

MSME Transformation: Financing Solutions, Digitalization, and Sharia Business Ethics

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ABSTRACT

This study aims to analyze the transformation of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia through a sharia economics approach that covers three main pillars, namely sharia financing, Islam-based digitalization, and the application of sharia business ethics. Using the Systematic Literature Review (SLR) method, this study examines various relevant national and international publications from 2018 to 2025. The results show that Islamic financing models such as mudharabah, musyarakah, and murabahah play an important role in expanding access to capital for MSMEs and creating a more equitable and inclusive economic system. Meanwhile, digitalization and Islamic fintech innovation have proven to be able to increase efficiency, expand marketing networks, and accelerate transaction processes while maintaining the principles of sharia compliance. The application of Islamic business ethics also contributes to increased consumer confidence, business sustainability, and equitable economic welfare. However, challenges still arise in terms of sharia financial literacy, digital readiness, and consistency in the application of business ethics. This study emphasizes the importance of collaboration between the government, financial institutions, and academics to strengthen an inclusive, equitable, and sustainable sharia MSME ecosystem in the digital economy era.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have long been recognized as a key pillar of the Indonesian economy due to their significant role in job creation, labor absorption, and increasing the national Gross Domestic Product (GDP) (Aknes Klaudia Aknes, 2025). Based on data from the Ministry of Cooperatives and SMEs, MSMEs contribute more than 60% to GDP and absorb more than 97% of the national workforce. This vital role makes MSMEs the backbone of economic resilience, especially in times of crisis. However, despite their significant contribution, MSMEs still face various structural and technological challenges. Limited access to formal capital, poor financial literacy, and low adaptability to digital technology developments remain major obstacles to increasing competitiveness (Rachmadani, 2024). In addition, many MSME players do not have a deep understanding of ethical and sustainable business practices, which has the potential to cause problems in business transparency, financial management, and consumer relations.

In the context of an increasingly competitive and digital modern economy, the transformation of MSMEs based on the Islamic economy has become a strategic urgency. The Islamic approach not only offers interest-free financing alternatives, but also instills values of fairness, partnership, and balance in economic activities. Sharia financing through contracts such as *mudharabah*, *musyarakah*, and *murabahah* can be a solution to the capital constraints of MSMEs, as it emphasizes the principles of *profit and loss sharing* and social responsibility in



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business (Ica Aida Siti Azizah, 2025). In addition, the development of Islam-based digitalization also opens up great opportunities for MSMEs. The integration of digital technology with sharia principles creates a more inclusive, efficient, and transparent business model. Sharia digital finance platforms such as contract-based *peer-to-peer lending*, *digital waqf*, and *Islamic crowdfunding* are now becoming alternative financing options that not only facilitate access to capital but also ensure compliance with sharia principles. This digital transformation, if accompanied by an increase in sharia financial literacy, will strengthen the adaptive capacity of MSMEs in an era of technological disruption.

On the other hand, the ethical aspects of sharia business form the moral foundation for maintaining business sustainability. Principles such as *honesty (shidq)*, *trustworthiness*, *justice ('adl)*, and *ihsan* must be the guiding principles in all business processes—from production and distribution to marketing. The practice of sharia business ethics not only shapes a good business reputation, but also increases consumer and business partner trust. In the long term, this strengthens the sustainable competitiveness of MSMEs in a market that is increasingly aware of values and ethics. Global crises such as the Covid-19 pandemic provide a moment of reflection for MSMEs to review their business models. Many businesses have been affected, especially in the retail and service sectors, due to weak risk management systems and dependence on traditional markets. The Islamic economic system offers holistic solutions through mechanisms of justice, transparency, prohibition of usury, and mutually beneficial partnerships. In addition, the potential of Islamic social funds such as zakat, infaq, sadaqah, and waqf can be optimized to support productive financing for MSMEs (Niva Maulidha, 2025).

Therefore, the synergy between Islamic financing, Islamic-based digitalization, and Islamic business ethics becomes the main pillar in the transformation of MSMEs towards a competitive, equitable, and sustainable ecosystem. This article aims to comprehensively describe how these three pillars can support each other in strengthening the resilience and sustainability of Indonesian MSMEs in the digital economy era.

LITERATURE REVIEW

A. The Role of MSMEs in the National Economy

Micro, Small, and Medium Enterprises (MSMEs) have a strategic position in the national economic structure. Based on the latest data, MSMEs in Indonesia employ more than 97% of the workforce and contribute around 60% to the national Gross Domestic Product (GDP) (Aknes Klaudia Aknes, 2025). This significant role makes MSMEs the main driver of economic growth and the backbone of community welfare, especially in the informal and rural sectors. The existence of MSMEs has also proven to be more resilient in facing various economic shocks. During the 1997 monetary crisis, the 2008 global financial crisis, and the Covid-19 pandemic, the MSME sector was relatively able to survive compared to large-scale companies due to its flexible, labor-intensive, and locally-oriented characteristics (Sujian Suretno, 2020). This resilience shows that MSMEs have a high capacity for socio-economic adaptation in maintaining national economic stability amid global uncertainty.

However, despite its significant contributions and resilience, the MSME sector still faces a number of fundamental challenges. Limited access to capital, low financial and digital literacy, and a lack of support in developing sustainable business strategies often hinder long-term growth (Rachmadani, 2024). As a result, many MSME players find it difficult to expand their businesses, face increasingly fierce competition, and experience high failure rates, especially in the early stages of business development. This situation highlights the gap between the enormous potential of MSMEs and their actual capacity. Therefore, a more innovative and sustainable approach is needed, whether through the integration of digital technology, improved managerial capacity, or the application of Islamic economic principles that emphasize fairness, ethics, and sustainability in economic activities.

B. Sharia Financing for MSMEs

Sharia financing models are now rapidly developing as a strategic alternative in overcoming capital constraints faced by Micro, Small, and Medium Enterprises (MSMEs). Unlike conventional interest-based systems, sharia financing is based on the principles of fairness, partnership, and economic prosperity. Through contracts such as *mudharabah* (profit sharing between capital owners and business managers), *musyarakah* (joint capital cooperation), and *murabahah* (sale and purchase with an agreed profit margin), Islamic financing provides more flexible, transparent, and equitable financing opportunities (Firman Muhammad Abdurrohman Akbar, 2024). The principle of profit and loss sharing in the sharia system places the relationship between financial institutions and business actors on an equal footing, rather than merely a creditor-debtor relationship. This means

that business risks and profits are shared according to the agreed proportions, thereby encouraging a more equitable distribution of economic value (Putri, 2021). In addition, the prohibition of usury and the obligation to maintain honesty and transparency in business contracts make this system more in line with the principles of maqashid sharia, namely protecting property (hifz al-mal) and social welfare.

In an institutional context, Baitul Maal wat Tamwil (BMT) plays an important role as a sharia microfinance institution that bridges the financing needs of small communities. BMT not only distributes funds from the community to MSME players, but also provides business assistance, entrepreneurship training, and sharia business ethics coaching (Tussa'adah, 2024). The financing model applied by BMT is flexible, empowerment-oriented, and takes into account the socioeconomic characteristics of its members. The existence of institutions such as BMT shows that Islamic financing is not only a financial instrument but also a social means to strengthen the economy of the people at the grassroots level. In addition to contract-based financing, the use of Islamic social funds such as zakat, infaq, sadaqah, and waqf (ZISWAF) also has great potential in supporting the strengthening of the productive economy. The utilization of ZISWAF funds for micro-business activities can strengthen community economic independence and expand welfare distribution (Rinaldi & Nurcahaya, 2023). This model emphasizes that the Islamic economic system does not only pursue profitability but also prioritizes moral values and blessings (barakah) in economic activities. However, the implementation of sharia financing for MSMEs still faces a number of significant challenges. Low sharia financial literacy among business actors, limited socialization from financial institutions, and minimal public education regarding sharia contracts and products are the main obstacles to the expansion of this system (Diana Djuwita, 2018). Many MSME players, especially in rural areas, do not yet fully understand the differences between the sharia and conventional systems, even though sharia financial products can actually provide solutions amid high conventional credit interest rates (Heriyati Chrisna, 2023).

Thus, improving Islamic financial literacy, strengthening micro-institutions such as BMTs, and optimizing the use of productive social funds are key steps in expanding access to and the effectiveness of Islamic financing for MSMEs. This approach is believed to be capable of creating a more equitable, inclusive, and sustainable economic system in accordance with Islamic values.

C. Digitalization and Technology for Sharia MSMEs

Digitalization has become an important catalyst in the transformation of the national economy, including for the Micro, Small, and Medium Enterprises (MSME) sector. In the digital economy era, technology adoption has become a key factor in improving efficiency, expanding market reach, and strengthening competitiveness. In the context of the Islamic economy, business digitalization and the penetration of sharia financial technology (fintech) are now beginning to play a role as drivers of MSME development. Through sharia-based crowdfunding and peer-to-peer lending platforms, businesses gain access to more inclusive, faster, and sharia-compliant funding, without involving usury or unclear contracts (Dontes Putra, 2024).

The development of sharia fintech has also given rise to various innovations, such as the use of smart contracts based on sharia agreements, the integration of halal payment systems, and digital financial applications designed in accordance with the provisions of muamalah fiqh. The existence of halal product marketplaces and sharia-based trading platforms has opened up opportunities for MSMEs to market their products to national and international consumers who are now increasingly concerned about halal and business ethics (Arifqi, 2021). This digital transformation has encouraged the emergence of a broader halal ecosystem, where every economic activity is assessed not only in terms of efficiency but also in terms of compliance with Islamic principles.

Furthermore, the adoption of digital media has opened up a much wider market access for MSMEs, while also increasing efficiency in business operations. Through digital marketing strategies, MSME players can reach consumers in a more effective, interactive, and cost-efficient manner. However, in the context of the Islamic economy, the implementation of these digital strategies must still pay attention to the values of honesty (shidq), transparency (amanah), and ethics in transactions (akhlaq al-tijarah) so as not to get caught up in misleading or manipulative promotional practices (Syamil Fatih Muhammad Alfaruqiy, 2023).

Digital transformation has also had a significant impact on Islamic cooperatives and MSMEs, particularly in terms of management efficiency, financial transparency, and the expansion of Islamic value-based services. Technological innovations enable Islamic microfinance institutions, such as BMTs and Islamic cooperatives, to develop digital services—ranging from online financing systems, automated financial recording, to application-based reporting—that are more accessible to the wider community (Machasin, Rinaldi, & Afifah, 2025).

In addition to serving as a tool for business efficiency, digitization also strengthens the integration between Islamic finance, the halal ecosystem, and the economic empowerment of the Muslim community. The use of fintech and Islamic value-based digital platforms is driving innovation in the Muslim economic ecosystem in the era of Industry 4.0. With proper management, digitization not only increases competitiveness, but also expands Islamic financial inclusion and accelerates the realization of a fair, transparent, and sustainable economy.

D. Sharia Business Ethics: Pillars of Governance and Sustainability

Sharia business ethics is the moral foundation for the implementation of Islamic economic activities. Principles such as honesty (*shidq*), trustworthiness, prohibition of usury, justice ('*adl*'), and social responsibility are the main guidelines that guide the behavior of business actors in every transaction and business decision-making (Nabila Rasha, 2025). The application of these principles not only serves as a religious norm, but also as an operational foundation that can increase public trust, maintain business reputation, and strengthen long-term relationships with consumers and business partners. Business ethics in the Islamic perspective emphasizes a balance between profit and social welfare. Therefore, the orientation of sharia business is not solely on *profit maximization*, but on achieving *falah*—that is, holistic and equitable prosperity. Research shows that consistent application of business ethics can increase customer loyalty, strengthen competitive advantage, and create long-term business sustainability (Nur Manna Silviyah, 2022). In the context of MSMEs, the integration of Islamic values into all aspects of governance—from production and marketing to service—has been proven to enhance the positive image and consumer confidence in products (Dea Rodiah Luthfy, 2023).

Furthermore, the application of sharia business ethics is closely related to sustainability. The principles of *amanah* and '*adl*' require business actors to maintain a balance between economic, social, and environmental interests. This is reflected in environmentally friendly business practices, responsible resource management, and the provision of broad benefits to the community. In the context of Islamic economics, the practices of zakat, infaq, sadaqah, and waqf (ZISWAF) are not only forms of spiritual obedience, but also productive economic instruments that can strengthen wealth redistribution and reduce economic inequality (Niva Maulidha, 2025).

Thus, sharia business ethics cannot be separated from efforts to achieve MSME sustainability. Ethics serve as a value system that guides economic activities to remain within the corridor of justice and benefit. When these ethical principles are integrated with Islamic financing and Islam-based digitalization, an economic ecosystem is formed that is not only financially competitive, but also fair, sustainable, and oriented towards social blessings.

RESEARCH METHOD

The research approach used in this study is Systematic Literature Review (SLR), which aims to obtain a comprehensive understanding of the transformation of sharia-based MSMEs through a systematic review of various previous research results (Aknes Klaudia Aknes, 2025). This approach was chosen because it is capable of synthesizing empirical findings in a structured and objective manner, thereby producing a clear mapping of the development of concepts, challenges, and strategies for strengthening MSMEs in the context of the Islamic economy.

The SLR process was carried out through several main stages, namely:

1. Identification – conducted by collecting articles and scientific publications from various relevant national and international databases, both in Indonesian and English, focusing on the topics of *sharia financing for MSMEs*, *Islam-based digitalization*, and *the implementation of sharia business ethics*.
2. Screening – at this stage, documents are screened based on inclusion criteria, such as year of publication (2018–2025), relevance to the context of Indonesian MSMEs or Muslim-majority countries, and suitability to the research objectives. Articles that are irrelevant or do not meet the methodological criteria are excluded from the analysis process.
3. Analysis – all selected articles were analyzed using a thematic analysis approach. This analysis aimed to identify the main themes that emerged, including sharia financing models, the digitization of sharia-based businesses, and the application of Islamic business ethics.

The validity of the results is reinforced through a cross-check process between authors and consensus among experts in the field of Islamic economics and MSME development. This approach ensures that the findings are credible, accountable, and reflect representative scientific views. With this method, the study is expected to

make a significant conceptual contribution to enriching the literature on the strengthening and transformation of Islamic economy-based MSMEs in Indonesia.

RESULTS AND DISCUSSION

1. Sharia Financing Innovations Expand Access to Capital

The implementation of sharia financing based on mudharabah and musyarakah contracts has proven to expand access to capital for MSME players who have had difficulty obtaining financial assistance from conventional banks (Tussa'adah, 2024). The model of proportional risk and profit sharing is considered fairer and increases motivation to innovate and develop businesses (Firman Muhammad Abdurrohman Akbar, 2024). The BMT funding system and Islamic cooperatives also serve as catalysts for the establishment of new micro-enterprises, particularly in rural areas (Dinda Safinah Annajah, 2023). Murabahah financing support offers price certainty and transparent margins. However, in practice, the main challenge is the lack of knowledge among SME actors about Islamic financing products and the administration, which is considered more complex for some business actors (Heriyati Chrisna, 2023).

2. Digitalization as an Accelerator for the Growth of Sharia MSMEs

The digitization of sharia MSMEs has increased rapidly after the Covid-19 pandemic, both in terms of marketing using e-commerce and digital marketing platforms, as well as sharia-based fintech financing (Arifqi, 2021). Sharia crowdfunding with an emphasis on profit-sharing systems has also increased access to business capital without violating sharia principles (Dontes Putra, 2024). On the other hand, there is still a digital divide, especially in remote areas, as well as limited digital literacy skills among business actors (Mila Dwi Safitri, 2024). Digital breakthroughs have proven to expand MSME business networks, increase the effectiveness of promotions, and accelerate the export of Indonesian halal products to international markets (Nala Amalia, 2023). However, education and assistance in digital literacy and data protection need to be strengthened, given the potential risks of security and cybercrime (Yogesh K. Dwivedi, 2023).

3. Integration of Sharia Business Ethics and MSME Sustainability

The internalization of Islamic business ethics values in MSME operations has a significant impact on increasing customer loyalty and satisfaction (Dea Rodiah Luthfy, 2023). In addition to increasing economic profits, business practices that prioritize sharia compliance also create blessings in business and equitable distribution of business profits (Nabila Rasha, 2025). Research on the MSME assistance ecosystem based on Islamic business ethics, such as in West Java, shows the high effectiveness of ethical policies in increasing financial transparency, consumer trust, and long-term business continuity (Dea Rodiah Luthfy, 2023). However, the implementation of these values still faces internal challenges, such as low sharia literacy, limited access to sharia financing, and the short-term orientation of business actors (Huril Aini, 2025).

4. Stakeholder Collaboration

The MSME transformation strategy requires cross-sector collaboration between the government, financial institutions, communities, and educational institutions, with the aim of improving a business ecosystem that is innovation-friendly and based on sharia values (Aknes Klaudia Aknes, 2025). The implementation of conducive policies, human resource development, and the sustainability of research and strengthening of the sharia-based microeconomy are very important for the optimal transformation of MSMEs in the era of digitalization and globalization (Kusjuniati, 2020). Collaboration between sharia financial institutions, cooperatives, the government, and universities is a key factor in the success of community economic transformation (Machasin et al., 2025). This cross-sector synergy strengthens governance, enhances human resource capacity, and expands the inclusiveness of the sharia economy at the grassroots level.

CONCLUSION

The transformation of MSMEs in Indonesia through the integration of sharia financing, Islam-based digitalization, and the application of sharia business ethics has proven effective in increasing competitiveness,



inclusiveness, and national economic sustainability. Sharia financing expands access to capital, digitalization accelerates technological adaptation and business expansion, while business ethics strengthen consumer trust and business prosperity (Aknes Klaudia Aknes, 2025 ; Ica Aida Siti Azizah, 2025; Tussa'adah, 2024). The biggest challenges remain low Islamic financial literacy, technical limitations in digitalization, and cultural resistance to innovation. Active collaboration among stakeholders and increased education are key solutions to ensure that Islamic SMEs become the foundation of an inclusive, fair, and sustainable future economy.

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