



The Role of MSMEs in Building Sharia Economy in Karawang

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) have an important role in supporting the regional economy. Amid the development of the sharia economic system in Indonesia, MSMEs are expected to be able to adopt sharia principles in their operational and financial activities. This study aims to analyze the role of MSMEs in building a sharia economy in Karawang City, as well as to identify challenges and strategies for its implementation. The method used is descriptive qualitative with a literature study approach and field observation. The results of the study indicate that some MSMEs in Karawang have implemented sharia principles in the form of usury-free financing, clear contracts, and business transparency. However, there are still many MSME actors who do not fully understand Sharia economics. Therefore, the active role of local governments and sharia financial institutions is needed in fostering and educating sharia-based MSMEs.

INTRODUCTION

Indonesia's economy relies heavily on the role of Micro, Small, and Medium Enterprises (MSMEs), which, according to data from the Ministry of Cooperatives and SMEs, contribute more than 60% to the national Gross Domestic Product (GDP). MSMEs are also the main drivers of job creation and community economic empowerment, especially in the regions. On the other hand, Indonesia, as a country with a majority Muslim population, has great potential in developing a sharia-based economy. Sharia economy is not only an alternative, but a solution to the conventional economic system that often creates inequality and unfair practices. Sharia economy emphasizes the principles of justice, transparency, and freedom from usury, gharar, and maysir.

Karawang City, as one of the strategic industrial areas in West Java, has a very promising MSME movement. However, the development of MSMEs in Karawang has not been fully integrated with the Islamic economic system. Many business actors do not understand the basic concepts of Islamic economics, such as contracts, zakat, profit-sharing systems, and Islamic business ethics. The main challenges faced by MSMEs in building an Islamic economy are low Islamic financial literacy, limited access to Islamic financial institutions, and a lack of regional regulatory support. On the other hand, there are great opportunities if MSMEs are able to adopt sharia values, including the attractiveness of the halal market, inclusive Islamic financing, and the high loyalty of Muslim consumers to halal and ethical products. Thus, an in-depth study is needed on the extent to which MSMEs in Karawang City have implemented the principles of Islamic economics, as well as what strategies can be developed to increase the contribution of MSMEs in building a strong and sustainable Islamic economic system.

LITERATURE REVIEW

Definition of MSMEs

UMKM stands for Micro, Small, and Medium Enterprises, which are productive businesses owned by individuals or business entities that have met certain criteria in terms of total assets, annual turnover, and total workforce. MSMEs play an important role in the national economy, especially in job creation, economic equality, and poverty alleviation. According to Law No. 20/2008 on MSMEs, micro, small, and medium enterprises are productive economic activities owned by individuals and/or business entities that meet certain criteria based on assets and turnover. MSMEs play an important role in creating employment, economic equity, and local economic growth.

MSMEs are divided into three main categories, based on Law of the Republic of Indonesia No. 20/2008 on Micro, Small, and Medium Enterprises, namely:

1. Micro Business

Productive businesses owned by individuals and/or individual business entities that meet the criteria: assets (net worth) are a maximum of IDR 50 million (excluding land and buildings where the business is located), annual

turnover is a maximum of IDR 300 million. and the number of employees: Usually less than 5 people

2. Small Business

Productive economic businesses that stand alone, carried out by individuals or business entities that are not subsidiaries or branches of medium or large-sized businesses. Criteria: Assets of more than Rp 50 million to Rp 500 million. and annual turnover: More than Rp 300 million to Rp 2.5 billion, and the number of employees is around 5-19 people.

3. Medium Business

Productive economic businesses that are also not owned, controlled, or part of a large business. The criteria: assets of more than Rp 500 million to Rp 10 billion. and annual turnover of more than Rp 2.5 billion to Rp 50 billion. and the number of employees is around 20-99 people.

The characteristics of MSMEs are as follows:

- Limited capital and self-managed or family-run.
- Business locations are generally not fixed or mobile (micro in particular).
- Business legality is often incomplete, especially at the micro level.
- Products are usually aimed at the local/regional market.
- High flexibility in adjusting to market demand.

The role of MSMEs

Micro, Small, and Medium Enterprises (MSMEs) have a very important and strategic role in supporting economic growth, income distribution, and poverty reduction. In Indonesia, MSMEs are not only the backbone of the national economy but also serve as the main driving force in inclusive and sustainable economic development. The following is a long description of the various roles of MSMEs:

1. Labor Absorber

MSMEs absorb a large number of workers due to their labour-intensive nature and spread across various regions. This sector is very helpful in reducing unemployment, especially in rural or suburban areas, where formal employment is limited. According to data from the Ministry of Cooperatives and SMEs, MSMEs absorb more than 90% of the national workforce. This means that MSMEs are not only a source of livelihood for their owners, but also for the millions of people who work in them.

2. Drivers of National Economic Growth

MSMEs contribute significantly to the national Gross Domestic Product (GDP). Although individually, MSMEs are small in scale, their sheer numbers make their contribution to GDP very high. MSMEs are also more resilient to economic crises due to their flexibility and resilience in adapting to market changes.

3. Economic Equality and Regional Development

MSMEs are widespread in various regions, including in remote and remote areas. This makes MSMEs an important tool in promoting economic equality. MSMEs help reduce inequality between urban and rural areas and strengthen local economies. Thus, MSMEs support inclusive and equitable regional development.

4. Innovation and Creativity

MSMEs are often a fertile ground for innovation and creativity, especially in the creative industry, culinary, fashion, and craft sectors. Without being tied to a rigid bureaucratic system, MSME players are freer to create new products, adjust to market trends, and respond quickly to consumer needs.

5. Encouraging Entrepreneurship

MSMEs are the main entry point for people to start a business. This role is very important in building a culture of entrepreneurship in the community. Many MSME players start their business from a household scale or with limited capital, but with persistence and creativity, they can develop their business to become bigger.

6. Poverty Reduction

MSMEs help increase the income of low-income people through the creation of independent businesses or employment. By providing access to income sources, MSMEs play an important role in reducing poverty. In fact, in many cases, MSMEs are the only source of income for poor families.

7. National Economic Resilience

MSMEs have high adaptability and resilience when facing economic pressures, such as the global crisis, pandemic, or political turmoil. When the large business sector experiences sluggishness, MSMEs survive and keep economic activity going. Thus, MSMEs are an important buffer in maintaining national economic stability and resilience.

8. Supporting National Exports

Although most MSMEs are oriented towards the local market, a few have managed to penetrate the international market. MSME products, particularly from the handicraft, food, textile, and fashion sectors, have great export potential. With government support, MSMEs are able to become part of the global value chain and contribute to the country's foreign exchange.

Sharia Economics

Sharia economics, or often also called Islamic economics, is an economic system based on Islamic principles and values sourced from the Qur'an, the Sunnah of the Prophet Muhammad SAW, and the ijihad of the scholars. This system not only focuses on achieving material benefits, but also pays attention to moral aspects, social justice, balance, and blessings in every economic activity. Essentially, Islamic economics aims to realize the welfare of mankind holistically by paying attention to the relationship between humans and Allah SWT, fellow humans, and the universe. In Islamic economics, all forms of transactions and economic activities must be carried out by the provisions of Islamic law (sharia), which emphasizes fairness, honesty, transparency, and the prohibition of harmful practices such as usury (interest), gharar (uncertainty), maysir (gambling), as well as monopoly and fraud. Islamic economics views that wealth is not the absolute property of individuals, but a trust from Allah SWT that must be managed and distributed fairly for the common good. Therefore, the concept of ownership in Islamic economics is balanced with social responsibility. A Muslim is encouraged to earn a living in a halal and thayyib (good) manner, as well as being obliged to pay zakat, infaq, and

sadaqah as a form of contribution to social welfare. In practice, Islamic economics covers various fields such as Islamic banking, Islamic insurance (takaful), Islamic capital markets, Islamic microfinance institutions, to the real sector, such as trade, agriculture, and industry, in accordance with Islamic principles. Every form of contract or agreement in economic activities must fulfil the elements of justice and willingness between the parties to the transaction.

One of the distinctive features of Islamic economics is its integrative approach between spiritual and material aspects. Economic activities are not only assessed from the aspect of profitability, but also from the impact on morality, social justice, and environmental sustainability. In other words, Islamic economics does not only assess success from financial indicators alone, but also from the extent to which economic activities provide benefits and blessings to the wider community. One of the distinctive features of Islamic economics is its integrative approach between spiritual and material aspects. Economic activities are not only assessed from the aspect of profitability, but also from the impact on morality, social justice, and environmental sustainability. In other words, Islamic economics does not only assess success from financial indicators alone, but also from the extent to which economic activities provide benefits and blessings to the wider community.

Economic Development

Economic development is a multidimensional process that reflects the conscious and planned efforts of a country or region to improve the overall and sustainable welfare of its people. This process is not only limited to the growth of economic output or an increase in gross domestic product (GDP), but also includes structural transformation in various aspects of people's lives, such as education, health, income distribution, employment, environment, and quality of life in general.

Economic development aims to reduce poverty, social inequality, and unemployment, while encouraging increased productivity and economic competitiveness. In this process, the state is required to create policies that are inclusive, fair, and long-term oriented, so as to integrate various potential resources optimally and sustainably.

Furthermore, economic development also emphasizes the importance of human development as the core of a nation's progress. This means that economic development cannot be said to be successful if it only relies on macroeconomic indicators, without paying attention to increasing individual capacity, such as through quality education, adequate health services, and equitable social security.

Conceptually, economic development contains three main components according to Todaro and Smith (2015), namely:

- Sustained increase in income and economic growth.
- Structural changes in the economy, including diversification of production sectors and technological modernization.
- Equitable distribution of development results and improvement of people's quality of life fairly and inclusively.

As such, economic development is a holistic effort that combines economic, social, political, and environmental aspects to create a more just, prosperous, and dignified society.

METHODOLOGY

This research uses a descriptive qualitative approach, which aims to understand and describe the role of Micro, Small, and Medium Enterprises (MSMEs) in building a sharia economy in the Karawang region. This approach was chosen because it is able to describe social reality in depth and holistically based on the views of MSME actors, community leaders, and other related parties. The purposive sampling technique was used to determine informants who were relevant to the research focus. Data was collected through several methods, namely:

- In-depth interviews: Conducted with MSME players and related parties to find out their views, practices, and challenges in implementing Islamic economic principles.
- Direct observation: Conducted at MSME business locations to see the application of Sharia values in daily business activities.
- Documentation study: Involves collecting data from government documents, reports on MSME activities, academic publications, and regulations relating to MSMEs and Islamic economics.

RESULT AND DISCUSSION

Profile of MSMEs in Karawang City

MSMEs (Micro, Small, and Medium Enterprises) in Karawang City are a very significant economic sector, both in terms of job creation and as a driver of the local economy. Based on data from the Karawang Regency Cooperative and MSME Office, as of 2024, there were more than 25,000 MSME units spread across various sub-districts. The dominant types of MSME businesses include: culinary, handicrafts, Muslim fashion, and digital-based trade. The majority of MSME players in Karawang are micro businesses (with assets below IDR 50 million), most of which are traditionally and family-managed. However, the trend of digital transformation is starting to show, especially post-pandemic, which encourages MSME players to shift to online marketing and cashless payment systems.

Level of Implementation of Sharia Economic Principles

The results of interviews and observations show that most MSME players in Karawang have implemented some of the principles of Islamic economics, although not yet thoroughly and systematically. Principles such as honesty in transactions, prohibition of usury, and fairness in pricing are starting to become the concern of MSME players, especially those who are Muslim. However, the understanding of the concept of *fiqh muamalah* and the Islamic financial system as a whole is still limited. Many MSME players do not have an in-depth understanding of sharia contracts such as *mudharabah*, *musyarakah*, and *murabahah*. This shows the need for training and assistance from Islamic financial institutions and related agencies.

Contribution of MSMEs in Encouraging Sharia Economy

MSMEs in Karawang have a real contribution in encouraging the development of the Islamic economy through:

- Halal and thayyib products: Many MSMEs in the culinary and cosmetic sectors have obtained halal certificates from MUI. This shows their commitment to providing products according to Sharia principles.
- Islamic financial system: Some MSMEs have established financing cooperation with Islamic financial institutions such as BPRS, Islamic cooperatives, and non-bank LKS.
- Usury-free transactions: There is an increasing trend of businesses' preference for Islamic financing because the system is considered fairer and less burdensome.

Challenges and Obstacles

In its implementation, Sharia MSMEs in Karawang face several obstacles, including:

- Lack of Islamic economic literacy: Many MSME players do not understand the fundamental differences between conventional and Sharia economic systems.
- Access to Sharia financing: The limited number of Islamic financial institutions in certain areas makes it difficult for businesses to access usury-free capital.
- Lack of specific policy support: While there are local government programs to support MSMEs, there are no specific policies that support sharia-based MSMEs specifically. The Role of Local Government and Islamic Institutions

The Karawang Regency Government has a number of MSME empowerment programs, such as skills training, business digitalization, and capital assistance. However, the synergy between related agencies with Islamic financial institutions and religious organizations still needs to be improved. Support from the local MUI, Islamic boarding schools, and religious leaders has the potential to increase business owners' awareness of the sharia economy. The collaborative model between MSME players, the government, and Islamic institutions is considered effective in strengthening an inclusive and sustainable Islamic economic ecosystem.

CONCLUSIONS AND RECOMMENDATIONS

The Karawang Regency Government has a number of MSME empowerment programs, such as skills training, business digitalization, and capital assistance. However, the synergy between related agencies with Islamic financial institutions and religious organizations still needs to be improved. Support from the local MUI, Islamic boarding schools, and religious leaders has the potential to increase business owners' awareness of the sharia economy. The collaborative model between MSME players, the government, and Islamic institutions is considered effective in strengthening an inclusive and sustainable Islamic economic ecosystem.

The role of local governments, Islamic financial institutions, and religious institutions is needed to provide education, assistance, and facilitation

to MSME players to better understand and apply the Islamic economic system in their business activities. With synergistic and sustainable support, MSMEs in Karawang have great potential to become the main driving force in the development of an inclusive, equitable, and sustainable Islamic economy.

FURTHER STUDY

This research still has limitations so further research is still needed on this topic, "The Role of MSMEs in Building Sharia Economy in Karawang".

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