Strategic Alliances between Sharia Microfinance Institutions and Financial Technology in Strengthening Small Micro Enterprises (MSEs)

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Abstract

Sharia microfinance and financial technology have a very significant role as an effective solution for accessing finance for small and micro-enterprises (MSEs). The research aims to investigate the business model used, type of contracts employed, other legal aspects, and the risk mitigation dimension involved. By utilizing qualitative methods and critically analyzing a specific case study related a business model by the alliances between PT Ammana Fintech Sharia and a sharia microfinance institution, BMT Syahida Ikaluin. In generating the data, *interviews* with several experts and practitioners. The study found that the business model used was based on crowdfunding, compliant with sharia principles dan has a strong basis both in positive law and Islamic edict (*fatwa)*. The research showed that the strategic alliance between a sharia microfinance institution and financial technology is capable of strengthening access to capital sources for small and micro-enterprises. It also improves community financial literacy and financial inclusion. This research could contribute to the creation of innovative products concerning sharia microfinance and sharia financial technology. Furthermore, it could also become a benchmark in formulating policies to strengthen these strategic institutional alliances.

Keywords: *Crowdfunding, Financial Technology, Sharia Microfinance, and Strategic Alliances.*

INTRODUCTION

Sharia microfinance institutions have a very significant role in realizing socio-economic justice. Their characteristics as a non-bank financial institution are very close to the micro-small business groups as well as to low-income and poor people with robust productivity. Several studies also stated that microfinance institutions could be an alternative solution to alleviate poverty (Ahmed, 2018). Their existence is more accessible to the location and condition of

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the small micro-enterprises, with an easily accessed administration system, pro-active marketing strategy, and affordable collateral. All these features make these types of institutions as a feasible alternative to obtain their financing (Mufti, 2014). This fact is underpinned by Amalia (2008) in her research toward 511 respondents as SME partners of sharia microfinance institutions. It proved that Sharia Micro Financial Institutions had strong capacities in increasing their partners' incomes. Such easy financing access had a significant impact on productive poor groups in gaining advantages from their business opportunities. Thus, with their reasonably good profits, they could support their children's education and other basic needs (Khalifa, 2015). Those studies prove that sharia microfinancing has managed to support the sustainability of many small and micro-enterprises.

Many studies show that Small and Micro Enterprises (MSEs) have an immense contribution to national economic development. Their most considerable contribution was found at the business actors, a strong pillar of the economy, and an example of the stable domestic revenues (Akita & Alisjahbana, 2002). Related to sharia microfinance institution and its role in strengthening MSEs can be seen in the study of Abbas and Saad (2014) that proved microfinance institution with sharia-based product and service have succeeded in providing financing to small businesses, especially those managed by women's groups which have an impact on poverty rates in Pakistan (Abbas and Saad, 2014). Another study has been conducted by Abd Rahman El Zahdi Ali (2015) that suggested people in Muslim countries today are generally poor and low income so that they have the difficulties of access to financial institutions both conventional and Islamic financial systems. This study showed that sharia-based microfinance as an appropriate financial institution could help to run out of poverty. It is proved that the conventional micro finance-focused only on low-income groups (Mizanur Rahman, 2010).

Structurally, the Indonesian economy configuration is dominated by MSEs, which was 98% of all existing business units; the rest were large and medium businesses (Kemenkop, 2019). The main difficulty faced by business groups of MSEs in the capital aspect is 31.11%, raw materials by 24.80%, and marketing by 24.60% (Cahyo, 2010). Among financing-related issues in Indonesia are the high-interest rates on conventional banks, the high margin or profit-sharing rates on sharia banks, and the complex requirements and collaterals (Kara, 2013). In addition, the precautionary principle that must be conducted by banks is one reason for the limited distribution of financing for MSEs groups because they are considered nonbankable. Strengthening capital for MSEs sector is significant to boost their productivity. Thus, it can give a positive impact on alleviating poverty and unemployment, enhancing economic growth, reducing the disparity among regions, improving the well-being quality.

At this point, the most appropriate financial services and financing access for MSEs is a microfinance institution. Unfortunately, microfinance institutions, especially those operating in sharia, are still facing problems, including limited access to funding sources. For this reason, better innovation and strategies are required to cope with the potential issues faced by many microfinance institutions, and one of the feasible strategies is by involving digital technology. The development of digital technology today has driven the growth of financial information technology, which is more capable in reaching wider access to micro-financial institutions that can reach all communities faster, easier, and more transparent (Ismail, 2018).

The data from the Indonesian Country's Key Digital Statistical Indicator in May 2018 stated that the potential of the community for access to finance and information technology in Indonesia is tremendous. 48.9% of 261.12 million Indonesian population are debtors in banks consisting of 130 million active social media users and 143.30 million active internet users. Meanwhile, the number of creditors to financial institutions is 17.2%. The growth rate of mobile users from 2015 to 2020 is estimated to be 10-15%. On the other hand, the release of the National Financial Literacy and Inclusion Survey 2016 showed that the sharia financial literacy index in Indonesia was at 8.11%, while the sharia financial inclusion index was at 11.06% (OJK, 2016).

The data above informed all stakeholders in the sharia financial industry that the literacy level in Indonesia was still deficient. Well-literate communities are pivotal as they will be able to utilize financial products and suitable services to achieve their economic sustainability (Hadad, 2017). On the one hand, the lack of financial literacy and inclusion has made many people, particularly those with low income, not able to access the financing services from formal financial institutions such as a bank. On the other hand, the rapid progress in information technology, as well as the considerably increasing number of gadgets and internet users, have transformed the innovation of the existing market system into more accessible, convenient, and economical, also known as Disruptive Innovation (Adrian, 2013). Consequently, strategic alliances between the sharia microfinance institutions and the financial technology industries are vital to speed up the realization of financial inclusion (Saaid, 2015).

Therefore, this study aims to investigate one business model of a partnership program that a financial technology institution has made with some sharia microfinance institutions in strengthening MSEs. It focuses on three crucial aspects, i.e., applied scheme contracts, legal issues, and risk mitigation of consumer protection.

LITERATURE REVIEW

Various studies on the potential and role of microfinance institutions that containing sharia principles in strengthening MSEs have been done, but the partnership relation between sharia microfinance institutions and financial technology is still limited. Various related research results that have been conducted as follows.

Microfinance

Microfinance has been identifying as an important tool in increasing the productivity of the poor and in aiding economic development (El Komi & Croson, 2013). Ledgerwood et.al. (1999) defined Microfinance institution is "as a provider of financial services for micro and small entrepreneurs as well as serve as a development tool for rural communities." According to Kabeer (2001) there are several trends in the micro finance program, namely: more aimed at women, financing disbursed to individuals as members of a group and the repayment depends on the strength and discipline of the group. Furthermore, Tohari (2003) defined MFIs are institutions that provide financial services for micro entrepreneurs and low income communities, formal, semi -formal or informal. Microfinance as financial institutions ensure the support of capital for micro enterprises sustainably and continuously. Law No. 1 of 2013 pertaining to microfinance institutions stated that a Microfinance Institution (MFI) is a financial institution specifically established to provide business development service and community empowerment either in the term of loan or financing in micro-scale business for member and the community, deposit management, and the consulting services for business development, with non-profit orientation. The term 'loan' and 'financing' basically have a similar meaning. Yet, each diction is used by conventional and sharia financial institutions, respectively.

Meanwhile, Islamic microfinance has a broader scope than conventional finance because it serves poor people through social financing facilities such as zakat, waqf, and Sadaqah. Therefore, Islamic microfinance can be mentioned as microfinance inclusion. Suberu, Aremu, and Popoola study showed that the financing provided by microfinance had a positive and significant impact on improving the performance of the small-scale business group that is proven in increasing market share, the level of efficiency and the power of production (Suberu *et al.,* 2011). Likewise, Hadisumarto proved that sharia microfinance institutions Baitul Mal Wat Tamwil were effective in increasing income (Hadisumarto *et al.,* 2010).

In the implementation of Microfinance institutions, there are conventional systems based on the interest and sharia system based on sharia contract and transaction (Baihaqi, *et al.,* 2000). In term of funding or financing is given both in individual and group. The group model is generally adopted from the Grameen bank model as developed in Bangladesh. As stated by Feroz and Goud (2009) and (Rahman, 2010) affirmed the microfinance Grameen bank pattern was able to reduce poverty and to empower women who were the majority as partners (Ehsan Habib Feroz and Blake Goud).

In Indonesia, sharia microfinance institution is known as Baitul maal wa at-tamwil (BMT) in the legal entity of sharia cooperation (Amalia, 2016). BMT functions as financial service in managing public saving and distributing funds or financing for micro small business group using sharia principles. Based on the contract, deposit fund at BMT using *mudharabah* and *wadiah* contract. Whereas in term of financing distribution for micro small business used profit sharing contract (*mudaraba, musyarakah*); contract based on sale and purchase (*murabahah, salam,* and *istishna*); contract based on service (*ijarah*); and contract based on credit (*qardh*) (Abdul Majid Baihaqi, 2000). Therefore, BMT can be figured out as a type of Sharia Microfinance Institution (SMI).

Financial Technology

The National Digital Research Center in Dublin 2014 defines financial technology as innovation in financial service by utilizing the development of information technology. Financial technology generally refers to the form of application, process, product, or business model in the financial service industry. Meanwhile, according to the International Trade Administration 2016, financial technology is a “revolution” for combining financial service with information technology that has improved the quality of financial service, and creating financial stability (International Trade Administration, 2016). The legality of Fintech companies in Indonesia is POJK (Financial Services Authority Regulation) Number/77/POJK.01/2016 concerning information technology on loan service and BI (Central Bank) regulation Number 18/40/PBI/2016 concerning the processing of payment transaction.

Based on the regulation, money lending and borrowing service based on information technology is the implementation of financial service to meet lender and recipient in loan agreement based on rupiah currency directly through electronic systems using an internet network. Whereas financing service based on sharia principles stated in the Islamic Edict (*Fatwa*) from National of Sharia Supervisory Board (DSN) Number 117/ DSN-MUI/II/2018 concerning financing service based on sharia principles is the implementation of financial service based on sharia principles that meet or connect financing giver and recipient to make contract through an electronic system using the internet network.

Research related to sharia financial technology has been conducted by many scholaras namely : Wijayanti & Pradipta (2017) ; Rabbani & Thalassinos (2020); Yuspita, & Zahra (2019); Barata (2019); Firmansyah & Anwar, (2019). Financial literacy and value in sharia fintech in Indonesia has been done by Abdillah Ubaidi (2017) about the relationship between the phenomenon of information technology development with a financial institution, index of financial literacy and inclusion and benefit of Fintech in Indonesia with the SOR (Stimulus-Organism-Response) Model. Irma Muzdalifa et al. who analyzed the phenomenon of fintech development and its role in increasing the ability of MSEs to access sharia financial institution in Indonesia easily and quickly (Muzdalifah, 2018). Muhammad Mufli has analyzed the design of a Crowdfunding-based Islamic Financial Technology business model for financing Micro Enterprises in the Agriculture Sector.

This study shows that the crowdfunding platform service in Indonesia has proven to be an alternative source of financing because it involves many parties to access the internet (Mufti, 2017; Biancone *et al.,* 2019). In simple terms, crowdfunding is the financing of a project or a venture by a group of individuals instead of professional parties (like, for instance, banks, venture capitalists or business angels). In theory, individuals already finance investments indirectly through their savings, since banks act as intermediary between those who have and those who need money. In contrast, crowdfunding occurs without any intermediary: entrepreneurs "tap the crowd" by raising the money directly from individuals. The typical mode of communication is through the Internet. More conceptually, Lambert and Schwienbacher (2010) extend the definition of crowdsourcing provided by Klemann *et al.* (2008), by describing crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific needs.

Sharia-based financial technology services have been able to improve literacy and financial access for rural farmers. Different from existing research, this study focused on analyzing the strategic partnership model between sharia microfinance institutions and financial technology to strengthen capital access for a micro small business group. The emphasis of the analysis is the business model, contract, regulatory issues, and risk mitigation in the framework of consumer protection.

RESEARCH METHOD

The methodology of this research was *Qualitative Case Study,* with Sharia Economic Paradigm as the Tauhidi Epistemology as defined by Choudhury & Rahim (2016). Qualitative case study research design has contributed to a great number of scholarly works and advocated by leading researchers and educators, including Robert E. Stake and Robert K. Yin (1995). Qualitative research is research that emphasizes the understanding of problems in social life based on reality or natural conditions that holistic, intricate, and detailed (Moleong, 2004; Hartono, 2004).

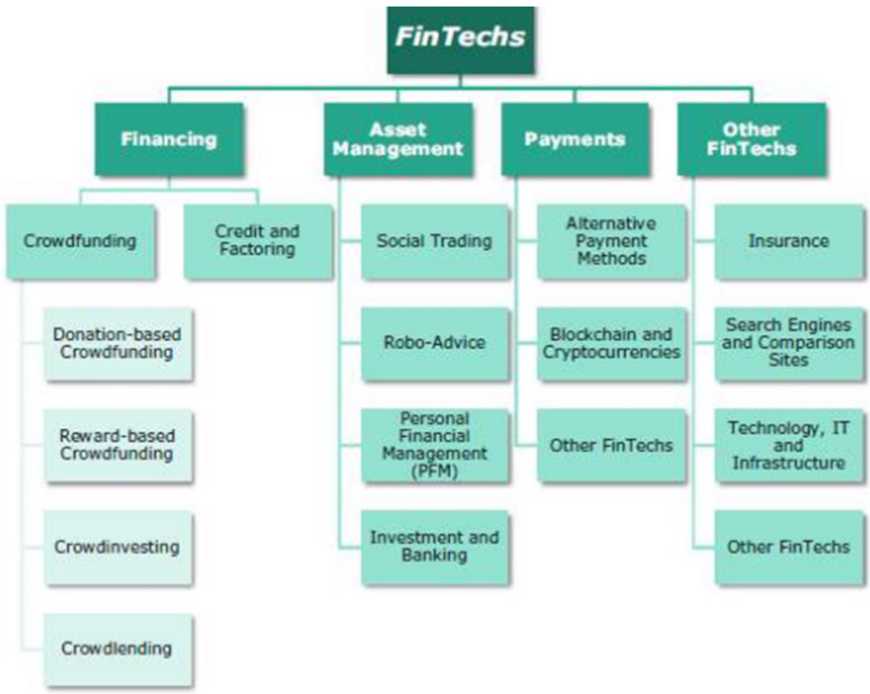
This research used *critical analysis* by exploring the problem raised in the alliances between financial technology and sharia microfinance institutions in terms of related regulations and business model implementation. The case study was a business model by the alliances between PT Ammana Fintech Sharia and a sharia microfinance institution, BMT Syahida Ikaluin, with the focus on the type of contracts employed, other legal aspects, and the risk mitigation dimension involved. In generating the data, *interviews* with several experts and practitioners of sharia microfinance and financial technology institutions were conducted based on an interview guideline instrument. An interview is a suitable research method for addressing research questions of a qualitative case study (Kervin, Vialle, Howard, Herrington, & Okely, 2016).

RESULT

Model Partnership of PT. Ammana Financial Technology Service with Sharia Microfinance Institution

Financial technology is a phenomenon of technological development to respond to human analytical creativity and to answer banking needs to be faster and more efficient. As a result, customers can use Fintech for all purposes of banking service. Nowadays, customers dont need to come to the bank for financial services, but they only use the application from the providers. Fintech has beneficial potential, data released by Morgan Stanley Research quoted by Haddad shows that the role of Australia, China, Britain, and the United States are so significant and always increase from year to year, this indicates that technological, financial efficiency and innovation has the main role at this time (OJK, 2016).

In Indonesia, Fintech companies have been growing up rapidly after the issuance of specific government regulations. Actually, big companies like banks and other non-bank companies have issued products based on technology that made it easier for customers. Furthermore, there are several types of Star up Fintech in Indonesia, such as; Asset Management, Crowd Funding, E-Money, Insurance, P2P Lending, Payment Gateway, Remittance, and Securities (Siregar, 2016). The existence of companies engaged in financial technology will able to access funding sources from investors widely and reach broader financing. Dorfleitner classified fintech industry four segments (Dorfleitner *et al.,* 2017):



PT.Ammana, as the First Sharia Fintech in Indonesia, has the main objective to serve MSEs and the public who have productive, creative, and innovative business/activity to support the development and progress of Indonesia to be ready to face global challenges through sharia financial technology service. To implement the vision, Ammana will continue to make cooperation between personal partners and institutions that have the same vision, mission, and goals. There are currently five sharia microfinance institutions represented by sharia cooperation or BMT partnering with Ammana Company. The MSEs community/Education Institutions (Colleges), as partners in assisting and developing business capacity for MSEs as Ammana partner and Nadzir Waqf who develop productive waqf management. Sharia Commercial Bank, as an operational work partner and financial service transaction between Ammana and Investors. Association institutions as partners in supporting the industrial development of Fintech. Funding Foundation as funding support partner outside personal investor for MSEs financing that is a commercial and social program based on productive waqf scheme.

Based on the interview with the Managing Director, Agus Khalifatullah, and CEO of PT. Ammana Fintech Syariah, Ludi, described the model and process business institution in the context of a partnership program with a sharia microfinance institution (Agus Khalifatullah and Ludi, 2018). As Fintech company, PT. Ammana develops financing for small micro business as follows:

a. It focuses on providing information related to investment for the micro, small business sector, fulfilling the principle of sharia, ethic, and promoting the value of cooperation and justice in business. Ammana provides applications to socialize various micro, small business project, and productive waqf program from partners. For this reason, Ammana has the right to get a fee (*ujrah*).
b. It develops a crowdfunding business model based on the sharia principle. It is very helpful for those who have micro and small scale businesses to access easy and affordable financing. The Ammana crowdfunding platform aims to facilitate investor (*shahibul mal*) in seeking alternative investment competitively and to help Indonesian MSEs listed on the Ammana. Crowdfunding generally using website technology which functions as a media in the system online payment to facilitate a transaction between individual or groups need fund from investors (Gerber *et al.,* 2012). Basically, crowdfunding is done by the internet to provide financial sources in the form of donations (without compensation) (Joachim Hemer, 2016). The current development of crowdfunding is also being developed for profit financing models. There are four categories of crowdfunding platforms (CFPs): equity-based, lending-based, donation-based, and reward-based crowdfunding (Massolution, 2012), (Syafri Piliang, 2018). Equity-based crowdfunding enables the funders or investors to receive compensation in the form of fundraiser equity-based or revenue or profit-sharing arrangement.
c. It develops a transaction agreement based on the sharia principle (Alwi, 2018). In the process of funding collaboration of the crowdfunding model, several contracts can be implemented. For example, a profit-

sharing contract (mudarabah) between investors (*shahibul mal)* and business owners (*mudharib*) can be determined by the profit-sharing portion (ratio) at the beginning of the contract. Profit-sharing is derived from income and profit from the result of the partner business. In this context, *mudarabah muqayyadah* contract can also be developed where the business project is chosen since the beginning, determined by the investor. Ammana is an arranger who mediates between investors and business partners through a linkage program with sharia microfinance institutions. Ammana has the right to get a fee (*ujrah*) with *wakalah bil ujrah* contract. Some contracts use sharia principles between sharia microfinance and end-user (MSEs), in terms of financing for productive business uses profit sharing (*mudharaba* or *musharaka*) and the sales contract (*murabahah*) on the purchase of investment goods.

d. Investment Update: Investors (*shahibul maal*) can directly monitor the investment managed by *Mudharib* for business financing through the available account.

e. Online channels are the official websites that can be accessed by all people both on the desktop and mobile. The online channel is for investors (*shahibul maal)* by looking at the business profile of prospective mudharib and looking at the development of the investment. While offline, through partners to find MSEs needs financing.

f. Customer Relationship. Deposit reward is money deposited for investors' virtual accounts from profit sharing.

g. Community development is empowerment of the recipient capital (*mudharib/end user*) through entrepreneurship and business management training to participate in the economic empowerment of the SME community.

h. Key Partners, the development of Ammana will collaborate with two parties, namely sharia banking institution becoming escrow agent for managing fund holding account during the financing process; opening an account in several sharia banks to accommodate fund from investors; becoming a partner for MSEs through the opening of Ammana bank account and sharia insurance for financing which is a partner to provide investment protection for investors to avoid risk.

Fintech Risk and Mitigation

Lending and Borrowing Service based on Information Technology is a civil agreement between Lender and Borrower so that all risks from the agreement both parties are responsible. One of the risks faced by Fintech is credit risk or default from a partner. This risk is certainly also investor risk. Based on the OJK data in 2018, 67 fintech companies both conventional and sharia found that data on Non-Performing Loan on Fintech financing was low at 0.99% as of Dec 2017 but increased by 1.40% in July 2018. This condition needs to be considered because of the NPL/NFP tends to rise. In this context, there is no state institution or authority responsible for the default.

Every borrowing and transaction activity or implementing the agreement on lending and borrowing or involving the Operator, Lender and/or Loan Recipient must through an escrow account and virtual account as required under the Financial Services Authority Regulation Number 77 / POJK.01 / 2016 concerning Lending and Borrowing Services on Information Technology and violation or non-compliance with these provisions constitute evidence of breaking the law by the Operator so that the Provider is obliged to bear the compensation suffered by each user as a direct result of the breaking law without reducing the right of the User suffering loss according to the Civil Code.

Risk mitigation that can be done is Integrated Risk Mitigation. To minimize all possible risks that rise using integrated financing analysis such as financing analysis, diversification of business portfolio financed, and sharia financing insurance. In addition, the implementation of Fintech needs to consider good governance by fulfilling the principles of good governance: Transparency, Accountability, Responsibility, Independence, and Fairness. British and Irish Ombudsman, 2009). Fintech business must accommodate honesty values (must be able to maintain all data and confidentiality of stakeholder information), fair (considering all parties, open information through a publication that can be accessed easily), trustworthy (Fintech must have a clear vision, mission, goals, operational for the benefits stakeholders, no fraud, conflict of interest), ihsan (Fintech Sharia is not only focused on profit but also has a sense of sharing and caring).

Legality and Consumer Protection in Sharia Fintech

The use of Fintech must be based on the legal rules to guarantee legal certainty for consumers. Legal certainty is one of the legal objectives in which legal certainty has a clear legal basis (Satjipto Rahardjo, 1996), (Soeroso, R, 2003), (Riduan, Syahrani, 1999). Legal certainty according to Utrecht, contains two meanings, first, the existence of general rules that make individual know may or may not be done, and secondly, in the form of legal security for individuals from abuse of power from the government.

To fulfill legal certainty, the use of Fintech has been regulated in the Financial Services Authority Regulation Number 12 / POJK.03/2018 concerning the Implementation of Digital Banking Services by Commercial Banks. The OJK regulation is recognized as one of the laws and regulations in Indonesia as referred to in Article 8 of Act Number 12 of 2011 concerning the Establishment of Legislation. Beside POJK, there is Fatwa Indonesian Ulama Council (MUI) Number 117 DSN MUI / II / the Year 2018 concerning Financing Services Based on Information Technology issued by the National Sharia Board (DSN) MUI. The DSN fatwa excludes from the hierarchy of Indonesian law and regulation. However, the fatwa is considered a legal norm that can be a source of law in Indonesia through the process of regulating Islamic law into national law (Maruf Amin, 2017). Thus, the legality of Fintech Sharia has a clear legal basis. However, in the development of Sharia Fintech better in the future, it is necessary to have its own OJK rules.

One of the objectives of law is to protect all interests in society. Legal protection aims to integrate and coordinate various interests in society (Satjipto Rahardjo, 1996). One of the legal protection is consumer trade transactions. The importance of legal protection for consumers because of the weak position of consumers rather than producers (Soedaryatmo, 1999). Legal protection for consumers is important for consumers in a weak position. In fact, in the United States, the initial movement of legal protection for consumers is characterized by the philosophy regulation is intended to provide assistance or protection for low-income consumers, improve the distribution and quality of goods and service in the market and increase competition between actor's effort (Ahmadi Miru and Sutarman Yodo, 2007).

Legal protection for consumers can be realized in two forms of regulation through legislation and agreement made by parties (business actors and consumers). Law Number 8 of 1999 concerning Consumer Protection in Indonesia as the basis of consumer protection regulated. Article 1 point 1 states that "all efforts aimed to ensure legal certainty to provide legal protection to consumers must be protected by nine consumer rights (Rosthschil, 1986), (Robert Alexy, 1992), (Robert Alexy, 2002), (BPHN 1986).

The phenomenon of sharia fintech must consider consumer rights as regulated in Indonesia. Moreover, this Fintech has become the world's attention not to cause harm to consumers. One of the attention is The Organization for Economic Co-operation and Development (OECD) (Jessica Moshe, 2014). The OECD issued various recommendations so that fintech activities do not harm consumers through the G20 / OECD Policy Guidance Financial Consumer Protection Approaches in the Digital Age (OECD, 2018) and Consumer Policy Guidance on Mobile and Online Payments (OECD, 2014). Most of the OECD recommendations guide the use of Fintech including the risks, including;

1) Regulation and Legality of Product/Service;
2) Role of Institution/ Agency;
3) The same and fair treatment for consumers;
4) Transparency and Information Disclosure;
5) Awareness of financial education;
6) Code of ethic and responsibility of financial service provider;
7) Protection of use and interest in consumer asset;
8) Protection of data and consumer confidentiality;
9) Mechanism of the complaint and,
10) Regulation of unfair business competition and anti-monopoly (OECD, 2014).

The principles of consumer protection for customers using Fintech in banking transactions in Indonesia generally have been regulated in various laws and regulations, including the Financial Services Authority Regulation No. 12 /POJK.03/2018 concerning the Implementation of Digital Banking Services by Commercial Banks. The regulation has accommodated the principles of consumer protection by entering Article 21 which regulates Customer Protection. In Article 21 of the POJK, in principle, all Commercial Banks that provide digital banking service must apply the principle of consumer protection by having a mechanism for handling every question and/ or complaint from customers operating for 24 hours. While the Sharia Fintech based on Fatwa No. 117 DSN MUI / II / on 2018 concerning Information Technology-Based Financing Services Based on Sharia Principles is still too general. The fatwa only accommodates the basis of Sharia fintech law, financing service model, contract mechanism, and dispute resolution so that the principles of consumer protection as stated in the POJK was not stated. Regulation of customer protection is very important because according to the OJK, in September 2018 found 182 entities doing Fintech and 10 business activities without OJK permits which could harm the society. This condition is very ironic for all consumers in Indonesia.

CONCLUSION

This study has found that the strategic partnerships done by sharia Fintech with sharia microfinance institutions are in the form of crowdfunding, with the financing distribution, which is also shariah-compliant. This model of partnership has a strong basis in both positive law and Islamic edict (fatwa). Specific government regulations also guarantee the risk mitigation for consumer protection. These alliances have proven to be more effective, in terms of easier, wider range, and more convenient financing access for Small and Micro Enterprises (MSEs). Such excellent access will result in a significant increase in the financial literacy and inclusion index. Consequently, more financial industries are encouraged to be more innovative in creating financial products with multi sharia contracts. At the same time, the government needs to formulate more policies that can strengthen these alliances. It also needs to provide continuous related public education to improve people's awareness of Islamic financial institutions to gain higher trust.

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