

The Role of Sharia Economy in Building Sustainable MSMEs in Indonesia

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ABSTRAK

MSMEs play an important role in driving national economic growth, creating jobs, and improving community welfare. However, MSMEs still face various challenges such as access to capital and business guidance. The Sharia economy has emerged as a solution for empowering MSMEs through the principles of justice, transparency, and adherence to Sharia-based values. This article discusses how the Sharia economy can support MSME empowerment through various instruments such as Islamic financial institutions, zakat, infaq, alms, and productive waqf. The research method used was a literature review using a descriptive-qualitative approach. The results of the study indicate that the optimal application of Sharia economic principles can make MSMEs more competitive and contribute to equitable welfare distribution among Indonesian people.

INTRODUCTION

MSMEs are one of the backbones of Indonesia's economy. According to data from the Ministry of Cooperatives and SMEs, by 2023, there were more than 65 million MSME actors in Indonesia, absorbing around 97% of the national workforce and contributing over 60% of the Gross Domestic Product (GDP). Nevertheless, MSMEs still face various challenges, particularly in terms of access to financing, marketing, and human resource development (KemenkopUKM, 2023).

In addition to these internal factors, the external challenge currently faced by MSMEs is increasing global competition. In the era of globalization and free trade, MSMEs in Indonesia are required to compete with imported products with competitive quality and pricing. This necessitates empowerment strategies that focus not only on financial aspects, but also on strengthening production capacity, marketing, and product innovation.

Limited access to affordable funding sources is one of the main factors causing stagnation in the growth of MSME. Conventional financial institutions often impose rather strict requirements, particularly regarding collateral, which most MSME actors cannot meet. In addition, the adoption of digitalization among MSME players is still not optimal, resulting in many small business owners struggling to utilize technology to expand their markets.

However, the rapid development of digital technology should serve as a strategic opportunity for MSME growth. Digitalization enables MSMEs to transform their businesses through online marketing, e-commerce, and digital payment. Unfortunately, most MSME actors face obstacles to accessing and understanding this technology.

The Sharia economy is an economic system based on Islamic values that upholds justice, honesty, and transparency. One of the main principles of the Sharia economy is the prohibition of usury (interest), which is replaced by the profit- and loss-sharing concept. This provides MSME actors with greater opportunities to access fairer and less burdensome capital (Antonio 2011).



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Beyond financing, the implementation of the Sharia economy also includes social and spiritual approaches oriented towards the holistic empowerment of the community. The instruments zakat, infak, sadaqah, and waqf (ZISWAF) are important elements for supporting sharia-based MSME empowerment. These social funds not only provide financial assistance but also serve as a means to improve societal welfare through productive economic activities.

Empowering MSMEs through the Sharia economy is not only related to financial aspects but also encompasses social and spiritual aspects. With support from Sharia financial institutions as well as optimizing the potential of zakat, infak, sadaqah, and waqf (ZISWAF), it is hoped that MSMEs can develop more rapidly and sustainably. In addition, the integration of economic empowerment and spiritual character building has become a unique appeal of the Sharia economic system.

Given the significant role that MSMEs play in the Indonesian economy and the unique value propositions offered by the Sharia economic system, it is imperative to explore how this system can effectively address the multifaceted challenges faced by MSMEs (Ascarya, 2020). This study examines the current obstacles encountered by MSMEs, the contributions of the Sharia economic framework, and practical implementations that have emerged in Indonesia (Hudaefi & Beik, 2021). Moreover, it will analyze strategic directions to strengthen the role of Sharia economics in empowering MSMEs, including the integration of digital financial services, utilization of productive waqf, and involvement of academic institutions in research and development (Rahman, Huda, & Zainul, 2020).

By presenting a comprehensive view of these aspects, this study aims to contribute to a deeper understanding of how Islamic economic principles can serve as an alternative and complementary model to conventional systems in promoting inclusive and sustainable MSME growth in Indonesia (Ihsan & Hapsari, 2021). The adoption of profit-and-loss sharing schemes such as *mudharabah* and *musyarakah* reduces the financial burden on entrepreneurs, allowing for more equitable access to capital (Antonio, 2011). In addition, social funds, such as zakat, infak, sadaqah, and waqf (ZISWAF), have proven effective in supporting MSMEs that are otherwise excluded from the formal financial system (Adnan & Ajija, 2015). These instruments not only support financial inclusion but also encourage the integration of spiritual values into economic behavior, which is a distinct feature of the Sharia economy (Suprayogi et al., 2022).

LITERATURE REVIEW

A. The Concept of Sharia Economics

Sharia economics is an economic system based on the Qur'an, Hadith, Ijma', and Qiyas. Its main objective is to achieve social justice and community welfare through equitable distribution of wealth (Ascarya, 2020). One of the main instruments in Sharia economics is Sharia financial institutions such as Islamic banks, Baitul Maal wat Tamwil (BMT), Sharia cooperatives, and Sharia fintech.

B. The Role of MSMEs in the National Economy

MSMEs make a significant contribution to national economic development. In addition to providing employment, MSMEs play a role in promoting economic equality, even in remote areas. However, access to capital remains one of the biggest obstacles to the growth of MSMEs. (Tambunan, 2019).

C. Comparison of Conventional and Sharia MSME Empowerment Models

The conventional model of MSME empowerment tends to focus on loan interests with a fixed interest scheme, which can create an additional burden for small business owners. By contrast, the Sharia model places greater emphasis on profit-sharing principles, where risks and profits are shared jointly between business owners and financial institutions.

D. Sharia Economic Instruments for Empowering MSMEs

Sharia Financial Institutions provide access to capital based on Sharia principles, such as *mudharabah*, *musyarakah*, *murabahah*, and *ijarah* contracts. Profit-sharing-based financing is more flexible and fair for the MSME actors. Zakat, Infak, Sadaqah, and Productive Waqf: Zakat funds and productive waqf can be used to finance MSMEs operating in the real sector. This model promotes community economic empowerment while also serving to alleviate poverty (Fauzia, 2014). Assistance and Education: Empowering MSMEs is not only limited to access to capital but also includes business mentoring, business management education, and business digitalization so that MSMEs can compete in the global market.



E. The Development of Sharia Fintech

Sharia fintech is emerging as an important instrument for supporting MSME financing. With easy access through digital applications, Sharia Fintech can reach MSME players in areas that are difficult for formal financial institutions to access. According to OJK Syariah (2024), the number of Sharia fintech companies will increase from five in 2020 to 15 active companies by 2024. This is evidence that sharia-based digitalization is beginning to be accepted by a wider community.

SUCCESSFUL CASE STUDY OF SHARIA-BASED MSMEs

A successful example of implementing the Sharia economy to empower MSMEs can be seen in various programs that have been running in Indonesia. One such example is the Bank Wakaf Mikro (BWM) program, which operates in Islamic boarding schools. A concrete case is BWM Al Ittifaq in Bandung, West Java, which succeeded in mentoring more than 1,000 MSME actors around the boarding school. BWM Al Ittifaq provides interest-free financing using the qardhul hasan contract scheme, which is a benevolent loan that does not burden business owners. In addition, this BWM offers intensive assistance, business training, and financial management strengthening for beneficiaries. The key to the success of this program lies in its interest-free financing model, intensive mentorship, and community-based approach.

The success of BWM Al Ittifaq cannot be separated from the active role of Islamic boarding school administrators in building close social relationships with the surrounding communities. Through a community-based approach, the financing program provided serves not only as financial aid but also fosters a sense of collective responsibility among community members. This has a positive impact on the sustainability of MSME businesses, as they feel supported both morally and materially.

Another example is the productive zakat program managed by the National Amil Zakat Agency (BAZNAS) and philanthropic institutions, such as Dompot Dhuafa. One of their flagship programs is "Lumbung Pangan," which supports small-scale farmers in various regions. This program not only provides business capital assistance to farmers but also includes guidance on the production, processing, and distribution of agricultural products to markets. With this holistic approach, beneficiary farmers can increase their agricultural productivity, expand their markets, and raise their household income.

Additionally, there is a productive waqf program, such as "Wakaf Mart," in West Java. Wakaf Mart is a retail development program based on waqf that empowers local MSMEs to market flagship products. This concept combines waqf fund management with modern retail business activities, thus creating a sustainable source of income, while supporting the growth of local MSMEs. Wakaf Mart serves not only as a distribution channel for products but also as a center for entrepreneurship training for the surrounding community.

The success of these programs demonstrates that the implementation of the Sharia economy for MSME empowerment holds great potential for improving community welfare. With the productive management of Sharia social funds and intensive support, MSMEs can grow independently and competitively. This sharia-based empowerment model also illustrates strong synergy between financial institutions, social organizations, the government, and the community.

Data on the Contribution of Sharia Institutions to MSMEs

Year	Number of MSMEs Receiving Sharia Financing	Total Financing(Rp)
2021	1.200.000	7,5 Trillion
2022	1.500.000	9,3 Trillion
2023	1.750.000	12,1 Trillion

Source: OJK Sharia Report, 2024

Going forward, models such as the BWM, productive zakat, and productive waqf need to be replicated in various regions throughout Indonesia. By expanding the reach of beneficiaries and increasing the capacity of managing institutions, it is hoped that sharia-based MSME empowerment will become even more effective in supporting equitable and sustainable community economic growth.

GOVERNMENT POLICY STRATEGY

The Indonesian government, through the National Committee for Sharia Economy and Finance (KNEKS), formulated strategies for developing sharia-based MSMEs with a focus on several key mutually supportive aspects. These strategies were designed to strengthen the role of the Sharia economy in the comprehensive and sustainable empowerment of MSMEs.

Strengthening the Sharia Financial Ecosystem

The strengthening of the Sharia financial ecosystem is carried out by encouraging the growth and reinforcement of Sharia-based financial institutions, including Sharia banking, Sharia cooperatives, Sharia fintech, and Sharia insurance. The government supports policies that enable these institutions to have a greater capacity to provide financing to MSMEs. In addition, collaboration between financial and Sharia social institutions is encouraged so that they are integrated into an economic ecosystem that supports MSME growth. This includes support for research and innovation of Sharia financial products that better meet the needs of MSME players.

Improving Sharia Economic Literacy

Low public literacy regarding Sharia economic products and principles is one of the main challenges in the development of sharia-based MSMEs. Therefore, KNEKS and related institutions conduct ongoing educational and outreach programs through formal educational institutions, Islamic boarding schools (pesantren), and training involving MSME actors. This literacy improvement encompasses not only an understanding of Sharia financial products but also education in entrepreneurship, Sharia financial management, and an understanding of rights and obligations in Sharia contracts. With increased Sharia economic literacy, it is expected that MSME actors will have greater confidence in utilizing Sharia financial products.

Digitalization of Sharia-Based MSMEs

Digitalization is a strategic measure in the era of globalization and the fourth industrial revolution (Industry 4.0). The digitalization of sharia-based MSMEs aims to facilitate MSME access to Sharia financial services, online product marketing, and information related to Sharia empowerment programs. Strengthening digital infrastructure by the government, collaborating with sharia-based digital platforms, and improving human resource capacity in mastering technology are concrete steps toward realizing this digitalization. Digitalization is also expected to support the transparency of Sharia financial transactions, thereby strengthening public trust in the Sharia economic system.

Integration of Social Programs (Zakat, Waqf) with MSME Empowerment

Sharia-based social programs such as zakat, infaq, alms, and waqf (ZISWAF) represent significant potential that can be utilized to promote MSME empowerment. The government encourages the use of productive zakat and waqf funds, not only for the consumptive needs of the poor but also for supporting productive economic activities. The integration of productive zakat programs with MSME financing aims for beneficiaries to not only receive temporary aid but also become economically self-sufficient in the long term. Furthermore, synergy between zakat institutions, Sharia financial institutions, and the government must continue to be enhanced so that social program management can be conducted more effectively and efficiently.

With these strategies in place, it is expected that sharia-based MSMEs in Indonesia will be able to grow more rapidly, become more competitive, and make a tangible contribution to improving public welfare and supporting Indonesia's vision as a global center for the Sharia economy.

METHOD

This study employed a literature study (library research) method with a descriptive-qualitative approach. The literature study was chosen because it aligns with the research objective of exploring various concepts, theories, and practices related to the role of the Sharia economy in empowering MSMEs in Indonesia. Using this method, the author reviews and analyzes various relevant theoretical and empirical references.

The data collection procedure in this study was performed using the following steps.

1. Identification of Sources: The data sources used consist of scientific books, research journals, annual reports of Sharia financial institutions, government reports, and policy documents from relevant institutions, such as the Financial Services Authority (OJK), the National Zakat Agency (BAZNAS), and the National Sharia Economic and Finance Committee (KNEKS).
2. Literature Selection: The selected literature comprises publications from the last ten years, prioritizing the most recent sources to ensure that the data and information obtained remain relevant to current conditions.
3. Data Collection: After selecting the literature, data collection was conducted by recording important sections relevant to the focus of the research, whether related to the concept of the Sharia economy, development of MSMEs, or relevant case studies.
4. Data Classification: The collected data were then classified based on themes such as the basic concepts of the Sharia economy, the roles of Sharia financial institutions, the implementation of ZISWAF programs, and the challenges and strategies in MSME empowerment.

The data analysis technique used in this study employs a content analysis approach. Content analysis was conducted by reviewing the contents of various collected references to identify patterns, conceptual trends, and relationships between variables relevant to the research topic.

Additionally, to support data validity, a source triangulation process was conducted by comparing information from various references to ensure the accuracy of the information used. Thus, the results of the analysis presented in this study have strong theoretical and empirical foundations.

The findings from this method are then systematically arranged to provide a comprehensive overview of how the Sharia economy plays a role in empowers MSMEs in Indonesia. The results are presented descriptively with the aim of providing readers with a thorough and in-depth understanding of the issues discussed.

RESULTS AND DISCUSSION

A. Challenges Faced by MSMEs in Indonesia

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy. However, their development is hindered by various challenges that limit their growth and sustainability, including

1. Limited Access to Capital from Conventional Financial Institutions
Many MSMEs lack sufficient collateral or strong credit history, making it difficult for them to secure loans from traditional banks. Complex procedures and high interest rates restrict the access to financing.

2. Low Levels of Financial Literacy and Business Management Skills
A significant number of MSME owners are not well versed in financial planning, bookkeeping, risk management, or business strategy, resulting in inefficiencies and missed growth opportunities.
3. Restricted Access to Markets and Technology
MSMEs often struggle to penetrate wider markets owing to limited distribution networks, branding capabilities, and the utilization of digital tools such as e-commerce and online marketing platforms.

B. The Contribution of Sharia Economics to MSMEs

Sharia economics offers inclusive and sustainable solutions for MSMEs based on the principles of justice, partnership, and mutual benefits. Its key contributions include the following.

1. Interest-Free Financing through Mudharabah and Musyarakah Contracts
These profit-and-loss sharing schemes allow MSMEs to access capital without bearing fixed interest payments, thus fostering a partnership model between entrepreneurs and investors.
2. Utilizing ZISWAF Funds as Alternative Capital Sources
Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) funds can be allocated to support unbankable or early stage MSMEs, serving as a form of social financing that reduces financial burden.
3. Business Development Support from Zakat Institutions
Some Zakat institutions offer business coaching, training programs, and marketing assistance to help MSME beneficiaries grow and become financially independent.

C. Implementation of Sharia-Based MSME Empowerment in Indonesia

Several programs in Indonesia have successfully implemented Sharia-based MSME empowerment, including

1. Micro Waqf Bank (BWM) Programs in Pesantren Areas
These programs provide ultra-micro financing based on Sharia principles for communities surrounding Islamic boarding schools (pesantrens).
2. Microfinancing Programs by BMTs and Sharia Cooperatives
Baitul Maal wat Tamwil (BMT) and Sharia cooperatives serve as grassroots institutions that offer accessible Sharia-compliant financing to MSMEs.
3. Utilization of Productive Zakat by Institutions like BAZNAS and Dompet Dhuafa
These organizations allocate zakat funds to support MSMEs through capital distribution, entrepreneurial training, and business mentoring.

D. Strengthening the Role of Sharia Economics in MSME Empowerment

Several strategic steps can be taken to enhance the impact of Sharia economics on MSME development.

1. Strengthening Collaboration among Sharia Financial Institutions, Zakat Agencies, and Government Bodies
This integration promotes an ecosystem in which financing, guidance, and policy-making work together to support MSMEs holistically.
2. Improving Sharia Financial Literacy for MSME Players
Raising awareness and understanding of Sharia's financial products and services will increase MSME participation in the Sharia economy.
3. Developing Digitalization of Sharia Financial Services
Enhancing digital infrastructure and service accessibility will make it easier for MSMEs to engage with Sharia financial platforms quickly and efficiently.

E. The Development of Sharia Digital Financing for MSMEs

Sharia-based financial technology (fintech) offers an innovative approach to address the financing gap faced by MSMEs. Notable examples include the following.

1. ALAMI, Investree Syariah, and Ammana
These platforms provide financing using Sharia contracts such as musyarakah and mudharabah, with a fully digital onboarding process that expedites application, approval, and disbursement.
2. Digital Accessibility for MSMEs
By allowing MSMEs to apply for funding online without visiting physical branches, Sharia Fintech promotes inclusion and reduces bureaucratic barriers.

F. The Potential of Productive Waqf

Productive waqf is an innovative model in Sharia economic development, where waqf assets are actively managed to support real economic sectors, such as retail, agriculture, and manufacturing.

Example: Wakaf Mart in West Java

Wakaf Mart operates as a Sharia retail store that empowers local MSMEs by sourcing and selling products. This model demonstrates how social capital can be transformed into sustainable economic empowerment in low-income communities.

G. The Role of Universities and Research Institutions

Academic institutions play a strategic role in the development and dissemination of Sharia-based MSME empowerment models. Their involvement includes the following.

1. Conducting Applied Research
Universities can create innovative business models tailored to the needs of MSMEs, particularly within the framework of Sharia Economics.
2. Becoming Strategic Partners for Financial Institutions and Policymakers
Through collaboration, universities can ensure that policies and programs are research-driven and responsive to grassroots needs.
3. Providing Training and Mentorship
Through community services and business incubators, universities can offer business coaching, digital marketing training, and Sharia law consultations to empower MSMEs comprehensively.

CONCLUSION

Based on the findings presented, it can be concluded that the role of the Sharia economy in empowering MSMEs in Indonesia is extremely important and relevant, particularly in addressing the various challenges faced by MSME actors. The Sharia economic system offers a different approach than the conventional economic system, particularly in terms of financing, based on the principles of justice and togetherness. Through Sharia financial institutions, MSME actors can access capital without interest, thereby reducing their business burden. The profit-sharing concept also provides a sense of justice and avoids usury practices, which have long been a major obstacle for small business owners.

The optimization of ZISWAF instruments (Zakat, Infaq, Sadaqah, and Waqf) as sources of productive financing is one of the advantages of the Sharia economy. Social funds collected from the community can be allocated productively to help MSMEs develop, create new job opportunities, and ultimately improve people's standards of living. This shows that the Sharia economy is not only oriented towards financial gain but also prioritizes social and spiritual values.

The assistance provided by Sharia institutions, whether in the form of education, training, or marketing support, is also a key factor in the success of MSME empowerment. With full support from various parties, MSME actors will have better capabilities to manage their businesses professionally and competitively.

The government policy strategies developed by KNEKS further strengthen the position of the Sharia economy as a crucial pillar in national economic development. Strengthening the Sharia financial ecosystem, improving Sharia economic literacy, digitalizing MSMEs based on Sharia principles, and integrating social programs with MSME empowerment are concrete steps that support the sustainable growth of MSMEs.

However, the successful implementation of the Sharia economy in MSME empowerment requires strong synergy between the government, Sharia financial institutions, Sharia social institutions, education sector, and community. Each party plays a strategic role in ensuring that empowerment programs can run effectively and provide real benefits to a wider society.

Suggestions:

1. The government needs to strengthen regulations related to Sharia fintech to make them more responsive to the needs of MSMEs and provide incentives for business actors who develop sharia-based financial services.
2. The synergy between Islamic boarding schools (pesantren), zakat institutions, and Sharia financial

- institutions needs to be enhanced to create a sustainable and community-based Sharia business ecosystem.
3. Strengthening research and academic studies on the implementation of Sharia business models for MSMEs is necessary to increase the relevance of Sharia-based empowerment to the conditions of local communities.
 4. Collaboration between universities, research institutions, and MSME actors must be expanded to ensure that sharia-based innovation can continue to develop sustainably.
 5. There needs to be an accelerated digitalization program for sharia-based MSMEs integrated with halal marketplace platforms so that MSME products can reach a wider market both nationally and internationally.
- With the implementation of the right strategies and support from all parties, the Sharia economy can become a driving force for empowering MSMEs towards a more just, inclusive, and sustainable national economy.

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