

Empowering Islamic MSMES Through Digital Inclusion

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Abstract. This study aims to highlight empowering Islamic Micro, small, medium enterprises (MSMES) through digital inclusion. To produce comprehensive insights. Micro, small, medium enterprises according to the law of the Republic of Indonesia No. 20 of 2008 is a productive business owned by individuals and or individual business entities that fulfill the criteria for micro businesses as regulated in this Law. Technologies, such as the internet, mobile devices, and cloud computing, have created new opportunities and challenges for companies across various industries. Digital inclusion refer to availability of digital access such as digital business model. The method used in this research is a qualitative approach with a descriptive design and library research, which examines literature related to the empowering Islamic MSMES through digital inclusion. This study analyzes the characteristic of MSMEs, types of digital business models, and types of Islamic banks which empowering Islamic MSMEs. The research results show that the characteristic of MSMEs is *Micro Enterprises* are businesses that meet the following criteria: a) have assets of up to IDR 50 million, excluding land and buildings for business premises, b) Have an annual turnover of up to IDR 300 million. *Small Enterprises* are businesses that meet the following criteria: a) Have assets of more than IDR 50 million to IDR 500 million, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 300 million to IDR 2.5 billion. *Medium Enterprises* are businesses that meet the following criteria: a) Have assets of more than IDR 500 million to IDR 10 billion, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 2.5 billion to IDR 50 billion. Types of Digital Business Models are types of Business platforms like Tokopedia and Shopee allow sellers and buyers to interact directly. This model relies on a large user base and offers a variety of products and services. Types of Islamic Bank that empowering Islamic MSMES are Sharia Commercial Bank (BSI or Bank Syariah Indonesia) and (Baitul Maal Wat Tamwil (BMT)).

Keywords: Empowering, Islamic MSMEs, Digital inclusion.

1 Introduction

Inclusive Islamic Micro, small, and medium enterprises are individual businesses that adhere to Islamic economic principles, while according to Soetino and Setiawan (2018) inclusion itself is. In essence, financial inclusion is all efforts aimed at eliminating all barriers to public access to affordable financial services. Financial services authority (OJK) regulations define financial inclusion as the availability of access to various financial institutions, products, and services tailored to the needs and capabilities of the community in order to improve public welfare (POJK, 2016).

Micro, Small, and Medium Enterprises (MSMEs) are a business category that plays a strategic role in the Indonesian economy. According to Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSMEs are defined as follows: 1. Micro Enterprises are businesses that meet the following criteria: a) Have assets of up to IDR 50 million, excluding land and buildings for business premises, b) Have an annual turnover of up to IDR 300 million. 2. Small Enterprises are businesses that meet the following criteria: a) Have assets of more than IDR 50 million to IDR 500 million, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 300 million to IDR 2.5 billion. 3. Medium Enterprises are businesses that meet the following criteria: a) Have assets of more than IDR 500 million to IDR 10 billion, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 2.5 billion to IDR 50 billion.

MSMEs in Indonesia have a broad spectrum, covering various sectors that contribute to the country's economic and cultural wealth. These sectors include culinary, fashion, handicrafts, digital technology and other sectors: agriculture, fisheries, livestock, tourism and others. MSMEs have a very important role in Indonesia's economic and social development, including: economic growth, reducing unemployment, improving community welfare. The government is fully aware of the importance of MSMEs and continues to strive to provide support through various programs such as: People's Business Credit (KUR), Training and mentoring, and digitalization. Despite having great potential, MSMEs also face various challenges, including: Access to financing, Tight competition and human resources. With their enormous potential and support from various parties, MSMEs in Indonesia have

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a huge opportunity to continue growing and become a driving force of the national economy. Several factors that support this opportunity include: the large number of MSMEs, the growth of the middle class, technological developments, and government support. By overcoming challenges and capitalizing on existing opportunities, MSMEs in Indonesia can become a greater economic force and contribute significantly to the nation's progress.

A crucial aspect that MSMEs must not overlook is Islamic financial literacy and Islamic financial inclusion. Islamic financial literacy is an individual's understanding, skills, and confidence in managing personal or business finances in accordance with Islamic principles. These principles include the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), and emphasize fairness, transparency, and shared prosperity in financial transactions. Islamic financial practices are defined as the application of Islamic law based on scientific principles. Everyone should be able to manage their personal finances by encouraging healthy financial behavior and creating financial literacy in accordance with Islamic law (OJK, 2020).

Meanwhile, Dasuki and Dar (2005) explained that good Islamic financial literacy will encourage MSMEs to use Islamic financial products and services because they align with their religious values. Furthermore, Antonio (2019) defines Islamic financial literacy as the ability to understand and apply Islamic financial principles in everyday life. This definition emphasizes two important aspects: understanding and practice. In terms of understanding, Islamic financial literacy includes a good grasp of the basic principles of Islamic finance, such as: the pillars and conditions of Islamic transactions; and understanding permissible and prohibited contracts in Islam, such as *murabahah* and *mudharabah*.

Sharia financial literacy has a positive influence, contribution, and role on the performance, development, and financial behavior of MSMEs. Furthermore, Sharia financial literacy can increase MSMEs' opportunities for growth and foster a better understanding of the differences between conventional and Sharia finance, including their products. Therefore, there is a need to improve Sharia financial literacy. Comprehensive, easy-to-understand material relevant to MSMEs, covering basic principles of financial management, Islamic financial products and services, and risk management. Training and mentoring must be provided on an ongoing basis, utilizing technology.

Sharia financial inclusion is a crucial factor for the success of MSMEs, as it enables them to make better financial decisions and manage their businesses more efficiently. It emphasizes two key aspects: understanding and practice, which ultimately improve their performance and well-being. Increasing Sharia financial inclusion by providing access to Sharia financing needs to be facilitated by simplifying processes and requirements, as well as expanding the network of Sharia financial institutions. Diverse products and services tailored to MSME needs need to be developed. Collaboration with various stakeholders can accelerate Sharia financial inclusion. Encourage behavioral changes in MSMEs in managing daily business finances. Positive behavioral habits such as regular financial recording and financial planning need to be instilled.

Government Regulation No. 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (PP UMKM), along with 48 other implementing regulations of Law No. 11 of 2020 concerning Job Creation, was enacted on February 16, 2021. This PP UMKM amends several provisions of Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises (UU UMKM). One of these is the regulation relating to the criteria for MSMEs. Articles 35 to 36 of the PP UMKM establish new criteria for grouping MSMEs based on business capital or annual sales revenue. Article 6 of the MSME Law is very different from the MSME PP, and the annual sales criteria consist of: annual sales of micro businesses must not exceed 2,000,000,000.00 (two billion rupiah), small businesses must not exceed 15,000,000,000.00 (fifteen billion rupiah), and medium businesses must not exceed 50,000,000,000.00 (fifty billion rupiah).

2 Research Method

The research method of this study used qualitative approach because this topic emphasizes on concept analysis and in-depth understanding about theoretical basis in scientific work, qualitative approach is more appropriate. This approach aims to explore meaning, perception, and the role of theoretical basis. Besides that, uses descriptive approach, this research can be descriptive, to describe details the functions and the importance theoretical framework in scientific work. This type of this research used library research. The type of this research to study the concept of theoretical framework, the type of the research is library research which the data is collected by various scientific literature, textbook, journal and other academics work that discuss theoretical basis. (Adlini et al., 2022) which is quoted in (Sutriyanti and Mohamad Muspawi, 2024).

The four main characteristics of literature study research are: First, the researcher deals directly with texts (manuscripts) or numerical data, not with direct knowledge from the field. Second, literature data is "ready-to-use," meaning the researcher does not go directly into the field but rather deals directly with data sources in the library. Third, literature data is generally a secondary source, meaning that the researcher obtains material or data secondhand, not original data from the field. Fourth, literature data is not limited by space and time. Based on the above, data collection in research is conducted by reviewing and/or developing various library materials such as

journals, books, and documents (both printed and electronic), as well as other data sources and/or information deemed relevant to the research or study. (Salman Al Farisi, Muhammad Iqbal Fasa, Suharto, 2022).

This research employed a data analysis technique called Content Analysis. Content analysis is used to analyze the content of the collected literature. It also identifies important themes, such as the role of the theoretical foundation used in the research and its impact on the quality of the scientific work. (Sutriyanti and Mohamad Muspawi, 2024).

3 Result and Discussion

3.1 The characteristics of micro, small, and medium enterprises

There are several characteristics of micro, small, and medium enterprises, namely: a. The type of commodity they operate is not fixed and can change at any time; b. The location of the business can be moved at any time; c. They have not implemented administrative activities in running their business, and often cannot differentiate between personal and business financial needs; d. The human resources (HR) within them do not have a strong entrepreneurial spirit; e. The education level of their human resources is usually low; f. MSMEs usually do not have banking networks, but some do have established networks. Non-bank financial institutions; g. Generally, small business owners have not yet obtained proof of legality or business permits, such as a Taxpayer Identification Number (NPWP). (Salman Alfarisi, et.al, 2022)

The characteristics of micro, small, and medium enterprises: 1. Micro Enterprises are businesses that employ 10 employees; 2. Small Enterprises are businesses that employ 30 employees; and 3. Medium Enterprises are businesses that employ up to 300 employees. (Salman Al Farisi, et.al. 2022).

The criteria of micro, small, and medium enterprises (MSMEs): Micro, Small, and Medium Enterprises (MSMEs) are a business category that plays a strategic role in the Indonesian economy. According to Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSMEs are defined as follows:

1. Micro Enterprises are businesses that meet the following criteria: a) Have assets of up to IDR 50 million, excluding land and buildings for business premises, b) Have an annual turnover of up to IDR 300 million.
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3.2 Types of Digital Business Models

The following are several types of digital business models that have proven effective in harnessing the potential of digital technology and meeting customer needs in the modern era. (Lut Mafrudah, 2024).

1. Business Platform
Business platforms like Tokopedia and Shopee allow sellers and buyers to interact directly. This model relies on a large user base and offers a variety of products and services.
2. Freemium
The freemium model offers basic services for free but charges for additional features. An example of this model is music streaming services like Spotify.
3. Subscription
A subscription model, such as that used by Netflix, offers unlimited access to content for a fixed monthly fee. This provides predictable recurring revenue.
4. On-Demand
The on-demand model, such as that used by Gojek, allows customers to access services anytime and anywhere, according to their needs.
5. E-Commerce
An e-commerce model like that implemented by Amazon enables the sale of goods online with high efficiency, supported by a robust logistics infrastructure.
6. Crowdsourcing / Crowd founding
This model involves raising funds or ideas from a large group of people. Kickstarter is an example of a successful crowd funding platform.

3.3 Types of Islamic Bank that empowering Islamic MSMEs

3.3.1 Sharia Commercial Bank

Bank Syariah Indonesia plays a role in empowering and improving MSMEs (Micro, Small, and Medium Enterprises) through the facilities it provides, such as financing, training, product innovation, and technological support.

3.3.2 BMT

Baitul Maal Wat Tamwil (BMT) is one of the sharia microfinance institutions in Indonesia with people empowerment partnership as its philosophical base. BMT provides a faster, simpler procedures and requirements compared to conventional financial institutions. (Sony Hendra Permuna dan Masyithah Aulia Adhiem, 2019).

Baitul Maal wat Tamwil is a Sharia-compliant financial institution that emerged as a way to combine the concepts of maal and tamwil into a single institution. The maal concept emerged and became part of the lives of the Muslim community, collecting and distributing funds for zakat, infaq, and sadaqah (ZIS) in a productive manner. Meanwhile, the concept of tamwil was born for productive business activities purely to generate profits within the lower-middle-class (micro) sector.

The presence of BMTs (Islamic banks) aims to address the aspirations of the Muslim community amidst concerns about economic activities based on usury, while also providing funding support for the development and empowerment of small and medium-sized businesses. The presence of Islamic microfinance institutions, Baitul Maal wa Tamwil (BMT), has been seen to bring financial benefits to the community, especially to underbanked communities who reject usury, due to their focus on the people's economy. BMTs, on the one hand, carry out the mission of Islamic economics and, on the other, carry out the task of the people's economy by improving the micro economy. This is why BMTs have developed so rapidly amidst the growth of other conventional microfinance institutions. (Novita Dewi Masyithoh, 2014)

4 Conclusion

Islamic Micro, small, and medium enterprises are individual businesses that adhere to Islamic economic principles. Micro, Small, and Medium Enterprises (MSMEs) are a business category that plays a strategic role in the Indonesian economy. According to Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSMEs are defined as follows: 1. Micro Enterprises are businesses that meet the following criteria: a) Have assets of up to IDR 50 million, excluding land and buildings for business premises, b) Have an annual turnover of up to IDR 300 million. 2. Small Enterprises are businesses that meet the following criteria: a) Have assets of more than IDR 50 million to IDR 500 million, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 300 million to IDR 2.5 billion. 3. Medium Enterprises are businesses that meet the following criteria: a) Have assets of more than IDR 500 million to IDR 10 billion, excluding land and buildings for business premises, b) Have an annual turnover of more than IDR 2.5 billion to IDR 50 billion.

The following are several types of digital business models that have proven effective in harnessing the potential of digital technology and meeting customer needs in the modern era. (Lut Mafrudah, 2024). a) Business Platform, Business platforms like Tokopedia and Shopee allow sellers and buyers to interact directly. This model relies on a large user base and offers a variety of products and services. b) Freemium, The freemium model offers basic services for free but charges for additional features. An example of this model is music streaming services like Spotify. c). Subscription, A subscription model, such as that used by Netflix, offers unlimited access to content for a fixed monthly fee. This provides predictable recurring revenue. d). On-Demand, The on-demand model, such as that used by Gojek, allows customers to access services anytime and anywhere, according to their needs. e) E-Commerce, An e-commerce model like that implemented by Amazon enables the sale of goods online with high efficiency, supported by a robust logistics infrastructure. f) Crowdsourcing / Crowd founding, this model involves raising funds or ideas from a large group of people. Kickstarter is an example of a successful crowd funding platform.

Types of Islamic Bank that empowering Islamic MSMEs: a) Sharia Commercial Bank is Bank Syariah Indonesia plays a role in empowering and improving MSMEs (Micro, Small, and Medium Enterprises) through the facilities it provides, such as financing, training, product innovation, and technological support. b) Baitul Maal Wat Tamwil (BMT) is one of the sharia microfinance institutions in Indonesia with people empowerment partnership as its philosophical base. BMT provides a faster, simpler procedures and requirements compared to conventional financial institutions.

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