

# Economic Empowerment of Ummah through Sharia Fintech

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## Economic Empowerment of Ummah through Sharia Fintech: Literature Review

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### Abstract

Fintech Syariah is an innovation that has the potential to strengthen the Islamic economy by providing more inclusive and syariah-compliant access to financial services. This article provides comprehensive literature on how Islamic finance technology benefits Muslim economies. Using a variety of literary analyses, this article explains how Fintech Syariah may increase access to money, provide innovative solutions for social and economic problems, and reduce the risk associated with financial inception. We also outline the necessary regulatory measures that must be taken to ensure that Islamic economic principles are adhered to in Fintech. The current study provides insight into how Fintech Syariah may become a significant tool for Muslim economic development, with implications that are particularly significant for the growth of the Islamic economy in the current digital era

**Keywords:** Empowerment, Community Economy, Sharia Fintech

### 1. Introduction:

In the increasingly digital age, financial technology (fintech) has emerged as a phenomenon that is not hindering the development of the international economy. The current revolution has given rise to a variety of new languages and prompted changes in how we manage our own finances, such as cash withdrawals and account balance adjustments. While this innovation is affecting every economic sector, a single question arises in the minds of Islamic economists and practitioners: How can fintech, namely that which is based on sharia law, benefit the Muslim economy?

The findings of the collective riset indicate that fintech that adheres to Islamic law has the potential to boost the general populace's economy. Bahar (2022) asserts that Indonesia's growth in fintech syariah provides easier and faster access to funds, particularly in times of emergency that are at odds with Islamic economic law (Nemilentseva, Dehkordi, and Soutar 2023). Saputra (2022) prohibits the use of the SHAFICA application in order to promote Islamic finance while enhancing literacy and access to resources. (Yohanes et al. 2020). Despite the need for more effort to increase the effectiveness of it, Alfarizi (2021) forecasts positive changes and a trajectory for the development of syariah-compliant fintech in Indonesia, particularly during the COVID-19 period (Alfaris, Mursida, and Syahroni 2020). Agustina (2023) discusses the status of the fintech platform in Indonesia, with fintech syariah providing opportunities for economic growth and making a significant contribution to the fintech industry (Rubini 2018). According to the study, fintech syariah can be effective in contributing to economic growth thanks to its accessibility, pemasaran campaign, and potential for expansion.

Islamic currency continues to grow and more people are becoming interested in and using it. With 87 percent of the population being Moeslim, Indonesia has a large proportion of syariah-compliant financial institutions. A wide range of halal products are always expanding and being developed to meet public needs. Fintech-based Islamic financial instruments exist, which are valuable to investors. Fintech syariah investors can make investments in accordance with syariah principles. Later, fintech syariah also become a need for business owners to handle money (Rizal, Maulina, and Kostini 2019). In order to make it easier to uphold fundamental Islamic economic principles including the forbiddance of riba (interest), fair commerce, and

social justice, the emergence of sharia fintech inspires enormous confidence Hida Hiyanti et al., "Opportunities and Challenges of Sharia Fintech (Financial Technology) in Indonesia" (2020).. Sharia fintech promises Muslim people and small and medium-sized businesses (SMEs) in the community greater inclusive financial access Irma Muzdalifa, Inayah Aulia Rahma, and Bella Gita Novalia, "The Role of Fintech in Increasing Financial Inclusion in MSMEs in Indonesia (Islamic Finance Approach)" (2018). However, we must carefully study the available material before we set any unrealistic expectations.

Through a survey of the literature, this publication seeks to offer thorough insight into the role that sharia fintech has played in the economic empowerment of Muslims in this environment Hanik Fitriani, "Fintech's Contribution in Improving Financial Inclusion in Agriculture (Analytical Study Through Islamic Finance Approach with Peer To Peer Lending Sites in Agriculture in Indonesia)" (2018). We will describe how far Islamic fintech has aided in adhering to Islamic economic principles, go over the benefits and difficulties of using this financial technology, and look at how Islamic fintech may be used to combat poverty in the Muslim community (Wahyuni 2019). Through a deeper understanding of the existing literature, we hope to provide a comprehensive view of the potential of Islamic fintech in realizing the vision of a just and sustainable Islamic economy. Thus, we can design wiser policies, facilitate the sustainable development of Islamic fintech, and encourage greater economic empowerment of Muslims.

## **2. Literature Review:**

### **2.1. The concept of community economic empowerment**

The concept of community economic empowerment, focusing on specific groups such as women, citizens, people with disabilities, and African descent. Gupta (2016) emphasizes the importance of economic empowerment for women and its relationship with overall development (Kukreja, Bahl, and Gupta 2021). Economic (2005) explores the principles of economic empowerment of citizens, highlighting the need for individuals to take charge of their own empowerment (Anwuli Irene Ofuani 2011). Ofuani (2011) discusses the lack of economic empowerment opportunities for persons with disabilities in Nigeria and suggests ways to address this problem (Anwuli Irene Ofuani 2011). Sanchez (2011) focuses on black economic empowerment strategies in South Africa and lessons to be drawn for the economic empowerment of African descent (D. Sanchez 2011). Overall, these studies highlight the importance of economic empowerment in a variety of contexts and provide insight into strategies and challenges associated with achieving them.

Fintech has the potential to contribute to the economic empowerment of society. Huang (2020) highlights how the development of Fintech in China, particularly mobile payment services and online loans, can drive financial inclusion and have macroeconomic implications (Huang 2020). Łasak (2021) emphasizes the positive impact of Fintech on the efficiency and inclusive growth of banking services, benefiting underserved groups such as retail customers, micro-enterprises, and startups (Lasak and Gancarczyk 2021). Boratyńska (2019) focuses on value creation in Fintech services, highlighting the economic and financial characteristics that contribute to this value (Boratyńska 2019). Frost (2020) discusses how Fintech adoption is driven by factors such as unmet demand for financial services, the high cost of traditional finance, a supportive regulatory environment, and demographic factors (Alamanda 2022). These findings collectively show that Fintech can play a role in economic empowerment by driving financial inclusion, efficiency, and value creation.

### **2.2. Islamic finance**

Islamic finance continues to grow and attract more individuals, especially in countries with large Muslim populations such as Indonesia. The development of Islamic financial instruments, including Islamic fintech, has contributed to increased interest and utilization of Islamic finance. Sharia fintech serves as a platform for investors to invest according to Sharia principles and also provides opportunities for SMEs to access funding (Bentar Kusdimanto et al. 2022). The growth of Islamic finance has a positive impact on economic development, as it promotes fairness and fairness in the financial system (Zainur 2020). Sharia fintech in particular has facilitated easier and faster access to funds, in line with sharia principles (Wahyuni 2019). However, it is important to consider the relationship between profit and risk in Islamic finance, as investors and financial institutions face risks associated with their investments (Nuraini Rachmawati and Bn Ab Ghani 2020).

Sharia fintech has opportunities and challenges in Indonesia. Yudhira (2021) highlighted that Sharia Fintech

can contribute to economic strengthening, especially considering the large population in Indonesia which still lacks access to financial services Ahmad Yudhira, "Analysis of Sharia Financial Technology (Fintech) Development during the Covid-19 Pandemic in Indonesia" (2021).. Marlina (2021) emphasized that Sharia Fintech plays a role in increasing inclusivity for micro, small and medium enterprises (MSMEs) by meeting their financing needs and providing an easier transaction process. Hiyanti (2020) discusses the potential of Sharia Fintech in overcoming negative phenomena associated with conventional Fintech, but also acknowledges challenges related to regulation, human resources, and technology. Ansori (2019) focuses on the impact of Fintech on the Islamic financial industry in Central Java, highlighting the need for this industry to innovate and utilize technology to keep pace with the rapid development of Fintech-based financial services. In summary, the study shows that Sharia Fintech has the potential to contribute to economic growth, increase inclusivity for MSMEs, and overcome challenges in the financial industry.

### **3. Research Methodology**

One of the new aspects in the realm of sharia Fintech empowerment is the examination of potential synergies between sharia FinTech and microfinance institutions (MFIs). Although there has been research on Islamic Fintech and microfinance separately, exploration of how these two sectors can collaborate effectively is still very limited. Investigating how sharia Fintech platforms can improve the accessibility of sharia-compliant microfinance services for marginalized communities, especially in developing countries, can provide valuable insights into more inclusive economic empowerment strategies for the ummah. The research method applied in this study is a literature review, literature review or literature review is a research method carried out by collecting and analyzing various conceptual information and data from written sources such as books, journals, articles, and other documents. This method serves as a guide in reviewing a research problem and helps researchers to understand the research topic more deeply.

This literature study or literature review has provided evidence in the form of research findings and statements that have been published by various experts in their fields. The references used in this study were selected from research results that have been recognized and indexed by publishers indexed by scholar, crossef and others (Elsaid 2021). In order to ensure the reliability of the data used, data analysis techniques are carried out by triangulating various data sources used. Data that is considered to have a high level of confidence is then synthesized to allow the formation of a solid conclusion. The results of this process are expected to provide a comprehensive understanding related to this research topic Triandini et al., "Method of Systematic Literature Review for Platform Identification and Information System Development Methods in Indonesia". The type of writing used in this study is a literature review study whose focus is on writing results related to the world of fintech. Literature review can be done using various types of approaches, such as systematic literature review, narrative literature review, and mixed literature review. In conducting a literature review, researchers must ensure that the sources of information used are of high quality and relevant to the research topic, which is related to Fintech

### **4. Discussion**

#### **4.1. Basic Concepts**

##### **Definition of Sharia Fintech**

A type of financial service innovation that runs according to Islamic principles is known as sharia fintech. It seeks to serve the needs of the Muslim community by offering financial services that are compliant with Sharia law. In Indonesia, there are two types of sharia fintech: traditional and one that is expanding. Indonesian sharia fintech platforms provide a range of services, including crowdfunding, peer-to-peer lending, digital banking, online insurance, and payment methods Rifaldi Majid And Rizky Aditya Nugraha, "The Crowdfunding And Islamic Securities: The Role Of Financial Literacy" (2022).. In contrast to conventional methods, the Sharia fintech idea calls for the implementation of a "contract" or agreement between investors and debtors "Increasing Digital Business Literacy and Financial Literacy" (N.D).. However, obstacles to the development of Sharia fintech include a lack of financial knowledge, regulatory concerns, and the requirement for product innovation. To ensure adherence to Sharia, presence is necessary.

The definition of Sharia Fintech, according to Yarli (2018), Sharia Fintech refers to financial technology activities that are based on an Islamic perspective and adhere to the principles of Maqashid Shari'ah Dodi Yarli, "Analysis of Tijarah Akad on Sharia Fintech Transactions with Maqhasid Approach" (2018).. This



aims to provide benefits and uphold fairness in transactions. Ansori (2019) highlighted the growing presence of Fintech and its impact on the formal Islamic finance industry, emphasizing the need for this industry to innovate and utilize technology to remain competitive. M Ansori, "Development and Impact of Financial Technology (Fintech) on the Islamic Financial Industry in Central Java" (2019). Hiyanti (2020) discusses the opportunities and challenges of Sharia Fintech in Indonesia, including regulatory issues, human resources, and technology adoption. Hiyanti et al., "Opportunities and Challenges of Sharia Fintech (Financial Technology) in Indonesia.". Finally, Setyaningsih (2018) focuses on the implementation of Sharia Fintech by PT Telkom Indonesia, which emphasizes the importance of understanding strengths, weaknesses, opportunities, and challenges in asset management. E Setyaningsih, "SWOT Analysis of Sharia Financial Technology Implementation at PT Telkom Indonesia" (2018).

The studies collectively provide insight into the basic concepts of Sharia Fintech. Muchtar (2022) highlighted that Sharia Fintech is a contemporary jurisprudence discussion that relies on the consensus of scholars as a source of law. The Indonesian Ulema Council has issued a fatwa providing legal protection for Sharia Fintech services. Sumartini (2021) emphasized the need for appropriate regulations and infrastructure to support the development of Sharia Fintech and ensure ease of accessing financial services. Rolianah (2021) explores the role of Sharia Fintech in promoting Islamic cultural moderation and values, and suggests that further research is needed to understand the acceptance and impact of these ideas. So the opportunities and challenges of Sharia Fintech in facing the fourth industrial revolution, highlighting its potential as a solution to avoid interest-bearing transactions and the need for synergy between the Islamic financial sector and technological innovation are very important for the empowerment of the Ummah.

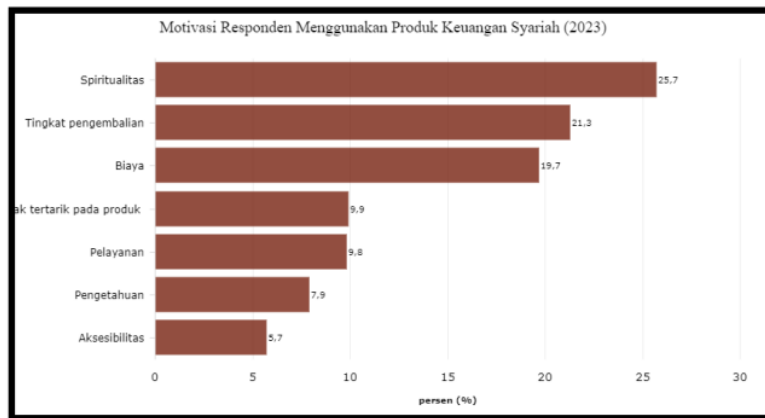
#### **4.2. Principles of Shariah Economics**

Islamic economic principles related to sharia Fintech. Usanti (2019) highlighted the need for sharia-based information technology financing services and the importance of complying with sharia principles in Fintech (Usanti, Thalib, and Setiawati 2019). Rahim (2019) explores the concept of smart contracts in sharia Fintech and the need to pay attention to sharia principles in its mechanisms. Roro (2018) discusses challenges and risks in the Islamic Fintech industry, especially related to loan services (Abdul-Rahim et al. 2022; Rahim, Bakri, and Yahaya 2019). Fatimah (2020) focuses on legal protection and risk mitigation for customers in information technology-based financing with Sharia principles (Fatimah and Dewi 2020). Overall, these studies emphasize the importance of incorporating Shariah principles in Fintech services and the need for a regulatory framework that addresses the specific requirements of Sharia Fintech.

#### **4.3. The Relationship between Fintech and Sharia Economy**

Based on existing research, the relationship between Fintech and Sharia Economy collectively shows that Fintech has a positive impact on the development of Islamic economy in Indonesia. Sadari (2019) highlighted the role of inclusive finance in the Fintech era, emphasizing the need to empower unbanked individuals and remote areas through the use of financial technology in Islamic banking. Muzdalifa (2018) further emphasized the potential of Fintech in increasing financial inclusion for micro, small and medium enterprises (MSMEs) in Indonesia, especially when combined with Islamic financial institutions. Muzdalifa, Rahma, and Novalia, "The Role of Fintech in Increasing Financial Inclusion in MSMEs in Indonesia (Islamic Finance Approach)".

Wahyuni (2019) discusses the development of the Islamic economy in Indonesia through the application of Fintech, highlighting the ease and efficiency it brings in obtaining the desired funds while adhering to Islamic principles. Wika Harisa Putri Et Al., "The Emerging Fintech And Financial Slack On Corporate Financial Performance" (2019). Yudhira (2021) focuses on the development of Fintech during the COVID-19 pandemic, stating that sharia Fintech can be a solution for economic strengthening, with opportunities arising from increasing lifestyle digitalization and government support through clear regulations. Yudhira, "Analysis of the Development of Sharia Financial Technology (Fintech) During the Covid-19 Pandemic in Indonesia."



Graph 1. Respondents' Motivation to Use Islamic Financial Products (2022)

According to the Management research report of the Faculty of Economics and Business, University of Indonesia (FEB UI) above, the majority or 25.7% of the total Indonesian respondents chose to use Islamic financial products for reasons of spirituality. They want to avoid the use of interest or usury in banking products, as well as concerns about speculative and high-risk financial instruments. The higher rate of return in the form of profit sharing is also the reason respondents use Islamic financial products, which is 21.3%."The aspect of spirituality is the main reason for Indonesian people to use Islamic financial products," no. April (2023): 2023. This illustrates that religiosity encourages people to use Islamic financial products, including Islamic fintech. So the relationship between Fintech and Sharia Economy has a positive impact in Indonesia. Fintech plays an important role in the development of the Islamic economy by increasing financial inclusion, empowering MSMEs, facilitating access to funds, and still complying with Islamic principles. Even during the COVID-19 pandemic, sharia Fintech has proven to be a solution to strengthen the economy, supported by increasing digitalization and clear government regulations.

### 1. The Role of Sharia Fintech in Economic Empowerment of Ummah

The role of Sharia-based Fintech in empowering the economy of the Muslim community is illustrated in the following studies; Alim (2022) emphasizes the importance of literacy in understanding the Sharia aspects of Fintech and digital business so as not to fall into consumerism. Wahyuni (2019) highlighted the ease of accessing desired funds through Sharia-based Fintech and the alignment of Islamic economic law with conventional economic law (Putri et al. 2019). Muzdalifa (2018) explores the potential of Fintech in increasing financial inclusion for micro, small and medium enterprises (MSMEs) through Sharia-compliant financial institutions Muzdalifa, Rahma, and Novalia, "The Role of Fintech in Increasing Financial Inclusion in MSMEs in Indonesia (Islamic Finance Approach)". Basya (2020) focuses on Sharia-based Fintech development strategies, emphasizing the need for a solid business model canvas that includes Sharia compliance. In summary, these studies collectively show that Sharia-based FinTech plays an important role in empowering the economy of the Muslim community by providing access to funds, promoting inclusive finance for MSMEs, and requiring adherence to Sharia principles.

Overall, the studies discussed show that Sharia-based Fintech has a crucial role in empowering the economy of the Muslim community. They underlined the importance of Sharia literacy in the use of Fintech and digital business to avoid excessive consumerism. In addition, Sharia-based Fintech also provides easy access to funds, while maintaining alignment with Islamic economic principles.

### 2. Financial Accessibility

Discussing the accessibility of sharia Fintech in the context of financial services. Zuchroh (2021) highlights the potential of Islamic Fintech in the financial industry, emphasizing its role in providing easy access and wide reach. Abadi (2020) analyzed the implementation of sharia Fintech in Lamongan, Indonesia, and identified its main strength is the ability to reach all segments of society. However, security concerns remain a weakness. Hiyanti (2020) explores the opportunities and challenges of sharia Fintech in Indonesia, focusing on regulatory issues, human resources, and technology adoption Hiyanti et al., "Opportunities and

Challenges of Sharia Fintech (Financial Technology) in Indonesia." Finally, Muzdalifa (2018) examines the role of Fintech in increasing financial inclusivity for micro, small and medium enterprises (MSMEs) in Indonesia, especially through Islamic financial institutions. In the context of financial services, the studies mentioned highlight that Islamic Fintech has great potential in providing easy and broad access to the public. However, there are some issues that need to be addressed, especially related to security. In addition, issues such as regulation, human resources, and technology adoption are also things that need to be considered in the development of sharia Fintech in Indonesia.

### **3. Financial Inclusion**

The results show that Sharia Fintech has the potential to promote financial inclusion in Muslim-majority countries and address financial exclusion for low-income Muslims. Oseni (2019) discusses the application of Fintech in Islamic finance, highlighting its role in encouraging financial inclusion through innovative solutions (Oseni and Ali 2019). Warsame (2009) found that although Muslims in the UK have a preference towards Sharia-compliant finance, existing products have not significantly increased their financial inclusivity. The research shows that Sharia-compliant financial providers need to redesign their offerings to better meet the needs of underprivileged Muslim communities (Warsame 2009). El-Zoghbi (2013) stresses the importance of a sustainable sharia model in providing financial access to the Muslim poor, but notes that the sector still struggles to offer a wide array of products that meet the needs of religiously observant Muslims (CGAP 2013). Alika (2021) focuses on the marketing strategy of Islamic financial institutions to promote sharia Fintech and micro and small enterprises (Alika et al. 2021).

The conclusion of the study is that Sharia Fintech has great potential in driving financial inclusion in Muslim-majority countries and addressing financial exclusion faced by low-income Muslims. Studies conducted by Oseni (2019), Warsame (2009), El-Zoghbi (2013), and Alika (2021) reveal various aspects related to the role of Sharia Fintech in expanding financial access for Muslim communities. However, the results also show that further efforts are still needed in designing products and marketing strategies that are more in line with the needs of underprivileged and religiously devout Muslims.

### **4. Ease of Transaction**

From the observations, it shows that there are various factors that can contribute to the ease of Sharia fintech transactions. Delvina 2019 discusses the use of electronic signatures in applying for Sharia-based financing, which aims to provide convenience and accommodate user needs. Purnomo 2020 proposes the use of EDC machines and personal agents (Laku Pandai) as a strategy to increase accessibility and make Islamic banking transactions easier and faster Agung Purnomo, "Knowing Fintech as Financial Business Innovation" (2019), <http://dx.doi.org/10.31227/osf.io/rp295>. Firdaus 2022 highlights the opportunities and challenges of Sharia Fintech in Indonesia, emphasizing the importance of risk mitigation and transparency in the peer-to-peer lending process (Firdaus, Lubis, and Lubis 2022). Setyawan 2018 focuses on the legitimacy of debt collectors in Sharia finance companies during collateral execution, highlighting the basis of their actions in Islamic law and positive law. In summary, these studies show that the ease of Islamic Fintech transactions can be improved through the use of electronic signatures, increased accessibility through EDC machines and private agents, risk mitigation in peer-to-peer lending, and ensuring the legitimacy of debt collectors in the Islamic financing process.

Based on the observations and literature reviews conducted, it can be concluded that the ease of transactions in the context of Sharia fintech can be improved through various factors. Some of them include the use of electronic signatures to facilitate the process of applying for financing, the use of EDC machines and self-agents to increase the accessibility and speed of Islamic banking transactions, the need for risk mitigation in peer-to-peer lending, and the importance of ensuring the legitimacy of debt collectors in the Sharia financing process. These factors have the potential to help increase convenience and efficiency in transacting with Sharia fintech in Indonesia.

#### **4.4 Challenges in Sharia Fintech Implementation**

##### **1. Sharia Compliance**

Sharia compliance is an important factor in the implementation of sharia fintech, from discussions and studies in the context of Fintech. Jamaruddin (2020) highlighted the challenges in incorporating Fintech into Islamic banking due to the need for Sharia compliance (Jamaruddin and Markom 2020). Hannani (2023)



emphasizes the importance of Fintech transactions that comply with Islamic commercial law and suggests using the Maqashid Sharia perspective to ensure compliance (HANNANI 2023). Oseni (2019) provides a comprehensive analysis of Fintech in Islamic finance, discussing its theoretical and empirical aspects, including the application of Fintech in encouraging financial inclusion in Muslim-majority countries (Oseni and Ali 2019). Muchtar (2022) focuses on the Islamic legal perspective on Sharia Fintech, highlighting the role of consensus (ijma) and the issuance of fatwas by the Indonesian Ulema Council to provide legal protection for information technology-based financing services based on Sharia principles. In summary, these studies collectively emphasize the challenges, importance of compliance, and potential benefits of applying Islamic Sharia principles into Fintech practices in the context of Islamic finance (Muchtar and Zubairin 2022).

## **2. Consumer Protection**

Discussing consumer protection in the context of Fintech in Indonesia. Ulya (2022) emphasizes the importance of legal protection for Fintech consumers due to the risk of illegal Fintech loans and personal data theft. Rahmayani (2018) highlighted the role of the Financial Services Authority (OJK) in supervising Fintech companies and the need for more regulations to ensure consumer protection. Nuzul Rahmayani, "Review of Consumer Protection Law Related to Supervision of Financial Technology-Based Companies in Indonesia" (2018). Basrowi (2019) focuses on consumer protection in the context of sharia-based Fintech. Basrowi, "Analysis of Sharia Fintech Consumer Protection Aspects and Efforts" (2019). Suharini (2020) discusses the rapid growth of Fintech in Indonesia and OJK's efforts in combating illegal Fintech entities to protect consumers. Overall, these studies underscore the importance of the legal framework and regulatory oversight in protecting consumers in the Fintech industry in Indonesia.

## **3. Regulation and Supervision**

Fintech regulation and supervision in Indonesia are contained in the following cases. The importance of government policies in supervising and providing legal protection against conflicts and violations in the fintech industry. The main regulators identified in these studies are the Financial Services Authority (OJK) and Bank Indonesia (PBI), with additional involvement from the DSN-MUI Fatwa and the Regulation of Members of the Board of Governors of Bank Indonesia (PADG BI). (Suharini and Hastari 2020) However, the report also shows that current fintech supervision regulations are not working optimally due to obstacles and limitations in regulation and supervision. The growth of fintech companies in Indonesia is rapid, and there is a need to strike a balance between innovation, financial stability, and consumer protection. Muhammad Fachrurazy and Dirah Nurmila Siliwadi, "Fintech Regulation and Supervision in Indonesia: A Perspective of Sharia Economic Law," *AL-SYAKHSHIYAH Journal of Islamic Family Law and Humanity* 2, no. 2 (2020): 154–171. The study emphasizes the importance of regulating technological innovation in finance and ensuring legal protection for fintech companies and users.

Fintech users will feel more secure and comfortable with the issuance of various policies that support the development of sharia fintech. These policies include:

- a. Issuance of OJK Regulation Number 13/POJK.02/2018 concerning Sharia Information Technology-Based Money Lending and Borrowing Services
- b. Issuance of OJK Regulation Number 19/POJK.02/2019 concerning Sharia Payment System Supporting Business Operation
- c. Issuance of OJK Regulation Number 37/POJK.03/2020 concerning Sharia Information Technology-Based Financing Guarantee Services

## **4.5 Social and Economic Impact**

### **Improving the Economic Welfare of the Ummah**

The development and impact of Sharia-based Fintech on the economic welfare of Muslim communities in Indonesia. Wahyuni (2019) highlighted the ease and convenience of obtaining the desired funds through Sharia-based Fintech, Wahyuni, "THE DEVELOPMENT OF ISLAMIC ECONOMY IN INDONESIA THROUGH THE IMPLEMENTATION OF SHARIA FINTECH." while Muzdalifa (2018) emphasized the role of Fintech in encouraging inclusive finance for micro, small and medium enterprises (MSMEs) through financial institutions that are in accordance with Sharia principles. Muzdalifa, Rahma, and Novalia, "The Role of Fintech in Increasing Financial Inclusion in MSMEs in Indonesia (Islamic Finance Approach)".



Yudhira (2021) identifies opportunities for the development of Sharia Fintech in the future, such as the untapped Indonesian adult market and does not yet have access to financial services and government support through clear regulations (Yudhira 2021). However, Madani (2021) shows challenges that hinder the growth of sharia Fintech, including the existence of illegal Fintech, inadequate infrastructure, low awareness of sharia finance among the public, and the limited role of the Sharia Supervisory Board. Overall, the study shows that Sharia-based Fintech has the potential to improve the economic well-being of Muslim communities in Indonesia, but there are several obstacles that need to be overcome to make it happen in full. These studies collectively show that the implementation of Sharia Fintech has the potential to improve the economic welfare of the community. Barata (2019) found that the development of e-commerce and Sharia Fintech in Indonesia leads to economic growth, increased income, and job creation, which has the potential to reduce poverty and inequality (Barata 2019). Bahar (2022) highlights the convenience and ease of accessing funds through Sharia Fintech, especially in emergencies (Nemilentseva et al. 2023). Hehanussa (2021) emphasized the active role of Sharia Fintech in developing the Islamic economy in the digital era, promoting inclusive finance, and contributing to economic growth (Santoso, Canon, and Pakaya 2019). Istifadhoh (2021) discusses how Sharia Fintech can accelerate economic recovery during the COVID-19 pandemic and contribute to state revenue. Overall, these studies show that Islamic Fintech can play an important role in improving people's economic well-being (Nurul Istifadhoh, Inarotul A'yun, Mufidhoh 2021).

These studies show that Sharia-based Fintech has the potential to improve the economic welfare of Muslim communities in Indonesia. Several studies highlight ease of access to funds, role in financial inclusion, and contribution to economic growth. However, there are also challenges such as the existence of illegal Fintech, inadequate infrastructure, and low awareness of Islamic finance. Overall, Sharia Fintech has positive potential, but it needs to overcome these obstacles to realize its full impact.

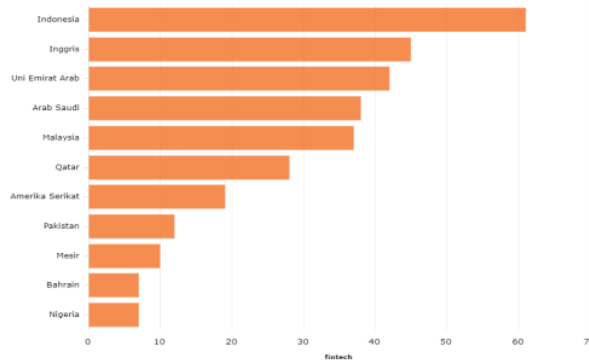
### **1. Improved Quality of Life**

The studies focus on the role and impact of Fintech in various aspects of the financial industry and small and medium enterprises (MSMEs) in Indonesia. Muzdalifa (2018) discusses the role of Fintech in improving financial inclusion for MSMEs, especially in the context of Islamic finance (Muzdalifa, Rahma, and Novalia, "The Role of Fintech in Increasing Financial Inclusion in MSMEs in Indonesia (Islamic Finance Approach)"). Rahardjo (2019) examined the impact of Fintech on the development of MSMEs in Magelang, highlighting increased operational efficiency and benefits for members. Ansori (2019) explores the development and impact of Fintech on the Islamic financial industry in Central Java, emphasizing the need for innovation and technology utilization. Winarto (2020) discussed the role of Fintech in micro, small and medium enterprises (MSMEs) in Pekalongan, Batang, and Pemalang, focusing on financial literacy and inclusion (Wahid Wachyu Adi Winarto, "The Role of Fintech in Micro, Small and Medium Enterprises (MSMEs)" (2020)).

Here are some examples of the contribution of sharia fintech to national economic development:

- a. Sharia fintech P2P lending has provided access to financing to MSMEs that previously had difficulty obtaining loans from conventional banks. Sharia fintech P2P lending offers financing products and services that are in accordance with Islamic principles, so as to meet MSME financing needs that cannot be met by conventional banks.
- b. Sharia fintech payment gateways have helped MSMEs to accept payments digitally, thereby increasing their operational efficiency. Sharia fintech payment gateways offer digital payment products and services that are in accordance with Islamic principles, making it easier for MSMEs to accept payments from their customers.
- c. Sharia fintech insurtech has helped MSMEs to get insurance protection in accordance with Islamic principles. Sharia fintech insurtech offers insurance products and services that are in accordance with Islamic principles, so as to provide the protection needed by MSMEs.

To be able to contribute optimally to national economic development, sharia fintech needs to continue to innovate and develop its products and services that suit the needs of the community. In addition, sharia fintech also needs to cooperate with the government and related institutions to increase Islamic financial literacy in the community.



Graph 2. Countries with the Most Sharia FinTech in 2021

Sharia fintech companies are growing in many countries, including Indonesia. Based on a report by Salaam Gateway, there were 375 sharia fintechs globally in 2021. Indonesia occupies the top position of the highest number of sharia fintech in the world throughout last year. The number reaches 61 sharia fintechs or around 16.27% of the total global sharia fintechs. The second position is occupied by the UK with a total of 45 Islamic fintechs. Next, there is the United Arab Emirates which is recorded to have 42 sharia fintechs. Furthermore, Saudi Arabia and Malaysia have 38 sharia fintechs and 37 fintechs, respectively. Followed by Qatar, the United States, and Pakistan with a total of 28 sharia fintechs, 19 fintechs, and 12 fintechs. There is also Egypt which is recorded to have 10 sharia fintechs in its country. Meanwhile, as many as 10 sharia fintechs each are in Bahrain and Nigeria. Databoks, "List of Countries with the Most Sharia Fintech, Indonesia Is the Winner!," Databoks (2022):2022, <https://databoks.katadata.co.id>.

## 2. Contribution to National Economic Development

How the contribution of sharia fintech to national economic development is illustrated in studies such as; Madani (2021) discusses the implementation of artificial intelligence in the Sharia Fintech industry, by highlighting the development of Sharia Fintech loans in Indonesia. Madani, "Implementation of the Use of Artificial Intelligence in the Sharia Fintech Industry". Fahlefi (2019) emphasized the importance of Sharia Fintech innovation in the philanthropic sector to encourage financial inclusion. Rizal Fahlefi, "ISLAMIC FINANCIAL INCLUSION THROUGH FINTECH INNOVATION IN THE PHILANTHROPIC SECTOR" (2019).. Wahyuni (2019) analyzed the development of the Islamic economy in Indonesia through the establishment of Sharia Fintech services. Wahyuni, "THE DEVELOPMENT OF ISLAMIC ECONOMY IN INDONESIA THROUGH THE IMPLEMENTATION OF SHARIA FINTECH.". Abdulloh (2020) focuses on the acceptance and use of Sharia peer-to-peer lending services, highlighting factors influencing user behavior (Baihaqi 2018). Collectively, these studies show that Sharia Fintech has the potential to contribute to national economic development by providing innovative financial services that are in line with Islamic principles.

Table 1. The development of Sharia Fintech and its contribution to the economy

Dimension	Data	Explanation
Growth	The number of Islamic fintech companies increased from 123 companies in 2021 to 150 companies in 2022. The value of sharia fintech transactions also increased from IDR 4,239.4 million in 2021 to IDR 6,732.6 million in 2022.	The growth of Islamic fintech shows a positive trend in recent years. This is supported by various factors, including increasing Islamic financial literacy and inclusion, increasing public demand for Islamic financial products and services, empowering MSMEs, and supporting government policies.
Contribution to the economy		

a. Increase financial inclusion	Sharia fintech contributes to increasing financial inclusion in Indonesia. In 2022, the value of sharia fintech transactions reached IDR 6,732.6 million. This number increased by 58.26% from the previous year.	Sharia fintech can help increase financial inclusion in Indonesia, especially in the MSME segment and low-income communities. This is because Islamic fintech offers financial products and services that are affordable and in accordance with Islamic principles.
b. Increase efficiency and productivity	Sharia fintech can help improve the efficiency and productivity of MSMEs. This is because sharia fintech offers financial products and services that can help MSMEs to better manage their finances and operations.	Sharia fintech can help MSMEs to improve their efficiency and productivity, so as to increase their contribution to the Indonesian economy.
c. Creating jobs	The development of sharia fintech can create new jobs, both in the fintech sector itself and in other related sectors.	The development of sharia fintech can create new jobs, both for workers in the fintech sector itself and for workers in other related sectors, such as the information technology sector, the financial sector, and the MSME sector.

Source: Processed research data

Sharia fintech has great potential to contribute to national economic development, such as increasing financial inclusion. According to the Financial Services Authority (OJK), financial inclusion in Indonesia in 2022 will reach 76.19%. This figure shows a significant increase from 2021 which only reached 73.8%. Sharia fintech contributes to increasing financial inclusion in Indonesia. In 2022, the value of sharia fintech transactions reached IDR 6,732.6 million. This number increased by 58.26% from the previous year.

Table. 2 Development of Sharia Fintech in 2020-2023



Source: processed data

Sharia fintech can also increase efficiency and productivity Sharia fintech can help increase the efficiency and productivity of MSMEs. This is because sharia fintech offers financial products and services that can help MSMEs to better manage their finances and operations. According to Bank Indonesia, the number of MSMEs in Indonesia in 2022 will reach 64.2 million units. MSMEs have an important role in the Indonesian economy, with a contribution to GDP of 61.07% and employment of 97.2%. Sharia fintech can help MSMEs



to improve their efficiency and productivity, so as to increase their contribution to the Indonesian economy. From Sharia fintech, it can also create jobs. The development of sharia fintech can create new jobs, both in the fintech sector itself and in other related sectors. According to the Indonesian Sharia Fintech Association (AFSII), the number of sharia fintech companies in Indonesia in 2022 will reach 150 companies. This number increased by 22.58% from the previous year. The development of sharia fintech can create new jobs, both for workers in the fintech sector itself and for workers in other related sectors, such as the information technology sector, the financial sector, and the MSME sector. This statement from AFSII is different from the number of fintech developments from the Financial Services Authority (OJK) which argues that the number of fintech from 2020 to 2023 is sequentially as much; 15, 20, 25 and 30 companies.

## **V. Conclusion and Recommendation**

### **5.1. Conclusion**

The study entitled "Empowering the Economy of Muslim Communities through Islamic Fintech: A Literature Review" provides a comprehensive review of existing research on the role of Islamic Fintech in improving the economic welfare of Muslim communities. This literature review synthesizes a range of studies and findings to highlight the significant impact and growing importance of fintech within the framework of Islamic finance. The study underscores a new perspective on blending modern financial technology with Islamic principles to meet the unique financial needs of the Muslim population. This approach is an innovative avenue to increase financial inclusion and drive economic empowerment in Muslim-majority regions, demonstrating the relevance and potential of Islamic Fintech as an important tool for economic empowerment in the global financial landscape.

### **5.2. Recommendation**

One of the highlights of this article is the recognition of the transformative potential of Islamic fintech in addressing financial exclusion among Muslim communities. By offering accessible and ethical financial services, Islamic Fintech not only encourages financial inclusion, but also empowers individuals and businesses to participate more actively in economic activities. This empowerment can lead to poverty alleviation, job creation, and economic stability in Muslim-majority areas, contributing to broader socioeconomic development.

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