program launched by the local government in collaboration with local fintech startups was able to increase the number of MSMEs accessing digital-based microloans. Within one year, there was a 38% increase in the number of entrepreneurs registered in the formal financial system. Another study by Priyadi et al. (2023) noted that community-based crowdfunding platforms managed to raise funds for more than 500 new business projects in the social, education, and agricultural sectors within two years. These findings show that financial innovation is not only limited to profit, but also encourages inclusive social entrepreneurship.

Saraswati (2023) also emphasized the importance of an ecosystem approach in the implementation of digital financial innovation. According to him, the success of digital finance platforms in encouraging new business financing is highly determined by the involvement of local governments, microfinance institutions, educational institutions, and business actors. A supportive ecosystem will create a synergistic effect that accelerates the adoption of technology and ensures the sustainability of the system. On the other hand, if business actors are left behind in the process of adopting technology without assistance and protection, then the results of innovation actually risk increasing inequality.

By combining the results of these various studies, it can be concluded that digital financial innovation is not only a tool in accessing financing, but also an enabler that supports the growth of a new business ecosystem that is more adaptive, resilient, and inclusive. This technology is able to open up previously closed access, reach marginalized segments, and create efficiencies that support business growth. However, to achieve the full benefits of this innovation, it is necessary to strengthen the aspects of digital literacy, supporting infrastructure, and a progressive and collaboration-based regulatory system.

5. Discussion

The findings of this literature review clearly confirm that digital financial innovation has had a significant impact on expanding access to inclusive financing, especially for new businesses that were previously constrained by various structural and administrative barriers in the conventional financial system. Innovations such as fintech lending, digital wallets, crowdfunding, and application-based microfinance have changed the financing paradigm from exclusive and centralistic to more open, flexible, and widely distributed. This phenomenon shows that the shift from traditional financial services to digital technology-based services is not just a technical innovation, but a systemic change that is able to reach community groups that were previously inaccessible by the formal financial system, including MSME actors, community-based start-ups, and entrepreneurs in disadvantaged areas.

Digitization of services allows business actors to access financing without having to come to a branch office, without having to have assets as collateral, and without having to have a formal credit history. This provides a great opportunity to encourage the growth of new entrepreneurs in Indonesia who are heavily dependent on the informal sector and the people's economy. However, the results of the study also reveal that the success of digital financial innovation in increasing access to financing is highly dependent on the level of digital and financial literacy of business actors. This literacy includes the ability to understand the risks and benefits of digital financial services, manage cash flow, and use financial applications productively. Business actors who are not equipped with sufficient literacy risk using financial services unwisely, such as taking consumptive loans with high interest rates, or becoming victims of digital fraud. Therefore, financial literacy must be an integral part of the digital financial ecosystem development strategy. Training activities, business assistance, and socialization of the digital system need to be carried out massively, especially in areas with low literacy levels.

The discussion also highlighted the importance of technological infrastructure and balanced policy support. Digital financial innovation will not be optimal if it is not accompanied by equitable internet access, affordable technological devices, and a robust data security system. Digital inequality between urban and rural areas can widen the gap in access to finance if not addressed immediately. The government has a central role in building this infrastructure and providing subsidies or incentives for financial technology providers to reach undeveloped areas.

In addition, regulatory challenges are one of the crucial aspects in this discussion. Too rapid innovation without adequate oversight can lead to systemic risks and social harm, such as the rise of illegal fintech, predatory lending, or personal data leaks. Therefore, a risk-based regulatory approach is needed that is adaptive to technological changes but still prioritizes consumer protection. Collaboration between regulators, service providers, and user communities is key to creating a healthy, sustainable, and social justice-oriented ecosystem. Considering all these aspects, this discussion emphasized that digital financial innovation is not only a financing tool, but also a means of economic empowerment. If managed properly, these innovations can create a more inclusive, efficient, and sustainable financial system for the growth of new businesses.

6. Conclusion

This study concludes that digital finance innovation has played a central role in opening up access to more inclusive financing, especially for new business actors such as MSMEs and startups. Through the use of technology such as fintech lending, crowdfunding, digital wallets, and application-based microfinance, various traditional barriers such as collateral requirements, geographical distance, and complicated bureaucratic processes can be minimized. This innovation makes the financial system more accessible, efficient, and adaptive to the needs of business actors who were previously marginalized from formal financial services. However, the effectiveness and sustainability of digital financial innovation is highly dependent on three key factors: digital financial literacy, an equitable technology infrastructure, and supportive regulations. Without sufficient understanding from business actors about how digital financial services work, benefits, and risks.

Therefore, the potential for misuse of services or unproductive debt entanglement is very possible. In addition, inequality of digital infrastructure between regions can deepen access gaps if not addressed systemically. In terms of regulation, consumer protection, data supervision, and control of illegal lending practices are aspects that must be strengthened. Therefore, synergy between the government, the fintech industry, educational institutions, and the entrepreneurial community is needed to build an inclusive, secure, and sustainable digital financing ecosystem. With a collaborative and strategic approach, digital financial innovation is not only a financing solution, but also an instrument for empowering the community's economy in the digital era.

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