

EFFECT OF SHARIA FINANCIAL TECHNOLOGY IN SMALL AND MEDIUM ENTERPRISES (SME)

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Abstract

This journal aims to analyze the role of Sharia Fintech in improving financial inclusion and literacy in SME. Currently, Technology Development has begun to enter the Digital realm in order to meet Indonesia as the largest digital economy country in 2024, the government as the regulator of the Indonesian economy, must empower all Indonesian people to the villages and remote areas throughout the country so that they can feel the positive impact of developing technology in the future.

The current technological relationship is closely related to the existence of the internet as the main access. We need to know that the existence of this Sharia Fintech can be one of the driving forces for the existence of a movement to help

increase finance for SMEs, especially those in the middle of the middle of the community through Islamic financial institutions. As we know sharia fintech is a term that can be used to refer to innovations in the field of financial services using sharia principles.

The development of digital technology, including in the Islamic financial industry, can no longer be dammed. Through sharia financial technology (sharia fintech), all forms of transactions are faster, easier, and more efficient at the same time, without the need for face-to-face meetings. The emergence of shariafintech is inseparable from the innovations that develop to finance this financial concept, it requires start-up (new entrepreneur) to build its business

Keywords: Sharia *Fintech*, *Inclusion*, *Literacy*

I. INTRODUCTION

The development of the technology business in Indonesia is followed by the emergence of many new star ups. The more sophisticated technology will encourage business growth in companies to further develop. New innovations have sprung up in the financial sector so that they can be developed to spoil business people, especially those engaged in online business for transaction activities. The presence of companies engaged in financial technology in Indonesia and the high interest and needs of the people of Indonesia using applications make many FINTECH applications so that the dominance of the use of FINTECH is higher(Gomber, Kauffman, Parker, & Weber, 2018).

At present the financial sector has become one of the sectors that has an impact on the development of technology or it can be said that technology has entered the financial sector. As it progresses rapidly, it can change the financial industry to the digital age. The combination of technology and finance is often interpreted as financial technology (FINTECH). With the advent of FINTECH

, it is expected to increase financial inclusion and financial literacy in the community(Wachyu & Winarto, 2020).

Many financial institutions especially banks and savings and loan cooperatives can increase financial inclusion and financial literacy in SME in Indonesia. The development of FINTECH carried out by banking institutions and savings and loan cooperatives can provide easy access for business owners, including for example the owners and entrepreneurs of the SME sector can easily access and accept offers of financial service products offered, for example by applying for direct loans without coming to the office branch or operational service. This will facilitate the access of SME sector business owners in obtaining financial transactions, can also increase financial inclusion and financial literacy and can improve the performance of banks and savings and loan cooperatives.

Luckandi (2018) in his research discussed the analysis of activities of payment transactions using fitech at SME in Indonesia, concluding that security, convenience, transaction suitability and ease of transaction are factors that encourage SME to use FINTECH so as to increase sales.

In 2017 According to Global Findex data, the percentage of achieving the level of financial inclusion in Indonesia reached 48.9% or 12% which is higher than the results of global Findex in the previous three years. In 2018 only around 36% of the Indonesian adult population used access to formal financial institutions(OJK, 2017).

Between inclusion and financial literacy, the two have a connection. Inclusion is the amount of use of financial services, financial literacy focuses on managing money held. So if someone has good financial literacy it is possible to be able to make the most of money(Wachyu & Winarto, 2020).

One of SHARIA FINTECH is Peer to Peer Lending, The various conveniences offered by Peer to Peer Lending compared to banking services are still very limited, more requirements and procedures, as well as the large number of Indonesian people who have not been served by banks, which is an attraction for the presence Peer to Peer Lending in the community.

Until even in 2019, there have been around 4.35 million people in Indonesia who made loans through Peer to Peer Lending. However, the many benefits offered by Peer to Peer Lending cannot be taken for granted. Because in fact the various benefits are also accompanied by a low security element and various risks that arise due to the use of Peer to Peer Lending.

The Financial Services Authority in mid-2018 noted that there were at least 277 illegal Peer to Peer Lending which had ceased operations in Indonesia because it was considered dangerous for its users (OJK, 2018).

II. LITERATUR REVIEW

2.1 Financial Technology

Financial technology (FINTECH) is also an innovation step from the financial sector integrated with technology to produce facilities without intermediaries, changing the company's methods of providing services and products, while also being able to provide privacy, regulation and legal challenges and is possible to provide sustainable growth inclusive (Harahap, Idham, Kusuma, & Rakhman, 2017)

The Word Economic Forum explains that FINTECH is an innovative use of technology and business in the financial sector. This financial innovation in the form of the use of technology to be able to produce new ways as in financial institutions such as loan savings, investment and e payment(Apfelbacher, 2016) The FINTECH industry can develop due to several factors including:

- a. There is a change in the mindset of consumers

This change is marked by increasing needs in society but people want to get it in a practical and easy way. This encourages people to use FINTECH services to meet their daily needs in an instant way and begin to leave the conventional system that must come to the seller.

b. Digital progress

Digitalization is a change from the old system that has not been modern. In this era digitalization has been used in many products for community needs. As is the case in smartphones that are increasingly sophisticated and have spread in the community will facilitate the community in helping their activities and needs.

c. Change in trends

Developments and innovations that are carried out quickly and continuously encourage change and acceleration in a trend in society.

d. Decreased brand and institutional loyalty

The potential to make a decision to buy a product in this period is not influenced by a brand or institution, but for millennials in making decisions to buy faster and be careful about offering products and services.

e. Easier access

Openness of services and information systems will increasingly provide easy access to transactions. The development of access is initiated by the development of technology that will open new market shares.

f. Offering profitable products

If the product offered provides benefits and benefits, it will change and attract consumers to buy a product offered.

g. Policy support from the government

In this case the government provides policies in supervision is important to help advance the FINTECH industry and provide encouragement to continue to develop. In Indonesia, the institution that is given the authority to oversee FINTECH in financial institutions is the Financial Services Authority.

2.2 SHARIA Financial Technology

Islamic FINTECH is developed using the principles of Islamic economics. can be interpreted that the use of technology in the field of Islamic financial services. There is no difference with the function of conventional FINTECH and SHARIA FINTECH . Because, the two types are both want to provide financial services. FINTECH (2017) the difference between the two is the financing agreement which follows the rules of the Islamic. There are three Sharia principles that must be possessed by this FINTECH that is not allowed to *maisir* (bet), *gharar* (uncertainty) and *riba* (the amount of interest passes the statute).

Although using the basic Sharia , basic references have also been made by the National SHARIA Board related to the existence of this Islamic financial technology. The basis is MUI No.67 / DSN-MUI / III / 2008 which regulates what provisions must be followed by the latest financial technology institutions in Indonesia. As of September 2018, there were only 4 Islamic financial technology companies that were inaugurated by the Financial Services Authority.

2.3 Financial Inclusive

In Presidential Regulation No. 82 of 2016 contains steps on inclusive financial strategies. The strategy is a condition where every community has

access to a variety of quality, smooth, timely and safe financial services. In addition, affordable costs can be obtained according to your needs and abilities.

In Indonesia, community groups that are specialized in gaining financial access include low-income people. Namely, such as migrant workers, women, people with disabilities, neglected children, elderly residents of disadvantaged areas as well as students, youth and SMEs. Financial inclusion is a situation where there is a lack of people who have access to banking. Society tends to own immovable property to be used and can be cashed everyday.

Financial inclusion is defined as an effort to reduce barriers in the form of assets and non-assets in utilizing service facilities in terms of financial services. Financial inclusion in this case is the condition of an individual or someone in utilizing existing financial services and utilizing groups that are not yet aware of the benefits of using financial access networks through existing access at low costs.

In order to increase financial inclusion, the government supports online loan products by financial institutions, both banks and other institutions engaged in financial services, so that it is expected to reach the whole community that cannot be reached by financial institutions.

2.4 Financial Literacy

According to Akmal & Saputra(2016)financial literacy is a set of knowledge and skills that enables a person to make effective decisions with all their financial resources.

After six years of development of financial literacy in accordance with the OJK survey in the third National Financial Literacy Survey in 2019. From the survey, OJK noted that the financial inclusion index exceeded 76.19 percent, or up 8.39 percent from the previous 67,8 percent in 2016 also noted that the financial literacy index also increased. According to the survey results, the

financial literacy index reached 38.03 percent, up 8.33 percent from the position in 2016 which reached 29.7 percent.

Member of the OJK Board of Commissioners for Education and Consumer Protection TirtaSegara said the survey showed that during the last 3 years, there was an increase in financial literacy or understanding in the community. And increasing public access to financial products and services or financial inclusion.

Based on the description above, the writer formulates the problem as follows:

- a. How is FINTECH 's role in increasing SME financial inclusion
- b. What is the role of FINTECH in increasing SME financial literacy

Research Objectives:

- a. To find out FINTECH 's role in increasing SME financial inclusion.
- b. To find out the role of FINTECH in increasing SME financial literacy

2.5 Micro, Small and Medium Enterprises

a. Micro Enterprise

Understanding of micro business in Law Number 20 Year 2008 concerning SME Article 1 number 1 what is meant by Micro Business is productive business belongs to individuals or individuals and / or business entities that have individual the following criteria: have a maximum of Rp.50,000,000.00 (fivetens of millions of rupiah) does not include land and buildings for business premises, or owns annual sales of Rp.300,000,000.00 (three hundred million rupiah).

b. Small Enterprise

While the criteria for small businesses are as follows: productive economic ventures stand alone conducted by individuals business is not a subsidiary or branch company owned, controlled, or be a part directly or indirectly of a Medium Enterprises or Large Enterprises that meet the following

criteria: have a net worth more than Rp.50,000,000.00 (fifty million rupiah) up to the most Rp.500,000,000.00 (five hundred million rupiah) excluding land and buildings place of business. Or have annual sales of more than Rp. 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp.2,500,000,000.00 (two billion five hundred million)

c. Medium Enterprise

Preventive 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 a branch of a company that is owned, controlled, or is part of either directly or indirectly with Small Business or Large Business and business criteria medium is as follows: has a net worth of more than Rp.500,000,000.00 (five hundred million rupiah) up to the most Rp.10,000,000,000.00 (ten billion rupiah) excluding land and buildings place of business, or have annual sales results of more than Rp. 2,500,000,000.00 (two billion five hundred million rupiah) up to the most Rp.50,000,000,000. 00 (fifty billion rupiah).

III. RESEARCH METHOD

This study uses Qualitative research methods are research methods based on the philosophy of postpositivism, or interpretive paradigm and constructive, which views social reality as something holistic or whole, complex, dynamic, full of meaning and symptom relations interactive and used to examine the condition of the object natural, not experimental, where the researcher as a key instrument, data collection techniques carried out by triangulation (combined), data analysis is inductive or qualitative and results of research are more emphasizing the meaning of generalization.

This research uses a qualitative method because the researcher wants to find out and analyze in depth about the role of SHARIA FINTECH in increasing financial inclusion at SME in Indonesia.

Qualitative research are words, and actions, the rest are additional data such as documents and others. In this study the data source was obtained from:

1. Primary data is data obtained directly from the object of research, in this study the object of research is Micro, Small and Medium Enterprises in Central Java.
2. Secondary data is data obtained in the form of ready-made data, this data is obtained from related documents such as articles, books, and photos.

The data analysis technique used in this study is an interactive model. Analysis using interactive model analysis is carried out through three procedures, namely:

1. Data Reduction

It is a process of evaluating, focusing, paying attention and simplifying, abstracting and transforming data that arise from written notes in the field. This analysis technique is needed for researchers to direct and sharpen the analysis by classifying it and discarding what is not needed.

2. Data Presentation

The information is arranged and provides the possibility of drawing conclusions and taking action. The form can be followed by an overview or scheme of several tables that are designed to compile so that it can be understood. This analysis technique is needed by researchers to make it easier for researchers to see a general picture of what is happening or the results of the data obtained during the study so that it can be determined what should then be done by the researcher.

3. Draw Conclusions (Verification)

The data that has been collected and analyzed can be drawn conclusions. Conclusions are drawn during the study. Data analysis

techniques by drawing conclusions this researcher will provide conclusions from the results of data analysis that has been done and provide suggestions as further recommendations for policies regarding the role of SHARIAFINTECH in improving financial inclusion and financial literacy in small and medium businesses.

The reason for choosing data analysis techniques using an interactive model is because the model will facilitate researchers. The data that has been obtained in the field will be selected first, after that it is presented in the research report by providing analysis before the final step is to draw conclusions.

IV. RESULTS AND DISCUSSION

4.1 The role of Sharia financial technology in increasing financial inclusion in SME in Indonesia

In the current era of globalization, the role of Islamic financial technology is developing rapidly, both for the Indonesian economy and financial institutions, one of which is Islamic financial institutions in Islamic banking. Indonesia is one of the countries with the fourth largest population in the world with a total population of 271 million. Indonesia must independently.

Islamic banking as an intermediary financial institution operating based on Sharia principles must be present to meet the needs of business actors. These needs are not only in terms of capital provision, but also help in terms of payment systems. In the current digital era, Islamic banks should not only carry out conventional operations, which only rely on activities through branch offices, which tend to be exclusive. Will be achieved, Islamic banks must innovate in their business activities, one of which can be done is by collaborating with FINTECH companies by making SHARIAFINTECH in banking.

Presence of a number of SHARIA FINTECH companies also contributed to the development of SME. Not only limited helping venture capital financing, the role of SHARIA FINTECH has also expanded to various aspects such as digital payment services and financial arrangements.

Here are some SHARIA FINTECH services for SME:

1. Capital Loans

The SHARIA FINTECH company is here to provide capital loan services with a simpler submission process compared to conventional financial institutions such as banks without the need to submit guarantees and just complete a few document requirements, this online loan service is an alternative to conventional bank loans or other loan companies. Loans can be disbursed in a relatively short period of time, less than a week.

2. Digital payment services

SHARIA FINTECH companies also provide digital payments that are easier and safer for business people. With an easy payment process for secure funds, this will be able to attract more consumers so that it provides benefits for business people

3. Financial management services

There are several applications that offer financial management services. This innovation aims to help SME in managing corporate finance. The services provided include recording expenses, monitoring investment performance, and financial consulting at no charge. There are several SHARIA FINTECH companies that provide regulatory services.

Some of the SHARIA FINTECH services mentioned above, if they can be applied to the operational system of SHARIA banks, it is easy for business people to access products that are offered Islamic banking. So that Islamic banks

will be inclusive, meaning that all products offered can be accessed by business people.

With the existence of Islamic FINTECH in Islamic banking, it will increase users in communities in remote areas to feel the positive impact of technological developments. Economic growth can be achieved when productive resources can be utilized optimally and equally allocated. The goal of economic development is to achieve the main goal of creating prosperity and reducing inequality. In the process of developing the Indonesian economy, the SME sector has a very strategic and important role.

4.2 The role of SHARIA FINTECH in increasing SME financial literacy

In this study, researchers took random speakers in Central Java, especially in the areas of Pekalongan and Pemalang and Batang, both located far from Islamic banking services or close to Islamic banking.

1. Long time the SME was running a business

In this research, SME has been running for a long time, starting from 2010. In the beginning, many tried innovations for their products. SME players try to find out what market tastes are suitable. Many in the beginning of the SME did not run smoothly like customers because it was looking for a difficult market. As time goes by, SME players innovate about their products and try to find out the interests of the market or customers.

2. Knowledge of SME practitioners about SHARIA FINTECH

SHARIAFINTECH is increasingly developing, making SME actors must be able to follow its development. SME actors must not only follow, but SME players are expected to be more selective in choosing SHARIA FINTECH, because many SHARIA FINTECH es have not been registered with the Financial Services Authority. SME actors' knowledge of FINTECH SHARIA is still limited, but they do not know much about the role of FINTECH , many

SMEs know the role of FINTECH SHARIA only as payment. However, there are those who already know what the role of FINTECH is and have many roles not only as payment but can be as capital financing, financial regulator. Financial arrangements as the role of SHARIA FINTECH have also begun to be applied by SMEs to ease transactions.

3. Application of SHARIA FINTECH in SME

SHARIA FINTECH has been applied by SMEs in this study, although not all of the roles of SHARIA FINTECH are used, but there is one role that has been applied to its business. Some have applied as a payment instrument and application for financial arrangements. The application of SHARIA FINTECH to SME actors provides convenience and benefits

4.3 Constraints on the implementation of SHARIA FINTECH in increasing financial inclusion and literacy in SME

1. Infrastructure

At this time a good IT infrastructure can only be felt by people in large cities such as Jakarta, Surabaya, Bandung and so forth. While the internet network has not been able to spread evenly into remote areas, this is one of the biggest obstacles to the spread of SHARIA FINTECH.

2. Human Resources (HR)

The limited ability of rural communities to apply financial technology in their areas, has spread financial technology is hampered. This condition makes the government. it is difficult to develop FINTECH in the area due to lack of manpower that can support the sustainability of the modern economy. Supplying human resources

4.4 The risk of SHARIA FINTECH implementation increasing financial inclusion and literacy in SME

Basically, financial technology provides a lot of convenience for the community, but this facility contains various risks, one of which is the opening of opportunities for cybercrime. The highly sophisticated cyber world makes it easy for hackers to be able to track financial transactions, while security in remote areas has not yet reached the perfect safe point.

However, currently there are no institutions that can handle the problem of security devices in Indonesia. Placement of funds in financial technology companies or peer to peer lending has a high risk. This can be seen from among others bad financing that is quickly creeping up.

Based on data from the Financial Services Authority, the ratio of bad loans to SHARIA FINTECH companies was recorded at around 1.28% at the end of January. Even though it is still small, the number has increased significantly compared to the December position

Last 2019 which was only 0.99%. whereas, the distribution of SHARIA FINTECH loans to the same period is growing. Still based on the records of the Financial Services Authority, loans disbursed by SHARIA FINTECH reached Rp.3 trillion. Significant increase from December 2017 around Rp. 2.5 trillion. thus, FINTECH default loans, up 54% from around Rp. 2.5 billion to around Rp.3.8 billion

V. CONCLUSION

SHARIA FINTECH comes from the term financial technology. SHARIA FINTECH Global shows that SHARIA FINTECH is growing rapidly in various sectors, from payment startups, lending, financial planning, retail investment, crowdfunding, remittances, financial research, etc. Based on this research, it can be concluded that the role of FINTECH in Micro, Small and Medium Enterprises (SME) is as follows:

- a. The role of SHARIA FINTECH in financial inclusion in SME in Pekalongan, Batang and Pemalang districts. It can be seen that many SME owners use the application and collaborate with banks and Savings and Loans Cooperatives so as to provide easy access to various types of bank and savings and loan cooperative financial services, now financial institutions are able to reach all SME to remote areas, SHARIA FINTECH has opened access to business financing that is easier and faster than banking institutions and savings and loan cooperatives. And finally SHARIA FINTECH's role in financial inclusion in SME is that SHARIA FINTECH has greatly contributed to the empowerment of SME and the local economy.
- b. The role of SHARIA FINTECH in financial literacy in SME Pekalongan, Batang and Pemalang districts. Can be seen from the average increase in the use of banking products and services, savings and loan cooperatives and other financial institutions by 6.40% from before the development of SHARIA FINTECH.

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