

Islamic Fintech as an Alternative to Increase Access to Capital for MSMEs: A Bibliometric Review

Faizatu Almas Hadyantari¹, Mhd Handika Surbakti²

¹Faculty of Economics and Business, UPN “Veteran” Yogyakarta, Indonesia

² The Indonesian Islamic Fintech Association, Jakarta, Indonesia.

*faizatu.almashadyantari@upnyk.ac.id

Abstract

Introduction to The Problem: It is known that MSMEs contribute 60.3 per cent to GDP and can absorb 97 per cent of the workforce in Indonesia, but there are still challenges, one of which is access to capital from financial institutions

Purpose/Objective Study: This study explores the potential and role of Islamic fintech in improving access to finance for Micro, Small and Medium Enterprises (MSMEs) through bibliometric analysis.

Design/Methodology/Approach: This research utilizes bibliometric analysis and keyword searches of “Islam”, “Fintech”, and “SMEs” to develop research results and provide implementation recommendations.

Findings: Based on the keywords “Islamic”, “Fintech”, and “SME” obtained through indexed publication literature, the keywords “fintech”, “investment”, and “Islamic-compliant financing” are keywords that have the potential to be studied more deeply. The author recommends the utilisation of Islamic fintech as an alternative access to capital through Islamic Peer-to-peer lending (P2P) and Islamic Security Crowdfunding Finance schemes.

Paper Type: Research Article

Keywords: *Islamic Fintech, MSMEs, P2P, Crowdfunding, Bibliometric.*

Introduction

Small and medium enterprises (SMEs) are important in ensuring long-term economic and societal success. The existence of MSMEs impacts the dependence of financial growth on their capacity to generate value and their efforts to maintain comparative advantage through innovation. As a result, innovation is a critical component of business success and competitiveness (Ma & Cheok, 2022). The data shows that the labor absorption capacity of MSMEs is 117 million workers, or 97% of the labor absorption capacity of the business world. Furthermore, the contribution of MSMEs to the national economy (GDP) was 61.1%, and the remaining 38.9% was contributed by significant business actors, which only numbered 5,550, or 0.01%, of the total number of business actors. MSMEs are dominated by microbusiness actors, amounting to 98.68% with a labor absorption capacity of 89%, with the contribution of microbusinesses to GDP only around 37.8% (Juminawati et al., 2021).

Indonesia is considered to be one of the countries with the largest fintech industry development (Davis et al., 2017; Pedraza, 2021; Ma & Cheok, 2022). This makes it an opportunity for financial digitalization in Indonesia to be optimally integrated with MSMEs. In the last five years, there have been 32 licensed Islamic fintech providers divided into four clusters, namely: fintech payment, peer-to-peer (P2P) financing, securities crowdfunding, and digital financial innovation. According to the Global Islamic Fintech Report Index 2023/24 published by Dinar Standard, Indonesia is in fifth place in terms of Islamic fintech development (Dinar Standard, 2024).

Indonesia is also considered to have a conducive ecosystem for the growth and sustainability of the Islamic fintech industry. This is supported by the existence of a large Muslim population so that it can be projected to become the mecca of the world's Islamic economy and finance (Rusydia, 2018; Tripalupi and Anggahegari, 2020). Based on existing regulations, the Islamic fintech industry in Indonesia is regulated by Financial Services Authority (OJK) Regulation Number 77/POJK.01/2016 on Information Technology-Based Money Lending and Borrowing Services and DSN MUI Fatwa Number 117/DSN-MUI/II/2018 on Information Technology-Based Money Lending and Borrowing Services Based on Islamic Principles, which regulates fintech peer-to-peer financing. In addition, Bank Indonesia (BI) Regulation No. 19/12/PBI/2017 on the Implementation of Fintech and DSN MUI Fatwa No. 116/DSN-MUI/IX/2017 on Islamic Electronic Money regulate payment fintech, as well as the Indonesian Islamic Fintech Association (AFSI) that houses Islamic fintech, which was newly established in 2018. This shows support for the development of fintech implementation in Indonesia. So it is necessary to optimize literacy in the community, especially for SMEs.

As of September 2023, 32 Islamic fintech providers have been licensed, registered, and registered with the Financial Services Authority and Bank Indonesia. They are fintech in the Payment, Peer-to-Peer (P2P) Financing, Islamic Securities Crowdfunding, and Digital Financial Innovation categories. Based on OJK and AFSI data (2023), the number of fintechs in Indonesia based on the type of fintech includes P2P Financing (7), Securities Crowdfunding (6), Five (5) Payment Organizers (5), and Digital Financial Innovation (14). Apart from that, the quantitative development of Islamic fintech implementation also continues to increase annually. Besides previous data, many Islamic fintech providers are currently being assessed at associations and registering permits with regulators, especially for the Digital Financial Innovation and Securities Crowdfunding clusters.

Optimization of Islamic fintech's contribution to companies and society is one of the efforts in instilling awareness about the importance of financial digitalization in providing convenience, increasing competition, and increasing business efficiency and effectiveness, so that SMEs have alternative access to capital through safe and protected formal fintech institutions (Mene et al., 2022). This also supports the solution by minimizing the rapid growth of access to illegal financing circulating in the community. Therefore, the urgency of the contribution of Islamic fintech is a potential thing to be implemented with the aim of increasing the success of MSMEs in Indonesia (Syarifudin et al., 2021; Brodny & Tutak, 2022; Hartutik et al., 2023; Verma et al., 2023).

Based on this background, this study aims to illustrate the development of Islamic fintech through keywords with a bibliometric analysis approach. The source of this research is based on published and indexed literature to see the development of Islamic fintech studies in recent years.

Furthermore, through this study, the author wants to provide recommendations for the implementation of Islamic fintech in Indonesia as an alternative access to capital for MSMEs.

Methodology

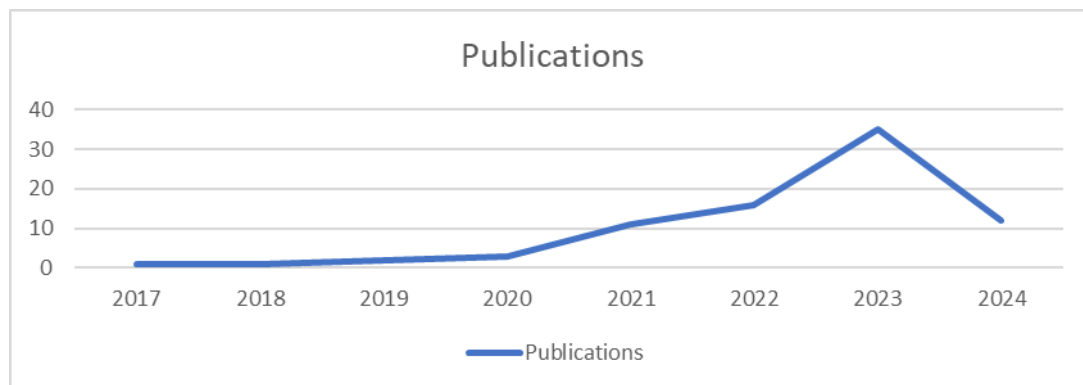
This research uses a meta-literature approach, namely using bibliometric analysis with descriptive qualitative research methods, which are currently widely used by researchers to explain results (Hassan et al., 2021; Rohman et al., 2021; Sanga & Aziakpono, 2023). The data collection technique was carried out by collecting reference sources consisting of several previous studies, which were then compiled to conclude (Cresswell, 1998; Mardalis, 1999). The references used are a collection of articles from the internationally published and reputable Scopus database so that the data source is credible. Support sources through the Indonesian Islamic Fintech Association (AFSI) will also be used to reinforce the implementation of data processing results.

Data was collected from 2018-2024 with a total of 51 documents consisting of 2 review articles, 37 research articles, 7 book chapters, and 5 others with keywords using English, namely "Islamic," "fintech" and "SME". This bibliometric analysis uses VOSviewer software, which is a data processing tool developed to create data visualization and mapping.

Results and Discussion

Based on search results on the Scopus database for 2018-2024 with the keywords "Islamic," "fintech," and "SME," it is known that the publication data for each year is as follows:

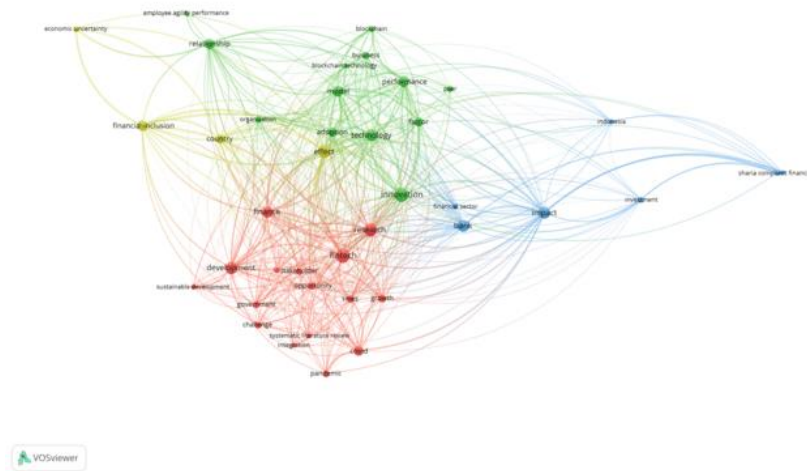
Figure 1. Publication Documents



Source: processed data

The data type used in VOSviewer data processing analysis is data mapping based on text data. This is done so that the analysis results obtained can be optimal, considering that publications with existing keywords are limited. The first VOSviewer data processing result is keyword mapping based on network visualization. Figure 2 below shows the results with text data type based on title and abstract, obtained 40 keyword items divided into 4 clusters.

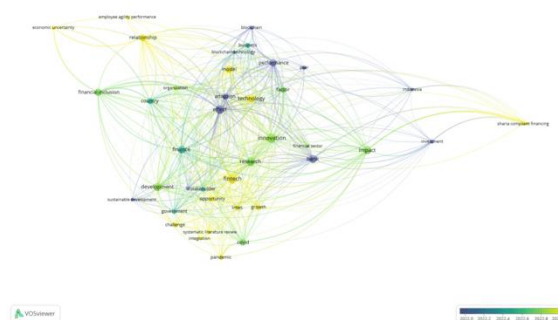
Figure 2. Network Visualization



Cluster 1 (consisting of 16 keyword items) has "fintech" as a keyword with the highest occurrence rate, namely 57, with "sustainable development" having the smallest occurrence rate, namely 9. The second cluster (consisting of 11 items) has the keyword "innovation," which has the greatest occurrence level, namely 57, and "employee agility performance," the smallest occurrence, namely 8. The third cluster (consisting of 7 items) has the keyword "impact," which has the largest occurrence rate, namely 57, and "Indonesia" has the smallest occurrence rate, namely 8. The fourth cluster (consisting of 4 items) has the keywords "effect," which has the largest occurrence rate, namely 40, and "economic uncertainty," which has the smallest occurrence rate of 8.

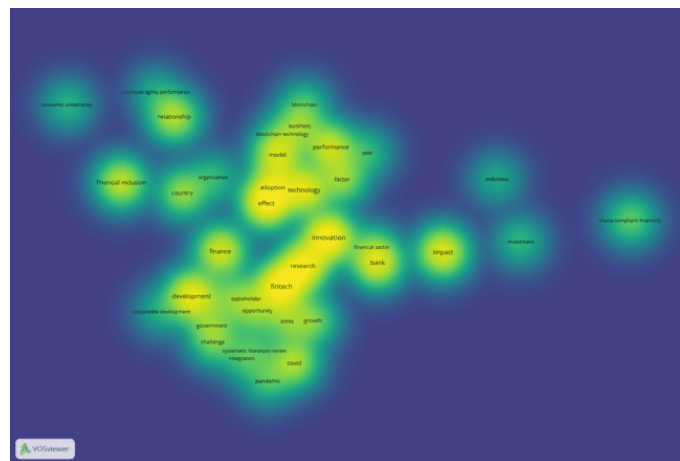
The second data processing result is an overlay visualization shown in Figure 3, which shows mapping based on the publication timeline each year for the keywords obtained. The brighter the color (the illustration in the image is yellow) produced by VOSviewer data, it shows that these keywords have recently been widely used. It can be seen that several keywords will appear in 2023, such as "fintech" (1st cluster), "technology" (2nd cluster), "Islamic-compliant financing" (3rd cluster), and "relationship" (4th cluster). Below is an overview of the visualization overlay,

Figure 3. Overlay Visualization



The final data processing result is density visualization or keyword density mapping, which is displayed in Figure 4, as follows:

Figure 4. Density Visualization



The clearer the results of the data processing, the more dense it is, and the more keywords have been used in various studies. This is demonstrated by the keywords "SMEs," "investment," "Islamic-compliant finance," and "integration". This explains that these keywords have the opportunity to be studied in more depth.

Discussion

Based on the results of VOSviewer data processing using the keywords "Islamic," "fintech," and "SME," it can be seen that the keywords "fintech," "investment", and "Islamic compliant financing" have the potential to be studied in more depth using various concepts. One of them is through concept innovation as an effort to optimize the benefits of the existence of Islamic fintech, especially in Indonesia.

In this research, the author recommends alternative investments in fintech platforms as an effort to facilitate access to capital for MSMEs in Indonesia. It is known that fintech contributes to increasing the growth of MSMEs by providing alternative sources of capital, one of which is through Islamic financial technology platforms, such as Peer-to-Peer Financing and Securities Crowdfunding. This is in line with several previous studies that with the presence of financial technology, problems such as capital requirements, simplifying the length of administration in making loans, and increasing the efficiency of industrial supply chain needs can be overcome (Huang, 2022; Soni et al., 2022).

The Potential of Islamic Fintech in Supporting MSMEs Growth

The presence of fintech contributes to increasing the growth of MSMEs by providing alternative sources of capital, especially Islamic financial technology platforms, especially Peer to Peer Financing and Securities Crowdfunding, which operate in the productive sector to finance MSMEs. This is in line with several previous studies that with financial technology, problems such as capital requirements, simplifying the length of administration in making loans and increasing the efficiency of industrial supply chain needs can be overcome (Huang, 2022; Soni et al., 2022).

The existence of updates in the use of financial technology means that SMEs also get various kinds of innovations to meet their needs so that various kinds of opportunities for business growth can be achieved (Soni et al., 2022), which has an impact on the development of SMEs themselves (Huang, 2022; Soni et al., 2022). Financial technology cannot only overcome financial problems but also maintain the sustainability of MSMEs (Menne et al., 2022; Okfalisa et al., 2022). The role of Islamic fintech integration in increasing access to capital has several advantages, including:

1. Funding uses a peer-to-peer (P2P) mechanism; Islamic fintech provides a P2P platform that can make it easier for investors to invest or provide loans to MSMEs that need capital directly (Wang et al., 2015). This makes funding easier for MSMEs without conventional banking intermediaries.
2. Islamic fintech uses a fairer and more inclusive risk assessment model because it involves factors such as character and business potential, not just credit history.
3. The existence of an asset-based financing mechanism so that it can minimize activities that lead to usury (Menne et al., 2022).
4. Transparency and accountability
5. Ease of access because it is facilitated by an application/website/online page that can be accessed flexibly (Gomber et al., 2017).
6. Developing networks through the contribution of Islamic fintech in MSMEs also builds networks with financiers, investors, or other stakeholders who can provide support in the form of knowledge and financing (Brodny & Tutak, 2022).
7. Optimality through education and training (Menne et al., 2022).
8. Profit-and-loss sharing-based financing concepts such as mudharabah and musyarakah allow investors to share profits and risks with MSMEs based on Islamic principles (Rabbani et al., 2021).

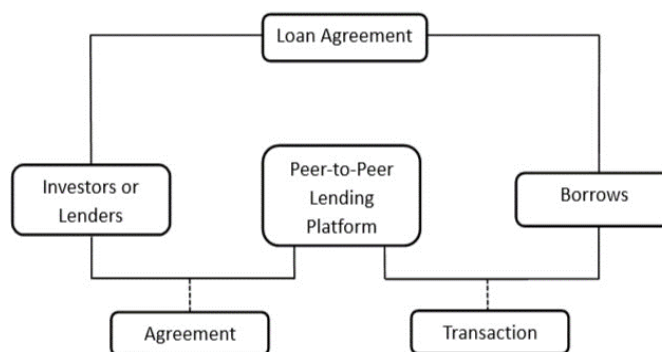
Islamic FinTech as an Alternative Capital for MSMEs

Various services from Islamic FinTech are related to efforts to provide easy access to capital, including peer-to-peer Financing (P2P) and Securities Crowdfunding (SCF). The following is the explanation below:

Islamic Peer-to-Peer Financing

By definition, Peer-to-Peer (P2P) Islamic fintech is the provision of financial services to bring together funders and recipients of funds to carry out funding based on Islamic principles directly through an electronic system using the internet (Wang et al.). P2P lending makes it easy for fund owners to provide loans directly to debtors with higher returns. In contrast, fund borrowers can apply for credit directly to fund owners with easier conditions and a faster process than conventional financial institutions (Suryono et al., 2021). The following is the P2P lending scheme in Figure 5:

Figure 5. P2P Lending Scheme



Source: OJK (2021)

Islamic P2P Fintech is regulated in POJK No. 10/POJK.05/2022 concerning Information Technology-Based Joint Financing Services and DSN MUI Fatwa Number 117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services Based on Islamic Principles. The financing schemes that can be carried out through Fintech P2P Syariah are as follows:

- 1) Factoring Financing
- 2) Financing the procurement of ordered goods (Purchase Order)
- 3) Community-Based Financing
- 4) Financing the procurement of goods for business actors who sell online
- 5) Financing the procurement of goods for business actors who sell online with payment through payment gateway providers
- 6) Financing for Employees.

Investing in P2P lending can provide relatively high profits, so the primary step in the P2P investment process is understanding each platform's risks based on the required financing scheme. MSME players who are legal entities can access capital/financing from Islamic P2P Fintech with a maximum ceiling of IDR—2,000,000,000 per application. The most relevant schemes to use are Purchase Order Financing and Factoring Financing. Currently, seven (7) Islamic P2P fintech providers have obtained permits from the Financial Services Authority (OJK), namely: 1). Ethis Indonesia; 2) Alami Islamic; 3) Dana Syariah; 4) Qazwa; 5) Ammana; 6) Duha Syariah, dan 7) Papitupi Syariah.

Figure 6 and Figure 8 are illustrative examples of several fintech schemes that use Islamic P2P services in Indonesia, including:

1. Islamic P2P Purchase Order Financing transactions on the "Ethis" funding platform.

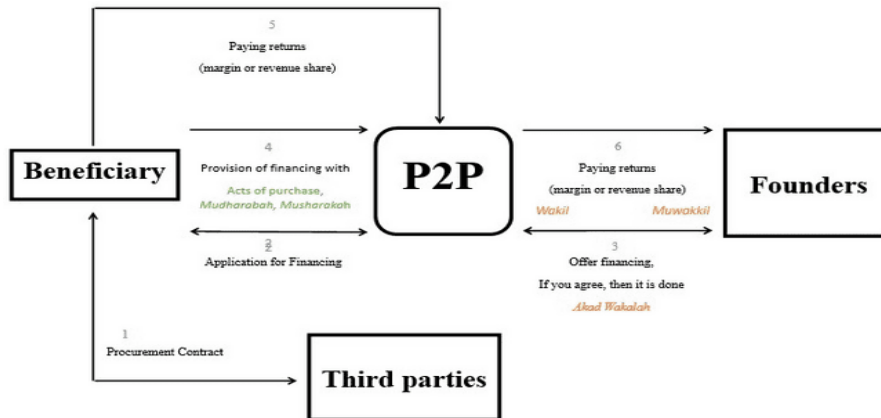


Figure 6. Islamic P2P Purchase Order Financing Scheme
Source: Ethis (2023)

2. P2P Syariah Factoring Financing Transaction from "Alami"

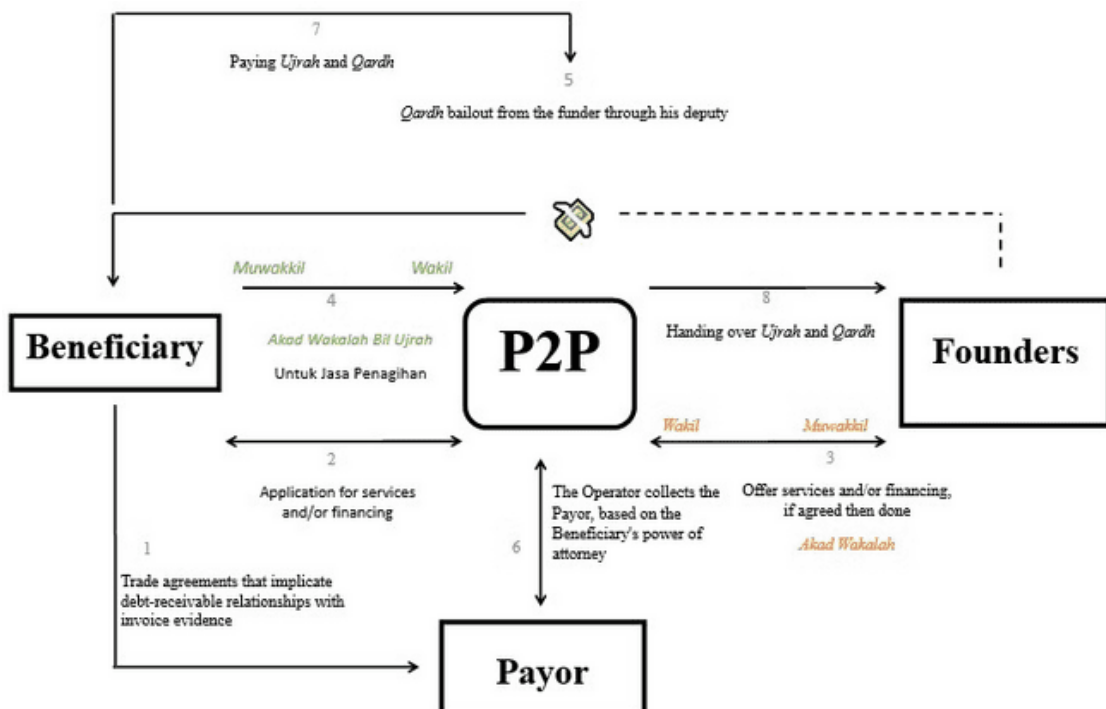


Figure 7. P2P Syariah Factoring Financing Transaction Scheme
Source: Alami (2023)

Securities Crowdfunding Syariah

The definition of Finetch SCF Syariah is the offering of Islamic securities (shares and sukuk) through Information Technology-Based Crowdfunding Services carried out by issuers to sell securities directly to investors through an open electronic system network. POJK No. 16/POJK regulates fintech SCF Syariah.04/2021 concerning Securities Offerings Through Information Technology-Based Crowdfunding Services and DSN MUI Fatwa No. 140/DSN-MUI/VIII/2021 concerning Islamic Securities Offerings Through Information Technology-Based Crowdfunding Services Based on Islamic Principles. Fintech SCF Syariah can facilitate the issuance of 1) Islamic Shares: Islamic securities in the form of shares in companies whose Islamic criteria are determined by the Islamic Supervisory Board (DPS); 2) Sukuk: Islamic securities in the form of certificates or proof of ownership with the same value represent an inseparable part (syuyu') of the underlying asset.

Legal entity MSMEs can access capital/financing from SCF Syariah Fintech with a maximum ceiling of IDR. 10,000,000,000 per issuance, both schemes (shares and sukuk) are relevant for use by MSMEs who receive projects or want to expand the reach and scale of their business. Currently, six (6) SCF Syariah fintech providers have obtained permits from the Financial Services Authority (OJK), namely: 1) Syafiq (total pledge); 2) Vestora (fully promised); 3) Urun-ri (full promise); 4) Fundex ((issuing sukuk/UUS); 5) Bizhare (issuing sukuk/UUS or Islamic business units); 6) LBS Crowdfunding (sukuk/UUS issuer or Islamic business unit).

The presence of the equity crowdfunding (ECF) scheme is an ample opportunity for business actors, especially micro, small, and medium enterprises (MSMEs), as an alternative for obtaining capital and carrying out business expansion. Crowdfunding mechanisms have received significant attention among MSMEs due to collateral issues (Hendratmi et al., 2020). The following is a graph of the position of Fintech SCF Syariah as a Securities Market Organizer in the Capital Market, which is depicted in Figure 8:

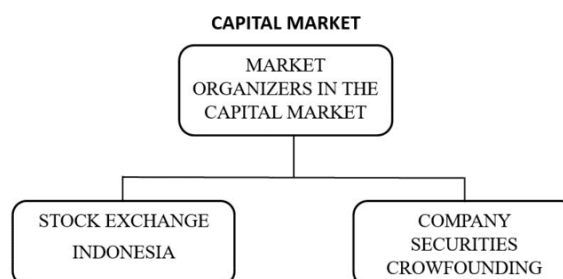


Figure 8. The Position of SCF Syariah Fintech as Securities Market Organizer in the Capital
Source: OJK (2023)

Then, the financing scheme through shares and sukuk crowdfunding at fintech "Vestore" is depicted in Figure 9 and Figure 10 as follows,

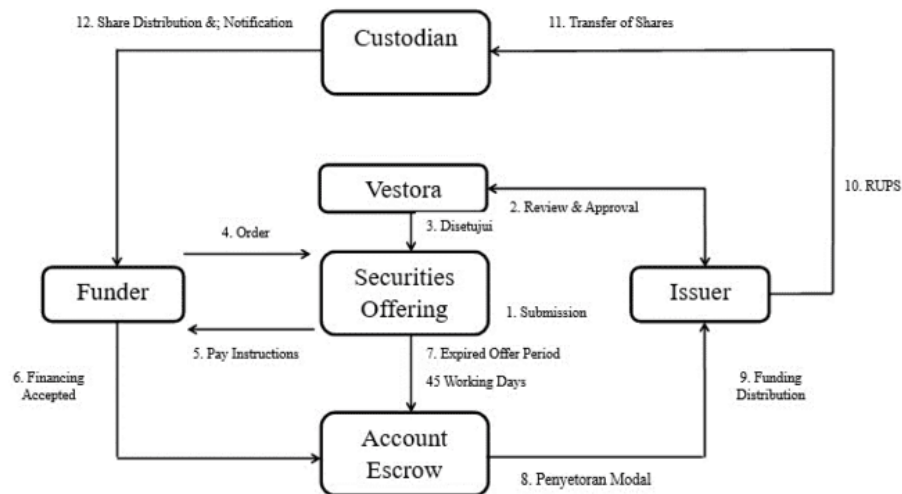


Figure 9. Crowdfunding Stock Financing Flow
Source: Vestora (2023)

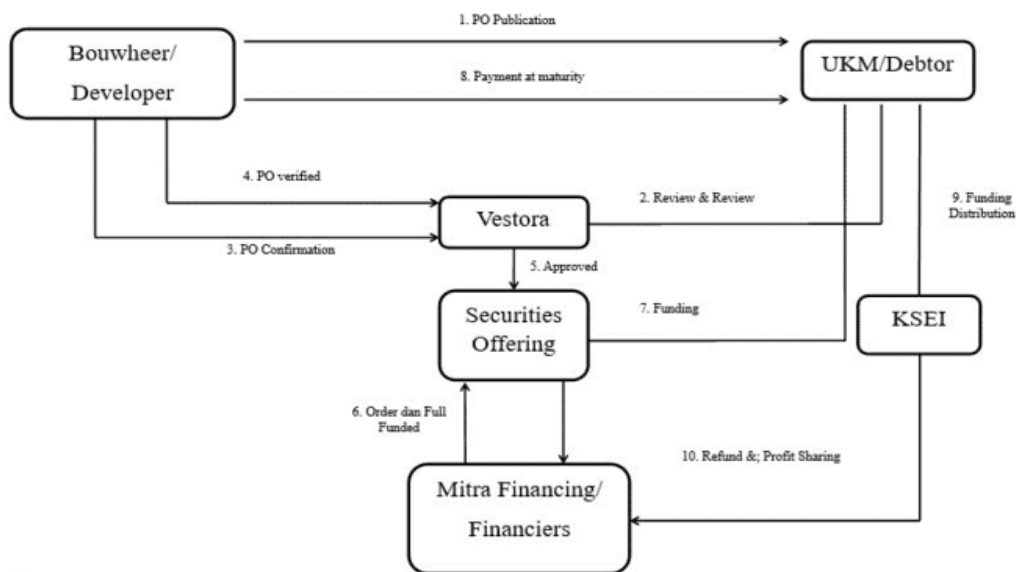


Figure 10. Crowdfunding Stock Financing Flow
Source: Vestora (2023)

Conclusion

The contribution of MSMEs to economic development has had various impacts, one of which is related to digitalization efforts in the financial sector. Financial Technology is an alternative solution for optimizing MSMEs in Indonesia by providing easy access to capital, enabling MSME players to overcome existing funding problems.

Based on bibliometric analysis using the keywords "Islamic," "fintech," and "sme," it shows that the keywords "fintech," "investment," and "Islamic-compliant financing" have the potential to be studied in more depth. The author conveys this by providing recommendations for implementation through Islamic fintech services. It is hoped that later, it can be used to facilitate access to capital to overcome MSME problems. Alternatives for utilizing services from fintech platforms include peer-to-peer financing (P2P) and securities crowdfunding (SCF). Through this research, it is hoped that many other studies related to access to capital for MSMEs will emerge.

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