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Sharia Fintech as an Alternative to MSME Financing Based on Islamic Ethics

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Abstract
This study aims to explore the role of sharia fintech as an alternative financing for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Using qualitative and quantitative approaches, this study analyzes how sharia-based financial technology can increase financial inclusion for MSMEs, which is one of the main pillars of the Indonesian economy. The results of the study show that sharia fintech can expand access to financing for MSMEs in a way that is in accordance with sharia principles, such as avoiding the practice of riba and gharar, and offering profit-sharing-based financing solutions. However, the challenges faced include inadequate regulations and the need to increase digital literacy among MSME actors. The implications of this study suggest the need for a clear regulatory framework and education for MSMEs to maximize the potential of sharia fintech.
Keywords: *ethics, sharia fintech, MSMEs*

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INTRODUCTION

The Islamic finance industry in Indonesia has great potential in supporting the MSME (Micro, Small, and Medium Enterprises) sector, which is the main pillar of the country's economy. MSMEs in Indonesia contribute around 60% to GDP and absorb more than 90% of the workforce (Afkar, 2017). However, although the sector's contribution is very important, many MSMEs have difficulty accessing adequate financing. Conventional financing, which often has strict requirements, such as guarantees and complicated procedures, cannot meet the needs of this sector (Effendi & Widajatun, 2024). This is where sharia fintech can play an innovative role as an innovative solution to provide easier, faster, and more transparent access to financing, in accordance with sharia principles, namely avoiding riba (interest) and gharar (uncertainty).

Islamic fintech offers a variety of technology-based financing platforms, such as peer-to-peer lending and crowdfunding, that allow MSMEs to obtain unsecured funds. This technology not only speeds up the financing process, but also bridges the financing gap that exists in the conventional financial sector (Firdaus & Hendratmi, 2020). By using the principle of profit-loss sharing, Islamic fintech reduces risk for borrowers and lenders, and creates a fairer and more balanced system in revenue sharing. For example, the sharia peer-to-peer lending platform implemented by PT. Ammana Fintek Syariah offers financing products that are in accordance with sharia principles by prioritizing the values of fairness and transparency (Firdaus & Hendratmi, 2020).

However, despite the great opportunity, the implementation of sharia fintech in MSME financing also faces significant challenges. One of the biggest challenges is how to ensure that a growing fintech platform does not violate sharia principles. The main problem related to this is effective sharia supervision. Laldin and Djafri (2019) state that weak sharia supervision can lead to non-compliance with sharia principles, such as the prohibition of riba and gharar, which can damage the integrity of the sharia financial system itself. Therefore, the role of the Sharia Supervisory Board (DPS) is needed to actively monitor and issue fatwas related to sharia fintech products.

Another challenge is inadequate regulation in supporting the development of Islamic fintech. In Indonesia, despite the regulations governing the fintech sector, the legal framework specific to sharia fintech is still very limited. According to Muryanto (2022), regulators in Indonesia need to create clearer and more detailed regulations for sharia fintech to ensure that developing technologies remain compliant with sharia principles and do not conflict with Islamic law. Without clear regulations, Islamic fintech risks experiencing confusion in operations and affecting user trust.

On the other hand, low digital literacy among MSMEs is also a significant obstacle to the adoption of sharia fintech. Many MSME actors, especially those in remote areas, do not fully understand or are used to using digital technology for financial purposes. This reduces the potential of sharia fintech to increase financial inclusion among MSMEs. Research by Zulmairoh et al. (2025) shows that low financial and digital literacy is one of the biggest obstacles in increasing access to technology-based Islamic financial services. Therefore, education and training about sharia fintech are very important to increase MSME players' understanding of how to utilize this service.

The novelty of this research is its approach that not only highlights the technical and regulatory aspects of sharia fintech, but also relates it to Islamic ethics in the context of MSME financing. Often, discussions about sharia fintech are limited to technological and regulatory aspects, without considering broader socio-economic impacts, such as reducing economic inequality and empowering people's economies. This research aims to delve deeper into how sharia fintech, which is based on Islamic principles, can be a tool to improve social and economic welfare, especially for the MSME sector that has been marginalized from the traditional banking system. By utilizing digital technology, sharia fintech can open up opportunities for MSMEs to develop, expand the market, and in turn increase their contribution to the country's economy.

This research also explores how the application of sharia principles in fintech can help create a fairer and more transparent financial system. In the MSME sector, where many small and medium-sized businesses face difficulties in accessing conventional financing, sharia fintech offers a new way to raise capital in an easier way and in accordance with Islamic ethics. In addition, sharia fintech can also support the achievement of sustainable development goals (SDGs) by integrating social and environmental principles in every financial transaction that occurs.

Islamic fintech has great potential to support the MSME sector in Indonesia, which plays an important role in the country's economy. By providing easier, faster, and more transparent financing solutions, sharia fintech can open up financial access for MSMEs that were previously hampered by complicated banking procedures. However, major challenges remain in ensuring that emerging fintech products remain compliant with sharia principles, as well as creating clear regulations to support their growth. For this reason, collaboration between the government, regulators, and Islamic fintech industry players is very important to create an ecosystem that supports the growth of the Islamic financial sector and strengthens the Indonesian economy.

METHOD

The method used in this study is *library research*, which relies on a review of relevant literature to obtain insights and information about sharia fintech as an alternative to MSME financing. In this approach, data is collected through literature studies by reviewing books, articles, international journals, reports, and other documents that discuss sharia fintech, MSMEs, and related regulations. The main focus in this literature study is on the analysis of publications that discuss sharia-based fintech innovations, their impact on MSME financing access, and the challenges faced in their implementation in Indonesia.

This study relies on literature analysis to explore and understand the opportunities and challenges faced by sharia fintech in supporting the MSME sector. One of the important aspects analyzed is how Islamic fintech can help overcome obstacles in the conventional financing system, which often make it difficult for MSMEs to access. In addition, this study also examines existing regulations regarding sharia fintech, as well as compliance with sharia principles in developing financial technology services in Indonesia. For example, research by Mosayebi et al. (2024) shows the importance of combining technical and social aspects in fintech adopting new technologies for banking, which includes effective payment system innovation and supervision (Mosayebi et al., 2024). In addition, Sibarani and Amsari (2024) analyze the positive impact of sharia financing on increasing MSME income in Indonesia, showing how sharia fintech products can accelerate financial inclusion for sectors that are often marginalized from traditional banking systems (Sibarani & Amsari, 2024). By integrating various studies and existing literature, this study seeks to provide a deeper understanding of how sharia fintech can improve the MSME financing system and reduce economic inequality in Indonesia. Through a comprehensive literature review, this study aims to answer questions related to how the integration of Islamic ethics in fintech can increase the effectiveness of Islamic financing and support the empowerment of MSMEs in a sustainable manner (Nair & Prem, 2020).

RESULT AND DISCUSSION

Shariah Fintech Opportunities in MSME Financing

Islamic fintech offers a great opportunity to expand access to financing for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, a sector that plays an important role in the country's economy. Many MSMEs face difficulties in obtaining financing from conventional financial institutions, especially due to complicated and stringent requirements, such as collateral needs that are often difficult to meet. In this case, sharia fintech comes as a more inclusive and compliant alternative to sharia principles, offering easily accessible financing without violating Islamic law, such as the prohibition of riba and gharar (uncertainty).

One of the sharia fintech models that is growing is crowdfunding and peer-to-peer (P2P) sharia-based lending. Research by Siahaan et al. (2022) shows that these two instruments provide a more transparent and flexible financing alternative, allowing MSMEs to obtain funds in an easier and faster way compared to conventional financing methods. This technology not only reduces transaction costs but also speeds up the financing process, which is very important for MSMEs who often need funds immediately for their business development (Siahaan et al., 2022).

In addition, this financing model offers advantages in terms of transparency and fairness. Islamic fintechs based on P2P lending and crowdfunding offer a profit-sharing system that is in line with sharia principles, allowing for a fair sharing of profits between borrowers and lenders. This strongly supports the creation of a more inclusive financial ecosystem, where people with various economic backgrounds can participate in providing funds for MSMEs in need of financing. In this way, sharia fintech can make a positive contribution to the equitable distribution of social and economic welfare (Ghazali & Yasuoka, 2018).

However, to maximize the potential of sharia fintech in supporting MSME financing, the main challenge that must be faced is the issue of sharia regulation and supervision. Many countries, including Indonesia, still face challenges in effectively regulating sharia fintech. Research by Rarawahyuni and Rismaya (2022) shows that although the sharia P2P lending mechanism has been widely implemented, there are still some aspects that need to be monitored more closely to ensure that all transactions remain in accordance with sharia principles, such as avoiding the practice of riba and gharar. Therefore, a more active role is needed for the Sharia Supervisory Board (DPS) in monitoring and ensuring that Islamic fintech platforms operate in accordance with the applicable fatwa (Rarawahyuni & Rismaya, 2022).

The importance of the role of regulation and supervision in the development of sharia fintech is also reflected in research conducted by Ibrahim et al. (2023), which suggests that to increase user trust, there needs to be clearer regulations and consistent standards in sharia fintech operations. Without clear regulations, sharia fintech risks being hampered in its development, as well as reducing public trust in these financing models. Proper regulation can also provide assurance for investors and MSMEs that transactions are carried out in accordance with Islamic law and do not involve elements that are prohibited in sharia (Ibrahim et al., 2023).

In addition to regulatory challenges, low digital literacy among MSMEs is also an obstacle in the acceptance and use of sharia fintech. Most MSME actors, especially in remote areas, may not fully understand how digital technology or fintech platforms work. Therefore, education about the use of this technology is important so that MSME actors can take maximum advantage of sharia fintech. Research by Hidajat (2020) also shows that low financial and digital literacy among MSME actors in Indonesia reduces the potential of sharia fintech to increase financial inclusion and social welfare (Hidajat, 2020). Overall, Islamic fintech, especially in the form of crowdfunding and P2P lending, offers much-needed solutions to expand access to financing for MSMEs in Indonesia. With strict supervision, clear regulations, and increased digital literacy, sharia fintech can be an effective tool to support the growth of MSMEs and accelerate financial inclusion that is more equitable and equitable.

Challenges of Sharia Fintech Implementation

Although sharia fintech has a lot of potential to support the MSME sector in Indonesia, the challenges in its implementation cannot be ignored. One of the main challenges is the problem of inadequate regulation. Muryanto (2022) noted that the current regulations are still limited and insufficient to support the growth of Islamic fintech optimally. The lack of a clear regulatory framework regarding sharia compliance in financial technology can lead to uncertainty and hinder innovation. For example, unclear regulations on how to ensure that sharia fintechs operate in compliance with sharia principles can raise doubts among users and investors. As a result, many sharia fintech platforms face obstacles in developing products that comply with strict sharia standards, and this affects consumer confidence (Ilyas et al., 2020).

Research by Yulia et al. (2024) highlights that while the great potential to increase financial inclusion through sharia fintech exists, major challenges are related to regulations that have not supported the development of sharia fintech to the maximum. They found that many countries, including Indonesia, do not have adequate policies to regulate sharia-based fintech innovations, leading to legal uncertainty in the market (Yulia et al., 2024). Therefore, there is a need for policies that support the sharia fintech ecosystem that can create a safer environment for industry players and users.

In addition, low digital literacy among MSME actors is a significant obstacle to the adoption of sharia fintech. Many MSME actors do not understand how to use fintech technology to the fullest, so they cannot take full advantage of the potential of this technology. Research by Aziz et al. (2023) shows that the low level of digital literacy among MSMEs greatly affects their understanding of sharia fintech products. They found that although fintech offers convenience, many MSME actors find it difficult to use digital platforms due to ignorance or inability to utilize the technology effectively. Therefore, to ensure the successful implementation of sharia fintech, it is very important to increase digital and financial literacy among MSMEs (Aziz et al., 2023).

In addition to digital literacy, infrastructure issues are also a major challenge. Research by Muradova (2024) identified that many regions in Indonesia still lack adequate digital infrastructure, which hinders the spread of Islamic fintech. In more remote areas, limited internet access is an obstacle for MSMEs to access sharia fintech services. This shows that there is a need for joint efforts from the government and the private sector to improve digital infrastructure and ensure that this technology is evenly accessible throughout Indonesia (Muradova, 2024).

Overall, the main challenges in the implementation of Islamic fintech include inadequate regulations, low digital literacy, and limited infrastructure. To overcome these challenges, strong collaboration is needed between the government, Islamic financial institutions, and fintech players to create policies that support the development of Islamic fintech and ensure that this technology is equally accessible to all MSME actors, and complies with strict sharia principles. Thus, sharia fintech can achieve its potential in supporting inclusive economic growth in Indonesia.

Shariah Supervision in Fintech

Effective supervision of sharia fintech is key to ensuring that the services offered remain in accordance with sharia principles. Laldin and Djafri (2019) emphasized that the role of the Sharia Supervisory Board (DPS) is very important to ensure that the fintech products offered are free from elements that are contrary to Islamic law, such as riba (interest) and gharar (uncertainty). Strict supervision can prevent violations of sharia principles that can damage the integrity of the Islamic financial system. In addition, supervision is also important to build trust among the public in sharia fintech services, which can increase product adoption and expand sharia-based financial inclusion.

Research by Takidah and Kassim (2022) shows that strong sharia supervision can improve compliance with sharia principles in fintech P2P lending. They revealed that while many sharia fintech platforms have successfully implemented sharia compliance, the main challenge faced is consistency in ensuring that all parties involved, including investors, lenders, and borrowers, comply with Islamic law. This includes the avoidance of riba, gharar, and maisir (gambling), which requires the active involvement of the DPS in every operational step (Takidah & Kassim, 2022). Without effective oversight, Islamic fintech systems could violate these principles even though they are technically qualified to process financial transactions.

Furthermore, Muryanto (2022) identifies challenges in adequate regulation to support sharia supervision in the fintech sector. Weak or unclear regulations regarding fintechs' obligations to comply with sharia principles can lead to difficulties in the implementation of Islamic principles in digital financial products and services. Therefore, Muryanto (2022) suggests the importance of developing a more complete regulatory framework that not only facilitates the development of sharia fintech but also ensures that all services and products offered are fully compliant with Islamic teachings, including stricter supervision of operational activities.

In addition, technology can also help improve sharia supervision. The use of technologies such as blockchain for transaction transparency and smart contracts can be used to ensure that every transaction in sharia fintech follows procedures in accordance with Islamic law. Ulumuddin (2024) emphasized the importance of using technology to strengthen sharia supervision in fintech. Blockchain, for example, can be used to ensure all transactions are recorded transparently and there is no potential for manipulation, which can lower the risk of non-compliance with sharia principles. The application of this technology allows for more efficient and secure supervision than manual methods, thereby increasing transparency and strengthening integrity in Islamic fintech services. Overall, effective sharia supervision in fintech is essential to ensure that the products and services offered remain compliant with sharia principles. For this reason, there needs to be collaboration between DPS, regulators, and industry players to ensure that sharia fintech can develop without violating Islamic law. Through clearer regulations, stricter oversight, and the use of technology, sharia fintech can function better in supporting financial inclusion that is fair and in line with Islamic values.

CONCLUSION

Islamic fintech has the potential to be an effective financing alternative for the MSME sector in Indonesia, which has been hampered by strict conventional financing requirements and complicated procedures. By offering products that comply with sharia principles, such as avoiding riba and gharar, sharia fintechs can expand access to financing and increase financial inclusion, which in turn helps drive the growth of the MSME sector. Through technologies such as peer-to-peer lending and crowdfunding, sharia fintech makes it easy for MSMEs to get financing quickly and transparently. However, to maximize this potential, it is critical to develop a clear and comprehensive regulatory framework. Proper regulation can ensure that all sharia fintech services comply with sharia principles and provide legal protection to users. In addition, strict sharia supervision from the Sharia Supervisory Board (DPS) is also required to ensure that the fintech products offered do not violate Islamic law. In addition to regulation and supervision, increasing digital literacy among MSME actors is crucial so that they can make optimal use of this technology. Cooperation between the government, regulators, and Islamic fintech industry players is urgently needed to create an ecosystem that supports the growth of the Islamic financial sector and strengthens the Indonesian economy.

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