

Contribution of Sharia fintech to micro, small, and medium enterprises' inclusivity in Kisaran City

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ABSTRACT

Introduction

Challenges in access to inclusive financial services are still a major issue for many micro, small and medium enterprises in Indonesia, including in Kisaran City. However, research that specifically discusses this is still rarely carried out.

Objectives

This research aims to analyze the role of sharia fintech in increasing the inclusiveness of micro, small and medium enterprises in Kisaran City.

Method

This research uses qualitative approach with primary data is obtained by interviewing three MSMEs owners using Sharia fintech. Secondary data is collected from books, the internet, academic journals, archives, and official records.

Results

The results of this research show an increase in the use of Sharia Fintech by micro, small and medium enterprises in Kisaran City in 2020-2023. Apart from that, the use of Sharia fintech has a positive influence in increasing financial inclusiveness and encouraging the growth of micro, small and medium enterprises in Kisaran City.

Implications

Micro, small and medium enterprises can use financial services from sharia fintech to increase access to funding and to expand customer payment models. Policy makers can continue to increase the role of sharia fintech for inclusiveness of micro, small and medium enterprises through more certain regulations and also increasing public education.

Originality/Novelty

This study contributes to enrich studies in the field of financial inclusion for micro, small, and medium enterprises with emphasize on the use of fintech.

CITATION: Maharani, S., Nurbaity, & Dharma, B. (2024). Contribution of Sharia fintech to micro, small, and medium enterprises' inclusivity in Kisaran City. *Journal of Islamic Economics Lariba*, 10(1), 117-130. <https://doi.org/10.20885/jielariba.vol10.iss1.art7>

JEL Classification:

D24, D31, L10, Z12

KAUJIE Classification:

H34, M42, I7

ARTICLE HISTORY:

Submitted: February 3, 2024

Revised: February 19, 2024

Accepted: February 20, 2024

Published: February 21, 2024

KEYWORDS:

inclusive finance, inclusivity, micro, small, and medium enterprises, Sharia fintech

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PUBLISHER'S NOTE: Universitas Islam Indonesia stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector in Indonesia serves as a primary driver for job creation, economic growth, and the reduction of social disparities. One of the challenges faced by MSMEs is the lack of access to traditional financial services, such as the necessary financing to support their business expansion and development. This limited access often acts as a barrier to optimizing the potential of MSMEs (Ningsih et al., 2023; Setiani et al., 2020; Syamsulbahri, 2018).

Nowadays, there are many options available for conducting financial transactions thanks to technological advancements (Andiani & Maria, 2023; Nasution et al., 2020; Nugroho et al., 2023; Nusaibah, 2023). For those who prefer to leverage technology, the financial technology or fintech sector, also referred to as the technology-based financial industry, has quickly surpassed the Islamic finance sector in the financial business. The emergence of financial technology, commonly known as fintech, is acknowledged for helping meet the needs of creditors due to its continuously increasing appeal (Wulandari & Mangole, 2021). Transaction services are rapidly evolving, and fintech companies are gaining more recognition. Fintech, as a financial technology industry, is now compliant with stricter regulations designed to protect and monitor services that provide convenience and security. As a result, the Financial Services Authority (Otoritas Jasa Keuangan abbreviated OJK in Bahasa Indonesia) and the Fatwa DSN-MUI (Dewan Syariah Nasional Majelis Ulama Indonesia) regulate security protocols for both banks and fintech companies. These policies have strengthened the legal status of the fintech sector in Indonesia.

Islamic fintech is becoming increasingly popular in Indonesia because the majority of its population is Muslim, and they seek access to financial services in accordance with Sharia law. Islamic Fintech has emerged as an appealing alternative to provide more inclusive financial access for MSMEs while adhering to the principles of Sharia finance (Yahya et al., 2020). There are significant differences between Islamic Fintech and conventional fintech, as seen in the non-technology Islamic finance industry. As suggested in Table 1, during the period from 2020 to 2023, the number of Sharia and Conventional Fintech in Indonesia experienced an increase. Moreover, the total assets owned also saw a significant rise, and this figure is expected to continue increasing in each subsequent period.

Table 1

Conventional and Sharia Fintech in Indonesia. 2020–2023

Year	Number of Companies (Units)		Total Assets (IDR Billions)	
	Conventional	Sharia	Conventional	Sharia
2020	125	11	96.87	64,97
2021	121	9	107.33	218.43
2022	95	7	4,430.00	91.00
2023	94	7	6,905.00	139.00

Source: Otoritas Jasa Keuangan (2024b).

The core concepts that distinguish Islamic fintech from regular fintech lie in the fundamental principles. While conventional finance utilizes an interest-based system, Islamic fintech incorporates Islamic law. The guidelines for technology-based lending and borrowing services, released on December 26, 2016, under Peraturan OJK No. 77/POJK.01/2016, must be adhered to by both parties involved (Fitriana et al., 2021; Santi et al., 2017). In addition to OJK, consideration must also be given to Fatwa DSN MUI No. 117/DSN-MUI/II/2018 when discussing Islamic fintech. This fatwa follows Sharia law and relates to technology-based financial services. Compliance with Sharia principles is a significant difference between conventional service providers and Sharia service providers. This is due to the fact that Sharia believes that profit holds equal value in both the world and the afterlife, and service providers must aim to maximize their earnings in both aspects (Basrowi, 2020; Saripudin et al., 2021).

Despite its vast potential, Micro, Small, and Medium Enterprises (UMKM) often face challenges in accessing the financial resources needed for their growth and business development. Constraints such as limited access to financing, lack of financial management skills, and the insufficient reach of traditional financial services in specific regions pose obstacles to the development of UMKM.

Table 2

Number of Micro, Small, and Medium Enterprises, 2020-2023

Year	Number of Micro, Small, and Medium Enterprises
2020	35,704
2021	31,906
2022	39,565
2023	45,649

Source: Otoritas Jasa Keuangan (Otoritas Jasa Keuangan, 2024a)

The Micro, Small, and Medium Enterprises (MSMEs) sector is crucial for Indonesia's economy in the era of globalization and the fourth industrial revolution. MSMEs not only serve as a cornerstone in job creation but also support inclusive economic growth in various regions, including Kisaran City. However, UMKM often faces challenges in accessing financing, technology, and market entry, limiting its growth potential (Muzdalifa et al., 2018).

In the context of Indonesia, where the majority of the population is Muslim, Sharia compliance becomes essential. The customer demand for financial solutions adhering to Sharia standards has given rise to the idea of Sharia fintech. Therefore, the analysis of the role of Sharia fintech in enhancing MSMEs inclusivity in Kisaran City becomes crucial (Miliantari et al., 2022).

As the capital of Asahan Regency, Kisaran City was established on April 30, 1980. The city comprises two districts, Kisaran Barat and Kisaran Timur. Positioned across the North Sumatra Trans Rail and Sumatra's Trans-Sumatran highway, Kisaran City plays a vital role as a regional economic center in North Sumatra Province, Indonesia (Prasetya & Wahyuni, 2020; Pratama, 2021; Sabrina, 2023). Despite its significant potential for UMKM development, Kisaran City faces challenges in accessing inclusive

financial services. Being the sole capital city located in Asahan Regency, Kisaran City attracts local residents and newcomers, making it a preferred place to work, especially due to the abundance of UMKM. The central point of Kisaran City is marked by a unique shell-shaped building, a distinctive feature of the Asahan region.

Therefore, a comprehensive analysis of how Sharia fintech can contribute to enhancing UMKM inclusivity in Kisaran City is crucial. In this context, this research is conducted with the aim of analyzing the role of Sharia fintech in improving MSMES inclusivity in Kisaran City. By examining the profiles of MSMES, their perceptions and usage of Sharia fintech, as well as the resulting impacts, this study aims to provide a deeper understanding of the potential of Sharia fintech as a solution to overcome the financial access barriers faced by MSMES.

LITERATURE REVIEW

Previous Studies

Rangkuti et al. (2023) revealed findings regarding financial services or products utilizing technology based on Sharia principles, known as Sharia fintech. The objective of this research is to understand how Sharia fintech can assist MSMES in Medan City in obtaining more inclusive financing. What obstacles exist in using fintech to provide inclusive financing for MSMES in Medan City? What potential risks arise in carrying out this task? Both primary and secondary data sources are utilized to obtain qualitative data for this research. Documentation, interviews, and literature reviews are employed as data collection methods to draw conclusions from the analysis. For this study, the owners of Warung Qu and Batik Siti Khadijah were interviewed in great detail. The research indicates that fintech facilitates MSMES by optimizing transactions. Fintech transactions are currently more reliable, secure, faster, and easier to understand. In an effort to streamline MSMES's financial administration, fintech incorporates financial management components. The use of fintech by MSMES is associated with an increased risk of cybercrime, including online crimes such as fraud and account breaches. Human resources (HR) hinder the launch of fintech because they still lack fundamental knowledge of technology.

Subsequent, Nurdin et al. (2020) also discussed the potential risks that fintech consumers may face. These risks include financial, time, performance, psychological, and physical health-related risks. The study revealed additional risks such as missed repayments that were overlooked by previous researchers. The purpose of this article is to provide information and educate readers, especially those related to Sharia Financial Technology. Therefore, it is expected that academics will shift towards more comprehensive research. The community, especially the Muslim community, will adopt Islamic economics and even advance Sharia fintech that fully opposes usury after reading this research.

Nurbaiti et al.'s (2023) results related to Micro, Small, and Medium Enterprises (MSMES) in Indonesia are projected to face fewer challenges with the presence of Sharia financial technology (fintech) as a legitimate financial actor. The purpose of this research is to investigate potential behavioral differences between MSMES actors

using conventional fintech funding and those using Sharia fintech loans. Normative legal research is the methodology used in this study, consisting of a study of relevant studies, laws, and regulations to address the issues raised in this research. By analyzing relevant legal norms using legislative and conceptual methodology, this study seeks to determine the differences between conventional and Sharia peer-to-peer lending fintech and the extent to which Sharia law is applied in these fintechs. The findings of this study show the significant contribution made by Sharia fintech to the expansion of MSMEs, or Micro, Small, and Medium Enterprises, in Indonesia. Sharia fintech can help MSMEs in Indonesia overcome several obstacles, especially those related to capital limitations, transaction ease, market expansion, and the simplicity of financial reporting.

Sharia Fintech

Fintech refers to the business sector that utilizes technology to provide financial and banking services. Fintech aims to make financial services and products more accessible to the general public, including the ability to engage in financial transactions. Moreover, the presence of fintech is expected to enhance financial literacy among the population ([Marlina & Fatwa, 2021](#)). Basic Sharia rules also apply to financial management in the Sharia financial system. The Quran and Sunnah, the fundamental texts of Islam, serve as the legal sources of Sharia. Sharia principles, based on fatwas issued by approved bodies, are equivalent to Islamic law in Indonesian banking and finance.

Requirements, terms, and foundations of Sharia Fintech must comply with Sharia law. Sharia fintech contracts should not involve Maysir, Tadbis, Dharar, or Gharar and should not contradict Islamic law. However, some drawbacks with fintech have made people more cautious in using it. Additionally, there's a possibility that the loans it provides are limited due to their smaller size and available resources compared to banks ([Dhiyaulhuda et al., 2022](#)).

The financial solution services offered by technology companies that adhere to Sharia principles are known as Sharia Fintech. Therefore, Sharia fintech must adhere to the fundamental principles of Islamic law. This system is based on Islamic laws and regulations regarding the giving and receiving of loans, especially those related to usury or interest, as well as the prohibition of participating in illegal (*haram*) commercial ventures unsupported by traditional financial institutions.

Sharia Fintech differs from conventional fintech in several ways. Sharia fintech operates under standards set by the Financial Services Authority (OJK) and bases its financial operations on Islamic law. Fatwas issued by the National Sharia Board of the Indonesian Ulema Council (DSN-MUI) must also be adhered to by Sharia fintech. Following Sharia principles, Sharia fintech rejects the interest system because it is inconsistent with Islamic teachings and involves usury. Various contracts are required to finalize Sharia fintech financing, including:



- a. Murabahah: A sales agreement that occurs when the consumer sells a needed item to the Sharia financing company. The borrower then resells the item to another client with a predetermined profit.
- b. Ijarah Wa Iqtina: A leasing agreement that functions similarly to a murabahah contract, where an Islamic financial operator purchases the desired product for the lessee. The borrower then rents out the item, with the option for the client to purchase it later. The object is leased for a specific period until ownership is transferred.
- c. Musyarakah Mutanaqishah: Consumers and fintech companies sponsor the Musyarakah Mutanaqishah initiative. Everyone will contribute a certain amount of money for a specific item, where clients can buy shares in Sharia fintech providers. This indicates that consumers can collectively own the item.

The potential to improve the financial performance of micro, small, and medium enterprises (MSMES) is one of the main advantages of Sharia Financial Technology or Sharia Fintech. Therefore, for MSMES to benefit from Sharia Fintech, they need to make some adjustments. Researchers believe that MSMES players will be able to maximize the benefits of Sharia Fintech if they understand its functions. MSMES is one type of business expected to thrive and grow to provide the foundation for a fair economic democracy to become the national economic foundation. There are three types of MSMES: culinary businesses, including all MSMES engaged in various food and beverage sectors; fashion, including all MSMES engaged in clothing sales; agribusiness, including all MSMES engaged in agriculture ([Hidayat et al., 2021](#)).

Inclusivity

Inclusivity has emerged as a fundamental principle in various sectors of modern society, including education, business, culture, and government. The concept of inclusivity emphasizes the importance of accommodating and appreciating diversity in all aspects of life, ensuring that everyone has equal opportunities to develop, engage, and be productive. In the era of increasing global connectivity, inclusivity has become a core value necessary for building a sustainable and harmonious society ([Fathy, 2019](#)).

In previous eras, societies were often trapped in exclusive norms, limiting access and opportunities for individuals who differed in terms of ethnicity, religion, gender, ability, and socio-economic background. However, awareness of the benefits of inclusivity is growing. One area where inclusivity plays a significant role is education. Inclusive education aims to provide a learning environment that supports all students, including those with special needs. This approach promotes collaborative learning and recognizes the unique potential of each individual. By implementing this approach, education seeks to overcome stigma and barriers, helping individuals achieve their full potential ([Kristyanto & Kaluge, 2018](#)).

In addition to education, the business world is also increasingly realizing the value of inclusivity. Companies that adhere to inclusive principles tend to be more innovative and can access a variety of talents and ideas from diverse backgrounds.

Tapping into creative potential from diverse individuals helps create broader and deeper solutions to business challenges. Moreover, an inclusive approach in the workplace also helps reduce social and economic disparities and promotes diversity in leadership and decision-making (Hidayanti et al., 2023; Nelson et al., 2023).

Inclusivity is not only crucial in social and economic aspects but also has a significant impact in the cultural domain. The world of arts, literature, and entertainment is increasingly recognizing the importance of representing diverse human experiences. Inclusive works not only value individual identities and stories but also help educate and promote empathy among a wider audience (Adinda & Santoso, 2022).

Governments also play a crucial role in promoting inclusivity through policies and regulations. It is their responsibility to provide a fair and equal environment for every member of society, regardless of their background or identity. Inclusive policies include full access to healthcare, employment, and education services, and they are also responsible for protecting personal property rights and human rights. In conclusion, inclusivity is crucial for building a fair, sustainable, and peaceful society. This concept teaches us to appreciate diversity as a wealth, not an obstacle. By embracing inclusivity in various aspects of life, we can create a society where everyone has an equal opportunity to thrive and contribute positively, making it stronger and more tolerant (Hartati, 2021; Prabandari, 2018).

Micro, Small, and Medium Enterprises

Micro, small, and medium enterprises (MSMEs) are productive business units that stand alone, conducted by individuals or business entities in all sectors of the economy (Hanim & Noorman, 2018). Furthermore, Law Number 9 of 1999 defines the MSMEs definition, but in response to the continuously shifting growth conditions, Law Number 20 Article 1 of 2008 concerning Micro, Small, and Medium Enterprises has amended this definition. Here is the latest definition of MSMEs. Micro enterprises are productive businesses that meet the legal criteria to be classified as micro-enterprises and are owned by individuals or specific business groups. Small enterprises are independent and successful projects that meet legal criteria categorized as small companies. These companies can be privately owned, operated privately, or run privately and are not part of or subsidiaries of large or medium-sized companies. Small businesses can be defined as independently owned landowners in agriculture managed by employees; traders in wholesale markets and other collection activities; craftsmen in the ready-made clothing, handicrafts, food and beverages, household appliances, as well as wood and rattan furniture industries; and small-scale cooperatives that raise chickens, ducks, and fisheries.

Profitable projects categorized as medium enterprises are projects managed independently by individuals or groups that are not affiliated with, controlled by, or owned by small or large businesses. They are defined by this law as having a net worth or annual sales revenue. Large enterprises include joint ventures, foreign companies conducting business in Indonesia, and state-owned or privately owned

national companies. Large companies are profitable organizations with a net worth or annual sales revenue higher than medium-sized companies.

Micro, small, and medium enterprises are commercial enterprises with the potential to create jobs and provide various financial services to the public. These businesses can also drive the economy, promote equality and economic progress, and enhance national stability. Furthermore, without diminishing the importance of large companies and state-owned enterprises, micro, small, and medium enterprises—one of the main pillars of the national economy—must be given the opportunity, support, protection, and development as a firm commitment to the economic interests of the people (translated from [Hanim & Noorman, 2018](#)).

METHOD

This research uses qualitative approach emphasizing a comprehensive understanding of a subject. Furthermore, this research is descriptive and typically uses an inductive approach for analysis. Primary data is obtained directly from original or first-hand sources by interviewing three MSMEs owners using Sharia fintech. These three MSMEs owners operate a meatball and fried rice stall, mobile phone stall, and a wholesale food and a *panglong* (wood selling stall). Secondary data for this research are collected from different sources such as books, the internet, academic journals, archives, and official records. The findings of this study were examined through the application of qualitative and descriptive techniques. Steps taken in data analysis techniques include data reduction, data display, and conclusion and verification.

RESULTS AND DISCUSSION

[Table 3](#) shows the number of MSME actors using Sharia fintech in Kisaran City from 2020 to 2023. Based on the graph, it is evident that the number of MSME actors using Sharia fintech has significantly increased. In 2020, the percentage of MSME actors using Sharia fintech was only 40%. However, in 2021, this number increased to 54%. In 2022, it further increased to 70%. And in 2023, it rose to 78%. The increase in the number of MSME actors using Sharia fintech indicates the growing number of MSMEs utilizing Sharia fintech, highlighting the importance of Sharia fintech for the financial inclusion of MSMEs.

Table 3

Number of MSMEs Using Sharia and Conventional Fintech in Kisaran City. 2020–2023

Year	MSMEs Using Sharia Fintech		MSMEs Using Conventional Fintech	
	<i>N</i>	%	<i>N</i>	%
2020	43	24.73%	56	24.79%
2021	58	24.92%	73	25.00%
2022	75	25.14%	78	25.07%
2023	80	25.21%	83	25.14%

Source: Badan Pusat Statistik

There are several factors contribute to the increase in the number of MSME actors using Sharia fintech:

- a. Increased awareness of the importance of financial inclusion. People are becoming more aware of the importance of financial inclusion, especially for MSMEs. Sharia fintech offers various financial products and services that can help MSMEs develop their businesses, such as financing, funding, and financial management.
- b. Increased internet penetration. The growing number of internet users may be a cause of the increased use of Sharia fintech among MSME entrepreneurs. Sharia fintech provides online access to various financial services and goods, making it easier for MSMEs to access them.
- c. Increased regulation supporting Sharia fintech. The Indonesian government has issued various regulations supporting the development of Sharia fintech. Regulations such as Financial Services Authority (OJK) Regulation No. 13/POJK.05/2018 on Facilitating Sharia Financing for Micro, Small, and Medium Enterprises (MSMEs) have been created to aid the growth of Sharia fintech. MSMEs now have easier access to Sharia financing thanks to these regulations.

Sharia fintech makes a significant contribution to the financial inclusion of MSMEs. With Sharia fintech providing various financial services and solutions, MSMEs can develop their businesses. With the increasing number of MSME actors using Sharia fintech, it is expected to improve the well-being of the community. To enhance financial inclusion for MSMEs through Sharia fintech, several steps need to be taken:

- a. Enhancing Sharia financial literacy. Educating the public about Sharia finance is crucial, especially concerning MSMEs. Understanding the financial products and services offered by Sharia fintech will be easier with a foundation in Sharia finance.
- b. Improving Sharia fintech accessibility. Efforts should be made to improve Sharia fintech accessibility for MSMEs. This can be achieved by increasing internet penetration in Indonesia and providing training and mentoring to MSMEs in using Sharia fintech.
- c. Enhancing regulations supporting Sharia fintech. Efforts should be made to improve regulations supporting Sharia fintech. Regulations supporting Sharia fintech will provide legal certainty and security for MSMEs in using Sharia fintech.

Sharia Fintech emerges as an attractive alternative to provide more inclusive financial access for MSMEs while maintaining compliance with Sharia financial principles. One type of company expected to grow and thrive is the MSME sector, which will be the backbone of the nation's economy, laying the foundation for a just economic democracy.

Observations and interviews show that the number of Sharia Fintech users in Kisaran City between 2020 and 2023 continues to increase. The number of MSME

actors has increased along with the rising number of MSME actors. In 2021, there was an increase of 14% from 2020. In 2022, there was an increase of 16% from 2021. In 2023, there was a significant increase of 8% from 2022. This indicates that the use of Sharia Fintech in Kisaran City has a positive impact on the economic improvement of Kisaran City. Although more people still use conventional MSMEs, based on the research conducted, Sharia MSMEs are increasingly favored by the public with various conveniences provided. However, MSME actors in Kisaran City continue to face challenges in growth and economic inclusivity.

Regarding MSME inclusivity, Sharia fintech has great potential to promote financial inclusion and drive MSME expansion in Kisaran City due to its transparency. This increase shows how Sharia fintech facilitates MSMEs' access to financing, thus driving economic expansion. Sharia fintech, in accordance with Islamic law, provides a more transparent financial solution for MSMEs. It has been proven that Sharia fintech can increase income, drive expansion, and assist in the economic rehabilitation of MSMEs. Sharia financial technology has proven successful in Kisaran City in advancing financial inclusion and MSME economic growth.

Preliminary research conducted by previous researchers aligns with the results of this study, emphasizing the role of Sharia fintech in increasing MSME profits, efforts by Sharia fintech to drive the acceleration of MSME growth, and the role of Sharia fintech in economic recovery. In an effort to enhance accessibility and inclusivity of MSMEs to financial services, Sharia fintech has emerged as a potential solution. Fintech provides new opportunities to expand financing access, reduce bureaucracy, and optimize business processes. On the other hand, to meet Sharia values, an alternative offering fair financial solutions consistent with Islamic financial rules is the idea of Sharia fintech, which is transparent and ethical.

CONCLUSION

Based on the results and discussions, it can be concluded that there is an increase in the use of Sharia Fintech in line with the growing number of MSME actors in the Kisaran City from 2020 to 2023. In 2021, there was an increase of 14% from 2020. In 2022, there was a further increase of 16% from 2021. In 2023, there was a significant increase of 8% from 2022. This indicates that the use of Sharia Fintech in Kisaran City has a positive impact on the economic improvement of Kisaran City. However, MSME actors continue to face challenges in growth and economic inclusivity. Fintech has emerged as a potential solution, providing new opportunities to expand financing access, reduce bureaucracy, and optimize business processes. On the other hand, to adhere to Sharia values, an alternative that offers fair financial solutions consistent with Islamic financial rules is the idea of Sharia fintech, transparent, and ethical. Sharia Fintech has proven effective in enhancing financial inclusivity and driving the economic growth of MSMEs in the Kisaran City.

This research recommends several things that can be done to increase the inclusiveness of micro, small and medium enterprises, especially in Kisaran City. Micro, small and medium enterprises can use financial services from sharia fintech to

increase access to funding and to expand customer payment models. Policy makers can continue to increase the role of sharia fintech for inclusiveness of micro, small and medium enterprises through more certain regulations and also increasing public education.

This research has a number of weaknesses, especially in terms of the sample used. This research uses a sample of three micro, small and medium enterprises in Kisaran City. Thus, the generalization of the results of this study is very limited to the sample studied. It is hoped that further research will be carried out using more samples so that it can provide adequate generalization for research in a city.

Author Contributions

Conceptualization	S.M., N., & B.D.	Resources	S.M., N., & B.D.
Data curation	S.M., N., & B.D.	Software	S.M., N., & B.D.
Formal analysis	S.M., N., & B.D.	Supervision	S.M., N., & B.D.
Funding acquisition	S.M., N., & B.D.	Validation	S.M., N., & B.D.
Investigation	S.M., N., & B.D.	Visualization	S.M., N., & B.D.
Methodology	S.M., N., & B.D.	Writing – original draft	S.M., N., & B.D.
Project administration	S.M., N., & B.D.	Writing – review & editing	S.M., N., & B.D.

All authors have read and agreed to the published version of the manuscript.

Funding

This study received no direct funding from any institution.

Institutional Review Board Statement

The study was approved by Prodi Studi Ekonomi Islam (S1), Universitas Islam Negeri Sumatera Utara Medan, Medan, Indonesia.

Informed Consent Statement

Informed consent was obtained before respondents answered the questions.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

Acknowledgments

The authors thank Prodi Studi Ekonomi Islam (S1), Universitas Islam Negeri Sumatera Utara Medan, Medan, Indonesia, for administrative support for the research on which this article was based.

Conflicts of Interest

The authors declare no conflicts of interest.

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