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# Sharia Financial Technology in the Development of Bankable Micro Businesses

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## Abstract

Fintech is one of the drivers of the existence of a movement to improve MSME finance, especially the lower middle class through Islamic financial institutions. The development of digital technology, including in the Islamic financial industry, has had a major influence with the existence of financial technology (*fintech*), all forms of transactions are faster, easier, and more efficient, without the need to meet in person. Financial technology collaboration with Islamic financial institutions, especially Islamic banking can increase financial inclusion at MSMEs in Indonesia. The implementation of Fintech in the Islamic banking industry will facilitate and bring business players closer, especially MSMEs to access Islamic financial service products offered and apply for financing directly without having to go directly to the branch offices. Such a model, in addition to making it easier for MSME sector business people to gain financial access, can also improve financial inclusion and improve the performance of Islamic banks. Efforts to increase the capacity of micro businesses that were originally unbankable can be increased to bankable. Where the role of related institutions such as banking and fintech, which is currently becoming popular in the community, can contribute and build micro businesses to become more independent and encourage economic development in Indonesia with the collaboration of banking institutions and micro businesses in financing.

**Keywords:** sharia financial technology, financing institutions, micro business bankable

## 1. Introduction

Micro businesses have survived quite well especially in certain business sectors in Indonesia, the government then formulated a new paradigm to be able to develop the micro business sector to be more optimal. The economic crisis that has provided valuable lessons is of course that economic development for large businesses is a biased business and is precisely not well targeted as a welfare goal. At least the crisis situation that once hit Indonesia is very important lesson to be learned and it is unclear when it ends.

Some of Indonesia's economic activities are dominated by micro and small scale businesses as the main actors originating from farmers, traders, agricultural production facilities, agricultural product processors, craftsmen, and retailers. Micro-business in general is faced with several classic problems, namely the limited availability of capital and the lack of guidance.

The inefficiency of sharia banks and the low quality of sharia bank assets compared to conventional banks have an impact on the low stability of sharia banks compared to conventional banks. Islamic banks have not been able to compete with conventional banks that have been present first to serve financial transactions in Indonesian society that majority of Muslims (Note 1).

Some reasons why micro businesses can still survive are: First, most micro businesses produce goods and services with a low elasticity of demand for income, the average level of income of the community does not have much influence on the demand for goods that have been produced. Conversely, the increase in income level also has no effect on demand. Second, most micro businesses do not get capital from banks. In Indonesia, microbusinesses still use their own capital from savings, lack of investment from investors and access to banking are still very low.

The Investment Restrictions Policy or what we are more familiar with as the Investment Negative List is part of the current investment law and is regulated in the Law of the Republic of Indonesia Number 25 of 2007 about Investment. One of the goals of forming a state government is to advance public welfare. The mandate has been



explained in Article 33 of the 1945 Constitution of the Republic of Indonesia and is the mandate of the constitution which is the basis for the formation of all laws and regulations in the economic field. The constitution mandates that national economic development must be based on democratic principles that can create the realization of economic sovereignty in Indonesia. (Note 2)

Relation to economic development in Indonesia especially with business actors is reestablished by the Decree of the Indonesian People's Consultative Assembly Number XVI/MPR/1998 about Economic Politics in the Context of Economic Democracy as a source of material law. Thus, the development of investment for micro, small, medium and cooperative businesses is part of the basic policy in investment. (Note 3)

Investment policy by investors in the Investment Law is described as a sector that has an important role, because it covers 2 things including: *First*, encouraging the creation of a conducive national business climate for investment to strengthen the competitiveness of the national economy; and *Second*, accelerate the increase in investment. In setting the basic investment policies, the Government's roles include such as:

- a. Provide equal treatment for domestic investors and foreign investors with due regard to national interests;
- b. Ensuring legal certainty, business certainty, and business security for investors from the licensing process until the end of investment activities in accordance with the provisions of the legislation; and
- c. Open opportunities for development and provide protection to micro, small, medium and cooperative businesses (in Indonesia called *Koperasi*).

Based on the juridical aspect, the Negative Investment List policy set by the government must always pay attention to the basic principles of the basic policy in investment. Article 12 of the Investment Law stipulates that "*all fields or types of business are open to investment activities, except business sectors or types of business that are declared closed and open with conditions*".

Presidential Regulation concerning the establishment of closed and open business fields, better known as the Investment Negative List, applies to Presidential Regulation No. 44 of 2016 which divides several business sectors that can be run by foreign investors. With the existence of restrictions on business fields and investment value for MSMEs in the context of growing the business climate described in Article 7 paragraph (1) of Law Number 20 Year 2008 about Micro, Small and Medium Enterprises stated: "*The government and regional governments foster a business climate by setting laws and policies that include aspects of: funding and institutional support*". With the aim of investment activities can involve micro, small and medium businesses through partnership programs or the establishment of joint ventures/joint ventures between banking institutions and financial technology.

The important in the growth of Sharia banking, another factor that affects, that the use of Information Technology. According to Darussalam, et.al (2018), the lack of the ability of the company's information technology called IT Capability is still a problem today. IT Capability is needed in facing the digital economy in the era of the industrial revolution 4.0. OJK (2019), in the 2018 Sharia Financial Indonesia Development Report, explained that digitalization or financial technology (fintech) was the main topic at several Islamic financial events and was the subject of many Islamic financial news. Some countries such as Bahrain and the United Arab Emirates have taken anticipatory steps by creating regulatory sandboxes which are also carried out by Indonesia (Note 4)

Banking is whether human capital and the use of information technology play a very strong role in creating sustainable competitive advantage in Sharia banking. The role of the Sustainability Sharia Banking Principles is to preserve the sustainability of the Syariah Bank in achieving a vision consistently based on the rules of prudent banking and sharia comply covering aspect.

Talking about the partnership between micro entrepreneurs and investors can provide a good relationship, especially in increasing the capacity of micro businesses and with the support of the formation of a new institution that can provide encouragement for micro businesses in providing guidance and information and capital from investors who have become partners.

In addition, the development of technology at this time makes some financial institutions must be able to adapt well considering the role of technology in economic development is something that must be done by businesses and industries, especially micro businesses so that with the role of technology, financial and non-financial institutions can be able to harmonizing with digital-based technology so that collaboration is needed between financial and non-financial institutions so that they are able to make a good contribution to society and business people.

With the existence of fintech, it can provide a new opportunity for micro businesses in developing their businesses towards formal businesses that are able to survive amidst business competition in the conditions of difficulties and

the current economic crisis. So that with the hope of micro-businesses that have informal characteristics, they can become formal sector businesses that have begun to be touched by banking institutions and the increasing business capacity in free trade, especially in Indonesia, so that funding difficulties that become a classic problem today can be answered.

Whereas based on Law Number 21 Year 2008 concerning Sharia Banking, sharia banks are banks that carry out their business activities based on sharia principles and by type consist of sharia commercial banks and sharia financing banks. Meanwhile, MSME is one of the important variables in economic growth in Indonesia. MSMEs have an important role to create new jobs and allow for the collection of taxes as state revenue. Innovation in technology development in the world of business and economics especially in the banking world is the existence of fintech which has a function in facilitating all types of transactions. Sharia Fintech is the answer to capital problems faced by SMEs. This is because MSMEs do not have access from banking financial institutions.

## 2. Results & Discussion

Micro Business is a productive business unit carried out by individuals or business entities both legal entities and non-legal entities in all sectors of the economic industry. What makes the difference between microbusinesses, small businesses, medium businesses, large businesses is generally based on the value of the initial assets that have been issued, which does not include land and buildings, average annual turnover, or the number of existing workers. In addition, the definition of microenterprise in other countries is also different.

The definition of Micro Business in Article 1 paragraph 1 of Law Number 20 Year 2008 about Micro, Small and Medium Enterprises is: "*Productive businesses owned by individuals and / or individual business entities that meet the criteria for micro businesses as regulated in this Law*". Point a above as mandated in Article 1 paragraph 11 explains "*financing is the provision of funds by the government, regional government, business world and society through banks, cooperatives, and non-bank financial institutions to develop and strengthen the capital of micro, small and medium businesses*".

Based on the explanation of article 1 paragraph 11 of the MSME Law, it can be concluded that as if there were no other funding linkages that could increase the growth of MSME. In fact, one of the basic policies in investment is the empowerment of a people's economy, which encourages the development and protection of MSMEs based on employment data (KUMKM News). In addition, based on data from bank lending to MSMEs, it does not seem to be integrated in utilizing cooperation between the populist economic sector with foreign investment companies, both in the form of partnerships with foreign investment and the formation of joint ventures.

The same thing has also been confirmed by the Ministry of Cooperatives and MSMEs of Indonesia that most MSME entrepreneurs utilize marketplace platforms such as Blibli, Tokopedia, Lazada and BukaLapak in marketing their products, not through collaborative partnerships with foreign investment companies. Likewise, in the aspect of funding that has not been touched by banking institutions, micro usha utilizes the role of fintech by utilizing the moment of cashless society so that the public as consumers or business actors can record good transactions, so that the original business capacity for micro businesses is informal because it has not been touched then the banking system can develop into a formal business that has been looked at by banks because they already have sufficient requirements.

In addition to funding, there is also a need for the role of the government in the establishment of MSME business financing institutions specifically to be able to develop MSMEs and combine information related to microbusinesses and access to funding, as well as guidance to microbusinesses in particular. So that the role of technology-based financial institutions can be maximized because it has been supported by the government as a form of infrastructure.

Good strategic management in the management of banking institutions by forming the concept of financial technology or actually creating a new startup in the field of financial technology is able to encourage banks to adapt in the face of competition in the current technological era. new to the community but instead becomes a benefit that will be felt in the long time.

Religiosity play a strong positive determinant in Muslim decision to adopt sharia FinTech products because high level of religiosity makes Muslim consumers follow their Islamic principles of financial products consumption, by evaluating the product requirements, spending moderately and verifying a halal criteria and logo at the time of financial products purchase (Note 6).

This technology-based financing institution is expected to be able to sustain the economic sector, especially in long-term economic development so that the classic problems of capital for the micro business sector which were not initially fulfilled will be answered in accordance with the fulfillment of existing needs.

Utilization of technology is a challenge for MSMEs to be able to survive in the current digital era, because the main function of technology is to be able to facilitate each transaction made. The technology that is often used for today's transaction processing needs is fintech. Fintech is a form of technology-based financial service that is developing in the world. Fintech has various forms of services such as payment fintech, information fintech, financial Saas fintech, fintech capital markets, crowdfunding fintech, Peer to Peer Lending. (Note 7)

The European Union (G20) points out that "*the scope of modern digital technology in commerce and society needs to talk about a global observation framework*" and the guarantee of national commercial values and international. Plan for the development of Innovative is highly implemented approach that obtained through technical innovations. (Note 8)

In Indonesia, Fintech is divided into two types, first Fintech Legal, namely Fintech registered with the Financial Services Authority, and secondly, there is Illegal Fintech, which is not registered with the Financial Services Authority. Relating to the protection of debtor's personal data when experiencing defaults on Fintech Legal institutions it is clearly regulated in the regulations of the Financial Services Authority, Bank Indonesia and the Ministry of Communication and Information. (Note 9)

Fintech is considered to be able to provide convenience to its business processes. By implementing fintech, it may be that MSMEs think there is no need to add employees to the financial department because financial records are already handled by fintech. Along with the development of fintech today, its application in muamalah fiqh according to an Islamic perspective must be in accordance with the principles of sharia, which avoids Maysir, Gharar and Riba. In addition, although these activities use technological systems, the principles of Islamic economic law must still be upheld. Understanding Fintech Sharia is a combination of innovations in the fields of finance and technology that facilitate transaction and investment processes based on sharia values. (Note 10)

In addition to the above problems, capital is also a serious problem for the development and improvement of MSMEs in particular is micro business. So there needs to be an effort to provide capital which is an alternative for micro-businesses in order to continue running their business activities, bearing in mind that micro-businesses get capital based only on their own sources of capital. This funding element is very vital for microbusinesses because considering that microbusinesses are still not well known by financial institutions either banks or nonbank financing institutions because they are not yet bankable or are said to be not bankable, resulting in gaps in efforts to increase the capacity of microbusinesses that are originally from pre feasible to feasible banking.

As an effort to reduce the gap in order to realize the improvement of people's welfare will be carried out through economic development that actively involves the entire community so that the results can be enjoyed by all Indonesians, namely by empowering cooperatives and micro, small and medium enterprises (MSMEs). The existence of cooperatives is a form of economic life for most of the people of Indonesia. Cooperative as a business entity and legal entity is a model of organization in accordance with the principle of kinship according to Article 33 of the 1945 Constitution.

The effort to realize cooperatives as an alternative funding is one of the right elements, considering the concept of cooperatives is a joint effort that is mutual cooperation so as to provide opportunities for micro businesses to be able to have independent funding for new venture capital and develop their own independent businesses in particular.

Based on Law Number 20 Year 2008, the definition of Micro, Small and Medium Enterprises (MSMEs) is:

1. Micro business is productive business owned by individuals and / or individual business entities that meet the criteria for micro business as regulated in this law.
2. Small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or non-branch companies that are owned, controlled, or become a part either directly or indirectly of medium-sized businesses or large businesses that fulfill small business criteria as referred to in this law.
3. The definition of small and medium business is business activities with a scale of activity that is not too large, management is still very simple, available capital is limited, the market reached is also not broad.
4. Medium-scale 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 branch of a company that is owned, controlled, or becomes a part either directly or indirectly with a small business or large business with an amount of wealth net or annual sales results as provided for in this law. The business world is a micro business, small business,

medium business, and large business that carries out economic activities in Kudus and is domiciled in Kudus.

5. Simply stated, entrepreneurs can be interpreted as entrepreneurs who are able to look at opportunities by seeking funds and other resources needed to work on these opportunities, dare to bear the risks associated with the implementation of the business they are engaged in, and run the business with growth and expansion plans.

Several legal instruments have been issued by the government to support capacity building and competitiveness of MSMEs, but this policy seems to have been taken too late by the government because it was carried out when world competition in the era of the Asean Economic Community was taking place and many businesses, especially micro businesses, were unable to compete. In the case of the difficulty of competing for microbusinesses is a problem that must be immediately resolved by the stakeholders especially to obtain prosperity in the economic field. The importance of capacity building efforts for micro businesses, especially in global competition is the most important thing, especially with the application of the quadruple helix theory, of course it is expected to be a good role going forward not only in the macro segment but also in the micro segment can still be relied upon.

With the establishment of new institutions in the future, information about the development of MSMEs for micro businesses in particular will no longer be difficult, but also with the establishment of these MSME development institutions, micro businesses can be more effective because in these institutions become a concept, namely the existence of a form of giving programs training, forms of funding programs, as well as new knowledge concepts so that micro-businesses will no longer be left behind by this information.

Meanwhile, the presence of a number of fintech companies also contributed to the development of MSMEs. Not only limited to helping finance business capital, Fintech's role has also expanded to various aspects such as digital payment services and financial arrangements. Here are some Fintech services for MSMEs: (Note 11)

#### 1. Capital Loan

The 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 collateral 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. Some fintechs provide online loan services such as Modalku and Pinjam.com.

#### 2. Digital Payment Services

The fintech company also provides 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. One of Fintech that provides digital payments is Jenius apparatus which synergizes with online transportation service companies.

#### 3. Financial Management Services

There are several applications that offer financial management services. This innovation aims to help SMEs in managing corporate finance. The services provided include recording expenses, monitoring investment performance, and financial consulting at no charge. Some Fintech companies that provide financial management services such as Dompot Sehat and Ngatur duit.com.

Some of the fintech services mentioned above, if they can be applied to the operational system of Islamic banks, it is easy for business people to access products offered by Islamic banking. So that Islamic banks will be inclusive, meaning that all products offered can be accessed by business people.

Efforts to increase capacity undertaken are to fulfill the elements of benefit for the welfare of the people, especially for micro-entrepreneurs, of course. Economic development greatly affects the level of prosperity of a country. One of the Government's roles in the development of people's welfare is the welfare state which refers to the Government's efforts to improve the lives of its people by increasing the capacity of micro businesses so that the independence of micro businesses can make a good contribution to the country and the welfare of society.

In addition, the need for a new institution to help MSMEs develop, which has the task of supervising, fostering, policy making and law enforcement must be implemented effectively. In order for micro businesses to run more effectively, the approach adopted and the new institutional model are based on factors that are considered in determining the approach and focus specifically in improving microenterprise, including information readiness, effective law enforcement and competence and integrity (fit and proper ) from business owners and financial

institutions.

Then, one important effort in restructuring new systems and policies involving academics in the future requires the concept of developing and renewing the Micro, Small and Medium Enterprises Law through improvements and amendments to the law on MSMEs related to legal instruments. So that the formation of new UMKM development institutions will no longer be an obstacle for MSMEs, especially for micro businesses that want to be independent in increasing their capacity because they have been given guidance, training, funding and new knowledge in the business world.

The presence of a number of fintech companies also contributed to the development of MSMEs. Not only limited to helping with venture capital financing, Fintech's role has also expanded to various aspects such as digital payment services and financial arrangements. Obstacles to fintech implementation in increasing financial inclusion at MSMEs in Indonesia:

1. Infrastructure
2. Human Resources (HR)
3. Legislation
4. Lack of financial literacy

Information Technology Based Financing Services Based on sharia principles is a borrowing money providing financial services to bring together lenders (financing) with loan recipients in the context of entering into loan agreements to borrow in rupiah directly through an electronic system using the internet network. Business activities in the context of distribution financing is carried out based on sharia principles and provisions and in its implementation an integrated arrangement and supervision is conducted by the Financial Services Authority.

Within sharia financial product purchases, experts such as Sharia National Advisory Board may influence Muslim consumers to buy a financial product (Note 12). Financing through Information Technology-Based Financing Services Based on sharia principles frame legal relationships between legal subjects with sharia-compliant contracts. Information Technology Based Financing Services Based on sharia principles are *Al Qardh contract*, *Wakalah bil Ujrah* and *Musyarakah*. The implementation of sharia contracts undertaken by providers of financing services must provide sharia compliance guarantees and protection for users of financial services.

### 3. Conclusion and Solutions

Policies that refer to collaboration between banking and financial technology are still minimal, so there is a need for a special law on digital-based financial institutions so that the financial services industry sector both banks or non-banks such as insurance, pawnshops and others can run optimally given the large number legal issues related to digital finance amid rapid economic development.

So that with the right legal umbrella regarding financial technology, especially in business development that was originally unbankable, it can go bankable with technology-based financing that can make it easier for micro business actors so that micro businesses can continue to increase business capacity and can contribute as a basic pillar in economic development in Indonesia.

In developing micro businesses towards bankability, it is necessary to have a special law on funding policies for the micro business sector in the context of growing a healthy business climate, of course there is a need for a legal umbrella that provides an appropriate legal certainty so that there are no overlapping rules for remembering the business has been legally protected through appropriate laws.

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## Notes

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