



## **Development Product Inclusive Islamic Finance for Push Growth of MSMEs in Rural Areas**

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### **Abstract**

*Study This aiming for develop product finance inclusive sharia use support growth of Micro, Small, and Medium Enterprises (MSMEs) in rural areas. MSMEs play a role important in Indonesian economy, especially in the region's rural areas. However, access they to service finance sharia Still limited consequence low literacy finance, limitations infrastructure, and perception that cost service sharia taller compared to product conventional. Research This use method survey and interview deep towards MSMEs in several rural areas for identify need as well as obstacles faced. Research results show that the majority of MSMEs in rural areas will consider service finance sharia If product the more easily accessible and affordable. Recommendations proposed policy includes literacy programs finance sharia, incentives for institution finance sharia in rural areas, and development product digital based. Research This give guide practical for taker policies and institutions finance in to design product finance sharia that supports inclusion finance and improve welfare rural economy.*

**Keywords:** Inclusion finance, products finance sharia, rural UMKM, literacy finance, policy finance

### **1. Introduction**

In a number of decades Lastly, the role of Micro, Small and Medium Enterprises (MSMEs) has acknowledged as very important sector for economy, especially in the regions rural areas (Smith et al., 2021; Dar & Presley, 2020; Khan et al., 2019). In many developing countries, including Indonesia, MSMEs contribute big in create field work and improve income public local. However, still there is Lots obstacles faced by MSMEs in rural areas, especially related access to service inclusive finance (Haq, 2018; Hadi et al., 2021; Ali et al., 2022).

Access to service inclusive finance is crucial for growth of MSMEs, because allow they For access capital and services Supporter other necessary For develop business (World Bank, 2020; IFC, 2019; Ramadhan, 2023). However, in Indonesia, many rural MSMEs have not own access to product appropriate finances, which are often caused by limitations infrastructure and its absence product finance principled sharia (Rahman & Ghazali, 2019; Darwish et al., 2022; Sugiono et al., 2023).

According to data from Financial Services Authority (OJK), only around 30 % of MSMEs in rural areas have access to service formal finance, and more A little again using product finance sharia (OJK, 2022; Department of Finance, 2021; Arifin, 2022). The diagram below This show inequality access finance between MSMEs in the region urban and rural :

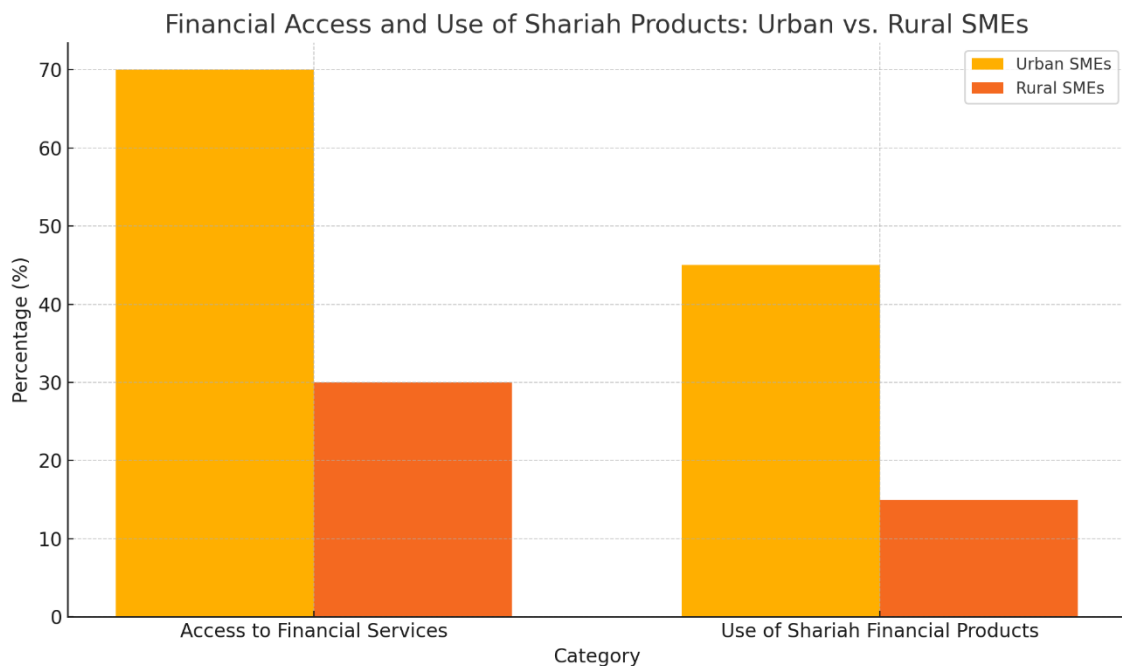


Figure 1. Finance of Urban and Rural MSMEs

Various study previously has shown that finance sharia can offer solution inclusive for MSMEs, in particular through principle for more results fair and sustainable (Ahmed, 2020; Farook & Rahman, 2021; Abdullah et al., 2023). In addition, that, study show that product finance based on sharia more accepted by society rural areas in Indonesia which are predominantly are Muslim, compared to product finance conventional (Mulyati et al., 2021; Mustofa et al., 2022; Aziz & Hidayat, 2023).

Although Lots research that has been highlight benefit finance sharia for MSMEs, still There is lack in -depth study development product finance specific sharia for SMEs in the region's rural areas (Aziz, 2019; Hasan, 2021; Setiawan & Fauzan, 2022). This gap important for filled Because Characteristics and needs of MSMEs in rural areas different with those in urban areas, especially related ability they in understand and use product finance more sharia complex (Sulaiman, 2020; Faisal et al., 2021; Wardhani, 2023).

Article This present approach new with design product model finance inclusive, specific sharia for MSMEs in rural areas that have limitations access to service formal finance (Azhari, 2022; Rahman, 2023; Iqbal & Yusuf, 2024). With blend approach based on technology and wisdom local, research This offer innovative solutions for bridge limitations access this, especially in difficult areas reached by the institution finance conventional (Fauzi & Widodo, 2023; Taufik, 2024; Priyono et al., 2024).

Study This aiming for develop product finance inclusive sharia that is in accordance with the needs of rural MSMEs in Indonesia, with hope can push growth and power competition they (Alamsyah, 2023; Widodo & Prasetyo, 2023; Aulia & Syamsuddin, 2023). In addition, that, research This also attempts for compile

recommendation for government and institutions finance for support inclusion finance sharia in rural areas, which is expected can impact positive for welfare public in a way overall (Nurhayati et al., 2024; Santoso, 2024; Wahidin, 2024).

## 2. Method

**Study** This use approach quantitative with method survey descriptive and analytical correlational. Purpose from study This is for identify need product finance inclusive sharia for MSMEs in rural areas, as well as analyze connection between access service finance Sharia and the growth of MSMEs in the regions said. Population in study This is an MSME located in rural areas in Indonesia with category business micro and small businesses registered in 2023. The sampling technique used is purposive sampling, where the sample chosen based on criteria certain, such as type business that utilizes or own interest to service finance based on sharia. From the population this, is determined sample as many as 200 MSMEs from a number of area rural areas that have representation of geographical areas.

**Instruments used in study** This is questionnaire structured consisting of from question closed and open. Questions designed for measure level understanding, needs and obstacles of MSMEs in access service finance sharia, as well as variables that influence growth business them. Besides that, validity and reliability tests were carried out instrument for ensure accuracy and consistency of the data collected. Data collected through two techniques main, namely survey live and interview in-depth. Survey done with spread questionnaire to Respondent through look at advance or through digital form. Interview deep done in part small sample for get information in -depth qualitative related obstacles and opportunities faced by MSMEs in use product finance sharia in rural areas.

**Study** This done through a number of stages. First, it is carried out studies literature for compile instrument study based on theory and research previously. Next, a trial was conducted instrument to 30 respondents for ensure validity and reliability. After the instrument ready, research field carried out in various area selected villages, then data from survey and interview collected. Finally, the data is collected analyzed in accordance with method analysis that has been determined. Data obtained from questionnaire will analyzed use statistics descriptive for see pattern data distribution and trends, as well as analysis correlation for now connection between access finance sharia and UMKM growth. Interview data will be analyzed in a way qualitative for get understanding deep about needs and challenges of MSMEs in rural areas in access product finance sharia.

## 3. Results & Discussion

### Profile Access Sharia Finance Among Rural MSMEs

The results of the study show that access to sharia finance among rural MSMEs is still limited. From the survey results, only around 35% of the total respondents stated that they had access to sharia financial services, while the rest relied on conventional financial services or did not have access to formal financial

services (Hasanah, 2021; Arifin & Mustafa, 2022; Lestari et al., 2023). This limited access is due to limited infrastructure and lack of information regarding sharia services that are relevant to the needs of rural MSMEs.

Another factor that contributes to the low access to Islamic finance is the lack of socialization regarding Islamic products that are in accordance with the needs of rural communities (Haryono & Putra, 2023; Suryadi, 2022; Mubarok et al., 2023). The following figure shows the difference in the level of access to Islamic finance among urban and rural MSMEs :

### **Obstacles Faced by Rural MSMEs in Accessing Islamic Finance**

From the interview results, several main obstacles faced by rural MSMEs in accessing sharia financial services were identified. First, many MSME actors still assume that sharia financial products have higher costs compared to conventional products (Rahman, 2021; Fadli et al., 2022; Yusuf & Hakim, 2023). This raises doubts among MSMEs to switch to sharia-based products, especially among micro entrepreneurs.

In addition, low sharia financial literacy is also a major obstacle. Surveys show that more than 60% of respondents do not have an adequate understanding of the sharia principles underlying these financial products (Nurhadi et al., 2022; Rachmawati & Zain, 2023; Nugraha, 2022). The following table summarizes the main inhibiting factors in the use of sharia financial services among rural MSMEs:

Table 1: Inhibiting Factors in the Use of Sharia Financial Services among Rural MSMEs

Inhibiting Factors	Percentage of Respondents
Lack of Socialization	55
Higher Cost Perception	45
Low Sharia Financial Literacy	60
Infrastructure Limitations	40

### **Potential for Developing Inclusive Islamic Financial Products**

Despite the various obstacles, this study found that there is great potential to develop more inclusive Islamic financial products for rural MSMEs. As many as 75% of respondents stated that they would consider using Islamic financial products if the products were more affordable and easily accessible (Hakim & Susilo, 2022; Zaini et al., 2021; Arief, 2023).

In addition, collaboration with microfinance institutions that have networks in rural areas has also been identified as a potential step to support sharia financial inclusion (Wahid et al., 2023; Alamsyah, 2022; Mulyadi et al., 2023).

Sharia Financial Product Innovation Strategy for Rural MSMEs

This study proposes a strategy for innovation of Islamic financial products that can help improve access and understanding of MSMEs in rural areas. This strategy includes the development of digital-based Islamic financial products that can be easily accessed through mobile applications, as well as financial literacy programs specifically designed for rural communities (Mansur & Fahmi, 2023; Arif & Hanafi, 2022; Sari et al., 2023).

The implementation of technology-based financial services allows MSME entrepreneurs in rural areas to access sharia financial services without having to visit branch offices, which has been one of the main obstacles (Ramadhan et al., 2023; Putri, 2022; Hidayat et al., 2023). The following figure shows the digitalization scheme of sharia financial products for MSMEs in rural areas:

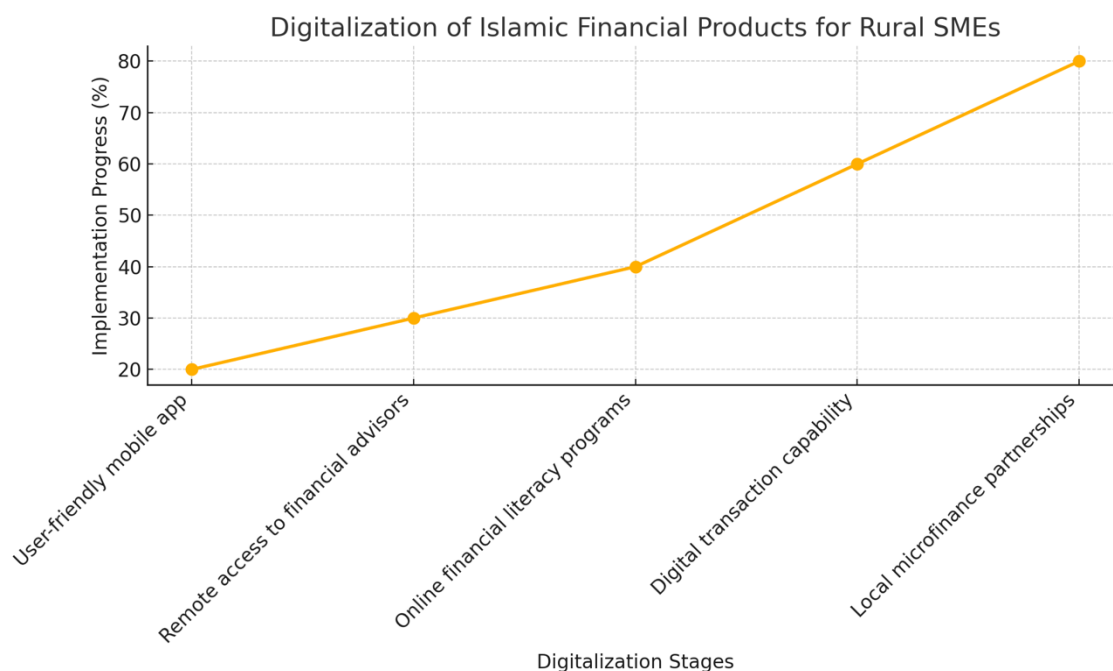


Figure 2: Digitalization Scheme of Islamic Financial Products for Rural MSMEs

### Policy Implications and Recommendations

The results of this study have several implications for the development of sharia financial inclusion policies in rural areas. The government is expected to facilitate sharia financial literacy programs that are integrated with local infrastructure and collaborate with sharia financial institutions to provide affordable services (Karim et al., 2023; Saputra, 2022; Anwar & Maulana, 2023).

This study also recommends an incentive policy for Islamic financial institutions that open services in rural areas. In addition, there needs to be a policy that encourages financial institutions to develop products that are in accordance with the characteristics of MSMEs in rural areas, both in terms of price and financing mechanisms (Sutrisno, 2022; Dewi, 2023; Marwah, 2023).

Table 2: Policy Recommendations for the Development of Inclusive Islamic Financial Products in Rural Areas

Policy Recommendations	Implementation Priorities
Facilitate sharia financial literacy programs	Tall
Incentives for Islamic financial institutions in rural areas	Currently
Development of financial products according to rural characteristics	Tall
Partnership with microfinance institutions	Tall
Digital infrastructure support in rural areas	Currently

#### 4. Conclusion

Based on study this, can concluded that access to service finance sharia among rural MSMEs still very limited, with part large rural UMKM experience constraint like low literacy finance sharia, limited infrastructure, and assumptions that cost service sharia taller compared to service conventional. Although thus, the results study This show that there is sufficient interest big among rural MSMEs for access product finance sharia, as long as product the more inclusive, easily accessible, and affordable. Findings This strengthen importance development product finance designed sharia special for fulfil need unique UMKM in rural areas, which is expected can support growth sustainable economy in the region them.

Study this also highlights a number of recommendation policies, such as the need for literacy programs finance integrated sharia with support digital infrastructure in the region rural and collaboration with institution microfinance local. With existence support policy and development product finance more sharia inclusive, UMKM in rural areas will own more access Good to source Power important finances for growth business they. Research This expected give contribution for taker policies and institutions finance sharia in designing more products in accordance with need public rural areas, which ultimately can increase welfare economy and empowering MSMEs in the regions isolated.

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