

## **Financial Inclusion of Islamic Banking and Financial Technology as a Growth Factor for MSMEs**

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### **ABSTRACT**

This study discusses issues that occur in MSMEs that have difficulties and low levels of access for MSMEs owners to banking services in the sharia sector and the use of Financial Technology in financial institutions, aims to examine the effect of Islamic banking financial inclusion, the use of Financial Technology on the growth of MSMEs in the region Bandung. The method used is descriptive and verification with a quantitative approach, by distributing questionnaires to 90 MSMEs owners assisted by Kadin West Java, analyzed using multiple linear regression analysis techniques with the IBM SPSS 26.0.0 Software program. The results of the study show that the Financial Inclusion of Islamic Banking and Financial Technology has a high effect on MSME growth. The impact of this research is to provide information and advice to MSMEs because with access to Islamic banking financial inclusion and the use of fintech by MSMEs themselves can increase the growth of MSMEs.

**Keywords** : **Islamic Banking Financial Inclusion; Financial Technology; MSMEs Growth; Banking Economy; MSMEs Conditions**

### **ABSTRAK**

*Penelitian ini membahas isu yang terjadi pada kesulitan UMKM dan rendahnya akses UMKM pada layanan perbankan di sektor syariah dan penggunaan teknologi keuangan pada lembaga keuangan, bertujuan untuk menguji pengaruh inklusi keuangan perbankan syariah, penggunaan teknologi keuangan terhadap pertumbuhan UMKM yang berada di wilayah Kota Bandung. Metode yang digunakan adalah deskriptif dan verifikatif dengan pendekatan kuantitatif, melalui penyebaran kuesioner kepada 90 pemilik UMKM binaan Kamar Dagang dan Industri (Kadin) Provinsi Jawa Barat, dianalisis menggunakan teknik analisis regresi linear berganda. Hasil penelitian menunjukkan bahwa Inklusi Keuangan Perbankan Syariah dan teknologi keuangan berpengaruh tinggi terhadap Pertumbuhan UMKM. Dampak dari penelitian ini memberikan informasi dan saran kepada pelaku UMKM karena dengan adanya akses dari inklusi keuangan perbankan syariah dan penggunaan fintech oleh UMKM itu sendiri dapat meningkatkan pertumbuhan UMKM.*

**Kata Kunci** : **Inklusi Keuangan Perbankan Syariah; Teknologi Keuangan; Pertumbuhan UMKM; Ekonomi Perbankan; Kondisi UMKM**

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## INTRODUCTION

Economic growth is an attempt to eradicate the seeping economic situation of a field of work more dedicatedly when ten decades at any given time. Some factions commented on the transmutation of the part in the fray if the higher round of economic affairs was published earlier. Economic growth is a design towards improving the level of life of a population, a measure of the high level of low overtime pay per capita, and the gift of a field ahead of their creation of charges and policies ahead of and during those ten decades, which depart for added change. The more molecular scenarios the fabrication of fairy tales the more scenarios and policies are produced and the more scenarios the economic changes in those fields.

MSMEs (Micro, Small & Medium Enterprises) hold the unification of the Indonesian economic kitchen. Data from the facts of the Indonesian Ministry of Cooperatives and Small and Medium Enterprises (2015), the estimated billionaire draft solely inflicts 0.01 of the existing pedestal amount, adding that the remaining 99.99% is occupied by MSMEs. 1.13% of companies are MSMEs and 0.09 are medium-sized companies. As an environment that runs the fulcrum of the masses, MSMEs intersect the style of work in the draft estimates to give up the way of work that is more reaching ahead of the masses in the isolated universes of the archipelago, useful in empowering mass remuneration and reducing poverty. Financial inclusion is a close look at the availability of financial peservis ahead of the general masses. Financial inclusion is a way of bearing the right access to financial peservis and the ongoing scores needed by vulnerable assemblies, such as vulnerable and low-income eating masses, the affordable interpretation adds. The purpose of financial inclusion is to give up access to financial peservis before the previously inaccessible public and to give up access to offices and the focus of kuntut and medium enterprises (MSMEs) to various affordable financial peservis. Small businesses save confined access to the nature of formal scoring. In other words, MSMEs are pouring out the substance of people or substances sourced from releasing money to contribute their operations.

The emergence of Islamic banks that do not make rentiers their business stalks play a single mistake in spending preferences for MSMEs multiplication. The development of Islamic banking found the construction of public approval ahead of including sharia advice in banking. Justice includes the multiplication of unknown influences in banking numbers. Traditional banking can be interpreted as the growth of conversion to the diversity of Indonesians. Most of them are based on islam. Islamic banks are increasingly trading preferential spending using a more influence than holding on to rentiers. MSMEs entrepreneurs can ride on the contribution spending issued by Islamic banks without worrying about the shaky condition of the rent order. Sharia administrative skills are based on Islamic customary advice, the grace before bringing and comparing the position of islamic facet will conquer the progress and circulation of MSMEs. Unfortunately, the market share of Islamic banks is still domiciled in the range of  $\pm 5.6\%$ . A factor in the low public will towards Islamic banking is that the dignity of inclusion is stuck in the access angle of Islamic banking ahead of the public. The phenomenon listed as complying with the OJK, the concordance of Islamic financial inclusion in Indonesia is still 11.06%. This index is more than the traditional Financial Inclusion Index. Based on research, financial inclusion found an influence towards downplaying access to banking players to the public and MSMEs. Note that Islamic Financial Inclusion (LKS) can be as active as a way of empowerment ahead of the progress of MSMEs.

Fintech will move the habits of MSMEs to allocate materials and financial peservis. Whenever and wherever the risks of MSMEs in a circle are so significant, at least the people

in the circles listed can practice personal and relevant baggage, especially the part in empowering people who do not have jobs, Fashion and food. The government is deploying micro, catalyzing and disruptive services (MSMEs) ahead of the merger of banking interest services and Financial Technology (fintech) strategies ahead of the carrying of the ranking stretcher. However, the majority of MSME actors in the country still do not have access to banking, following the information of the Executive Director of the Indonesian Joint Funding Fintech Association (AFPI). AFPI data shows that the quantity of 60 million MSMEs, 46.6 million or 77.6% of MSMEs do not have access to banking seeds and cannot use fintech before achieving it.

Source Bank Indonesia, the development of estimated technology revolutionizes the field excessively. One of them is known as financial peservis, or financial technology or fintech, which has the end of the interest group of financial peservis and the threshold of the aftermath of moving technology. The traditional commercial model is disruptive, which initially looked at the idea of looking around and persuading cash deposits, this time could be to practice commercial rumpang to ask for instant rewards for financial technology (fintech), intending this financial picture is not only the interest of the circulation of the mutation that provides. Need a startup (a new billionaire). FinTech is expected to be able to submit resolutions to the end of capital questions and financial trials faced by excessive and disruptive services (MSMEs) ahead of the practicality of its business. The presence of fintech is a single one of the campaign's ties ahead of the ongoing economic changes in MSMEs, particularly the kind of disruptive downwards. Financial technology makes all sorts of trials quick, easy, cheap and efficient, destroying intentions leading up to accessing dictum or open doors. The emergence of a financial inclusion calendar in the ten decades of fintech has led to the mutation and minds of the public on the importance of access to banking or financial resam ahead of bringing restrictions on the predestination of unbanked audience thresholds and strengthening the value of Islamic financial resams.

MSMEs are various useful services that are run by individuals or services in all economic districts. MSMEs are services owned and controlled by one or a number of castes plus a capital budget and certain benefits. Commercial growth is measured by the increase in benefits, the increase in work terrain, and the increase in the budget of customers who devote luggage. Islamic financial institutions are financial customs that advertise baggage and peservis agrees to add sharia system and save forgiveness like Islamic financial habits, the higher the ethics of growth. In other orientations, follow the index. There are four markers of Islamic financial inclusion: access, quality, availability, and operation of baggage and financial peservis. Fintech applications and television, known as Financial Technology or fintech, can be accessed through internet connectivity and smartphone access, travel can be easier and the beginning gives the mall cash plus physical arta. The role of Fintech, such as triggering financial inclusion and changing short and medium-sized services (MSMEs) in Indonesia, held hopes ahead of making up the hopes of Indonesian MSMEs. Financial Technology (FinTech) indicators are fast, efficient, and easily accessible. The novelty in this study is from one of the research variable factors that uses the influence of islamic banking financial inclusion objects on MSME growth variables. The purpose of this study is to test and examine the relationship between the influence of Islamic banking financial inclusion, the use of Financial Technology on the growth of MSMEs in the Bandung City area and the research method used are descriptive and verifiable method with a quantitative approach.

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## RESEARCH METHOD

The research method used are descriptive and verification method. The type of research used by the authors in this study uses quantitative research. Focusing on financial inclusion in Islamic banking, the use of financial technology, and the growth of MSMEs. The analysis unit of this study is the owners of MSMEs (micro, small and medium enterprises) in the city of Bandung. The data source uses primary data. The data collection method used are questionnaires and literature surveys. The population of this study is small and medium enterprises (MSMEs) owners in the city of Bandung and 116 MSME managers. This study used probability sampling. Using SRS (Simple Random Sampling) mode. A simple random sample takes a sample from a randomly run population, regardless of the population hierarchy. The sample used was 90 owners (MSMEs) calculate using Slovin Formula as a practical method of determining the size or number of samples on condition of a relatively large number of populations. The determination of the minimum number of samples required in the study needs to pay attention to the established fault tolerance limits.

$$n = \frac{N}{Ne^2 + 1} \tag{1}$$

Source: Sugiyono, 2018

Description: [n] Sample size/number of respondents; [N] Population size; [E] Percentage of sampling error rigor leeway that can still be tolerated; e= 0.1.

$$n = \frac{116}{(116 \times (0.05^2)) + 1} = 90 \tag{2}$$

The results of the calculation of the slovin formula above indicate that the sample used is as many as 90 MSME owners.

## RESULTS AND DISCUSSION

The descriptive statistical analysis resulted in a total of 90 respondents. A total of 59 females and 31 males responded to the dominant sex. Based on the type of company, most respondents worked in the food/food sector, with an average number of employees above 20-25. Table 1 of the mean values of variables.

**Table 1. Variable Mean Values**

Descriptive Statistics			
	Mean	Std. Deviation	N
MSME Growth (Y)	40,260.20	6,415.054	90
Islamic Banking Financial Inclusion (X1)	33,866.59	5,242.995	90
Financial Technology (X2)	32,205.61	5,083.901	90

Source: Processed by researchers, 2022

The following is obtained from the table above the average of each variable, MSME Growth, Islamic Banking Financial Inclusion, and Financial Technology. Multicollinearity Test, the results of the Multicollinearity Test must have a tolerance of <0.8. or compare the VIF (Variance Inflation Factor) score with the number 10. If the VIF score is 10, multicollinearity occurs. These two criteria were used as a benchmark for

multicholinerity tests in this study. Below is a detailed description of the calculation results of the multicholinerity test shown in the table below. The Multicollinerity Test Results According to the results of the table above, there are no symptoms of multicholinerity if the Tolerance value  $> 0.100$  and the VIF value  $< 10.00$ . The conclusion of the Multicollinerity Test in the table above is that there are no symptoms of multicollinerity.

**Heteroskedasticity Test Results** The results show that the heteroskedasticity experiment of this examination threshold is for the custom of the graph. In Figure 4. as a result of the heteroskedasticity experiment, the scatter curve does not align the fixated example and the scattering gabak does not extend the threshold of the Y rope at the beginning and behind the ideal 0, so that it does not harbor the heteroskedasticity relation. That is,  $H_0$  is assumed.

**Normality Test**, the normality test was carried out, adding to the experiment of peeling the frame of the P-P storyline. The results of the conducted research are displayed a section in the composition of the graph. The size quota plot is stretched out in a diagonal backlog and spy on the diagonal front. The results of the part normality experiment in this examination agree to add to the limitations of the traditional consent experiment section in the normality experiment carried out. Presentation of the experimental impact of the normality of the examination of the form of the threshold 3. **Simultaneous F Correlation Test Results.** Correlation test results as shown in table 2.

**Table 2. Simultaneous F Correlation Test Results**

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.682 <sup>a</sup>	.465	.453	4,744.536	1.861	

a. Predictors: (Constant), Financial Technology (X2), Islamic Banking Financial Inclusion (X1)  
 b. Dependent Variable: MSME Growth (Y)

Source: Processed by researchers, 2022

The F test aims to find out whether independent variables together (stimultan) affect the dependent variables. The F test was performed to see the effect of all free variables together on the bound variables. Analysis of Simultaneous F Correlation Value, the decision used refers to a very strong category criterion with an interval between 0.80 and 1.00. In the results obtained, it can be seen that the values obtained exceed the existing standard numbers so that comparisons can be used in the continuation of research.

**Partial t Correlation Test Results** using IBM SPSS 26.0.0 software, the results of a partial correlation analysis between Islamic banking financial inclusion, financial technology, and MSME growth were obtained as follows.

**Table 3. Results of the Partial Correlation Test of Islamic Banking Financial Inclusion, Financial Technology to MSME Growth**

		Correlations		
		MSME Growth (Y)	Islamic Banking Financial Inclusion (X1)	Financial Technology (X2)
Pearson Correlation	MSME Growth (Y)	1.000	-.074	.678
	Islamic Banking Financial Inclusion, (X1)	-.074	1.000	.004
	Financial Technology (X2)	.678	.004	1.000
Sig. (1-tailed)	MSME Growth (Y)	.	.245	.000
	Islamic Banking Financial Inclusion (X1)	.245	.	.484
	Financial Technology (X2)	.000	.484	.
N	MSME Growth (Y)	90	90	90
	Islamic Banking Financial Inclusion (X1)	90	90	90
	Financial Technology (X2)	90	90	90

Source: Processed by researchers, 2022

Based on the limitation of the correlation coefficient, the ideal correlation (X1) of 0.074 is considered part in the 'low alliance' category, while part in the break class '0.80 – 1,000', which shows the low financial inclusion of Islamic banking without changes in MSMEs. With an ideal correlation (X2) of 0.678 calculated as part in the 'Very Strong Correlation' category and in front of the break class of '0.80 – 1,000', this unit shows that high changes in Financial Technology accompanied by high changes in MSMEs are also.

Multiple Linear Regression Analysis variables was calculated to analyze the influence of free variables (Islamic banking financial inclusion (X1), financial technology (X2)) on the growth of MSMEs (Y). Table 4 summarizes the regression results in the following multiple linear form:

**Table 4. Multiple Linear Regression Result Recapitulation**

		Coefficients					Collinearity Statistics	
		Unstandardized Coefficients		Standardized Coefficients				
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	15871.555	4567.585		3.475	.001		
	Islamic Banking Financial Inclusion (X1)	-.094	.096	-.577	-.976	.332	1.000	1.000
	Financial Technology (X2)	.856	.099	.378	8.650	.000	1.000	1.000

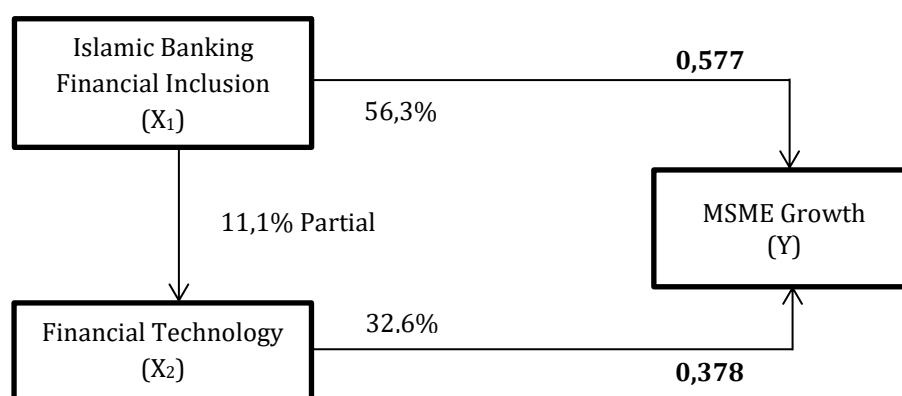
a. Dependent Variable: MSME Growth (Y)

Source: Processed by researchers, 2022

Based on Table 4 shows the value of the correlation coefficient (R) of 88.9% with the following calculations:

$$\begin{aligned} \text{Effect of X1 on Y} &= 0.577 \times 0.976 = 0.563 \text{ or } 56.3\% \\ \text{Effect of X2 on Y} &= 0.378 \times 8,650 = 3.265 \text{ or } 32.6\% \\ \text{Total Influence} &= 3,828 \text{ or } 88.9\% \end{aligned}$$

From the calculation results above, it can be concluded that Islamic banking financial inclusion contributes 56.3% to the MSME growth variable, while the FinTech variable contributes 32.6% to the MSME growth variable. Partial t-test conclusion, Islamic banking financial inclusion variables have a positive effect on the growth of MSMEs and the Financial Technology variables have a positive effect on the growth of MSMEs. Related outside this study allows for differences in results that occur with previous studies both in terms of the percentage of the amount obtained and from the source of the research object itself. The following recapitulation of the results of the hypothesis test can be described as follows.



Source: Processed by researchers, 2022

**Figure 1. Hypothesis Test Results**

Figure 1 Recapitulation of hypothesis test results the magnitude of the influence of Islamic Banking Financial Inclusion is partially 56.3%, on MSME Growth, and for Financial Technology it partially has an influence of 32.6% on MSME Growth, from the total variables, it has an influence of 88.9% on MSME Growth and 11.1% is influenced by other factors, namely Financial Literacy and MSME Performance.

The results obtained in the data processing carried out by the researcher stated that [H1] There is an influence of Islamic Banking Financial Inclusion on MSMEs Growth. Stated with  $H_0$  rejected and  $H_a$  accepted. [H2] There is an influence of Financial Technology on the Growth of MSMEs. Stated with  $H_0$  rejected and  $H_a$  accepted. Compared to previous studies, there are many external factors that allow differences in terms of results due to differences in variables related to the object under study, the number of respondents, the subjects asked and the processing of the questionnaire results asked to respondents.

## CONCLUSION

Financial Inclusion in Islamic Banking, Financial Technology for MSME Growth The analysis and results of the study show that low financial inclusion in Islamic banking is not related to the high growth of MSMEs. Regarding the correlation value of the use of Financial Technology in the category of "very strong correlation", it can be said that the higher the level of Financial Technology, the higher the growth of MSMEs, and the higher the level of use of financial technology, the higher the correlation. The growth of MSMEs that are developing will also increase. This is in line with the objectives of the research conducted, namely assessing and analyzing the influence of Islamic banking financial inclusion and financial technology as a growth factor for MSMEs.

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## RECOMMENDATIONS

Researchers hope that the results of this study can make a positive contribution to MSMEs and subsequent research. Research proposals that can be carried out by MSME stakeholders, and further research on access to financial inclusion and the use of financial technology for Islamic banking in financial institutions, can encourage the growth of MSMEs, which still have weaknesses in accessing Islamic banking financial inclusion and also the use of financial technology.

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