**Sharia fintech contribution to empowering halal-labeled MSMEs in Batang Regency**

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**Received:** Month, Date, Year (Required) **Revised:**  **Accepted:**

**Abstract**

This study examines the role of Islamic fintech in encouraging financial inclusion and empowering halal-labeled MSMEs in Batang Regency. The results show that sharia fintech has successfully provided easier access to financing, improved operational efficiency, and expanded market reach for MSMEs. The implementation of transparent and fair sharia principles, such as profit-sharing mechanisms and the prohibition of usury, has built strong trust among MSMEs towards digital financial services. Sharia fintech not only offers financing solutions that comply with Islamic values but also supports MSMEs in enhancing their competitiveness in a rapidly changing market environment. However, the study also identifies several challenges, particularly low levels of digital literacy among MSME actors and limited technological infrastructure, which can hinder the optimal utilization of sharia fintech services. To maximize the potential of Islamic fintech, continuous efforts are needed to enhance the digital financial literacy of MSMEs and to provide adequate supporting infrastructure in rural and semi-urban areas. Collaboration between the government, financial institutions, and sharia fintech industry players is crucial to create a conducive ecosystem that supports the sustainable growth of halal-labeled MSMEs in Batang. Overall, the study concludes that sharia fintech plays a crucial role in empowering halal-certified MSMEs, enabling them to contribute more significantly to the local economy, generate employment opportunities, and promote inclusive economic development. Despite existing challenges, the potential for the development of sharia fintech in Batang remains highly promising.

**Keywords:** sharia fintech, halal labeled, MSME, financial inclusion

**DOI :**

**p-ISSN :**

**e-ISSN :**

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1. **Introduction**

The growth of the digital economy in Indonesia has triggered significant transformations in various sectors, including the financial sector. One of the most prominent innovations in the last decade is the emergence of financial technology (fintech). Fintech, with all its convenience and speed, has revolutionized the landscape of conventional financial services. However, amidst the rapid development of conventional fintech, a segment has emerged that is increasingly attracting attention, namely sharia fintech.

Sharia fintech, which is based on Islamic sharia principles, offers financial solutions that are in accordance with Islamic values (Mardiana et al., 2024). This makes it an attractive choice for the Muslim community, especially micro, small, and medium enterprises (MSMEs) who want to run their businesses in accordance with sharia. Sharia MSMEs, as the backbone of the Indonesian economy, have great potential to grow and develop. However, so far, sharia MSMEs have often faced obstacles in accessing financing and financial services that are in accordance with sharia principles.

The growth of sharia fintech provides new hope for sharia MSMEs. By utilizing digital technology, Islamic fintech is able to provide easier and faster access to financing, as well as various other financial services tailored to the needs of Islamic MSMEs. Some of the services offered by Islamic fintech include profit-sharing-based financing, digital payments, financial management, and an online market ecosystem specifically for halal products.

The rapid growth of financial technology (fintech) in Indonesia has encouraged the birth of new innovations in the financial sector, one of which is Islamic fintech. Islamic fintech, which is based on Islamic sharia principles, offers financial solutions that are in accordance with Islamic values and opens access for Islamic MSMEs that have been constrained so far. Thus, Islamic fintech plays an important role in empowering Islamic MSMEs by increasing access to financing, developing business ecosystems, and increasing financial literacy (Andrean et al., 2023). However, the development of Islamic fintech in Indonesia still faces several challenges such as regulations that are still evolving, inadequate data quality, and cyber threats. Therefore, joint efforts are needed from various parties to create a conducive and sustainable sharia fintech ecosystem.

The potential for sharia fintech growth in Indonesia is very large, especially with government support and the development of digital technology. However, several challenges such as the quality of digital infrastructure, low digital literacy among the community, and tight competition from conventional fintech need to be overcome (Amaly & Armiah, 2021). For this reason, comprehensive policies, collaboration between stakeholders, and continuous innovation in the development of sharia fintech products and services are needed. Further research on the impact of sharia fintech on sharia MSMEs is also very important to be carried out, so that it can provide more targeted policy recommendations.

1. **Research Design and Method**

This study uses a qualitative approach with a case study design to explore in depth the contribution of Islamic fintech in empowering the economy of halal-labeled MSMEs in Batang. The selection of qualitative methods is based on the purpose of the study to deeply understand complex social phenomena (Musianto, 2002). Data collection was carried out through in-depth interviews with halal-labeled MSME actors who have used Islamic fintech services, as well as with Islamic fintech service providers. In addition, direct observation was also carried out on the business processes of the MSMEs. The data obtained were then analyzed descriptively using thematic analysis techniques to identify emerging patterns and themes.

1. **Results and Discussion**

***The Role of Sharia Fintech in Encouraging Financial Inclusion for MSMEs***

The results of the study show that sharia fintech has a significant role in encouraging financial inclusion for halal-labeled MSMEs in Batang. Access to digital financial services offered by sharia fintech, such as financing, payments, and financial management, has made it easier for MSMEs to run their businesses. MSMEs that previously had difficulty accessing conventional banking services can now utilize sharia fintech to obtain working capital, manage cash flow, and expand business networks.

One of the MSME actors we interviewed said, "What attracted me was the fast process. So, the funds I need to develop my business can be disbursed immediately," said Mr. Subkhi. Field observations and further interviews showed that the ease and speed of the loan application process were the main factors that encouraged MSME actors to switch to sharia fintech. Sharia fintech has played an important role in expanding financial inclusion for halal-labeled MSMEs in Batang. The results of interviews with MSME actors show that Islamic fintech has provided easier and faster access to financing. Previously, many MSMEs had difficulty obtaining loans from conventional banks due to complicated requirements and high collateral. Several factors drive financial inclusion through Islamic fintech. First, the loan application process is simpler and faster compared to conventional banking. Second, the existence of various financial products that are in accordance with Islamic principles and the needs of MSMEs, such as margin-based financing and profit sharing. Third, support from local governments and Islamic financial institutions in educating MSMEs about the use of Islamic fintech. The findings of this study are in line with various theories regarding financial inclusion. First, the accessibility theory which states that easy access to financial services is a key factor in increasing financial inclusion (Puspa & Prasetyo, 2020). Islamic fintech with its digital platform has increased accessibility for previously marginalized MSMEs. Second, the agency theory which explains the relationship between business owners (principals) and financial managers (agents) (Triyuwono, 2018). Sharia fintech can strengthen this agency relationship by providing transparency and accountability in the financial management of MSMEs.

This study is in line with previous research findings showing that sharia fintech has great potential in increasing financial inclusion, especially for MSMEs (Asri & Alrasyid, 2024). Several studies have underlined the role of sharia fintech in overcoming obstacles to access to financing, increasing transaction efficiency, and driving economic growth. And emphasized that sharia fintech is the key to encouraging better financial inclusion among halal-labeled MSMEs in Batang. As a result, sharia fintech is able to open access to market segments that were previously untouched by formal financial institutions, which ultimately drives economic growth in society (Mei & Safii, 2024).

***Implementation of Sharia Principles in Fintech and Its Impact on MSMEs***

The results of this study indicate that the implementation of sharia principles in fintech has had a significant positive impact on halal-labeled MSMEs in Batang. MSMEs that use sharia fintech services feel the benefits in the form of easy access to financing, transparency in transactions, and stronger legal certainty. In addition, the application of sharia principles such as justice, mutual benefit, and sustainability also provides a sense of security and trust for MSME actors.

The results of observations and interviews found that sharia fintech in Batang has implemented sharia principles in various aspects. One of the sharia fintech actors in Batang explained according to Mrs. Dian, "with sharia fintech, I feel calmer because there is no interest burden that continues to increase. The profits generated are divided fairly, so I can allocate profits for business development. And the products offered such as margin financing and mudharabah, are specifically designed to meet the needs of people who want to transact in accordance with sharia principles." This shows that Islamic fintech in Batang has succeeded in implementing various financial products that are in accordance with Islamic teachings. The findings of this study are in line with various theories related to Islamic finance and economic empowerment. First, the theory of justice which emphasizes the importance of justice in the distribution of resources (Syibly, 2015). Islamic fintech with the principle of profit sharing and fair distribution of profits has realized the principle of justice in the relationship between lenders and borrowers. Second, the agency theory which discusses the relationship between the principal (owner) and agent (manager). Islamic fintech with its transparency and accountability can strengthen this agency relationship. Third, the theory of Islamic economics which emphasizes the importance of balance between material and spiritual aspects in economic activities (Amsari et al., 2024). Islamic fintech with sharia principles has contributed to achieving this balance.

This study is in line with previous research findings showing that the application of sharia principles in fintech can increase public trust, reduce the risk of moral hazard, and encourage sustainable economic growth. Sharia principles such as the prohibition of usury, gharar, and maisir have been well implemented by sharia fintech (Vahlevi, 2021). Contract-based funding such as mudharabah (profit sharing) and murabahah (buying and selling) provide a fair and transparent foundation for MSME actors. The application of this principle helps MSMEs avoid detrimental transactions and encourages more ethical and sustainable business activities. Several studies also show that sharia fintech can be an effective instrument in empowering MSMEs, especially MSMEs based on Islamic values. Support from previous researchers, such as research by Irma and Inayah, shows that the implementation of sharia principles in fintech contributes to the development of MSMEs by creating a more inclusive financial ecosystem (Irma Muzdalifa, Inayah Aulia Rahma, 2018).

***Challenges and Opportunities for Developing Sharia Fintech for Halal-Labeled MSMEs in Batang***

The results of this study identified a number of challenges and opportunities in developing sharia fintech to empower halal-labeled MSMEs in Batang. Although sharia fintech has made a positive contribution, there are still a number of obstacles that need to be overcome, such as limited digital literacy, lack of trust in technology, and regulations that are not yet fully supportive. On the other hand, the potential for large sharia economic growth in Indonesia, as well as support from the government and financial institutions, opens up wide opportunities for the development of sharia fintech in the future.

Based on the results of observations and interviews, it was found that the main challenge faced in developing sharia fintech in Batang, one of which was the MSME actor we interviewed, namely Mr. Subkhi, who said, "I still have difficulty using sharia fintech applications because I don't understand technology". This shows that digital literacy is a major challenge in developing sharia fintech in Batang. In addition, concerns about data security are also an obstacle for some MSME actors. In addition, the opportunities for sharia fintech are increasing with the increasing number of halal-labeled MSMEs in Batang and full support from the local government, the potential for developing sharia fintech in this area is very promising. This opens up opportunities for sharia fintech to create new innovations that are in accordance with the needs of MSMEs.

The findings of this study are in line with several theories related to technology adoption and digital economic development. First, the Diffusion of Innovation theory which explains the process of spreading technological innovation in society (Puspitasari, 2017). In the context of Islamic fintech, factors such as the characteristics of innovation, communication, and social systems influence the level of technology adoption. Second, the Institutional Theory theory which explains the influence of institutions, both formal and informal, on economic behavior (Mudiarta, 2017). Government regulations and policies are examples of formal institutions that can influence the development of Islamic fintech. This study is in line with previous research findings which show that the development of Islamic fintech in developing countries faces similar challenges, such as digital literacy, trust, and infrastructure. However, research also shows that with the right strategy, Islamic fintech can make a significant contribution to empowering MSMEs and driving economic growth (Muzdalifa & Rahma, 2018). One of the main challenges is the low digital and financial literacy among MSME actors. Many of them are still not familiar with the use of technology in running a business, so ongoing education and mentoring are needed (Amrullah & Hasan, 2021).

1. **Conclusions**

This study concludes that the crucial role of sharia fintech in encouraging financial inclusion and economic empowerment of halal-labeled MSMEs in Batang. The implementation of transparent and fair sharia principles, such as profit sharing and the prohibition of usury, has built MSME trust in digital financial services. Sharia fintech not only provides easier access to financing, but also increases operational efficiency and expands the reach of the MSME market. However, challenges such as low digital literacy and limited technological infrastructure still need to be overcome. To maximize the potential of sharia fintech, continuous efforts are needed to improve digital financial literacy of MSMEs, as well as the provision of adequate supporting infrastructure. Collaboration between the government, financial institutions, and sharia fintech industry players is very important to create a conducive ecosystem for the growth of sharia-based MSMEs in Batang. Also, it can be concluded that sharia fintech has succeeded in empowering halal-labeled MSMEs in Batang. By offering financial solutions that are in accordance with Islamic principles, sharia fintech has opened access for MSMEs to obtain financing, increase operational efficiency, and expand the market. As a result, MSMEs can contribute more to the local economy and create new job opportunities. Although there are still challenges to overcome, the potential for developing sharia fintech in Batang is very promising.

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