

Financial Technology on Halal MSMEs in Indonesia: Literature Study

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Abstract

Halal Micro, Small, and Medium Enterprises are businesses sector with great potential for economic growth, so halal MSMEs can be a driver of Indonesia's target in terms of becoming a halal center in the world. The development of halal MSMEs must be adapted to the times, where the use of *Financial Technology* should currently be a weapon for halal MSME actors in facilitating consumers in transactions and as financial records. However, according to the data from the Ministry of Cooperatives and SMEs that there are still many MSME actors including Halal MSMEs who have not yet touched on technology in their financial management, this can be seen from the percentage figure which has only reached 13% of MSMEs adopting digital technology. This research design using a qualitative research approach by conducting a literature study 8 papers on Google Scholar that are relevant to the research question. The results of this study suggest that the impact of *Fintech* is huge in helping MSME actors. *Fintech* has made very significant changes and successes. All services that use e-commerce are faster, easier, and guaranteed security, and all levels of society who use digital economic technology can enjoy them thoroughly.

Keywords: Literature Study, Halal MSMEs, *Financial Technology*

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INTRODUCTION

The Industrial Revolution 4.0, which is a changing era that is increasingly leading to technology, has fundamentally changed the pattern life, both how to work and how to we relate to one another. With the increasingly massive digital innovation, this makes people have variations in carrying out their daily lives, for example in shopping, studying, working, etc. nowadays it can be done online. Looking at the 2018 survey data from the The Association of Indonesian Internet Network Providers (APJII) has revealed that around 64.8% of the Indonesian population has access to the internet. The increase in Indonesian internet users is due to the development of infrastructure and the availability of smartphones. Technological developments are currently also reaching the world of economics and finance, with so many Financial Technology (Fintech) platforms being present in today's society.

According to Bank Indonesia data, the Digital Economy in Indonesia will grow to 4,500 trillion in 2030, this shows that users of Financial Technology are developing very rapidly in terms of the growth of the Digital Economy. In two decades, Islamic economics and finance have shown quite rapid development both globally and nationally. Based on 2018/2019 State of the Global Islamic Economy (SGIE) report, the level of consumers of halal food and lifestyles for Muslims in the world is predicted to continue to grow to reach USD 3 trillion in 2023 or around 42% from USD 3 trillion in 2023 (State of the Global Islamic Economy, 2019). However, according to the Ministry of Cooperatives and SMEs that there are still many MSME actors including Halal MSMEs who have not yet touched on technology in their financial management, this can be seen from the percentage figure which has only reached 13% of MSMEs adopting digital technology.

Discussions related to Islamic Financial Technology (Fintech) in Halal MSMEs in Indonesia have been reviewed by several researchers, including research (Setiani et al. 2020) which states that the development of digital technology, including in the Islamic finance industry, can no longer be contained. Through Financial Technology (Fintech), all forms of transactions will be faster, practical, and efficient, without having to meet. The presence of Fintech cannot be separated from the development of innovation. To finance this financial concept, it takes a start-up (new entrepreneur) to build a business.

(Suci Marlina and Fatwa 2021) emphasized that Islamic Fintech has an important role as a driving factor in increasing the inclusiveness There are many small and medium ones-sized businesses (MSMEs) in Indonesia. The Islamic Fintech industry is expected to be a big help to Indonesian MSMEs in terms of their financing needs, access to the market, ease of transaction processing, and reporting requirements.

This study seeks to explore the potential role of Islamic financial technologies enhancing the financial management of Muslim small businesses in Indonesia. This study was conducted to learn more about how Islamic Financial Technology (IFT) is helping support the financial stability of Muslim small businesses in Indonesia. Furthermore, this paper discusses the opportunities and challenges of Halal MSMEs in Indonesia in implementing Sharia Financial Technology by studying literature.

LITERATURE REVIEW

-Financial Technology

Fintech is a business field that the company provides banking and financial services through the use of technology. The presence of Fintech aims to facilitate public access to connect with financial products and services, including conducting financial transactions. In addition, the presence of Fintech is expected to help the community become more financially literate. (Ozili 2018)

Fintech is a term used to describe the latest technology in the financial industry. The National Digital Research Center in Dublin, Ireland, defines fintech as "innovation in financial services" or "innovation in financial services technology", which are innovations in the financial sector that are infused with some of the latest technological advances. Fintech itself is an application of digital technology to financial problems. Fintech is a term used to describe businesses that use technology to help them manage their finances for a more efficient financial system and financial delivery. (Ernama Santi, Budiharto, and Saptono 2017)

Fintech has many services and products that can be utilized by the public, but Bank Indonesia divides 4 types of Fintech, namely the first is crowdfunding, namely fundraising, where the process is collecting a certain amount of money for a project or business by several people or many people, usually done through an online platform. The second is Peer-to-peer lending is one type of loan in which lenders are connected to borrowers directly. This practice is based on the principle that people are more likely to repay loans if they know the person lending them the money of lending money between individuals where borrowers and lenders are brought together through the platform provided by the company. The third is a market aggregator, in this category, Financial technology is the use of various products to collect financial data from users. The fourth is risk management and investment, a digital financial planner that helps users formulate financial plans according to their current financial situation. The fifth is mobile payment/online banking, which is a financial transaction that includes merchant monthly bill payment, remittance and shopping payment, balance information, account change, etc. (Krisnadi 2016)

-MSME

The definition of Micro, Small and Medium Enterprises (MSMEs) according to Law Number 20 of 2008. Micro businesses are productive businesses owned by individuals and/or one business entity that meet the criteria for micro businesses as regulated in the Law. Small businesses are independent productive economic business carried out by an individual or a business entity that is not a subsidiary or affiliate of a company that is owned and controlled, or directly or indirectly a part of a medium or large company that meets the criteria in paragraph (1). A mid-sized business is a self-contained, independent business that is not a subsidiary or affiliate of a larger business. They typically have a greater total net worth than small businesses, and are more likely to be owned and operated by individuals or business entities than controlled by corporations. this business can make a lot of money. The legislation also requires businesses to disclose their total assets and turnover. In the Law no. 20 of 2008, it is clear that there is a big difference in assets and turnover of small and medium enterprises. However, it is also very important if we look at small, medium and micro enterprises that play a role in the overall national economic development. According to Article 2 Law no. 20/2008, "Micro, small and medium enterprises aim to develop and expand their business. Our goal is to build a prosperous and just economy based on the principles of democracy. In order for MSMEs in Indonesia to continue to grow and provide good products, the government and community stakeholders need to pay attention to it. Government policies should support the growth and development of micro enterprises. The government needs to increase its role in empowering micro-enterprises, as well as develop mutually beneficial business partnerships between large and small entrepreneurs, and improve the quality of their human resources. (Setiani et al. 2020)

Rudjito (2003) He explained that small and medium-sized businesses play an important role in the Indonesian economy, both in terms of the number of jobs they create and the number of businesses they run.

In Chapter 1 Article 1 of Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), MSMEs are: 1) A micro-enterprise is a small business that is privately owned and operated by individuals or their businesses. Micro-enterprises must comply with the standards set forth in this law. 2) Small business is an independent productive economic business which is not a subsidiary or branch of a company that owns, controls, or becomes part of the company. A business is considered a small business if it fulfills certain criteria. 3) A medium-sized business is a productive, independent business run

by an individual owner or entity that is not a subsidiary or affiliate of a company that owns, controls, or becomes a direct or indirect part of a large business. The net income or annual sales proceeds according to this law.

Small businesses play an important role in the economy, and their growth is considered to be a key factor in the growth of the overall economy. Indonesia has a focus on small and medium-sized enterprises (MSMEs) as an essential part of its economy in order to strengthen the national economic structure and to help distribute goods and services. (Hakim and Yudha 2021)

-UMKM Halal

From the various referenced literature, a comprehensive definition of Sharia MSMEs has not been found. MSMEs can be defined as an activity of buying and selling transactions that occur among small (micro) communities. The term MSME describes that the business actors in it are the lower middle class with little financial ability. The main capital of MSME business actors is only determination and enthusiasm for the business. Sharia principles are the basic knowledge regarding the application of Islamic sharia. So the activities of MSMEs if they are associated with Islamic Sharia values become a scope of Islamic economic activity in general. Transactions that occur in MSMEs are regulated by the way of life of Muslims in the form of laws or regulations, concerning the main guidelines, namely, Al-Qur'an, Hadith, and Ijmak Ulama'. (Lahamid 2018)

The author defines Halal MSMEs as businesses run by individuals, households, or micro, small, and medium-sized enterprises whose business processes are in the acquisition of raw materials, processing, and producing halal products. Halal MSMEs mean that their products from upstream to downstream are considered. This means that from raw materials, the process to packaging or presentation is indeed by halal provisions. Not only that, but the halal label must also have a certification by the relevant institution so that people who become consumers of the halal product get certainty in consuming it.

RESEARCH METHODOLOGY

This qualitative study uses content analysis to analyze the data.\. After the paper is collected, the content analysis process is carried out through the Miles and Huberman approach which consists of data sorting, data selection, and conclusion drawing. The study was conducted by analyzing selected articles that discuss Islamic Financial Technology in Halal MSMEs in Indonesia. This research consists of several stages. First, to collect data, a search was conducted using the words "Sharia Finance" and "digital economy" and MSMEs using the Google Scholar database in 2018-2022. Second, an analysis of the article data was carried out by adjusting the research theme, namely Sharia Financial Technology on Halal MSMEs in Indonesia. The third stage is grouping articles related to authors, focusing on Sharia Financial Technology on halal MSMEs in Indonesia.

RESULTS AND DISCUSSION

Based on a search for papers with the keywords "Sharia Finance" and "digital economy" and MSMEs in the period 2018-2022 on July 9, 2022, 255 papers were found on Goggle Scholar. After that, they were selected by only taking papers that were relevant to the research and there were 42 papers. After manually reviewing the suitability of the journal manuscript with research questions and papers that can be accessed, it turns out that there are only 8 journal articles that can be selected.

No	Author	Title	Year
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1	(Fajar and Larasati 2021)	Peran <i>Financial Technology (Fintech)</i> dalam Perkembangan UMKM di Indonesia: Peluang dan Tantangan	2021
2	(Bank and Industry 2022)	KOLABORASI <i>FINTECH</i> PERBANKAN DAN IMPLIKASI PADA UMKM HALAL DI INDONESIA	2022
3	(Wardhana 2019)	Integrasi Permodalan Usaha Mikro Kecil Menengah (UMKM) Melalui <i>Fintech</i> Syariah Ijabqobul.id	2019
4	(Yahya, Affandy, and Narimawati 2020)	Pengembangan UMKM Melalui Pemanfaatan Model Layanan <i>Fintech</i> Syariah Ammana.id	2020
5	(BILLAH 2021)	Peran Dan Kendala <i>Fintech</i> Syariah Pada Umkm	2021
6	(Setiani et al. 2020)	<i>Fintech</i> syariah: manfaat dan problematika penerapan pada UMKM	2020
7	(Dewi 2020)	Dampak <i>Fintech</i> Terhadap Perkembangan Inklusi Keuangan Pada UMKM Di Jawa Timur	2020
8	(Suci Marlina and Fatwa 2021)	<i>Fintech</i> Syariah Sebagai Faktor Pendorong Peningkatan Inklusifitas Usaha Mikro Kecil Dan Menengah Di Indonesia	2021

Opportunities and Challenges in Implementing Fintech for Halal MSMEs in Indonesia

Halal MSMEs are MSME industries that have gone through technical stages that do not violate Islamic rules/sharia to produce halal products. To strengthen halal products, halal labels/certifications are given by the authorized institution. Since the establishment of the Organization of the Islamic Conference (OIC) in the early 1970s, the halal industry has grown significantly in every Muslim country, even in non-Muslim countries. Non-Muslim communities also starting to appreciate the advantages of halal products, ranging from hygiene, safety, nutritional value, and others.

On the other hand, the development of the digital economy today shows a positive trend, which can be seen from the very rapid use of Financial Technology, seen from the growth of the Digital Economy. In two decades, Islamic economics and finance have shown quite rapid development both globally and nationally.

According to the Islamic economic researchers found that by optimizing the management of the domestic halal industry, the State Revenue and Expenditure Budget (APBN) can be increased. Based on the existing data, the halal food industry has a large market. Based on data from the BPS, Indonesia is a country with the largest Muslim population in the world. This is a potential economic power. The halal food industry has a huge potential for growth. The industrial sector is projected to grow by an average of 8 percent over the next three years. Likewise, if Indonesia is able to control 10 percent of the potential value of the world halal food industry, Rp. 25,270 trillion. it is certain that the revenue from the halal food industry will only reach Rp. 2,527 trillion. Thus, the increase in state revenue sources will be even greater.

(Fajar and Larasati 2021) Explaining in his writing that Fintech (Financial Technology) can bring great opportunities and potential to the development of MSMEs in Indonesia. In general, MSMEs have difficulties in financial and capital aspects. With the existence of Fintech, it can help MSMEs to get convenience and efficiency in the financial area. Most MSME actors do not understand how to do bookkeeping and the existence of Fintech can help in financial management, starting from digitizing financial reports, payment technology, and online or smartphone-based loans. Fintech provides

opportunities for MSMEs to increase access to new customers and facilitate transactions because the financial services provided by Fintech have a wider reach. Opportunities from implementing Fintech in MSMEs are in the form of market expansion, namely targeting the unbankable community. People who do not have good literacy skills but have national financing needs for MSMEs are also an opportunity for Fintech business people. There is a change in the mindset of consumers, namely wanting to get products or services practically and easily, advances in digitalization, and decreased loyalty to certain brands and institutions is one of the opportunities for the Fintech industry to develop.

The Covid pandemic situation is also increasing the opportunities for Fintech to enter MSMEs. This is because the pandemic situation has an impact on the weakening of consumer purchasing power due to the increase in unemployment due to company closures. In addition, consumers feel safer making purchases from home. Therefore, MSMEs must consider the use of Fintech to increase sales.

The application of Fintech to MSMEs in Indonesia also has several challenges that must be overcome, including (1) the low level of public trust in Fintech, (2) the low level of human resources who are literate in Fintech technology, (3) the low capability of adequate internet networks in some areas. in Indonesia.

(BILLAH 2021) Explaining Technological advances are now very sophisticated, including in the financial sector. Many people use its benefits to open an online business, order online, and make online transactions. For example, m-banking, shopping for clothes, shopping for necessities, and others can be done through online applications, and only by using a smartphone can we get what we want. This sophistication makes it very easy for us to do transactions and shopping and is profitable for business actors to promote their products, so they can save time, energy, and capital because they no longer need to have a place or shop to open our business. This makes Halal MSME business actors the opportunity to advance their business to be bigger and has more income. In this way, the payment system and business financial management must be integrated with technological tools so that financial preparation can be neater and more efficient.

However, on the other hand, Fintech still finds many challenges that can hinder the progress of the technology. These challenges will eventually lead to a delay in the acceleration of the nation's progress if it is not addressed immediately. This is because Indonesian society is still in a culture lag, and people are still not fast in adapting to the times. Some groups of people think that technology makes a person lose their social function and considers this to be the cause of no longer social interaction between humans with one.

(Setiani et al. 2020) Affirming that Financial Technology is one the evidence that are a sign of technological developments in the current era of digital development which is one form of innovation and has an impact on all sectors of the economy. A fintech is a form of business that uses the latest software and advanced technology and focuses on the field of financial services. The purpose of the existence of Fintech is in line with the purpose of the transaction which is to maintain and maintain the common good, as well as minimize the existence of evil in this world and the hereafter. Seeing the huge potential for the development of Muslim markets around the world, this opportunity is used by Fintech startups to build Sharia Fintech innovations.

The Role of Fintech in Halal MSMEs in Indonesia

Financial Technology is a product of the 4.0 revolution in which all current community economic activities are integrated with technology. This indicates that Fintech already has an important role for business actors, especially MSME players, where several groups of consumers today have started implementing cashless. MSME business actors must quickly adapt to the progress of the times if they want managed MSMEs to progress and develop, namely by immediately adapting to the current technological era to make it easier for each other between sellers and buyers. The use of Fintech also plays an important role in the efficiency of business financial records, so that MSME actors are more organized and their company finances are organized.

(Suci Marlina and Fatwa 2021) Affirming that the Fintech industry is seen as a more innovative intermediary institution because it can easily connect parties who need financing with investors on one platform. With technological innovations implemented by the Fintech industry in carrying out its business operations, access for Micro, Small, and Medium Enterprises (MSMEs) to financial products and services will become more efficient. Therefore, Fintech has a major role in accelerating the financial inclusion of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia that have not yet obtained financial access from conventional financial institutions such as banks. This is because the Fintech industry has technological support to assess creditworthiness or financing for its consumers.

(Yahya, Affandy, and Narimawati 2020) emphasized that the implementation of Fintech as a financial inclusion platform in optimizing investment access for MSMEs and Islamic finance is highly recommended by the OJK. Therefore, the OJK will act as a regulator that issues rules regarding Fintech. The rules compiled are umbrella in nature, meaning that regulations regulate Fintech in general, but special rules may be issued for Islamic Fintech. Rules regarding Fintech have been made since 2016 namely OJK Regulation (PJOK) Number 77 of 2016 concerning information technology-based lending and borrowing services or Fintech loans.

(Wardhana 2019) Explaining that Fintech is here to improve the financial management of MSMEs, which are still not well organized, Fintech acts as a medium for integrating MSME capital. Like the Ijabqobul Fintech which is the place of this research that uses sharia principles, In addition to providing capital, this Fintech also provides education to the public about Islamic finance where literacy in Islamic finance in the community is still lacking. Therefore, this Fintech also acts as an educational medium on how to manage business finances well, especially using this Fintech.

The Impact of Fintech on Halal MSMEs in Indonesia

In the current technological era, the development of Financial Technology is increasingly rapid in economic activity. Almost all levels of society have started to look at digital platforms in shopping for their needs. Of course, this has a good impact on the development of MSME actors who have used Fintech facilities as a payment medium. This will make other MSME actors hasten to adapt themselves to technological developments to make it easier for consumers to transact. If MSME actors do not improve in providing Fintech facilities in their transactions, consumers will look to other MSMEs in buying the products they want, because some consumer groups have implemented Cashless transaction payments.

(Dewi 2020) Emphasizing that the development of a cashless society greatly affects the financial management of MSMEs, this indicates that technological developments must be immediately utilized by Halal MSME actors in Indonesia to create transaction convenience for consumers and to know risk and investment management.

(Bank and Industry 2022) Explaining that the use and utilization of Fintech and its collaboration with banks to support the development of halal micro-enterprises in Indonesia have made very significant changes and successes. All services that use e-commerce are faster, easier, and guaranteed security, and all levels of society who use digital economic technology can enjoy them thoroughly.

CONCLUSION

Financial Technology is a product of the 4.0 revolution in which all current community economic activities are integrated with technology. This indicates that Fintech already has an important role for business actors, especially MSME actors, where several groups of consumers today have started to apply cashless transactions. In this case, Fintech has become a primary need in running a business, especially for MSME players who dominate the business sector in Indonesia. The impact given by Fintech is huge in helping MSME actors. Fintech has made very significant changes and successes. All services that use e-

commerce are faster, easier, and guaranteed security, and all levels of society who use digital economic technology can enjoy them thoroughly.

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