

## **Challenges and Opportunities for MSMEs in Implementing Sharia Principles in Indonesia**

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### **Abstract**

This study aims to explore the challenges and opportunities faced by Micro, Small, and Medium Enterprises (MSMEs) in implementing Sharia principles in Indonesia. Using a qualitative library research approach, data were analyzed from various sources, including books, scientific journals, official reports, and research articles. The findings reveal that MSMEs face several significant challenges, such as low levels of Sharia financial literacy, limited access to Sharia financing, the complexity of the halal certification process, competition with non-Sharia products, and insufficient supporting infrastructure. On the other hand, substantial opportunities are emerging from the increasing awareness of Muslim consumers about halal products, government support through strategic policies, the adoption of digital technology, export opportunities to global markets, and innovation in halal products. This study concludes that an integrated strategy to address challenges and capitalize on opportunities can help MSMEs become more competitive and contribute to the development of the Sharia economy in Indonesia.

**Keywords:** Challenges, Opportunities, MSMEs

### **A. Introduction**

In recent years, Sharia principles have become a primary focus across various economic sectors in Indonesia, including Micro, Small, and Medium Enterprises (MSMEs). As a sector contributing more than 60% to Indonesia's Gross Domestic Product (GDP), MSMEs play a crucial role in economic development. However, the implementation of Sharia principles in MSMEs faces several challenges, ranging from limited understanding to restricted access to Sharia-based resources. This condition underscores the need to identify strategies that can support MSMEs in operating in compliance with Sharia principles (Sudrajat, 2024).

One of the primary challenges MSMEs face is the low level of Sharia financial literacy among business actors. Many MSME players lack an understanding of basic Sharia concepts, such as the prohibition of *riba* (usury), *gharar* (uncertainty), and *maisir* (speculation) (Sudrajat & Mutinida, 2020). Consequently, they often struggle to apply these principles in their business operations. This highlights the need for intensive education and

training to enhance their understanding of Islamic economic concepts (Suharlina et al., 2024).

Moreover, access to Sharia-based financing remains a significant barrier for MSMEs. Although Sharia financial institutions have grown rapidly in Indonesia, many MSME actors find it difficult to meet the stipulated requirements (Hasibuan & Marliyah, 2024). Factors such as insufficient collateral, complicated administrative processes, and additional costs often hinder MSMEs from utilizing Sharia-compliant financing facilities. Therefore, innovative solutions are needed to expand access to more inclusive Sharia financing (Anita et al., 2022).

However, these challenges are accompanied by significant opportunities for MSMEs. With growing public awareness of the importance of conducting business in accordance with Islamic principles, Sharia-based products and services are increasingly in demand. MSMEs that can offer *halal* (lawful) and *thayyib* (good) products have a substantial potential to win the hearts of Muslim consumers in Indonesia, home to one of the world's largest Muslim populations.

The Indonesian government also provides substantial support for the development of Sharia-based MSMEs through various policies and initiatives. Programs such as free halal certification and digital platforms for marketing MSME products have significantly encouraged small business actors to adopt Sharia principles. These initiatives create a conducive environment for MSMEs to grow and thrive within the Sharia economic framework (KNEKS, 2021).

The adoption of technology also presents significant opportunities for MSMEs in implementing Sharia principles. Through digital platforms, business actors can reach wider markets, accelerate transaction processes, and enhance business transparency. Technologies such as blockchain can even be utilized to ensure compliance with Sharia principles, for instance, in financing systems or inventory management.

Overall, the challenges and opportunities faced by MSMEs in applying Sharia principles reflect a complex dynamic that requires an integrated approach. Synergy between the government, financial institutions, academics, and MSME actors is key to overcoming obstacles and leveraging existing opportunities. With the right strategies, MSMEs can become a primary pillar in building an inclusive and sustainable Sharia economy in Indonesia.

## **B. Literature Review and Hypothesis Development**

Research on the challenges and opportunities for MSMEs in implementing Sharia principles has been extensively conducted by various scholars. Vina Cynthiasari dan Muhammad Yafiz (2022) highlighted the low level of Sharia financial literacy among MSME actors, particularly in Tebing Tinggi City, where only a small fraction of business owners understand Sharia economic concepts such as the prohibition of *riba* and *gharar*. Their study emphasizes the importance of education and training as a solution (Cynthiasari & Yafiz, 2022). Abdul Halim Nasution (2021) focused more on the barriers to halal certification, particularly regarding the costs and procedures perceived as burdensome for small MSMEs, but also noted opportunities from government programs like free halal certification (Nasution, 2021). Qorry Oktaviani et al. (2023) underscored the role of digital technology, particularly e-commerce, in helping MSMEs market halal products and reach broader markets (Oktaviani et al., 2023). Muhammad Sofwan Jauhari (2024) highlighted the increasing awareness among Muslim consumers regarding halal products as a significant opportunity for MSMEs to grow (Jauhari, 2024).

In general, there are several commonalities across these studies. All agree that MSMEs play a strategic role in Indonesia's economy and have immense potential within the Sharia economy if existing challenges can be addressed. Sharia financial literacy and access to Sharia-compliant financing are identified as the primary challenges in implementing Sharia principles. Additionally, significant opportunities are noted through government support, such as free halal certification, and the rising awareness among Muslim consumers of halal products.

However, the studies differ in their focus and approach. While Vina Cynthiasari and Muhammad Yafiz (2022) employed surveys to measure the level of Sharia financial literacy, both Abdul Halim Nasution (2021) and Muhammad Sofwan Jauhari (2024) concentrated on operational challenges like halal certification. In contrast, Qorry Oktaviani et al. (2023) highlighted the opportunities provided by digitalization as a strategy to support the application of Sharia principles.

## **C. Research Method**

This study employs a library research method with a qualitative approach to examine the challenges and opportunities for MSMEs in implementing Sharia principles in Indonesia. The method aims to explore and analyze relevant secondary data from various sources, such as books, scholarly journals, research articles, government reports, and other official documents related to Sharia economics and MSME development (Sugiyono, 2013). The qualitative approach was chosen because it allows for an in-depth understanding of the phenomenon under study through the analysis of existing concepts, theories, and empirical findings.

Data collection was conducted by reviewing available literature using keywords such as "Sharia MSMEs," "Sharia economic challenges," "halal business opportunities," and "Sharia financing." The data obtained were then analyzed descriptively to identify patterns, relationships, and factors influencing the implementation of Sharia principles by MSMEs. The analysis focused on three main aspects: Sharia financial literacy, access to Sharia financing, and opportunities arising from the growing demand for halal products.

The validity of the data in this study is ensured through source triangulation, where information obtained from various pieces of literature is compared to confirm consistency and validity of the findings. This approach is expected to make a significant contribution to enriching theoretical understanding regarding the challenges and opportunities of MSMEs in the context of Sharia economics. Furthermore, it aims to provide relevant strategic recommendations for the development of this sector in Indonesia.

## **D. Discussion**

### **1. Challenges in Implementing Sharia Principles by MSMEs in Indonesia**

#### **a. Low Sharia Financial Literacy**

Low Sharia financial literacy is one of the primary challenges for MSMEs in implementing Sharia principles. Many MSME actors in Indonesia do not fully understand the concept of Sharia finance, particularly regarding the prohibition of *riba* (interest), *gharar* (uncertainty), and *maisir* (speculation). This lack of understanding often leads them to overlook these fundamental principles in their business practices, posing risks to the sustainability of their enterprises (Vahlevi, 2021).

A study by Hakim and Nisa (2024) revealed that only about 35% of MSME actors in West Java are familiar with Sharia economic principles, highlighting the

limited level of understanding. This low literacy hinders their ability to make Sharia-compliant decisions regarding financing, financial management, and business model selection, which are essential for long-term success. Thus, systematic efforts from the government and relevant institutions are needed to enhance Sharia financial literacy through broader training and outreach initiatives (Hakim & Nisa, 2024).

b. Limited Access to Sharia Financing

Limited access to Sharia financing is another major barrier for MSMEs. Despite Indonesia having a range of Sharia financial institutions offering financing products, many MSMEs struggle to access these services (Sudrajat & Septiani, 2023). One key reason is the lack of understanding of the available Sharia financing products, as well as the more complex procedures and stricter administrative requirements compared to conventional financing (Hasibuan & Marliyah, 2024). Additionally, Sharia financial institutions typically impose stricter requirements, such as guarantees or collateral, which are often challenging for small-scale MSMEs to fulfill. As a result, many MSMEs opt for conventional financing, even though it does not align with Sharia principles. This highlights the need for greater support in the form of education about Sharia financing and streamlining the financing process to make it more accessible for MSMEs (Ardiansyah, 2024).

c. Halal Certification Challenges

Halal certification is a critical step for MSMEs aiming to market their products with a halal label. However, the certification process in Indonesia often poses significant challenges, particularly for micro and small enterprises. The process requires substantial costs and a considerable amount of time, which can be a barrier for businesses with limited capital (Laksamana et al., 2024).

Furthermore, obtaining a halal certificate requires compliance with various strict standards and requirements, which may necessitate changes in production processes, sourcing of raw materials, and operational management. These challenges often discourage MSMEs from pursuing halal certification, despite the growing halal product market. Therefore, greater government support in terms of funding for halal

certification and simplifying procedures is needed to enable MSMEs to obtain halal certificates more easily for their products (Puspita Ningrum, 2022).

d. Competition with Non-Sharia Products

Competition with non-Sharia products is a significant challenge for MSMEs striving to implement Sharia principles in their businesses. Non-Sharia products, which are not bound by Sharia rules, often have greater flexibility in pricing, promotion, and distribution. These products are frequently more affordable and accessible to consumers, making Sharia-compliant products less competitive in terms of price (Akbar, 2020).

Moreover, non-Sharia products tend to innovate more rapidly and diversify more extensively, while Sharia-based MSMEs often face constraints in product diversification and innovation that align with Sharia principles. To compete with non-Sharia products, Sharia MSMEs must focus on quality, innovation, and product variety while fostering consumer loyalty among those who value halal consumption and adherence to Sharia principles (Sujatna, 2022).

e. Lack of Infrastructure Support

Inadequate infrastructure support is another major obstacle for MSMEs in implementing Sharia principles. Infrastructure includes access to technology, efficient distribution systems, and facilities that support business operations. Without proper infrastructure, MSMEs struggle to expand their markets and enhance operational efficiency. Many MSMEs have yet to utilize digital technology to market their products or optimize their production processes (Fahmi, 2014). Additionally, limited distribution infrastructure makes it difficult for MSMEs to reach wider markets. Without sufficient infrastructure support, MSMEs face significant challenges in competing in an increasingly globalized market. It is therefore essential for the government and relevant stakeholders to support the development of better infrastructure, including access to technology and efficient distribution systems, so MSMEs can grow and more effectively implement Sharia principles in their businesses.

## **2. Opportunities in Implementing Sharia Principles for MSMEs in Indonesia**

a. Growth of the Halal Market

The halal market in Indonesia has shown significant growth in recent years. As the country with the largest Muslim population in the world, Indonesia has immense potential in the halal market, spanning consumer products, services, and the financial sector. The global halal market, including food, apparel, cosmetics, and tourism, is rapidly expanding, with Indonesia playing an increasingly crucial role as a major player (Adamsah & Subakti, 2022). According to the *State of the Global Islamic Economy* (SGIE) report, the global halal market is expected to continue growing at a significant pace, presenting vast opportunities for MSMEs to develop halal products. With this rapid market expansion, MSME actors who can meet halal standards and obtain halal certification will have the chance to broaden their markets, not only domestically but also internationally (Rochmatannia Rosana, 2024).

b. Government Support

Government support plays a vital role in driving the development of MSMEs that adhere to Sharia principles. The Indonesian government has demonstrated its commitment through various policies supporting the Sharia economy, including Sharia financing and training programs for MSME actors (Hidayat, 2022). Through institutions like the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) and other Sharia financial bodies, the government provides access to low-interest, interest-free Sharia financing. Additionally, various incentives are offered to MSMEs producing halal goods and services, such as subsidies for halal certification processes and broader market access. Initiatives like opening international halal markets further facilitate MSMEs in reaching foreign markets (Aryani, 2023). This government support is crucial for MSMEs to grow and meet Sharia economic standards, ultimately enhancing their contribution to Indonesia's economy.

c. Role of Digital Technology

Digital technology plays an increasingly important role in accelerating the growth of MSMEs implementing Sharia principles, offering business actors easy access to market their products and reach a broader consumer base. By leveraging e-commerce and digital platforms, MSMEs can expand their markets both domestically and internationally without the need for extensive physical infrastructure.

Digital technology also enhances operational efficiency, from inventory management and bookkeeping systems to Sharia-based financing through mobile applications (Septy et al., 2024). Furthermore, technology supports halal product innovation by simplifying the tracking of halal raw materials, certification processes, and distribution according to Sharia standards. With the right adoption of digital technology, MSMEs can optimize the potential of the halal market and become more competitive.

d. Global Awareness of Halal Products

Global awareness of halal products continues to grow, not only in Muslim-majority countries but also in wider international markets. Consumers worldwide are increasingly recognizing the importance of halal products, not merely from a religious perspective but also concerning quality, health, and sustainability. This shift is driving demand for halal goods across various sectors, including food, cosmetics, pharmaceuticals, and tourism (Hasyim, 2023). Today, halal products are often seen as a symbol of quality and trust, transcending their religious obligations. With this rising demand, MSMEs capable of meeting halal standards have significant opportunities to penetrate international markets and benefit from the global focus on halal products. However, this trend also requires MSMEs to consistently maintain the quality and halal integrity of their products to meet global consumer expectations (Maulida & Nawawi, 2024).

e. Halal Product Innovation

Halal product innovation is a key factor in capturing the attention of a growing market. Beyond food and beverages, other sectors like cosmetics, apparel, and even technology must continuously innovate to meet the needs of more modern and discerning consumers. MSMEs implementing Sharia principles must create products that not only comply with halal standards but also offer added value, such as innovative packaging, taste, quality, or the use of natural and organic ingredients.

Innovation allows halal products to better compete with non-halal alternatives in increasingly competitive markets. It also helps sustain MSMEs' business operations and keeps them relevant in global markets. To achieve this, MSMEs should invest in research and development while keeping up with market trends to produce high-quality, competitive halal products (Kadir, 2023).

The findings of this research indicate that although MSMEs face various challenges in implementing Sharia principles, significant opportunities are available if business actors can capitalize on the momentum. Sharia financial literacy and access to Sharia-based financing are key elements that need improvement to ensure the sustainability of MSMEs in the Sharia economy. Furthermore, government support, the utilization of digital technology, and innovation in halal products must be continuously enhanced to create a more inclusive and competitive Sharia business ecosystem.

In the long term, synergy between the government, Sharia financial institutions, academics, and business actors is expected to address structural barriers and accelerate the adoption of Sharia principles in the MSME sector. This is not only crucial for the development of the Sharia economy but also for realizing Indonesia's vision as a global hub for the Sharia economy.

## **E. Conclusion**

MSMEs in Indonesia face various challenges in implementing Sharia principles, including low levels of Sharia financial literacy, limited access to financing, hurdles in obtaining halal certification, competition with non-Sharia products, and inadequate supporting infrastructure. These challenges are major obstacles preventing MSMEs from optimally conducting business in accordance with Sharia principles.

However, beyond these challenges lie significant opportunities for MSMEs to leverage. The growing public awareness of halal products provides a vast market potential, both at the national and international levels. Additionally, government support through strategic policies, such as free halal certification and business assistance, further strengthens the Sharia economic ecosystem. The role of digital technology also paves the way for MSMEs to reach wider markets and improve business efficiency. Innovation in halal products and export opportunities to global markets serve as additional factors that enhance the potential of Sharia-based MSMEs.

With the right strategies, such as improving Sharia literacy, leveraging technology, and strengthening collaboration with the government and Sharia financial institutions, MSMEs can overcome existing challenges and seize available opportunities. The implementation of Sharia principles by MSMEs not only strengthens this sector but also

supports the development of an inclusive and sustainable Sharia economy in Indonesia. This aligns with Indonesia's vision of becoming a global hub for the Sharia economy.

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