

## THE ROLE OF SHARIA FINTECH IN IMPROVING HALAL FINANCIAL INCLUSION IN MSMEs IN INDONESIA

Ina Safarina Dewi<sup>1</sup>, Hendri Hermawan Adinugraha<sup>2</sup>

<sup>1</sup>UIN K.H Abdurrahman Wahid Pekalongan, Indonesia,  
inasafarinadewi@mhs.uingusdur.ac.id

<sup>2</sup>UIN K.H Abdurrahman Wahid Pekalongan, Indonesia,  
hendri.hermawan@uingusdur.ac.id

### Abstract

*The revolution of Islamic financial institutions in technology has become a must because of the progress of technology and information. Collaboration with financial technology (fintech) is expected to encourage the role of sharia-based fintech lending and other sharia fintech in developing the halal product industry in Indonesia. This article aims to explain the role of Islamic fintech in increasing financial inclusion for halal MSMEs in Indonesia. A literature review is a research method. The results obtained are the role of the application of Islamic fintech in increasing financial inclusion by providing access to financing for MSMEs engaged in the halal industry, providing convenience for MSME actors in accessing various types of Islamic bank financial services and encouraging equitable access to public finances that have not been reached by financial institutions, formal and domestic halal industry players. In Indonesia, fintech has contributed to the National Strategy for Financial Inclusion.*

**Keywords:** Sharia Financial Technology, Financial Inclusion, Halal, MSMEs

### Introduction

The government wants to speed up the progress of fintech in the digital era 4.0 to help establish a financial inclusion index at the same time. The growing use of the internet may drive the development of information technology, resulting in a variety of financial technologies that make it easier for the general public to acquire financial services via the internet. Meanwhile, the spread of Islamic finance has had a positive influence, from product and service expansion to the progress of infrastructure to support Islamic banking. Indonesia is one of the top ten countries with the greatest Islamic finance index in the world, even in the global market. In Indonesia, Islamic financial institutions compete not only with normal banks but also with both conventional and Islamic financial institutions. In practice, Islamic banking is based on sharia principles, which are monitored and

regulated by institutions and teams. The National Sharia Council of the Indonesian Ulema Council, the Financial Services Authority, and the Sharia Supervisory Board are all internal to the company. The Islamic capital market is one of the sub-sectors of the Islamic finance industry that serves as a financial intermediary. The global Islamic capital market industry includes the issuance of sharia shares, sukuk, and sharia mutual funds. In Indonesia's retail Islamic capital market, millennials and productive generations are becoming promising investors. They don't disregard technology when establishing the Islamic capital market industry because the majority of them are computer proficient. Banks and other financial institutions do not see fintech as a threat. Both can benefit from one another's synergy by developing genuine collaborations. According to the Indonesian Financial Technology Association (AFI), 63.9 percent of fintech business players have been connected to banks using the Application Programming Interface (API).

The Indonesian Joint Funding Fintech Association (AFPI) assures that Fintech Peer to Peer (P2P) Lending, particularly Sharia clusters, are ready to support the Indonesian government's halal product development initiative. This step is in keeping with the Fintech Lending industry's focus on innovation through access to funding for the general public and small businesses. In the Islamic economic and financial ecosystem, Sharia fintech can synergize at numerous points, ranging from commercial to non-commercial finance. Among them are the Islamic finance industry sector, such as banking, capital markets, and the Non-Bank Financial Industry. Then the Islamic social finance sector and Islamic microfinance and the halal industrial sector. Indonesia is a very decisive market in the world trade in halal products. The presence of sharia fintech lending clusters is expected to support the development of the halal product industry in the country by actively providing access to financing for Micro, Small Medium Enterprises (MSMEs) engaged in this halal product.

Islamic fintech is growing at a very fast pace all over the world. Fintech can help MSMEs grow, and its functions have been expanded to include early payments, loans, personal finance, retail investment, crowdfunding, remittances, and financial research, as well as other services (Nina Yulianasari & Mahrina, 2021). More and more people are turning to fintech because they want things to run smoothly and quickly, without limits, barriers, or strict rules.

Luckandi (2018) researched the analysis of payment transactions using fintech (financial technology) on MSMEs (Micro, Small, and Medium Enterprises) in Indonesia stating that convenience, security, transaction suitability, and ease of transaction are factors that support MSMEs actors to use fintech and matters

related to supporting factors, namely in the form of ease of recording, ease of transaction processing and increasing sales.

The rapid development of the internet has given birth to innovations, especially in fintech that will meet the needs of the community, both in providing access to financial processing and service transactions (Tri Ina Fadhila Rahma, 2018). The penetration of internet use is the underlying factor in the development of economic trends that occur. The contribution given to gross domestic product from the micro, small and medium enterprise (MSME) sector is estimated to grow by 5% in 2019. The contribution given to the gross domestic product (GDP) from the MSME sector this year has reached 65%. Seeing this, MSMEs are the biggest actors in our economic activities (Syarizka, 2019).

In Indonesia, along with technological advances in the digital realm, the government as an economic regulator seeks to maximize the benefits of technology to solve existing problems. Muzdalifa (2018) states that rural communities living in remote areas must also feel the impact of future technological developments. One of the technological development innovations in business and the economy, especially the banking world, is financial technology which has a function to facilitate all types of transactions including buying and selling, investing, or collecting funds (Rasyid, 2017). MSMEs, on the other hand, are critical to a country's economic development. Because the MSME sector can promote economic growth and job creation, it is thought to contribute to economic stability.

The level of Islamic financial inclusion in Indonesia is still low when compared to conventional financial inclusion. Now, there are still many people who have not accessed and do not understand the benefits of sharia financial services. In fact, with the world's largest Muslim population, Islamic finance can be used as a new motor for national economic growth.

Malaysia has won a Global Islamic Economy Indicator (GIEI) score of 207.2 points. Saudi Arabia is in second place with a score of 97.8 points. Then, the United Arab Emirates got a GIEI score of 90.2 points in 2020. Indonesia is in fourth position as a country with the largest sharia economic potential in the world. In 2020, Indonesia won a GIEI score of 68.5 points. Next in line, Turkey received a GIEI score of 67.3 points in 2020. Bahrain achieved a GIEI score of 66.7 points. Singapore won a GIEI score of 65 points. Meanwhile, Kuwait occupies the eighth position with a GIEI score of 62.1 points. The data is shown in the following figure:

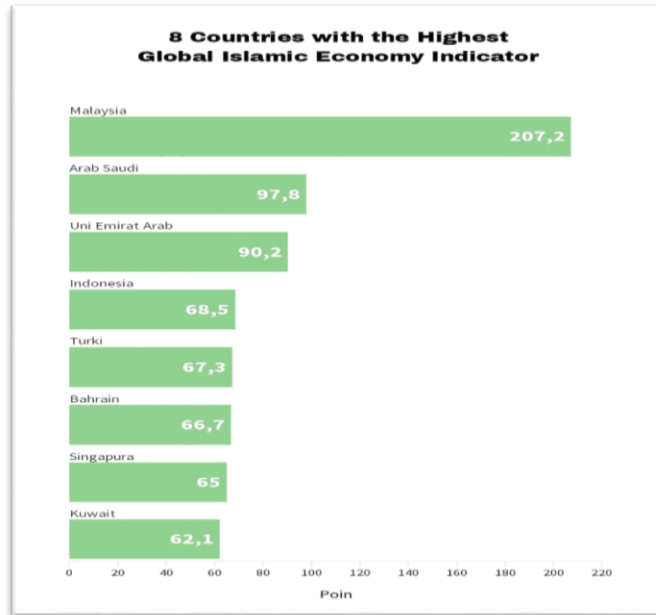


Figure 1

Source: Standard Dinar and Salaam Gateway 2020

According to these statistics, Indonesia has a lot of potentials for the halal market to grow, but it hasn't been fully realized yet. Indonesia's sharia financial industry market share is still behind when compared to neighboring countries, especially Malaysia. This is due to the low level of Islamic financial inclusion coupled with the resources in the Islamic finance industry which are still a challenge going forward for stakeholders.

Indonesia still faces hurdles and roadblocks in implementing the halal industry, including halal certification. Internal and external barriers stand in the way of the country's goal of becoming a Global Halal Hub. The lack of business actors that do halal certification for business entities and their products is one of the internal issues. Because Indonesia is a Muslim-majority country, business actors should adhere to halal standards in their businesses and products.

Sharia fintech's presence is projected to improve financial inclusion; sharia fintech can assist the community, particularly halal MSME sector business operators, in obtaining alternatives and access to financial services. Because the MSME sector is the one that expands the fastest and absorbs the most labor, it plays a critical role in economic growth. Fintech's implementation in improving financial inclusion is predicted to support growth in Indonesia's halal MSME sector.

## **Methodology**

The research method used is a literature review is a term used to refer to certain research or research methodologies and developments carried out to collect and evaluate related research on a particular focus topic (Triandini 2019). A literature study strategy was used for data collection. Textbooks, news articles, and internet literature searches related to this study were used as sources of information. A literature study or literature review produces evidence in the form of study findings and published statements from various specialists. References are taken from research results that have been published and indexed by Google Scholar. To obtain fully credible data, the data analysis technique was carried out by first triangulating the data sources. Data that is considered reliable is then synthesized to obtain a conclusion so that a comprehensive understanding is obtained. The type of writing used is a literature review study that focuses on the result of writing related to fintech topics.

## **Result and Discussion**

### **The Urgency of Sharia Fintech**

In this era of globalization, financial technology is increasingly playing an important role in the global economy, one of which is Islamic financial institutions, especially Islamic banking. With a population of 255 million, Indonesia is one of the countries with the fourth largest population in the world. <sup>21</sup> This large population must be balanced with the number of possible jobs available. Indonesia must tackle this on its own by encouraging youth-started businesses. To answer the needs of business actors, Islamic banking as a financial intermediary institution based on sharia principles must be available. These requirements include not only providing capital but also assisting the payment system. In the digital era, Islamic banks should not limit themselves to traditional operations, such as only relying on activities through branch offices, which are often exclusive. Islamic banks, on the other hand, must innovate in their business operations, one of which can be done by cooperating with fintech companies. Islamic banking solutions will be provided to all Indonesian businesspeople through collaboration with fintech companies. Islamic banking will be more accessible to halal industry corporate actors (MSMEs) (Ariyanti, 2021).

Fintech's advancement has brought enormous benefits to society. In Indonesia, fintech plays the following roles:

- 1) Increase financial inclusion.

The government and the Financial Services Authority or Otoritas Jasa Keuangan (OJK) can use Islamic fintech to help expand financial inclusion in the country, such as overcoming the problem of financial disparities for individuals, micro-entrepreneurs, and small businesses. People who do not meet the funding requirements offered by Islamic financial institutions, such as banks, can take advantage of Islamic fintech (Marginingsih, 2021).

2) Make financial transactions easier.

The purpose of Islamic fintech is to facilitate financial transactions. No need to go to the bank or wait in long lines at ATMs to transfer money or pay bills. All financial transactions can be completed with just a mobile phone. Financial transactions can be completed as long as they are connected to the internet network.

3) Helping entrepreneurs get business capital loans.

Business actors can obtain business capital loans through sharia fintech in addition to banks, cooperatives, e-commerce, and the government through Kredit Usaha Rakyat (KUR). Use an online loan limit that is right for you. MSMEs as the driving force of the national economy can develop and develop rapidly, and advance to their class, with the help of sharia fintech business capital loans.

4) Accelerate the economic turnaround.

Access to finance and ease of transactions encourage faster and more practical economic cycles. In addition, sharia fintech helps business actors to get capital through online loans as fintech products (NISP, 2021).

### **Sharia Fintech Contribution to Financial Inclusive Improvement**

OJK recorded Islamic financial inclusion and literacy indexes of 12.12 percent and 9.14 percent respectively in 2022. This realization grew compared to the same period the previous year at 8.93 percent and 9.10 percent respectively. The results of the 2022 National Financial Inclusion Literacy Survey or Survey Nasional Literasi dan Inklusi Keuangan (SNLIK) show the Indonesian people's financial literacy index is 49.68 percent, an increase compared to 2019 which was only 38.03 percent. While the financial inclusion index this year reached 85.10 percent, an increase compared to the previous SNLIK period in 2019, which was 76.19 percent. This shows that the gap between literacy levels and inclusion levels is decreasing, from 38.16 percent in 2019 to 35.42 percent in 2022 (OJK, 2022). In this effort to improve, fintech also plays an important role in reaching parts of Indonesian society that have not yet experienced financial services, such as banking (Fitriani, 2018).

Sharia fintech is one of the technologies that is developing to make Islamic financial institutions more accessible. According to OJK data as of December 2019,

there are 12 sharia fintech lending companies and 1 sharia fintech lending company. In addition, 14 IKD (Digital Financial Innovation) providers that follow sharia principles have been registered with OJK. The 14 IKDs are part of the six clusters of the IKD business model (Artika & Shara, 2021).

Cluster 1, Fintech Aggregator is a fintech that collects and processes data for consumer use in decision-making. Alami, Shaf, Mobilima, and Waqara are examples of Islamic fintech. Waqara is a pioneer in sharia fintech, helping Muslims in Indonesia with their Umrah worship needs. The natural sharia peer-to-peer (P2P) lending organization which will operate in 2021 is a sharia fintech with a sharia financial model for MSMEs. Natural's commitment to actively contribute to the economic recovery of MSMEs during the pandemic, as well as to support the momentum for the revival of the Islamic finance industry in Indonesia, was manifested when Alami signed an MOU in financing distribution cooperation with PT Bank BRI Syariah Tbk (BRIS) in Jakarta.

Cluster 2, Fintech Blockchain Based is a platform that uses a blockchain system as its basic technology to connect companies/projects that need finance with investors without requiring the flow of funds on the platform. Alumnia, Biosphere, Afteroil, and Igrow are examples of Islamic fintech platforms. If you combine Islamic fintech with equity crowdfunding, such as the Alumnia company, you can target a \$10 billion investment, which is the equivalent of three projects. There are ten (ten) commercial business ventures currently underway, with two (two) already running. Biosphere is an eco-crowdfunding website that focuses on growing bamboo to revitalize and save the environment. A blockchain-based platform that offers an untraceable and transparent data system, security, and data privacy.

Cluster 3, Financing Agent, is an application that helps Islamic financial service organizations in distributing financing to new customers and existing customers. Ayannah Enterprise and Bentoe.id Company are two examples of this cluster sharia fintech company. PT. Ayannah Solusi Nusantara's mission is to improve the lives of its clients by providing affordable and easily available digital financial services via social media or the internet. Ayannah's company has a middle-class market share, while Bentoe.id's company, PT. Gotong Royong Indonesia is a platform that connects MSMEs and BPRS from all over Indonesia. PT. Gotong Royong Indonesia collaborates with Islamic Rural Banks throughout Indonesia to assist Micro, Small, and Medium Enterprises in obtaining funding.

Cluster 4, Project Financing is an online platform that generates cash from investors to finance/fund certain projects in exchange for project profits in return for investment returns and/or returns at predetermined time intervals.

Cooperation company.com, with the official name PT. Cooperation for the Country is a sharia crowdfunding portal service provider that uses musyarakah and mudharabah contracts. Cooperation company.com, with the official name PT. Cooperation for the Country is one example of this cluster. Cage. in, previously named PT. Kandang Karya Teknologi is a sharia-based crowdfunding platform in the livestock and fisheries sector that raises funds through the website and distributes them to livestock and fisheries projects in Indonesia through mudharabah contracts.

Cluster 5, Funding Agent is a website or application based on Digital Financial Innovation (IKD) that functions as a marketing platform for Islamic financial services organizations seeking funding consumers. A funding company, for example, is a marketing platform to attract funding consumers and provide convenience by distributing sharia business partner products such as deposits, savings, demand deposits, waqf, and infaq.

Cluster 6, Insurtech is a platform that works with insurance brokers to provide information, obtain insurance products, and enable users to file insurance claims online, speeding up the process. Yuk takaful, with the formal business name PT, is an example of a corporation with this cluster. Takaful Crowdfunding is a web-based sharia insurance digital service portal (insurtech) and mobile application that provides convenience for consumers from purchasing policies to claim settlement. In addition, it is the first sharia insurance digital service platform (Islamic insurtech) in Indonesia. To increase financial and insurance inclusion and literacy in Indonesia, micro-insurance products that are community-centered or people-centered have been developed. This company offers 4 types of protection, namely personal accident protection, motorcycle financing protection, travel protection, and microfinancing protection.

The combination of sharia banking and financial technology (fintech) can help Indonesia's halal industry achieve greater financial inclusion. Furthermore, the government is actively supporting the mobility of non-cash transactions around the country. As a result, a society that is less reliant on cash has arisen. Smartphone users' use of fintech services could be a reaction to the government's efforts to create a cashless society. Because of the enormous number of cellular phone subscribers in Indonesia. The number of cell phones in Indonesia has surpassed the number of bank accounts. It can be stated that Islamic fintech has a role to play in increasing financial inclusion (Febriyantoro & Arisandi, 2018).

## **The Role of Sharia Fintech in Improving Financial Inclusion in Halal MSMEs in Indonesia**



MSMEs accounted for 60.34 percent of GDP and 97.22 percent of employment. However, around 60-70 percent of the MSME sector does not yet have access to bank credit. The reason for this is that many MSMEs, around 49 million, are not bankable. The Peer to Peer Lending (P2P) company pushed by Amarnya.com, which aims to become a mediator between MSMEs, particularly those in villages, and investors, is one example of how fintech might help solve this problem. They have financed more than IDR 61.3 billion through this method, which has been allocated to over 29,000 MSMEs entrepreneurs.

According to the Global State of Islamic Economics, global demand for halal products is expected to grow at a rate of 9.5 percent per year, rising from \$2 trillion in 2013 to \$3.7 trillion in 2019. Furthermore, Indonesia garnered 14 honors at the 2016 World Halal Tourism Awards, enhancing its global reputation.

Fintech p2p lending is beneficial to MSME funding and halal certification, allowing Indonesia to produce more halal products and compete more effectively with other countries. Not only that, but a marketplace offering a variety of Islamic banking products should be established. In Islamic banks, this can improve financing efficiency and raise ROA while lowering NPF. It is envisaged that, as a result of the emergence of sharia fintech, a better understanding of Islamic economics will spread across all sectors of society. Fintech has the potential to contribute to the advancement of Islamic economics since Islam, as a perfect religion, demands convenience and avoids obstacles (Q.S Al-Baqarah: 185). For Islamic fintech to be used to aid the spread of the Islamic economy. Fintech is expected to bring in an additional \$1 trillion to the Islamic financial industry, so its importance cannot be overstated. To expand the Islamic economy's reach, various fintech has developed, like Alamisharia.com, Indves.com, and Qasir, which offer all sharia-compliant products. All of these websites can help halal MSMEs gain access to funding and financial inclusion (Winarto, 2020).

As of August 2020, there have been 157 fintechs in Indonesia, with total assets of 3.12 trillion rupiahs. Of these, 11 of them are sharia fintech with a percentage of total assets reaching 2.04% (64.97 billion rupiahs) of the total fintech assets as a whole. When viewed from the number of financing disbursements, overall fintech in Indonesia has reached 121.87 trillion rupiahs with a growth of 122.74% per year. This figure shows the enormous potential of the existence of fintech in Indonesia, where more than 99% of borrowers from fintech are MSMEs. So there is no doubt that Islamic fintech has a very large role in encouraging the growth of MSMEs in Indonesia (Nadya & Iqbal, 2021).

The presence of several sharia fintech companies also contributes to the development of MSMEs. Not only limited to helping finance business capital, but

the role of fintech has also penetrated various aspects such as digital payment services and financial arrangements (Muzdalifa et al., 2018).

Governments, corporate entities, and consumers all benefit from technological skills in the Islamic fintech ecosystem. Collaboration between institutions contributes to public trust with the presence of sharia fintech, which increases its credibility. Meanwhile, fintech cooperation with Islamic banks in terms of financing distribution is a symbiotic mutualism in which fintech accepts investment while Islamic banks benefit in terms of financing distribution due to fintech's ability to save costs, time, and energy. Sharia fintech collaborations with business actors such as e-commerce/marketplaces and global corporations make it easier for MSMEs to fund. This ease of accessing partnership data makes sharia fintech work more efficiently and creates a larger ecosystem. In the end, Islamic fintech will find it easier to find suitable borrowers. Risk mitigation also includes collaboration with various sharia fintech stakeholders. Customers acquired through partners, for example, are much more trustworthy than customers acquired through other means. Collaboration is considered to reduce risk (Ardiansyah & Sawitri, 2019).

Sharia fintech plays a key role in advancing the financial inclusion of MSMEs in the halal industry in Indonesia that has not yet gained access to traditional financial institutions such as banks. This is expressed (Fenwick 2018) because the fintech industry has technological support to assess creditworthiness or financing for its consumers.

## **Conclusion**

The emergence of sharia fintech has a role in expanding financial inclusion for MSMEs in Indonesia, according to the findings of the debate. The role of sharia fintech in increasing financial inclusion is to provide access to financing for MSMEs in the halal industry, to make it easier for MSME actors to access various types of Islamic bank financial services, and to encourage equitable access to public funds that have previously been unavailable to formal financial institutions and halal industry players in the domestic market. In Indonesia, fintech has contributed to the National Strategy for Financial Inclusion.

## **References**

- Ardiansyah, M., & Sawitri, P. (2019). *Analysis Of Factors That Influence The Use Of Social Media By Small And Medium Enterprises*. 7(11), 32–41.
- Ariyanti, F. (2021). *Perkembangan Fintech di RI dan Hari Fintech Nasional 11.11*.

- Cermati.Com.
- Artika, D., & Shara, Y. (2021). Analisis Peran Financial Technology dalam Meningkatkan Keuangan Inklusif Pada UMKM Kota Medan. *Indonesian Journal of Business Analytics*, 1(2), 237–248. <https://doi.org/10.54259/ijba.v1i2.78>
- Febriyantoro, M. T., & Arisandi, D. (2018). Pemanfaatan Digital Marketing Bagi Usaha Mikro, Kecil Dan Menengah Pada Era Masyarakat Ekonomi Asean. *JMD: Jurnal Riset Manajemen & Bisnis Dewantara*, 1(2), 61–76. <https://doi.org/10.26533/jmd.v1i2.175>
- Fenwick, M., McCahery, J. A., & Vermeulen, E. P. M. (2018). Fintech and the financing of SMEs and entrepreneurs: From crowdfunding to marketplace lending. *The Economics of Crowdfunding: Startups, Portals and Investor Behavior*, September, 103–129. [https://doi.org/10.1007/978-3-319-66119-3\\_6](https://doi.org/10.1007/978-3-319-66119-3_6)
- Fitriani, H. (2018). Kontribusi FinTech dalam Meningkatkan Keuangan Inklusif pada Pertanian. *Journal of Islamic Economics and Business*, 01(01), 1–26.
- Luckandi, D. (2018). Analisis transaksi pembayaran menggunakan fintech pada umkm di indonesia: pendekatan adaptive structuration theory. *Jiko - Stmik Akakom Yogyakarta*, 3(2), 1–86.
- Marginingsih, R. (2021). Financial Technology (Fintech) Dalam Inklusi Keuangan Nasional di Masa Pandemi Covid-19. *Moneter - Jurnal Akuntansi Dan Keuangan*, 8(1), 56–64. <https://doi.org/10.31294/moneter.v8i1.9903>
- Muzdalifa, I., Rahma, I. A., & Novalia, B. G. (2018). Peran Fintech Dalam Meningkatkan Keuangan Inklusif Pada UMKM Di Indonesia (Pendekatan Keuangan Syariah). *Jurnal Masharif Al-Syariah: Jurnal Ekonomi Dan Perbankan Syariah*, 3(1). <https://doi.org/10.30651/jms.v3i1.1618>
- Nadya, P. S., & Iqbal, M. (2021). *Upaya Fintech Syariah Mendorong Akselerasi Pertumbuhan UMKM di Indonesia*. 7(01), 41–50.
- Nina Yulianasari, & Mahrina, H. (2021). Pengaruh Penggunaan Fintech Terhadap Perkembangan Literasi Dan Inklusi Keuangan Pada Umkm Di Kota Bengkulu. *PENGARUH PENGGUNAAN FINTECH TERHADAP PERKEMBANGAN LITERASI DAN INKLUSI KEUANGAN PADA UMKM DI KOTA BENGKULU*, 4(1), 92–105.
- NISP, R. O. (2021). *Apa itu Fintech: Pengertian, Manfaat, Jenis & Dasar Hukumnya*. Ocbcnisp.Com.
- Rasyid, M. A.-Z., Setyowati, R., & Islamiyati. (2017). Crowdfunding Syariah Untuk Pengembangan Produk Perbankan Syariah Dari Perspektif Syariah Compliance. *Diponegoro Law Jurnal*, 6(4), 1–16.
- Syarizka, D. (2019). *Kontribusi UMKM terhadap PDB 2019 Diproyeksi Tumbuh 5%*. Bisnis.Com.

Ina Safarina Dewi, Hendri Hermawan Adinugraha  
*The Role Of Sharia Fintech In Improving Financial Inclusion In Halal In MSMEs In Indonesia*

Tri Inda Fadhila Rahma. (2018). Persepsi Masyarakat Kota Medan Terhadap Penggunaan Financial Technology. *Jurnal At-Tawassuth*, Vol. III

Otoritas Jasa Keuangan (OJK), <https://ojk.go.id/id/berita-dan-kegiatan/siaran-pers/Pages/Survei-Nasional-Literasi-dan-Inklusi-Kuangan-Tahun-2022.aspx>

Winarto, W. W. A. (2020). Peran Fintech dalam Usaha Mikro Kecil dan Menengah (UMKM). *Jesya (Jurnal Ekonomi & Ekonomi Syariah)*, 3(1), 61–73.  
<https://doi.org/10.36778/jesya.v3i1.132>